



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

5 November 2024

US election day is finally here, a milestone in what we have called “The Year of Answers”. We should - hopefully- get the first projections by tomorrow morning Dubai time.

Markets were split yesterday. The fixed income asset class benefitted from a drop in US long dated Treasury yields, down -8 basis points for the 5-year to 4.15 and -10 basis points for the 10-year to 4.28. The dollar was logically weaker, giving -0.3% against trade-weighted counterparts. Stocks from emerging markets were up +0.5%, led by China, while their peers from developed markets were down -0.1% as the US closed -0.3% lower. Gold was stable at \$2,735 while the price of Brent crude added \$2 to regain the \$75 level.

There are a number of potential scenarios for the US election, with different consequences on the economy and markets. To be very clear, the race is too close to make a call before the results, which would be pure speculation. In addition, markets’ short-term reaction to the actual results when they are known may also not be relevant on a medium-term perspective, as valuations and positioning also impact the opportunity set. It’s good to keep in mind that US stocks are up 12.5% in the last 3 months, which is their best performance in comparable pre-electoral periods over nearly a century, and the +20% YTD return is also historically high for an election year.

What we can say today is first that the worst-case scenario is not having a clear and accepted result in a reasonable delay, which would trigger a spike in risk-aversion, especially if both camps claim victory. Second, the scenario of a “red sweep”, combining Mr Trump at the White House with a congressional majority for the Republicans, would represent the biggest disruption. Instant reaction could be a strengthening dollar, and an outperformance of US stocks, especially domestic, together with some pressure on bonds. Still, uncertainty about future trade policies could weigh on global sentiment – and again, stocks are already quite high and bond yields not that low. The “blue sweep” scenario would also be nuanced in terms of reaction: higher taxes could pressure US companies, while a potentially weaker dollar may help emerging assets and gold. A greener agenda could mean less US drilling and potentially support oil prices, while less aggressive trade policies could help non US assets. “Gridlock” scenarios, where the congress would act as a counterpower to the White House are obviously the less disruptive, with only nuances depending on who becomes President, especially with regards to foreign affairs, but probably no massive market reaction. Generally speaking, markets tend to adapt to any situation – uncertainty is what they hate. Again, at the end of the day the result will depend on a few thousand votes in Pennsylvania which makes it particularly unpredictable. What matters the most will be the lasting impact on the US and global economy, which will have to be assessed over time, measure by measure.

Our positioning is currently slightly defensive since mid-September, with an underweight in stocks in particular: defensive because we see more volatility risk than upside potential in the short-term, and “slightly” because the fundamental backdrop remains constructive. Everything else being equal, we would consider any risk-off episode as an opportunity to put some of our cash at work.

Moving on to Asia, it’s a positive morning for Chinese stocks, up almost 2% as we write: the just released Caixin Services PMI came out at 52, much better than the median forecast of 50.5, and China’s Premier said that the country has ample policy room for stimulus. We had always thought that China would wait for the US elections to calibrate their stimulus plan – as a “red sweep” would typically require more efforts to counter trade headwinds. We still hope to get more details at the end of the National People’s Congress this week. We are also overweight China within our Emerging Markets Equity allocation. The Nikkei gains 1% after a holiday yesterday, while stocks are slightly down in Korea, as well as in Australia, waiting for the central bank meeting. US Treasury yields are steady in Tokyo trading, gold is marginally lower and oil prices marginally higher.

Today is all about leading indicators: PMIs for the UAE, Saudi Arabia and Dubai, PMI Services for the UK and US, and the US ISM Services. The latter is expected to moderate from 54.9 in September to 53.8. The earnings season will continue, including Saudi Aramco. Interesting, but with a limited impact: markets could be more nervous than really directional, waiting for the big headlines of tomorrow.

Have a great day.

Chief Investment Office
Wealth Management,
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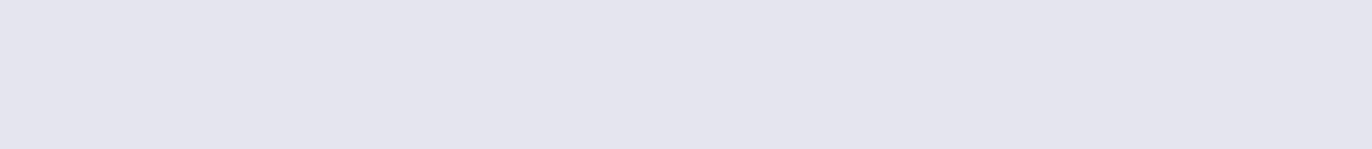
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