

Month Overview

New developments this month have led to a shift in market trends from those seen in recent months. First, the persistent strength of the U.S. economy has surpassed expectations, which could lead the Federal Reserve to reconsider its rate-cutting plans. Secondly, the Republican candidate is narrowing the gap in key swing states, and his platform is viewed as inflationary. This perception could lead the Fed to take a more cautious approach to further rate cuts. As a result, markets are beginning to reflect the potential for sustained high-rate policies, impacting the dollar, and interest rates.

Economic Environment

The U.S. presidential election campaign is in its final phase ahead of the early November elections. Neither candidate's platform is expected to address the government's substantial deficit, though the Republican candidate's policies are perceived as more inflationary. If elected, this stance could influence the Federal Reserve's approach to interest rates in its final two meetings of the year. Additionally, stronger-than-expected employment data has reduced the urgency for rapid rate cuts, while consumer spending remains robust, partly due to wage increases in response to rising inflation. The U.S. economy grew by 2.8% in the third quarter, with PCE inflation at 2.1% and core PCE at 2.7%, the latter showing little improvement since January.

In its bi-annual report, the IMF projects global growth will hold steady at 3.2% by 2025. U.S. growth is expected to slow in 2025, while the European Union may see a slight increase, aided by a recovery in Germany. Growth in China and India is projected to decelerate, though other emerging markets may help offset this slowdown.

The Bank of Japan (BOJ) maintained its policy rate at 0.25%, remaining committed to a gradual path toward normalization. While the BOJ acknowledged that inflation has moderated yet remains above target, it indicated that the next rate hike is expected at its March meeting. In the Eurozone, inflation has edged up, strengthening the case for caution regarding future rate cuts.

The BRICS group recently held its 16th summit in Kazan, Russia, where several nations participated as observers and are considering full membership. The summit prioritized enhancing trade cooperation among member and non-member countries with the aim of reducing reliance on the U.S. dollar as a base currency. Given that BRICS countries are growing faster than G7 nations, an expanded use of alternative currencies in trade could have significant financial implications over time.

Equity market

Equity indices declined, with U.S. markets shedding less than one percent, while European and Asian markets saw steeper losses, and India faced one of its worst declines in

recent years. Investors in North America and Europe are seeking reassurance on economic fundamentals given the current high market valuations. They are also closely watching third-quarter earnings results and outlooks for signs of continued strength. Additionally, investors are reassessing the pace at which the Federal Reserve may adjust interest rates.

Fixed Income Market

U.S. interest rates have risen sharply amid anticipation of a potential Republican victory in next month's presidential election, which could bring inflationary trade policies, including new import tariffs. This rise was also supported by stronger-than-expected economic data, particularly in the labor market. As a result, the Fed is now expected to take a more gradual approach to further rate adjustments following the September cut. The U.S. benchmark 10-year yield increased by approximately 50 basis points to 4.30%. In response, U.K. and Eurozone government rates have also moved higher, though to a lesser extent. The UK benchmark 10-year rate rose by about 45 basis points to 4.45%, while the Eurozone benchmark 10-year rate increased by around 25 basis points to 2.39%.

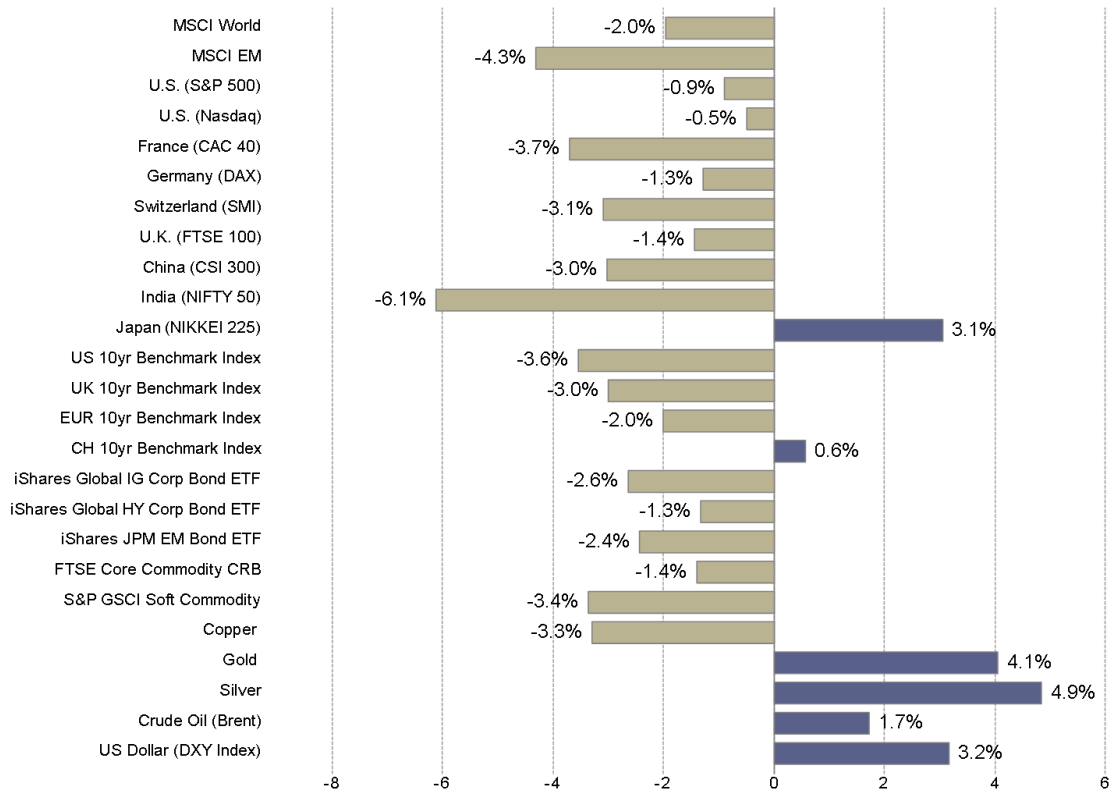
Commodity

Heightened geopolitical tensions recently threatened production and major energy trade routes, driving oil prices higher. However, as diplomatic efforts quietly worked to de-escalate the situation, prices stabilized, ending the month flat at \$73.2. Gold has been the primary beneficiary of these geopolitical concerns, with its price rising another 4.1% and steadily approaching \$3,000 per ounce. In its latest Commodity Markets Outlook, the World Bank forecasts a 5% drop in commodity prices in 2025, followed by an additional 2% decline in 2026, after a projected 3% decrease in 2024. This would bring prices to their lowest levels since 2020, primarily due to falling oil prices. Brent crude is expected to average \$80 per barrel in 2024, declining to \$73.0 in 2025 and \$72.0 in 2026. Industrial commodities are facing mixed pressures, with potential support from economic stimulus in China and the U.S., though declines are possible if global industrial activity slows.

Currency

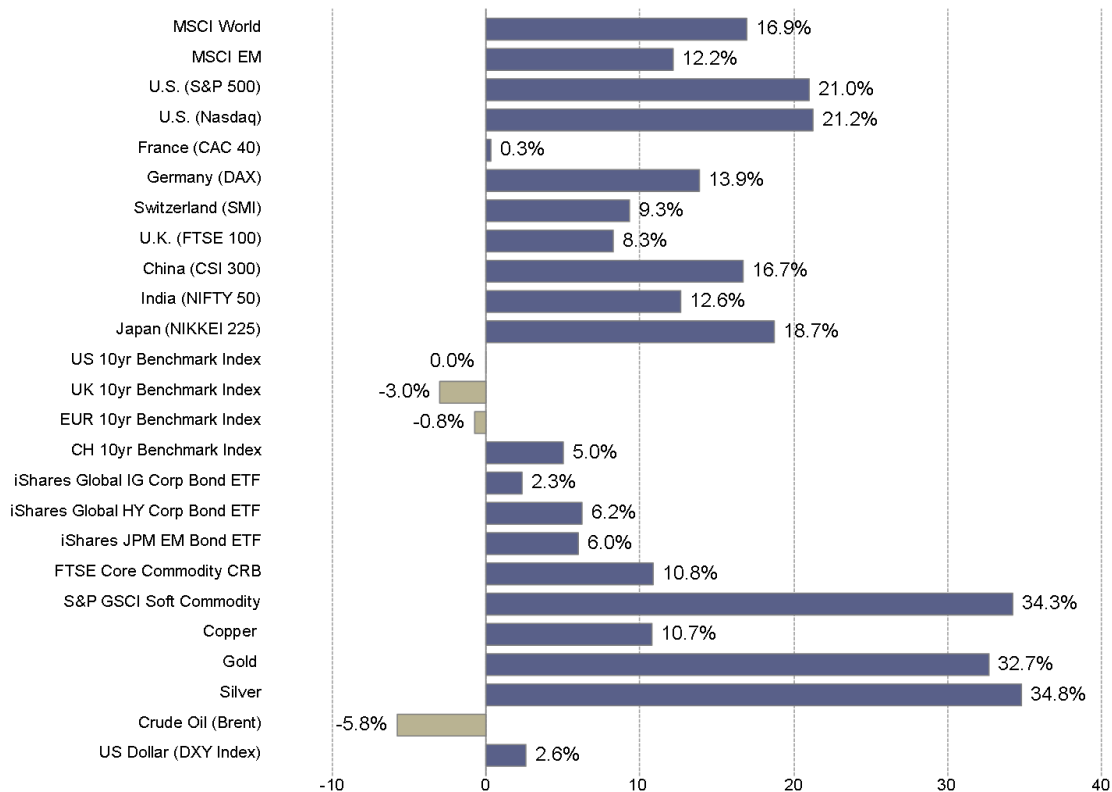
The dollar reversed course and strengthened as the likelihood of U.S. rate cuts faded. The DXY index, which measures the dollar against six major currencies, rose over 3.1% this month, with the dollar appreciating by about 2.3% against both the Swiss franc and the euro. Emerging market currencies weakened in response, and the dollar now holds a strong position; only a significant economic slowdown could drive it lower. Meanwhile, the Swiss franc and euro remained stable against each other, and the Japanese yen strengthened despite the Bank of Japan's steady rate policy.

October 2024 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 31.10.2024)



Source: LSEG Datastream, Anarosa Asset Management AG

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