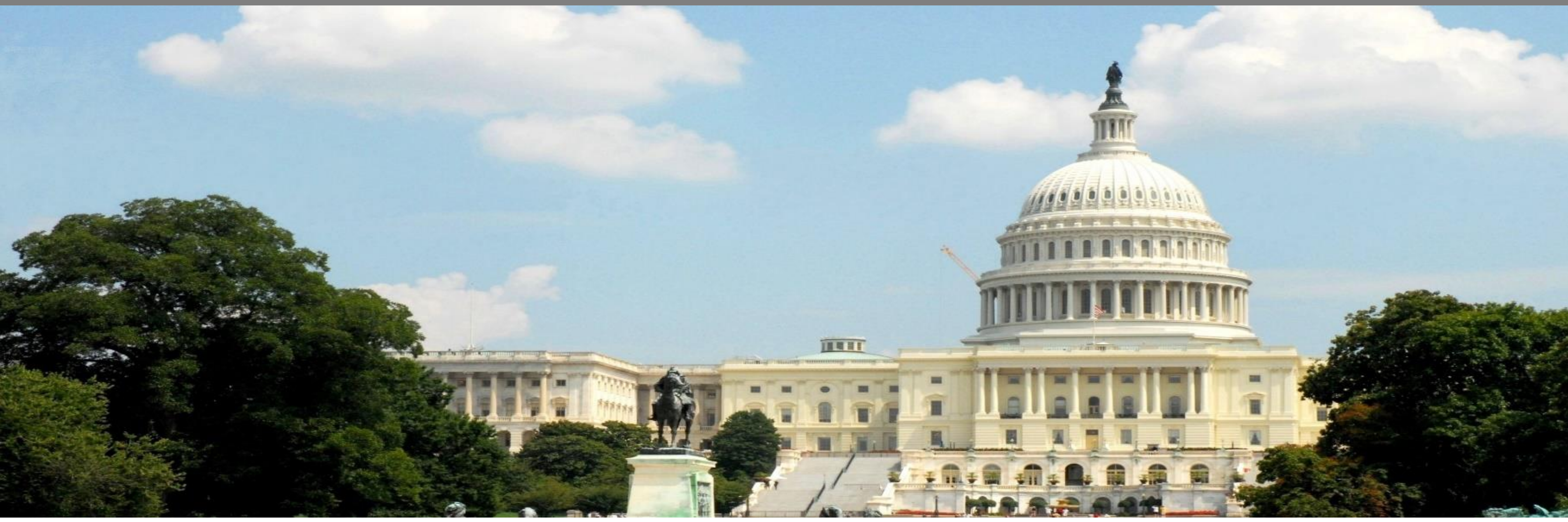
Economic Research

November 2024

Market Monitor – United States

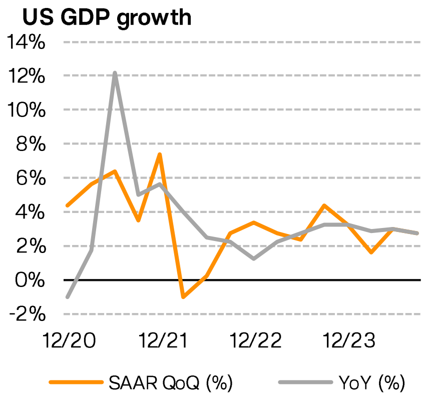
Trump won presidency, marking a return to America First policies



- Advanced estimates indicated that the US economy remained resilient in Q3.
- Core PCE inflation remained sticky.
- Trump won the US presidency, and the Republican party also won control of the Senate, while expected to maintain control of the House.

The US economy continued to exhibit solid growth in Q3

The US economy grew solidly in Q3. Advanced estimates indicated that US real GDP grew by a seasonally adjusted annual rate (SAAR) of 2.8%, following a growth of 3.0% observed in Q2. Solid growth in Q3 was propped up by resilient consumer and government spending, while overall investments were relatively subdued. On a year-on-year (YoY) basis, US real GDP grew by 2.7% in Q3 after growing by 3.0% in Q2. In the first three quarters of the year, US real GDP grew by 2.9% YoY.



Source: Bloomberg

Among the major components of GDP, personal consumption expenditures (PCE) accelerated to a growth of 3.7% SAAR in Q3 from 2.8% in Q2, contributing 2.5 percentage points (ppts) to the headline GDP growth. Goods and services spending both remained resilient, with goods spending picking up to 6.0% SAAR (+3.4%: Q2) and services spending steady at 2.6% (+2.7%: Q2). Government spending grew by 5.0% SAAR in Q3 compared to 3.1% in Q2. In particular, federal spending on national defense surged. Investment dwindled in Q3, dropping from a growth of 8.3% SAAR in Q2 to merely 0.3% in Q3, dragged by a decline of 5.1% in residential investment. Although exports accelerated in Q3 to a growth of 8.9% SAAR from 1.0% in Q2, imports outpaced exports and grew by 11.2% SAAR in Q3 (+7.6% in Q2), leaving net exports to remain a drag on growth. Overall, the US economy is supported by robust consumer spending, paving the way to achieve a soft landing. On balance, even though weaknesses in the labour market present downside risks to the economy, rate cuts and softening inflation should alleviate pressure and support stable economic momentum ahead.

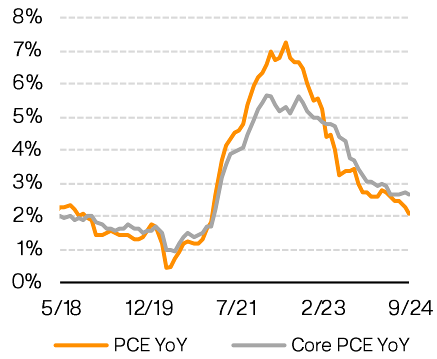
Headline PCE inflation moderated, but core inflation was sticky. Headline PCE inflation softened from 2.2% YoY in August to 2.1% in September; however, core PCE inflation (which excludes food and energy prices) remained at 2.7% YoY in September. On a month-on-month (MoM) basis, headline and core PCE inflation both ticked up by 0.1 ppt to 0.2% and 0.3% MoM, respectively. Lower goods prices, which dropped by 1.2% YoY (-0.1% MoM), and lower energy prices, which fell by 8.1% YoY (-2.0% MoM), contributed to a moderation in PCE inflation. On the contrary, services inflation has stagnated around 3.7-3.8% YoY levels from June to September. This reflected that inflationary pressures have not fully subsided, with bumps in inflation remaining likely in the future.

The Fed cuts interest rates again by 25 basis points (bps) in November. During its November meeting, the FOMC unanimously voted to lower the federal funds rate by 25 bps to 4.50-4.75%. This was in line with expectations and the second consecutive meeting with a rate cut. The post-meeting statement highlighted the FOMC's view that economic activity has continued to expand at a solid pace, while removing key language from the previous statement: the FOMC "has gained greater confidence that inflation is moving sustainably towards 2%". This could be a sign that the FOMC remains cautious on inflation risks, particularly as there are worries that some of Trump's policies will be inflationary. Notably, Fed Chairman Jerome Powell said that in the near term the election will have no effects on the Fed's policy decisions, and a further rate cut in the December meeting remains open depending on economic data in these next two months.

The US jobs report in October was distorted by one-off factors. Total nonfarm payrolls increased by a mere 12,000 in October, far lower than expected. However, the slowdown was likely caused by hurricane effects and worker strikes during the month. Besides, job gains were also revised down for September by 31,000 to 223,000 and for August by 81,000 to 78,000, respectively. The unemployment rate remained low and steady at 4.1% in October. In terms of wage growth, average hourly earnings accelerated to 4.0% YoY and 0.4% MoM in October from 3.9% and 0.3% in September. Overall, this jobs report should not be viewed as a softening of momentum for the US economy. Particularly as initial jobless claims have come down notably after a spike in early October.

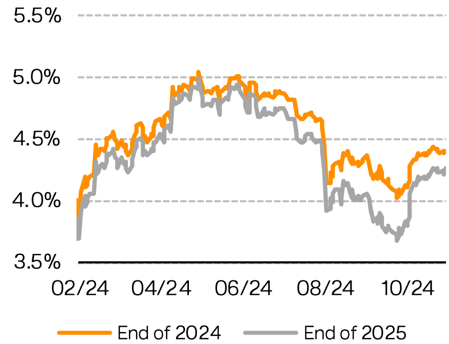
Donald Trump won the 2024 US presidential election. Donald Trump clinched the US presidency, beating Kamala Harris, by capturing 295 electoral votes versus the 270 required and is expected to reach 312 electoral college votes to Harris's 226 once votes are fully counted. Notably, Trump won the popular vote for the Republican party for the first time since 2004. Several of Trump's policies include extending lower corporate tax rates; implementing steep tariffs (in particular on Chinese and Mexican goods); deregulating various industries (fossil fuels, cryptocurrency, farming, etc.); and securing the border and mass deportation of illegal immigrants. Overall, it is yet to be seen whether Trump will follow through with each of his proposals, but one thing for sure is that the path forward features a wave of policy uncertainty.

US PCE Inflation



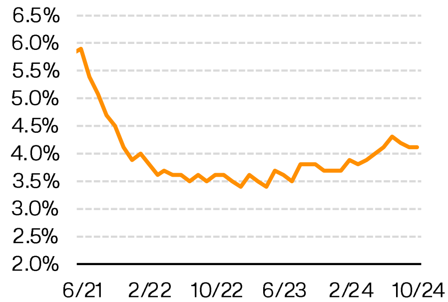
Source: Bloomberg, data as of 31/10/2024

US Rate Expectations



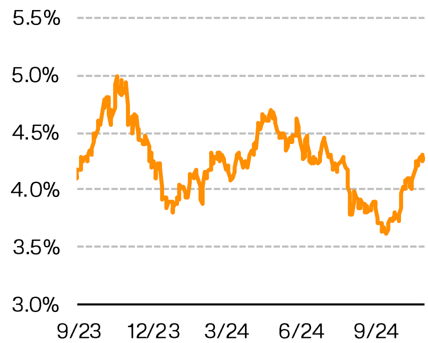
Source: Bloomberg

Unemployment rate



Source: CEIC

US 10-year Treasury Yield



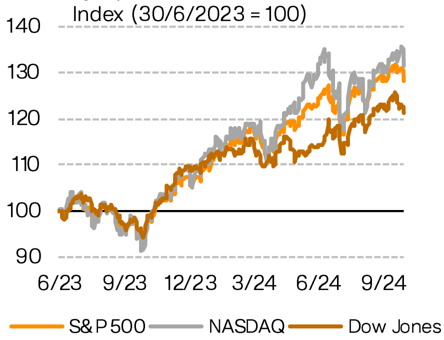
Source: Bloomberg, data as of 31/10/2024

In Congress, the Republican party took over control of the Senate and is hoping to maintain control of the House. In the Senate, the Republican party won a majority of the seats with 53 and is expected to pick up 0-1 more seats for a total of 53-54. The Democratic party lost its majority in the Senate and currently sits at 45 seats, with another 1-2 expected to be added for a total of 46-47. In the House, the Republican party is hoping to maintain control and currently has 211 seats, with 218 needed for a majority. The Democratic party currently has 199 seats, while 25 seats have yet to be called. If the Republican party is able to gain control of both bodies of Congress, Trump will have greater legislative power to advance his policy agenda.

Major US equity indices declined slightly in October

Major US equity indices posted small declines in October. The S&P 500, Dow Jones, and Nasdaq fell, by 1.0%, 0.5%, and 1.3% MoM, respectively, in October. This was led by drops in the technology sector, as earning reports of several big-tech companies triggered significant sell-offs. Strong economic data and expectations for elevated fiscal spending sent yields higher, with 10-year treasury yields rising by 5.03 basis points to 4.285% in October. Together with financial markets pricing in lower rate cut odds ahead, the US dollar index rose by 3.17% MoM in October.

US Equity Indices



Source: Bloomberg, data as of 31/10/2024

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