Allianz Global Investors

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Market Snapshot

Equity Snapshot

United States

US shares rallied strongly over November, spurred by Donald Trump's decisive victory in the presidential election. From January, the Republican Party will control both the Senate and the House of Representatives, providing few obstacles for the president-elect to implement his planned policies. Trump has promised to cut regulation and taxes, as well as hike import tariffs. He has already announced that he will impose 25% tariffs on all imports from Canada and Mexico from "day one" in office and raise tariffs on Chinese imports by an extra 10%. The S&P 500 Index closed the month at a fresh high, although the Nasdaq failed to regain its post-election peak. Meanwhile, US smaller companies soared, with the Russell 2000 Index touching a record high for the first time in three years.

US non-farm payrolls rose just 12,000 in October, the weakest monthly gain since the pandemic days of December 2020. However, the data was distorted by strikes at Boeing and two significant hurricanes that hit southern US states. Elsewhere, data continued to indicate the economy was in good health. The flash estimate of the S&P Global US composite purchasing managers' index rose to 55.3 in November, helped by improvements in both services and manufacturing. Retail sales also topped forecasts in October, rising 0.4% over the month, while September's increase was revised up to 0.8% from an initial estimate of 0.4%.

The Federal Reserve cut rates by 25 basis points (bps), slowing the pace of its easing after September's 50-bps reduction. Minutes of its latest meeting revealed that policymakers are considering scaling back future rate cuts if inflation fails to be tamed. Headline inflation accelerated to 2.6% in October and there are fears that the president-elect's planned tariff hikes may reignite inflation. Nevertheless, Trump's pick for Treasury Secretary, hedge fund manager Scott Bessent, raised hopes that higher tariffs could be used more as a negotiating tactic rather than as a long-term policy.

Europe

European equities struggled over November as the prospect of Donald Trump's return to the White House raised the spectre of higher tariffs. Rising political uncertainty also undermined sentiment: German Chancellor Olaf Scholz called a snap election after the three-year-old coalition government collapsed as it battled to agree a budget; in France, Prime Minister Michel Barnier's minority government also appear to be in peril as it struggled to gain sufficient support for a budget that contained tax increases and spending cuts.

The economic outlook darkened. The flash HCOB euro-zone composite purchasing managers' index (PMI) slumped to 48.1 in November from a final reading of 50 in October, marking the lowest reading since January. Activity in the services sector fell into contraction territory for the first time in 10 months, while the recession in manufacturing deepened. The gloomy data prompted speculation that the European Central Bank may cut rates by 50 basis points (bps) when it next meets in December. Euro-zone inflation accelerated to 2.3% in November, from 2.0% in October, but core inflation held steady at 2.7%.

Asia

Asia ex Japan equities delivered mixed returns in November. Donald Trump's landslide victory raised the prospect of higher tariffs on exports to the US, with a stronger dollar also presenting headwinds for many markets. While equities in Singapore closed higher, shares in China, Taiwan, and South Korea lost ground. Chinese equities consolidated after a very strong rally at the end of September and early October, spurred by a significant change in government policy focused on stabilizing the economy and financial markets. Taiwan equities slid amid concerns over slower growth and a correction in the semiconductor market. Korea equities were also weaker as technology stocks fell, despite a new value-up plan announcement from Samsung Electronics.

Bond

It was a volatile month for global bonds as Donald Trump's decisive win raised fears that rate cuts may be scaled back if higher tariffs reignite inflation. The yield on the 10-year US Treasury bond touched a four-month high of 4.5% in the aftermath of the election result but closed the month at below 4.2%, slightly lower than the level at the end of October, as the president-elect's choice of Treasury Secretary reassured investors. Meanwhile, European bond yields declined sharply as the threat of higher tariffs for the region's US exports further depressed the growth outlook. Japan proved the exception, with bond yields rising amid increasing speculation the Bank of Japan may hike rates again in December.

Outlook

Following the clear results of the US election, where Donald Trump eased to a clean sweep of the Senate and the House of Representatives, the outlook for risk assets such as equities has become more favourable as the market anticipates the proclaimed 'pro-growth policies' of the administration in waiting. Although economic resilience can be observed in most developed countries, the proposed lavish spending and deregulation could boost the US economy - at least in the short term- further widening the growth gap between developed market economies. The mooted tariffs for trading partners of the US could also dampen the growth outlook for these regions, especially within emerging markets.

It remains to be seen if the rhetoric of an election campaign feeds through to legislation, but the impact of policies will undoubtably be felt throughout the world. Fiscal largesse – together with higher tariffs, tougher immigration policy and looser regulations – tends to be inflationary. In response, the US Federal Reserve may moderate its easing cycle, potentially supporting the dollar. Mr Trump has also pledged to impose a 20% blanket levy on all US imports, plus a 60-100% tax on Chinese products. The assumption is that this is a negotiation tactic for better deals on US exports, and that the levels suggested will not be reached, but any tariff hikes that do materialise will likely trigger retaliation by other economies. We foresee more regional nearshoring and onshoring as companies diversify their manufacturing bases and supply chains – a move that could strain balance sheets. Higher tariffs could hit European and emerging market stocks, particularly those reliant on the US market, such as makers of luxury goods, cars, aircraft producers and steel companies. Navigating potentially wide disparities in performance between winners and losers within sectors and themes and between regions will require active investment management.

Outside the US, China recently announced a new USD 1.4 trillion stimulus package designed to help restructure local government debt and support the economy's move away from reliance on the property sector. The size of the stimulus disappointed some observers. However, the move is certainly a step in the right direction and more action from the central government is anticipated as the direction of the new administration in Washington becomes clearer. Recent data in China points to a stabilisation of the macroeconomic environment, and even a rebound in the case of the financial sector. And while a good deal of investor scepticism about China remains, recent initiatives show regulators are actively easing fiscal and monetary policy and seeking to boost asset prices – a very different stance to just a few months ago.

Considering our portfolio, we believe when the current cyclical effects recede (in industries such as medtech, construction, semiconductors, and the consumer space), our stocks that are currently weaker can recover quickly. In the US market de-regulation could see a broadening of stock performance away from just the mega caps., with pockets of high valuations retracting, and increasing AI adoption creating broader opportunities withing the technology sector. Lower rates and a more buoyant economy should bring support to our consumer names and overall, accelerate growth above value once again. We remain optimistic about the year ahead.