

BANOR SIM'S ANALYSIS

Next year, the markets will have to deal with elections in the US

Just over one month from the end of the year, the stock markets have risen by 20% and, most unexpectedly, even bond markets show yields in the order of 10%. "A very positive year is closing for equities as well as for bonds as a result of the FED's turnabout, which cut interest rates to support the market by intervening in advance of an economic slowdown", said Angelo Meda, Head of Equities at **Banor** SIM. "In the coming months, it will be important to understand how interest rates will change. In fact, last year the correction started when the real interest rates in the US exceeded the 1% threshold". We are now at 0.2%, and so there is still plenty of room to spare. However, in a scenario where the US economy continues to do well, it would be reasonable to expect a rise in interest rates. "Nonetheless,

at the moment, interest rates are not budging because inflation is well below 2%, which is what the central banks are aiming for", said Meda.

Experts believe that the stock market will be driven by interest rates which, in turn, will be driven by the performance of the economy. If the recovery phase continues, interest rates should also go up and stock markets would stop rising, generating sector rotation. Cyclical stocks like cars, steel and industrials would be preferable to more defensive stocks like food & beverage and utilities. If, on the other hand, the trade war should continue or if any other slowdown factor should materialise, there is a risk of a return to a 0% real interest rate in the US.

"Let us not forget that, with a certain delay, Europe reflects what happens in America", said Meda. "Next year, there will be elections in the US, and Trump has no incentive to create any turbulence in the year of his possible re-election. What is certain is that he will have to do something sensational, and it is likely that we will see some volatility, even though he will not fail to support the markets. With the odd declaration on China, the odd verbal attack on his Democrat rivals, no one can tell. The scenario, as it appears from the markets at the moment, is that of a Trump re-election, notwithstanding the possibility of his impeachment". —

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Trump aims at re-election: great expectations on the markets for his next moves

