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# MARKET PERSPECTIVES REVIEW & OUTLOOK

THIRD  
QUARTER  
**2024**



# THIRD QUARTER 2024 REVIEW & OUTLOOK

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# THIRD QUARTER 2024 REVIEW & OUTLOOK

## EXECUTIVE SUMMARY

9 October 2024

### PORTFOLIO THEMES

- Stronger than expected corporate earnings growth, easing inflation, and improving sentiment should support markets.
- While value had a strong third quarter in what has been a growth led market, we remain watchful for a lasting shift to more cyclical categories.
- Exposure to both growth- and value-oriented equities should benefit portfolios as sector leadership expands to include more economically sensitive categories.

### MARKET OUTLOOK

- **A Resilient Bull Market:** While a correction or sentiment-driven volatility is always possible, we expect this bull market to continue.
- **Improved Sentiment:** Even as sentiment has perked amid improving economic conditions, we are still far from euphoria—providing ample room for upside surprise and big gains.
- **Politics is a Tailwind in 2024:** Politics should remain a tailwind for markets. Political uncertainty has been falling throughout 2024 as a busy slate of elections globally concluded, with the US November election the biggest remaining vote.

Three quarters in, equities are on course for the good-to-great 2024 we forecast. Global markets quickly moved past the summer pullback to finish the quarter up 6.6%, bringing the year-to-date increase to 18.7% for the MSCI ACWI.<sup>i</sup> Emerging Markets (EM), too, rose, with the index gaining 8.7% in Q3.<sup>ii</sup> More volatility is possible, for any or no reason. But falling uncertainty as the US election finishes should lift markets, propelling this bull market through yearend at least, in our view.

July's retreat saw sharp pullbacks in categories that have led this market cycle higher including Tech and Tech-like equities. This is normal. When corrections (or near-corrections) strike, the leading categories usually get hit hardest, then lead again in the recovery. This is playing out now, with Tech recovering sharply. Looking ahead, our offensive positioning in both growth and value categories should continue benefitting returns.

i Source: FactSet, as of 01/10/2024. MSCI ACWI Index return with net dividends, 30/06/2024 – 30/09/2024 and 31/12/2023 – 30/09/2024.

ii Source: FactSet, as of 01/10/2024. MSCI Emerging Markets Index return with net dividends, 30/06/2024 – 30/09/2024

In some ways, this was an unprecedented, eventful quarter. We had two abhorrent attempts on a US presidential candidate's life; a truly unusual US presidential debate between President Biden and former President Trump, followed by a new candidate—Vice President Kamala Harris—replacing a presumptive nominee; several impactful elections around the world; sharp moves in Japanese equity and currency markets; rate cuts worldwide, including a bigger-than-usual Fed move; and increased fighting in the Middle East and Ukraine.

Yet markets have been remarkably calm in the face of upheaval. Yes, we endured some daily volatility, but global equities never reached official correction territory and quickly regained all-time highs. "Sell in May and Go Away" failed, and September wasn't the worst month of the year, contrary to widely touted seasonal mythology. Like the economic environment, the year's returns are quite normal, closing in on the average annualised 23.0% bull market return.<sup>iii</sup> Global equities' hitting new highs near this quarter's close inevitably raises questions about where we are in this market cycle. But record highs aren't predictive. Not every new high is a peak—most are meaningless milestones in a bull market's long upward march. Bull markets often set dozens of record highs as they climb.

Of course, bear markets do follow bull markets, and we are preparing carefully for this. Risks could escalate in 2025, so we are carefully analysing market drivers. For now, the underlying conditions look great, in our view. Perhaps that changes in 2025, but it is too soon to weigh that now. As we approach yearend, we will finalise and share our formal 2025 forecast and a closer look at potential risk factors.

Most economic headlines and commentators are not overly bullish. Many pundits, using traditional dashboard indicators, predict recession. Some cite the falling Leading Economic Index, overlooking that it emphasises manufacturing—a long-running weak spot—while almost ignoring services. Yet services dwarf manufacturing in the United States and most of the developed world. Services industries are growing swiftly. Others linger on rising unemployment and the so-called Sahm Rule, named for a former Fed economist. Yet Claudia Sahm herself says the rule is likely misfiring, broken by pandemic-era dislocations. Unemployment—a late-lagging indicator—is up mostly because the workforce is growing faster than businesses are hiring. There aren't vast layoffs. This is the labour market moving from abnormal tightness to more normal conditions, a late-lagging effect of COVID lockdowns' many and varied distortions.

We don't dismiss recession risk. But if one loomed, equities—the ultimate leading indicator—would likely signal it first. It would be highly bizarre for a recession to strike randomly during a bull market. Equities aren't ignoring the supposedly troublesome indicators. They are discounting underlying economic conditions, rightly seeing the return to normal, and moving on.

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<sup>iii</sup> Source: Global Financial Data, Inc., as of 27/09/2024. S&P 500 annualised price returns in bull markets prior to the present, 01/06/1932 – 03/01/2022. We use the S&P 500 here due to its long history.



The Bank of Japan (BoJ) made headlines hiking its policy rate (from 0.10% to 0.25%) and announced plans to taper its quantitative easing programme, gradually halving monthly long-term bond purchases by March 2026. While widely expected, some pundits argue the move sparked a frenzy in currency markets. The yen strengthened in response to the moves, indicating a rapid reversal of the yen carry trade. Though by the end of August, the markets moved on from the fear, suggesting the effect shouldn't be overstated. In politics, Shigeru Ishiba became the country's newest prime minister (PM). He succeeds Fumio Kishida, whose popularity never recovered from a party fundraising scandal, driving his stepping down. Shortly after taking office, PM Ishiba called a snap general election for 27 October as he seeks a public mandate—and also to leave the opposition Constitutional Democratic Party of Japan (CDPJ) with little time to prepare.

Europe also had its share of elections and new governments. In France, new Prime Minister Michel Barnier signaled public spending cuts and big tax hikes for companies and wealthy individuals in order to bring the deficit below 3% of GDP—in line with EU rules. Details are light, and Barnier is still finalising the 2025 budget, but considering external opposition and infighting within his own government, he will likely need to compromise—a recipe for watered-down legislation.

The UK also had a July vote resulting in a Labour landslide inserting Keir Starmer as Prime Minister. Despite his short tenure in office, the new prime minister already seems to be losing political capital. There is fearful chatter over potential tax changes, especially a capital gains tax hike. As we monitor for potential legislative changes, these challenges likely make it difficult for the new government to implement campaign trail promises. Moreover, little here is likely much of a surprise. For instance, the UK's tax code has been a moving target for years, and businesses are adept at moving on.

As for the US election, we now enter the final stretch. The full Review will cover the race in detail, but we don't expect major market implications in 2024 beyond falling uncertainty. There may be more to say on this front for 2025, but for now the election is a tailwind for markets, regardless of who wins. Beyond the presidency, a key issue for markets is the makeup of Congress. House and Senate races are complicated and unpredictable, but the full Review will provide more clarity on these contests.

One thing we can predict: Election coverage will be wild and partisan, influencing investors' emotions and biases. Investors may pick sides, preferring one candidate and fearing the other, but markets don't. They weigh policies, not personalities, and prefer falling uncertainty to rising. Perhaps next year brings rising uncertainty regardless of which side wins. Perhaps it doesn't. But for now, what matters is we will get a winner, and markets have a long history of cheering the winner regardless of party.

In EM, Mexican political developments, central bank moves and unexpected Chinese policy announcements dominated headlines, with the total effect largely amounting to warmer sentiment.

Claudia Sheinbaum officially took office 1 October, a month after Mexico's new Congress was seated. In the interim, former President Andrés Manuel López Obrador (or AMLO) used his lame-duck period to pass constitutional reform, overhauling the judicial system. Some believe AMLO did the heavy lifting tackling controversial judicial reform first so President Sheinbaum didn't have to, leaving her to look market friendly. But it isn't as if she has ever diverged from his policies. Rather, she has vowed to further his agenda and "govern with these [AMLO's] principles starting on 1 October."<sup>iv</sup> This political uncertainty (plus Mexico's defensively tilted markets) largely motivates our underweight to the country, as the Morena supermajority stirs continued concerns of major policy shifts and unwinding of earlier market-oriented reforms.

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iv "Mexico's History-Making Leader Charts Her Own Course—Delicately," Maya Averbuch, Bloomberg, 30/09/2024.

In Latin America's largest economy, Brazil hiked rates a quarter point to 10.75% on 18 September. Its central bank sees upside inflation risks, with inflation staying stubbornly over 4% y/y the three months through August after being below 4% from March through May.<sup>v</sup> Public spending—and larger-than-expected budget deficits—are fueling perceptions of fiscal profligacy leading to higher inflation the central bank must rein in. But we see Brazil following global disinflationary trends—reality seems better than perceived economically. Moreover, a relatively hawkish central bank may help put to rest fears of President Luiz Inácio Lula da Silva (Lula) encroaching on the central bank's independence.

In Asia, the Bank Indonesia (BI) unexpectedly cut rates a quarter point to 6.0% on 19 September. This was its first reduction since February 2021 and comes with September's inflation falling to 1.8% y/y, at the lower end of BI's 1.5% – 3.5% target range.<sup>vi</sup> Inflation is now at its lowest since November 2021, as monthly CPI levels have declined sequentially since May, their longest deflationary streak in 25 years. Fading inflation and resilient growth should present tailwinds to equities in the country.

Chinese stimulus garnered the most attention, as the totality of the measures seems to have positively surprised many pundits disappointed by prior policy moves. While they could spur domestic consumption and help arrest the real estate market's continued weakness, all the stimulus amounts to is added support for already better-than-appreciated growth in our opinion.

With just a quarter left in the year, this bull market's solid backdrop remains intact. Noisy politics grab attention, but uncertainty largely continues to fall—allowing investors to see the better-than-appreciated economic conditions underpinning the bull market.

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v Source: FactSet, as of 02/10/2024.

vi Source: FactSet, as of 02/10/2024.



# GLOBAL UPDATE AND MARKET OUTLOOK

24 October 2024

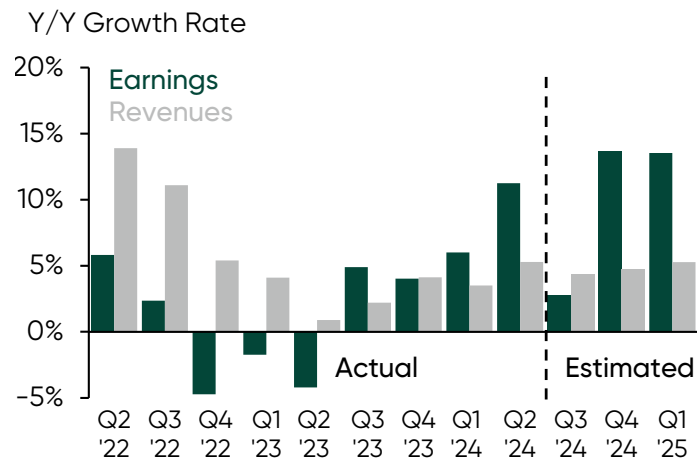
## MARKET RECAP

A normal, good-to-great year: We anticipated this entering 2024, and equities have delivered three quarters in. Despite some sharp daily moves, no pullback reached the -10% correction threshold in broad global benchmarks. As this bull market notches its second birthday on 12 October, equities are performing just fine.

## 2024 IS UNFOLDING AS EXPECTED

The factors underpinning our forecast are largely playing out. The US economy is mostly back to normal after COVID-related disruptions. The services sector continues powering fine GDP growth. Businesses are boosting investment after cutting back to survive a widely anticipated recession that never arrived. Energy costs have eased, to little fanfare. Fed surveys show banks ready to lend and businesses eager to borrow. Corporate earnings and revenues are growing nicely, and not just in Tech. (Exhibit 1)

### EXHIBIT 1: EARNINGS AND REVENUES KEEP GROWING



Source: FactSet, S&P actual and expected sales and earnings growth as of 04/10/2024.

The global economy is also growing modestly. Weak spots like Germany hog attention, masking French and Southern European growth. Much-maligned Britain is bouncing back from late-2023's contraction. Japanese GDP is growing again, with domestic demand rebounding. Even China, widely feared, is growing and contributing to global demand—and was before September's stimulus. With expectations weak on all fronts, positive surprise remains likely.

Politics are also contributing. Entering the year, we showed you US election years are usually great for equities: with the S&P 500 up 83.3% of the time and averaging 11.4%.<sup>vii</sup> This includes winners from both parties—markets don't favour any candidate, they mostly just enjoy having a winner, celebrating the clarity of knowing the outcome. Falling uncertainty should be a nice late-year tailwind.

Historically, US election years are back-end loaded, but as our Q4 2023 Review pointed out, negative first halves under Republican incumbents skew this. Under Democratic incumbents, S&P 500 election year returns were more balanced: up 6.4% in the first half and 7.1% in the second.<sup>viii</sup> Moreover, weaker early-year returns usually accompany higher primary-season uncertainty. But uncertainty appeared to resolve much earlier than usual, as we noted, without primary races going down to the wire. Both parties' presumptive nominees emerged earlier in the year than usual, reducing some uncertainty for markets.

Now, this changed in June and July as the US presidential race took a turn. First came an unusually consequential debate that culminated in President Joe Biden's exit. An attempt on former President Donald Trump's life followed, along with Vice President Kamala Harris's entry into the race. Volatility ensued in mid-July and early August, digesting these developments along with Fed talk and currency market woes. But the shallow pullback was short-lived. By mid-September, the S&P 500 and global markets were back at new highs despite a second attempt on former President Trump's life.

vii Source: Global Financial Data, Inc., as of 20/10/2024. S&P 500 total returns, 1925 – 2023.

viii Ibid.

Global politics added support. A busy stretch of elections wound down in July, largely extending gridlock across Europe and Asia. Q3's major twist—Japanese Prime Minister Fumio Kishida's decision to stand down—wasn't surprising. His political standing was in doubt all year, thanks to a party fundraising scandal. Uncertainty quickly eased, with the Liberal Democratic Party's (LDP's) leadership contest elevating Shigeru Ishiba as prime minister at September's end. He is the continuity pick, extending the status quo. Late October's snap general election will add further clarity.

Elsewhere, with Austria's late-September election returning a hung parliament, gridlock extends far and wide. There is still uncertainty to fall as France and the UK unveil tax plans. But the landscape has quieted. International gridlock, alongside the US election's customary relief rally, is a fine market backdrop.

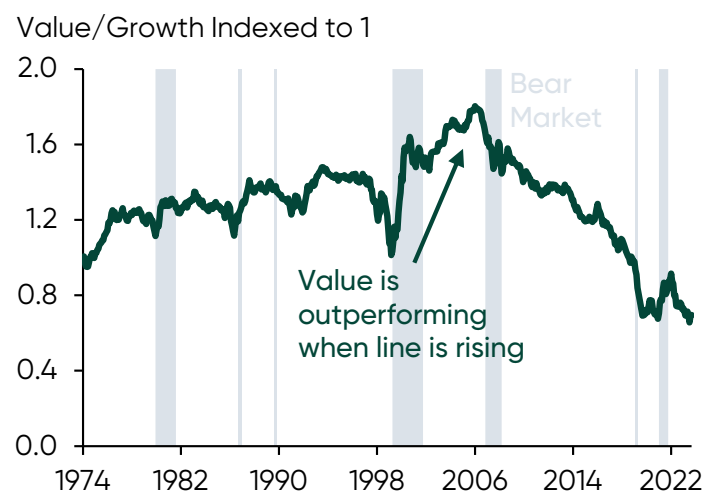
## ON POTENTIAL STYLE SHIFTS

In January, we also noted a shift from growth leadership to value was possible later this year. We have seen some signs of this, which Fisher strategies reflect by emphasising more cyclical categories. But it isn't a sudden, severe switch. Nor would we expect this. Our moves this year aren't about trying to pinpoint a change. Rather, they are about maximising bull market participation, featuring companies well-positioned for the environment we expect. This includes some value, but also big, growthy Tech and Tech-like equities.

Value generally does best when the economy is accelerating significantly or when value is despised. Both usually occur after the end of a brutal bear market—a time when value usually gets hammered hardest and the economy is about to move from contraction to recovery. When no one wants value, it typically surges. These early-bull market stretches are when value tends to lead. (Exhibit 2)

Much of this early bull market leadership stems from value's exposure to shifts in economic growth—cyclicality. When growth is higher than expected, value normally leads. That is an easy bar to clear early in a bull market. Later, when growth moderates and sentiment is warmer, there isn't as much positive surprise to lift cyclical equities. Today's normalcy of good-yet-modest GDP growth doesn't favour value much. For growth, however, this is a fine environment, since firms ride long-term demand trends, like data centre buildouts.

### EXHIBIT 2: VALUE USUALLY LEADS EARLY IN A BULL MARKET



Source: FactSet, as of 04/10/2024. MSCI World Index Growth and Value price index levels, monthly, 31/12/1974 – 30/09/2024. Indexed to 1 at 31/12/1974.

Rather than expecting a complete shift from growth to value leadership, we see opportunities in both growth and value. Growth sectors like Technology should benefit from slow-but-stable economic growth, declining inflation and benign interest rates. Select value categories should get a boost from investors' increasing economic confidence, accelerating business spending and improving bank lending, which aids the economy and value equities more dependent on loan financing.

Investors, though, seemingly anticipate a marked shift to value. We think this largely stems from an inherent bias toward value over growth. People forget the precise circumstances where value leads. They just anchor to value's pre-2010s reputation for superior returns, then glance at growth's high price-to-earnings ratios (P/Es) and presume value is due.

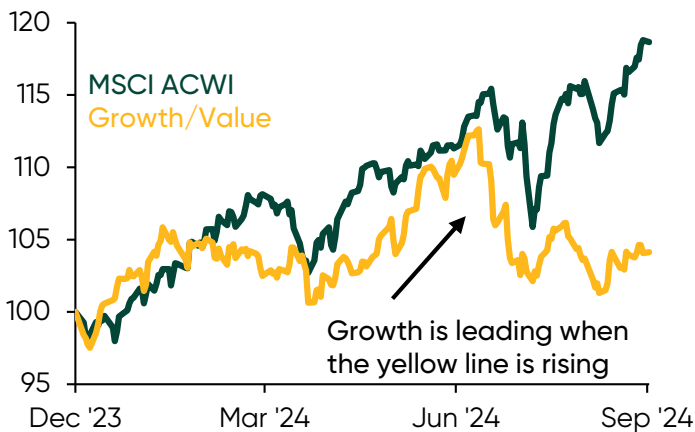


Another way to see this: When value had brief leadership bursts, headlines jumped on the trend—confirmation bias in action. Pundits tied value's ascent to rate cut chatter, arguing the Fed would help small, cyclical firms finally outperform. Or they called growth equities tired, overvalued and stretched—bubbles waiting to pop. Any rally in smaller, more cyclical firms allegedly signaled a rotation.

In reality, value's bursts were often countertrends tied to market pullbacks led by defensive groups. Exhibit 3 shows this, comparing growth's returns relative to value and the MSCI ACWI Index year to date. When the yellow line is rising, growth is beating value. As you will see, the majority of growth's leadership happens when the market is rising, while most of value's leadership accompanied a falling market. Even in late July and August, when the connection appears less strong, it still holds directionally.

### EXHIBIT 3: VALUE'S LEADERSHIP BURSTS ARE COUNTERTRENDS

Indexed to 100



Source: FactSet, as of 01/10/2024. MSCI ACWI Index, MSCI ACWI Growth Index and MSCI ACWI Value Index, with net dividends, indexed to 100 on 31/12/2023. Data from 31/12/2023 – 30/09/2024 in USD.

If value leads when the market falls, it doesn't appear to suggest it will lead the bull market's next leg up. It is the opposite. Countertrends often accompany short-term volatility. What leads on the way up usually gets hit hardest in the pullback—part of the normal sentiment reversal. When markets rebound, pre-downturn leadership trends resume. Tech and Tech-like growth have still done better on up days lately—a classic tell and leadership hallmark, in our view.<sup>ix</sup>

Hopes and expectations for a leadership swap are priced in. Value is too loved to lead, while Tech is too unloved to implode. Bubble fears are self-deflating. Worries about growth names, Tech and the infamous Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla) being overvalued are evidence they aren't.

In our view, value's time will come, but probably not until everyone has capitulated on style—and probably not until equities in general—creating the conditions for it to thrive when no one wants it.

### A WORD ON AI

Many pin growth's bull market leadership solely on Artificial Intelligence (AI), with some claiming the trend defines Tech's overextended bubble. Others see it as the wave of the future, set to change all aspects of life. Both overstate.

As we wrote in recent quarters, AI is very real, with big long-term potential. But to date, most of the advance and opportunities for profit are in semiconductors, data centres and the like—the hardware powering AI. Its end uses—and winners—are too unknowable now to weigh. Furthermore, the companies best positioned to profit now are the largest Tech firms emphasised in portfolios. AI has huge potential but is also hugely costly, favouring cash-rich mega caps.

ix Source: FactSet, as of 20/09/2024. Correlation of relative daily total returns in each calendar month versus World returns, 12/10/2022 – 31/08/2024.

Beyond this, many suggest AI will fuel electricity demand on a vast scale, powering Utilities to outperform. We have done research on this and doubt it is true. Data centres are more energy efficient than locally housing servers and equipment (and growing more so over time), aided by advanced chips. Furthermore, there is little evidence ramping up electricity demand is great for Utilities companies. In the 1960s and 1970s, vast expansion in air conditioning didn't power surges in the sector's performance. Simply, Utilities are defensive. They typically lag badly in bull markets and lead when equities endure volatility. Overweighting them on electricity demand ignores the costs of generation, transmission and financing.

## ON ENERGY

One sector emphasis that hasn't worked so well this year is Energy. In Q1, we raised Energy exposure on the belief expectations for the sector were off kilter. Investors expected lower oil prices tied to strong production and weak global demand. In our view, people were overlooking declining oil rig counts in the US and the high likelihood of production slowing—not to mention demand's high probability of surprising to the upside. Oil prices looked likely to trade near the upper end of their recent range, which would have benefited Energy earnings (which derive more from oil prices than production volumes).

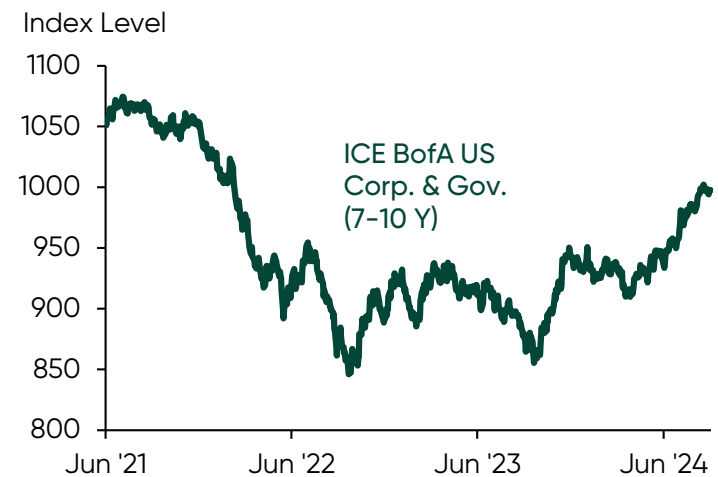
This worked briefly, with Energy leading from early March through late April. But it has trailed global markets since then and year to date. Our Energy overweight was a means to add offensive equities to the portfolio while reducing our growth emphasis—a move designed to benefit portfolios if value led materially. In this way, it is perhaps best seen as a counterstrategy to our Tech and growth emphasis. This shows the essence—and importance—of diversification.

In this vein, Energy has helped. When markets pulled back in late July and early August, Energy outperformed modestly, helping cushion the fall. Note, too, that Energy is much smaller than people think. People presume it must be huge given energy's gigantic role in everyday life. But as vital a role as oil and energy play in life, their importance to the overall economy has fallen, much like agriculture decades earlier. Markets reflect this shift, as Energy comprises only about 4% of the MSCI ACWI Index's market capitalisation.<sup>x</sup>

## FIXED INCOME IS BACK TO NORMAL, TOO

Equities aren't alone in having a fine, normal year. Fixed income is, too, after two wild years. For blended strategies, fixed income's primary role is to mitigate expected short-term volatility. Not to offset equities' movement one-to-one, but to dampen a portfolio's overall short-term swings. Most of the time, bonds accomplish this. However, they aren't volatility-free. 2022 and 2023 brought more volatility than bond investors are used to. While definitions aren't uniform, we think it is fair to say bonds endured a bear market in 2022, and retested the low in a see-saw 2023. (Exhibit 4)

### EXHIBIT 4: BOND MARKETS ARE BACK TO BORING



Source: FactSet, as of 30/09/2024. ICE BofA US Corporate & Government (7 – 10 Y) total returns, 30/06/2021 – 30/09/2024.

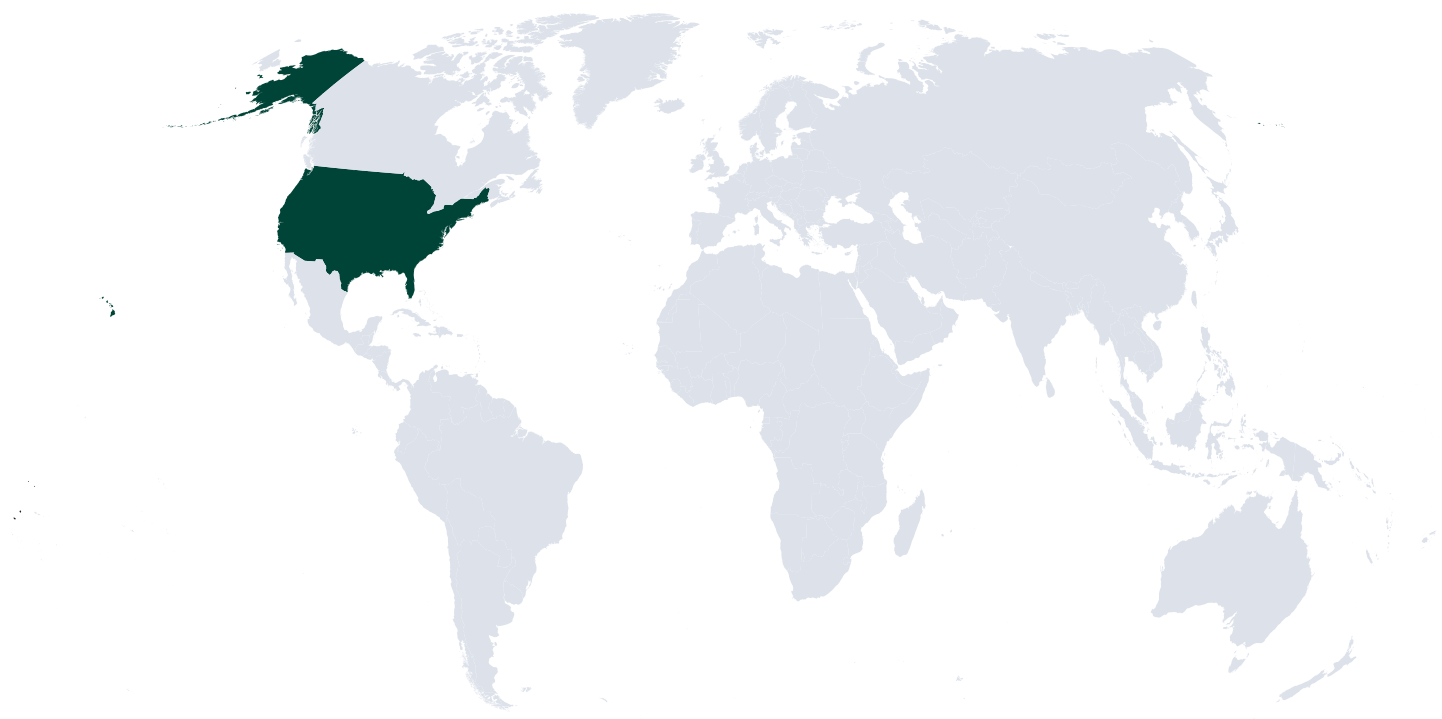
<sup>x</sup> Source: FactSet, as of 04/10/2024.



But now bonds are normal and boring again. The ICE BofA 7 – 10 Year US Corporate & Government Index— is up 5.5% year to date and swinging less than global markets. Long rates are down a little but well within the range of normal volatility, and they sit at historically normal levels. While 2022 was rough, it didn't change anything in fixed income markets permanently.

Looking ahead, we expect long-term rates should on balance remain near beginning of year levels—albeit with volatility along the way. Notably, we believe the US economy is more resilient than many expect, exerting upward pressure on long rates. However, relatively weak money supply growth and misplaced fears of widely anticipated new Treasury bond issuance point to lower rates. Taken together, we believe a big move in rates in either direction in 2024 is unlikely—an environment favouring neutral to moderately longer than the benchmark duration. Additionally, credit spreads have tightened considerably justifying a neutral weight to corporate bonds in our view.

# UNITED STATES COMMENTARY



*Please note that our commentary is intentionally nonpartisan. We favour no party nor any politician and assess developments solely for their potential economic and market effects.*

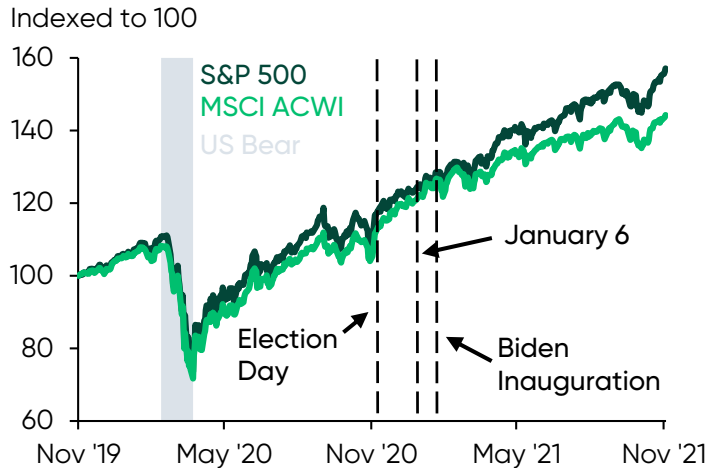
After a quarter of historic twists—two assassination attempts on former President Trump, President Biden's exit, Vice President Kamala Harris's rise and more—The US presidential election is in the home stretch. The recent drama stoked uncertainty temporarily. And this election looks very close.

Yet uncertainty is falling. Harris secured the nomination, both candidates' platforms solidified and victory paths narrowed. That boosted markets late in Q3, and more awaits—including a winner. The full government's composition will emerge. Markets should rally around this no matter who wins. Many struggle with that, arguing one is "better" for markets than the other based on personality or chatter. Illustrating this, some dubbed the summer's near-correction the "Kamala Krash." But it seems odd to call such a shallow decline a "crash." And markets retraced it to set new all-time highs near quarter-end.



Others suggest the possibility Trump challenges the results if he loses could spike uncertainty post-vote. Perhaps, but new rules limit challenges and delays now. Regardless, the events following 2020's vote including the 6 January US Capitol attack didn't crush markets. (Exhibit 5)

#### EXHIBIT 5: A YEAR BEFORE AND AFTER 2020'S ELECTION

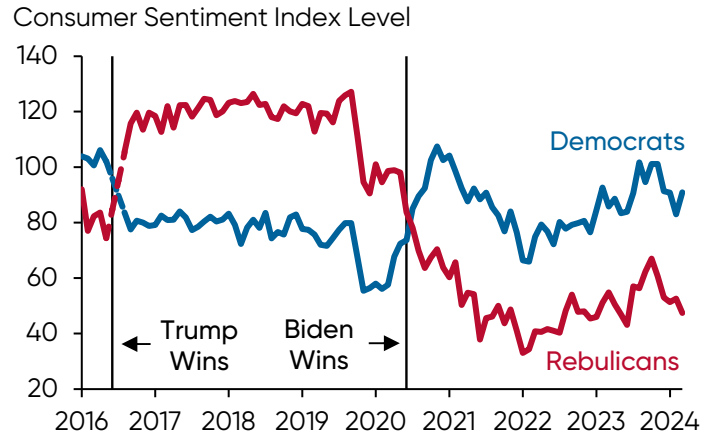


Source: FactSet, as of 30/09/2024. MSCI World Index with net dividends and S&P 500 total return, 01/11/2019 – 03/11/2021.

### WHEN IT COMES TO MARKETS, DITCH PARTISANSHIP

Bull markets ran under Democratic presidents and Republicans. Bear markets, too. The economy has grown and contracted under both. Yet lately, polls show many respondents' economic views hinge on the party in the Oval Office. (Exhibit 6) Note the wild swing around elections. Views of the economy shifted radically—on party lines—in those two Novembers.

#### EXHIBIT 6: CONSUMER SENTIMENT BY PARTY



Source: University of Michigan Survey of Consumers, as of 27/09/2024. June 2016 – August 2024. The survey didn't consistently ask for party affiliation from November 2016 – January 2017.

But nothing actually changed in the economy or markets. When Trump won 2016's election, fear of his economic policies—especially tariffs and hostility with China—ran high. Yet equities rose after he won, extending a pre-existing bull market. Economic growth continued. The bull market ran until 2020, when COVID lockdowns spurred a bear market and recession. Then a new bull market began in March 2020, which extended through Biden's win until 2022's sentiment-driven bear market. A new bull market began that October and runs to this day.

So both presidents oversaw three bull market years and one with a bear market. Trump's term saw twin corrections in 2018. Biden's saw a 2023 correction. From Trump's inauguration to Biden's, the S&P 500 annualised 16.4%.<sup>xi</sup> Since Biden's inauguration, it has annualised 13.1%.<sup>xii</sup>

If you calculate from election day rather than the inauguration, leadership flips: 14.3% from Trump's 2016 win to 2020's vote and 16.4% from Biden's election to now.<sup>xiii</sup> Markets haven't shown a preference. We doubt Harris versus Trump is a key divide, either.

xi Source. FactSet, as of 30/09/2024. S&P 500 annualised total return, 20/01/2017 – 20/01/2021.

xii Ibid. 20/01/2021 – 27/09/2024.

xiii Ibid. 08/11/2016 – 03/11/2020 and 03/11/2020 – 27/09/2024.

## A WINNER WILL EMERGE

Get beyond political bias, and you can assess the potential effects of a Harris or Trump win. But unfortunately, the market response to either is unknowable now.

Yes, both candidates tout taxes, subsidies, tariffs and much more. But the president can do little unilaterally. Taxes and subsidies require legislation, subjecting any promise to the next Congress. As we will discuss, it isn't clear how the House and Senate will tilt, but neither side looks likely to have a huge edge come January. Many promised measures could morph or die.

The president can issue executive orders and influence regulation. But the reach is limited. Executive orders interpret existing law. They rarely change much. The Biden Administration's early, temporary freeze on oil drilling permits on federal land shows this. Oil firms already had thousands of permits to continue drilling. Plus, federal land accounts for only 27% of US oil production.<sup>xiv</sup> State and private lands yield the huge majority. The president has no power there.

Presidents can levy tariffs against specific nations for national security reasons or currency manipulation. Trump and Biden did so. Trump's pledge to slap a 10% tariff on *all* imports is on shakier legal ground. It is hard to see a national security or currency reason to slap tariffs on Australia or Germany, for example. Perhaps he could do it piecemeal, but it would be subject to legal challenge. Overrating the market implications today would be mistaken, as it was in 2016.

## ON THE CAMPAIGN TRAIL

In last quarter's Review, Harris had just ascended. Trump was surging after his debate against Biden. Georgia and North Carolina leaned his way. As we noted, Harris's entry buoyed Democrats' polling, but it wasn't assured to last. Since then, her political strategy has been strategically passive—sitting back while Trump swings and her campaign portrays his attacks as divisive. Her calculated quiet gives him little of substance to seize upon.

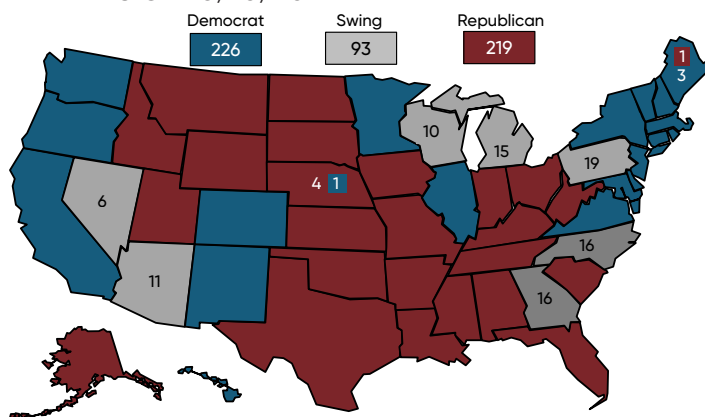
Polls' tightening held as she deftly played her hand. There is every indication this will be a close election. National polls give Harris a 49.2% to 47.2% edge as we type.<sup>xv</sup> But this isn't so meaningful. Last quarter, we explained how Trump can lose the popular vote by around three percentage points and still win the Electoral College, which determines the White House. So look to the states.

## THE STATES THAT MATTER MOST

We showed you a version of Exhibit 7 in Q2's Review. At the time, 270toWin's polling showed Georgia and North Carolina leaning Trump. More recent polls show Harris's campaign gained traction there, moving them back to the "swing" category.

These seven states likely decide the election. All are within the margin of error, suggesting the outcome is unknowable. Polls in the historically Democrat-leaning three (Nevada, Michigan and Wisconsin) slightly favour Harris. The historically Republican-leaning three (Arizona, Georgia and North Carolina) tilt Trump ... barely. Pennsylvania—the likely kingmaker, as we have said all year—is a toss up.

### EXHIBIT 7: BASELINE ELECTORAL COLLEGE MAP BY PARTY AS OF 20/10/2024



Source: 270toWin, as of 20/10/2024. Nebraska and Maine allow for split electoral college votes, hence the divided allocation.

xiv Source: US Energy Information Administration and Office of Natural Resources Revenue, as of 20/10/2024.

xv Source: RealClearPolling, as of 09/10/2024.

Shifting swing state polls create more paths to victory. But most include Pennsylvania. Of Harris's 20 swing state combinations to get 270 votes, 10 need Pennsylvania. The others require winning two of three Republican-leaning swing states. Similarly, 15 of Trump's 21 combinations feature the state. The other six require at least one Democratic-leaning swing state. Pennsylvania remains key.

## A TIGHT CONGRESSIONAL RACE, TOO

Even beyond the presidential election, 2024 looks tight. With the top of the ticket neck-and-neck, the winner likely has short coattails to pull House and Senate candidates. We anticipate small shifts, with the structure slightly favouring the Republicans in the latter and the House a toss-up.

The current edge in both chambers is historically small. The Senate consists of 47 Democrats, 49 Republicans and 4 Independents (who typically caucus with the Democrats). In the House, the Republicans hold a 220 – 212 majority, with 3 seats vacant.<sup>xvi</sup>

This gives major bills little leeway—one reason this Congress has done so little. Per GovTrack, it enacted only 84 bills through 1 October. While time remains, this is miles below the last two Congresses' 365 and 344, never mind the average 522 since 1973. While this may frustrate voters, gridlock is bullish for markets. New laws often create winners and losers, roiling sentiment. They can change the rules, complicating investment. Gridlock bars that. But whether 2025 brings it isn't yet clear.

## ON THE SENATE

The Senate's structure favours the Republicans—both in the number and location of seats up for grabs.

This election, 34 Senate seats are on the ballot. Of them, Democrats presently hold 23 to Republicans' 11. Among the Democrats', three are in conservative states: retiring Senator Joe Manchin's in West Virginia, Jon Tester's in Montana and Sherrod Brown's in Ohio. The Republicans have no seats up in progressive states, giving them the structural edge.

West Virginia is virtually assured to flip Republican. In Montana, Tester is a popular incumbent, but he trails in the polls and a wall of money has entered the race. Ad spending there is expected to top \$250 million—almost \$250 dollars *per resident*, reportedly history's most expensive Senate race on that basis.<sup>xvii</sup> Ohio's Sherrod Brown is also popular with a lot of clout. That race is a toss-up. As in the presidential race, if polling downplays GOP support, the seat could flip. If not, Brown is likely safe. Regardless, if Republicans win two of these three races and defend their own seats, they take nominal Senate control.

There are other paths to the GOP taking the body. Five races for currently Democratic seats are in swing states Arizona, Michigan, Nevada, Pennsylvania and Wisconsin. The Republicans have none up in swing states.

In such states, the presidential candidate who wins likely sets a ceiling for his or her party's Senate candidate. Voters don't often split their ballots, so a vote for Harris is likely a vote for the Democratic Senate candidate and vice-versa.

xvi Source: US Senate and House of Representatives Press Gallery, as of 20/10/2024.

xvii "Rush of Billionaire Cash Poised to Topple Democrats' Key Senator," Amanda L. Gordon, Bloomberg, 30/09/2024.

## AND THE HOUSE

In the House, structure doesn't reveal a clear favourite. Incumbency is a large factor there, and the tightly divided body—plus a roughly similar number of candidates who aren't seeking re-election—suggests neither party has a clear edge. According to 270toWin, 47 races are expected to be competitive. Of these, just 14 are in swing states. Most tight races are swing districts in states considered party strongholds (like Oregon Republican incumbent Representative Lori Chavez-DeRemer's seat, Washington Democratic incumbent Marie Gluesenkamp Pérez's or others in deep-blue New York and California).

## A TOUGH BACKDROP TO LEGISLATE

Hence, we don't anticipate a landslide and huge majority for either party. We expect another narrowly divided Congress, but whether that divide delivers single-party control of government or splits it remains to be seen.

Passing major measures will be challenging. Consider the process and how a tightly divided or split government can affect it. First, any drafted bill must be read and put to committee. Then it must clear the relevant committee. A closely divided Congress means split committees. If a bill makes it out of committee in the House, it goes to the Rules Committee, where it could also die. (There is no Senate Rules Committee.) Next a bill is calendared for a floor vote. In the House, the House Speaker and Majority Leader control the calendar, potentially blocking a floor vote. In the Senate, the Majority Leader can act similarly. Passing big bills is hard. It can take many months for draft legislation to wend its way through the legislature.

Now, there are procedural means around committees that hinge on negotiations between the leadership (minority and majority). But these are used primarily to avert impasses on necessary bills involving things like appropriations.

## A GLANCE AT 2025

Entering 2025, potential political risk climbs. This is the simple feature of the presidential term anomaly we have long described for you. As a president takes office, he or she likely pursues their biggest plans early, when their political capital is highest. Hence, market returns are more variable in their first and second years. (Exhibit 8; see next page)

As shown, this isn't an automatic negative. 60% of first and second years were up—and many were strongly positive. But there is greater US political risk in the two years *after* the election than in the two years before it. Assessing this—based largely on government's total structure after November—is key.

## AN ECONOMIC RETURN TO NORMAL

Years after COVID lockdowns, economic conditions are finally approaching normal—in output, employment and inflation. Yet headlines persistently tout a different tale, citing traditional indicators to argue a recession is near. This is too simple of a view.

The US and the world experienced a truly unprecedented event in 2020: Aiming to slow COVID, governments intentionally shuttered the global economy. Lockdowns suddenly disrupted economic activity—and data. Reopening, far harder to achieve as experience has shown, caused equally large ripples and distortions, skewing myriad indicators.

Meanwhile, recency bias means people forget what normal looks like. "Slowdowns" to prepandemic normal growth rates spur recession fear. To help illuminate the fallacy of this, let us walk through recent history to grasp how COVID lockdowns and reopenings distorted and twisted economic activity and indicators.



**EXHIBIT 8: PRESIDENTIAL TERM ANOMALY**

Party	President	First Year		Second Year		Third Year		Fourth Year	
R	Coolidge	1925	29.5%	1926	11.1%	1927	37.1%	1928	43.3%
R	Hoover	1929	-8.9%	1930	-25.3%	1931	-43.9%	1932	-8.9%
D	FDR -- 1st	1933	52.9%	1934	-2.3%	1935	47.2%	1936	32.8%
D	FDR -- 2nd	1937	-35.3%	1938	33.2%	1939	-0.9%	1940	-10.1%
D	FDR -- 3rd	1941	-11.8%	1942	21.1%	1943	25.8%	1944	19.7%
D	FDR / Truman	1945	36.5%	1946	-8.2%	1947	5.2%	1948	5.1%
D	Truman	1949	18.1%	1950	30.6%	1951	24.6%	1952	18.5%
R	Ike -- 1st	1953	-1.1%	1954	52.4%	1955	31.4%	1956	6.6%
R	Ike -- 2nd	1957	-10.9%	1958	43.3%	1959	11.9%	1960	0.5%
D	Kennedy / Johnson	1961	26.8%	1962	-8.8%	1963	22.7%	1964	16.4%
D	Johnson	1965	12.4%	1966	-10.1%	1967	23.9%	1968	11.0%
R	Nixon	1969	-8.5%	1970	4.0%	1971	14.3%	1972	18.9%
R	Nixon / Ford	1973	-14.8%	1974	-26.5%	1975	37.3%	1976	23.7%
D	Carter	1977	-7.4%	1978	6.4%	1979	18.4%	1980	32.3%
R	Reagan -- 1st	1981	-5.1%	1982	21.5%	1983	22.5%	1984	6.2%
R	Reagan -- 2nd	1985	31.6%	1986	18.6%	1987	5.2%	1988	16.6%
R	Bush	1989	31.7%	1990	-3.1%	1991	30.5%	1992	7.6%
D	Clinton -- 1st	1993	10.1%	1994	1.3%	1995	37.6%	1996	23.0%
D	Clinton -- 2nd	1997	33.4%	1998	28.6%	1999	21.0%	2000	-9.1%
R	Bush, G.W.-- 1st	2001	-11.9%	2002	-22.1%	2003	28.7%	2004	10.9%
R	Bush, G.W.-- 2nd	2005	4.9%	2006	15.8%	2007	5.5%	2008	-37.0%
D	Obama -- 1st	2009	26.5%	2010	15.1%	2011	2.1%	2012	16.0%
D	Obama -- 2nd	2013	32.4%	2014	13.7%	2015	1.4%	2016	12.0%
R	Trump	2017	21.8%	2018	-4.4%	2019	31.5%	2020	18.4%
D	Biden	2021	28.7%	2022	-18.1%	2023	26.3%	2024	
Frequency of Positive Returns		60.0%		60.0%		92.0%		83.3%	
Average Return for All Periods		11.3%		7.5%		18.7%		11.4%	

Source: Global Financial Data, Inc., as of 20/10/2024. S&P 500 total returns.

**THOSE UNPRECEDENTED COVID TIMES**

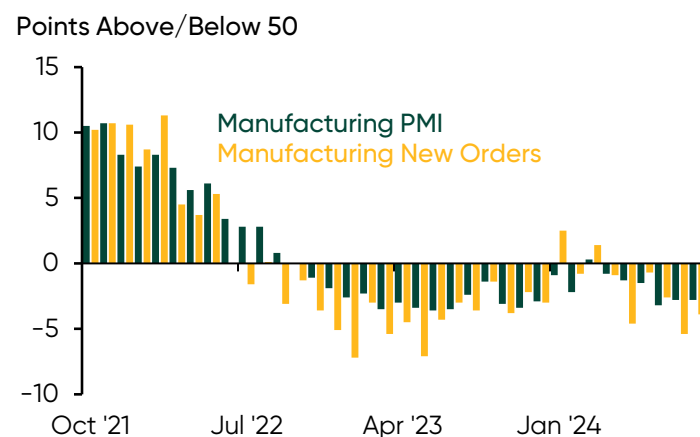
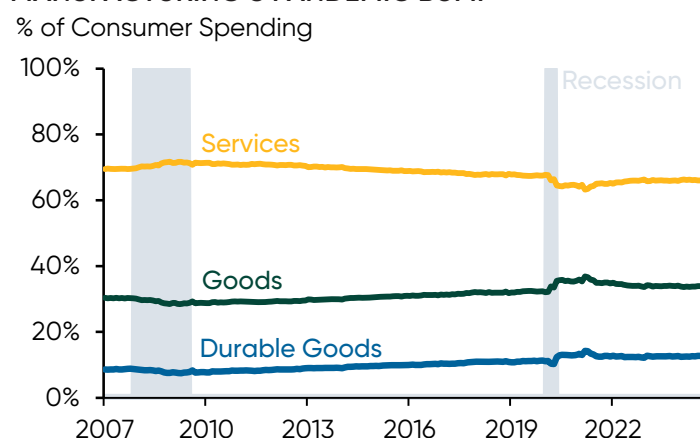
When governments locked the economy down, they floated massive fiscal packages to replace income lost or feared lost through temporary business closures. Many services weren't available, knocking a sector comprising about 66% of US consumer spending.<sup>xviii</sup> The result: Consumers were cash-flush with a large share of typical spending off limits. Some bolstered savings. But many spent big on physical goods. Home improvements to revitalise a domain you spent even more time in. Home office upgrades for remote working.

Spending on products to make a constrained life more livable. The result: Goods spending, particularly on durable goods (those designed to last three years or more), and manufacturing surged. Services sagged.

<sup>xviii</sup> Source: Bureau of Economic Analysis, as of 07/10/2024.

That trend began fading by mid-2021 as reopening gradually flipped the script. As more governments eased restrictions, spending flooded disproportionately to services. The lockdown essentially pulled forward demand for goods, leaving a sharp decline in its wake. Goods spending flattened, knocking factory output. Hence, weak manufacturing data since 2020—not because consumer demand plummeted but because it returned to services. (Exhibit 9)

## EXHIBIT 9: THE RETURN TO NORMAL REVERSED MANUFACTURING'S PANDEMIC BUMP



Source: St. Louis Federal Reserve and FactSet, as of 04/10/2024. Real personal consumption expenditures (PCE) of Services, Goods and Durable Goods as a percentage of total real PCE, January 2007 – August 2024, and ISM Manufacturing PMI (Headline and New Orders), October 2021 – September 2024. Recessions based on NBER dating. PMI readings over 50 imply expansion; below 50 indicate contraction.

xix Source: FactSet, as of 04/10/2024.

xx Source: FactSet, as of 04/10/2024.

xxi Source: St. Louis Federal Reserve, as of 08/10/2024. Total nonfarm job openings divided by unemployment level.

xxii Ibid. Statement based on median federal-funds target rate, monthly, January 1971 – September 2024.

## COOLING LABOUR MARKET IS NORMAL

The last leg in the return to normal is employment—no surprise since labour data are late-lagging economic indicators. To understand why, think like a CEO. When a downturn begins, you will likely seek places to cut costs, like slashing inventory or backing off marketing campaigns. Cutting headcount is a last resort—you don't want to disrupt your workers' lives or firm culture, and finding good employees is difficult. Thus, unemployment usually rises *after* business slows.

Lockdowns disrupted the usual employment cycle and drove a temporary labour shortage. Hiring surged as employers scrambled to find help. But as with spending habits, hiring slowly returned to prepandemic trends. This year's median monthly payroll gain is 216,000 through September—well below 2021's median monthly 546,500 increase and down from 2022 and 2023's 279,000 and 243,000.<sup>xix</sup> But this year isn't far off the 2009 – 2020 economic expansion's median 184,500.<sup>xx</sup> Job openings famously doubled the number of unemployed workers in March 2022. Now there are 1.13, nearly matching the level from May 2018 through 2020's lockdown.<sup>xxi</sup>

## RATES ARE NORMAL, TOO

While many cheered the Fed's cutting the fed-funds target range by 0.50 percentage point to 4.75% – 5.00%, some worried it was too little, too late. That presumes rates alone meaningfully affect growth. We don't think so. Yes, rates were near zero for much of the 2010s bull market, but fed-funds was at 5.00% or higher for much of the 1990s. Myopia also blinds people to the fact that since 1971, the median fed-funds rate is 5.25%.<sup>xxii</sup>

We doubt the rate cut will do much. As last quarter's Review showed, Corporate America was ramping up spending *before* September's cut. GDP grew in nine straight quarters. With the Atlanta Fed's GDPNow estimating 3.2% annualised growth last quarter, Q3 seems likely to mark 10. It is hard to see how a rate cut two weeks before quarter-end made a difference. Growth fared fine without Fed "support."

As Ken Fisher wrote in his August New York Post column, equities don't seem to scream for rate cuts, either.<sup>xxiii</sup> Between the first hike in March 2022 and September 2024's cut, the S&P 500 rose 36.4%—not too shabby for a "tightening" period.<sup>xxiv</sup>

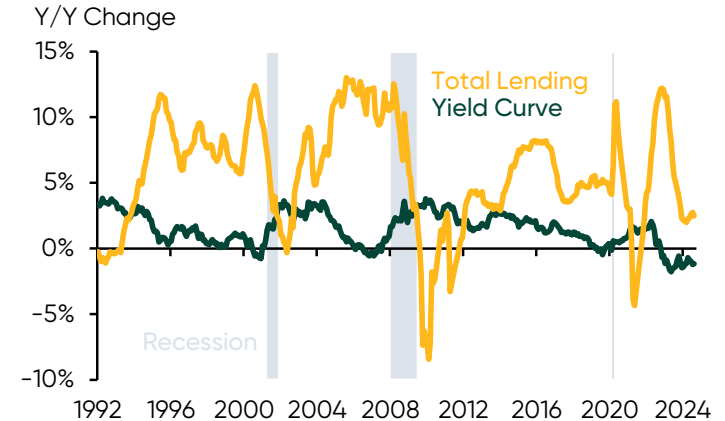
## ARE THE USUAL RECESSION INDICATORS BROKEN?

We don't dismiss recession risk, but the traditional dashboard has some bugs right now—due largely to pandemic-related quirks.

Consider the yield curve. The 10-year minus 3-month yield curve inverted (*i.e.*, short rates topped long rates) two years ago, yet recession hasn't occurred. But inversion alone doesn't signal trouble. Rate hikes sought to slow inflation through credit markets. Banks borrow short term to fund long-term loans. By trying to raise banks' funding costs and narrow the gap with long-term rates, the Fed sought to lower loan profitability—thereby dissuading lending, slowing growth and cooling inflation.

But the effect was muted. It works only if banks must borrow at rates near fed-funds. Looking more carefully showed why: The lockdown-era savings surge exacerbated a deposit glut. Banks' funding costs didn't match fed-funds' rise. So lending slowed, but it didn't crash. (Exhibit 10)

## EXHIBIT 10: YIELD CURVE INVERSION HASN'T DERAILED LENDING



Source: FactSet and Federal Reserve Bank of St. Louis, as of 09/09/2024. 10-year minus 3-month Treasury yields and total loans and leases in bank credit, January 1992 – August 2024.

According to the Q3 2024 US Senior Loan Office Opinion Survey (SLOOS), loan demand is on the upswing after bottoming four quarters ago.<sup>xxv</sup> While loan growth cooled from hot 2023 rates, it never turned negative and has stabilised in recent months. Hence, contrary to the common narrative, we don't expect rate cuts to sway growth much.

Similarly, The Conference Board's Leading Economic Index (LEI) has fallen since December 2021, spurring questions about whether this historically reliable indicator (which aggregates mostly forward-looking variables) is broken. We don't think so—but the pandemic era's oddities render it less useful in this instance. One subcomponent is the yield curve spread addressed above. But LEI also skews toward manufacturing and goods-producing industries, which overrates the US economy's weakest pocket in recent years. Manufacturing comprises less than 20% of GDP—not reflective of the US's services-driven economy.<sup>xxvi</sup>

xxiii "The Fed is finally about to start cutting rates – and here's why you shouldn't care," Ken Fisher, *NY Post*, 26/08/2024.

xxiv Source: FactSet, as of 07/10/2024. Statement based on S&P 500 Total Return Index, 16/03/2022 – 19/09/2024.

xxv Source: Federal Reserve, as of July 2024.

xxvi Source: Bureau of Economic Analysis, as of 04/10/2024.

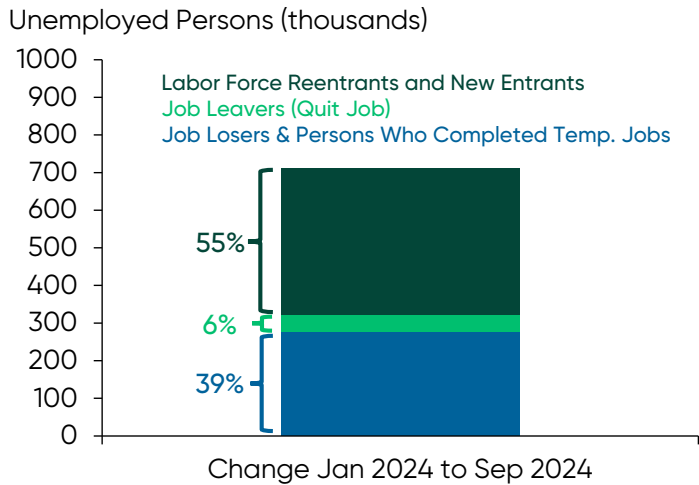
LEI has also failed before. It was flat heading into the 2008 – 2009 recession, prompting a 2012 retooling. The current LEI now shows a sustained drop before that recession, but it is the back-tested version of the new series. Will The Conference Board restructure it again now to account for services’ heft?

SAHM SAYS A RECESSION ISN'T UNDERWAY

A recession indicator called the Sahm Rule triggered in July, spurring headlines. Named after economist Claudia Sahm, the rule states that when the unemployment rate’s 3-month average rises 0.5 percentage point or more from its 12-month low, a recession is underway. But it isn’t a forecasting tool, and false signals happen. The Sahm Rule flashed in July 2003, after the 2001 recession ended. In November 1976, it fired *after* 1973 – 1975’s downturn.

Sahm herself calls July’s trigger a false alarm. She notes the unemployment rate is up since more people are entering the labour force, *not* because of vast layoffs. The rise is a combination of immigration and folks returning to the workforce after leaving during the pandemic. (Exhibit 11)

EXHIBIT 11: RISING UNEMPLOYMENT RATE IS LARGELY DUE TO RISING LABOUR SUPPLY



Source: FactSet and Bureau of Labour Statistics, as of 23/09/2024.

ON US DEBT

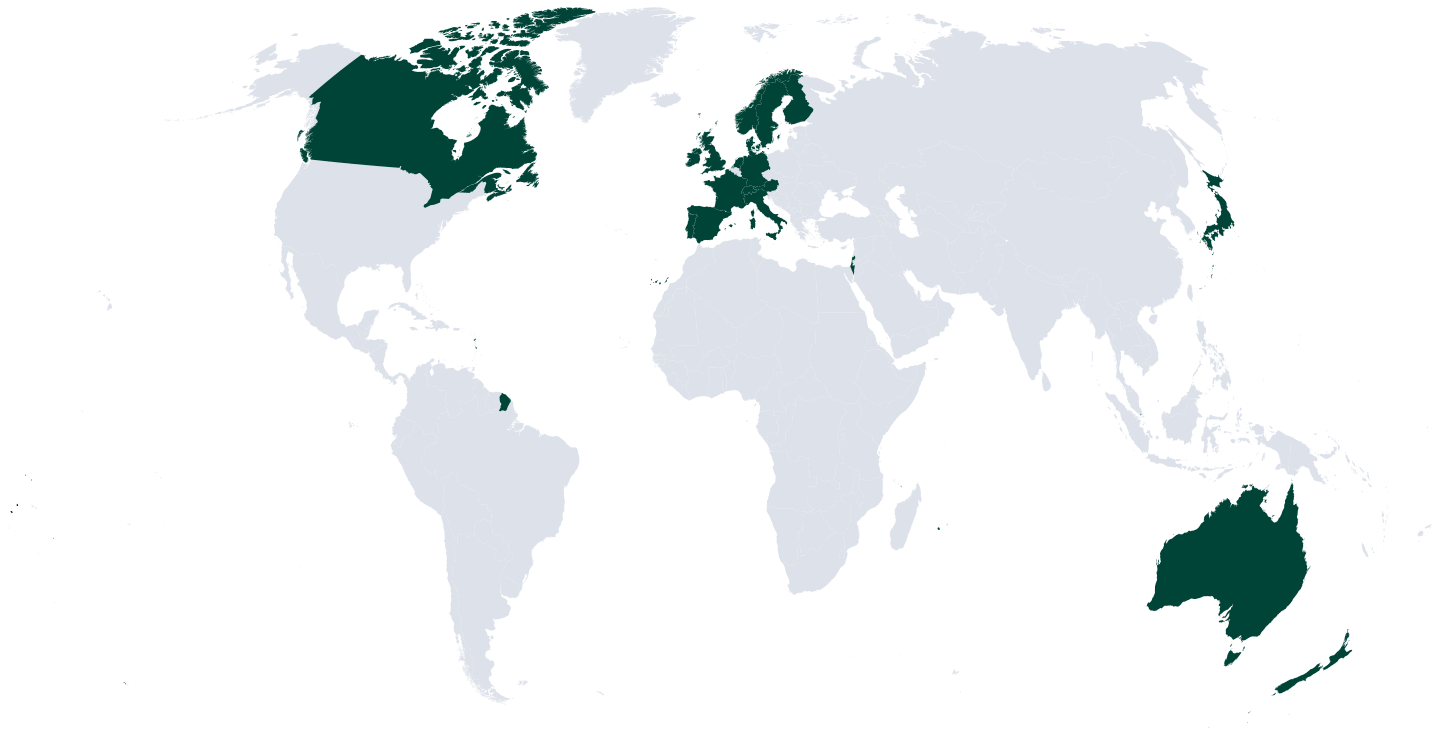
Partly stemming from election chatter, US debt fears are back. But it still isn’t an economic or market risk. What matters is a country’s ability to service its debt. On that front, federal interest payments took just under 15% of tax revenues in fiscal 2023.<sup>xxvii</sup> That is up from recent years but lower than most of the 1980s and 1990s—a generally prosperous period.

As last quarter’s Review explained, the US’s debt is less of a burden today than a few years ago: “Inflation, simply, makes the debt cheaper. It boosts tax revenue, too. The majority of the government’s personal tax take comes from higher earners, whose incomes rise at a lag to inflation. The result is a stealth tax hike over time. Bad for them, good for the government.” Government debt is nominal. Over the past three years, inflation made pre-existing debt 20% cheaper in real terms. This doesn’t mean we think the government should spend endlessly—but it is far from a crisis.

xxvii Source: St. Louis Federal Reserve, as of 04/10/2024.



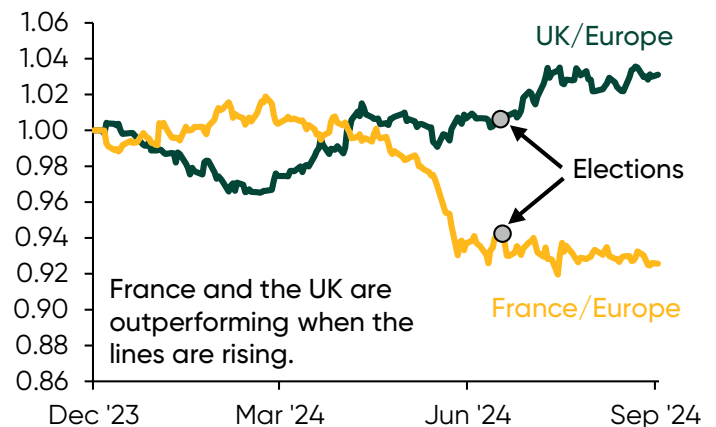
# GLOBAL DEVELOPED EX-US COMMENTARY



The UK and France held elections in July, which would ordinarily clear the way for falling uncertainty to boost their markets. Yet both have struggled to match European returns for the past few months—France in particular remains well behind regional markets. (Exhibit 12) We see a simple reason for this: Uncertainty remains elevated as both nations' governments are keeping investors guessing about fiscal policy. As plans become clear, it should enable investors to move on.

## EXHIBIT 12: UK AND FRENCH EQUITIES DIDN'T SOAR POST-ELECTION

Indexed to 1



Source: FactSet, as of 04/10/2024. MSCI Europe, UK IMI and France returns with net dividends in USD, 29/12/2023 – 30/09/2024. Indexed to 1 at 29/12/2023.

# BRITAIN'S 30 OCTOBER BUDGET HAS INVESTORS ON EDGE

UK equities did rally initially on a relative basis after the 4 July vote, beating European equities through most of the month. But the rally ended at month end, which coincided with new Chancellor of the Exchequer Rachel Reeves announcing 30 October's Budget would need to fill a £22 billion "black hole" in public finances.<sup>xxviii</sup> She simultaneously announced some spending cuts but warned tax hikes would likely be necessary.

Since then, she and Treasury officials have hinted at several measures, including higher taxes on capital gains, inheritance and property sales. Carried interest is also in the Treasury's sights, based on the government's formal call for public comment on the matter.

In our view, hiking these taxes isn't inherently a headwind for UK equities. For instance, as Exhibit 13 shows, the UK's history of capital gains tax hikes isn't bearish ... and its history of cuts isn't uniformly bullish. This shouldn't shock. For one, taxes don't change people's basic need to invest for long-term growth. And two, markets are global—demand for UK companies doesn't rest with British investors alone. UK capital gains taxes apply to local residents, not overseas investors buying British equities. Markets are too big, globalised and liquid for one country's tax policy to be a major return driver.

But we do think it is fair to say the uncertainty is weighing on sentiment. Even if tax hikes aren't automatically bearish, the prospect of changes makes it hard for businesses and investors to plan. The wider the potential array of changes, the higher uncertainty tends to rise. This can temporarily deter risk-taking, prompting investors to wait and see what the final rules are before they put capital to work.

EXHIBIT 13: A HISTORY OF UK CAPITAL GAINS TAX CHANGES AND MARKET RETURNS

		Trailing 12-Month Returns			Forward 12-Month Returns		
		MSCI UK	S&P 500	MSCI World	MSCI UK	S&P 500	MSCI World
04/06/1982	Gains indexed to inflation	3.6%	-15.3%	-16.6%	28.4%	32.4%	24.7%
04/06/1988	Equalized with income tax rates (Basic Rate = 25%, Higher Rate = 40%)	-10.5%	-13.9%	1.0%	20.4%	14.6%	13.6%
04/06/1998	Inflation indexation scrapped, replaced with "taper relief" of lower rates for longer holding periods (e.g., a 10-year hold would see the higher rate drop from 40% to 24%)	41.3%	48.1%	33.2%	3.7%	17.7%	11.7%
04/06/2008	Single rate of 18%, no more taper relief	-8.0%	-5.1%	-3.2%	-32.4%	-38.5%	-42.7%
04/06/2010	18% rate for Basic Rate taxpayers and 28% for Higher & Additional Rate taxpayers	42.4%	40.9%	42.4%	4.5%	12.2%	10.4%
04/06/2016	10% rate for Basic Rate taxpayers and 20% for Higher & Additional Rate taxpayers	-11.7%	-1.1%	-7.5%	20.5%	15.0%	14.1%

Source: UK Parliament and FactSet, as of 12/08/2024. MSCI UK price returns in USD, S&P 500 price returns in USD and MSCI World price returns in USD.

xxviii "Reeves Moves Fast to Tackle £22bn Budget Shortfall 'Covered Up' by Tories," Pippa Crerar, Larry Elliott and Peter Walker, *The Guardian*, 29/07/2024.

While this can hamper returns in the short term, there is a silver lining. Like her predecessors, Reeves seems to be floating policy ideas as trial balloons to see how markets, investors and the business community react. Already, she has hinted at reversals of some tax provisions in her Labour Party's election manifesto, including the end of favourable tax treatment for wealthy international ex-pats residing in Britain (known as non-domiciled residents, or non-doms). When the nonpartisan fiscal watchdog's analysis showed this was likely to raise no revenue while causing non-doms—and their economic contributions—to leave, Treasury officials conceded the plans would likely change. With economists reacting similarly to the other tax plans, it isn't guaranteed every tax hike investors fear now will come to pass.

But all the chatter and speculation does help markets price change in advance, sapping surprise power when the actual policies are announced. In our view, simply knowing what the new tax rules will be should help markets move on. So while some see 30 October as a make-or-break day for UK markets, we see it as a milestone for falling-uncertainty.

## FRENCH BUDGET UNCERTAINTY LINGERS

France's fiscal situation is similar. In June, the European Commission entered France into its excessive deficit procedure, which had been on hiatus since 2020 due to COVID lockdowns and EU governments' associated emergency fiscal measures. Within four to seven years, EU rules would require France to reduce its deficit from 5.5% of GDP to 3.0% and have debt on course to fall from 110% of GDP to 60%.<sup>xxix</sup>

This loomed over France's election. Complying with EU rules (which have never been properly enforced) would require austerity, which cut against several parties' campaign pledges. When the contest returned a hung parliament without the leftist New Popular Front or populist National Rally in charge, investors were initially relieved that a spendthrift administration wouldn't try to defy EU rules. But cheer soon turned to fear as the EU's budget jawboning continued and the new government—led by the centre-right former EU Brexit tsar, Michel Barnier—turned to fiscal policy.

Taking a page from Reeves' book, Barnier warned public finances were far worse than he expected upon taking office. Parallel to this, the Court of Auditors—France's official budget police—determined France would require €110 billion worth of tax hikes and/or spending cuts to reach EU limits.

To hit these numbers, Barnier spent much of September previewing potential tax hikes, several of which would reverse pledges President Emmanuel Macron had made during the election campaign. Similar to Britain, we think this raised uncertainty and weighed on sentiment and France's relative equity returns. As the month progressed, he zeroed in on tax hikes for large corporations and high-income individuals, but headlines speculated a revived version of former President François Hollande's failed wealth tax may also be on the table. In early October, Barnier specified the higher taxes would apply to individuals earning over €500,000 and companies with €1 billion or more in annual sales. He also stated they would be temporary, lasting only a year or two.

Investors got more clarity in early October, when Barnier unveiled the new budget, which included about €40 billion in spending cuts and €20 billion in tax hikes. Most notably, it proposes hitting shipping companies and companies with at least €1 billion in revenues with temporary surtaxes, while individuals earning over €250,000 (or couples over €500,000) will face a minimum 20% tax rate to offset allegedly widespread use of tax shelters. The budget also includes taxes on plane tickets, private jet use and stock buybacks. While there were few surprises, given how much Barnier had telegraphed, the legislation is only a starting point. As the National Assembly debates it, it will likely be subject to amendments, and the opposition parties are already digging in. The tax hikes and spending cuts may get watered down, and some could even scrapped outright. EU leaders may complain, but considering they have never fined even egregious violators of their budget rules, it would be odd to start now. Similarly, while Fitch responded to the announcement by putting France's credit rating on negative watch, these things are largely theater. Credit ratings are opinions and tend to follow public discourse at a lag—markets routinely shrug them off.

xxix Source: Eurostat, as of 04/10/2024.

To that end, markets aren't ringing alarm bells over French debt. France's 10-year yields remain below the US's, widely considered the world's most stable, liquid and trusted bonds. Central government interest costs were just 99% of tax revenues last year, below the entirety of 1992 – 2015—a long stretch in which France didn't have a debt crisis.<sup>xxx</sup> To us, debt looks like a purely political problem. It is also one helped by economic growth, which helps lift the tax base.

THE UK'S OVERLOOKED ECONOMIC RESILIENCE

UK political uncertainty and budgetary concerns notwithstanding, we are seeing modest signs of economic stability. The UK is no longer the developed world's biggest laggard. While it is questionable whether late 2024's tiny sequential GDP declines constituted a recession, growth this year erased them. Now the UK is the rare place where services and manufacturing PMIs are both expansionary.

After being one of the first to hike rates (in December 2021), the BoE was among the first to cut in August (from 5.25% to 5.00%). But like Fed cuts, we don't expect this to boost growth. The UK was growing at higher rates, so cuts don't seem necessary. And UK markets fared just fine, up 25.9% in GBP and 22.3% in USD between the first rate hike and first cut.

GERMAN ECONOMIC WEAKNESS HASN'T SPREAD

Flagging Germany overshadows the eurozone economy. To be clear, the German economy is in a rough patch. GDP has alternately grown and shrunk since Q4 2022. Exports are down since February 2023, largely from weak Chinese demand. High energy costs knocked Germany's mighty auto and chemicals industries. While services comprise a majority of German economic output, manufacturing has a higher share of GDP than many other developed nations.

Headlines worry Germany's industries are dying, leaving it forever the "Sick Man of Europe" absent fresh policy. That is wrong, in our view. Rather, Germany is particularly vulnerable to the effect of pulled-forward demand for goods and slower Chinese growth. Critically, markets are familiar with these issues and have long since moved on. Since German GDP started its up-and-down streak two years ago, German equities have outperformed US and global equities.<sup>xxxi</sup>

The rest of the bloc is growing, powered by Southern Europe—reversing roles from a decade ago. (Exhibit 14) Some discount Southern Europe's leadership since it stems partly from tourism—allegedly inferior to heavy industry. Yet tourism contributes to GDP just like car exports, and one industry isn't more "real" than another. Moreover, Europe's economy has been services-led for a while, a big reason Southern Europe and France are faring better economically than Germany these days.

EXHIBIT 14: SELECT EUROZONE MEMBER GDP QUARTERLY GROWTH RATES

	Eurozone	Germany	France	Italy	Spain	Greece
Q3 2022	0.5%	0.6%	0.5%	0.4%	0.9%	0.6%
Q4 2022	-0.1%	-0.5%	0.1%	-0.1%	0.6%	1.1%
Q1 2023	0.0%	0.1%	0.0%	0.4%	0.7%	0.0%
Q2 2023	0.1%	-0.2%	0.7%	-0.1%	0.2%	0.9%
Q3 2023	0.0%	0.2%	0.1%	0.3%	0.7%	0.1%
Q4 2023	0.1%	-0.4%	0.4%	0.1%	0.7%	0.4%
Q1 2024	0.3%	0.2%	0.3%	0.3%	0.9%	0.8%
Q2 2024	0.2%	-0.1%	0.2%	0.2%	0.8%	1.1%

Source: FactSet, as of 04/10/2024. Quarterly percentage change in real GDP, Q3 2022 – Q2 2024.

JAPAN'S NEW PRIME MINISTER

On 27 September the ruling Liberal Democratic Party (LDP) elected Shigeru Ishiba as party leader and new prime minister (PM), replacing Fumio Kishida. Kishida, whose popularity never recovered from a party fundraising scandal, removed his name from consideration in August. Nine candidates sought to replace him, and Cabinet Minister Sanae Takaichi, former Environment Minister Shinjiro Koizumi and Ishiba emerged as the frontrunners. Eventually, Ishiba edged out Takaichi by 21 votes in a contest that went down to the wire.

xxx Source: Insee, as of 25/09/2024.  
xxxi Source: FactSet, as of 04/10/2024. Statement based on MSCI Germany, MSCI USA, and MSCI World Index returns with net dividends, in USD, 30/09/2022 – 04/10/2024.



Ishiba called a snap election for 27 October to seek a public mandate—and to leave the opposition Constitutional Democratic Party of Japan (CDJP) little time to prepare. The snap vote does raise short-term uncertainty, and some economists question the new premier's supposedly "unfriendly" economic views, including support for Bank of Japan (BoJ) rate hikes and campaign comments about hiking corporate taxes—the latter potentially undoing one of the late popular PM Shinzo Abe's signature achievements.

But it is a mistake to get caught up in this kind of conjecture. One, politicians frequently moderate once in office—Ishiba has already backed away from advocating for rate hikes and said his comments about raising corporate taxes were taken out of context.<sup>xxxii</sup>

Two, the "anti-business" perception surrounding Ishiba could lower expectations for his government, not a bad thing from an investment perspective. Excitement for change can create high expectations, teeing up potential negative surprise if reality disappoints. Case in point: the late Shinzo Abe's "Abenomics" programme in 2013. Headlines cheered Abe's big reform talk, and while he made some progress during his long tenure, most of his plans didn't match the hype—contributing to a stretch of Japanese underperformance. Ishiba's situation is the opposite today, making it easier for a less-drastic reality to positively surprise.

That said, October's snap poll does raise short-term political uncertainty. What will the next Diet's composition be? What will Ishiba prioritise if he wins a resounding public mandate? We will monitor developments closely, but Abe's premiership is a telling example that even huge popularity doesn't translate to major change in Japan. And Ishiba's polling doesn't come close to Abe's a decade ago. In our view, this seems more like the return of the notorious "revolving door" of interchangeable leaders who fail to inspire much enthusiasm.

## RECENT VOLATILITY AND THE YEN CARRY TRADE

Outside politics, other developments made headlines in Japan. At July's end, the Bank of Japan (BoJ) hiked its short-term interest rate for a second time and announced a quantitative easing (QE) taper. The moves alarmed investors and drove a correction-like downturn in Japanese markets.

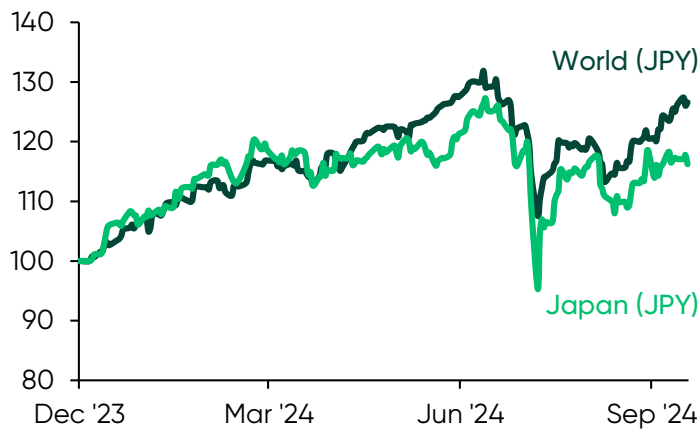
The alleged culprit of the Q3 pullback: the yen carry trade. Given the large gap between western and Japanese interest rates, many surmised there was vast foreign borrowing in Japan, which funded the purchase of higher-yielding assets overseas. After Japanese rates and the yen rose, many market analysts reckoned investors were unwinding these trades—i.e., they sold their non-yen-denominated assets, converted their money back to yen and sent it back to Japan to repay the loans. That pressure, along with Japanese investors supposedly taking their money out of international equities and bringing it back to their shores to avoid getting knocked by further yen strengthening, allegedly roiled markets. It is fair to say some of early August's selling may have been tied to traders' unwinding their carry trade positions. Still, we wouldn't overrate it. In our opinion, this supposed source of selling pressure was vastly overrated, as roiled sentiment seemed to be the bigger culprit. Note, Japanese markets plunged -16.2% in USD (and -20.6% in yen) in the week following the BoJ's July moves—but they rebounded sharply in August (though they have since given back some of that rebound).<sup>xxxiii</sup> (Exhibit 15; see next page)

xxxii "Nikkei's Message to Japan's New Leader: Higher Taxes Are Bad for Stocks," Peter Landers and Megumi Fujikawa, *The Wall Street Journal*, 30/09/2024.

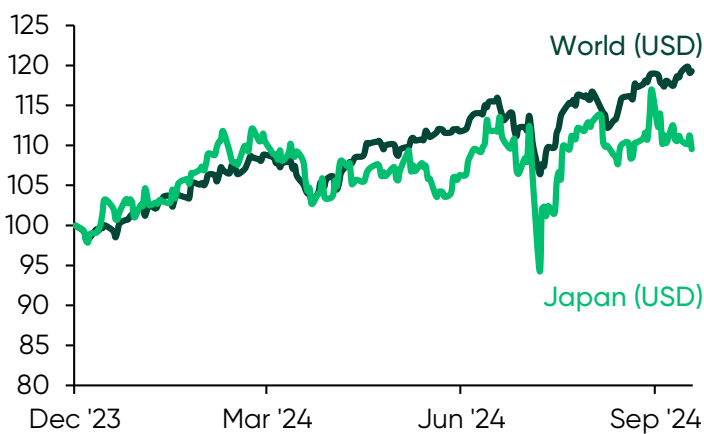
xxxiii Source: FactSet, as of 30/09/2024. Statement based on MSCI Japan Index returns with net dividends, in USD and JPY, 31/07/2024 – 06/08/2024 and 06/08/2024 – 27/09/2024.

### EXHIBIT 15: JAPAN'S VOLATILE SUMMER

Indexed to 100



Indexed to 100

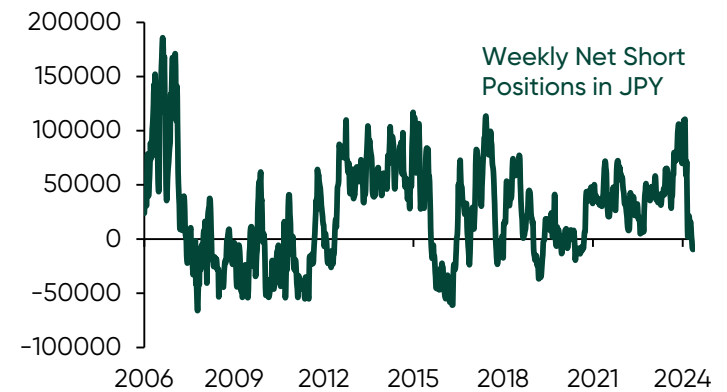


Source: FactSet, as of 17/10/2024. Statement based on MSCI World Index and MSCI Japan Index returns with net dividends, in USD and JPY, 31/12/2023 – 16/10/2024. Indexed to 100 on 31/12/2023.

Moreover, the August recovery occurred even as money managers' net short positions in the yen mostly flatlined, suggesting the carry trade's connection to the market chop is more tenuous than many think. (Exhibit 16)

### EXHIBIT 16: MONEY MANAGERS' NET SHORT FUTURES POSITIONS IN THE YEN

Number of Contracts

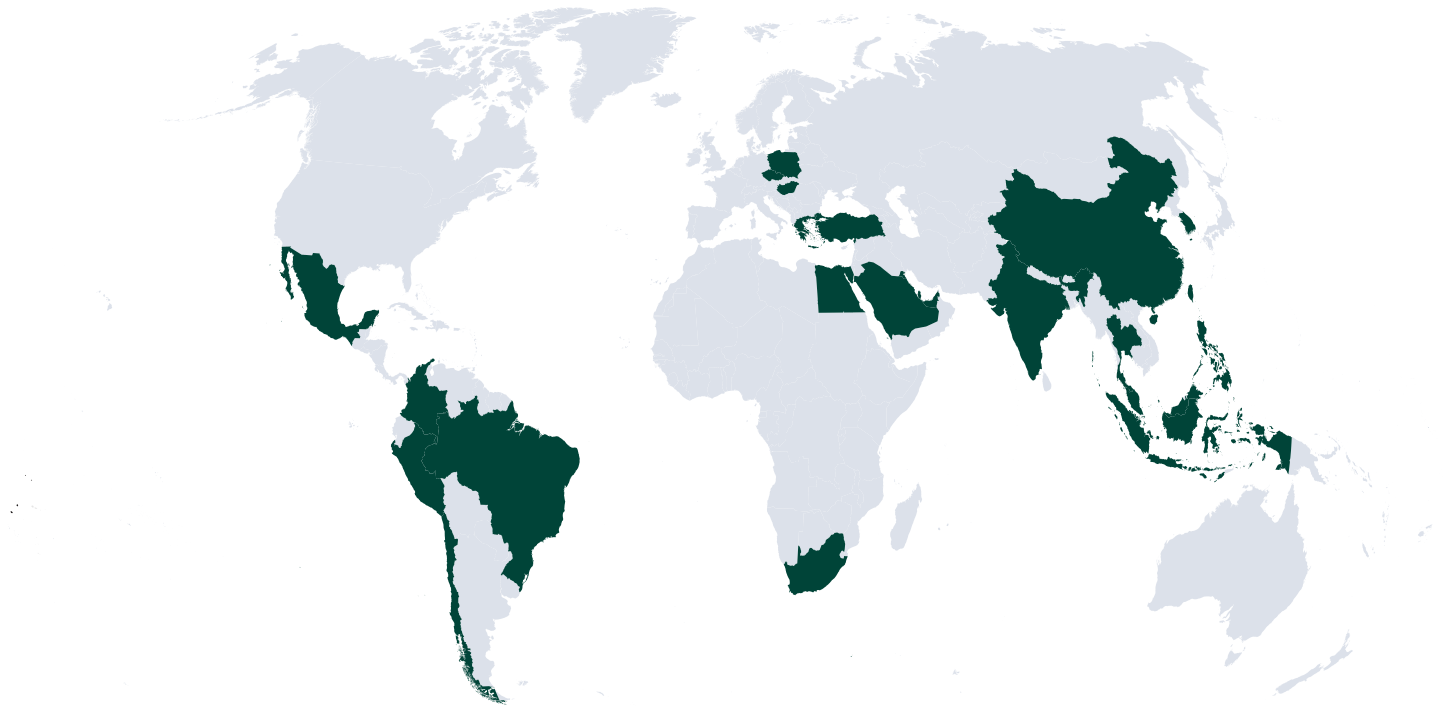


Source: FactSet, as of 17/10/2024. Total number of short contracts minus long contracts, weekly, 16/06/2006 – 11/10/2024.

Despite a few high-profile singular events and recent volatility, we think markets recognise a massive change hasn't occurred in Japan. Besides monetary policy's normalising, economic fundamentals haven't changed much. Japanese GDP has vacillated between growth and contraction over the past couple years, with Q2 private domestic demand registering growth for the first time since Q1 2023—reflecting domestic demand's struggles.<sup>xxxiv</sup> Moreover, markets also recognise Japan isn't an island, and global trends tend to override local ones. Hence for Japanese equities, it still seems mostly business as usual.

xxxiv Source: FactSet, as of 30/09/2024.

# EMERGING MARKETS COMMENTARY

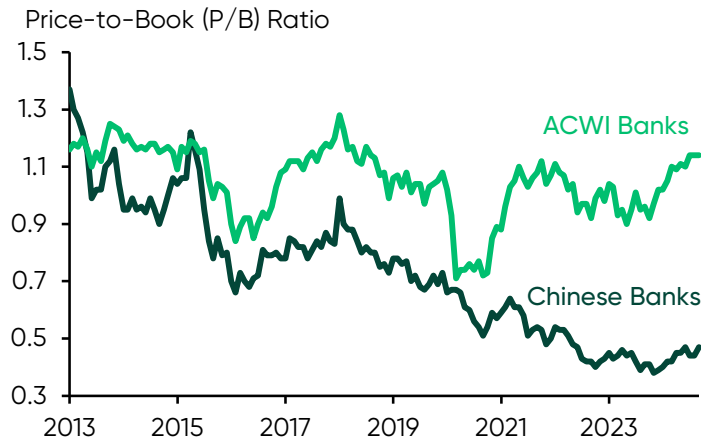


## CHINA'S LATEST POLICY PUSH IN PERSPECTIVE

After China's deep domestic bear market, and months of speculation and disappointment about possibly huge government stimulus that failed to materialise, officials announced a raft of monetary, equity market and fiscal measures in late September and early October. The initial reaction was more scepticism, as many argued it looked insufficient. But as more announcements emerged and references to "fiscal" measures grew, sentiment warmed, boosting local markets and global equities exposed to Chinese demand: copper, gaming, luxury brands and those exporting into China. This boosted expectations for even more support, which didn't immediately follow—triggering more disappointment increased volatility for domestic Chinese markets. Policy announcements may or may not provide sentiment a lasting improvement. But they don't and can't answer all major questions confronting China.

China's support measures, introduced intermittently for over a year, largely sought to put a floor under the country's long-running property downturn. This included efforts to backstop local government finances, strained by a lack of property sales and associated revenues. But then fear spread to state-owned banks, whose price-to-book ratios plunged. (Exhibit 17; see next page) The government went back to the drawing board with plans to let local governments refinance debt more easily. But that didn't stop perceived pressure on real estate, either. It all seemingly culminated in July's Third Plenum, widely watched for a huge stimulus "bazooka." When it produced mostly vague chatter, investors' already frail hopes sank.

## EXHIBIT 17: CHINESE BANKS' DISCOUNT TO THE ALL-COUNTRY WORLD'S



Source: FactSet, as of 10/10/2024. MSCI China Banks and All Country World Index (ACWI) Banks trailing 12-month price-to-book ratio, January 2013 – September 2024.

Enter September's announcements, which seemed to catch prevailing pessimism off guard. Though the measures were announced piecemeal, new China bulls say they combine to a big-enough policy response to drum up demand and speed allegedly lackluster growth.

The initial monetary measures elicited little enthusiasm. These included:

- A half-percentage point reserve requirement ratio cut to 6.5%, freeing up an estimated 1 trillion yuan (\$142 billion) for banks to lend
- A two-tenths percentage point reduction in the main seven-day reverse repo rate to 1.5%, reducing other short-term lending rates accordingly
- Lower down payment requirements on second homes to 15% from 25%
- A half-percentage point mortgage rate cut on existing homes, estimated to lower 50 million homeowners' interest payments by 150 billion yuan (\$21 billion)
- A market stabilisation fund providing 800 billion yuan (\$113 billion) of liquidity support for institutional "home team" investors to buy beaten-down equities

But in the following days, fiscal measures emerged:

- 2 trillion yuan (\$284 billion) in special sovereign bond issuance
  - Half the proceeds to boost consumer demand
  - The other half to shore up local government and bank finances (a de-facto recapitalisation)
- A pledge to deploy "necessary fiscal spending," including direct household support, to meet economic growth targets
- Meanwhile, top cities like Beijing, Shanghai and Shenzhen are lifting lingering home-buying restrictions—e.g., eligibility requirements to curb speculation, limits on the number of homes people can buy and constraints on non-locals buying in popular cities

There are sound reasons for scepticism about the measures' effectiveness. As many noted, earlier monetary easing measures and down payment assistance over the last two years failed to arrest sliding home prices—and many of the new moves tread similar ground. Moreover, market stabilisation efforts can stoke more panic than calm, as they raise uncertainty about how and when emergency facilities unwind, how the government picks winners and losers, and more.

The fiscal measures initially appeared to stand out most, though, signaling Beijing's intent to finally put long-running household demand and financial fragility fears to rest. The new large-scale debt issuance greatly expands—nearly 7 times—the 300 billion yuan of special issuance announced in July. Consumer stimulus programmes like a goods trade-in scheme designed to stimulate "fridges, not bridges" consumption now look likely to be scaled up considerably. This seems to suggest policymakers' penchant for supply-side support—e.g., promoting advanced manufacturing to generate growth—is shifting to focus more on the demand side.



Furthermore, plans to issue sovereign debt to also fund a large-scale bank recapitalisation show Beijing backing talk with action, making implicit state backing explicit. Not that there was really any question, in our view. But it should be abundantly clear at this point that Chinese banks have the resources to expand credit *and* absorb losses.

For markets, though, we don't think such stimulus announcements are fundamentally game changing. Officials' acting to hit their stated growth targets shouldn't be stunning. Yet all the fanfare over recent policy prescriptions suggests a deep disconnect between expectations and reality. Exhibit 18 shows a sharp reversal in sentiment, with Chinese markets up 40.0% from their 9 September low to 7 October's high—dominating headlines and bolstering views Beijing's cumulative response is the “real deal.” On 8 October, though, China's National Development and Reform Commission announced fiscal plans featuring 100 billion yuan (\$14 billion) in government spending frontloaded from next year's budget and another 100 billion yuan in construction projects—far below the multi-trillion-yuan levels analysts were expecting. The MSCI China Index tumbled -79% on the day. This rekindles much of the angst and scepticism that seemed to take a temporary hiatus.

#### EXHIBIT 18: CHINA'S BEAR MARKET RUNNING ON THREE YEARS

MSCI China Indexed to 100



Source: FactSet, as of 10/10/2024. MSCI China returns with net dividends in dollars, 23/03/2020 – 09/10/2024.

Regardless, stimulus ultimately goes only so far. While the latest policy push could spur domestic consumption some and may help arrest the real estate market's continued weakness, all the stimulus amounts to is added support for already better-than-appreciated growth. Its primary effect seems to be on sentiment toward Chinese equities, as investors have long harboured fear of an impending hard landing. This can be seen in the back-and-forth for Chinese returns as investors were alternately cheered and disappointed by policy announcements. Sentiment swung hard and fast. But we don't think China's economy required stimulus as desperately as pundits commonly argue, hyping overwrought “deflation” themes.

At a higher level, though, it can't answer a crucial question for Chinese equities: Is the government shifting to quiet the regulatory uncertainty and heavy-handed market intervention that has stifled private sector development and contributed to the country's long-running bear market? That is the big question hanging over Chinese markets. These announcements could—but are not assured to—indicate a shift from ramped up regulatory enforcement to fostering growth. There is little way to know now. In our view, that is a big reason to keep measured expectations that a new Chinese bull market is actually underway.

#### CONSTITUTIONAL REFORM KEEPS MEXICO'S POLITICAL UNCERTAINTY ELEVATED

Ever since Mexican President Claudia Sheinbaum and her Morena party's 2 June landslide victory, political uncertainty has weighed on the country's markets. For good reason, in our view. With a two-thirds supermajority in the lower Chamber of Deputies and just shy of one in the upper Senate, extreme constitutional amendments championed by her predecessor, Andrés Manuel López Obrador (AMLO), became much more likely. After spending the summer courting opposition votes, AMLO pushed through amendments on the judiciary and military in September. More could follow, stirring unease over potential changes that could reverse market friendly reforms or other moves jeopardising trade and investment.

Mexico's inaugurations are staggered. Sheinbaum took office 1 October. But Congress was seated a month earlier, giving AMLO a short period to pass major reform. So he did: Constitutional reform overhauling the judicial system passed Congress on 11 September, after AMLO flipped three opposition Senate votes required to pass the bill. The next day, a majority of Mexico's 32 state legislatures approved, sealing the deal. Notably, the Supreme Court accepted a challenge to its constitutionality on 3 October—and a decision is expected by 30 November—but analysts don't expect a ruling to overturn the amendment.

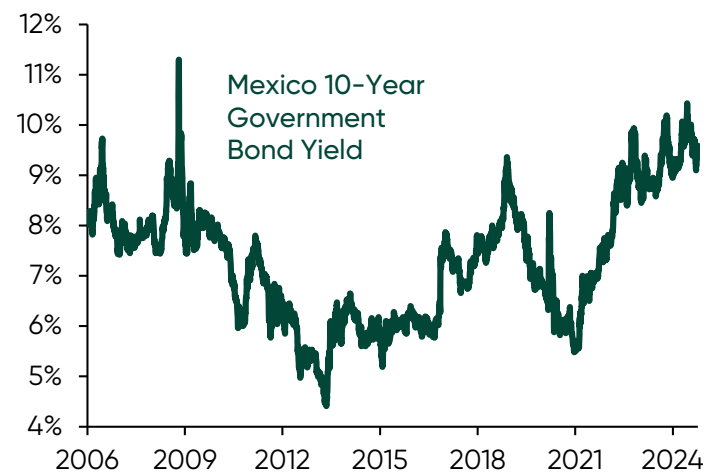
The reform makes judges—including Supreme Court Justices—elected by popular vote and abolishes the Federal Judiciary Council, which oversees justices and ensures their objective autonomy. Markets fear this could imperil foreign investment in the country by putting an impartial judiciary at risk and/or eliminating a check on political leadership. Meanwhile, in another sweeping move, Congress passed military reform 25 September bringing the National Guard under the Defense Ministry instead of Public Security and allowing armed forces to be used for civilian policing.

Some believe AMLO did the heavy lifting—tackling the most controversial amendments in the month-long post-vote session so Sheinbaum didn't have to, leaving her to look market friendly. But it isn't as if her policy positions diverge from his. As AMLO's handpicked successor, many view Sheinbaum as likely to continue his agenda to "transform" Mexico. The most she has differed from his programme has been to propose her own constitutional reform initiatives like assistance programmes for women and schoolchildren.

While it remains to be seen where Sheinbaum's focus will be—and whether the congressional supermajority holds—Morena is poised to push further sweeping reforms. These include electoral reforms, pension hikes, minimum wage increases, unwinding energy liberalisations that allowed foreign firms to partner with Pemex and abolishing regulatory checks on presidential power. For example, planned electoral reforms would eliminate the National Electoral Institute overseeing elections and scrap partial proportional representation in Congress—likely entrenching Morena's single-party dominance. And regulatory reforms entail moving independent national agencies (e.g., energy, telecommunications, statistics, antitrust) under the executive branch.

Given markets' negative reaction to unbridled Morena government, it is possible economic reality forces Sheinbaum to stay her hand. For example, Mexico's 10-year government bond yield remains elevated after hitting 10.8% on 11 June after Morena's historically commanding vote haul, its highest since 2008's ructions. (Exhibit 19) That said, with Banxico cutting rates amid recent economic weakness, the benchmark yield has declined since.

#### EXHIBIT 19: MEXICAN BOND YIELDS REMAIN HISTORICALLY ELEVATED

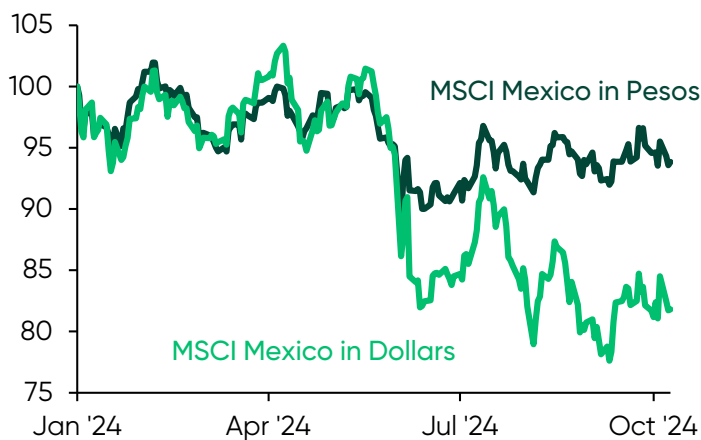


Source: FactSet, as of 10/10/2024.

Then, as Exhibit 20 shows, Mexican equities have also been discounting policy risks since June's election results. The overhang of political, legislative and regulatory uncertainty—not to mention ongoing doubts over the judiciary with the first set of elections (including all 9 Supreme Court Justices, reduced from the current 11) on 1 June 2025—appear likely to continue undermining investor confidence. But whereas markets recovered somewhat in local currency terms, the peso has continued to weaken from 17 MXN/USD pre-election to 20 on the eve of September's passage of judicial reform (during a period when dollar indexes—major and broad—have fallen), suggesting foreign investors may remain wary of constitutional reform.<sup>xxxv</sup>

#### EXHIBIT 20: MSCI MEXICO IN PESOS AND DOLLARS

Indexed to 100



Source: FactSet, as of 10/10/2024. MSCI Mexico Index returns in pesos and dollars, 31/12/2023 – 09/10/2024.

Plummeting sentiment could create opportunities later, if exceedingly pessimistic expectations underestimate reality. But we don't think investors have capitulated yet—nor has the risk of radical reforms crested, in our view. The likelihood of further major policy shifts unwinding earlier market-oriented reforms that erode investors' trust and hurt long-term growth seems high and rising to us. With uncertainty unlikely to clear anytime soon, we remain underweight Mexico.

xxxv Source: FactSet, as of 10/10/2024. Mexican peso to US dollar, 31/05/2024 – 10/09/2024.

# INDEX DESCRIPTIONS

## MSCI ALL COUNTRY WORLD

MSCI All Country World Index is a free float-adjusted market cap-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 47 country indices comprising 23 developed and 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI WORLD

The MSCI World Index is a free float-adjusted, market cap-weighted index designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indexes. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI EMERGING MARKETS

MSCI Emerging Markets Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## S&P 500

The S&P 500 Index measures performance of 500 primarily large cap US stocks and includes a representative sample of leading companies in leading industries as determined by Standard and Poor's. Returns are presented inclusive of dividends.

## MSCI JAPAN

The MSCI Japan Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of the Japanese market. With 203 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in Japan. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI MEXICO

The MSCI Mexico Index is designed to measure the performance of the large and mid-cap segments of the Mexican market. With 24 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in Mexico. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI WORLD GROWTH

The MSCI World Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI WORLD VALUE

The MSCI World Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI ACWI GROWTH

The MSCI ACWI Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI ACWI VALUE

The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.



## MSCI EUROPE

The MSCI Europe Index captures large and mid-cap representation across 15 Developed Markets (DM) countries in Europe. With 415 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation across the European Developed Markets equity universe. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI UNITED KINGDOM IMI

The MSCI United Kingdom Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the UK market. With 303 constituents, the index covers approximately 99% of the free float-adjusted market capitalisation in the UK. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI FRANCE

The MSCI France Index is designed to measure the performance of the large and mid-cap segments of the French market. With 60 constituents, the index covers about 85% of the equity universe in France. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## MSCI CHINA

The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 597 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalisation. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

## ICE BOFA 7-10 YEAR US CORPORATE

The ICE BofA 7-10 Year US Corporate Index is a subset of the ICE BofA US Corporate Master Index, which tracks the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market. This subset includes all securities with a remaining term to maturity of greater than or equal to 7 years and less than 10 years. When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month ending accrued interest adjustments.

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