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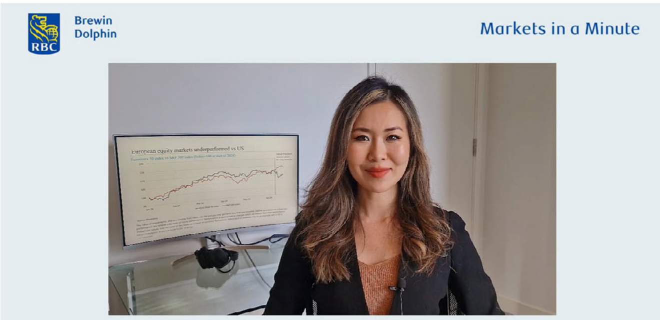
Markets in a Minute

Janet Mui, Head of Market Analysis, discusses how global political turmoil has affected investor sentiment, and what we can learn from the latest U.S. employment data.



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As Americans returned to work following the Thanksgiving weekend, they were immediately confronted by an unfolding political crisis in France, an evolving interest rate trajectory for the U.S., and the release of the all-important November U.S. non-farm payrolls employment report.

U.S. employment bounces back

The U.S employment report came close to expectation, with jobs growing by 227,000 in November. This figure reflected a bounce-back after a very weak report last month, when employment was impaired by storms.

The report, which consists of non-farm payrolls data as well as a household survey, was mixed, which investors seem to interpret as supporting the case for a U.S. interest rate cut in December. This is due to the household survey indicating a weakness in jobs growth, which contributed to a pickup in unemployment.

However, a shrinking labour force, with lower labour participation and slightly faster wage growth, also means there's something here for the hawks, too.

With a week to go, the Federal Reserve (the Fed) seems willing to cut interest rates now, even if it's not committed to further cuts after that. Fed speakers Christopher Waller and John Williams have both suggested they're open to cutting interest rates in the future, which this report probably supports.

The Fed's decision will depend on the path of inflation. The slight stickiness we've seen recently doesn't seem to be enough to dissuade members from believing that price growth is continuing to moderate. This was emphasised by Fed Chairman Jay Powell, who said inflation isn't quite where the Fed wants it, but progress is being made.

The non-farm payroll report left global equity markets on track for a broadly positive week, with most major indices ending in the green. Despite turmoil in France, European shares led the charge.

However, last week's market news was dominated by a mix of economic and political events that left investors on edge.

Political twists weigh on investor sentiment

The French government's budget crisis, which has been going on for months, deepened last Monday, with the far-right National Rally party threatening to vote down the government's budget bill. A vote of no confidence took place last Wednesday as the far-left and far-right joined forces to oust Prime Minister Michel Barnier's government. President Emmanuel Macron is searching for a new prime minister, though the same set of challenges remain, which will ensure difficulty in passing a 2025 budget.

In the U.S., the focus was on the Department of Government Efficiency, led by Elon Musk, who has been tasked with cutting wasteful government spending and deregulating the economy.

Musk has set an ambitious target of cutting federal spending by $500 billion per year from a total budget of $6.8 trillion, which would effectively reduce the $1.9 trillion budget deficit by half. The ambition has been met with scepticism by some experts.

Musk and his co-head Vivek Ramaswamy have already identified several areas where they believe they can make significant reductions. One tactic is to require federal employees to attend the office five days a week, which they expect will prompt a wave of resignations.

More radical steps include plans to close the Department of Education and the Corporation for Public Broadcasting, and cut federal grants to international organisations and Planned Parenthood. On the campaign trail last year, Ramaswamy even said he would try to eliminate the FBI and the Nuclear Regulatory Commission.

A mixed bag of global economic data

On the economic front, last week saw a mixed bag of data. The British Retail Consortium's like-for-like sales monitor showed sales fell 3.4% year-on-year in November. However, this is likely due to the timing of Black Friday, which fell outside the survey period this year.

In the U.S., the Institute for Supply Management (ISM)'s services index was also disappointing, with a worse-than-expected slowdown in activity. However, the ISM Services Prices Paid Index remained elevated, suggesting that inflation may still be a concern.

In Asia, an extraordinary event rocked the South Korean market. President Yoon Suk Yeol's decision to impose martial law came seemingly out of the blue. Initially, the military followed the ruling, but lawmakers rushed to overturn the order. The president survived an impeachment vote on Saturday after too few lawmakers participated. The Korean market has been volatile, with the Korea Composite Stock Price Index falling since the turmoil began.

Are things looking up for luxury goods?

Luxury goods benefitted from lockdown as consumers had limited opportunities to spend money, but since the economy reopened, momentum has gradually stalled. The sector has been under pressure this year, with LVMH Moët Hennessy Louis Vuitton (LVMH)'s share price down 30% from its peak. However, the company's valuation now looks very attractive.

Furthermore, the macro environment is turning more favourable. Weak Chinese consumption is now the base case, meaning any recovery will be treated positively. Consumer goods are exposed to tariffs; however, with a plant in Texas, LVMH should not be in the Trump administration's firing line.

Crucially, LVMH will stick religiously to its mantra of never discounting luxury goods. With a solid balance sheet, the company may be able to take advantage of weakness elsewhere in the sector, with some opportunistic mergers and acquisitions activity.

What's happening in the semiconductor industry?

The semiconductor sector has also been in the spotlight, with Intel's leadership change and the announcement of new export controls.

Intel's CEO, Pat Gelsinger, has announced his retirement after a four-year tenure in which he has tried to turn around the company's fortunes. The change has unsettled investors in the company, and the broader sector, where strategic clarity would be welcomed due to the capital-intensive nature of the business.

A big question is what this means for the loss-making foundry business? The U.S. CHIPS Act provides funding to support the domestic production of semiconductors – however, funding is reliant upon Intel maintaining a 50% stake in the business. A search is on for Helsinger's replacement. On the plus side, there were some impressive additions to the Intel board.

Marvell Technology's earnings were strong, with revenue accelerating in the third quarter. The company's data centre business revenue grew 98% year-on-year, and 25% quarter-on-quarter. Marvell is a beneficiary of the densification of the data centre, as it helps companies increase the energy intensity (density) of their servers. It also has a custom silicon business, which designs chips to meet the specific needs of a customer or application, which is expected to drive growth.

Synopsys, which provides design services to chipmakers, tends to be a strong performer when the industry enters its periodic slowdowns, and is a less cyclical part of the semiconductor value chain. While it issued good results, its shares fell due to the cautious guidance.

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