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# Markets in a Minute

## Guy Foster, Chief Strategist, discusses U.S. inflation and how this may be impacted by the policies of president-elect Trump. Plus, Janet Mui, Head of Market Analysis, analyses fresh Chinese economic data.


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Global equities reached a new high last Monday, before consolidating a little throughout the week.

This is an appropriate time for the post-election euphoria to cool and for some details of the new regime to emerge, despite President-elect Donald Trump not taking office until 20 January.

Last week saw confirmation that both houses of the U.S. Congress (the Senate and the House of Representatives) will be controlled by the Republicans. However, 'controlled' may turn out to be something of an exaggeration, as the thin Republican majority of eight seats out of 435 will make the House difficult to manage. The new Congress will meet for the first time on 3 January.

### Trump nominates key officials

The period between the election and the inauguration is for transition and to enable the president-elect to nominate his key officials. Many of these will need to be confirmed by the new Senate, such as Floridian Senator Marco Rubio, who has been nominated as secretary of state (equivalent of the UK's foreign secretary). Rubio's nomination should be relatively straightforward.

More controversial are the nominations of Matt Gaetz and Pete Hegseth. Gaetz, who has been nominated as attorney general, resigned from the House on Wednesday while an ethics committee investigation into allegations of sexual misconduct against him was underway. Hegseth, a Fox news presenter, was nominated as secretary of defence.

A couple of appointees who will not need confirmation are Elon Musk and Vivek Ramaswamy, who will lead the temporary Department of Government Efficiency (DOGE), a title that's more of an in-joke than an accurate descriptor.

### A trillion-dollar budget cut?

Musk has claimed he will strip $2 trillion from the federal budget. His track record suggests this won't happen, but something will. He has a history of overpromising in his commercial ventures; however, he also has a history of achieving extraordinary things, which stretches from building businesses to cutting costs. Musk's acquisition of Twitter (now called X) saw him cut the workforce by 80% within a year, with half laid off within days.

Of course, there is a difference in what you can do as the owner of a private entity like X, or even as chief executive of a stock market-listed entity like Tesla, which has an almost entirely non-unionised staff, and what you can do with the power you hold as an adviser to a government with a largely unionised workforce.

Historically, the challenge of cutting public spending has been driven by Congress. Cuts to spending mean cuts to benefits or services and seeming complicit in that process can decimate re-election chances. The legislative branch therefore tends to be a stumbling block.

Musk is eyeing a process called impoundment as a way to take the responsibility out of Congress' hands. Impoundment allows the government to not spend money Congress has appropriated for it. Strictly speaking, impoundment is not allowed anymore, so it will be interesting to see how Musk navigates that.

The executive branch of the U.S. government does lend itself better to radical action than, for example, the cabinet of the UK government. The UK cabinet tends to be made up of members of parliament who, at the very least, will need to seek re-election and may have aspirations to be prime minister. The U.S. cabinet may be drawn from politics or industry. They will be focused on delivering the president's agenda and less concerned about being popular while doing so.

Government borrowing costs have risen since the election, a sure sign that the market sees the impact of this new regime as inflationary. The most obvious inflationary impact is through tariffs, which Trump can impose – however, this one-time change in import prices won't necessarily cause a lasting impact on inflation.

Another likely consequence of the new regime is a cut in regulation, which should support growth. With limited spare capacity in the economy, that would normally be inflationary. However, cutting regulation can help create spare capacity too.

## UK economic growth disappoints

In fact, this was a theme of Chancellor Rachel Reeves' Mansion House speech last week. She sees financial services as the possible engine of growth and took aim at the Financial Conduct Authority's Senior Managers and Certification Regime and the bonus deferral arrangements in the UK. She also issued growth-focused remit letters to several key regulatory entities. Exactly how much benefit this will bring remains to be seen.

The speech was held on Thursday evening, but by Friday morning reality had reasserted itself. The first estimate of UK economic growth during the third quarter was downbeat.

An unexpected contraction during September means that, for the whole quarter, the economy grew by just 0.1% in real terms. It's a disappointing figure that probably makes the economy seem weaker than it really is. Consumer spending is still growing, as you would expect given the successive cuts to National Insurance contributions, increases in the National Living Wage, and public sector pay settlements.

Inventories dragged on growth, which should reverse over time. The IT sector, which tends to be a volatile sector, was weak. Some sectors, such as housing, are seeing a bounce-back and will benefit from the interest rate cuts already announced. Nevertheless, the UK's economic momentum has slowed a little.

## Where next for interest rates?

Interest rate cut expectations have tempered significantly since the UK budget and U.S. election.

Although both the UK and the U.S. cut rates on 7 October, the Bank of England's now expected to stay on hold until February or March. It's a coin flip whether the Federal Reserve (the Fed) cuts rates in December. Fed Chair Jay Powell suggested on Thursday that the U.S. economy's resilience made cutting rates less of a priority. That followed an inflation print during the week that was very nuanced – however, core inflation remains stubbornly above target.

## China sees first effects of stimulus measures

China has been suffering from the opposite problem with many prices falling, causing it to embark on a range of stimulus measures. The first of these seemed to register in retail sales growth data during October. Chinese families are encouraged to upgrade old and environmentally inefficient appliances and vehicles through generous tax incentives.

Is this enough to pull China out of its current economic slump? It doesn't seem so, as demand in sectors not directly affected by the stimulus measures remains sluggish and credit growth is tepid. Further fiscal stimulus announcements are required, but a series of press conferences have failed to provide the detail investors are craving.

This week's economic highlights include the provisional purchasing managers indices (PMIs), which will be released on Thursday, and UK inflation data, which will be released on Wednesday. The most anticipated event will likely be Nvidia's earnings results, which will be released on Wednesday after the U.S. market closes.

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