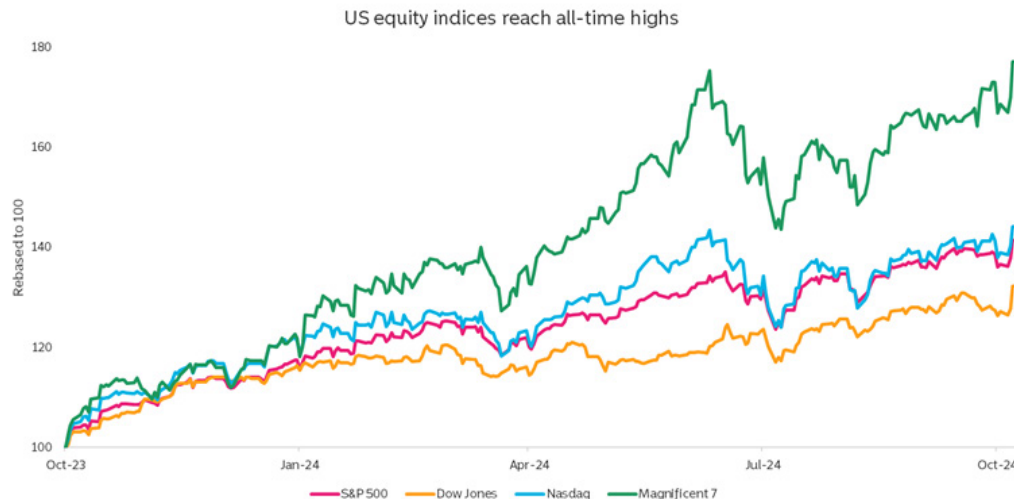


Stars, stripes & spikes

Gabby Byron, Investment Services Executive

Chart of the Week



Sources: Momentum Global Investment Management, Bloomberg Finance L.P. data to 07 November 2024

What this chart shows

This week's chart shows the returns of the S&P 500, Dow Jones, Nasdaq and an equal-weighted index of the Magnificent 7 since end October 2023. All of these indices have reached all-time highs following the US election, with the S&P 500 climbing 2.5%, the Dow Jones gaining 3.5% and the Nasdaq up 3%. Investor optimism around anticipated policy changes, particularly regarding trade tariffs, tax reforms and reduced regulation in sectors like banking, has driven much of this rally. The Russell 2000 index, often viewed as a gauge for US small caps and broader economic confidence, rose by 5.8% as investors anticipated broader economic growth potentially benefitting a wide range of sectors beyond just tech.

Why this is important

Many investors embraced "Trump trades", anticipating policies that might favour specific sectors such as finance and energy. The surge has extended to small cap stocks, often seen as a measure of broader economic sentiment, indicating investor confidence beyond large-cap tech and growth sectors. Though this enthusiasm also comes with potential risks, especially as the Fed's monetary policy stance could have an impact the rally's sustainability. With inflation showing resilience and recent economic data generally exceeding expectations, the Fed opted for a modest 25-basis-point rate cut at its November meeting. This decision has sparked questions about growth projections for 2025, especially given the administration's pro-growth policies and potential inflationary pressures. The Fed's cautious approach seems to highlight a need to balance support for growth but with vigilance over inflation, underscoring the uncertainty ahead.

For now, US equity markets appear resilient, rallying to fresh highs on policy optimism. However, with potential shifts in Fed policy on the horizon, a diversified and balanced approach remains prudent as markets navigate towards the end of 2024.



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For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

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