Whitechurch Securities Ltd
WEALTH MANAGERS

# Market Commentary

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November was dominated by US politics and the re-election of Donald Trump who, when he returns to the White House in January, will become only the second US president after Grover Cleveland to sit two non-consecutive presidential terms. As well as claiming the presidency, Trump's Republican Party retained power in the House of Representatives whilst also claiming a majority in the Senate – the so-called 'Republican sweep' potentially gives the new President greater power to push through his political agenda, at least until the mid-term elections in 2026. While an extension of the 2017 Tax Cuts and Jobs Act, tariffs on imports and the stripping down of the federal government all look likely, the complexities of the US political system mean a full repeal of Biden-era major legislation (notably the Inflation Reduction Act) is arguably less likely.

The prospect of tax cuts, expansionary fiscal policy and a more domestically focussed trade policy saw US equities (+7.3%, all returns in sterling) outperform other global markets, while a stronger US dollar was an additional tailwind for unhedged sterling investors. US small caps, who derive a higher share of revenue from domestic markets, were perceived to be amongst the major beneficiaries and were the best performing sub-sector, returning +12.0%. There were pockets of weakness, notably the healthcare and clean energy sectors, reflecting the returning president's less than favourable view of the pharmaceutical industry and promises to prioritise the oil & gas industry over cleaner sources of energy such as renewables. Politics aside, Q3 earnings season was moderately positive for US companies, while a slew of positive macroeconomic data, including higher-than-expected retail sales and a robust update to the composite Purchasing Managers Index (PMI) further buoyed positive sentiment and lent further weight to the argument that US exceptionalism is far from over.

Elsewhere, regional performance was more mixed but generally dictated by which regions investors perceived to be the winners and losers of a second Trump term in office. European equities were the worst performing developed market (-1.3%), as investors digested the prospect of tariffs on European exports. Earnings season also disappointed, with a series of downgrades concentrated in the automotive and consumer goods sectors, blamed largely on weak consumer demand from domestic markets and China. As well as suffering the impact of weak demand, Chinese manufacturers continue to cannibalise the market share of key European export markets, including electric vehicles, luxury goods and speciality chemicals.

UK equities (+2.2%) outperformed their continental peers despite an upside surprise in headline inflation which was largely driven by an uptick in gas and electricity prices. The prospect of a further increase in the energy price cap in January looks set to cause further headaches for the Bank of England, as its policymakers attempt to balance inflation and economic growth. Large caps were the primary driver of returns - the financials sector was particularly strong, with the prospect of a more gradual fall in interest rates generally being perceived as a positive for banks. Smaller companies fared somewhat worse, with micro cap stocks flat over the month despite Chancellor Rachel Reeves confirming that qualifying stocks will still qualify for inheritance tax relief, albeit at a reduced rate.



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Japanese equites also produced positive returns (+3.0%), although these were somewhat flattered by currency movements. In the short-term at least, Trump's victory and the recent strengthening of the US dollar relative to the yen provided a tailwind for Japanese exporters, which tend to benefit from a weaker domestic currency.

Emerging markets lagged their developed market counterparts as the election result was met with some nervousness, with the prospect of tariffs and more aggressive US foreign policy weighing on sentiment. China was weak (-2.2%) – the escalation of recent trade tensions looks likely, with Trump promising to charge an additional 10% tariff on top of existing, already punitive tariffs on Chinese imports. Chinese equities were further pressured by concerns that September's announcement of a fresh round of stimulus measures, which prompted a remarkable albeit short-lived rally through September, may yet fall short of what's required to overcome the country's real estate and consumer confidence issues. Elsewhere, there were muted gains for Indian equities (+0.7%) as markets steadied following a volatile Q3 earnings season, whilst Taiwanese equities (-3.4%) lost ground.

Central banks continued to cut rates in November, with both the US Federal Reserve and Bank of England announcing a further 25 basis point cut to their respective policy rates. Despite this, bond returns were mixed; dollar bonds were only marginally up in local currency terms as some of Trump's more eye-catching proposals, not least wide-ranging import tariffs, raised concerns that inflationary pressures could emerge again next year. In response, markets now expect just three further rate cuts from the Federal Reserve over the next 12 months. Sterling bonds fared somewhat better, led by gilts (+1.4%) which rallied despite the Bank of England lifting its 2025-2026 inflation expectations following the October budget and the prospect of additional government borrowing.

Finally, in the alternatives space, it was a positive month for the property (+1.7%) and infrastructure (+2.6%) sectors which were supported by falling bond yields, as well as the broad commodities index (+1.2%), where losses for oil and gold were offset by a +16% rise in the price of natural gas. Bitcoin continued its remarkable recent run, posting a gain of +41% in November, with a single coin fetching an all time high of over £78,700. Gains were fuelled by promises from the new president-elect that his party will prioritise the cryptocurrency markets.

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