WEEKLY UPDATE

United States: Inflation as the flipside of the Trump Trade?

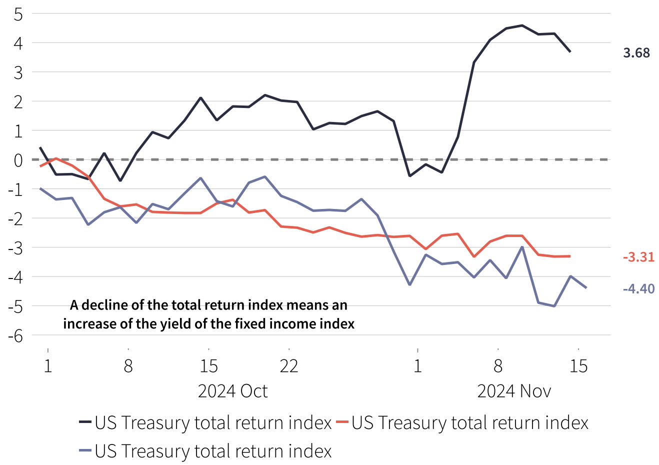
US equity markets welcomed the election of Mr Trump and the victory of the Republican Party to both houses of Congress, counting on tax reductions. However, the implementation of its economic programme carries a real risk in terms of inflation, in a context where inflation has not yet fully returned to its target level of 2%. Such a risk could even force the Federal Reserve to pause its rate-cutting cycle.

Equity markets in great shape after the election. While opinion polls showed a very tight race, the speed with which the result was confirmed and its decisiveness were reflected in a strong rise in the US equity markets. Indeed, since November 6, the S&P 500 has risen by 4.8% while, in Europe, the STOXX 600 fell by 1.6%. While the reduction in political uncertainty explains this performance, Mr. Trump's program includes a very favourable tax system for companies and households, with the extension of cuts in household tax rates voted in 2017 and a further reduction in the tax rate on profits from 21% to 15%. In addition, Trump's agenda includes a reduction in regulation, particularly for the energy and financial sectors. These policies come at a time when corporate profitability is already high.

An inflationary risk to be monitored. The full implementation of Mr. Trump's economic programme, however, involves at risk of a return of inflation. First, the significant increase in tariffs on goods would result in higher prices for goods. However, the deflation of durable goods is one of the explanations for the moderation in inflation in recent quarters. In addition, the restrictive policy on immigration could also increase the risk of inflation. Indeed, since the Covid crisis, the labour force has increased significantly in the United States thanks to migration flows. These flows have helped to reduce imbalances in an overheated labour market, and thus moderate wage and core inflation growth. Thus, a restrictive migration policy would risk reintroducing imbalances in the labour market, causing a return of wage pressures. Thus, these two measures (customs duties and migration policy) could lead to an intensification of inflationary pressures.

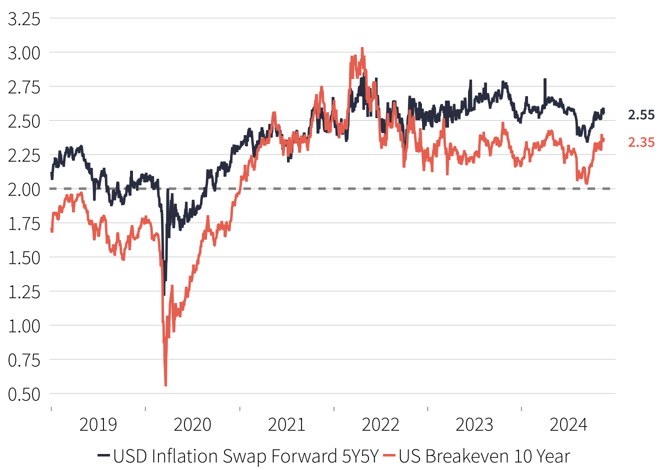
Bond markets are starting to price in inflationary risk. This potentially inflationary scenario comes at a time when disinflation in the United States is slowing. Indeed, the headline inflation index stood at 2.6% year-on-year in October while core inflation remained at 3.3%. Over the last 3 months, core inflation remains above 2% due to the slow normalisation of rent and implied rent inflation as well as inflation on certain services, such as insurance, which remains above its pre-Covid level. Bond markets have begun to price in this risk of higher inflation, with government bond yields rising from 3.8% to 4.5% between October and November. Money markets are now pricing in only three 25 basis point interest rate cuts by the Federal Reserve (Fed) by the end of 2025 compared to six priced in at the beginning of October.
For our part, we believe that the Fed will continue its cycle of interest rate cuts in the coming months, as real interest rates are high and the labour market moderates. However, it will remain attentive to a return of inflationary pressures, once the first measures are put in place.

Performance of total return financial indices
(100=30/09/2024)



Sources: Société Générale Investment Solutions, Macrobond, 14/11/2024

Evolution of market-based inflation expectations



Sources: Société Générale Investment Solutions, Macrobond, 15/11/2024

Past performance is not a guarantee of future performance. All data is from Bloomberg, Macrobond as of 11/15/2024, completion date of this publication. In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document

OUR MACRO COMMENTS

Events of the week

China: a mixed outlook

Activity and trade data continue to show mixed prospects. Indeed, retail sales in October surprised to the upside, with an increase of 4.8% year-on-year, thanks to consumer subsidies. However, industrial production in October and investment spending showed below-expected growth, still under the weight of the real estate adjustment. In line with these data, the October trade surplus surprised sharply to the upside, due to a contraction in imports reflecting weak domestic demand.

United Kingdom: weak GDP growth figure but positive details

Q3-24 GDP growth was 0.1% quarter-over-quarter, below the 0.2% expected by consensus. However, the composition of growth shows a more constructive picture. Indeed, the change in inventories contributed significantly to the negative surprise in GDP. Domestic demand increased by 0.6% Q/Q, with positive contributions from household consumption and investment. This data should lead the Bank of England to maintain its key interest rate at 4.75% in December.

THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
United Kingdom	Unemployment Rate september	4,30%	4,00%	4,10%
	GDP Growth Rate (QoQ) Q3	0,10%	0,50%	0,30%
United States	Inflation Rate october	2,60%	2,40%	2,60%
	Retail Sales YoY october	0,40%	0,40%	0,30%
	PPI MoM october	0,20%	0%	0,20%
China	Balance of Trade	$95,3B	$81,71B	$70B
Germany	ZEW Economic Sentiment Index	7,4	13,1	13

Source: Macrobond, November 15, 2024. The colors in the 'Actual' column correspond to the difference from the forecast

KEY EVENTS NEXT WEEK

Tuesday

United-States Building Permits October
Switzerland Balance of Trade October

Wednesday

United Kingdom Inflation Rate October
Germany Producer Prices Index YoY October

Thursday

France Business Climate November
United-States Initial Jobless Claims November

Friday

United Kingdom -Gfk Consumer Confidence November
-PMI Composite November
France PMI Composite November
Germany PMI Composite November
United-States PMI Composite November

SOCIETE GENERALE
Private Banking

MARKET PERFORMANCES

Interbank rates

%	13/11/2024	15/10/2024	15/08/2024	01/01/2024	15/11/2023
United States SOFR	4,806	4,92	5,35	5,34	5,32
Euro area €STR	3,164	3,41	3,66	3,88	3,90
United Kingdom SONIA	4,700	4,95	4,95	5,19	5,19
Switzerland SARON	0,955	0,94	1,20	1,70	1,70
Japan TONAR	0,228	0,23	0,23	-0,04	-0,01

10Y Sovereign yield

%	14/11/2024	15/10/2024	15/08/2024	01/01/2024	15/11/2023
United States Treasury	4,43	4,03	3,92	3,88	4,53
France OAT	3,09	2,95	2,98	2,55	3,18
Germany Bund	2,35	2,22	2,26	2,02	2,62
Italy BTP	3,56	3,38	3,63	3,70	4,36
Spain Bonos	3,06	2,94	3,09	2,98	3,65
Switzerland	0,41	0,48	0,41	0,66	1,00
United Kingdom Gilts	4,49	4,16	3,94	3,60	4,28
Japan JGB	1,03	0,94	0,82	0,62	0,85

Corporate credit & EM fixed income

%	14/11/2024	15/10/2024	15/08/2024	01/01/2024	15/11/2023
United States IG	5,25	4,89	5,01	5,06	5,93
United States HY	7,21	7,18	7,53	7,59	8,72
Europe IG	3,45	3,47	3,69	3,72	4,44
Europe HY	5,83	6,05	6,50	6,80	7,97
Emerging markets in FX	6,28	6,11	6,52	6,77	7,70

Equity indices

14/11/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-0,99	0,926	6,02	20,343	30,14
United States	-0,83	2,732	8,25	25,313	37,36
Euro area	0,36	-2,195	1,04	8,288	16,25
France	-0,43	-2,887	-1,22	-0,033	6,79
Germany	0,33	-1,509	5,79	13,287	23,35
United Kingdom	0,09	-1,996	-2,91	7,688	13,44
Japan	-1,52	-0,921	4,85	16,530	18,22
Emerging markets (USD)	-3,67	-4,362	2,09	12,387	19,21
China (USD)	-5,79	-3,672	14,68	17,349	14,64
India (USD)	-3,04	-8,170	-3,60	13,850	27,42
Latin America (USD)	-1,25	-4,498	-9,29	-18,318	-6,22

Foreign exchange

	14/11/2024	15/10/2024	15/08/2024	01/01/2024	15/11/2023
EUR/USD	1,06	1,09	1,10	1,11	1,09
GBP/USD	1,27	1,31	1,29	1,27	1,24
EUR/CHF	0,94	0,94	0,96	0,93	0,96
USD/JPY	155,95	149,26	148,96	141,03	150,89
USD/CNY	7,23	7,12	7,16	7,08	7,25

Commodity prices

	14/11/2024	15/10/2024	15/08/2024	01/01/2024	15/11/2023
Brent, USD/BL	72	74	81	77	81
Copper, USD/metric ton	8 768	9 402	9 009	8 476	8 169
Gold, USD/Oz	2 565	2 663	2 456	2 063	1 960
Silver, USD/Oz	30	31	28	24	23
Palladium, USD/Oz	923	1 010	930	1 136	1 021
Platinium, USD/Oz	934	979	939	1 000	897

Source : Bloomberg on 15 November 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10-year returns. Figures are rounded..

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