December 2024 | Market update

Share prices rally after Trump election victory

Financial markets respond positively to Donald Trump's impending return to the White House

US stock markets soar. Share prices rose after Republican Donald Trump was elected US President for the second time, fuelling expectations of higher domestic growth. The dollar also strengthened by the most in years, and government bond yields rose before easing back towards the end of the month.

However, there are concerns Trump's tariff proposals could push up inflation, which rose to 2.6% in October – from 2.4% in September, which had been the slowest rate in more than three years. US jobs growth has also fallen after hurricanes and strikes disrupted the economy. The US reported its weakest jobs growth since December 2020, after only 12,000 new jobs were added in October. Although hiring slowed, the unemployment rate held steady at 4.1%.

UK inflation rises. The FTSE 100 edged down after hotter-than-expected inflation tempered expectations of rapid interest rate cuts. The inflation rate rose by 2.3% in the year to October, up from 1.7% the previous month. However, there was a boost for borrowers after the Bank of England cut rates from 5% to 4.75%.

Britain's economy contracted in September and growth stalled in the third quarter as the services sector lost momentum. Unemployment rose to 4.3% in the three months to September, up from 4% the previous quarter. The rate of pay growth remains above inflation, rising by 4.8%. Consumer confidence has started to improve in the run-up to Christmas, with plans for spending rising as people's expectations of their financial situation and state of the economy improved.

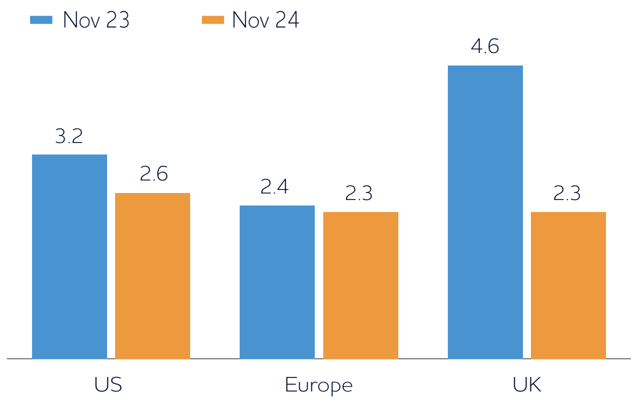
Euro area inflation jumps. Inflation rose above the European Central Bank's (ECB) target to 2.3% in November, mainly because of energy and food price rises. Core inflation, which leaves out more volatile components such as fuel and food, was stable at 2.7%.

The ECB reduced its key interest rate by a quarter percentage point to 3.25% in October – its third cut this year. Economists have said the jump in inflation was not caused by underlying price pressures – an assessment that is likely to bolster ECB's plan for further interest rate cuts. The region's economy grew by 0.4% in the third quarter compared with the previous three months, which is twice as fast as expected. Germany narrowly escaped a recession in the third quarter. Spain and France posted better-than-expected growth, while Italy's came in below expectations.

China faces headwinds. Chinese markets fell after a stimulus programme worth $1.4 trillion to help local governments deal with debt underwhelmed investors. Official statistics show real estate investment fell in September by more than 10% year-on-year. China's consumer prices rose at the slowest pace in four months in October, while producer price deflation deepened. China's exports rose at their fastest pace in 19 months but imports fell by a more than expected. The country faces the possibility of a new trade war with the US after Trump's election victory, which could further dampen growth.

Figure 1: Annual inflation (%)

Over the past year, the rate of inflation in developed regions has been falling towards the 2% target favoured by central banks.



Source Bloomberg

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