

FRIDAY, 18 OCTOBER 2024

The Week Ahead

Budgetary matters

France and the UK have become unexpectedly joined in their political and policy cycles since June, with 10 year bond yields rising relative to other countries in the four months since the European parliamentary elections. Whereas German 10 year yields have declined by 35 basis points (a basis point, bp, is one hundredth of a percentage point) since the European elections, French 10 year yields have fallen by 5bp and UK 10 year yields by only 1bp.

In both France and the UK, there are budget events at the end of this month, with the fiscal cycle part of the reason for the underperformance in fixed income markets. In France, parliament is due to vote on tax revenues on 29 October while UK Chancellor Reeves is due to present her first budget on 30 October.

Briefly recapping the political dynamics that brought us to this point: after defeat in the European elections, French President Macron announced elections for the lower house whose second round fell within



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a week of the UK's parliamentary elections. Given that there was no clear mandate for any of the leading political groups, the contrast with the landslide victory for the UK Labour party was stark, fostering expectations that economic fortunes might divide for a long period.

The circumstances around the elections continue to have a significant bearing on fiscal policies now being pursued. France's new Prime Minister Barnier has been forced to operate from a position of weakness. A budget deficit approaching 6% of GDP has demanded urgent attention with the new government proposing a 5 to 10 percentage point increase in corporate tax rates for 2025 for companies with profits over €1bn or over €3bn, respectively. This corporate profit tax is scheduled to ease in 2026, with a return to prior tax rates anticipated for 2027. In addition, a new tax on share buybacks has been introduced (with no roll-off date).

Unsurprisingly, policies that are so unfriendly to corporates have had a significant market impact, with the CAC 40 underperforming MSCI's European equity index by 5% from just prior to the European elections. Consensus expectations for 2025 French GDP growth have also fallen by 0.5% from around 1.5% to 1.0% over the same period. With votes on politically hot topics such as pension reform unlikely to be far around the corner, the prospect for much relief seems limited.

Publications

→ **US elections monitor: policy impact**

After an extraordinary election campaign, tensions are running high ahead of the US vote in November – and the implications for markets could be quite different depending on who wins.

→ **COP preview: managing expectations**

Both the COP 29 annual meeting dedicated to climate action, and its biodiversity counterpart COP 16, take place in the coming weeks.

→ **Multi Asset: The comeback**

The aim behind "multi asset" is to improve the risk/return profile of an investment by allocating capital across a multitude of assets. This approach to investment struggled during the phase of low and negative returns. Meanwhile, it may be poised for a comeback.

By contrast, UK growth expectations for 2025 have risen since June (albeit only from 1.2% to 1.4%) and domestic UK equities have outperformed the broader European small cap market by just over 3% since the European elections.

So, what has caused the pressure on UK government bond yields? While the market also expects UK Chancellor Reeves to announce tax rises to address legacy deficit challenges left by the prior government with press reports suggesting the possibility of higher national insurance contributions for companies as well as an increase in gambling taxes, it is the possibility of changes to the government's debt rules and an uplift in spending (and borrowing) that have triggered anxiety.

The new Chancellor has been at pains to emphasise the differences between her approach and the budget that caused a UK market panic under the famously brief leadership of Prime Minister Truss. As a result, it seems likely that the government will not seek to front-load spending and borrowing, potentially allowing a recovery in UK bond markets afterwards as better news on inflation should allow the **Bank of England** to accelerate the pace of rate cuts in coming months.

There is a marked contrast between the reality of tax increases in France and the UK with the promises of fiscal largesse being delivered by both candidates in the US election. Although the US typically has the largest weight on overall market direction, the budget choices in France and UK as well as critically whether they can be passed by their respective parliaments will determine how readily recent underperformance can be unwound.

The Week Ahead

The main focus of the coming week is likely to be on **flash PMI indicators** released for the major economies. Manufacturing momentum has been soft for some time and there seems to be limited prospect of a rebound until US election uncertainty is resolved. More important, therefore, are likely to be flash PMIs for the services sector. The trajectory last month was very different in the US (healthy rebound) and the euro area (post-Olympics let-down), hence there is much to be gleaned from the new data.

In **Germany**, the release of the ifo business survey will provide an update on sentiment at a time when traditional sources of sectoral strength in the German economy are facing historic challenges. Germany has been a relative weak spot in the euro area for over a year and seems likely to remain a drag on collective growth.

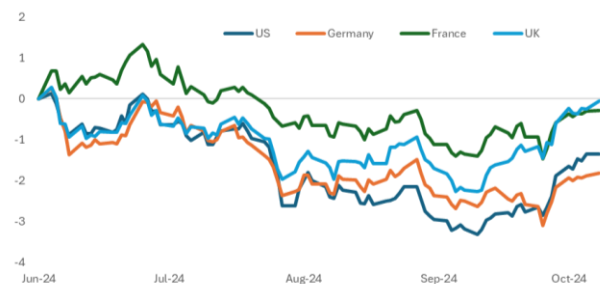
In the **US**, durable goods orders may see a downward correction given strike action affecting some industries during the last month. New homes sales and jobless claims will also garner attention.

In **Japan**, the Tokyo CPI release will give an up-to-date indication of how robust inflation momentum remains for the Bank of Japan to consider the timing of its next interest rate increase.

Please join us in looking forward to clarification from fiscal and electoral events in the weeks to come.

Sean Shepley

Change in 10yr yields from European elections Standard deviations (monthly volatility)



Source: Bloomberg, 14.10.2024

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

UPCOMING POLITICAL EVENTS 2024

21 – 27 Oct	IMF	IMF annual meetings
23 Oct	CA	Bank of Canada Meeting
25-27	IMF	IMF and World Bank annual meetings
31 Oct	JN	Bank of Japan meeting

→ [Overview political events 2024 \(click here\)](#)

Calendar Week 43

Monday			Consensus	Previous
UK	House Price Rightmove MM	Oct	--	0.8%
UK	House Price Rightmove YY	Oct	--	1.2%
CN	Loan Prime Rate 1Y	Oct	--	3.35%
CN	Loan Prime Rate 5Y	Oct	--	3.85%
GE	Producer Prices MM	Sep	--	0.2%
GE	Producer Prices YY	Sep	--	-0.8%
JN	Chain Store Sales YY	Sep	--	3.8%
UK	CBI Distributive Trades	Oct	--	4
Wednesday				
EC	Consumer Confid. Flash	Oct	--	-12.9
US	Existing Home Sales	Sep	3.90M	3.86M
US	Exist. Home Sales % Chg	Sep	--	-2.5%
Thursday				
JN	JibunBK Mfg PMI Flash SA	Oct	--	49.7
JN	JibunBK Comp Op Flash SA	Oct	--	52.0
JN	JibunBK SVC PMI Flash SA	Oct	--	53.1
GE	HCOB Mfg Flash PMI	Oct	--	40.6
GE	HCOB Services Flash PMI	Oct	--	50.6
GE	HCOB Composite Flash PMI	Oct	--	47.5
EC	HCOB Mfg Flash PMI	Oct	--	45.0
EC	HCOB Services Flash PMI	Oct	--	51.4
EC	HCOB Composite Flash PMI	Oct	--	49.6
UK	Flash Composite PMI	Oct	--	52.6
UK	Flash Manufacturing PMI	Oct	--	51.5
UK	Flash Services PMI	Oct	--	52.4
US	S&P Global Mfg PMI Flash	Oct	--	47.3
US	S&P Global Svcs PMI Flash	Oct	--	55.2
US	S&P Global Comp Flash PMI	Oct	--	54.0
US	New Home Sales-Units	Sep	0.713M	0.716M
US	Initial Jobless Clm	14 Oct, w/e	--	--
US	Cont Jobless Clm	7 Oct, w/e	--	--
Friday				
UK	GfK Consumer Confidence	Oct	--	-20
JN	CPI Tokyo Ex fresh food YY	Oct	--	2.0%
JN	CPI, Overall Tokyo	Oct	--	2.2%
JN	Service PPI	Sep	--	2.70%
JN	Leading Indicator Revised	Aug	--	-2.6
EC	Money-M3 Annual Grwth	Sep	--	2.9%
GE	Ifo Business Climate New	Oct	--	85.4
GE	Ifo Curr Conditions New	Oct	--	84.4
GE	Ifo Expectations New	Oct	--	86.3
US	Durable Goods	Sep	-1.1%	0.0%
US	Durables Ex-Transport	Sep	--	0.5%
US	U Mich Sentiment Final	Oct	--	68.9
GE	Import Prices MM	Sep	--	-0.4%
GE	Import Prices YY	Sep	--	0.2%

The calendar data for the current week comes directly from Bloomberg. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by Bloomberg through a survey of analysts and economists. It is the average of all estimates submitted.

If not mentioned otherwise data and information sources are from LSEG Datastream.

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