Macro Outlook Summary

September 2024

Early in September the US Fed cut rates by a surprise 50bps. Guidance was for at least another 50bps by YE so finally the market has converged with Fed thinking. The Fed choice of 50bps rather than 25bps is interesting because it suggests they can see a future softening in the labour data which is not fully apparent just yet. There are numerous reports of ongoing job losses in San Francisco and the tech industry but this is only part of the whole and unemployment data is neither particularly weak nor pointing to a recession just yet. What must be in the pipeline is a softening in core services inflation given that is now more or less the only driver of inflation data as the other three constituents of energy, core goods and food have all faded away in approximately that order.

As the Nov 5th US election draws near the policy differences between Trump and Harris become more relevant that media junkets. Trump wants the dollar weaker and corporation tax cut to 15%, funded by 10-20% tariffs on all imports and 60% on China. He wants foreign manufacturers to build production in the US and create jobs and wealth which would further promote his MAGA goal. Harris seems likely to rescind Trump's 2018 tax cuts, increase taxes on higher earners, increase corporation tax to 28% and increase capital gains tax from 20% to 28%. Clean energy will benefit from her support which everyone knows will not happen under Trump. But neither seems concerned to reduce the persistently huge deficit spending which is becoming a point of concern for global investors.

Actual numbers are from the Institute of International Finance (IIF) but rounded here. Global debt is at a current peak of $320tr and has increased by $100tr since 2015. $90tr of that increase is government debt which is a somewhat startling number. US government debt is $35tr and represents about 1/3 of total global government debt.

In times of geopolitical stress or shock government bonds are a safe haven and yields fall. But if that shock triggers a large hike in government spending either for defence or something such as Covid then the safe haven is undermined. Given that nowadays the standard government response function to a crisis is to spend large, this is a real concern. Safe haven currencies used to be the Swiss Franc and Yen but the former is too 'niche' to accommodate potential demand and the Yen's future is unclear.

Gold is the obvious answer with a global market value around $15tr. Data on central bank buying tells a story. For '22 and '23 central banks bought 2120 tonnes which was 3X the previous two years. In 1H2024 they bought another 500 tonnes. Could this be to counter perceptions of a general 'cruzerisation' of their fiat currencies? Regardless, the fact that gold is making new highs suggests a growing body of investors beyond central banks are looking to include that safe haven in their investments.