Macro Outlook Summary

October 2024

The US September jobs report was particularly strong with the 254,000 gain far exceeding expectations and marking a 6-month high for jobs growth. On top of that, July and August were revised upwards which firmly shuts down any discussion about a weakening labour market. Indeed, the unemployment rate edged down from 4.2% to 4.1% and if 4% represents full employment then the Fed has achieved half its mandate. Inflation as measured by CPI also edged down in September from 2.5% to 2.4% while the PCE rate favoured by the Fed hit 2%.

Generally, that looks like it's on or close to target as well so one might say the Fed has achieved its goals. What is absolutely certain is that any talk of recession is very wide of the mark and even a soft landing is being rephrased into 'no landing' which is surely good news. But the US election looms on 5th November and prediction markets have shifted increasingly towards a Trump win.

So how could this favourable economic picture be affected and is there cause for concern? Trump's economic agenda is a combination of tax cuts, reduce regulation, impose severe import tariffs and a clamp down on illegal immigration. Each of these has great appeal to any voter and the MAGA slogan resonates with so many Americans who feel the 'dream' is no longer a reality. It also resonates strongly with the UK Brexit 'take back control' mantra which turned out to be tremendously difficult to counter.

But one clear consequence of Trump policies if they are carried through will be more upward inflationary pressure as goods become more expensive and available labour dries up. If the economy were in recession with weak demand and high unemployment these policies would be unlikely to translate into inflation. But the economy is in rude health and the employment market is tight. In this scenario the treasury market is unlikely to stay happy. Already yields in longer dated bonds have edged up 60bps+ from the lows achieved in September even while inflation has been falling.

Over the past 40 years confidence in central bank policy making has been proven to be vital to an orderly and stable bond market. The UK budget fiasco under Liz Truss showed clearly that bond market vigilantes are ready to take action and the extreme escalation of government debt to GDP as we discussed last month has already ramped up these risks. But what will be new and potentially very damaging is Trump's incessant criticism and even ridicule of Chair Jay Powell and the Fed. Undermining central bank credibility and threatening to bring it under political control will not go down well with bond investors. In addition, as we discussed last month the normalised government response of 'emergency' spending to counter the effects of any shock is a real and lingering background risk with Trump's confident use of extreme language and behaviour.

Longer dated bond yields look risky and the yield curve may need to steepen further to price up these concerns even as short rates are held steady. And if this were not enough then in the background there's the Republican Party's 'Project 2025' which is what Biden is referring to when he talks about democracy being on the ballot paper. Trump has repeatedly denied involvement but the authors are all around him. Good summaries are available on the internet but the high-level observations are that presidential powers will be significantly increased, government agencies will be radically overhauled, abortion will become far more difficult, a huge immigrant deportation programme will commence, investment in renewable energy will be slashed and inclusion programmes and diversity recognition in schools will be stopped. No wonder authoritarian world leaders are openly backing Trump. Not only is free world trade in reverse gear but so will be US democracy just as it has tried to embrace equality and diversity.