RAYMOND JAMES

Silver Blaze

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"The curious incident of the dog in the night-time" - Sir Arthur Conan Doyle (The Adventure of Silver Blaze)

In 1892, Sir Arthur Conan Doyle had published a collection of short stories entitled, "The Memoirs of Sherlock Holmes". One story concerned the mysterious disappearance of a champion racehorse, named Silver Blaze the night before a big race and the murder of the horse's trainer. The master of deductive logic is called for and ultimately solves the case when it is confirmed that, at no point during the night in question, did the guard dog bark at the intruder strongly, rightly as it turned out, indicating that the perpetrator was known to the dog. Over the first half of October Western stock markets snoozed quietly in their kennels, the periods of turbulence that started both August and September put to bed sufficiently to allow for more all-time high index levels so much a feature of the investing landscape throughout 2024. But even as the guard dogs slept at their post government bond markets began to signal warning, a warning echoed in escalating measures of implied financial market volatility, a strongly rebounding US dollar and in precious metals, an ever-higher gold price accompanied by blazing silver!

For long beforehand, the autumn of 2024 had two notable dates above all others pencilled into investors' diaries and scorched into the collective consciousness, specifically the US presidential and Congressional elections and the UK Budget. With regard to the latter, the parliamentary set-piece represented the articulation of the Labour administration's economic plans, much-vaunted in the run-up to and immediate aftermath of the Party's landslide election victory in early July. The outcome of the US elections, for their part, carries a significance far beyond that country's shores. So divergent are the policy agendas of the central protagonists that how the cards ultimately fall in this too close to call process will surely have huge implications across all aspects of policymaking across the world, including in China where the seasonal National People's Congress is, perhaps far from coincidentally, scheduled to take place simultaneously to events in the United States.

Looking back in history, a period of stock market weakness immediately prior to US elections, similar to that now confirmed over the second half of October, is actually extremely normal and should not act as a deterrent for the holders of broadly diversified portfolios of financial assets. Indeed, such a correction typically acts as the precursor to the strongest period for financial market returns in any calendar year. That the UK Budget fell at exactly the same time may have accentuated investor anxiety, but steady hands are "on the case" both in the form of your wealth manager and more generally, the Bank of England's rate-setting Monetary Policy Committee. For all the furore created by the Chancellor's giant package of measures, both in size and scope, it is thought unlikely that the Bank will have to step in to calm markets as was the case in the aftermath of the calamitous Truss administration's mini-Budget of autumn 2022.

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To be sure, the gilt-edged market and the pound have reacted negatively to the Budget, borrowing costs rising sharply in response to confirmation that the gross financing needs associated with the plans will be a full £23bn higher in the current financial year than those projected back in April, with a further cumulative £145bn increase pencilled in for the ensuing four years after this one. Beyond that, the Chancellor's desire to "Invest, invest, invest" is likely to stoke

demand in an economy deemed to be operating close to fall capacity. Additional demand before investment plans generate additional supply will likely deliver the boost to economic activity confirmed in the independent Office for Budgetary Responsibility's growth forecasts, but also give rise to higher inflation than had hitherto been thought likely, particularly over the medium term.

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Immediate post-Budget headlines have been dominated, rightly, by the substantial £41.5bn rise in taxes by 2029/30, the bulk (but not all) of the increase due to confirmation of a 1.2% increase in employers' national insurance contributions which are expected to have raised £25.7bn by the end of the period. The increase in taxation, one of the biggest tax-raising Budgets on record is, however, more than offset by a forecast £47.0bn increase in day-to-day spending, again by 2029/30 and an envisaged £24.6bn increase in public investment. The difference between money raised and spent is to be funded by a £32.5bn increase in borrowing. To all intents and purposes this looks like a very significant loosening of the fiscal purse strings, and that is how the measures are being portrayed, however, context is everything and to be clear, fiscal policy is still being tightened over the coming five years by £68bn, but by less than that envisaged in the previous administration's Budget last March (£86bn).

This analysis will surely not be lost on the Bank of England and will inevitably feed into its own forthcoming updated projections both for the economy and the inflation profile. The Bank has already cut the base rate by 0.25%-points in early August and interpreting, "a gradual approach to removing policy restraint" apparent in the minutes of September's rate setting meeting, implies that rates will be cut again. The critical issues, both for investors and the economy more generally are, by how much and how quickly? The targeted measure of consumer prices fell below 2% for the first time in over three years in September and closely watched subsidiary indicators relating to service sector price trends and wage growth have dipped too. While this outcome may represent a cycle low point, the deceleration in the pace of economic activity also suggests that a window exists, at least in the short-term, for a policy easing which could assuage jittery markets.

Although the policies announced in the Budget increase the likelihood that the Bank cuts the base rate at a slower pace than had previously been thought likely, the case for lower rates over time has not been lost. A faster-paced economic growth outlook, coupled with still subdued inflation, certainly compared to the levels of the recent past, and the promise of lower interest rates should prove supportive to financial asset pricing and enable UK markets to participate in the widespread seasonal rally into year-end and into 2025 beyond that.

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