

Global equities rally on trade deal optimism



Easing trade tensions and upbeat company earnings results lifted global markets in October

Strong start to earnings season. Global stock markets rallied in October, buoyed by optimism around corporate earnings and easing trade tensions between the US and China. It was another strong month for US equities after softer-than-expected inflation figures boosted hopes of further rate cuts.

Earnings season has got off to a good start, with around 85% of S&P 500 companies beating expectations so far – the highest in four years. The Federal Reserve (Fed) lowered rates for the second time this year by a quarter percentage point to support the slowing job market. It is the first time the Fed's rate-setting committee has cut rates without access to the official jobs report since it was established in the 1930s, due to the ongoing government shutdown.

Republicans and Democrats remain deadlocked over a federal budget, making this the longest full government shutdown in US history. The shutdown has blacked out crucial economic data – from jobs to overall growth – complicating the Fed's decision-making. Inflation data is also unlikely to be released in November.

UK inflation holds. UK inflation unexpectedly held steady at 3.8% in September for the third month in a row. Following a recent resurgence driven by higher food prices and the increase in National Insurance, economists believe inflation may now have peaked.

The UK job market continues to show signs of weakening, with pay growth slowing and unemployment rising. Unemployment rose to 4.8% in the three months to August, up from 4.7% in July. Meanwhile, annual wage growth in the same period eased slightly to 4.7% from 4.8%. All eyes are now on the upcoming UK Budget, with Chancellor Rachel Reeves expected to raise taxes and cut spending.

US–China reach deal on tariffs. The US and China have reached a preliminary trade deal, lowering US tariffs in exchange for access to China's rare earth minerals. President Donald Trump said the one-year agreement will reduce US tariffs on Chinese goods from 57% to 47%. The US relies heavily on rare earth metals for advanced technologies, including cars, aircraft and weapons.

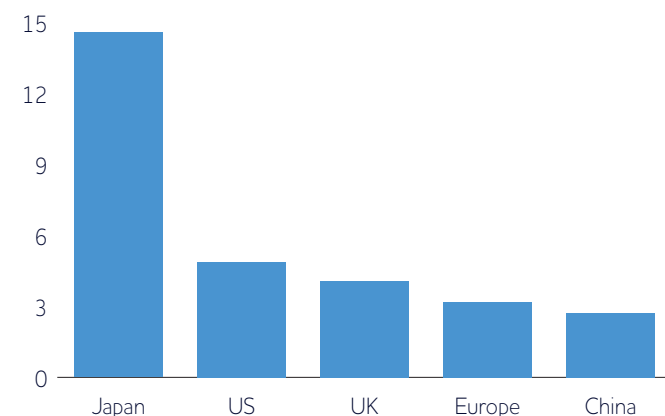
China's exports to the US fell 27% in September compared with a year earlier, even as overall global exports hit a six-month high. Meanwhile, China's total exports rose 8.3% year-on-year in September, up from 4.4% in August. However, its manufacturing sector contracted for a sixth consecutive month.

Japan's stockmarket surged to a record high after the country's parliament elected Sanae Takaichi as the country's first female prime minister. Her incoming administration is expected to consider an increase in higher defence spending, tax cuts and a revival of Japan's suspended nuclear power plants.

Meanwhile, there was further political turmoil in France after new Prime Minister Sébastien Lecornu unexpectedly resigned before being reappointed. Eurozone inflation had risen to 2.2% in September – the first time it has exceeded the European Central Bank's (ECB) 2% target since April – but then dipped to 2.1% in October. Private sector activity also logged its strongest growth in almost two years, offering a glimmer of optimism for the eurozone economy.

Figure 1: Stock market returns (sterling, %)

Japanese equities outperformed other regions during October.



Source: Bloomberg

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