LOM 1992

Weekly Global Market Commentary

June 7, 2024

Volatility: Markets vs Elections

by James Balfour, CFA, Senior Portfolio Manager

Claudia Sheinbaum became the first female President of Mexico, victorious in the election over the weekend. Despite being a continuity candidate, succeeding her mentor President Andrés Manuel López Obrador, she was welcomed with a steep devaluation in the Mexican Peso and over 5% decline on the MEXBOL. Why, well the landslide nature of her success could trigger policy decisions that her predecessor was not able to manage, potentially moving Mexico too far to the left for international investors. Strength in political power is a fine balance, commentators continually note the US system has action with a majority across Senate, House and Presidency but stagnates in making decisions without this. The recent Ukraine Bill representing the struggle it is for Democrats and Republicans to align through the power halls of Washington.

The opposite of Mexico happened in both India and South Africa elections, incumbent parties significantly underperforming the expectations. The ANC party in South Africa now need a coalition partner to meet the 50% threshold for power, Modi's BJP in India needs similar help. The Indian NSE Nifty50 finished down almost 6% on the shock result, Modi has been running with a mandate of further investment that could be curtailed in coalition. The shock of election results creates volatility, making opportunities for market participants, though this market reaction had been exacerbated by significant positioning in India companies that had strongly benefited from Modi's policies during the previous term. The reason that there is such weight placed on these elections is the political direction and landscape that companies can work in over the coming 5 years. Change can be positive, but the unexpected nature of a result is always a catalyst for significant market movements, evidenced by the 11% devaluation of GBP Sterling in the immediate aftermath of the Brexit referendum result.

The US Presidential election is clearly looming large on the horizon, with most polls unable to clearly split the two candidates. As the campaigns progress there is expected to be better clarity on the differences between policies, these will become battlegrounds and likely to lead some sectors under scrutiny. Healthcare is always a political hot potato, though the underlying demographics and investment requirements should withstand most policy change. The dichotomy becomes the time horizon of any investor, political lifecycles tend to be shorter than that of companies but the influence that one policy change can have will shift valuations for a sustained period. Shaping investment around the individual policies of one party can be dangerous, India speculators have seen that, but positioning across long term themes that extend beyond a single term provides stability. If the election creates volatility, then it is sensible to look through the red and blue noise, focusing on the other factors with powerful stories: defense requirements, infrastructure upgrade, energy transition, AI investment. These themes have longer duration than any candidate and will weather a short-term storm, as the returns available remain greater than the volatility that marking a ballot can create.

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Stock Market Performance	5/31/2024	W-o-W	M-o-M	Y-o-Y
DJIA	38,686	-1.0%	2.3%	17.6%
S&P 500	5,278	-0.5%	4.8%	26.3%
MSCI World	3,445	-0.5%	4.2%	23.0%
SP/TSX	22,269	-0.2%	2.6%	13.8%
BSX	2,510	0.0%	3.5%	22.6%
FTSE100	16,210	-0.6%	1.9%	15.8%
DAX	18,498	-1.0%	3.2%	18.1%
CAC	7,993	-1.3%	0.1%	12.6%
Nikkei	38,488	-0.4%	0.2%	24.6%
Hang Seng	18,080	-2.8%	1.8%	-0.8%
Shanghai	3,087	-0.1%	-0.6%	-3.7%

Key Rates and Prices			
Currencies	5/31/2024	Month Ago	Year Ago
EUR	$1.08	$1.07	$1.07
GBP	£1.27	£1.25	£1.24
JPY	¥157.31	¥157.80	¥139.34
CAD	C$0.73	C$0.73	C$0.74
CHF	CHf1.11	CHf1.09	CHf1.10
AUD	A$0.67	A$0.65	A$0.65
Fixed Income			
3M LIBOR	5.60	5.59	5.52
3M Treasury Bill	5.41	5.40	5.40
2Yr Treasury Note	4.87	5.04	4.41
10Yr Treasury Note	4.50	4.68	3.65
Fed Funds Rate	5.50	5.50	5.25
Commodities			
Gold/oz.	2,327.33	2,286.25	1,962.73
Silver/oz.	30.41	26.29	23.49
Copper/lb.	4.55	4.53	3.67
Oil	76.99	81.93	68.09

Global Economic Calendar (Jun 3rd to 7th)	
Monday	ISM manufacturing (US)
Tuesday	
Wednesday	Bank of Canada Rate Decision (EC)
Thursday	ECB Main Refinancing Rate (EC); Initial Jobless Claims US)
Friday	Change in Nonfarm Payrolls (US)

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