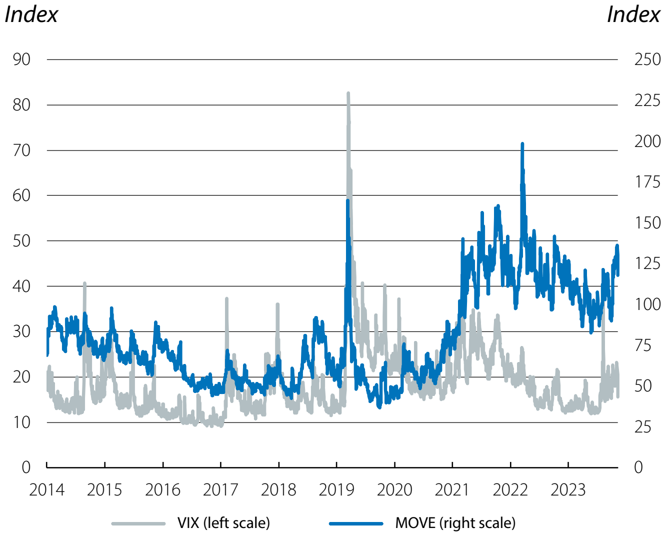
The markets: all eyes on the central banks and US elections

Sentiment improves in the US, but remains somewhat hesitant in the rest of the world. With all eyes on the US presidential election and the central banks' next steps, investors around the world spent October navigating choppy waters. In the US, the electoral uncertainty of October was combined with economic data that indicated a solid economy. This led investors to expect the Fed to take a slightly less dovish stance and to show a little more caution in the rate-cutting process. This adjustment in expectations, coupled with a slight increase in the inflation risk, resulted in a sharp upturn in sovereign yield curves and weighed down the major stock market indices. In the euro area, the macroeconomic data and the ECB's explicit acknowledgement of weak economic activity in the short term weighed on sentiment, which was also not immune to developments across the Atlantic. Meanwhile, in China, the lack of clarity regarding the stimulus plans left investors with a lower appetite for the country's risky assets. In this context of hesitant investor sentiment, Donald Trump's decisive victory in the US presidential election has appeared as a new catalyst, arousing the appetite for risky assets in the US and triggering rallies in the stock markets and an appreciation of the dollar. Although this had a certain knock-on effect on other risk-bearing assets around the world, their performance was more mixed amid investors' concerns about the prospect of trade conflicts and heightened uncertainty.

The central banks are making progress in the «gradual» monetary easing process. The ECB cut interest rates by 25 bps for the third time since June, bringing the depo rate down to 3.25%. This cut, which was agreed unanimously, was accompanied by a certain change of tone in the central bank's view of the economic outlook, with greater weakness anticipated in economic activity but, on the upside, more confidence in definitively overcoming inflation. The ECB was followed by the Bank of England, which cut 25 bps off the official rate, placing it at 4.75%, while its governor Andrew Bailey reiterated the intention to pursue a strategy of gradual reductions. To close the cycle of meetings, the Fed also lowered rates by 25 bps, bringing the fed funds rate down to the 4.50-4.75% range, after having kick-started the monetary easing cycle with an initial cut of 50 bps in September. The Fed's tone was cautious, pointing out that the economy's soundness allows it to steer interest rates towards neutral territory gradually and without haste.

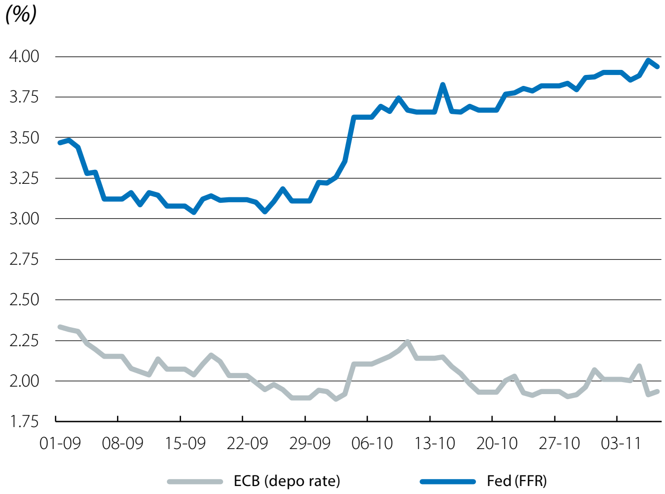
The markets see the Fed and the ECB cutting at different speeds. Given the economic context of the euro area (see the International Economy - Economic Outlook section), the futures markets shifted to anticipating a somewhat more dovish ECB than they had been expecting a few months ago, while in the US the more dynamic economic context caused a shift in expectations, with agents now anticipating a more cautious approach from the Fed in reducing rates. In particular, the markets shifted to anticipating a terminal depo rate in

Volatility in the financial markets



Source: *CaixaBank Research, based on data from Bloomberg.*

Official interest rates expected for June 2025 according to the financial markets



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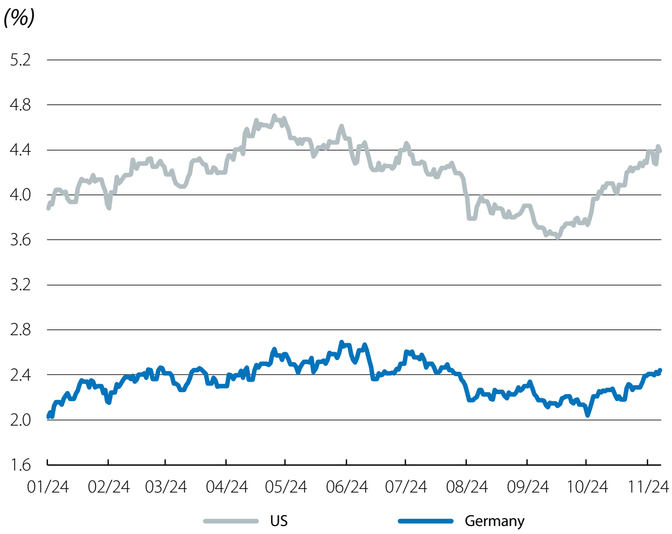
10-year sovereign interest rates



Source: *CaixaBank Research, based on data from Bloomberg.*

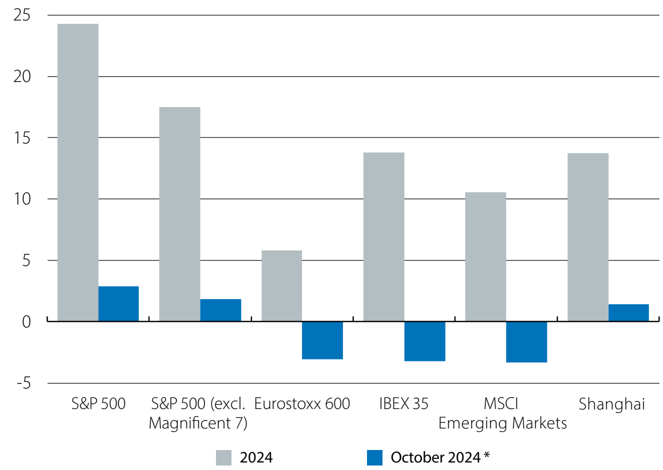
mid-2025 of 2% (vs. 2.25% at the end of the summer), with the fed funds rate expected to be in the 3.75%-4.00% range (3.00%-3.25% a month ago). This reduction of as much as 75 bps in the US was accompanied by a significant rebound in treasury yields throughout the length of the curve (+50 bps), with the 10-year benchmark reaching 4.40% (a level not seen since June 2024). Part of that rebound was due to the expectation of higher future inflation following Donald Trump's victory, given some of the key measures he announced while on the campaign trail. Sovereign rates in the euro area were not immune to their US counterparts, and despite expectations of a more dovish monetary policy, 10-year German sovereign rates rose by around 30 bps between the beginning of October and the time of writing, while rates in the periphery climbed around 20 bps.

Greater volatility and regional divergence in the stock markets. The electoral uncertainty and high interest rates adversely affected the stock markets of the major developed economies during much of October. Emerging markets, meanwhile, faced an additional volatility factor due to uncertainty surrounding the economic stimulus policies in China. At the end of October, the main stock market indices recorded widespread losses. However, following Trump's victory, the so-called «Trump trade» drove a recovery in US indices, which reversed the trend. The S&P 500 and the Nasdaq rebounded by as much as 4% in the two days after the election, reaching new all-time highs. Although gains were recorded across the board, it was the sectors that are expected to benefit the most from the Trump Administration's policies, such as energy and industry, which led the charge. In contrast, the Trump trade had a more mixed effect on other global markets. Shares in the euro area initially reacted with a correction (although they regained the lost ground in subsequent sessions), reflecting the sensitivity of the European economy, which is highly export-oriented and still highly exposed to China, to a potential environment of restrictive trade relations. The biggest losses were concentrated in companies with a high exposure to tariffs, such as German automakers, and in Spanish banks, given this sector's significant exposure to Latin America, especially Mexico.

The dollar gains strength, supported by rate spreads. The dollar appreciated more than 3% (from the beginning of October up until the close of this publication) against its major developed-economy counterparts. Against emerging-market currencies (the JP Morgan EMCI), the dollar has gained more than 1% since the US elections, especially against the Mexican peso, although it failed to undo the appreciation of over 3% accumulated by this group of currencies in October. Against the euro, the dollar traded within a narrow band from 1.08 to 1.09 since early October and reached 1.07 following the US election result.

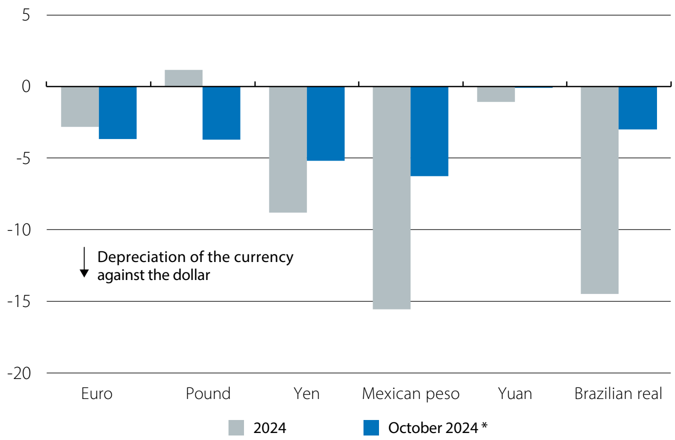
Mixed tone among commodities. The oil price remained relatively moderate and the Brent barrel fluctuated around the 75-dollar mark, in an environment of increased supply and downward revisions for demand, despite the pressure of the geopolitical conflicts. Among other commodities, the natural gas TTF benchmark rose moderately above 40 euros, while the indices for agricultural products and industrial metals recorded declines with respect to the end of September.

International stock markets
Cumulative change in the period (%)



Note: ** Change throughout all of October and up until 6 November.*
Source: *CaixaBank Research, based on data from Bloomberg.*

International currencies against the US dollar
Cumulative change in the period (%)



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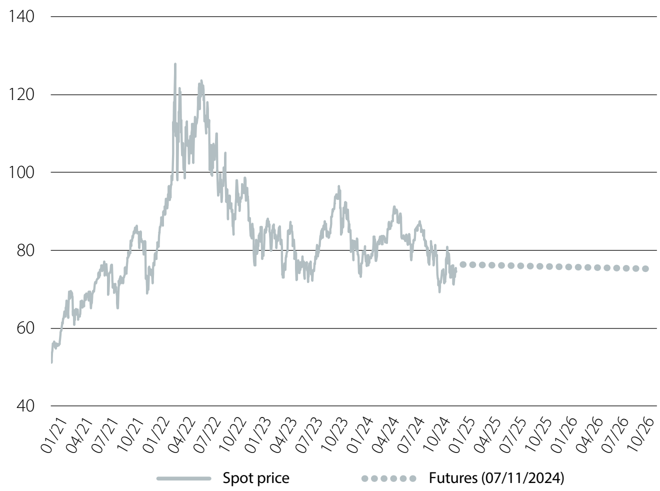
Brent barrel price
(Dollars/barrel)



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