Market Outlook

Market Views

Global stock markets delivered modest growth in November, but the month felt split in two. Early on, markets were unsettled as investors reacted to shifting expectations about when the US Federal Reserve might start cutting interest rates, as well as concerns that some major technology companies may be overpriced.

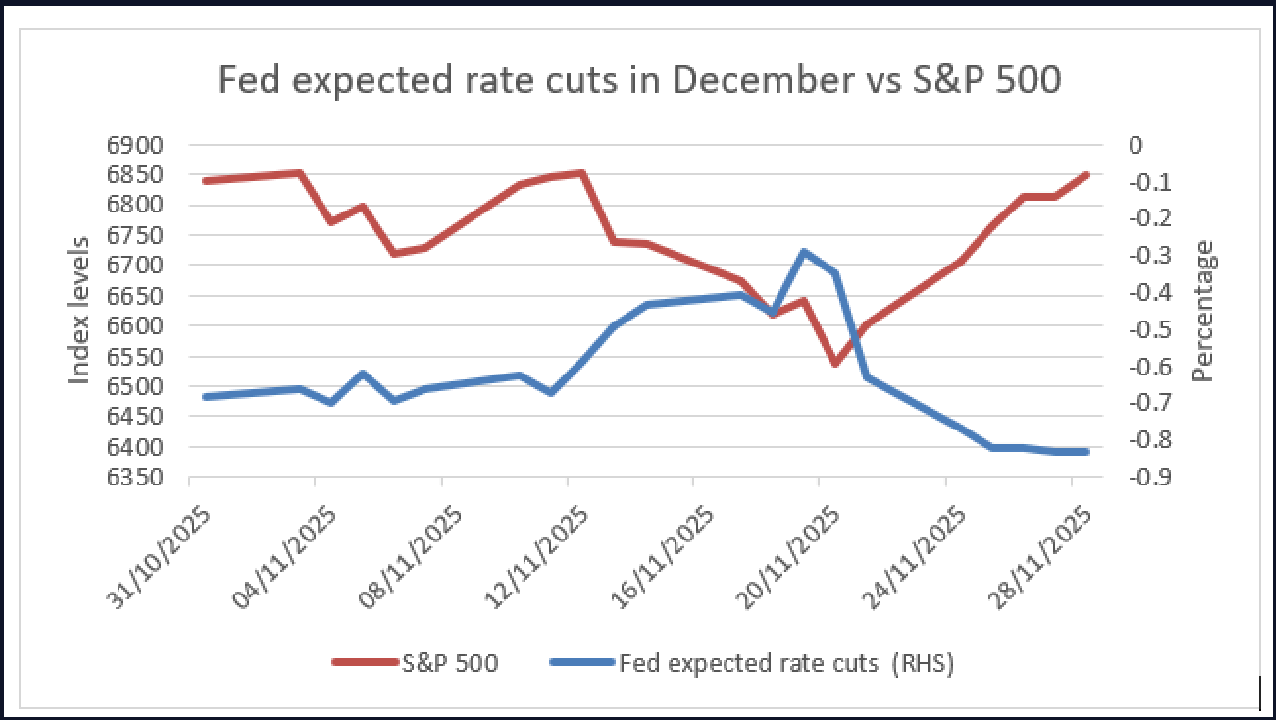
This led to noticeable ups and downs. Toward the end of the month, confidence returned as expectations of a possible December rate cut increased.

In the UK, Chancellor Rachel Reeves presented her long-awaited budget, which included £26 billion in tax rises. Although markets were cautious at first, they gained ground as investors responded positively once the full details became clear.

Fed rate cut expectations reverse as messaging turns hawkish

Expectations for a December interest rate cut briefly faded as the Federal Reserve adopted a more cautious tone. Early in the month, comments from Fed Chairman Jerome Powell reinforced that view when he noted that a December move was “not a foregone conclusion.”

At the same time, growing questions around whether AI-related companies are priced too highly added to market nerves. Together, these factors triggered a sharp swing in the S&P 500 on 20 November, the largest one-day movement since the period of intense volatility that followed President Trump's tariff announcement in early April.



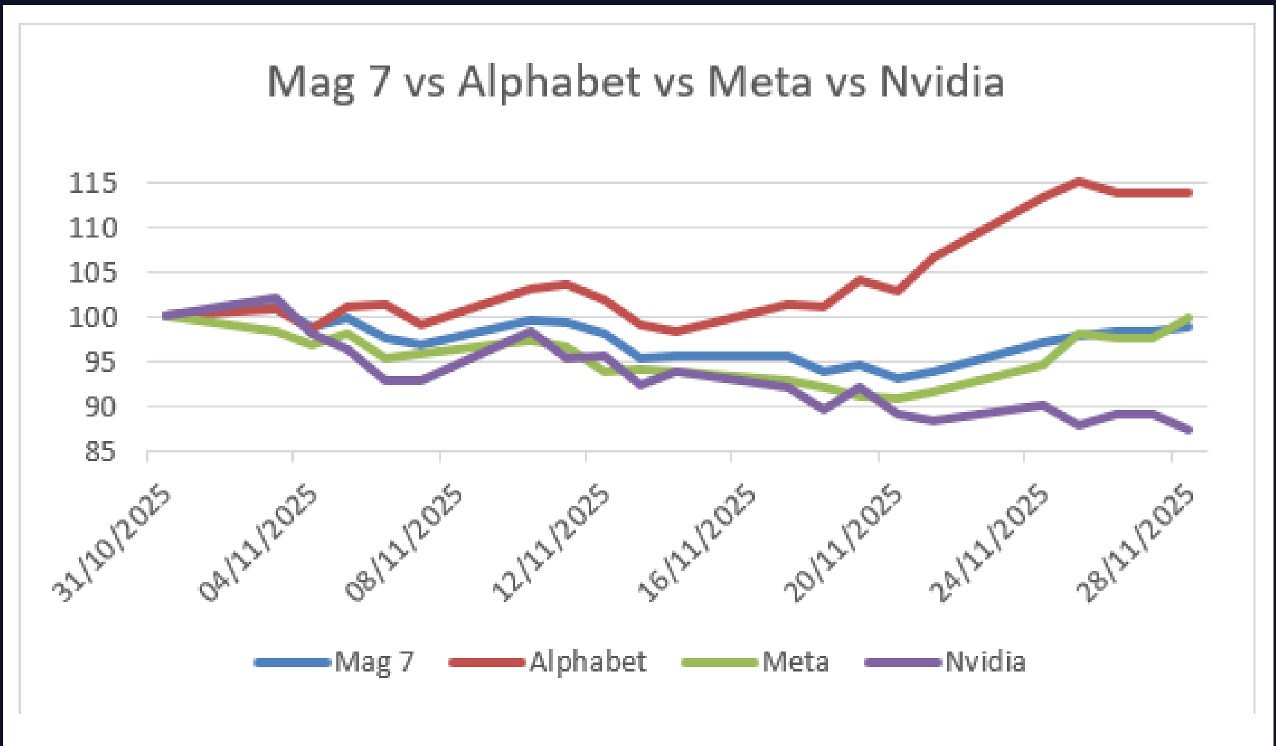
Source: Bloomberg

Markets steadied in the days that followed. The S&P 500 ended the month broadly unchanged, and the Nasdaq, which had fallen sharply earlier on recovered enough to finish November only 1.4% lower. The group of major tech names often referred to as the Magnificent 7 dipped by 1.1%, reflecting valuation concerns.

European markets held up better. Hopes for progress on a peace agreement in Ukraine supported sentiment, and the STOXX 600 rose by 1% in November. Most of that improvement came in the final week, after a 28-point peace proposal was announced.

Big tech earnings reassure but investor caution grows

Nvidia, which has been the leading chip supplier for many of the world's biggest technology firms, came under pressure as Alphabet announced the next generation of its AI model, Gemini. The new version will run on Alphabet's own TPU chips, signalling growing competition in a market Nvidia has long dominated.



Source: Bloomberg

Nvidia makes GPUs, which are powerful general-purpose chips widely used to train AI systems. Alphabet's TPU chips, on the other hand, are designed specifically for AI calculations. GPUs can handle many different tasks, while TPUs focus on one area and are usually faster and more energy-efficient for that specific type of work. Although TPUs are not a like-for-like replacement for Nvidia's chips, their development adds a new layer of competition in the fast-moving AI sector.

This shift became more noticeable after reports that Meta, one of Nvidia's biggest customers, is in discussions with Alphabet about buying its chips instead. At the same time, Warren Buffett's firm disclosed a near $5 billion investment in Alphabet. Together, these developments lifted Alphabet's share price, while Nvidia's moved lower.

Budget turbulence eases as markets digest tax rises

Although the Bank of England's decision drew attention, the main focus in November was the Chancellor's long-awaited budget. Getting the budget to Parliament was far from smooth. A previous speech by Rachel Reeves was interpreted by some as signalling possible income tax increases, raising concerns that the government might break its manifesto pledges. Those fears were quickly dismissed, but not before gilt yields rose at the start of the month.

When the budget finally arrived, it did so under unusual circumstances, as the Office for Budget Responsibility accidentally released the details early. The package included £26 billion of tax increases, in addition to the £40 billion announced in October 2024. Importantly, many of the new tax rises are scheduled for later in the Parliament, meaning they will take fuller effect by the next general election in 2029.

Despite the political noise, the market response was generally positive. The government had more fiscal headroom than expected, which reassured investors. As a result, gilt yields drifted back to near their earlier levels as concerns about shifting policy eased, and sterling strengthened slightly following the announcement.

Asian markets weaken on China slowdown concerns

Asian markets slipped in November, affected by the same technology-related volatility seen in the US and by fresh worries about China's economic momentum. Recent data showed Chinese activity slowing more than expected. The Shanghai Composite fell 1.6% over the month, while Hong Kong's Hang Seng Index was little changed. On the trade front, the US eased some pressure by removing tariffs on a range of Chinese agricultural goods, including coffee, tea, tropical fruits, fruit juices, cocoa and spices.

In Japan, the government announced a large stimulus package, which pushed government bond yields sharply higher. Ten-year bond yields rose to 1.81%, their highest level since 2008, and 30-year yields reached 3.34%, the biggest monthly increase since 2004. The yen weakened against the US dollar for the third month in a row. Despite some mid-month volatility, the Topix index ended November 1.4% higher.

Conclusion

November showed once again how quickly markets can react to changing expectations around interest rates, technology valuations and global political developments. Although overall market levels finished the month largely unchanged, the ups and downs along the way made it clear that sentiment is still shifting quickly, often without a clear economic signal behind it.

In the UK, the budget generated plenty of debate but was ultimately taken in stride by markets. Investors seem comfortable absorbing the government's fiscal plans for now. Even so, uncertainties around policy decisions, company profits and future growth remain. As a result, periods of volatility are likely to continue, even as the global economy shows reasonable resilience.

Future Focus

Looking ahead, attention will turn back to US economic data now that reports are restarting after the government shutdown. The September jobs report was finally released after a six-week delay, but it will take time before there is a full and reliable picture of the labour market, inflation, consumer spending and housing activity. Some key data, including the non-farm payrolls report, will not be available in time for the next Federal Reserve meeting, which makes the Fed's decision-making more challenging.

Central banks will remain in the spotlight, with three major institutions meeting soon. Markets currently expect both the Federal Reserve and the Bank of England to cut rates, while comments from Bank of Japan Governor Kazuo Ueda suggest that Japan may move in the opposite direction and raise rates.

Developments in Ukraine will also be closely watched. Early optimism around a potential peace plan has faded as more details have emerged, with the proposals appearing to lean in Russia's favour.

Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Positive
Credit Fixed Income	Positive
Property	Neutral
UK Equity	Positive
US	Positive
Emerging	Negative
Asia	Neutral
Commodities	Positive
Alternatives	Neutral
Technology	Neutral

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Gemini 3 gives Google a boost in the AI race against OpenAI and Nvidia | CNN Business

Meta in talks to spend billions on Google's chips: Report - The Economic Times

US-China Tariff Rates - What Are They Now?

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