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AIP

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The US is back in business

The end of the record US government shutdown is positive for risk sentiment. Nevertheless, the data fog is likely to continue for a while, raising market volatility, as key jobs and inflation data for October may never be released. This raises the risk that the Fed may skip a rate cut in December as it seeks more clarity. Any resultant near-term rise in US government bond yields would be an opportunity to add to high quality bonds. Fed to eventually cut rates again to support a cooling job market. To balance emerging risks from bond market volatility, a barbell approach towards equities, hedging exposure to relatively expensive US equities by adding exposure to Asia ex-Japan, where valuations remain attractive. In the US, add to the defensive utilities and pharma equity sectors, while remaining constructive on the AI-driven technology sector. Bullish on gold due to structural drivers.

Equities

The US healthcare and utilities sectors both delivered strong Q3 results, with 93% and 75% of reporting companies beating consensus earnings expectations. Within US healthcare, the pharma sector, where receding regulatory headwinds are seen. Average into US pharma sector and add exposure to US utilities amid easing regulations and AI-related demand.

Commodities

Medium-term upside for gold supported by softer real interest rates, a weaker USD, and sustained buying from Emerging Market central banks. 3- and 12-month price estimates of USD 4,300/oz and USD 4,500/oz, respectively, and add on dips. Opportunistically bullish on gold mining equities, given strong profit margins and cash flows.

Currencies

The market has priced in much of the good news about the potential trade deal between the US and Switzerland. USD/CHF and EUR/CHF are likely to range-trade, with a bullish bias, over the next few weeks amid Swiss intervention risk. USD/CHF rebounding towards 0.81 in the near term.

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