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AIP

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Impact of political upsets and legal setbacks

A stock market melt-up, has extended the equity rebound since President Trump's initial tariff shock in February-April. The top question now is whether there is still enough fuel left in the tank. The "make-or-break" Q3 earnings season has delivered stellar earnings beats yet again. Strong corporate earnings, Fed rate cuts and the latest extension of US-China truce remain the fundamental drivers of the equity rally. While still-bullish US equity investor positioning and elevated valuations could lead to 5-10% brief pullback in equities, US politics and the courts could provide the next catalysts for a year-end rally. A deal to end the US government shutdown, following the Republican party's losses in the latest local government elections, and a potential rollback of US tariffs by the Supreme Court would be positive for risk assets into year-end.

Equities

Overweight on the US technology sector and initiate an opportunistic idea on the sector. The Q3 earnings season has been strong and technology is delivering the strongest earnings growth (28.5% y/y). The fundamental picture for the US technology sector remains constructive, thanks to broadening AI investment and increasing demand, while Fed rate cuts help soothe valuation concerns.

Bonds

The market is currently pricing in slightly higher than 60% chance of a 25bps cut at the December Fed policy meeting. Reduce long-term bond holdings, especially if the 10-year US government bond yield falls back to near 4%. In favour for bonds in the 5-7 years maturity bucket and are opportunistically bullish on US Treasury Inflation-Protected Securities (TIPS) as a hedge against upside risks to inflation.

Bonds & Currencies

Reduced bullish opportunistic view on UK government bonds and expect a potential rebound in yields given fiscal uncertainty ahead of the upcoming budget and questions around the UK's debt trajectory. GBP/USD is in a tight range, with a bullish short-term bias as this pair appears technically oversold, leaving scope for a short-term corrective rebound.

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