Weekly round up (Week 48)

It was a short week due to Thanksgiving in the US. However, market developments were favorable, with positive sentiment returning and our preferred confidence index, the VIX, falling sharply back below 17 after reaching a high stress level of 25 the previous week.

The reversal in prices helped to reverse some of the losses accumulated since the beginning of the month: sovereign bond markets experienced bull-flattening, credit spreads tightened, the US dollar weakened, digital assets posted solid gains, commodity prices rose, and the major stock indices completely erased their losses from the previous week.

This shift in sentiment can be explained by the continued positive geopolitical momentum, the reversal of political expectations, and the return of a "buy-the-dip" mentality among risk-takers. Key geopolitical developments included signs that Russia and Ukraine may be moving closer to a potential resolution of their conflict, and confirmation by the White House of President Trump's planned visit to China in April.

On the monetary policy front, investors reversed their expectations for the December Federal Open Market Committee (FOMC) meeting: the implied probability of a 25 basis point rate cut rose to 93%, up from 44% the previous week. This change was driven by signs of weakening consumer sentiment, reflected in softer retail sales and deteriorating confidence surveys. In addition, wholesale prices showed lower-than-expected inflation, suggesting that companies—fearing that higher costs would discourage their customers—were limiting the extent of price increases intended to offset higher import duties.

The trend of deteriorating economic data was confirmed by several FOMC members who spoke in favor of a cut in December, including New York Fed President (and FOMC Vice Chair) John Williams, whose remarks at the Chilean Central Bank's centennial conference were widely interpreted as reinforcing the scenario of further easing in the near term. He noted that downside risks to employment had increased as the labor market cooled, while upside risks to inflation had moderated somewhat.

In the UK, Chancellor of the Exchequer Rachel Reeves presented the highly anticipated Autumn Budget, which was largely favorable to bond vigilantes and the Bank of England. The Chancellor announced a further £26 billion in tax increases to cover the costs of her own party's "U-turns" on pension reform, energy policy, and childcare. According to the Institute for Fiscal Studies, her two budgets over the past 13 months have resulted in a larger tax increase than any government since at least 1970, with total tax revenues set to reach a record high of 38.3% of GDP.