



+0.36%

THE ITALIAN STOCK EXCHANGE TAKES THE LEAD

The only positive stock exchange in Europe is Milan, which closed 11 sessions out of 13 in a positive position. Prices driven by quarterly reports and low multiples



FED UNKNOWN

The real question mark hanging over the market is monetary policy: will the Fed slow the rate hike? Inflation data plays a crucial role.

Stock exchanges cool off in face of the vote: all eyes are on US inflation

Markets. A day of slight declines in Europe. Wall Street and Nasdaq plummet. The impact of the elections is minimal: what matters is today's price data

Morya Longo

It's a bit like walking across the desert. At each sand dune, just when you think the journey is over, the next dune comes into view. And then there's another, and another. The key moments for the markets look increasingly like these sand dunes: the Mid-term elections in the US, which were awaited with such anticipation just a few days ago, now only have a minimal impact on the markets. This is because investors were already looking at the next dune: the US inflation figure, released today. Consequently the stock exchanges remained negative (except for Milan), even though many believe that the results of the elections were generally benign for the market: Frankfurt -0.16%, Paris, -0.17%, London -0.14%. And the US markets suffered far worse. Only the Italian Stock Exchange ended the year slightly up (+0.36%), bringing the number of positive sessions to 11 out of the last 13.

The US Mid-terms and the Stock Markets

Whether the election results (with a slim majority for the Republicans in the House and the Senate still in the balance) are good or bad for the Markets is still up for debate. Opinions differ, although most investors believe that the impact is likely to be fairly neutral. Luca Riboldi, Head of

Investments at **Banor**, supports this opinion. "The partial victory for the Republicans - while not representing a triumph - suggests that President Biden will find it harder to pass debt-funded welfare policies," he notes. "This could reduce the possible increase in public debt, but also limit economic growth and inflation." And this is likely to please the markets whose main concern is inflation and the consequent reaction of the Federal Reserve.

Consumer prices expected to fall slightly to 7.9%: market concerned about the Federal Reserve's reaction

Björn Jesch, Chief Investment Officer at DWS, notes other potentially positive factors. "This time there will be an extended period of uncertainty after the Mid-term elections in the US, given that the majorities in both the House and the Senate will likely be established by the end of the week," he observes. "Moreover, the Republicans are likely to have a slim majority in the House. This could result in a deadlock, for example on corporate tax rises." There are also some investors who see negative aspects (see the interview on the

next page, for example). But it won't count for much, because the US elections had an almost negligible impact on the markets. As noted above, all eyes are fixed on the next dune: inflation.

US inflation

We won't have long to wait: the US consumer price data will be released this afternoon. The market is anticipating a slight fall on the 8.2% announced in September to 7.9%, with core inflation (net of energy and food) at 6.65%. If this is the case, inflation will still be high, but falling. At this point, the markets will be behind to assess the impact on the policies of the Federal Reserve: the question that everyone is asking is whether interest rates will go up by 75 basis points (which would be the fifth time) to combat, or by 50. It is this uncertainty that led to Wall Street and Nasdaq falling so sharply last night. "The Fed is beginning to fear the consequences of its hefty interest rate hike," notes Riboldi. "Such a sudden monetary squeeze has never been seen before in history, and there are fears that this will be a real shock. This is why we believe that the Fed will lean towards 50 basis points rather than 75 in December." But the debate is still open. This is the next dune. And it's a big one.



Stock markets fall post-election

Equity market trends yesterday and since the start of the year. Figures in %

Milan	London	Frankfurt	Paris	Japan	USA	USA
FTSE MIB	FTSE 100	DAX	CAC 40	NIKKEI 225	S&P 500	NASDAQ
+0.4						
DAY PERFORMANCE	-0.1	-0.2	-0.2	-0.6	-1.89*	-2.31*
PERFORMANCE SINCE START OF YEAR						
-13.0	-1.2	-14.0	-10.1	-3.7	-20.5	-33.1

(*) At 9:00 PM