Executive Briefing Note

20 November 2024

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Subject: U.S.-China Decoupling

Overview:

Divergent economic conditions globally are likely to lead to fluctuating monetary policies and currency markets, creating uncertainty for corporations in 2025.

In July 2024, the Bank of Japan (BOJ) raised its short-term policy rate to 0.25%, marking its highest level in 15 years and following the end of its 8-year negative rate policy. This triggered a 12.4% drop in the Japanese Nikkei index, its worst decline since 1987.

U.S. markets also reacted, with the S&P 500 and Nasdaq falling by 3% and 3.4%, respectively, while the VIX volatility index spiked to 65. Despite the shock, both the Nikkei and S&P 500 eventually recovered.

At the same time, central banks in the U.S., EU, U.K., and other countries are cutting interest rates because of falling inflation. Whereas the Bank of Japan raised rates in response to rising inflation.

All of these central banks in OECD countries are facing different economic conditions, and this will create uncertainty when it comes to monetary policy and currency markets.

Implications for Corporations:

U.S. Dollar: Its strength hinges on global economic conditions. Without a U.S. recession, the dollar may strengthen, but if a recession occurs, deeper rate cuts could weaken it.

U.S. Treasuries: A Fed rate cut is likely to positively influence global bond markets, aligning with U.S. Treasury performance.

Emerging Markets: Lower U.S. rates could provide emerging markets more leeway to reduce their own rates, potentially boosting growth, especially in Latin America and Europe.

Global Equity: A rally could resume if rate cuts spur economic activity without triggering a recession, particularly benefiting sectors like real estate and utilities.

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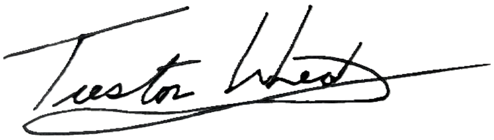
Commodities: Precious metals like gold could gain from lower rates, driven by reduced opportunity costs and its inverse relationship with yields.

These shifts in global interest rates will likely create turbulence, affecting corporations’ financial planning and market strategies.



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