Weekly Market Flash

Hot World, Chill Markets

December 6, 2024

Here's one that we're guessing was not on your 2024 bingo card. The president of a populous and economically important Asian country decides to declare martial law, attempts to take over the media and use the military to shut down parliamentary proceedings, only to then say "just kidding" and find himself the target of impeachment by that very same parliament. All within a span of twenty-four hours. The country, of course, is South Korea and this really did happen this week, for reasons that remain shrouded in the fog of dissembling attempts at explanations by various South Korean parliamentarians and others on the scene.

Meanwhile, over in Europe, Michel Barnier became France's shortest-lived prime minister since the beginning of the Fifth Republic in 1958, following a no-confidence vote that effectively brought an end to the very unstable parliamentary coalition that has been trying to run the country for the past ninety days. The Eurozone's second-largest economy is now essentially without a functioning government, just weeks before it needs to pass a budget in order to avoid a complete shutdown of services and payments. Oh, and don't forget that Europe's largest economy, Germany, is also heading for snap elections in February after its governing coalition pulled the plug on itself last month in the wake of various scandals and interparty feuds.

With all this going on, one could easily have missed this headline in today's Financial Times about yet another European polity: "Romania annuls election after alleged Russian meddling." Well, at least the rule of law still seems to be working there, maybe.

And in the always-volatile Middle East, Syrian rebel forces captured the country's second-largest city, Aleppo, and are gaining ground elsewhere in the country as the government of authoritarian strongman Bashar al-Assad struggles to remain in power. The Syrian conflict has broader geopolitical implications given Russia's longstanding support for the Assad regime. Russian citizens in Syria are being advised by their embassy in Damascus to leave the country via any airports not yet under the control of the rebels.

Financial markets have a storied history of ignoring geopolitical events, and this week proved to be no exception to the rule. South Korea's equity indexes registered declines in the neighborhood of one percent in the wake of whatever this week's political developments could be called – not much more than a bump in the road. Ten-year government bonds in France – which, again, could be in a very large pickle should the non-functional government fail to pass a budget – are yielding around 2.9 percent, 0.3 percent or so lower than they were in early November. "Keep calm and carry on" seems to be the order of the day.

Back here in the good old US, equity markets mostly rose without making much noise this week, while the financial news media to a man and woman remained singularly fixated on the apparently mind-blowing phenomenon of bitcoin breaching $100,000 (the fact that bitcoin still does not actually, you know, do anything went largely unmentioned during the breathless commentaries by the punditocracy). Meanwhile, this week's macroeconomic news largely set a benign backdrop: decent jobs reports including a better-than-expected 227,000 additions to nonfarm payrolls in the BLS report today; signs that the recent contraction in manufacturing activity may be turning around; and improved consumer vibes reflected in this morning's Michigan sentiment report. A batch of generally positive earnings reports from tech companies also helped.

We'll take good macro news any day of the week, and for the time being there's enough of that to go around. But things seem decidedly off as we look around the world. We can't price things like the chaos in South Korea into rational valuation models – there are no meaningful quantitative inputs for either-or outcomes like that. But we need to pay attention, even when the markets are quiet. Too quiet, one might say.

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