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Market Weekly Insights

4th December 2023

Global Outlook

S&P 500	$4,569.78 -0.54%
DJIA	$36,204.44 -0.11%
NASDAQ	$14,185.49 -0.84%
Russell 2000	$1,882.02 +1.04%
FTSE 100	$7,512.96 -0.22%
Nikkei 225	$33,231.27 -0.60%
WTI Crude	$73.29 +0.34%
10-yr Treasury	4.3%

Trade Trends in Mexico: Deficit Reduction, Petroleum Surges, and Consumer Goods Surge

This October, Mexico reported a trade deficit of $252 million, unveiling a $2.09 billion gap in comparison to the corresponding period in 2022. Notably, the nation experienced a 5.6% increase in exports to $51.97 billion, while imports grew at a slower 1.8% rate, reaching $52.23 billion. This moderation suggests a tempered rise in goods entering Mexico. For the first ten months of 2023, the trade deficit improved to $10.34 billion, a positive contrast to the $27.74 billion deficit during the same period in 2022.

Petroleum and manufactured goods, particularly vehicles and auto parts, have driven Mexico's export growth. Petroleum exports surged by 14% to $3.19 billion, while manufactured goods rose by 5.3% to $46.38 billion. Conversely, petroleum imports saw a significant 25% decline to $3.97 billion. Notably, consumer goods imports, excluding fuel, experienced a robust 19% increase, reaching $5.14 billion. These dynamics reflect the evolving landscape of Mexico's trade relations, emphasizing the fluctuating role of critical sectors in the country's economic picture.

Brazil's $102 Billion Investment Amidst Global Energy Shift

Petrobras, a Brazilian state-controlled oil company, has announced plans to invest $102 billion by 2029, solidifying its position among the world's leading oil companies. Over 70% of this investment will be allocated towards outlay and production. This new investment strategy represents a remarkable 31% increase compared to the original 5-year plan from 2023-2027.

Brazil has other plans as the world's major economies are shifting their investments towards clean energy and staying away from fossil fuels. With output cuts from Saudi Arabia and Russia, Brazil has aligned itself to be one of the top three oil producers worldwide, along with Iran and the United States.

Amid this growth, increasing apprehension surrounds the extent of President Luiz Inácio Lula da Silva's influence over the operational decisions of Brazil's largest company. From 2011-2016, when the Worker's Party was in control of the Brazilian government, Petrobras saw a loss of $30 billion due to the government forcing them to fund gasoline and diesel to combat inflation. By 2015, Petrobras owed $130 billion to investors. Although the company has claimed to have undergone governance changes to prevent past mistakes, analysts note global oil price fluctuations could still pose challenges, leading to government pressure on pricing policies.

Sources: Wall Street Journal, Yahoo Finance

Canada's Real Estate Market Struggling

Canada faces challenges as real-estate developers are defaulting on loans, buyers struggling to close deals on units, and dozens of condominium projects needing to be stalled.

This is primarily influenced by interest rate hikes by the Bank of Canada, which pushed its rates from 0.25% to 5% in 16 months, significantly raising the cost of borrowing. In Toronto, an 85-story condo that was supposed to be completed at the end of 2022 is now facing challenges, with developers struggling with high building costs and having to default on almost $1 billion in loans this year. Meanwhile in Vancouver, housing prices have skyrocketed, making sales 30% below their 10-year average.

Furthermore, condo owners face "power of sale" transactions, where lenders force borrowers to sell their units if they fall behind on payments. The interest rate hikes have pushed the five-year mortgage rates to 7.09%, up 3% from March 2022. Some analysts predict the Bank of Canada may cut rates in Q2 of 2024. In the meantime, millions of Canadians struggle with financial challenges arising from the real estate market.

America This Week

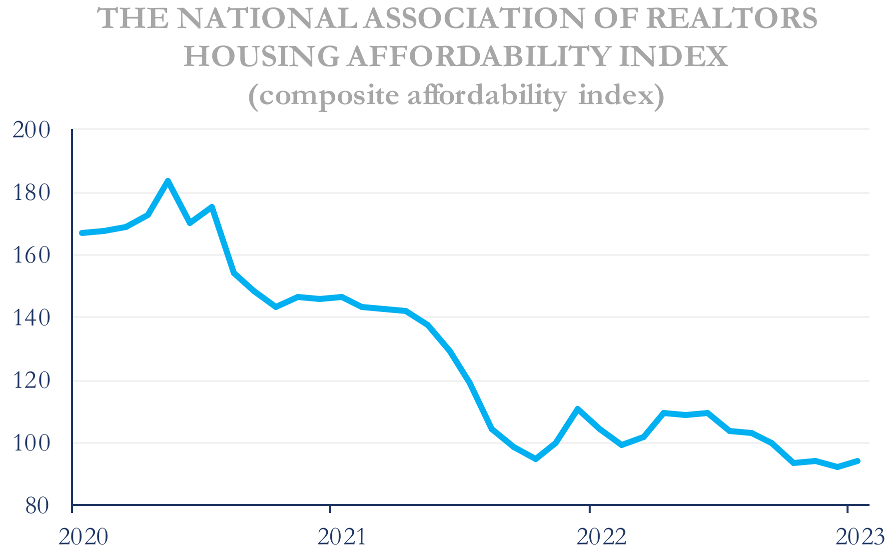
Black Friday Sets Records

This year marked a milestone in US online shopping as consumers spent a record $9.8 billion on Black Friday, reflecting a notable 7.5% increase from the prior year. electronics, toys, and gaming emerged as the top-selling categories, with retail giants such as Best Buy and Lowe's offering top deals. $5.3 billion of the online sales came from mobile shopping, which could result from impulse purchases. About $79 million of the sales came from shoppers using the 'Buy Now, Pay Later' service, up 47% from the previous year.

According to Mastercard, in-store sales rose over 1% compared to online sales, which grew 8% compared to last year. Analysts anticipate a gradual decline in spending post after Cyber Monday, marking the culmination of the year's spending period. Nonetheless, Black Friday proved to be lucrative for retailers and provided a much-needed boost for such businesses that struggled throughout the year.

September Sees Record Highs in U.S. Home Prices Amidst High Interest Rates

In September, the S&P CoreLogic Case-Shiller National Home Price Index revealed a staggering 3.9% year-over-year increase, marking the highest level since its inception in 1987. The surge in home prices is attributed to a severe shortage of available homes for sale despite the hindrance of high-interest rates, making home purchases less affordable. Even as home sales dipped due to elevated mortgage rates, the constrained inventory prevented a decline in home prices. Homeowners hesitated to sell, aiming to retain their existing low-rate mortgages.



Sources: Wall Street Journal, CNBC

According to the National Association of Realtors, the median existing home sale price climbed 3.4% in October from the previous year to $391,800. While higher mortgage rates initially contributed to a slowdown in demand, recent weeks have seen a decline in rates after reaching two-decade highs in October.

Amid these dynamics, the Federal Housing Finance Agency announced the continuation of government-backed mortgages exceeding $1 million in high-cost markets like parts of California and New York. Economists anticipate a moderation in the home price growth rate in the coming months as the housing market grapples with the impact of high mortgage rates. Despite these challenges, Detroit and San Diego experienced the fastest annual home-price growth, while Las Vegas witnessed a 1.9% decline, emphasizing regional variations in the U.S. housing market.

Macro Highlights

S&P 500 Hits New Highs

The S&P500 surged to a new high in November, extending its rally into early December. Positive performances from companies such as Ulta Beauty, Boston Properties and Paramount helped drive the index's advance. It closed at $4,594.63 on Friday.

Federal Reserve Chair Jerome Powell's also likely spurred optimism amongst investors with his comments suggesting a pause in interest rate hikes. Additionally, this left Wall Street speculating on the possibility of rate cuts in 2024.

Concerns about the broader market remain at large despite the S&P 500's stellar performance. Smaller public US companies who are far more heavily impacted by inflated interest rates have not fared as well as large cap tech stocks. Heavyweights such as Apple and Microsoft are up 12% and 13% respectively on the month. Comparatively, the Russel 2000 index is only up 5.76% for the year, compared to the S&P 500 index which has gained nearly 20%.

The benchmark ten-year Treasury yield now sits at 4.209%, down significantly from its spike in October where it sat around 5%. This decline comes on the back of remarks by Powell and Federal Reserve governor Christopher Wallace. Wallace, who has been a leading proponent of rate hikes, commented that the positive effects of previous actions by the central bank would allow for a pause in hikes until early 2024.

Gold Sets New Records Amid Rate Cut Speculation

Gold futures (GC: CMX) this past week extended past historical prices, closing Friday at a record high of $2,091.70 per troy ounce. Action this week pushed prices past the previous pandemic induced flight to safety in August 2022. In the past year, gold has gained nearly 14%.

The rise is likely a result of the asset's inverse relationship with interest rates which causes gold prices to rise as rates fall. On Friday, the US ten year treasury yield fell to 4.209%, down significantly from its previous close at 4.35%. This comes after Federal Reserve Chair Jerome Powell delivered remarks at Spelman College indicated that inflation is "moving in the right direction". This has left Wall Street to speculate on the time of potential rate cuts in the next year.

Spot gold prices (XAU/USD) also reached an all time high, surpassing the previous record of $2072.49 with a peak of $2,075.09. The session closed at $2072.22 per troy ounce.

Sources: Wall Street Journal, CNBC

Industry News

Amazon and Nvidia Collaboration

Amazon's cloud division, AWS, has unveiled cutting-edge Trainium2 chips, empowering customers to construct and execute AI applications. Specifically designed for training AI models, these chips have garnered attention from key players in the field, with competitors like Databricks and the Amazon-backed Anthropic gearing up to leverage Trainium2 chips for the development of innovative models.

In a bid to outpace its primary cloud provider rival, Microsoft, AWS is strategically enhancing its online marketplace with cutting-edge products, including the sought-after Nvidia H200 AI GPUs. The demand for Nvidia GPUs has surged significantly since the launch of OpenAI's ChatGPT last year, with the H100 chip playing a pivotal role in training the advanced GPT-4 model.

This effort of building its own chips and allowing access to Nvidia chips will help AWS against Microsoft, but Microsoft revealed its first AI chip, the Maia 100 earlier this month and also stated that it's Azure cloud will allow access to Nvidia's H200 GPUs as well.

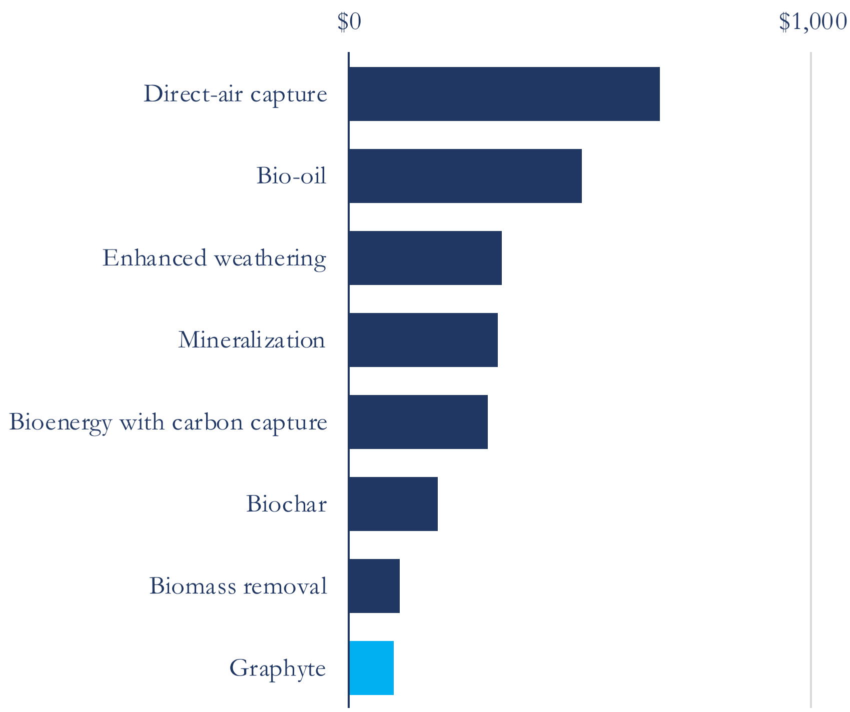
However, Nvidia CEO, Jensen Huang, spoke to an "expanded collaboration" between the two companies and indicated that AWS will be the first cloud provider with services that will allow access to Nvidia's new H200 chips. Nvidia and AWS will also be partnering to host Nvidia DGX Cloud, an AI training as a service on AWS as an expansion of their collaboration.

American Airlines Partners with Graphyte: Pioneering Affordable Carbon Removal in Aviation

American Airlines is joining the effort of removing carbon from the atmosphere by exploring cost-effective and sustainable methods. Collaborating with a startup, the airline is investigating the use of bricks made of a carbon-absorbing plant material which will help to cut costs and carbon content. This is one of the first carbon-removal deals in place by any airline, it will allow many large corporations to lower their carbon footprint.

The startup behind this eco-friendly initiative is Graphyte, supported by Bill Gates' Breakthrough Energy Ventures. Graphyte specializes in collecting agricultural waste, including tree bark and sawdust, utilizing these materials to naturally absorb carbon.

AVERAGE CARBON-REMOVAL CREDIT PRICE BY APPROACH
(in $0 a metric ton)



Sources: CNBC, Nvidia News, Wall Street Journal

The collected waste undergoes a process of drying before being compressed into bricks, which are then sealed to prevent decomposition and carbon release. The finalized bricks are strategically buried underground and closely monitored to ensure zero carbon emissions.

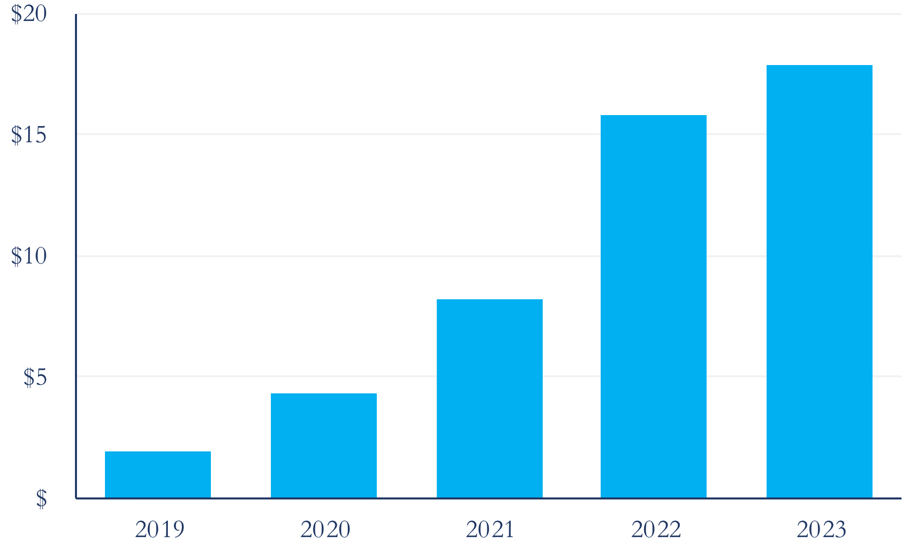
Graphyte is charging $100 per metric ton of carbon removed, which is far cheaper than the current average of $675 per metric ton. Scientists say billions of tons of carbon must be removed from the atmosphere by 2050 to avoid the pitfalls of global warming, Graphyte will make this possible while avoiding the debt scientists thought would be incurred.

Apple Ends Credit-Card Partnership with Goldman Sachs, Pivoting Away from Consumer Lending

Apple has decided to terminate its credit-card partnership with Goldman Sachs, signaling a shift from the Wall Street giant's consumer lending ambitions. The tech giant proposed an exit from the contract over the next 12 to 15 months, covering their entire consumer partnership, which includes the credit card launched in 2019 and the savings account introduced this year. infrastructure.

This move marks a swift reversal from just over a year ago when the partnership was extended through 2029, intended to be a cornerstone of Goldman's foray into mainstream consumer banking. The retreat began at the end of the previous year when Goldman faced substantial losses in its efforts to establish a full-service consumer operation. Goldman has explored transferring the program to American Express, but discussions have included concerns about loss rates. Synchrony Financial, a major issuer of store credit cards, is also considering taking over the credit card program.

GOLDMAN SACHS CREDIT CARD BALANCES
(in $ billions)



For Apple, the termination represents a setback in its services business, vital as iPhone sales plateau. However, the Goldman partnership constitutes only a small portion of its revenue stream. Meanwhile, for Goldman, the end of this partnership is a significant step back from its failed attempt to diversify beyond serving large corporate clients and the ultra-rich, prompting a return to focus on core clientele. The termination follows Goldman's decision to end other credit-card partnerships and sell off specific business units, indicating a strategic reevaluation by the banking giant.

Sources: Wall Street Journal

Looking Ahead: Analyst Outlooks

Alyssa Nguyen on the IPO market: Past, Present, and Future

In an earlier market insights report, we touched upon the highly anticipated public debuts of tech firms, Arm, Klaviyo, and Instacart. Widely regarded as the toe-in-the-water for the US IPO market, investors waited with bated breath for any sign that the IPO market was open for business. Nearly three months later, these hopes have yet to realize. Instacart and Klaviyo are down more than 15% and 5% from their debut prices while Arm is only trading at a slight premium of 5% over its IPO.

With 2024 around the bend, investors are left to speculate if there will be a turnaround in the IPO market and if there is enough appetite for risk. High interest rates and a volatile market warded off potential buyers in 2023 but with the possibility of rate cuts in 2024, an opportunity has emerged for companies to boost their valuations and go public. Firms like Reddit, Panera, and Shein have all reportedly filed with SEC, joining the 2024 IPO cohort of candidates and cautiously signaling that a reopening of the IPO market may soon be upon us.

Varun Jhamvar on the Apple-Goldman Split

The Apple-Goldman Sachs split highlights challenges at the crossroads of tech and finance. Apple's innovative product ideas faced regulatory and credit processor constraints, while Goldman underestimated the complexities of meeting Apple's technical and design standards during the collaboration.

Apple's departure hints at a strategic divergence, impacting both companies' trajectories. This move challenges Apple's services-oriented revenue model, a vital pivot as iPhone sales plateau. On the other hand, Goldman faces a setback in its consumer banking aspirations, already marked by the recent dismantling of other credit-card partnerships. This saga prompts reflection on the viability of traditional banks entering tech-centric ventures and the challenges in navigating regulatory landscapes. The broader economy might feel the effects as financial institutions reassess their roles, emphasizing the need for adaptability in an ever-evolving financial technology landscape.

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