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Market Weekly Insights

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Global Outlook

The Eroding Impact of Western Oil Price Caps on Russian Finances

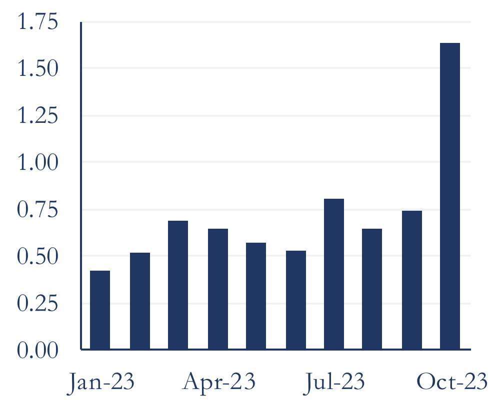
The Western-imposed price cap on Russian oil, intended to restrain Moscow's war-related expenditures, is exhibiting signs of diminishing effectiveness. In October, Russian oil and gas tax revenue more than doubled from September and increased by over 25% from last year's figure. Although initially successful, the sanctions faced circumvention as Russia moved oil on ageing tankers where restrictions had limited traction.

U.S. officials are actively working to reinforce intervention efforts, penalizing tankers that violate sanctions and contemplating additional measures. Given that a significant portion of the oil trade occurs beyond their jurisdictions, the U.S. and its allies are exploring strategies to make it more expensive for Russia to operate its tanker fleet. Simultaneously, the Justice Department is intensifying its crackdown on violations of Russian energy sanctions.
The influx of oil revenue is assisting Russia in reducing its budget deficit, alleviating financial strain, and stabilizing the ruble. This has led economists to consider the possibility that the government might achieve its deficit target of 2% of gross domestic product. Meeting this target would enable the government to fund its war efforts in Ukraine, while also stabilizing its economy amidst the impact of sanctions.

In an effort to raise costs for Russia, the U.S. is proposing various recommendations, including imposing boat insurance requirements. It is noteworthy that over half of Russia's crude oil exports currently rely on non-G-7 insurance, a notable increase from approximately 35% in January. Traders have been skirting the oil price cap by inflating shipping costs, thus narrowing the gap between the price of Russian crude and Brent, the global benchmark. Consequently, analysts are advocating for improved enforcement through measures such as introducing strict liability, tightening documentation requirements, and investigating instances of inflated shipping costs.

S&P 500	$4,415.24 +1.56%
DJIA	$34,283.10 +1.15%
NASDAQ	$13,798.11 +2.05%
Russell 2000	$1,705.32 +1.07%
FTSE 100	$7,360.55 -1.28%
Nikkei 225	$32,568.11 -0.24%
WTI Crude	$77.35 +2.13%
10-yr Treasury	4.6%

RUSSIAN OIL AND GAS TAX REVENUES
(in trillions of rubles)

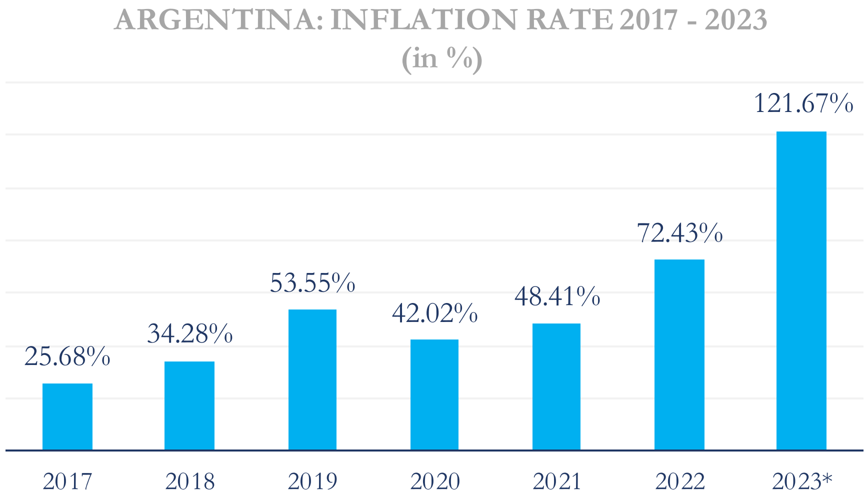


Argentina's Economic Turmoil: Inflation, Dollar Shortages, and Struggles for Stability

Argentina is grappling with its most severe economic crisis in decades. As the nation prepares to elect a new president, triple-digit inflation is causing shortages of essentials like toilet paper and rice. Dollar shortages are hindering imports, forcing companies like General Motors to suspend production and leading to long lines at gas stations.

Sources: Wall Street Journal, Russian Ministry of Finance, Reuters, Yahoo Finance

The economy is in turmoil, with inflation expected to reach nearly 200% by year-end and interest rates at a staggering 130%, the highest globally. The central bank has minimal reserves, and Argentina owes $44 billion to the International Monetary Fund (IMF). Poverty has reached 40%, unemployment is rampant, and citizens struggle with soaring food prices.



Some Argentines have turned to cryptocurrencies and dollars to safeguard their savings. Bitcoin mining has become an alternative income source for some, as the peso's value has plummeted by 90% since 2019. The reliance on printing money to cover budget shortfalls created a cycle of inflationary pressures, eroding the purchasing power of the Argentine peso. Moreover, the populist government in Argentina pursued deliberate devaluation of the peso, believing that the currency was overvalued.

In response to the swift depreciation of its currency and the surge in inflation, the central bank took decisive measures by raising interest rates to 45 percent. Additionally, the bank sold billions of dollars in foreign currency reserves to safeguard the peso's value. However, these actions led to a significant depletion of the country's reserves, indicating the severity of the economic challenges faced by Argentina.

Ryanair Pays Dividends

For the first time in nearly 40 years, Ryanair, Europe's largest airline, is set to pay regular dividends to its shareholders, totaling €400 million ($429.9 million). This will be done through two equal payments next year, and there are plans to distribute a quarter of the annual profits as ordinary dividends in the future. Between 2008 and 2020, Ryanair paid out €6.74 billion ($7.2 billion) in the form of buybacks and ad hoc dividend payments. The airline has achieved record profits due to strong demand and the diminished presence of competitors due to the challenges presented following the pandemic.

From March to September, they flew 105.4 million passengers, an 11% increase from the previous year, and recorded a profit of €2.18 billion ($2.3 billion), significantly higher than its previous record of €1.45 billion ($1.6 billion) in 2018. To expand on their success, the airline is adding 200 new routes over the next year and has agreed to buy up to 300 Boeing 737-10 planes for $40 billion. Boeing, initially slated to deliver 57 aircraft by April 2024, is facing production challenges, anticipating a shortfall of approximately 10 deliveries by the end of June. This setback is poised to impact Ryanair's profits, as the reduced fleet capacity will limit their ability to cater to millions of potential customers. Despite this setback, Michael O'Leary, CEO of Ryanair, maintains an optimistic outlook, expressing confidence that the airline will persist in setting new profit records.

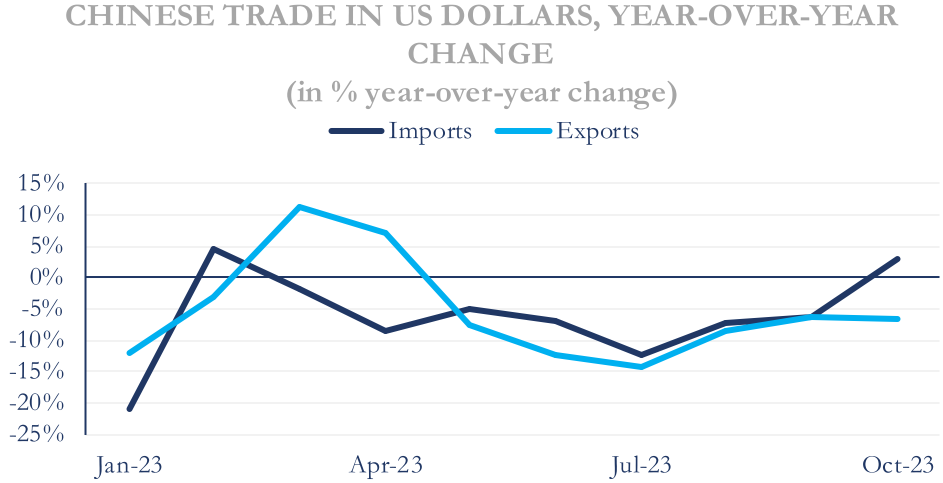
China's Export Woes and the Quest for Economic Resilience

China's exports decreased in October, extending a six-month consecutive trend of export challenges. Despite a recent surge in the economy, China continues to grapple with economic difficulties. While imports have experienced an uptick, economists emphasize that Beijing must stimulate growth in the final two months of 2023 for China to conclude the year on a more comfortable economic footing.

Sources: Wall Street Journal, Reuters, Statista, CNN

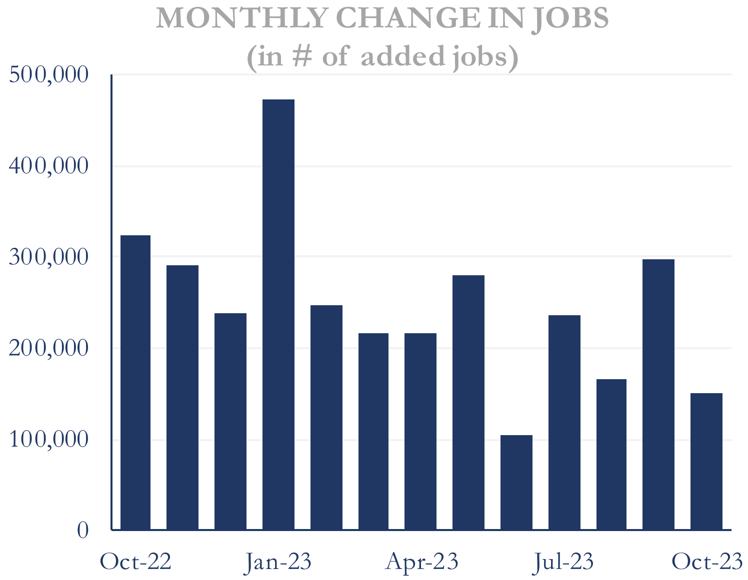
China’s exports fell 6.4% in October compared to a year prior, this is equivalent to $275 billion. This drop in exports reflects the drop in global demand for Chinese goods.

There is now an implication that China is compelled to depend on domestic sources for economic growth, however, this prospect appears doubtful as the real estate market is amid a significant downturn posing the risk of dragging down the entire economy. However, this does not spell doom for China; Beijing has recently injected billions of dollars into infrastructure projects, offering a potential to stimulate growth.



America This Week

Job Growth Slows



The U.S. labor market, which has displayed resilience, is now signaling a potential slowdown as the end of the year approaches. October's seasonally adjusted job addition of 150,000 jobs fell short of economists’ expectations and nudged the unemployment rate from 3.8% to 3.9%. However, anomalies in the data include 96,000 individuals cited unemployment due to strikes, primarily due to resolved auto industry walkouts. Adjusting for these factors, the three-month average job creation remains robust at 204,000, maintaining stability over 34 months.
Despite concerns, market responses were positive, driven by expectations of the Federal Reserve's pause on interest rate hikes to counter inflation.

October's data hints at a cooling labor market, aligning with the Fed's focus on slowing wage growth. Average hourly earnings increased by 0.2%, slightly below expectations but 4.1% higher than the previous year.
While the broader economy defied predictions with a 4.9% annualized expansion from July to September, challenges emerge in the real estate market, with 20% of U.S. offices vacant. The Fed's interest rate increase, coupled with an anticipated economic slowdown, poses challenges for indebted businesses. Small businesses are grappling with higher debt burdens, facing interest rates of approximately 10% on short-term loans. Analysts anticipate a moderate economic pace unless a significant shock occurs.

Concerns linger about a potential recession, as indicated by a CNBC survey — 49% expect a recession in the next 12 months, while 42% predict a "soft landing" with easing inflation. Ongoing challenges stem from structural affordability crises and inflation.

Sources: Wall Street Journal, New York Times, Bureau of Labor Statistics

Forthcoming issues such as the end of the federal student loan repayment suspension, a potential government shutdown, and geopolitical tensions in the Middle East raise concerns. However, despite these pressures, the $27 trillion U.S. economy remains resilient, with households in a healthier financial position compared to 2019 across all income groups, as reported by the Fed.

WeWork Files for Bankruptcy

Once the nation's most valued startup, valued at $47 billion in 2019, WeWork has filed for Chapter 11 bankruptcy. Shares for the company were down 98% since 2021, trading at just 83 cents on Monday. At the company's founding in 2010, it raised billions of dollars from notable banks like JPMorgan Chase, and is now deeply indebted. The papers filed state that the company carries debts totaling $18.6 billion and owes nearly $100 million in unpaid rent and lease termination fees. Chief Executive David Tolley has said that 90% of the company's lenders have agreed to convert debt into equity, taking away roughly $3 billion in debt.

The downfall of WeWork stemmed from a combination of factors, including the misguided leadership of co-founder Adam Neumann, marked by extravagant spending, as well as COVID lockdowns that severely disrupted the company's business model as businesses shifted online. The company now hopes for the court to reject 69 commercial real estate leases that are underperforming. The bankruptcy proceeding poses substantial financial strain on commercial landlords, particularly in Boston, New York, and San Francisco, where 42% of WeWork offices are concentrated.

The repercussions extend beyond WeWork, with 20% of US offices already vacant, significantly impacting the real estate market. Landlords grappling with existing debt obligations in an economy characterized by high interest rates may find themselves compelled to lower rents to attract tenants, potentially leading to defaults on loans or mortgages. While most locations will be closing, some will remain open as the company restructures. The company's CEO remains positive, saying that the company will "remain the global leader in flexible work."

American Credit Card Debt Tops $1 Trillion and Reaches an All-Time High

The Federal Bank of New York released its third quarter Household Debt and Credit Report on Tuesday revealing that US credit card balances have reached $1.08 trillion. There was a $48 billion increase in the past quarter, and over the past year there was a $154 billion increase. Credit card debt accounts for 6.240% of total household debt in the US.

The increase in credit card debt stems from Americans facing generally higher prices in the face of persistent inflation, particularly amongst household necessities such as groceries, gas, and housing. Rising prices have forced more and more Americans to place such purchases on their cards, or risk going without.

The issue is made worse by rising interest rates caused by the Federal Reserve's efforts to achieve their mandate of inflation at 2%. Average credit card rates sit above 20%, throwing many American households into a state of "persistent debt," a state where auxiliary payments related to interest and fees account for more than the principal of the debt.

This has had a material impact on delinquency rates with around 8% of credit card balances transitioning into delinquency in the third quarter. This represents an 80 bps increase from the prior quarter.
With the resumption of student debt collections in October and the holiday season around the corner, one can imagine that credit card balances will only continue to rise as money is funneled out of households' wallets towards loans and holiday gifts.

Sources: Wall Street Journal, Reuters

Macro Highlights

Q3 Economic Surge at 4.9%, but Clouds Gather for Fed's December Decision

The third quarter marked a remarkable upswing in US economic growth, reaching an impressive rate of 4.9%. This robust performance, coupled with the overall strength of the US economy, has prompted a considerable number of Federal Reserve members to consider the necessity of raising interest rates. Their concern lies in addressing inflation, which is currently trending towards 3%, surpassing the targeted goal of 2%.

However, recent data suggests that the exceptional growth observed in Q3 might be an anomaly. In October, both manufacturing and job growth experienced a notable cool-down. This shift indicates a potential economic slowdown, a phenomenon anticipated as a delayed reaction to past interest rate hikes by the Federal Reserve.

The anticipated deceleration, combined with existing signs of strain in US households due to elevated borrowing costs, has led some Federal Reserve members to advocate for a more cautious approach, proposing to maintain current interest rates at the policy meeting scheduled for December. Despite divergent opinions and the presence of mixed economic signals, it's noteworthy that no Federal Reserve officials have entirely ruled out the possibility of future rate hikes.

The Pandemic's Impact on Inclusive Workforce Participation

Amid the pandemic, an influx of nearly 1.8 million individuals with disabilities have entered the labor force, driven by the escalating prevalence of remote work. The flexibility and feasibility of tasks completed remotely have positioned individuals with disabilities favorably compared to traditional in-office responsibilities.

As of August, a noteworthy 25% of adults with disabilities were actively contributing to the labor force, reaching a 15-year peak. Diverse sectors, spanning hotels, manufacturers, military bases, and more, have witnessed success in integrating workers with disabilities. Overcoming prevailing stigmas associated with this demographic—specifically, the perception of loyalty and consistent work attendance—has prompted a reevaluation by numerous companies, leading to increased opportunities for individuals with disabilities.

Technological advancements and evolving societal norms have played pivotal roles in shaping these prospects for people with disabilities. With remote work maintaining its prominence, these employment opportunities for individuals with disabilities are poised to endure and become a lasting facet of the labor landscape.

Industry News

Regulations on Big Tech's Digital Payments

The Consumer Financial Protection Bureau (CFPB), acting as the primary U.S. consumer financial overseer, has introduced a set of enhanced regulations targeting digital payments and wallet services offered by technology companies. This initiative seeks to subject major players such as Alphabet, Apple, PayPal, and 15 other entities—responsible for collectively facilitating over $13 billion in annual payments—to bank-like supervision.

CFPB Director Rohit Chopra, a vocal critic of the Big Tech sector concerning privacy and competition matters, underscores the proposed regulations' emphasis on consumer privacy and the monitoring of Big Tech's utilization of consumer data.

Sources: Wall Street Journal, Reuters

This regulatory framework is designed to be applicable to companies processing more than 5 million transactions annually, aiming to instill competition by aligning oversight standards in the technology sector with those in traditional financial institutions.

Fast fashion giant, Shein, seeks $90 billion valuation in potential IPO following House Investigations

Fast fashion retailer, Shein, is allegedly seeking a valuation of $80-90 billion in relation to a possible upcoming IPO for the company. Headquartered in Singapore, the firm emerged as a dominant player in the fashion industry amongst Gen Z and budget-conscious shoppers looking for extremely inexpensive clothes. The onset of Covid drove consumers to the company's online site in waves, compelled by the low-price tags offered. Furthermore, Shein uses a variety of data points to identify emerging fashion trends and churn products to its online store at breakneck speeds.

The company has, however, faced allegations related to its use of forced labor and ties to China. In an ongoing examination by the House Select Committee on the Chinese Communist Party, the cotton used in garments sold by Shein were found to be sourced from the XinJiang. Following the 2021 discovery of evidence demonstrating widespread genocide, torture, and forced labor of the Uyghur people in that region, the import of cotton and other materials was banned. Amid rising geopolitical tensions between the US and China, Shein's presence and founding in China poses a significant risk to the company's IPO. It is also likely to be held up until US lawmakers can thoroughly examine the business and clear it of any ties to forced labor practices and excessive exposure to the Chinese government.

Shein has made significant moves to expand its market share in the fast fashion industry. In August 2023, Forever 21 and Shein announced a deal enabling the two brands to sell each other's merchandise, enabling both brands to reach new customers. A few months later in October, Shein turned to expanding its reach to the UK with its purchase of Missguided's IP and trademarks. Missguided, a UK-based brand, similarly focuses on delivery trendy and inexpensive clothing options.

Shein's IPO will be highly contingent on its ability to assuage US lawmakers about its exposure to forced labor and China. At the same time, the company would need to assess current market conditions in relation to investors' appetite for new listings.

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Sources: Yahoo Finance