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Market Weekly Insights

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Global Outlook

China's Economy Picks up Steam

After months of meager growth, China's economy shows signs of revival. Measures of China's manufacturing sector moved from a state of contraction to expansion for the first time since March. The metric rose 0.2 above the benchmark of 50, distinguishing expansion from contraction. Activity in non-manufacturing sectors also rose 0.7, which officials attributed to discretionary spending in eating out and travel, suggesting Chinese consumers are feeling the effects of a government stimulus aimed towards increasing spending.

Yet the country's largest pain point remains. The overall housing environment is riddled with uncertainty as Country Garden Holdings, the nation's largest property developer, inches closer to default. New home sales in the month of September dropped 29% YoY but increased 18% from the month prior, signaling that while sales are nowhere near recovery, overall household confidence is returning. This comes largely due to changing restrictions that lower minimum required down payments on future mortgages and expand buyers' negotiation power.

Growing consumer confidence and spending will surely push growth but considering large uncertainties looming in the real estate market, it is unclear whether the Chinese economy will be able to execute a full turnaround.

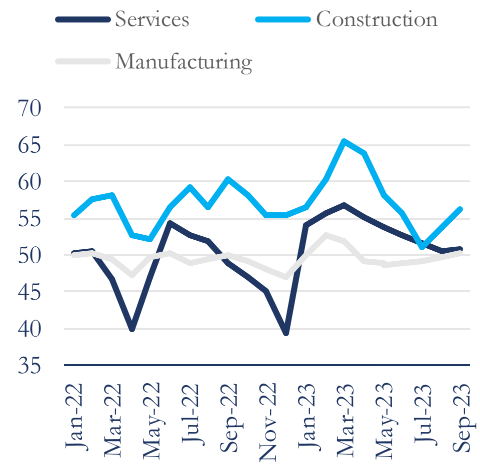
United States Backing out of Ukraine Aid

Last weekend, the United States government passed a funding measure, thereby averting a potential shutdown crisis, yet marking the cessation of aid for Ukraine. As a result, European leaders are currently grappling with the uncertainty of whether they can effectively fill the void left by the US in terms of support for Ukraine. While Europe's assistance to Ukraine has been on the rise, the reduction in financial and military aid from the US has created a significant gap that Europe currently lacks the resources to adequately address.

Experts in the industry have noted that Europe's defense producers can presently only meet approximately 5% to 10% of Ukraine's munition requirements. It is anticipated that this situation is unlikely to change unless the European Union (EU) offers long-term contracts to munition producers.

S&P 500	$4,310.75 -0.71%
DJIA	$33,421.00 -0.53%
NASDAQ	$15,026.25 -0.57%
Russell 2000	$1,744.40 -0.87%
FTSE 100	$7,494.58 0.58%
Nikkei 225	$30,994.67 -0.26%
WTI Crude	$85.79 3.62%
10-yr Treasury	4.8%

CHINA'S PURCHASING MANAGER INDEXES (Index Value: 50 = no change)



Sources: CEIC, Wall Street Journal

Since Russia's invasion, the EU has committed $80.3 billion in support, slightly surpassing the US's $74 billion contribution. However, with the discontinuation of 48% of Ukrainian support due to the US's withdrawal, it has become imperative for the rest of the EU to step up. Major contributors from the EU, including Germany, Britain, and Norway, will need to assume a significant share of this responsibility. Nevertheless, considering the EU's expected 2023 growth rate of just 0.8% and the precarious economic situation in Germany, EU governments may face challenges in securing the necessary resources to fully compensate for the US's retreat.

America This Week

U.S. Avoids a Major Government Shutdown... For Now

After one last delay Saturday evening, Congress avoided a government shutdown by passing a bill in the senate that received overwhelming support (88-9), resulting in President Biden signing the bill just 45 minutes before the October 1st deadline. The breakthrough came when House Speaker Kevin McCarthy offered a new bipartisan bill, which received overwhelming support (335-91), with a breakdown of 90 Republicans and 1 Democrat voting nay. The bill prevented a potential aviation shutdown crisis by re-authorizing the Federal Aviation Administration and prevented TSA agents from working without pay, while also including $16 billion for FEMA's disaster relief fund.

Lawmakers now have six weeks to find a compromise, with a new deadline set for November 17th. There now is a potential roadblock in reaching this deadline with Kevin McCarthy getting ousted as House Speaker in a historic vote on Tuesday afternoon (216-210). If a deal still can't be reached by November 17th, then the economy will take a major hit with millions of federal workers being sent home without pay for weeks, reducing consumer spending and slowing down economic growth. There is also a fiscal deadline on January 1st when discretionary spending will face a 1% cut if no deal is in place, causing concern for many.

Prospects Brighten for IPO Revival Following September Surge

September marked one of the most active months of the year in the IPO market. Although negligible compared to deal volume seen in 2022, market entrances from at least 25 firms have indicated a soft return for IPOs. Three major firms, in particular, Klaviyo (KYVO), Arm Holdings (ARM) and Instacart (CART) broke a 20-month drought in large tech IPOs. In total, they contributed 20% of total 2023 IPO proceeds in the US and Europe, roughly $6 billion. Their performances have set the stage for companies considering the move to public markets and reflect overall investor interest in new offerings.

All three firms listed at the upper end of their price range, indicating investor support. And despite Instacart and Arm dipping briefly below their initial prices, marketing tech company Klaviyo has served as a beacon for potential with its shares trading at $32.94 as of Friday, nearly 10% above its IPO price.

Although the last month has been technology-centric, the IPO market in the last quarter has seen deals across a range of industries. The common denominator has been profitability- with successful firms rewarded for their ability to generate profit, or at the very least, a clear path towards profitability. The IPO market appears positioned to slowly pick up and performances this year will determine how much volume investors can expect in 2024.

Sources: Yahoo Finance, S&P Global Market Intelligence, Reuters

Navigating Economic Challenges Amidst a Resurgent US Dollar

The recent surge in the US dollar's value, with the 10-year Treasury yield reaching a 16-year high at 4.682%, presents a complex challenge for central bankers worldwide. Their task of taming inflation while nurturing fragile economic growth becomes more intricate as investors anticipate the Federal Reserve's sustained higher borrowing costs. While a robust dollar benefits US consumers by curbing inflation and lowering import prices, its impact on other nations is considerably adverse. Countries like Brazil, Poland, and Hungary are under pressure to halt rate cuts to stabilize their currencies, which, coupled with the stronger dollar, threatens global economic growth and increases financial vulnerability.

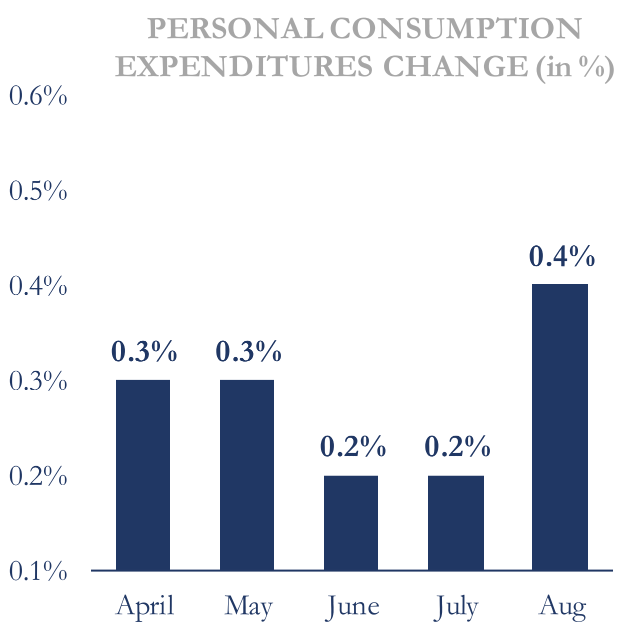
US companies with substantial overseas operations, such as Apple, face setbacks due to the declining value of their foreign revenue in US dollar terms. This phenomenon arises as the stronger dollar makes their goods more expensive for foreign buyers. Emerging markets, particularly in Latin America and Eastern Europe, are bearing the brunt of the strong dollar. Sharp dollar value increases might lead to extended periods of economic underperformance in less developed economies. The impact is widespread, affecting consumption, output, investment, and government spending.

Some central banks use foreign currency reserves to counter these challenges, while others employ jawboning tactics, publicly signaling their intentions to stabilize their currencies. In essence, the robust US dollar complicates global efforts to balance controlling inflation and maintaining economic stability, underscoring the intricate dilemmas central bankers face.

Macro Highlights

US Inflation Eases, yet Consumer Spending Brews Concerns

In August, the US faced a passable uptick in inflation, with the personal consumption expenditures price index rising by 0.4%, driven primarily by increased fuel costs. Core inflation, excluding food and energy, saw a modest uptick of 0.1%. This easing of underlying inflation for the third consecutive month provides the Federal Reserve with some breathing room, possibly allowing a pause in its current series of interest rate hikes. Despite these relatively positive indicators, there are growing concerns about the sustainability of consumer spending. While Americans increased their spending by 0.4% in August, signs of strain are evident as many individuals are dipping into their savings. The personal saving rate fell to 3.9%, indicating a potential slowdown in consumer expenditure in the coming months.



Sources: Wall Street Journal, Bureau of Economic Analysis, Federal Reserve Bank

These concerns are exacerbated by looming challenges, including the resumption of student loan repayments and higher gas prices, which could significantly impact Americans' dining out and travel budgets. Additionally, there are worries about the potential impact of strikes and a government shutdown, which might temporarily curtail the spending power of workers. While incomes have been growing, the trend reversed in August for the second consecutive month when adjusted for inflation and taxes, further highlighting the delicate balance the economy is treading. Despite these challenges, the consensus among analysts is that a full-blown recession seems unlikely. Instead, the economy appears to be heading toward a 'soft landing,' characterized by a gradual reduction in inflationary pressures and a cautious increase in consumer spending, shaping the Federal Reserve's approach toward future interest rate decisions.

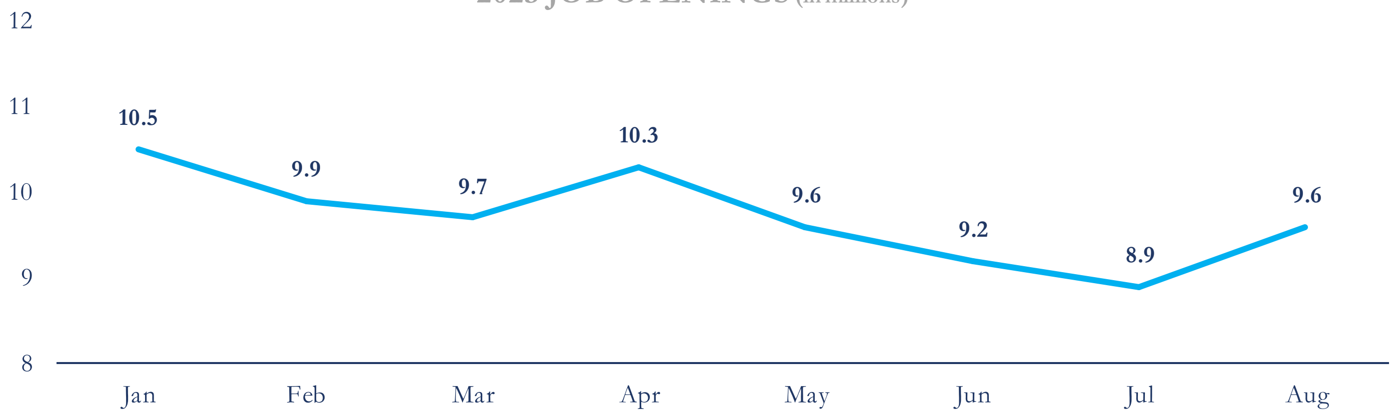
Job Openings Unexpectedly High

On Tuesday, the Bureau of Labor Statistics reported that the number of US job openings has unexpectedly increased in August. The figure stood at 9.6 million job openings, representing a notable uptick from July's 8.8 million job openings. This marks the first increase in job openings in three months and serves as a stark reminder to both investors and the Federal Reserve that the labor market remains remarkably tight.

The unforeseen rise in job openings had an immediate impact on the stock market, leading to a decline and a significant drop of over 350 points in the Dow Jones index. This drop sends a signal to the Federal Reserve that, with the combination of job openings and a tightly contested job market, the economy may be growing at an excessively rapid pace.

If wages continue to rise, it can contribute to inflationary pressures causing the Federal Reserve to opt to increase interest rates to help mitigate such inflation. It is important to note that the Fed is unlikely to make a decision based solely on one JOLTS (Job Openings and Labor Turnover Survey) report, but the state of the labor market remains one of their central areas of focus.

2023 JOB OPENINGS (in millions)



Industry News

Netflix Plans Price Hike Post Hollywood Strike, Reflecting Industry Shifts

After the Hollywood actors ' strike, Netflix plans to raise ad-free service prices, mirroring recent hikes by significant streaming platforms. Although the exact amount and commencement date remain undisclosed, discussions are underway, primarily focusing on the U.S. and Canada.

Sources: US Bureau of Labor Statistics, Reuters, Wall Street Journal

This move follows a 25% rise in the cost of ad-free streaming services over the past year as companies aim for profitability. Notably, Disney is contemplating a live-sports tier for Disney+ outside the U.S., and streaming platforms are considering new pricing structures around exclusive content. Amidst these changes, Netflix has remained profitable, avoiding price hikes until now, instead focusing on curbing password sharing. As the industry navigates increased talent costs and changing subscriber preferences, ad-supported alternatives are becoming more attractive, potentially reshaping streaming platforms' pricing strategies.

Landlords Grapple with Office Vacancies Amid Pandemic Shift

Return-to-office numbers saw a significant spike post-Labor Day, reaching an average return rate of 50.4% of 2019 levels. While this marks the highest point since the pandemic began, it remains relatively low, posing yet another challenge for landlords already grappling with elevated vacancy rates. In the last quarter, vacancy rates climbed to 19.2%, just marginally below the historic peak of 19.3% recorded in 1991.

Adding to the complexity, there are mounting concerns about the continued increase in Covid-19 cases. Kathryn Wylde, the head of the business group Partnership for New York City, noted, "If we have to return to distancing and mask protocols, that significantly disrupts the office culture." Additionally, issues such as homelessness and crime are contributing to people choosing to stay home. In fact, a survey conducted by the Seattle Metropolitan Chamber of Commerce revealed that around 90% of its members believe that addressing homelessness and public safety problems is crucial for the city's recovery.

Landlords hold the belief that a weaker economy would provide employers with greater leverage to enforce in-office attendance. However, a recession could potentially result in widespread layoffs, further complicating the ability to fill office spaces.

Considering that a significant portion of the workforce now prefers remote work, it seems unlikely that in-office numbers will return to pre-pandemic levels in the foreseeable future. While a looming recession offers landlords a glimmer of hope, the depth of the recession will play a critical role. If it deepens, vacancy rates may escalate further, potentially leading to a future real estate market downturn.

Market Insights Team

					
Momo Hassan	Jade Chan	Varun Jhamvar	Rahul Kapur	Jack Miller	Alyssa Nguyen
Director	Associate	Analyst	Analyst	Analyst	Analyst
WELLINGTON MANAGEMENT	Northeastern University	Northeastern University	Fidelity Investments	Northeastern University	Northeastern University

Sources: Pitchbook, Wall Street Journal