Market Weekly Insights

18th November 2024

S&P 500	$5,870.62	-1.32%
DJIA	$43,444.99	-0.70%
NASDAQ	$18,680.12	-2.24%
Russell 2000	$2,303.84	-1.42%
FTSE 100	$8,063.61	-0.09%
Nikkei 225	$38,642.91	+0.28%
WTI Crude	$66.95	-0.10%
10-yr Treasury	4.44%	

Global Outlook

Beijing's Modest Stimulus Fuels Investor Concerns

China's recent unveiling of a 10 trillion yuan (1.4 trillion USD) plan to alleviate local government debt has failed to reassure investors, as they had anticipated more robust stimulus measures to counteract the country's economic slowdown and property market slump. The announcement led to a decline in Chinese stocks, with the Hang Seng China Enterprises Index dropping as much as 2.9% and consumer-related shares taking a hit.

The market response was muted due to the stimulus' perceived inadequacy in addressing near-zero consumer inflation and a continuous drop in factory-gate prices. The global financial community remains particularly concerned with the ongoing economic strategies amid potentially heightened U.S.-China trade tensions following Donald Trump's election victory and tariff threats.

Investors are calling for more decisive action as foreign direct investment in China sees a significant withdrawal. Despite Finance Minister Lan Fo'an's promise for a "more forceful" fiscal policy next year, confidence in Beijing's capacity to swiftly turn economic tides is waning.

Nigeria Partners with China to Boost Aluminum Production

Nigeria has signed a $1.2 billion deal with China's state-owned CNCEC to revitalize a 135 million standard cubic feet gas processing plant at the Aluminum Smelter Company of Nigeria. This investment, announced by the Minister of State for Gas, is expected to position Nigeria as a leading aluminum producer for both domestic and international markets. The partnership highlights the deepening economic ties between Nigeria and China, which had grown since 2016 when agreements were signed during former President Muhammadu Buhari's visit to President Xi Jinping.

Despite being Africa's largest oil producer, Nigeria faces significant economic challenges, including high poverty and hunger levels, a 28-year high inflation rate, and a depreciating currency. President Bola Tinubu's recent economic reforms to reduce government spending and attract foreign investment have spurred widespread protests due to increased hardships, with reports of casualties and mass arrests during demonstrations.

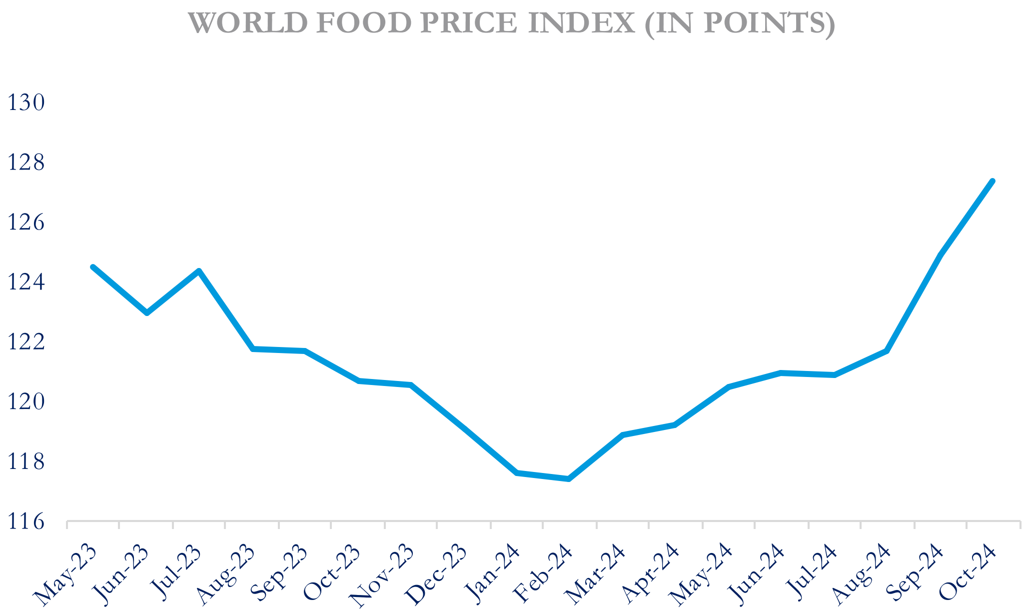
Global Food Prices Rise to 18 Month High

Global food prices hit an 18-month high in October, driven mainly by a surge in vegetable oil prices, according to the U.N. Food and Agriculture Organization (FAO).

Sources: Newsweek, Yahoo Finance, Reuters

The FAO's food price index, which monitors key global commodities, climbed to 127.4 points, up 2% from September, marking a 5.5% increase year-on-year. However, prices remained 20.5% below their peak in March 2022 following Russia's invasion of Ukraine.

Vegetable oils led the gains, rising over 7% amid palm oil production concerns. Sugar prices rose by 2.6% due to persistent worries about Brazil's production. Wheat and maize prices saw slight upticks, influenced by challenging planting conditions in the Northern Hemisphere and the introduction of an unofficial Russian price floor on the grain. Dairy prices rose nearly 2%, propelled by high demand for cheese and butter amid tight supply. Meat prices fell 0.3%, with pork and poultry dropping but beef rising due to robust global demand. The FAO cut global cereal forecasts, but projections remain the second highest on record.



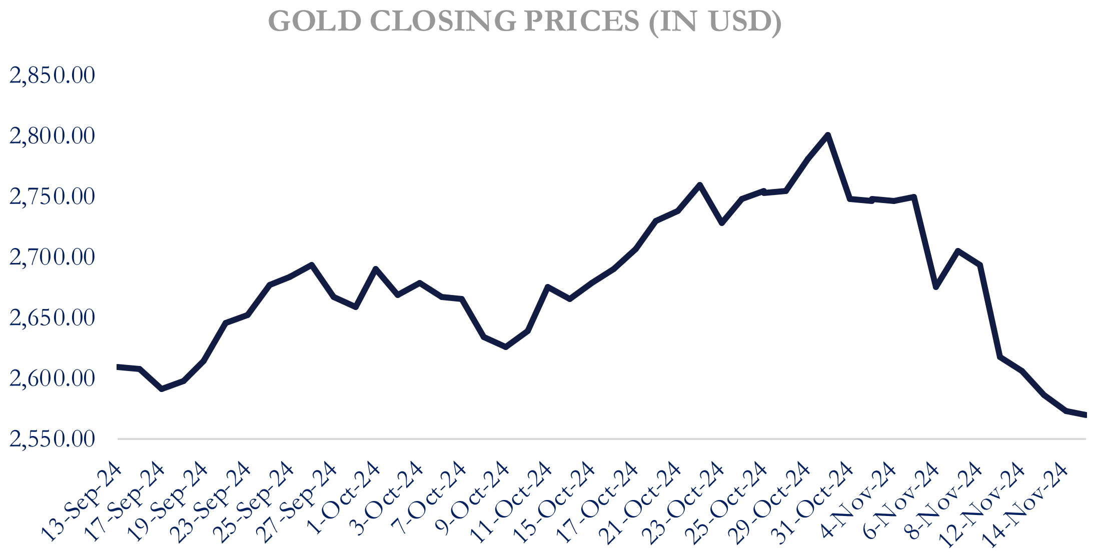
America This Week

Gold Falls to Two Month Low

Gold prices fell to a two-month low last Thursday as a strengthening dollar increased pressure on the precious metal. Spot gold fell to $2566 per ounce at the close, a level not reached since September, marking an apparent reversal in a strong gold run in October. The U.S. Dollar has continued its strong run following the results of the United States general election and is now trading at a 1 year high. The rise in the dollar has dropped gold prices as a strengthening dollar increases the cost of gold for overseas purchasers.

Additional pressures weighing on gold are potential U.S. Government policies, as investors fear increased inflation and reduced rate cuts by the U.S. Federal Reserve. Fewer rate cuts would mean treasury bonds pay more significant interest than expected, making a non-interest-bearing commodity like gold less valuable. However, gold remains one of the foremost safe havens for investors looking to hedge against global unrest and conflict.

Sources: Reuters



October Deficit Surges Nearly Fourfold Amid Adjustments and Spending Increases

The U.S. budget deficit surged to $257 billion in October 2024, a nearly four times increase from October 2023's $67 billion deficit. According to the Treasury Department, the deficit is driven by one-off factors such as deferred tax payments and adjusted benefit schedules. Without these adjustments, the deficit would have been $47 billion, a 22% year-over-year increase. This marks the start of fiscal year 2025, following a $1.83 trillion full-year deficit in fiscal 2024, the largest since the COVID-19 era. Federal receipts fell 19% to $327 billion, while outlays increased 24% to $584 billion, driven by higher Social Security, Medicare, and military spending. However, debt service costs declined 8% to $82 billion due to reduced payouts on inflation-protected securities, reflecting ongoing debt challenges.

President-elect Donald Trump, who previously presided over a $3.1 trillion deficit in fiscal 2020, has appointed Elon Musk and Vivek Ramaswamy to lead a new body focused on cutting federal spending. Musk suggested potential budget cuts of $2 trillion but offered no timeline. Meanwhile, market concerns about Trump's tax cut plans have pushed the 10-year Treasury yield by 15 basis points, reflecting fears of further deficit increases over the next decade.

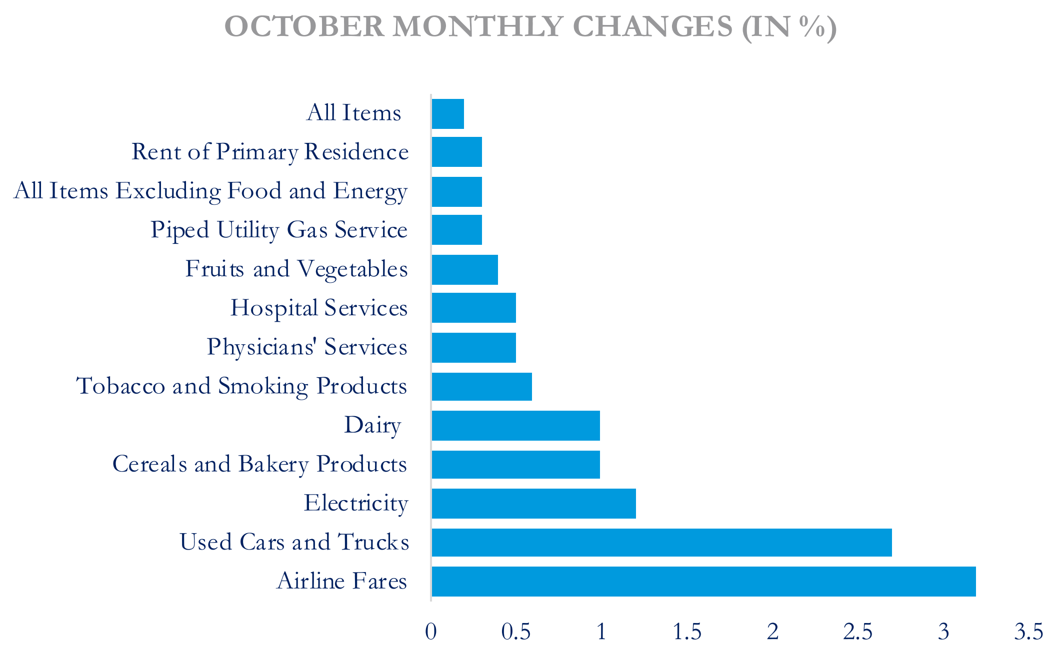
Macro Highlights

US Inflation Hits 2.6% in October as Fed Weighs Further Rate Cuts

The October inflation data from the Bureau of Labor Statistics showed an annual increase of 2.6%, aligning with economists' expectations and slightly above September's 2.4%. Core inflation, excluding food and energy, held at 3.3% year-over-year, with a 0.3% monthly increase for the third consecutive month, signaling persistent price pressures. In recent meetings, the Federal Reserve has cut rates by 0.75 percentage points, aiming for a "neutral" rate to balance inflation control with economic demand. Futures markets suggest a 60% likelihood of a further quarter-point rate cut in December.

Sources: Reuters, Financial Times

While inflation has declined from its 2022 peak of over 9%, progress has slowed. Housing costs were key contributors to October's increase, offset by flat energy prices and declines in clothing and furniture costs. Economists remain cautious about achieving the Fed's 2% target amid ongoing price pressures. Market reactions were mixed, with slight declines in Treasury yields and muted movements in equities. The Fed's approach remains gradual, seeking to manage inflation without inducing a recession.



Oil Prices Rebound Slightly Amid OPEC Demand Cuts and Strong Dollar Pressure

Oil prices experienced a modest rebound on Wednesday following short-covering, recovering from a two-week low caused by OPEC's downward revision of global demand forecasts. Brent crude rose 0.5% to $72.28 per barrel, while U.S. West Texas Intermediate (WTI) gained 0.5% to $68.43. The market remains cautious, digesting OPEC's bearish outlook, which attributed weaker demand projections to slowing consumption in China, India, and other regions.

Additional upward pressure was mitigated by a strengthening U.S. dollar, which reached a seven-month high after inflation data aligned with expectations, potentially signaling continued Federal Reserve rate cuts. A stronger dollar reduces oil affordability for non-dollar holders, dampening demand.

Geopolitical risks, including potential disruptions from Iran and escalating Middle East tensions, offer further uncertainty. Meanwhile, U.S. and global oil production forecasts hit record highs, with U.S. output expected to average 13.23 million barrels daily. Inventory data and upcoming estimates from the International Energy Agency remain key focus areas for market participants.

Sources: Financial Times, Reuters

Industry News

Spirit Airlines Rolls Out Bankruptcy Plan after Merger Deal with Frontier Falls Through

Spirit Airlines, once celebrated for disrupting the budget travel sector with its low-cost ticket model, is grappling with financial challenges as merger discussions with Frontier Airlines have been abandoned. Despite potential restructuring plans aimed at reviving its fortunes, Spirit has announced that it will not merge with Frontier at this time. The decision comes after a series of losses totaling $2.5 billion since 2020 and significant looming debt maturities surpassing $1 billion.

The airline industry, particularly the low-cost sector, has evolved with many carriers adopting Spirit's model of economical fares paired with additional charges for extras, intensifying competition and pressuring profits. Amid these struggles, Spirit revealed last Tuesday a plan to restructure its debt, due in 2025 and 2026, which could potentially eliminate current shareholder value if approved. Without a restructuring agreement, the airline may seek alternative debt management solutions.

Further highlighting its financial woes, Spirit also delayed its quarterly report filings with the SEC and reported a significant drop in profitability. The airline's operating margin in the third quarter fell by 12 percentage points compared to the same period last year, with revenues down $61 million. This ongoing financial downturn underscores the critical challenges Spirit faces in a fiercely competitive industry landscape.

Shell Wins Appeal against Environmental Groups' Mandated Emission Targets

Shell has successfully appealed a 2021 Dutch court ruling that mandated the company to cut its carbon emissions by 45% by 2030. The appeal decision acknowledged Shell's need to reduce emissions but determined that prescribing a specific reduction target for an individual company requires more consensus.

Sources: Wall Street Journal

This outcome represents a setback for environmental groups aiming to legally enforce corporate accountability for climate change, though they may still pursue the matter to the Dutch Supreme Court.

Shell defended its position by stating that emission reduction is a societal issue that should involve government and industry-wide efforts, not isolated company targets. The court recognized Shell's emission reduction efforts and noted that mandating reductions in customer emissions might not effectively lower global emission levels. Legal experts see the ruling as a sign that courts are prepared to set emissions goals but remain wary of their enforceability on specific companies. Industry leaders have called for a clear legal framework to aid companies in addressing climate challenges.

Nokia Increases their 5G Network after Acquiring the World's Largest API Hub from Rapid

Last Wednesday, Nokia officially acquired the world's largest application programming interface (API) hub from Rapid as they deepened their 5G network coverage and monetized network assets. Integrating Rapid's API technology with Nokia's Network as a coding platform and developer portal will allow operators to effortlessly connect their networks, manage API usage and exposure more effectively, improve API lifecycle management, and engage with Rapid's global developer community through its public API marketplace.

Since its launch in September 2023, Nokia's Network as Code platform has rapidly gained traction, securing partnerships with 27 companies worldwide, including BT, DISH, Google Cloud, Infobip, Orange, Telefonica, and Telecom Argentina. Rapid's API technology offers a public marketplace, enterprise services, and an enterprise-grade API hub that enables companies to design, develop, test, and share APIs within their organization and with external partners. Through the public API marketplace, developers worldwide can showcase and monetize their APIs while accessing and integrating with hundreds of others.

Klarna Files For IPO

Klarna, the Swedish fintech giant, has registered with the U.S. Securities and Exchange Commission, signaling its intent for an initial public offering (IPO) in the near future. Klarna began preparations for the IPO as early as last year when legal counsel was enlisted to restructure the company in preparation for it to become public. While the proposed share volume and pricing details remain undetermined, Klarna's decision reflects a strong industry trend amongst tech firms to pursue U.S. stock listings. The U.S. has been the country of choice for several recent high-profile tech IPOs, like the UK-based chipmaker ARM, primarily due to the country's favorable market conditions and regulatory environments. The U.S. currently accounts for 29% of Klarna's revenue, making the country the company's largest market.

Klarna's valuation has fluctuated dramatically over recent years, leaving the IPO valuation uncertain. Klarna's valuation soared during the pandemic, peaking at roughly $45.6 billion in 2021, but rising inflation and interest rates saw that figure fall to just $6.7 billion by July 2022. The company has recently embraced AI in assisting with cost-cutting and streamlining efforts, positioning it well to capture any remaining investor hype over the technology come public launch.

Sources: Reuters, Wall Street Journal

Analyst Outlook

Manika Sakulsureeyadej – ESG in Flux: Navigating the Impact of Trump's Reelection on Stewardship

In light of Trump's re-election, there is a probability of significant shifts in the ESG and stewardship landscape. A federal rollback of climate-related initiatives is likely, yet the broader momentum towards renewable energy and corporate ESG practices might show remarkable resilience, driven by market forces and international commitments.

Renewable energy progress has historically transcended presidential terms, propelled by economic competitiveness and technological advances, rather than solely by political will. States like Texas and Iowa, which have become renewable energy strongholds, demonstrate the local benefits—such as job creation and lower energy costs—of investing in clean energy. These examples suggest that state-level policies and private sector efforts could sustain the growth of clean energy, despite federal opposition. However, the expected relaxation of ESG regulations, including the SEC's climate-risk disclosure rule and the Department of Labor's ESG guidelines, could pose challenges. Companies operating in divergent regulatory environments, especially with Europe's stringent Corporate Sustainability Reporting Directive (CSRD), might face compliance complexities.

Despite potential federal policy setbacks, the private sector, international obligations, and state leadership are poised to uphold the energy transition. Economically, the shift toward sustainable practices is essential, securing ESG's place as a critical consideration in the business landscape, irrespective of political changes.

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