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Market Weekly Insights

25th November 2024

Global Outlook

Eurozone Wages Up 5.4%: Slowing Growth May Ease European Central Bank Concerns

Wages in the eurozone surged by 5.42%, the fastest increase since 1993 and a sharp rise from 3.54% in the previous quarter. This wage growth, driven largely by Germany, could raise concerns about inflation in labor-intensive services. However, signs point to a slowdown in wage growth next year, easing worries for the European Central Bank (ECB).

The ECB, which cut interest rates for the third time in October, has linked future rate decisions to wage trends. Economists expect wage pressures to ease in 2025 due to a weakening job market and lower inflation. Agreements in Germany, such as IG Metall's deal for smaller wage increases starting in 2025, support this outlook.

Despite tight labor conditions, eurozone payrolls showed signs of contraction in October. Currently, wages outpacing consumer prices are helping households regain consumer purchasing power, supporting modest economic growth. This trend may give the ECB confidence to consider further rate cuts while avoiding inflation risks.

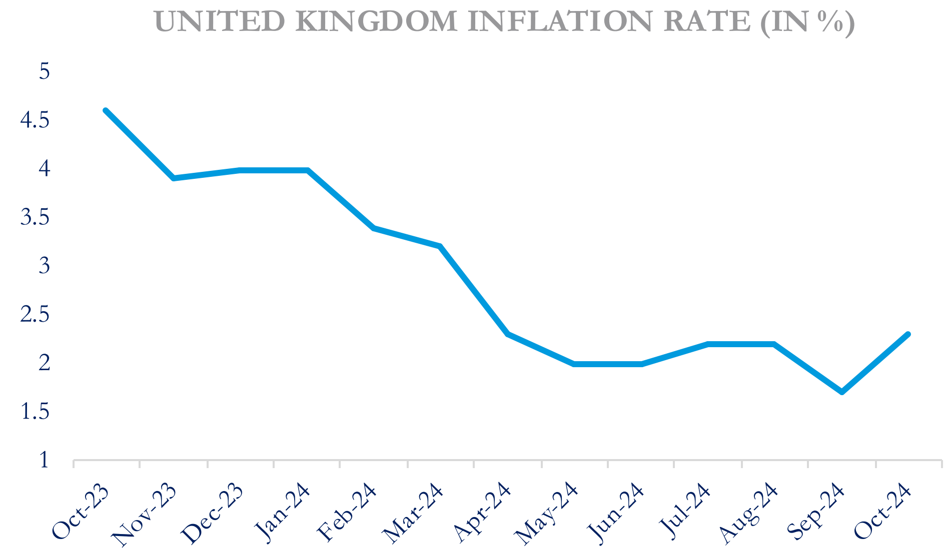
UK Inflation Rise Threatens December Rate Cut Prospects

In October, U.K. inflation rose to 2.3%, exceeding the 2.2% forecast and sharply up from 1.7% in September. Core inflation also edged up to 3.3%. This increase, driven by higher energy prices and services sector costs, puts inflation above the Bank of England's (BOE) 2% target, reducing the likelihood of an interest rate cut in December.

The BOE previously signaled gradual rate cuts amid economic uncertainty. Markets currently see only a 14% chance of a rate cut in December. Economists warn that inflationary pressures from trade frictions, tight labor markets, and higher energy bills could keep inflation elevated into 2025. Meanwhile, the U.K. government's recent budget, including tax hikes and increased public spending, may further boost inflation. Additionally, potential U.S. tariffs under President-elect Trump could further complicate inflation globally.

S&P 500	$5,969.34 +0.35%
DJIA	$44,296.51 +0.97%
NASDAQ	$19,003.65 +0.16%
Russell 2000	$2,406.67 +1.80%
FTSE 100	$8,262.08 +1.38%
Nikkei 225	$38,283.85 +0.68%
WTI Crude	$71.18 -0.08%
10-yr Treasury	4.41%

Sources: Wall Street Journal

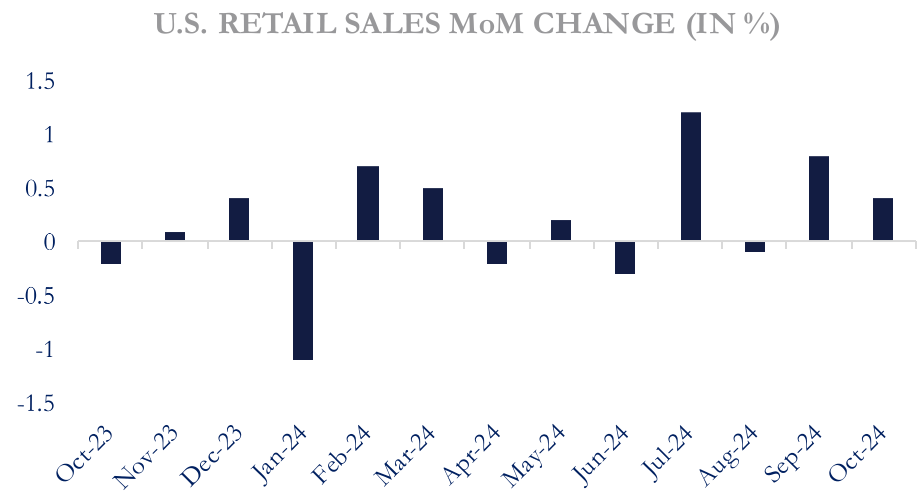


America This Week

U.S. Retail Sales Remain Strong in October

U.S. retail sales rose 0.4% in October, exceeding expectations and signaling robust consumer spending as the economy enters the fourth quarter. Upward revisions to September data further bolstered optimism, suggesting a stronger growth trajectory driven by increased purchases of motor vehicles, electronics, and dining out. However, core retail sales, which exclude volatile categories like auto vehicles and fuel, dipped 0.1%, hinting at potential moderation in broader consumer activity.

The robust spending data, coupled with rising import prices, has tempered expectations for a Federal Reserve rate cut in December. Fed Chair Jerome Powell emphasized that current economic conditions do not warrant urgent monetary easing. While inflation remains subdued, recent gains in retail and import prices underscore persistent cost pressures. Low layoffs, combined with strong family balance sheets, largely stemming from high home prices and a stock market at all-time highs, further contribute to solid consumer spending. This spending has helped the economy maintain a solid pace of growth over recent quarters, growth which further complicated the upcoming Federal Reserve decision on rate cuts in December.



Sources: Wall Street Journal, Reuters

N.L.R.B. Bans Captive Audience Meetings

The National Labor Relations Board (NLRB) ruled that employers cannot require workers to attend meetings intended to dissuade them from unionizing, a practice known as captive audience meetings. This decision, which arose from a complaint regarding Amazon's actions before a 2022 union election at a Staten Island warehouse, reflects the Biden administration's effort to strengthen workers' rights to unionize. The ruling overrules a decades-old precedent that allowed such meetings, marking a significant shift in labor policy.

Amazon has stated its intention to appeal against the decision, arguing that the decision infringes upon its First Amendment rights. The NLRB's decision, which was supported by the Democratic majority and opposed by the sole Republican member, is viewed as a win for labor advocates, although its future is uncertain under a potential Trump administration, which is expected to take a more pro-employer stance.

Existing Home Sales Climb Amid Tight Market and Rising Mortgage Rates

U.S. existing home sales saw a significant rebound in October, increasing by 3.4% to a seasonally adjusted annual rate of 3.96 million units. This marked the first annual increase since 2021, with sales rising 2.9% year-over-year. The uptick is attributed to buyers taking advantage of a temporary decline in mortgage rates, driven by the Federal Reserve's policy adjustments in August and September. However, mortgage rates have since risen, reaching 6.78% for a 30-year fixed-rate mortgage as Treasury yields rose. Despite this, housing inventory increased by 0.7% to 1.37 million units, up 19.1% from a year ago. Home prices also saw a 4% year-over-year rise to a median of $407,200, the highest for any October.

The housing market remains competitive, with properties staying on the market for an average of 29 days. First-time buyers represented 27% of sales, below the 40% target for a healthy market, while all-cash sales made up 27% of transactions. Distressed sales, such as foreclosures, accounted for only 2% of transactions.

Macro Highlights

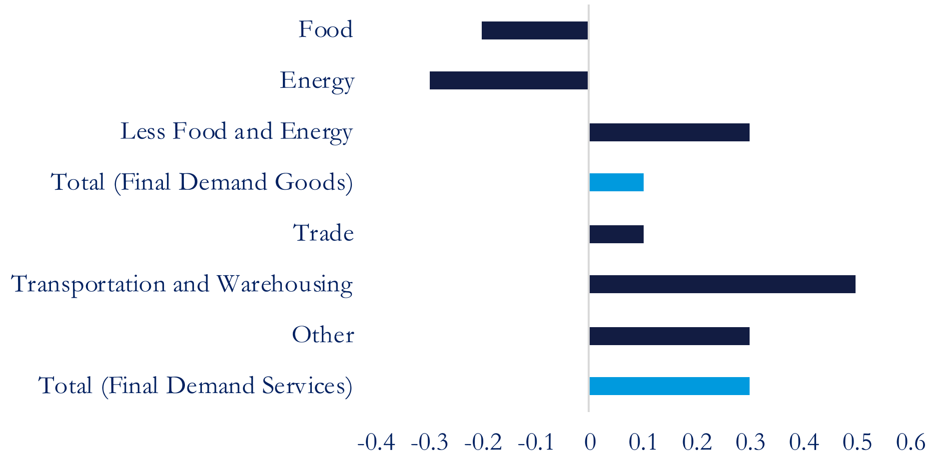
Producer Price Index Rises slightly in October

The Producer Price Index (PPI) for October 2024 showed an increase of 0.2% month-over-month, consistent with expectations and a slight increase compared to September's 0% change. Year-over-year, the PPI rose 2.4%, up from 2.2% in the previous month. Core PPI, which excludes volatile food, energy, and trade services prices, also grew by 0.2% month-over-month, marking a 3.1% increase year-over-year. Key contributors to the monthly rise included rising prices for diesel, portfolio management services, and rents for office and retail properties. However, certain sectors saw declines, such as chemicals and allied products wholesaling, securities brokerage services, and truck transportation.

Overall, the report suggests producers are experiencing stable but slightly rising costs. Therefore, policymakers view this data as evidence that inflation is manageable, potentially reducing the need for aggressive interest rate cuts. However, persistent challenges in certain sectors and higher costs for essential goods like fuel might filter into consumer prices, which require monitoring.

Sources: New York Times, Reuters, Bureau of Labor Statistics

PPI BREAKDOWN BY SEGMENT (IN %)

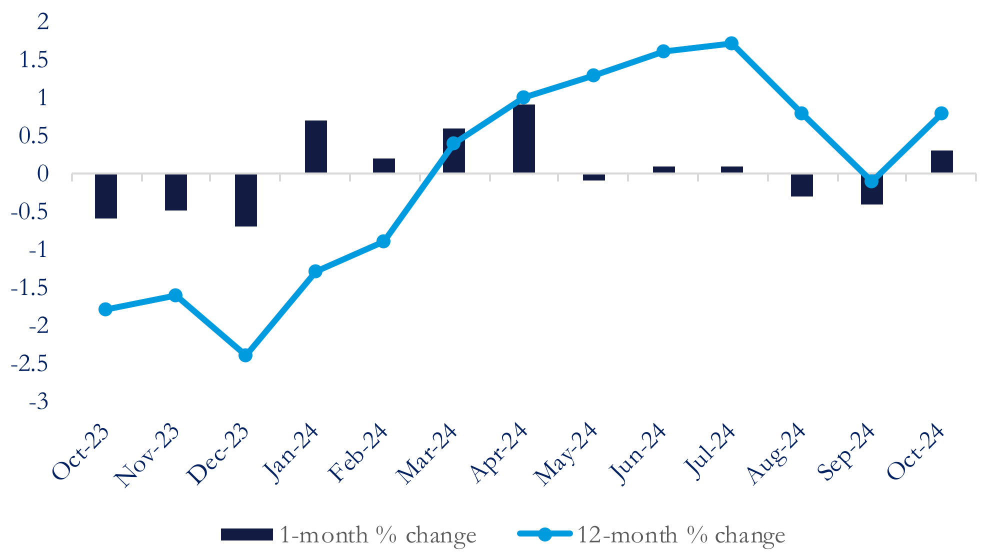


U.S. Imports Suprise in October

U.S. import prices unexpectedly rose 0.3% in October, reversing September's decline. The increase, driven by both higher fuel prices and gains in core goods, signals challenges in bringing inflation back to the Federal Reserve's 2% target. Over the past year, import prices climbed 0.8%, underscoring persistent cost pressures in global supply chains.

This development complicates the Federal Reserve's monetary policy outlook. With consumer prices rising 0.2% for the fourth consecutive month and producer prices also accelerating, progress in reducing inflation has stagnated. Importantly, the rise in core import prices, up 2.2% year-over-year, indicates underlying inflation may remain sticky despite prior rate hikes. With this recent data, the Federal Reserve's upcoming decision on a December rate cut becomes more uncertain. chairman Jerome Powell's recent comments on there being no urgency to cut rates only further cloud the issue, making the December Federal Reserve meeting a highly anticipated and uncertain event for markets.

ONE-MONTH AND 12-MONTH CHANGES IN THE IMPORT PRICE INDEX (IN %)



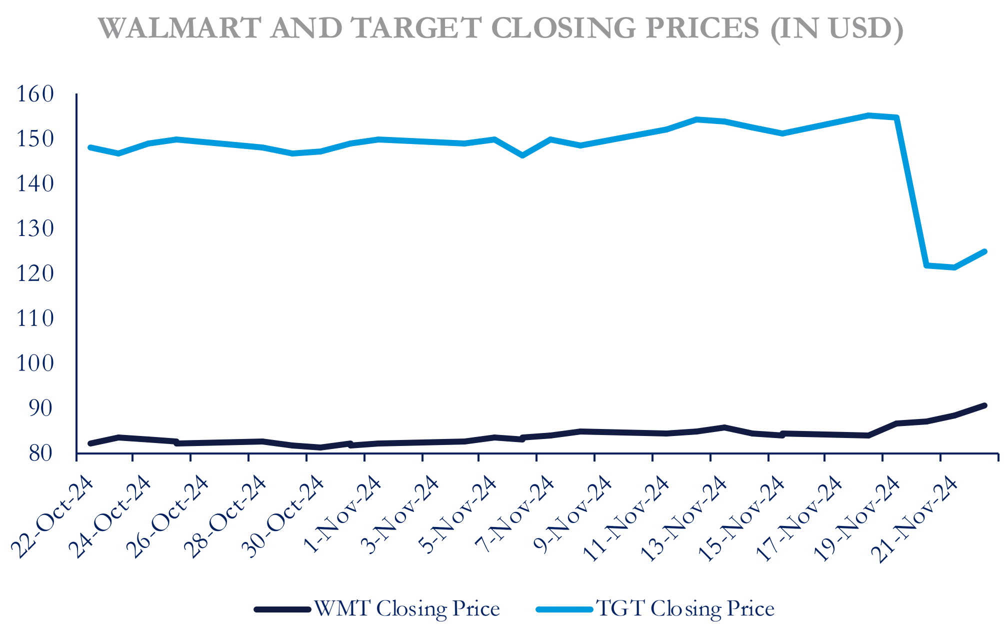
Sources: Bureau of Labor Statistics, Reuters

Industry News

Retail Companies Diverge Amidst Economic Challenges

Walmart and Target, two of America's biggest big box retailers, continued to diverge last week, with Walmart stock reaching all-time highs, and Target's stock dropping 20% in a single day to 52-week lows. Target's earnings report last Thursday revealed the company's greatest earnings miss in two years. Citing decelerations in discretionary demand and high costs brought on by the brief port workers' strike in October, Target cut its forecasts. Walmart, conversely, raised its full-year forecast, saying that the retailer was gaining upper-income customers and expected robust trends for merchandise sales even amidst the drop in discretionary spending.

Both companies had similar gains in customer traffic, however, Walmart's sales numbers dramatically outperformed Targets. With same-store sales increasing by 5.3% YoY for Walmart and only 0.3% for Target, the sharp differences in performance become evident. Furthermore, Walmart's e-commerce gains nearly doubled Targets as e-commerce moves further into both retailers' sales mix. Moving into the holiday season, the most important season for companies like Walmart and Target, both companies, but particularly Target, are presented with a chance to improve their fortunes and prove to investors they are worthy of continued faith and investment.



NVIDIA Third Quarter Earnings Surpass Expectations

NVIDIA released its third quarter earnings report last week. The technology giant reported record revenue of $35.1 billion, a 17% increase from the previous quarter and a 94% rise year-over-year. Its earnings per share of $0.81 exceeded Wall Street estimates by $0.12, while revenue surpassed projections by approximately $2 billion. The Data Center segment posted particularly strong growth, generating $30.8 billion in revenue, a 112% year-over-year increase. This growth was driven by robust demand for NVIDIA's AI platforms, which continue to dominate in various industries. NVIDIA's margins also improved significantly, with non-GAAP gross margins reaching 75.3%, up from 65.2% the previous year.

Sources: CNBC

"The age of AI is in full steam, propelling a global shift to NVIDIA computing," Huang said in a statement. However, NVIDIA issued concerns about potential hurdles in the supply of its next-generation Blackwell chip for Q4. CFO Colette Kress estimated that the AI GPU will start delivering in Q3 and ramp up in 2026 to meet the vast demand for the chip. Despite supply constraints, NVIDIA's ability to outperform in a challenging economic environment highlights its continuing dominance in AI, semiconductors, and data center technologies.

Google Faces New Actions from Prosecutors in their Ongoing Antitrust Case

The US Department of Justice recently proposed remedies to curb Google's dominance in online search, including plans to potentially force the giant to divest Chrome and Android. The proposal follows a finding earlier this year by US district judge Amit Mehta that entails Google's illegal monopoly in online search, including lucrative deals with wireless carriers, browser developers, and device manufacturers. According to the proposal, Google is unauthorized from owning a browser, exiting the browser market for five years, and investing in competitors in the market. Prosecutors also asked the judge that Google should make their search index and user and ads data readily available to their rivals in America at zero to minimal cost to facilitate this transition.

Representatives for Google have argued that this proposal would destroy their product offerings and halt them from future AI investments, potentially harming America's global technology leadership. Its lawyers also claim that other companies would not have the capacity to invest the necessary capital to ensure the browser is secure and competitive with rivals while maintaining a free platform for users.

Sources: Financial Times

Analyst Outlook

Alex Szewczyk – December Rate Cuts

The Federal Reserve's upcoming decision on whether to cut rates in December is hotly contested, as inflation remains sticky, and the Federal Reserve tries to guide the U.S. economy to a soft landing. With the Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditures index currently at 2.1% headline, and the core PCE at 2.7%, inflation remains above the Federal Reserve's target of 2% but has been steadily inching towards 2% over recent months. Further, November's CPI report detailed a 2.4% CPI over the preceding 12 months, and the CPE currently resides at 2.6%, up 0.2% from the prior month, both above the Fed's target rate. Further compounding the idea of a "stick" inflation faced by the U.S. economy, retail sales and import data for the past month both came in above expectations, indicating a resilient consumer spending and still growing economy.

Poor October jobs data and downward revisions to the August and September report show a cooling labor market, potentially providing impetus for a rate cut to revitalize a flagging labor market. Other arguments for a December rate cut hinge on current downward trends in PCE, CPI, and potentially cooling retail sales over the coming months. However, Chairman of the Federal Reserve Jerome Powell, recently said there were no "signals that we need to be in a hurry to lower rates." signaling a cautious stance from the board seeking to keep inflation under control. As economic data currently shows a robust economy and large potential risks of a return of inflation, especially with projected incoming policy changes, in my opinion, the Federal Reserve is unlikely to cut rates in December despite a potentially cooling labor market.

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