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Market Weekly Insights

4th November 2024

Global Outlook

S&P 500	$5,728.80 +0.41%
DJIA	$42,052.19 +0.69%
NASDAQ	$18,239.92 +0.80%
Russell 2000	$2,210.13 +0.61%
FTSE 100	$8,177.15 +0.83%
Nikkei 225	$38,053.67 -2.63%
WTI Crude	$69.33 -0.23%
10-yr Treasury	4.40%

Russia's Central Bank Raises Key Rate to 21% Amid Inflation and Economic Pressures

Russia's central bank has raised its key interest rate by 200 basis points to 21% due to higher-than-expected consumer price increases and continued inflation risks. This surpasses analysts' expectations of a 100 basis-point increase, marking the highest rate since 2003. Governor Elvira Nabiullina hinted at potential future hikes as the bank monitors inflation, which hit 9.8% in September and is projected to end 2024 between 8.0 and 8.5%.

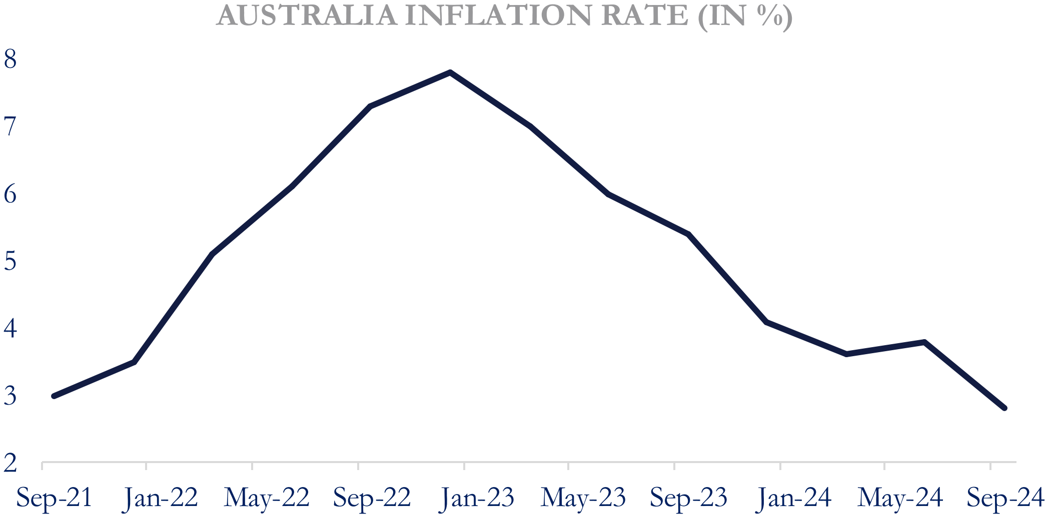
The central bank attributed inflationary pressures to high consumer expectations and structural imbalances in the Russian economy, exacerbated by worsening foreign trade conditions. Economic growth has also been strained by low oil prices and Western sanctions, which have restricted trade and weakened the ruble. Meanwhile, increased government spending—partly driven by military expenses and subsidized lending—has added further pressure. Reflecting these challenges, the Finance Ministry recently doubled its fiscal deficit forecast to 1.5 trillion rubles. Despite past stabilization efforts, persistent budgetary and inflationary issues indicate that further rate hikes may be necessary.

Australia's Inflation Rate Falls to 2.8%

Australia's annual inflation fell to 2.8% in the third quarter, reaching the Reserve Bank of Australia's (RBA) target range for the first time since mid-2021. The drop was primarily driven by temporary factors such as government rebates to offset power and home prices. However, core inflation, the RBA's preferred measure for monetary policy decisions, remained at 3.5%. Core inflation, which excludes volatile items like fuel and electricity, continues to exceed the RBA's target range of 2-3%, signaling persistent inflation risks and prompting the central bank to maintain a cautious stance on policy easing.

The inflation cooling was supported by significant declines in electricity and automotive fuel prices, although costs for essential services like rents, insurance, and childcare continued to climb. While core inflation's resilience reflects a robust labor market with stronger-than-expected employment growth, the RBA remains wary of inflationary pressures in critical sectors, tempering market expectations for imminent rate cuts. This cautious outlook reinforces stability in Australian swap markets, with expectations that any rate cuts might be delayed until mid-2025 if inflationary pressures remain persistent.

Sources: Bloomberg, Wall Street Journal



Japan's Shifting Political Landscape and Its Potential Impact on Economic Policies

Japan's economic landscape faces new challenges following a shift in its political landscape, which may impact the Bank of Japan's (BOJ) monetary policy. The recent yen weakening—down nearly 1% against the dollar—highlights mounting pressures on Japan's currency, amplified by uncertainties around domestic and U.S. policy. This drop complicates the BOJ's efforts to stabilize the economy, especially with external influences like a potentially stronger dollar following the U.S. elections, which may trigger further yen depreciation.

The BOJ has been gradually tightening monetary policy, most recently in July, when an interest rate hike prompted a significant unwinding of yen-based carry trades, impacting global markets. However, as leveraged yen positions have since declined, the BOJ now faces a more tempered environment for further tightening. Still, ongoing inflationary pressures, reflected in core inflation at 2.1% and a steady unemployment rate of 2.4%, continue to build a case for further rate increases to bolster the yen and control domestic inflation.

In the coming months, economic fundamentals—rather than political adjustments—will likely steer the BOJ's approach. As long as inflation remains above historical norms and labor markets stay tight, gradual rate hikes may support a stronger yen, restoring investor confidence in Japan's long-term economic resilience.

EU Implements Tariffs on Chinese Electric Vehicles Amid Trade Tensions

The EU's decision to impose definitive tariffs on Chinese-made battery electric vehicles (BEVs) marks a significant shift in its trade policy, highlighting protectionism in response to what it terms "unfair subsidies" by China. These duties aim to counteract perceived economic threats to Europe's EV industry but risk sparking broader trade tensions. While offering temporary relief to European EV producers, this move could lead to unintended economic consequences, particularly if China retaliates.

The divergence among EU member states reflects the complexity of these tariffs: France champions the measures, favoring domestic protection, while Germany raises concerns about retaliatory impacts on its already strained automotive sector. German automakers, including Mercedes Benz, BMW, and Volkswagen, have voiced strong opposition, warning that the tariffs could stifle European competitiveness rather than strengthen it.

Furthermore, imposing these tariffs may create price pressures within the EU, potentially increasing consumer vehicle costs. Such measures also pressure EU-China trade relations, where retaliatory action on EU exports is an emerging risk, showing the importance of seeking diplomatic resolutions.

Sources: Wall Street Journal, CNBC

America This Week

Consumer Confidence Rebounded as Sentiment Improves Over Market Conditions

The Conference Board's Consumer Confidence Index surged in October, climbing to 108.7 from 99.2 in September, reflecting improved sentiment across all aspects of the index. Consumers' perceptions of current business conditions turned positive, while views on the job market rebounded, hinting at more robust labor market data ahead. Confidence in future income and job availability also rose, suggesting optimism about economic stability in the coming months. Concerns over a potential recession dropped to their lowest level since July 2022, with fewer consumers believing the economy is already in a downturn.

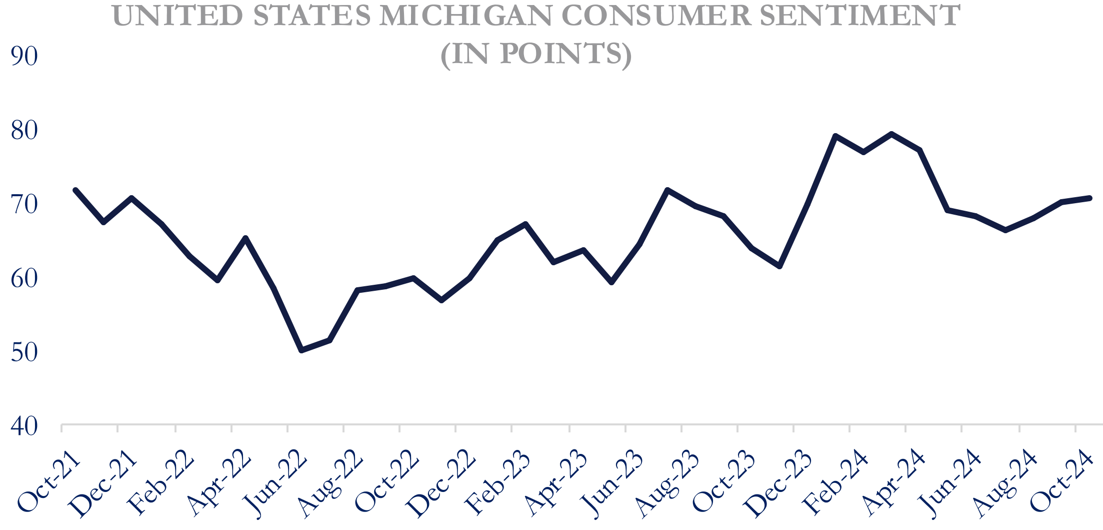
While the recent rate cut garnered consumer approval, responses indicated it fell short of ideal for many. Expectations of higher interest rates over the next 12 months rebounded to 47.5%, erasing a four-month streak of decline. Consumers also showed renewed interest in big-ticket purchases, including real estate, cars, and luxury goods. Appetite for dining out and entertainment also ticked up, indicating more robust discretionary spending—an encouraging signal for service sectors and consumer-driven growth.

The overall confidence increase suggests that Americans may see the current economic environment as stable enough to support spending, even amid higher rate expectations, as optimism returns to households and the broader economy.

Michigan Reports Strong Sentiment Backed by Improved Purchasing Power

The University of Michigan's Consumer Sentiment Index edged up to 70.5 in October, a slight increase from 70.1 in September. The Current Conditions Index rose to 64.9 from 63.3 in September, though it remains below last October's level of 70.6. Meanwhile, the Expectations Index dipped to 74.1 from 74.4 in September, though it's still higher than last October's 59.3. This month's gain largely reflects moderate improvements in purchasing conditions for durable goods, supported by easing interest rates.

Despite the uptick, many consumers still anticipate inflation to outpace income growth over the coming year, which could pressure long-term spending power as high prices persist. Perceptions of the labor market have shown slight improvements, with unemployment expectations now closer to historical averages. Lower interest rates have also bolstered views on purchasing conditions for cars and homes, though sentiment around homebuying remains cautious due to ongoing expectations of elevated rates.



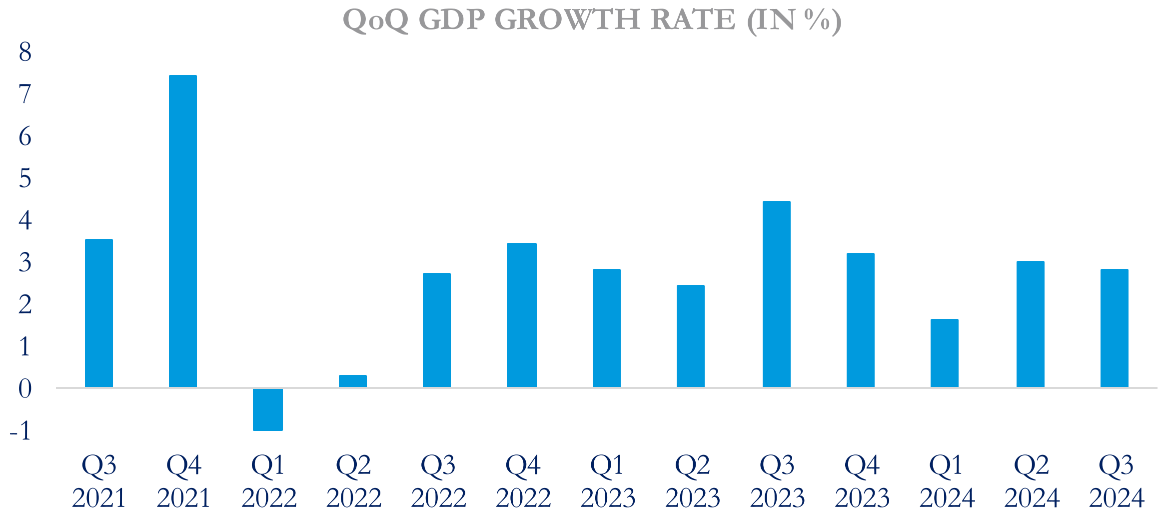
Sources: CNBC

Macro Highlights

U.S. GDP Grows to 2.8% in the Third Quarter

The United States GDP grew 2.8% year over year in the third quarter of 2024, adjusted for seasonality and inflation. While results were strong and continued the trend of robust growth the U.S. has been experiencing recently, the third quarter's data is a slowdown from 2024's second-quarter growth of 3.0% and markedly below analyst expectations of 3.1%. Although the data represents a slowdown from the rapid recent growth seen by the economy, by historical standards, it comes in above an average of roughly 2.5% in times of economic expansion, similar to today's economic climate. Furthermore, current growth rates reside well above the Federal Reserve's projected long-term growth rate of 1.8%, per their September meeting notes.

Consumer spending, a large portion of the United States' economic output, rose to a 3.7% growth rate over the third quarter. Other tailwinds for economic growth included vigorous export activity and enormous government defense spending. Business spending slowed slightly as businesses continued to face the pressures of a high interest-rate environment, even as the Federal Reserve began loosening monetary policy over the coming months.



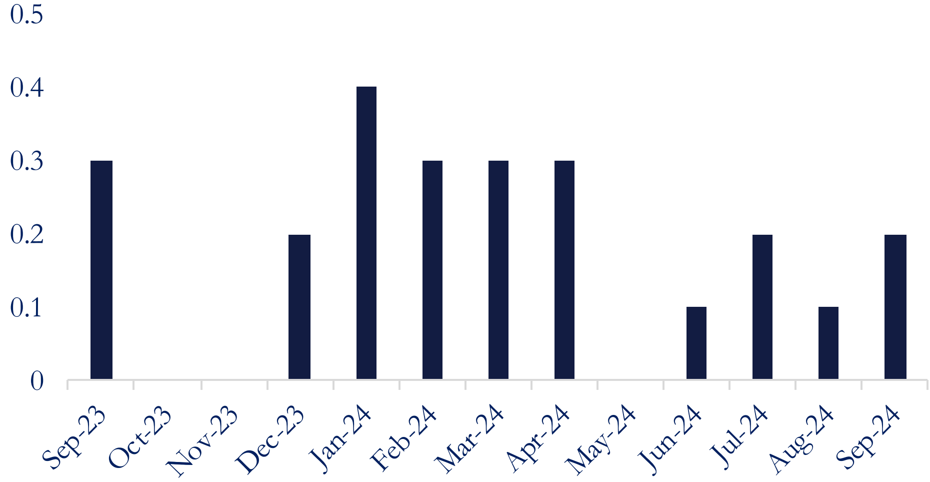
Federal Reserve's Favorite Inflation Metric Hits 2.1%

The Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditures (PCE), increased in September to 2.1%. The personal consumption expenditures price index rose by a seasonally adjusted 0.2% per month, with a 12-month inflation rate of 2.1%, matching Dow Jones estimates. This marks the lowest monthly PCE rate since February 2021, as inflation slowly progresses towards target levels. Although the headline rate nears the Federal Reserve's target of 2%, core inflation, excluding volatile food and energy prices, rose 0.3% to 2.7%. The move in inflation was driven primarily by services, with service prices increasing 0.3%, while goods prices fell 0.1%.

Further economic data continues to paint the picture of falling inflation and a surprisingly robust labor market, with unemployment filings dropping by 12,000 and coming in well below analyst expectations. Personal income and consumer spending also increased by 0.3% and 0.5%, respectively, alongside a drop to a year-long low of 4.6% in the personal savings rate.

Sources: Wall Street Journal

PCE PRICE INDEX MONTHLY CHANGE (IN %)



Industry News

Big Tech Earnings Round Out a Week of Volatility in NASDAQ

The NASDAQ led US stocks sell-off last Thursday after Meta and Microsoft's earnings were published, sparking concerns about rising AI costs. Although both Meta and Microsoft quarterly reports exceeded expectations, both companies emphasized their commitment towards deeper spending on AI infrastructure, causing worries about short-term profitability. This joint statement triggered shares in Meta and Microsoft to lower and spread the domino effect across NASDAQ.

On the contrary, Google's parent company Alphabet Q4 reported a 34% increase in profit, backed by strong growth in cloud computing demand used to operate and generate AI models. The result saw a positive ROI toward building AI infrastructures, alleviating investors' previous concerns about profitability. Chief Executive Sundar Pichai stated, "our long-term focus and investment in AI is paying off." He further mentions their commitment to more investments in infrastructure across the US, Thailand, and Uruguay.

Apple's results close out a busy week of earnings reports for the Big Tech companies. Overall, iPhone revenue increased by 6%, which is stronger than the last iPhone 15 line. With a high emphasis on Apple Intelligence, many analysts believe the steady rollout of the new AI-integrated iOS has impeded Apple from fully maximizing the narrative around this year's iPhone.

NASA's 2023 Economic Impact: Fueling Jobs and Innovation Across the U.S

NASA's 2023 economic impact report highlights the agency's significant contributions to the U.S. economy, mainly through the Moon to Mars (M2M) campaign and investments in climate change research and technology. NASA's national impact includes supporting 304,803 jobs, generating $75.6 billion in economic output, and contributing $9.6 billion in federal, state, and local taxes.

The Moon to Mars campaign, including the Artemis program, was particularly impactful. This project contributed $23.8 billion to the economy, supported 96,479 jobs, and generated $2.9 billion in tax revenue. NASA's investments in climate change research and technology also had a pronounced impact, directly employing 4,156 civil servants, generating $7.9 billion in economic output and $1 billion in tax revenue.

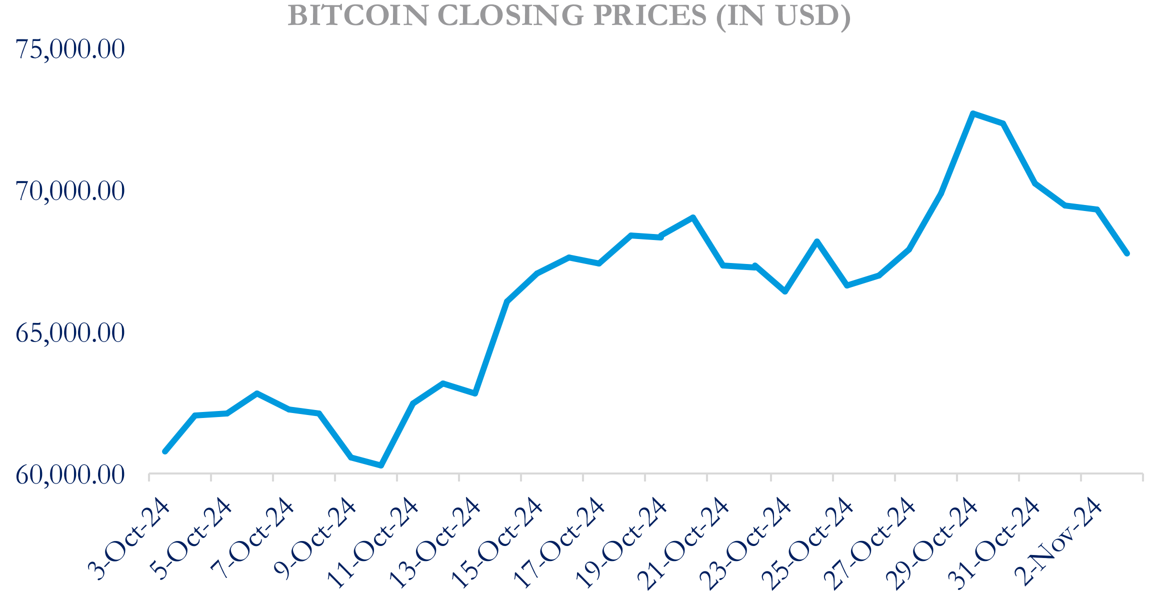
Sources: Financial Times, NASA

Notably, NASA's activities impacted every U.S. state, with 45 states seeing over $10 million in benefits and eight exceeding $1 billion. Additionally, NASA maintained 2,628 active partnerships, including 644 international agreements, and continued spinoff technologies that provide broad societal benefits, including 1,564 new tech reports and 69 patents issued in 2023. Overall, the agency's spending and innovation activities drove scientific research and technological development growth, furthering advancements in aerospace and environmental science.

Bitcoin Surges Past $73,000 Amid Election Anticipation and Market Optimism

Bitcoin's recent surge, climbing above $73,000, highlights intensified investor optimism as macroeconomic factors and market dynamics align favorably for cryptocurrency. The digital asset's 3.8% rise to $72,333.10 highlights its appeal as a hedge amid uncertain economic and regulatory climates, especially with the impending U.S. presidential election, which investors anticipate may bring a shift in regulatory policy toward crypto. With over $113 million in short liquidations reported within 24 hours, the price increase has gained further traction, underlining the market's potential for volatility.

Coinbase and MicroStrategy's 1% increases also underscore the broader market's risk-on sentiment, supported by both the resurgence of demand for Bitcoin ETFs and a stock market rally. Additionally, expectations of a possible dovish shift from the Federal Reserve, which may consider rate cuts post-election, contribute to the asset's bullish outlook. As Bitcoin approaches its all-time high, market participants anticipate its trajectory will remain positive into year-end, contingent on these macroeconomic trends, thus reinforcing Bitcoin's position as an attractive asset in today's high-inflation environment.



Siemens Boosts Industrial Software Capabilities with Potential $10.6 Billion Altair Acquisition

Siemens is looking to acquire Altair Engineering for $10.6 billion, which is expected to close in the second half of 2025. This acquisition strategically aligns with Siemens' drive to expand in the industrial software market, particularly in Product Lifecycle Management (PLM). This acquisition, Siemens' second-largest to date, positions the company to capture additional market share in a sector growing at an estimated 10% per year, transitioning Siemens from fourth to second place in PLM behind Ansys.

Sources: NASA, CNBC, Yahoo Finance

Altair's integration with Siemens' Xcelerator platform is set to enhance Siemens' AI-driven design and simulation capabilities, positioning the company more competitively against firms like MathWorks, Dassault, Synopsys, and Cadence Design Systems. The acquisition is expected to add $500 million in revenue in the mid-term, with long-term projections exceeding $1 billion annually. Siemens anticipates a positive impact on earnings per share within two years. While the 18.7% premium has raised some concerns regarding cost-efficiency, analysts consider this a strategic move to invigorate Siemens' digital industries division, though capital allocation effectiveness will remain closely monitored.

Analyst Outlook

Hoang Tran – How Will Bitcoin's Price Fair Post-Election?

Bitcoin's price has tended to experience heightened volatility during election seasons, largely due to economic and policy uncertainty that affects all financial markets. In the last month, Bitcoin's price has hovered between $58,895.21 and $73,577.21. The context of this year's election is that pro-crypto Republican nominee Donald Trump's odds of White House victory have been heightening in recent weeks. Of course, if this happens, I believe Bitcoin's price will go through the roof.

To gauge a prediction on Bitcoin's 2024 post-election trading price, we need to revisit Bitcoin's previous post-election outcomes. In 2016, the cryptocurrency fluctuated around $700 in early November 2016 to $1000 in early January 2016. In 2020, Bitcoin ranged from around $13,500 in early November 2020 to $29,000 in early January 2020. This outcome showed one of the most bullish runs in the history of Bitcoin as it became popularized as one of the most popular alternative assets for hedging inflation to date.

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Sources: Yahoo Finance