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Market Weekly Insights

15th October 2024

Global Outlook

S&P 500	$5,815.03 +0.61%
DJIA	$42,863.86 +0.97%
NASDAQ	$18,342.94 +0.33%
Russell 2000	$2,234.41 +2.10%
FTSE 100	$8,253.65 +0.19%
Nikkei 225	$39,605.80 +0.57%
WTI Crude	$75.49 -0.47%
10-yr Treasury	4.07%

Kenya's Central Bank Slashes Interest Rates Amid Economic Growth Stimulus Efforts

Amid easing inflation and a sharp rebound in the value of its currency, Kenya's central bank executed its largest interest rate cut since the COVID-19 pandemic, slashing the key rate to 12% from 12.75% in a bid to reignite economic growth. The move is part of a broader global shift toward looser monetary policies to bolster financial stability.

The rate cut follows a 12-year low in inflation and a 21% recovery in the Kenyan Shilling, providing the central bank with room to maneuver after months of tighter financial conditions. Kenya's private sector credit growth has stagnated, and second-quarter GDP growth has slowed to 4.6%, prompting concerns about the health of the broader economy. By lowering borrowing costs, policymakers hope to spur demand for loans from households and businesses, which high lending rates had constrained.

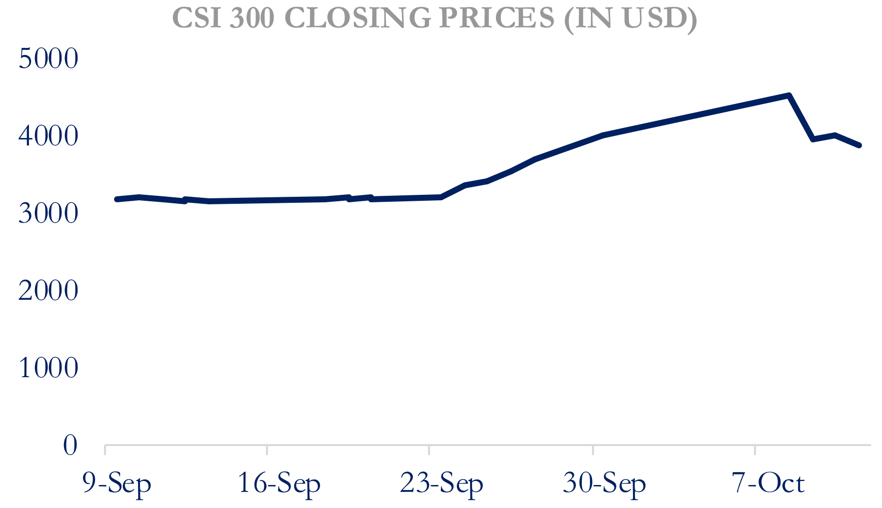
Treasury Secretary John Mbadi praised the rate reduction as a critical lever for boosting job creation, noting that falling food prices, aided by favorable weather and subsidies, will further support household consumption. By lowering the cost of credit, the government and central bank aim to unleash a wave of investment and spending that could stimulate the country's growth trajectory.

China's Market Rally Falters as Stimulus Hopes Fade. CSI Drops 7.1%

China's stock market has experienced significant volatility in the past two weeks, marked by gains and pullbacks. This period began with a notable rally, driven by Beijing's introduction of robust stimulus measures to boost economic activity and stabilize the market. Key policies included liquidity injections, interest rate cuts, and support for the property sector.

Despite the initial optimism, the rally lost some steam when expectations for further aggressive policy announcements were unmet, resulting in a historic crash of 7.1% in the CSI 300 index. Chinese stocks hit two-year highs, surging 25% just days after the meeting, but later retreated as investor anxiety grew over officials' lack of additional policy details. Analysts have pointed out that while recent measures have helped lift sentiment, there remains skepticism over the long-term recovery of the Chinese economy, especially given ongoing challenges like weak consumer demand and issues in the property sector.

Sources: Bloomberg

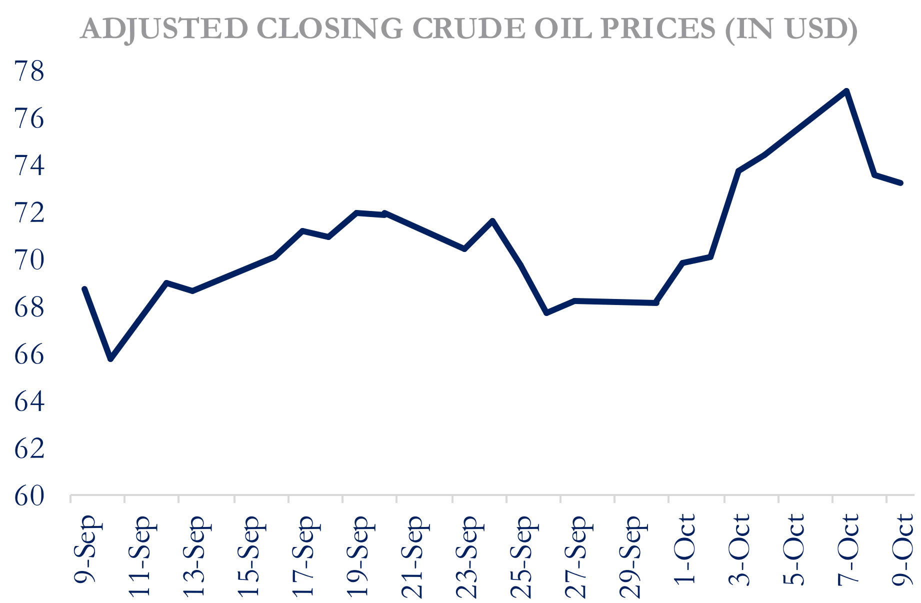


Oil Market Volatility Persists Amid Geopolitical Tensions and Weak Demand

Oil prices declined on Wednesday after U.S. data revealed a rise in crude inventories. However, losses were limited due to mounting concerns over potential supply disruptions from Iran amid escalating tensions in the Middle East and the looming impact of Hurricane Milton in the U.S.

The market remains highly sensitive to geopolitical risks, especially in the Middle East. Fears of an Israeli strike on Iranian oil infrastructure have grown, fueling investor concerns. Oil prices began to climb on Friday, October 4, 2024, with Brent crude futures surpassing $80 per barrel by Monday, October 7, 2024—marking the first time since August that prices hit this threshold. However, prices saw a sharp drop on Wednesday, October 9, 2024, following reports of a possible ceasefire agreement between Hezbollah and Israel. Despite this, investors remain cautious about supply disruptions in the region, especially as U.S. President Biden continues discussions with Israeli Prime Minister Netanyahu, adding further uncertainty.

In addition to geopolitical factors, sluggish economic growth in China—the world's largest crude importer—continues to weigh on market sentiment. Reduced demand from China, combined with revised forecasts from the U.S. Energy Information Administration (EIA), curbs hopes for a swift recovery in oil prices.



Sources: Bloomberg, Reuters

America This Week

Dockworkers' Strike Ends with Wage Deal, Averting Major Economic Disruption Ahead of Holiday Season

The strike by 45,000 dockworkers at East and Gulf Coast ports, which ended after a three-day stoppage, resulted in a deal that significantly benefits workers while averting a prolonged disruption to the U.S. economy. The International Longshoremen's Association (ILA) secured a substantial wage increase: an immediate $4 per hour raise, totaling 62% over the six-year contract. While the union's demand for a 77% increase wasn't met, the deal exceeded prior offers from management.

The rapid resolution of the strike eased economists' estimates that the strike could cost the U.S. economy between $4.5 billion and $7.5 billion per week, affecting about 100,000 workers in adjacent sectors like transportation and warehousing. In addition, businesses and consumers also benefited as the resolution prevented potential shortages and price hikes. Although supply chains were briefly interrupted, Johnathan Gold, NRF Vice president for Supply Chain and Customs Policy, states that affected ports will recover within a few weeks. Furthermore, ports are expected to efficiently handle the influx of imports as the holiday season approaches.

DOJ Intensifies Antitrust Action Against Google

The U.S. Department of Justice (DOJ) has intensified its antitrust case against Google, outlining a series of proposed remedies, including a potential breakup of the tech giant aimed at curbing the corporation's dominance in the search engine market. At roughly 57% of Google's revenue, any impact on their search engine dominance will significantly impact the tech world. The DOJ's filing, submitted late Tuesday, suggests a range of measures, including the potential end to Google's exclusive search agreements with Apple and Samsung, prohibiting certain types of data tracking, and considering structural changes to prevent Google from using products like Chrome and Android to boost its search engine unfairly.

The DOJ's proposals stem from an August ruling, which found Google had violated antitrust laws by maintaining an illegal monopoly in the search market. The case focused on Google's substantial market share—over 90%—and its strategic contracts, such as its agreements with Apple to be the iPhone's default search engine. The DOJ also highlighted concerns over Google's data tracking practices and their impact on competition. Proposals include enforcing data-sharing obligations and limiting privacy practices that could stifle competition. While Google has pledged to appeal the ruling, calling the proposals "radical," the case marks a significant moment in Big Tech regulation.

Macro Highlights

U.S. Labor Market Surges in September

The U.S. labor market delivered a surprising surge in September, with employers adding 254,000 jobs, significantly outpacing consensus estimates of roughly 150,000. Additionally, the unemployment rate dipped to 4.1%, signaling renewed strength in the labor sector ahead of the November Federal Reserve meeting. This stronger-than-expected report suggests a soft landing for the economy—where inflation eases without significant job losses.

As inflationary pressures have subsided over the past few months, the Federal Reserve's focus has notably shifted from curbing runaway inflation toward avoiding a major deterioration in the labor market. September's robust job growth supports the case for more cautious rate cuts. This data will likely see the Fed opting for a smaller, quarter-point rate reduction instead of the half-percentage-point cut previously speculated in order to maintain resilience in the labor market.

Sources: New York Times, CNBC, Wall Street Journal

For markets, the report was a mixed signal. The Dow Jones rose by 0.8% as investors weighed the good economic news with their hopes for another outsized rate cut in November. While September's robust data provides optimism, it highlights the delicate balance policymakers, and the Federal Reserve must maintain to support growth while controlling inflation.

10-Year Treasury Yield Surpasses 4% Amid Strong Labor Data and Evolving Rate-Cut Expectations

The 10-year Treasury yield, a key benchmark for mortgages and car loans, rose above 4% on Monday, influenced by robust labor market data, despite the initiation of a Federal Reserve rate-cutting campaign last month. The yield increased by more than four basis points to 4.024%, its highest level since early August, bouncing back from a 2024 low of approximately 3.58% just over a month ago. Meanwhile, the yield on the 2-year Treasury climbed nearly six basis points to 3.989%.

Friday's surge in Treasury yields followed a better-than-expected September jobs report, which showed nonfarm payrolls growing by 254,000—well above the 150,000 predicted by Dow Jones economists. The CME Group's FedWatch tool now indicates a 91% likelihood of a quarter-point rate cut at the Fed's next meeting in November.

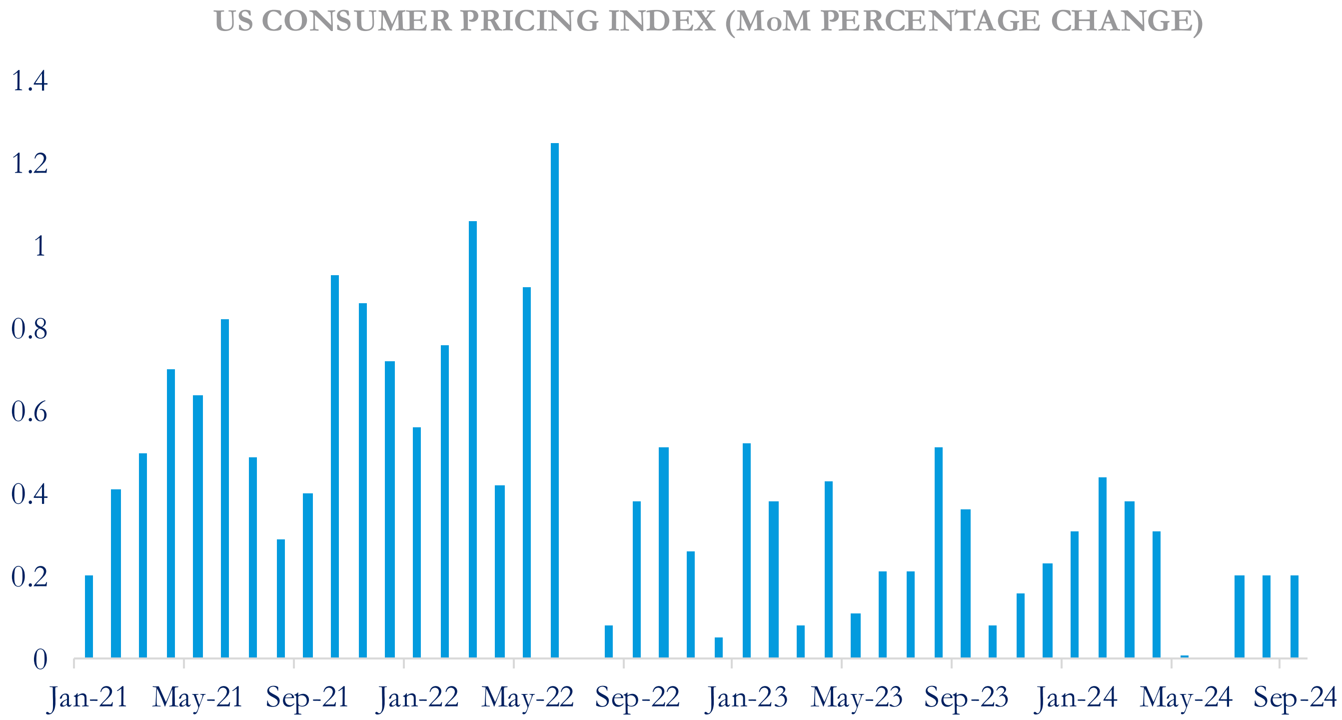
Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets, noted that the labor report may lead the Fed to reconsider the timing of any cuts. Rising oil prices driven by geopolitical tensions in the Middle East and a stimulus plan in China also contribute to concerns about potential inflation, which may push some investors away from bonds and raise yields.

CPI Report: September Inflation Hits 2.4% with Food Costs on the Rise

The September Consumer Price Index (CPI) showed a seasonally adjusted increase of 0.2%, raising the annual inflation rate to 2.4%, slightly above expectations. Core prices, excluding food and energy, rose by 0.3%, pushing the annual rate to 3.3%. While these figures indicate ongoing inflationary pressures, the annual rate marks a decrease from 2.5% in August and is the lowest since February 2021.

Sources: Wall Street Journal, CNN, CNBC

Food prices, with a 0.4% increase, were a significant contributor to the rise in inflation, while shelter costs also edged up. Conversely, energy prices saw a 1.9% decline. Stock futures dipped following the CPI report, but traders increased their expectations for a quarter-point rate cut by the Federal Reserve at its upcoming November meeting. Despite the month's numbers being higher than forecast, Chicago Fed President Austan Goolsbee emphasized the importance of viewing inflation trends over the long term rather than reacting to individual monthly fluctuations.



Industry News

Mytheresa Expands Reach with Acquisition of Richemont's YNAP

Richemont, the Swiss luxury conglomerate that owns Cartier and Van Cleef & Arpels, has agreed to sell its struggling e-commerce business Yoox Net-A-Porter (YNAP) to luxury online platform Mytheresa. This deal comes nearly a year after a previous attempt to sell YNAP to Farfetch fell through due to financial difficulties. The deal, expected to close in the first half of 2025, sees Richemont taking a €1.3 billion write-down in exchange for €555 million in cash and no debt for a 33% stake in Mytheresa, along with a €100 million revolving credit facility for YNAP.

The luxury industry has faced difficulties off late, including a slowdown in demand, particularly in China, which has been a critical growth driver for the sector. Additionally, online platforms continue to struggle following the end of the pandemic-induced sales boom and the reduction of affluent consumers as a result of inflation and pricing fatigue. The restructuring of YNAP's luxury division into Mytheresa's operations represents an opportunity for Mytheresa to expand its global reach, particularly in the US and China markets, where Net-a-Porter has a stronger presence. Furthermore, the deal allows Richemont to focus on its core luxury brands while maintaining a stake in the online luxury market through its investment in Mytheresa.

Sources: CNBC. Wall Street Journal

Microsoft Plans $4.8 Billion Investment in AI and Cloud Infrastructure in Italy

Microsoft plans to spend roughly $4.75 billion over the next two years on cloud and AI infrastructure in Italy. This is Microsoft's largest investment to date in the country, and tech giants are betting on expanding their facilities and services to gain an edge over rivals in the AI race.

Advancements in AI have ushered in a wave of spending from companies seeking to bolster their offering and satisfy demand for increasingly powerful data centers and cloud services. Amazon is set to invest 17.8 billion euros through 2040 to expand its logistics network and cloud infrastructure in Germany. The e-commerce juggernaut also plans to invest $15.7 billion over the next decade to expand cloud services in Spain. Microsoft said its investment would make Northern Italy one of the company's largest cloud regions in Europe. This commitment is expected to provide one million Italian jobs in AI and digital skills by 2025.

Boeing's Machinist Strike Deepens Financial Strain and Production Delays

In an already tumultuous year for the airplane manufacturer, Boeing's machinist strike, now in its fourth week, is exerting significant pressure on the company and the broader aerospace industry. With Boeing lagging behind competitor Airbus in deliveries for 2024, the strike threatens to disrupt production further and intensify financial strain. The work stoppage has delayed Boeing's ramp-up of 737 Max production, initially set to increase to 38 per month, pushing that target back by a year. This delay is critical as deliveries constitute a significant source of Boeing's revenue, with customers typically making final payments upon receiving their aircraft.

The strike, which began after machinists overwhelmingly rejected a tentative pay-raise agreement with Boeing, is not just a short-term inconvenience. Each day the workers remain off the job, the company loses tens of millions of dollars, exacerbating an already challenging financial situation. Boeing, which has not posted a full-year profit since 2018, has burned through more than $8 billion in 2024, and a prolonged strike could worsen its financial outlook. Analysts have raised concerns about Boeing's credit rating, which is currently floating just above junk status and is at real risk of further downgrades.

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Sources: Wall Street Journal, New York Times