Market Weekly Insights

19th February 2024

Global Outlook

S&P 500	$5,005.57 -0.48%
DJIA	$38,627.99 -0.37%
NASDAQ	$15,775.65 -0.82%
Russell 2000	$2,032.74 -1.39%
FTSE 100	$7,711.71 +1.50%
Nikkei 225	$38,487.24 +0.86%
WTI Crude	$79.22 +0.04%
10-yr Treasury	4.3%

Commonwealth Bank of Australia Warns of Economic Challenges Amidst Rising Interest Rates and Consumer Strain

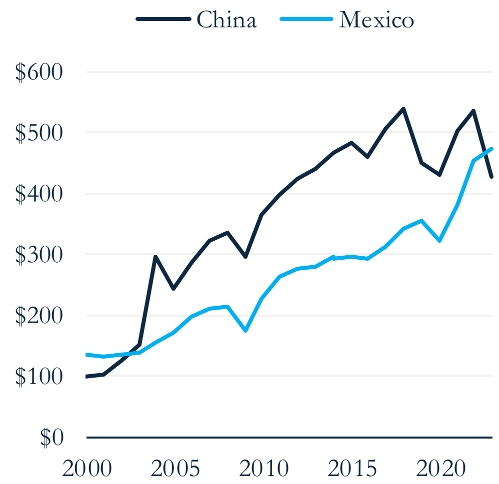
Last Wednesday, the Commonwealth Bank of Australia (CBA) issued a cautionary statement with looming economic challenges for Australians. Elevated interest rates and inflationary pressures have dampened consumer confidence across the nation. Matt Comyn, CEO of the CBA, underscored the anticipated strain on households and businesses, citing the lagged effects of cash rate increases. With these factors in play, CBA foresees a continuation of financial pressures in 2024, potentially leading to an uptick in arrears and impairments. The market response was evident as CBA shares declined by 2.4% on the same day.

Comyn noted that the fall in consumer confidence and struggles in Australia's economy can be attributed to the increased cost of living, resulting in decreased consumer spending. Although inflation is falling, it is still too high. Comyn expects Australia's inflation to fall below 1.5% in a soft landing, yet little optimism exists.

Mexico Surpasses China as Top Source of U.S. Imports

Amidst shifting global trade dynamics, the United States has seen a significant change in its import patterns, with Mexico emerging as the top source of official imports, surpassing China for the first time in two decades. The pandemic-induced disruptions in global supply chains and escalating trade tensions between the United States and China have spurred American businesses to seek alternative manufacturing destinations. With its proximity to North America and stable trading relationships, Mexico has become an attractive option for companies looking to diversify their production bases.

US IMPORTS OF GOODS BY ORIGIN
(in billions of $)



Experts suggest that the Biden administration's focus on climate legislation and concerns over geopolitical dependencies have further bolstered Mexico's appeal as a manufacturing hub. Jesús Carmona, President for Mexico and Central America at Schneider Electric points to these factors as drivers behind the company's decision to expand its operations in Mexico, contributing to job creation and economic growth in the region.

Amidst a backdrop of economic transformation, Mexico stands resilient as foreign direct investment surged by 21 percent in 2023, as reported by the United Nations Conference on Trade and Development.

Sources: Wall Street Journal, Reuters, US Census Bureau, New York Times

This compelling growth trajectory solidifies Mexico's allure as a premier investment destination, reinforcing its pivotal role for businesses in pursuit of stability and unparalleled access to the expansive North American market.

Exports Rise Significantly in South Korea

South Korea experienced an export surge in January, witnessing an 18% year-on-year increase, reaching $54.69 billion.

This growth, mainly driven by solid demand for semiconductors and other goods, marked the fourth consecutive month of expansion. The surge in semiconductor shipments played a significant role, rising by 56% compared to last year. Despite a 7.8% decline in imports, a trade surplus of $300 million was achieved.

The United States also saw a 27% increase in South Korean exports, making it the second-largest trading partner after briefly replacing China in December. Shipments to China rose by 16%, ending a 19-month streak of monthly declines. Trade officials anticipate a recovery in South Korea's exports in 2024, following a 7.4% contraction in 2023. As a result, South Korea continues to be one of the largest exporters in Asia.

America This Week

Lyft's Stock Surge

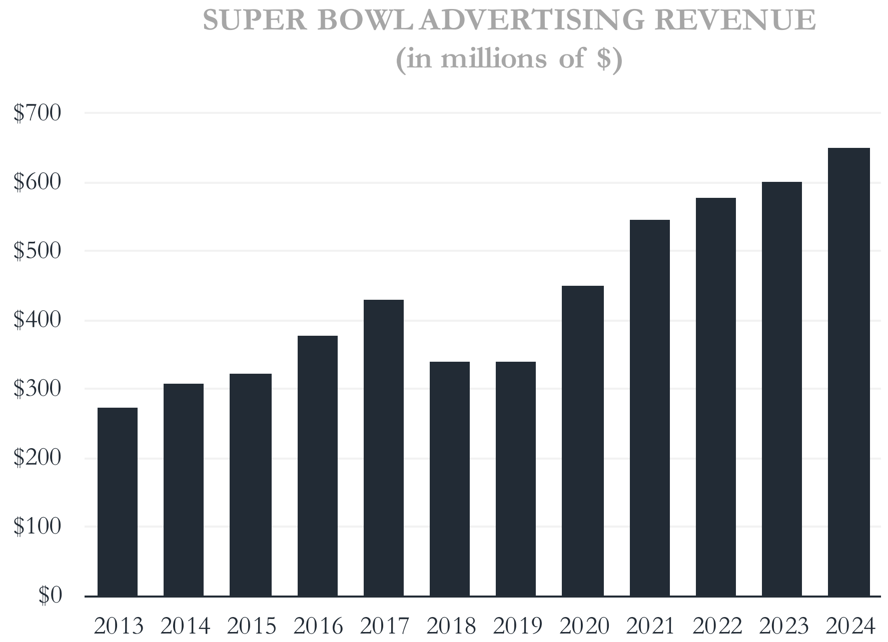
Lyft's stock experienced a significant surge of over 60% in after-hours trading due to an earnings release error. The company mistakenly added an extra zero to a key profitability metric, stating that one of its profit margins was expected to expand by 500 basis points instead of the actual forecast of 50 basis points. This triggered a buying frenzy, likely influenced by automated trading systems. The CFO quickly clarified the mistake during an analyst call. Despite the correction, Lyft's shares remained up around 16% in later after-hours trading.

The earnings typo overshadowed positive results, including better-than-expected bookings for the current quarter and a projection of being cash flow positive in 2024. Though not yet profitable, Lyft has been reducing losses and aims to generate more cash than it spends in 2024. The company has faced challenges against its larger competitor, Uber, and has seen an 85% decline in its stock value since listing in 2019. The recent leadership changes and strategic shifts indicate Lyft's efforts to navigate the competitive landscape.

The $600 Million Football Game

The Super Bowl is an annual pinnacle of viewership, with this year's spectacle drawing in a staggering 123.7 million viewers. Yet, its significance transcends mere entertainment, manifesting a profound economic impact particularly within its host city. In the case of this year's host, Las Vegas, the economic surge amounted to a staggering $600 million. Las Vegas witnessed a notable surge in economic activity, propelled by the influx of Super Bowl visitors. Hotel rates skyrocketed, with the average nightly rate reaching an impressive $573 from the Friday preceding the game until Sunday - a substantial 166.5% increase compared to the previous year's rates in Glendale, Arizona.

Sources: Wall Street Journal, YahooFinance



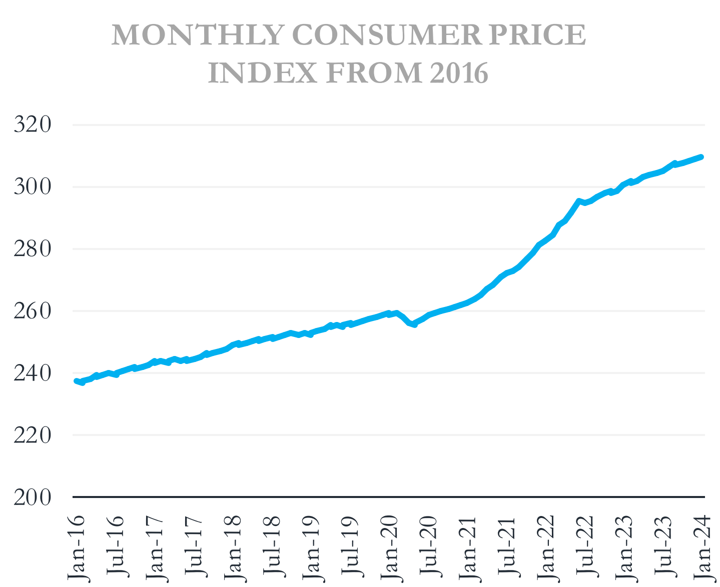
Americans collectively wagered approximately $23.1 billion on the game, reflecting a substantial 44% increase compared to the previous year's wagers. Notably, popular sportsbooks such as FanDuel and DraftKings enticed bettors with numerous unique prop bets, ranging from the coin toss to the duration of the National Anthem, captivating a wider audience and further boosting betting volumes. While most wagers center on predicting the game's outcome, these distinctive prop bets are lucrative avenues for sportsbooks to generate additional revenue.

The Super Bowl's economic impact, exceeding half a billion dollars for the U.S. economy, can be attributed to various factors, including the exorbitant average ticket price of $8,600, the colossal viewership figures, the surge in hotel bookings, and the substantial gambling activity that characterizes the event.

Macro Highlights

Consumer Prices Rose 3.1% in January

On Tuesday the Labor Department reported that the Consumer Price Index (CPI) rose by 3.1% compared to the previous year, down from December's 3.4%, marking the lowest reading since June. However, this figure was higher than the predicted 2.9%, disappointing investors hoping for earlier rate cuts. Prices for groceries and essentials remain high compared to pre-pandemic, affecting consumer confidence and spending habits. Prices for groceries and essentials remain high compared to pre-pandemic, affecting consumer confidence and spending habits. The release hurt markets, causing a sharp decline in stocks and a rise in bond yields. The Dow Jones Industrial Average experienced its worst one-day decline since March.



Investors had anticipated rate cuts due to the perception that disinflation was manageable in 2023, with inflation decreasing from 6.4% to 3.4% without rising unemployment or recession. However, the January report raises concerns that the path to the Fed's 2% inflation target could be uneven.

Sources: Wall Street Journal, YahooFinance, Federal Reserve Bank of St. Louis

Interest-rate futures now suggest a June start date is more probable for rate cuts, as opposed to May.

The inflation report contradicts the expectation of imminent rate cuts, which fueled the stock market rally. Fed officials, including Chair Jerome Powell, have been dismissive of these expectations, emphasizing the need for more evidence that inflation is returning to the 2% target. The Fed's next meeting in March is unlikely to result in rate cuts, as officials want further confirmation of inflation trends. Core prices, excluding food and energy, were up 3.9% in January, consistent with December's gain. Powell has emphasized the importance of sustained good data over several months rather than immediate improvement.

Homebuyers Pull Back Amidst Surging Mortage Rates

Mortgage rates surged this week as the average mortgage rate for a 30-year fixed loan peaked at 7.13%, up from the previous week's 6.97%. The rising mortgage rates have affected both homebuyers and sellers. The increase in mortgage rates contributes to affordability challenges of homebuying resulting in a decrease of 2.3% in total mortgage application volume according to the Mortgage Bankers Association. In addition, housing market activity stalled slightly as listings for new homes dropped by 1.2% and applications for refinancing a home loan fell by 2%. Homeowners are hesitant to sell since many have current mortgage rates below current levels and selling often means taking on a higher rate.

As mortgage rates continue to rise, many customers are paying close attention to announcements from the Federal Reserve. Mortgage rates are distinct from interest rates, but both have generally been moving in the same direction. The Federal Reserve's decision to not cut interest rates early this year has resulted in many buyers and sellers eagerly waiting for possible interest cuts in mid-2024.

Industry News

Gilead Acquires CymaBay for $4.3 billion Amid FDA Priority Review for Promising Cirrhosis Treatment

CymaBay Therapeutics, a biotech company with a focus on making therapies for patients with liver and other chronic diseases, saw a 25% increase in their share price on Monday, February 11, after they were acquired by Gilead Sciences for $4.3 billion. The acquisition is a cash deal at $32.50 per share, which is a 27% premium to the prior Friday's closing price of $25.69. Moreover, CymaBay's all-time high sat at $26.35 a share. Gilead has a large liver-treatment portfolio, it generated $2.8 billion in revenue in 2023, and they are looking to increase that number with their purchase of CymaBay.

CymaBay was granted a priority review from the US Food and Drug Administration on their application for a treatment that will serve adults with cirrhosis, Gilead saw this opportunity and decided to capitalize before it's too late. This priority review was granted as the FDA believes their treatment will provide significant advancements to a serious disease. The target action date is August 14, there is optimism for this drug as the FDA is not planning on discussing the application further.

Sources: Wall Street Journal, CNBC, RedFin

Understanding the Shift in Electric Vehicle Demand Dynamics

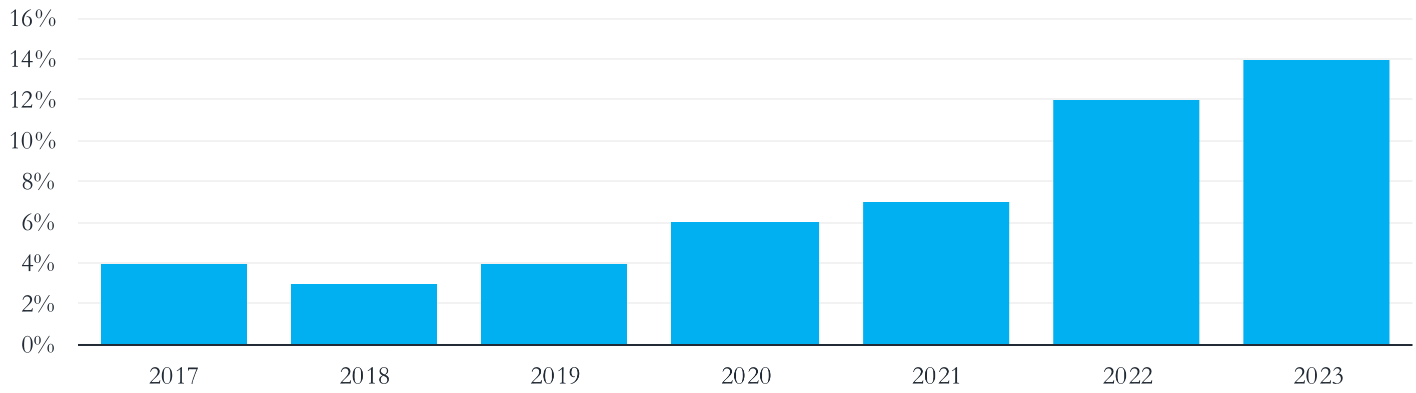
In 2020, the landscape of electric vehicles (EVs) witnessed an unforeseen surge in popularity, propelled by the meteoric success of Tesla and a heightened global consciousness toward environmental sustainability, buoyed by supportive government policies. This momentum prompted a swift response from major automotive players, as they pivoted to unveil robust plans for EV models, signaling a decisive shift away from traditional gas-powered vehicles. As the market valuation of EVs soared and their appeal continued to ascend, these vehicles emerged as pivotal catalysts shaping the trajectory of the future automotive market.

2023 was expected to be a year of record-breaking profits but fell short of expectations. Companies noticed that EV sales were slowing down. Many potential buyers were shown to be more hesitant when buying an EV due to concerns over repair costs, life expectancy of batteries, and charging times. Additionally, interest rates rose from 4.9% to 7% leaving many consumers unable to purchase EV vehicles. The decrease in demand for EVs as well as the tougher economic environment forced many automakers to recalibrate their plans for 2024. Major companies such as Ford and General Motors (GM) have reduced their EV investment and have downsized their EV production capabilities. Even though the overly optimistic expectations for the EV industry resulted in mass miscalculations for major automobile companies, many industry executives remain confident that EVs will eventually take off.

China's Chip Industry Continues to Gain Momentum

In recent years, the semiconductor industry has emerged as a focal point of geopolitical and economic friction between the United States and China. The pivotal 2022 decision by the US to suspend semiconductor exports to China compelled the Chinese government to allocate substantial resources to the "Information Innovation" project, aimed at mitigating dependence on foreign semiconductor technology.

MARKET SHARE OF CHIP PRODUCERS IN CHINA'S DOMESTIC MARKET
(in %)



Sources: The Street, Wall Street Journal, Economist, Globely News

China's semiconductor landscape, dominated by key players such as HiSilicon and Semiconductor Manufacturing International Corporation (SMIC), has witnessed notable advancements in design and manufacturing capabilities. In a significant move in August 2023, Huawei disrupted the market with the launch of the Huawei 60 Smartphone, featuring a cutting-edge 7nm chip developed by SMIC. This development caught the US off guard, underscoring SMIC's rapid progress in semiconductor manufacturing prowess. Despite these strides, China's semiconductor industry still lags behind global counterparts like Samsung and TSMC. However, with continued government investment towards achieving chip self-sufficiency, China's ascent as a major contender in the semiconductor supply chain looms on the horizon.

KKR and Veritas Capital Forge $11 Billion Partnership in Cotiviti Acquisition

KKR & Co. and Veritas Capital have struck a landmark deal to acquire equal ownership stakes in Cotiviti, a healthcare technology business, in a transaction valuing the company at around $11 billion. Under the agreement, Veritas plans to inject new capital into Cotiviti, while KKR will provide funding for the company's growth initiatives. This move marks a significant development in the private equity landscape, particularly amidst a slowdown in dealmaking attributed to rising interest rates.

Cotiviti is a leading provider of regulatory and cost-control technology in the healthcare industry, serving both healthcare providers and insurers. With a client base of over 180 healthcare payers, including some of the largest health plans in the United States, Cotiviti holds a prominent position in the market. The acquisition of Cotiviti represents a significant opportunity for both KKR and Veritas, aligning with their strategic objectives in the healthcare sector.

The deal, anticipated to close in the second quarter pending regulatory approval, underscores renewed confidence in large private-equity mergers following a sluggish 2023. KKR's financing strategy, utilizing bank debt rather than private lenders, signals evolving dynamics in the financing landscape, with traditional banks exhibiting reluctance due to high capital costs.

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Sources: Economist, Globely News, Wall Street Journal