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Market Weekly Insights

4th March 2024

Global Outlook

Unrest and Inflation: Nigeria's Struggle Under President Tinubu's Economic Reforms

The Nigeria Labour Congress (NLC) led protests in major cities as government employees and union workers protested soaring inflation and economic hardships. Nigeria has experienced economic shocks from global events, including the war in Ukraine, and domestic issues, partly due to President Bola Tinubu's reforms since taking office last May.

President Bola Tinubu's policies, including ending fuel subsidies and the policy of pegging the price of the currency, the naira, to the US dollar, have led to the naira's value to plunge by more than two-thirds, briefly hitting an all-time low last week and doubled gasoline prices. Inflation is at nearly 30%, the highest in decades. Despite a previous deal struck by the government and unions to end strikes last October, unrest persists due to the government's failure to deliver on promises that included a monthly wage increase of approximately $20 for all workers for six months and payments of roughly $15 for three months to millions of vulnerable households.

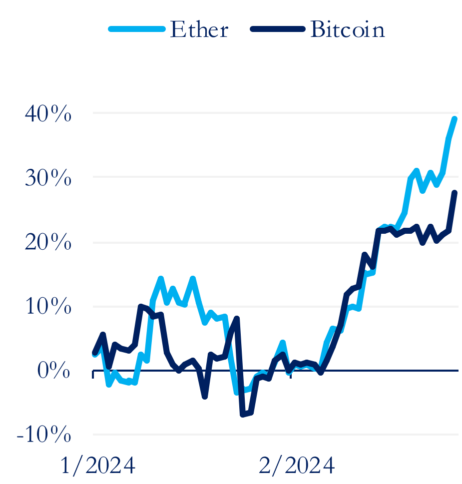
S&P 500	$5,137.08 +0.80%
DJIA	$39,087.38 +0.23%
NASDAQ	$16,274.94 +1.14%
Russell 2000	$2,076.39 +1.05%
FTSE 100	$7,682.50 +0.69%
Nikkei 225	$39,910.82 +1.90%
WTI Crude	$79.81 +1.98%
10-yr Treasury	4.2%

America This Week

BlackRock and Fidelity Seek Approval for First U.S.-Listed Ether ETFs Amid Growing Crypto Enthusiasm

BlackRock and Fidelity have filed applications to launch the first U.S.-listed ETFs holding Ether, the second-largest cryptocurrency after Bitcoin. Ether, the Ethereum blockchain token, recently surpassed $3,000 as approvals are expected. The SEC faces a May deadline to approve or reject the first spot ether ETF application, and North of 10 firms are awaiting the decision. Critics argue that approving these ETFs may allow funds backed by more speculative crypto assets to expose investors to higher risks.

CHINA'S FIVE-YEAR LOAN PRIME RATE (in %)



The SEC's approval of bitcoin ETFs in January has led some analysts to believe that ether ETFs will also receive approval. However, there are key differences between Ether and Bitcoin, such as regulatory classification and the staking process. These differences present potential hurdles to approval. If Ether ETFs are approved, these funds are not expected to be as popular as bitcoin, but Wall Street firms are still keen to offer them following the success of spot bitcoin ETFs. Bitcoin has surged 28.61% YTD, and Ether is likely to see a similar, but milder, surge if approved.

Sources: BBC, Wall Street Journal, Reuters, YahooFinance

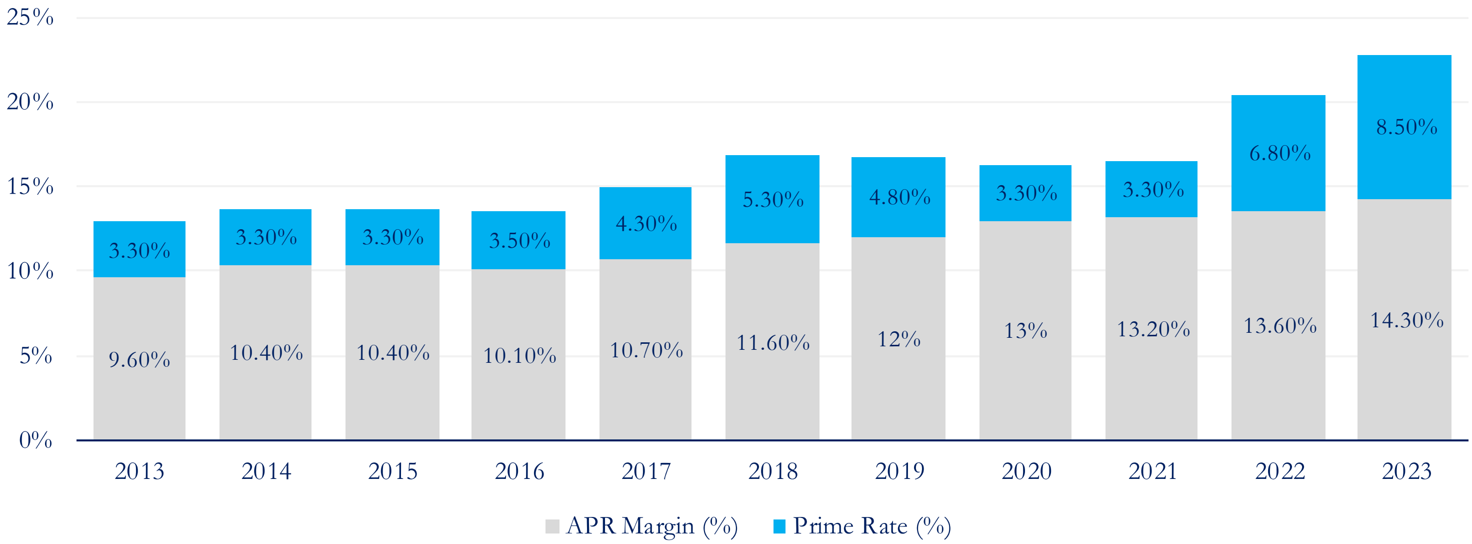
Credit Cards are Charging More 'Excess' Interest than Ever, Consumer Watchdog Says

A recent government report reveals that credit card companies have been significantly increasing interest rates, hitting record highs, and padding their profits. The Consumer Financial Protection Bureau (CFPB) analysis indicates that the share of annual percentage rates (APR) charged beyond lending costs has almost doubled over the last decade. This rate surge has cost borrowers an estimated $25 billion in 2023 alone.

The average credit card APR has risen sharply from approximately 12.9% in late 2013 to 22.8% in 2023, reaching its highest level since Federal Reserve data collection began. Correspondingly, the average APR margin, representing the interest rates card issuers charge beyond the prime rate, has climbed to 14.3% from 9.6% over the past ten years.

The report suggests that such excessive interest burdens push consumers into persistent debt, accumulating more in interest and fees than paying toward the principal each year. This news arrives amid Capital One's proposed acquisition of Discover Financial and concerns regarding industry consolidation. The CFPB warns that such consolidation risks driving up costs and limiting consumer options.

AVERAGE APR'S ON ACCOUNTS ASSESSED INTEREST AND AVERAGE PRIME RATE AT YEAR END
(in %)



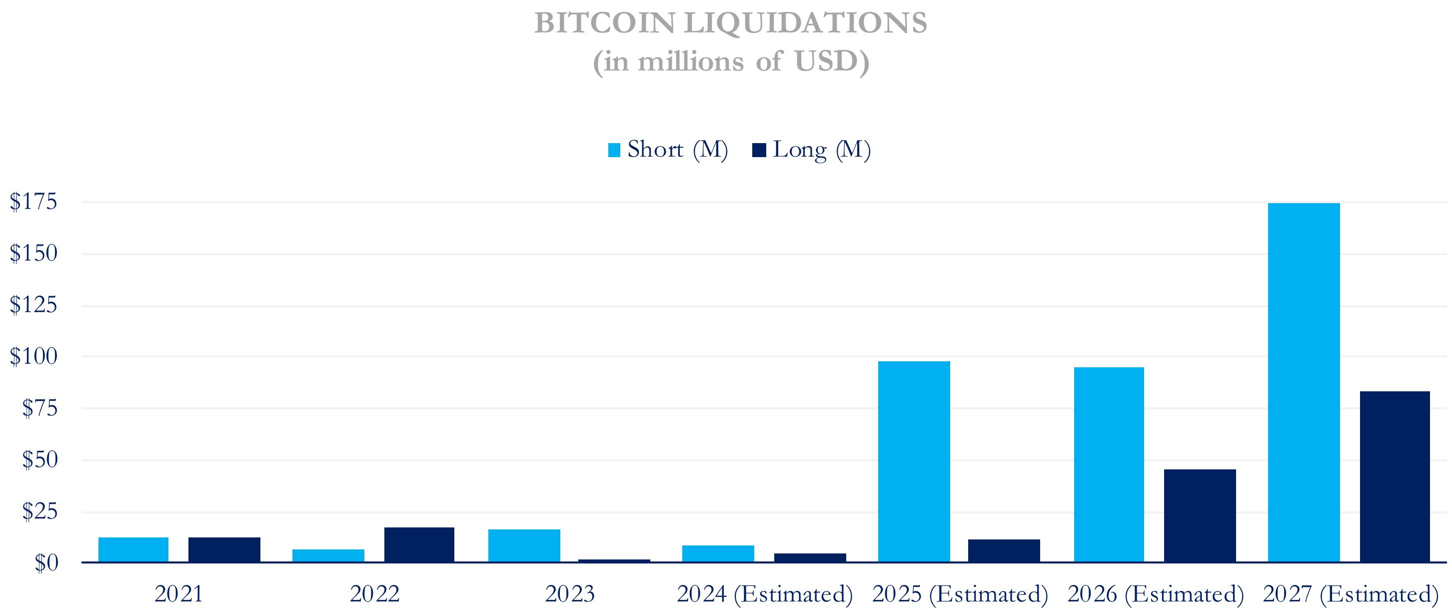
Bitcoin Nears All-Time High

On Wednesday, Bitcoin surged above $63,000, reaching its highest level since November 2021. Currently priced around $61,000, it briefly touched $64,000 before retracing. The cryptocurrency is just below its all-time high of $68,982.20. Bitcoin has gained nearly 20% this week, surpassing 40% for 2024. Both bulls and bears experienced significant liquidations, with $176 million in short liquidations and $86.1 million in long liquidations over the past 24 hours.

With the launch of ETFs making crypto more accessible to institutional investors and the upcoming halving event in April, investors expect a new record. Antoni Trenchev from Nexo anticipates resistance near $69,000 but suggests that breaking through $60,000 could attract investors, especially retail ones. Grayscale Investments' Zach Pandl notes increasing demand colliding with tight supply, driven by the new U.S. spot bitcoin ETFs.

Sources: NBC, Federal Reserve, CNBC

The approaching event in April is expected to reduce supply further, supporting the ongoing surge. Bitcoin-related equities initially rose, but some retraced after the cryptocurrency's pullback. Coinbase faced user-reported issues but closed higher by 0.8%.



Macro Highlights

Wall Street Treads Carefully Amidst Recent Economic Data

Some corners of Wall Street are cautious about recent economic data suggesting the U.S. economy is too hot. Despite high-profile reports on inflation, economic growth, and the labor market leaning towards the too-warm side, many economists downplay these surprises, citing other less alarming data and unique measurement challenges at the start of the year. Investors, hoping for growth strong enough to avoid a recession but mild sufficient to allow interest rate cuts, are receptive to these arguments. Concerns about inflation persist, with the S&P 500 close to a record high. Analysts caution against overreacting to volatile data, emphasizing a balanced assessment. The recent uptick in price pressures is likely a one-time event related to businesses resetting prices at the beginning of the year.

The unusual data anomalies observed in January extend to nonfarm payrolls, where an unexpectedly significant increase is attributed to an overly aggressive seasonal adjustment. Investors are now anticipating weaker numbers in the coming months, anticipating a seasonal rebound in hiring. Despite concerns, the decline in retail sales in January is attributed to adverse winter weather conditions, while overall GDP growth figures remain strong. However, the alternative growth measure, Gross Domestic Income (GDI), consistently lags behind GDP figures, raising concerns about achieving a soft economic landing with stable inflation. Interest-rate futures are suggesting a likelihood of over 50% for rate cuts by June, indicating investor expectations of multiple rate reductions by the year's end. Analysts express varying levels of worry regarding achieving a soft landing, with some concerned about the desire to cut rates while the labor market hasn't fully balanced.

Sources: CNBC, CoinGlass, Wall Street Journal

Industry News

Chevron's Acquisition of Hess in Jeopardy

Chevron has warned investors that Exxon Mobil and China's Cnooc assert their right to pre-empt Chevron's bid for a stake in an oil project off Guyana. Chevron's $53 billion all-stock acquisition of Hess, proposed last year, largely hinges on Hess's 30% stake in an Exxon-led drilling consortium in Guyanese waters. Exxon and Cnooc claim they can counter Chevron's offer, potentially derailing the deal. Chevron and Hess dispute this right and believe talks will result in an outcome allowing the agreement to proceed without delay.

The disagreement centers on the terms of a joint operating agreement signed over a decade ago. If talks fail, arbitration could be pursued. Analysts see this as a setback for Chevron's CEO Mike Wirth, who is seeking to join Guyana's oil boom. With a 45% share in the Guyana oil project, Exxon has played a significant role in its development. The dispute adds complexity to Chevron's most important acquisition in years.

Tech Industry's Wave of Layoffs Indicate a Shift Towards AI and Efficiency

The tech industry continues to experience many layoffs, with companies like DocuSign, Snap, Okta, Zoom, Google, and Amazon letting their workforce go to help cut costs and boost profitability. This is becoming a trend across tech companies as a shift in investment towards artificial intelligence (AI) has occurred, as AI automation is replacing job functions. This wave of job cuts shows many firms' emphasis on leaner operations and AI-driven innovation. Despite the downturn and jump in layoffs, the demand for tech skills remains strong outside of tech, indicating a positive long-term outlook for tech workers. While tech-focused individuals may struggle to find jobs in tech specifically, they may succeed in tech roles at non-tech firms. The tech industry's focus on AI and efficiency is changing the employment landscape, with implications for workers and companies alike.

Disney India and Reliance Industries Set to Sign a Joint Venture Worth $8.5 Billion

Reliance Industries and Disney India are reportedly set to sign a binding agreement to merge their assets. As per the agreement, Reliance's Viacom18 is merging with Disney's Star India in a deal estimated to be worth $8.5 billion. Disney will own an estimated 37% of the joint venture, and Viacom18 will own almost 47%. The deal, expected to be signed this week, will see the Ambani family overseeing the merged operation.

Asia's richest man, Mukesh Ambani, oversees the venture and invests $1.4 billion into its growth strategy. At the same time, his wife, Nita Ambani, will become the chairperson. This merger will create a media giant in India, combining Reliance's assets and Disney India, including the Disney+ Hotstar streaming service, capitalizing on the more than 750 million viewers in the rapidly growing Indian market. This deal is expected to close in late 2024 or early 2025.

Country Garden Holdings Faces Liquidation Petition Amid China's Property Downturn

Country Garden Holdings, one of China's largest developers, faces renewed pressure to settle its debt crisis with offshore investors after Ever Credit, a Hong Kong-based branch of Kingboard Holdings, filed a petition to liquidate the company over the nonpayment of a loan of about 1.6 billion Hong Kong dollars (US$204.5 million). The company's shares fell almost 13% in morning trade, extending 12-month losses to 75%. Country Garden said it would

Sources: Wall Street Journal, Deadline

oppose the petition and doesn't expect it to affect its efforts to restructure offshore debt.

Despite this substantial amount, Country Garden has been working with investors to restructure billions of dollars in offshore debt amidst a prolonged downturn in China's property market. The company had over $15 billions of international bonds and loans outstanding in June 2023. The ongoing property crisis, which has seen large developers such as China Evergrande Group default on debt, has dealt a blow to China's economy, as the real estate sector used to be a significant driver of economic growth.

Looking Ahead: Analyst Outlooks

Jack Miller - Will Interest Rates Remain Unchanged Despite Growing Economic Concerns?

Many expected the Federal Reserve to cut interest rates at their upcoming meeting on March 20, however, it is growing increasingly unlikely that we will see a rate cut until May, maybe even June. As a result of inflation still floating above the Fed's target rate of 2%, a tight January labor report, the Fed's optimism for a soft landing, and the fed's fear of having to re-raise rates after cutting them, the odds we see a rate cut in 2 weeks are slim.

With that said, there are a few reasons to forgo this information and cut rates in March or May. For starters, consumer spending is on the decline. January saw an increase of just 0.2%, a slight fall-off from December's 0.7% increase. While this is slim, it is likely that consumer spending will continue to trend in this direction; February's report is yet to be released but it is expected to drop as well. Additionally, the 2s10s yield curve is inversed right now, which can be an indicator of an upcoming recession. An inversed yield curve has correctly predicted 9 of the last 11 recessions. It is not a sure thing, but it is something to consider.

Given this information, I believe we will experience a recession in 2024. Rate cuts generally lead to an increase in inflation as more people are likely to take out loans as rates are lower, but that boost to the economy does not happen right away. We are just now beginning to really feel the effects of the last series of rate cuts, which occurred over 7 months ago, so it will take time for the rate cuts to really kick in. The fed is overly concerned with lowering inflation to 2%, however, there are other factors that contribute to rate cuts, and they need to look at the bigger picture, not just inflation.

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Sources: Wall Street Journal