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Market Weekly Insights

3rd April 2025

As of April 1st, 2025

S&P 500	$5,633.07 +0.38%
DJIA	$41,989.96 -0.03%
NASDAQ	$17,449.89 +0.87%
Russell 2000	$2,011.24 +0.02%
FTSE 100	$8,634.80 +0.61%
Nikkei 225	$35,624.48 +0.02%
WTI Crude	$71.13 -0.49%
10-yr Treasury	4.30%

Global Outlook

Germany's Business Confidence Soars

Germany's Ifo business climate index report in March brought an optimistic outlook for future economic stimulus, despite uncertainties and risks with foreign policies from the U.S. The data follows a strong upswing from Germany's ZEW survey, where financial analysts' sentiment rose to an all-time high since early 2022. For the month, the business climate index increased to 86.7, up from 85.3 in February, and beat economists' estimation of 86.6, marking the highest figure since July 2024.

The report comes at a great time after Germany's parliament approved new spending to expand the country's defense and infrastructure. These policies are expected to boost manufacturing sentiment as new orders roll out. Measures of services, trade and construction sectors are also expected to rise with the new policy changes. The move from the administration shows clear signs of Germany's independence from the U.S as a military ally and its response to threats of heightening tariffs. Economists believe balancing short-term foreign policy risks with long-term fiscal stimulus will support a gradual economic recovery, but are hesitant on putting a timeline of when it will play out.

Sweden Ups Defense Spending to 3.5% of GDP

Sweden announced earlier this week that it would be sharply increasing its defense spending to 3.5% of GDP from its current 2.4% budget. This policy shift was lobbied extensively by Swedish prime minister Ulf Kristersson who proposed the shift on Wednesday alongside bipartisan support across all chambers of Swedish government. In terms of reasons of this stark increase, Wednesday's briefing alluded to growing fears in the Russia-Ukraine conflict in addition to security-guarantee concerns regarding U.S. foreign policy.

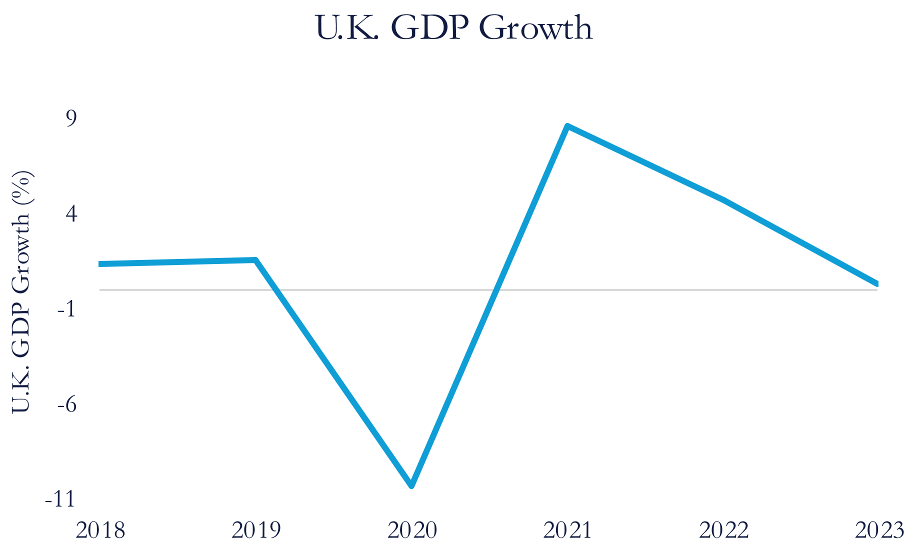
This major shift comes in at a time were European countries holistically increasing their arms spending amidst the dual concern that Sweden mentioned. Frontline NATO countries such as Poland, Lithuania, and Estonia are targeting an increase in defense spending to 5% of GDP. The current NATO military alliance goal states a target line for defense spending at 2% of GDP, but that line is expected to reach 3.5% given an incoming NATO summit this summer. For a country that long prided themselves on not having fought any wars for the last 200 years, while this move could seem aggressive from their perspective, given they are the most recent (32nd) member of NATO, their willingness to align with NATO's broader initiatives is a testament to the ability of European countries to come around amidst ongoing global tension and policy shifts.

Sources: CNN, Yahoo Finance, Wall Street Journal

UK Slashes Welfare Spending as 2025 Growth Forecast Halved

Earlier this week, in the Spring Statement Britain's Finance Minister, Rachel Reeves, announced billions of pounds worth of spending cuts, specifically in the welfare budget. The choice was made to reduce the levels of debt of future borrowing and to focus more of the spending on working people. According to Reeves, these cuts are estimated to save £4.8 billion. In addition, Reeves also announced that defense spending would increase to 2.5% of the country's GDP while a reduction in overseas aid would occur.

Along with the Spring Statement, the Office for Budget Responsibility (OBR), the country's independent public finance watchdog, released updated economic forecasts. Due to economic uncertainty, the OBR halved its estimates for economic growth from 2% to 1% for the upcoming 2025 year. Reeves affirmed she would take on stricter fiscal policies and cited other forecasts that yielded positive results to support her position. GDP projections showed a growth of 1.9% in 2026, with a continuous gain through 2029.



America This Week

US Puts 70 Chinese Entities Under Export Control

Last Tuesday, the US commerce department announced that they are adding 70 Chinese entities to the export blacklist, making it the Trump administration's first effort in preventing American made chips from being deployed for Chinese military-related technology that threatens their national security. This new installment will require American companies who are selling technology to Chinese entities to acquire a license, which would be denied if one is requested.

As part of the effort, the Trump administration is covering up a loophole that they inherited from the Biden administration by putting Inspur, a cloud computing company that works closely with Intel, and its subsidiaries under export control. The US accused Inspur's subsidiaries for partaking in the development of supercomputers for military purposes and acquiring American- made technology to support projects for China and the People's Liberation Army.

Sources: Wall Street Journal, Financial Times

The US is also targeting the Beijing Academy of Artificial Intelligence (BAAI) for supporting China's military modernization. BAAI is a leading non-profit AI research institute that releases open-source models for industry and academia purposes. However, the administration has not provided any substantial evidence to accuse BAAI for their actions. Alongside BAAI, Henan Dingxin Information Industry, Nettrix Information Industry, Suma Technology and Suma-USI Electronics are among the list of entities that are being under export control for involvement in producing superconductors for military purposes such as nuclear weapons modelling.

U.S. Oil Sees Gains with Inventory Increase

U.S. crude oil inventories rose by 3.6 million barrels, demolishing analyst expectations of 200,000 barrels, according to data released Wednesday by the U.S. Energy Information Administration. Crude oil production was estimated at 13.5 million barrels a day, with imports down buy 106,000 barrels, and exports down 52,000 barrels. Refinery capacity fell to 85.9% from 86.5% the previous week, contrary to expectations of a 0.4% increase. Gasoline reserves decreased by 1.4 million barrels to 246.8 million barrels

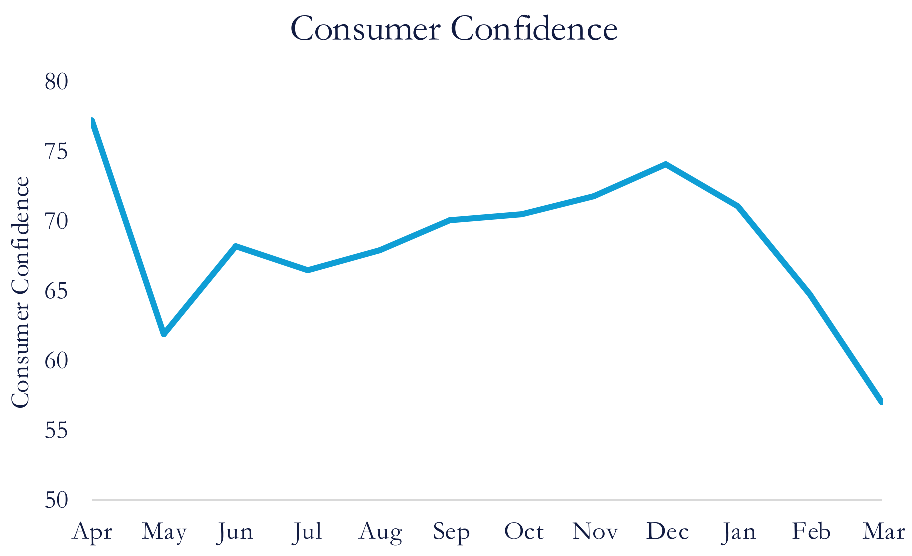
Macro Highlights

Consumer Confidence Hits 3-Year Low as Recession Fears Rise

Consumer confidence fell again in March, a fourth consecutive four-month decline, the lowest since January 2021. The decline was driven mostly by worry over growth and uncertainty over tariffs and inflation. The Conference Board reported earlier this week that consumer confidence fell 7.2 points to 92.9, lower than the expected 94.5.

In addition, surveys revealed that the measure of Americans' views on their short-term financial futures regarding income, business, and the job market dropped 9.6 points to 65.2, the lowest reading in 12 years and below the 80 thresholds. According to the Conference Board, this sharp decrease indicated a potential recession soon, with the number of U.S. consumers anticipating one at a 9-month high.

Walmart, Target, and Macy's are among retailers sounding the alarm, as well, pointing to shifts in consumer behavior and offering conservative 2025 forecasts based on inflation and impending tariffs on imports from China, Mexico, and Canada. Plans to buy homes and vehicles dipped, yet unexpectedly grew for big-ticket items like appliances likely due to buyers looking to purchase before prices go up.

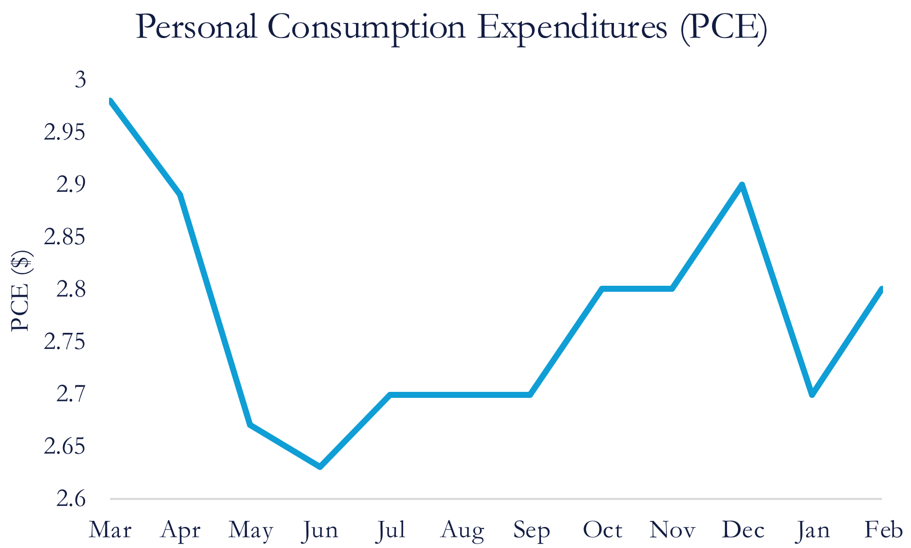


Sources: Reuters, Financial Times

Inflation Rises Above Expectations as Fed and Consumers Remain Cautious

According to the Commerce Department's latest PCE report, inflation increased much higher than expected in February, while consumer spending revealed smaller-than-projected increases. The core PCE index showed a 0.4% increase for the month, marking the highest gain since January 2024 and putting the 12-month inflation rate at 2.8%, higher than what Dow Jones had been looking for, with them expecting numbers between 0.3% and 2.7%. For the all-items measure, the price index rose 0.3% in the month and 2.5% from a year ago, aligning with forecasts.

The Bureau of Economic Analysis report also showed that consumer spending increased by 0.4% for the month, underestimates set at 0.5%. This came with personal income increasing 0.8% above the forecast, which was set at 0.4%. Despite this rise, households remain cautious, with the personal saving rate increasing to 4.6%, the highest since June 2024. The Fed has continued to maintain a similar cautious response, likely due to the uncertainty added by President Trump's proposed tariffs.



Industry News

23andMe's $6 Billion Valuation Crumbles as Company Faces Bankruptcy

23andMe, a biotechnology and personal genomics company that provides direct-to-consumer DNA testing services, was once valued at over $6 billion. Recently, they have lost more than $1 billion and had to lay off more than 50% of their staff, which led to them filing for bankruptcy. The co-founder and former CEO Anne Wojcicki, who pioneered at-home DNA testing, is trying to buy back the company's assets despite struggling in the past to do so. The company's filing for bankruptcy is a result of their inability to generate recurring revenue, failed drug discovery efforts, and a declining stock price. In 2020, Wojcicki launched 23andMe+, which provided subscription content offerings just like thousands of other companies in the healthcare industry. They predicted millions of customers would sign up but only a few hundred thousand did. Failures like this eventually led to board resignations, layoffs, and unsuccessful acquisitions such as Lemonaid Health in the fall of 2021. All in all, the CEO's influence has diminished, and the company's future remains uncertain.

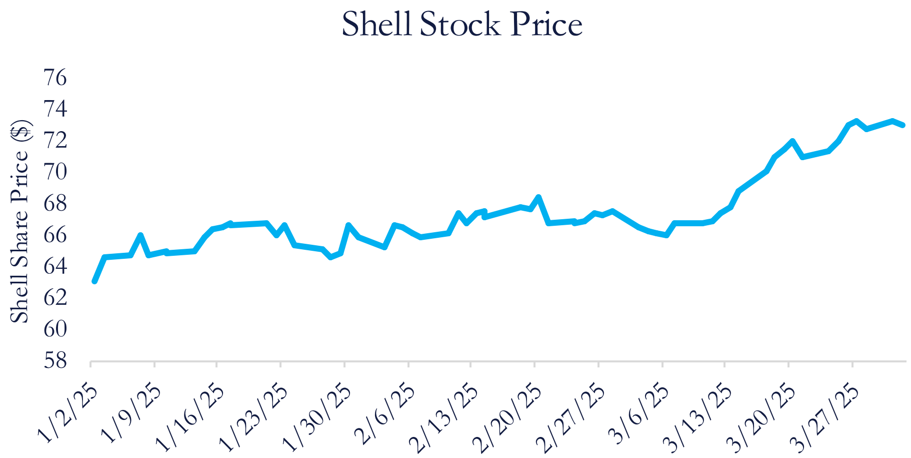
Sources: Financial Times, Wall Street Journal

Shell's New Strategy Focuses on Increased Production and Higher Shareholder Returns

Shell has said that they have plans to increase hydrocarbon production by 1% annually until 2030. They are aiming for liquefied natural gas (LNG) sales growth of 4-5% annually. This will sustain around 1.4 million barrels a day of liquids production up until 2030. With these new strategies looking convincing, diversified Shell's shareholders' returns increased, with distributions rising to 40-50% of cash flow from operations (previously 30-40%).

The company also has cost cutting targets raised to $5B - $7B by 2028, and the capital expenditure is set between $20B - $22B per year. Additionally, 10% of capital will be allocated to lower-carbon initiatives by 2030. These new strategies and targets are being implemented because Shell is focusing on unlocking value from chemical assets and exploring partnerships within the US.

However, for Shell, a key concern among investors is the uncertainty regarding its upstream (oil and gas extraction) strategy beyond 2030. The "lack of visibility" suggests that Shell has not clearly outlined how it plans to sustain or grow its oil and gas production after that period. Investors worry that without a clear long-term strategy, the company might face production declines or struggle to compete in the evolving energy landscape.



After a Decade, Dollar Tree Sells Family Dollar for $1 Billion

After a difficult merger that started in 2015 when it paid $9 billion to acquire the business, Dollar Tree is selling Family Dollar for $1 billion. Family Dollar will be sold to private equity companies Brigade Capital Management and Macellum Capital Management, subject to regulatory approval. With 8,000 locations across the US that serve low-income consumers, Family Dollar has faced challenges from untidy stores, excessive growth, and fierce competition from Walmart.

Family Dollar had setbacks, including store closures and a record $41.6 million punishment for breaking product safety regulations, despite efforts to improve operations. The dollar store industry is under further hardship due to rising prices and import taxes. To offset tariff expenses, Dollar Tree, which caters to a higher middle-class clientele, is modifying its network of suppliers and may increase pricing.

Due to Family Dollar's terrible store placements and conditions, the failed merger serves as a stark reminder of poor management. Lower-income consumers are reducing their spending, which is putting pressure on the dollar store industry as a whole. In the face of industry headwinds and economic difficulties, Dollar Tree's disposal indicates an effort to refocus and stabilize its operations.

Sources: Wall Street Journal

Analyst Outlook

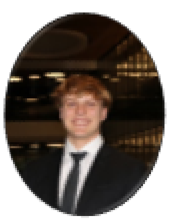
Hoang Tran – Tesla's Strategic Outlook in China

Over the last few years, Tesla has faced increasing domestic and international competition, causing its financial performance to slow from an annual increase of 18.8% between 2022 and 2023 to just 0.95% from 2023 to 2024. One of the main factors contributing to this slowdown has been the rise of BYD, the leading EV automaker in China. In Q4, BYD reported $37.9 billion in revenue, exceeding Tesla's Q4 earnings by $13 billion. This shift highlights BYD's growing dominance in China's EV market, where it benefits from strong government support and a diverse product lineup that ranges from affordable EVs to high-end models. BYD's cost advantage, particularly in battery production, allows it to maintain aggressive pricing strategies that directly compete with Tesla.

In response to BYD's rise, Tesla has implemented a series of strategic adjustments. First, the company has lowered the prices of its Model 3 and Model Y to compete more directly with BYD's affordable lineup. Second, Tesla built the Shanghai Gigafactory to establish a localized production hub aimed at reducing costs and improving delivery times for the Chinese market. Third, the company has been pushing for regulatory approval of its Full Self-Driving (FSD) technology, which, if successful, could serve as a competitive advantage against BYD's own system. Despite these efforts, Tesla has faced regulatory barriers in China related to data security concerns, slowing down the FSD approval process. Meanwhile, as geopolitical tensions persist, Tesla must account for potential retaliatory tariffs from China on U.S. imports, which pose significant risks to its long-term pricing power in the region.

I believe that Tesla's success in the Chinese market will depend on its ability to balance cost optimization with strategic innovation. While remaining competitive in China is crucial, Tesla must also strengthen its position in the U.S. market, as European and Asian automakers continue expanding their product offerings to capitalize on Tesla's weakening international foothold.

Market Insights Team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