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UW FARMSA Newsletter

FARM STUDENT ASSOCIATION

MATHSOC

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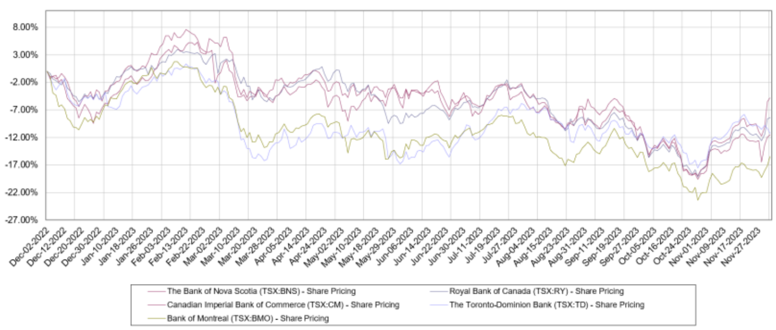
Financial Institutions

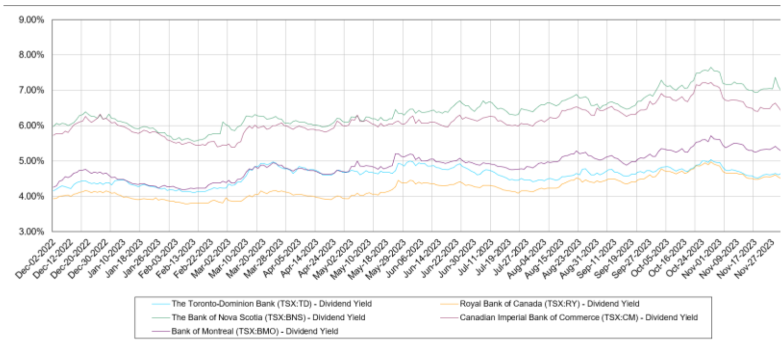
Canada's Big Five banks released their earnings last week, showcasing a diverse performance with mixed earnings and outlooks for provisions. CIBC reported adjusted earnings of C$1.57 per share, surpassing the expected C$1.53. RBC earned $2.78 per share on an adjusted basis in the fiscal fourth quarter, exceeding the $2.62 average estimate of analysts in a Bloomberg survey. Conversely, TD reported an adjusted EPS of 1.83, falling short of the anticipated $1.90 average. All banks have decided to raise their dividends for the next quarter by approximately 3%.

Share Price



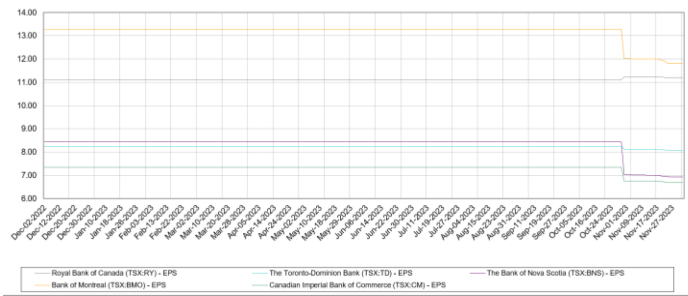
Wall Street banks have resumed reducing their workforce earlier than their counterparts in Canada, and in some instances, the layoffs have been more extensive. In January, Goldman Sachs Group Inc. initiated one of its most significant rounds of job cuts, aiming to eliminate around 3,200 positions, constituting 6.6% of its workforce from the previous year's end.

Dividend Yields



Additionally, all banks have announced job cuts of around 3-5% of their workforce and have set aside higher provisions for potential losses on bad loans. They also stated they expect challenges in surpassing their medium-term targets for ROE and EPS growth. This is particularly noteworthy as it appears banks are cutting jobs and using the cost savings to boost their dividends, thereby potentially enhancing their share values. Furthermore, with expectations of rate cuts next year, we anticipate their substantial dividends to justify strong share price increases.

Earnings

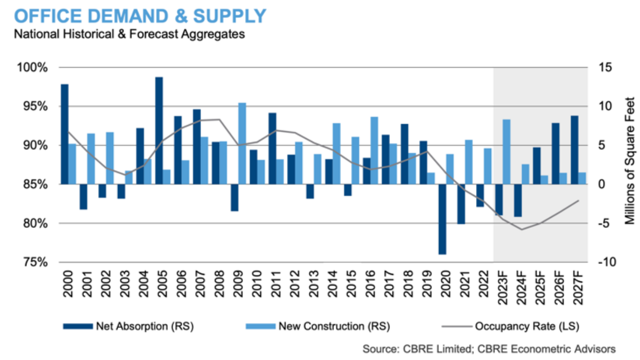


Finally, when comparing the Canadian vs US units of the banks, we see a strong underperformance in the US market. Notably, RBC has injected US$2.95 billion into their US subsidiary this year due to 2.74 billion of losses associated with debt instruments.

Ahmed Aamir, Tamir Landa

Real Estate

Looking towards 2024, the real estate market should begin to start making its recovery, with interest rates looking to remain stable for the rest of 2023 and possibly lowering into 2024. ESG (Environmental, Social, and Governance) is becoming a top concern for real estate firms, with many firms lacking the data, processes, and internal controls necessary to meet regulations.



High Interest Rates Propel Rental Market

The supply of rental housing across Canada has experienced a notable surge. However, demand his outpaced this growth, resulting in the national vacancy rate reaching a near-historic low. The average rent for a 2-bedroom apartment has soared to an all-time high, making it the tightest rental market since 2001.

A myriad of factors contributes to the heightened demand, including increased immigration and net migration, the rising cost of homeownership, and the return of students to on-campus learning in various census metropolitan areas.

The average asking price for a rental unit in Canada reached $2,178 last month, marking a 9.9% year-over-year increase. This continues a trend of asking rents hitting new highs for six consecutive months, reflecting the evolving dynamics of the rental market.

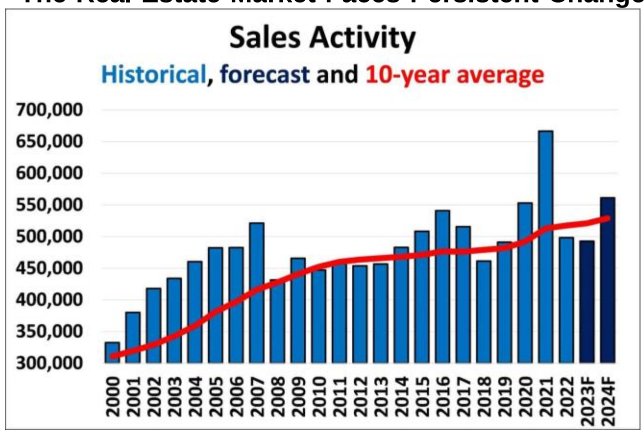
High interest rates are identified as a significant factor driving up rent prices, with fewer people opting for homeownership. Notably, the rate of Canadian households choosing to rent is growing twice as fast as that of homeowners. However, interest rates should remain flat for the rest of 2023 and is looking to decline in 2024 for a positive housing outlook.

Office Market Sluggishness Persists

In the third quarter, Canada's office leasing market sluggishness persisted, with leasing demand continuing to fall short of supply in the quarter. This trend is likely to continue for the foreseeable future. We are unlikely to see this trend change, with most companies continuing WFH or hybrid work from the pandemic, allowing them to save costs.

The trend of underused office spaces alongside the lack of affordable residential units has sparked the prospect of conversions of office spaces into residential units amid the housing crunch. Although this is unlikely to solve the housing supply issue due to difficulty with office floor plans, newer offices are more easily convertible, however, tall office buildings with 50 floors will be a pain to convert.

The Real Estate Market Faces Persistent Changes



National home sales are forecast to rise 13.9 per cent to 561,090 units in 2024 as housing markets continue to return toward trend and monetary policy moves towards a more neutral stance.

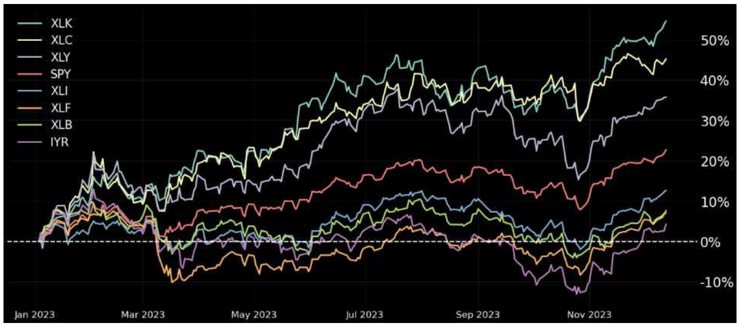
This forecast would still leave activity well below the 2021 record, but it would lift it back in line with the long-term trend and place it back above the 10-year average. Housing prices should be on par with 2022 for the next year.

Valerie Ko

Technology

Introduction

The tech sector experienced the greatest growth of any sector this year, unsurprisingly due to surge in AI development. With great innovation comes great need for regulation: Adobe's failed acquisition of Figma and the firing of Sam Altman, CEO of OpenAI have illustrated the critical role of governmental control.



XLK (Technology sector) ETF is up 52% this year, with XLC and XLY trailing close behind

Adobe Ends Deal with Figma

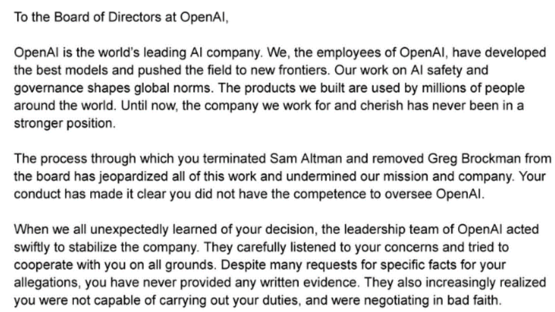
Mega software company Adobe was set to merge with Figma, a popular interface design software company, for $20 billion until the UK's competition regulator agency Competition and Markets Authority (CMA) determined that the deal would harm the product design software market and prevent smaller companies from flourishing. The agency also feared combining two main companies in product design would reduce innovation since Figma is a main competitor for Adobe's Photoshop and Illustrator products. With the only options being to sell off Figma Design, Figma's flagship product, or be blocked off from the deal entirely, Adobe shut the deal down on December 18th, signing a $1 billion termination fee. Adobe's shares had dropped 17% the day the deal was announced in 2022, with investors worrying Adobe was paying too much for the acquisition. Following the ending of the deal, shares rose 2.47% after the news Monday.

Tighter Regulation

This latest deal shows global regulation tightening its lasso around technology companies than ever before. The CMA had also initially rejected Microsoft's acquisition of Activision's Blizzard earlier this year, one of the biggest M&A deals of the year, due to similar concerns of reducing market competition. Ultimately, the CMA allowed for the deal to continue under the conditions that Activision sells its cloud streaming rights to Ubisoft for its current and new games to prevent Microsoft from monopolizing the rapidly growing market.

AI Debate Continues

Arguably the biggest story of the year has been the firing and swift reinstatement of Sam Altman, CEO of Open AI, creator of the ubiquitous ChatGPT, in mid-November. Claims that Altman "failed to consistently communicate with the board" led to the co-founder's firing before even alerting important backers such as Microsoft. The news sparked mass revolt amongst OpenAI's 770 employees, 95% of whom signed a letter addressed to the board, threatening to quit unless Altman was reinstated and the board step down. The board relented and reinstated Altman just four days after the initial firing.



To the Board of Directors at OpenAI,

OpenAI is the world's leading AI company. We, the employees of OpenAI, have developed the best models and pushed the field to new frontiers. Our work on AI safety and governance shapes global norms. The products we built are used by millions of people around the world. Until now, the company we work for and cherish has never been in a stronger position.

The process through which you terminated Sam Altman and removed Greg Brockman from the board has jeopardized all of this work and undermined our mission and company. Your conduct has made it clear you did not have the competence to oversee OpenAI.

When we all unexpectedly learned of your decision, the leadership team of OpenAI acted swiftly to stabilize the company. They carefully listened to your concerns and tried to cooperate with you on all grounds. Despite many requests for specific facts for your allegations, you have never provided any written evidence. They also increasingly realized you were not capable of carrying out your duties, and were negotiating in bad faith.

Snippet of the letter OpenAI employees wrote to the board

E/Acc and Decel Debate

The swiftness of Altman's firing has shown just how fragile the AI ecosystem is. With just a few companies at the forefront of significant technology developments, regulation beyond individual companies should be one of our biggest priorities. The e/acc (effective accelerationism) versus decel (deceleration) debate has become more prevalent amongst Silicon Valley recently. E/acc supporters are unapologetically pro-tech and in support of generative artificial intelligence, the concept that a robot can perform any task a human can. Decel supporters such as Elon Musk and Sam Bankman-Fried, the previous CEO of Future Exchanges, are set on strongly regulating or even halting AI to protect humanity. Meanwhile, pro e/accs such as billionaire Marc Andreesen and Y combinator President Garry Tan insist not advancing technology will directly "harm human lives".

The Future

Whether regulation and innovation can find a balance is up in the air indefinitely. One thing is for sure, the tech sector is poised for continued growth from emerging AI-driven technologies, with analysts predicting an average price target of $202.60 (+5.2% upside) in early 2024.

Tanya Lu, Jacob Tu

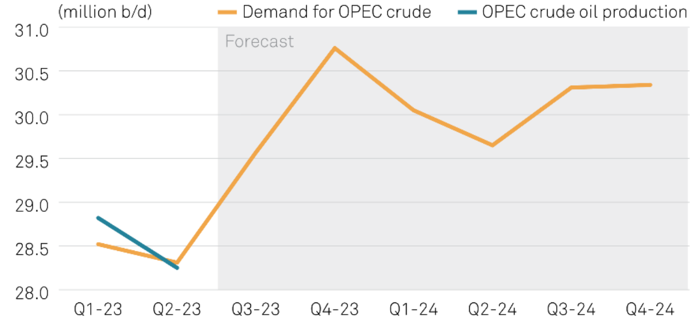
Energy

The decision by OPEC+ to remove approximately 2.2 million barrels per day from the global market is a significant move that, in theory, should reduce supply and potentially increase prices. However, the market's reaction suggests skepticism regarding compliance and adequacy of the cuts.

OPEC+ Oil production cuts once again

Another decrease in oil supply is set to be set by OPEC+ based on their last November 29th meeting, signaling even more cuts after the already in place 5% global cut. As oil demand has continued to skyrocket, especially from OPEC producers, this strategic move by the coalition is set to increase oil prices to generate profits for the market. As seen in Figure 1, OPEC intends to decrease production whilst bullish demand is noticed in the market, artificially inflating prices in times of key economic developments for key members. As Russia continues its military operation in Ukraine and middle east nations continue to grow tense with the Palestine-Israel conflict, the oil productions market is getting more bearish.

OPEC cuts output while seeing bullish demand ahead



Source: OPEC Monthly Oil Market Report

Update In the World of Nuclear Fission

Japan has set another world record in the world of nuclear fission, as freethink.com puts it, " a fusion research device in Japan could play a pivotal role in the development of those future reactors." The Japanese, JT-60SA is now the biggest tokamak to reach first plasma anywhere in the world which is a steppingstone to proving that nuclear fusion can become a truly commercialized source of energy. We have witnessed several advancements in nuclear fusion over the past, but all have only proved small and theoretical use cases, this might be that change the nuclear world has been looking for. As covered in the last report, Ontario has been keen on making itself a key player in nuclear energy and sustainability, these advancements only support this strategic move. Especially as mentioned prior, OPEC producers and the oil market, has been dealing with uncertainty and inflated price shifts.

Market's reaction to the OPEC's cut

Oil prices slumped more than 2% on Dec 1st on investor skepticism about the depth of OPEC+ supply cuts and concern about sluggish global manufacturing activity.

Futures & Indexes	Last	Change	% Change	Last Updated
WTI Crude	74.07	-1.89	-2.49%	(1 Day Delay)
Brent Crude	78.88	-1.98	-2.45%	(1 Day Delay)
Murban Crude	79.40	-2.14	-2.62%	(16 Minutes Delay)

"(It) seems traders either aren't buying that members will be compliant or don't view it as being sufficient,"
The cuts agreed by OPEC+ on Thursday are voluntary, so there was no collective revision of OPEC+ production targets. The voluntary nature of the cuts led to some skepticism about whether producers would fully implement them, and also from what basis the cuts would be measured.

Given the skepticism of traders toward the OPEC+ supply cuts and concerns about sluggish global manufacturing, there could be a trend toward lower oil prices in the short term. However, if OPEC+ members comply with the cuts, and if there are any unexpected geopolitical events or shifts in demand, prices could stabilize or even increase.

Characteristics of Canadian Oil Market & reaction

Canadian crude prices, especially Western Canadian Select (WCS), are typically lower than Brent and WTI due to transportation bottlenecks and quality differentials. If global oil prices fall, Canadian crude could be disproportionately affected due to these existing discounts.

The value of the Canadian dollar, which often fluctuates with crude oil prices due to Canada's status as a significant oil exporter, can impact the price at which Canadian producers sell their oil. A weaker Canadian dollar relative to the U.S. dollar can partially offset the impact of falling crude prices for Canadian producers.

Lower global oil prices could lead to reduced margins for Canadian oil producers, potentially resulting in decreased production and investment in the sector, especially in costlier oil sand operations.

Arwen Mao, Denis Goubkine

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