

Market Weekly Insights

12th November 2024

Global Outlook

South Korea's Export Growth Slows Amid Global Uncertainties

South Korea's export growth decelerated in October, marking the slowest increase in seven months, as rising global uncertainties and U.S. election concerns dampened economic momentum. Exports from the nation grew 4.6% year-over-year to \$57.52 billion, a decline from September's 7.5% growth rate and below market expectations of 6.9%. This marked the third consecutive month of slowed export growth, with daily export averages showing a marginal decline of 0.2% compared to the previous year.

Exports to China rose by 10.9%, while growth to the U.S. and EU was modest. Semiconductor exports remained strong, up 40.3%, though values were slightly below September's peak. Car exports grew, but petroleum products sharply declined by nearly 35%, aligning with oil price trends. Imports rose just 1.7%, yielding a trade surplus of \$3.17 billion—down from \$6.66 billion the previous month. Economists suggest further government action may be needed to address global economic pressures weighing on trade dynamics.

Brazil's Central Bank Hikes Interest Rates Amid Inflation and Fiscal Concerns

Brazil's central bank raised its benchmark interest rate by 0.5 percentage points to 11.25%, doubling the pace of rate hikes to curb rising inflation amid concerns over the country's fiscal outlook. Policymakers cited robust economic activity, labor market pressures, and rising consumer prices as key inflationary risks, adding that the fiscal outlook, including concerns over debt sustainability, weighs on asset prices and the currency. This year, the Brazilian real has fallen over 14%, complicating efforts to control inflation by increasing import costs.

Central Bank President Roberto Campos Neto has advocated for spending cuts to help stabilize inflation and investor expectations, urging a "positive fiscal shock" to restore fiscal discipline. The rate increase, which marks the second in this tightening cycle, signals a more hawkish stance, with analysts now speculating about a larger rate hike in December as inflation is forecast to remain above target through 2026.

S&P 500	\$5,995.54 +0.38%
DJIA	\$43,988.99 +0.59%
NASDAQ	\$19,286.78 +0.09%
Russell 2000	\$2,399.64 +0.71%
FTSE 100	\$8,072.39 -0.84%
Nikkei 225	\$39,500.37 +0.30%
WTI Crude	\$70.43 +0.071%
10-yr Treasury	4.31%

Sources: Wall Street Journal, Bloomberg

German Manufacturing Surges in September

Germany's manufacturing sector saw an unexpected boost in September as new orders rose 4.2% from the previous month, surpassing economists' expectations of a 1.4% increase. Following a 5.4% decline in August, this jump was primarily driven by substantial orders for items like aircraft, ships, and military vehicles, notably from Airbus's Hamburg operations. The automotive industry, recently impacted by potential factory closures and job cuts, also saw a 2.9% increase in orders.

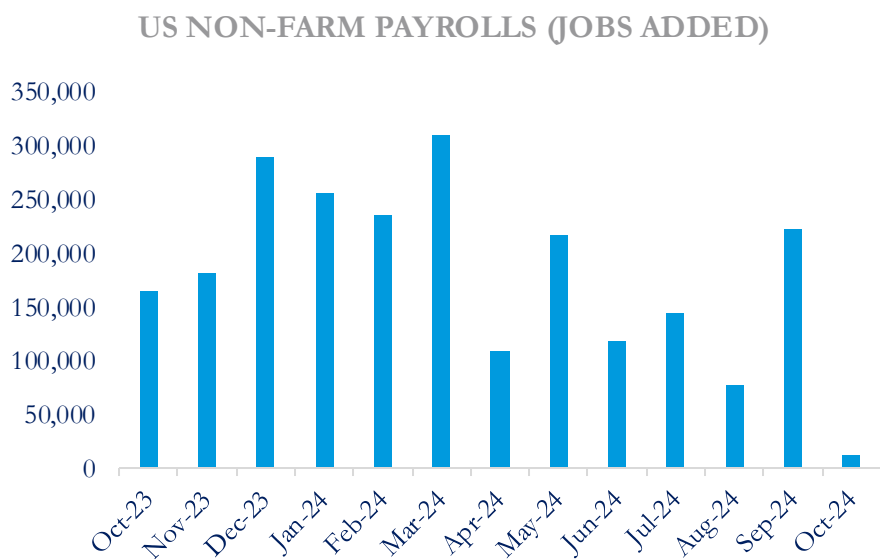
Despite this growth, economists caution against viewing it as a sustainable turnaround. German manufacturing has struggled to return to pre-pandemic levels, with the sector still facing pressure from high energy costs and geopolitical tensions affecting trade. New orders from the eurozone surged 15%; however, demand from the rest of the world decreased by 1.6%, indicating ongoing trade challenges and the impacts of Chinese competition. Analysts suggest that while September's uptick may alleviate immediate fears of an industrial slump, manufacturing will likely continue to drag on Germany's economic growth, potentially leading to economic stagnation toward the end of the year.

America This Week

U.S. Job Growth Slows Sharply in October Amid Boeing Strike and Hurricanes

The U.S. labor market saw a dramatic slowdown in October, with nonfarm payrolls rising by just 12,000, marking the smallest monthly gain since December 2020, according to the Bureau of Labor Statistics (BLS). The sharp deceleration from September's 223,000 increase reflects a mix of one-off disruptions, including a strike at Boeing and the effects of hurricanes Helene and Milton.

The Boeing strike alone subtracted an estimated 44,000 jobs from the manufacturing sector. However, a newly reached labor agreement is expected to clear the way for resumed production and potentially more robust hiring in November. While the hurricanes disrupted life in affected areas, the BLS said their direct impact on employment figures couldn't be precisely measured. Lower-than-average survey responses added to data challenges. October's disappointing numbers led to downward revisions for August and September, reducing job creation estimates by 112,000.



Sources: Wall Street Journal, Financial Times

U.S. Consumer Optimism Hits Seven-Month High

U.S. consumer sentiment surged to a seven-month high in early November, reflecting renewed optimism about the economy and personal finances, according to the University of Michigan's preliminary sentiment index. The index rose to 73, exceeding most economists' forecasts, while the expectations component jumped to 78.5, the highest since mid-2021, signaling Americans' hopeful outlook on economic prospects.

The data, collected from October 22 to November 4, was released shortly before the election results were announced. Survey director Joanne Hsu noted that consumers consistently view economic prospects as tied to election outcomes, with inflation likely to remain a vital key issue in public sentiment going forward.

While respondents expect inflation to ease, predicting a 2.6% increase over the next year—the lowest since 2020—longer-term inflation expectations ticked up to 3.1%. The gauge of personal financial expectations reached its highest point since March, boosted by improved income outlooks, while confidence in business conditions for the long term neared a four-year high. However, sentiment on current conditions dipped slightly, as did the measure for durable goods purchases.

10-Year Treasury Yield Ends Lower Despite Post-Election Pop

Treasury yields fluctuated last week as markets reacted to Donald Trump's re-election and the Federal Reserve's latest rate cut. The 10-year Treasury yield initially surged by 15 basis points on Wednesday after Trump's victory over Vice President Kamala Harris, driven by investor expectations that his pro-business stance, including potential tax cuts, could boost economic growth.

However, the post-election momentum faded as markets priced in the 25-basis point rate cut to 4.5%-4.75%. Yields edged lower after the Fed's rate cut because it signaled a softer stance on inflation, raising expectations of a potential pause in rate cuts, which lowered demand for higher-yielding bonds. By Friday, the 10-year Treasury yield had dipped to 4.29%, down from 4.37% the previous week. Fed Chair Jerome Powell called the rate cut a "recalibration" of policy as the Fed adopts a cautious approach to further moves. Traders are now split on the Fed's next step, with a 63.3% chance of another rate cut in December, though the probability of holding steady has also grown.

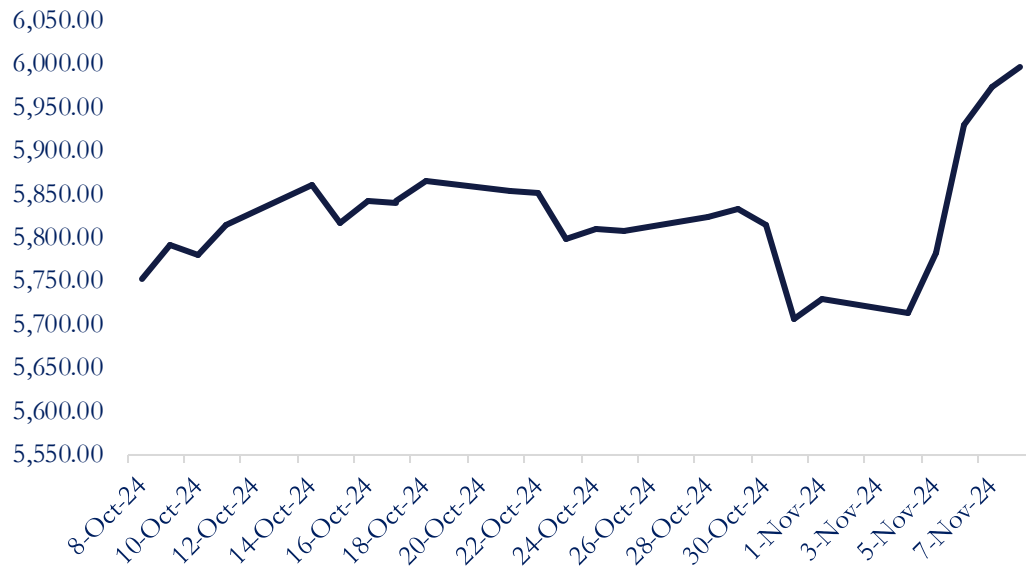
Macro Highlights

Federal Reserve Cuts Rates by 25 Basis Points

The Federal Reserve approved a quarter-point interest rate cut, bringing the federal funds rate range to 4.5%-4.75%. While this move aims to prevent the past two years of high rates from hindering economic growth, the Fed signaled caution in its rate-cut path due to persistent inflation concerns and a resilient labor market. Federal Reserve Chair Jerome Powell reaffirmed his commitment to policy independence and stated that the election would not influence the Federal Reserve's immediate decisions.

The market reaction was stable, with the S&P 500 and Nasdaq Composite reaching record highs post-announcement, reflecting confidence in the Fed's controlled approach. Longer-term market expectations for further rate cuts have decreased, as steady demand and inflation suggest that the Fed may maintain higher-than-neutral rates to keep growth and prices in check. With inflation around 2.1%, the Fed's December decision will weigh both inflationary signals and broader economic performance.

S&P 500 CLOSING PRICES (IN USD)



U.S. Markets and Bitcoin Reach Record Highs Amid Election News

The re-election of Donald Trump as U.S. president has prompted a significant rally in U.S. stock markets, with major indexes reaching new highs and the U.S. dollar experiencing its largest surge in eight years. Trump's commitment to cutting taxes and increasing tariffs has led investors to anticipate higher inflation, which could slow the pace of Federal Reserve rate cuts. This scenario suggests potential gains for dollar-denominated investments, driving domestic and international demand for U.S. assets. Bitcoin also hit a record high, benefiting from Trump's supportive stance on cryptocurrency and his potential plan to streamline U.S. crypto regulations. This contrasts with the current administration's regulatory approach, drawing notable interest from crypto investors.

Globally, market reactions have been mixed. Key indexes like Germany's DAX and France's CAC 40 in Europe declined, while Japan's Nikkei rose by 2.6%. The pound and euro dropped against the dollar, reflecting currency market shifts. Trump's trade policies and proposed tariffs, especially on Chinese imports, have sparked concern among economists, who predict potential impacts on international trade and growth, particularly in the U.K. and Asia. Investors remain attentive to upcoming Federal Reserve announcements, which could further influence market directions.

Industry News

Boeing Union Votes to End Strike

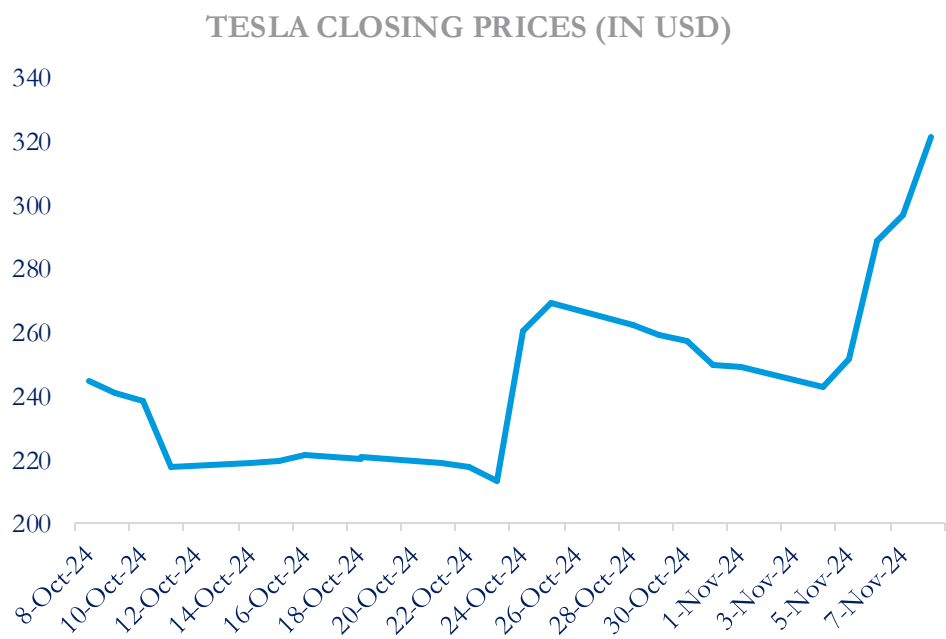
After nearly eight weeks, Boeing finally resolved with its machinist on a new labor deal that would increase workers' wages by 38%, clearing the way for the company to restart manufacturing and revive its supply chain. Before the strike, Boeing had been staying afloat with major financial problems, which resulted in Chief Executive Kelly Ortberg cutting 17,000 jobs and raising more than \$24 billion in equity. This duo dilemma has put Boeing under the spotlight of quality issues and substantial losses in commercial and defense aerospace shares.

During the negotiation, Boeing initially offered a 25% increase in workers’ pay, which would result in an average machinist’s wage earning \$119,000. In the end, Boeing’s final offer of a 38% increase in workers’ pay received support from 59% of union members and a \$12,000 ratification bonus to build new planes in the Pacific Northwest. However, with machinists returning to work, Boeing’s Frontier 737s production levels will take weeks to reach its target for this year, promising a resurgence in supply for airlines like Ryanair and Southwest Airlines. Due to this concern, Boeing has warned investors that its cash flow will likely be negative in 2025 after \$10 billion was burnt through the first nine months of this year.

Tesla Surges 14% Post-Election as Policy Shifts Signal Advantage Over Rivals

Tesla’s stock experienced a notable surge, rising over 14%, following Donald Trump’s election victory, as investors anticipated potential benefits for the electric vehicle giant under his administration. Market analysts suggest Tesla could gain a competitive edge in an environment where subsidies for electric vehicles and clean energy might be reduced, which would likely significantly impact smaller EV manufacturers. With Trump’s proposed tariffs on Chinese imports, it is less probable that Chinese EV brands will have substantial access to the U.S. market, potentially shielding Tesla from competition on the lower EV price spectrum.

Wedbush analyst Dan Ives highlights Tesla’s unique scale and reach in the EV industry, which may position the company advantageously if federal incentives for EVs decrease and tariffs are imposed. This strategic environment contrasts with the setbacks faced by Tesla’s rivals; while Tesla shares rose, Chinese EV manufacturer Nio’s stock dropped, along with declines in Rivian and Lucid Group. Tesla’s significant U.S. market share, approximately 48.9% in 2024, underlines its strong position amidst these shifting regulatory dynamics. However, the company faces ongoing challenges, including scrutiny over its autonomous driving technology, which remains under federal investigation.



Regulators Pose Challenges to Nuclear Powered Data Centers

A recent Federal Energy Regulatory Commission (FERC) ruling has slowed momentum for nuclear power plants seeking direct power sales to data centers. This is a key growth avenue for energy providers aiming to supply high-demand, rapidly growing sectors like data centers and AI.

Sources: Wall Street Journal, ABC

FERC denied Talen Energy’s proposal to increase nuclear power from its Susquehanna plant to Amazon’s data center from 300 to 480 MW. This decision, shaped by concerns about grid reliability and cost-sharing for transmission, has prompted industry reflection on future contract structures with tech companies.

While the ruling doesn’t preclude future contracts, it signals that FERC may prioritize broader grid stability over specialized direct agreements. Talen’s shares dropped 2% post-ruling, while other significant players like Constellation and Vistra also saw shares dip. Constellation, which has sought similar contracts, may now see delays but could pivot to “in-front-of-the-meter” deals, as seen in its Microsoft agreement.

Analysts note that in-front-of-the-meter contracts, though slower, are viable alternatives allowing plants to sell power while keeping the grid balanced. FERC’s ruling underscores both the complexity and high stakes of powering data centers sustainably in a competitive, evolving market.













Analyst Outlook

Kelly Yam

In his upcoming presidential term, Trump is expected to reignite efforts to lower pharmaceutical prices by enhancing market competition rather than imposing direct regulatory price controls. Expected policies include increasing access to generics and biosimilars, re-importing lower-priced U.S.-made drugs, and expanding caps on insulin prices. This strategy, rooted in his previous administration's approach, promises to tackle the issue of high drug costs through increased competition, which could effectively keep pharmaceutical innovations thriving without stifling them with heavy regulations.

Moreover, Trump's anticipated reforms to Medicare's 340B drug pricing program aim to enhance pricing transparency, moving away from the price negotiation mechanisms implemented by the Biden administration. The focus on market-based solutions and targeted consumer cost reductions could strike an effective balance between making drugs more affordable and encouraging continued investment in pharmaceutical R&D, In my opinion. At the same time, this approach might not address all the complexities of drug pricing; it could potentially lead to significant reductions in out-of-pocket expenses for consumers, aligning well with Trump's historical preference for competition over control.

Market Insights Team

					
Varun Jhamvar	Rahul Kapur	Kelly Yam	Hoang Tran	Manika Sakulsureeyadej	Alex Szewczyk
Director	Associate	Analyst	Analyst	Analyst	Analyst
 Northeastern University	 Northeastern University	 Northeastern University	 Northeastern University	 Northeastern University	 Northeastern University

Sources: Wall Street Journal