

Market Weekly Insights

26th February 2024

Global Outlook

Chinese Banks Slash a Key Lending Rate

China's economic challenges have led policymakers to take drastic measures, including an aggressive five-year loan prime rate cut by the People's Bank of China (PBOC) from 4.2% to 3.95%. This move, aimed at boosting the housing market and combating deflation, is part of broader efforts to support the economy facing slowing exports and weak consumer confidence. Despite being the most significant cut in five years, the response from investors has been muted, reflecting the prolonged slump in China's stock market.

While the rate cut was anticipated, economists emphasize the need for increased government spending to stimulate growth and address the prolonged real estate crisis. Cautious about adding to heavy debts, Beijing aims to reform the property market that once accounted for a significant portion of China's economic output. Analysts predict a subpar economic performance in the coming years as authorities steer towards reducing reliance on real estate and promoting high-end manufacturing and consumption.

Despite the rate cut supporting the housing market, overall loan demand remains subdued. The PBOC is cautious about aggressive rate cuts and is focused on directing credit toward favored sectors like manufacturing. China's economy, which expanded by 5.2% in 2023, is still grappling with challenges such as weakening export demand, subdued consumer spending, and deflation concerns. The International Monetary Fund projects a slower growth rate of 4.6% in 2024 and 4.1% in the following year. Analysts highlight the risk of a deflationary spiral without more substantial government and central bank support to revive growth.

German Economic Outlook Dims Amid Global Challenges

The German government has made a substantial downward revision to its 2024 economic growth forecast, now projecting a mere 0.2% expansion compared to the previously anticipated 1.3% growth. This adjustment underscores mounting concerns regarding sluggish global demand, geopolitical uncertainties, and the persistent challenge of elevated inflation affecting Europe's largest economy. With a contraction of 0.3% experienced in 2023, Germany currently ranks as the weakest-performing major economy globally.

The nation is precariously positioned on the brink of potentially entering another technical recession in the early months

S&P 500	\$5,088.80 +0.03%
DJIA	\$39,131.53 +0.16%
NASDAQ	\$15,996.82 -0.28%
Russell 2000	\$2,016.69 +0.14%
FTSE 100	\$7,706.28 +0.28%
Nikkei 225	\$39,098.68 +2.19%
WTI Crude	\$76.57 +0.10%
10-yr Treasury	4.3%

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

Sources: Wall Street Journal, Wind, Reuters, YahooFinance

of this year. Economy Minister Robert Habeck highlighted the daunting challenges ahead, emphasizing the need for Germany to bolster its competitiveness in a rapidly changing global landscape. Despite the immediate hurdles, the government remains optimistic about a modest rebound, projecting a 1% growth in 2025 and anticipating inflation to stabilize around 2%. The revised economic outlook underscores the impact of a sluggish global trade environment on Germany's export-driven economy. Additionally, concerns about the country's appeal for industrial investments and the balancing act between adhering to strict fiscal policies and financing an ambitious green transition complicate recovery efforts. With inflation expected to ease from 5.9% in 2023 to 2.8% this year, the path ahead for Germany is fraught with both challenges and cautious hope for stabilization.

America This Week

\$138 Billion of Student Loans Canceled Using Biden’s SAVE Plan

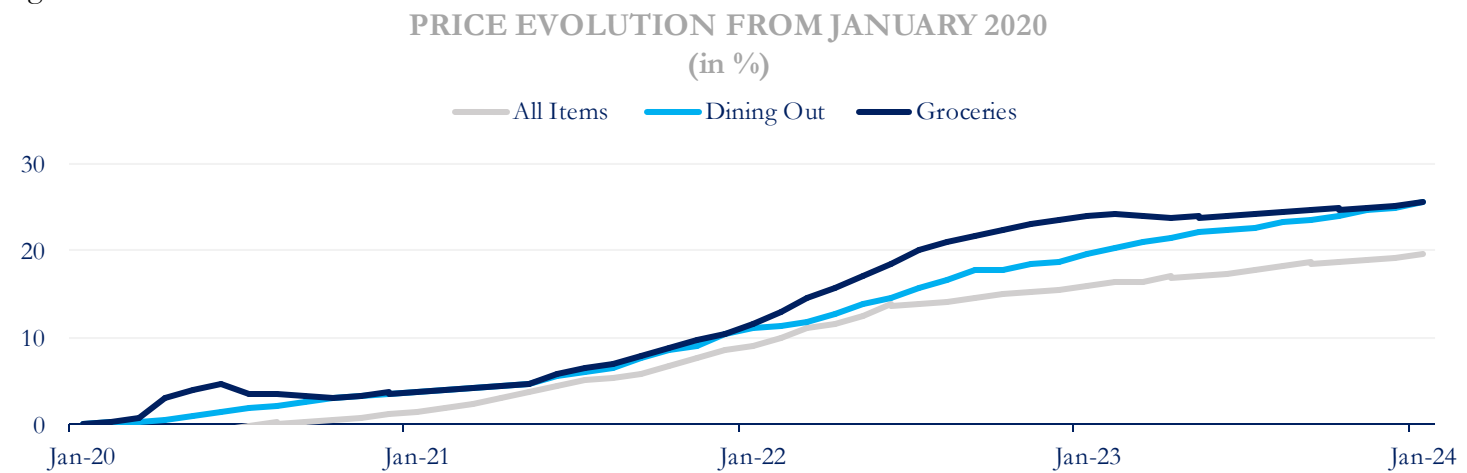
Since taking office in 2021, the Biden Administration has taken measures to address the \$1.6 trillion federal student loan debt. Legal setbacks hindered Biden’s ambitious goals to address this matter. In July 2023, The Supreme Court rejected Biden’s plan to relieve \$430 billion in student loan debt using the Heroes Act.

Despite this ruling, Biden has successfully flagged the cancellation of \$138 billions of federal student loans through The Saving on a Valuable Education (SAVE) repayment plan for 153,000 borrowers who borrowed less than \$12,000 and have been paying their student loans for at least ten years. However, confusion persists among borrowers due to delays in processing the relief, a situation exacerbated by the resumption of payments and accrual of interest in 2023 after a prolonged pandemic-era freeze.

Macro Highlights

The Persistent Rise of Food Prices and its Impact on American Households

In a striking return to levels witnessed in the 1990s, American households are now allocating a similar portion of their disposable income to food expenses, underscoring the persistent inflationary pressures despite a general easing of inflation rates. Recent data from the Labor Department highlights a significant uptick in costs, with restaurant prices soaring by 5.1% and grocery expenses by 1.2% compared to the previous year. This enduring high food cost is attributed to rising labor costs, with 22 states recently increasing the minimum wage and escalating prices for key ingredients like cocoa.



Sources: Wall Street Journal, Labor Department

Recent data from the Labor Department highlights a significant uptick in costs, with restaurant prices soaring by 5.1% and grocery expenses by 1.2% compared to the previous year. This enduring high food cost is attributed to rising labor costs, with 22 states recently increasing the minimum wage and escalating prices for key ingredients like cocoa.

The resilience of food prices, often described as "sticky," suggests little hope for a reversal to lower levels post-inflationary periods. This phenomenon is echoed by industry leaders such as Steve Cahillane, CEO of Kellanova, who notes the historical tendency for food prices to maintain their elevated status rather than decline. Consequently, American consumers are adapting through reduced dining out, opting for cheaper brands, and seeking promotional deals, albeit these measures only marginally mitigate the financial strain.

The broader implications of sustained food inflation are multifaceted, affecting consumer behavior, industry profitability, and economic policy. President Biden's recent criticism of "shrinkflation" practices among food manufacturers further underscores the growing frustration and calls for accountability and solutions to address the issue. As the economic landscape continues to evolve, managing food costs remains a central concern for American households, industry stakeholders, and policymakers.

Unraveling China's Deflation Crisis: Global Impacts and Regional Challenges

China is grappling with deflationary pressures, marking its most significant annual decline in consumer prices since September 2009, at a rate of -0.8%. This trend signals a deepening economic downturn, further complicated by sluggish growth, a real estate sector crisis, weakening exports, and the withdrawal of foreign investments.



The repercussions of China's deflation are varied across the global economic landscape. While it may relieve inflationary pressures in Europe and the U.S., it poses considerable challenges for smaller nations. Given China's pivotal role in global trade—especially in Asia, where it stands as a major trading partner—the deflationary trend could significantly impact it. The close geographical and economic ties mean that any price fluctuations in China will likely have immediate effects on its neighboring countries through shorter supply chains. There's a potential for Chinese firms to ramp up exports at lower prices, which could adversely affect manufacturers in countries such as Vietnam and Malaysia by undercutting their market positions.

Hong Kong is particularly complex due to its economic interdependence with mainland China. Although the strength of the U.S. dollar has brought some benefits to Hong Kong's residents, the city is challenged by the deflationary spiral in China. The depreciation of China's currency has prompted Hong Kong residents to seek bargains across the border, exacerbating the competitive challenges for local businesses. The inability of Hong Kong's retailers to match the lower prices offered by their mainland counterparts has placed additional economic pressures on the city, highlighting the intricate dynamics of deflation's impact on interconnected economies.

Industry News

Capital One's \$35.3 Billion Acquisition of Discover Faces Regulatory Headwinds

Capital One's proposed acquisition of Discover in a \$35.3 billion all-stock transaction marks a strategic maneuver poised to potentially elevate its status as the foremost credit card issuer in the United States, outpacing key rivals such as JPMorgan Chase, American Express, and Citigroup. Pending regulatory clearance, Capital One anticipates the completion of the transaction by late 2024 or early 2025. However, the acquisition faces significant regulatory hurdles. The deal is expected to undergo rigorous scrutiny due to concerns over bank consolidation, systemic risk, and the impact on consumer choice and costs. The Biden administration's stance on promoting competition, as evidenced by its executive order on bank deals and subsequent adjustments in regulatory review processes for mergers, suggests a challenging path ahead for the approval of this merger.

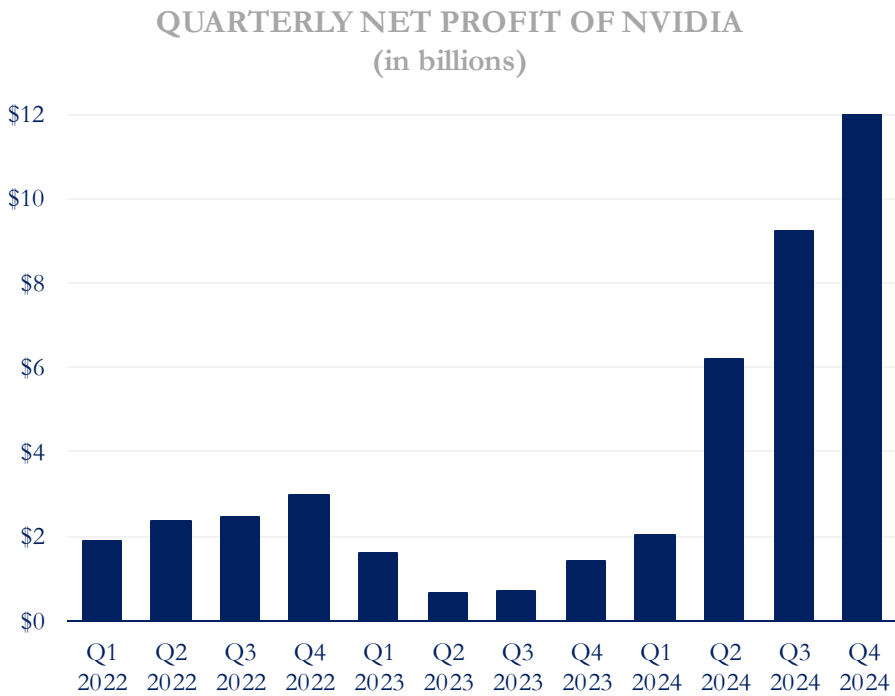
US Senator Elizabeth Warren has explicitly criticized the merger, arguing it could threaten financial stability, reduce competition, and lead to higher fees and credit costs for American families, urging regulators to block the transaction. These developments underscore the broader debate over bank consolidation and its implications for the market and consumers. The merger is also expected to prompt a Justice Department investigation, focusing on the potential impact on competition within the credit card issuer market and barriers to entry for new market participants.

Nvidia's Q4 Earnings Exceed Expectations, Driving Stock Surge

Nvidia released its Q4 earnings report at the market close on Wednesday, February 21. Nvidia's TTM jump of 226.4% in value seemed too good to be true, which led to fear that if Wednesday's earnings report did not meet expectations, the stock would plummet. However, their Q4 earnings exceeded market expectations. They reported \$22.1 billion in revenue in Q4 and a net profit of \$12.29 billion, a 771.63% increase year over year.

Its overall revenue growth is primarily driven by solid gaming and data center segment demand. Gaming revenue surged due to sustained interest in gaming GPUs, bolstered by new product launches and increased gaming activity during the pandemic. Data center revenue saw significant growth fueled by the rising adoption of AI, cloud computing, and high-performance computing solutions.

Nvidia's continued investments in AI and edge computing technologies further solidified its position in key growth markets. Additionally, strategic acquisitions like ARM Holdings promised to diversify its offerings and expand its reach into new sectors. Despite global supply chain challenges, Nvidia managed to navigate these hurdles effectively, showcasing its resilience and adaptability.



Sources: Wall Street Journal, S&P Capital IQ

Investors responded positively to the earnings report, driving Nvidia's stock price up by 16.77% since it was released and reinforcing confidence in its long-term growth prospects. Overall, the Q4 earnings underscored Nvidia's robust performance amidst evolving market dynamics and cemented its status as a leader in semiconductor innovation.

Navigating the Slowdown in the US Shale Boom and its Impact on Oil Prices in 2024

The U.S. shale boom is a critical factor in stabilizing oil prices. Projections indicate a 170,000 barrels per day increase in crude oil output in 2024, significantly lower than the 1 million barrels per day jump seen in 2023. This marks the smallest annual increase since 2016, excluding the pandemic-related downturn.










This slowdown can be attributed to declining oil prices, which led to rig shutdowns and larger companies prioritizing shareholder returns over new drilling. The Permian Basin, a significant contributor to U.S. oil growth, has fallen nearly 20% in operating rigs since late 2022, signaling a potential deceleration in growth. Analysts suggest that the ease in growth may become a new theme unless there's a significant jump in technology. While some anticipate a potential surprise with increased efficiency and new players stepping up production, others forecast a substantial slowdown in the U.S. oil industry.

Walmart Acquires Vizio for \$2.3 billion

Walmart has finalized a \$2.3 billion deal to acquire TV maker Vizio, signaling the retail giant's strategic move into making advertising revenue a significant part of its future. The acquisition grants Walmart access to Vizio's TV operating system, enabling increased ad sales and viewership data. Walmart aims to expand profit streams beyond retail, leveraging its existing private-label electronics business.

The deal reflects the evolving nature of Walmart's revenue model and the TV industry, with streaming and internet-connected TVs emphasizing software over hardware. Walmart's global ad business reached \$3.4 billion in the year ending January, showcasing the increasing importance of consumer data and ad space for retailers in the digital advertising landscape. According to Insider Intelligence, the sector is expected to reach \$59.6 billion in U.S. ad revenue in 2024, a nearly 30% increase from 2023. The deal is expected to close in the summer after regulatory clearance.

Market Insights Team

				
Momo Hassan	Varun Jhamvar	Rahul Kapur	Jack Miller	Kelly Yam
Director	Associate	Analyst	Analyst	Analyst
 Northeastern University	 Northeastern University	 Fidelity INVESTMENTS	PIPER SANDLER	 Northeastern University

Sources: Wall Street Journal