

Business Newsletter

20th November 2023

Society's Sixteen

Volume: 79

US WEEKLY RECAP

Nasdaq	▲	+2.37 %
S&P 500	▲	+2.24 %
Dow	▲	+1.94 %
Russell 2000	▲	+5.42 %

THIS WEEK'S HEADLINES

[US Yields Slide as Traders See Rates Falling Half Point by July](#)

[The Elusive Soft Landing Is Coming Into View](#)

[U.S. Retail Sales Fall for First Time Since March as Holiday Season Approaches](#)

[Oil Steady With Differing Views From IEA, OPEC Clouding Outlook](#)

[US Continuing Jobless Claims Rise to Highest in Almost Two Years](#)

[World-Beating India Telco Stock Loses Million Users a Month](#)

[Shares in Asia Mixed as US Stocks Climb, Bonds Dip](#)

[The Recession You May Have Missed Is Over](#)

CPI Report Shows Inflation Cooled to 3.2% in October



The October Consumer Price Index (CPI) report unveiled a positive turn of events, signaling encouraging signs of inflation moderation. In a notable departure from the alarming trends of the past, the October CPI report revealed a stable scenario. Prices remained flat on a month-to-month basis, with a modest 3.2% year-over-year increase. Core CPI, excluding volatile elements, demonstrated signs of cooling. This outcome can be attributed to the Federal Reserve's strategic tightening measures, effectively curbing the inflation that peaked at 9.1% in June 2022.

The Dow Jones surged by 2%, the S&P 500 saw a notable 2.4% jump, and the tech-centric Nasdaq experienced a remarkable 3% rise. Simultaneously, investors strategically propelled bond prices upward, leading to a notable 0.191 percentage point drop in the yield on the U.S. 10-year Treasury, settling at 4.44%. Adding to the positive market dynamics, core inflation exhibited a noteworthy trend over the five months culminating in October, registering an annual rate of 2.8%. This figure signifies a substantial decrease from the 5.1% recorded during the initial five months of the year.

With inflation consistently moving in a positive direction, there is a growing likelihood that the Federal Reserve will opt to maintain steady interest rates rather than pursue further hikes. The October CPI report positions the Fed closer to its 2% average inflation target without causing disruptive effects on the broader economy. This sustained moderation not only instills confidence in economic stability but also sets the stage for the Fed to potentially pivot towards rate cuts, fostering a path for future growth.

Crypto ETF Approval Optimism Spurs Market Surge: What Investors Need to Know

In a recent surge, Bitcoin and Ethereum have soared by approximately 36% in the last six months. A key driver behind this rally is the growing anticipation among investors for the approval of spot Bitcoin ETFs. Notably, industry giants such as BlackRock have filed for these ETFs, with the SEC expected to make a crucial decision in early January.

Investor optimism has intensified as the SEC's deadline approaches, prompting BlackRock to officially file for a spot in Ethereum ETF on Thursday (11/16). A spot ETF, which directly invests in the underlying assets of a cryptocurrency, offers a unique avenue for investors to navigate the crypto market. By tracking the spot price without requiring investors to handle the actual assets, these ETFs provide a more secure and accessible way to incorporate cryptocurrencies into investment portfolios. Given the current risks associated with crypto investments, the spot ETF approach appears increasingly attractive to investors seeking exposure to this asset class. Approximately 72% of financial advisors said they would invest in cryptocurrencies if spot ETFs were approved in the U.S., emphasizing the growing demand for the product.

Addressing previous legal hurdles, in August, the U.S. Court of Appeals ruled in favor of Grayscale Investments, LLC in a lawsuit against the SEC. The lawsuit arose after the SEC denied Grayscale's attempt to convert their Bitcoin trust into an ETF. The SEC's concerns about potential market manipulation were cited, despite having previously approved similar Bitcoin products that invest in futures contracts—derivatives speculating on the currency's future price.

As the SEC's decision looms, investors are closely watching how the approval of spot Bitcoin and Ethereum ETFs could reshape the crypto landscape. Whether this heralds a new era of market acceptance or presents fresh challenges, the outcome in early January is poised to leave a lasting impact on the future of cryptocurrency investments.

Why the Fed Shouldn't Get Credit for the Fall in Inflation

Despite the Fed's rate-hiking campaign, recent inflation declines have mostly happened because of the return of pre-Covid normality due to factors beyond the Fed's control.

Below is the scorecard for how the Fed has performed:

- Saving: 0/5. There was no change in personal saving rate between September 2023 and March 2022.
- Borrowing: 2/5. The rate of total credit growth is slowing. However, bank senior loan officers are now more willing to lend again.
- Consumption: 0/5. There has been a strong rise in household consumption.
- Housing: 4/5. We are seeing a halt in the housing market and a sharp slowdown in construction due to high mortgage rates.

- Jobs: 1/5. We are seeing a tighter labor market than pre-2021. Unemployment remains below the Fed's 4% full employment target as workforce expansion has resulted in easier recruitment conditions.
- The economy: 0/5. GDP growth was the fastest since the Fed began tightening, exceeding the central bank's sustainable rate estimate since last summer.

The Fed should not receive credit as inflation declined by itself. However, without rate hikes, the dollar would have weakened, and we would be seeing a stronger housing market along with higher consumption.

Investcorp Ends Debut Flat After \$451 Million Abu Dhabi IPO



Investcorp Capital Plc, an investment vehicle supported by the largest alternative asset manager in the Middle East, experienced a 4.4% increase following its \$451 million initial public offering (IPO). Despite opening flat at the offering price of 2.30 dirhams in Abu Dhabi, shares rose to 2.40 dirhams before settling at a 0.4% gain. The IPO, priced at the top of the range and enlarged by 12%, saw robust demand from both international and regional institutional investors. Notably, IPOs in the Persian Gulf have remained resilient amid geopolitical tensions and concerns over rising interest rates.

A cornerstone investor, a special purpose vehicle featuring around 160 Gulf-based investors, took up \$250 million of the offering. Investcorp Capital, backed by Investcorp Holdings, focuses on private equity, real estate, credit, and general partner positions across North America, Europe, the Middle East, and Asia. The company, with \$50 billion in assets under management, delisted from the Bahrain stock exchange in 2021, aiming for faster expansion. Supported by Abu Dhabi's Mubadala Investment Co., Investcorp is known for backing luxury brands and boasts influential shareholders among the Middle East's elite. This UAE IPO introduced a price stabilization mechanism for the first 30 days after listing, a distinctive feature in the region.

Nasdaq Leans Into Tech in Quest to Become More Than an Exchange

Adena Friedman, Nasdaq's CEO since 2017, has orchestrated a strategic shift, recently acquiring financial software firm Adenza for \$10.5 billion, a move that initially raised investor eyebrows. This acquisition is a pivotal step in diversifying Nasdaq's revenue streams beyond its traditional exchange business, particularly in response to market challenges like an 84% drop in IPOs in 2022. Friedman envisions positioning Nasdaq as a formidable financial technology provider, with a focus on regulatory reporting, risk management, and compliance software.

Her inspiration for this fintech strategy emerged from extensive customer discussions during her tenure as Nasdaq's president. Customers expressed concerns about dealing with regulators, minimizing fraud, and addressing financial crime risks.

While Nasdaq was perceived as a tech leader with strong market ties, customers felt it could do more to address these significant challenges in finance. Friedman's response to this feedback was a transformative vision for Nasdaq, evident in her strategic acquisition of Adenza, a company four times the size of Nasdaq's previous notable purchase. Despite initial concerns about costs and growth maintenance, Friedman remains optimistic, emphasizing cross-selling opportunities and alignment with evolving market needs. This strategic move reflects her commitment to reshaping Nasdaq from a traditional exchange into a diversified financial technology leader, fulfilling the customer-driven call for Nasdaq to tackle broader challenges in the financial landscape.

Wall Street's Stock Pickers Win When the Market Crumbles

A recent study by Leuthold Group, along with insights from strategist Ryan Grabinski at Strategas, corroborates a notable trend: a higher-than-usual percentage of active managers outperforming during market declines. Quant analysts are captivated by this consistent pattern, speculating on potential shifts in the market's dynamics when it drops, favoring those tasked with outperforming. Scott Opsal, director of research at Leuthold, contends that bear markets are more favorable to active managers due to their avoidance of high-risk companies, transforming the habits of stock pickers—usually costly in bullish markets—into a recipe for success during reversals. Opsal's analysis further underscores the challenges active managers face in the current market, exacerbated by the resurgence of Big Tech stocks, impacting smaller companies and cheap shares within active funds. Despite these hurdles, Opsal and others posit that active success is not a pure matter of investing prowess, but rather the inherent math of markets.

What if Wall Street Doesn't Bounce Back?

Investment bankers often use the term "Green Shoots" to describe mergers and other investment banking deals as signs of regrowth. But this expression might be too delicate to describe our current political climate, with the low-growth economic outlook, surging treasury yields, and the wars going on in Israel and Ukraine. In recent reports major bank's investment banking division has shown growth in their third quarter compared to their second, but they still remain significantly below their peak of 2021. The prospect of a prolonged downturn in deal activity is concerning, and as data suggests it could take years for the industry to approach pre-2021 levels.

There have been deals that investment bankers would call "Green Shoots" like Exxon Mobil's \$60 billion acquisition of Pioneer Natural Resources, but higher interest rates pose a challenge for many transactions, especially for private equity investors looking to finance their transactions with leverage. The trading sector experienced a robust third quarter. Overall trading revenue for the year is still behind the peak of 2022, which raises concerns about the ability of major banks' trading arms to sustain returns.

Are Americans Falling Out of Love With EVs?

The spendthrift relationship with electric vehicles (EVs) in the United States has lost some spark, with monthly sales plateauing around 100,000 units over the last six months. This follows rapid price cuts led by Tesla. The average cost of a new EV sold in October is \$52,000, down from \$65,000 a year earlier. Major automakers like Ford and General Motors have pushed back their planned investments in EVs, and even Tesla's CEO Elon Musk has hinted in a recent earnings call that he might slow down. The trend isn't confined to the U.S., similar course corrections have happened internationally, like Volkswagen putting a hold on their plan to build a fourth battery plant.

There are many reasons for this market correction, like increased interest rates affecting monthly car loan payments, but with the overall U.S. car market standing strong and with consistently high average vehicle prices, this suggests a more complex landscape. The initial wave of interest from Tech enthusiasts in EVs may have subsided, prompting EV manufacturers to look for an edge in price decreases and product innovation.
