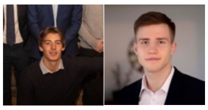
Monday 6th November 2023

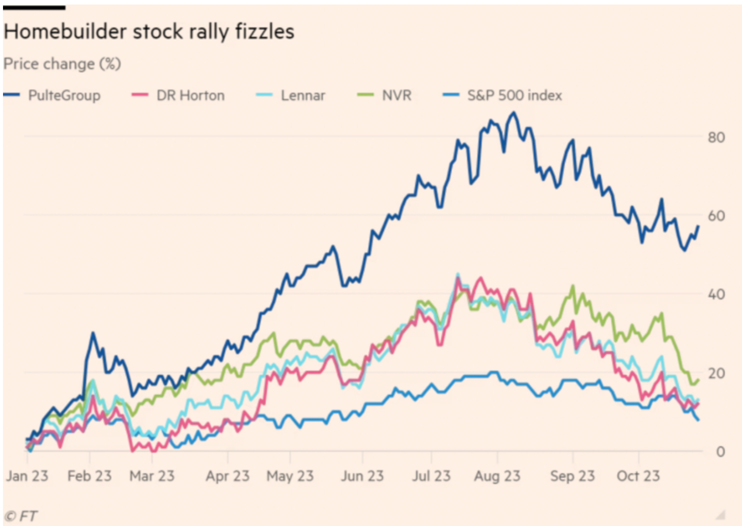
Weekly Newsletter



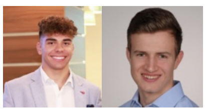
US Homebuilder Stocks Face Headwinds as Mortgage Rates Soar to New Highs

In the first week of November, the US stock market enjoyed a robust rally, with the S&P 500 surging nearly 6% on the back of investor optimism about sustained Q4 inflation. However, the same cannot be said for US homebuilder stocks.

Just a few months ago, in August 2023, these stocks defied expectations by outperforming the S&P 500 despite rising interest rates. This unexpected resilience was largely attributed to Warren Buffett and Berkshire Hathaway's substantial $814 million bet on the industry. At the time, the housing market experienced a positive boost, primarily due to homeowners staying put in their current properties, which, in turn, reduced the supply of available homes and increased demand. This phenomenon contributed to the bullish market seen in August. The surge in interest rates led to higher mortgage costs, discouraging homeowners from selling, thus limiting the housing supply. New construction projects accounted for a substantial 30% share of the American housing market in 2023.



However, this euphoria proved to be short-lived, as the graph above illustrates the decline in homebuilder stock prices from August to the present. Nevertheless, since the start of November, the market has been characterized by significant volatility, much to the delight of investors. Homebuilder stocks have rebounded, with gains of at least 5%. Yet, some analysts caution that US investors may be overly optimistic, especially as inflation continues to persist in a robust labor market environment.

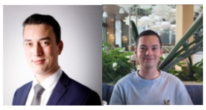


Crude prices may exceed $150 per barrel if Middle East conflict escalates, risking repeat of 1970s oil shock.

The World Bank warns of another potential shock on commodity markets from increased energy and food prices due to the prolonged Israel-Hamas conflict, following Russia's invasion of Ukraine. Due to the current slower economic growth, the Bank’s forecast indicates that oil prices would decrease to $81 per barrel from the current projection of $85. However, this can drastically change if the conflict in the Middle East escalates.

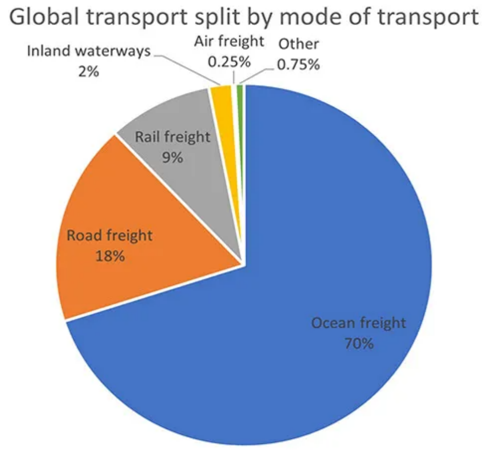
In a worst-case scenario, the World Bank's report projects global oil supply to decrease by 6-8mn barrels/day, which is approximately 6-8% of the current global oil demand of around 102 million barrels per day. This would cause prices to range between $140-$157/barrel if leading Arab producers like Saudi Arabia reduce exports.

The World Bank stated that the global economy is more resilient to supply shocks compared to October 1973, back when OPEC nations increased crude prices fourfold. Furthermore, the Middle East's importance in global oil exports has decreased to 30% compared to 37% in the 1970s. Ayhan Kose, the World Bank's deputy chief economist, said that the potential intensification of the conflict will lead to a constant rise in commodity prices, which have yet to recover from Russia's invasion of Ukraine, and another 'wave of inflation', requiring central bank intervention. Moreover, rising oil and gas prices raise shipping and fertiliser costs, increasing agricultural commodity prices and leading to higher food prices.

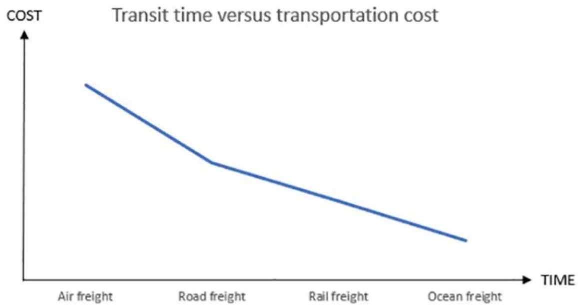


Maersk's Workforce Cut Signals Troubles in the Shipping Industry

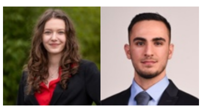
In a startling move, Maersk, the world's largest shipping company, has announced layoffs affecting over 10,000 employees, which amounts to 10% of its workforce. This decision follows a troubling year for the company, as it grappled with a substantial 50% year-on-year decline in revenue, leading to a significant downward revision of profit expectations. The consequence was immediate, with Maersk's share price plummeting by 18% last week to a three-year-low. (Reuters)



The underlying causes of this crisis are multifaceted. Global inflationary pressures have driven up costs in the shipping industry, while declining demand has led to a drop in shipping prices. Geopolitical uncertainty further complicates matters, with the potential to raise oil prices and, subsequently, shipping fuel costs. Moreover, there is currently no economically viable, sustainable alternative to traditional shipping fuel, intensifying the cost challenges within the industry.



Despite the current challenges, ocean freight continues to be the backbone of global transport, representing 70% of goods movement at the most competitive cost. While the industry faces daunting obstacles, the prospect of a mid-term recovery remains, driven by factors such as potential declines in interest rates that could stimulate demand. As the shipping sector navigates these turbulent waters, there is hope that its enduring strength will prevail in the long run.



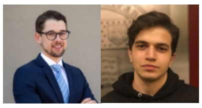
Japan's Bond Market Dilemma

Investors are closely watching Japan's central bank, the Bank of Japan (BoJ), as it faces pressure to loosen its grip on the bond market due to the yen's 33-year low and rising government bond yields. The yield on the 10-year Japanese government bond recently reached 0.89%, the highest since 2013, prompting expectations of a revision to the BoJ's "yield curve control" policy that keeps yields below a set level. While some, like UBS, anticipate a widening of the allowed yield band, Barclays predicts the BoJ may scrap yield curve control altogether.

The BoJ has maintained a negative interest rate despite inflation exceeding targets, but the growing gap between Japanese and US interest rates has increased pressure to tighten monetary policy. The yen weakening past ¥150 against the dollar has raised concerns about inflation due to higher imported goods costs.

Despite these pressures, the BoJ argues that the main driver of price increases is rising import costs and is waiting for more sustainable wage growth before making significant policy changes. Economists are paying attention to whether BoJ Governor Kazuo Ueda will acknowledge a stronger correlation between wages and prices.

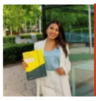
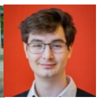
Investors worldwide are monitoring Japanese bond yields closely as Japanese institutions are major holders of US and European debt. A shift in Japanese investments driven by more attractive returns at home could impact global bond markets. The outcome of the BoJ's meeting will provide crucial signals regarding Japan's monetary policy and its potential impact on global financial markets.



Investors' appeal to safe haven assets amid Gaza-Israel conflict

In times of rising global market uncertainty and turbulence, investors flee to safe haven assets in order to minimize exposure to potential market downturns as well as to maintain, or even increase, their portfolio value. A "safe haven" assets, such as gold, treasury bills, defensive stocks, and several currencies (U.S. dollar, Swiss franc, Japanese yen) are characterized by the fact that they represent a "hedge" against global risks in times of crisis, such as a falling stock market (Grisse and Nitschka (2015)). One of the examples to the rising global market uncertainty and turbulence would be the recent Israel/Gaza conflict began earlier this October.

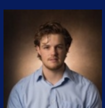
Just until the arise of the conflict, gold had been experiencing downfall of a total 6.2% for three consecutive weeks due to Fed's hawkish tone early in September for November and December. Yet, since the arise of the Israel/Gaza conflict on the 7th of October, gold has experienced an increase of 8.39%. Likewise, Swiss franc has experienced a humble increase of 1.1% while U.S. dollar, Japanese yen, and U.S. treasury bills (12-month and 10 year) has maintained their positions. Within the last month, while safe haven assets have either maintained or increased in value, the majority of global stock markets (based on FTSE All-World Index) have followed the similar trend of experiencing a three-week downturn, with a subsequent positive week that led to a rebound to pre-conflict levels. It is worth mentioning that despite the hawkish tone of Fed early in September for a further rate increase expected by the end of this year, Fed announced on the 1st of November, keeping the interest rate unchanged.

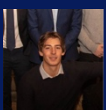


Federal Reserve keeps interest rates unchanged

On Wednesday the 1st of November, after a two-day policy meeting the Federal Reserve announced its unanimous decision to hold the key federal funds rate in a target range between 5.25% and 5.5%. This has been the second consecutive meeting held by the Federal Open Market Committee after a streak of 11 rate hikes, four of which took place in 2023. The chair of the Federal Reserve, Jerome Powell, stated that "The process of getting inflation sustainably down to 2% has a long way to go." He emphasized that no decisions for the December meeting have been made so far, and that "The committee will always do what it thinks is appropriate at the time." Furthermore, Powell added that the idea of considering or discussing a rate reduction is currently out of the question.
As a result of the Federal Reserve not going ahead with another rate increase, markets have began speculating that the Fed's rate-hiking campaign has come to a finish. "The fact that they left rates unchanged for the second time in a row suggests the Fed might leave rates unchanged in December. And if they do, that means the Fed is done," said Peter Cardillo, the chief market economist at Spartan Capital Securities. He also stated the decision leans to the dovish side. However, this might not be the case as the U.S. has faced a stronger-than-expected economy and labour market, keeping the possibility of another hike a reality. "It is still likely … we will need to see some slower growth and some softening in the labour market … to fully restore price stability," said Powell, stressing that some sort of slowdown will be needed.

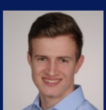
The Assets Committee

 Calvin Barlow - Head of Assets

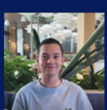
 Lounis Demanet - Committee Member

 Bruno Bansky - Committee Member

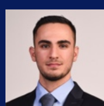
 Lyuboslav Panayotov - Committee Member

 Daniel Klingenberg - Committee Member

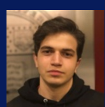
 Alexander Thurner - Committee Member

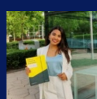
 Hugo van der Stap - Committee Member

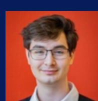
 Sara Ługowska - Committee Member

 Itay Zari - Committee Member

 Nicolas Gregorics - Committee Member

 Kerem Koruk - Committee Member

 Nehal Singhal - Committee Member

 Cristian Benciu - Committee Member

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