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Caution on the Horizon

November 2024

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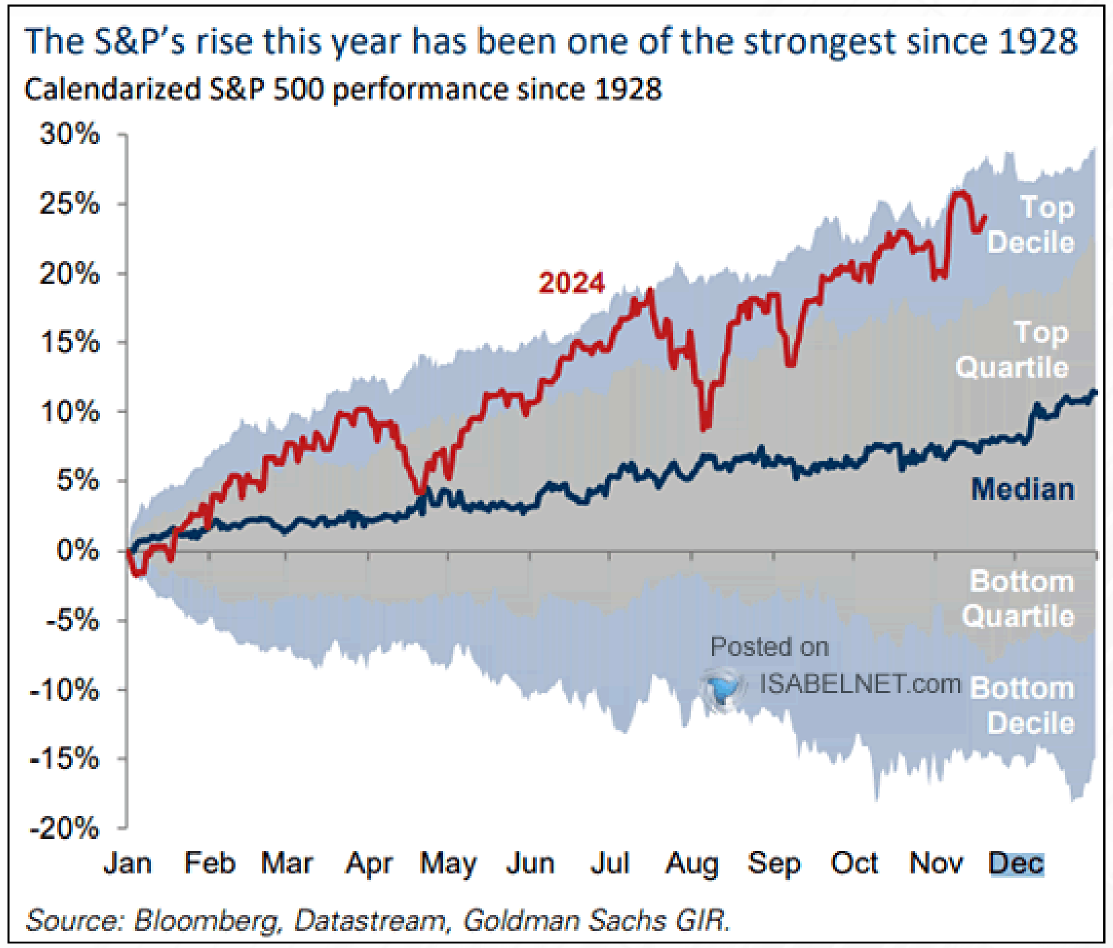
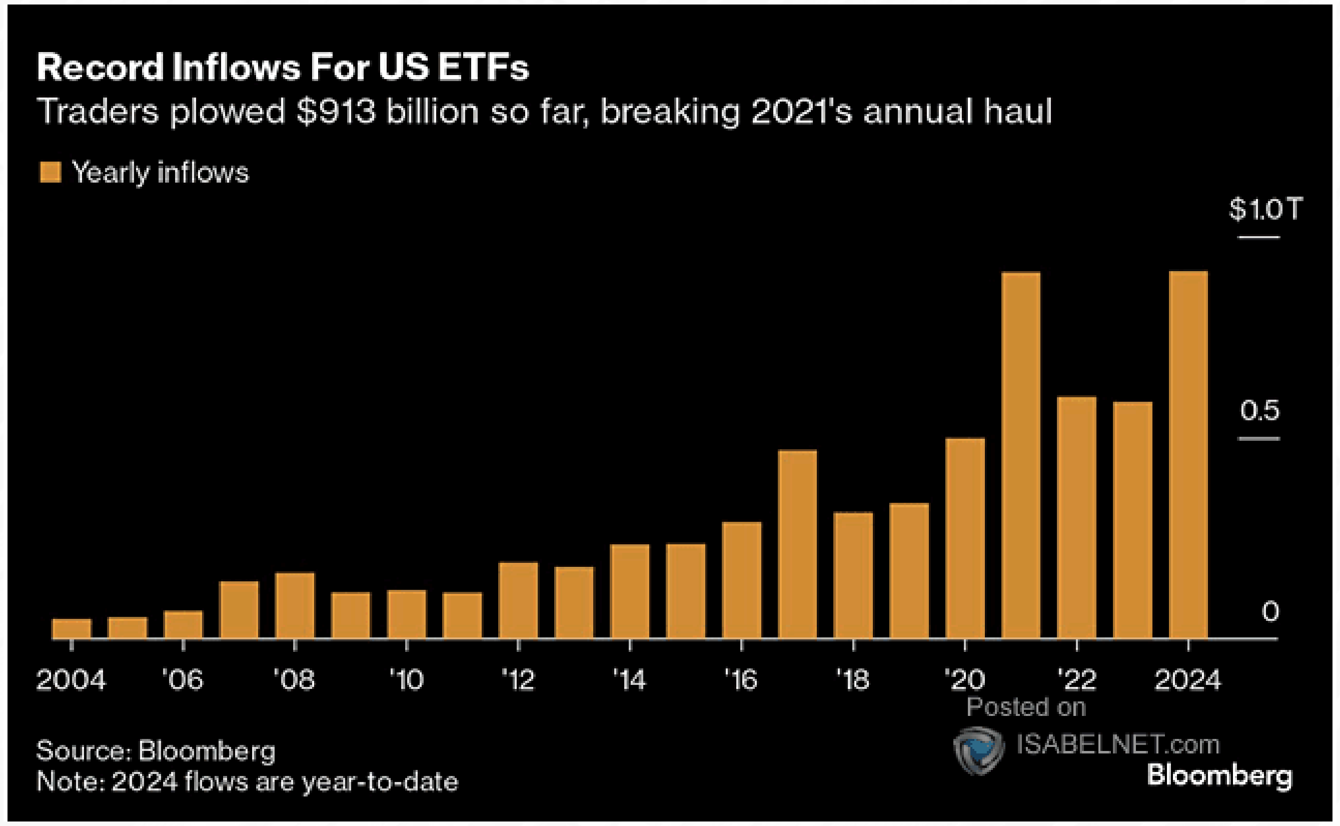
CIO View (1/5)

As US stock market investors sit down for their Thanksgiving dinner, one item on their list to feel grateful for must be the stock markets. **US stocks have delivered one of their strongest performances in the last 100 years**, and all major indices are trading within a whisker of their All Time Highs.

And the proportion of Americans' financial assets invested in public stocks is nearing record highs, just shy of the peak seen in 2021. **In 2024, 41.6% of U.S. households' financial assets are tied to the stock market.**



Investors have not been this optimistic about the market since 2021 when the world was awash in liquidity.



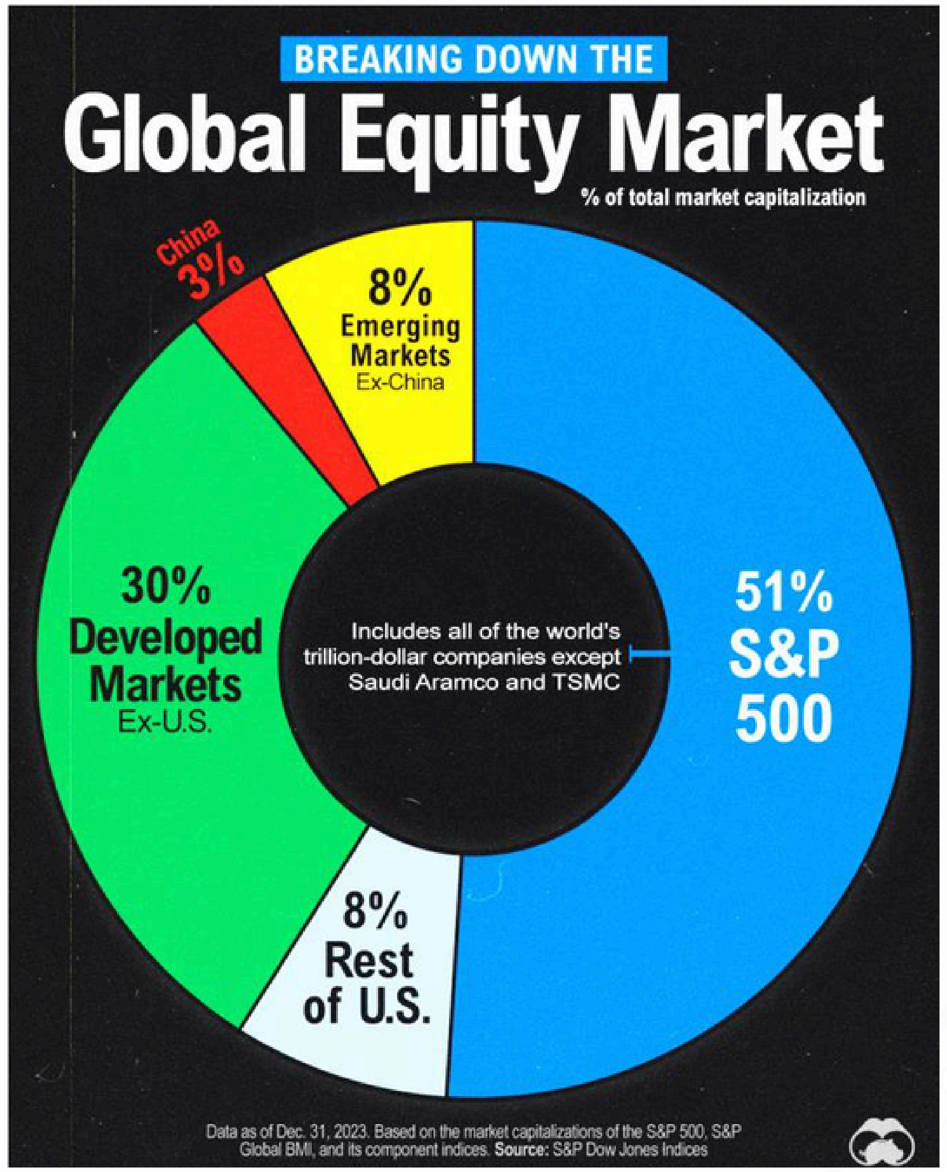
The CNN Greed and Fear Index is trading at 65, firmly in "Greed" territory.

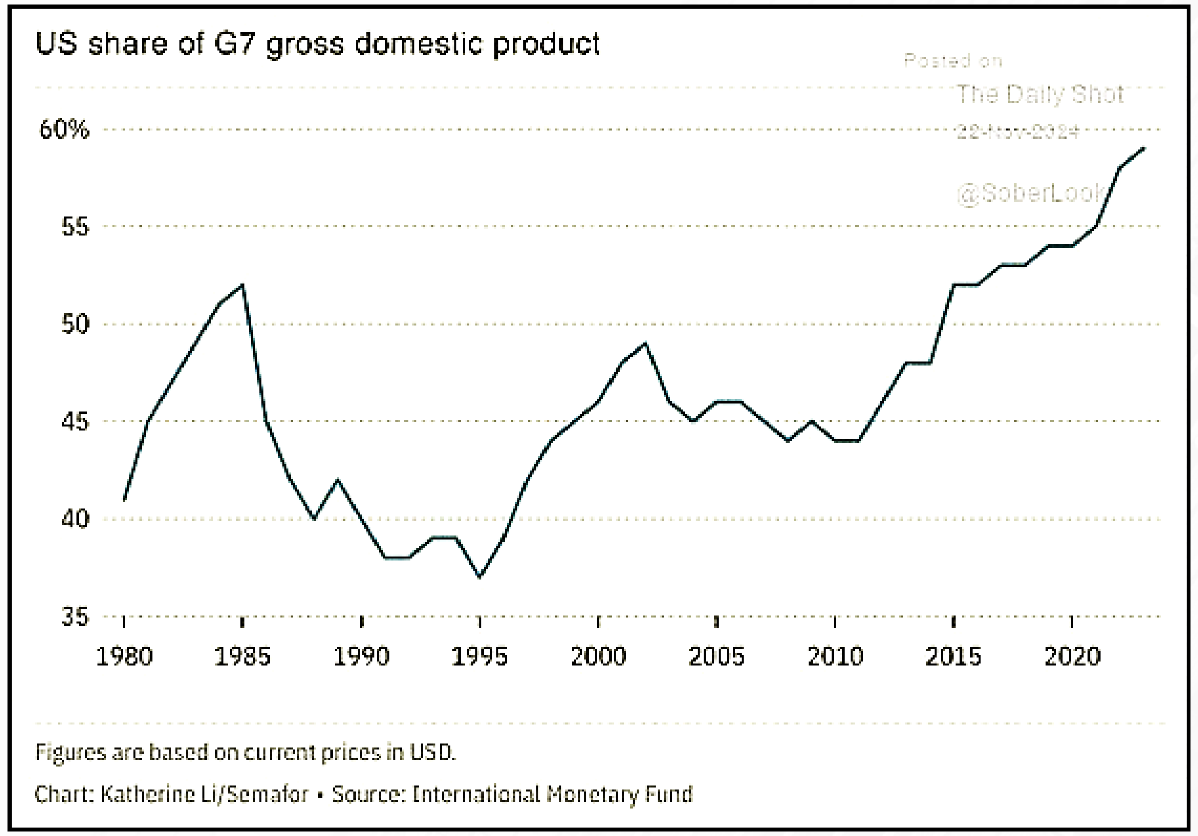
CIO View (2/5)

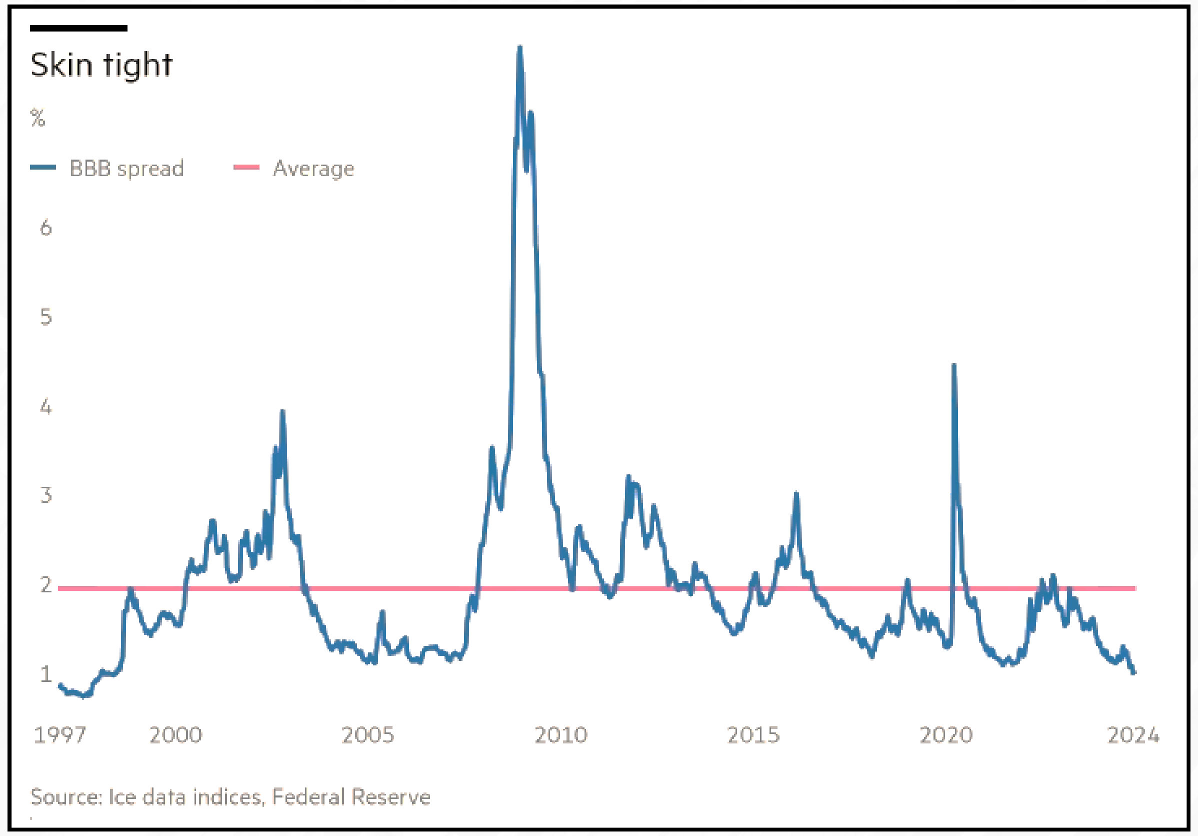
This strong performance by the US has come when most of its peers are struggling. **The U.S now represents nearly 60% of the GDP of the entire G7. This has attracted more inflows into the US dollar and market.**

And the S&P 500 represents 51% of the value of global stock markets.

Not unexpectedly, this has led to some significant deviations from long-term averages. **Corporate Bond Spreads have dropped to the lowest level in 26 years**







CIO View (3/5)

With this backdrop, it would be interesting to prognosticate on the direction of the markets under the new incoming administration.

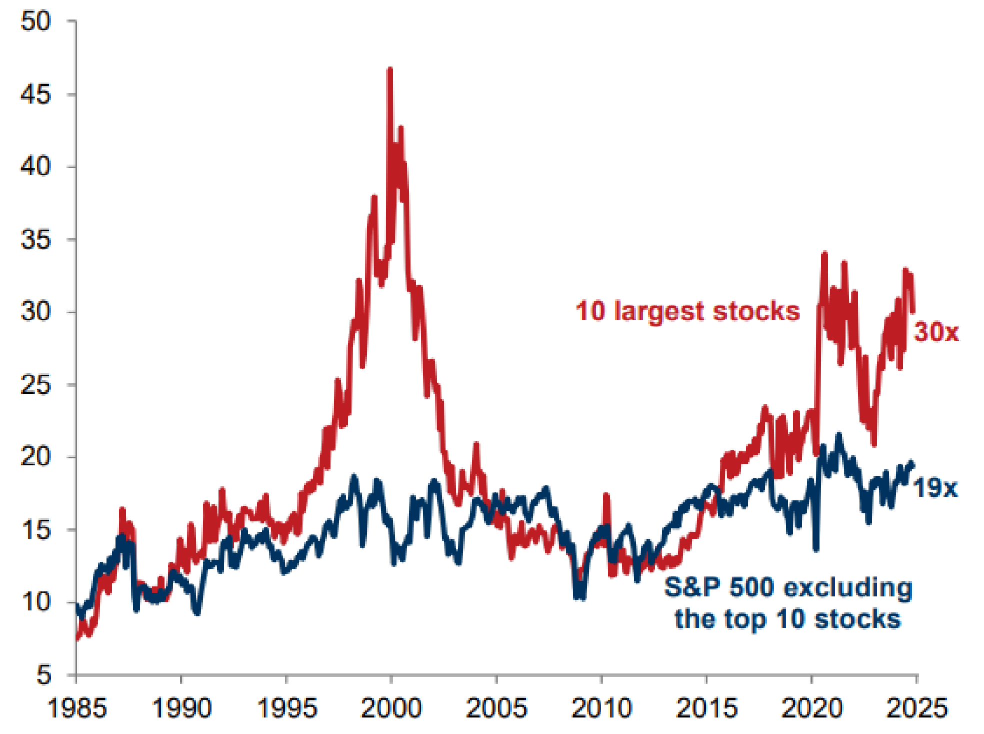
Donald Trump has said that on his first day in office, he will impose **an additional 10% tariff on goods from China and 25% tariff on goods from Canada and Mexico.** He says the tariffs are due to open borders, drugs, and illegal aliens. These tariffs will be signed on January 20th as "one of many first Executive Orders."

Taken together, these three countries — Canada, Mexico and China — account for more than a third of the goods and services both imported and exported by the U.S., supporting tens of millions of domestic jobs. 84% of Mexico's exports and 77% of Canada's exports are to the US. If the tariffs indeed come into effect, the impact on both ends is likely to be significant. The move would scramble global supply chains and impose heavy costs on companies that rely on doing business with some of the world's largest economies.

The risk is that higher US import tariffs will spark a trade war if other countries follow the US in imposing higher import tariffs. This risk is high because China grapples with overcapacity and will try to sell more goods in other countries in the event of lower exports to the US. As many European countries want to tighten fiscal policy and the degree of economic stimulus by China's government falls short of expectations, a trade war would have a primarily deflationary effect in both economies.

...and the valuations of these stocks have risen significantly...

Median company P/E multiple



Source: Compustat, Goldman Sachs GIR.

Trump has also floated several tax policy ideas, including extending the expiring 2017 Tax Cuts and Jobs Act (TCJA) changes, bringing back the deduction for state and local taxes (SALT), reducing the corporate tax rate for domestic production, exempting various types of income from the income tax, repealing green energy tax credits, and imposing steep new tariffs.

Some of Trump's tax proposals are well-designed and would be efficient ways to promote long-run economic growth, such as permanent expensing for machinery, equipment, and research and development (R&D).

Others could worsen the structure of the tax code while only creating a muted impact on long-run economic growth, such as the exemptions for tips and Social Security income.

CIO View (4/5)

The impact of the proposals will vary significantly depending on which combination of policies are pursued and how exactly each policy is structured. Further, they would not be felt evenly across all income groups. **Some economists argue that the tax cuts would provide a larger relative benefit to higher-income taxpayers, while his major proposed offset of higher import tariffs falls harder on lower-and middle-income taxpayers.**

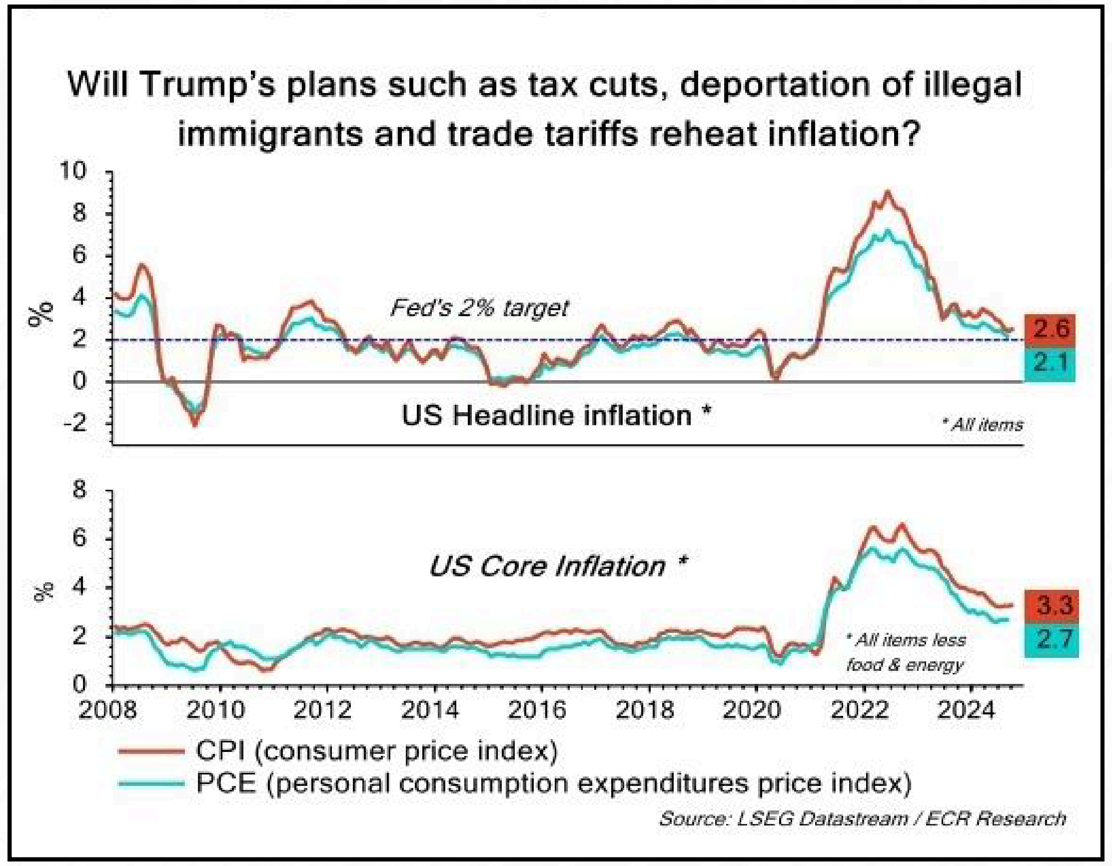
The yield on 10-year US treasuries has surged about 70bps since the Fed began its easing cycle in mid-September. One of the most important recent developments for bond markets has been the expectation that the Trump administration will turn its election promises of lower taxes, higher import tariffs, deregulation and the deportation of illegal immigrants into actual policies early next year.

As the Republicans have a majority in Congress and Trump wants to appoint people who are very loyal to him as secretaries, he can expect virtually no political opposition for his plans.

On balance, Trump policies will increase the upward pressure on inflation and heighten concerns about the outlook for US public finances. The US economy is already running at almost full capacity utilization and public deficits are unprecedentedly high for times in which there is no crisis, and the US is not at war. The upward pressure on inflation will increase sharply if, against this backdrop, taxes are lowered, the labor market is tightened due to the deportation of illegal immigrants and US companies are given more pricing power through higher import tariffs.

While deregulation (which stimulates oil production, for example), cuts in the government apparatus and the recent rise in the dollar are factors that have a deflationary effect these will not weigh as heavily as measures that create higher inflation.

On the monetary policy front, **a pick-up in the Federal Reserve's preferred gauge of underlying inflation in recent months is reinforcing the case for policymakers to proceed gradually with further interest-rate cuts.**



CIO View (5/5)

We note that two of the world's biggest foreign holders of US government debt are selling like never before. In Q3 2024, Japan sold a net $61.9 billion of Treasuries, the most on record. This was the second consecutive quarter of selling after $40.5 billion in Q2. At the same time, China dumped $51.3 billion, the second largest amount ever recorded. China has now sold Treasuries in 6 out of the last 7 quarters and its total holdings fell below $800 billion for the first time in 16 years.

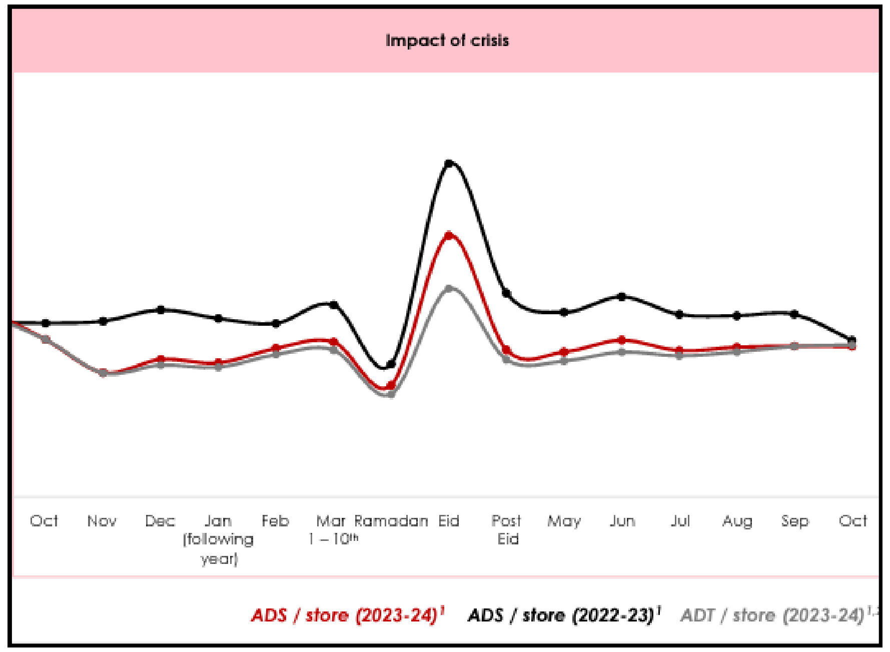
For the time being, we believe the Fed will have a bias to cut interest rates further. At this point, the central bank believes that the current interest rate of 4.5-4.75% is still significantly higher than the neutral rate, meaning that its interest rate policy will continue to slow economic growth for now.

We recommend maintaining a neutral duration stance for now. Assuming a reasonable Fed terminal rate of 3.75-4% and a term premium of 50 basis points, the current 10-year yield does not offer sufficient appeal to justify extending duration. We will reassess the position if yields overshoot 4.5%, or if rate-sensitive segments of the market, such as small caps and growth equities (excluding the Magnificent 7), begin to show signs of strain.

International Brands Continue To Feel The Heat From Geopolitical Conflicts

From Egypt to Indonesia and Saudi Arabia to Pakistan, consumers are shunning goods produced by companies such as Coca-Cola, KFC, Starbucks, Mondelez and Pizza Hut

Americana Average Daily Sales comparison YoY



Source : Company information

Multinationals like Coca-Cola and Starbucks have massive geographic spread and sometimes they operate across categories. Impact on their bottom line isn't enormous.

- During second-quarter earnings updates, **many multinationals were hesitant to address the issue** head on.
- Mondelez said boycotts "remained a headwind", weighing down Middle East & S.E. Asia sales growth by 2% in the 3rd quarter.
- L'Oréal said boycotts had a 2 pp drag on growth in H1'24. For Q3, they did not see any improvement in impact from boycotts especially in Indonesia & Malaysia.
- The overarching **strategy of many companies is to suppress the noise around the boycotts by not revealing the impact.**

Their franchise operators, however, in countries where the boycotts are taking place are feeling it far more.

- Coca-Cola İçecek A.Ş saw a drop in sales in Turkey and Pakistan. **Q3 sales volume fell by 12.2% in Turkey and 22.9% in Pakistan YoY.**
- Americana restaurants Like For Like (LFL) sales were **down almost 20% for the first 9 months** in 2024.
- In Malaysia, Starbucks's local operator Berjaya Food reported a second consecutive quarterly loss in May due to the boycotts. For FY'24
- that ended in June they recorded a 32.4% decline in revenues from Starbucks and attributed it primarily to the impact from the conflict.

Looking forward

- Company officials are already talking about how the impact from the conflict will be baked into the YoY comparisons in the Oct-Dec quarter, hinting that **this trend could continue longer.**
- Local sellers in these countries are seeing perception towards local brands improving, which could also solidify aversion.

The setback in revenues due to the boycott seems to be a structural change rather than a temporary effect

Urban India Takes A Breather

Consumption trending down:

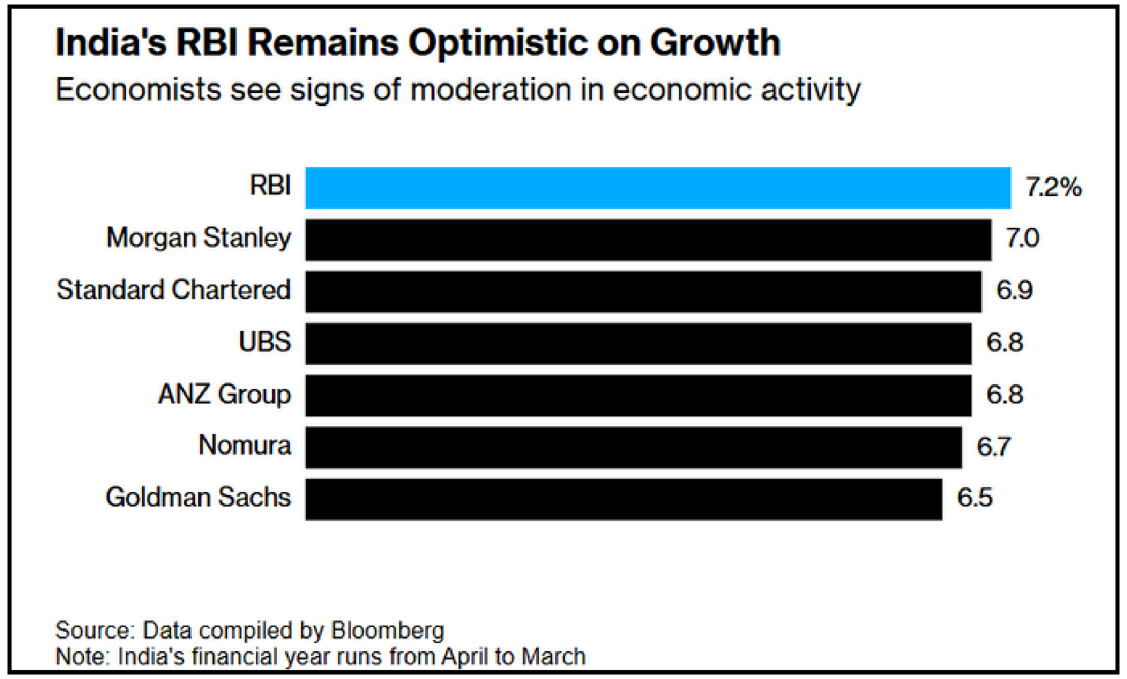
- From sales of cars and coffee to travel & manufacturing, there has been a **downturn in several sections of the economy.**
- Nevertheless, the central bank has stuck to its forecast that India's economy will expand 7.2% in FY25.
- The RBI's bullishness is underpinned by its view that **rural spending is improving and private investment is picking up.**
- Brands are hoping demand uptick in India's rural areas could offset some of the slowdown in urban centers. Rural incomes are expected to have improved on the back of ample monsoon in the past few months.

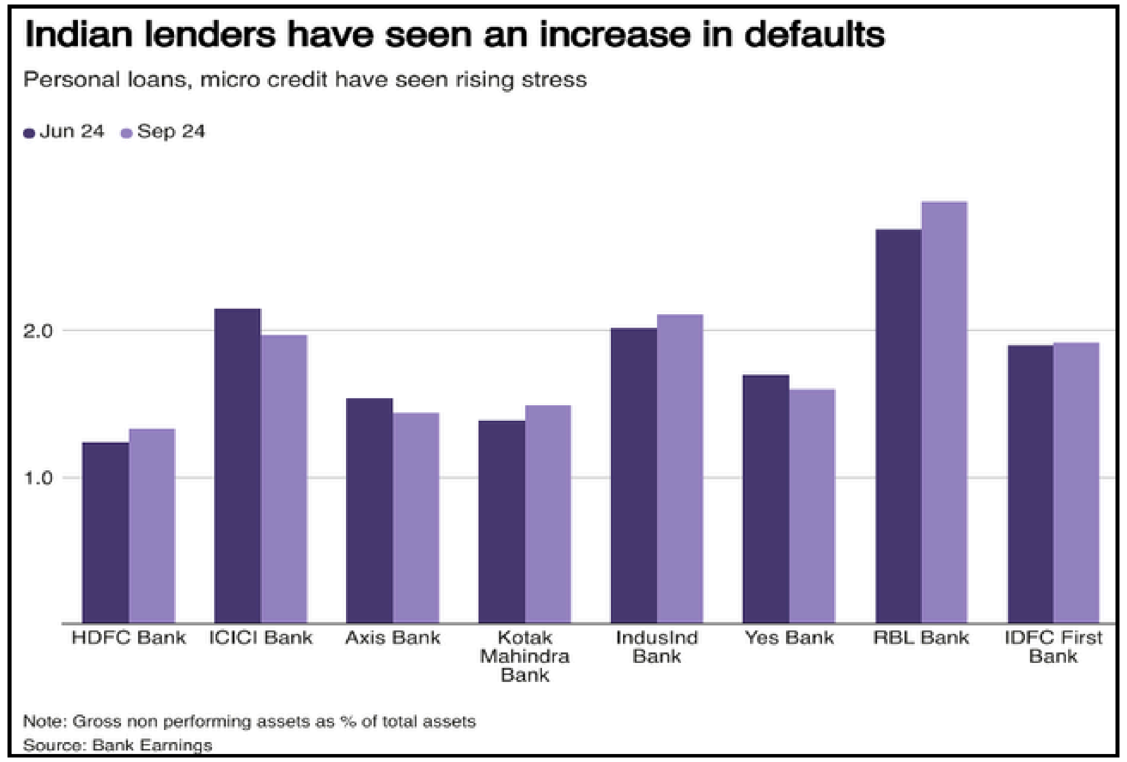
Growing household debt and rising delinquencies:

- The country's **household debt to GDP hit a record high of 40%** in FY24. However, this is still low compared to developed countries.
- **Personal disposable income in India has not kept pace with the country's broader economic expansion** and net financial savings were at a four-decade low last year.
- About 1/3rd of millennials and 40% of Gen Z Indians are submerged under unsustainable borrowings.
- As per estimates, personal loan delinquencies in India overdue by >90 days have increased to 5.1% in FY24 from 3.9%.
- India's shadow banks are expected to be hit by a rise in delinquencies of between 30 to 50 basis points through March 2025

Weakness in Economy is showing up in Company Earnings:

- Jefferies reported over 60% of the 98 firms, have had their earnings per share estimates downgraded following quarterly results.
- Given the slowdown foreign investors pulled more than $10B out of Indian stocks in Oct., biggest exodus since the start of the pandemic. Many investors rerouted funds to China after the stimulus news.
- India's rally over the past year has been driven primarily by domestic investors, but foreign investors may be growing concerned that even local risk appetite is close to saturation.





Despite the selloff, Indian stocks are still trading at high valuations

Gold Outlook Post-Election And Potential Fed Rate Cuts

Gold's Recent Decline

- **DXY reached 105.00 (up 5% YoY)**, making gold more expensive and contributing to a 2% pullback in gold prices.
- **U.S. 10-year yields rose to 4.75% (up from 3.5%)**, raising the opportunity cost of holding nonyielding gold, causing a 1.9% decline in gold prices.

Impact of Trump's Victory

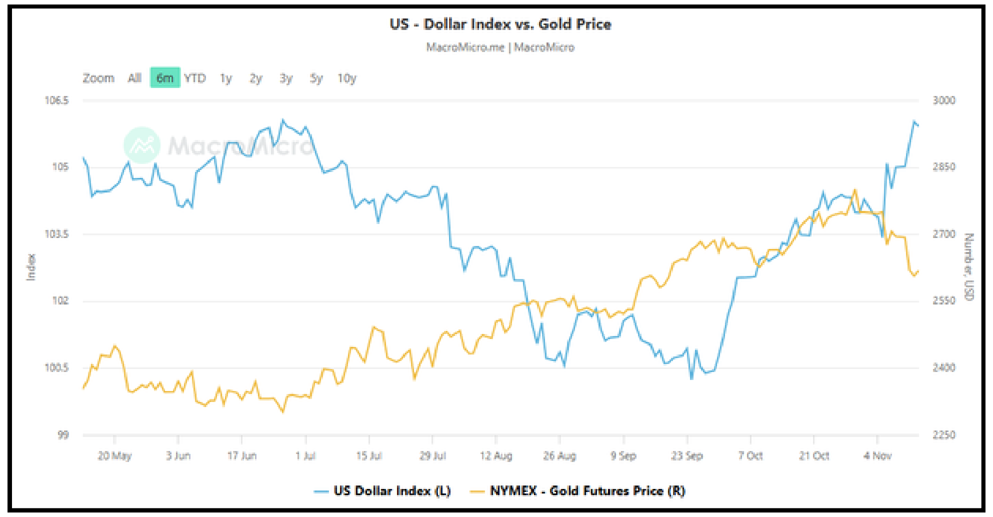
- Spot price of gold was more likely to perform worse following Republican victories than Democratic victories.
- Fiscal optimism due to expected **government spending and tax cuts** strengthened the USD/JPY by 4.5%.
- **Equities surged by 5%, and BTC rose 10%**, diverting capital away from gold, which fell 1.9%.

Fed Rate Cuts & Impact on Gold

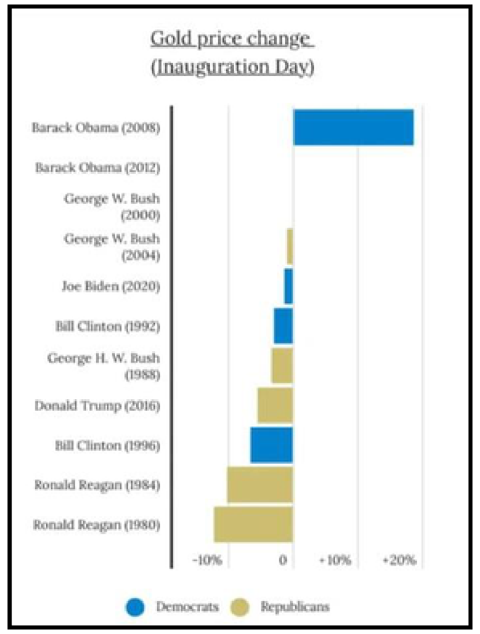
- **Fed cut rates by 0.25% in October 2024**, with further cuts expected in Q1 2025, lowering the opportunity cost of holding gold and making it more attractive.
- A dovish Fed policy supports a **bullish long-term outlook for gold,** especially with U.S. inflation at 3.2%.

Outlook for Gold

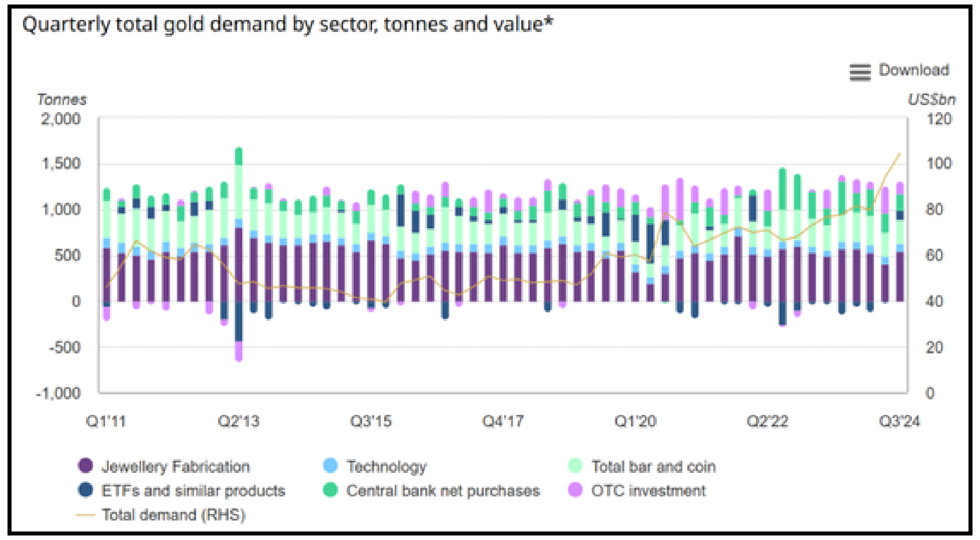
- Supply Constraints: **Gold production fell by 2%** while demand rose by 5%.
- **With Fed rate cuts and persistent inflation**, the outlook for gold remains strong despite short-term volatility.



Source: MacroMicro



Source: US Money



Source: World Gold Council

Is the recent pullback a Pause in Gold prices or a preface to another rally?

Global Natural Gas Outlook (1/2)

Key Demand Drivers:

USA:

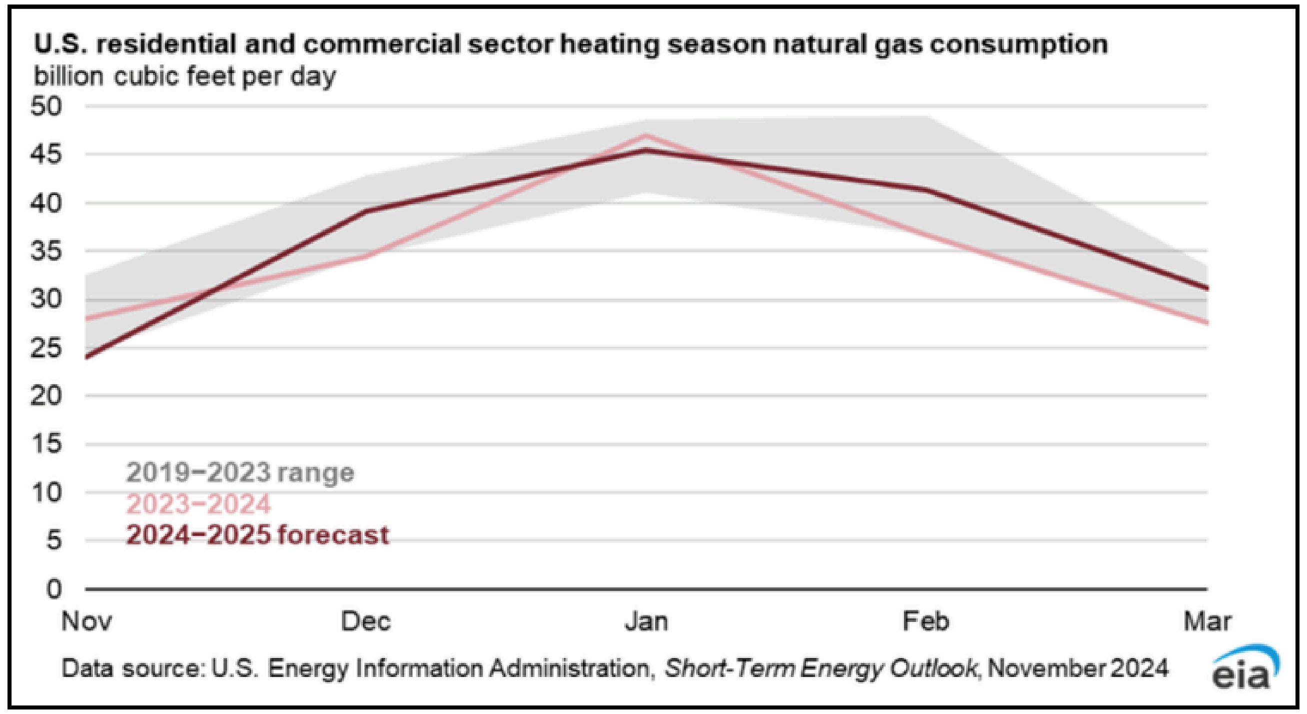
- As per EIA, **a colder winter is projected to increase consumption in the winter months** (2°F cooler than 2023-24).
- **Most of 2025's expected demand increase is due to 14% jump in LNG exports**, while **domestic use - such as gas used for power generation - will likely see a decline**. US GDP growth is set to decline from 2.8% in 2024 to 2.5% in 2025 as per Goldman Sachs.'

Europe:

- Consumption down 19% in 2024 vs. Avg(2017-21), driven by **mild winters & demand reduction policies** linked to Ukraine conflict
- Mild winters in 2023-24 led to **record-high storage inventories** (59% of storage capacity in Apr. 2024).
- EU **ramped up imports from US to offset the decrease from USSR**, representing 14% of total imports, compared 7% pre-conflict

China:

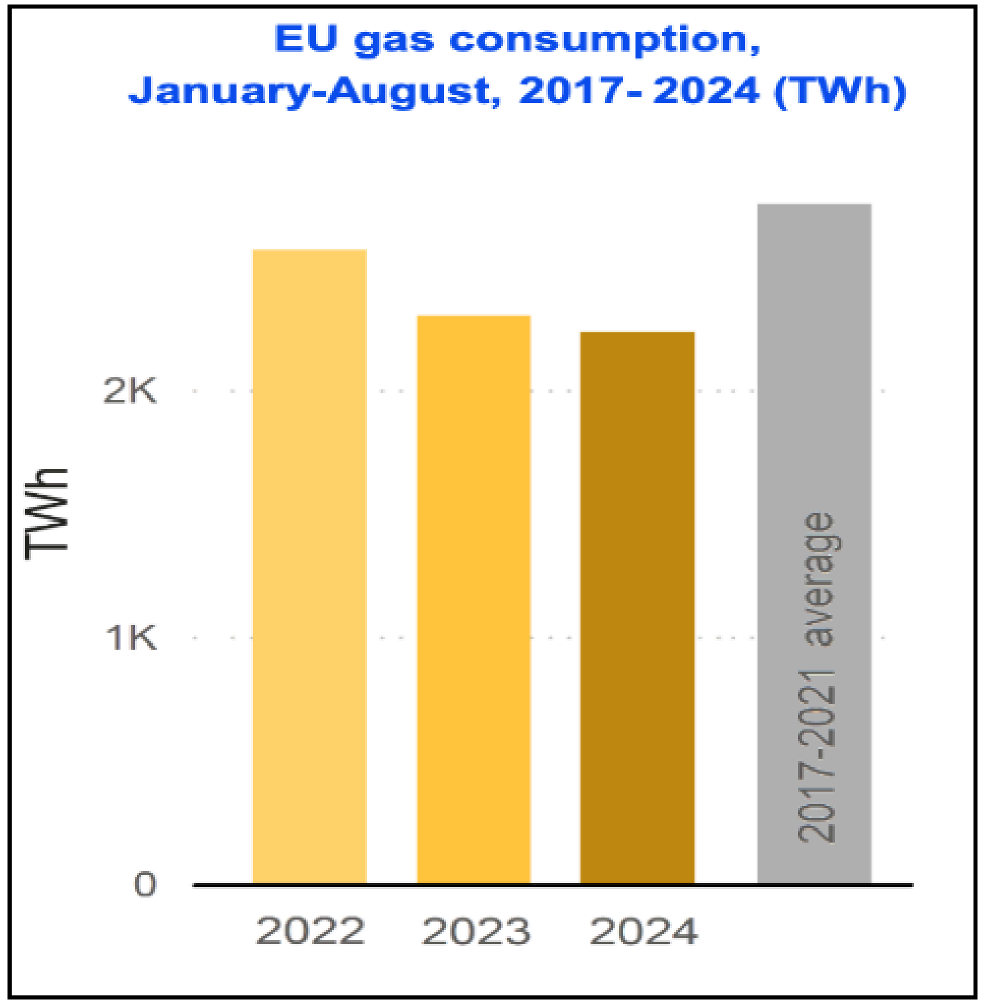
- Consumption rising since 2014; 2023 consumption reached 395 bcm, **a 7.6% up from 2022 driven by industrial use**



Global Natural Gas Outlook (2/2)

How Supply is Reacting:

- **USA:** Production is flat compared to past 2 yrs of growth, averaging 114 Bcf/d; low gas prices led producers to cap supply. 2025 production is set to grow, with average daily production to be higher than 114 Bcf/d boosted by **increasing LNG exports.**
- **Russia:** With EU rapidly shifting away from Russian gas, and a Russia-Ukraine transit contract expiring in 2024, **Russia shifted supply efforts to Asia (China & Uzbekistan) and their domestic consumption has increased.** 2025 output is set to increase by more than 4% to 695 bcm



Source : ACER

How will Natural Gas Prices Change?

- Global consumption will **rise 2.3%** to 4300 bcm in 2025. Supply will **grow 6%** to 4400 bcm in 2025 as key LNG projects becoming operational
- Natural gas prices are stable due to high inventories, but colder weather may drive them higher by tightening supply.

Natural gas prices set for cautious rebound amid rising LNG exports, production limits, colder weather, & strong demand.

The Rise Of Uranium

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Top Uranium Reserves and Production

- **Australia holds 28% of global reserves,** but mining restrictions limit its supply capacity.
- **Kazakhstan, with 13% of global reserves, dominates production, supplying 43% of the world's uranium in 2022.**
- Canada and Namibia each control 8% of reserves and remain key suppliers.

Major Consumers

- **The US imports 27% of its uranium from Canada and 22% from Kazakhstan,** with plans to boost domestic production.
- China sources a significant portion from Kazakhstan and aims to surpass France and the US in nuclear capacity by 2030.
- India imports 100% of its uranium and plans to expand its nuclear capacity from 6,780 MW to 22,480 MW by 2030.

Drivers of increase in Uranium Procurement

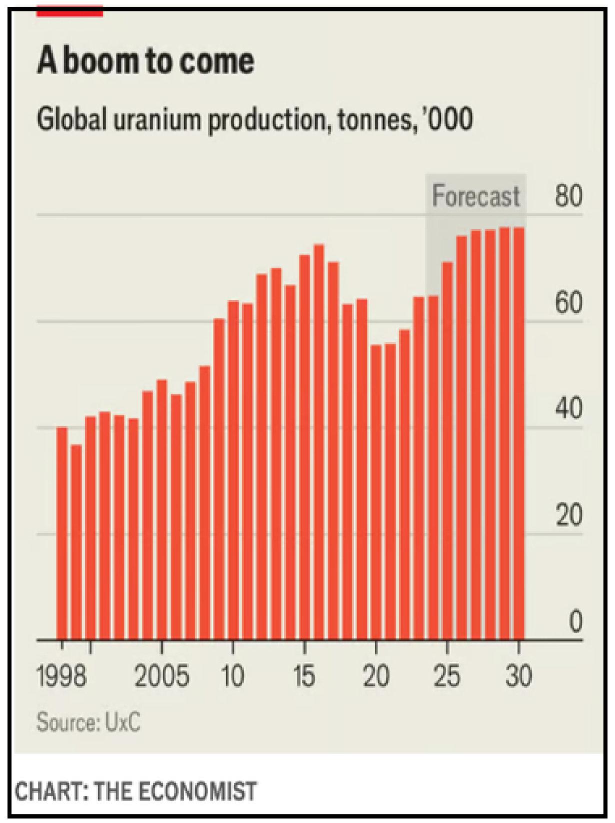
- **Global electricity demand is projected to double from 28,000 TWh to 61,600 TWh by 2050,** spurring nuclear energy growth.
- China plans 150 new nuclear plants by 2038, and the US aims to triple nuclear capacity by 2050 to 200 GW.
- Nuclear plants require a continuous uranium supply for 50-60 years.

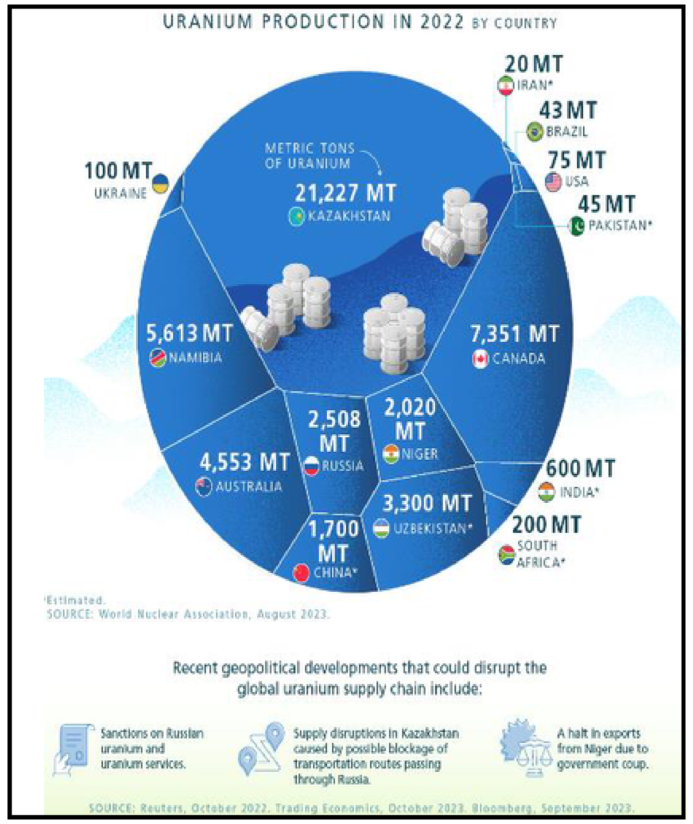
Prices and Future Outlook

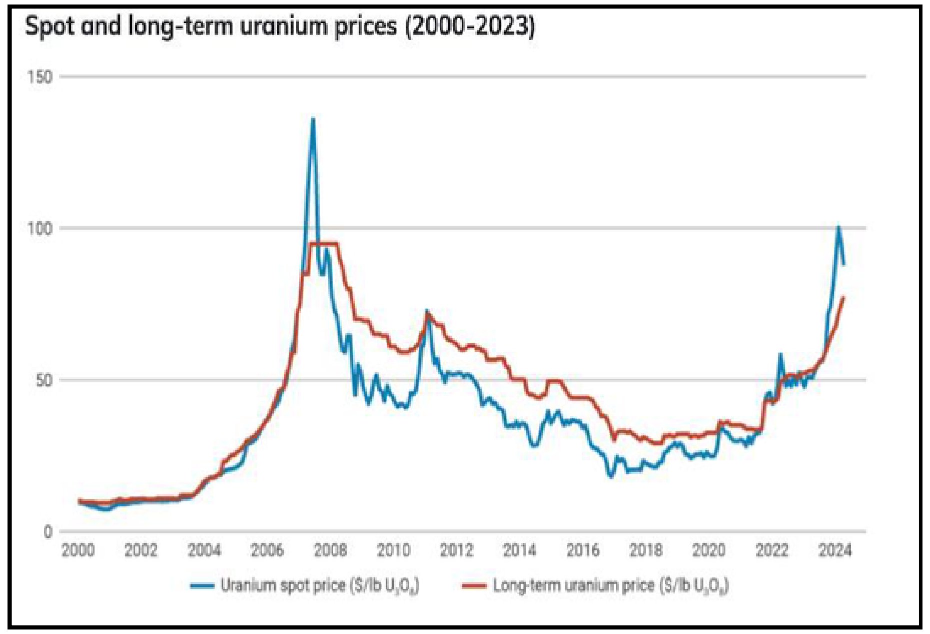
- By 2040, uranium demand could reach 100,000 tons annually.
- Uranium prices surged from $35 in 2020 to $105 in early 2024, stabilizing around $65.
- Global uranium demand is projected to rise significantly by 2030, driven by **clean energy goals and sectors like EVs, AI, and cryptocurrency.**

Investment Opportunities

- **The Global X Uranium ETF (URA)** offers investors exposure to uranium mining and nuclear energy companies, capitalizing on the sector's growth potential.







US – Q3'24 Earnings Review

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475 companies have reported earnings as on 22nd November which is about 95% of the index.

YoY earnings statistics:

- As of 22nd Nov, the S&P 500 is reporting a **positive Q3 2024 earnings growth of 8.9%.**
- On the company level growth was driven by **Nvidia** (109%), **Google** (34%) & **Meta** (35%).
- On the sub industry level, **movies & entertainment** (59.3%) and **wireless telecommunication services** (43.4%) had the highest growth.
- While the **oil & gas refining & marketing** (-73.8%) showed the biggest decline.

QoQ earnings statistics:

- QoQ earnings have **grown by 4.91%.**
- Growth was propelled by a **Nvidia** (16.3%) in the Tech sector.

Other facts:

- Retail earnings highlight that the value proposition is key to the U.S. consumer.
- Large U.S. banks exceeded profit expectations in the third quarter. But most also set aside more money for potential credit losses, a possible warning sign for the economy.
- **Trailing P/E is 25.1**
- **Forward P/E stands at 22.6** (10 Yr. Avg. 18.1)

QoQ earnings statistics:

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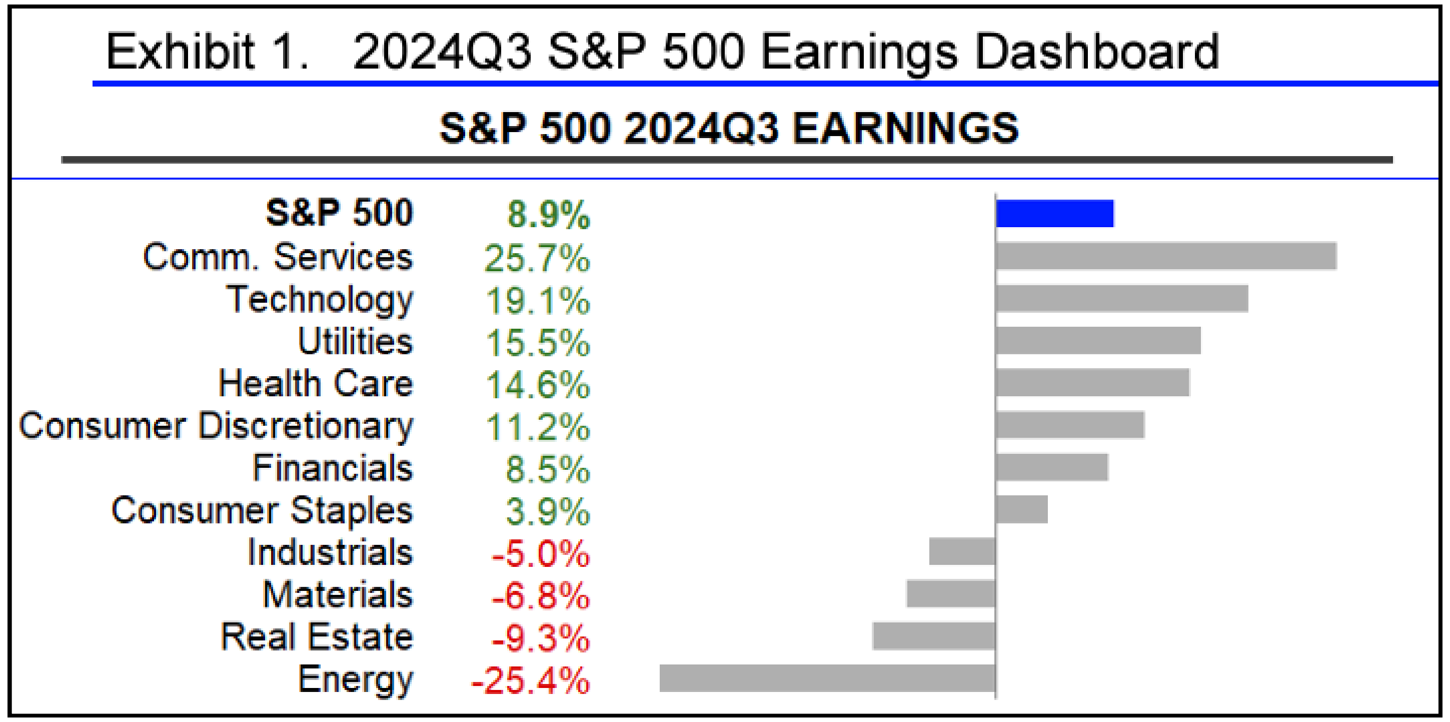
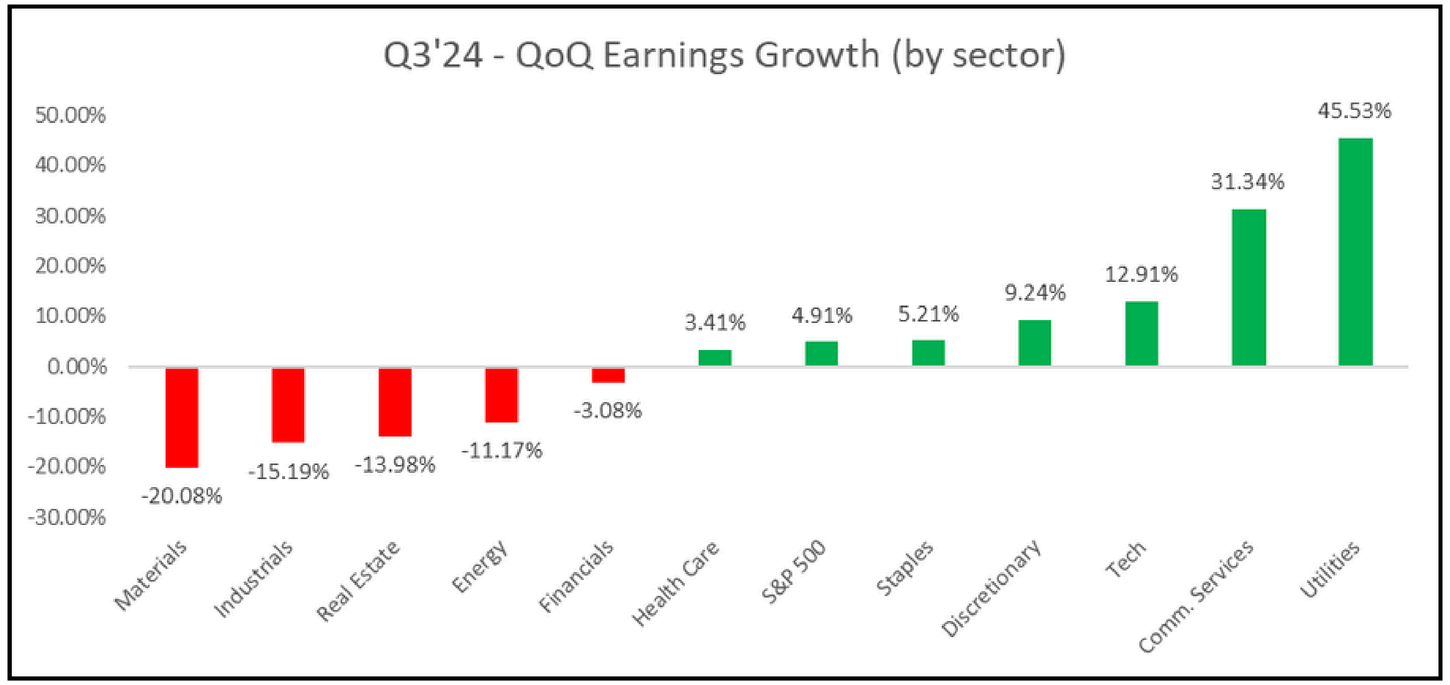


Source: I/B/E/S data from Refinitiv – Data as of 22-Nov-24



Source: I/B/E/S data from Refinitiv – Data as of 22-Nov-24

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