Market Commentary: Broad Strokes on the US – China Relationship

October 2024

Tune in to our recent podcast "[Should We Invest in China?](#)" featuring Brendan Ahern, the Chief Investment Officer at KraneShares. Brendan and I review the rich history of China up to the present day, examine how demographics and urbanization have affected growth, and do a deep dive into the real estate sector in light of recent stresses.

I had the privilege of hearing a wonderful speaker recently who indirectly touched on a cornerstone of America's fierce individuality. He drew a direct line from the 16th century Protestant reformer Martin Luther's separation of personal faith and elements of the institutional church, resulting in the creation of the Protestant movement. The Pilgrims were an extreme brand of Protestants, believing in separation of church and state, the belief that observance and spirituality were born of self, and were generally capitalist in nature (though perhaps accidentally?). The Pilgrims escaped religious persecution in England and came upon perhaps the best land in the universe for their brand of philosophy (namely, individualistic vs group). Whether because of, or in spite of, the Pilgrims' arrival in America, individuality seemed to take root.

In *The Accidental Superpower,* Peter Zeihan highlights the ease of commerce and general prosperity in America as being partly a result of its geography. America has more natural deep ports than the rest of the world combined. Our breadbasket in the middle of the country is both large and protected. We have amazing navigable rivers all over the country. Zeihan attaches geographies to how groups interact. "Easy" geographies with such features as ease of agriculture and transportation (which is easiest by flowing rivers) tend to create lighter forms of government and promote individuality. America got a double whammy as the initial ethos of the country (at least as we know it…) had a strong element of self and then they landed on a country that happened to support that approach. In short, individuality works really well here!

In comparison, China is a totally different story. The country's geography necessitates huge group work. Rice, a mainstay of Chinese food production, is vastly more difficult to cultivate than wheat. The major rivers of China flood rather than nourish the lands around it – meaning the population must work hard to contain the land and make it productive. Building the Great Wall to defend the land also required a huge collective effort, whereas the US happens to have great oceans! Individuality simply does not quite work in China – you need teamwork. Perhaps that is one explanation for the method of rule and regulation in China as compared to the US.

How China Fits into the Current World Order

The current world order began at the end of World War II, with America the big winner. America's grand deal with the world was that it would police the oceans and allow for free global trade in a way never seen prior. It is worth exploring the impact of that approach on the state of global affairs today. America also promoted democracy over other forms of governance as a liberal, fair approach to managing a population.

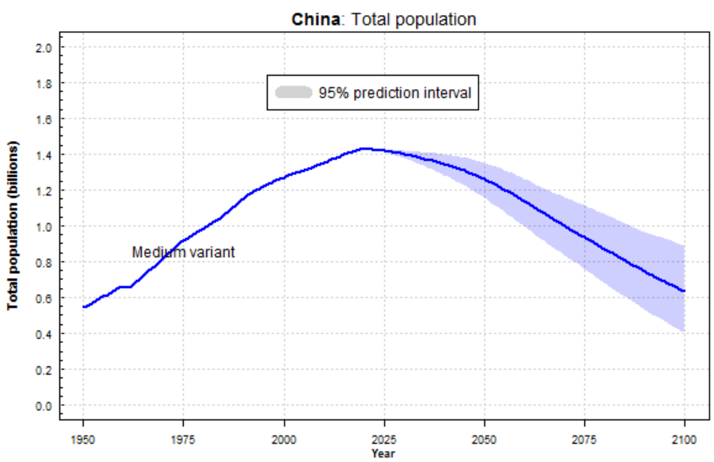
The Chinese Communists won the Civil War fought in the late '40s with the defeated Chinese Nationalists escaping to ***Taiwan***. China remained an enemy of the US into the late '60s. However, China then adjusted its form of Communism with its "Great Leap Forward" policy, leading to radical industrialization. This led to a break in its relationship with the USSR and an opening to foster a relationship with the US.

Belatedly, China has been a huge winner in the new world order despite not being a democracy. It is the world's manufacturer and lifted a significant portion of its population out of extreme poverty. There were also many missteps along the way, including terrible famine and the one-child rule.

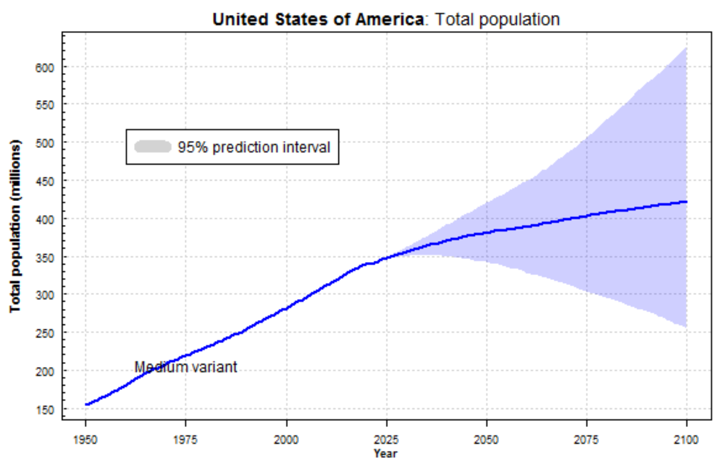
It is worth noting that America ***unilaterally*** set the current world order. After World War II, the US was, in important ways, the last country standing and was able to dictate the rules. Europe was literally bankrupt. Throughout history, the last country standing ruled the world and did as they wanted. Amazingly, America used that power to try something different and incredibly liberal. Instead of taking full advantage of their world dominating position, the US agreed, for example, to police the oceans on behalf of everyone and allow free passage for commerce. This allowed globalization and a huge increase in the world's overall standard of living. Another reason to be a proud American!!

That world order now seems to be fraying for a variety of reasons. In this commentary we attempt to understand some of these broad strokes with respect to China, as well as the implications for both the China and US economies and related investment opportunities.

POPULATION



United Nations, DESA, Population Division. *World Population Prospects 2024*. http://population.un.org/wpp/



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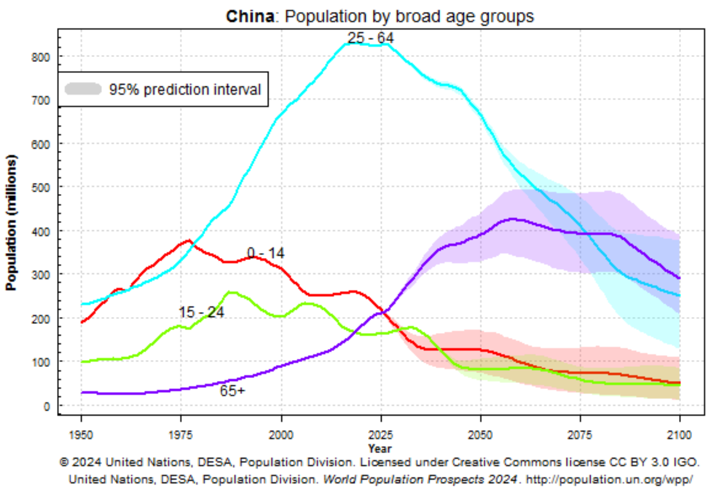
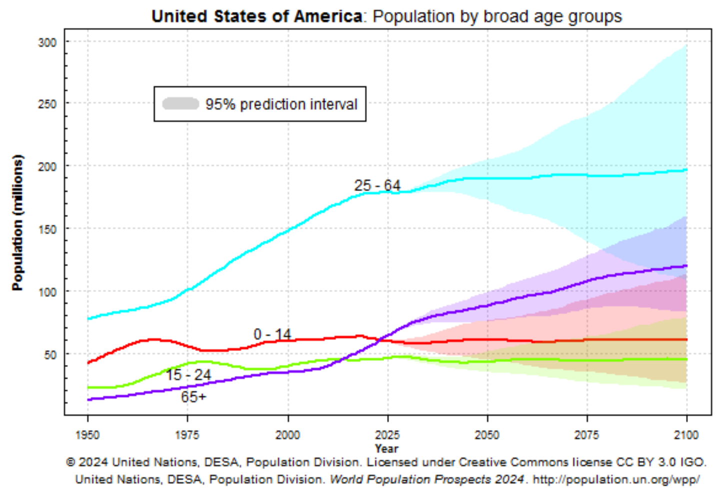




The graphs above represent United Nation projections of future demographics for China and the US. Some observations:

- A diminishing population places stress on a country.
- An aging population places stress on a country.
- An aging, diminishing population logically leads to lower consumption levels, fewer workers contributing to government coffers (e.g., tax), and general strain.
- *China's population is both diminishing and aging.*
- According to United Nation (UN) projections, the US may have a higher population than China by 2100.[1]
- China is expected to have more 65+ aged people than working-age people by 2075.[2]
- **China must figure out how to navigate this headwind. How does leadership ensure GDP growth? How does leadership attempt to reverse demographic declines?[3]**

Deep Thought: The Capability to Change your Opinion!

In a quite interesting experiment, a narrative was created where a decision had to be made on whether to merge two schools in a school system due to a potential water shortage in a town. A control group received an article that provided three data points favoring a merger, three against merging and one neutral. This control group came out roughly split on whether to merge or not on a survey. In the experimental group,

[1] [World Population Prospects - Population Division - United Nations]
[2] [World Population Prospects - Population Division - United Nations]
[3] I have seen analysis that Russia moved into Ukraine due to demographic stress - [A Russia without Russians? Putin's disastrous demographics - Atlantic Council]

half received an article listing either **only** favorable reasons or unfavorable reasons to merge. Not surprisingly, those who read the article listing favorable reasons voted for the merger while the other group voted against it.

All participants were confident that they had all the information necessary to make an informed decision.

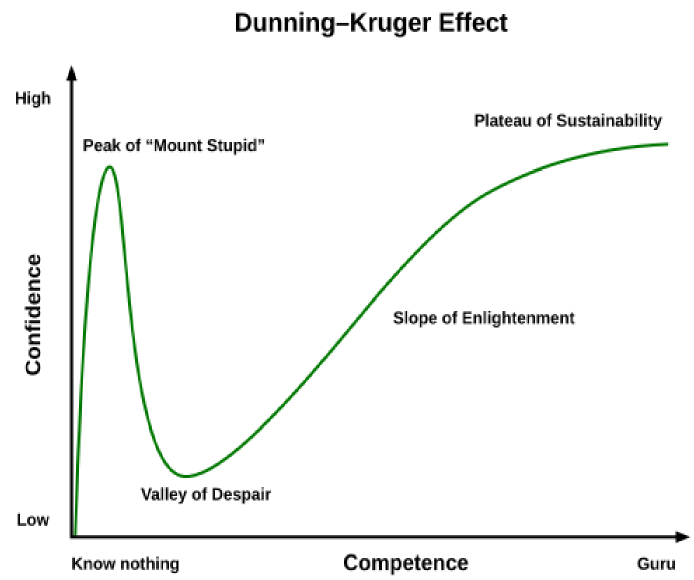
The second experimental group were also provided with a biased article, but prior to taking the survey they were provided with the original, even-handed article. This group went on to mirror the control group, voting roughly evenly for and against merging (within each sub-group).

While participants were confident on their initial view, they consistently were able to digest new information and change their mind!

The world is loaded with information and (unfortunately) bad actors. It is nice to know that we humans have the capability and logic to adjust our views given a broad spectrum of information!

This has obvious applications to markets given our proclivity to believe we have all the information necessary to make a killing! Humbleness, diversification, and in-depth analysis hopefully keeps us on a good path!

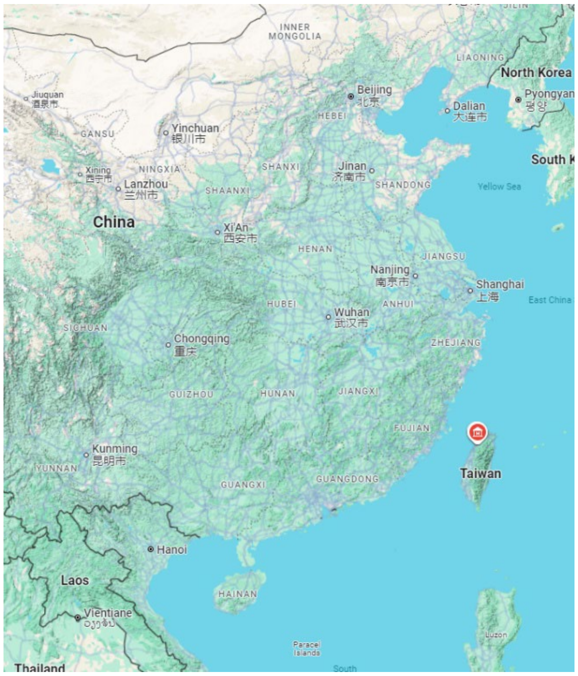
The Dunning-Kruger effect is a cognitive bias that occurs when people with limited knowledge or competence in a certain area overestimate their own abilities. The term comes from psychologists David Dunning and Justin Kruger, who coined it in a 1999 paper.



[People think they already know everything they need to make decisions - Ars Technica]

[The illusion of information adequacy | PLOS ONE]

TAIWAN



- Taiwan is roughly 90 miles from China.
- For a variety of reasons, China would like to govern Taiwan.
- The Taiwan Relations Act documents the US relationship with Taiwan surrounding defense of the island. We don't have "diplomatic relations with Taiwan" is a good representation of the contortions we go through to have a relationship with China while attempting to keep Taiwan sovereign.[4]
- The Taiwan Semiconductor Manufacturing Company LLC (TSMC)[5] produces the most advanced chips in the world. These chips go into the most advanced weapons in the US arsenal and are used in Western technologies in advancing pretty much everything.[6]
- The US does not allow China to use TSMC technology.
- ***The US does not want China to control Taiwan due to (1) TSMC and (2) a threat to the general world order which dictates that stronger countries do not simply take over neighboring weaker ones because they can (which is historically how it played out).***

[4] U.S. Relations With Taiwan - United States Department of State

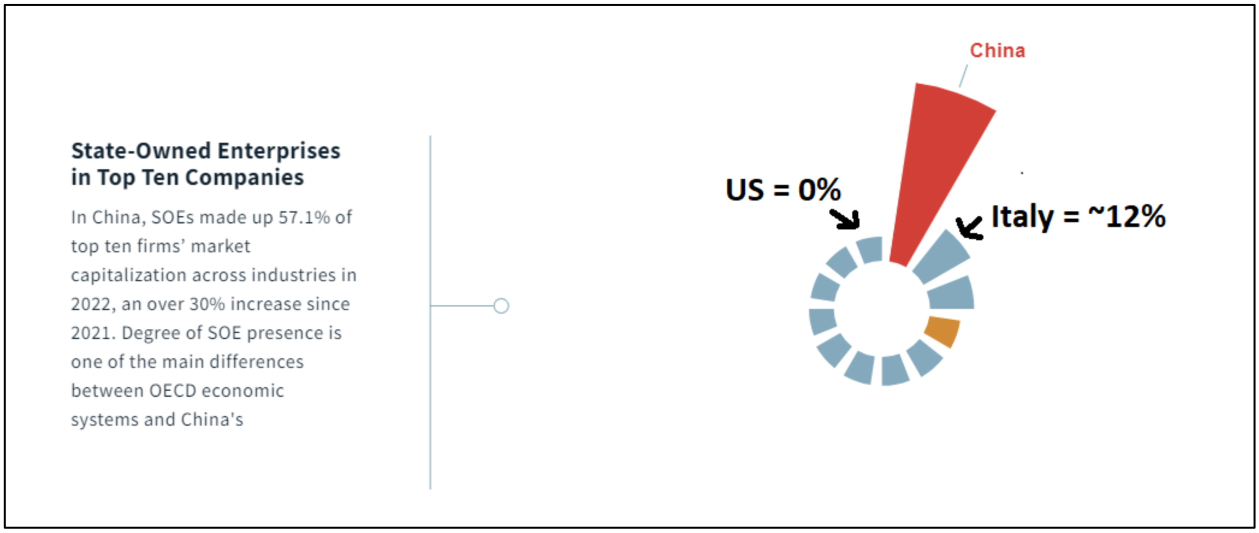
[5] 3nm Technology - Taiwan Semiconductor Manufacturing Company Limited

[6] Why is the most sensitive and important chip company in the world located 90 miles from China? It is worth reading Chip War by Chris Miller. For a quicker answer, Google/AI search. For a more personal answer, email us!

ECONOMY

Centralized

China takes a commanding, centralized role in industry. The positive element of this role is the capability to finance and complete massive projects quickly. An example would be the impressive high speed train system China put in place.[7] However, this approach also reduces competition and does not efficiently take into account natural market supply – demand characteristics which can lead to tremendous overcapacity and gluts of product among other issues.



[8]

Real Estate

Due to the centralized nature of the Chinese government, coupled with low local interest rates and limited opportunities, retail investors have plowed investments into real estate creating a massive bubble. ***It is estimated that roughly ~70% of household wealth is in real estate***[9] as compared to ~25% for US households.[10]

[7] Great articles worth at least perusing to understand the massive buildout and value of China's transportation system. China's High-Speed Train Map Puts U.S. Transportation to Shame | by Paris Marx | Radical Urbanist | Medium, Imagine going to sleep in New York and waking up in Miami | High Speed Rail Alliance
[8] Market Competition - China Pathfinder
[9] China's economy will be hobbled for years by the real estate crisis | CNN Business
[10] Wealth in America: How it has grown and how it is distributed - USAFacts

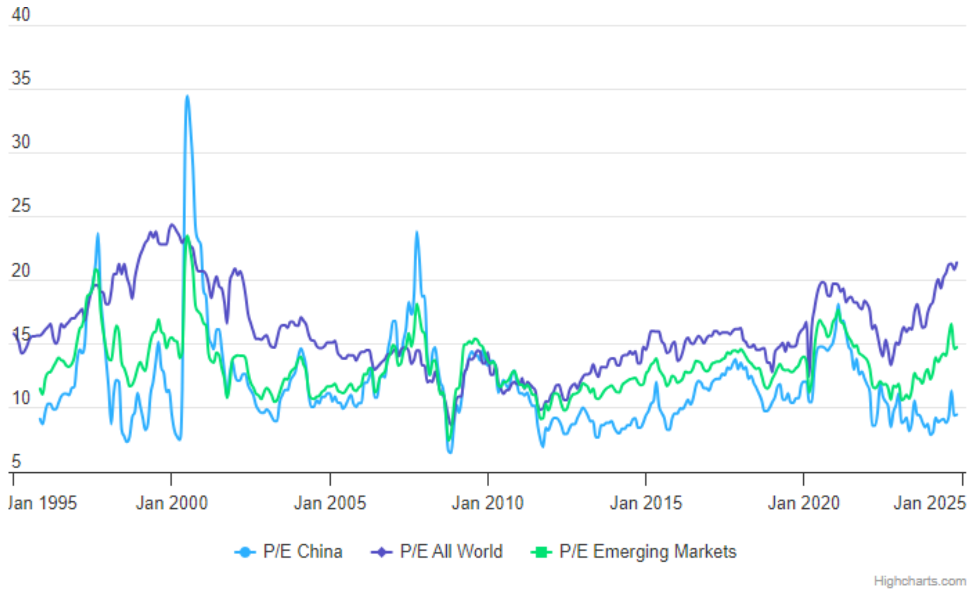
Consumption / Growth

Due to pressure on real estate and continuing market disruptions in China as a result of, first Covid, and then anti-entrepreneurial policies (note chart above as an example of the expansion of state ownership), consumption has been tepid in China.

China's GDP growth has been capital investment based. The government would love to migrate to a consumption-based economy like the US, but as discussed above, there are many headwinds in making the transition.

Markets

From an investment perspective, China represents only ~2.5% of global equity index exposure based on public company market capitalization.[11] And China sports a rather large discount in valuation relative to the US, most likely due to some of the negative business policies enacted by Chinese leadership.[12]



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Implications: China and US

As can be seen, the US – China story is huge and complex with a lot to unpack. The world order that the US set up post WW II seems to be fraying. Tensions between China and the US continue to increase due to risk of a potential invasion of Taiwan and a general lack of trust[14] that has led to a limit of sharing of IP and

[11] US-China world equity share a yawning chasm | Reuters

[12] Alibaba's Jack Ma steps out from the shadows with morale-boosting post | Reuters

[13] China Stock Market: current P/E Ratio

[14] IP Theft being a big one: Egregious-Cases-of-Chinese-Theft-of-American-Intellectual-Property.pdf

trade tensions between the two parties. The US continues to be a significant trade partner of China's – a benefit to both parties – which should limit any radical realignment. But, as discussed in prior commentaries and our wonderful conversation with Chris Semenuk on our Reshoring Podcast, the economic case for importing from China is quickly evaporating. This may put a further damper on opportunities in China while further stressing global order.

Talking Points: October 2024

Monthly Market Recap

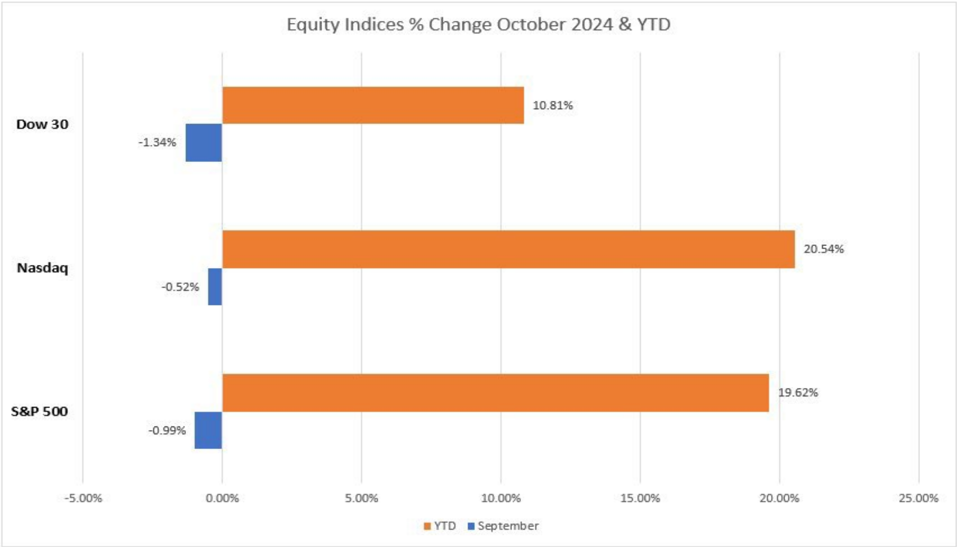
US Equity markets were choppy in October, resulting in slight losses for the month, while yields rose throughout.

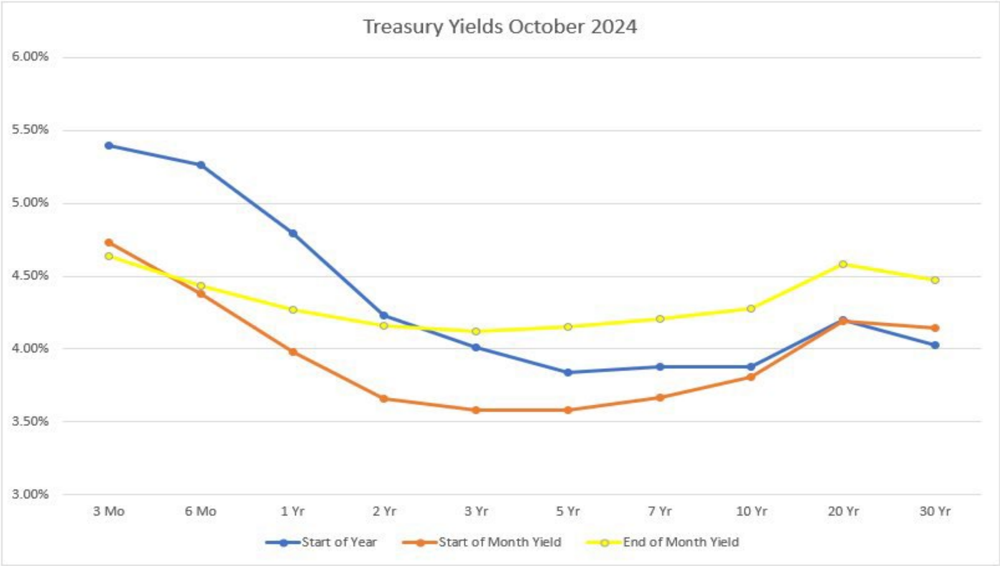
US market movement was primarily driven by earnings. Sometimes there is a general theme of bullishness or bearishness during earnings season. This round was choppy, with some sectors, such as semiconductors, sending mixed signals, while others, like banks, were more uniformly bullish. This contributed to choppy equity market action and ultimately a slight decline in value for the month.

Meanwhile, yields rose significantly despite the Federal Reserve officially adopting an "easing" stance with its first interest rate cut in nearly two years in September. Market concerns centered on both presidential candidates' approaches to balancing the budget, with particular unease regarding potential tariff strategies from Donald Trump that could reignite inflationary pressures.

While US economic measures did not result in much market movement, China captured the world's attention with the announcement of a large stimulus plan. The news sparked a dramatic surge in Chinese equity markets, though significant erosion of these gains occurred throughout the month as details remained sparse and confidence in the plan waned.

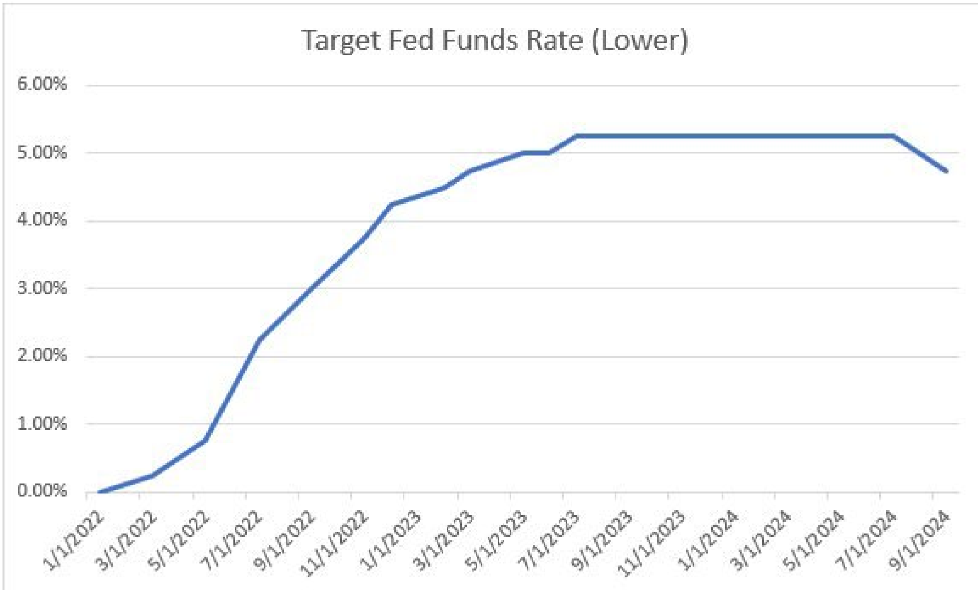
Graphs/Visuals





Fed Interest Rate Decisions Since Start of Hiking Cycle

FOMC Meeting Date	Hike/Cut	Target Fed Funds Rate (Lower)	Target Fed Funds Rate (Upper)
Start of 2022	-	*0.00%*	*0.25%*
3/16/2022	**0.25%**	0.25%	0.50%
5/4/2022	**0.50%**	0.75%	1.00%
6/15/2022	**0.75%**	1.50%	1.75%
7/27/2022	**0.75%**	2.25%	2.50%
9/21/2022	**0.75%**	3.00%	3.25%
11/2/2022	**0.75%**	3.75%	4.00%
12/14/2022	**0.50%**	4.25%	4.50%
2/1/2023	**0.25%**	4.50%	4.75%
3/22/2023	**0.25%**	4.75%	5.00%
5/3/2023	**0.25%**	5.00%	5.25%
6/14/2023	**0.00%**	5.00%	5.25%
7/26/2023	**0.25%**	5.25%	5.50%
9/20/2023	**0.00%**	5.25%	5.50%
11/1/2023	**0.00%**	5.25%	5.50%
12/13/2023	**0.00%**	5.25%	5.50%
1/31/2024	**0.00%**	5.25%	5.50%
3/20/2024	**0.00%**	5.25%	5.50%
5/1/2024	**0.00%**	5.25%	5.50%
6/12/2024	**0.00%**	5.25%	5.50%
7/31/2024	**0.00%**	5.25%	5.50%
9/18/2024	**0.50%**	4.75%	5.00%



Probability of Upcoming Fed Interest Rate Decisions

10/4/2024	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
November	0.00%	0.00%	100.00%	0.00%	98.90%	1.10%	0.00%
10/11/2024	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
November	0.00%	10.10%	89.90%	0.00%	89.90%	0.00%	0.00%
10/18/2024	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
November	0.00%	5.60%	94.40%	0.00%	94.40%	0.00%	0.00%
10/25/2024	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
November	0.00%	4.50%	95.50%	0.00%	95.50%	0.00%	0.00%
11/1/2024	***Hike***	***Hold***	***Cut***	***Hike 25bps***	***Cut 25bps***	***Cut 50bps***	***Cut 75bps***
November	0.00%	0.30%	99.70%	0.00%	99.70%	0.00%	0.00%

Highlights/Notes

Highlight: No surprises on the inflation front, coupled with stronger labor market data this month, had markets paying close attention to companies' quarterly earnings reports.

FAM Sentiment Summary

2024	January	February	March	April	May	June	July	August	September	October
Fed	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	BULLISH	MILDLY BULLISH
Interest Rate Decisions	NEUTRAL	n/a	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	BULLISH	NEUTRAL
Commentary	BEARISH	MILDLY BEARISH	BULLISH	BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	BULLISH	BULLISH	MILDLY BULLISH
Economic Data	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH
Inflation	NEUTRAL	MILDLY BEARISH	BEARISH	BEARISH	NEUTRAL	BULLISH	BULLISH	BULLISH	MILDLY BULLISH	NEUTRAL
Employment/Labor Market	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	BULLISH	NEUTRAL	MILDLY BULLISH	BEARISH	BEARISH	BULLISH
Housing/Real Estate	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL
GDP	BULLISH	n/a	NEUTRAL	BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Consumer Spending	MILDLY BEARISH	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	MILDLY BULLISH	NEUTRAL	NEUTRAL
Consumer Sentiment	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Global Events/News	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH
China	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	NEUTRAL	BULLISH	MILDLY BEARISH
Europe	NEUTRAL	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	NEUTRAL	MILDLY BULLISH
Russia Ukraine War	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Israel Hamas War	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	BEARISH	BEARISH	BEARISH	BEARISH
US Politics	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
2024 Election	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Budget Negotiations	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Earnings	NEUTRAL	MILDLY BULLISH	MILDLY BEARISH	NEUTRAL	BULLISH	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	NEUTRAL	MILDLY BULLISH
Banking Turmoil	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Crypto	BULLISH	BULLISH	BULLISH	NEUTRAL	MILDLY BULLISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL

Notable Changes from Month Prior

- Employment/Labor Market - Bearish to Bullish
  - Labor market data released last month had markets concerned over a potential recession so this month's stronger than expected results gave markets some relief.
- China - Bullish to Mildly Bearish
  - Markets were thrilled last month when the Chinese government first started speaking to a large stimulus package to help the economy. This month however, concerns that it would not be enough started to surface as more details came out.

Key Topics/Items from Below

- ***BEARISH***
  - Iran retaliating against Israel by launching hundreds of missiles and drones at targets across the country (most of which were shot down)
- ***MILDLY BEARISH***
  - Emerging concerns surrounding Japan's next prime minister being "less corporate" friendly
  - September CPI and Core CPI coming in higher than expected

    - China's government holding a press conference to discuss stimulus that many believe will fall short of addressing the countries issues
    - ASML reporting worse than expected earnings results and warning markets that demand for its products (AI) could weaken materially next year
    - Chinese finance ministry unveiling several of its initiatives for the real estate market
    - Rising intermediate/longer term treasury yields
- ***NEUTRAL***
    - The release of the Fed's last meeting minutes which showed that members, like the market, were somewhat divided on whether to cut by 50bps or 25bps (majority supported 50bps but it was clearly a discussion and not a consensus)
    - ECB announcing that it would be cutting rates for the second meeting in a row
    - Comments from Fed Governor Christopher Waller where he stated that the Fed should be cautious with cuts in the coming months but made sure to note that they are ready to cut aggressively if the data supports it
    - Retail sales for the month of September coming in higher than the month prior
    - Chinese banks announcing that they would be cutting their primary lending rates (move was expected)
    - Existing home sales in September coming in lower than August (seeming likely that home sales for the year will come in at the lowest levels since 1995)
    - Nonfarm payrolls increasing by only 12k in the month of September (vs. 113k expected) due to fallout from recent hurricanes and major labor strike
    - September PCE and Core PCE being mostly in line with expectations
- ***MILDLY BULLISH***
    - Powell commenting that after a 50bps cut in September "the baseline scenario" is that the Fed will cut by 25bps at each of their next two meetings
    - Eurozone inflation coming in below target levels for the first time in over three years
    - Strong earnings from big banks with JP Morgan going as far as to say the data supports the Fed having achieved a soft landing for the economy
    - Big bank earnings showing uptick in deal making activity
    - Taiwan Semiconductor (TSMC) reporting better than expected results and citing "insane" demand for its products
    - Tesla reporting better than expected quarterly results
    - New home sales for the month of September coming in higher than expected
- ***BULLISH***
    - September jobs report coming in much better than expected (showing that the US added more jobs than expected and the overall unemployment rate fell)

Timeline

- ***Week Ending 10/4/24***
- *Equities up, yields up*

- *There was plenty to digest this week - it started with selling pressure in the beginning of the week as tensions in the Middle East continued to escalate and ended with a surprisingly strong jobs report. While markets are obviously very concerned with what is happening between Israel and Iran, September's jobs report ended up stealing the show. The results were a real surprise when considering how weak recent labor market data has been and have renewed hopes of a soft landing for the economy.*
    - **Economic Data:** Markets earned back some early week losses on Wednesday after jobs data showed that the US private sector added more jobs than expected in September. Then on Friday, the highly anticipated September jobs report ended up being much better than expected. The report showed that the US added more jobs than expected and that the overall unemployment rate unexpectedly fell. There were concerns that this release would show some of the same weakness that recent reports have shown but that was not the case. It now seems likely that the Fed will end up cutting rates by 25bps rather than 50bps.
    - **Middle East: Energy** prices jumped as much as 5% intra-day on Tuesday as tensions in the Middle East escalated. The world had been anxiously waiting to see how Iran would respond to Israel's recent campaigns against Hezbollah in Lebanon. Iran launched hundreds of missiles and drones at targets across Israel, most of which were shot down by the Israelis and the US. While it could have been a lot worse (minimal causalities/injuries) the attack certainly increased tensions throughout the region. Israel has said that they will be responding, and Iran has said that any response would prompt them to attack back with more force.
    - **Fed:** Markets had a positive reaction to the commentary from Powell on Monday. He said that despite cutting rates by 50bps in their last meeting, "the baseline scenario" is that the Fed will cut by 25bps at each of their next two meetings. Markets also welcomed his "upbeat" comments on the current state of the economy where he essentially just said that while there are issues, nothing should be viewed as out of the ordinary.
    - **China:** Chinese markets and shares of Chinese companies continued to rally on Monday in reaction to the surprise stimulus package from the government.
    - **Japan:** Shares of Japanese companies were down to start the week as concerns surrounding their next prime minister surfaced. Markets view him as being "less corporate" friendly, but the expectation is that he will not take any radical steps right away.
    - **Europe:** On Tuesday, European yields fell materially as bonds rallied on the news that eurozone inflation fell below their stated target level for the first time in over three years.
- ***Week Ending 10/11/24***
    - *Equities up, yields up*
    - *Markets digested inflation data, Fed meeting minutes, and bank earnings. CPI for the month of September ended up coming in higher than expected but that was not enough to prompt any major selling pressure this week.*
        - **Economic Data:** On Thursday, markets had a negative reaction to the release of September CPI and Core CPI data. Both readings came in higher than expected for the month. Inflation picking back up is certainly not a good thing and could complicate

matters for the Fed moving forward. Recent inflation data has clearly shown a trend lower so one bad reading is not going to be enough to force the Fed to deviate from its plans when it comes to rate cuts, but it is something that markets will be monitoring. Markets then had a muted reaction to more inflation data on Friday when PPI for the month of September ended up being in line with expectations.

September CPI and Core CPI (yoy)	Sept.	vs. Expected	vs. Aug.
CPI	2.4%	2.3%	2.5%
Core CPI	3.3%	3.2%	3.2%

- **Fed:** Markets had a muted reaction to the release of the Fed's last meeting minutes on Wednesday. The release showed that members, like the market, were somewhat divided on whether to cut by 50bps or 25bps (majority supported 50bps but it was clearly a discussion and not a consensus). Ultimately, they decided to cut by 50bps which markets welcomed due to growing concerns over the health of the economy.
- **Earnings:** Markets were up on Friday to close out the week after some promising earnings reports and commentary from big banks. JP Morgan posted strong results but their commentary on the current state of the economy is what markets really cared about. The bank essentially claimed that their strong earnings are evidence that the Fed was able to achieve its goal of a soft landing for the economy. Their reasoning, "consumer spending is normal (not showing signs of excess stress), delinquencies are better than expected, and large companies are still optimistic."
- **China:** Shares of Chinese companies had a tough day on Tuesday after the government held a press conference to discuss their recent stimulus package. The general takeaway was that while the stimulus package is "robust" enough, there might be more that is needed to truly solve the issues facing the country. There are also concerns over the government's ability to deliver on several of the items it has already proposed.

- ***Week Ending 10/18/24***
  - *Equities up, yields flat*
  - *It was a big earnings week for markets as several big banks and chip companies reported their quarterly results. While bank earnings have been a bright spot (better than expected results and evidence of increased deal making activity), chip stocks proved to be more hit or miss. The results from earlier in the week painted a grim outlook for the industry as demand appeared to be weakening materially but concerns were alleviated when Taiwan Semiconductors cited "insane" demand for their products on Thursday.*
    - **Earnings:** On Tuesday equities traded lower after ASML (well know Dutch chip company) reported earnings and warned markets that demand could be weakening. The company said that it was safer to assume that orders/sales would come in at the lower end of forecasts for next year. While chip stocks sold off banks fared much better

on the day after Bank of America and Goldman Sachs reported better than expected earnings results. One key takeaway from big bank earnings so far has been a material uptick in deal making. Recall, deal making in private markets basically came to a standstill when interest rates moved off 0%. Companies were opting to stay private rather than IPO in an elevated rate environment where smaller growth stocks were some of the worst performers. Now, as the Fed has officially started to cut rates activity is picking back up. Finally on Thursday, shares of chip stocks recovered some of their early week losses after Taiwan Semiconductors reported better than expected results and cited "insane" demand for its products.

    - **China:** Markets here in the US and in China had a muted reaction to comments from China's finance minister over the weekend. The briefing left investors questioning the scale of the proposed stimulus package and whether it would ultimately be enough to address the issues facing China's economy. Then on Thursday shares of Chinese companies were down after the finance ministry unveiled several of its initiatives for the real estate market. The concern remains that the stimulus will fall short of what is really needed.
    - **Middle East:** Energy prices traded lower throughout the week as the conflict between Israel and Iran did not escalate. Markets are concerned that Israel's response to last week's attack from Iran will disrupt global energy markets.
    - **Europe:** Markets here in the US had little reaction to the ECB announcing that it would be cutting rate for the second meeting in a row. Europe is slightly ahead of the US when it comes to rate cuts, but this has not resulted in any material market dislocations.
    - **Fed:** Markets had a muted reaction to comments from Fed Governor Christopher Waller on Monday. He stated that the Fed should be cautious with cuts in the coming months but made sure to note that they are ready to cut aggressively if the data supports it. He specifically cited inflation trending below 2% or the labor market deteriorating further as data that would support larger cuts.
    - **Economic Data:** Markets had no reaction to retail sales for the month of September coming in higher than the month prior.

- ***Week Ending 10/25/24***
  - Equities mixed, yields up
  - It was a "choppy" week for markets with the focus once again on companies' earnings reports. The results so far have been in line with recent quarters, with company specific performance, like that of Tesla, moving markets. One important thing to note is the recent rally in the 10-year treasury yield, which closed above 4.2% this week. Yields had moved materially lower heading into September in anticipation of the Fed cutting benchmark rates for the first time - getting as low as 3.6% mid-month.
    - **Earnings:** Shares of Tesla and other tech stocks were up on Thursday after Tesla reported better than expected quarterly results. This comes after three straight days of selling pressures in the tech sector. It was a big earnings week for markets with

individual company results driving performance (good or bad) throughout. So far, around a third of the companies in the S&P 500 have reported with around 75% beating expectations. This is down slightly from the index's five-year average of around 77%. Next week is set to be another big earnings week with several big tech companies set to report.

  - **China:** Markets here in the US had little reaction to the news that China's banks would be cutting their primary lending rates. The move, which came as no surprise (having been well telegraphed in recent weeks), is seen as a step in the right direction for the country as it tries to pull itself out of this economic slump. Expect markets to continue to monitor all things China related in the coming weeks as lawmakers are set to meet in early November where they are expected to announce more stimulus measures.
  - **Economic Data:** Rising bond yields are starting to act as a major headwind for equities as the yield on 10-year treasuries surpassed 4.2% intra-day on Tuesday. This marks the first time yields have reached these levels since this past July. It is tough to pinpoint exactly what is driving this move higher in yields, but it seems to be a combination of the market pricing in a higher likelihood of Trump winning the election (he has climbed in polls recently and his policies are considered to be more inflationary than Harris') as well as a slower pace for Fed rate cuts. Then, markets had a muted reaction to data released Wednesday which showed that existing home sales in September came in lower than August. The following day, markets got some better news on the housing front as new home sales for the month of September came in higher than expected. That being said, as 2024 is coming to a close, it is likely that home sales for the year will come in at the lowest levels since 1995.

- ***Week Ending 11/1/24***
  - *Equities down, yields up*
  - *Earnings results continue to remain in focus as investors are paying close attention to forward guidance. Several of the magnificent seven reported earnings this week along with other big names in the market. Mixed results drove equity volatility this week, particularly on Thursday. Economic data released this week in the form of PCE and nonfarm payrolls were also mixed. PCE came in line with expectations while jobs data was skewed to the low end due to last month's hurricanes in the southeast along with a major labor strike by Boeing employees.*
    - **Earnings: Several** large companies reported earnings this week including Apple, Amazon, Microsoft, Facebook, Google, Boeing, Intel and more. Results were mixed, though generally good, while some investors found forward guidance to be cautionary. This drove equity volatility on Thursday in particular when all 3 major US indices were down at least -1.4%.
    - **Economic Data:** Jobs data released Friday showed nonfarm payrolls increased by just 12k for the month of September. This number was materially lower than consensus estimates of 113k jobs, though it was partially expected that the impact on hurricanes

in the southeast and a major labor strike may muddy the numbers for this month. The government noted that the collection rate for the survey component of the report was lower than usual. The report also included downward revisions to the last 2 months of data. September PCE data published Thursday showed inflation mostly in line with market expectations, with headline and core PCE rising 0.2% and 0.3% respectively.

September PCE and Core PCE (yoy)	Sept.	vs. Expected	vs. Aug
PCE	2.1%	2.1%	2.3%
Core PCE	2.7%	2.6%	2.7%

- **Election: Early** voting for the highly anticipated US presidential election is in progress ahead of election day on Tuesday. While the polls are generally close and come with a margin of error, former President Donald Trump appears to have a slight edge in swing states heading into the final days before the election.
- **Fed**: The Fed will meet for the first time since their September meeting where they cut the Fed Funds rate by 50 basis points. The Fed communicated a base case of 25 basis point cuts at each of the final two meetings in 2024 (November and December), and now have 2 months of jobs and inflation data heading into this meeting next week. Market expectations reflect a 99.7% chance of a 25-basis point cut, with a 0.3% chance of the rate remaining unchanged. Yields have continued to creep higher as investors are still digesting labor market data and developing opinions on where longer-term inflation may settle.