MARKET RECAP

November 2023

Rotman Commerce Trading Group

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- Market Snapshot - Moody's shifts the U.S. outlook to "negative" due to projected fiscal deficits in 2024, driven by rising bond yields and surges in federal interest payments, while Goldman Sachs presents a contrasting optimistic macro outlook; meanwhile, U.S. retail sales dip 0.1% in October, signalling a potential slowdown in consumer spending for the final quarter despite holiday season expectations and concerns about rising service costs.

- Fixed Income Markets - Amidst signs of slowing inflation, with CPI remaining flat and producer prices experiencing the most significant decline since April 2020, the Federal Reserve maintains a cautious and relatively hawkish stance on interest rates, emphasizing the need for careful decision-making; concurrently, the treasury market sees substantial declines in yields throughout November, reflecting changing Fed policy expectations and marking the most significant monthly drop since December 2008.

- Commodity Markets - Oil prices experienced a 6.25% decline in November, influenced by a volatile week and the OPEC+ decision for voluntary output cuts of 2.2 million barrels per day in the first quarter of 2024; meanwhile, agricultural commodity prices in Ontario remained stable overall, with fluctuations in corn, soybean, and wheat futures markets during the month.

MARKET SNAPSHOT

Equity Market Snapshot

as of November 28th, 2023

Index	MTD Returns	YTD Returns
S&P 500	8.61%	18.63%
NASDAQ Composite	9.97%	37.23%
Dow Jones Industrial Average	7.76%	7.08%
S&P/TSM Composite	6.47%	3.25%
UK 1000 Index	1.33%	-1.71%
DAX Index	9.89%	14.94%

Central Bank Watch

Central Bank	Current Key Interest Rate	Summay
Bank of Canada	5.0%	The Bank of Canada (BoC) has opted to maintain its policy rate at approximately 5% while continuing its strategy of quantitative tightening.
U.S. Federal Reserve	5.25-5.50%	The Federal Reserve kept its benchmark overnight interest rate unchanged at (5.25-5.5%) at its recent FOMC policy meeting.
European Central Bank	4%	The ECCB ended its run of interest rate hikes at the end of October despite new upside risk to inflation from oil market, stating the rates at the current levels would help bring inflation to target in the long term.

MARKET SNAPSHOT

Macro News Spotlights

Moody's Changes US Ratings Outlook to Negative

On November 10, Moody's changed the U.S. outlook from "stable" to "negative," pointing to expected high fiscal deficits in 2024 that are likely to significantly weaken debt affordability. This shift is caused by several key factors. One factor is the increasing bond yields, indicating a rise in borrowing costs for the U.S. government and a concern about its ability to manage fiscal responsibilities effectively. Additionally, there are surges in federal interest payments that could push the U.S. interest-to-revenue ratio to 26% by 2033. The current fiscal deficit, standing at 6%, is projected to grow by an additional 8% by 2033. Adding to the complexity, political polarization is exacerbating the challenge of addressing deficits.

In contrast, Goldman Sachs recently revealed their 2024 Macro Outlook titled "The Hard Part is Over." This report emphasizes disinflation trends, robust growth in household income, a strong labour market, and improved expected returns on fixed-income assets and loans. They suggest that rate hikes are largely in the past. The market outlook remains uncertain, as these two influential institutions present divergent views on the economic landscape heading into 2024.

US Retail Sales Dip

On November 15th, the United States Census Bureau released its monthly retail trade report for the month of October. The report provides comprehensive data on retail sales and retail economic activity in the United States. After six months of gains and jumping 0.9% in September, Americans cut back on spending as retail sales in October declined 0.1%. Even though the decline was partly driven by lowered gasoline and auto prices, it also signals a decline in consumers' willingness to pay. After an entire summer of splurging, economists forecast that spending will slow in the final quarter of the year with credit card debt rising and savings falling.

Although inflation has slowed in the last month, consumers are still finding that service costs are rising at a faster rate than before the pandemic. Major retailers including Home Depot and Target reported a decline in quarterly sales even as the country gears up for the holiday season. In its latest released earnings data, Walmart also reported a modest decline in general merchandise sales. The National Retail Foundation is expecting spending to increase this holiday season, albeit at a slower pace given all the economic uncertainty. They are forecasting holiday sales to rise about 3-4% from November to December, a rate that is consistent with pre-pandemic numbers.

MARKET SNAPSHOT

US Household Debt

The Federal Reserve Bank of New York's Center for Microeconomic Data reported a $228 billion (1.3%) increase in total household debt in Q3 2023, reaching $17.29 trillion. This rise was driven by increases in mortgage, credit card, and student loan balances. Mortgage balances rose by $126 billion to $12.14 trillion, credit card balances increased by $48 billion to $1.08 trillion, and student loan balances increased by $30 billion to $1.6 trillion.

Despite the overall debt increase, mortgage originations declined to $386 billion, while newly originated auto loans slightly increased to $179.3 billion. Aggregate delinquency rates also increased, with 3% of outstanding debt in some stage of delinquency. The rise in credit card delinquency rates was particularly pronounced among millennials and those with auto loans or student loans. As credit card debt rises and savings fall, economists predict a slowdown in spending.

The report from the New York Fed Organization also highlighted a worrying trend: the continued rise in credit card delinquency rates, particularly among millennials and those with auto loans or student loans. This could signal a decline in consumers' willingness to pay, similar to the decline in retail sales reported by the United States Census Bureau for October. This trend, coupled with the overall increase in household debt, could have significant implications for the economy moving forward.

Current Events

OpenAI CEO Leaves Company

OpenAI is still dealing with management instability as the company's CEO was fired and then reinstated. On November 17th, OpenAI CEO and founder, Sam Altman, was terminated by the board over accusations of "failing to be consistently candid" in communications. The board then appointed CTO Mira Murati as interim CEO. In the days following the sudden announcement, Microsoft CEO Satya Nadella was reportedly "furious" about the decision and was ready to hire Altman to head a new AI division. Since 2019 when OpenAI shifted to a capped profit structure, Microsoft has been its biggest outside investor with $13bn invested in the artificial intelligence research organization.

MARKET SNAPSHOT

In an open letter addressed to the board, nearly the entire OpenAI staff threatened to resign and join the new Microsoft subsidiary if Altman is not reinstated as CEO of the company. The board failed to respond to the letter and just when it looked like Altman would be heading to Microsoft, Altman returned to OpenAI on November 22nd as CEO. The original board was disbanded and replaced with a temporary three-man board. Former president Greg Brockman also returned after resigning in protest of the original decision to fire Altman. In a roller-coaster of events in the tech space, many question whether non-profit values can still be safeguarded and balanced with investors' profit-driven goals.

FIXED INCOME

Interest Rates and Policy Decisions

On the interest rate and policy side, we are still in a stage where "Any good data would be too good to be bad." It is interesting that people currently prefer bad data, given that slower inflation helps pause interest rate hikes.

In the past month, we observed many favourable data supporting a slower inflation. The CPI was flat from the prior month and up 3.2% from the prior year. On a core basis, excluding food and fuel, prices were up 0.2% on the month and 4% on the year. Furthermore, the supercore (core services minus housing) rose 1/3 pace back in September, the slowest pace since July. However, the core services remained hot, with shelter contributing the most. In terms of producer prices, we observed the most decline since April 2020, with a core PPI drop of 0.5%, thanks to the decrease in oil prices. With jobless claims rising to the highest in almost two years and retail sales slowing down, there is more and more evidence that inflation is normalizing.

At the same time, the FED still treats the interest rate decision carefully and relatively hawkishly. In early November, Powell Says said: "FED to be careful, won't hesitate to hike if needed." Besides, many officials still see a long way to go in the inflation progress, emphasizing that the shelter is still hot and that the core CPI is more than expected.

Treasury Yields

Coming off a peak of around 5% yield on U.S 10-year notes, the treasury market experienced significant declines throughout November. This was driven by trends influenced by disinflation, a softening labor market, and changing FED monetary policy expectations. There is increasing consensus that interest rates may have peaked given the pattern of rate hike pauses, paired with dovish remarks from the Fed. The month ended with 2-year treasuries down 44 bps to 4.64%; 5-year yields down 55 bps at 4.31%; and 10-year yields down 49 bps to 4.44%. This marked the biggest monthly decline in Treasury Yields since December 2008.

FIXED INCOME

Credit Spreads

Following similar trends as treasury yields, credit spreads across all ratings declined over the course of November. AAA spreads declined 30 basis points over the month, while base-investment grade spreads dropped some 45 basis points. High yield bonds saw similar movements, with a 70 basis point decrease over the month of November. These changes come after promising economic data revealed a newly priced in “soft landing” outlook in the US, where investors see rate cuts coming sooner than previously expected. They also reflect promising investor sentiment for businesses, where spreads across the board reached near pre-pandemic lows, and could signal a return to “normal” across the corporate fixed income market.

COMMODITIES

Crude Oil

Oil prices continued to fall from September's yearly high this month, with the S&P GCSI Crude Oil index falling 6.25% month-to-date. Benchmark oil prices came down 2% in a volatile final week culminated by the latest OPEC+ announcement, which saw no new group cut target for 2024. Instead, oil producers agreed to voluntary output cuts of 2.2 million barrels per day for the first quarter of 2024. This figure includes the current voluntary cuts of 1.3 million bpd previously announced by Saudi Arabia and Russia. Prices have since stabilized, though investors remain wary. This is both in part due to the voluntary nature of the cuts and the overall lack of cohesion between producing countries, but also of more reductions in output to come. In contrast, in the futures markets, traders are still skeptical on whether or not these cuts will be fully realized. The WTI contract for January fell $1.90 (2.44%) to roughly $76 a barrel, with the Brent contract for January losing 27 cents (0.17%), settling at just under $83 per barrel. Finally, in the larger geopolitical economy, the end of November saw combat in the Israel-Hamas conflict resume, after several truce extensions had since eased oil prices.

Agriculture

Throughout November 2023, Ontario's agricultural commodity price levels exhibited overall stability. However, the corn basis experienced a minor decline due to decreased futures prices, while soybean basis levels held steady and increased for new crop soybeans compared to the previous month. The Canadian dollar's resilience against the US dollar continued stimulating cash grain prices across Ontario. Old crop corn basis levels ranged between $0.75 to $1.10 over December 2023 corn futures, while new crop corn basis varied from $0.85 to $1.25 over December 2024 futures. Similarly, old-crop soybean basis levels ranged from $2.95 to $3.66 over January 2024 futures, with new-crop soybeans ranging from $3.40 to $3.70 over November 2024. Notably, Ontario's soft red winter wheat maintained prices around $6.80.

Futures markets saw fluctuations, with corn and wheat prices declining while soybean futures increased on November 11th. December 2023 corn futures settled at $4.64 per bushel, January 2024 soybean futures at $13.47, December 2023 Chicago wheat futures at $5.70 per bushel, and Minneapolis December 2023 wheat futures at $7.30 per bushel.

COMMODITIES

Market analysis indicated ongoing bearish sentiment in the corn market, marked by new lows and tightening basis levels in the US, likely due to the high costs incurred during the 2023 corn crop planting. Conversely, the soybean market showed resilience, diverging from the bearish trend of corn, attributed to differing fundamentals and geopolitical uncertainties such as conflicts in Gaza and Ukraine, which continue to influence grain prices unpredictably.

PICKS OF THE MONTH

DEALS OF THE MONTH

Fast Fashion Giant Shein to Make Waves in the IPO Market

The end of November saw Chinese fast fashion retailer, Shein, confidentially file for an initial public offering with the US securities regulator. According to two sources close to the matter, Shein's IPO - rumored to take place in 2024 - is being advised by JPMorgan Chase, Morgan Stanley, and Goldman Sachs. Second only to Amazon as the most popular e-commerce website according to a Pipe Sandler survey, Shein's market in the US is now its largest. According to the Financial Times, the fast fashion giant is aiming to increase revenues from $22.7bn in 2022 to $58.5bn by 2025, while currently being backed by sizeable investors including venture capital group Sequoia China and Abu Dhabi Soverign Wealth Fund Mubadala. After two quiet years, Shein's entrance into the public market may be exactly what the IPO market needs to gain momentum and get back on its feet.

US Health Insurance Giant on the Horizon - the Cigna-Humana Merger

American health insurance companies Cigna and Humana are in talks to negotiate a merger worth $140bn. According to sources briefed on the matter, advisors on both sides of the deal are looking to close a cash and stock transaction before the end of 2023. As the largest deal of the year, this mega-merger is expected to go up against serious anti-trust scrutiny. Given both firms have had merger deals with other insurance companies blocked by federal judges for being anti-competitive, pushback on this deal is likely. In an M&A market that has struggled for

SOE is benefiting while POE is suffering - SOE has more land banks in top tier cities while less leverage given government assistance, surviving the crackdown and consolidating the market share from POE.

PICKS OF THE MONTH

STOCK OF THE MONTH

Uber Technologies Inc (NYSE: UBER):
At the start of the month, the stock price of Uber was at 46.48 USD, and the end of the month price of Uber was 56.35 USD. Uber stock went up by 23.39% this month. The spike could be attributed to the company making its delivery business profitable faster than planned as well as its growing advertising revenue.

Visa Inc (NYSE: V):
At the start of the month, the stock price was at 243.60 USD and at the end of the month the price was at 256.68 USD. The Visa stock went up by approximately 5.28%.

Shopify Inc:
At the beginning of November, Shopify's stock price was 84.06 CAD and at the end of the month, the stock price was at 98.85 CAD. The stock rose by 18.63%. Immense black friday sales contributed to the rise of the stock price.

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