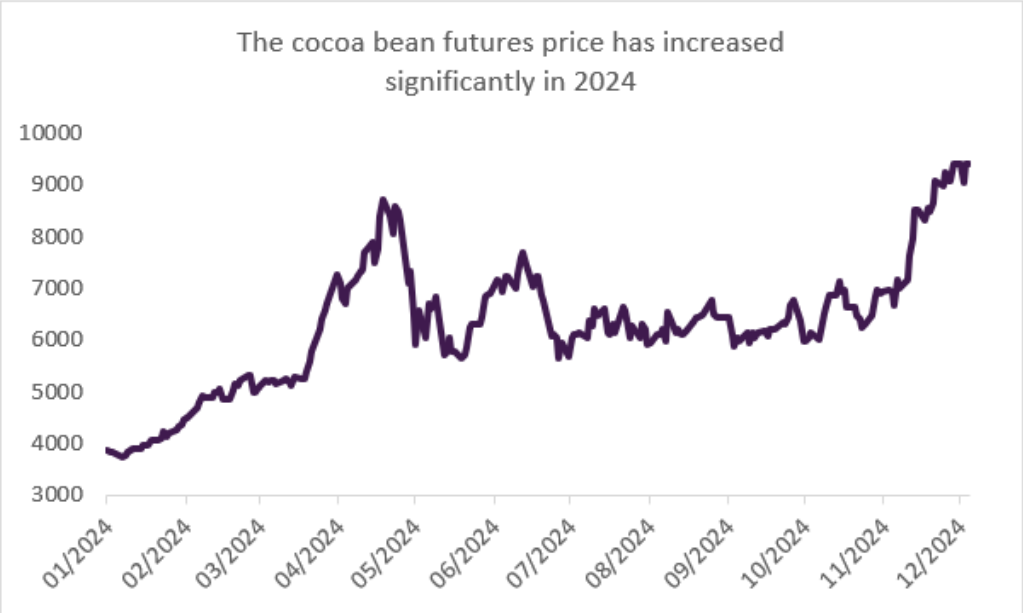
December 9, 2024

Weekly Investment Insights

December is here, and while the cold, dark days may not be everyone's cup of cocoa, the festive spirit is starting to set in. In Luxembourg, the holiday season kicked off last week with Kleeschen, when children woke up to find chocolate treats in their slippers. Behind the scenes, in world cocoa markets, the situation is less gleeful. This year, the price of cocoa bean futures soared, almost tripling in the first four months alone. Now, the prospect of a multi-year structural deficit between supply and demand looms, due to warmer weather, new deforestation laws and the spread of a plant shoot virus. This, in turn, could mean much higher prices and costly chocolate advent calendars next year...



Source: Bloomberg, BIL. As on 04/12/2024

Risk assets have also been on the upswing, despite continued uncertainty with the threat of rising inflation in the US, political turmoil in Europe and conflict in the Middle East. The MSCI All Country World Index is at a record high, with US equities leading the way. The S&P 500 recorded a new record close last week after jobs data boosted market confidence in an imminent Fed rate cut.

OPEC+ continues to do what it can to stabilise oil prices. Last week, the group agreed to extend its production cuts for another year in order to combat the growing oversupply in the oil markets. Brent crude was flat around the $70 per barrel mark following the announcement, only finding support early this week after China, the top importer, signalled looser monetary policy, for the first time since 2010, to boost growth. The fall of Basher al Assad's regime in Syria was also a factor, bringing further uncertainty to the region, with the world now on standby, waiting for more clarity on the new geopolitical context in the Middle East.

The price for both Brent Crude and WTI rose by over 1% on Monday. Gold also strengthened.

WEEKLY ROUNDUP

Uncertainty in France grows as government collapses

The French minority government led by Michel Barnier collapsed last week as far-right and left-wing lawmakers pushed a no-confidence vote against the government through with a majority 331 votes. As the no-confidence vote was largely expected following growing opposition to the proposed 2025 budget, broader European markets were largely unchanged by the announcement. However, French markets received a boost with stocks and bonds rallying as investors turned their attention to the announcement of who might succeed Barnier, the head

of the shortest-lived government since France's Fifth Republic began in 1958.

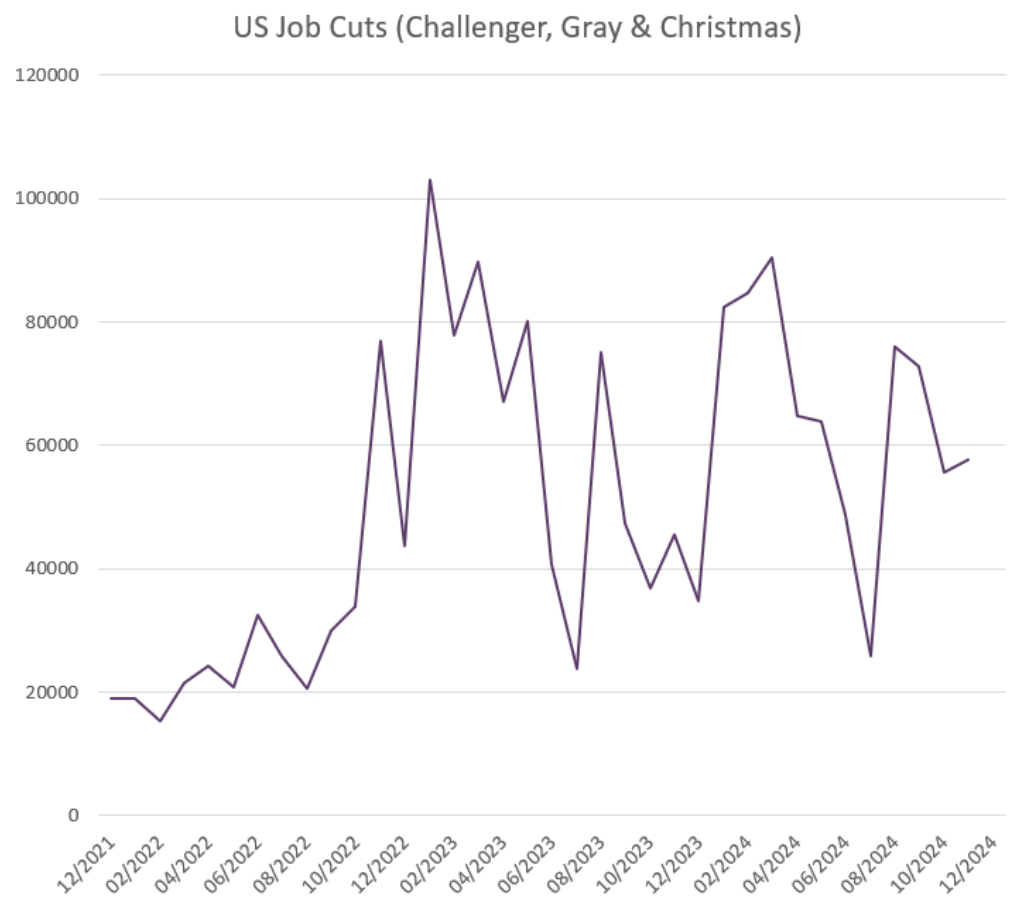
However, more uncertainty looms on the horizon. Even if President Macron quickly appoints a new prime minister, the new government will face the same problems as that of Barnier - a minority government that is likely to struggle to push through its agenda. Whoever is appointed will take on the challenging task of pushing through a 2025 budget in a divided parliament.

The collapse of the French government exacerbates the uncertain political situation in which Europe finds itself. Strong governments are missing from the helm of two of Europe's largest economies at a time when decisiveness and cohesion are increasingly crucial, especially with Trump set to take office on January 20th.

US Labour data increases optimism for Fed rate cut

Data from the US labour market was scattered throughout last week, with investors watching closely for signs about the health of the economy. A collective sigh of relief was evident on markets after Friday's jobs report which pointed to a "Goldielocks" labour market that is neither too hot, not too cold. Nonfarm payrolls rose by 227k in November, versus 214k expected. Employment increased in health care, leisure and hospitality, government and social assistance, and transportation equipment manufacturing, largely due the conclusion of Boeing strikes. Average hourly earnings rose 0.4% MoM and 4% YoY, with both numbers 0.1pp above expectations. However, tempering this, is the fact that the unemployment rate rose to 4.2% in November from 4.1% in October.

US employers also announced slightly more layoffs in November than in October, with most of those concentrated in the automotive sector. As in Europe, challenges are mounting in the industry on the back of increasing competition from China on electric vehicles, while Trump's potential trade tariffs could also harm the sector, as we wrote in last week's newsletter.



Source: Bloomberg, BIL

On balance, the data suggests that the **Fed can go ahead with another rate 25bp cut** at its meeting on 17-18 December. **Important to watch this week will be CPI inflation**, due Wednesday. The pace thereafter remains in question. As Fed Chairman Jerome Powell said, **the economy is in "remarkably good shape"**, while Trump's agenda **risks rekindling inflation**. Much now depends which of his key policies he prioritizes and how quickly he rolls them out.

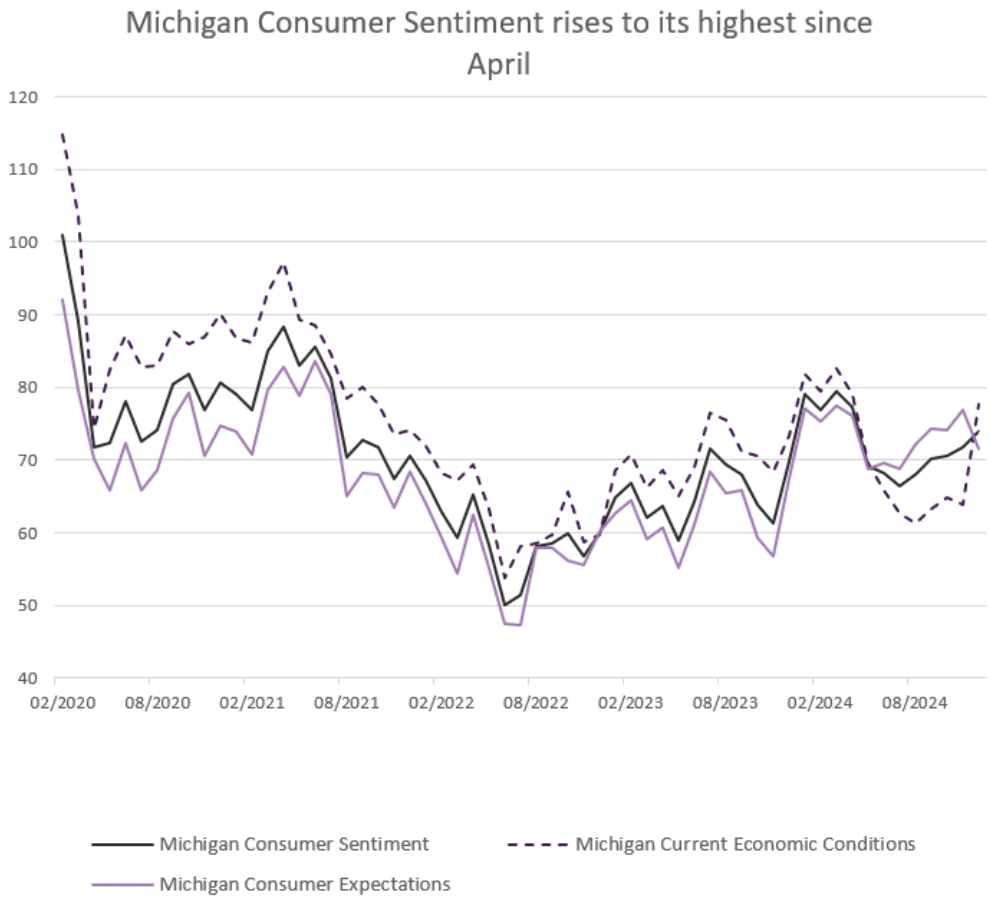
US shoppers spent record $10.8bn online on Black Friday

Adding to the evidence of **continuing strength in the US economy**, **consumers continued spending big over the Thanksgiving period**, with s**ales totalling** no less than **$41.1 billion**, according to Adobe Analytics, as they hunted for deals. On **Black Friday alone**, retailers raked in **$10.8 billion** as shoppers spent record amounts on toys, personal care products, jewellery, Bluetooth speakers and espresso machines. **Overall spending during the period was up 8.2% on last year.**

Over the past few years, **shoppers have been abandoning the malls** in favour of doing their Black Friday shopping from the **comfort of their own sofas**, and the trend is only growing. This year, **consumers spent $100 million on social media platform TikTok** during Black Friday, as

discounts are made even more appealing by well-presented live streams and videos.

In keeping with this data, consumer sentiment rose to the highest level since April last week, driven by more positive consumer assessments of the present situation. The expectations index, on the other hand, fell by 2.5 points, most likely with talk of inflation back in the airwaves.



Source: Bloomberg, BIL

On the other side of the Atlantic, the European consumer continues to lag. Retail sales in the eurozone fell by 0.5% month-on-month in October, after rising by 0.5% in September. Sales of non-food items and automotive fuel fell, while sales of food, beverages and tobacco rose slightly. Although Black Friday should have provided a significant boost to spending in November, the European consumer remains somewhat more cautious.

EUs record low birth rate and the looming aging population

One of the major challenges facing Europe in the coming years is an ageing population, which will put pressure on healthcare and pension systems. Last year, the number of babies born in the EU hit a record low, falling 5.5% from the previous year, according to Eurostat.

The post-war baby boom in the EU has been in sharp decline since the 1960s and is becoming

an increasing threat to public finances. Experts believe this trend will continue as more people choose not to have children amid growing concerns about climate change and geopolitical conflict and uncertainty.

Not only has the number of babies born changed, but the age at which mothers give birth has also increased. It has become much more normal to have children after the age of 40. In the EU, the proportion of mothers who gave birth after the age of 40 rose from 2.49% in 2002 to 5.97% in 2022. In Ireland, as many as 11.2% of births in 2022 were given by mothers aged over 40.

Several EU economies face a growing public debt problem, with Greece, Italy and France at the top of the list. This debt problem will only be exacerbated by a growing population putting pressure on public services and will be a key challenge for European economies in the coming years.

Economic calendar for the week ahead

Monday – Switzerland Consumer Confidence (November).

Tuesday – US Nonfarm Productivity QoQ (Final, Q3).

Wednesday – US Inflation Rate (November).

Thursday – UK GDP (October), Industrial Production (October), Balance of Trade (October). Switzerland National Bank Interest Rate Decision. ECB Interest Rate Decision. US Jobless Claims.

Friday – UK GfK Consumer Confidence (December). Germany Balance of Trade (October). Eurozone Industrial Production (October).

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