



# The Roundup

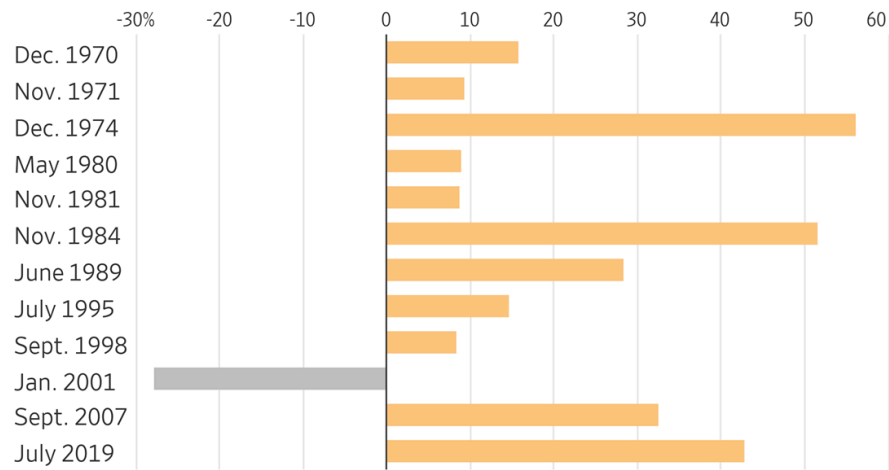
Weekly Economic Research

**January 15 - 19, 2024**

## **Rising bond yields and stagnant equities characterize the cautious beginnings of 2024, as investors await answers on interest rates and corporate earnings**

- The S&P 500 is down 0.40%, the Nasdaq is up 0.11%, and the Dow Industrials is down 0.87% WTD; strong earnings clashed with neutral economic data, leaving investors hesitant and markets mixed
- The 10-Yr U.S. Treasury yield has increased +0.201% to a current yield of 4.145%, whereas the 30-Yr U.S. Treasury yield increased +0.193% to a current yield of 4.370%; anticipation of rate cuts in four months is inflating current bond prices, causing yields to rise
- Crude oil prices increased 3.01% to a current \$73.91/bbl while bitcoin decreased 4.14% to a current \$41,065/coin; as instability festers in the Middle East, concerns over oil supply disruptions impact public markets, causing the price of WTI to climb
- The blockbuster stock market rally has stalled as the calendar has flipped to 2024 – some of the big tech stocks that drove the market’s advance last year appear to have run out of gas, government-bond yields have risen and inflation might not be cooling as quickly as some investors had hoped; after a rocky start to the month, the S&P is clinging to a 0.3% advance in January [WSJ]

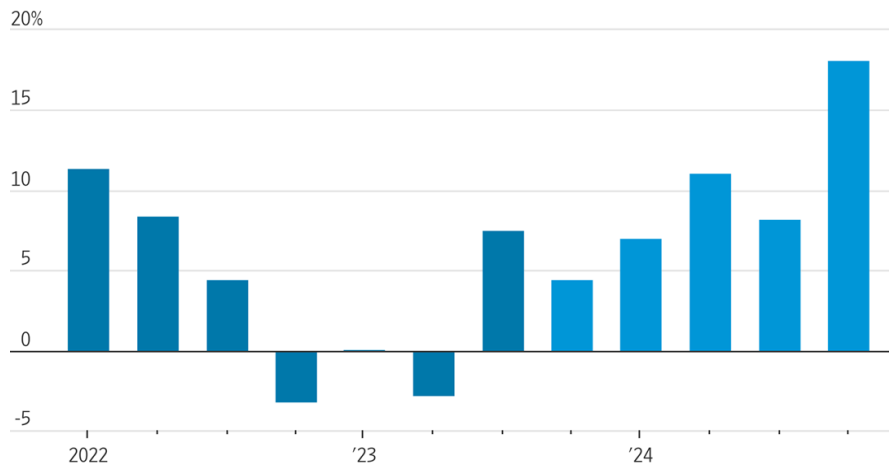
### S&P 500 total return over easing cycles



Note: The dates correspond to the first rate cut in each easing cycle.  
Source: S&P Dow Jones Indices via Ned Davis Research

- Profits are growing again, and the Federal Reserve looks as if it will start cutting rates sometime this year; it is an unusual combination and, for the stock market, possibly a potent one [WSJ]

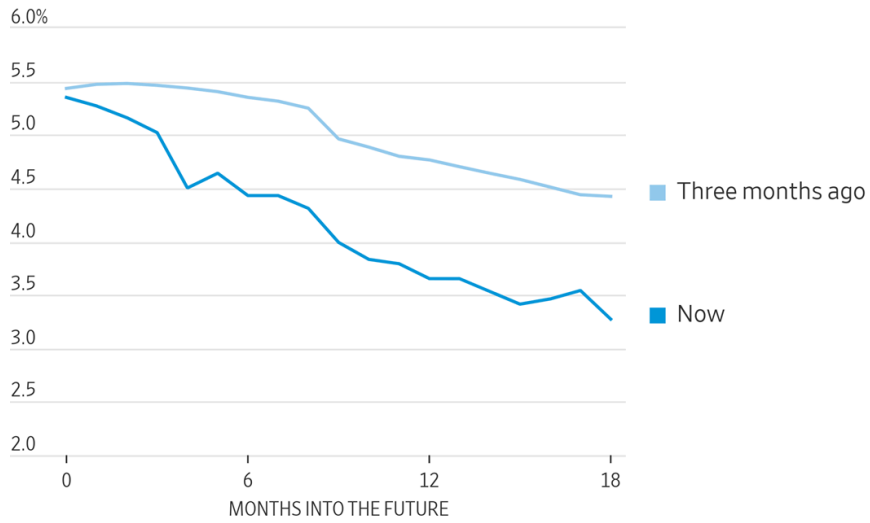
### Change in S&P 500 earnings per share from a year earlier



Note: 4Q 2023 onward reflects analyst estimates.  
Source: London Stock Exchange Group

- Policy makers have suggested to investors that they are being overoptimistic in expecting so many cuts in interest rates this year – yet these comments haven't made much of a dent in markets [WSJ]

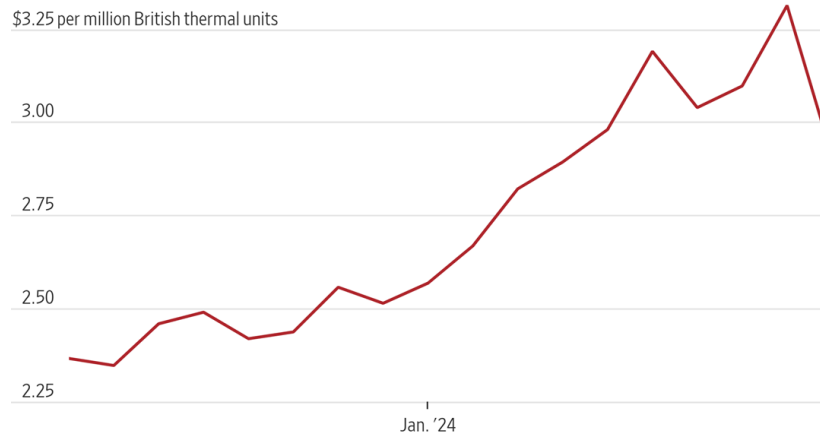
Market expectations of U.S. interest rates



## A potent cocktail of wintry disruptions in the US, ample cash reserves in money market funds, and enticing foreign investment prospects continues to stir the capital markets

- Natural-gas prices ran up ahead of the blustery long weekend, but have tumbled back down on forecasts that suggest the rest of January will be much warmer [[WSJ](#)]

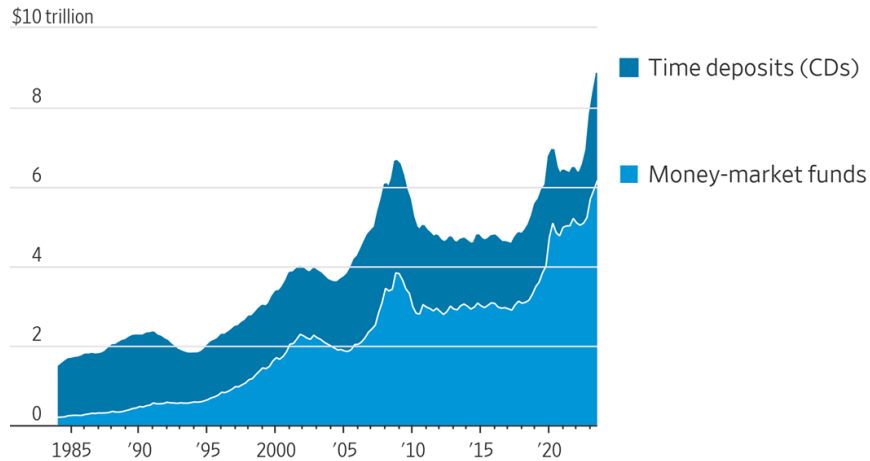
February natural-gas futures price



Source: FactSet

- Rising interest rates drew trillions of dollars into money-market funds and other cash-like investments in the past two years, with more than \$8.8 trillion parked in money funds and CDs as of the third quarter of 2023; investors are optimistic that with rates poised to fall, people will redirect that money and fuel markets' next leg higher [WSJ]

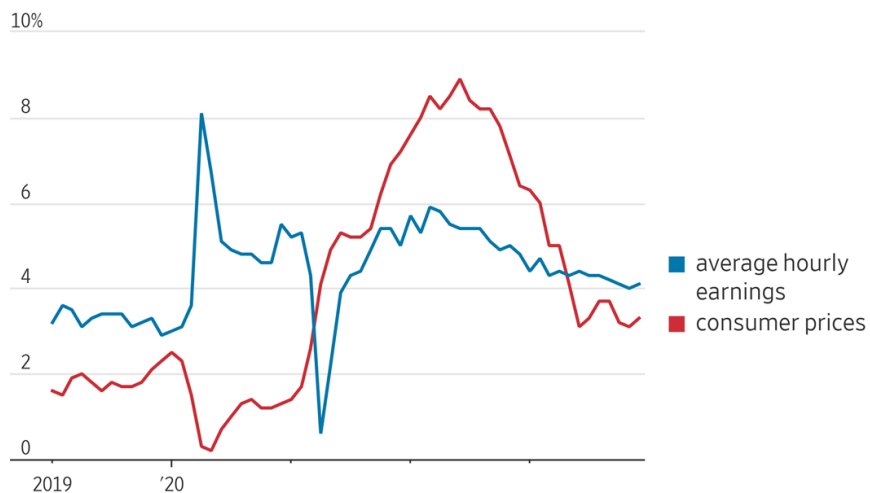
**Assets in money-market funds and CDs**



Note: Quarterly, as of third-quarter 2023  
Sources: Federal Deposit Insurance Corp.; Federal Reserve

- Americans kept shopping last month, propelling the economy forward; as long as the labor market can keep generating jobs, they are poised to keep it up this year [WSJ]

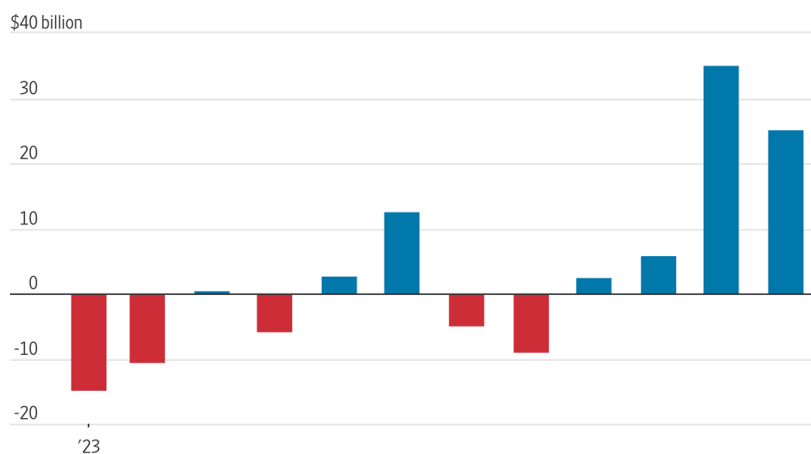
**Average hourly earnings and consumer prices, change from a year earlier**



Source: Labor Department

- Foreign demand for Chinese bonds is picking up, with overseas investors snapping up a net \$25 billion of mainland Chinese bonds last month – some are betting on more policy support from Beijing while U.S. Treasury yields have dropped recently, making them less appealing [WSJ]

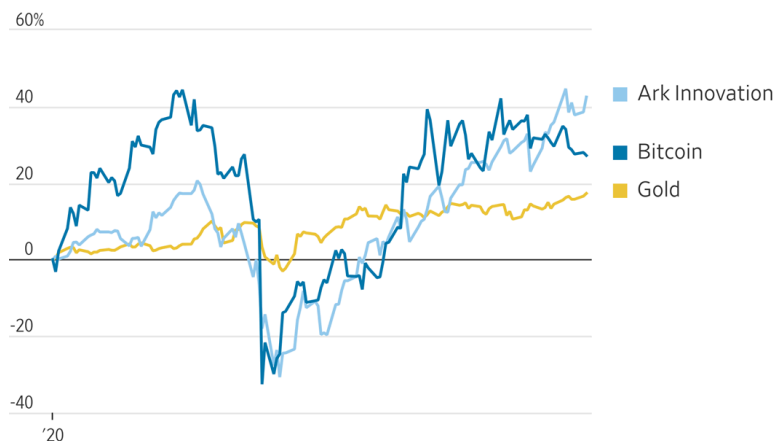
Monthly change of foreign investment in China's bond market



Source: Shanghai Clearing House, China Central Depository & Clearing

- China confirmed that its economy expanded 5.2% in the fourth quarter and for the full year in 2023, one of its slowest growth rates since 1990 [WSJ]
- The new wave of U.S. bitcoin ETFs risk being doubly bad for investors; the pitch made by many, including BlackRock's Lawrence Fink, is that bitcoin should be digital gold and hold its value in a crisis – but its track record during the Covid-19 pandemic speaks for itself [WSJ]

Performance during 2020 Covid selloff



Source: Refinitiv

## **M&A activity continues to remain cautious, although developments within financial services, chip manufacturing, and energy prove to be encouraging**

- Kroger said its purchase of rival supermarket chain Albertsons will take longer to close than expected as regulators pry into the deal [CNBC]
- BlackRock will acquire infrastructure investor Global Infrastructure Partners, which has \$106B AUM, in a \$12.5B cash-and-stock deal [FT]
- PE firm PAI Partners is in the early stages of exploring options for Froneri, its ice cream JV with Nestle, which could be valued at over \$10B [BBG]
- American pharmaceutical distributor McKesson is planning to sell Canadian drugstore chain Rexall Pharmacy Group seven years after it bought the business for \$2.2B [RT]
- Oil and gas company Talos Energy will acquire privately held exploration and production company QuarterNorth Energy in a \$1.3B cash and stock deal [RT]
- CVC Capital Partners agreed to buy vitamin and supplement maker Sunday Natural in an \$876M deal [BBG]
- A federal judge blocked JetBlue Airways' deal to buy Spirit Airlines, saying cost-conscious travelers would lose out if the merger was allowed to go through [WSJ]
- Chip-design company Synopsys agreed to acquire software developer Ansys for ~\$34B in cash and stock [BBG]
- US investor General Atlantic will acquire London-based PE firm Actis, which has ~\$12.5B AUM [BBG]
- Italy approved KKR's \$23.9B acquisition of Telecom Italia's landline grid after deeming the asset sale of strategic value to the state [BBG]

# Recent developments across four key industries highlight FTC regulation, valuation changes, and positive bank earnings

## Energy & Natural Resources

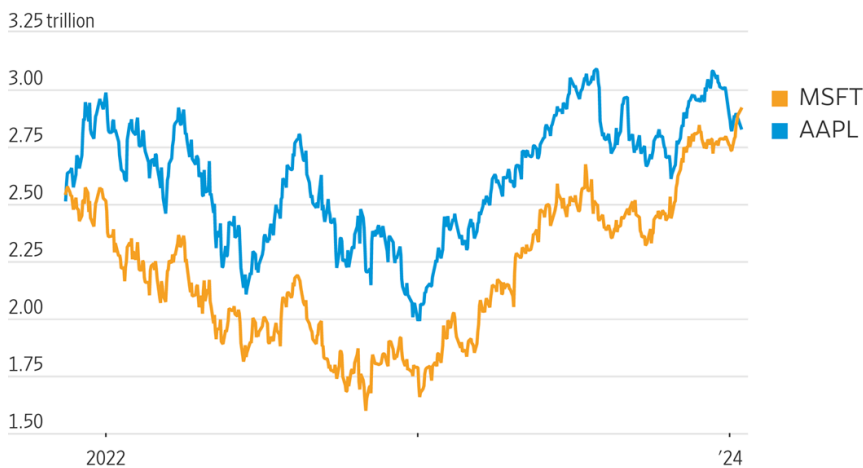
- BP has appointed Murray Auchincloss as its chief executive, marking a continuation of the oil giant's focus on renewable energy [WSJ]
- OPEC forecasts robust growth in global oil demand, exceeding supply growth in 2025, with consumption set to increase by 1.8 million barrels per day, driven by China and a recovering global economy [RZ]

## Technology, Media, & Telecommunications

- Apple's redesigned watches overcome US import ban; it looks like the saga of Apple's Series 9 and Ultra 2 watches may be over, and they will be allowed to be sold – a US trade court found the watches violated Masimo's blood oxygen monitoring tech patent, leading Apple to stop selling the models briefly before stepping up its legal battle [YF]
- iPhone 15s are on sale in China for ~\$70 off as Apple tries to spur sales in the world's biggest cell phone market [R]
- OpenAI clarified its policies to limit the use of its tools in politics during the run-up to elections in 2024 [WSJ]
- Nvidia's red-hot 2024 start a bright spot as S&P 500 eyes record; Nvidia is expected to report another big revenue jump next month [BBG]
- Apple took Samsung's smartphone crown – for the first time since 2010, Samsung does not sit atop the global smartphone shipment rankings; Apple topped the South Korean tech giant in 2023 with 234.6 million mobile shipments, according to IDC's Worldwide Quarterly Mobile Phone Tracker [V]
- Uber revealed yesterday that it plans to shut down the alcohol delivery platform Drizly by March; the ride-hailing app bought the company for \$1.1 billion three years ago [TC]
- Elon Musk said he wants 25% voting control of Tesla, up from the 13% that the CEO currently owns [CNBC]

- Microsoft increased its lead over Apple as the U.S.'s largest company; Microsoft's market capitalization ended Tuesday \$61.32 billion above Apple's [WSJ]

#### Market capitalization



Note: January 16, 2024 values are preliminary.

Source: FactSet

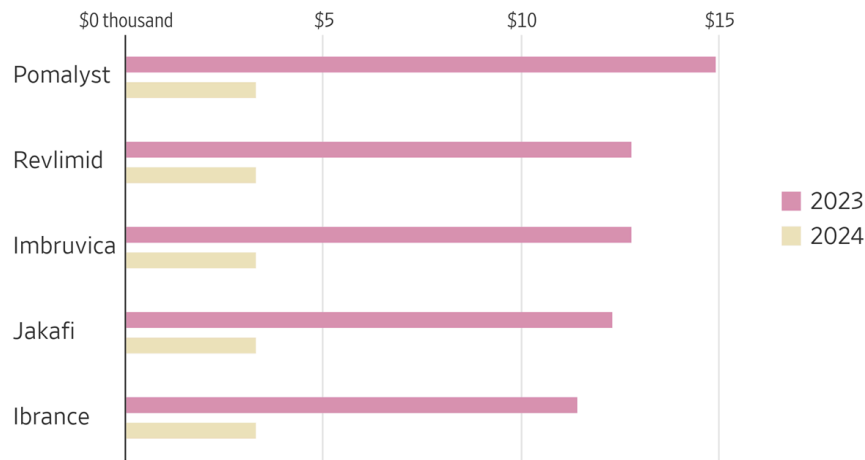
- Sheryl Sandberg, Meta's former chief operating officer, said she plans to leave the board of directors after 12 years [WSJ]

## Healthcare & Life Sciences

- Changes brought about by the 2022 Inflation Reduction Act mean that Medicare patients on Part D plans now pay no more than roughly \$3,300 on drugs annually—a number that could shift a bit based on whether they take brand or generic medications; in 2025, that cap will change again to a flat \$2,000 [WSJ]



**Sample Medicare drug payments for Part D enrollees, before and after the coinsurance change**



Source: KFF

- UnitedHealth Group shares fell ~3% on Monday, despite reporting better-than-expected Q4 earnings, due to medical costs soaring 16% [AP]
- Biotech and pharma companies are betting on a promising class of cancer drugs to drive growth [CNBC]

## Financial Services

- Citigroup reported a \$1.8B Q4 loss due to several large charges tied to overseas risks, last year's regional banking crisis and its corporate overhaul; the bank expects to reduce its headcount by 20,000 and incur up to \$1B in additional severance costs [CNBC]
- JPMorgan Chase reported that its Q4 profit declined due to a \$2.9B fee tied to the government's seizure of failed regional banks last year; the bank beat revenue expectations and beat on earnings when excluding the fee [CNBC]
- Goldman Sachs reported a 51% surge in fourth-quarter profit, but its strength wasn't in investment banking and trading; instead, it was in asset and wealth management [WSJ]
- The Biden admin wants overdraft fees cut to as little as \$3 – the Consumer Financial Protection Bureau proposed new rules yesterday that would cap the fees banks charge customers who try to spend more than they have in their

accounts; the agency proposed \$3, \$6, \$7, or \$14 as the upper limits and is seeking public input on the right amounts [AP]

## **Outside of standard macroeconomic updates and M&A developments, Donald Trump's win in Iowa and the furthering conflict in Yemen have led news cycles**

- Donald Trump scored big in Iowa on Monday as the state's Republicans braved the cold to vote overwhelmingly to nominate him as their party's presidential candidate; the Iowa caucuses kicked off the US primary season, and Trump's victory came as polls show the ex-president will probably prevail over his GOP rivals, setting the stage for a likely Biden vs. Trump rematch [CNN]
- Houthis target US ships in the Red Sea; Houthi militants struck a US-owned cargo ship with an antiballistic missile off the coast of Yemen on Monday – the US said that it caused neither major damage nor injuries, and the ship, the M/V Gibraltar Eagle, kept on going [AP]
- Nearly 80% of the US has seen bitter cold this week, with typically mild cities like Memphis, Dallas, and Nashville likely facing 72 hours of below-freezing temperatures [CNN]
- It's never a bad time to be rich, but now seems like an extra-good time to be part of the monocle-wearing class: the world's five richest people have more than doubled their wealth since 2020, according to Oxfam [CNBC]
- Executives atop Harvard University's \$51 billion endowment made an unusual tour of Silicon Valley last week to try to smooth relationships with top venture-capital investors; some have been upset at the university's response to the Oct. 7 attacks on Israel [WSJ]
- Some 2023 M.B.A. graduates are still struggling to find work as the market for well-paid, white-collar jobs gets tougher to crack [WSJ]
- Iran says it's not backing down – tensions in the Middle East are certainly not easing, and Iran's foreign minister insisted yesterday that Iranian-backed

groups won't stop launching attacks as long as the Israel– Hamas war continues [CNN]

- In Chicago, where the wind chill fell as low as –25 degrees Fahrenheit this week, Tesla owners had so much trouble simply charging their vehicles that some people were forced to abandon their dead cars, creating charging stations that became known as “Tesla graveyards” [DM]