Market Commentary on the FY'2023 Results Season:

Finding the Crystal Ball for Economic Recovery?

Against the backdrop of **falling inflation, better-than-expected economic growth and a continuing strong labour market** – combined with first hints by the US Federal Reserve that the benchmark rate was "likely at or near its peak for this tightening cycle" – a **year-end rally in global stock markets started in mid-December**,[i] which has only moderated in early January once various Central Bank officials repeatedly cautioned about imminent rate cuts.[ii] This **"renewed optimism"** (David Salomon, CEO of Goldman Sachs) was widely shared by senior executives reporting year-end results over the last three weeks, although they reiterated, at the same time, that the **"timing of recovery remains uncertain"** (Jane Fraser, CEO of Citigroup). While there are **similarities between the economic outlooks for 2023 and 2024**, notably the expected muted start and then recovery during the second half, this year there is also a **clear discrepancy between the optimism expressed by US senior management and their European counterparts**.[iii]

With markets taking a rollercoaster ride in recent weeks, and CEOs repeatedly stating that they don't have a "crystal ball" for economic recovery (Elon Musk, CEO of Tesla),[iv] the **investor focus during the ongoing reporting season sharpened towards five major themes**: 1) analysts repeatedly enquired about **headwinds for cash flow generation**, whether this came from wage inflation, higher costs for technology and/or financing costs, and related **implications for operating leverage**;[v] 2) in response to this, a number of companies outlined their latest efforts in **structural cost reduction** (Shell, KPN, Eaton), with a particular focus on **secular labour and energy transition trends**;[vi] 3) the **sustainability and/or even affordability of dividends** has been frequently questioned, with some companies opting for scrip dividends under financial stress (SGS Group, Philips);[vii] 4) the topic of **artificial intelligence (AI) became a ubiquitous theme** not only for companies trying to present specific use cases, but also investors looking for winners and losers in the AI revolution;[viii] and 5) this being a year of **record numbers of national elections**, implying higher fiscal expansion and infrastructure investment in the run up to elections, and against the backdrop of **escalating geopolitical conflicts**, analysts frequently asked about **supply-driven "pockets of growth"**, whether by specific markets, industries and/or technologies.[ix]

Given some spectacular **governance issues across different markets and industries** in recent months, we start with a review of the latest investor debate before using **Japan as an example** of a market trying to clean up its corporate governance credentials. With first comprehensive academic research showing a lack of evidence that ESG is related to future stock returns,[x] we then reflect on some **critical themes of the current ESG campaign**, before taking the **insurance industry as a case study** for secular trends and an evolving business model under climate change. With Europe and the US having taken **first steps to regulate AI**, we then focus specifically on the implications for capital markets, equity trading and corporate communication. Finally, **another case study on stock exchanges** will show not only the impact of fast technological change, regulation, economies of scale and cross-market consolidation, but also a **very dynamic**

adaptation of the traditional business model. The **viability and economic prospects of the local stock exchange** is of vital interest for any listed company's senior executive and investor relations professional and is **decisive for the company's economic prosperity**.

GOVERNANCE UNDER NEW INVESTOR SCRUTINY

While corporate governance has been on the investor radar screen long before sustainability and subsequently ESG became a driving force of modern investment decisions, governance was always difficult to quantify – in contrast to environmental and even social KPIs – and hence the G sub-rating has been vague and highly subjective, implying potential negative surprises.[xi] Within the broader academic debate, there has traditionally been a more positive reflection - driven both by social norms underpinning more positive attitudes and beliefs regarding ESG issues and stricter ESG regulations – but more comprehensive recent research has shown that there is not only a significant disagreement on what constitutes a good corporate governance, but also that G sub-ratings have the lowest statistical significance when it comes to various ESG ratings.[xii]

Some spectacular governance scandals over the last few months have shed new light on the vulnerability of existing governance structures as well as – with a particular view on the shifting power from capital to labour – secular trends which have led to stronger union power in the wake of post-pandemic labour shortages, with a new SEC rule giving shareholders more rights to exert influence at Board level and challenging the existing corporate governance system in the US.[xiii] This and other latest developments have essentially led to three new major focal points on corporate governance: a) the growing strength of unions not only in terms of labour relations but also company decision making;[xiv] b) Board voting behaviour particularly in companies with influential founders (Tesla, OpenAI)[xv] and/or majority owners (Volkswagen, Wirecard);[xvi] and c) the personal conduct of senior executives, whether this relates to their own remuneration or even their romantic relationships in the company.[xvii] As to the latter, while some might smile about this new wave of Anglo-American puritanism,[xviii] it raises questions about risk management as well as the growing importance of workplace culture, fair promotion and employee development.[xix]

JAPAN'S RISING SUN

In the wake of growing US trade sanctions against China and concerted efforts by Japanese authorities and corporates not only to become a more attractive investment destination but also to clean up its corporate governance from the old zombie image, Japanese stocks have become the third most crowded bet after US technology stocks and the negative bet on China last year.[xx] After a long period of deflation, the combination of a number of factors – stronger economic growth, renewed inflation, semiconductor manufacturing coming back to Japan and, perhaps most importantly, the efforts by the Tokyo Stock Exchange (TSE) to improve corporate governance and a growing number of activist campaigns – have resulted in an unprecedented stock market rally in 2023.[xxi] While it is perhaps too early for Western companies to refer to Japan as the alternative supply chain to China – which rather applies to India – Tokyo authorities have certainly made a great effort in recent months to strengthen its global financial hub with "not China" credentials.[xxii]

Following three long decades of deflation, economic stagnation and demographic decline, a major psychological shift was perhaps not less important, as it triggered new investor enthusiasm, driven

Trust. Discretion. Passion.

by M&A activity, the government's focus on doubling financial asset income and corporate governance reform, which all helped to convince foreign investors that Japan's structural challenges were being addressed.[xxiii] The most striking governance effort was perhaps the attempt by Japan Exchange Group (JEG), which controls TSE, to require from its listed companies disclosure on how to improve capital efficiency, which was part of a radical scheme aimed at shaming them into reform.[xxiv] With roughly half of the companies listed on the Prime section trading reportedly at a price-to-book ratio of less than one, the major focus was on new plans to launch share buy-backs, increasing dividends, selling non-core assets and appointing independent directors,[xxv] which is very much in line with what most shareholder activists have been demanding from Japanese companies in recent months.[xxvi]

RETHINKING ESG INVESTMENT

There has been an extensive investor debate about inconsistencies and internal contradictions of ESG investment in recent months,[xxvii] ranging from increasingly critical scrutiny of ESG metrics and ratings to the complexity of the UN's sustainable development goals (SDGs)[xxviii] when selectively applied by companies all the way to the recent ESG backlash reported for US investors,[xxix] which was partly impacted by the Russian military aggression against Ukraine, seriously undermining not only ESG investors' reluctance to invest in fossil fuels but also in lethal weapons.[xxx] While it goes beyond the scope of this short market commentary to discuss all the intricacies of the current (and often heated) ESG debate, and being conscious that sustainability and climate change will remain a major cornerstone of corporate strategies, it is still worth highlighting this paradigm shift as it helps to show the fast evolution and next opportunities of ESG investment.[xxxi]

With sustainability claims by investment funds having come increasingly under clients and regulatory scrutiny in recent months, launches of new ESG funds have considerably dried up (and some ESG labels have also been removed from fund names).[xxxii] More importantly, the underperformance of ESG funds against the broader equity markets in 2022 prompted investors to take a more fundamental review of the investment attributes of their ESG portfolios, resulting in a number of newly defined opportunities: a) focusing on firms that are progressively reducing their emissions footprint and generate returns (carbon improvers); b) capturing value from investing in companies that enable a faster transition; c) funding for new capital-intensive solutions for sectors with hard-to-abate carbon impact; d) turning attention to impact funds that seek to measure not only returns but real-world outcomes; and e) energy security and energy transition being more systematically embedded in core portfolios.[xxxiii]

With all the controversy about conflicts of interest by ESG advisors, companies complaining about the growing scope of ESG reporting and "fluffy" metrics boosting more executive bonuses,[xxxiv] this latest effort in addressing inconvenient truths about the green transition certainly helps to lift the ESG debate to the next level.[xxxv]

CASE STUDY: INSURANCE INDUSTRY

Over the last few months, we have consistently followed major European and US insurers, including their previous reporting cycles and specific investor events, with a particular focus on secular trends and the evolving business model under the climate change. While there was much

attention on the change towards the IFRS 17/9 reporting standards – and companies have made a great effort in explaining details to their analysts and investors – there was also a more extensive debate on data analytics as an “area of competitive advantage”, with a special focus on risk selection, enforcement and cycle management (Jean-Jacques Henchoz, CEO of Hannover Re).[xxxvi] In this respect, investing in more natcat modelling, pricing and protection gaps as well as “talent given its scarcity in some parts of the world” (Hannover Re) were highlighted as was the importance of a strong balance sheet to be able to make sizeable investments (Christian Mumenthaler, CEO of Swiss Re) and that “in the insurance business scale matters”, notably for synergies, technology and market share (Philippe Donnet, CEO of Generali).[xxxvii]

Given the scale and frequency of natcat events in 2023 as well as continuing claims inflation in the wake of increasing costs for rebuilding homes and repairing cars, the “hard market” of rising prices is not only expected to continue until the surge in inflation is fully absorbed,[xxxviii] but also various reinsurers expressed concern about secondary perils for primary insurers to raise more capital (John Dacey, CFO of Swiss Re).[xxxix] With a view to the January 2024 renewals as well as growing fears that pricing might not be sustainable going forward, notably in US casualty (Munich Re),[xl] there was an extensive discussion about future natcat exposure (AXA), pricing strategies (Generali, Munich Re, Swiss Re), fair value adjustments in real estate (Swiss Life)[xli] and more cost savings and operating efficiency (Humana).[xlii] The latter directly links secular trends of rising costs from technological, demographic and risk developments with the impact of climate change on the evolving business model of insurance companies.

REGULATING ARTIFICIAL INTELLIGENCE (AI)

With Europe and the US having taken first steps to regulate AI in very different ways,[xliii] a broad (and often heated) debate has started about the virtues of different governance models and to what extent this might impact competition and corporate transparency.[xliv] While it goes beyond the scope of this market commentary to look into all the legal and technical details of this debate, we take a particular focus on the implications for capital markets, equity trading and corporate communication. In this respect, the SEC had proposed a rule addressing potential conflicts of interest in predictive data analytics in July 2023 as it was concerned about broker dealers, investment advisors and others taking investment decisions based on the same data model – developed by the big tech companies – resulting in herd behaviour, which might undermine financial stability and lead to the next financial crisis.[xlv]

While fund managers have used software and various tools for market sentiment analysis for some time, AI has clearly opened a new Pandora box for finance, including three major stability risks: a) data opacity; b) concentration risk (see SEC proposal above); and c) regulatory gaps as financial regulators are often ill-equipped to understand AI.[xlvi] In turn, as a substantial amount of buying and selling orders are triggered by recommendations made by robots and algorithms, which increasingly process information with machine learning tools, there is a growing interest in corporate disclosure in the age of AI and what to put into publications when a machine is reading and/or listening to analyst calls.[xlvii] Indeed, first academic research based on SEC filings has shown that companies with a higher than expected machine readership became more averse to words which could predict firm outcomes such as legal liability and/or reactions from the capital markets.

If companies are becoming increasingly aware that their speeches need to impress machines as well as humans, this has potentially wide-ranging consequences in terms of manipulating inputs to machine learning in order to achieve a more desirable outcome (Sean Cao et.al, October 2020).[xlviii]

CASE STUDY: STOCK EXCHANGES

Over the last few months, we have also followed listed international stock exchanges – including large trading platforms in North America, Europe and Asia as well as smaller players ranging from Mexico to Athens and Warsaw – to get a better understanding of the impact of technological change including AI, regulation and the ultimate battle for more listings and equity trading. As was the case with the airlines industry before, with politicians often fretting about the sale of family silver, stock exchanges have become increasingly liberalised over the last decade and a half, leading not only to more competition and cross-market consolidation (Euronext, Nasdaq OMX) but also to a fundamental change of the traditional business model, with data & analytics becoming increasingly important for revenue generation (LSE Group CMD 2023, 16-17 November 2023).[xlix]

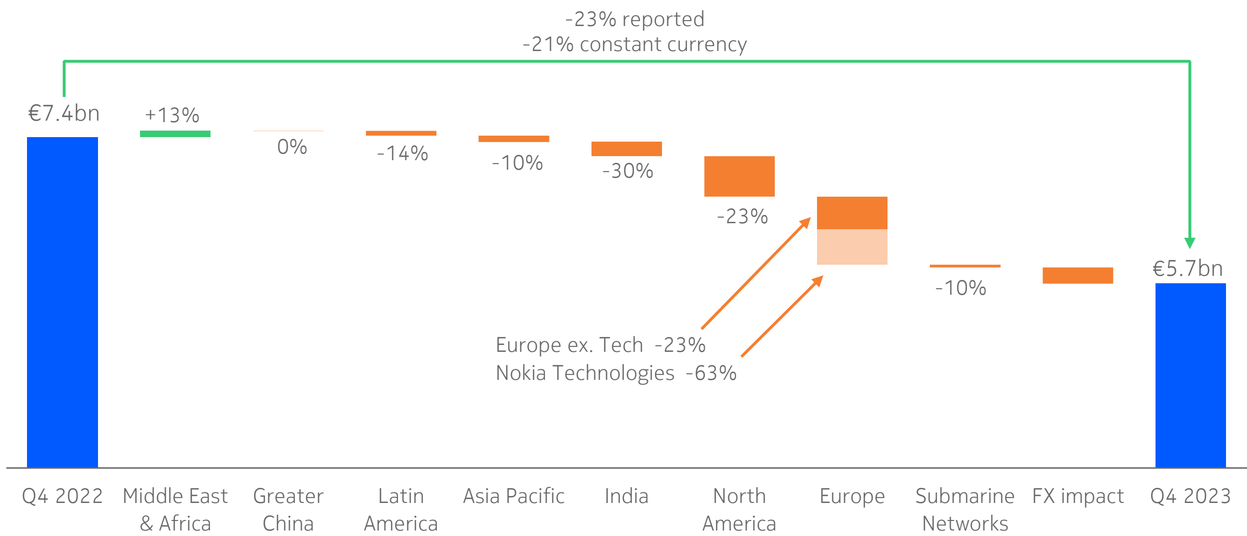
Since then, the race has been on for faster velocity in trading, efficient clearing and settlement,[l] lower transaction costs and higher liquidity through more listings, new alternative products and more broker dealers. As to recent equity trading, European bourses including London have massively lost out against their US-based counterparts in terms of new issues and capital raising, with US equities accounting for almost 70% of the MSCI World Index and European companies increasingly opting for a listing and/or moving their primary listing to Nasdaq or NYSE.[li] With Nasdaq's strategic ambition to become the "trusted fabric of the world's financial system" (Adena Friedman, CEO of Nasdaq), it is interesting to see to what extent their recent acquisition policy has focused on new software and systems against money laundering and white-collar crime, partly a result of the so-called Basel III endgame regulation for US banks, while also expanding their financial technology partnerships with Mexico, Brazil, Chile and Columbia.[lii] With the US market having started trading bitcoin ETFs recently, Nasdaq will focus exclusively on trading, clearing, settlement and surveillance of cryptocurrencies but not launching its own products.

Technology and data have now become the battleground of international stock exchanges, with the CEO of ICE, the owner of NYSE, Jeffrey Sprecher, announcing a major overhaul to rebuild NYSE with modern technology, replace back-end hardware and adopt large language models (LLMs) and generative AI.[liii] While inflationary and regulatory cost pressures have been reported by most stock exchanges we had followed – including BMV in Mexico, SGX Group in Singapore and Athex Group in Athens – all major bourses have made a considerable effort in strengthening their IT infrastructure, introducing new Cloud technology (Euronext, Nasdaq), and trying to improve the quality of ESG data (Deutsche Börse, GPW in Warsaw). Predicting the "Tesla moment" being on the horizon, the CEO of Deutsche Börse, Theodor Weimer, emphasised that they "cannot afford not to invest in digital assets" (Deutsche Börse 2023 Investor Day, 7 November 2023).

Peter and Irina Kirkow
5 February 2024

Broad-based declines amidst macroeconomic uncertainty

Year-on-year at constant currency



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Our innovation empowers clinicians with Artificial Intelligence for deeper clinical insights, improved workflow and productivity

HealthSuite Imaging	ROCC3[2] & PerformanceBridge5	CT 5100 Incisive	Next gen. EPIQ Elite & Affiniti	MR SmartSpeed
PACS[1] over the cloud with Advanced AI-enabled tools	Industry's first multi-vendor, multimodality ROCC	Industry-leading CT Smart Workflow	AI-guided ultrasound capabilities	Award-winning, deep-learning AI reconstruction
Web-enabled diagnostic workspace from anywhere	Connects imaging experts with technologists at scan location	Enhanced confidence with the fastest AI reconstruction on the market	Expanded tele-ultrasound capability	AI acceleration; scan up to 3x faster
Expansion of collaboration with AWS on generative AI	Real-time data analytics	Low total cost of ownership	3D-like vascular flow advanced imaging with Flow Viewer	Boost clinical confidence with 65% higher resolution

Examples of new product introductions with AI integration in 2023

1. Picture Archiving and Communication System
2. Radiology Operations Command Centre 3.0

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Successful reorganisation completed without operational disruption in 2023

Swiss Re

Market Services - Operational Highlights

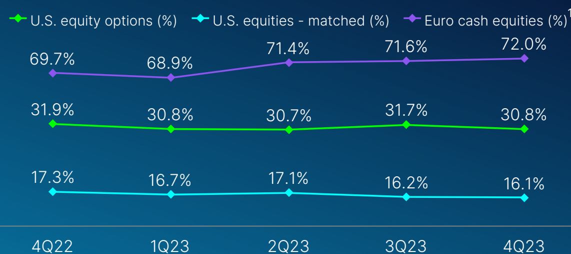
72% #1 market share in Euro cash equities markets[1]

#1 single venue of liquidity for traded-listed cash equities

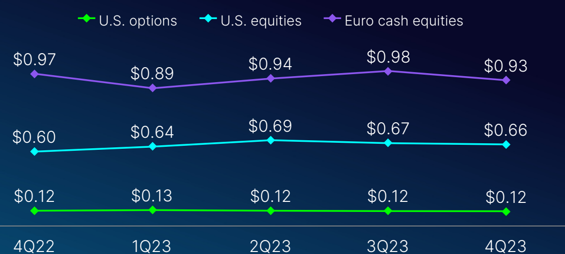
31% #1 market share in multi-listed U.S. options

- Realized record 4Q closing cross volume in 4Q23 for U.S. cash equities trading.
- Completed the migration of a second Nasdaq options exchange to the cloud.
- Received the first SEC approval for an AI powered order type, Dynamic M-ELO, which is expected to launch in 1Q24.

Market Share by Asset Class[2]



Revenue Capture by Asset Class[3]



[1] Euro cash equities markets include cash equities exchanges of Sweden, Denmark, Finland and Iceland.
[2] Not to scale.

[3] Not to scale. For revenue capture: U.S. options reflects rate per contract, U.S. cash equities reflects revenue per 1,000 shares matched, and Euro cash equities reflects revenue per $1,000 traded.

ENDNOTES

[i] The S&P 500 increased by 4.42% in December alone and by 24.2% for the year. Similarly, the MSCI Europe was up by 5.01% in December 2023 and by 20.66% for the year (in comparable US-dollar terms). For a more detailed discussion about investor enthusiasm and widespread expectations towards a soft landing in the US, see: Claire Jones, Harriet Clarfelt and Jennifer Hughes, *"Falling US inflation boosts stocks and hopes of soft landing for the economy"*, Financial Times, 23 December 2023. On the reaction of the US Federal Reserve signaling first rate cuts in 2024, see: Colby Smith and Claire Jones, *"Federal Reserve sparks market rally as it signals interest rate cuts in 2024"*, Financial Times, 14 December 2023. Interestingly, major US banks reporting their Q4'2023 results in mid-January had already priced in six rate cuts for 2024 – and when pressed by analysts during Q&A about the rationale of this assumption they simply referred to the futures market (Goldman Sachs, Citigroup, JPMorgan Chase) - despite the Fed's official projections indicating only three cuts. This enthusiasm was also reflected in the broader economic debate in the US, where the discussion moved towards the "last mile" of the inflation battle and the widely accepted "soft landing" scenario. For some potential pitfalls in this respect, notably renewed cost pressures from supply-chain disruptions in the Red Sea but also higher labour costs, see: Mohamed El-Erian, *"A warning shot over the last mile in the inflation battle"*, Financial Times, 16 January 2024.
[ii] For various efforts by Central Bank officials to calm down the market in early January, see: Claire Jones and Harriet Clarfelt, *"Fed officials said rates could remain high 'for some time'"*, Financial Times, 4 January 2024 and, for Europe, Martin Arnold, Stephanie Stacey and George Steer, *"European stocks drop as ECB and UK inflation puncture rate cut hopes"*, Financial Times, 17 January 2024. In terms of the US, strong 3.3% GDP growth in 2023 and a continuing tight labour market combined with the core PCE inflation rate falling to 2.9% in December further lowered market expectations of a first rate cut in March 2024, see: Claire Jones, *"Strong US growth boost expectations that Fed will delay cutting rates"*, Financial Times, 29 January 2024. While the market appeared to be front running Central Bank decision making for some time, the chair of the US Federal Reserve, Jay Powell, cooled market expectations further in late January 2024 by saying that cutting interest rates as soon as March was not their "base case", see: Claire Jones and Kate Duguid, *"Jay Powell says Federal Reserve interest rate cuts in March are 'not base case'"*, Financial Times, 1 February 2024. Any investor expectations for early rate cuts were then finally slashed with the publication of the January payrolls report, showing that the US economy had added 353,000 jobs during the first month of 2024, which was almost double economists' forecasts, see: Claire Jones and Kate Duguid, "*'Stunning' US jobs growth of 353,000 far outstrips estimates"*, Financial Times, 3 February 2024.
[iii] The CFO of Morgan Stanley, Sharon Yeshaya, observed that "CEO and Boardroom confidence is increasing" (Morgan Stanley Q4'2023 analyst call on 16 January 2024), which was also confirmed by the CEO of Citigroup, Jane Fraser, saying that there is "increased confidence among CEOs" (Citigroup Q4'2023 analyst call on 12 January 2024). Similarly, the CFO of Goldman Sachs, Denis Coleman, pointed to "solid levels of capital markets activity in January 2024, both in the US and Europe", while his CEO, David Salomon, outlined that "the level of strategic dialogue has improved" and that "it feels much better though we remain cautious" (Goldman Sachs Q4'2023 analyst call on 16 January 2024). However, European senior executives appeared considerably more cautious, pointing to the fact that "the timing of market recovery remains difficult to predict" (Börje Ekholm, CEO of Ericsson, at the Q4'2023 analyst call on 23 January 2024) and highlighting "seasonality in profit generation (being) significant in 2024" (Marco Wiren, CFO of Nokia, at the Q4'2023 analyst call on 25 January 2024). While the CEO of ASML, Peter Wennink, continues to perceive 2024 as "a year of recovery", he clearly expects "a stronger second half in 2024" (ASML Q4'2023 analyst call on 24 January 2024).
[iv] Similarly, the CEO of ASML, Peter Wennink, at the Q4'2023 analyst call on 24 January 2024, with a clear indication that 2024 will be "the year of proper recovery" and that "we are in ramping mode for 2025". This was confirmed by the CEO of TSMC, C.C.Wei, claiming that "the business has bottomed out year on year" and that they expect "2024 to be a growth year" (TSMC Q4'2023 analyst call on 18 January 2024). Much of the optimism was driven by US tech giants reporting their latest quarterly results, with markets closely following what they had to say in terms of their investment in artificial intelligence (AI). In this respect, the CEO of Microsoft, Satya Nadella, claimed not only that AI will transform work in future, with up to 70% improvements in productivity, but also that AI will become "a first-class part of every PC" (Microsoft Q2'FY24 analyst call on 30 January 2024). Similarly, the Chief Business Operator of Google owner Alphabet, Philipp Schindler, highlighted that "AI will unlock new creativity" (Alphabet Q4'2023 analyst call on 30 January 2024), while the CEO of Apple, Tim Cook, outlined that they "spend a tremendous time of efforts" on AI, while refraining from reporting tangible progress at this stage (Apple Q1'2024 analyst call on 1 February 2024).

The only hint Tim Cook was prepared to provide was for machine learning in tracking and road mapping within their new Vision Pro virtual reality (VR) product.

[v] Any claim of potential margin expansion in 2024 and beyond came under special scrutiny during the ongoing reporting season, with management conceding that the "current top line and profitability (will) continue in 2024" (Eric Hageman, CFO of Telia, at the Q4'2023 analyst call on 26 January 2024) and that "we are approaching limits of cost reduction" (Vaibhav Taneja, CFO of Tesla, at the Q4'2023 analyst call on 24 January 2024). In this respect, issues of particular interest were pricing strategies (Telia, Trelleborg, Parker Hannifin), operating leverage (KPN), higher costs of debt (Lonza), the impact of higher shipping and freight costs given the hostilities at the Red Sea (Philips, ABB, Eaton), capex commitment to maintain technological leadership (Tesla, Alphabet, Microsoft), potential portfolio reviews (Lonza, SGS Group) and active working capital management (Nokia, Ericsson, Telia). As to the Houthis attacks on trade ships in the Red Sea, 45% of dry bulk vessels and 91% of container ships had reportedly been diverted away from the Suez Canal by end-December 2023, see: Robert Wright, *"Bulk commodities vessel owners face pressure to travel through Red Sea"*, Financial Times, 30 January 2024. With the Red Sea accounting for 15% of total global sea transport in normal times, various companies have reportedly already been forced to halt certain production lines in Europe (Tesla, Volvo Cars, Suzuki), see: Valentina Romei, *"Red Sea crisis pushes up delivery times for European manufacturers"*, Financial Times, 1 February 2024.

[vi] The new CEO of Shell, Wael Sawan, explained his ambition for structural cost reduction in terms of three major cornerstones: a) portfolio review; b) agile organisation; and c) AI investments (Shell Q4'2023 analyst call on 1 February 2024). Similarly, the CFO of Eaton, Thomas B. Okray, outlining their restructuring effort towards "a smarter and more efficient way of doing business" and summarising their structural cost reduction programme along the following main pillars: a) consolidation, b) shared services utilisation; and c) digital technology (Eaton Q4'2023 analyst call on 1 February 2024). In this respect, the discussion among the US tech giants in terms of how much additional capex is required to address the "extraordinary applications of AI" (Ruth Porat, CFO of Alphabet, at the Q4'2023 analyst call on 30 January 2023) was particularly interesting as even those companies had to find additional cost savings and efficiency measures – in the case of Alphabet, savings in procurement, computer infrastructure and organisational functions, while, at the same time, announcing a "slower pace of hiring" and a $700mn severance package for Q1'2024 due to "organisational simplification" (Alphabet Q4'2023 analyst call on 30 January 2024). While Alphabet's senior management was adamant to emphasise the need to maintain "a healthy profitability while investing in innovation" (Ruth Porat, CFO), there was also a first effort to quantify productivity gains from new AI software spend for its own organisation, which the CEO of Microsoft, Satya Nadella, estimated at a 2-3% opex leverage (Microsoft Q2'FY24 analyst call on 30 January 2024).

[vii] The CEO of Philips, Roy Jakobs, justified the payment of dividends in shares (scrip) as a "measure to shore up liquidity" (Philips Q4'2023 analyst call on 29 January 2024). In turn, SGS Group received repeated analyst questions at the Q&A (FY2023 analyst call on 26 January 2024) with respect to the rationale of the proposed scrip (Bernstein), how to limit EPS dilution (Goldman Sachs) and what the maximum leverage would be like before triggering another scrip option (Bryan, Garnier & Co.). Even those companies who surprised with their dividend announcements on the upside (OMV), were pressed hard by analyst about the rationale for a split between a regular and special dividend (Morgan Stanley), the logic of the latest dividend being at the top end of the payout ratio (Merrill Lynch) and how management intends to deploy cash going forward (Redburn), see: OMV Q4'2023 analyst call on 1 February 2023.

[viii] In this respect, the FY2023 reporting period for the semiconductor industry has become a proper case study as the likes of Intel reported a "slow seasonal start in Q1'2024" (Pat Gelsinger, CEO of Intel, at the Q4'2023 analyst call on 25 January 2024), pointing to a) cyclical weakness in wafer buying activity and inventory digestion; b) data centre revenues declining in two-digit numbers; and c) telco markets remaining weak in 2024. TSMC cautioned by saying that "AI is only at a nascent stage" (Mark Liu, Chairman of TSMC, at the Q4'2023 analyst call on 18 January 2024) and that "AI related revenues will be at high teens by 2027" only (C.C.Wei, CEO of TSMC, at the Q4'2023 analyst call). Naturally, the US tech giants were somewhat more bullish in this respect, notably Microsoft which reported that over half of the Fortune 500 companies are already using their Azure OpenAI software. When challenged about specific AI usage by analysts during the Q&A, the CEO of Microsoft, Satya Nadella, pointed to summarisation, drafts, chats and actions, which would "change the workflow" in future (Microsoft Q2'FY24 analyst call on 30 January 2024). With Apple being traditionally more consumer centric, the latest Vision Pro release offers new "spatial computing experiences for Enterprise customers" (Tim Cook, CEO of Apple, at the Q1'2024 analyst call on 1 February 2024).

[ix] For a good discussion of the interplay between supply and demand patterns in 2024, see: Gillian Tett, *"Will politics or economics win out in 2024?"*, Financial Times, 25 January 2024. The CEO of Philips, Roy Jakobs, perceived "pockets

of growth" in Asia except China, notably Indonesia, Japan and Saudi Arabia, as well as in North America (Philips Q4'2023 analyst call on 29 January 2024). China was expected to become a new growth driver by quite a few analysts, but senior management cautioned about its economic outlook, pointing to the fact that "the Chinese market is still opening up" and will remain "below the officially announced growth target of 5-7%" (Frankie Ng, outgoing CEO of SGS Group, at the FY2023 analyst call on 26 January 2024). Similarly, the CEO of Philips expects a "gradual improvement" in China only as the authorities are still in the process of implementing their anti-corruption programme, and he anticipates recovery to be "back-end loaded" in 2024 (Philips Q4'2023 analyst call on 29 January 2024). In terms of industry and technologies, the defence sector was frequently highlighted, where "spending is substantial" and a high demand for "5G commercial solutions" (Pekka Lundmark, CEO of Nokia, at the Q4'2023 analyst call on 25 January 2024). The latter was confirmed by Telia's senior management, outlining their strong 5G spectrum position, which enables infrastructure monetisation of digital connectivity (Telia Q4'2023 analyst call on 26 January 2024). For a detailed discussion of the legacy of over-indebtedness, low quality growth and Central Bank policy mistakes holding back "sustainable prosperity, attractive investment returns and genuine financial stability", see: Mohamed El-Erian, *"The conflicting forces at work in the global economy"*, Financial Times, 29 January 2024.

[x] Romulo Alves, Philipp Krüger and Mathijs van Dijk, *"Drawing Up the Bill: Is ESG Related to Stock Returns Around the World?"*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4674146, December 2023.

[xi] With reference to the very low link between governance and stock returns from the academic study quoted above, see: Stuart Kirk, *"We are all hypocrites on corporate governance"*, Financial Times, 27 January 2024.

[xii] To our knowledge, the Romulo Alves et.al. study has compiled the most comprehensive database covering 16,368 stocks traded in 48 countries from January 2001 to December 2020, applying different stock-level control variables (market beta, size, book-to-market, investment, profitability, momentum, volatility, leverage, tangibility and R&D) and analysing seven different ESG ratings (FTSE, ISS, MSCI IVA, Refinitiv, RepRisk, S&P Global and Sustainalytics). For reference to each of the ESG sub-ratings, see: Romulo Alves, Philipp Krüger and Mathijs van Dijk, *"Drawing Up the Bill: Is ESG Related to Stock Returns Around the World?"*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4674146, December 2023, p.5.

[xiii] Ortenca Aliaj and Patrick Temple-West, *"How unions are fighting a boardroom battle at Starbucks"*, Financial Times, 24 January 2024. When Elon Musk was asked about the preferred size of his shareholding in Tesla, he indicated at least 25% as he has "concerns to be booted out by shareholder activists like ISIS and Glass Lewis" (Tesla Q4'2023 analyst call on 24 January 2024). About unions he appeared more benign, outlining the quality and talent of his workforce but, at the same time, announcing a more advanced AI-driven manufacturing system, which at some stage will imply workforce reduction.

[xiv] For Tesla's problems with unions in Sweden after refusing to sign a collective agreement, see: Richard Milne, *"Union chief warns of Tesla threat to Sweden's model"*, Financial Times, 29 November 2023. This eventually triggered further upheaval in Germany, where strike action at Tesla's factory in Grünheide was threatened in the wake of recruiting union members for the election of works council representatives, see: Patricia Nilsson, *"German model of union power faces new tests"*, Financial Times, 14 December 2023. Similarly, Volkswagen has been frequently at loggerheads with its union after announcing a EUR 10bn cost cutting programme in June 2023, which implies potentially significant job cuts in Germany, with its former CEO, Herbert Diess, claiming at least 30,000 excess staff among its 230,000 employees in Germany, see: Patricia Nillson, *"Volkswagen executives warn works council of job cuts"*, Financial Times, 28 November 2023.

[xv] For an extensive discussion about the Tesla Board voting in favour of an unprecedented $55.8bn pay package for its founder and CEO, Elon Musk, which essentially undermined the independence of the Board, see: John Gapper, *"Tesla's board took a holiday from managing Elon Musk"*, Financial Times, 2 February 2024. This was subsequently challenged by the Delaware Court of Chancery, the legal constituency where Tesla is incorporated, with Elon Musk announcing afterwards a Board vote to move the company to Texas, see: George Hammond and Sujeet Indap, "*Elon Musk's record $55bn Tesla pay package voided by US judge"*, Financial Times, 31 January 2024. For a good discussion of the implications and intricacies of this highly unusual development in terms of corporate governance, see: Richard Waters, *"The Elon Musk pay dilemma"*, Financial Times, 1 February 2024. For another flamboyant company founder who got into the crossfire of governance-related scandals and legal incrimination, see: Olaf Storbeck, *"Markus Braun told Wirecard's top lawyer that compliance was 'crap', court hears"*, Financial Times, 7 June 2023. About the recent failings of OpenAI's corporate governance regime, see: John Thornhill, "*OpenAI has just fused its corporate 'kill switch'"*, Financial Times, 23 November 2023.

[xvi] Olaf Storbeck, *"Veteran asset manager hits out at VW's 'flawed' governance"*, Financial Times, 27 December 2023.

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[xvii] While there was extensive coverage about the former CEO of BP, Bernard Looney, not fully disclosing his past relationships with work colleagues to the Board, other examples included the former CEOs of Intel, CNN, cboe Global Markets and McDonalds, see: Brooke Masters, "*Sex, lies and magical thinking about CEO behaviour"*, Financial Times, 16 September 2023 and Andrew Hill, *"Boards tighten the rules on executives' office romances"*, Financial Times, 15 September 2023.
[xviii] Tom Wilson, David Sheppard, Anjli Raval and Harriet Agnew, *"How Bernard Looney's career at BP unravelled"*, Financial Times, 16 September 2023 and, from a risk management perspective, see: Anjli Raval, "*Why personal conduct is a growing risk for business"*, Financial Times, 2 October 2023.
[xix] For an extensive discussion of the role of CEOs and Boards in corporate culture, purpose and values, with a specific focus on leadership evaluation, assessment and monitoring, while providing various UK company examples, see: Financial Reporting Council, *Review of Corporate Governance Reporting*, London, November 2023, pp.10-14.
[xx] Katie Martin, *"A breakout year for Japanese stocks"*, Financial Times, 16 October 2023.
[xxi] With the Topix Index having touched the lowest point in late 2011 since the market bubble burst in December 1989, it produced a phenomenal recovery since then – with only two downturns in March 2013 and February 2020 – and is now on its best way to come back to the all-time high, see: Leo Lewis, *"How Japan got its swagger back"*, Financial Times, 12 July 2023. In this respect, for an interesting analysis by the Goldman Sachs chief Japan equity strategist, see: Bruce Kirk, *"It's time for Japanese equities to leave the doldrums"*, Financial Times, 2 October 2023.
[xxii] Leo Lewis, *"Tokyo could win 'not China' global hub status – but it must want it"*, Financial Times, 8 June 2023. For Japan's lobbying effort of Western financial institutions at highest level, see: Kana Inagaki and Leo Lewis, *"Tokyo courts world's investment royalty with 'Japan is back' message"*, Financial Times, 6 October 2023. During the ongoing FY2023 reporting season, there were some sporadic references to Japan as a "pocket of growth" by Philips, ASML and Roche, while others rather highlighted India and the Middle East, notably Saudi Arabia, having offset the decline in China (ABB, Apple, Trelleborg).
[xxiii] From an improving psychological perspective, for relevant examples of new corporate deal making, see: Leo Lewis, "*Corporate Japan back in the hunt for US deals"*, Financial Times, 12 July 2023 and for former Google AI researchers going deliberately to Japan, see: Madhumita Murgia, *"Top Google AI experts pick Japan to set up on their own"*, Financial Times, 17 August 2023.
[xxiv] For an extensive elaboration of the proposed measures by JEG, see the English-language transcript of the TSE 2023 Investor Day on 6 July 2023, pp.4-6. First results were then reported at the Q2'FY23 analyst call on 27 October 2023, see English-language transcript at pp.8-9.
[xxv] David Keohane and Kana Inagaki, *"Most Japanese prime-listed companies fail to disclose capital efficiency plans"*, Financial Times, 15 January 2024.
[xxvi] Leo Lewis, *"How Japan got its swagger back"*, Financial Times, 12 July 2023.
[xxvii] Stuart Kirk, *"Rebranding ESG won't save it from its internal contradictions"*, Financial Times, 5 August 2023.
[xxviii] David Pilling, *"Why the SDGs are a bad idea"*, Financial Times, 1 January 2024.
[xxix] Brooke Masters and Patrick Temple-West, *"The real impact of the ESG backlash"*, Financial Times, 4 December 2023, discussing the legal and political implications of the transatlantic rift between US-based and European ESG investors, following the blacklisting of major financial institutions like BlackRock, Goldman Sachs, State Street and Wells Fargo by red-state treasurers in the US, while some state legislatures (Florida, Kansas, Idaho) passed laws that ban or limit the consideration of ESG.
[xxx] Aswath Damodaran, *"ESG is beyond redemption: may it RIP"*, Financial Times, 24 October 2023. The author, who is a professor of finance at Stern School of Business at New York University, captured the new spirit towards rethinking ESG investment with the following words at the beginning of his article: "*Born in sanctimony, nurtured with hypocrisy and sold with sophistry, ESG grew unchallenged for a decade, but it is now facing a mountain of troubles, almost all of them of its own making"*. As to the latter, his arguments range from ESG having started as a "measure of goodness" – while keeping the ESG definition amorphous - to the claim that higher ESG scores lead to less risk and lower costs of capital while remaining opaque about the pathways for delivering higher value.
[xxxi] For a very different view from another academic from New York University and one of the founding members of the Stern Center for Sustainable Business, Tensie Whelan, see: *"Sustainability is real and smart investors know it"*, Financial Times, 2 December 2023. The author points to various positive developments in terms of sustainability including a) "significant operational efficiencies" from strategies that reduce waste and the usage of water, energy and chemicals; b) enhanced sales and customer loyalty benefits for providers of sustainable products and services; and c) improved workforce retention and productivity.

[xxxii] Will Schmitt, *"Launches of ESG funds plummet as investors pull back"*, Financial Times, 10 January 2024.
[xxxiii] Huw van Steenis, *"New generation of funds signals evolution of ESG"*, Financial Times, 7 August 2023.
[xxxiv] Patrick Temple-West and Eva Xiao, *"Investors warn 'fluffy' ESG metrics are being gamed to boost bonuses"*, Financial Times, 28 August 2023.
[xxxv] For a discussion of carbon and forced labour in clean energy supply chains, see: Rana Foroohar, "*Inconvenient truths about the green transition"*, Financial Times, 7 August 2023.
[xxxvi] Hannover Re 2023 Investor Day, 12 December 2023. The CFRO of VIG, Liane Hirner, even pointed to the need to "increase risk literacy in the CEE region" at the Q3'2023 analyst call on 30 November 2023. As to the introduction of IFRS17, there was broad agreement that this resulted in "better visibility in earnings development" (Christoph Jurecka, CFO of Munich Re, at the Earnings Outlook 2024 analyst call on 15 December 2023) and that "Life reporting has improved (as it) enhanced predictability" (Cristiano Borean, CFO of Generali, at the Generali 2024 Investor Day, 30 January 2024). IFRS 9 was somewhat more controversial, with some isolated reference to more volatility given interest and exchange rates (Munich Re Earnings Outlook 2024, 15 December 2023).
[xxxvii] As outlined by Philippe Donnet at the Generali 2024 Investor Day on 30 January 2024. The CEO of Swiss Re, Christian Mumenthaler, highlighted at the Swiss Re 2023 Investor Day on 1 December 2023 that "capital is back in fashion" and that "it is good to have a strong balance sheet". However, consolidation through transformative M&A remains still difficult in the insurance industry as the failed Cigna deal with Humana has shown, with major disagreements over financial arrangements, regulatory fears and falling share prices leading to the merger plans being abandoned, see: Amanda Chu and James Fontanella-Khan, *"Cigna pulls out of blockbuster deal to create insurance giant with Humana"*, Financial Times, 11 December 2023.
[xxxviii] Ian Smith, *"Insurance prices will keep rising for 'a couple of years at least'"*, Financial Times, 19 June 2023.
[xxxix] Swiss Re Q3'2023 analyst call on 3 November 2023. Similar concerns were raised by the CFO of Generali, Cristiano Boreon, at their Q3'2023 analyst call on 17 November 2023. See also, Ian Smith, *"Reinsurance costs surge after Turkey quake as industry assesses Japan fallout"*, Financial Times, 3 January 2024.
[xl] When asked about expectations for the January 2024 renewals, the CFO of Munich Re, Christoph Jurecka, described this as being "more or less in line with 2023", perhaps with a deviation of 1-2% (Munich Re Earnings Outlook 2024, 15 December 2023). Similarly, Swiss Re pointed to more risk appetite given higher demand but maintained that this will be "disciplined and more orderly" (John Dacey, CFO of Swiss Re, at the Swiss Re 2023 Investor Day on 1 December 2023). AXA even announced to reduce its natcat exposure by 35% and expected higher prices for its US-based AXA XL Re (AXA 9M23 Activity Indicators, 2 November 2023). On property catastrophe insurance, see also: Ian Smith, *"Reinsurers resist calls to cut prices for extreme weather cover"*, Financial Times, 24 December 2023.
[xli] The CFO of Swiss Life, Matthias Aellig, estimated this to be a negative CHF1bn for the full-year 2023 (Swiss Life Q3'2023 analyst call on 8 November 2023). It was interesting to note JC Flowers warning about the growing exposure of life insurers to private credit investments (securitised products, private debt and lower-rated loans) creating a "systemic risk for investors" (Antoine Gara, *"JC Flowers warns of systemic risk in insurers' binge on private credit investments"*, Financial Times, 16 October 2023.
[xlii] Given the failed merger with Cigna, we had a closer look at Humana, which took a specific focus on higher costs in the US healthcare system and its attempt for further cost savings, with capital deployment and productivity gains estimated to account for 4% of future growth. In the short term, however, the "residual pricing position in 2024" was described as being "not an outlier" and that this is a "general industry trend" (Susan Diamond, CFO of Humana, at the Q2'2023 analyst call on 1 August 2023).
[xliii] For details of the EU AI Act, see: Javier Espinoza, *"EU agrees landmark rules on artificial intelligence"*, Financial Times, 9 December 2023 and for the US applying a more restrictive approach in terms of national security risks, see: Stefania Palma and George Hammond, *"Biden moves to compel tech groups to share AI safety test results"*, Financial Times, 30 October 2023.
[xliv] For two very different views, see: Marietje Schaake, *"The route to AI regulation is fraught but it's the only way to avoid harm"*, Financial Times, 6 December 2023, who advises the EU Commission, and Jamie Susskind, *"There is more to AI regulation than safety"*, Financial Times, 20 December 2023. For a more benign view from one of the leading scientists having developed deep learning technology, see the interview with Andrew Ng in: Ryan McMorrow, *"Andrew Ng: 'Do we think the world is better off with more or less intelligence?'"*, Financial Times, 19 December 2023. Given the scale of public pressure, some of the founders of AI technology have published their view on risk limitation including techniques to "dramatically reduce explicit examples of widely-recognised biases, like anti-Black racism, in model behaviour", Samuel R. Bowman, *Eight Things to Know about Large Language Models*, April 2023.

[xlv] Stefania Palma and Patrick Jenkins, *"Gary Gensler urges regulators to tame AI risks to financial stability"*, Financial Times, 16 October 2023. For the pushback from brokers, hedge funds and investment advisors, see: Jennifer Hughes, *"SEC faces fierce pushback on plan to police AI investment advice"*, Financial Times, 9 November 2023.

[xlvi] Gillian Tett, "*The dangers of letting AI loose on finance"*, Financial Times, 16 October 2023.

[xlvii] Sean Cao, Wei Jiang, Baoshong Yang and Alan L. Zhang, *How to Talk When a Machine is Listening: Corporate Disclosure in the Age of AI*, NBER Working Paper 27950, Cambridge, MA, October 2020

[xlviii] We are very grateful to Prof. Miles Gietzmann, Director of the Department of Accounting at Bocconi University in Italy, for pointing this research paper out to us.

[xlix] For a detailed discussion of the changing business model of the London Stock Exchange in the run up to the 2023 Capital Markets Day, see: Nikou Asgari, *"LSE Group: when equities are no longer the stock in trade"*, Financial Times, 16 November 2023.

[l] In this respect, the latest example is the US market taking a major step in adopting a shorter settlement cycle for the trade in stocks, bonds and exchange traded funds, from currently two business days after the trade (T+2) to T+1, which will put enormous pressure on Europe including London to follow unless they want to watch further trade moving to US-based stock exchanges (including arbitrage and foreign currency hedging). For a good insight into possible ramifications, see: Jim McCaughan, *"The T+1 train will soon hit markets"*, Financial Times, 24 January 2024. In direct response, the EU's top financial services chief, Mairead McGuiness, was quoted that it was now a question of "when and how" the EU would shift settlements to a single day, see: Nikou Asgari and Ellesheva Kissin, *"SEC's Gensler calls for shorter settlement times in currency markets"*, Financial Times, 25 January 2024.

[li] Philip Augar, *"How the US is crushing Europe's domestic exchanges"*, Financial Times, 25 September 2023.

[lii] Nasdaq Q4'2023 analyst call on 31 January 2023. At the call, the CEO, Adena Friedman, reported that 18 international companies have switched their listing to Nasdaq in 2023, with Nasdaq achieving an 81% IPO win rate (in total 103 operating companies – in contrast to SPECs). Similarly, the CEO of cboe, the largest options and futures trading platform, Edward Tilly, pointed to the fact that "there is a lot of liquidity moving to the US" (cboe Q3'2023 analyst call on 3 November 2023), while the "flight of investors to US trading platforms" was also confirmed by the CEO of Mexico's BMV, Jose Oriol Posch Bar (BMV Q3'2023 analyst call on 18 October 2023).

[liii] ICE Q3'2023 analyst call on 2 November 2023. The CEO of ICE, Jeffrey Sprecher, mentioned on that call that chat usage was up by 13% year-to-date and LLM in energy trading up by 70% quarter-on-quarter.