Market Commentary on the Q1’2024 Results Season:

A More Cautionary Tale Amidst Stagflationary Shocks

On the back of **growing AI enthusiasm spurring market exuberance** towards the end of Q1’2024,[i] supported by a **shift away from strict inflation targeting by the US Federal Reserve** pushing stocks to record levels,[ii] the sudden pivot in early April could not have been more pronounced. A combination of **adverse economic developments and stagflationary shocks turned the tide** including **persistent price pressure in services**, which is labour intensive and hence more sensitive to wage inflation,[iii] the US Federal Reserve signalling that it will **take “longer than expected” for inflation** to return to its 2 per cent target and, implicitly, **delaying interest rate cuts**,[iv] anaemic growth, red tape and union power in Europe,[v] combined with a **lower than expected Q1’2024 growth in the US** and **growing geopolitical threats** following the escalation of tensions between Israel and Iran.[vi] This resulted in a **much more sober and subdued Q1’2024 reporting season so far**, with senior executives becoming **“more cautious”** (Jamie Dimon, CEO of JPMorgan) and the “trajectory for **soft landing still uncertain**” (David Salomon, CEO of Goldman Sachs).[vii]

With corporate executives having started to **dial back their original expectations** of economic recovery in 2024,[viii] the **current investor debate has crystallised** around the following key themes: 1) the **“divergence” between North America and Europe given the growing gap in productivity growth**, implying not only a significant valuation gap but also investor preference for greater exposure to the US growth market;[ix] 2) the **growing M&A pipeline with its implication for cross-border consolidation** given the change in supply chains (away from China and other regions of geopolitical risk);[x] 3) the **outlook for 2024 remains a contentious issue** as companies largely maintained their guidance despite disappointing Q1 results while hoping for a recovery in the second half;[xi] 4) **catalysts for economic recovery**, ranging from short-cycle business (ABB) and “early cyclicals” (Trelleborg) to first signs of a positive momentum in China (AkzoNobel, VAT Group); 5) the **focus on operating leverage** in the context of opex (largely wage) inflation (Ericsson, Nokia, KPN) and ongoing structural cost adjustment (Tesla, Intel).[xii]

To substantiate the current investor debate, we discuss first the new wave of **consolidation in the oil & gas industry**, with a **clear prevalence for US operators**, which illustrates not only the “divergence” but also valuation gap theme. We then look at the **shifting currency trade**, which reflects not only on China’s effort to replace the US dollar hegemony but also on the implications of a **strong US dollar for other Asian and emerging market currencies**. This will be followed by a more extensive analysis of the **current economic situation in China**, as a number of companies were pointing to “first signs of life” (Gregoire Poux-Guillaume, CEO of AkzoNobel). Since the collapse of some regional banks in the US in March 2023, we have done more research on the **commercial real estate industry** and will provide a case study to **distinguish between various asset classes as well as highlight regional differences**. The **change in supply chains** will then be scrutinised in a special section on **“nearshoring” in Mexico**, and we will continue later this year with another analysis of Malaysia. Finally, we look at some of the latest developments **beyond**

and/or in parallel with the current AI revolution, which have not necessarily been among the major focus points of institutional investors yet **(cloud & data concentration risk, quantum computing)**, before finishing this market commentary with another **case study on the luxury goods and fast fashion industry** to gauge consumer sentiment in the current market situation.

OIL & GAS CONSOLIDATION

The recent mega deals in US oil & gas have questioned not only the prevailing paradigm shift, notably the direction and speed in energy transition, but also capital allocation policies at a time of uncertainty. The announced acquisition of Pioneer Natural Resources by ExxonMobil and Chevron's planned takeover of Hess highlighted the expansion in the Permian Basin (including Guyana) as an opportunity to enhance profitability and more flexibility within more short-cycle development and production.[xiii] Similarly, the announced Diamondback Energy's $26bn takeover of Endeavor was positioned as another drive towards efficiency and lower production costs, which resulted by February 2024 in just ten companies controlling 6.4mn boe/d of the Permian's output and six companies producing more than 700,000 boe/d each, which is reportedly more than some of the Opec countries.[xiv]

Given the scale of disruption in the global oil & gas supply-demand balance as a result of the Russian-Ukrainian war and the Middle East conflict, the US shale revolution has no doubt redrawn the world's oil map, with US net oil exports offsetting Opec supply cuts and Russia's weaponisation of oil & gas supplies to Europe.[xv] Despite all the geopolitical turmoil, oil prices have remained remarkably stable, with one market observer coming to the conclusion that "US shale has become a geopolitical put option for stock markets".[xvi] In this renewed upscaling effort, European oil & gas companies stood largely at the sidelines, partly because there are not many opportunities of the size of Hess available and partly due to the commitment they have to their own ESG investors to depart from fossil fuel.[xvii] While it remains open to what extent renewables will ever be able to achieve similar rates of return, the latest Q1'2024 reporting season provides evidence not only of more appetite in the US for oil & gas companies (Patrick Poyanne, CEO of TotalEnergies) but also of European oil & gas majors trying to close the valuation gap, not least through a NYSE listing.

SHIFTING CURRENCY TRADE

As the global oil trade is largely paid in US-dollars,[xviii] it reflects another (perhaps) secular trend of the US currency having reached its peak as not only other countries have started to accept payment in different currencies (UAE followed Russia recently) but also foreign central banks have moved their reserves to rival currencies given the growing US twin deficit at over 10% of GDP.[xix] While we have frequently written about the FX impact on company results and their hedging strategies,[xx] notably Swiss and other companies with non-euro currencies,[xxi] the recent strength of the US-dollar is another illustration of the current "divergence" debate among investors, although there is more geopolitics involved here, which is worthwhile exploring for a moment.

Despite China's continuing effort to reduce its dependence on the US dollar and further internationalise its currency, with nearly 30% of its trade in goods and services settled in renminbi and its share in global payments increasing from 1.9% in January 2023 to 3.6% in October 2023,[xxii] the US dollar still accounted for 87% of global foreign currency reserves and for the bulk of FDIrelated capital flows in late 2023.[xxiii] While China has started lending in renminbi to more countries using swap lines, partly to help avoid trade sanctions on Russia, Iran and others and partly to pull more emerging markets in Africa and elsewhere into its sphere of economic influence, battles over currency misalignments have not been on the top agenda of US-China trade negotiations for some time.[xxiv] As investors' hopes for rapid US interest rate cuts waned and the conflict in the Middle East escalated, emerging market currencies were severely hit,[xxv] including Indonesia, Malaysia and India but also Korea and Japan, which had intervened in the currency market for some time.[xxvi]

Going forward, sustained dollar strength could cause problems for other countries looking to cut rates without undermining their currencies and accelerating price rises, which is very much in the mind of policy makers at Sweden's Riksbank (expected rate cut in May) and even the ECB (June).

CHINA BATTLING DEFLATION

While China had arguably pulled out the rest of the global economy through its massive industrial modernisation efforts 15 years ago, and Western senior executives had certainly hoped for a similar scenario after the post-pandemic reopening of the Chinese economy last year, the shift in economic policy making from export-driven manufacturing to a more self-sufficient consumer and technology-driven economy has so far resulted in significant macroeconomic imbalances and economic stagnation,[xxvii] aggravated by the collapse of the property market, demographic decline, youth unemployment and widespread corruption.[xxviii]

Whereas Western corporate executives maintained during the Q1'2024 reporting season that they have seen "signs of improvement" for the first time over the last five quarters (Björn Rosengren, outgoing CEO of ABB), a "good bounce back" in order intake (Peter Nielsson, CEO of Trelleborg) and that "demand for mature technology in China remains strong" (Peter Wennink, outgoing CEO of ASML),[xxix] the evidence for a broad-based recovery seems to be patchy given the steep decline in consumer and producer prices, undermining household demand and private sector confidence.[xxx] As deflation has become deeply entrenched in China, there is another example of "divergence" as not only China's weak CPI was in contrast to the US, but also fiscal spending had been weak and export growth was not sufficient to boost the economy, indicating that the wide interest rate differential between both would persist, with implications for the renminbi.[xxxi]

Against the backdrop of more stress among China's small and medium-sized enterprises and local infrastructure projects being curbed substantially,[xxxii] the Q1'2024 economic statistics makes a different reading, with the 5.3% GDP growth largely driven by a 6.1% increase in industrial production and an almost 10% surge in manufacturing investment, focusing on high-end production of electric vehicles, solar panels and batteries, which comes down to a massive domestic subsidy programme for companies to upgrade their equipment and consumers to buy new cars and home appliances.[xxxiii]

CASE STUDY: COMMERCIAL REAL ESTATE (CRE)

On the back of higher interest rates, lower occupancy levels resulting from more hybrid post-Covid work arrangements, rising costs for refurbishment and property values in steep decline, primarily for office buildings,[xxxiv] we have started to follow the CRE sector more closely on both sides of the Atlantic to get a better sense for a more systemic crisis in particular asset classes and/or regions and, more importantly, to find first signs of recovery. The latter was announced, among others, during the current Q1'2024 reporting season by Blackstone's senior management, claiming that "commercial real estate value is bottoming", with remaining structural shortage in residential, and that the "transaction environment has strengthened".[xxxv]

Having closely followed major CRE players with a diversified asset portfolio, there was a broad consensus in early 2024 that this year is "approaching the low point of the real estate cycle" (Christoph Kullmann, CEO of Covivio) and that "the bulk of correction should be behind us" (Soumen Das, CFO of Segro).[xxxvi] Despite these earlier predictions, European CRE transaction volumes fell by 26% yoy to EUR 34.5bn during Q1'2024, with office values down by 37% from their peak in 2022 and residential and industrial property prices down by a fifth (comparable US data for deal volumes showed a 16% decline yoy in Q1'2024).[xxxvii] One of the reasons for the continuing decline is that the "gap between buyers' and sellers' expectations remains wide" (Eyal Ben David, CFO of Aroundtown) as property owners are reluctant to make losses at what they believe could be the bottom of the market.[xxxviii]

While there are obvious regional differences, with CRE companies focusing on the "right assets in the right places" (David Sleath, CEO of Segro),[xxxix] among others, cluster/agglomeration effects, good transport connection and power access for data centres,[xl] most CRE specialists are aiming for resilience through "highly diversified professional services and geography" (Christian Mayer, CFO of Colliers). In this context, corporate executives highlighted more recent demand for industrial logistics, student/senior housing and prime offices, with a specific focus on higher ESG standards of buildings.[xli] For Europe, there is also greater demand for e-commerce and retail (nearshoring), while major retailers at both sides of the Atlantic are looking into "bricks & mortar expansion" (Hessam Nadji, CEO of Marcus & Millichap).[xlii]

NEARSHORING IN MEXICO

When we had closely followed the construction & building materials industry in 2023, it became apparent that predominantly US-based companies had expanded their business in Mexico, as not only infrastructure and housebuilding had taken off but also Western companies took increasingly advantage of lower labour and production costs to supply the US market, ranging from car manufacturing, household appliances and retail to warehouses and data centres.[xliii] Mexico appears currently to be best placed to benefit from geopolitical changes and the shift in supply chains, with the Northern region bordering the US reporting not only a massive expansion in industrial real estate but also an influx of labour and training of high-skilled graduates.[xliv]

As Mexico prepares for its general elections on 2 June 2024, there is also a growing opposition not only to attempt an institutional overhaul by the populist President Lopez Obrador, e.g. cutting budgets of many state institutions and proposing Supreme Court judges to be directly elected,[xlv] but also to close partnerships with local oligarchs, with a shared interest in "national champion" companies, a mistrust of regulators and a preference for building mega projects.[xlvi] In this politically hyped-up atmosphere, it is interesting to see that geopolitical rivalries between China and the US are playing out even on Mexican soil, with China reportedly circumventing US tariffs by shipping more goods to the US via Mexico (evidenced in the recent spike of both container and truck shipments),[xlvii] while major Chinese EV and battery manufacturers have started to explore production in Mexico.[xlviii] In this process of fast economic development, there is naturally a dark side, ranging from drug trafficking to migration and remittances, which reportedly account for 20% of the Mexican federal budget.[xlix]

CLOUD & DATA CONCENTRATION RISKS

As investor attention is currently focused on the latest AI developments it is worth spending a moment to think about the risks stemming from a growing infrastructure, notably data storage and processing platforms, which are dominated by a handful of big US technology companies.[l] Banking regulators are reportedly getting nervous about systemic financial risks emanating from the Cloud, given the speed of change in computing practices and the potential concentration risk of data increasingly stored in the Cloud.[li] The industry itself is difficult to open up for competition as both Cloud providers and customers seek economies of scale, making it more difficult to switch to a rival company, which is further complicated by Cloud companies using onerous data-transfer charges to discourage customers moving elsewhere as well as technical disparities and/or the lack of interoperability between various providers.[lii] Finally, one other contentious issue is the huge energy usage of data centres which, in some instances, puts severe constraints on the electricity grid (also water for cooling), potentially undermining national climate targets.[liii]

QUANTUM COMPUTING

At a time of "accelerating computing having reached the tipping point" (Jensen Huang, CEO of Nvidia), it is also worth thinking about the future of quantum computing, driven by subatomic particles being at different states at the same time and enabling quantum machines to carry out large numbers of calculations simultaneously. As IBM had unveiled 10 new projects in early December 2023, its researchers also conceded that a) they will still need to apply established techniques such as conventional supercomputing to power quantum calculation; and b) a 10-year timetable is required to reach more capable, "error-corrected" systems.[liv] Against the backdrop of a possible "quantum winter" of waning investor confidence and financial backing, some companies have reportedly explored hybrid approaches to optimise port logistics, airline schedules, grocery deliveries and TV advertising.[lv] Which brings us back to geopolitics as there are also growing concerns about the dangers of Q-day, when a quantum computer might crack the RSA cryptosystem.

CASE STUDY: LUXURY GOODS & FAST FASHION CHAINS

We have previously written on changing consumer behaviour and first signs of downtrading as savings from Covid-related bonus cheques dried up and higher inflation set in following the sharp increase in energy and food prices in 2022. This had triggered massive profit warnings by various fashion retailers in autumn 2022, which we have partly witnessed again over the last few months but with a notable bifurcation between luxury goods and mainstream fashion and sports apparels, and even within luxury goods as not only so-called "aspirational shoppers" were pulling back but various top-level brands fared differently in the current economic environment.

2024 started with a bleak earnings outlook for the luxury industry due to lower demand from Chinese shoppers and a lack of higher demand elsewhere.[lvi] After growing 10% on average every year since 2016,[lvii] personal luxury goods sales is now projected to slow down to low single-digit rates.[lviii] Slower sales growth is also expected to put pressure on margins despite companies' efforts to cut costs.[lix] The Q1'2024 results have already shown a diverging performance within the sector, with brands that rely on stable purchasing power of high net worth individuals outperforming those that target more aspirational shoppers.

Among mainstream fast fashion chains, 2024 had started on a strong note for Inditex with an 11% year-on-year increase in February sales, whereas it was more subdued for H&M with negative sales growth in January and February 2024. Both companies are focused on enhancing their supply chain: Inditex plans to increase its logistics capacities in 2024/25 while H&M experiments with nearshoring to improve flexibility and shorten lead times. In the UK, Next forecasts strong growth in 2024 as the cost-of-living crisis is easing and wages are "seen to be running ahead of inflation for the next six-seven months."[lx] Next also noted a "shift back to investment dressing" as its customers buy fewer but more expensive items.[lxi]

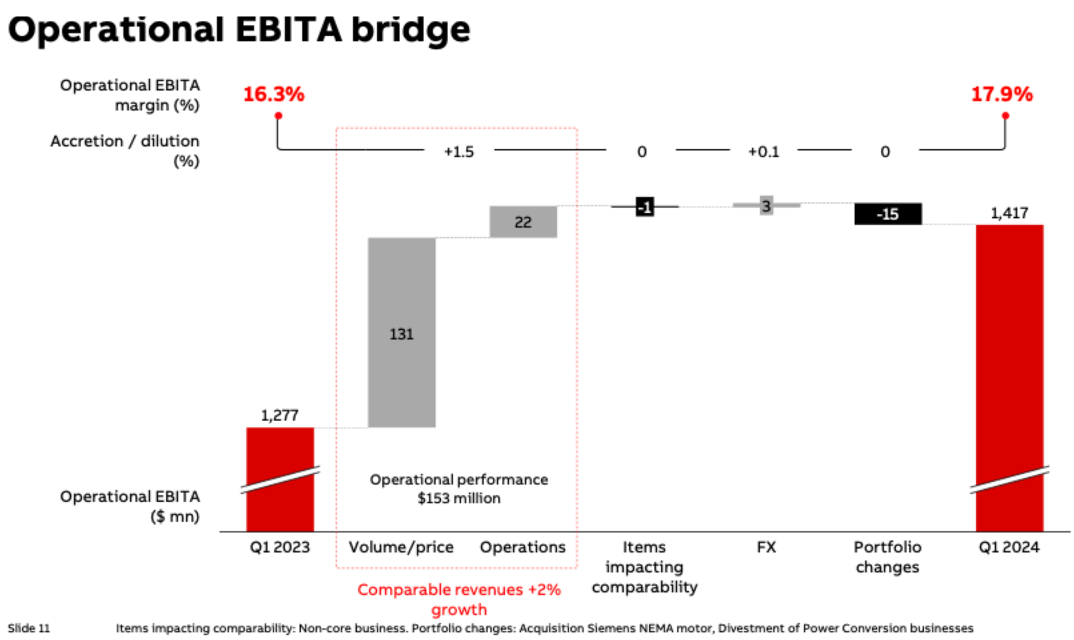
A post-pandemic trend of renewed interest in physical stores forces online retailers to adapt their business strategy accordingly.[lxii] Sosandar, a UK online retailer of women's fashion, plans to open up to eight stores in 2024, as the company is confident that "the opportunity available for multi-channel retailers far exceeds that of an online pure-play business".[lxiii] In turn, German online retailer Zalando has recently announced their ambition to build the leading pan-European fashion and lifestyle e-commerce ecosystem to respond to societal shifts like Generation Z digital shopping habits, as well as a regulatory drive towards a lower environmental footprint and a more circular supply chain.[lxiv]

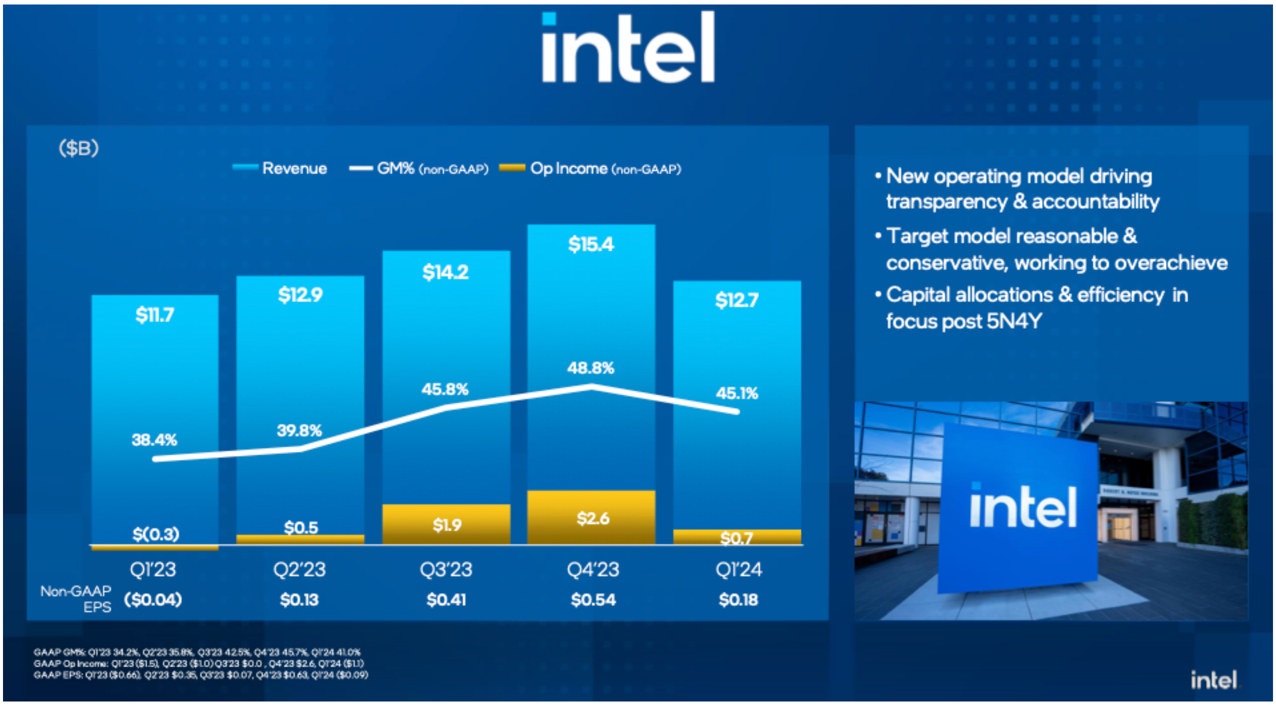
As to the latter, fast fashion companies maintain their strong focus on sustainability: H&M operates a garment recycling programme, where customers can return old clothing and receive a 15% discount on future purchases. The company has also recently co-invested in a Swedish start-up Syre that will produce "circular polyester" and thus reduce "polyester emissions by up to 85%".[lxv] Inditex operates a Zara-owned platform in 16 European markets that helps customers extend the life of their garments through donation, repair or resale, which will be extended to US customers in 2024.[lxvi] Inditex also operates a Sustainability Innovation Hub that works with more than 350 start-ups to contribute to their current collections, citing an example of a single-material jacket made solely with polyamide created from textile waste.

Peter and Irina Kirkow
1 May 2024

APPENDIX

ABB Q1’2024





OFFICE PORTFOLIO

AROUNDTOWN SA

OFFICE 40%

Top 4 cities: 61%
Berlin, Frankfurt, Munich and Amsterdam

Leading landlord
in Berlin, Frankfurt and Munich, among listed European real estate

Strong tenant base
~75% of tenants are public sector, multi-national and large domestic corporations

PERFORMANCE

- **3.3% LFL Rental growth**
  in 2023
- **Indexations offset the vacancy increase of 1.6%**
  mostly CPI-indexed or step-up rents, capturing inflation

MARKET

- **Tenants exercise caution**
  Delaying letting space extension and relocation decisions (-28% yoy[1)])
- **Uptick in lease extensions**
  as tenants defer decisions until risks subside

TAILWINDS

- **Supply cancellations**
  Cancellation of construction projects due to higher costs (-27% yoy[1)])
- **Further indexation**
  as it takes time to extract past high inflation, as well as further inflation

1) JLL, Office Market Overview, Germany, Q4 2023

FY 2023 FINANCIAL RESULTS | AROUNDTOWN SA 12

OFFICES – SUCCESS OF OUR PREMIUM OFFER STRATEGY…

Office global strategy…

Centrality — In the heart of the major European capitals & Major Business Hubs

Sustainability — Grade-A Buildings committed to the climate transition for a sustainable & resilient city

Hospitality — Hospitality inspired assets and offer, to support the transformation of cities and new customers' needs

… Driving portfolio transformation over the years

		2020	2023
A higher quality offices portfolio	Core assets	86%	94%
	Of which city centers	59%	69%
Increasing portfolio certification	Certification	86.7%	93.8%
	>= Very Good	52%	67.2%
More responsible buildings	Energy intensity	162.0 kWhpe/m²/y	130.5 kWhpe/m²/y

HIGHER CLIENTS' SATISFACTION
2024 KINGSLEY SURVEY

3.9/5 Overall satisfaction

Vs. 3.6/5 Kingsley index

COVIVIO 12

ENDNOTES

[i] While most large US technology companies had reported strong FY2023 results in late January and early February, announcing huge commitments for investments into generative AI applications, the trigger for further investor enthusiasm came from the Nvidia Q4'FY2024 results release on 21 February 2024, which had not only massively exceeded analyst expectations but also pointed to spectacular growth rates for years to come. In his two hours' GTC keynote speech on 18 March 2023, the CEO of Nvidia, Jensen Huang, further substantiated his vision by claiming that "accelerated computing has reached the tipping point" by driving up the scale of computing, producing more digital twins and simulating operations through the next generation of robotics. Specific use cases he provided were for digital twins of the earth to predict the weather (presented for Taiwan), models reconstructing proteins and computational drug design and warehouses being managed like air traffic control, with the AI system adopting to real world uncertainty (presented for Amazon). When questioned at the GTC Financial Analyst Q&A the next day, Jensen Huang pointed not only to the financial benefits of the transition from general purpose to accelerated computing by reducing marginal costs but also to the "next wave in AI" in industrial enterprise including the digitalisation of heavy industry, while traditional data centres would become "AI factories". For a detailed quarterly analysis of stock vs bond performance since 2016, see: George Steer et al., *"AI boom drives global stock markets to best first quarter in five years"*, Financial Times, 29 March 2024.

[ii] Mohamed El-Erian, *"A turning point in Central Banking"*, Financial Times, 26 March 2024.

[iii] Aiden Reiter, *"Persistent price pressures in services could delay rate cuts, says BIS"*, Financial Times, 4 March 2024.

[iv] For details on the relevant speech of the US Federal Reserve chair, Jay Powell, see: Claire Jones, *"Jay Powell says US inflation 'taking longer than expected' to hit target"*, Financial Times, 17 April 2024. Following three months of higher-than-expected US inflation data, it is interesting to know that, at the time of writing, the options market shows a 20% probability of an interest rate increase in 2024, see: Kate Duguid and Harriet Clarfelt, *"Investors price in growing chance of another Federal Reserve interest rate rise"*, Financial Times, 23 April 2024.

[v] It goes beyond the scope of this short market analysis to elaborate in greater detail on the extensive discussion about the low valuation of listed European companies compared with their US counterparts despite the eurozone PMI index increasing to an 11-months' high in April, see: Martin Arnold, *"Eurozone business activity rises to 11-month high"*, Financial Times, 23 April 2024. It is perhaps a sign of time that major European oil & gas companies have started to look into a listing at the NYSE, with the CEO of TotalEnergies, Patrick Poyanne, confirming that he has to present to his Board on a US listing by September 2024, in an attempt to "grow the US shareholder base" and to exploit "different times of trading" (TotalEnergies Q1'2024 analyst call on 26 April 2024). And it is perhaps no surprise that various investment banks provide extensive advice on how to close the valuation gap and when best to start investing in European stocks. For the thoughts from the European portfolio strategist at Goldman Sachs, see: Sharon Bell, "*How European companies can close the transatlantic valuation gap*", Financial Times, 10 April 2024, and for those from the chief market strategist for Europe, Middle East and Africa at JPMorgan Asset Management, see: Karen Ward, *"Europe equities are too cheap to ignore"*, Financial Times, 2 April 2024.

[vi] For the surprisingly low growth in the US in the first quarter of 2024, at an annualised rate of 1.6% being well below analyst forecasts of an 2.5% increase, which compares with the revised rate of 3.4% for the fourth quarter in 2023, see: Claire Jones, Martha Muir and Harriet Clarfelt, *"US economy grew less than expected in first quarter at 1.6% rate"*, Financial Times, 25 April 2024, and for an interesting analysis of the implications of the Iran-Israel conflict for financial markets, see: Mohamed El-Erian, *"Markets are a frog in boiling water on Iran-Israel"*, Financial Times, 20 April 2024. Other stagflationary shocks include the Red Sea crisis and its implications for shipping delays and scheduling problems, see: Robert Wright, *"Container lines 'struggling' with port congestion and ship shortages"*, Financial Times, 20 February 2024. At the Hapag-Lloyd FY2023 analyst call on 14 March 2024, the CEO, Rolf Habben Jansen, conceded that short-term capacity shortages continue and that more ships are required due to the Red Sea disruption. One month later, at the Hapag-Lloyd 2024 Capital Markets Day on 16 April 2024, the CFO of the company, Mark Frese, emphasised that sustainability, inflation and regulation will be "significant long-term cost drivers". In addition, secular trends like the energy transition will keep commodity prices higher, particularly for copper, with global commodity prices being 38% above the average between 2015 and the start of the coronavirus pandemic in 2020, according to recent estimates by the World Bank, see: Susannah Savage, *"Commodity prices could keep inflation high, warns World Bank"*, Financial Times, 25 April 2024. At the same time, the US and UK launched a crackdown on the Russian metals

trade in April to undermine Russia's war effort in the Ukraine, which relates to copper, nickel and aluminium, and implicitly adding price pressure, see: James Politi, Claire Jones and Harry Dempsey, *"US and UK launch crackdown on Russian metals trade"*, Financial Times, 13 April 2024.

[vii] With regards to a potential "inflection point", Jamie Dimon pointed to a "range of possible outcomes" (JPMorgan Q1'2024 analyst call on 12 April 2024), while David Salomon remains particularly concerned about "inflation, real estate and geopolitics" (Goldman Sachs Q1'2024 analyst call on 15 April 2024). As to the timing of broader reopening of capital markets, David Salomon maintained that this is at "an early stage" in what remains "a complex operating environment".

[viii] Whether analysts and investors asked about investment plans, working capital management, inventory reduction or capital allocation priorities, it became clear that senior managers are more preoccupied with "preparing for the upturn in the cycle" and making sure that 2025 is becoming "a strong year" (Peter Wennink, outgoing CEO of ASML, at the Q1'2024 analyst call on 17 April 2024). Similarly, the CEO of Palfinger, Andreas Klauser: "It is important to have a good start into 2025." (Palfinger Q1'2024 analyst call on 26 April 2024).

[ix] For a widely discussed speech by a senior ECB official, Isabel Schnabel, at the European University Institute in Florence, Italy, where she outlined the growing productivity gap between Europe and the US since the early 2000s and pointed to the need for less regulation and lower barriers to entry in Europe, see: Aiden Reiter, *"Productivity boost needed to keep inflation low, says ECB policymaker"*, Financial Times, 17 February 2024. In its recent World Economic Outlook, the IMF estimated that the US economy will grow in 2024 more than twice as high as any other G7 country, at 2.7% compared with Germany at 0.2%, the UK 0.5%, Japan 0.9% and Canada the highest at 1.2%, see: Sam Fleming and Claire Jones, *"US to grow double the rate of G7 peers this year, says IMF"*, Financial Times, 16 April 2024. One might smile about the observation by the CEO of Norges, Norway's sovereign wealth fund, Nicolai Tangen, that "the Americans just work harder" but it reflects on the prevailing attitude of risk avoidance and the lack of ambition when it comes to innovation and technology in Europe, see: Richard Milne and Robin Wigglesworth, *"Europeans 'less hard-working' than Americans, says Norway oil fund boss"*, Financial Times, 25 April 2024. For a more critical reflection on the resilience of the US economy given the massive stimulus package, see: Ruchir Sharma, *"The overstimulated superpower"*, Financial Times, 22 April 2024, and for the dysfunctional US transport system given the Baltimore bridge collapse and the mismanagement at Boeing, see: Rana Foroohar, *"The great American transport crisis tells us something"*, Financial Times, 8 April 2024.

[x] At its Q1'2024 analyst call, Morgan Stanley devoted a more extensive discussion about the growing M&A pipeline and the significance of cross-border consolidation given supply chain disruption and the need for more US exposure. The new CEO of Morgan Stanley, Edward Pick, said that "corporate bodies had been quiet for too long" and that "cross border M&A is existential". He also observed that corporate and financial sponsors are competing increasingly for financial assets, leading him to the conclusion that we can observe the "early innings of a multi-year M&A cycle". This was confirmed by the CEO of Citigroup, Jane Fraser, who detected "rising confidence from CEOs in M&A" despite geopolitical risks (Citigroup Q1'2024 analyst call on 12 April 2024). Best evidence of this renewed M&A enthusiasm can be found in the proposed BHP takeover of Anglo-American, as copper demand soars, see: Harry Dempsey et al., *"BHP proposes GBP31bn takeover of Anglo-American in mining mega-deal"*, Financial Times, 25 April 2024.

[xi] While there was only a minority of companies being prepared to downgrade their 2024 guidance at this early stage, the outlook for a "more mild and gradual recovery" provided by the CEO of TSMC, C.C.Wei, is probably fairly representative (TSMC Q1'2024 analyst call on 18 April 2024), not least when it comes from the world's largest semiconductor company. Intel was perhaps more representative for the mainstream of companies pointing to a recovery in the second half of 2024, defining Q1'2024 "at the bottom" and "revenues to accelerate for the rest of the year" (David Zinsner, CFO of Intel, at the Q1'2024 analyst call on 25 April 2024).

[xii] Interestingly, the CEO of Tesla, Elon Musk, elaborated that every company needs to reorganise so that it can grow in future, pointing to the need to simplify the sales process ("people should be able to buy cars within a minute"), addressing the increase of inventories given the mismatch between cars built and sold and also highlighting Tesla's effort to expand its AI training capacity (Tesla Q1'2024 analyst call on 23 April 2024). Similarly, the CEO of Intel, Pat Gelsinger, outlined the need for a "corporate refresh" and a new operating model, "matching technology leadership with a competitive cost structure" (Intel Q1'2024 analyst call on 25 April 2024).

[xiii] In this context, it is indicative that activist shareholders have pressed ExxonMobil for a more efficient capital allocation policy to offset natural decline rates and start focusing more on value over volume for some time, see: Charlie Penner, *"Exxon and Chevron deals point to Big Oil's needed shift"*, Financial Times, 10 November 2023. The

CEO of ExxonMobil, Darren Woods, highlighted at the Q1'2023 analyst call on 26 April 2024 the company's attempt to "strengthen underlying earnings power through structural cost savings", which his CFO, Kathryn Mikells, further elaborated on later in the call by pointing to the need to avoid duplication, find synergies within the company for more efficiencies, applying statistical maintenance analysis in logistics and procurement. She also mentioned scope for improvement through more automation as they are still "too heavy on manual activity".

[xiv] Myles McCormick, *"Permian Basin deal wave heralds new phase in shale oil revolution"*, Financial Times, 14 February 2024. Additionally in the US, Occidental Petroleum agreed to acquire CrownRock, one of the most sought-after US private shale oil producers, in a deal valued at $12bn, see: James Fontanella-Khan, Jamie Smyth and Myles McCormick, *"Occidental Petroleum agrees $12bn deal to acquire CrownRock"*, Financial Times, 11 December 2023. Similarly, in US natural gas, Chesapeake and Southwestern agreed to combine in a $7.4bn all-share deal to create the biggest gas producer in the US, see: Oliver Ralph and Shotaro Tani, *"Chesapeake and Southwestern merge in $7.4bn deal"*, Financial Times, 11 January 2024. Other attempted mega deals elsewhere include Brookfield's $13bn offer for Origin Energy, which faced massive shareholder opposition, see: Nic Fildes, *"Brookfield's $13bn bid for Origin Energy fails on shareholder vote"*, Financial Times, 4 December 2023.

[xv] Myles McCormick and Jamie Smyth, *"How US shale keeps sheltering America from the next oil price surge"*, Financial Times, 23 April 2024.

[xvi] Robert Buckland, *"On markets and geopolitics, it's a mistake to forget about shale"*, Financial Times, 15 April 2024.

[xvii] Helen Thomas, *"Big Oil's transatlantic strategy gulf has never been wider - and that is OK"*, Financial Times, 30 October 2023. In contrast to the observations from the author in the above article, it was interesting to learn to what extent ExxonMobil is using cash generated from oil & gas to prop up its Chemicals business, announcing, among others, new investments into hydrogen and relying on "carbon becoming a more advanced feedstock" in the transformation of molecules (Darren Woods, CEO of ExxonMobil, at the Q1'2024 analyst call on 26 April 2024).

[xviii] For a very insightful analysis of shifting patterns in the dollar-oil relationship as a result of the US having become a net exporter of oil & gas, combined with high energy prices and high interest rates, see: Rebecca Patterson, *"The dollar has joined the commodity currency club"*, Financial Times, 16 October 2023.

[xix] It is interesting to see that some of the forecasts by leading economists from the start of 2024 have simply not materialised yet – including Europe's economy becoming more resilient than the US and the dollar to weaken – which shows the pitfalls of economic forecasting in uncertain times, see: Ruchir Sharma, *"Ruchir Sharma: top 10 trends for 2024"*, Financial Times, 4 January 2024. Notably the higher-than-expected inflation in the US combined with reversed bets on early interest rate cuts by the US Federal Reserve have strengthened the US dollar against a basket of major currencies in recent weeks, see: Mary McDougall, *"Dollar on course for strongest week since 2022"*, Financial Times, 12 April 2024.

[xx] During the Q1'2024 reporting season, the CFO of Swiss VAT Group, Fabian Chiozza, conceded that foreign exchange remains an issue, with sales negatively impacted by 7% and their hedging position currently with negative valuation. While 60-65% of VAT Group's products are sold in US-dollar, there is hope that the new factory in Malaysia will help the company's FX exposure (VAT Group Q1'2024 analyst call on 11 April 2024).

[xxi] For an interesting view on the Swiss franc soon to decline from its all-time highs, see the global head of FX strategy at Union Bancaire Privee, Peter Kinsella, *"The era of relentless Swiss franc appreciation is coming to an end"*, Financial Times, 27 October 2023. See also the same author on the British pound's more recent recovery, Peter Kinsella, *"The pound is no longer so vulnerable"*, Financial Times, 11 April 2024.

[xxii] Alicia Garcia-Herrero, *"Against the odds, China's push to internationalise its currency is making gains"*, Financial Times, 6 December 2023.

[xxiii] For an excellent analysis of shifting world (and implicitly currency) trades, see: Martin Wolf, *"The US retains the economic advantage in its rivalry with China"*, Financial Times, 29 November 2023.

[xxiv] Alan Beattie, *"The US-China currency war are in an unstable lull"*, Financial Times, 17 November 2023.

[xxv] Stephanie Stacey et al., *"Global stocks and Asian currencies slide on US rate cut reticence"*, Financial Times, 16 April 2024.

[xxvi] Leo Lewis and Kana Inagaki, *"Japan steps up intervention warnings as yen slides to weakest level since 1990"*, Financial Times, 27 March 2024.

[xxvii] The recent emphasis by Chinese policy makers on technology-driven "high-quality growth" was largely interpreted as an acknowledgment of the reality of slower growth, with no evidence for another debt-fuelled stimulus given that this had been the root cause of the continuing local government debt crisis, the network of underground banks, inflated property prices and overcapacity in various industrial sectors, see: James Kynge, *"China's playbook no longer*

involves a big stimulus bazooka", Financial Times, 24 February 2024.

[xxviii] Martin Wolf, *"The future of 'communist capitalism' in China"*, Financial Times, 13 March 2024.

[xxix] As discussed during the ABB Q1'2024 analyst call on 18 April 2024, the Trelleborg Q1'2024 analyst call on 24 April 2024 and the ASML Q1'2024 analyst call on 17 April 2024. No improvements in China, which was described as "trending downwards", were reported by the CFO of Palfinger, Felix Strohbichler, at the Q1'2024 analyst call on 26 April 2024, while Nestle spoke about currency devaluation and a "hesitancy around global brands" in China, a clear signal about the impact of geopolitics (Anna Manz, CFO of Nestle, at the Q1'2024 analyst call on 25 April 2024).

[xxx] Joe Leahy, *"China's prices fall at fastest rate in 15 years as economy battles deflation"*, Financial Times, 8 February 2024.

[xxxi] Joe Leahy, *"Weak China deflation data fuels concern over consumer demand"*, Financial Times, 11 April 2024.

[xxxii] Joe Leahy, Ryan McMorrow and Cheng Leng, *"China's treatment of local debt 'ulcer' threatens growth target"*, Financial Times, 13 March 2024. On financing problems for smaller companies, see: Diana Choyleva, *"Signs of more stress among China's smaller companies"*, Financial Times, 27 February 2024.

[xxxiii] Joe Leahy and Thomas Hale, *"China warns west of 'survival of the fittest' as manufacturing boosts economy"*, Financial Times, 17 April 2024.

[xxxiv] For insights into bank losses from US CRE, with ripple effects for Japanese, German and Swiss banks, see: Joshua Franklin, Joshua Oliver and Leo Lewis, *"Bank losses revive fears over US commercial property market"*, Financial Times, 2 February 2024. In turn, for first massive CRE-related write-downs, in this case Manulife of Canada, see: Gillian Tett, *"It's time to be honest about America's commercial real estate hangover"*, Financial Times, 22 March 2024. In Europe, a number of listed CRE companies had to make impairments in their property portfolio as a result of a decline in NAV due to revaluation (Patrizia AG Q3'2023 analyst call on 14 November 2023). They also conceded that it became more challenging to complete disposals and that they had to focus increasingly on cash liquidity and reducing net debt (Barak Bar-Hen, CEO of Aroundtown, at the Q3'2023 analyst call on 29 November 2023).

[xxxv] Michael Chae, CFO of Blackstone, at the Q1'2024 analyst call on 18 April 2024. At the same call, the COO of Blackstone, Jonathan Gray, explained that they are currently "seed planting" by opportunistically investing in real estate dislocation and observe a paradigm shift towards "digital infrastructure" (Cloud, data centres and AI factories), with growing power needs for the latter. CRE investments are supported by the current expansion in private credit and "reaccelerating trends in private wealth".

[xxxvi] As discussed at the Covivio FY2023 analyst call on 16 February 2024 and the Segro FY2023 analyst call on 16 February 2024. The CEO of Colliers, Jay Hennick, predicted a return to "high transaction velocity" only towards the end of 2024, pointing to continuing interest rate volatility and limited availability of credit (Colliers Q4'2023 analyst call on 8 February 2024). Similarly, the CFO of CBRE, Emma Giamartino, expects in 2024 only a "gradual market recovery", while her CEO, Robert Sulentic, anticipates "increased transaction volumes in H2'2024 after interest rates decline" (CBRE FY2023 analyst call on 15 February 2024). This was confirmed by the CEO of Cushman & Wakefield, Michelle MacKay, emphasising that "in CRE the shape of the yield curve is important" and that the market will normalise after rates have come down (Cushman & Wakefield Q4'2023 analyst call on 20 February 2024).

[xxxvii] Joshua Oliver, *"European commercial real estate deal making slumps to 13-year low"*, Financial Times, 25 April 2024. In the US, there is a huge build-up of office loan debt repayment in 2024 as lenders often agreed to extend (and implicitly modify) loans, which might come to a reckoning soon as interest rates stay higher, see: Alexandra Scaggs, *"Office loans 'living on borrowed time'"*, Financial Times, 22 March 2024 and Stephen Gandel, *"US office owners face $117bn wall of debt repayments"*, Financial Times, 2 January 2024.

[xxxviii] As discussed at the Aroundtown Q3'2023 analyst call on 29 November 2023. Across the Atlantic, the CEO of Marcus & Millichap, Hessam Nadji, maintained that we are going through a "valuation reset" as buyers and sellers are getting closer and there are first signs of better pricing. At the same time, he conceded that key challenges remain due to inflation volatility, wide spreads, limited credit and deals coming out of contract (Marcus & Millichap FY2023 analyst call on 16 February 2024).

[xxxix] This was obviously the mantra of Rene Benko's Signa empire, as the Austrian property billionaire had assembled a glittery trophy collection, including London's Selfridges and New York's Chrysler Building, which collapsed after it racked up at least $13bn in debt during ultra-low interest rates. For further details, see: Joshua Oliver, *"Commercial property confronts the 'comedown' from easy money"*, Financial Times, 7 December 2023. This eventually led to criminal investigations which, at the time of writing, are still undergoing, see: Sam Jones, *"Austria investigates Rene Benko for fraud"*, Financial Times, 17 April 2024.

[xl] As discussed at the Segro FY2023 analyst call on 16 February 2024. For offices, the CEO of Covivio, Christoph Kullmann, highlighted the need for centrality/accessibility, A-quality buildings and good service offer (Covivio FY2023 analyst call on 16 February 2024).
[xli] As discussed at the Colliers Q4'2023 analyst call on 8 February 2024. In this context, the CEO of Hamborner REIT, Niclas Karoff, confirmed at the Q1'2024 analyst call on 23 April 2024 that they have more discussions with tenants on ESG topics and that this is one reason why it takes longer to complete rental contracts. In terms of rental increases, "the air is getting thinner", while the length of leases is another pressing issue for rental package negotiation.
[xlii] Marcus & Millichap FY2023 analyst call on 16 February 2024. In other asset classes, it was reported that there is a "bifurcation between prime and non-prime" and that there are already "pockets of overbuilding" for industrial logistics and warehouses (Steve DeGennaro, CFO of Marcus & Millichap, at the FY2023 analyst call).
[xliii] This was even more strongly confirmed during the Q1'2024 results season, with the CFO of Holcim, Steffen Kindler, saying that "nearshoring accelerates in Mexico" and that they have a "strong pipeline of projects" over there (Holcim Q1'2024 analyst call on 25 April 2024). As a benefit of this construction boom, there is higher consumer demand and the Mexican peso got stronger (Jan Jenisch, Chairman of Holcim, at the Q1'2024 analyst call).
[xliv] For an interesting case study on Monterrey in the north of Mexico, see: Christine Murray, *"The city where Mexico's nearshoring hype is becoming reality"*, Financial Times, 27 November 2023.
[xlv] Christine Murray, *"Thousands march against Lopez Obrador's institutional overhaul in Mexico"*, Financial Times, 19 February 2024.
[xlvi] Christine Murray, *"Billionaire Carlos Slim's unlikely alliance with Mexico's leftist leader"*, Financial Times, 28 February 2024.
[xlvii] Claire Jones, Christine Murray and Keith Fray, *"China circumvents US tariffs by shipping more goods via Mexico"*, Financial Times, 21 February 2024. Even smaller European companies have confirmed that they are "using Mexican suppliers increasingly for the US market" (Felix Strohbichler, CFO of Palfinger, at the Q1'2024 analyst call on 26 April 2024), without specifying the customs-relevant origin.
[xlviii] Christine Murray, Amanda Chu and Edward White, *"US concern over Mexico attracting Chinese electric vehicle factories"*, Financial Times, 18 December 2024. While the CEO of Tesla, Elon Musk, has indicated a slower pace for the opening of their Mexican plant in previous quarters, this time he elaborated in great length about the current excess capacity and "boom & bust" in battery production (Tesla Q1'2024 analyst call on 23 April 2024).
[xlix] For Mexican drug cartels sending money home disguised as remittances and certain regions disproportionately benefitting, see: Michael Stott, *"The darker side of Mexico's $63bn remittances boom"*, Financial Times, 10 January 2024. For a more extensive discussion of recent changes in the relationship between Mexican authorities and the US Drug Enforcement Administration (DEA), see: Christine Murray, *"How Mexico stymied America's war on drugs"*, Financial Times, 5 April 2024.
[l] It is indicative for the Q1'2024 results season that the likes of Microsoft and Alphabet invested not only heavily into Cloud infrastructure but their Q1'2024 earnings were massively supported by growing corporate demand for their Cloud computing services, see: Stephen Morris et al., *"Microsoft and Alphabet enjoy AI-powered gains from cloud divisions"*, Financial Times, 27 April 2024.
[li] Gillian Tett, *"A new threat to financial stability lurks in the cloud"*, Financial Times, 16 June 2023.
[lii] Richard Waters, *"Cloud busting will mean a messy time for tech regulators"*, Financial Times, 13 October 2023.
[liii] Kenza Bryan, *"Data centre rollout under fire due to growing pressure on electricity grids"*, Financial Times, 12 February 2024.
[liv] Richard Waters and Michael Peel, *"IBM claims quantum computing research milestone"*, Financial Times, 5 December 2023.
[lv] John Thornhill, *"Time to get serious about the dangers of quantum computing"*, Financial Times, 27 October 2023.
[lvi] Julien Ponthus, *"Luxury stocks are set for a bleak earnings season, UBS warns"*, Bloomberg, 3 January 2024.
[lvii] Adrienne Klasa, *"£3,000 bracelets vs £400 sneakers: the diverging fortunes of the luxury market"*, Financial Times, 24 January 2024.
[lviii] Adrienne Klasa, *"Handbags and China demand boost sales at Hermès"*, Financial Times, 25 April 2024.
[lix] Adrienne Klasa, *"£3,000 bracelets vs £400 sneakers: the diverging fortunes of the luxury market"*, Financial Times, 24 January 2024.
[lx] Next plc CEO Lord Wolfson at the year ending January 2024 analyst call on 21 March 2024
[lxi] Laura Onita, *"UK consumer confidence at its best in seven years, says head of Next"*, Financial Times, 21 March 2024
[lxii] Laura Onita, *"How online shoppers fell back in love with the high street"*, Financial Times, 10 January 2024

[lxiii] Sosandar plc Full Year Trading Update, 16 April 2024
[lxiv] Zalando Capital Markets Day, 13 March 2024
[lxv] Richard Milne, *"H&M and Northvolt investor fund startup to cut fashion industry emissions"*, Financial Times, 6 March 2024. H&M, private equity group TPG and Vargas have committed about $60mn to Syre. H&M has also signed a $600mn agreement with Syre to source about half of its total need for recycled polyester for the next 7 years from the start-up company.
[lxvi] CEO Oscar Garcia Maceiras at the Inditex FY 2023 Presentation and Results Report on 13 March 2024.