Market Commentary on the Q3'2024 Results Season:

Taking a More Constructive Outlook for 2025?

Against the **backdrop of the run-up to the US presidential elections**, **escalation of geopolitical tension in the Middle East**, Ukraine, the Korean Peninsula and the South China Sea, a record year of **higher temperatures and floods in Europe and a long-announced fiscal stimulus in China**, senior management largely opted to take a "constructive outlook" (Ted Pick, CEO of Morgan Stanley)[i] during the current Q3'2024 reporting season and **repeatedly reiterated that they will "focus on what we can impact"** (Börje Ekholm, CEO of Ericsson).[ii] Given **more benign economic statistics** across both sides of the Atlantic,[iii] with the current debate in the US ranging between a "soft landing" and "no landing" (Jeremy Barnum, CFO of JPMorgan),[iv] it has been the **"softness in consumer behaviour"** (David Solomon, CEO of Goldman Sachs) which has puzzled corporate executives as the festive season is approaching fast.[v] In turn, after **a number of large technology companies had disappointed** the arguably very high market expectations in new AI applications, it came to a **repeated tech stock sell-off in recent days** (as it did exactly three months ago).[vi]

With many companies having **downgraded their Q4'2024 guidance at a short notice** (ASML, Philips, Mercedes Benz, Volkswagen) and providing a **patchy outlook for 2025 at best**, the current investor scrutiny circles around the following key themes: 1) the implications of a **low or even "no-growth 2025" for mid-term guidance in 2026-27**;[vii] 2) further variable and fixed cost optimisation reaching limits and raising a **more serious question mark about the viability of strategy**;[viii] 3) with volumes and mix being adversely affected the **investor focus on pricing continued**, with some of the larger European industrials still remaining positive (ABB, AkzoNobel, Trelleborg);[ix] 4) the **exposure to both North America and China** has become a strategic theme during investor and analyst enquiry;[x] and 5) while shareholder value and capital allocation priorities have clearly regained in investor importance, the interest in **M&A activity has grown disproportionately**.[xi]

With these topics in mind, we start first with a discussion of the **US dominance in global capital markets** as the European Union got arguably stuck with its Capital Market Union. A similarly pressing issue is the **diminishing investor enthusiasm about ESG** – at least in its current format of target setting and rankings for individual companies instead of reshaping entire markets – as was also notable in recent Investor Days we had followed (BASF, DHL Group, Roche, Telia, TotalEnergies, Tecan). As the current climate crisis, demographics and trade sanctions had a **severe impact on agricultural businesses, we include a special case study** with a closer investigation of companies ranging from seed production to fertilizers. This will be complemented by a **section on health and nutrition concerns**, which is of growing interest not only to ESG investors. As companies have reviewed their supply chains in the wake of the Corona pandemic and US-China trade sanctions, we provide another **case study on nearshoring in Malaysia and Vietnam** (following our analysis of Mexico earlier this year). Finally, we finish with a short section on **human rights abuses**, which not only follows neatly the supply chain debate on China, but also raises the bar further for companies' claim of being a good corporate citizen.

US DOMINANCE IN GLOBAL CAPITAL MARKETS

In our case study on international stock exchanges in February 2024, we had shown that technology and data have now become the major battleground, with European bourses including London having 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, European companies have increasingly opted for a listing and/or moving their primary listing to Nasdaq or NYSE, as valuations in the US are generally higher and US fund managers prefer to trade in US-dollars, which was still an ongoing discussion theme during Q3'2024 analyst Q&A (Nestle, bp).

Since our last analysis, US markets have moved to faster T+1 trading cycles (closing a trade within one single day), speeding up settlement and reducing funds that brokers require for collateral, with Canada having followed suit.[xii] At the time of writing, the UK has announced its intention to transition by year-end 2027, Switzerland is keen to coordinate with the UK and EU while the EU is still exploring without having announced a firm commitment to a date.[xiii] Clearly, as long as the EU is not following suit, there will be price differences and arbitrage opportunities that smart investors know how to take advantage of. Greater efficiency through speeding up settlement, increased liquidity and enhanced risk mitigation will provide another competitive advantage to the US trading system and will ultimately further cement the US dominance.[xiv]

With this and other financial plumbing problems in mind, the discussion about a deeper capital markets union has been reignited across Europe – an initiative which has been stalled for a decade – with a particular focus on the private sector to revitalise securitisation, reforms of Solvency II, the venture capital ecosystem and even recalibrated sustainability rules for funds.[xv] Despite significant progress via regulatory measures for a single market ("consolidated tape" for single, real-time EU trading data, the Listing Act and the European Single Access Point), withholding tax procedures, insolvency laws and central clearing as well as supervision remain controversial issues where particularly smaller markets pursue vested interests.[xvi]

DIMINISHING ESG INVESTOR ENTHUSIASM

We have written about the ESG investor controversy before but more substantial academic research has now been published, which is "questioning the founding ideas and dominant approaches in the corporate sustainability movement", claiming that the "majority of businesses, and the ecosystem of advisors and advocates" are in fact contributing to the problem.[xvii] The main hypothesis in this debate is that we need to go "beyond setting targets and making commitments for individual company change" and create "thriving markets for climate-neutral, nature-positive and circular products" instead. One key argument in favor of this new approach are the huge costs for the green transition, seeking not only the rapid redesign of markets but also incentives and wider business regulation to provide the private sector with a viable transition pathway.[xviii]

At a company and investor level, two major developments have happened over the last year: a) companies have started to pull back from green targets, often pointing to political and regulatory factors outside of their control, becoming increasingly reluctant to build climate targets into their debt structure;[xix] and b) clients of ESG funds have reportedly withdrawn net $40bn by May 2024

alone, as poor performance, scandals and attacks from US Republicans impacted investor enthusiasm, which fund managers often compare with the dotcom hype 20 years ago.[xx] The 2024 AGM season provided further evidence of lower investor support for ESG themes, notably in the US.[xxi] While there is no doubt about the rapid climate change and the continuing investor interest in sustainability, especially in Europe and the UK, ESG as a marketing tool – both at company and investor level – requires a major rethink, preferably with a strategy to compete and win within the green transition while putting aside the legitimate concerns about greenwashing.[xxii]

CASE STUDY: AGRICULTURAL BUSINESS

Over the last few months, we have closely followed various agricultural businesses and the fertilizer industry, as not only severe drought, wildfires and floods had its impact on yields, but also the two "black swan" events (pandemic, war in Ukraine) hugely undermined profitability,[xxiii] leading to further structural changes in what is essentially a politically highly protected industry.[xxiv] While livestock production remains the largest source of human-caused methane emissions, the lobbying effort of meat and dairy industries has not only succeeded in continuing the "agricultural exceptionalism",[xxv] with governments around the world spending reportedly $520bn on annual agricultural subsidies, but little progress has been made in reducing the meat consumption in high-income countries.[xxvi] There are early signs of changing consumer behaviour, but it is not clear to what extent this is more due to the current cost-of-living crisis than a truly alternative "global multi-protein platform" (Gilberto Tomazoni, CEO of JBS SA).[xxvii]

In addition, the agricultural business remains one of the last sectors not facing the binding limits on its carbon emissions, being not covered in the EU's emissions trading system and exempted from a programme to reduce methane emissions in the US.[xxviii] This is of a particular concern given the first evidence by leading climate research institutes that higher temperatures have increased both food and headline inflation in recent years which, if the warming continues at the same pace by 2035, could amplify food inflation in Europe by 30-50%.[xxix] Among fertilizer companies, there is clearly a race for "climate resilience of the portfolio" (Robert Scott, CEO of Wesfarmers),[xxx] with various claims of being the "first mover in low carbon supply globally" (Chris Bohn, COO of CF Industries),[xxxi] though portfolio restructuring towards green ammonia and methanol has only started (OCI Global).[xxxii] The other big challenge for the industry is the cost of energy supply, where particularly US companies are now heavily competing with hyperscalers and AI start-ups.

HEALTH AND NUTRITION CONCERNS

Within the broader ESG investor debate, and following on the above discussion, there has been a strong campaign to call on food companies such as Nestle, Unilever and Kraft Heinz to improve the health component of their portfolios as professional fund managers have become increasingly concerned about the close link between bad diet and chronic health conditions such as heart disease and obesity. Institutional investors have even put forward resolutions at AGMs to force companies like Nestle to shift the balance of its total sales towards healthier food options.[xxxiii] Being challenged at the Q3'2024 analyst call, the new CEO of Nestle, Laurent Freixe, pledged the company's "role in nutrition" being a focus on "affordable and healthy food, longevity and weight management".[xxxiv]

Arguably, the debate about food and public health has been reignited through growing concern about the health impact of ultra-processed food (UPF), with the US and the UK consuming over 50% of total energy intake through UPF, and European countries such as Spain and France still exceeding 25%, according to various studies between 2015 and 2021.[xxxv] Naturally, the industry has responded with a ferocious campaign against regulation, notably against labelling and taxation of "junk food" high in calories, with the US food and soft-drinks' related companies having reportedly spent $106mn for lobbying in 2023, which is almost twice as much as the tobacco and alcohol industries combined.

Ironically, recent EU regulation on deforestation as well as existing strict rules on EU food and agriculture, including complex packaging and labelling requirements, have been decried by other agricultural exporters such as Australia and New Zealand as European protectionism (GMO for soyabean and maize, growth hormone for beef, chemical washes for chicken meat), and seem to reflect to what extent green campaigners often exaggerate and distort issues, with direct impact on growers of coffee and cacao, palm oil and other crops in developing countries.[xxxvi]

NEARSHORING IN MALAYSIA AND VIETNAM

With escalating trade sanctions between the US and China and tariffs on foreign exports being one of the major campaign issues in the run-up to the US presidential elections, more resilient and diversified supply chains have come back on the radar screen of institutional investors. Having very much become a playball in this geostrategic game between the two economic and military superpowers, European companies have increased their efforts in reducing their overreliance on Chinese goods in certain areas, with the decoupling having often gone more to Chinese-built factories in alternative overseas manufacturing hubs such as Malaysia and Vietnam.[xxxvii] To be clear, as export and production statics for China have shown, and we had heard during Q3'2024 analyst Q&A,[xxxviii] China has become more important to the rest of the global economy, with "nearshoring" implying more geographical shifts in cross-border trade than deglobalisation.[xxxix]

For over 50 years, Malaysia has been at the back end of the global semiconductor manufacturing supply chain (packaging, assembling and testing chips), but it not only has ambitions to move up to the front end (wafer fabrication, integrated circuit design), but also has received investments from the likes of Micron, Intel and Infineon over the last two years.[xl] At the same time, Chinese companies have shifted production to countries like Malaysia and Vietnam to avoid US tariffs in recent years,[xli] with heavy lobbying at the highest state level.[xlii] As we had observed in our previous analysis of nearshoring in Mexico, Chinese companies have heavily invested in so-called "connector countries" (Ireland and Hungary in Europe, Malaysia and Vietnam in Asia) to circumvent protectionist measures and enter Western markets through the back door,[xliii] with Singapore having received a disproportionately high share from Chinese companies to set up a subsidiary or incorporate in the city state.[xliv]

Similarly, Vietnam has been an important manufacturing hub for companies like Samsung and Foxconn so far but is has struggled to attract investments in higher-value, high-tech industries as foreign investors remained deterred by a shortage of skilled labour and concerns about stable power supply. Since the beginning of 2024, however, the CEOs of Apple and Nvidia (Tim Cook and

Jensen Huang) have visited Vietnam and shown interest in the wake of special deals being offered on land lease fees, corporate taxes and import and export duties.[xlv] A lack of investments in power generation in recent years has led to shortages in electricity supply during the peak season, leading to summer blackouts particularly in the North and an estimated economic loss of $1.4bn, or 0.3% of Vietnam's GDP in 2023.[xlvi] Still, Vietnam has hugely benefitted from Chinese investments – often just rerouting products for the US through Vietnam – with Chinese exports of computer parts to Vietnam having reportedly tripled to $1.7bn between 2017 and 2023.[xlvii] It remains to be seen how long Vietnam's "bamboo diplomacy" can work, having hosted state visits from Joe Biden, Xi Jinping and Vladimir Putin since late 2023, as the country is bound to be drawn into different geopolitical alliances and economic interests.[xlviii]

HUMAN RIGHTS' ABUSES

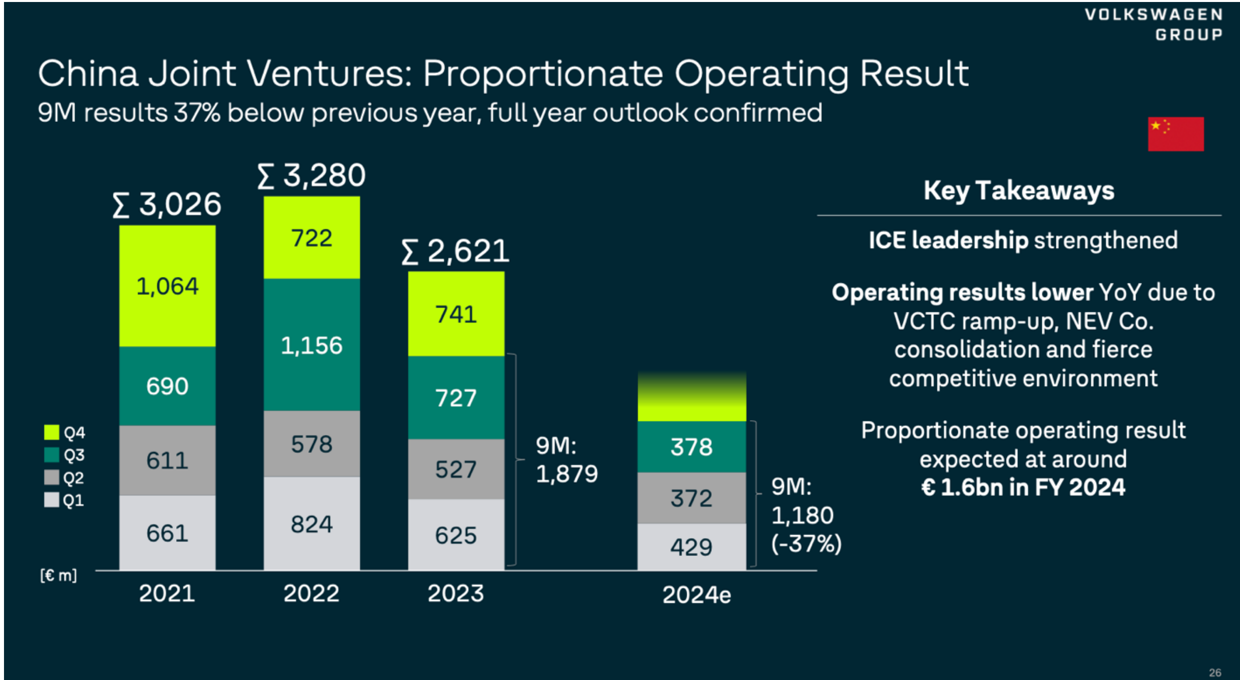
The pivot from China has not deterred institutional investors to look closer at companies' human rights responsibilities, despite the delay in the adoption of the EU's corporate sustainability due diligence directive earlier this year,[xlix] which applies not only to global supply chains, but also can often be found much closer at home.[l] One new development has been the scrutiny of Chinese companies planning an IPO at Western stock exchanges, notably the fashion group Shein, which had considered a New York listing first but opted for London after the US authorities had intervened with forced labour investigations.[li] With a booming e-commerce business out of China, it is perhaps only a question of time when investors will start to enquire who is doing business with the likes of Shein and Temu and on what basis they are doing their due diligence about the human rights' abuses.

A much stronger stance has recently been taken by Danish authorities against its shipping industry, which is reported to have a "completely unacceptable" level of bullying and sexual harassment, and this against the backdrop of staff shortages and women accounting for only 1.2% of seafarers globally.[lii] Equally, banks like ING, Citigroup, UBS, ABN AMRO, SEB, DNB and Nordea are reportedly considering the restriction of financing for shipowners endangering crew welfare, who spend much of the time on international waters and are far from the oversight of authorities on land, including the continuing sailing through the Red Sea.[liii]

A third and final major theme in this debate is the continuing operation of Western businesses in Russia, with Houston-based SLB (formerly known as Schlumberger) reportedly expanding its oilfield services business while other major rivals such as Baker Hughes and Halliburton have refused to take new orders and exited the country, which resulted in the US Congress to investigate and demand a further tightening of sanctions from the outgoing Biden administration.[liv] As we had shown in our case study on agricultural businesses, smaller companies often remain below the regulatory radar screen and keep reassuring their investors that they have sufficiently "ring-fenced" their Russia business.[lv] While ESG investors have started to warm up for the defence industry following the Russian military aggression in Ukraine, continuing business in Russia will no doubt gain a new investor perspective under the human rights' abuses.

Peter and Irina Kirkow
4 November 2024

APPENDIX



Standalone businesses

We will continue to invest in our standalone businesses and will pursue portfolio options where this adds value

Standalone businesses

	Environmental Catalyst and Metal Solutions	Battery Materials	Coatings	Agricultural Solutions
Sales 2023	€9.8 billion[1]	€0.9 billion	€4.4 billion	€10.1 billion
Position	Well positioned, low-growth industry	Rapid growth, high market and technology risk	Well positioned to command a premium value	Well positioned to command a premium value
Direction of travel	• Carved out since 2023 • Strong cash contributor, open for value-enhancing transaction	• De-risk path forward in light of recent market development • Explore opportunities for collaborations along the value chain	• Explore overall strategic options for value creation • Prepare divestment process for decorative paints	• Complete legal and ERP separation by 2027 • IPO readiness targeted; potential listing of minority share

[1] Including ~€7.6 billion sales in precious metal services and precious metal sales in the mobile emissions catalysts business

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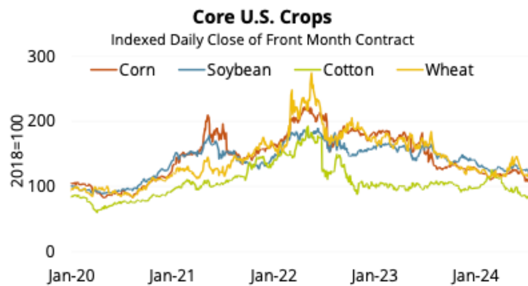
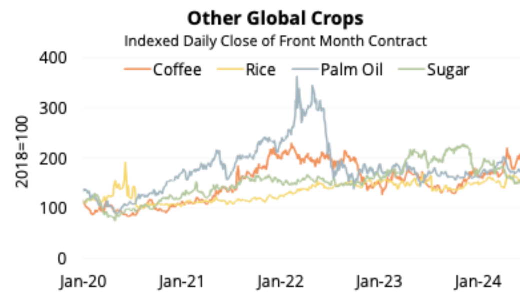
Keynote, September 26/27, 2024 16

Agriculture Fundamentals



Commodity	Current Price	YTD	Y-o-Y	10yr Avg
Corn	$4.04/bu	-13%	-28%	-10%
Soybean	$11.11/bu	-13%	-27%	-1%
Wheat (HRW)	$5.68/bu	-10%	-38%	-4%
Cotton	$67.01/cwt	-16%	-22%	-14%



Commodity	Current Price	YTD	Y-o-Y	10yr Avg
Palm Oil	MYR 3,992/MT	10%	-2%	30%
Coffee	$2.31/lb	22%	42%	58%
Rice	$14.79/cwt	-16%	-9%	14%
Sugar	$17.91/cwt	-14%	-28%	11%

Many ag commodities remain well above historical averages despite the softening of corn and soybean prices which only account for about one-third of global P&K demand.

Source: CME, MDEX, NYMEX; Data through July 24, 2024

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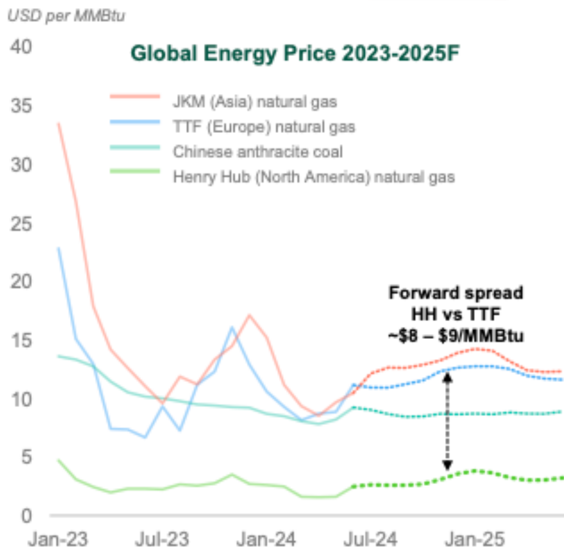
Significant advantages provide margin opportunities

North America Production Advantage



Note: dotted lines represent forward price curves
Source: ICE, Bloomberg, SX Coal, Wood Mackenzie, CF Analysis

CF Distribution Network Advantage

8 North American production sites strategically located to serve customers

23 integrated distribution terminals

Ability to serve Corn Belt via barge, rail, truck, and pipeline

Leading distribution and logistics capabilities with global reach

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ENDNOTES

[i] The claim for a "constructive outlook" was on the observation of broadening equity markets and an accommodating rate policy (Ted Pick, CEO of Morgan Stanley, at the Q3'2024 analyst call on 16 October 2024), which was essentially confirmed by other major US banks, pointing to economic performance being "surprisingly resilient" and "corporate sentiment remaining positive" as evidenced by deals continuing ahead of the US presidential elections (Jane Fraser, CEO of Citigroup, at the Q3'2024 analyst call on 15 October 2024).

[ii] This was probably one of the most frequently used statements by senior executives over the last three weeks, as management – notably from industrial companies in Europe – tried to explain not only the sudden decline in orders in September but the limited visibility going forward, pointing to the fact that "customers are very slow to issue purchase orders" (Marco Wiren, CFO of Nokia, at the Q3'2024 analyst call on 17 October 2024), leading to a "bumpy order pattern" where it is still "difficult to come to a conclusion" (Peter Nilsson, CEO of Trelleborg, at the Q3'2024 analyst call on 24 October 2024). One of the major reasons for a number of spectacular profit warnings, notably among the German car manufacturers, was the sudden slump in sales in China (see Volkswagen chart in the Appendix), which some European industrials explained by order lead times in China being not only impacted by the current anti-corruption programme but Chinese companies also holding back with investments as they wait for the fiscal stimulus to set in (Roy Jacobs, CEO of Philips, at the Q3'2024 analyst call on 28 October 2024). Interestingly, after issuing its profit warning on the day of the Q3'2024 results release, the Philips share price collapsed by 16.9% at close of trading although China itself accounted for only 10% of global sales. Despite Chinese equities having gone through a massive rally since the announcement of the new fiscal stimulus in September, there is still much scepticism not only about prevailing consumer sentiment but whether deeper structural reforms would be needed to boost long-term growth, see: Arjun Neil Alim, Cheng Leng and Edward White, *"Chinese shares rise as Beijing projects 'full confidence' in economy"*, Financial Times, 8 October 2024.

[iii] The US Bureau of Economic Analysis reported the economy to have grown by 2.8% in the third quarter and this on the back of accelerated consumer spending at 3.7%, although residential investment was reportedly down by 5.1%. With this the US has outperformed its major peers among the world's strongest economies, see: Colby Smith and Harriet Clarfelt, *"US GDP grew at 2.8% in third quarter"*, Financial Times, 30 October 2024. In Europe, the ECB lowered interest rates by another quarter point to 3.25% in October as Eurozone inflation fell to 1.7% in September, which was the first time in more than three years that it came below the target of 2%, see: Olaf Storbeck and Ian Smith, *"ECB lowers rates to 3.25% as inflation slows"*, Financial Times, 17 October 2024. However, more important for our discussion is the fact that the Eurozone PMI - at 49.7 points in October - still remains below the 50-point mark that separates growth from contraction, with manufacturing still deeply in negative territory at 45.9 points while weaker activities in services resulted in an eight-months' low of 51.2 points in October, see: Olaf Storbeck, *"Eurozone economic activity still in decline, PMI survey shows"*, Financial Times, 24 October 2024.

[iv] While many European companies still opted to talk about a "difficult" – and in some cases even "deteriorating" macro environment (Harald Wilhelm, CFO of Mercedes Group, at the Q3'2024 analyst call on 25 October 2024) – which is probably more due to idiosyncratic issues as well as rhetorics, the perhaps more representative stance taken by European executives is that there is a "reasonably robust economic environment" (Chris Figee, CFO of KPN, at the Q3'2024 analyst call on 28 October 2024) and that "markets are not buoyant but not depressed either" (Gregoire Poux-Guillaume, CEO of AkzoNobel, at the Q3'2024 analyst call on 23 October 2024).

[v] When asked about the outcome of the US presidential elections, the CEO of Maersk, Vincent Clerc, stated that "what matters in markets is what is being consumed" (Maersk Q3'2024 analyst call on 31 October 2024) and, in this respect, none of the candidates has positioned him/herself against business. The current boom in e-commerce, particularly from China, which the container shipping industry benefits from, is one example while airline companies reported a sudden strong booking pattern since August (Carsten Spohr, CEO of Lufthansa, at the Q3'2024 analyst call on 29 October 2024). In turn, there is more caution about other consumer goods ahead of the festive season, notably about Apple's new iPhone 16, which is the first version to include AI features such as the integration of Siri with ChatGPT and AI-powered emoji and image generation, see: Michael Acton, *"Apple cautious on holiday outlook as it starts AI rollout"*, Financial Times, 31 October 2024. In the food industry, Nestle noted a "subdued consumer demand", notably in China but also elsewhere, and observed a "normalisation of pricing after an unprecedented period" before (Laurent Freixe, CEO of Nestle, at the nine-months' sales update on 17 October 2024).

[vi] Peter Wells and Jennifer Hughes, *"Tech stock sell-off wipes out Wall Street's October gains"*, Financial Times, 1 November 2024. During the Q3'2024 reporting season so far, the CEO of ASML, Christophe Fouquet, emphasised that

the "uncertainty about customer demand has now materialised" (ASML Q3'2024 analyst call on 16 October 2024) as customers remain cautious and there is only a slow recovery in traditional end markets (PC and smartphones). Interestingly, TSMC was much more positive about the AI content in PCs and smartphones, with demand "gradually increase(ing)" as it implies better cost improvement and higher productivity gains (Wendell Huang, CFO of TSMC, at the Q3'2024 analyst call on 17 October 2024). As a result, TSMC expects next year to be "a healthy growth year" as "AI demand is real", offering greater productivity, efficiency, speed and quality (C.C. Wei, CEO of TSMC).

[vii] Among the more than three dozen companies we had followed so far, only Ericsson openly mentioned a "no growth 2025" (Börje Ekholm, CEO of Ericsson, at the Q3'2024 analyst call on 15 October 2024). However, others implied a similar message and, among smaller companies, essentially indicated through veiled hints in their press release and/or the analyst call that – given low order intake and continuing top-line pressure in 2025 - they will find it increasingly difficult to reach their mid-term targets for 2026-27 (Palfinger, Andritz, AT&S).

[viii] This was eloquently raised by the Jefferies analyst at the Mercedes Benz Group Q3'2024 analyst call on 25 October 2024, with the CFO of Mercedes Benz, Harald Wilhelm, conceding that "a further challenge on fixed costs is not doing the job" and, under the "tougher environment", they need to adjust further while "not hoping for a short-term recovery". The Mercedes Benz strategy of focusing on premium brands only with highly expensive entertainment and gadgets but also the ambition for autonomous driving was essentially put at question here. This applies variably to the European automobile industry, with the CFO of Volkswagen AG, Arno Antlitz, arguing that current costs at German factories are not competitive and this requires an "urgent need for action" (Volkswagen AG Q3'2024 analyst call on 30 October 2024). For an extensive discussion of Volkswagen's plan to close three factories in Germany and to lower salaries by 10%, see: Patricia Nilsson and Kana Inagaki, *"Volkswagen plans to close at least 3 German plants and cut thousands of jobs"*, Financial Times, 28 October 2024. For a more comprehensive analysis of the current situation of European carmakers, with a specific view on the implications of the new EU emissions standards in 2025 but also Chinese EV competition, see: Kana Inagaki and Sarah White, *"European carmakers plan dozens of cheaper models to survive 'EV winter'"*, Financial Times, 14 October 2024. Recent profit warnings by the likes of Mercedes Benz and Porsche were also extensively covered in the financial press, see among others: Kana Inagaki and Patricia Nilsson, *"Mercedes Benz and Porsche look for cost cuts after China slump hits profits"*, Financial Times, 27 October 2024. In this context, it is worth noting that other European industrials talked extensively about the need to take out variable costs first and then streamline fixed costs (ABB Q3'2024 analyst call on 17 October 2024), while pointing also to a "significant cost inflation for materials, external services and staff" (Till Streichert, CFO of Lufthansa, at the Q3'2024 analyst call on 29 October 2024).

[ix] In this context, the CEO of Trelleborg, Peter Nilsson, maintained that "there is still room for price increases though at a lower pace" (Trelleborg Q3'2024 analyst call on 24 October 2024) while the CFO of ABB, Timo Ihamuotila, expects pricing to be "a positive factor in 2025" (ABB Q3'2024 analyst call on 17 October 2024). In contrast, smaller companies were quite explicit that "pricing pressure will increase as markets are not going to recover" (CEO of Andritz, Joachim Schönbeck, at the Q3'2024 analyst call on 31 October 2024) and that there is currently "no pricing elasticity" (Andreas Klauser, CEO of Palfinger AG, at the Q3'2024 analyst call on 28 October 2024).

[x] This relates to the strong growth dynamics in North America vis-a-vis the renewed growth inflection from the fiscal stimulus in China but also the more critical debates on supply chains, trade tariffs, economic sanctions and even ongoing disruption in global transport and logistics, whether this applies to the Red Sea or simply the ramifications of port congestion, freight rates and strikes at US major ports. For a convincing argument about the Red Sea disruption being now completely integrated in new ship routes and networks, see Maersk Q3'2024 analyst call on 31 October 2024. The CEO of Maersk, Vincent Clerc, even maintained that "networks are sailing at full speed and there are no signs of a sudden inventory correction".

[xi] While M&A activity is reportedly still 13% below its 10-years'average, "all that dry powder needs to be deployed" (David Solomon, CEO of Goldman Sachs, at the Q3'2024 analyst call on 15 October 2024). Similarly, the CEO of Morgan Stanley, Ted Pick, noted that he is "bullish on IPO and M&A coming back", particularly for large companies (Morgan Stanley Q3'2024 analyst call on 16 October 2024). But it is also worthwhile highlighting that a growing number of industrials have extensively elaborated on M&A opportunities as "private equity is not as active as before" (Peter Nilsson, CEO of Trelleborg, at the Q3'2024 analyst call on 24 October 2024) and they keep shifting into active portfolio management (Gregoire Poux-Guillaume, CEO of AkzoNobel, at the Q3'2024 analyst call on 23 October 2024). In this context, the CEO of bp, Murray Auchincloss, stressed the need to "lighten the hydrocarbon footprint" and to "highgrade the business" (bp Q3'2024 analyst call on 29 October 2024). Among cash rich companies, the CEO of Maersk, Vincent Clerc, elaborated extensively on the key focus areas of their M&A strategy, including 1) regional; 2)

vertical industrial; and 3) specific capabilities and product lines, with a hint at "larger bolt-on acquisitions" (Maersk Q3'2024 analyst call on 31 October 2024).

[xii] Jennifer Hughes and Harriet Clarfelt, *"US markets shift to faster trading cycles in modernisation move"*, Financial Times, 27 May 2024.

[xiii] Eric Pan, *"EU markets need to commit to catch up with US on T+1"*, Financial Times, 18 October 2024. A special European T+1 Industry Task Force indicated in October 2024 that a "transition period between 24 and 36 months will be required, reflecting the complexity of the market infrastructure in Europe" and investigated the option of H2 2027 as a "feasible implementation date for the EU" in line with the UK. The report clearly reflected not only vested interests by different stakeholders – being preoccupied with potential settlement failures which had not been an issue in the US after T+1 was introduced - but also the sheer complexity of adopting such kind of changes in the EU (European T+1 Industry Task Force, *High Level Roadmap for Adoption of T+1 in EU Securities Markets*, October 2024).

[xiv] Katie Martin, *"Who's going to win the next financial plumbing test? The US, of course"*, Financial Times, 20 March 2024. For implications of the new trading rules from a cost perspective, whether access to liquidity, currency transfers and complicated basket trades involving multiple securities and programme trading, see: Gerald Walsh, *"The big trading shake-up that is about to hit fund managers"*, Financial Times, 4 April 2024.

[xv] Huw van Steenis, *"Europe needs a bolder plan for capital markets"*, Financial Times, 8 July 2024.

[xvi] Mairead McGuinness, *"Vested interests must not block the EU's capital markets union"*, Financial Times, 19 March 2024. For various coalitions on this topic within the EU, see: Paola Tamma, Henry Foy and Alice Hancock, *"Majority of EU states object to capital markets reform push"*, Financial Times, 7 October 2024. While it goes beyond the scope of this market commentary to get into all the details of various lobbying efforts and institutions seeking new functions through the Capital Markets Union, suffice to point to the EU's financial markets watchdog aiming to become the European version of the SEC, see: Martin Arnold, *"Europe's market watchdog bids to become EU's version of SEC"*, Financial Times, 21 October 2024. There is also much lobbying done by major stakeholders like Euronext and Deutsche Börse together with start-up associations to keep tech IPOs in Europe, see: Open Letter to EU Finance Ministers and the European Commission, *Europe Needs to Keep its Best Tech IPOs at Home*, September 2024, and: Euronext Equities, *Demystifying the Liquidity Gap Between European and US Equities*, April 2024. For a more detailed discussion of the drain of tech companies to US capital markets, see: John Thornhill, *"Why Europe needs its own Nasdaq"*, Financial Times, 6 September 2024.

[xvii] Cambridge Institute for Sustainable Leadership, *Survival of the Fittest: From ESG to Competitive Sustainability*, Cambridge, 2024.

[xviii] Pilita Clark, *"The great green business rethink is finally happening"*, Financial Times, 29 September 2024. On the huge costs of the green transition in the wake of Northvolt's Swedish battery factory facing financial problems, see: Richard Milne, *"Costs of the green transition loom large for European companies"*, Financial Times, 9 October 2024.

[xix] Kenza Bryan and Attracta Mooney, *"How companies are starting to back away from green targets"*, Financial Times, 21 June 2024.

[xx] Patrick Temple-West and Will Schmitt, *"Investors pull cash from ESG funds as performance lags"*, Financial Times, 6 June 2024. In this context, BlackRock reportedly supported only 20 of the 493 ESG proposals at this year's AGM season, or 4% of the total compared with 47% in 2021, see: Brooke Masters and Kenza Bryan, *"BlackRock's support for ESG measures falls to new low"*, Financial Times, 21 August 2024.

[xxi] Patrick Temple-West, *"Proxy season results show support for ESG efforts continues to ebb"*, Financial Times, 5 July 2024. For an interesting academic study on shifting individual ideology among 97,469 corporate directors and executives of 9,005 US companies, changing from "modestly conservative" in 2001 to "roughly centrist" by 2022, but not "leftist" as claimed by "woke capitalism" advocates, see: Reilly S. Steel, *The Political Transformation of Corporate America, 2001-2022*, Columbia Law School, October 2024 (draft).

[xxii] The Editorial Board, *"The unsustainable hype around ESG"*, Financial Times, 10 June 2024.

[xxiii] Mark Thompson, CFO of Nutrien, at their Investor Day on 12 June 2024. With the market further tightening, Mark Thomson argued for the fertilizer industry that "higher prices are needed for rising marginal costs" while, at the same time, conceding that "the majority of FSU capacity is back in the market", implying that Russian and Belorussian fertilizer production has found its way to circumvent Western sanctions after the military invasion in Ukraine. In this respect, the CEO of The Mosaic Company, Bruce Bodine, highlighted that due to FSU sanctions "trade flows have shifted around" and resulted in "high costs of serve" (The Mosaic Company Q2'2024 analyst call on 6 August 2024).

[xxiv] As to structural changes within large European conglomerates, we note both a "new organisational structure" for Bayer's Crop Science division (Wolfgang Nickl, CFO of Bayer, at the Q2'2024 analyst call on 6 August 2024) and further

streamlining of the BASF portfolio by defining its Agricultural Solutions division as a "standalone business", i.e. essentially preparing for sale (Markus Kamieth, CEO of BASF, at the Capital Markets Day on 26-27 September 2024). Other smaller companies with less financial power like SDAX listed BayWa in Germany suffered a breach of covenants on interest coverage and had to initiate a massive streamlining project to reduce overhead costs by up to 30% (Marcus Pöllinger, CEO of BayWa, at the Q1'2024 analyst call on 8 May 2024).

[xxv] While conceding the fact about government protectionism and local subsidies leading to distorted agricultural markets, there are also arguments in favour of the global trade system, notably after Russia tried to weaponise grain exports to developing countries following Western sanctions in 2022, see: Alan Beatie, *"How open trade saved us from a global food crisis"*, Financial Times, 29 August 2024. In this context, it is interesting how many Western agricultural companies are still operating in Russia and are even complaining in public calls about "further import restrictions from Russia" (Eva Kienle, CFO of KWS Saat SE, at the FY2023/24 analyst call on 26 September 2024).

[xxvi] On the political power of agricultural lobbying, with subsidies tending to favour larger farms and landowners and significant exemptions made for environmental measures, see: Susannah Savage, Alice Hancock and Michael Pooler, *"The global power of Big Agriculture's lobbying"*, Financial Times, 22 August 2024. For a call by the chair of the European Scientific Advisory Board on Climate Change, Ottmar Edenhofer, to make the European agricultural sector pay for its greenhouse gas emissions, see: Alice Hancock, *"Farming must pay for its emissions, says EU chief climate scientist"*, Financial Times, 23 September 2024.

[xxvii] In the context of its diversification strategy, this was the claim the CEO of JBS SA, Gilberto Tomazoni, made at the Q2'2024 analyst call on 13 August 2024. In this context, the CEO of the Hongkong-based meat processor WH Group, Wan Long, maintained that "consumers are trading down from dining outside" while, at the same time, the US is still in oversupply of hog production, leading to further cost control, price adjustments and mix in packaged meat in the US (WH Group H1'2024 analyst call on 13 August 2024). It goes beyond the scope of this market commentary to go into greater detail of the last cattle cycle in 2012-13, how cattle supply has been rebuilt after the drought and how this has impacted pasture conditions (Donnie King, CEO of Tyson Foods, at the Q3'2024 analyst call on 5 August 2024).

[xxviii] About the increase of more nature-based climate goals by Fortune Global 500 companies, including biodiversity, carbon, nutrient/NOx, water, forest and chemicals & plastics, with most being highly relevant for agricultural businesses and the fertilizer industry, see: Susannah Savage, *"The new corporate green goal: being 'nature positive'"*, Financial Times, 21 October 2024.

[xxix] Maximilian Kotz, Friderike Kuik, Eliza Lis and Christiane Nickel, *"Global Warming and Heat Extremes to Enhance Inflationary Pressures"*, Communications Earth & Environment, 2024 (5:116)

[xxx] Wesfarmers FY2024 analyst call on 29 August 2024.

[xxxi] CF Industries Q2'2024 analyst call on 8 August 2024.

[xxxii] https://oci-global.com/news-stories/press-releases/oci-global-announces-agreement-for-the-sale-of-its-global-methanol-business-to-methanex/

[xxxiii] Madeleine Speed, *"Nestle shareholders call on food giant to reduce reliance on unhealthy products"*, Financial Times, 14 March 2024.

[xxxiv] Laurent Freixe, CEO of Nestle, at the nine-months' sales update on 17 October 2024. In this respect, his views seem not to differ much from his predecessor, Mark Schneider, who was quoted in early summer that they are walking a fine line in terms of affordability vis-à-vis premium products, with a special focus on the aging population, including maintaining a target weight, preserving muscle mass, avoiding micro-nutrient deficiencies and controlling blood sugar levels, see: Madeleine Speed, *"Nestle CEO says feeding aging populations a priority as birth rates fall"*, Financial Times, 2 June 2024.

[xxxv] Madeleine Speed, Ella Hollowood and Sarah Neville, *"'Deny, denounce, delay': the battle over the risk of ultra-processed foods"*, Financial Times, 23 May 2024.

[xxxvi] Alan Beattie, *"The global downside of European consumers' green principles"*, Financial Times, 21 March 2024.

[xxxvii] William Langley and Chan Ho-him, *"European companies step up efforts to decouple from China"*, Financial Times, 9 June 2024.

[xxxviii] One example of this discussion relates to the Austrian semiconductor company AT&S, which has three factories in China and one in Malaysia, with the latter being built only after the first wave of US trade sanctions against China during Trump 1.0. When asked by the Kepler analyst whether the factories in China would be up for sale, the new speaker of the Executive Board, Peter Schneider, responded that they have sufficient demand from Chinese customers (AT&S H1'2024/25 analyst call on 31 October 2024).

[xxxix] Klaus Baader, *"The myth of deglobalisation hides the real shifts"*, Financial Times, 23 August 2024.

[xl] Mercedes Ruehl, *“Malaysia: the surprise winner from US-China chip wars”*, Financial Times, 11 March 2024.
[xli] Mercedes Ruehl, *“Chinese companies seek assurances from Malaysia on avoiding US tariffs”*, Financial Times, 25 June 2024.
[xlii] For the visit of the Chinese Premier, Li Qiang, to Malaysia in June, see: Kathrin Hille and Mercedes Ruehl, *“Premier Li Qiang’s visit has Malaysia wanting more from China pivot”*, Financial Times, 18 June 2024.
[xliii] Rhodium Group, *China Cross-Border Monitor H1’2024*, New York, 2024, see: https://cbm.rhg.com/momentum
[xliv] James Kynge, Jude Webber and Christine Murray, *“China’s new back doors into western markets”*, Financial Times, 5 September 2024.
[xlv] A. Anantha Lakshmi, *“Vietnam pushes for high tech as investors pivot from China”*, Financial Times, 21 August 2024.
[xlvi] A. Anantha Lakshmi, *“Vietnam seeks power savings in heatwave as manufacturers pivot from China”*, Financial Times, 30 May 2024.
[xlvii] Oliver Telling, William Langley, Andy Lin and Chan Ho-him, *“Chinese businesses target Vietnam and Mexico as trade tensions with US rise”*, Financial Times, 3 June 2024.
[xlviii] For an explanation of Vietnam’s “bamboo diplomacy” and its main pillars, see: A. Anantha Lakshmi, *“Vietnam’s ‘bamboo diplomacy’ triumphs with visits from Biden, Xi and now Putin”*, Financial Times, 20 June 2024.
[xlix] Robert McCorquodale, *“Business deserves clarity on human rights responsibilities”*, Financial Times, 11 March 2024.
[l] One example is the Italian competition watchdog having launched investigations into luxury fashion groups Armani and Dior for alleged labour exploitation by Chinese-owned sub-contractors in Italy, with some of the foreign workers (mostly from China) living in makeshift dorms above the premises and others being found to be illegally in Italy and hence more vulnerable to abuse and exploitation, see: Amy Kazmin, *“Italy’s competition watchdog probes Armani and Dior over alleged labour exploitation”*, Financial Times, 17 July 2024. Another example is that of Swedish flagship retailer of furniture and home accessories, Ikea, which has just agreed to compensate former prisoners in East Germany who were forced to work producing its furniture, though the small amount of EUR 6mn is probably more symbolic, see: Richard Milne and Laura Pitel, *“Ikea to pay €6mn to compensate for forced labour by ex-prisoners in East Germany”*, Financial Times, 31 October 2024.
[li] Jim Pickard, Emma Dunkley and Eleanor Olcott, *“Shein faces greater political scrutiny ahead of planned London IPO”*, Financial Times, 16 September 2024. For a very interesting investigation of work practices on the ground but also growing labour shortages due to demographics, see: Eleanor Olcott, *“What Shein’s supply chain says about the future of Chinese manufacturing”*, Financial Times, 26 August 2024.
[lii] Oliver Telling, *“Shipping industry concern mounts over bullying and sexual harassment”*, Financial Times, 25 August 2024.
[liii] Oliver Telling, *“Banks to curb lending for shipowners who put seafarers’ welfare at risk”*, Financial Times, 25 August 2024.
[liv] Jamie Smyth, Chris Cook and Anastasia Stognei, *“US firm’s Russia work prompts Congress to demand stricter sanctions”*, Financial Times, 20 October 2024.
[lv] For some box-ticking exercises on governance-related themes among smaller Austrian companies, see: Palfinger Q3’2024 presentation, 28 October 2024, slide 8 (reference to “zero cases of proven corruption”) and Andritz Q3’2024 presentation, 31 October 2024, slide 13 (reference to “no infringements” by applying the “highest corporate compliance standards”).