Market Commentary on the Q2'2024 Results Season:

From Sector Rotation to Renewed Recessionary Fears?

With **inflationary pressure having receded in recent months** but the outlook for economic growth remaining uncertain,[i] not only Central Banks remained cautious in their rate-setting policy, but also investors started to run ahead of the pre-announced rate pivot by **rotating out of the AI hyped investments into mega caps** and more into **small caps, which are expected to benefit disproportionally from lower rates**.[ii] At the same time, senior executives have become increasingly articulate about **"still much uncertainty around AI products"** (Christophe Fouquet, CEO of ASML) and pointed to a **"complicated operating environment"** (David Solomon, CEO of Goldman Sachs) during the Q2'2024 reporting season,[iii] which was preceded by a number of spectacular profit warnings in June (Airbus, Nike) and July (Porsche, Lufthansa).[iv] Given the political election cycle this year, one of the **main uncertainties remains the outcome of US elections in November**, with investors trying to get to terms not only with Trump 2.0, but also with **implications for US Fed independence, taxation, deregulation, trade sanctions and migration**.[v]

Given the broad consensus on **"markets not providing a tailwind"** (Gregoire Poux-Guillaume, CEO of AkzoNobel) and **top-line pressure continuing** as "customers are holding off orders, particularly in Europe" (Björn Rosengren, CEO of ABB), the current investor focus has now crystallised around the following major themes: 1) **efficiency measures and additional cost savings** have gained new momentum to mitigate opex pressure,[vi] notably from wage inflation, industrial inefficiencies and higher freight costs;[vii] 2) given rising cost challenges and margin pressure, **pricing action has not only become opportunistic but a "strategic issue"** (C.C. Wei, CEO of TSMC), which was widely debated during Q2'2024 analyst Q&A;[viii] 3) the **market backdrop in China** has been of particular interest for investors and analysts alike, as industrial companies maintained that the "raw materials' cycle has played out, with lower prices eating margins" (AkzoNobel) and the **competition from Chinese vendors having "sharply increased"** (Börje Ekholm, CEO of Ericsson);[ix] and 4) **changing consumer sentiment and its implication for the pricing environment**, specifically in the US, has been frequently enquired, whether at food companies (Nestle),[x] airline operators (Lufthansa),[xi] banks with large mortgage and consumer lending exposure (Handelsbanken, SEB, Santander, Lloyds Banking Group) or even energy majors with convenience stores (bp plc).

While we first focus on some new market developments since the start of 2024, notably **bitcoin trading and global tax changes**, we then discuss broader themes of growing investor scrutiny – one being a **case study on the banking industry** and the other relating to investor fears about **Taiwan's Dutch disease** given its predominant reliance on the semiconductor industry amidst military threat from China. The second part of this market commentary further investigates various limitations of the current **AI narrative,**[xii] and we illustrate some of the latest AI developments in another **case study on the music industry**. The final two sections go into specific governance topics, including an update on **shareholder activism and whistleblowing**.

BITCOIN TRADING

The start of 2024 marked two major developments in the crypto sector: a) the SEC approved the first spot bitcoin exchange traded funds (ETFs) to be offered by 10 institutions ranging from BlackRock, Fidelity and Invesco to relative digital newcomers such as Grayscale and Ark Invest;[xiii] and b) an unprecedented lobbying campaign ahead of the US presidential elections has been unleashed to shape future regulatory battles.[xiv] Getting closer to the November elections, not only bitcoin enthusiasts have massively donated to Donald Trump, but also crypto investors are estimated at 40 million in the US alone, the fact that cannot be ignored in a tight election.[xv] While it goes beyond the scope of this market commentary to get into detail of all the regulatory and ideological debates, suffice it to say that the boundary between crypto and conventional finance has been broken down for good with the launch of the first bitcoin ETFs in January.[xvi]

Having closely followed banks across the Atlantic over the last few months, however, it strikes us that this topic has not received any specific interest during analyst Q&A - whether at quarterly results or strategy updates (JPMorgan, Citigroup Services, ING) – even after ether ETFs have been approved by the SEC in July as an addition to bitcoin.[xvii] Still, a few observations are worthwhile making at this early stage: a) bitcoin may not have received a boost from the current AI mania but it has become a viable long-term investment – evidenced in strong price appreciation and lower volatility in recent months; b) bitcoin may not have fulfilled the fundamental vision of becoming the new “digital gold”, nor a medium of exchange, but many large institutions perceive the cryptocurrency to be a legitimate investment – in stark contrast to the past when it figured next to other speculative trades like unprofitable tech and meme stocks.[xviii] While the regulatory debate will clearly go beyond the US elections in November, one interesting theme has already emerged in the distinction between the launch of tokens for trading and blockchain-based innovation.[xix]

GLOBAL TAX CHANGES

Another major development at the beginning of 2024 was the introduction of a global minimum tax on multinational companies, as the OECD had brokered a tax reform to bring nearly 140 countries together – except the US and China - in its effort to close tax loopholes and raise an additional $155bn to $192bn in annual revenue by applying an effective tax rate of at least 15 per cent on corporate profits.[xx] In the past, the OECD Base Erosion and Profit Shifting (BEPS) Initiative has been disappointing and the amount of tax evasion and harmful tax competition – both by global corporations and billionaires – has been mind-boggling as the latest Global Tax Evasion Report 2024 of the EU Tax Observatory shows.[xxi]

During the Q2’2024 reporting season, some companies pointed to the underlying tax rate remaining an “area of focus given the OECD framework” (Anna Manz, CFO of Nestle) and/or that the implementation of the OECD minimum tax is on top of their agenda (Fabian Chiozza, CFO of VAT Group). Given the more than 50 companies we had followed world-wide during the Q2’2024 results period, it is perhaps no surprise that particularly Swiss companies raised the issue of the “OECD tax rate starting to kick in” (Evie Kostakis, CFO of Julius Baer), but this has not been a major theme of analyst interest during Q&A. Despite all the ESG hype in recent years, creating a fair global tax system to tackle challenges of climate change, pandemics and social inequality, while governments make essential investments in education, health and infrastructure, appears still not to be more than a footnote on mainstream institutional investor radar screens.

One major hurdle remains the Republican-dominated US Senate to ratify the international tax treaty by a two-thirds' majority and - with US multinationals accounting for 40% of global profit shifting according to the Global Tax Evasion Report 2024 – the implementation of the OECD tax reform is in a dead end.[xxii] With the self-imposed deadline having run out on 30 June, countries such as Canada, Kenya and New Zealand started reportedly to introduce unilateral digital levies, which would affect mostly large US-based technology companies.[xxiii] In the context of the global minimum corporate tax reform, other tax options such as a global AI tax and the EU carbon border tax have been widely discussed.[xxiv]

CASE STUDY: BANKING INDUSTRY

As global banks became a more attractive investment on the back of higher interest rates and the pressure from new Basel IV regulation (in US parlance Basel III endgame) appeared to wither away,[xxv] we started to follow the banking industry more closely in early 2024. Despite the continuing regulatory uncertainty, banks felt more encouraged to elaborate on their strategy, notably M&A and digital,[xxvi] and a new wave of in-market consolidation in Europe commenced with the attempted takeover of Banco Sabadell by BBVA in Spain.[xxvii] When following their strategy updates in 2024, the impact of AI and new digital skills have been at the forefront of bank management's thinking, extensively elaborating on use cases and productivity gains.[xxviii]

While investment banking strongly supported large banks' results during the Q2'2024 reporting season, as the "early innings of capital markets and M&A recovery" have been observed (David Solomon, CEO of Goldman Sachs),[xxix] and notably US banks were reporting record results on the back of the US still being "the structurally most sound economy" (Jane Fraser, CEO of Citigroup),[xxx] the investor focus shifted more strongly towards loan growth as banks across both sides of the Atlantic reported "loan demand remaining muted" (Jeremy Barnum, CFO of JPMorgan Chase) and "sluggish" (James von Moltke, CFO of Deutsche Bank).[xxxi] As customers remained cautious and adjusted to lower rates, the "inflection in net interest income (NII)" was another major theme of investor interest, as future rate cuts are expected to stabilise deposit rates and lending growth (Sharon Yeshaya, CFO of Morgan Stanley).[xxxii] Another observation is that cost savings and efficiency measures gained momentum as inflationary pressure on IT investment and wages continued.[xxxiii]

TAIWAN'S DUTCH DISEASE

With Taiwan having set up a powerful ecosystem of global electronics manufacturing over the last few decades, the threat of Chinese military invasion as well as the reconfiguration of global supply chains have raised fears about an economic "Dutch disease",[xxxiv] given the high concentration of semiconductor fabrication plants on the island, particularly TSMC with its outsized role.[xxxv] These fears are based on the growing gap in investment and income between its technology sector and the rest of the economy, with semiconductors accounting for 42 per cent of exports while employing 663,000 people compared with 4.8 million in the services sector.[xxxvi] At the same time, TSMC accounted for 7.5 per cent of Taiwan's entire power consumption in 2022,[xxxvii] illustrating the country's main five shortages of power, water, land, workers and highly qualified jobs.

Given the threat of Chinese military aggression, Taiwanese contract manufacturers – in many ways the backbone of global supply chains for electronic devices and their components, including personal computers, smartphones, servers and telecom networking equipment - have reportedly started to set up second headquarters in South-East Asia, including Lite-On and Qisda.[xxxviii] In this context, Taiwan's topography divides the island into the cities on the plains to the west, facing across the strait to China, with a population of 22 million of the country's 23.5 million and home to all the semiconductor factories as well as the main transport and utility infrastructure,[xxxix] which makes the defence of a military invasion even more difficult.

As the US Republican candidate, Donald Trump, recently stated that Taiwan "stole our chip business" and "should pay (the US) for defence",[xl] the geostrategic importance of the island and its semiconductor footprint came back to the agenda.[xli]

AI OVERHYPED FRENZY

The sudden sell-off of technology stocks in July and the more open discussion in early August about overhyped AI investments,[xlii] with the Magnificent Seven reaching "bubble land" by some accounts (Elliott), provide the opportunity to lean back and think not only about the new opportunities but also challenges in terms of costs (notably for energy, water for cooling and land), concentration/competition and ethical risks, and not least the institutional resistance, especially in defence and healthcare.[xliii] When listening carefully to senior management at the Q2'2024 results season, there was a growing recognition that the "emergence in AI usable products is still needed, as there are currently only investments" (Christophe Fouquet, CEO of ASML).[xliv]

While professional fund managers increasingly questioned the sustainability of massive AI-related investments with no tangible returns yet, and Intel's "meaningful reduction of investment and headcounts" (Pat Gelsinger, CEO of Intel) signaled a more modest growth outlook,[xlv] some of the technical limitations of generative AI models and the need to focus more on adjacent AI research fields became more prominent in the current discussion.[xlvi] With an enormous amount of money being poured into large language models and the infrastructure to support them, it became clear that it simply takes time for all that capacity to be put into productive use,[xlvii] including the fact that AI has not led to any compelling new services for customers yet (mobile phones, AI PCs).[xlviii] Most hopes are currently pinned on developing industrial robots to transform manufacturing.[xlix]

Within the broader investor and corporate debate on the future of AI, some key discussion themes have emerged so far: a) the amount of energy and water required to run AI models raises the question whether AI is more of a problem than a solution when it comes to climate change;[l] b) the phenomenal race for AI leadership has undermined evaluation criteria to assess performance, accuracy and safety, with traditional models being too easy to manipulate and/or too narrow for the complexity of the latest AI models;[li] c) the omnipresence of big US companies in terms of research, investment and AI development raises fears about "techno-feudalism" and "data colonialism", with smaller companies and emerging markets potentially staying behind new digital opportunities;[lii] and d) with Israel reportedly using an AI-enabled targeting system in Gaza the debate on military technology has added a strong moral theme.[liii]

CASE STUDY: MUSIC INDUSTRY

Over the last two reporting seasons, we have followed the music industry more closely to better understand the evolving business model around streaming, subscription, product innovation, customer access/engagement and not least the diversification of revenue streams through rapid AI advance.[liv] Clearly, streaming companies have not only tried to expand their subscription base through "premium plans" (Spotify) and a more tailored proposition (family, students) but they have also introduced price increases in key markets and looked for partnerships in developing markets as well as further acquisitions.[lv] In turn, the established music entertainment business is not only seeking new digital revenues (gaming, health & wellness), but also exploring "platform partnerships" (Universal Music Group) and new genres and markets through AI innovation.[lvi] In this process, the music industry had to find new ways of "driving efficiency" (Spotify) while also facing severe royalty licence disputes (TikTok/Universal Music Group).[lvii]

The impact of AI innovation – songwriting, composition, music sounds or even the opportunity of artists' songs being performed in their own voice in different languages - has been widely discussed in recent months as has the need to protect artists' rights and "respect IP in the AI era" (Lucian Grainge, CEO of Universal Music Group). The fast spread of generative AI voice cloning has pointed to the impact of social media - as it is increasingly important for the income of artists and writers, with corporate executives becoming more vocal about the need for a profound ethical approach and transparency on AI model training.[lviii] As major social media companies have enquired about using artists' music to train AI software, with YouTube being reported to have offered "lump sums of cash" to the major labels (Sony, Warner and Universal),[lix] the established players responded by using "carrots and sticks" on AI as they seek to explore "new creative and commercial interests" (Universal Music Group).[lx]

SHAREHOLDER ACTIVISM

We had frequently published on shareholder activism in the past but there are a few new developments worthwhile mentioning: a) not only the number of activist campaigns has significantly increased in recent years, but the strategy has been more deployed by other types of shareholders;[lxi] b) there has been a resurgence in multiple hedge funds swarming around the same target but what used to be seen as a "wolf pack" has now often pursued different agendas with, on occasion, open fights in the public arena;[lxii] c) proxy contests have become an extremely expensive, divisive and long exercise as a result of which companies tend to call a ceasefire much quicker;[lxiii] and d) while climate change activists had so far largely pressed for financial damages from polluters (Shell, RWE, Holcim) the legal action claiming criminal wrongdoing taken against TotalEnergies and some of its top shareholders (BlackRock, Norges) in Spring 2024 had been a new phenomenon,[lxiv] with implications for a more careful institutional review of their shareholdings.

To what extent shareholder activism has expanded outside Western developed markets shows the Hindenburg research on Polish fashion chain LLP SA published in March 2024, which was claimed by LLP to be part of an "organised disinformation attack" with the aim to press down the share price and "gain influence at LLP".[lxv] Clearly, the Hindenburg report was a very comprehensive investigative research and forensic analysis, providing evidence of LLP not having properly exiting Russia after sanctions applied in the wake of the invasion in the Ukraine,[lxvi] which could perhaps even be helpful as a warning for other European companies trying to mask a fake sell-off of their Russian operation. As one would expect, LLP responded with a ferocious attack against Hindenburg, holding an analyst conference call a few days later and seeking state support from the foreign ministry and tax authorities.[lxvii] As other European companies had to find out, with Hindenburg being based in the US and regulated by the SEC, there was no point in trying to sue the hedge fund as the SEC perceives this research rather being a benefit for all investors.[lxviii]

WHISTLEBLOWING

On the back of an EU whistleblowing directive coming into force in December 2023 and the recent US Supreme Court ruling making it harder for companies to retaliate against whistleblowers, the ongoing Wirecard investigation in Germany became a practical test case.[lxix] Under the EU directive, companies with more than 50 employees must have channels to facilitate, log, access and – where appropriate – investigate complaints, but there was much opposition to the costs involved, the sheer scope of mundane complaints - ranging from coffee machines to delayed shipments and procurement concerns - and the lack of protection for whistleblowers. As a result, governance failures (Boeing, Royal Mail)[lxx] and criminal cases (Wirecard, FTX) are more difficult to detect through whistleblowing as the former general counsel of Wirecard, Pav Gill, who blew the whistle by providing the FT with files that helped to unravel the Wirecard accounting fraud in 2020, conceded.[lxxi]

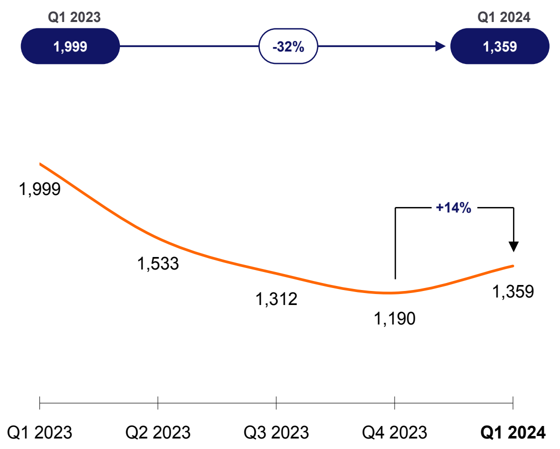
Given reputational risk and investor pressure to respond to accusations of corruption and human rights abuses, however, companies have started to respond in a more responsible and forceful way to whistleblower complaints as the large-scale bribery case for adidas in China showed.[lxxii] Investigations into the anonymous allegations of embezzlement, also published on Chinese social media, have resulted in termination of the contracts of two senior managers, who had received kickbacks from external service providers from its marketing budget.[lxxiii] Similarly, whistleblowers have reportedly uncovered billions of dollars of previously undetected transactions carried out by Standard Chartered with Iran-linked entities, including sanctioned companies and terrorist organisations, according to a recent court filing submitted in New York.[lxxiv] There is a clear trend for whistleblower systems gaining importance to improve corporate governance as evidenced by the latest debate in Japan.[lxxv]

Peter and Irina Kirkow
4 August 2024

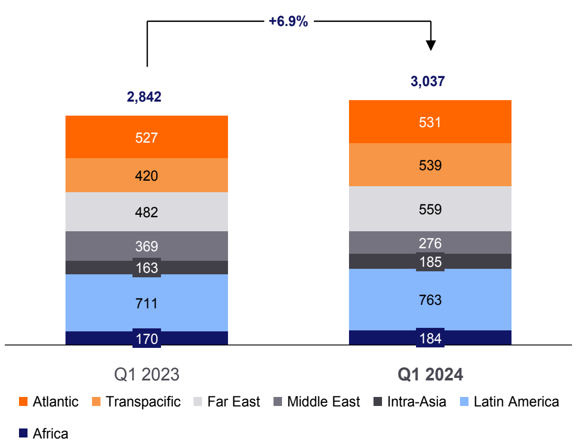
APPENDIX

Our average freight rate started to improve again in Q1 2024 – Volume increase driven mainly by Transpacific and Far East

FREIGHT RATE DEVELOPMENT [USD/TEU]



TRANSPORT VOLUME DEVELOPMENT BY TRADE [TTEU]

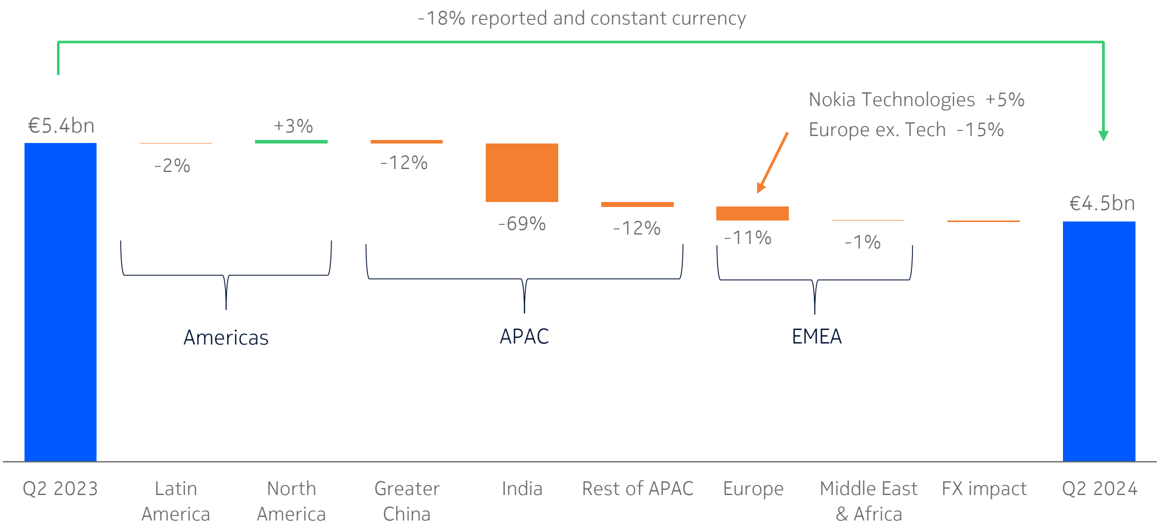


10 15 May 2024 Investor Presentation - Q1 2024 Note: Figures as stated in the Investor Report Q1 2024. Rounding differences may occur.

Hapag-Lloyd

Regional sales: India weighed heavily on top-line in Q2

Year-on-year at constant currency

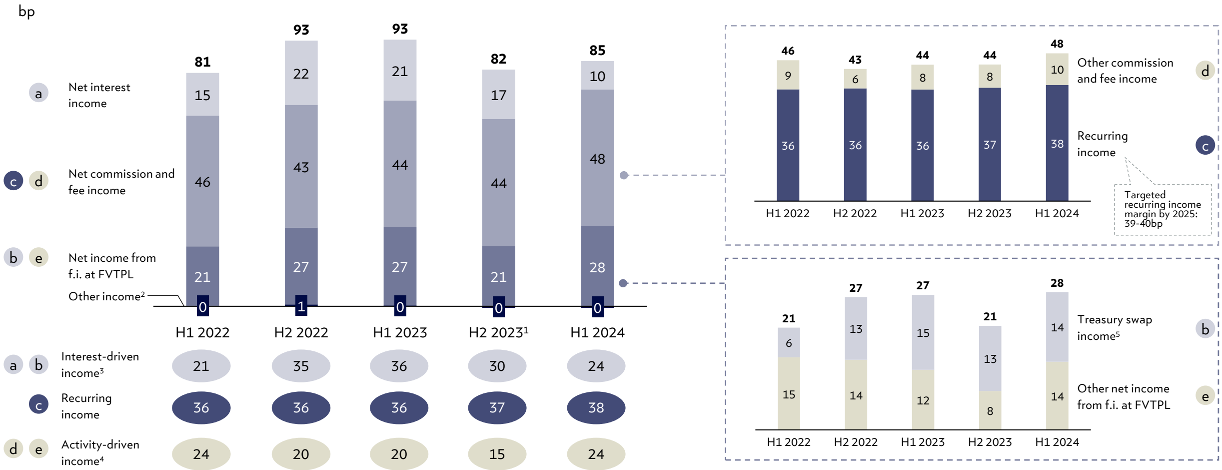


10 © 2024 Nokia | Public

NOKIA

Gross margin -8bp YoY to 85bp

Increase in activity-driven income and further uptick in recurring fees offset by lower interest-driven income



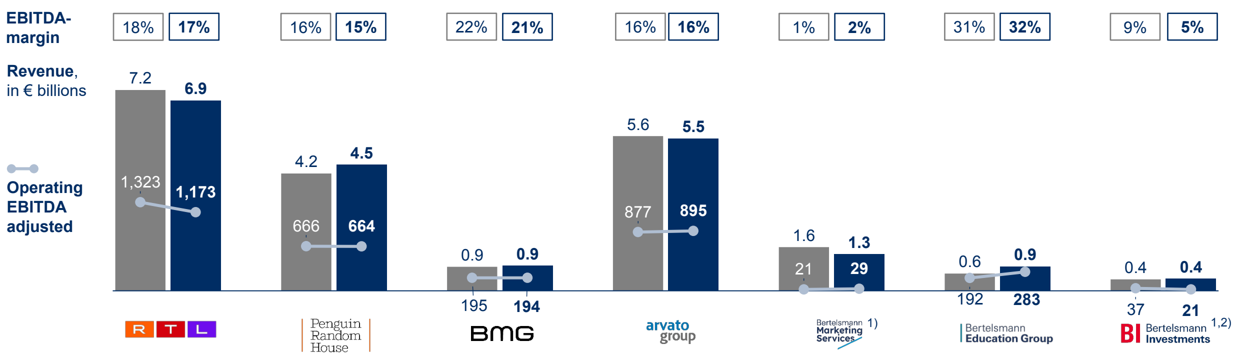
¹ Underlying gross margin, excludes CHF 586m increase in loan loss allowances against the single largest exposure in private debt; 55bp if not excluded | ² Other income not included in the split on the lower left hand side | ³ Net interest income plus treasury swap income | ⁴ Other commission and fee income plus other net income from financial instruments measured at FVTPL | ⁵ Based on management accounts

Divisions – **Revenue growth at PRH, BMG, Bertelsmann Education Group and BI; EBITDA down mainly due to declines at RTL Group and disposal of Majorel shares**

in € millions ■ 2022 ■ **2023**

Revenue growth compared to previous year

	RTL	Penguin Random House	BMG	arvato group	Bertelsmann Marketing Services	Bertelsmann Education Group	Bertelsmann Investments
Reported	-5.1%	+7.3%	+4.6%	-1.6%	-16.2%	+40.9%	+5.0%
Organic	**-4.0%**	**+5.6%**	**+5.7%**	**+5.9%**	**-15.9%**	**+8.7%**	**+4.1%**



1) Previous year adjusted 2) The business development of the venture capital business of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT of Bertelsmann Investments amounted to €-219 million (previous year: €-51 million).

ENDNOTES

[i] Eurozone inflation had slowed down to 2.5% in June, largely driven by a deceleration of energy and food prices, while core inflation (excluding energy and food) remained at 2.9%. At the same time, unemployment remained at a record low of 6.4% in May, with the ECB expressing uncertainty not only about "how the nexus of profits, wage and productivity will evolve" but also geopolitical uncertainty, the risk of political turmoil after the latest election cycles, notably in France, and "new supply-side shocks", see: Martin Arnold, *"Eurozone inflation slows to 2.5%"*, Financial Times, 3 July 2024. Similarly in the US, where inflation fell more than the forecast to 3% in June, driven by lower petrol prices and a slowdown in housing-related costs, with the market largely pricing in the first rate cut by the Federal Reserve in September, see: Colby Smith and Kate Duguid, *"US inflation falls to 3% in June"*, Financial Times, 11 July 2024. One major anomaly in the market, however, was the strong year-to-date inflow to mutual funds and ETFs – against textbook economics expecting continuing high levels of interest rates resulting in a rotation away from riskier assets and into money markets and treasury bills – which suggests that Central Banks have been tightening with one hand and easing with the other, notably through higher reserves at commercial banks. For a detailed explanation of this phenomenon, see: Matt King, *"Investors should focus less on rates and more on the money flows"*, Financial Times, 16 July 2024. For an interesting academic research about investors chasing self-inflated fund returns at a high frequency, notably through large concentrated funds, with the authors questioning the rationality of ETF investors and hence using the term "Ponzi funds" to convey the notion of self-inflated funds, see: Philippe van der Beck, Jean-Philippe Bouchaud and Dario Villamaina, *Ponzi Funds*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4834390, 21 May 2024. Following disappointing earnings during the Q2'2024 results season, renewed fears of a recession have appeared given the continuing high benchmark rate policy by various Central Banks, notably the US Fed, see: Tej Parikh, *"A US recession is not off the table"*, Financial Times, 2 August 2024. This debate heated up following the sharper than expected fall in US jobs growth in July, see: Colby Smith, *"Federal Reserve under fire as slowing jobs market fans fears of recession"*, Financial Times, 3 August 2024.

[ii] Earnings of fast-growing mega caps had been supported by higher rates given their enormous cash piles while smaller companies had to deal much more with higher debt burdens. While the market now expects a slowdown in earnings growth by the large technology companies, there is also much anticipation about growth broadening towards smaller companies and the investment community becoming more price sensitive in terms of valuation and focusing stronger on cheaper, more cyclical companies, see: Nicholas Megaw, *"Big tech shares lose lustre as US market rocked by violent rotation"*, Financial Times, 19 July 2024. With the stock rotation into small caps having started on 10 July, the Q2'2024 earnings releases by some of the so-called Magnificent Seven technology stocks in late July resulted in "correction territory" (two-digit share price decline), notably Tesla, Meta and Alphabet, see: Jennifer Hughes and Nicholas Megaw, *"Tech reversal pushes US mega caps into correction territory"*, Financial Times, 27 July 2024. Intel's Q2'2024 results presentation triggered a sell-off in global markets in early August as the company conceded that "the pace of recovery has been slower than expected" and that "profitability was disappointing" (Pat Gelsinger, CEO of Intel, at the Q2'2024 analyst call on 1 August 2024), announcing $10bn cost savings by 2025, capital spending lowered by 20% in 2024, a 10% headcount reduction and the suspension of the dividend at Q4'2024, see also: Richard Waters, *"Intel shares fall 20% on plans to cut 15,000 jobs"*, Financial Times, 2 August 2024 and Leo Lewis and Arjun Neil Alim, *"Japan leads Asia share rout on US recession fears and tech sell-off"*, Financial Times, 2 August 2024.

[iii] Interestingly, some of the banks pointed to current risks of using generative AI with their customers, emphasising that it will take about 3-5 years to get properly adopted (Charlie Nunn, CEO of Lloyds Banking Group, at the H1'2024 analyst call on 25 July 2024). While Lloyds Banking Group is currently using about 800 AI models, it is still at an early stage of focusing on how best to manage risk, efficiency and data/technology capabilities. Naturally, technology companies have been more positive about the tangible AI impact, with the CEO of TSMC, C.C. Wei, saying that "AI demand is more real than 2-3 years ago" and "very useful to improve productivity" (TSMC Q2'2024 analyst call on 18 July 2024), while Tesla conceded that "affordability remains on top of customers' mind" when talking about new EV models with AI functions (Elon Musk, CEO of Tesla, on the Q2'2024 analyst call on 23 July 2024). In the energy sector, the CEO of Shell, Wael Sawan, highlighted that new digital and AI capabilities would help to increase competitiveness, simplify the organisation and support "multi-skilling" among employees, which is very much in line with the strategic ambition of "culture change" at Shell (Q2'2024 analyst call on 1 August 2024).

[iv] For details on the Porsche profit warning, see: Martin Arnold and Harry Dempsey, *"Porsche warns on profits as*

flooding hits aluminium supplier", Financial Times, 23 July 2024. There were numerous other profit warnings by smaller companies, and, in terms of sector, luxury goods had taken a particularly strong hit, as we had already discussed in our previous Q1'2024 market commentary. It was also notable to what extent the market remained sensitive about companies' earnings releases once investors had the chance to digest results and review the outlook for 2024-25, which often resulted in significant share price correction (Nokia, ASML, ABB, Nestle, KPN, DHL Group, Intel and, among banks, Julius Baer and Deutsche Bank, to highlight a few).

[v] While there is still much investor controversy on the inflationary potential of Trump 2.0, the greatest impact is being anticipated a) in terms of the Fed independence; and b) on markets outside the US, notably China, see: Katie Martin, *"Investors grapple with the Trump trade"*, Financial Times, 17 July 2024. The CEO of Morgan Stanley, Edward Pick, highlighted the major themes for the rest of the year being the rate cycle, geopolitics and the US political cycle (Morgan Stanley Q2'2024 analyst call on 16 July 2024). For some strong arguments to what extent the economic conditions and global context of Trump 1.0 have changed materially since 2016, see: Bhanu Baweja, *"Trump 2.0 would not play out like Trump 1.0 in markets"*, Financial Times, 22 July 2024 and for the broader debate on Fed independence if challenged by Donald Trump, see: Krishna Guha, *"The Fed's dilemma on Trump"*, Financial Times, 30 July 2024 and Ernie Tedeschi, *"The independence of the Fed is critical for the US"*, Financial Times, 17 July 2024.

[vi] The renewed wave of cost cutting announcements during the Q2'2024 reporting season was often met with scepticism by analysts and investors as to whether companies would not "over-squeeze the lemon" (Redburn analyst) and put in danger sustainable profitability (ABB Q2'2024 analyst call on 18 July 2024), and/or whether massive cuts in capex spending would undermine strategy execution and/or mid-term targets (Intel Q2'2024 analyst call on 1 August 2024). When challenged on its structural opex reduction programme, the CEO of Shell, Wael Sawan, pointed to the fact that business travel is at 69% vs 2019 and that this saves a "couple of hundred million", to provide one specific example (Shell Q2'2024 analyst call on 1 August 2024). In turn, Lufthansa emphasised that they face "complex collective bargaining" in Germany, with personnel costs at Group level being at EUR 3bn per annum, which results in a productivity gap of 15% compared with pre-Covid levels (Carsten Spohr, CEO of Lufthansa, at the Lufthansa Q2'2024 analyst call on 31 July 2024).

[vii] The sudden spike in spot rates since late April 2024 had already been flagged by major container shipping companies during the Q1'2024 reporting season, which was only partly related to the attacks by Houthi rebels in the Red Sea and rather interpreted as an "element of restocking given uncertainty" and "pulling orders forward" well ahead of this year's Christmas season (Rolf Habben Jansen, CEO of Hapag Lloyd at the Q1'2024 analyst call on 15 May 2024). Naturally, this led container shipping companies to upgrade their 2024 guidance, with specific reference to "continuing supply chain disruption caused by the situation in the Red Sea" but also "robust container market demand" (Maersk trading update on 1 August 2024), see: https://investor.maersk.com/news-releases/news-release-details/trading-update-q2-2024-and-adjustment-full-year-guidance-2024.

[viii] Companies' pricing action was discussed extensively in both ways, whether downwards due to consumer sentiment and/or price pressure from competition (Lufthansa, bp, Nestle) or upwards in the attempt to defend margins and maintain the premium value of products (Holcim, DHL Group, ABB). The announced "demand surcharge" by DHL Group to fend off Chinese e-commerce players "absorbing airfreight capacity for Q4'2024" and "regionally distorting the trade lane in South China" (Melanie Kreis, CFO of DHL Group, at the Q2'2024 analyst call on 1 August 2024) was one of the main discussion points during analyst Q&A, particularly whether this could become counterproductive and/or DHL might lose market share. In turn, the CEO of KPN, Joost Farwerck, maintained that price increases of 3.8% in 2024 were accepted by Dutch customers in an "okayish way" (KPN Q2'2024 analyst call on 24 July 2024). Clearly, pricing has been seen as "one of the factors in margin improvement" (Björn Rosengren, outgoing CEO of ABB, at the Q2'2024 analyst call on 18 July 2024) and hence became a very prominent theme for analyst enquiries.

[ix] For a good insight into fierce competition from the Chinese e-commerce business Temu, see: Eleanor Olcott and Tina Hu, *"Chinese online store Temu faces supplier backlash over business model shift"*, Financial Times, 30 July 2024. Lufthansa cited "overcapacity by Chinese airlines, having the advantage of flying over Russian territory" as one major reason for yield pressure and their decision to reduce capacity during the winter season (Carsten Spohr, CEO of Lufthansa, at the Q2'2024 analyst call on 31 July 2024). Similarly, the CFO of DHL Group, Melanie Kreis, pointed to "capacity constraints out of Asia given Chinese players" (DHL Group Q2'2024 analyst call on 1 August 2024).

[x] At the H1'2024 analyst call of Nestle on 25 July 2024, senior executives conceded that they are "managing prices in a tough consumer environment" and that "pricing has come down faster than expected" (Mark Schneider, CEO of Nestle). As a result, Nestle had to engage more in promotional activity and make investments in specific areas of critical importance. Nestle management also mentioned that global brands have come under pressure in Asia due to

geopolitical tension and fierce competition. For a summary of various US companies reporting on changing consumer sentiment during the current Q2'2024 season, see: Nicholas Megaw et. al., *"US consumers show signs of flagging, companies and analysts warn"*, Financial Times, 29 July 2024.

[xi] Lufthansa reported price pressure due to growth in capacity, particularly out of China, and high fuel consumption. Still, the "main pain point" appears to be the heterogenous fleet, which has been aggravated by the fact that in 2024 "no aircraft was delivered in time, whether from Boeing or Airbus" (Till Streichert, interim CFO of Lufthansa, at the Q2'2024 analyst call on 31 July 2024).

[xii] If there had not been enough investor scepticism around before the sector rotation started on 10 July, the letter from Elliott to its clients – published by the Financial Times after the massive stock sell-off on 2 August – could not have been more explicit by claiming that Nvidia was in "bubble land" and that AI is "overhyped with many applications not ready for prime time", see: Laurence Fletcher and Costas Mourselas, *"Elliott says Nvidia is in a 'bubble' and AI is 'overhyped'"*, Financial Times, 3 August 2024.

[xiii] Will Schmitt, Brooke Masters and Scott Chipolina, *"SEC approves first spot bitcoin ETFs in boost to crypto advocates"*, Financial Times, 11 January 2024. While new inflows during the first three trading days amounted reportedly to $871mn, bitcoin prices had fallen by 6% as high valuations in the run up corrected and first profit taking started, see: Scott Chipolina and Will Schmitt, *"US bitcoin ETFs pull in $871mn in first three trading days of trading"*, Financial Times, 17 January 2024. Within a few weeks of trading, it became clear that the regulatory framework provided was not sufficient to prevent massive outflows and a further fall in bitcoin value took place in March as fundamentals for anchor prices were missing, making bitcoin ETFs more vulnerable to major swings. See: Scott Chipolina, *"Bitcoin tumbles from record high as Grayscale ETF outflow hit $12bn"*, Financial Times, 20 March 2024.

[xiv] Gillian Tett, *"Crypto lobbyists are on manoeuvres – and we should be worried"*, Financial Times, 29 March 2024.

[xv] Edward Luce, *"Trump and the politics of bitcoin"*, Financial Times, 1 August 2024.

[xvi] Jemima Kelly, *"Hypocricy is everywhere with crypto and the banks"*, Financial Times, 12 March 2024.

[xvii] Will Schmitt, *"SEC approves ether ETFs as crypto moves closer to mainstream"*, Financial Times, 23 July 2024.

[xviii] Ruchir Sharma, *"Bitcoin bulls are not the bigger fools"*, Financial Times, 11 March 2024.

[xix] Chris Dixon, *"Crypto regulation must not prioritise memes over matter"*, Financial Times, 19 April 2024.

[xx] Emma Agyemang, *"Global minimum tax on multinationals goes live to raise up to $220bn"*, Financial Times, 1 January 2024. For various countries benefiting most from the global minimum tax as discussed in the new OECD working paper, see: Emma Agyemang, *"Global minimum tax will boost revenues for tax havens, says OECD"*, Financial Times, 10 January 2024.

[xxi] The Global Tax Evasion Report 2024 estimates that $12 trillion – the equivalent of 12% of world GDP – was held offshore by households at the end of 2022, with a growing fraction being now managed in Asian offshore financial centres such as Singapore and Hong Kong (Switzerland being down to 20%). Of that amount, the team of the EU Tax Observatory estimates that 27% goes untaxed. In turn, corporate profits shifted to tax havens totalled $1 trillion in 2022, with tax losses amounting to 10% of global corporate tax revenues. There are various ways of profit shifting through so-called transfer prices (essentially manipulating intra-group export and import prices), intra-group lending and borrowing with affiliates in high-tax countries, as well as strategically locating intangible assets (trademarks, intellectual property, logos) in tax havens, and charging subsidiaries in high-tax countries for the right to use these assets, etc. (EU Tax Observatory, *Global Tax Evasion Report 2024*, www.taxobservatory.eu/about).

[xxii] Emma Agyemang and Paola Tamma, *"Global tax deal under threat from US politics and fraying consensus"*, Financial Times, 28 February 2024.

[xxiii] Emma Agyemang, Paola Tamma and Claire Jones, *"Global tax truce frays over fears of US senate deadlock"*, Financial Times, 25 June 2024.

[xxiv] For the global AI tax, see: Marietje Schaake, *"It's already time to think about an AI tax"*, Financial Times, 9 January 2024 and for the EU's carbon border tax, see: Alice Hancock, "*World-first carbon border tax shows teething problems"*, Financial Times, 1 March 2024.

[xxv] It goes beyond the scope of this market commentary to cover all the intricacies of the Basel IV regulatory impact, notably the differences when applying stricter capital rules in the US and Europe, whether it relates to small and medium-sized banks or banks with insurance subsidiaries, the treatment of eurozone sovereign debt as risk free, etc. This is now largely perceived with a watered-down impact, implying a perhaps 10% higher capital requirement compared with previously expected 20%, see: Patrick Jenkins, *"How Basel III leaves banks with weak points on both sides of the Atlantic"*, Financial Times, 18 March 2024. From the US perspective, a particular flashpoint was the question what banks do with excess capital and how they account for dividends and share buy-backs, see: Stephen

Gandel and Joshua Franklin, *"US regulator hits back at banks over criticism of tougher capital rules"*, Financial Times, 22 January 2024. When specifically asked about the impact of Basel IV from 1 January 2025, banks typically provided an estimated range of less than 15 basis points (BBVA Q2'2024 analyst call on 31 July 2024) to 20 basis points (ING Q1'2024 analyst call on 2 May 2024). It is worth noting that this has been estimated much higher only a few months ago, ranging from 75-82 basis points for UniCredit (Stefano Porro, CFO, at the Q1'2024 analyst call on 7 May 2024) to 30-40 basis points for Banco Santander (Jose Garcia Cantera, CFO, at the Q1'2024 analyst call on 30 April 2024).

[xxvi] It is worth noting that the CEO of ING, Steven van Rijswijk, spoke extensively on their M&A strategy – "tangible benefits for costs as well as revenues" and "looking for certain skills like digital and fee related" – as well as M&A criteria (ROE/profitability, diversification of fees, fast integration, cultural fit, clear digital angle, in-market and fee skills) at ING's Q1'2024 analyst call on 2 May 2024, a few weeks before their Capital Markets Day on 17 June 2024. The latter focused more on investments in customer acquisition, product range and scale of operation and IT, as well as the shift of capital allocation to retail banking with the hope for higher returns (55% of RWAs by 2027).

[xxvii] Much of BBVA's pitch is related to greater scale, notably in retail and commercial banking, trying to bring together Sabadell's focus on retail with that of BBVA in SME, combined with the regional scale in Catalonia and Valencia (Onur Genc, CEO of BBVA, at the BBVA tender offer to Banco Sabadell analyst call on 9 May 2024). Banco Sabadell perceives this approach as being "hostile" (CEO Cesar Gonzalez-Bueno) and – in order to rally support from its shareholders - increased its dividend payout ratio to 60% while also announcing an interim cash dividend of EUR 0.08 per share at the Q2'2024 results release on 23 July 2024. Arguably, there were also a number of cross-border acquisitions by smaller European banks, e.g. the acquisitions of Dutch knab bank and Hamburg-based Barclays Consumer Bank Europe by the Austrian Bawag Group (Q2'2024 results, 18 July 2024).

[xxviii] The CIO of JPMorgan Chase, Lori Beer, perceived AI to be "massively transformational" and cited use cases with a value of $1-1.5bn, addressing the need for 60,000 developers vs currently 80,000 FTEs in call centres, the ambition to reduce 20% of stuff in KYC (know your customer), while anticipating a "step change in productivity" and "data quality being foundational" (JPMorgan Chase 2024 Investor Day, 20 May 2024). Similarly, the head of Business & Commercial Banking (BCB) at Lloyds Banking Group, Elyn Corfield, outlined their plans for developing "digitally led banking relationships" as businesses expect "slick, mobile-first solutions", with a particular focus on enhanced data capabilities across credit risk and pricing (Lloyds Banking Group BCB Strategy Update, 27 June 2024). The Citigroup Services 2024 Investor Day on 18 June 2024 focused not only on its changing risk profile but also the shift in trade corridors and supply chain reconfigurations requiring a different level of data management and "digitisation of trade". Goldman Sachs considered the AI potential at their Q2'2024 analyst call in offsetting the effort of 11,000 engineers' programme code while also announcing that clients perceive AI used in sell-side research as being positive (Denis Coleman, CFO of Goldman Sachs, at the Q2'2024 analyst call on 15 July 2024). In terms of fast mortgage approvals, the CEO of ING, Steven van Rijswijk, emphasised that "digital channels are crucial", which can now be done within a few hours and supported their growth in mortgage lending (ING Q2'2024 analyst call on 1 August 2024).

[xxix] Other major US banks reported that the "investment banking backdrop has improved" given that activity has picked up in capital markets, increased client spending in real estate and luxury goods was noted in wealth management and global convertibles' activity was up "significantly" in support of more IPOs and M&A (Sharon Yeshaya, CFO of Morgan Stanley, at the Q2'2024 analyst call on 16 July 2024). The CEO of Citigroup, Jane Fraser, described M&A being a "big nudge" for their results (Citigroup Q2'2024 analyst call on 12 July 2024), while the CEO of Goldman Sachs, David Solomon, cautioned that the "M&A level is still below the 10 years' average" (Goldman Sachs Q2'2024 analyst call on 15 July 2024). In this respect, sponsor activity has accelerated but in the words of the CEO of Morgan Stanley, Ted Pick, the "stickiness of the sponsor community needs to unglue" (Morgan Stanley Q2'2024 analyst call on 16 July 2024).

[xxx] At the same time, "higher equity activities" were observed in Asia while those in Europe were seen as being "seasonal" at best (Sharon Yeshaya, CFO of Morgan Stanley, at the Q2'2024 analyst call on 16 July 2024) and "lacking competitiveness" (Jane Fraser, CEO of Citigroup, at the Q2'2024 analyst call on 12 July 2024).

[xxxi] There were various reasons for lower loan growth, both retail and corporate, including a "softening of labour markets" and "tightening of consumer budgets" in the US (Jane Fraser, CEO of Citigroup, at the Q2'2024 analyst call on 12 July 2024), the "office commercial real estate (CRE) book remaining under pressure" (James von Moltke, CFO of Deutsche Bank, at the Q2'2024 analyst call on 24 July 2024), fierce competition in local markets putting pressure on loan prices, e.g. Spain (Onur Genc, CEO of BBVA, at the Q2'2024 analyst call on 31 July 2024) and corporates rather seeking early redemptions while "some deals didn't close" (Anas Abuzaakouk, CEO of Bawag Group, at the Q2'2024 analyst call on 18 July 2024).

[xxxii] In Europe, where the ECB had reduced the benchmark interest rate in June already, repricing has started leading to a "decline in lending and mortgage yields" (Javier Pano, CFO of CaixaBank, at the Q2'2024 analyst call on 31 July 2024). Bank Santander also reported "subdued loan demand" leading to "lower fees" (Jose Garcia Cantera, CFO of Santander, at the H1'2024 analyst call on 24 July 2024).
[xxxiii] This has been discussed by almost every bank we had followed, notably Handelsbanken and SEB in Sweden, where significant headcount reductions had been announced earlier this year, and Deutsche Bank (2,700 FTEs and 1,200 contract staff announced at Q2'2024 results) and Commerzbank in Germany (Q1'2024 analyst call on 15 May 2024). In this context, the CEO of Deutsche Bank, Christian Sewing, spoke about the need for "reshaping the workforce in non-client facing roles" (Deutsche Bank Q1'2024 analyst call on 25 April 2024). Handelsbanken mentioned an 11% year-on-year increase in staff costs at their Q1'2024 analyst call on 24 April 2024.
[xxxiv] Following the discovery of the large Groningen natural gas field in the Netherlands in 1959, economists used this terminology to describe the danger of overly focusing on economic development in one specific sector (in this case natural resources) at the expense of other sectors being in decline (Dutch manufacturing and even agriculture).
[xxxv] Kathrin Hille, "*TSMC casts long shadow on Taiwan election*", Financial Times, 13 December 2023. By its own estimates, TSMC has a 28% global market share in the foundry industry, which management expects to increase going forward (C. C. Wei, CEO of TSMC, at the Q2'2024 analyst call on 18 July 2024).
[xxxvi] On the growing income gap between semiconductor and IT engineers and the rest of the working population in Taiwan, see: Kathrin Hille, *"Island of riches: Taiwan reaps benefits of AI boom"*, Financial Times, 17 July 2024.
[xxxvii] Only a few days after the earthquake in Taiwan on 3 April 2024, TSMC reported that production had recovered by 70% within 10 hours although a "certain amount of wafers had to be scrapped" (Wendell Huang, CFO of TSMC, at the Q1'2024 analyst call on 18 April 2024).
[xxxviii] Kathrin Hille, *"Taiwanese groups consider overseas headquarters to hedge against Chinese attack"*, Financial Times, 9 April 2024.
[xxxix] Kathrin Hille, *"Taiwan's everywhere war"*, Financial Times, 3 May 2025.
[xl] Kathrin Hille, *"Donald Trump calls for Taiwan to 'pay' for its own defence"*, Financial Times, 17 July 2024.
[xli] One day after Donald Trump's announcement, TSMC reported its Q2'2024 results and it was perhaps no surprise that its management elaborated extensively on "new fab expansion overseas" and "more focus on footprint" (C.C. Wei, CEO of TSMC, at the Q2'2024 analyst call on 18 July 2024).
[xlii] For an interesting discussion about early signs of investor anxiety about high technology stock valuation, see: Katie Martin, *"AI glitter is flattering markets"*, Financial Times, 4 July 2024.
[xliii] John Thornhill, *"How AI may become the new offshoring"*, Financial Times, 14 June 2024.
[xliv] At the same time, semiconductor companies made it absolutely clear that "every customer wants to use an AI function" (C.C. Wei, CEO of TSMC, at the Q2'2024 analyst call on 18 July 2024) and that "the industry has to invest in AI as the potential is so great" (Lisa Su, CEO of AMD, at the Q2'2024 analyst call on 30 July 2024). Looking ahead, as "AI is driving the biggest part of recovery", there will be more demand for wafer/higher density (Christophe Fouquet, CEO of ASML, at the Q2'2024 analyst call on 17 July 2024).
[xlv] In this context, the CEO of Intel, Pat Gelsinger, spoke about Intel being at the "finishing phase of aggressive capacity build-out" and that they now need to go through an "audacious turnaround" where "financials need to become more sustainable" (Intel Q2'2024 analyst call on 1 August 2024). In this unprecedented race for AI leadership, there are obviously winners and losers, as AMD reported "AI demand for more computing across all sectors" (CEO Lisa Su), which made it necessary to increase operating expenses by 15% yoy to make "significant investments for R&D in AI" (Jean Hu, CFO of AMD, at the Q2'2024 analyst call on 30 July 2024).
[xlvi] John Thornhill, *"What generative AI can learn from the primordial swamp"*, Financial Times, 1 August 2024.
[xlvii] Richard Waters, *"AI bubble set to inflate further"*, Financial Times, 12 July 2024.
[xlviii] For the announcement by Apple to team up with OpenAI to integrate ChatGPT into its devices, see: Michael Acton, *"Apple partners with OpenAI as it rolls out new artificial intelligence system"*, Financial Times, 11 June 2024. In turn, for the attempt to develop AI enabled PCs and its announcement at the annual Computext conference in Taiwan in June 2024, see: Eleanor Olcott, *"'Most exciting moment' since birth of WiFi: chipmakers hail arrival of AI PCs"*, Financial Times, 6 June 2024.
[xlix] Cristina Criddle, Madhumita Murgia and George Hammond, *"Artificial intelligence breakthroughs create new 'brain' for advanced robots"*, Financial Times, 26 July 2024. This was something the CEO of Nvidia, Jensen Huang, extensively showcased at his GTC Nvidia Keynote Speech on 18 March 2024, providing first examples of warehouses operating like air traffic control and the system adopting to "real world uncertainty". In industrial robotics, physical AI is performed

through the combination of high-speed sensor processing, simulation engines and the reinforcement of physical learning. In the view of Jensen Huang, the latter is crucial for the "next generation of robotics" (human like) as more imitation training is still needed.

[l] John Thornhill, *"AI is a green curse as well as a blessing"*, Financial Times, 7 June 2024. In this context, semiconductor companies refer increasingly to their effort in developing chips for more "energy efficient computing" (C. C. Wei, CEO of TSMC, at the Q1'2024 analyst call on 18 April 2024). Similarly, Nvidia when introducing their Grace Harper module for AI supercomputing and their reference to "energy efficiency" (Nvidia Q1'FY25 analyst call on 22 May 2024). When Microsoft published its latest sustainability report, one of the major discussion points was the massive increase in emissions due to the construction of data centres that AI and cloud computing run on, see: Camilla Hodgson, *"Microsoft's emissions jump almost 30% as it races to meet AI demand"*, Financial Times, 16 May 2024.

[li] George Hammond, *"Speed of AI development stretches risk assessments to breaking point"*, Financial Times, 10 April 2024.

[lii] John Thornhill, *"The AI race is generating a dual reality"*, Financial Times, 19 April 2024. At his GTC Nvidia Keynote Speech on 18 March 2024, the CEO of Nvidia, Jensen Huang, emphasised that the IT industry is sitting on a "goldmine" as they have "lots of data", with accelerated computing having reached the "tipping point" and driving further up the scale of computing, "digital twins" and simulating operations. Similarly, the CEO of Intel, Pat Gelsinger, maintained that "semiconductors are the currency that will drive the global economy for decades" and, from their perspective, it is all about "matching technology leadership with a competitive cost structure" (Intel Q1'2024 analyst call on 25 April 2024), which was obviously one of the issues Intel faced when publishing its profit warning on 1 August 2024.

[liii] John Thornhill, *"War by algorithm raises new moral dangers"*, Financial Times, 11 April 2024.

[liv] The need for a shift in strategy has been mentioned by all listed companies we had followed in recent months, whether it relates to a "strategic organisational redesign" through a "broad-based and strategically integrated portfolio of businesses" (Lucian Grainge, CEO of Universal Music Group, at the Q1'2024 analyst call on 2 May 2024), the shift to more "artist centric models" (Robert Kyncl, CEO of Warner Music Group, at the Q2'2024 analyst call on 9 May 2024), which was not only triggered by Spotify's price increases earlier this year (later also Apple and Amazon) but by the need to protect artists' rights due to massive copyright infringements, mostly from the rapid AI advance, the creation of global contents and services (Rolf Hellermann, CFO of Bertelsmann Group, at the FY2023 analyst call on 26 March 2024) but also trying to "cultivate IP by inspiring/energising communities together with music fans, creators and partners" (Kenichiro Yoshida, CEO of Sony Group, at the Corporate Strategy Meeting on 23 May 2024).

[lv] Spotify Q2'2024 analyst call on 23 July 2024. The CEO of Spotify, Daniel Ek, elaborated on this call about the need for a "deluxe version" of Spotify and how they want to transform the business towards "growth with profitability", higher quality and "more resourcefulness". As Spotify faced a challenge in one of its key performance metrics, monthly active users (MAU), it sought for more engagement and an "enhancement in the free product pipeline" to convert more users to paid subscription. So far Spotify continues with a free add-based service in emerging markets and paid subscription in developed markets. For a good insight into the latest developments of the music streaming industry, see: Richard Waters, *"The next phase of the streaming wars"*, Financial Times, 7 June 2024.

[lvi] Lucian Grainge, CEO of Universal Music Group, at the Q2'2024 analyst call on 24 July 2024.

[lvii] For an extensive discussion not only on the royalty dispute between Universal Music Group and TikTok but also cost cutting and headcount reductions by major players in the industry, see: Anna Nicolaou, *"'It's a hangover': Taylor Swift makes history as music business creaks"*, Financial Times, 5 February 2024. For Taylor Swift returning to TikTok as she owns the copyrights to her recordings through a deal struck with Universal Music Group in 2028, see: Anna Nicolaou and Cristina Criddle, *"Taylor Swift's return to TikTok puts her at odds with Universal"*, Financial Times, 12 April 204.

[lviii] For a more extensive discussion of these issues, see: Lucian Grainge, CEO of Universal Music Group, at the Q1'2024 analyst call on 2 May 2024. With modern technology, when music competes for attention with games, influencers and almost everything available on the internet, industry executives are more aware that it will be difficult for young musicians to achieve the same level of fame and success as the previous generations, see: Anna Nicolaou, "*The last of pop's superstars?"*, Financial Times, 11 April 2024. In this context, the importance of finding new artists to expand the deal flow while – given the "ubiquitous nature of music" – superfans are apparently "still at different platforms" was highlighted by the CEO of Warner Music Group, Robert Kyncl, at the Q2'2024 analyst call on 9 May 2024.

[lix] Anna Nicolaou and Madhumita Murgia, *"YouTube seeks record label deals for new AI music tools"*, Financial Times, 26 June 2024.

[lx] Lucian Grainge, CEO of Universal Music Group, at the Q2'2024 analyst call on 24 July 2024.

[lxi] Ortenca Aliaj, *"Activist investors mount record number of attacks against companies"*, Financial Times, 7 January

2024. Lazard reported a 29% increase in the first half of 2024 compared to the five-year historical average, making it the busiest period of shareholder activism on record. Interestingly, much of the campaign spike is explained by APAC where not only cultural restraint had dominated so far but international investors traditionally faced more governance backlash. At the same time, the activist community has expanded not only in terms of regional and sector players but also a greater share of "first time" activists, with 34% of campaigns in H1'2024 being launched by the latter, see: https://www.lazard.com/research-insights/review-of-shareholder-activism-h1-2024/

[lxii] For Petrus Advisers disputing Hindenburg's short seller report on Swiss-based fintech Temenos, see: Sam Jones, *"Activist defends fintech Temenos after Hindenburg Research report"*, Financial Times, 17 February 2024. The original research on accounting irregularities by Temenos was published by Hindenburg on 15 February 2024, see: https://hindenburgresearch.com/temenos/. This was followed by a long list of letters with mutual accusations published by Petrus Advisers and Hindenburg Research, including the examination report compiled by lawyers and accountants in Switzerland, see: https://petrusadvisers.com/media/20240415_temenos_letter_to_chairman_vf.pdf.

[lxiii] William Cohen, *"What is the point of proxy fights?"*, Financial Times, 24 February 2024. The Lazard 2023 shareholder activism report had not only found that a record 31% of Board seats had been won through proxy contests, which accounted in Europe to 83% through proxy fights, as a result of which companies are now quicker to call a ceasefire, see: https://www.lazard.com/research-insights/annual-review-of-shareholder-activism-2023/.

[lxiv] Kenza Bryan, *"Climate change criminal claim targets TotalEnergies and investors"*, Financial Times, 21 May 2024.

[lxv] Costas Mourselas and Raphael Minder, *"Polish fashion group's shares plunge on Hindenburg's claims of 'sham' Russian exit"*, Financial Times, 17 March 2024.

[lxvi]For the full report published on their website on 15 March 2024, see: https://hindenburgresearch.com/lpp/

[lxvii] The analyst call was announced on short notice and there is no recording available. For the LLP presentation, see: https://wwwlpp62711ea95a.blob.core.windows.net/blobwwwlpp62711ea95a/wp-content/uploads/2024/03/Presentation-hypothesis-vs-facts.pdf

[lxviii] While LLP's share price had recovered after the initial 28% decline on 15 March 2024 in April and May, it trades now close to its year-to-date low of PLN 14.54 on 22 March 2024 (PLN 14.81 on 2 August 2024). A closer look at the existing shareholder structure, with a 60.8% majority ownership by its founder, Marek Piechocki, is perhaps another indication where international investors might have an issue (at the same time, it is not clear what is behind the 39.2% "other shareholders" either, particularly whether any other closely related legal entities are involved): https://www.lpp.com/en/investor-relations/lpp-on-the-stock-exchange/shareholding-structure/.

[lxix] Dan McCrum, *"Wirecard whistleblower slams new German law"*, Financial Times, 27 February 2024.

[lxx] For failures of the Boeing whistleblowing system, see: Claire Bushey, *"Boeing chief questioned on safety failures and whistleblower practices"*, Financial Times, 19 June 2024.

[lxxi] The UK's Financial Conduct Authority found in a recent study that less than 20% of whistleblowers were satisfied with the watchdog having properly heard and investigated their complaints, as a result of which the FCA decided to improve internal systems for sharing whistleblower intelligence and upgrading its online portal for submitting whistleblower complaints, see: Laura Noonan, *"UK financial regulator to overhaul whistleblowing policies"*, Financial Times, 4 June 2024.

[lxxii] Olaf Storbeck at.al, *"Adidas investigates bribery allegations in China"*, Financial Times, 16 June 2024

[lxxiii] Eleanor Olcott, *"Two employees leave Adidas after probe of China corruption claims"*, Financial Times, 27 June 2024.

[lxxiv] Cynthia O'Murchu and Ortenca Aliaj, *"Standard Chartered's Iran transactions subject of new whistleblower claims"*, Financial Times, 4 June 2024.

[lxxv] Kana Inagaki, *"Japan needs stronger whistleblower protections"*, Financial Times, 4 June 2024.