

The Wrap Up



It's A Long Way to the Top (If You Want Inflation Down)

The market has been on a positive run since the beginning of November, with indices close to recouping all that was lost between August and October. Although it was a light week for earnings and macro economic data (at least compared to the previous two weeks), there are still several developments that we wish to highlight.

This week's standout earnings belong to Disney's Q4 report. Although they slightly missed on revenue, the market rallied around the shares, sending them up 6.9%. What the company did manage to deliver on was cost cutting. Originally the goal was to achieve \$5.5B in annual costs savings, that figure was bumped up to \$7.5B. Since the return of CEO Bob Iger, the company has made some moves to realign their business; they sold some cable assets including those acquired in their 2019 purchase of 21st Century Fox, consolidated their ownership of streaming service Hulu; clarified their vision with ESPN (they want to turn it into the preeminent digital sports platform) and refocused their content slate from their media business. On the subject of streaming, Disney+ posted stronger than expected subscriber figures, reversing the four quarter trend of declining subscriber figures.

Disney has another to celebrate this week, as did some of its competitors; studios and actors have reached a tentative agreement to end a strike that lasted almost four months. Topics touched upon in the settlement include streaming royalties and setting up parameters around the use of AI. This was not the only strike to end, however, as the United Auto Workers were also able to succeed in their labour dispute with car makers. Wages will rise an estimated 33% over the duration of the four year contract, which is more than what they had received in the previous 20 years. The agreement will see low tiered workers receive increases above 60%, with almost all workers receiving ratification payments as well (with GM paying out \$5000 to each worker). The success of the UAW negotiations has also ignited unionization conversations at Toyota, Tesla and Volkswagen. Whether they succeed or not matters less as the car makers will inevitably have to increase wages and improve working conditions if they want to keep the peace. This is a positive development for

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the labour force but it will have an impact on consumer prices as well. It is likely that these increased costs will be passed on to the consumer via higher car prices; the higher wages are happening at a time where the combination of low inventories, high interest rates and the EV transition are already increasing car prices. Electric vehicle sales will take longer to reach the target levels, with all automakers experiencing lower than anticipated sales figures due to the consumer being stretched by price inflation.

Inflation, the finance world's favorite word for three years running, is still the main reason behind the economic conditions of today. Higher interest rates are required to slow down aggregate demand to a point where we could achieve price stability; at 3.5%, it is still off from the 2% target. For those who say “close enough!”, I refer you to Jerome Powell's Thursday speech at an IMF conference where the Fed said they would ‘not hesitate’ to tighten monetary policy if needed and that the fight to restore price stability ‘had a long way to go’. These comments could also be seen as a direct response to the November market activity which saw yields decline and equities rise; markets would end the Thursday session negative. Last week's softer than expected labor market data had markets rallying at the prospect of a loosening labor market; the Fed would rather not see a premature loosening of financial conditions prior to seeing further loosening in the labor market. For investors who are beginning to lose their patience with the current macro-economic circumstances, it is likely that the uncertainty will continue for a longer period of time. There are three ways we return to stability: an immediate drop in inflation without a recession (not going to happen), an immediate recession which brings inflation and then interest rates lower (could happen but not fun for investors in the short term) or many more months of slow progress on the inflation front with eventual rate cuts (our base case scenario, which means continued uncertainty and ongoing complications due to higher interest rates).

Beyond the obstacle that is inflation, there are day to day developments that require immediate attention. ICBC, the world's largest bank by assets, was hit by a cyberattack on Thursday. The US financial services division of the Chinese bank, was targeted during a large issuance of treasuries, temporarily disrupting the trading of US treasuries over the course of the day. This will likely prompt a greater effort at preventing these types of attacks but it serves as a reminder that even large institutions can fall prey to hacks. The fact that this impacted both a Chinese bank and American treasuries, reminds us that even the largest of states have some common threats. Beyond this event, meetings are taking place in San Francisco between US and Chinese officials. These meetings will ultimately lead to a highly anticipated meeting between American President Joe Biden and Chinese President Xi Jinping. This will be their first since November 2022, and President Xi's first visit to the US in six years. The hope from this meeting is to see the leaders of the world's two largest economies collaborating over their shared interests and address some touchier subjects that affect their relationship. One of the more pressing goals of the meeting will be to restore communication channels that were recently closed due to the elevated tensions between the two countries. We are fans of diplomacy and believe that it is critical that economic competitors (rivals) keep their discussions ongoing; once the two sides stop trying to work together, the probability of further conflict only increases.

As we wrap up a successful earnings season which saw 82% of companies beat their EPS estimates, we remind our clients that there is good news to extract and plenty of positive developments for the years ahead. We continue to navigate these uncertain waters with caution; we are in a goldilocks zone where things are neither good nor bad and can change very rapidly. Like we ask of our political leaders, we also want to keep our communication channels open and always invite and encourage comments and questions related to specific holdings or entire portfolios.

Healthy Distraction

We've been gifted some snow recently, a reminder that those warm summer days are long gone! We now pivot from Halloween season to Holiday season; a time for retailers to rejoice. As this is a time of year where many gatherings occur, between office parties or family gatherings, we thought we'd share one of our favorite holiday traditions: gift stealing.

Ok, so it's not the outright stealing of gifts, more so a game around gift giving. We've all played some variation of gift stealing so we wanted to encourage a set of rules around the game.

As it goes, every participant has to buy a gift close to a certain value. Everyone has a different budget, we have found the sweet spot to be above \$70 as it allows for a lot of creativity. All participants choose a number, this is their order to pick a gift. This first person will choose the first gift, the second person will have to option to open a new gift or steal an already opened gift and this goes on until every gift is open.

Having participated in some of these games, where the stealing goes on for way too long, we've implemented a simple rule: no gift can be stolen more than 3 or 4 times (depending on the number of participants). Once all the gifts have been opened, the person who drew #1, will have a last chance to exchange with someone else before bringing the game to an end.

Equally fun is shopping for the gift, after all, everyone wants to show up with the best gift! Creative gift wrapping helps hide the true identity of the gift and makes for some exciting surprises. One of the realities of this game is that alliances are often formed and collusion occurs, especially amongst my family. You may not always get the gift you want but you'll likely have a laugh or two.

Have a great weekend!



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