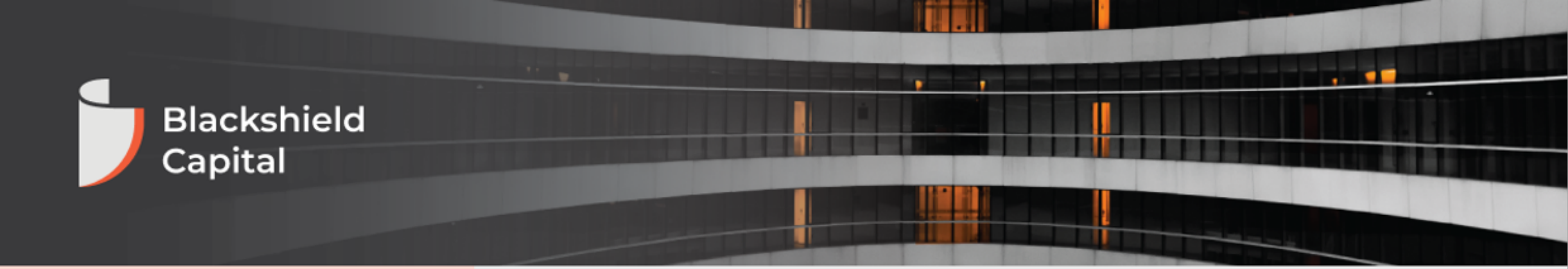

FAQ

Can the economy and markets continue to grow at the same pace?

2023 was the year of the recession that never came. At the beginning of 2024, economic data gave several signals about the economy's resilience and ability to withstand recession. First, a significant decline in inflation, then more optimistic forecasts for Q4 2023 GDP and strong numbers on the marginal saturation of the labor market.
Looking to the near future, we expect the economy to cool down: service inflation is set to decline steadily, while the only real source of inflationary risks is commodity inflation, which could be caused by rising energy or agricultural prices. The Fed is serious about lowering interest rates, but the real source of risk could be the labor market. Leading employment indicators are simultaneously signaling an increase in unemployment, and this is becoming a potentially significant argument in favor of slower economic growth.

Why is the economy not growing at a high rate with such a strong labor market?

The latest published data on the number of applications for unemployment benefits are at extremely low levels. While the number of claims is still low, the statistics on the probability of finding new jobs show a serious deterioration. Employment is one of the most important economic indicators of productivity, economic growth potential, consumer confidence and consumer demand. Therefore, each of the recent signals, such as the survey of small business owners, the slowdown in hiring of temporary workers, and the overall decline in demand for human capital, indicate a likely deterioration in economic conditions.

Will Magnificent 7 continue to dominate the market?

Financial markets are highly volatile, and any given stock category holds the top spot for a certain period of time - when conditions for growth are most favorable. In the case of Mag7, it is rather an unprecedented case where several explicit and several implicit economic incentives have coincided with the leapfrog technological growth caused by the AI craze. At the same time, there has been a significant weakening of the Mag7 since the beginning of the year, as only half of the 7 companies showed sustainable growth in the first quarter. Looking at the financial results of the companies this year, it can be noted that narrow leadership leads to a result where the right to make a mistake or miss the market expectations can make the situation very fragile. Apple, Google, and Tesla all showed slightly weaker results than the optimistic scenario, and this had a dramatic impact on their share prices. In addition, we cannot exclude market-wide risks and regulatory risks, which can suddenly be expressed in volatile price spikes.

FAQ

Why can't productivity growth and AI save the economy in 2024?

One of the important sources of the unexpected positive economic growth in 2023 was higher productivity and labor efficiency, as well as the absence of an outflow of a stable labor force. Although labor productivity is difficult to measure directly and data can be distorted, internal statistics from the ISM manufacturing index confirm this. At the same time, an absolutely identical situation occurred in 2007 before the Financial Crisis. In other words, the labor market itself is quite fragile and has limits to its effectiveness when it is extremely saturated.

There is no doubt about the importance of the technological contribution of AI-based solutions, but a number of industries and companies use AI for marketing rather than actually transforming their business. Non-linear process automation, business analytics, and big data analytics have been around for at least the last 2 decades, and it's more about democratizing access to technology than about a massive leapfrog change in technology across all sectors and capitalization levels. We believe that AI plays an important role in business and technology development, but the need for substantial R&D investments and access to the technology stack is a significant limiting factor. Another point is that a number of conservative industries simply do not need so much AI at this stage of technology development.

If Trump becomes the next president, will there be a trade war with China?

According to various estimates of the upcoming presidential election, Donald Trump has a 50%+ chance of becoming the next president. Although the legal proceedings are still ongoing, this does not remove his candidacy from the agenda.

Despite the fact that Republicans have traditionally pursued an aggressive foreign policy, the US has clearly demonstrated a rather tough stance towards China even under the current Democratic president. This largely confirms that economic policy toward China is unlikely to soften (as it did during Trump's last term), but we believe that commodity trade and inflation will influence the degree of trade restrictions in the meantime.

Beijing has repeatedly demonstrated its readiness for symmetrical restrictive measures and protectionist policies, and it is likely that Xi Jinping's position has not changed.

On the Chinese side, we can note the growth of patriotic sentiment, as well as the demand for domestic brands instead of American ones. China is significantly developing its electric car brands (there are hundreds of brands), and Huawei's domestic sales have exceeded those of the iPhone. This only confirms the readiness for strategic de-globalization, which is likely to intensify with the arrival of a Republican president.