WEEKLY BULLETIN

September 2023: Issue #1

Thought of the Week.

Since the release of ChatGPT in November 2022 businesses are racing to capture its value. Within the technology's first few months, **McKinsey research** found that generative AI (gen AI) features stand to add up to $4.4 trillion to the global economy—annually.

This commentary can also be partially created by a generative engine with the intent to impress the readers and raise concerns for both sides of the audience. Many points of the article are definitely worth reading and comprehending.

[1]Asked only of respondents whose organizations have adopted AI in at least 1 function. For both risks considered relevant and risks mitigated, n = 913.
Source: McKinsey Global Survey on AI, 1,684 participants at all levels of the organization, April 11–21, 2023

After confirming that marketing, sales teams and business leaders are the main recipients of its advantages, the article is turning around to explain some of the potential risks. Gen AI has been known to produce content that is biased, factually wrong, or illegally scraped from a copyrighted source. Before adopting gen AI tools wholesale, organizations should reckon with the reputational and legal risks to which they may become exposed.

One way to mitigate the risk of GenAI being used in a rogue mode is to keep a human advisor or checker in the process, to check any gen AI output before it is published or used. As organizations begin to set gen AI goals and relevant frameworks, they are also developing the need for more gen AI–literate workers.

As one fervent promoter of technology and its relevant achievements, I see Gen AI a one set of tools in the toolbox, with solid capabilities but also inherent weaknesses. I know it can produce significant enough content to deviate from traditional lines of thought and alter results. Risk management and controls are seriously necessary.

Last Week 's Notable Events.

US Economy/Politics

- US Probes Made-in-China Chip as Alarm Over Huawei Grows – Sept 8th.
- Wall Street Is Caught in Unwanted Apple-China Spat – Sept 7th.
- Regional Banks May Sell Bond Billions Under Rules by FDIC, FED, – Sept 7th.

Europe Economy/Equity

- ECB Says Consumer Inflation Expectations Edged Up in July – Sept 5th.
- Stocks Slide as European Stagflation Fears Mount – Sept 6th.
- Banks and investors oppose EU derivatives plans - call to scrap initiative to move clearing deals out of London.

APAC Economy / Politics

- China Digs In on Ukraine, Climate Even in Xi's G-20 Absence – Sept 8th.
- Bond Bulls in Korea and India Need to be Patient on Index Boost – Sept 8th.
- China Property Stocks Rally on Speculation of More Stimulus – Sept 6th.

Notable News and Events:

- Singapore Asks Banks to Probe Ties with Laundering Suspects – Sept 8th.
- Oil Holds Advance as Traders Wait for Next OPEC+ Moves on Supply – Sept 5th.
- September Flurry of Corporate Debt Sweeps Global Markets – Sept 6th.

Weekly Data Monitor.

Performance

- Equities continued weaker.
- High Yield indices and issues weaker.
- USD in tight range.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-1.39	-1.21	13.41	12.64	26.54	44.22
Global Real Estate	-0.66	-0.91	-0.48	-10.78	6.42	13.09
US Real Estate	-0.70	-0.65	1.93	-9.10	13.08	20.07
APAC Real Estate	0.14	0.32	-4.95	-4.98	-15.29	-15.41
Investment Grade	-0.37	-0.36	6.75	6.30	5.51	17.48
High Yield Bonds	-0.93	-1.33	-0.61	0.14	-18.14	-6.76
Global HY ETF	-1.39	-2.30	5.15	9.61	24.34	24.12
ASIA Real Estate ETF	-0.60	-0.60	-8.74	-18.85	-11.27	-3.02
USD Index	0.64	1.24	1.33	-4.38	12.26	10.00

Weekly chart:

- Bonds reversed from last week = weak.
- Brent Crude stronger, despite strong US$.
- Volatile week for Brent Crude.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

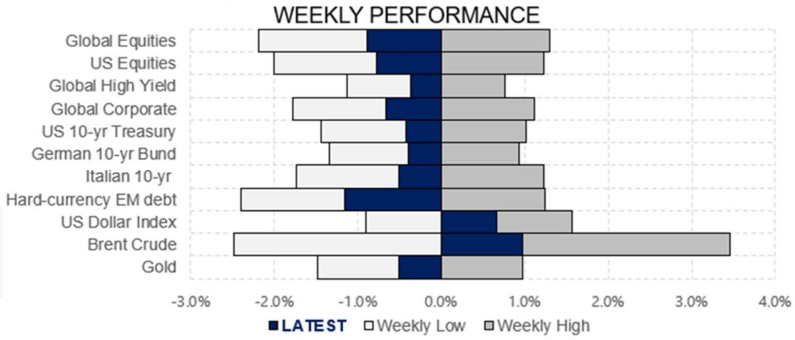

Chart of the Week.

YTD sector performance leaders have shown strong earnings beats and positive earnings revisions, while also leading on EPS growth for Q2 as well – State Street Global Advisors.

S&P 500 Sector 2023 EPS Revisions STATE STREET GLOBAL ADVISORS SPDR

Sector	1-Month Changes %	3-Month Changes %	1-Month Upgrade to Downgrade Ratio	3-Month Upgrade to Downgrade Ratio
Consumer Discretionary	2.57	4.00	1.14	1.79
Consumer Staples	0.75	-0.71	3.00	1.47
Energy	-5.90	-9.91	0.15	0.15
Financials	-0.34	4.55	0.89	0.71
Health Care	-4.61	-5.02	1.04	1.13
Industrials	0.39	1.95	1.22	2.00
Information Technology	0.49	2.57	1.74	2.10
Materials	-2.15	-4.59	0.45	0.45
Communication Services	4.28	3.61	1.09	1.30
Real Estate	0.91	2.16	0.92	2.71
Utilities	-0.10	0.10	0.80	0.92
S&P 500	-0.54	0.37	1.02	1.22

There is no happy glow this earnings season, as S&P 500 remains marred in an earnings recession posting its third consecutive quarter of declines. It also shows a disconnect between the GDP growth of a 6.3% YOY and the revenue growth up a paltry 0.5% (the slowest pace recorded since Q3 of 2020).

For the S&P500 decline, the main culprit seems to be the Energy sector that produced a decline in earnings of more than 40%.

Earnings were received rather cold and unenthusiastic, but there are several points to be recognized (risk is on the upside).

Consumer resilience has been a key economic theme over the last 18 months. This trend continued in 2Q, with companies across a wide array of industries (e.g., financials, restaurants, retailers, payment processors) highlighting a healthy consumer across all income spectrums. We think this trend will slow again toward the ed of 2023 and beginning of 2024.

S&P 500 margin compression was minimal in 2Q23, falling slightly to 11.9% – down from a peak of 13.9% in 2Q21. While margins were modestly lower, there are reasons to believe that margins could improve due to less inflationary pressures, lower transportation costs (although we note oil prices) and the fact that companies focus on costs and efficiency (another note on job market softening).

Financial sector's stability and the improving technology sector were strong pillars supporting the sentiment during the earnings season. The consensus is that earnings have bottomed and margins continue being resilient, therefore economy should hold ground and avoid recession first, followed by potential growth that could only surprise on the upside.