

The background features a dark, low-angle photograph of several skyscrapers. A prominent teal diagonal stripe runs from the top right towards the bottom left, bisecting the image. The logo 'Key Value' is positioned in the top left, with 'ASSET MANAGEMENT' below it.

Key Value

ASSET MANAGEMENT

MACRO RESEARCH

WEEK'S NEWS
ANALYSIS

DATE :
5th May 2024

keyvalueam.com

SLOWDOWN U.S. LABOR MARKET

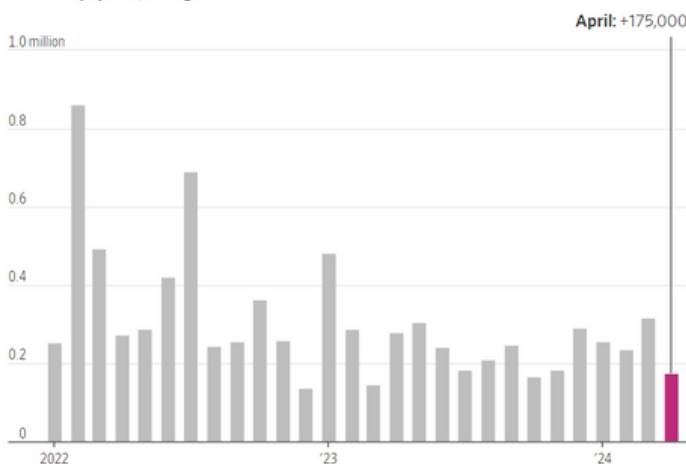
In April 2024, the American economy generated 175,000 jobs. This is significantly lower than in March, when new hires exceeded 300,000, and below economists' forecasts of around 240,000 new jobs. Specifically, employment slowed in the government, services and construction sectors. This weakening alleviates fears of a very strong economy and consequently keeps alive the hope of a cut in interest rates by the FED at the end of the summer.

After the release of the report by the Labor Department, interest rate futures are predicting a slightly higher probability of a cut in July but still less than 50%. Meanwhile, expectations of a rate cut in September have risen to around 70%. The other data on the labor market, i.e. the unemployment rate rose to 3.9% against 3.8% in March and a lower than expected increase in wages (+3.9% against the +4.1% expected) they indicate lower future spending capacity for American workers and therefore a potential slowdown in inflation due to lower demand for products.

Negative news from a fundamental point of view but positive for the stock markets which in fact recorded growth. The Dow Jones Industrial Average gained 1.2%, or about 450 points, marking its best daily performance in more than a month. The S&P 500 and NASDAQ Composite also rose 1% and 2%, respectively. Meanwhile, the yield on the benchmark 10-year U.S. Treasury bond fell to 4.498% from 4.569% on Thursday.

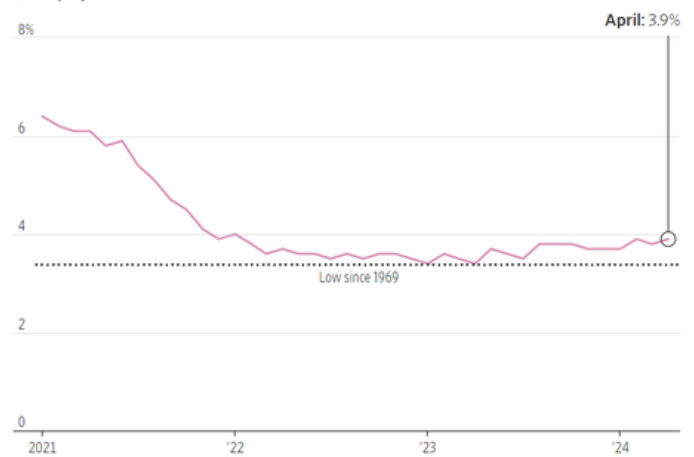
Another piece of data supporting the idea of inflation in its final stages comes from the quarterly reports of the largest consumer goods companies, such as Starbucks, McDonald's and PepsiCo, which report that Americans' savings are deteriorating as a result of the major expenses not compensated by the increase in wages. An example of this is McDonald's, which is trying to make the menu more accessible for consumers. The company reported a decline in quarterly sales that fell short of expectations as consumers around the world slow spending in response to economic pressure. Executives said economic pressure on consumers is increasing, with restaurant visits declining across the industry.

Nonfarm payrolls, change from a month earlier



Note: Seasonally adjusted
Source: Labor Department

Unemployment rate



Note: Seasonally adjusted
Source: Labor Department

Apple Q1 2024 Overview

In the Q2 of fiscal year 2023-24, Apple faced a 4% decline in revenue, amounting to \$90.8 billion compared to the same period in the previous year. This decline was primarily attributed to a significant drop of 10.4% in iPhone sales, which accounted for \$50 billion of the revenue. Sales of iPads also saw a notable decrease, dropping by 16.6% to \$5.6 billion, and wearable devices, including the Apple Watch and AirPods, experienced a decline of 9.6% to \$7.9 billion. However, Mac sales saw an increase of 3.9%, reaching \$7.4 billion. Notably, service revenues reached \$23.9 billion, marking a robust 14.2% increase.

Tim Cook, Apple's CEO, emphasized the record-breaking service revenue of \$90.8 billion. He expressed excitement about recent product launches, such as Apple Vision Pro, and hinted at forthcoming announcements, including the annual developer conference in June, where advancements in artificial intelligence are expected to be unveiled.

In the Q1 2024, Apple reported revenue of \$90.75 billion, a 4% decrease from the previous year's \$94.84 billion.

iPhone sales dropped by 10% YoY to \$45.96 billion, attributed in part to delayed purchases from the prior year due to COVID-19-related issues. Excluding these factors, there would have been YoY sales growth.

Despite challenges in iPhone sales, other product categories performed well. Mac revenue increased by 4% to \$7.45 billion, and services revenue surged by 14.2% to \$23.9 billion, driven by over 1 billion paid subscriptions.

In China, revenue decreased by 8% to \$16.37 billion, yet exceeded analyst expectations, easing concerns about market share losses. Apple reported a net profit of \$23.64 billion, or \$1.53 per share.

The company announced a \$110 billion share buyback plan, reflecting confidence in future growth. With \$162 billion in cash reserves, Apple aims to return value to shareholders, also declaring a cash dividend of \$0.25 per share, a 4% increase.

Looking ahead, Apple and analysts expect single-digit growth of revenue in the current quarter, to \$82.89 billion. CEO Tim Cook expressed optimism about the potential of generative artificial intelligence to boost company revenues.



Amazon Q1 2024 Overview

Amazon.com reported its financial results for Q4 2023, with revenues reaching \$169.96 billion, up 14% year-on-year. Specifically, Web Services division revenues jumped from \$21.38 billion to \$24.2 billion. The web giant ended the quarter with a net profit of \$10.62 billion, compared to \$278 million in Q4 2022. Consequently, earnings per share rose from \$0.03 to \$1.

For the current quarter, Amazon.com's management anticipates revenues between \$138 billion and \$143.5 billion (+8/13% compared to Q1 2023).

Amazon shares have risen by about 74% in the last year, outpacing the approximately 25% increase in the S&P 500 index. Over the past four quarters, Amazon not only saw a 565 basis point increase in EBITDA margin but also a 672 basis point increase in net profit margin.

Despite Q4 being a seasonally low-margin quarter, Amazon maintained record levels of profitability. Non-consumer services, including subscription services, AWS, and advertising, generated \$47.5 billion in Q4 revenue, growing 15.7% year-over-year. With \$23.1 billion in revenue in the last quarter, AWS maintained a high operating margin close to 30%.

Graphically, it was observed that prices broke the upward trend line, potentially signaling the beginning of a broader correction.

The stock has seen strong growth, so we believe it is fairly valued.

The current profit and growth engines certainly haven't lost steam: Amazon Web Services reported a 17% revenue increase to \$25 billion, and operating profits surged by 84%.

Amazon reported record revenues in Q1 2024, hitting \$143.3 billion, up 13% year-on-year. Net income was \$10.4 billion. AWS saw a 17% revenue increase to \$25 billion.

CEO Andy Jassy emphasized the importance of artificial intelligence for Amazon's future. AWS is on track to achieve \$100 billion in annual sales. Capital expenditures were \$14 billion in the quarter.

Investors reacted positively to the results, but slightly lower forecasts for the second quarter have caused some caution. However, Amazon continues to be seen as a leader in e-commerce and cloud services, with strong medium-term growth expected.



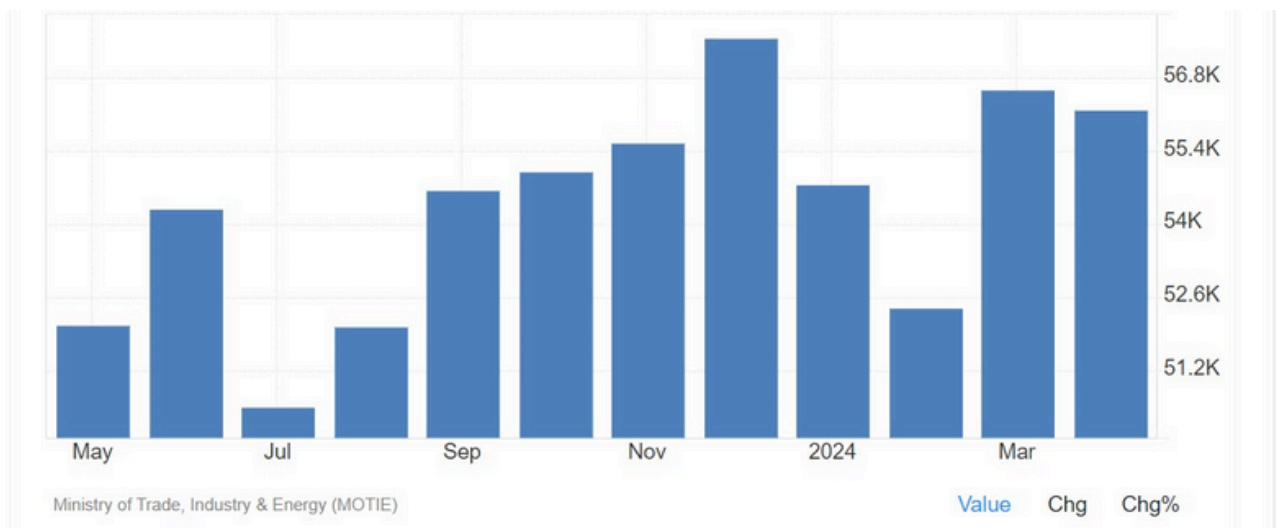
News from Asia: South Korea's Export Surge in April

Although shown a drop in employment and an unwelcome rise in inflationary pressures, in April, South Korea experienced a notable acceleration in export growth, driven by robust demand for various goods such as semiconductors, smartphones, and automobiles. Exports from the country surged by 13.8% compared to the previous year, reaching \$56.26 billion. This marked the seventh consecutive month of export growth, aligning closely with the median forecast of economists.

However, despite the impressive export figures, the trade balance narrowed to \$1.53 billion as imports experienced a notable increase, rising by 5.4% from the previous year to \$54.73 billion. South Korean exports, often considered indicative of global trade trends, were buoyed by strong demand for memory chips amidst the artificial intelligence boom. Semiconductor exports notably surged by 56% in April, continuing a streak of six consecutive months of growth.

Additionally, shipments of flat screens, smartphones, and automobiles experienced significant increases, with rises of 16%, 11%, and 10% respectively compared to the previous year. Notably, exports to major global markets, including the U.S. and China, also saw growth, with exports to the U.S. surpassing those to China for the third consecutive month, reaching \$11.4 billion in April.

Korea's exports monthly trend



Source: Trading Economics

News from Asia: Microsoft's investment in Cloud and AI infrastructures

Microsoft's recent announcement underscores its substantial investment in Southeast Asia's cloud and artificial intelligence infrastructure, with a focus on Malaysia, Indonesia, and Thailand. The tech giant revealed plans to inject \$2.2 billion into cloud and AI infrastructure in Malaysia over four years, marking its largest investment in the country. This announcement coincided with Chief Executive Satya Nadella's visit to Malaysia, where he met with Prime Minister Anwar Ibrahim.

The investment aims to address the growing demand for cloud computing services in Malaysia, with initiatives to provide AI training to 200,000 individuals and collaborate with the government on cybersecurity capabilities. This move aligns with Microsoft's broader strategy to bolster its presence in Southeast Asia, including the construction of data centers in Thailand and Indonesia, where it plans to invest \$1.7 billion in cloud computing and other ventures.

In Southeast Asia's competitive cloud services market, Microsoft faces rivals such as Alphabet, Amazon, and Alibaba. However, its Azure cloud business has been rapidly expanding, particularly driven by the increasing demand for AI computing. In the first quarter, Azure's growth reached 31%, with a significant portion attributed to its AI services, contributing to the company's overall 17% growth.

The surge in demand has prompted Microsoft to ramp up its capital expenditures, with spending on data centers and infrastructure reaching \$14 billion in the first quarter. This substantial investment underscores Microsoft's commitment to meeting the evolving technological needs of Southeast Asia's fast-growing market, positioning itself as a key player in the region's digital transformation journey.



Microsoft Chairman and CEO Satya Nadella (L) meets with President of the Republic of Indonesia Joko Widodo. Photo by Press, Media, and Information Bureau, President Secretariat.

News from Asia: Asia's Manufacturing Sees Mixed Signals in April

About manufacturing, in April Asia witnessed a slight weakening in factory activity, marked by cooling output growth and a decline in employment, indicating fragile confidence among manufacturers. Despite Southeast Asia's manufacturing economy continuing to grow at the beginning of the second quarter, signals about the sector's health were mixed. While the headline PMI remained above the neutral 50.0 mark, it slipped to 51.0 from 51.5 in March, suggesting a cooling manufacturing recovery.

According to data from S&P Global, although new orders rose, the majority of the upturn came from domestic demand, with export sales experiencing their 23rd consecutive month of decline. Production growth cooled, and manufacturing employment dropped for the first time in six months.

Surveys indicated improvements in four of the seven ASEAN constituents, with Indonesia surpassing Singapore in rankings, while Thailand showed the strongest decline.

Despite positive growth in Indonesian manufacturing, export sales fell, prompting companies to cut staffing, reflecting low confidence levels. In Malaysia, downbeat trends persisted across the sector, with uncertainty regarding demand recovery amidst a muted global economy.

Taiwan's manufacturing economy returned to growth for the first time in two years, with companies being optimistic enough to increase staffing levels.

Forecasts from the IMF and World Bank suggest that economic growth in Asia will slow this year but remain relatively resilient, while uncertainties regarding borrowing costs and delayed projections for rate-cutting cycles in the U.S. further complicate the economic outlook.



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