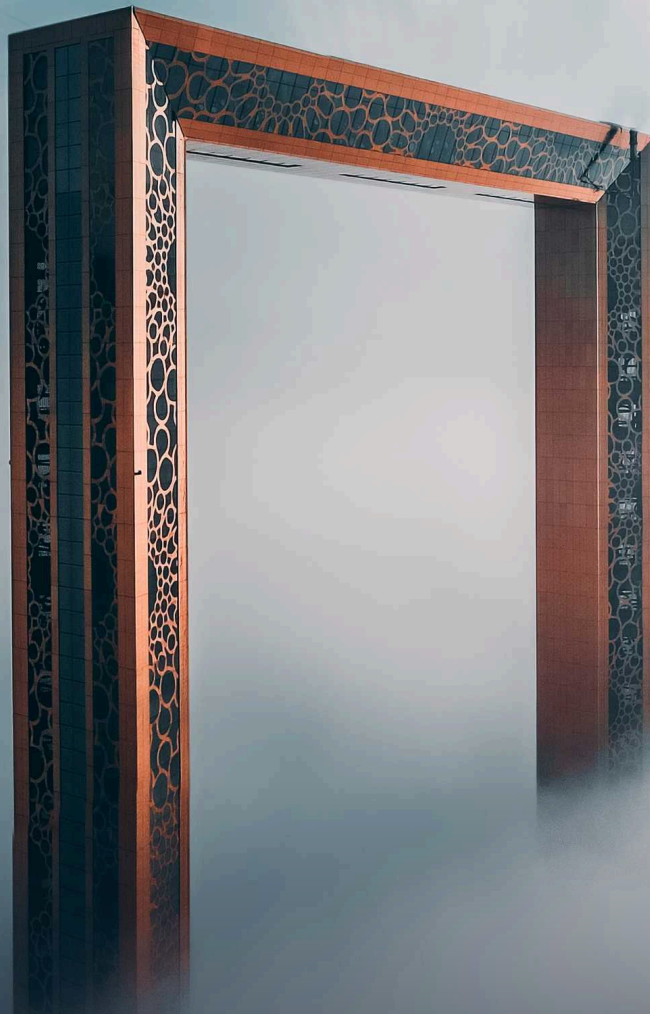


2024

4th QUARTER RESEARCH REPORT



Contents

US	01
China	02-05
India	06-09
UAE	10-11
Arts and Swiss Watch Markets in 2024	12-14
US consumer spending slowdown	15-17

Contact

☎ +971 4 285 7711

✉ info@octaveam.com

🌐 www.octaveam.com

📍 Office number C1002-B, Burj Daman, DIFC, Dubai, UAE



This Quarter's Musings: Exploring Our Thoughts

US: A comparative look at Trump and Harris' economic policies

As Chief Investment Officer, it's vital to assess how political shifts may impact the economy and investments. Both former President Donald Trump and Vice President Kamala Harris offer distinct economic strategies with notable implications for markets.

Trump's Economic Policies: Tariffs and Tax Cuts

Trump's approach centers on extending tax cuts, reducing government spending, and boosting domestic energy production. A key feature of his strategy is imposing tariffs, including a 10%-20% tax on all imported goods and a 60% tariff on Chinese imports. He argues this will protect U.S. industries and generate revenue. Estimates suggest his plan could raise \$2.5 trillion over 10 years, though this only partially covers his proposed tax cuts.

While tariffs can create domestic jobs—like the 2018 washing machine tariffs—they often lead to higher consumer prices and additional costs for businesses. Trump's tariffs also sparked a trade war with China, affecting industries reliant on imports. Overall, his policies are expected to increase the U.S. deficit by \$5.8 trillion over the next decade.



Harris' Economic Policies: Tax Reform and Strategic Investment

Harris emphasizes raising taxes on the wealthy to fund social programs, including childcare credits and housing assistance. Her approach to tariffs is more measured, maintaining some Trump-era tariffs but focusing on targeted trade actions rather than broad-based taxes. She also prioritizes investment in advanced industries like semiconductors and clean energy to boost U.S. competitiveness.

Harris' policies aim to balance tax increases and spending, with an emphasis on affordability for consumers. Her economic plan is projected to add \$1.2 trillion to the deficit over 10 years, significantly less than Trump's, while focusing on long-term growth and investment.

Conclusion

Trump's tariff-heavy approach contrasts with Harris' focus on tax reform and strategic industry investment. Both plans have distinct impacts on the deficit and economic growth, offering important considerations for investors as political and economic landscapes evolve.



Trump's policies are expected to increase the U.S. deficit by \$5.8 trillion over the next decade.



China's consumer and real estate sectors: Navigating complex realities

China, long considered the world's growth engine, continues to captivate global attention with its shifting economic dynamics. The consumer and real estate sectors, two key pillars of the nation's economic landscape, face unique challenges and opportunities. This article explores the current state of these sectors, examines why the world often views China through a different lens, and evaluates whether Chinese stocks represent value buys or value traps in the current economic climate.

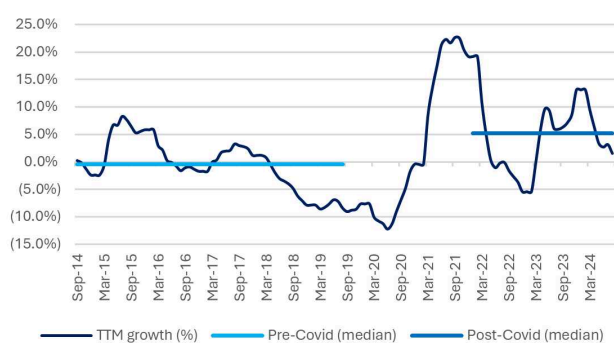
The state of consumer confidence

Consumer sentiment in China has been erratic over the past few years. After plummeting during the pandemic, consumer confidence has struggled to regain momentum despite China's reopening in late 2022. While there were initial signs of improvement, consumer confidence fell back to pre-reopening lows. This sluggish recovery is linked to several factors, including persistent economic uncertainties, a lacklustre job market, and concerns about income growth.

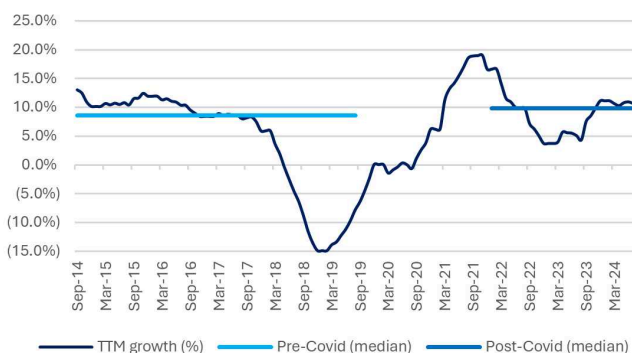
On the positive side, sectors like services have shown robust growth, reflecting the post-pandemic reopening. For example, demand for bubble tea and other discretionary items has surged, and the jewellery sector has witnessed strong sales. However, the latter suggests a cautious consumer outlook, where people prefer to invest in goods, they believe will hold value over time, such as precious metals, rather than spend on everyday items like cosmetics or apparel.

Moreover, pricing power has eroded across most consumer sectors. Retailers in cosmetics and apparel, which once enjoyed strong demand, now face slow growth and shrinking margins. Conversely, sectors like alcohol and beverages have shown resilience, with some brands reporting double-digit revenue growth. This bifurcation suggests that while some areas of consumption are under pressure, others are experiencing strong demand—often driven by lower-tier cities rather than affluent urban centres.

Retail sales: Gold, silver and jewellery



Retail sales: Tobacco and liquor



Source: National Bureau of Statistics of China, FactSet



In 2014, China's stock market doubled within 16 months due to the supportive policies of the PBOC.



Real Estate: A market in decline

China's real estate sector, once the cornerstone of its economic growth, has been in a state of gradual decline, with clear signals emerging as early as 2017. Tier-1 and Tier-2 cities experienced notable drops in property prices, while Tier-3 cities saw a smaller decline. For instance, Tier-1 cities peaked in September 2016 with an index value of 128.7, but by August 2024, this had fallen by 29.9%. Similarly, Tier-2 cities dropped by 19.6% from November 2016 to August 2024, while Tier-3 cities saw a decline of 17.1% from April 2019 to August 2024.

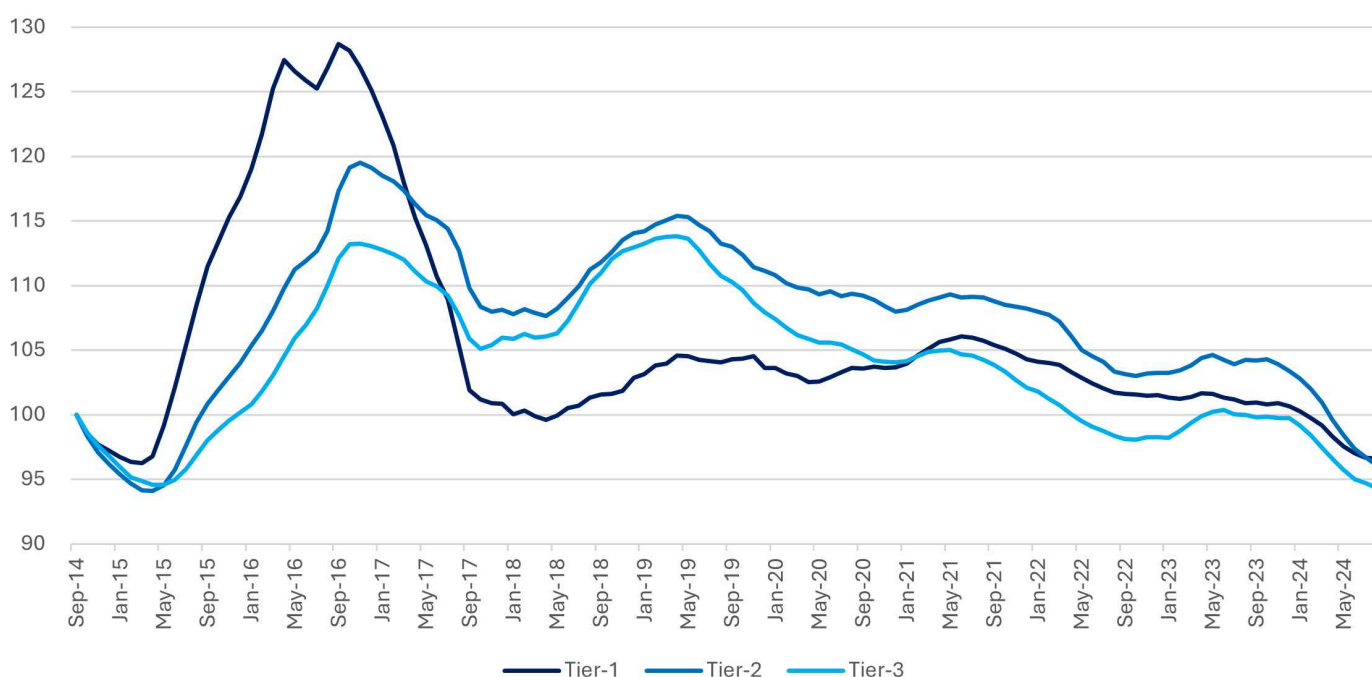
This steady decline has raised concerns about the long-term stability of the property market. A weak property market impacts not just real estate developers but also consumer sentiment, as falling property prices reduce household wealth and limit spending power. As households lose confidence in the property market, it further diminishes their willingness to spend, perpetuating the economic slowdown.

Earlier this year, the Chinese government floated policies to boost property demand, such as subsidies for appliance replacements and incentives to stimulate consumer spending. These measures were viewed as recycled strategies from the past having limited impact, and were considered unlikely to provide the substantial boost needed to revive consumer confidence or reverse the downward trend in the property sector.

However, in September 2024, the People's Bank of China (PBOC) announced a reduction in the reserve requirement ratio (RRR) and mortgage rates, which aims to inject liquidity into the market. This included a 50-bps cut to mortgage rates on existing homes, benefiting around 50 million households and stimulating consumer spending. The new policy also lowers the minimum down payment ratios for loans on both first and second homes to reduce financial pressure on homeowners. Additional support is provided for real estate developers such as expanding the list of approved housing projects that could receive further financing.

Economic experts consider this recent stimulus a carefully planned move in the right direction, unlike the ill-conceived policies earlier. They further expect these policies could be sufficient to improve business confidence and economic activity, helping China bridge the gap between its current and potential GDP growth.

Average house prices in China across Tier-1/2/3 cities in the last 10 years (rebased to 100)



Source: Metadata Explorer, Capital Economics

Why the world views China differently?

China's economic policies and centralized governance have always attracted global scrutiny, with investors and policymakers often viewing the nation through a different set of criteria compared to other countries. This is partly due to the unique nature of China's command economy, where the government plays an outsized role in directing economic activity, particularly in times of uncertainty. The real estate sector, for example, has long been bolstered by government-led infrastructure projects and urbanization initiatives.

Additionally, China's slowing economic growth rate has led to concerns about whether it can sustain its role as a global growth driver. Although the country remains a manufacturing powerhouse, factors such as shifts in consumer confidence and fluctuations in the property market have led to a more measured outlook among investors and analysts.

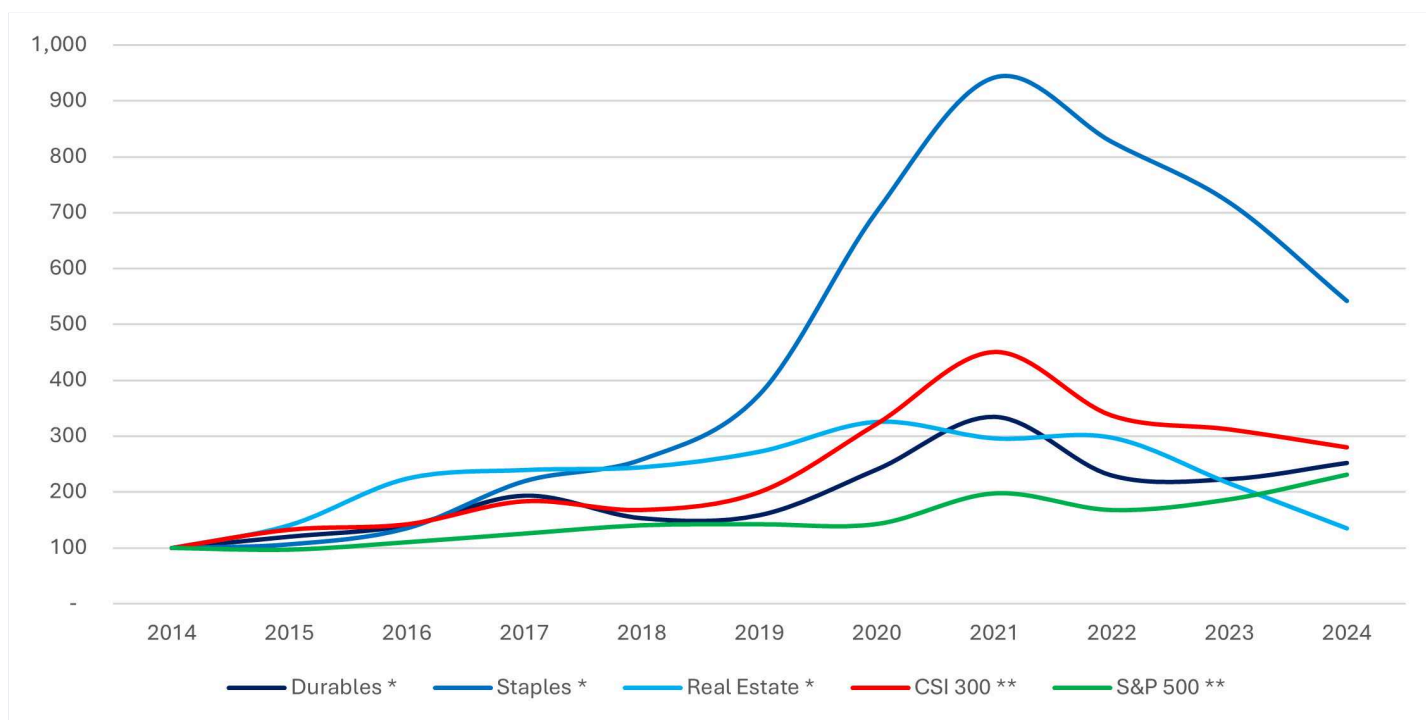
However, global perceptions of China are also influenced by geopolitical concerns. Trade tensions with the United States, human rights issues, and concerns about transparency and debt have contributed to a careful approach toward Chinese investments. The recent curtailing of youth unemployment data, which had reached record highs, raises questions about the accuracy of China's economic data reporting, further complicating global perspectives.

Value buys or value traps?

The question of whether Chinese stocks are value buys or value traps is a matter of intense debate. On the one hand, Chinese stocks have seen significant price declines, particularly in the real estate and technology sectors, leading some investors to view them as attractive opportunities for long-term growth. The argument for value buys centres on China's large consumer base, growing middle class, and the potential for recovery in key sectors such as technology, manufacturing, and green energy.

On the other hand, there are valid concerns that some Chinese stocks could be value traps. A value trap occurs when a stock appears undervalued based on metrics like price-to-earnings ratios but continues to decline due to underlying structural issues. For instance, the real estate sector, with its enormous debt overhang, could become a value trap if the market fails to recover in the coming years. Similarly, the consumer sector faces challenges from weakening consumer confidence and limited policy support, raising questions about whether it can sustain long-term growth.

China equity returns by sector (Sep 2014 to Aug 2024, rebased to 100)



Source: FactSet, * equal weighted return of all CSI 300 companies in the sector, ** equal weighted index returns

Conclusion

Consumer confidence in China has been highly volatile, with post-pandemic recovery efforts hampered by economic uncertainties and a slow job market. While certain sectors like services and luxury goods have shown growth, overall spending power remains subdued, particularly in everyday consumer sectors. Recent policies targeting real estate and mortgage relief aim to stimulate both housing demand and broader economic activity, offering a cautious path forward.

We have been bullish on Chinese equities since Q1 2024 and consider them as undervalued gems that are waiting for recovery i.e., value buys. Despite the recent rally, Chinese equities are trading at ~34% discount to their 5-year history. We advise long-term investors to maintain a tactical overweight position in Chinese equities, considering favourable market conditions and potential for growth.



We advise long term investors to maintain a tactical overweight position in Chinese equities.



India's economic rise: Growth, opportunities, and challenges

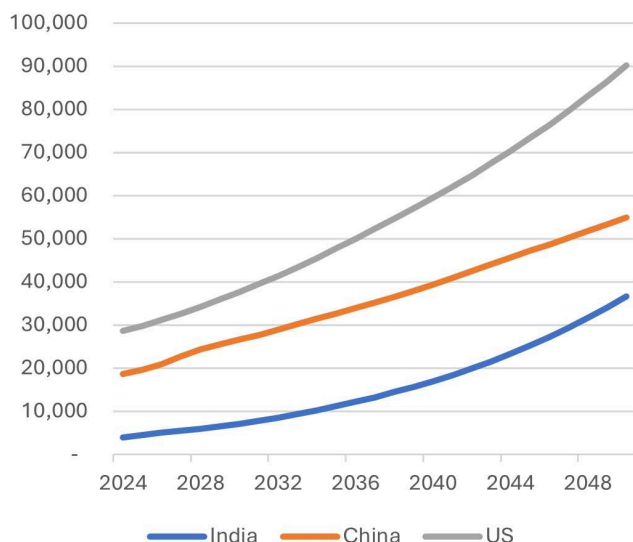
The Indian market remains robust, demonstrating resilience and strong performance over the past decade. With a 10-year dollar return of around 10% and a 20-year CAGR of 13%, India has positioned itself as one of the best-performing markets globally, rivaling the U.S. in long-term returns. The Indian market stands as one of the most dynamic global economies, with a nominal GDP of approximately USD 3.9 trillion as of Aug 2024, making it the fifth-largest economy. The total market capitalization of the Indian stock market is around USD 5.5 trillion, ranking among the top 10 globally. The country is set to become 4th largest economy by 2025 and 3rd largest economy by 2030.

Potential GDP growth of major economies

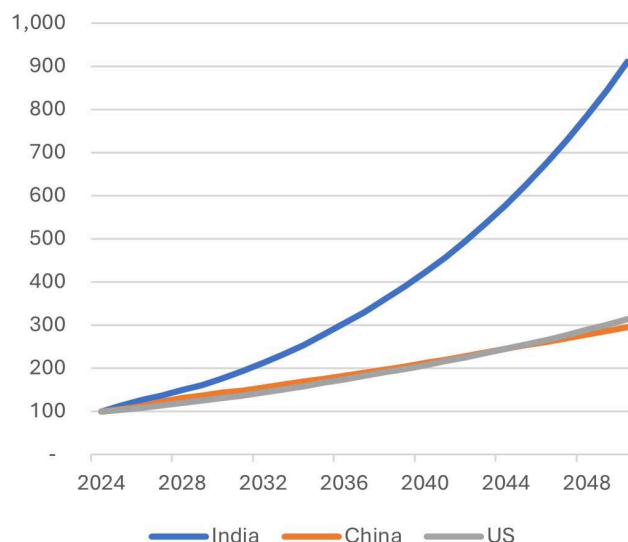
The data projects the nominal GDP growth for India, China, and the U.S. from 2024 to 2050, highlighting India's significant growth potential. India's nominal GDP is expected to grow 9.11x, from USD 4.0 trillion in 2024 to USD 36.70 trillion by 2050, reflecting the strongest growth trajectory among the three economies. China's nominal GDP is projected to grow 2.95x, rising from USD 18.60 trillion in 2024 to USD 55.0 trillion by 2050, indicating steady but slower growth compared to India. The U.S. nominal GDP will expand 3.14x, growing from USD 28.70 trillion to USD 90.20 trillion by 2050. While the U.S. will remain the largest economy in absolute terms, India's rapid expansion reflects the highest growth potential in terms of nominal GDP, driven by strong domestic factors and global integration.

However, when factoring in real GDP growth (which adjusts for inflation), India's trajectory is more nuanced. India's real GDP is set to grow at a steady rate, starting at 6.5% in 2024 and gradually declining to 4.1% by 2050. This translates into the real GDP value, rebased to 100 in 2024, reaching 371 by 2050. This reflects a 3.71x increase in real terms, factoring in inflation, and indicates that while India will experience rapid growth, inflation will somewhat temper the expansion.

Nominal GDP (USD bn)



Nominal GDP (rebased to 100)



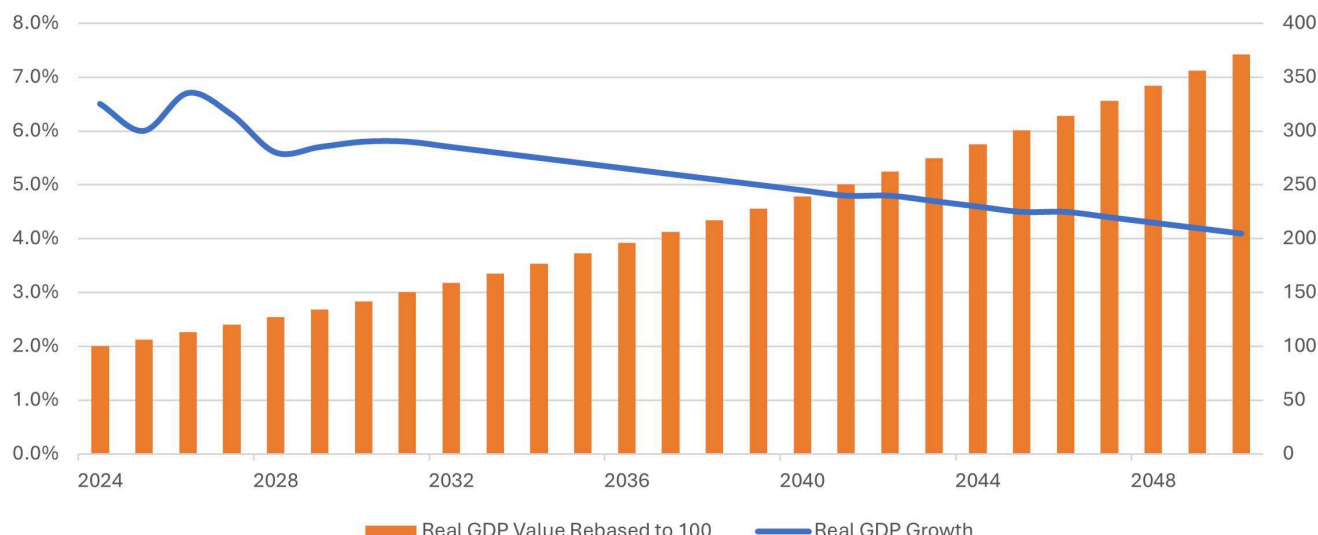
Source: Metadata Explorer, Capital Economics



By 2050, India's GDP is projected to grow 9.11x, highest among largest economies while China is expected to grow by 2.95x and the US by 3.14x



India: Real GDP growth (%), real GDP value (rebased to 100)



Source: Metadata Explorer, Capital Economics

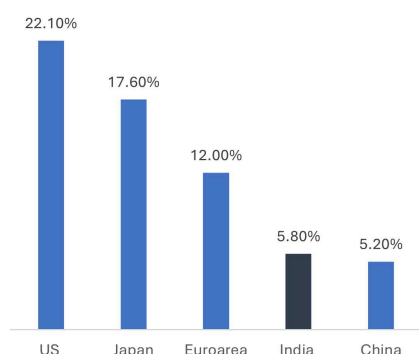
India's household asset allocation

India and China both have approximately 5-6% of household assets allocated to direct equities, significantly lower than the U.S. (22.1%), Japan (17.6%), and the Euro area (12%). This indicates substantial potential for future growth in equity markets, especially in India, where a young and growing population may increasingly channel funds into riskier assets like stocks.

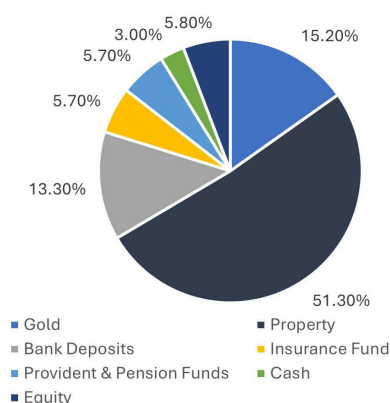
As of March 2024, Indian households hold USD 12.8 trillion in assets, with 5.8% allocated to direct equities, up from 2.7% in 2020. The largest allocations remain in property at 51.3% and gold at 15.2%. However, a noticeable shift towards equities is emerging, and further reallocation from other assets could unlock substantial investment inflows into the stock market, driven by demographic trends and increasing financial awareness.

India's economic growth, increasing financial literacy, and the rise of digital trading platforms are driving a significant shift in household asset allocation towards equities. This trend is evident from the substantial inflows of funds from domestic institutional investors and the surge in dematerialised accounts, which have risen from 50 million in 2020 to 171 million as of September 2024. This shift could provide a long-term boost to the Indian stock market, as younger investors seek higher returns compared to traditional assets like property and gold.

Asset allocation of major economies direct equities to household (%)



Asset allocation Indian household as of Mar 2024 (%)



Source: Jefferies, RBI

Opportunities looking forward in the Indian market

India is poised to benefit from multiple emerging opportunities across sectors. One of the most significant trends is the rise of women consumers, with increasing financial independence driving spending in jewelry, luxury goods, apparel, and home products. This demographic shift represents half of India's population, offering tremendous growth potential for businesses catering to this consumer base.

Another major growth driver is the expansion of Global Capability Centers (GCCs) in India. As per economic experts with a USD 1.5 trillion opportunity in white-collar outsourcing, India is becoming a hub for business processes such as HR, payroll, marketing, and engineering. The IT and outsourcing industry, currently valued at USD 250 billion, is expected to grow substantially as companies increasingly outsource complex tasks such as R&D and product development. India's skilled workforce and technological expertise position the country as a leading destination for global companies seeking to enhance operational efficiency.

Moreover, foreign direct investment (FDI) is accelerating, with electronics and pharmaceuticals leading the way. Apple and Foxconn's increased production in India exemplifies this trend, as more companies look to diversify their production bases. India's political stability, rule of law, and pro-business reforms such as Make in India further support its attractiveness as an investment destination.



Potential opportunities for India from the 'China Plus One' strategy

The China Plus One strategy offers India significant growth opportunities as global companies seek to reduce their reliance on China. This shift is expected to bring an additional USD 300 billion in economic activity to India, particularly in electronics, pharmaceuticals, and medical devices.

The manufacturing sector is a big winner in this transition. Apple, which barely produced in India two years ago, now makes 10% of its global iPhones and iPads there, with expectations to increase to 25%. Similarly, India's semiconductor exports have risen to 2% of the global market, a notable achievement for an industry that barely existed in the country a few years ago. Generous domestic subsidies indicate this growth will continue.

Within the region, Vietnam is often considered as the key beneficiaries of the "China Plus One" strategy, due to its stable government policies, competitive labor costs, and proximity to China. India's larger market, growing southern manufacturing hubs, and skilled workforce position it well to compete with existing beneficiaries. However, to maximize its potential, India must improve infrastructure and streamline regulations to stay competitive in the face of growing global competition.

As global pharmaceutical supply chains diversify away from China, driven by legislation like the US Biosecure Act, Indian CDMO firms stand to gain. With expertise in pharma manufacturing, competitive costs, and a strong talent pool, India is well-positioned to attract new business from global pharma companies. Improved biotech funding, which reached over USD 20 billion in Q1 2024, combined with the shift from China, could accelerate growth for Indian CDMOs in the coming years.

Foreign portfolio investment is also shifting. China's post-COVID returns have been weak, while India's long-term performance shines. If just 20% of the USD 3.5 trillion foreign capital invested in China moves to India, FPI inflows could double, providing a major boost to India's capital markets.

Challenges in India's job market

India's unemployment rate hit 9.2% in June 2024, exacerbated by structural issues like 40% of the workforce in agriculture, contributing only 15% to GDP, and female workforce participation stuck at 30%. Economic growth has not translated into enough jobs, fueling inequality. The rise of AI and automation in the IT sector worsened the situation, with 32,000 tech jobs lost in 2024, and up to 70% of coding and testing roles at risk of becoming obsolete.

Despite being a top-performing stock market, India faces deep economic disparities, with a per capita income of just \$2,500, ranking among the 50 poorest nations. To address this, the government introduced a \$24 billion job-creation plan in its 2024-25 Budget, including productivity incentives, skilling programs, and reforms aimed at boosting employment. While AI could create 12 million new jobs by 2025, the key lies in rapid upskilling and education reforms to keep pace with technological changes.

Conclusion

India's market has shown impressive strength, fueled by strong economic growth, a young population, and strategic ties with the U.S. and Russia. The "China Plus One" strategy further cements India's position as a key manufacturing hub, unlocking substantial growth potential. However, concerns loom as market valuations soar, driven by IPO enthusiasm and a surge of inexperienced retail investors. The current market value to GDP ratio stands at 140%, compared to 80% pre-pandemic.

Retail investors, empowered by digital trading platforms and easy access to IPOs, have played a pivotal role in shaping market dynamics. Their participation surged during the pandemic, leading to increased market liquidity and driving up valuations. However, many lack deep market knowledge, often chasing short-term gains, which could fuel volatility and corrections in overvalued stocks.

A healthy market correction may be necessary to bring valuations in line with economic fundamentals, ensuring sustainable long-term growth. As India continues to strengthen its global position, this adjustment would pave the way for more balanced, stable market development.



Economic growth has not translated into enough jobs, fueling inequality. As of the end of 2023, the top 1% of the population controls more than 40% of the country's total wealth



UAE and the migration of millionaires

The landscape of UAE has changed significantly when it comes to millionaires – especially over the past 10 years. Post the crises the world has been witness to, the UAE has steadily been the top contender in attracting private capital and talent for quite some time. However, since investment-based migration is increasingly driven by a confluence of economic, geopolitical, and domestic social factors, the UAE provides a reliable, safe, and appealing environment for high-net-worth families.

It is estimated that there will be a projected net inflow of over 6,700 millionaires in 2024 to the UAE – more than any other country, as per reports from Henley & Partners report.

Foundation and why?

The UAE's robust long-term economic framework proves to be a cornerstone for its appeal to high-net-worth families. The World Bank's steady outlook for real GDP growth in the UAE for 2024 and 2025 of 3.9% and 4.1%, respectively, as well as a formidable 'AA-' Long-Term Foreign-Currency Issuer Default Rating by Fitch, reflects the country's moderate consolidated public debt level, strong net external asset position, and high GDP per capita.

This rating has come about from the UAE's strategic geographical location as a gateway between the East and the West. This unique positioning facilitates international trade and investment, making it an attractive hub for global business operations, which has further enhanced its economic allure. With its zero income-tax, golden visas, luxury lifestyle, and strategic location, the UAE has entrenched itself as the world's number one destination for migrating millionaires.

Both these forward-looking strategies once again emphasizes the dedication to ensuring sustainable growth, and thus positioning UAE as a top-tier global destination for innovation, commerce, and investment, and driving long-term economic transformation and prosperity.

To further enhance this growth, the UAE has come up with the Dubai Economic Agenda 'D33' and Abu Dhabi's Economic Vision 2030.

One aims to double the economy by 2030 as well as to elevate Dubai into the ranks of the top three global cities for investment, living, and working. This ambitious plan involves a series of strategic initiatives designed to bolster economic growth, enhance the business environment, and improve the quality of life for residents. The other aims to revolutionize Abu Dhabi into a cutting-edge, globally competitive hub. It seeks to cultivate a vibrant business environment by implementing agile fiscal policies that respond swiftly to economic shifts and creating a robust financial system with stable inflation control.



One aims to double the economy by 2030 as well as elevate Dubai into the ranks of top 3 global cities for investment, living and work.



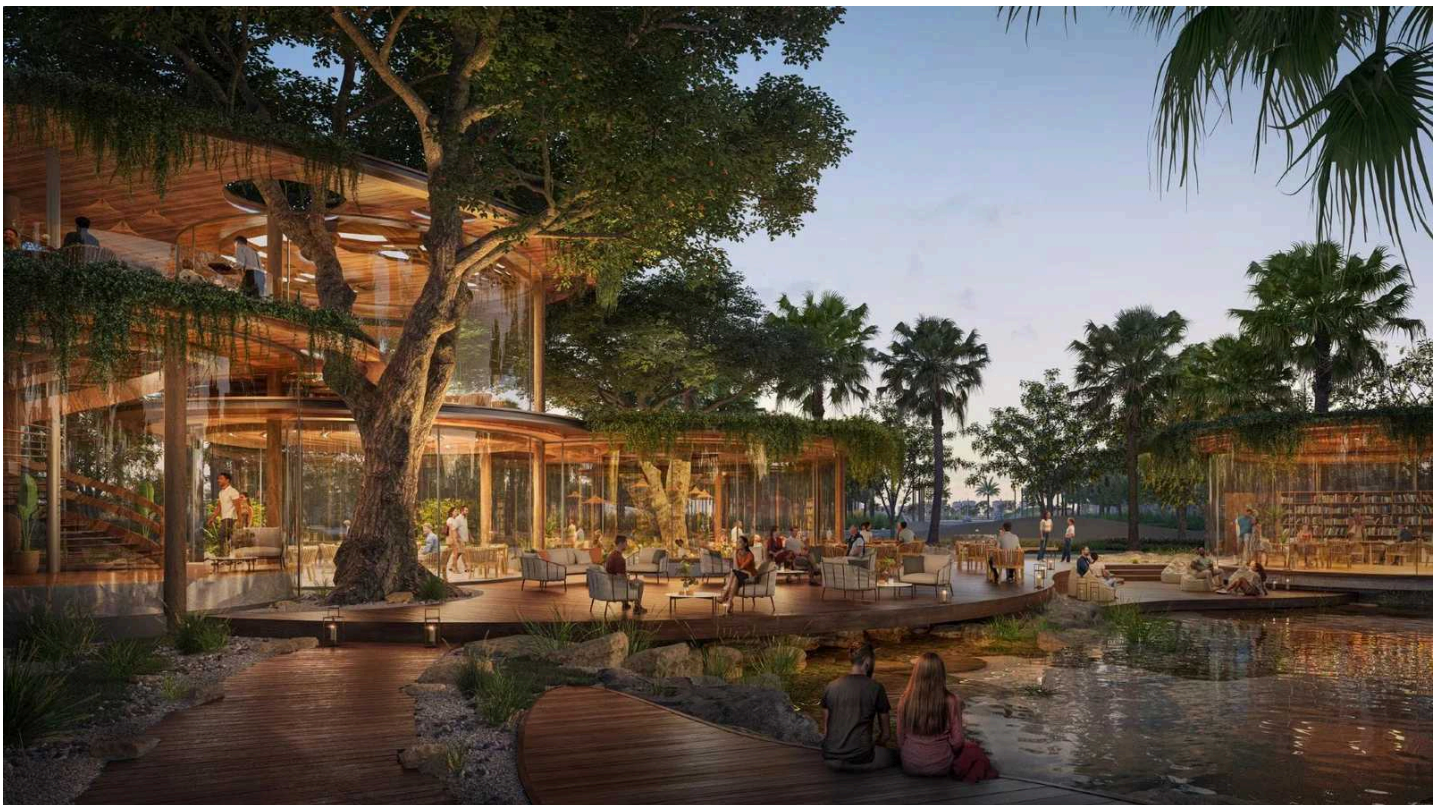
★ **Movers and losers:** the UAE has consistently attracted large numbers of millionaires from India, the Middle East, Russia, and Africa. In 2024, large inflows are also expected to come from the UK and Europe, with the former expected to see an unprecedented net loss of 9,500 millionaires this year, second only to China worldwide, and more than double the 4,200 who left the country last year.

The report's W15 ranking of the world's top 15 countries for millionaires, centi-millionaires (USD +100 million) and billionaires (USD + 1 billion) placed the UAE in the 14th position, with 116,500 millionaires (having more than \$1 million in liquid investable wealth), 308 centi-millionaires (more than \$100 million) and 20 billionaires (more than \$1 billion), indicating a 77% growth in the decade from 2013 to 2023.

★ **Biggest movers:** According to the report, China was on track to be the biggest millionaire loser globally, with an anticipated net exit of 15,200 HNWI's this year (compared to 13,800 in 2023), whereas India has stemmed its wealth exodus, dropping down to third place after the UK with 4,300 millionaires projected to leave the country in 2024 (compared to 5,100 last year).

South Korea's HNWI exodus is expected to rise with a forecast loss of 1,200 millionaires, compared to 800 in 2023, while the flight of millionaires that left Russia following the outbreak of the Ukraine war appears to be abating with only 1,000 projected to relocate this year, compared to 8,500 in 2022 and 2,800 in 2023.

Singapore came in third this year with net inflows of 3,500 moneyed migrants, while Canada and Australia, followed in fourth and fifth places with net inflows of 3,200 and 2,500, respectively.



Analysis of the Art and Swiss Watch Markets in 2024

As an asset manager, accuracy and comprehensive data are critical in evaluating the state of the art and luxury watch markets in 2024. Furthermore, these 2 esoteric asset classes give us a view on how high net-worth individuals are feeling about their wealth. Below, we have expanded the research with verified details from major financial publications and industry reports to provide a thorough, data-driven article.

State of the Global Art Market in 2024

The global art market in 2024 reflects a period of cooling after an explosive post-pandemic recovery. According to Art Basel and UBS's annual report, the art market declined 4% year-on-year, bringing total global sales to approximately \$65 billion in 2023. This decline was primarily driven by fewer high-end transactions and a cautious approach among buyers due to macroeconomic conditions, including concerns over inflation and rising interest rates.

Key Auction House Trends

- ★ Sotheby's reported a total of \$234.6 million in sales from its May 2024 Contemporary Evening Auction, slightly below the pre-sale low estimate of \$217.6 million. A standout in the auction was Francis Bacon's Portrait of George Dyer Crouching (1966), which fetched \$27.7 million, leading the sale.
- ★ Public auction sales in general decreased by 7% to \$25.1 billion in 2023, following a record year in 2022. A particular segment hit was sales of \$10 million-plus fine art, which saw a significant decline. However, private auction sales grew by 2%, indicating a strategic shift by auction houses toward private transactions.

Geographic Shifts in the Art Market

- ★ China has now overtaken the UK as the second-largest art market, with a 9% increase in sales to \$12.2 billion in 2023. However, the growth is still 20% lower than its 2013 peak. Meanwhile, the UK saw an 8% decline in art sales, reflecting broader challenges posed by Brexit and a post-pandemic economic slowdown.
- ★ The US remains the largest art market, representing 42% of global sales, although total sales dropped by 10% to \$27.2 billion.

Online and Emerging Markets

- ★ The online art market has proven resilient, with a 7% increase in sales to \$11.8 billion, despite coming off the highs of the pandemic-fueled digital boom. This represented 18% of total market turnover in 2023, almost double the levels seen in 2019.
- ★ Millennial collectors have emerged as a driving force, particularly in contemporary art and NFT-related sectors. However, sales of NFT-based art have sharply declined from their 2021 highs, plummeting 51% to \$1.2 billion in 2023.



China has now overtaken the UK as the second largest art market with a 9% increase in sales to \$12.2 billion in 2023



2024 Outlook

While 2024 began with a cautious outlook, 36% of dealers expect an increase in sales for the year, while 48% foresee stable results. The most optimistic dealers are those with annual turnovers below \$250,000, showing confidence in the market's lower end. At the high end, however, many buyers are becoming increasingly selective, focusing on assets with proven long-term value.

Swiss Watch Market in 2024

The luxury Swiss watch market is similarly navigating a transitional phase in 2024. The industry reported mixed results, driven by economic uncertainties, shifting consumer behaviour, and robust secondary market demand. According to the Federation of the Swiss Watch Industry (FHS), exports grew by 8.1% in the first half of 2024. However, this growth follows a record-setting 2022, and overall market performance has been uneven.

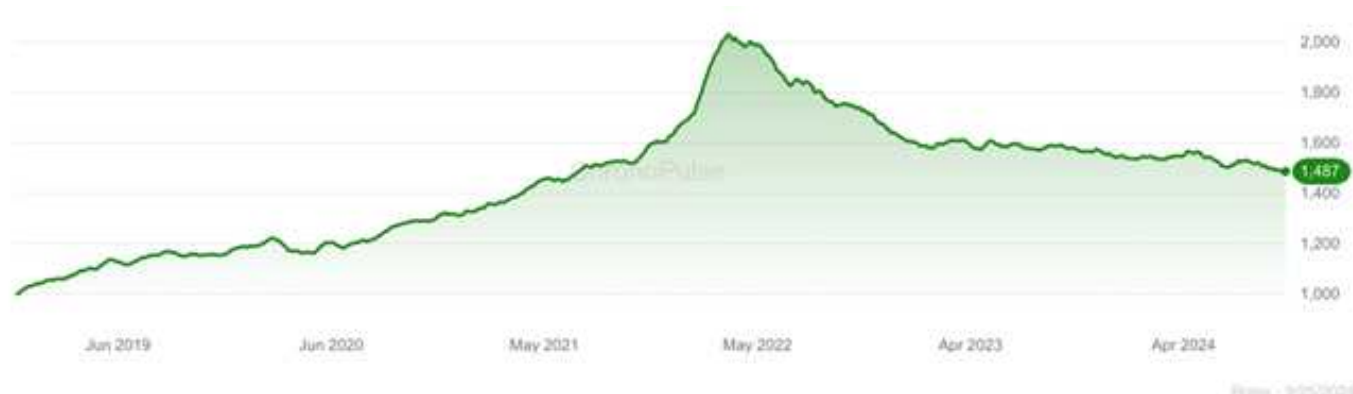
New Watch Sales and Exports

- ★ Swatch Group, which owns brands like Omega and Longines, reported a 14.3% decline in sales for the first half of 2024, with operating margins down 70% compared to 2023. Economic challenges in China, one of its largest markets, were a significant factor in this decline.
- ★ Richemont Group, owner of Cartier, Vacheron Constantin, and Jaeger-LeCoultre, saw stable sales overall, though watch division revenues declined by 13%. Resilience in top-tier brands like Vacheron Constantin helped mitigate losses.

Secondary Watch Market

The secondary luxury watch market, valued at \$24-26 billion in 2023, continues to outpace the new watch market, now representing nearly one-third of the total luxury watch industry. However, the prices have been steadily declining. According to Chrono24's ChronoPulse Rolex Index, Rolex prices on the secondary market decreased by 30% since hitting a high in March of 2022, underscoring lessening strong demand for iconic, limited-supply models.

ChronoPulse: Rolex Index



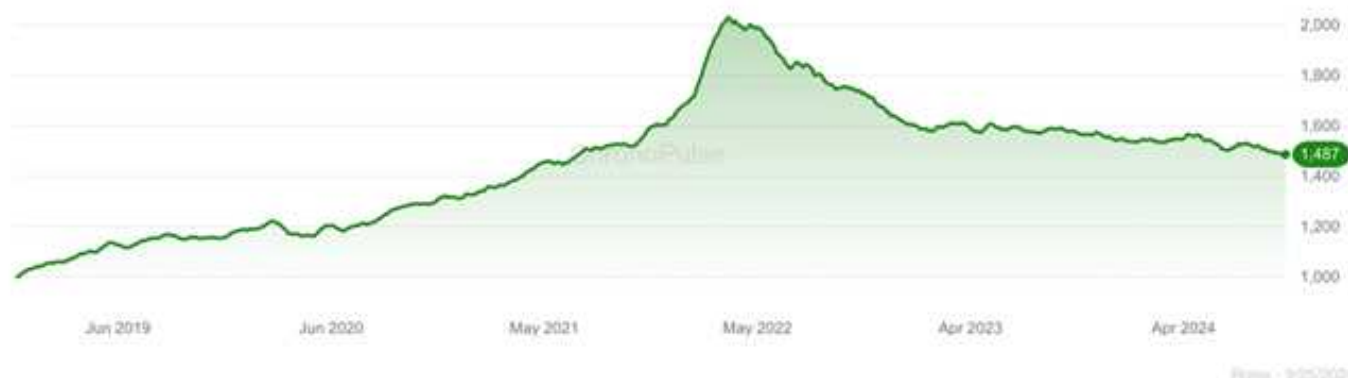
Source: Chrono24



Luxury watch prices have fallen by about 30% from its high hit in March of 2022.



ChronoPulse: Rolex Index



Regional and Segmental Performance

- ★ China's weakened demand due to economic uncertainties has notably impacted sales in the high-end segment, particularly for new watches. However, Japan has emerged as a stronger market, partially offsetting declines in Europe and Asia.
- ★ The mid-tier and entry-level luxury segments, including brands like Tudor and Tag Heuer, have underperformed relative to high-end brands like Audemars Piguet, Patek Philippe, and Rolex, which have shown a smaller decline.

2024 Outlook

The luxury watch market is expected to stabilize in 2025, with the secondary market remaining a critical driver of growth. With an expansionary monetary policy from the US and much recently from China, we predict continued strong demand for iconic models from high-end brands, particularly in the pre-owned space. Inventories at major brands are high, suggesting that supply chain adjustments may be necessary to balance production and market demand.

Conclusion

Both the global art and Swiss watch markets in 2024 are marked by cautious optimism amidst broader economic uncertainties. This shows that high net-worth customers are being careful about their spending. While the high-end segments of both markets have softened, apart from some millennial collectors, there is definitely reduced spending.



The luxury watch market is expected to stabilize in 2025 with Chinese consumers coming back into the market.



Consumer Spending Slowdown

Dollar General Q2 Earnings Outlook

Dollar General's sales have slowed down mainly because its core customers, who typically earn less than \$30,000 per year, are struggling with rising living costs. Prices for basic necessities like food and household items have remained high due to the ongoing impact of inflation. Customer traffic increased, but the average transaction size declined. Many of these customers have lost their second jobs, which provided extra income, making it harder for them to make ends meet. As a result, they are cutting back on non-essential purchases and focusing on stretching their budgets for essentials, particularly at the end of each month. This financial strain is leading to fewer purchases at Dollar General, particularly in categories outside of daily essentials. CEO highlighted that this trend reflects broader economic pressure on low-income households, which form the backbone of Dollar General's consumer base.

Increased competition

Dollar General is also facing stronger competition from larger retailers like Walmart. As economic pressures mount, middle-income shoppers, who previously might have shopped at Dollar General for lower prices, are now turning to mass-market retailers that offer a broader range of products. Walmart, for example, is winning over some of Dollar General's potential customers by offering value and convenience in one place. This shift is making it harder for Dollar General to attract and retain new shoppers, especially as other retailers continue to grow their presence in the market.

Operational and margin challenges

The reason for the margin shrinks is the cost of keeping up with promotions and operational expenses. Dollar General has had to increase its discounts and promotions to keep shoppers coming in, but this has reduced its profit margins. In addition, the company is dealing with higher labor costs, with wages rising by around 4%. To manage store operations effectively and improve customer service, they have kept store hours and staffing levels unchanged despite softer sales. Damage to goods and losses from theft have also added to the company's costs, making it more difficult to maintain profitability. These factors combined are putting pressure on the company's bottom line.

Dollar Tree Q2 Earnings Outlook

Macro headwinds impact sales

The shortfall in sales is largely driven by a challenging macroeconomic environment, with rising inflation and higher interest rates impacting consumer spending, especially among Dollar Tree's middle- and upper-income shoppers. Family Dollar's lower-income customer base continues to face weak demand due to financial pressures, further hurting overall sales. The customer traffic increased, the average ticket size fell. Additionally, delays in rolling out the multi-price store format have limited the expected sales boost. As a result, shifts in consumer behaviour towards essentials and away from discretionary spending have compounded these issues, affecting higher-margin categories.

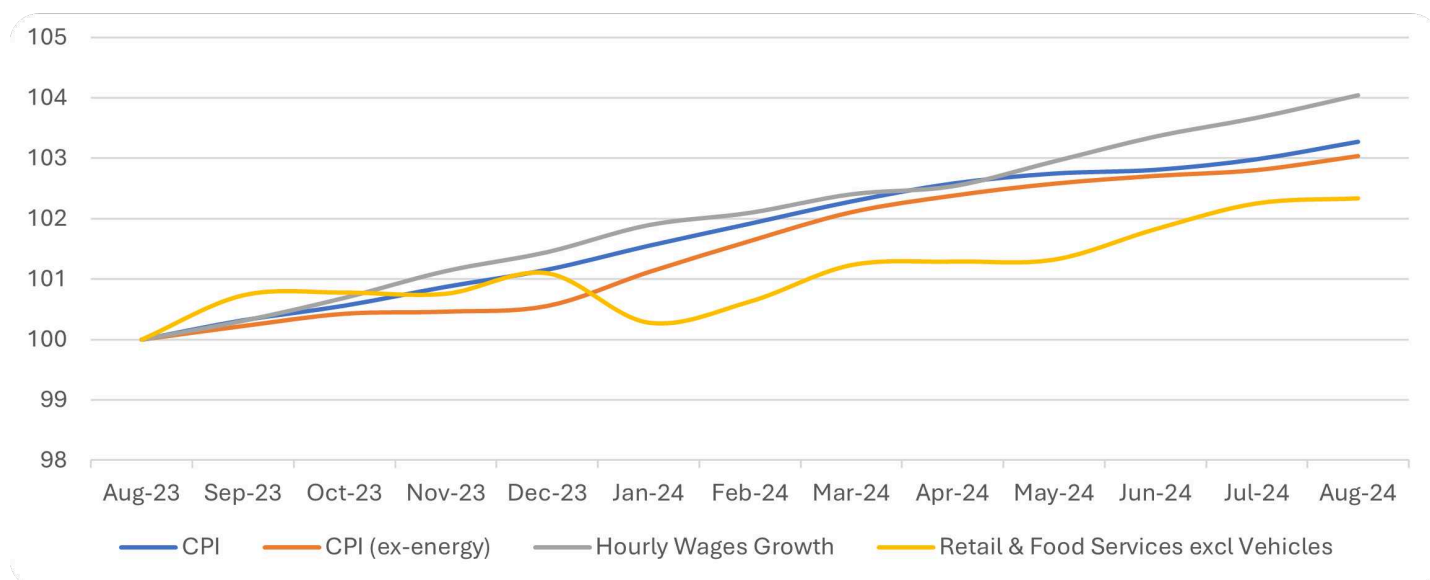
Operational challenges and capital expenditures weigh on margins

On the margin front, unexpected costs related to higher general liability claims had a significant \$0.30 EPS impact, driven by rising settlement and litigation expenses. The acquisition of 99 Cents Only Stores also led to unforeseen up-front occupancy costs, which strained profitability. Increased depreciation and amortization expenses from ongoing investments in new stores, renovations, and IT transformation added further pressure. Additionally, the shift in sales mix towards lower-margin consumables, as discretionary demand softened, has weighed heavily on overall margins.

Middle-class spending outlook

Over the past 1-year, average hourly earnings have grown by 4%, outpacing the 3% increase in the Consumer Price Index (CPI), which suggests that consumers have more money to spend. However, retail spending has only increased by 2.3% over the same period. Both consumer confidence and household income levels have been declining since December 2023.

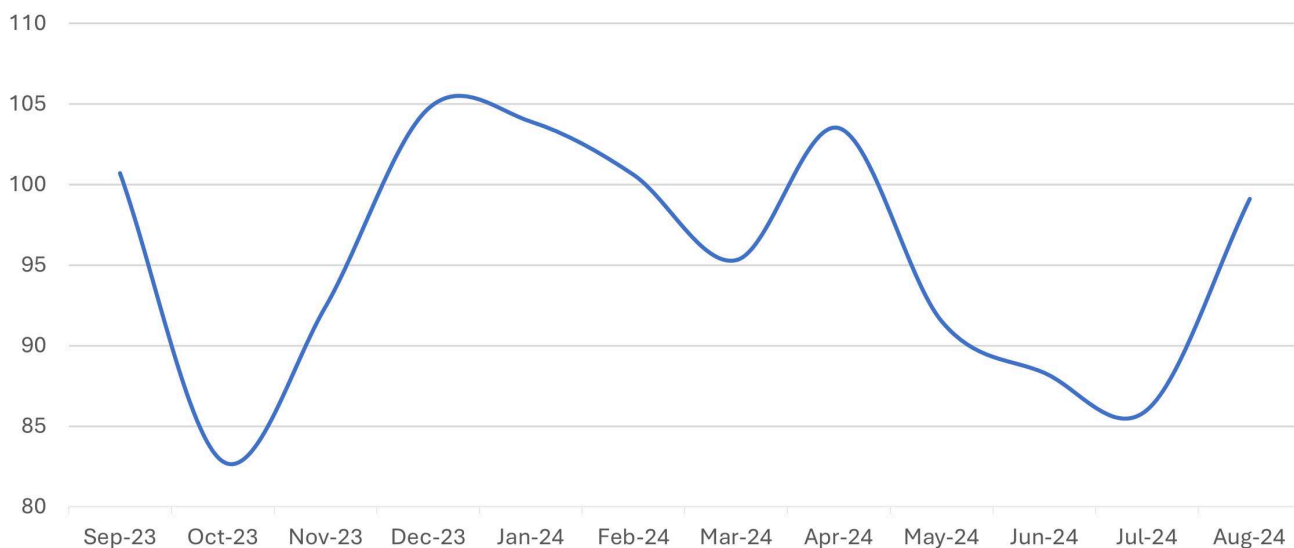
United States: Inflation, earnings growth, and retail sales (rebased to 100)



Source: FactSet

This is particularly concerning for households earning between USD 25K and USD 35K, a key customer base for dollar stores. The decline in consumer confidence, from 104 to 86 last quarter, signals growing uncertainty about the economic future. As noted in Dollar General's conference call, people are losing secondary jobs, and there is a weakness in the jobs market, as highlighted in recent macroeconomic reports. As a result, middle-class consumers are limiting their spending to essentials and reducing discretionary purchases, reflecting growing concerns about the economic outlook.

United States: Consumer confidence index by household income (USD 25,000 to 34,999)



Source: FactSet



The lower income consumers are struggling due to loss in secondary jobs. Companies such as Dollar General and Dollar Tree are also finding it difficult to pass on the higher costs to the end consumer.





Ahil Mansoor
Chief Executive & Chief Investment Officer
Octave Asset Management

Ahil Mansoor is a distinguished financial professional, brings over two decades of multifaceted experience to his role as CEO and CIO at Octave Asset Management. With expertise spanning asset management, private banking, venture capital, and financial consulting, Ahil is a strategic leader in the financial domain. Holding an MBA in Finance from the Thunderbird School of Global Management complemented by a Bachelor's degree in Engineering, Ahil is a seasoned professional with a strategic leadership approach. His industry proficiency is further underscored by designations including Certified Financial Planner (CFP), Chartered Investment Manager (CIM), and Fellow of the Canadian Securities Institute (FSCI), along with successful completion of CFA Level 2.



Mohammad Javid
Chief Operating Officer
Octave Asset Management



Vahaj Ahmed
Senior Research Analyst
Octave Asset Management



Akhilesh Sain
Head of Advisory
Octave Asset Management



Ashfaq Kamarudheen
Research Analyst
Octave Asset Management

Disclaimer: This report has been crafted utilizing data and information sourced from reputable entities, World Gold Council, Bloomberg, Capital Economics, Visual Capitalist, Refinitiv and FactSet. The accuracy and reliability of the content are attributed to the quality of the information provided by these sources. Any opinions or interpretations presented in this report are solely those of the author and do not necessarily reflect the views of World Gold Council, Bloomberg, Capital Economics, Visual Capitalist, Refinitiv and FactSet. The mentioned organizations are not responsible for any errors, omissions, or misinterpretations that may occur in the report.

Octave Asset Management DIFC Ltd Research Analysis (the "Report") has been prepared by Octave Asset Management DIFC Ltd ("Octave") for informational purposes only. The information and opinions contained herein are based on publicly available information, internal data, and sources deemed reliable; however, Octave does not guarantee the accuracy, completeness, or reliability of any information or opinions presented in this Report. This Report is not an offer to buy or sell, or a solicitation of an offer to buy or sell any security or investment product. Octave does not provide investment, legal, or tax advice, and this Report should not be construed as such. Investors should seek independent financial advice regarding the suitability of any investment strategy based on their objectives, financial situation, and risk tolerance. The securities and investment products discussed in this Report may not be suitable for all investors. Past performance is not indicative of future results, and there is no assurance that any specific investment will achieve its objectives or that any strategy will be successful. Octave and its employees may have a financial interest in the securities or investment products discussed in this Report. Octave may have provided investment banking, advisory, or other services to companies mentioned in this Report. Investing in securities involves risks, and there can be no assurance that any investment strategy will achieve its objectives or that any investor will achieve a profit or avoid a loss. The value of investments may fluctuate and may be adversely affected by market conditions, economic factors, and other external events. Octave disclaims any and all liability for any direct, indirect, consequential, or special damages that may arise out of the use of or reliance on this Report or any information contained herein, whether in action of contract, negligence, or other tortious action. This Report is intended for the exclusive use of Octave's clients and may not be reproduced, redistributed, or transmitted, in whole or in part, without Octave's prior written consent. By accessing and reading this Report, you agree to be bound by the terms of this disclaimer. Octave reserves the right to modify or update this disclaimer at any time without notice. For specific legal or regulatory concerns, readers are advised to consult with their legal counsel. Octave assumes no responsibility for the compliance of this Report with the laws or regulations of any jurisdiction.