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A Weekly Comprehensive Macroeconomic Overview

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Windfall Taxes and the Autumn budget

The Autumn Statement for 2022 was released on November 17th which detailed the government's plans for spending, and changes in tax policy as well as estimates on deficits and future growth prospects of the UK economy.

Of all the announcements windfall taxes have been in the spotlight as they have been stepped up due to rising political pressure and unrest from the ongoing cost of living crisis. Chancellor Jeremy Hunt confirmed that the existing windfall tax on North Sea oil and gas operators (also known as energy profits levy), will be raised from 25% to 35% with an extension of two years, meaning it would last until March of 2028. Moreover, this tax will also be raised from 40% to 45% for low carbon electricity generators such as solar, nuclear, wind generators. In terms of governmental budget, the tax will raise £40bn (from gas and oil) and £14Bn (low carbon generators) over six years.

Energy companies have been making record profits on the back of an energy crisis resulting from the supply deficit of oil and natural gas due to the Russia-Ukraine conflict. However, shares of BP and Shell, two of the biggest UK based integrated oil companies, were static during the announcement as a prospective windfall tax seem to have been priced in early on based on rumours and calls by multiple politicians for a tax of this kind.

Consumer Effects from the Autumn Budget

In addition to the increased windfall taxes to energy operators, the Autumn budget announced several other items that will affect consumers.

The upper threshold for the 45% tax rate is being reduced to £125,140 from £150,000, meaning that those within the bracket will pay ~£1,200 more per year. Alongside that, dividend allowances will be cut from the current £2000 per annum to £1000 in 2023, and finally to £500 in 2024. This is accompanied by a capital gains tax-free allowance slash of more than 50% in 2023. Investors can no longer earn £12,000 tax free from investments or trading. This will be reduced to £6,000 in 2023 and to £3,000 in 2024. These measures seek to raise £1.2 billion per year from the UK's high earners whilst also raising the barrier to entry for the country's young investors and traders looking to step foot in finance.

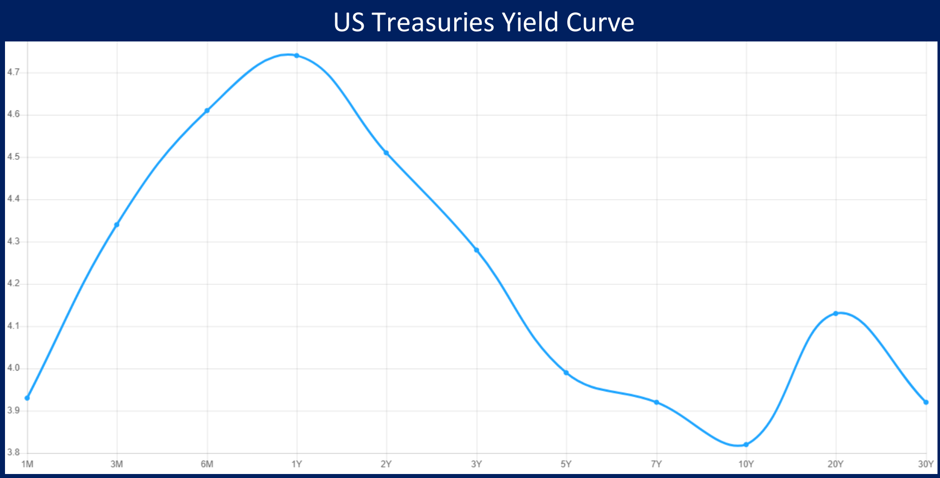
Increases in the tax rate for businesses (especially energy and company windfall taxes) and the public may worsen the UK's already contracting economy. With businesses earning less after tax, they will have less to invest back into their products. For example, energy companies who are targeting a transition to renewable energy may have to lengthen timelines. These changes may cause stock prices to drop but there is also an argument that markets have already factored this in. Furthermore, with interest rates and the price of consumer goods increasing, the public may be more inclined to save money instead of choosing to invest or purchase goods. This would further effect on energy company share prices and result in a winding down of their recent bullish trends.

Bond Yields and the Yield Curve Inversion

Following hawkish comments by Fed chairman Jerome Powell, short term US treasury yields have hit highs last seen in 2007.

Equities have taken a hit, having priced in an interest rate of 5.1% by next May following Powell's statement that the Fed still had "some way to go" before it has inflation under control. Short term bond yields hit 4.71% earlier this November. Higher bond yields can offer a more attractive investment when compared to stocks. Alarmingly, the yield on short term bonds has surpassed the 10-year yield by 0.66%.

The increase in government bond yields has led to an inversion in the yield curve which has historically been a strong indicator of a recession. The spread between 2-year and 10-year bonds is -66 basis points (-0.66%) as of Thursday 17th November. The general response to "correct" the inversion is to ease interest rate hikes but due to the high inflationary period, it is currently not a viable option for the Fed. As more investors move into bonds and the likelihood of a recession increases, we expect to see decreased returns in the US stock market.



Source: https://www.ustreasuryyieldcurve.com

The Fall of FTX

FTX Exchange is a cryptocurrency exchange company, co-founded by Sam Bankman-Fried and Gary Wang in 2018, that developed a platform for professional trading firms. It was incubated by Alameda Research, a top cryptocurrency liquidity provider, and due to this FTX has had industry-leading order books from day one.

Despite its early success, FTX recently filed for Chapter 11 Bankruptcy on 11th November, with the company's valuation plunged from $32 billion to bankruptcy in a period of roughly 10 days. Following a report suggesting potential leverage and solvency concerns, the exchange faced a liquidity crisis and tried to negotiate a bailout by rival Binance that quickly fell through. The ongoing consequences of the FTX's rapid decline and collapse will impact cryptocurrencies well into the future and could even drag down broader markets. Firms that were hit due to the fall include BlackRock, Sequoia, Paradigm, Temasek, and many others.