

■ First to Market

August 26, 2024

New Road Necessary

A daily market update from FS Insight – what you need to know ahead of opening bell

“Two roads diverged in a wood, and I – I took the one less traveled by, and that has made all the difference.” – Robert Frost

Overnight

Hezbollah launched hundreds of rockets and drones at Israel as ~100 Israeli warplanes struck targets in Lebanon; both sides signal de-escalation [WSJ](#)

Jackson Hole bankers pivot to cuts as soft landing comes into view [FT](#)

E.U. warns: Red Sea oil tanker blaze threatens environmental catastrophe [GC](#)

U.S. unveils more sanctions targeting Russia's supply chains [WSJ](#)

While Paris, Berlin retain tremendous structural power, 'flank states' – Warsaw, Prague, the Nordics, the Baltics – unite over defense & security and drive regional decision-making [Semafor](#)

Brazil's central bank chief warns fiscal issues impact monetary policy transmission [RT](#)

Toscafund's retreat from focus on financials marks end of an era [FT](#)

Venture group G Squared raises \$1bn to invest in discounted start-up shares [ET](#)

J&J takes aim at hospital drug-discount program [WSJ](#)

FDA widens probe of Ecstasy-based drug studies [WSJ](#)



How Chicken Soup for the Soul entangled a titan of private credit [ET](#)

Top private equity firms put brakes on China dealmaking [ET](#)

How a colorful investor profited from a crypto giant's dealmaking [WSJ](#)

Hong Kong builder Yuzhou files for bankruptcy in U.S. [WSJ](#)

Lights are out in many parts of Ukraine today after Russia launched an overnight aerial attack on power grids across the country [CNN](#)

In Beijing's quest for control of the South China Sea, a new flashpoint emerges [WSJ](#)

Intelligence failures cast South Korea's spy agencies in unflattering light [ET](#)

Start-up incubator Y Combinator backs its first weapons firm [ET](#)

Chinese tech giants double AI spending to ~\$7B in H1 2024 [ET](#)

SpaceX's Polaris Dawn mission aims for private spacewalk set for Tuesday [CBS](#)

France detains Telegram CEO Pavel Durov, fanning tensions with Russia [WSJ](#)

The plug-in hybrid car starts to win over buyers [WSJ](#)

The science of saying 'no' at work [ET](#)

This Texas city is too hot, short on water – and booming [WSJ](#)

A heavy-hitting publisher languished in Xi's China; now he hand-sells books in Japan [WSJ](#)

Chart of the Day

LARGE VS SMALL: Similar return last 30 years



MARKET LEVELS

Overnight

S&P Futures +8 ▲ point(s) (+0.1% ▲)
 overnight range: -12 ▼ to +12 ▲ point(s)

APAC

Nikkei -0.66% ▼
 Topix -0.87% ▼
 China SHCOMP +0.04% ▲
 Hang Seng +1.06% ▲
 Korea -0.14% ▼
 Singapore +0.24% ▲



Australia +0.76% ▲

India +0.76% ▲

Taiwan +0.37% ▲

Europe

Stoxx 50 -0.03% ▼

Stoxx 600 +0.06% ▲

FTSE 100 +0.48% ▲

DAX -0.11% ▼

CAC 40 +0.22% ▲

Italy +0.08% ▲

IBEX +0.12% ▲

FX

Dollar Index (DXY) +0.10% ▲ to 100.82

EUR/USD -0.25% ▼ to 1.1164

GBP/USD -0.13% ▼ to 1.3197

USD/JPY +0.15% ▲ to 144.15

USD/CNY -0.03% ▼ to 7.1230

USD/CNH -0.09% ▼ to 7.1226

USD/CHF +0.02% ▲ to 0.8477

USD/CAD +0.13% ▲ to 1.3492

AUD/USD -0.31% ▼ to 0.6774

UST Term Structure

2Y-3 ▼M Spread narrowed -1.6bps ▼ to -124.0bps ▼

10Y-2 ▼Y Spread widened 1.7bps to -10.2bps ▼

30Y-10 ▼Y Spread widened 0.7bps to 29.7bps

Yesterday's Recap



SPX +1.15% ▲
SPX Eq Wt +1.27% ▲
NASDAQ 100 +1.18% ▲
NASDAQ Comp +1.47% ▲
Russell Midcap +1.60% ▲
R2k +3.19% ▲
R1k Value +1.22% ▲
R1k Growth +1.23% ▲
R2k Value +3.53% ▲
R2k Growth +2.86% ▲
FANG+ +1.42% ▲
Semis +2.46% ▲
Software +0.57% ▲
Biotech +1.37% ▲
Regional Banks +5.08% ▲ SPX GICS1 Sorted: Cons Staples +0.23% ▲
Utes +0.29% ▲
Comm Srvcs +0.50% ▲
Healthcare +0.52% ▲
Fin +0.91% ▲
Indu +1.04% ▲
SPX +1.15% ▲
Materials +1.35% ▲
Energy +1.48% ▲
Tech +1.66% ▲
Cons Disc +1.70% ▲
REITs +2.00% ▲

USD HY OaS

All Sectors -0.5bps ▼ to 369bps
All Sectors ex-Energy -0.3bps ▼ 340bps
Cons Disc -0.9bps ▼ 322bps
Indu -1.7bps ▼ 269bps



Tech **-0.3bps** ▼ 351bps
 Comm Srvcs **-2.0bps** ▼ 646bps
 Materials **-1.3bps** ▼ 346bps
 Energy **+1.5bps** ▲ 297bps
 Fin Snr **+0.3bps** ▲ 326bps
 Fin Sub **-0.9bps** ▼ 239bps
 Cons Staples **-0.4bps** ▼ 311bps
 Healthcare **-0.1bps** ▼ 402bps
 Utes **+2.4bps** ▲ 231bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/27	9:00 AM	Jun Case Shiller 20-City m/m	0.3	0.34
8/27	10:00 AM	Aug Conf Board Sentiment	100.9	100.3
8/29	8:30 AM	2Q S GDP QoQ	2.8	2.8
8/30	8:30 AM	Jul PCE m/m	0.2	0.1
8/30	8:30 AM	Jul Core PCE m/m	0.2	0.18
8/30	8:30 AM	Jul PCE y/y	2.6	2.5
8/30	8:30 AM	Jul Core PCE y/y	2.7	2.63027
8/30	10:00 AM	Aug F UMich 1yr Inf Exp	n/a	2.9
8/30	10:00 AM	Aug F UMich Sentiment	68	67.8

MORNING INSIGHT

Good morning!

Fed Chair Powell gave a dovish speech this past Friday (8/23), affirming that the Fed is set to begin an interest-rate-cutting cycle starting in September. As we discuss below, the case was made clear and Powell reiterated his support for a strong labor market (“soft landing”) while also noting how critical it has been that inflation expectations had remained anchored. Overall, to us, this is the return of the “dovish” Fed, and has clear positive implications for small-caps.



This is the most decisive Powell statement: “The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks.”

Click [HERE](#) for more.

TECHNICAL

- Rally back to new highs has begun, but likely will face strong resistance in Sept.
- U.S. Dollar looks to be approaching meaningful support and might stabilize/reverse.
- Treasury yields look to arguably have a final pullback to new lows in yield this week.

Click [HERE](#) for more.

CRYPTO

Programmable IP (PIP) Labs, the developer of Story Protocol, raised \$80 million in a Series B round led by a16z. Other investors included Polychain Capital, Scott Trowbridge, and Adrian Cheng. The round was structured as equity with token warrants. The round brings PIP Labs’ total funding to \$140 million. Story Protocol is a layer one blockchain designed to protect content creators’ intellectual property and ensure creators are compensated properly.



With the acceleration of AI-generated content, it's hard to know who created what and what compensation should be attributed to whom. Story Protocol wants to tackle this problem by tokenizing all intellectual property, making it programmable in the AI age. Story Protocol will allow creators to register their IP on-chain, allowing it to be easily tracked and verified, protecting creator rights and ensuring proper monetary compensation. From there, with the help of Story Protocol's proof-of-creativity mechanism, creators can easily license their IP to AI models or other creators, avoiding the need for contracts and cumbersome legal paperwork and facilitating flourishing creator and AI economies. PIP Labs has stated that there are over 200 teams covering more than 20 million IPs already building on Story. The mainnet launch is expected before the year ends. It is built on the Cosmos SDK but will be fully compatible with the EVM. The team failed to issue a timeline for when Story's native token will launch.

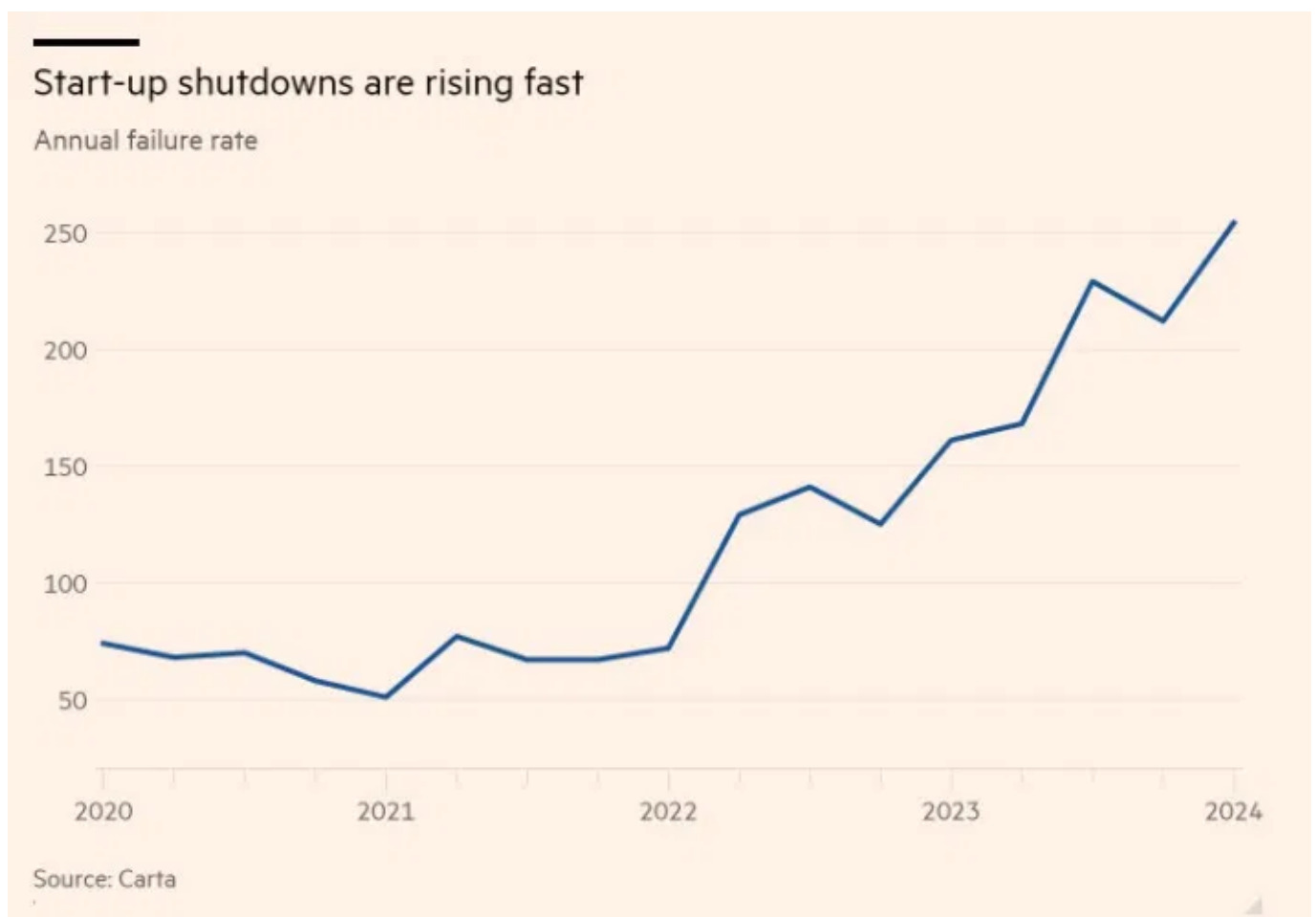
Click [HERE](#) for more.

First News

Winter for a16z. In a non-peer reviewed analysis, a student-professor duo at Pomona College found that only 10 of the 43 partly AI-powered investment funds in the market have done better than the S&P 500 during their lifetimes. What's more, the average annual return for all 43 funds was about 5% per year worse than the S&P 500. Funds [fully powered by AI performed even worse](#). "The Achilles' heel of AI systems is that while they are unparalleled at finding statistical patterns, they have no way of judging whether the patterns they find are plausible or pointless," write the authors of the analysis.



Indeed, the successful build-out of the internet presents a challenge for venture capital and startups, as it means that the model of low-cost / high-upside investing that exemplified the inaugural internet years might now mature into more traditional types of opportunities. Indeed, start-up failures in the U.S. have jumped 60% over the past year, as founders run out of cash raised during the technology boom of 2021-22.* Per data from Carta, which provides services to private companies, start-up shutdowns are surging even as billions of dollars of venture capital pours into AI outfits. Carta said 254 of its venture-backed clients had gone belly up in Q12024. The rate of bankruptcies today is more than seven times higher than 5 years ago.



Even at strong companies, public listings have dried up and M&A activity has slowed, preventing VCs from returning capital to the institutional investors who back them, thus disrupting future fundraising and endangering the funding cycle. In 2022 it was possible to blame macro factors – the broader stock market crash, which drove down the price of ‘comps’ – for this bust, but stocks went back up: the NASDAQ is now past its late-2021 peak and the broader market is up by even more. The U.S. economy has shown rapid productivity growth and surging consumption; still, the startup sector hasn’t recover.

In fact, the bust doesn’t seem to be related to the supply of funding at all. The currently high interest rates aren’t the culprit, as VCs already raised money galore (‘dry powder’) back during the boom; [they could be deploying now, but aren’t](#). The problem is that demand for funding is limited, as there simply aren’t as many promising startups now, and with many of the ones VCs thought were promising turning out not to be so great after all, what VC money *is* being newly deployed is increasingly being plowed into AI. If AI startups don’t end up making money at the same scale the internet startups did, the VC bust will be even bigger than it has been so far and we could be looking at a VC winter, which will mean that there will be fewer exits into the public markets. [NoahPinion](#), [Scientific American](#)

* Only 9% of venture funds raised in 2021 have returned any capital to their ultimate investors. By comparison, a quarter of 2017 funds had returned capital by the same stage.

The Dawning of the Age of Aquarius Austerity. No one wants to hear that, no matter which party triumphs in the election, pressures for fiscal austerity will only increase. Over the long years of low interest rates, most people got used to the idea that deficits didn’t matter. Now, on the back of higher interest rates, slow population growth, and the overhang of debt from multiple crises and multiple periods of fiscal irresponsibility, deficits increasingly do matter.



Worrying about cutting the deficit used to be seen as pointless when more spending or tax cuts, or both, could achieve the much-more-important goal of helping people get back to work (such as during the Great Recession). It seemed especially pointless when [interest rates on the debt were at record lows](#). Fast-forward from 2011, and today interest rates are much higher, unemployment is at 4%, and wages are rising. In other words, *the deficit is now not needed to fix certain problems* (e.g. mass unemployment), while *its sheer size prevents the fixing of other problems* (e.g. child poverty, housing costs, and climate change) since the government has less wherewithal to spend and invest.

Then there are the rising interest costs. And then there are the costs of entitlement programs... [NoahPinion](#)

(to be continued)

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