THE NEXT CHAPTER

A 360° view from the Spectrum Markets team

The new year is open season for economists. Although we know that precision and timing are everything in active trading and that no market observer can predict the future, we love to hear speculation about the likelihood of different scenarios materialising. The years of extreme unpredictability behind us haven't changed this, and listening to market forecasts has become as habitual as watching the weather forecast, if our planned activities won't be impacted by rain or shine. Some of us, rather than fully relying on forecasts, prefer to be prepared for any eventuality. Others pretend they simply don't care, and still others aim at challenging the reasoning for a given forecast and developing their own view.

Scepticism about too much scepticism

Asked for his consumer of outlook, Nicky Maan, Spectrum Markets' CEO, says he considers himself as belonging to the third camp: those critically examining the validity of historic predictions. *"I remember that about a year ago, even though Eurozone inflation had started to decline sharply in Q4 of 2022, we were told that prices would refuse to be anywhere near central banks' monetary stability targets over at least the mid-term, if not for a very long time. In November of last year, Eurozone inflation had actually come down to 2.4%."*

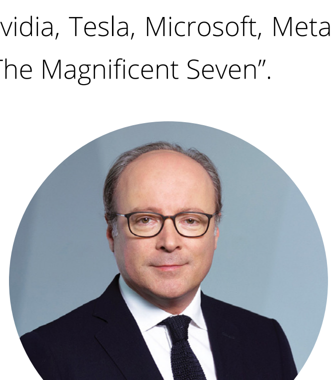
Mike Hall, Head of Distribution at Spectrum Markets, believes that discussion of the stubbornness of inflation had become somewhat irrational at the time. *"The claim was that core inflation[1] would remain high for a longer period based on wage-price effects. However, aside from the energy price shock, there was the massive shift from demand for services onto the demand for goods during the pandemic and the supply bottlenecks that had driven prices up so radically. Then again, as the European Central Bank noted very early in 2023, wage increases only had a limited effect on inflation in the goods sector. What that means is that corporates benefitted from consumers' expectations of high inflation, but this was bound to end once they ran out of reasonable arguments for keeping prices extraordinary high and where the natural limits are reached at which consumers will stop buying non-essential items."*

Inflation forecasts were not the only forecasts worth challenging. Dr. Alpay Soytürk, Spectrum Markets' Chief Regulatory Officer, remembers the example of Silicon Valley Bank: "*When the FDIC[2] took control of Silicon Valley Bank, comments that we were on the brink of a renewed global banking sector meltdown spread like wildfire – while in fact, the bank's failure at the beginning of 2023 was neither an asset quality issue, nor had there been any classic reference point for its systemic relevance".* Notwithstanding the facts, the event caused significant negative responses among investors across the globe.

"With recession, it has been very similar", says Maan. *"Being imminent for three consecutive years now, it still persistently refuses to appear. The trouble with these phenomena is that they have a lot of self-fulfilling potential. Expected inflation clearly had a significant impact on prices rising and the same can happen with overblown fears of recession."*

(Spectrum) Markets in 2023

Symptoms of economic uncertainty (even if less severe than expected) have continued to push investors into quality assets, safe-haven-investments or out of equities entirely. The clearest illustration of this might be the performance of the S&P 500. While over 70% of its constituents underperformed the index, large caps such as Amazon, Apple, Nvidia, Tesla, Microsoft, Meta and Alphabet made up the lion's share of S&P 500 returns, earning them the label "The Magnificent Seven".



Thibault Gobert, Spectrum Markets' Head of Liquidity Pool, says *"There are a few ways to look at 2023. From a retail investor's perspective, a key takeaway is that 2023 has shown again that understanding risk is essential and that staying uninvested can have a huge price tag."*

Trading fatigue, by the way, appears to be an unfamiliar concept to investors who send their orders to execution via Spectrum Markets. Gobert explains, *"In 2023, our trading volume increased by a further 14% year-on-year to over 1.6bn securities traded while the order book turnover climbed to over €3.6bn, which is an increase of almost 10%".*

Spectrum Markets seems to have hit a nerve for a new generation of retail investors. According to Gobert, *"These days, you hear a lot about the growing importance of the retail trading sector and the industry has started to acknowledge this".*

Encouraged by technology that has made trading more convenient and accessible, and online resources that make learning about trading easier than ever, today's retail investors have become more sophisticated and demanding in terms of how, what and when they want to trade. This aspiration is reflected in the profile of the most-traded stocks over the last year: the greatest beneficiaries of the impressive tech rally were the most innovative ones.

What will 2024 hold?

With a view to 2024, Christophe Grosset, Spectrum Markets' European Sales Director, doesn't expect radical change. As in previous years, he doesn't foresee recession, but Grosset suggests that the broader market is still far from risk-off mode. Geopolitical factors have to be taken into consideration here: he thinks that international conflict is very likely to continue as a source of volatility throughout 2024, a year in which elections are taking place in 76 different countries, creating yet more uncertainty. However, this volatility and uncertainty do not qualify as being 'unexpected'.

"Last year's concentrated tech performance has put natural limits on investors' appetite for the largest technology caps. While their preference for quality is likely to remain little changed, price/earnings ratios suggest that there will be demand for smaller, undervalued companies in the tech sector". For other asset classes, Grosset expects the picture to be clearer. *"What we have seen so far is that labour markets have remained extremely robust throughout the recent aggressive rate-hike-cycle; neither could we observe significant dips in consumer demand".* With rates expected to ease slightly in 2024, he sees little incentive to continue putting money into cash accounts. *"In the absence of a recession, with inflation contained, a reverse trend in rates and robust economics, I have little time for bearish stock market scenarios. And I don't think the AI hype is over yet. Maybe this will no longer just be focused on the top tier, but it may be worth watching out for mergers and acquisitions opportunities in that sector."*

Regulatory challenges ahead

A standout story from 2023 was the surge in interest around AI. However this plays out in 2024, an area where AI will definitely play an important role going forward is regulation. *"Of course, there are great expectations regarding the merits of AI, including what it can improve in compliance processes"*, says Alpay Soytürk. *"However, prior to practical uses cases in this field materialising, it will be AI itself that will fall under regulatory scrutiny."*

Only in December of last year, the European Union agreed on a common approach[3] to AI, to be incorporated in the Artificial Intelligence Act that the European Commission had proposed in April 2021. This divides AI and its regulation into four risk categories, ranging from no obligations in the lowest risk category and a ban for the highest risks. Fines for violating these rules will also be staggered but can reach up to €35m or 7% of the global annual turnover (whichever is higher).

Another important piece of regulation for the financial sector is already in place but its full impact is yet to be felt. Soytürk explains, *"The Digital Operations Resilience Act, or DORA, was enacted in January 2023, but comes with a two-year implementation phase. It will set uniform requirements for the security of network and information systems in the financial sector including critical third parties which provide ICT-related services to them".*

Spectrum Markets believes that regulation is key to promoting investor confidence and protection. That's why we're taking a proactive approach and making sure that the expertise we have accumulated helps to shape regulation in a way that benefits both investors and the wider industry. Throughout the past year, we have advanced this goal through our memberships of the AMF Italia: the Italian Association of Financial Market Intermediaries, BSW: the German Structured Securities Association, ACEPI: the Italian Association of Certificates and Investment Products and Germany's bwf: the Federal Association of Investment Firms.

And what will 2024 hold for Spectrum Markets?

"We have entered into our fifth year of trading", says Nicky Maan. *"Of course, we're known simultaneously for our pioneering approach and for being a reliable partner that offers an innovative, accessible, safe and transparent financial market experience. However, the essential element has been the retail investor, and we're convinced to being only at the beginning of an evolution towards higher self-determination and sophistication among retail investors."*

We will also maintain our focus on our already strong corporate social responsibility programme, including our partnership with Sightsavers, which continues to make a real difference to people's lives. This is genuinely important to us as an organisation, we see it as a continuation of our overall goal of spreading prosperity and opportunity through transparency and innovation.

Maan gives an outline of what this looks like from a business point of view: *"Better information and education and a constantly increasing level of access will mutually reinforce to create an ever more demanding retail investor profile. In 2024, we will thus further expand our franchise to be able to offer the most liquid and sought-after asset classes and instruments on Spectrum Markets."*

We look forward to discovering what 2024 holds in store.

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[1] Excluding energy and food when calculating consumer price inflation
[2] Federal Deposit Insurance Corporation
[3] https://digital-strategy.ec.europa.eu/en/policies/european-approach-artificial-intelligence

Get in touch today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail. spectrum-markets.com

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