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ABOUT US:

Bocconi Students Investment Arena was born in 2022 from the idea of bringing together students of different degrees and experience, but all with the same ardent passion for finance. Through dedicated competitions, masterclasses, and a members' forum, we aim to develop a community of students that fosters quantitative and qualitative skills like in-depth practical investments and valuation skills, teambuilding, and analytical skills.

The uniqueness of this association is that members would be able to put their investment knowledge into practice by competing against each other in two main events: portfolio competition and company valuation competition.

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The Crisis of China's Real Estate

By Xiaoyue He

The Past Situation in the Real Estate Industry

Over the past few decades, as China's population rapidly grew, people flocked to major cities in search of economic opportunities, leading to the booming real estate industry. However, three years ago, overdevelopment in the real estate sector resulted in speculative financial risks and heavily indebted developers. China began to worry about the real estate industry and subsequently implemented a series of measures to tighten it. However, during the pandemic, China's prolonged lockdowns and testing caused a severe economic downturn, eroding consumer confidence and further slowing the real estate sector. Starting from August, the situation deteriorated to the point of becoming uncontrollable. China's largest real estate developer, Country Garden, canceled plans to raise $300 million through a new stock offering in Hong Kong, and in July, sales of new homes by the top 100 developers in China fell by 33% year-on-year.

In fact, the decline of the real estate industry in China has long been visible. As of December last year, new home prices had fallen for 16 consecutive months. While there was some stabilization earlier this year, a slide resumed in June, highlighting the challenges in demand recovery.

How the Crisis Developed

China has a history of swift policy implementation. Over the past few decades, China spared no effort to achieve its economic growth strategy, favoring the real estate industry, one of its economic pillars. Regulatory agencies allowed developers to borrow heavily and, for example, permitted the sale of new homes before they were completed. All these practices brought economic risks that became apparent in 2020, prompting the government to intervene aggressively in the market to prevent a real estate bubble. They blocked cheap funding to Chinese real estate companies, leading to many companies facing cash shortages. Company after company began to default on payments. According to credit rating agency Standard & Poor's, over 50 Chinese real estate developers have defaulted or been unable to repay their debt in the past three years. These defaults exposed the reality behind the apparent prosperity of the Chinese real estate market: the model of borrowing money to build houses only works when prices keep rising.

Basic situation of the national real estate market from January to August 2023

Indicator	Year-on-Year Growth (%)
Real Estate Development Investment (Billions)	-8.8
Housing Construction Area (Ten Thousand Sqm)	-7.1
New Housing Construction Area (Ten Thousand Sqm)	-24.4
Completed Housing Area (Ten Thousand Sqm)	19.2
Commercial Housing Sales Area (Ten Thousand Sqm)	-7.1
Commercial Housing Sales Revenue (Billions)	-3.2
Commercial Housing Inventory Area (Ten Thousand Sqm)	18.2
Real Estate Development Enterprises' Capital Inflow this Year (Billions)	-12.9

Source: China National Bureau of Statistics

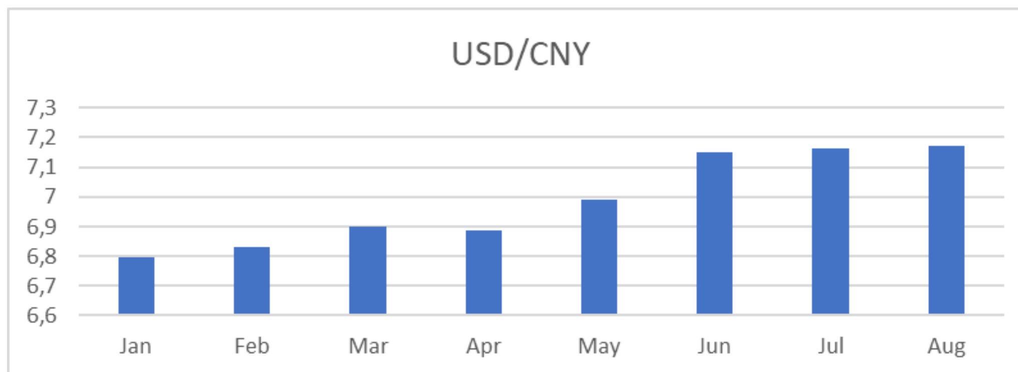
Current Situation After the Crisis

Since the outbreak of the pandemic, China has employed strict lockdown measures and extensive testing, severely undermining consumer confidence. People's desire to make purchases began to decline, and they leaned towards saving rather than spending. However, policymakers either did not realize this or, due to the extensive consumption during the pandemic, China could not afford large-scale stimulus measures. Instead, the government chose to relax mortgage requirements and lower interest rates, among other mild measures, to help revive the real estate industry. This undoubtedly worsened the crisis further, as even companies unable to pay all their bills continued to build and deliver housing. This led to further debt accumulation, and individuals in the real estate industry who should have received income were no longer compensated.

Other Remedies: Export

Many countries in the world have used exports to overcome economic difficulties, such as Southeast Asian countries after the Asian financial crisis and Ireland and Spain after the 2008 financial crisis. China also plans to use exports to escape the current crisis and has already lowered its exchange rate for 3 times since last year. However, as one of the world's largest export countries, China's export measures will have significant repercussions worldwide and may face backlash from trading partners already impacted by Chinese exports. China's declining exchange rates have undoubtedly boosted exports, but Europe is deeply concerned about China's surging trade surplus. Additionally, China's close relationship with Russia has raised alarm in continental Europe about dependence on China.

Historical data of average monthly exchange rate of CNY



Source: Chinamoney

Conclusion

Optimizing domestic trade levels in China and combining them with exports to maximize benefits is a critical issue currently under China's consideration. The series of crises triggered by the real estate sector have now expanded to affect various industries. Finding effective and sustainable ways to rapidly recover the economy is a pressing issue for China. How far China is from economic recovery is a question that only time can answer.

Into the Chinese housing crisis: The case of Evergrande

By Filippo Terragni

In late 2021, the international investment landscape received a jolt from China when its real estate giant, China Evergrande Group, defaulted on interest payments for $1.2 billion worth of offshore bonds. This event was just the tip of the iceberg, signalling significant challenges ahead for international investors.

China's Economic Evolution: From Opportunity to Minefield

For the past four decades, China has been viewed as a modern goldmine by corporations and individuals worldwide because it offered cheap land and raw materials, a massive consumer market, lenient regulations, and attractive incentives for foreign investors. As a result, over $1.6 trillion in foreign direct investment poured into China since it opened its doors to the world in the 1980s. However, this favourable perception of China began to change during the latter half of the Trump administration as the U.S.-China trade war marked the beginning of this shift, accelerated by increasing tensions between China and other major developed nations. Simultaneously, China's own economic engine started sputtering, with warning signs appearing frequently in its financial sector. This transformation turned China from a land of opportunity into a financial minefield, leaving investors wary of the risks involved. A case study of Evergrande's rise and fall sheds light on the real dangers international investors face in China.

Evergrande's Demise: A Warning for Global Investors in China

Evergrande was once China's largest real estate developer. However, its Hong Kong-listed stock, which once traded at $4, has now fallen. The company's chairman, Hui Ka Yan, saw his personal wealth shrink from $36 billion in 2019 to $3 billion today. Evergrande's $1.2 billion offshore debts represent only a small portion of its massive debt liabilities, which stood at approximately $300 billion by the end of 2021, mainly owed domestically with only $20 billion owed to international investors. The Chinese government intervened by sending a team to direct the company's debt restructuring, primarily to avoid social instability stemming from its financial turmoil.

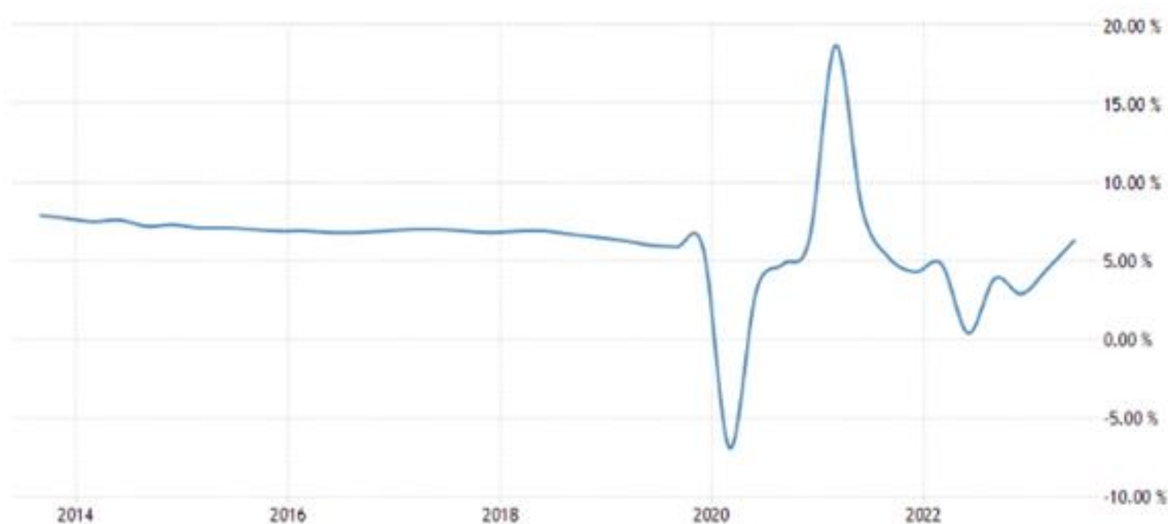
Stocks of China's most indebted real estate developer in the world sank nearly 7 % on September 26 (2022) after its main domestic subsidiary, Hengda Real Estate, reported in a notice to the Shenzhen Stock Exchange that it had not paid principal and interest on a 4 billion yuan ($547 million) bond due September 25. The news came after Evergrande said the day before, on Sept. 24, that it was unable to issue new debt due to ongoing investigations into Hengda itself, which was behind the 22 percent drop in the Shenzhen group's shares.

Debt Defaults and Economic Slowdown: Challenges in China's Financial Landscape

Evergrande is not an isolated case; other Chinese entities have also defaulted on offshore debts. The first real estate, Country Garden, has paid $22.5 million in coupons, avoiding the default that has already hit number two, Evergrande. What is happening in China now? A slight decline in economic indicators is enough to complicate the outlook China's: that of services, which is

extremely important for testing the vitality of the economy, in August was still positive but compared to July it registered a slight decline. It was the smallest expansion in services activities since the beginning of the year, amid downward pressures on the economy. The world's second largest power is estimated by Bloomberg Economics to be slowing to 3.5 percent in 2030 and to nearly 1 percent by 2050. The overtaking of Beijing over the U.S., taken for certain in 2028 until less than two years ago, is already being toward the end of the decade. Although China is set to launch a new investment fund backed by the state that aims to raise about $40 billion dollars for its semiconductors, economists, for that matter, have revised downward the forecast previous growth that was at 4.3 % in 2030 and 1.6 % by 2050.

China GDP Annual Growth Rate



Source: Tradingeconomics.com

U.S. Federal Reserve Rate Hikes

By Aaditya Sharma

Analysing Interest Rate Hikes and Their Impact

The Federal Reserve's recent decision to keep interest rates steady has ignited a new round of debate and speculation about the central bank's future moves. In the backdrop of an economy recovering from the shocks of the pandemic, the Fed's approach to interest rate hikes is crucial not only for financial markets but also for households and businesses across the United States. This article delves into the Federal Reserve's recent decisions and statements and analyses their implications for the economy.

The Federal Reserve opted to maintain the federal funds rate in the range of 5.25% to 5.5%, marking the highest level in approximately 22 years. This decision came as no surprise to the markets, which had already priced in the expectation of no immediate rate hike. However, what caught the attention of investors and analysts was the central bank's forward guidance, which hints at a more hawkish stance in the future.

Forward Guidance and Market Projections

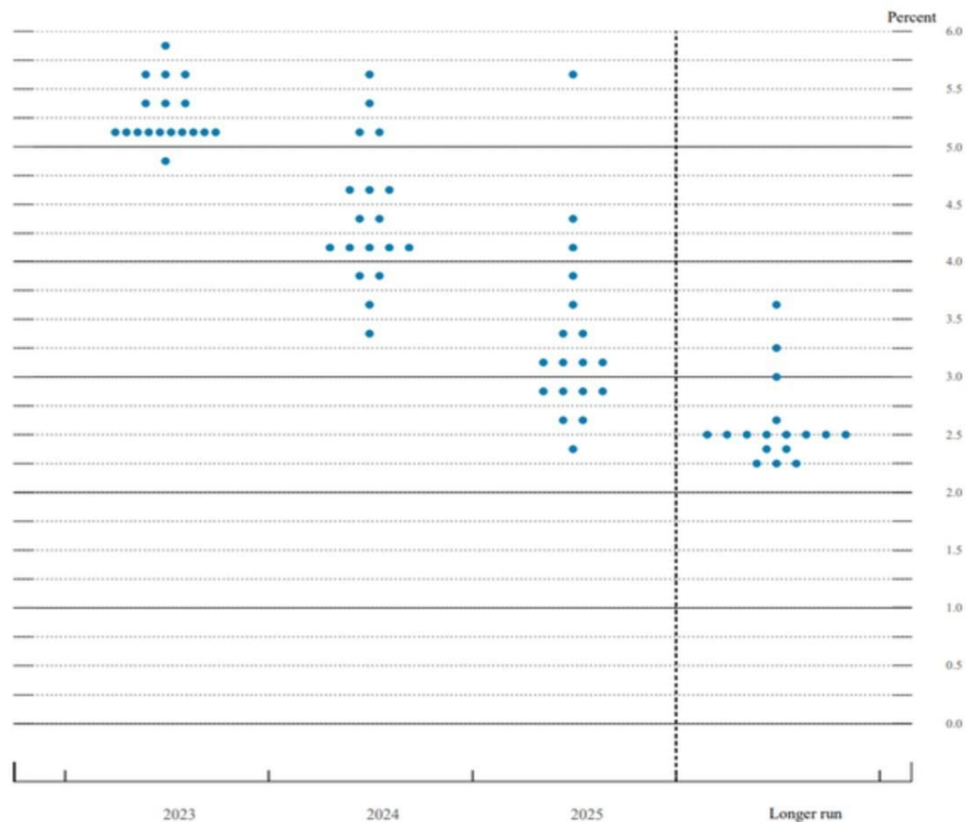
Despite the expected hold on interest rates, there remains considerable uncertainty about the Federal Reserve's trajectory. Most investor speculations suggest a bias toward a more restrictive monetary policy and a commitment to maintaining higher interest rates for an extended period. This outlook weighed on the stock market, with the S&P 500 dropping nearly 1% and the Nasdaq Composite declining by 1.5%.

During a press conference, Fed Chair Jerome Powell acknowledged the need for careful consideration in determining the extent of additional policy firming. Powell emphasised that the central bank wants to see convincing evidence of progress in its fight against inflation before making any conclusive decisions. This cautious tone indicates that the Fed is not in a hurry to make drastic moves but is closely monitoring economic indicators.

Evolution of the Market and present issues

Since their creation in 2015, the market for ELTIFs has remained limited (see *Figure 1*). By the end of 2022, 72 have been created, mostly for Institutional investors. Principal managers are Amundi, Azimut, and Blackrock, but also Goldman Sachs, Neuberger Berman, and BNP Paribas have marketed some ELTIFs. They are concentrated in Luxembourg, Italy, and France due to favorable taxation. The turnover represents €7.5-8.5 billion, equivalent to a small fraction (0.11%) of the total value of alternative investments.

Figure 1: 2023 Dot Plot Projections



Source: FOMC

The Federal Reserve's dot plot projections provide insights into the policymakers' expectations for future interest rates. These projections show a likelihood of one more rate hike before the end of the year, followed by two rate cuts in 2024. This contrasts with the previous projections from June, which indicated fewer rate cuts for the same period. If these projections materialise, it would put the federal funds rate at approximately 5.1%.

Twelve participants at the Federal Reserve meeting supported the additional hike, while seven opposed it. This division represents a slight increase in opposition compared to the June meeting. Furthermore, the projection for the federal funds rate in 2025 moved higher, with a median outlook of 3.9%, up from 3.4% previously. Looking further into the future, the FOMC members pointed to a funds rate of 2.9% in 2026, which is above the Fed's considered "neutral" rate of interest that neither stimulates nor restricts growth.

Inflation and Economic Growth

One of the primary concerns guiding the Federal Reserve's decisions is inflation. The central bank's favoured gauge showed core inflation running at a 4.2% rate in July, well above the Fed's 2% target. The Fed's determination to combat inflation is evident in its willingness to keep interest rates at relatively high levels. The projections indicate the Fed's expectation that inflation will steadily cool in the coming years.

In response to the evolving economic landscape, the Federal Reserve also revised its economic growth expectations. Gross domestic product (GDP) is now expected to increase by 2.1% this year, which is more than double the June estimate. This revision suggests that Fed members

do not anticipate a recession in the near future. Additionally, the 2024 GDP outlook was raised to 1.5%, up from 1.1%.

The Fed's Balancing Act

The Federal Reserve's actions and statements reflect a delicate balancing act as it navigates the current economic landscape. Recent public appearances by Fed officials indicate a shift in their thinking, moving from a belief that aggressive action was necessary to combat inflation to a more balanced view. This shift is partly due to the perceived lagged impacts of previous rate hikes, which represented some of the most significant monetary policy tightening since the early 1980s.

The central bank is cautiously optimistic about achieving a soft landing by bringing down inflation without pushing the economy into a deep recession. However, the road ahead remains uncertain, and Fed officials are exercising caution against declaring victory prematurely.

The Federal Reserve's approach to interest rate hikes is at the forefront of economic discussions, as it has significant implications for financial markets, businesses, and households. While the recent decision to keep rates steady was widely anticipated, the central bank's forward guidance and projections suggest a more hawkish stance in the near future. The Fed's commitment to addressing inflation while carefully monitoring economic indicators reflects its challenging task of steering the U.S. economy toward stability and growth. As economic conditions evolve, all eyes will remain on the central bank for further clues about its monetary policy direction.

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Canada's Real Estate Market: A Looming Economic Challenge

By Alejandro Martinez

A major contributor to Canada's long-term economic success has been the country's real estate sector. The sustainability of this sector's expansion and its possible effects on the larger economy are both being called into question by recent developments. With real estate accounting for more than 40% of Canada's GDP, concerns about the effects of skyrocketing home prices and rising mortgage rates on both homeowners and the economy as a whole are growing.

The direction of interest rates is one of the top worries for Canadian property owners. The Bank of Canada (BoC) has not been an exception to the trend of central banks tightening monetary policy in response to inflation worries. This implies that fixed-rate homeowners can expect a significant increase in their monthly mortgage payments when it comes time to renew. According to estimates, these hikes might be as high as 30%, which would significantly strain households already struggling to make ends meet due to the high cost of real estate.

At-Risk Homebuyers

The BoC's estimation of the proportion of "at-risk" first-time homeowners in Canada is another alarming statistic. These consumers are individuals that spend more than 25% of their income on paying off their mortgages. It's hardly surprising that many new homeowners are pushed tight in an era of growing home prices, devoting a sizable portion of their income to keep a roof over their heads. This raises concerns about the households' long-term financial stability, particularly if interest rates keep increasing.

The latest Canadian economic slowdown and reaccelerated inflation are further worries. A slowdown in the economy can have a direct effect on the real estate market by lowering consumer confidence and lowering property demand. The purchasing power of Canadian households is being reduced at the same time by inflation, which was at 4% at the time of writing. Homeowners who are already struggling with the rising expense of living are put under further stress by this.

Experts are concerned about a potential wave of mortgage defaults due to the convergence of these elements. There is a genuine risk that some borrowers may find themselves unable to meet their financial responsibilities if interest rates rise and households struggle to make greater mortgage payments. In addition to having disastrous effects on specific households, defaults can also lead to wider economic instability, as was shown during the 2008 global financial crisis.

A Problematic Scenario

In conclusion, the real estate market in Canada is in an increasingly difficult scenario. Although the sector has been a significant contributor to economic growth for many years, the very elements that made it successful are now endangering its stability. Concerning trends include skyrocketing real estate prices, rising interest rates, overextended homeowners, slowing economies, and inflationary pressures.

In addition to determining the future of the real estate industry, how these issues are resolved will have a significant impact on the general strength of the Canadian economy. To weather the storm and ensure the real estate market and economy of Canada have a viable future, vigilance, caution, and smart governmental responses will be essential.

Policymakers and financial organizations must use caution when addressing these issues. The government may need to take action to cool down the housing market, such as tighter lending laws or greater housing supply, while the central bank must balance regulating inflation without limiting economic growth.

Homeowners should also take the initiative to analyze their financial situations and seek guidance on how to deal with future interest rate increases. This is especially important for individuals with variable-rate mortgages or forthcoming renewals. In order to navigate this uncharted territory, financial literacy and responsible borrowing and lending habits will be essential.

The impact of European Sanctions on the Russian Economy

By Giuseppe Mansueto

The European sanctions imposed on Russia in response to its actions in Ukraine have had far-reaching and complex consequences for the Russian economy. This deep analysis delves into various dimensions of these sanctions and their effects on Russia's economic landscape.

Energy Sector Dependency and Vulnerability

Russia's energy sector, particularly its oil and natural gas exports, has been a cornerstone of its economy for decades. The sanctions have struck at the heart of this sector, making it clear that Russia's dependency on energy exports to Europe is a significant vulnerability. These sanctions have resulted in several key developments:

a. Diversification Efforts: Russia has accelerated efforts to diversify its energy exports, targeting new markets in Asia and the Middle East. Agreements with China to supply natural gas through pipelines such as the Power of Siberia have become crucial for Russia's energy pivot.

b. Economic Impact: Despite diversification efforts, Europe remains a critical energy market for Russia. Reduced access to European energy markets has resulted in a noticeable decline in Russia's export revenues, which has had ripple effects across the entire economy.

c. Geopolitical Struggles: The sanctions have amplified Russia's geopolitical struggles in the energy sector. Projects like Nord Stream 2 have become battlegrounds for geopolitical influence, with Russia facing opposition from European nations and the United States.

Financial Sector Resilience

Russian financial institutions and businesses have faced significant challenges due to the sanctions, particularly in terms of accessing international capital markets. However, the Russian government and central bank have taken steps to bolster the resilience of the financial sector:

a. De-Dollarization: In response to the threat of financial sanctions, Russia has actively pursued de-dollarization, seeking alternatives to the U.S. dollar in international trade and finance. This move has included increasing the use of the Russian ruble in trade agreements and building stronger ties with non-Western financial institutions.

b. Sanction-Proofing: Russian banks and companies have undertaken efforts to "sanction-proof" their operations by reducing foreign debt, stockpiling foreign currency reserves, and seeking alternative sources of financing from countries not aligned with Western sanctions.

c. Economic Sovereignty: The sanctions have fostered a sense of economic sovereignty in Russia, prompting the development of domestic financial infrastructure, including a national payment system and a rating agency. These efforts aim to reduce dependence on Western financial institutions.

Trade and Economic Diversification

The sanctions have disrupted Russia's trade relations with the European Union, impacting various sectors and supply chains. Russia has responded by focusing on economic diversification:

a. Import Substitution: The Russian government has promoted import substitution policies to reduce reliance on Western imports, particularly in key sectors like agriculture and manufacturing. While this has stimulated domestic production, it has not entirely replaced Western goods.
b. Eastern Partnerships: Russia has looked eastward to strengthen economic partnerships, particularly with China. The Russia-China relationship has evolved into a strategic partnership that includes trade agreements, joint ventures, and investments, providing Russia with an alternative to European markets.
c. Technology Development: The sanctions have also accelerated Russia's efforts to develop domestic technology sectors, reducing dependence on Western technology. However, achieving technological self-sufficiency remains a long-term goal.

The European sanctions on Russia have had a profound and multifaceted impact, reshaping the country's economic strategies and priorities. Russia's response to these sanctions has been characterized by resilience, adaptation, and attempts to reduce dependency on the West. Recently the oligarch Oleg Deripaska, admitting “surprised” at the country’s resilience after a war he thought would bankrupt the Kremlin, has said Russia has weathered western sanctions over the invasion of Ukraine. Deripaska, one of Russia’s richest men, told the Financial Times that Moscow had survived the effort to isolate its economy by developing new trade ties with the global south and ramping up investment in domestic production. “Yes, there is war spending and all this kind of subsidies and government support but still it’s a surprisingly low slowdown [. . .] The private economy found its way to operate and to do so successfully.” Russia’s apparent resilience despite being cut off from global markets and supply chains has been a point of pride for President Vladimir Putin, who said last week that “the recovery stage for the Russian economy is finished” after “we saw off unprecedented external pressure”.

However, challenges persist, including the need to balance economic diversification with long-standing dependencies on European markets and the evolving dynamics of global geopolitics. As of today, the situation remained fluid, with ongoing developments in Russia's economic landscape and its relationship with Europe. The future trajectory of Russia's economy will depend on various factors, including diplomatic efforts to resolve the underlying issues, the persistence of sanctions, and Russia's ability to navigate these complex challenges while pursuing its economic objectives.