

Softer US data, investors may consider small and mid-cap stocks and a weaker US Dollar

US small and mid-caps might be due a come-back after US softer inflation data (CPI/PPI) and also NFP employment data, (June jobless rate highest since late 2021). Recent price behaviour, namely post the US CPI inflation month-on-month came in negative 0.1%, the first drop in four years. The year-on-year rate down to 3% from 3.3% in May, and below the 3.1% economic forecasts. As a result, Big Tech corrected (the Nasdaq Index), and there was a +2.0% rally in the Russell 2000.

Professional investors may be thinking about past cycles where from 2011-2023 large caps have led small caps and the cycle looks arguably overextended now so we look back to the 1970s (1975-83) when small caps then outperformed. A reminder, in 2023 US small caps were trading at a 45.6% price-to-earnings discount to large caps—well below the historical average. Now in 2024 after another strong week of gains and fresh highs, (37 new highs this year now for the S&P500), professional investors may be rethinking their portfolios as we near a US rate cut cycle potentially starting in September from the Fed. Why small caps might appeal is the fact that there are 3,500 stocks not well covered by analysts, and there will be stocks out there with quality, earnings growth and a good historical corporate culture for savvy investors to buy cheap. They will appeal in a softer landing scenario or no landing scenario (ie. no recession), and thus trying to capture the type of double-digit gains as seen in the 1970s. The Russell 2000 index is 14.35% away from its all-time highs made November 2021 at 2,458.85, something to think about for equities nearing a rate cut cycle. For the S&P 500 history, since 1950 whenever both January and February have finished higher, full year returns for the index have averaged +19.8%, target 5,693 for the year, we are now nearly there.

Asset class performance in the 1970s

1973	1974	1975	1976	1977	1978	1979
Inflation 9%	Inflation 12%	US small cap 53%	US small cap 57%	US small cap 25%	US small cap 45%	US small cap 43%
Cash 7%	Cash 8%	Staples 36%	Banks 37%	Inflation 7%	Tech 12%	Energy 39%
Energy 2%	US Gov Bonds 4%	Discretionary 36%	Energy 29%	Cash 5%	Pharma 9%	Inflation 14%
US Gov Bonds -1%	Telecoms -15%	Utilities 33%	Telecoms 25%	Utilities 1%	Inflation 9%	Industrials 11%
Telecoms -6%	Pharma -18%	S&P500 32%	Utilities 22%	US Gov bonds -1%	Banks 7%	S&P500 12%
Pharma -11%	US small cap -20%	Industrials 32%	Tech 22%	Telecoms -5%	Cash 7%	Pharma 11%
Banks -11%	Energy -26%	Tech 28%	S&P500 19%	Tech -5%	Industrials 5%	Cash 10%
Industrials -12%	Staples -27%	Banks 18%	Industrials 18%	Energy -8%	Energy 4%	Banks 7%
S&P500 -17%	Discretionary -27%	Energy 20%	US Gov bonds 17%	Industrials -11%	S&P500 1%	Utilities 4%
Tech -21%	Utilities -29%	Telecoms 17%	Discretionary 10%	S&P500 -12%	Telecoms -1%	Discretionary 3%

S&P 500 / Russell 2000 ratio (Daily chart)



An exciting couple of weeks, but who's saying things stay calm.

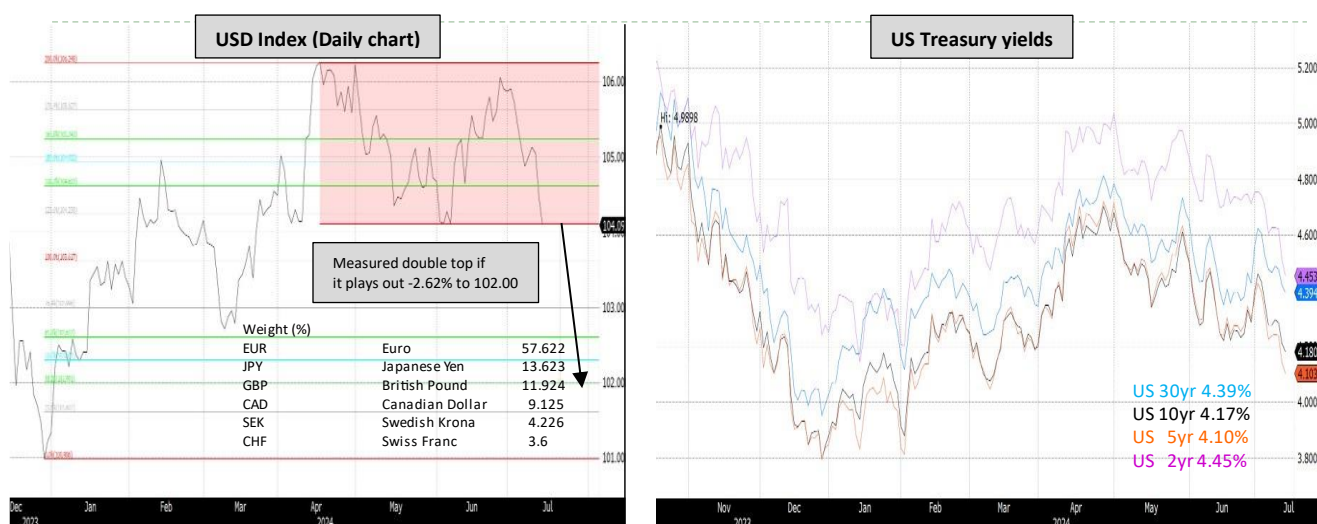
The events of the last couple weeks have been interesting in many respects. Joe Biden making some mistakes in public which have led to criticism of him carrying on the Presidential race, to UK election outcomes seeing the conservative party after 14 years in power taking a crushing defeat and a new Labour government in place. French elections had looked like a hard right party (National Rally) had a chance of winning until it was blocked in the final round with only 143 seats, and official results producing a hung parliament. Macron getting 168 seats and the left-wing New Popular Front getting 182 seats.

There were big moves in FX and Fixed Income markets and not surprising considering firstly the election outcomes giving the EUR and GBP legs a boost against the US Dollar, (EUR/USD scouted above 1.0900, and GBP/USD a hair off touching the 1.3000 handle). Thus, the USD Index (DXY) was down -1.52% in the week on US data thereafter. The Bank of Japan is suspected of intervening on JPY weakness around the time of the US CPI print, using that tailwind to bring back USD/JPY -2.63% intra-day, to 157.50 from near 161.75. For FX, now the question is can this momentum continue and weaken the US Dollar any deeper?

Depends on a few issues, namely the US election narrative, the economic data, and geo-political considerations. But for now it seems the USD is in retreat so that is good for Gold rebounding, now not far off all-time highs now about \$30 away, the high to break is \$2,450. For what it's worth our year-end target was \$2,511 for gold so heading in the right direction.

For the USD index you can see a double top potentially forming (see chart), if it plays out then -2.62% would be the target to 102.00, meaning EUR/USD above 1.1000 and GBP/USD well above 1.3000. Bank of Japan policy meeting at the end of July might see a rate hike that would be interesting for the spread on rate differentials to the US especially if the Fed cuts in September, we shall wait and see.

Rates markets after a spate of softer data are increasing their confidence for a cut in September from the Fed a long side the ECB, with the Bank of England possibly cutting in August/September. As a result, the US reaction witnessed a sharp fall in bonds yields across the curve most notably in the 2 year tenor, moving sub 2.50%. Note the US 2s10s curve now the difference between short end and longer-term duration has seen curve inversion for over 2 years the longest in history, and hit this milestone anniversary date on the 5th of July, one day after the US holiday celebrations. Historically a 2s10s inversion has been a precursor to a slowdown in growth and impending recession, but last year the US had +3.0% growth with an inverted yield curve and no recession.



Playing for lower yields had been a head fake from the start of the year with yields rising to 5.0% for example on 2-year bonds, but now sharply back at sub 4.50%. To avoid eventually missing out on the potential returns investors might consider getting in ahead of the shift to cut rates. Historically, in the three months prior to the first Fed rate cut, the yield on the 10-year US Treasury fell an average of 90 basis points.

In the past investors captured the biggest returns when they invested several months prior to the start of the easing cycle.

Thus, in coming weeks yields might fall back sharply if cuts do look viable now data is starting to soften, but, as stated, inverted curves still going this year, with potential for some steepening into next year. (Note, long term seasonals typically see decent falls in US yields in calendar weeks 32-34, (ie. in August) a bond rally.

Aggregate bond index into cutting cycle: Average 12- Month Forward Return (%)

3 months before	13.75%
2 months before	12.95%
1 month before	10.95%
1st Fed cut	9.91%
1 month after	8.6%
2 months after	7.55%
3 months after	8.44%

It's worth mentioning that now **we are entering earnings season for US companies, so real focus will be on the big companies earnings results**, (especially mega-cap tech stocks), with expectations of second quarter profits up over 9.0% over the last year producing the largest expansion since the last quarter of 2021. The question now is will strong beats continue and will they be enough for the Magnificent 7 to maintain their dominance and growth momentum. Names to keep an eye on this week, BlackRock Inc the world's largest asset manager and for the headlines Netflix Inc. If growth is broadening then our arguments for small-caps should gain some support. The other 493 S&P 500 companies are expected to post earnings growth for the first time in over 6 quarters.

A quick note on gold, remember it is a non-yielding asset so has to compete for investors money and these days you can get between 7.0%-8.0% in European high yield and around +5.0% in bonds, so it is interesting that gold is +16.89% ytd, and looking for new highs very soon past \$2,450. Current highs stalling at 138.2% Fib projection of the 2015-20 impulse rise.

SPOT GOLD in USD (Monthly chart) with 60 month moving average and 43v86 month cycles.

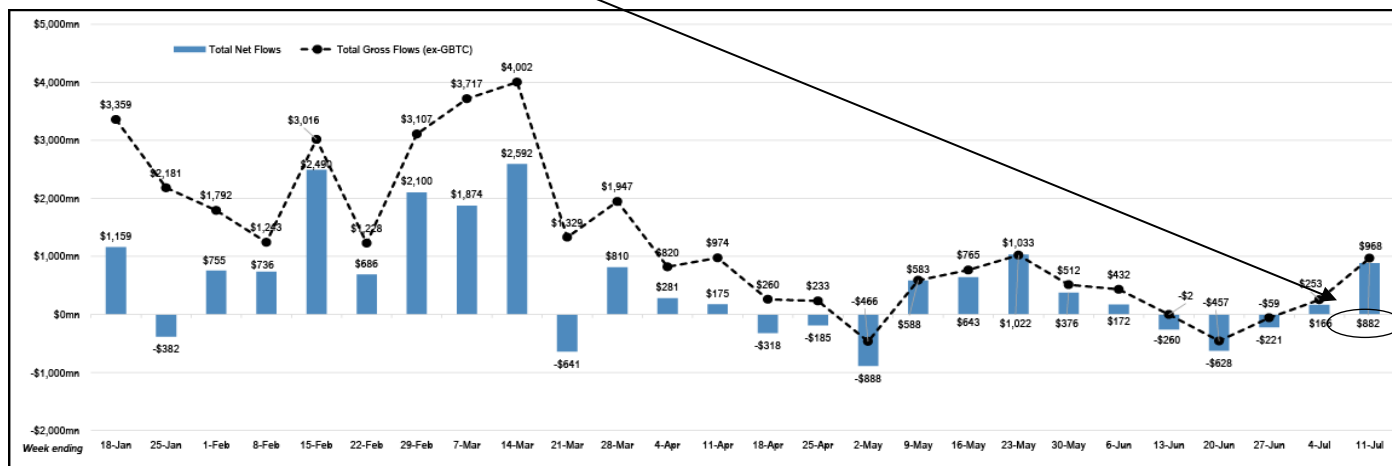


Most people when they think about gold talk about it being a hedge against inflation especially if you read articles trying to sell you gold from marketing companies, but it's really not true. Gold was making new highs in past years in an environment of low inflation pre 2020. One way to think of it is as a currency play. In US Dollar terms returning on average around 9.2% since 2000, not including this year's performance, and in Euros near the same around 9.0%. **Central banks have been very active in recent years adding to reserves and this has been a big driver of the gold rally with Central bank demand totally 290t in Q1, the strongest start to any year on record with China, India and Turkey the most notable buyers.**

Is Bitcoin getting ready for a comeback? Recent ETF inflows are encouraging

After flirting above \$70,000 in late May and in June, Bitcoin had since then dropped back to sub \$55,000 to see \$53,602 as a low in early July the lowest levels since Feb. But last week showed signs of stabilising ending with an inside trading range compared to the week prior. Downside momentum might be waning when looking at the ETF market flows and there are some encouraging signals emerging.

The week ended July 11th took in net \$882 million in spot Bitcoin ETFs, roughly \$175 million per day, that's the most inflows since the period ended in May 23rd.



Remember one of the issues with Bitcoin recently was German authorities had been selling 50,000 Bitcoin from a seizure and looks like that program might be near done, (note: according to Arham Intelligence they are done). Blackrock took in \$403 million and Fidelity \$361 million into their Bitcoin funds last week, this after the previous week also witnessed some fund growth (\$166 million of inflows).

On 8th July, IBIT, the Blackrock ETF, formed a bullish outside day reversal, a technical signal LL,HH,HC versus the session before, suggesting some kind of rebound might brew. It's still below the 20-day moving average but may be staging a bounce back to negate a large triple top forming. Likewise Spot Bitcoin outright finding support in the last 2 weeks around its 39-week moving average, bounces of between 8%-10% might be brewing to see above \$65,000 this month. **One caveat to bear in mind, Mt.Gox a collapsed exchange from 10 years ago is making payments in bitcoin and bitcoin cash.** Receivers may flip this to take profit and it might have an impact on the price of Bitcoin about 140,000 bitcoin, original investors could be making as much as 9,000%.

iShares Bitcoin Trust (IBIT) Daily chart with 20 day moving average



Spot Bitcoin (USD) Weekly chart with 39 week moving average



For cryptos, aside from institutional flows into BTC and ETH, memes are gaining attention for larger returns and worth a mention.

Retail investors currently preferring to “pump it”

Since starting this year greater than 1 million meme coins have been launched on a crypto based solution using Solana and Blast blockchains called Pump.fun.

According to Bloomberg, net result greater than \$50 million in revenue has been generated via retail investors creating and trading memecoins. Now one has to be careful here as this detracts from the real uses of the technology and may be tainted by past scams where a token frenzy sucked in and spat out investors “pump and dump”. But **Pump.fun can be seen as interesting in that it allows anyone to launch a memecoin relatively cheaply and without too much difficulty**. Basically it allows you to upload your favourite image JPEG or favourite meme with a name and ticker for a token. An algo then works out the price of the memecoin and the price appreciates if more buyers surface, typically starting from around \$2.00 fees. Some celebs have got into this, most notably in the news recently, Iggy Azalea. The creators of Pump.fun were encouraged after seeing the rebound in Solana blockchain in past months (SOL token +1,300% since FTX exchange collapsed). Notably, the SEC has been stricter in policing crypto markets so maybe that is why memecoins for some are appealing. **Note: Trump’s election odds on several memecoins rallied after the attempted assassination (MAGA) more than +30%, the largest Donald Trump memecoin.**

A rule based approach for Europe

The EU looking to impose regulation with a set of rules approved in April; the most comprehensive of developed economies.

The Markets in Crypto Assets regulation, or MiCA, is part of a package of EU measures governing digital finance that spans anti-money laundering, innovation in financial services and a digital version of the euro. MiCA is designed to weed out scam investment schemes, fraudulent businesses, criminal activity and, ultimately, avert the business failures that can cascade and destabilise traditional banking.

Crypto companies will need to register with a financial regulator in at least one EU member state. This would put them under the (direct/indirect, depending on their nature) supervision of two of Europe’s top financial watchdogs, the European Banking Authority and the European Securities and Markets Authority. They will ensure companies have adequate risk management and corporate governance practices in place.

Issuers of stablecoins — digital tokens that aim to maintain a one-for-one peg to a less volatile asset like the US dollar — **will have to back up their value with sufficient reserves.** Those pegged to non-euro currencies will face a €200 million (\$220 million) daily cap on trading volume within the region under certain criteria. Crypto companies must also adhere to the EU’s transfer of funds regulation, which will be implementing the FATF-sponsor measure also known as the Travel Rule, which means exchanges will need to send information on senders and recipients of crypto assets.

The rules cover exchange operators, custody providers and marketing and advisory services, among others. Entities based outside the EU where the rules don’t apply will still be able to serve customers inside the bloc, as long as they are not seen to be directly seeking out their business, i.e. via what is known as “reverse solicitation”, which will be strictly enforced across the EU. From 2026 self-hosted wallets of over 1,000 euros will need wallet verification for transactions.

Two possible big issues with these regulations when broader rules come into effect on January 1st 2025:

- 1) Losing anonymity by (indirectly) supplying identifying information on every transaction to anti-money laundering authorities.
- 2) The cap on trading volume is a disincentive.

That said, it is a good sign that crypto assets are seeing stricter regulation so that it protects the investor and the wider community from mis-use and in time the more regulation comes in, the more institutions are likely to increase their exposure to the asset class and the market will grow. For example, Golman Sachs aims to expand its activities in the space post the US election. Tokenisation projects are reportedly planned by year end in money market funds and real estate holdings on blockchains focusing institutional clients, with some of it focusing on Europe and debt issuance.

Nomura Holdings and Laser Digital revealed a survey; *"Institutional Investor Survey on Digital Asset Investment Trends."* approaching 547 investment managers in Japan, including institutional investors, family offices and public-service corporations.

The survey aimed to uncover Japanese investment managers intentions regarding digital assets and highlight their challenges when considering investing in crypto. Bottom line, as reported in Cointelegraph, last month 54% of those that replied indicated in the next 3 years they had an interest in investing in crypto, with 60% of those citing it as a diversification play on assets: this ties in well our my argument that institutions are increasingly looking at and preparing for crypto exposure.

Ether ETF's to be in the headlines again this week

Anticipation of Ether ETF's arguably not going to get the same fanfare as Bitcoin did back in January, but nevertheless may be supportive for Ether near term and may be coming as soon as this week. The SEC approved filings in May from the NYSE, Nasdaq and Cboe requesting rules changed to allow them to list spot ether ETFs. A lot of the reaction function may have been priced in earlier in May so how much lift comes if at all after the approval remains to be seen, but once approved the ether price most likely will be impacted by capital flows through the ETFs. Guestimates by many analysts is that ether will likely only get about 10%-15% of the assets compares to bitcoin ETFs. Liquidity (buy/sell) in any asset class will always have an impact on price and ether will be no exception being half that of bitcoin, so it may be argued that it does not need as much inflows as bitcoin to move the price.

Looking outright at the ether price action it recently found good technical support at \$2,800 in July thus far, forming a double bottom base at a Fib level, if a rebound looms then near \$3,600 another Fib projection is a viable target. This would suggest roughly +13.0% gains. Sub \$2,800 from a chart perspective might suggest a bigger double top since the start of the year is trying to form and would be a negative warning sign.

Ethereum Daily chart with Fibonacci projections



The world's third-largest cryptocurrency exchange is OKX

By trading volume as a measure, OKX is the third-largest crypto exchange. Born in 2017 with its current HQ in the Seychelles, it offers spot trading, options, margin trading which offers leverage options up to 125x on certain assets. It also offers staking for passive income, staking cryptos on their platform earning rewards for taking part in the network validation process and can also be loaned out to earn fixed-interest returns. Like many others it had its headlines with regulatory challenges in past years most notably in 2021, ceasing operations in China after regulatory pressure on crypto activity. **But a reason to highlight this exchange is last week it announced its wallet is now supported by Infinity Hedge Fund, a decentralised finance platform.** This integration merges traditional hedge fund functions with Defi technologies enabling the web3 community to manage assets

within Infinity Hedge funds ecosystem, a trend possibly growing within the hedge fund community looking to broaden their fund functions.

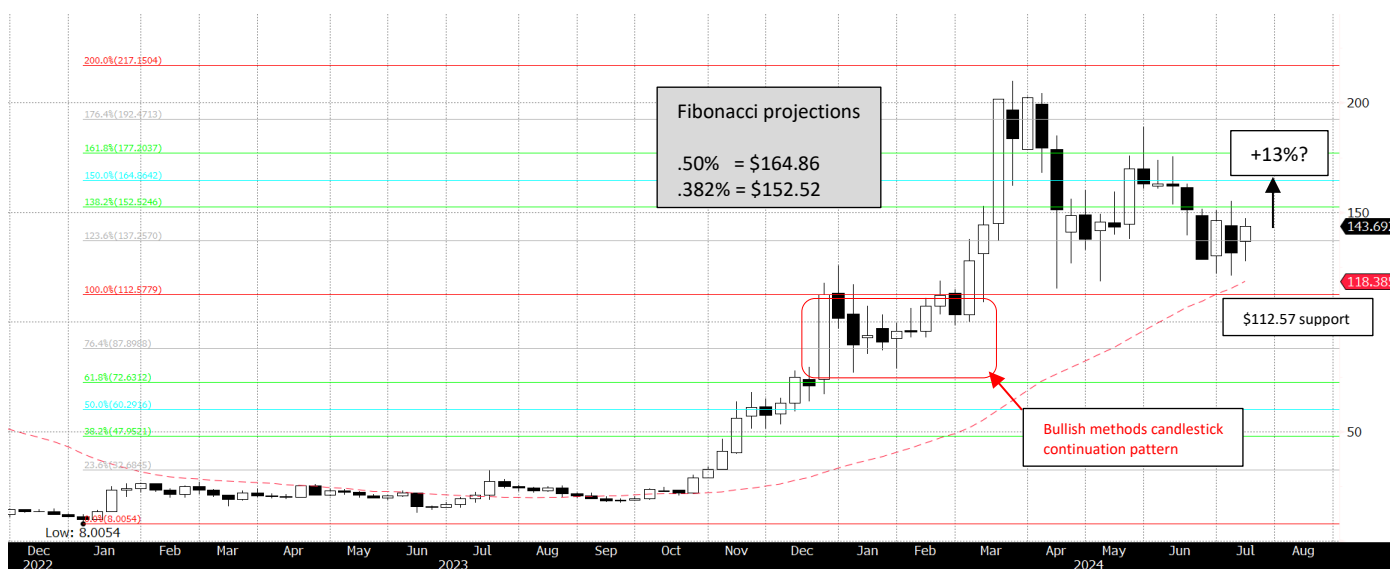
Spotlight remains on – Solana (SOL)

We talked about SOL in the previous edition and revisit this interesting crypto, remember it's no. 5 in terms of market capitalisation, but currently is only about 3.04% of market share, whereas to put this into context bitcoin is about 53.6% and ether 17.41%. (But it's also 4th largest excluding stablecoins).

A reminder that we highlighted Solana, which has emerged as a leading foundational blockchain platform, using Proof of History (PoH) – a mechanism for keeping time between untrusting computers. With PoH the blockchain can propagate data between nodes more efficiently, thus you end up with a blockchain whose software scales at the rate of hardware.

Price wise it dipped recently to \$121.15, but the chart suggests support below it at \$112.57, and it is still holding above its 39-week moving average nearer to \$118.42. It's been trading sideways for the last 4 weeks but may be brewing for a break higher. Technically \$152/\$164 would be considered as Fibonacci targets, if prices can extend North near term, that would be +13%.

Solana (weekly chart) with 39 week moving average



In terms of decentralised applications (DApps) activity, Solana is far from being top, but worth noting **its metrics improved over the past seven days while most competitors were down**. The Solana network witnessed growth in volume numbers and number of users, about 19% gain of users in the last week and Solana Dapps +12% in the week whilst ethereum was -37% in volumes.

Its true SOL under-performed its competitors between 3rd-12th July -7.8% whilst comps were down around -6%. But the recent price rebound in SOL is in part probably due to the speculation that **VanEck and 21shares are seeking SEC approval for ETFs**. July 8th filings to the Cboe were submitted (19b-4 filing). Thus, that means a 240-day maximum wait for a decision, but the US election outcome may have an impact on that.

Donald Trump is perceived to be more friendly to crypto, and has made some interesting statements in recent days relating to it, namely he wants all future bitcoin to be minted in the U.S, saying "Bitcoin mining may be our last line of defence against a CBDC". This is interesting since 1 in 4 Americans are supposed to own some bitcoin and around 37% of bitcoin network miners are in the US. **Cynically one of the reasons perhaps Trump has tried to gain crypto friendly credentials is so that his campaign can accept digital currency donations.** Trump made quite a few statements that would support crypto, and an electoral win might give the market a boost. Crypto stance by candidates might be important for voters in the US as a Harris poll found 1 in 3

voters will consider candidates crypto stance before voting. For example, under the Biden administration there has been a debate about a 30% tax on electricity used in crypto related to mining activities.

Linked to what Donald Trump wants to do one has to consider what has been going on with global bitcoin energy consumption, especially if the world wants to get cleaner and greener.

Bitcoin's annualised footprint in electricity consumption back in early 2022, reached its highest ever level argued to be higher than the power consumption of say Finland. This figure is an estimate due to the decentralised nature of Bitcoin or cryptocurrencies in general. There is no central authority that tracks how many computers there are or where miners submit figures, but the energy consumption of crypto assets combined is between 0.4% and 0.9% of annual global electricity usage (120-240 billion kilowatt-hours per year). In contrast to this, China banned crypto mining back in August 2021 saying it was "undesirable" even though roughly 20% of mining is still to account from there. An example of consumption; a single Litecoin transaction needs 18,957 kilowatts.

But there is hope. Remember Ethereum reduced 99% of the energy required to solve the equation by changing algorithms, replacing miners with validators, if you have at least 32ETH you can be considered a validator. The random selection of validators by the platform uses them to approve the new created blocks, verifying transactions meet the network standards. We know it as the "Merge". Ripple is interesting in this respect a virtual currency generated from algorithms negates the requirement for groups of miners looking for fast solutions with large computer effort.

The world demand for electricity is expected to double in the next 30 years and even "a big if" net-zero was to happen by 2050 that would need a conservative spend of \$110 trillion, (my guess is it's more than double that even if it did happen), and it would be 1.3% of projected global GDP, let alone the inflationary impact to raw materials like copper and other materials.

We revisit Toncoin, it was only back in mid-June (June 15th) that it made an all-time high at \$8.25. Now down over -10% since then, but it is still in the top ten crypto currencies. Remember it is powered by the telegram Toncoin blockchain ecosystem and network adoption has increased due to AI projects and recent social trading activity. Toncoin (TON) is the native token of The Open Network, used for transaction fees, staking, and governance. It also has an on-chain governance platform for TON holders to submit improvement proposals.

Technically it rebounded recently off its 100-day moving average and trading a sideways pattern, but in time could be building to retest the \$8.00 handle a tricky region in the past, but has been surpassed. \$6.87 seems supportive for now a Fib level that has seen decent bounces from it. **TON success will to a large part be down to its integration to Telegram advertising system and partnerships.** Telegram does have competition (TikTok etc) but has about 1.5 billion users and the 4th most used messaging app.

Toncoin/Tether - Daily chart with 100 day moving average and Fibonacci projections

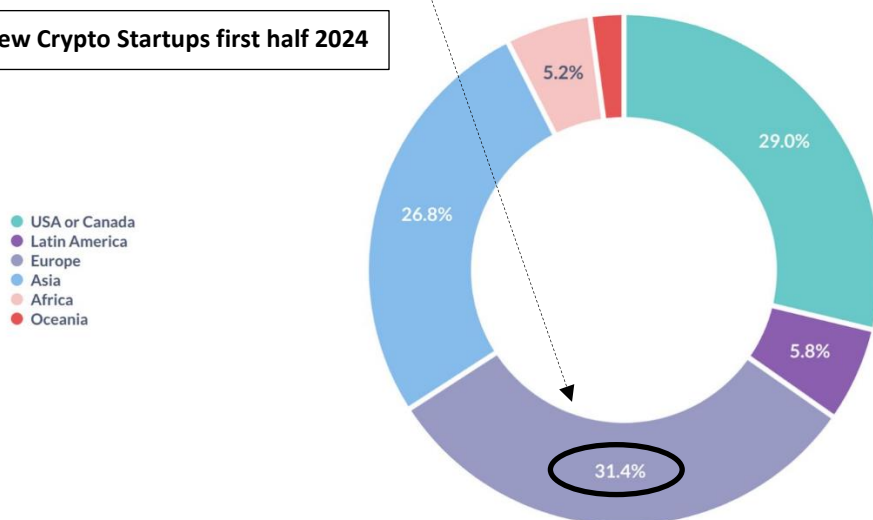


Crypto events worth watching around the globe

We mentioned earlier China had clamped down on crypto, going as far back as 2013 banning financial institutions from Bitcoin transactions and closing exchanges, but 2024 may be the year where this attitude changes. There is speculation that in Q4 this year, a policy shift might be coming. We wonder if that has anything to do with Donald Trump being considered “crypto friendly” and looking currently to have a chance to win the presidential race, and China may not want to be at a competitive disadvantage. Remember, in 2013 China prohibited Bitcoin transactions and in 2017 banned ICOs and closed domestic exchanges dealing in cryptocurrency, and this was then extended in 2021 banning mining and all transaction in crypto.

If China lifts the ban, it could be massive for the asset class boosting volumes of trade and potentially markedly increasing a contribution to new applications for blockchain technology down to their technical expertise. **Crypto startups in Europe have surpassed the US and Canada.** Asia now about 26.8% of new startups and Africa about 5.2%. For Europe its 31.4% in the first half of 2024 a large part for this is the more accommodating policies to blockchain innovations. In contrast the US regulatory approach has been tougher to navigate even seeing players exit the US market like Phoenix Wallet.

New Crypto Startups first half 2024



Ethereum continues to be the top ecosystem for new crypto startups. Solana is displaying indications of a comeback. Ethereum Layer 2 contributing to the ecosystem. Layer 2 (a specific set of Ethereum scaling solutions – a separate blockchain that extends Ethereum and inherits the security guarantees of Ethereum).

The global blockchain market is expected to reach a market size of \$2.3T by 2032, with 75% of IoT tech adopters likely to have implemented blockchain into their stack.

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