

MACRO MARKET LENS – A key month for markets

It was 2 years ago that Jerome Powell, the Federal Reserve Governor gave a speech saying rates will remain high “until the job is done”. His words wiped \$2 trillion in valuation of the stock market within 8 minutes.

At the last statement at the Jackson Hole symposium recently he said “the time has come”, broadcasting to the world **the Fed is about to embark on a rate cutting cycle.**

Much of the debate based on U.S. economic data has been whether they cut 25bp or 50bp and if it involves a series of aggressive cuts. But the bottom line is it is most likely to be a 25bp cut as the U.S. economy is strong enough not to warrant a 50bp move. The first cut at 50bp risks sending the wrong signal to the markets. U.S. unemployment had risen to 4.3% several months ago, but the latest data point shows it at 4.2%, (the first decline in 5 months – reflecting a reversal in temporary layoffs) - not far off the Fed’s year-end target of 4.0%.

According to U.S Treasury Secretary Janet Yellen , the U.S. jobs report last Friday confirmed that the labour market is healthy, even if it slowed a touch and does not weaken much more. “I would be happy if employment gains stabilised in this neighbourhood” she commented in Austin Texas to journalists, and also voiced “hope and expectation is that this will happen”.

US Treasuries have been enjoying the longest monthly winning streak since 2021, with 4 consecutive positive monthly returns, and bond returns in August alone +1.5%. With markets going from 7 rate cuts to 1, then 3 this year, volatility has created opportunity, and the yield curve recently briefly dis-inverted in the 2s10s spread.

We have seen the longest period of curve inversion in U.S. history. The 5th of July was the 2nd year anniversary of inversion in the 2s10s curve spread, and we are now in September, (the past record inversion being back in 1978 with 624 days). Now we have had over two years of inversion and still no recession, (but noted US Manufacturing PMI at 47.9 is the lowest reading this year), so we face the prospect of steeper curves looming with a series of cuts, +60bp in the spread which could surface fairly quickly from technical chart measures. As we mentioned in our last publication, bonds typically rally, and yields fall 90bp 3 months just before an easing cycle. In line with this, the yield low at 3.60 on 11th September means that yields have declined by 90bps, in line with historical performance and offers a good opportunity for profit taking, as markets have possibly overestimated the scope of immediate Fed easing.

Nevertheless, the bigger debate for next year very much remains US debt levels - which will be a hot topic post election, with neither candidate offering clear articulation of how they will get it under control - Interest alone of \$1 trillion a year and rising. This supports the thesis that yields in the belly may have fallen as far as they can go for the moment, and longer term supports crypto asset valuations as fiat devaluation continues unabated.

History of U.S. 2s10s inversion and past recessionary cycles (Data Bloomberg)

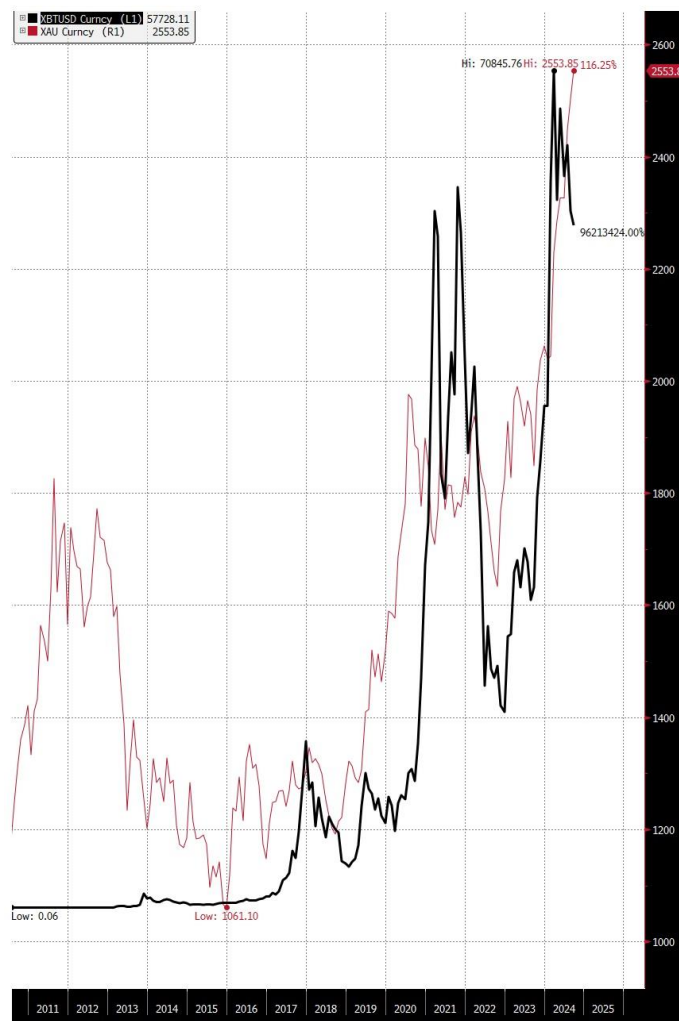


GOLD - continues to shine, +21.06% ytd

In August, gold was one of the best performing assets gaining +4.0%, continuing its solid performance for the whole of 2024 so far. We believe exposure should remain part of a diversified portfolio. Looking at asset performance for 2024, Gold has actually outperformed many major stock indices. As of Sep 4th the S&P500 is up by +16.21%, while Gold in USD terms has risen +21.06%. Having made all-time highs in August at \$2,531.75, some have been surprised by the performance of this non-yielding asset, but there are some simple observations to explain its performance.

Central bank net buying reached a record H1 total of \$483 trillion. Demand slowed in the Q2 from the previous quarter, but held above longer-term levels. Gold's role as a hedge and portfolio diversifier remains a key consideration for central banks. Turkey, China, and India have been the most notable buyers' year-to-date. OTC investment of \$329 trillion was a significant component of Q2 total gold demand, helping gold reach record prices. Gold is also a store of wealth and a hedge against systemic risk. It has historically improved portfolios' risk-adjusted returns and produced positive returns in good and bad times since 2000. Gold is also well suited to a weaker USD scenario, which, if cuts are coming, in theory could weaken the USD, but in other currencies also has done well.

Cryptocurrencies are much more volatile than gold, but returns are still better



TECHNICALS – likely further consolidation for now, but plenty of scope for BTC outperformance medium term

Bitcoin in USD – weekly chart with 39 week moving average and Fibonacci projections



Bitcoin is now breaking below its 39-week moving average, risking a retest of \$50,000. But base support is \$44,735- the 100% Fibonacci projection level that needs to hold to negate something deeper of a setback into year end. We suspect current weakness may abate by October and rebound in line with general risk, as market sentiment lifts prices into year-end back above \$62,000 (near the 161.8% Fibonacci projection).

Ethereum in USD – weekly chart with 39 week moving average and Fibonacci projections



Ethereum struggled at \$4,000 in March and June this year, forming a double top near 200% Fibonacci projection off the measures used for 2022. With price action below the 39-week moving average it suggests weakness, but \$2,077 is the support to watch now at Fibonacci level. If it's likely to go any deeper south, this is the support signal that needs to be broken to consider risking a downdraft to \$1,500. That all said, we see October as a rebound month possibly to \$3,000+ resurfacing.

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