Haute ®
Capital
Partners.

HERE WE GO AGAIN

April 2024

What are Gold prices telling us ?

58%

Surge in demand for gold coins and bars from 2022 to 2023

East Meets West: A Tale of Two Markets

The current surge in gold prices is driven by a complex interplay of global forces, particularly the contrasting financial climates of the East and the West. In the East, depreciation pressures on the Yuan have sparked a significant demand for gold, evidenced by domestic gold ETFs trading at an unprecedented 30% premium over the Shanghai premium. This shift is not just a regional trend but a signal of broader market implications.

Conversely, in the Western markets, the GLD ETF—a barometer for retail and institutional gold demand—shows a negative flow, indicating a sell-off despite the surging gold prices. This divergence sets the stage for a potential short squeeze in the gold market, amplifying upward price pressures and presenting a prime investment window.

The Squeeze Is On

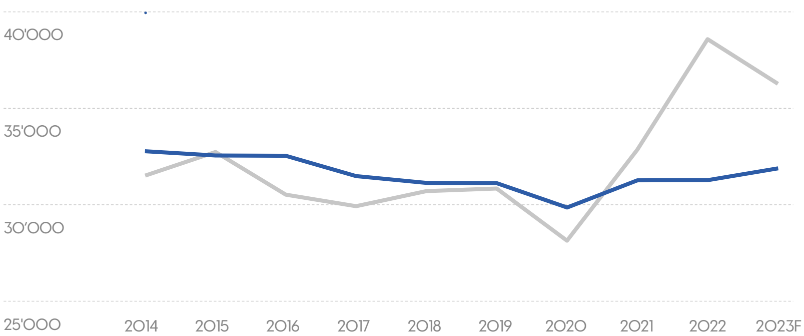
The brewing short squeeze, fuelled by robust demand from China and a decrease in ETF demand in the West, underscores a significant pressure point for rising gold prices. This scenario is further exacerbated by central banks' diminishing confidence in the dollar amidst geopolitical tensions, expansive monetary policies, and unsettling inflation data. The resulting depreciation of the dollar sets a precedent for gold's escalating appeal as a risk-averse asset.

The Central Banks' Vote of Confidence

A critical driver of the recent rise in gold prices is the intensified purchasing by certain central banks. In recent weeks, nations like Russia, India, and China have significantly ramped up their gold acquisitions, opting for the metal over the US dollar for their reserve currency. This deliberate strategy indicates a broader move to diversify reserves and reduce reliance on the US dollar amidst its volatility. Such strategic shifts not only reaffirm gold's role as a stable store of value but also suggest a reconfiguration of the global financial order.

SILVER DEMAND GROWING FASTER THAN SUPPLY, TONS ▶

● Total Supply
● Total Demand



Source: Bloomberg

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Silver Lining: The Ripple Effect on Precious Metals

The bull market in gold typically unfolds in two phases: attracting generalist investment and then redirecting focus towards silver, gold's more accessible counterpart. With the World Gold Council reporting a nearly 58% surge in demand for gold coins and bars from 2022 to 2023, investors are increasingly considering silver as a cost-effective alternative amid rising prices and currency fluctuations.

Ahead of the Curve: Our Strategic Position

At Haute Capital Partners, we pride ourselves on identifying and capitalizing on market dynamics in their nascent stages, particularly within the realms of precious metals and commodities. This proactive approach has been crucial in navigating the silver market, where a consistent imbalance between supply and demand has unfolded over recent years, significantly driven by silver's essential role in manufacturing for the burgeoning sectors of solar panels and AI chips. Recognizing these industrial demands early, we've strategically increased our investments in precious metals and mining, ensuring our portfolio's alignment with these emerging growth opportunities.

On a broader economic scale, there's growing concern among large, primarily Asian, wealth funds regarding the financial state of the U.S. government. The crux of the matter lies in the government's insatiable debt appetite, which can only be satisfied with higher interest rates and bond yields. However, increasing rates could destabilize financial markets, trigger insolvencies in the commercial property and corporate sectors, and pose risks to the banking system at large. This potential for fiscal upheaval has prompted these funds to minimize their dollar credit exposure by turning to assets like gold, an asset that represents 'real money' without counterparty risk, a safeguard against the possible financial turmoil.

SILVER SUPPLY AND DEMAND DISRUPTION ▼

Source: Bloomberg

MILLION OUNCES		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F
Supply	**Mine Production**	882.0	896.8	899.8	863.6	850.3	836.6	782.2	827.6	822.4	842.1
	Recycling	160.4	146.9	145.6	147.0	148.5	148.0	166.0	175.3	180.6	181.1
	Net Hedging Supply	10.7	2.2	-	-	-	13.9	8.5	-	-	-
	Net Official Sector Sales	1.2	1.1	1.1	1.0	1.2	1.0	1.2	1.5	1.7	1.7
	Total Supply	1'054.2	1'046.9	1'046.4	1'011.7	1'000.0	999.5	957.9	1'004.5	1'004.7	1'024.9
Demand	**Industrial (total)**	440.9	443.4	477.4	515.3	511.2	509.7	488.7	528.2	556.5	576.4
	Electrical & Electronics	269.8	272.3	308.9	339.7	331.0	327.3	321.8	351.0	371.5	382.3
	...of which photovoltaics	48.4	54.1	93.7	101.8	92.5	97.8	100.0	110.0	140.3	161.1
	Brazing Alloys & Solders	53.3	51.0	49.0	50.8	51.9	52.3	47.4	50.4	49.0	49.8
	Other Industrial	117.8	120.1	119.5	124.8	128.3	130.1	119.4	126.8	136.0	144.4
	Photography	41.0	38.2	34.7	32.4	31.4	30.7	26.9	27.7	27.5	26.4
	Jewelry	193.5	202.5	189.1	196.2	203.1	201.4	150.5	181.5	234.1	199.5
	Silverware	53.5	58.3	53.5	59.4	67.1	61.3	31.2	40.7	73.5	55.7
	Net Physical Investment	283.0	309.3	212.9	155.8	165.5	187.0	204.8	274.0	332.9	309.0
	Net Hedging Demand	-	-	12.0	1.1	7.4	-	-	3.5	17.9	-
	Total Demand	1'011.9	1'051.7	979.7	960.2	985.7	990.0	901.9	1'055.6	1'242.4	1'167.0
Market Balance		42.3	-4.8	66.7	51.5	14.4	9.5	56.0	**-51.1**	**-237.7**	**-142.1**

BRICS Nations and the Emerging Currency Paradigm

China's Currency Swap Program

China, representing the BRICS nations, has launched a currency swap program with developing countries. This initiative allows central banks to conduct trade using local currencies, removing the US dollar from these transactions and saving on exchange costs.

Impact on the US Dollar

The exclusion of the US dollar in these agreements aligns with BRICS's strategy to elevate local currencies in global trade, potentially affecting sectors within the US as reliance on the dollar diminishes.

Scope of the Swap Agreements

The currency swap agreements, totaling $553.49 billion, include 29 developing nations. These deals will enable continuous local currency trade without the US dollar, promoting more direct and cost-effective international transactions.

Advantages and Implementation

The swaps provide stability for national currencies, lowering trade costs and fees—a win-win for the participating nations. Pan Gongsheng of the People's Bank of China announced that these arrangements will begin in 2024, offering protection against financial market fluctuations.

The Dollar and Interest Rate Cuts

The impending interest rate cuts are set to devalue the US dollar further, potentially leading to investment losses for dollar-denominated assets. This shift marks a significant turn towards a more diverse global financial system and necessitates a reassessment of currency risks by investors.

TURNOVER OF FOREIGN EXCHANGE INSTRUMENTS, BY CURRENCY ▼

Source: BIS

CURRENCY	2001	2004	2007	2010	2013	2016	2019	2022
BRL: Brazilian real	0%	0%	0%	1%	1%	1%	1%	1%
JPY: Yen	24%	31%	17%	19%	23%	22%	17%	17%
CHF: Swiss franc	6%	6%	7%	6%	5%	5%	5%	5%
RUB: Russian rouble	1%	1%	1%	1%	2%	1%	1%	0%
USD: US dollar	90%	88%	86%	85%	87%	88%	88%	88%
CNY: Renminbi	0%	0%	0%	1%	2%	4%	4%	7%
INR: Indian rupee	0%	0%	1%	1%	1%	1%	2%	2%
EUR: Euro	38%	37%	37%	39%	33%	31%	32%	31%

Real Estate all over again ?

A Reflection on the Current U.S. Market and Credit Debt Correlations

The U.S. real estate market is currently navigating through choppy waters, marked by significant shifts and trends reminiscent of the prelude to the 2007-2008 financial crisis. As we observe the unfolding events, certain patterns are becoming discernible, drawing parallels to those turbulent times and sparking a dialogue on the future of the real estate sector.

Recent Market Tremors

In recent news, Bancorp's stocks plunged by 25%, a concerning echo from the past that sends ripples through the financial sector. This substantial loss was primarily due to its heavy involvement in commercial real estate and the consequent unpaid loans resulting from lease defaults. This incident follows a similar scenario that unfolded with a New York bank just a week prior, suggesting a potential trend that could signal broader market vulnerabilities.

Credit Card Debt and Real Estate: A Symbiotic Stressor

The correlation between burgeoning credit card debt and the real estate sector is becoming increasingly evident. As of February 24, interest rates on credit card plans reached an all-time high of 21.59%, placing additional financial pressure on consumers. As consumers face higher debt levels, their ability to take on additional financial commitments, such as mortgages, is compromised. This strain on purchasing power can lead to a cooling effect in the real estate market, especially in the commercial segment where businesses similarly grapple with debt management and increasing operational costs.

The Commercial Real Estate Conundrum

The commercial real estate market is facing its own set of challenges, with an increase in vacant spaces across the United States. Factors contributing to this trend include the rise of remote work, which reduces the need for physical office space, and the ongoing shift toward online shopping, which impacts the demand for retail locations. As a result, more companies are failing to pay their rents, leading to a cascade effect where realtors struggle to meet their credit obligations on their properties.

Real Estate
all over again ?

Echoes of 2007-2008

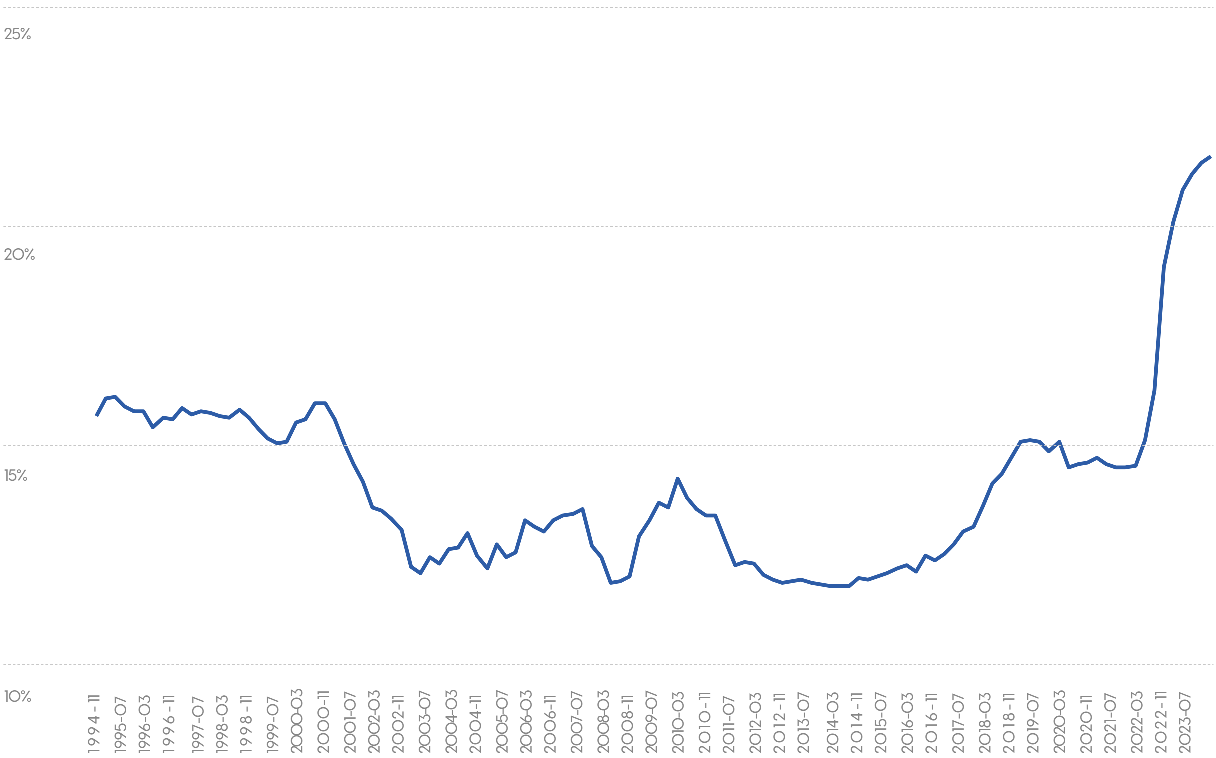
The parallels to the 2007-2008 financial crisis cannot be ignored. During that period, unchecked credit expansion and risky lending practices led to a housing bubble that, when burst, caused widespread economic distress. The current indicators, such as the troubles faced by Bancorp and other financial institutions due to their exposure to real estate and the increasing credit card debt, are harbingers that warrant attention and caution.

Potential for Propagation: The BTFP's Conclusion

With the impending end of the Backstop Term Funding Program (BTFP) this month, there are concerns about a potential "propagation" effect throughout the financial system. The BTFP has been instrumental in providing liquidity, and its conclusion could result in tighter credit conditions, further exacerbating the stress within the real estate market and beyond.

COMMERCIAL BANK INTEREST RATE ON CREDIT CARD

Source: FRED



Caution Ahead for U.S. Equities

Understanding Market Signals

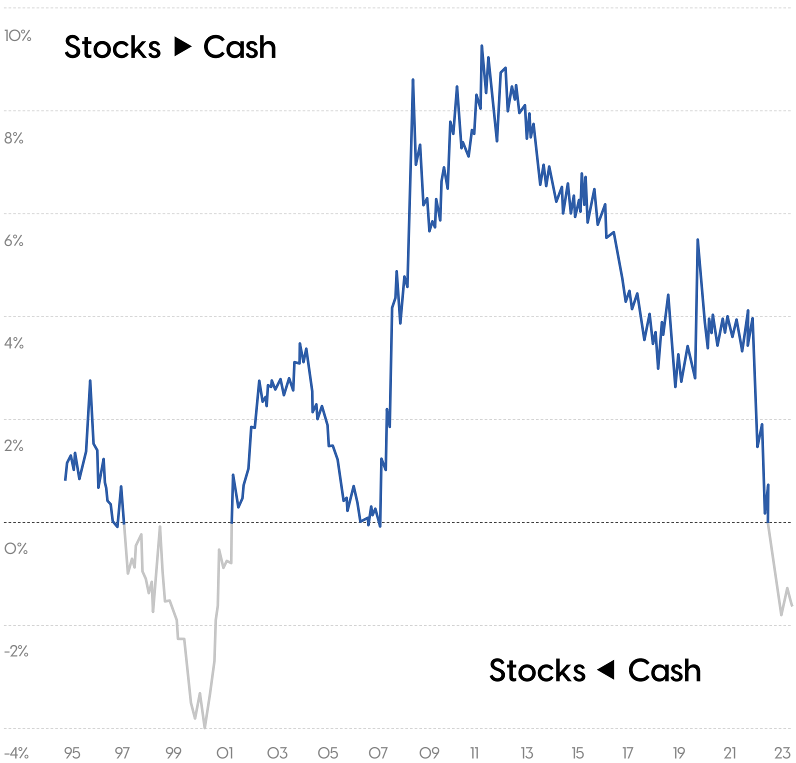
Investors are facing a confluence of signals suggesting caution is warranted in the U.S. equity markets, particularly in the technology sector. Data presents a compelling narrative for those invested in U.S. equities to consider the stability and potential of alternative investments, such as those offered by Haute Capital Partners.

A Closer Look at Earnings Yields vs. Treasury Bills

The S&P 500 Technology sector's forward earnings yield has historically been a reliable metric for understanding equity valuations relative to fixed income alternatives. Recent trends indicate a narrowing gap between the 12-month forward earnings yield of technology stocks and the yield offered by 3-month U.S. Treasury Bills. This convergence implies that the risk premium for holding technology stocks over virtually risk-free government securities has diminished, hinting at overvaluation within the tech sector that could lead to subdued future returns.

TECHNOLOGY STOCK YIELD VS CASH YIELD ▸

S&P 500 Technology 12-Month Forward Earnings Yield Less the 3-Month U.S. Treasury Bill Rate



Source: Bloomberg

Caution Ahead for U.S. Equities

Mounting Bankruptcies: A Red Flag in the U.S. Economy

Rising bankruptcies in the U.S. signify a concerning trend for the economy, spurred by a combination of increasing interest rates, inflation, and commodity prices. Higher rates are particularly troublesome for emerging companies that rely on debt for growth, as well as for established firms facing debt renewal at significantly higher interest rates. Inflation has tightened both corporate margins and consumer spending, leading to a cycle of decreased revenues for businesses. Additionally, the spike in commodity prices has substantially raised operational costs, further squeezing profitability. This culmination of financial pressures is leading to a heightened number of businesses filing for bankruptcy, an economic signal that cannot be ignored.

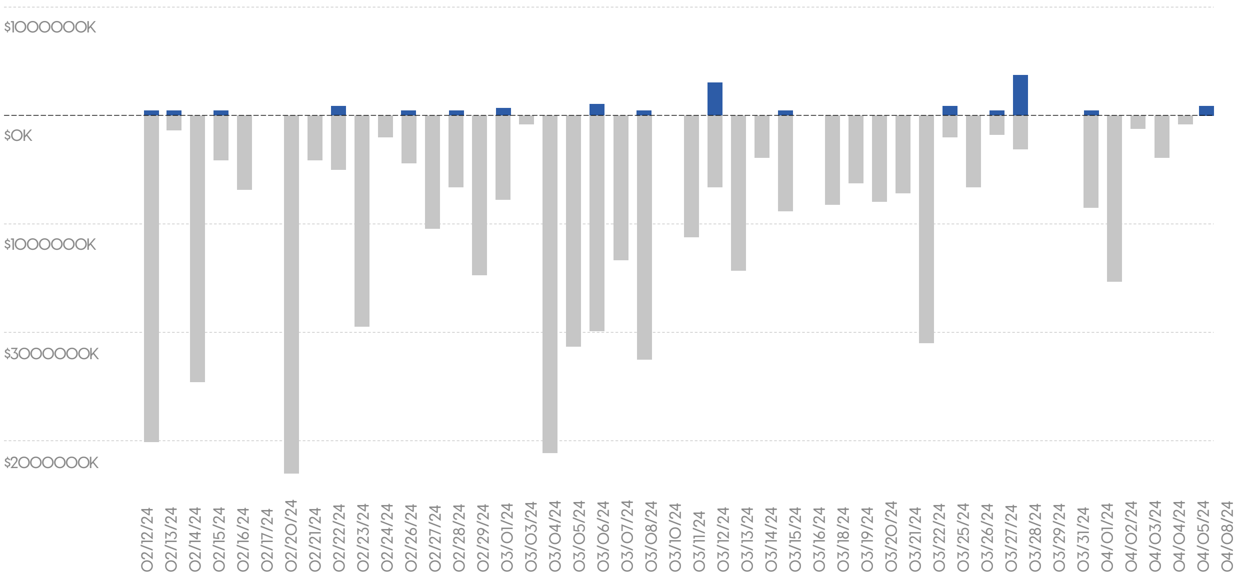
Insider Selling

In light of recent developments within major U.S. corporations, where prominent figures like Mark Zuckerberg and Jeff Bezos have been continuously selling shares of their companies, Meta and Amazon, respectively, it's a stark reminder of the necessity to interpret insider actions as a barometer for a company's stock valuation. This pattern of sell-offs by insiders is often regarded as a harbinger of potential overvaluation or a precursor to a decline in stock prices, serving as a critical signal to investors about the shifting sentiment at the top echelons of these tech giants.

INSIDER TRADING ACTIVITY ▾

Buy/Sell Transactions
last 60 days

Source: Bloomberg



Iran's Pivotal Role in Middle East Tensions

The situation in the Middle East remains tense and complex. Iranian President Ebrahim Raisi has warned Israel against further attacks on Iranian soil, responding to an airstrike in Damascus that Iran attributes to Israel. The attack reportedly resulted in the deaths of several members of the Islamic Revolutionary Guard Corps (IRGC) Quds Force. Iran has promised retribution if such attacks continue, while also dealing with internal matters such as reported explosions near Isfahan.

President Raisi's visit to Pakistan highlights the geopolitical nuances of the region, as he seeks to strengthen Iranian trade with Pakistan amidst mutual concerns about terrorist camps along their borders.

Furthermore, Raisi's comments in Lahore, where he continues to pledge support for Palestinian resistance, and his critique of Western nations for their support of Israel, underscore the multiplicity of factors at play.

These events add layers to the ongoing narrative of tensions between Israel and Iran, with both nations engaging in actions and rhetoric that suggest a readiness for further conflict. The region's stability hangs in a delicate balance as both nations also face internal and external pressures, including Iran's support for groups opposed to Israel and Israel's own security concerns.

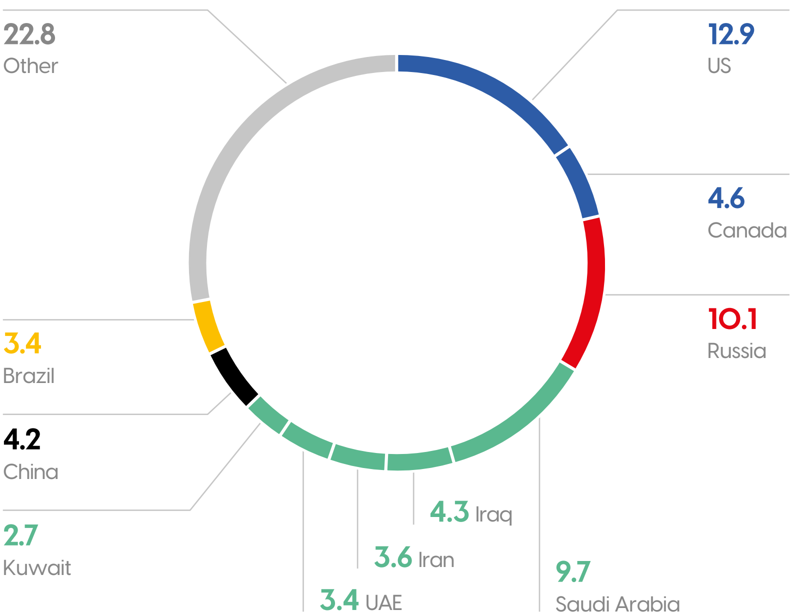
Market Reactions to Rising Middle East Tensions

As tensions continue to escalate in the Middle East, the impact is being felt across global commodity markets. The rising oil prices signal investors' concerns about the stability of supply from a region central to the world's oil production. Simultaneously, the increased investment in gold suggests a flight to safety.

These market movements indicate a collective investor bet on the potential escalation of the conflict, reflecting a classic pattern where uncertainty leads to increased prices in commodities considered to be safe havens or those likely to be disrupted by conflict.

THE WORLD'S BIGGEST OIL PRODUCERS IN 2023 ▸

Crude Oil Production
(millions of barrels per day)



Source: U.S. Energy Information Administration

Ukraine's NATO Ambitions

Ukraine's accelerated bid to join NATO comes amid Russia's formal annexation of four Ukrainian regions, a move that has been denounced internationally and described by NATO as "the most serious escalation" of the conflict. President Zelenskyy's application for NATO membership signifies Ukraine's decisive response to the annexation of its territory. However, NATO's support for Ukraine currently is focused on defense against Russia's aggression rather than expedited membership, with NATO Secretary-General Jens Stoltenberg emphasizing that any decision on membership requires the unanimous agreement of all alliance members. Given the ongoing conflict, the requirement for a commitment to peaceful resolutions of territorial disputes poses a significant hurdle for Ukraine's bid.

On the other side, the possibility of foreign countries seizing Russian assets and reallocating them to Ukraine could serve as another substantial point of contention. The U.S. House of Representatives passed the REPO Act, potentially allowing the Biden administration to use frozen Russian assets in the U.S. to aid Ukraine's reconstruction.

With more than USD 6 billion of the USD 300 billion in frozen Russian assets in U.S. banks and the majority located in European countries like Germany, France, and Belgium, this move could further escalate tensions. Looking at the broader picture, several Central and Eastern European states have expressed support for Ukraine's NATO bid, reflecting a regional solidarity in the face of Russian aggression. However, the challenge of achieving consensus among all NATO members remains a significant obstacle for Ukraine's membership.

With Russia's provocative actions, such as the annexation and the ongoing war in Ukraine, coupled with Ukraine's push for NATO membership and the potential foreign asset seizure, the geopolitical landscape of Europe is indeed fraught with potential triggers for escalation. The dynamics at play suggest a continued taut atmosphere where further developments in Ukraine's NATO bid or any aggressive maneuvers could have serious implications on the already strained relationship between Russia and NATO.

Our Opinion

In sum, Ukraine's efforts to join NATO could have wide-reaching effects on the ongoing conflict and beyond, potentially influencing global geopolitics, the security architecture of Europe, and financial markets.

The potential induction of Ukraine into NATO could drastically alter the already precarious balance of power and escalate tensions between the West and Russia. Amidst this backdrop, certain NATO countries are still not meeting the defense expenditure pledge, complicating the alliance's unified front. The situation is exacerbated by U.S. Secretary of State Antony Blinken's assertion that Ukraine's NATO entry will be expedited, a move that, if interpreted as a threat by Russia, could be seen as a direct call to arms due to NATO's collective defense principle. This stokes fears of a wider war, perhaps inadvertently paving the way towards a global conflict reminiscent of the world wars.

These geopolitical developments, alongside the ongoing conflict in Eastern Europe, pose severe risks not only to regional stability but to the world at large. An increase in defense spending amidst an already fragile global economy could lead to further financial strain. The political tension has the potential to rattle commodity markets, including vital resources like oil, and could send shockwaves through financial systems worldwide, evidenced by recent fluctuations in gold prices and the bond market.

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