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# TOWARDS BETTER DAYS

July 2024

# Banks Grapple with Rising Unrealized Losses

## A Growing Concern

As the first quarter of 2024 unfolds, banks across the country are grappling with significant unrealized losses that, in some cases, exceed their equity capital. This concerning trend underscores the impact of rising interest rates on financial institutions' investment portfolios, with some banks being more affected than others.

## Troubling Figures from Key Banks

Notable examples of banks facing substantial unrealized losses include:

- 1 **Union City SVGS Bank:** Unrealized losses have soared to 172.7% of their equity capital.
- 2 **Citizens ST Bank:** Losses reached 121.4% of their equity capital.
- 3 **Green Dot Bank:** Unrealized losses amounted to 108.6% of their equity capital.
- 4 **First America TR:** Losses were equivalent to 104% of their equity capital.

These figures are alarming, especially considering the broader economic implications. The financial stability of these banks is under significant pressure, necessitating close monitoring and potential regulatory intervention to ensure they can navigate these turbulent waters.

## Rising Rates and Financial Strain

The overall financial system is feeling the strain of spiking interest rates. Fifty banks reported unrealized losses on their investment securities portfolios exceeding 50% of their capital equity in the first quarter of 2024, a slight increase from the previous quarter. This uptick is attributed to the continued rise in interest rates, which places additional pressure on banks' balance sheets.

Aggregate unbooked losses at banks across the country rose to USD 517 billion, up from USD 478 billion at the end of the previous quarter. This metric is widely used to measure a banks' exposure to risk based on their unrealized losses in investment securities portfolios.

For the first quarter in more than a year, Republic First Bank is not the number one bank on this list, solely because federal regulators shut the bank down in April. The bank had been the most exposed due to its unrealized losses on securities portfolio compared to its total equity.

### UNREALIZED GAINS (LOSSES) ON INVESTMENT SECURITIES BY BANKS ▶

- Held-to-Maturity Securities
- Available-for-Sale Securities



Source: FDIC

# Banks Grapple with Rising Unrealized Losses

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## Larger Banks Also Affected

Even larger banks are not immune to these challenges. Banks with more than USD 10 billion in equity have reported significant unbooked losses:

- 1 **Charles Schwab:** Unrealized losses equaled 64% of their equity capital.
- 2 **USAA Federal Savings Bank:** Losses amounted to 67% of their equity capital.
- 3 **Bank of America NA:** Unrealized losses reached 58% of their equity capital.

The rise in interest rates has had a pronounced negative effect on these banks' balance sheets, with the potential for even greater losses in the coming quarters.

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## Future Outlook

It's likely that losses in the second quarter could be far greater as the yield on the 10-year treasury rose from 4.21% at the end of this quarter to 4.48% most recently. There also are many smaller banks with less than USD 1 billion in assets facing similar risks; 22 have unbooked losses greater than 100% of their equity capital and 275 have losses greater than 50%.

The situation underscores the importance of monitoring banks' financial conditions closely. As interest rates continue to affect investment portfolios, the stability and soundness of banks remain paramount. The next few quarters will be crucial in determining how these institutions manage their unrealized losses.

# Swatch Group faces Challenges

## First-Half Financial Results

Swatch Group, which includes brands such as Tissot, Longines, and Omega, saw its net sales fall by 14.3% at constant exchange rates, totaling 3.445 billion Swiss francs for the six months ending in June. This figure fell short of analysts' expectations of 3.75 billion Swiss francs, according to the current consensus.

Operating profit plunged to 204 million francs, down from 686 million francs a year earlier, with the operating margin dropping from 17.1% to 5.9%. Net profit also took a significant hit, falling to 147 million francs from 498 million francs.

## Impact of Chinese Market

The primary cause of this decline is attributed to a collapse in luxury goods demand in China, particularly in Hong Kong and Macau. In stark contrast, the Swatch brand bucked the trend, increasing its sales in China by 10%, a notable exception in an otherwise challenging market.

Additionally, a negative currency effect of 145 million francs further impacted sales in the first half of the year. Despite these challenges, Swatch remains optimistic about the long-term potential of the Chinese market, although it expects the difficulties to persist through the end of 2024.

## TOTAL ENTREPRISE VALUE OF THE SWATCH GROUP ▼

Source: Stratosphere



# Swatch Group faces Challenges

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## Market Reactions and Future Outlook

After profit warnings from Kering and LVMH reporting decreasing sales for the first quarter of 2024, Swatch has confirmed the slowing trend in the middle-end luxury market. Despite these setbacks, Swatch sees strong growth potential in other regions. The company anticipates significant growth in Japan and the United States in the second half of the year, driven by investments in its retail network. Additionally, Swatch is optimistic about its prospects in several European countries.

Swatch has initiated a cost-reduction program that is beginning to yield results. The full positive impact, particularly on production results, is expected to be felt in the second half of the year. Notably, Swatch has avoided drastic measures such as job cuts or introducing short-time work, preferring to maintain its production capacity to respond quickly to potential demand increases.

Looking ahead, Swatch is set to benefit from the global media visibility of Omega as the official timekeeper of the Paris Olympics. This exposure is expected to enhance brand recognition and drive sales. The company's stock (\$UHR) is down 50.15% since its peak on March 6, 2023.

# Ukrainian Soldiers Surrender

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## Crossing the Dnieper: A Bid for Surrender

According to a report by RIA Novosti, four Ukrainian soldiers braved the waters of the Dnieper River using makeshift rafts constructed from empty plastic bottles to reach the Russian-controlled side. Black-and-white drone footage captured their night-time crossing and subsequent surrender. The men emerged from the river with their hands behind their heads, greeted by Russian soldiers awaiting them on shore.

The soldiers had coordinated their surrender via a special Telegram chat bot, arranging the details with the Russian military in advance. This surrender took place in the Kherson Region, an area that has seen significant territorial changes since it officially joined Russia in 2022 following a controversial referendum.

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## Broader Context of Surrenders and Draft Dodging

The river crossing is part of a larger trend of Ukrainian soldiers surrendering to Russian forces. Between June 29 and July 5, a total of 32 Ukrainian servicemen reportedly surrendered, according to the Russian Defense Ministry. Yan Gagyn, an aide to the head of the Donetsk People's Republic, noted that Ukrainian soldiers have been surrendering in large numbers recently.

Additionally, there has been a significant increase in draft dodging among Ukrainian men. Over 100 individuals attempt to flee Ukraine daily to avoid conscription, with many risking their lives in dangerous terrains. The Ukrainian Border Service reported that more than 45 men died while trying to escape the country, many drowning while attempting to cross the Tisza River.

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## Heavy Losses and Mobilization Challenges

The Ukrainian military continues to suffer heavy casualties on the front lines. The Russian Defense Ministry recently reported that Ukrainian forces lost approximately 13,500 servicemen in just one week. This high rate of attrition has strained Kiev's efforts to replenish its ranks.

In response to these challenges, Ukraine has expanded its conscription rules and lowered the age limit from 27 to 25. Despite these measures, the mobilization campaign has been plagued by widespread draft dodging, graft, and attempts to flee the country.

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## Insights and Implications

The ongoing conflict and the increasing number of surrenders and draft dodgers highlight the immense pressure faced by Ukrainian forces. The desperate actions of soldiers and civilians alike reflect the harsh realities of a prolonged and intensifying war.

# Crypto Miners: Our Favorite

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## Impressive Mining Performance

CleanSpark, a prominent player in the bitcoin mining industry, has reported significant achievements in its operational metrics for the first half of 2024. The company has not only surpassed its mid-year target for operational hashrate but has also continued to expand its mining capacity through strategic acquisitions.

In June, CleanSpark mined 445 bitcoins, an increase from May's 417 bitcoins. This performance helped the company achieve a total of 3,614 bitcoins mined in 2024 so far, with a holding of 6,591 bitcoins as of June 30. This achievement is particularly notable considering the bitcoin halving event in April, which reduced the rewards for mining by 50%.

CleanSpark's operational hashrate surpassed 20 exahashes per second (EH/s) in mid-2024, more than doubling from its hashrate in December. This milestone was largely due to the acquisition of five new bitcoin mining sites in Georgia, significantly boosting its mining capacity.

"Surpassing 20 EH/s in operational hashrate is more than double our hashrate from December," said CEO Zach Bradford. "While our peers are exploring other avenues of income, we're laser-focused on delivering results and increasing our bitcoin mining hashrate and associated revenues. We continue to maximize efficiency at our existing sites and look forward to the opportunities ahead of us in Wyoming and Tennessee."

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## Strategic Acquisitions and Future Plans

June was a particularly active month for CleanSpark, marked by the acquisition of GRID Infrastructure, a deal valued at USD 155 million. This acquisition, along with the new sites in Georgia, is expected to enhance CleanSpark's operational power, which is projected to reach 100 megawatts by the end of the year.

CleanSpark also sold 8.06 bitcoins in June at an average price of approximately USD 67,514 per bitcoin. The company's average hashrate throughout the month was 17.85 EH/s, underscoring its significant mining capabilities.

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## Market Response and Company Outlook

CleanSpark's stock (\$CLSK) experienced a 57.06% price appreciation year-to-date (YTD) at the time of writing, following the path of its main underlying asset, Bitcoin.

Looking ahead, CleanSpark is optimistic about its growth prospects. The company is set to expand further with anticipated opportunities in Wyoming and Tennessee, aiming to continue increasing its hashrate and efficiency. This focus on strategic growth and operational excellence positions CleanSpark as a leading force in the bitcoin mining industry.

# Crypto Miners: Our Favorite

## CleanSpark's Competitive Edge

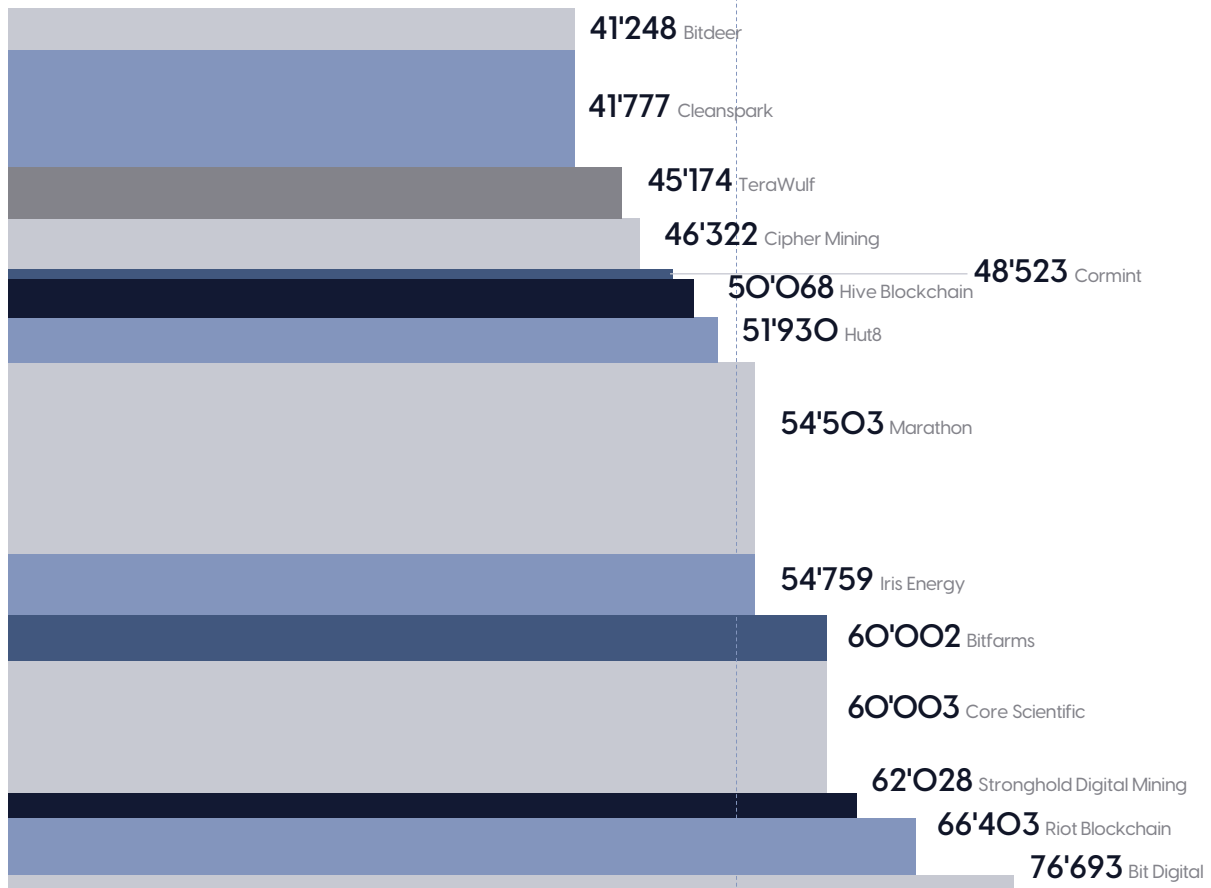
CleanSpark differentiates itself from its peers by maintaining a laser focus on expanding its mining capacity and improving efficiency rather than diversifying income streams. This strategy has allowed CleanSpark to achieve impressive operational milestones and remain resilient amidst market fluctuations. The company's recent acquisitions and robust mining performance highlight its commitment to scaling its operations and securing a significant share of the bitcoin mining market.

Additionally, CleanSpark's focus on sustainable energy solutions and efficient mining practices provides it with a competitive edge in an industry increasingly scrutinized for its environmental impact. As the bitcoin network evolves and the industry faces regulatory pressures, CleanSpark's strategic approach and operational prowess will likely serve as key advantages.

BITCOIN MINING CASH-COST  
PER BITCOIN (POST HALVING) ▾

Average cost  
of production  
at the halving

Source: CoinShares





# Bitcoin Price Action

## Market Dynamics

Bitcoin has experienced significant volatility recently, first decreasing by 11.2% from July 1 to July 7, then increasing by 16.45% between July 8 and July 16. This sharp increase has brought Bitcoin to its highest level since June 19, driven by large-scale selling from notable holders, including the governments of Germany and the US. Although Mt. Gox has not been part of the recent selling, it is starting to distribute its Bitcoin to its respective holders.

## Mt. Gox Repayments

Mt. Gox, once the largest cryptocurrency exchange, went bankrupt in February 2014 after losing nearly one million bitcoins due to a series of hacks. A decade later, Mt. Gox has started repaying its creditors and former customers, distributing some of the USD 9 billion it owes through Bitcoin and Bitcoin Cash. The exchange still holds about 140,000 bitcoins, contributing to the market's initial selling pressure.

## Government Liquidations

Cryptocurrency wallets associated with the German and US governments have also been active recently. The German government sold up to \$3 billion in seized Bitcoin.

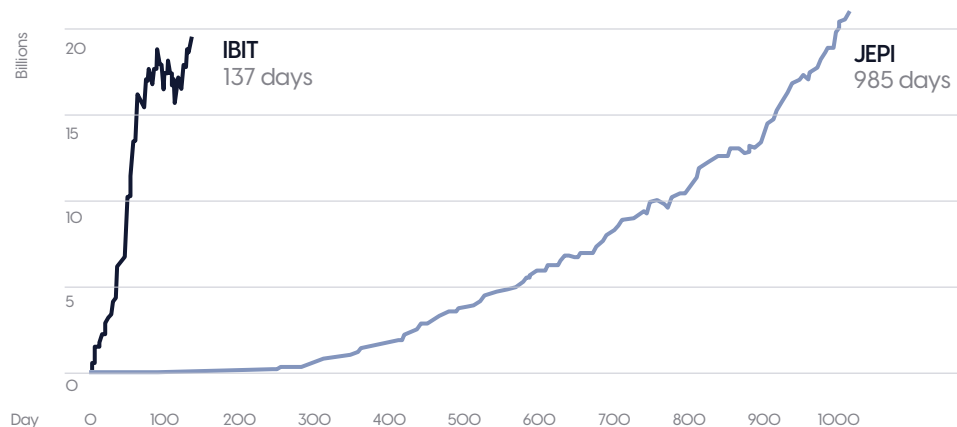
## CPI Data

The Consumer Price Index (CPI) fell by 0.1% last month, marking its first decline since May 2020. This data could act as a catalyst for Bitcoin by increasing expectations for rate cuts, which historically benefit risky assets like cryptocurrencies. We expect Bitcoin to challenge its previous all-time high of \$73,798 in the coming months.

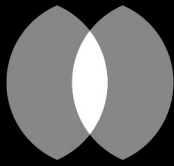
## Market Reactions

At the time of writing, Fed-funds futures traders are now pricing in a 100% chance of the Federal Reserve delivering its first interest-rate cut in September, up from 61.5% a month ago.

**BITCOIN ETF (IBIT) – FASTEST ETF TO REACH USD 20 BILLION ASSETS IN 1000 DAYS OR LESS ▶**



Source: Bloomberg



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