GROWTH & OPPORTUNITY AHEAD!

October 2024

Why Bigger Deficits Demand Bigger Fixes

Federal Reserve and Interest Rates: A Strategic Challenge

The Federal Reserve recently cut the federal funds rate by 50 basis points; a move often interpreted as an attempt to influence Treasury yields. Yet, contrary to expectations, Treasury yields surged, with the 10-year yield spiking from 3.70% to 4.20%. This rise suggests that even unconventional monetary policies may struggle to maintain low financing rates amid structural fiscal challenges.

The Fed's actions underscore the difficulty in lowering Treasury financing costs under current conditions. With inflation still above the target and unemployment at 4.1%, cutting rates further may stoke inflationary pressures, creating a conflicting dynamic between policy goals and market realities.

Unconventional Measures and Potential Repercussions

To manage these mounting costs, the Fed may reinitiate Quantitative Easing (QE)—a policy of purchasing Treasuries to lower yields artificially. Although effective in the past, QE carries significant risks, such as asset bubbles and inflationary pressures. Here's why it may return:

1. QE has expanded the Fed's balance sheet from $900 billion pre-2008 to nearly $7 trillion post-pandemic, injecting vast liquidity into financial systems.
2. Rising yields are prompting some investors to demand higher returns on Treasuries, straining the government's budget further.

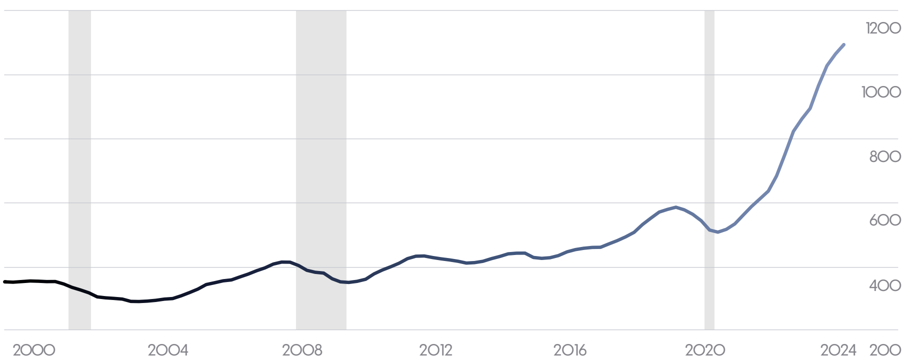
Another QE cycle could inflate asset prices again, risking overvaluation in stocks, real estate, and bonds, along with inflationary pressures in the broader economy.

Preparing for the Next Cycle

The ballooning debt interest payments could have significant implications for investors:

1. **Safe Havens:** Gold, which has risen from $2000 to over $2700 per ounce in the past 12 months, continues to signal concerns over fiat currency stability and inflation.
2. **Inflation-Protected Assets:** Investments with built-in inflation protections, such as TIPS (Treasury Inflation-Protected Securities), may become attractive.
3. **Alternative Investments:** For diversified portfolios, alternative assets like real estate, cryptocurrencies or private equity can serve as buffers against monetary policy uncertainties.

US FEDERAL GOVERNEMENT CURRENT EXPENDITURES ON INTEREST PAYMENTS ▶



Source: FRED

Major Liquidity Shift Ahead

Global Liquidity Injection from the U.S. Treasury Set for Q4

The U.S. Treasury is poised to boost liquidity significantly in the fourth quarter of 2024, with plans to spend down its Treasury General Account (TGA) and inject approximately $1 trillion into the market. Over the next six to 8 weeks, the Treasury aims to bring its TGA balance down to around $700 billion by issuing $550 billion in bonds. This maneuver aligns with the debt ceiling's suspension deadline in January 2025, which restricts idle cash accumulation without a new agreement.

This influx of liquidity offers a substantial tailwind for markets, potentially supporting asset classes like gold and Bitcoin, which tend to thrive in high-liquidity environments. We're tracking the potential ripple effects across asset classes as this liquidity injection unfolds.

US DEBT CEILING ▶

Source: Steno's research

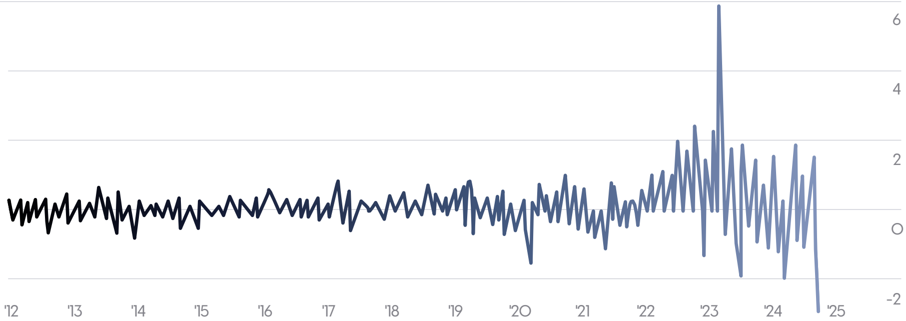
Equity Resilience Amid Shifting Credit Conditions

Corporate Bond Spreads Narrow: The ICE BofA BBB U.S. Corporate Index spread now mirrors pre-pandemic lows, with spreads down nearly 30% YoY. Concurrently, the S&P 500 has risen 33% YoY, reflecting robust investor sentiment and the inverse relationship between credit spread compression and equity returns.

Surge in Equity Allocations: October saw a notable shift in investor allocation patterns. Equity positions rose, with a net increase of 31% in stock holdings. Bond exposure dropped sharply, and global cash levels in portfolios hit a low of 3.9%, the highest investor optimism since mid-2020.

Record Treasury Bill Sell-Off: Investors unloaded record amounts of Treasury Bills recently, reallocating into equities. This move signals confidence in riskier assets and adds to overall liquidity circulation in the markets.

RECORD BOFA WEEKLY OUTFLOW FROM T-BILLS ▶

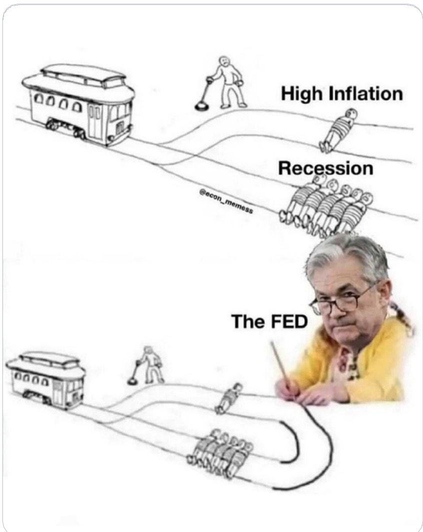


Source: BofA

Major Liquidity Shift Ahead

Fed's Dilemma: Inflation and Growth Constraints

September's CPI data showed inflation at 2.4%, with core inflation rising to 3.3%. For the first time since early 2023, core inflation is trending upward. This resurgence, coupled with increasing unemployment and constrained growth, stirs stagflation fears. Additionally:



1. **Interest on Debt Soars:** Interest payments have reached $882 billion in FY2024, now the third-largest federal budget item, surpassing Medicare and defense.
2. **National Debt Surpasses $35.8 Trillion:** In just three weeks, U.S. debt grew by $473 billion, compounding future budget burdens as interest rates rise.
3. **Impact on Consumer Perception:** Despite lower prices in some sectors, grocery costs remain a focal point in the inflation debate, shaping voter sentiment ahead of the 2024 election.

Bank Term Funding Program (BTFP): A Looming Liquidity Lifeline?

The BTFP, initially introduced to alleviate stress in the banking sector, may see renewed relevance. As banks face liquidity constraints from repaying high-interest loans, the Fed could reinitiate the BTFP, providing a bridge to support asset valuations. This liquidity could stimulate risk assets, especially if economic strain persists in the coming months.

End-of-Year Market Boost: Corporate Buybacks Soar

As 2024 comes to a close, buybacks are on track to reach a record $1 trillion, with a substantial portion executed in November and December. This aggressive buyback trend, averaging around $6 billion per day, positions equity markets for a year-end rally, bolstered by the cumulative liquidity boost from the Fed, the U.S. Treasury, and corporate reinvestment.

Major Liquidity Shift Ahead

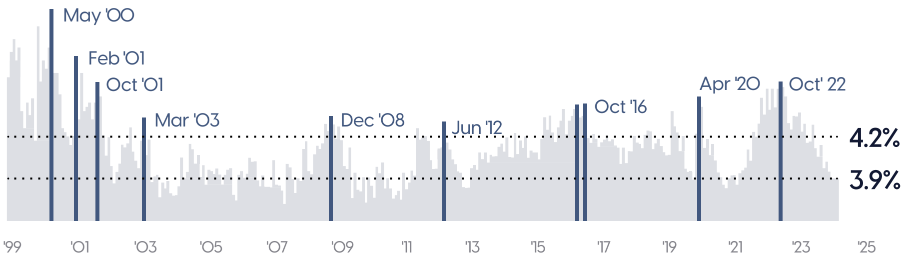
Record Equity Allocations and Declining Cash Levels

In October, cash allocations in global portfolios dropped to an unprecedented 3.9%, reflecting heightened investor confidence. This shift accompanies a near-tripling of equity positions, signaling a significant leap in risk appetite. Equity overweight positions increased by 31%, while bond allocations saw a marked underweight, dropping to a net 15% as bond yields surged.

This repositioning aligns with pre-U.S. election hedging, as investors anticipate a stronger dollar and potential volatility in bond yields. Interestingly, the most crowded trades include long positions on the "Magnificent 7" stocks (43%), gold (17%), and China stocks (14%), underscoring a diverse but selective risk approach among investors.

FMS CASH LEVEL DOWM FROM 4.2% TO 3.9% ▶

FMS average cash level (% of AUM)



Source: BofA

Economic Growth Prospects Heading into 2024

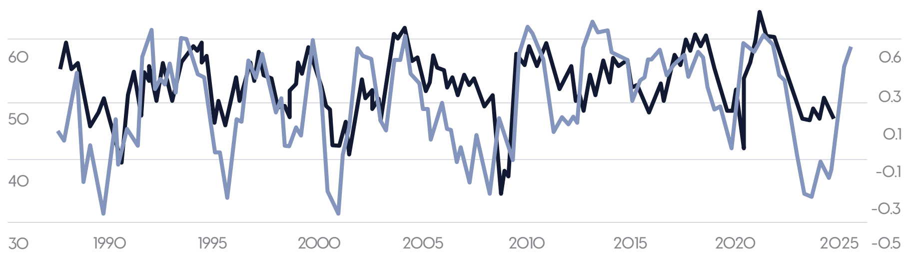
While investor optimism is strong, notable tail risks persist, particularly from geopolitical tensions, inflationary pressures, and the potential for a U.S. recession. However, the substantial liquidity expected to flow into the market could counterbalance these risks by supporting growth into next year. This liquidity, combined with anticipated rate cuts of up to 160 basis points over the next 12 months, is likely to improve manufacturing activity as measured by the ISM index, shifting it from contraction to expansion territory. The combined impact of year-end buybacks, forecasted at $6 billion per day, and the Treasury's liquidity injection provides a solid foundation for market performance as we close out 2024 and look toward an economically resilient start to 2025.

Retail sales also appear poised for growth, as evidenced by record container volumes in Los Angeles ports and rising truck tonnage, both signaling strong consumer demand. This uptick in logistics activity is a promising indicator for retail, as it suggests that supply chains are keeping pace with high consumer demand. With holiday shopping season approaching, this momentum could continue to drive robust economic activity.

GROWTH WILL BE SUPPORTED BY GLOBAL EASING OF POLICY ▼

Overall, the alignment of strong consumer activity, strategic liquidity injections, and investor optimism positions the economy for continued expansion into the coming year.

- Global Financial Tightness Indicator, GFTI (Pushed forward 9 months), left-hand scale
- ISM Manufacturing PMI SA, right-hand scale



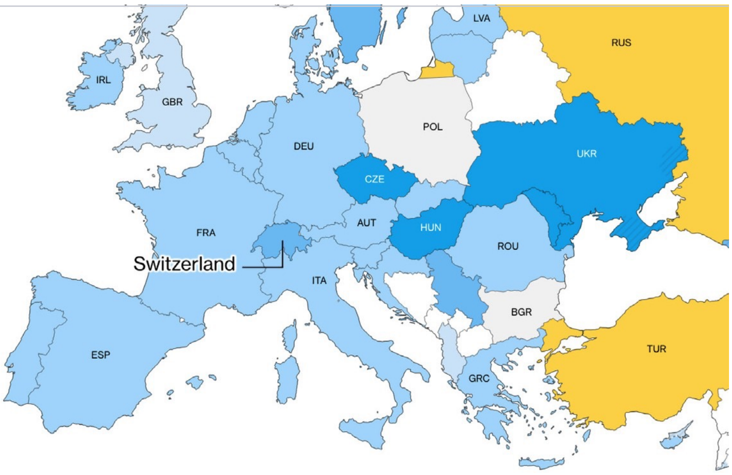
Source: Macrobond

SNB Ready to Cut Rates Again

Interest Rates and FX Intervention

CHANGE IN BORROWING COSTS THIS YEAR ▶

- -100 bps
- -50 bps
- -25 bps
- 0 bps
- 50 bps
- 200+ bps



In his debut address as President of the Swiss National Bank, Martin Schlegel reiterated the SNB's commitment to maintaining Switzerland's economic stability. He signaled a readiness to reduce interest rates further and, if necessary, intervene in foreign exchange markets to curb the Swiss franc's strength. This proactive stance reflects the SNB's priority on preserving the country's competitiveness, with a focus on the real exchange rate's role in global markets.

With inflation currently low at 0.8%, Schlegel's policy stance indicates that the SNB remains vigilant about external pressures and is prepared to ease monetary conditions to maintain price stability. The franc's strength, while challenging for exporters, has driven Swiss companies to adopt greater operational efficiency, enhancing long-term competitiveness.

Wage Growth and Inflation Dynamics

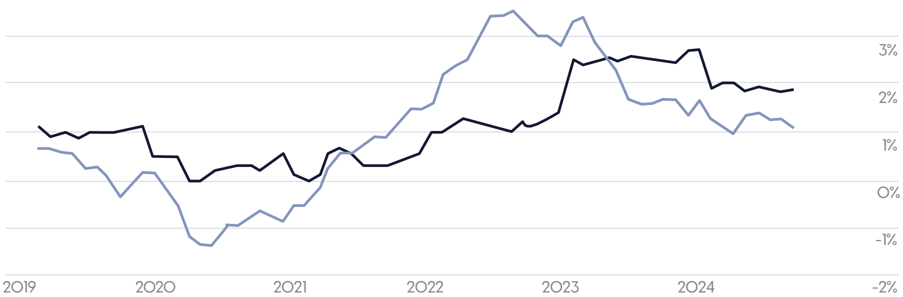
The SNB's newly introduced wage gauge reveals that Switzerland's wage growth stabilized at 1.9% in August, modestly outpacing inflation by 0.6%. This minor increase in real wages offers a cautious optimism following three years of stagnation and declining purchasing power. However, despite union advocacy for more substantial wage hikes, Switzerland has successfully avoided a wage-price spiral, maintaining wage growth below the SNB's inflation threshold.

By controlling wage growth relative to inflation, Switzerland mitigates the risk of embedding inflation expectations into the economy. This approach helps prevent the overheating seen in other economies and maintains Switzerland's reputation as a stable investment environment. Investors looking at Swiss markets may find the SNB's balanced approach reassuring, especially with the potential for future rate adjustments that could make Swiss investments more appealing globally.

SWISS WAGE GROWTH ▼

Swiss wage growth stabilized at around 2% following a period of acceleration.

- Wages (YoY)
- Headline inflation



Source: SNB

The Growing Burden of U.S. Debt

Record Losses at the Federal Reserve

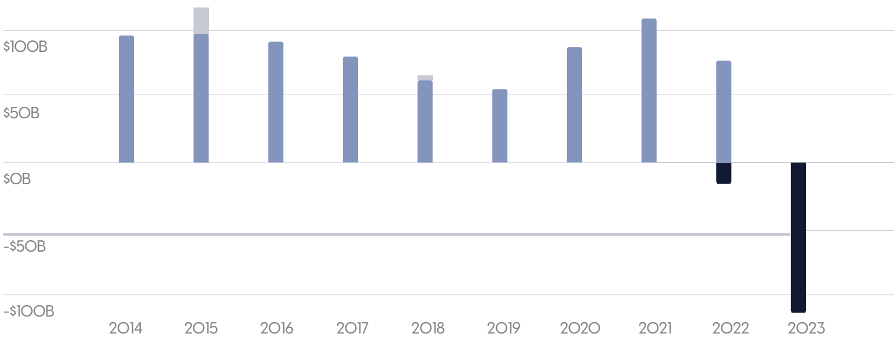
The Federal Reserve's financial position has reached unprecedented territory. Following last year's record loss of $114 billion, this year's losses have already surpassed $130 billion, a staggering figure for the central bank of the world's largest economy. This is not a story of a distressed bank or speculative asset, but rather a reflection of the Fed's high-interest liabilities amidst rising rates. As the Fed continues to pay interest on its massive balance of bank reserves, these losses could strain its remittances to the U.S. Treasury, indirectly impacting federal revenue and potentially increasing the budget deficit.

This situation brings attention to the broader impact of the Fed's balance sheet on the economy. As losses mount, they represent a significant deviation from the Fed's traditional role as a net contributor to federal income, challenging policymakers to consider potential adjustments to the structure of central bank financing.

FEDERAL RESERVE POSTS RECORD LOSS OF $114 BILLION IN 2023

- U.S. Treasury remittances
- Transfer of capital surplus
- Cost of operations in excess of earnings

Source: Federal Reserve



Record-High U.S. Consumer and National Debt

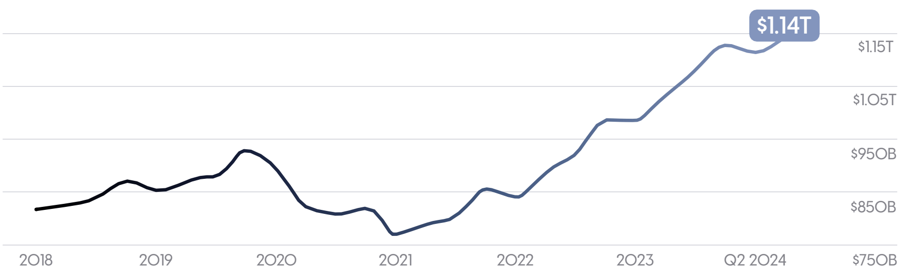
U.S. credit card debt has climbed to an all-time high of $1.14 trillion, with average interest rates nearing 24%. This spike in consumer debt is worrisome, as it elevates the risk of defaults, particularly with the current economic landscape where consumer spending, historically the backbone of U.S. economic growth, could face a downturn. Additionally, 11% of U.S. credit card balances are now over 90 days delinquent, the highest delinquency rate since 2012. Rising credit card and auto loan delinquencies paint a cautionary picture for household finances, likely impacting consumer sentiment and spending patterns moving into 2025.

Meanwhile, on a national level, the U.S. debt has escalated rapidly, increasing by $473 billion in just three weeks to reach a monumental $35.8 trillion. With the debt ceiling suspended until January 2025, unchecked borrowing persists, but the consequences of this massive debt load are increasingly severe.

CREDIT CARD DEBT HITS FRESH HIGH

Total credit card balances in the U.S

Source: Federal Reserve Bank of New York



The Growing Burden of U.S. Debt

Interest Payments Now Rival Key Spending Programs

Interest on the U.S. national debt reached a staggering $882 billion for FY2024, surpassing Medicare and defense spending, each around $874 billion. Interest payments are now the third-largest budget outlay, driven by high-interest rates and decades of overspending. Projections indicate that within the next three years, interest could overtake Social Security as the largest budget item. The 85% increase in debt servicing costs over the past two years signals an unsustainable trajectory, where deeper deficits and elevated borrowing costs could crowd out essential federal funding for services like healthcare and education.

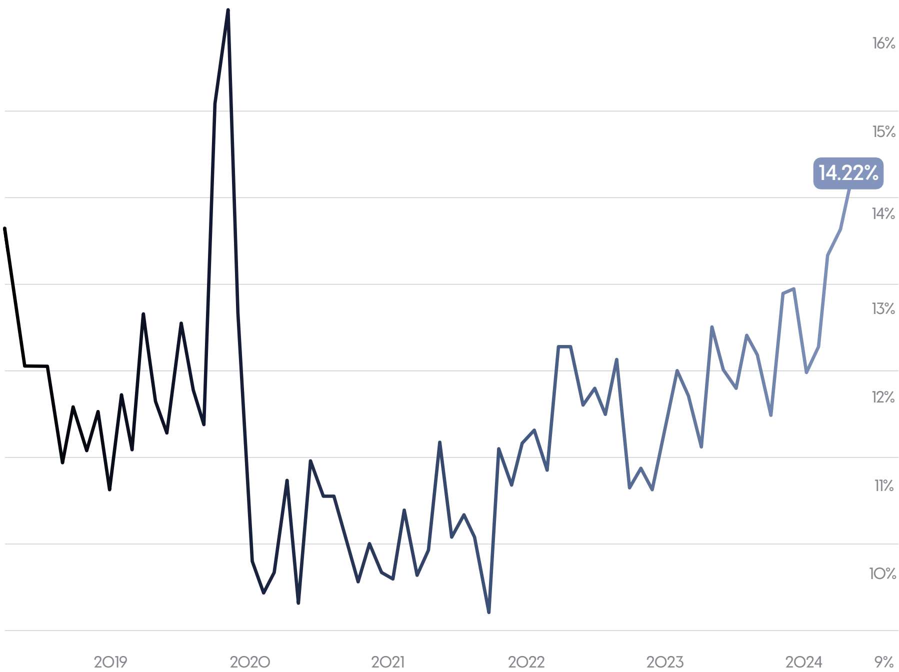
For investors, this debt trajectory suggests potential fiscal instability ahead, raising concerns about the government's ability to support growth and stability in the long term. As interest payments consume more of the federal budget, the risk of more restrictive fiscal policy may rise, especially as political pressures mount to address the fiscal imbalance.

Implications for Gold and Asset Markets

Amid mounting national debt and rising interest rates, investors are increasingly turning to safe-haven assets, with gold experiencing its highest weekly inflow since July 2020. The U.S. debt now spans $68 trillion, covering household, corporate, state, local, and federal debt, emphasizing the sheer scale of liabilities across the economy. Gold's appeal as a hedge against currency devaluation and market uncertainty is rising, with increasing inflows signaling investor caution around traditional equity and bond markets.

Beyond gold, we observe a growing divide between asset owners and non-owners. Real estate and equities are likely to become pivotal assets in the coming years, potentially widening the wealth gap as those with capital invest in appreciating assets, while others face stagnating wages and higher debt burdens.

MEAN PROBABILITY OF MISSING MINIMUM DEBT PAYMENT OVER NEXT 3 MONTHS ▶



Source: Bloomberg

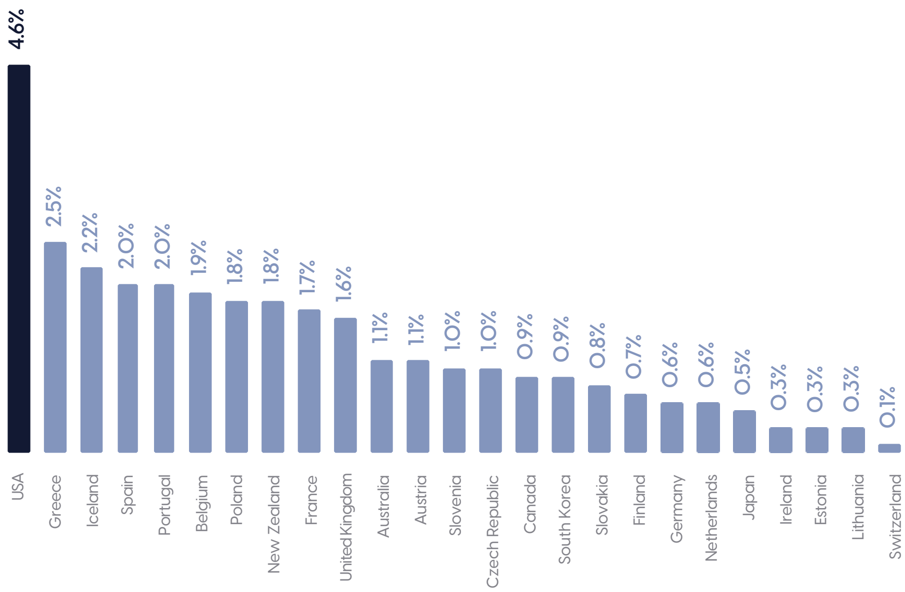
The Growing Burden of U.S. Debt

A Critical Moment for U.S. Fiscal Health

The U.S. debt surge under the Biden administration has brought the total federal debt from $28.13 trillion in January 2021 to $34.83 trillion as of October 2024, marking a 24% increase in less than four years. This increase equates to approximately $152 billion per month, $5 billion per day, and $3.52 million per minute. Such a rapid accumulation of debt amplifies the probability of fiscal adjustments or austerity measures in the future. The average probability of the U.S. missing a debt payment within the next three months has risen to 14.2% in September, reflecting an uptick in market concern over the country's fiscal health.

This growing debt burden has significant implications for future generations, as increasing interest costs strain the budget and shift funds away from critical areas. The situation underscores the importance for policymakers to reassess fiscal strategies, particularly as the U.S. approaches the 2025 debt ceiling deadline.

PUBLIC DEBT NET INTEREST PAYMENT TO GDP ▶



Source: OECD

US TREASURY TOTAL PUBLIC DEBT OUTSTANDING ▶

Source: Bloomberg

Bitcoin's Next Boom: Global Momentum Builds

Whale Accumulation Signals Market Confidence

After months of consolidation, Bitcoin whales, large holders with significant market influence, have been amassing BTC at a remarkable pace. Holdings surged from 335'000 BTC to 1.9 million BTC, marking a near six-fold increase in their total holdings. This large-scale accumulation signals growing confidence among major investors, hinting at the possibility of substantial price movements on the horizon. Such whale activity often precedes significant market shifts, as institutional and large-scale investors position themselves in anticipation of favorable market conditions.

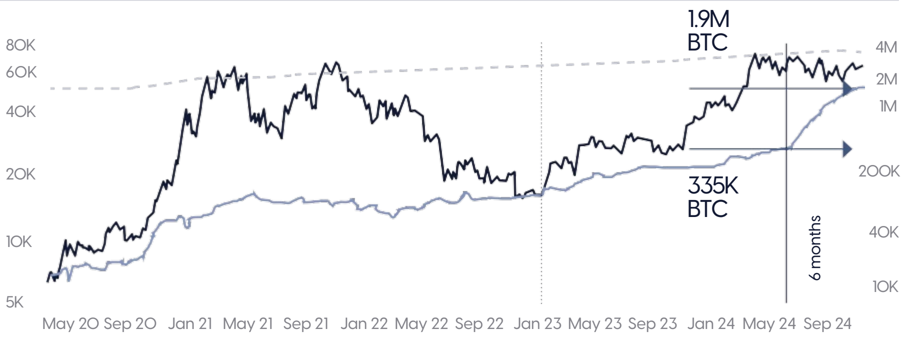
This recent accumulation wave underscores a bullish sentiment among large players, indicating that Bitcoin may experience increased demand and, potentially, new all-time highs. Given the reduced BTC supply on exchanges, this accumulation trend further tightens Bitcoin's liquidity, setting the stage for potential price appreciation.

BITCOIN WHALE ACCUMULATION ▶

Someone is considered a whale when it holds more than 1'000 Bitcoin

- Short-term Holder Whale
- Long-term Holder Whale
- BTC Price [USD]

Source: Cryptoquant



Bitcoin Supply on Exchanges Hits 5-Year Low

In a notable shift, Bitcoin's balance on major exchanges has hit a five-year low. This trend often reflects long-term investors moving their holdings to private wallets, signaling reduced intentions to sell. Both retail and institutional investors appear to be stacking BTC, with fewer coins available for immediate trading. Such reductions in exchange supply historically align with upward price pressure, as scarcity increases demand among new and existing investors alike.

This accumulation comes amid new regulatory developments and growing interest from financial institutions, potentially setting the stage for Bitcoin to reach broader acceptance as a staple asset in diversified portfolios.

BITCOIN EXCHANGE RESERVE – ALL EXCHANGES ▶

- Price USD
- Exchange Reserve

Source: Cryptoquant

Powering the Next Bull Run

Growing Institutional Interest and ETF Inflows

Recent developments have accelerated Bitcoin's path toward mainstream adoption. The U.S. Securities and Exchange Commission (SEC) recently approved options trading on spot Bitcoin ETFs, allowing investors to hedge, speculate, and manage exposure with added flexibility. This move represents a significant shift, as ETFs provide easier access to Bitcoin for retail and institutional investors. BlackRock's Bitcoin ETF ($IBIT) saw inflows of $1.38 billion within just three days, marking one of the most substantial ETF activity levels in months. The heightened ETF activity reflects strong market demand and signals greater acceptance of Bitcoin as a viable asset class.

Moreover, Bitcoin ETFs are now holding nearly 5% of the circulating Bitcoin supply (excluding lost coins), which is a substantial portion. The growing popularity of these ETFs highlights increasing adoption rates, reinforcing Bitcoin's scarcity and demand dynamics in a way that could further support its price in the near term.

10 OF THE TOP 25 ETFS ARE BITCOIN ETFS IN 2024 ▶

With spot Bitcoin ETFs holding nearly 5% of the total supply (excluding lost coins), Bitcoin's scarcity is becoming more critical as demand surges.

TICKER	FUND NAME	YTD FLOW
IBIT	iShares Bitcoin Trust ETF	21'535'961'737
FBTC	Fidelity Wise Origin Bitcoin Fund	9'843'457'480
ARKB	ARK 21Shares Bitcoin ETF	2'636'736'855
BITB	Bitwise Bitcoin ETF Trust	2'106'635'780
PUSH	PGIM Ultra Short Municipal Bond ETF	1'759'800'500
RSSL	Global X Russell 2000 ETF	1'316'300'353
ETHA	iShares Ethereum Trust ETF	1'146'162'923
EVLN	Eaton Vance Floating-Rate ETF	1'034'278'600
CCMG	CCM Global Equity ETF	823'301'619
AMJB	Alerian MLP Index ETN	668'409'950
HODL	VanEck Bitcoin ETF	648'362'479
MSTY	YieldMax MSTR Option Income Strategy ETF	629'910'450
BRRR	Coinshares Valkyrie Bitcoin Fund	535'473'585
BITU	ProShares Ultra Bitcoin ETF	497'240'004
QQQI	NEOS Nasdaq 100 High Income ETF	496'467'234
FETH	Fidelity Ethereum Fund ETF	453'665'273
QDTE	Roundhill Innovation-100 0DTE Covered Call Strategy ETF	447'530'316
FHEQ	Fidelity Hedged Equity ETF	438'876'591
FCTE	SMI 3Fourteen Full-Cycle Trend ETF	427'577'531
BTC	Grayscale Bitcoin Mini Trust (BTC)	421'794'900
EZBC	Franklin Bitcoin ETF	421'774'200
FLDB	Fidelity Low Duration Bond ETF	367'127'536
BTCO	Invesco Galaxy Bitcoin ETF	357'736'728
ETHW	Bitwise Ethereum ETF	325'782'180
YMAX	YieldMax Universe Fund of Option Income ETFs	321'928'513

Source: HAUTE

Powering the Next Bull Run

Global Adoption: Major Developments in Switzerland, UAE, and Bahrain

Bitcoin's reach is expanding globally as countries implement favorable policies to attract digital asset investments. In Switzerland, cantonal banks, backed by $300 billion in government funding, have started launching Bitcoin and crypto services. This adoption is bolstered by the European Union's tightening regulatory framework, which has motivated crypto firms to establish operations in Switzerland, where regulations are comparatively crypto-friendly. Switzerland's commitment to blockchain and crypto innovation is solidifying its position as a leading hub for digital assets in Europe.

The UAE has taken a similarly progressive stance, eliminating Value Added Tax (VAT) on cryptocurrency transfers. This regulatory shift positions the UAE as a global hub for blockchain and digital assets, reducing costs for businesses and encouraging further adoption of cryptocurrencies. Meanwhile, Bahrain's National Bank has launched the country's first-ever Bitcoin investment product, marking the Middle Eastern region's growing integration of digital assets into traditional finance.

Donald Trump's Entry into the Crypto Market

In a surprising move, former U.S. President Donald Trump announced a $300 million crypto token sale through World Liberty Financial (WLFI). This project, which offers governance tokens for decentralized finance (DeFi) activities, demonstrates the increasing intersection between cryptocurrency and political influence. Trump's foray into the crypto space has captured attention and raised questions about how digital assets could shape the upcoming elections. The WLFI token's rapid success, raising $220 million in its first hour, highlights strong demand and the potential for crypto to play a more prominent role in political financing.

Key Institutions Paving the Way for Bitcoin Holdings

Institutions are increasingly adding Bitcoin to their balance sheets, signaling broader acceptance of the asset within corporate finance. High-profile entities such as MicroStrategy (100'000 BTC), Tesla (48'000 BTC), and Block (8'000 BTC) demonstrate confidence in Bitcoin as a store of value. Notably, Emory University recently became the first U.S. university to report holding Bitcoin, further legitimizing Bitcoin within institutional portfolios. Microsoft has even put forth a proposal for shareholders to vote on potential Bitcoin investments, underscoring the growing institutional interest in digital assets.

This widespread adoption among corporations and educational institutions highlights Bitcoin's transformation from a niche investment to a mainstream asset. As more institutions incorporate BTC into their holdings, the currency's profile as a hedge and strategic reserve asset continues to solidify.

Haute Capital Partners.

CONTACT

E-mail: info@haute.capital
Phone: +41 32 321 35 35

Haute Capital Partners SA
Plänkestrasse 32
CH-2502 Biel/Bienne