Degussa

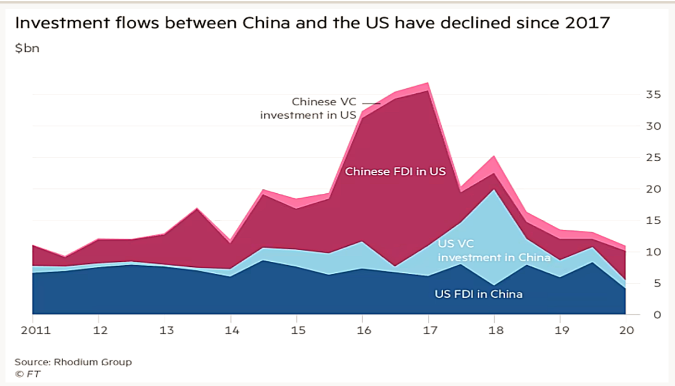
GOLD AND SILVER.

Market Report

December, 2022

The recent bump in US equities is not expected to last as the fundamental issues which created the equitiy bubble remain unresolved. The derivatives market is balancing precariously on dwindling liquidity while the credit crunch looms amidst lowered demand, as analysts warn of coming stagflation. Supply shortages have turned into glut due to consumer demand plummeting despite the holiday season. Meanwhile, global politics appear adrift as world leaders seem unsure of their footing amidst the occurring hegemonic shift.

Highlights



Bilateral US-China investment flows peaked in 2017 and have steadily decreased since 2018. The decline in cross-border activity is in part due to covid responses, but more so due to the growing tensions and consequent decoupling between the two nations. In 2020, relations were said to be worse than the aftermath of the Tiananmen Square massacre. Unfortunately, as the interconnection of the financial and economic sectors deteriorate, the risk of conflict increases. Source

The yield curve tracks and plots the expected yield of bonds across a variety of maturities. When the interest rates of long-term securities are less than short-term ones, it is referred to as a negative or inverted and is typically associated with recessions. Global bonds, for the first time in two decades, saw the average yield on 10-year bonds falling below that of 1 to 3-year securities. Continued monetary tightening will catalyze ongoing inverted yields, darkening the global economic outlook. Source

Precious Metals & Commodities

Commodities' outlook remains unchanged with not much excitement expected in the short and mid-term. Oil prices are still expected to rise regardless of attempted price caps on Russia oil. Percious metals maintain a positive outlook, with a strong trend in gold and silver.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	➡	➡	➡
Outlook	↗	↗	➡	↗	➡
Trend	↗	↗	↗	↗	↗

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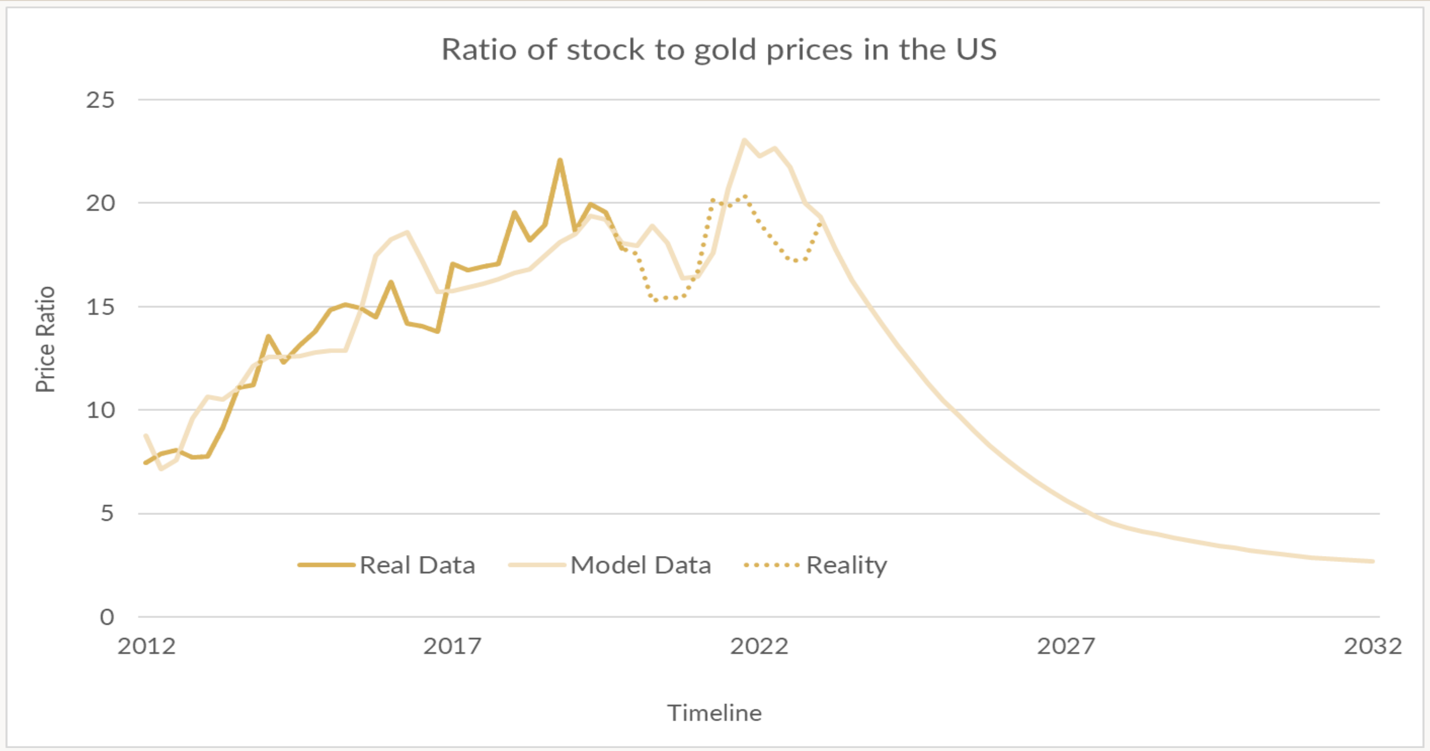
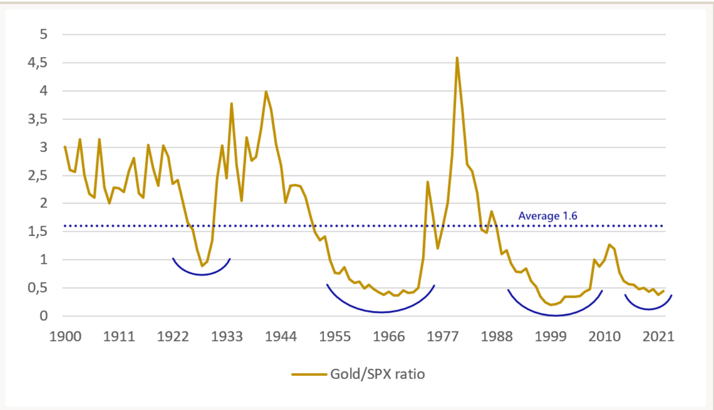
Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature



Exploring
the relative valuation and trend strength of gold compared to other asset classes in different environments provides an overview of the opportunity cost of investing in gold. Only 4 out of the last 90 years saw both stock and bonds have negative annual performance. So far, 2022 has been the fifth.

2021 saw a record run in stocks, which gold found hard to beat. The rapid 28% rise set new all-time highs in 70 of the 252 trading days, or nearly 30%. Yet half the S&P500 total return was attributed to only 5 stocks. Amidst this market euphoria period, gold had a negative opportunity cost compared to equities.

The chart demonstrates the relationship between gold and the S&P500 since the beginning of last century (current prices acting as proxy for 2022 levels), with a ratio that trends to a mean of 1.6. At the moment gold is still at an attractive discount compared to US equities, however, with the 2010 downtrend showing signs of having bottomed and the moving average appearing to have stabilized, gold could see a long-term rally. Going off of previous counter-trend rallies, it could potentially triple against the S&P 500 if it reaches its median level within the next decade.

Source