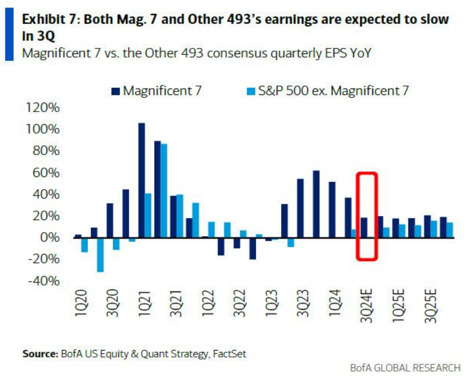
Degussa
GOLD AND SILVER.

Market Report

4 November 2024

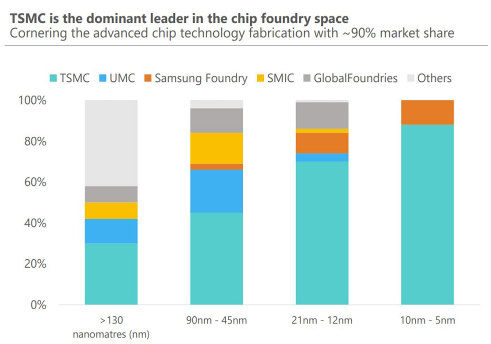
The US faces a pivotal moment amid shifting global power dynamics and declining dollar dominance, marked by increased protectionism and unexpected market responses to monetary policy. Germany is facing multiple challenges including political upheaval with resignations and controversial ban attempts while grappling with significant economic pressures. The recent BRICS summit and potential expansion highlights the group's growing influence while the development of alternative financial systems signals a shift toward a multipolar world order and potential decline of Western economic dominance.

Highlights



Source: Zerohedge

An alarming disparity exists in earnings growth within the S&P 500. While overall Q3 earnings are expected to grow by 4%, this growth is entirely driven by a 19% increase from just seven companies, sometimes referred to as the "Magnificent Seven". Meanwhile, the remaining 493 companies are projected to have flat earnings. This worrying trend extends beyond the stock market, with whole economy profits data showing that outside of the top 10% of companies, profits are stagnant, and excluding the top 50%, profits are declining sharply. This concentration of profit growth in a few large companies could potentially mask underlying economic vulnerabilities.



Source: Premia Partners

Taiwan is a powerhouse in semiconductor manufacturing, producing 60% of the global supply and contributing to 15% of its GDP. This dominance places Taiwan at the epicenter of the AI sector with Taiwan Semiconductor Manufacturing Corporation (TSMC) leading the charge. TSMC, which controls about 90% of advanced chip fabrication, recently reported stellar Q3 results, with earnings soaring 54% year-over-year and sales climbing 39%. Despite emerging competition, Taiwan's role in the global tech ecosystem remains unchallenged, making it a compelling prospect for investors eyeing exposure to this dynamic market sector.

Precious Metals & Commodities

All commodities are expected to remain flat in the short term but remain on an upward long-term trend. The global economy is weakening with increased tail risk; therefore, some sideways volatility in the short and mid-term is to be expected.

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

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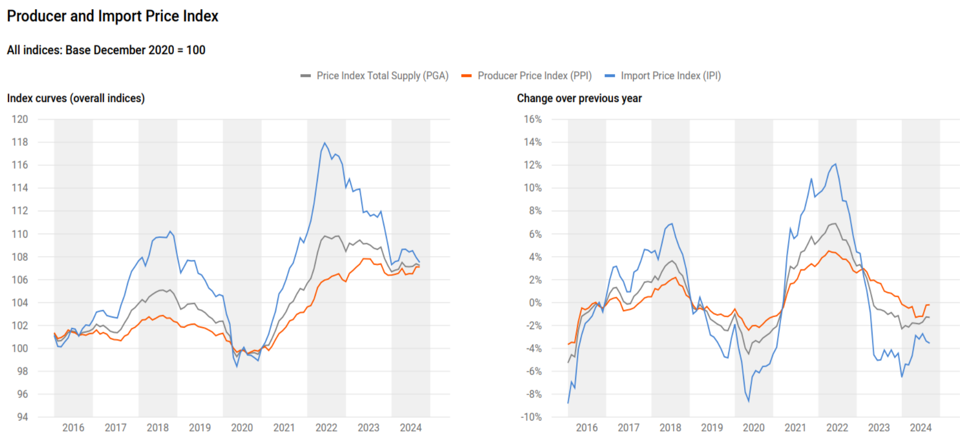
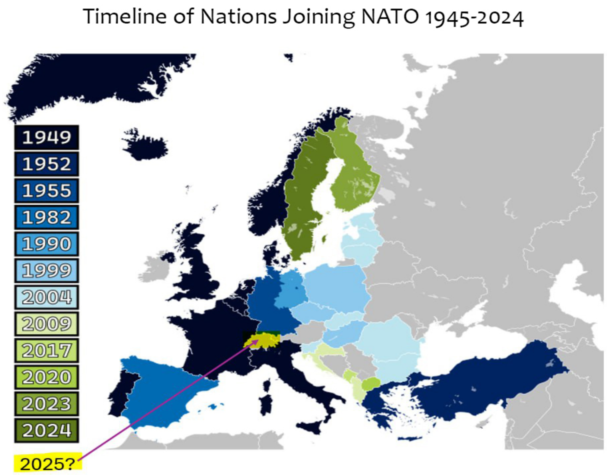
Spot on Switzerland

In September, Switzerland's Producer and Import Price Index fell by 0.1% month-on-month, primarily due to declining petroleum product prices as well as motor vehicles, iron, steel, and copper. Concurrently, the Consumer Price Index decreased by 0.3%, with year-on-year inflation at 0.8%. This decline was attributed to lower costs for package holidays abroad, accommodation, transportation, petrol, heating oil, and diesel. Meanwhile, UBS revised its economic outlook, projecting slower growth for 2025 with the GDP growth forecast going from 1.5% to 1.3%, citing weakness in the eurozone, Switzerland's primary trading partner. The convergence of easing inflationary pressures coupled with the prospect of slower economic growth are likely to prompt the Swiss National Bank to lower interest rates further to maintain Switzerland's competitiveness in the face of regional economic challenges.



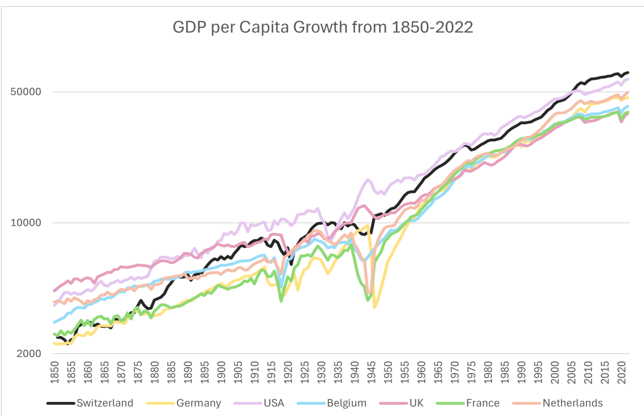
Source: BFS

Swiss Highlights



Source: Swiss Info

The Swiss government's decision to join the European Sky Shield Initiative has ignited debate over the country's neutrality. Right-wing parties warn of compromised sovereignty, while left-wing groups criticize the lack of public consultation. Despite government assurances of neutrality safeguards, concerns persist about closer NATO ties and the potential geopolitical ramifications. This move could reshape Switzerland's foreign policy and domestic political landscape, challenging its traditional role as a neutral state in a global power balance that is growing increasingly complex.



Source: Madison Project

In the 1850s Switzerland's economic growth was notably lower than the leading nations of the time. Its GDP per capita was closer to France's, which was just 50 years post the French Revolution, and Germany's, which had just begun consolidating to a national state and economic powerhouse. However, within 50 years Switzerland's economy had risen to third place. While it experienced some downturn during the world wars, it recovered relatively quickly and by 2022 had attained first place. Switzerland's "economic miracle" was mostly driven by neutrality, independence, and very limited regulations. However, around 2000 the growth curve began to flatten. It would appear the stronger inclusion of Switzerland in the global economic and political rule set, since at least 2000, may be the wrong medicine for Switzerland.

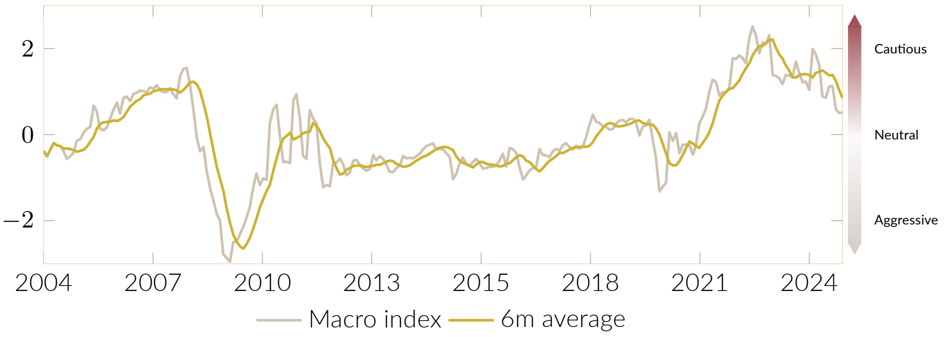
Switzerland

Switzerland's inflation rates have dropped to 12-month lows while unemployment rates remain elevated amidst a plunge in profit margins. Monetary uncertainty remains high, giving an overall risk signal from very cautious to aggressive.

Switzerland

RISK: NEUTRAL

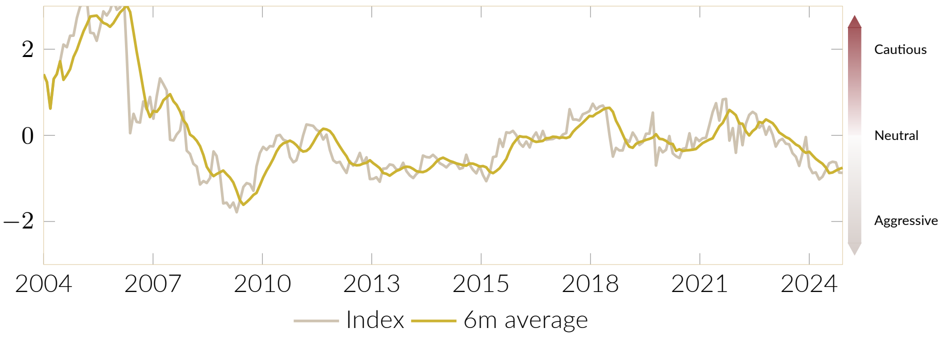
Business Cycle



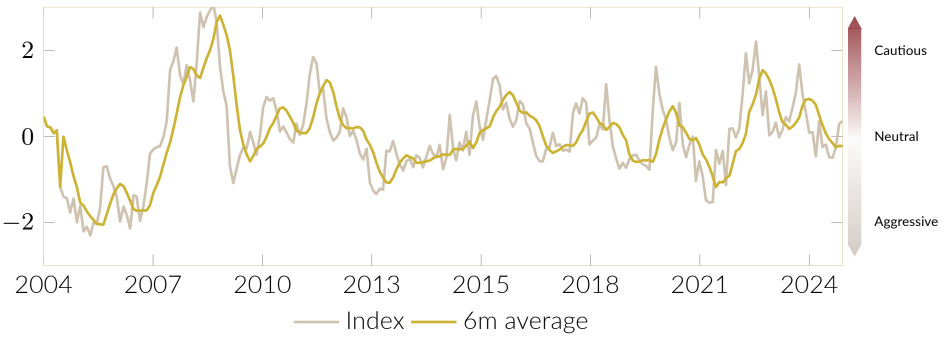
Key Macro Statistics

	Trend (12m)
CPI	
M1 YoY%	
Unemployment	
Profit margin	
Real 10y yield	
Dividend yield	
Volatility	

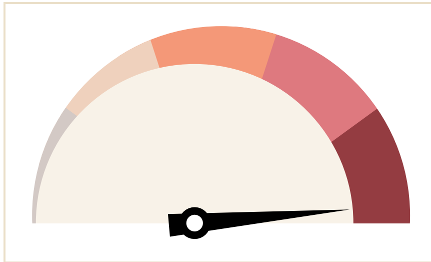
Investment Environment



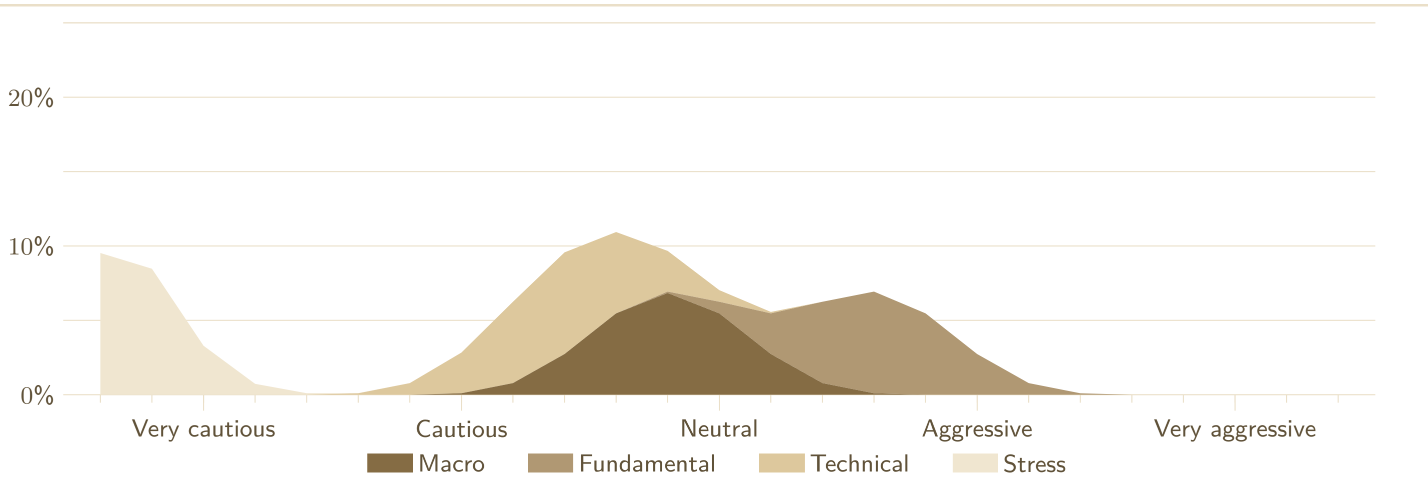
Market Behaviour



Monetary Stability



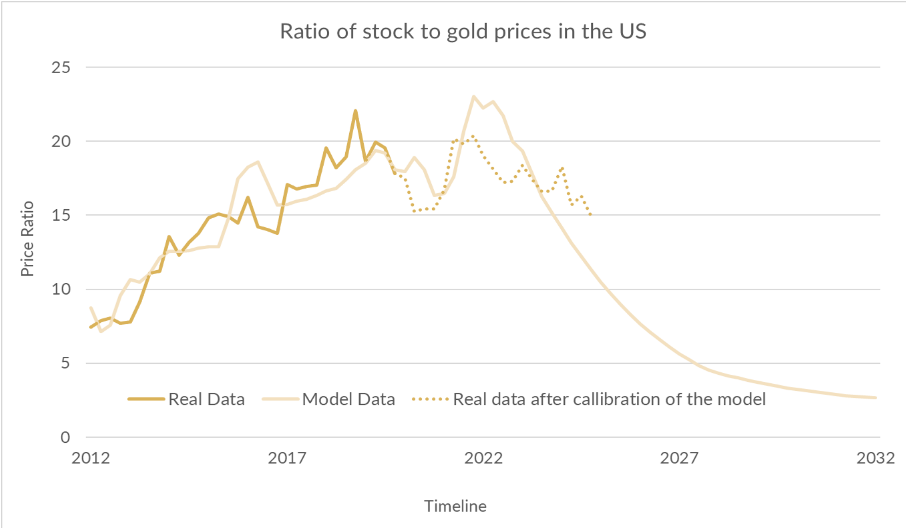
CH Market Risk Signal



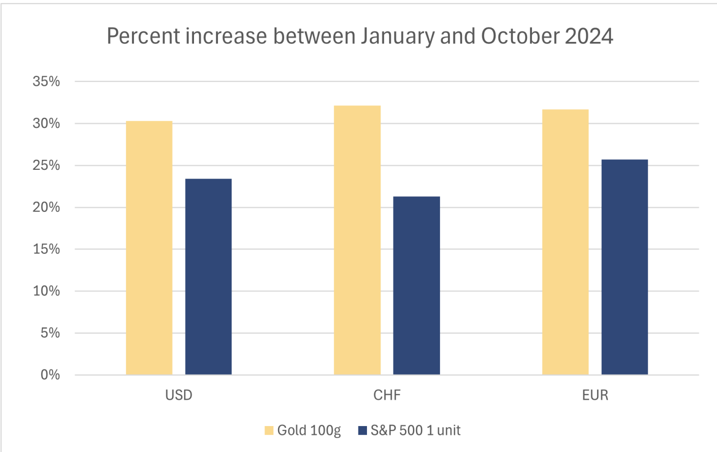
Prediction Model Gold or Stocks?

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. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

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



Gold is sometimes thought of as a slow-moving asset, lacking the excitement of volatile stock markets or the potential for explosive growth seen in tech startups. However, this perception doesn't always hold true. While it's true that during periods of economic stability and low inflation, gold can indeed move at a more leisurely pace, there are times when it can outshine even a decently performing stock market. The first 3 quarters of 2024 have proven to be one such period demonstrating gold's potential for significant returns.

A case study can be made by imagining an investor purchased 100 grams of gold, priced around 6,600 USD on January 2nd, 2024, and one unit of the S&P 500 Index, priced around 4,700 USD on the same date. Fast forward 9 months to October 16th, the 100 grams of gold is now worth 8,600 USD - a staggering 30% increase. Over the same period, the Index rose to 5,800 USD per unit, a respectable 23% increase but which, nevertheless, falls short of gold's performance. In Swiss francs, the gold price for 100 grams jumped from 5,600 CHF to 7,400 CHF, while climbing from 6,000 EUR to 7,900 EUR - both representing a 32% gain. The comparison with the S&P 500 becomes even more striking when we consider currency fluctuations. For investors in Switzerland pricing the S&P 500 at the CHF equivalent on each respective date, the gains from the Index would be diminished even further in comparison to gold. Investors working in euros would have actually seen better performance on the Index than those working in USD but would have still realized more gains by investing in gold.

This scenario illustrates that gold, far from being a boring asset, can offer exciting returns under the right conditions. The key is understanding that different assets shine in different economic environments, and gold does indeed have its moments of glory.