REYL
OVERSEAS

STRATEGY OUTLOOK

August 2024

Key takeaways-

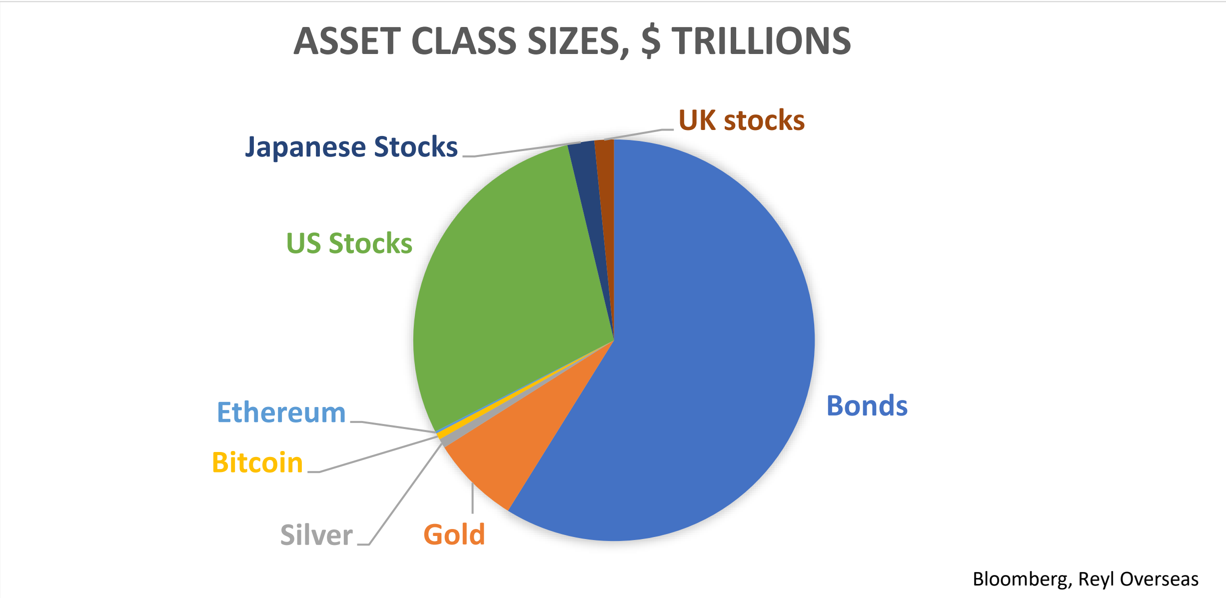
- Summer… and a slightly nervous feel to markets.
- The case for Gold remains strong.

Markets have a summer feel about them. Liquidity and volatility are falling as investors take time off, book some gains or get temporarily distracted by a multitude of sporting events here in Europe.

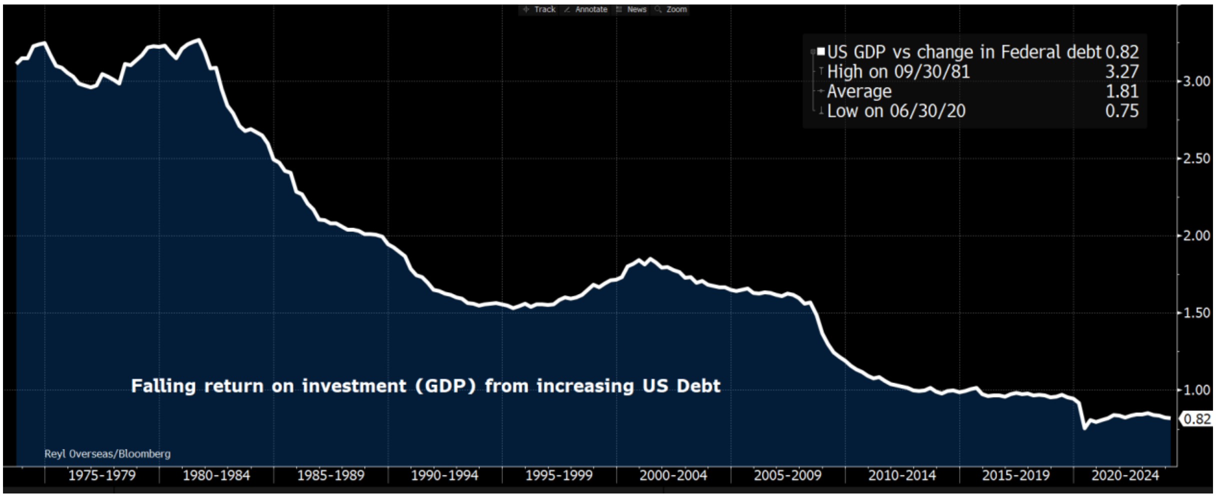
Politics continues to have a bigger impact on news flow than it should as most economic data remains monthly and Central bankers, retreat from office for the summer. We have zero edge, competitive insight or crystal ball on either politics or geopolitics. Our preference therefore remains on trying to analyse longer term themes and investing accordingly.

The plan upon starting to write this analysis going into August was to keep it brief. I have a sneaking suspicion I will fail but have tried to add a few more graphs to tell the story.

One of our key areas of focus is the level of debt and servicing of that debt. The highest rated debt in the world is used as collateral for derivatives. The derivatives market is colossal. Global authorities effectively have an elephant (the debt markets correlated to all asset classes) walking on a tightrope. That tightrope must be kept as stable as possible. The pie chart highlights the size of the bond market relative to other asset classes. What happens if flows move out of bonds?



US debt/GDP sits at 120%, the deficit at 7% and Federal spending at 23% of GDP is driving the 5.1% nominal growth rate. Consumer inflation is running at 3% (probably understated) and monetary inflation is perhaps above 5% (a guestimate). Foreigners are buying less, and less US Government debt and we haven't even had a recession (where Government spending increases to take up the slack from the private sector). The second graph highlights the falling return from increasing debt on US GDP. Unless we get a world of deflation then the demand/supply dynamics of other asset classes will look a lot more appealing. The third graph highlights this with the performance of gold relative to a long-dated Government bond ETF.



We continue to believe that, under another guise than QE, the purchase of US Treasuries will resume by authorities. We will also continue to see the effective forced buying of government bonds by banks, pension & insurance companies. This will ultimately be a positive for other asset classes.

In the US we need to chiefly keep a close eye on labour markets. There is slack and if this continues then recessionary risks will change. Certainly, for the US consumer there are areas of strong demand but also concerning struggles e.g., in foreclosures and credit card debt. On the corporate side the picture remains robust.

Bitcoin is an asset class we believe can perform. It was therefore interesting to hear that the German Government has been selling 50,000 seized BTC in July. Why you would sell an effective reserve asset into EUR which will only be depreciated by more ECB money printing is interesting and very much in line with past government strategy. The UK or specifically the then UK Chancellor Gordon Brown did the same in 1999-2002 by selling Gold at generational low prices. It's interesting to note that both Trump and RKJ are chasing the Bitcoin vote and attending a bitcoin conference this month. Harris chose not to.

The Emerging markets however continue to do the oppositive and buy reserve assets. Nigeria is looking to increase their gold reserves from 4% to 30% of external FX reserves. Nigeria is the biggest oil exporter in Africa and the world's 5th biggest oil exporter. Thailand, which has increased its gold reserve threefold since 2008 is applying for BRICS membership in October.

Western electorates continue to show their dislike/indifference/unavailability to elections with low turnouts. In the UK the political system of first past the post makes real change from the two-party state very very difficult. Yet another small reason to expect more social unrest with the lack of change. On the Trump assassination attempt Joe Rogan's point is excellent "The whole thing stinks of either incompetence or design". Trump has now picked his VP and markets have priced in USD weakness and reduced war mongering as a result of a Trump White House. However, we think you should be cautious to simply use Trump's first term as a template looking forward. Ultimately, however, it all depends on Congress.

However, why Robert Kennedy Junior (RKJ) was not welcomed back into the Democrat fold remains a bit perplexing. His recent live debate attracted three times as many live viewers as the CNN official debate (10+ million viewers), but Biden has been replaced by his VP, a decision many also find perplexing. Recent polls now show that 50% of Americans view themselves as independent. Listening to people, it seems that there is a lot of "double hate" i.e., both current candidates are frankly, loathed. What this means for markets is uncertainty going into November. The Democrats chose to push out Biden before their convention, and this may give some stability.

Portfolios remain fully invested with a preference for **assets that are more finite in supply.**

The path of inflation, earnings season, and the robustness of the economy will be the focus for markets over the summer. Liquidity remains key given the longer-term challenges/opportunities of sticky inflation, ageing populations, large public deficits, deglobalization, political polarization and massive technological and societal change. How these develop and affect markets remain significant unknowns.

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