

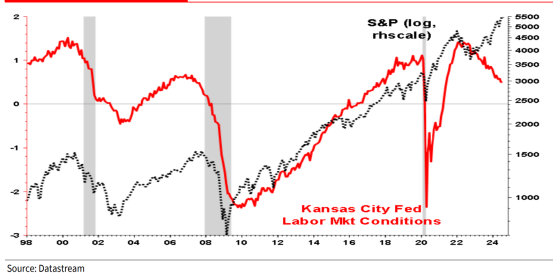
### Market Report

Sep 2024

The fragility of US equity markets was demonstrated in the panic sell-off earlier this month, in large part due to a rate hike by the Bank of Japan. Eurozone economic data shows mixed results with positive growth in France, Spain, Belgium and Italy, while Germany saw unexpected contraction. Western nations are feeling the competition from China's growing high-tech goods exports, resulting in tariffs of up to 100%, while a threat from Iran to close the Strait of Hormuz risks a rise in oil prices.

### Highlights

The disconnect between the equity market and labour market conditions is most unusual

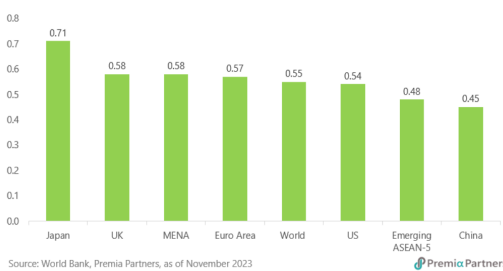


Source: Datastream

Source: Zerohedge

The recent turmoil in equity markets were likely caused by several key factors including growing recession perceptions in the US, unwinding of the yen carry trade, and internal dynamics of momentum-driven markets. A further likely contributor is the deteriorating US labor market conditions. Historically, the Kansas City Fed labor market index has closely tracked the stock market, however, divergence has occurred since late 2022. Some analysts are questioning how long optimism can keep stocks propped up and at what point will investors once again pay heed to underlying economic fundamentals.

Figure 3: Dependency Ratio



Source: World Bank, Premia Partners, as of November 2023

Premia Partners

Source: Premia Partners

The IMF forecasts strong collective nominal GDP growth of 56% between 2022-2028 for Emerging ASEAN-5 nations. Drivers for this outperformance include China+1 strategy, urbanization, gross capital formation, increased income per capita and middle-class consumption. Youthful demographics also play a major role as measured by the dependency ratio; the number of non-working dependents per 100 working age people. Emerging ASEAN had a dependency ratio of just 0.48 in 2022, well below major market averages and significantly lower than Japan's 0.71. This suggests there is ample workforce potential to power economic growth through increased production, spending, and tax revenues.

### Precious Metals & Commodities

Copper and agriculture are expected to remain flat in the short and mid-term, while oil is expected to rise mid and long-term. Precious metals are likely to remain on an upward trajectory.

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

## Spot on Spain

According to the latest quarterly data, employment increased by 434,700 over Q1 to a total of 21.6 million jobs while unemployment decreased by 222,600 to 2.7 million, a reduction of 52,900 compared to Q2 2023. All sectors experienced employment gains, led by services with 304,000 new jobs. Full-time positions increased by 433,500 while self-employment rose 58,300. The Economically Active population grew 212,100 to 24.4 million. Households with all members employed hit a new high of 11.7 million, up 220,800. Regional figures showed Andalusia lead in both job creation and reductions in unemployment. Nevertheless, Spain still has the highest unemployment rate in the eurozone, standing at 11.5%, according to Statista. Further job growth will likely depend on the tourism sector continuing to thrive amid challenges like bureaucracy, high housing prices inhibiting investment, and protests against overtourism.

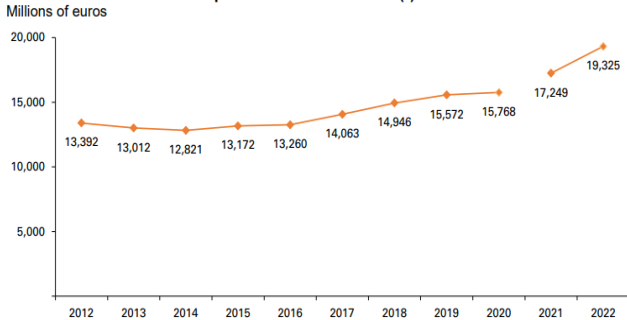
### Variation of employment in the second quarter compared with the same quarter in previous years



Source: INE

## Spain Highlights

### Evolution of internal R&D expenditure. National Total (\*)

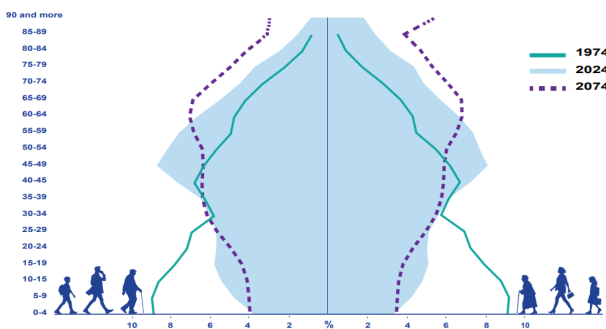


(\*) Break in the series due to the change in the concept of "company" in 2021.

Source: R&D, INE

In 2022, internal Research and Development (R&D) expenditure amounted to 19,325 million euros, representing 1.44% of GDP and a 12% increase over the previous year. Scientific R&D received the highest amount of total spending at 18.8%, while Information Technology, and Motor vehicles received 12% and 11%, respectively. Earlier this year, the Spanish government approved €18.4 billion in funding for its 2024-2027 State Plan for Scientific, Technical and Innovation Research, a 32% increase over the previous plan, demonstrating the largest investment in science in the country's history. Jobs within this field are increasing at a rate five times the average for the rest of the productive sectors, according to the Minister of Science.

### Population pyramids of Spain: yesterday, today and tomorrow



Source: CPS, INE

Spain's population increased by a little over 67,000 in Q2 2024. While lower than 2022's Q2 increase at just over 172,000, Spain's total population currently stands at nearly 49,000,000 inhabitants; the highest-ever recorded figure. The quarterly variation of the resident population of foreigners rose by 45,128 while the number of nationals fell by 21,680. Immigrants arriving over the second quarter were primarily Colombian with 36,900 arrivals, Moroccan with 25,100, and Venezuelan with 21,400.

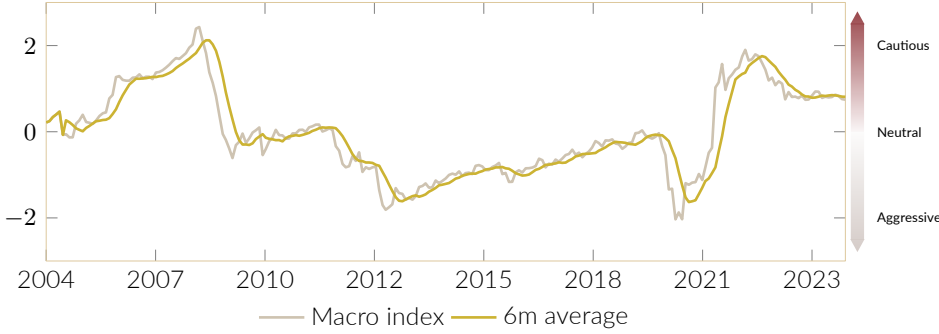
# Spain

Inflation has dropped and profit margins have risen amidst low unemployment rates. Monetary stability is at high risk and equity markets are signaling high volatility, making Spain's overall market risk cautiously neutral.

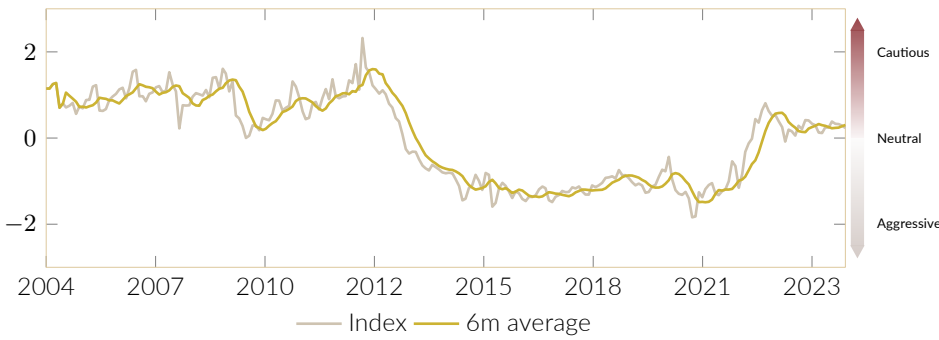


**RISK: NEUTRAL**

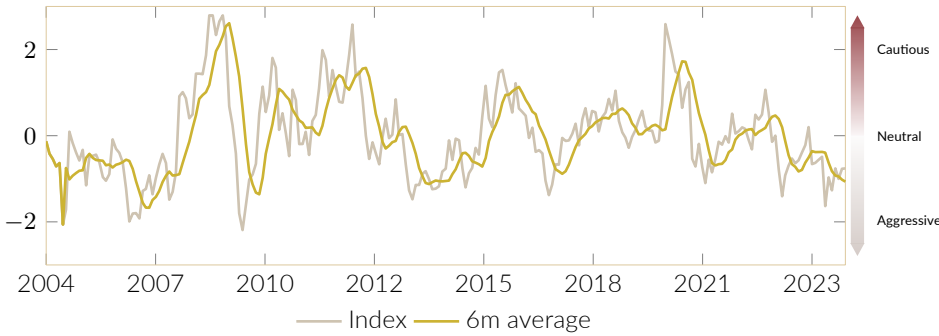
## Business Cycle



## Investment Environment



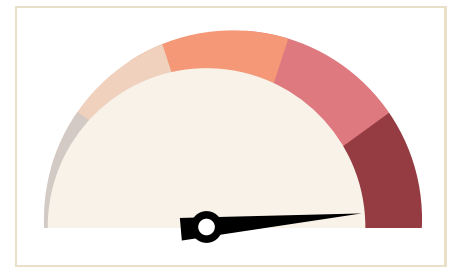
## Market Behaviour



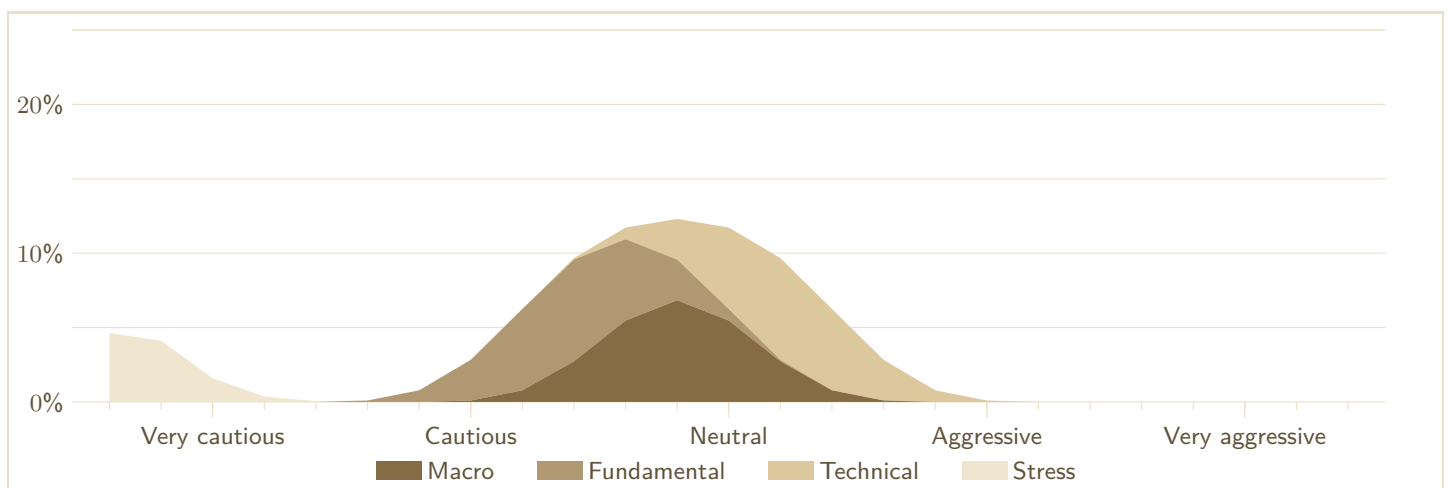
## Key Macro Statistics



## Monetary Stability



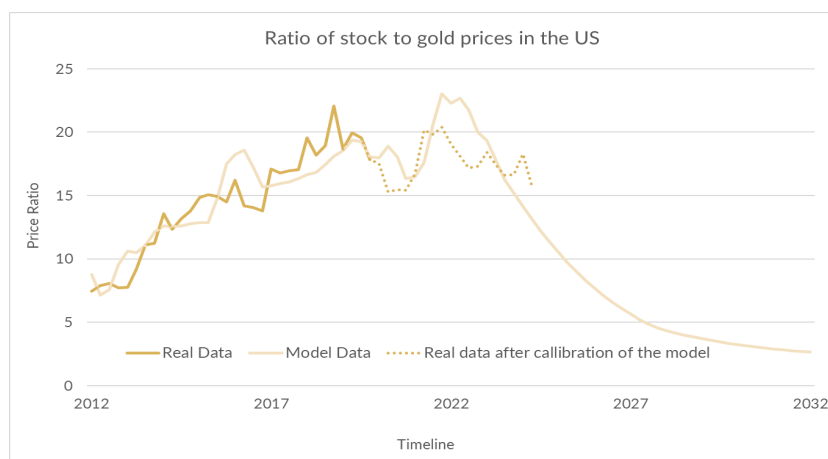
## Spain Market Risk Signal



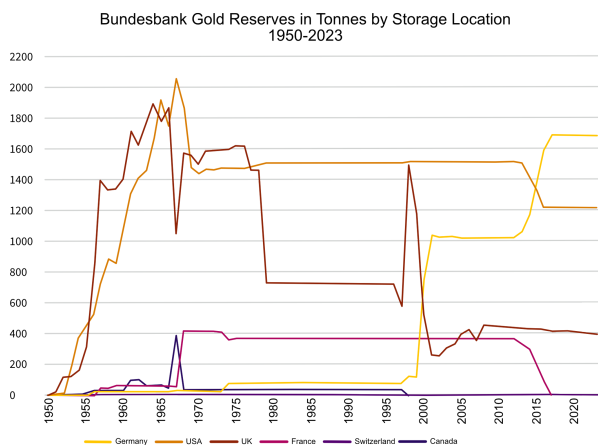
## Prediction Model Gold or Stocks?

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 plays an integral role in German traditions, ranging from historical economic crises to modern asset allocation. In the aftermath of WW1, the Reichsbank relentlessly printed money in response to rising prices; recklessly expanding credit. By 1923, Germany experienced hyperinflation, with prices doubling every few days. The currency deteriorated to where 4.2 billion Reichsmarks were needed to buy a single dollar. To restore confidence in its currency, Germany launched the Rentenmark which was supported by bonds pegged to the same value as 1 kilo of gold under the pre-war gold standard; sending a clear message that gold remains a beacon of stability during volatile times. In like manner, Austria, Poland, and Hungary likewise sought forms of tying their currencies to gold to resolve their own hyperinflation.

Immediately following WW2, Germany, not initially a member of the Bretton Woods System, did not hold gold reserves, however, beginning around 1952 Germany began to accumulate gold during its "economic miracle" period of strong exports and a current account surplus under the Bretton Woods gold standard. Gold flows within the European Payments Union contributed, as did transfers from other central banks, and by 1968 its reserves peaked at 129.69 million ounces. In 1999, Germany's contribution of foreign reserves, which included 7.46 million ounces of physical gold making up 15% of the reserves, was transferred to the European Central Bank.

Today, the Bundesbank holds the 2nd largest national reserves globally. Between 2013-2017, it repatriated 674 tonnes of gold from foreign reserves, demonstrating strategic, long-term commitment. Research in 2023 by the University of St. Gallen showed Germans own an average of 205 grams of gold per person. For perspective, Swiss and Americans own an average of 95 and 181 grams, respectively. Swiss private investors hold roughly 265 tonnes of gold, while German investors hold 9,089 tonnes. In Germany, more gold is in private hands than held by the German central bank, indicating the notion of gold as a secure store of personal wealth persists. Marking 100 years since hyperinflation's impacts, gold still signifies stability through challenges of the past and uncertainties of the future.