

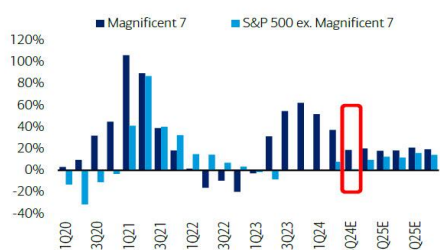
Market Report

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. 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

Exhibit 7: Both Mag. 7 and Other 493's earnings are expected to slow in 3Q
Magnificent 7 vs. the Other 493 consensus quarterly EPS YoY



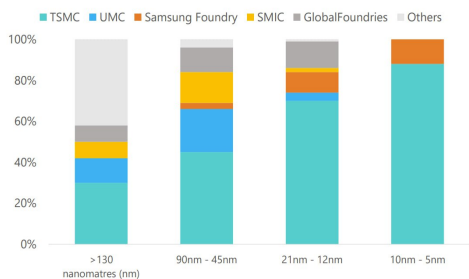
Source: BofA US Equity & Quant Strategy, FactSet

BofA GLOBAL RESEARCH

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.

TSMC is the dominant leader in the chip foundry space
Cornering the advanced chip technology fabrication with ~90% market share



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

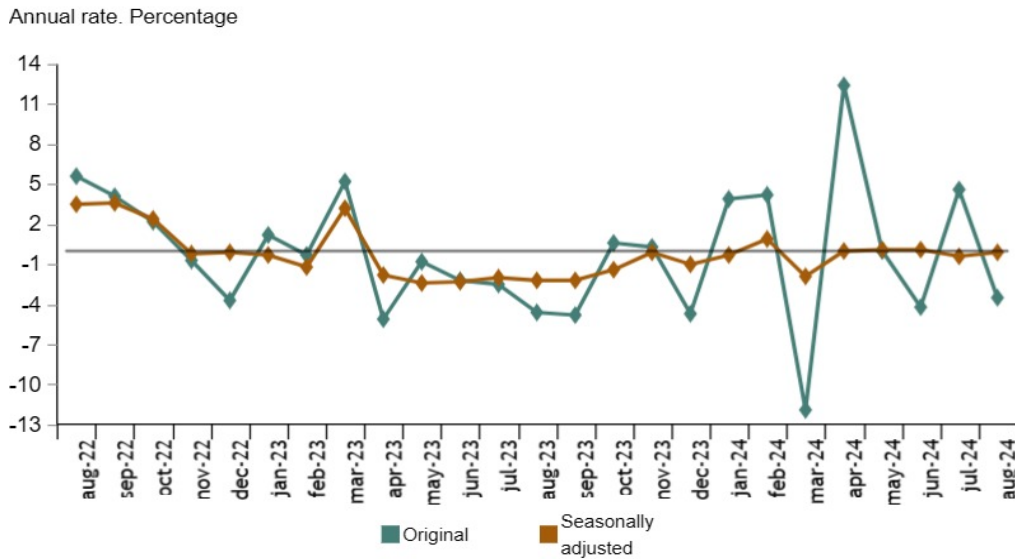
All commodities are expected to remain flat in the short term but remain on an upward long-term trend. The global economy is weakening with increased tail risk; therefore, some sideways volatility in the short and mid-term is to be expected.

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

Spot on Spain

The Industrial Production Index (IPI) showed mixed results for August 2024. The original series showed a -3.5% change, an 8.1 point drop from July's rate at 4.6. However, once adjusted seasonally, August came in at -0.1 while July printed a -0.4. Seasonally adjusted, durable consumer goods had the highest annual rate at 4.7%, with intermediate goods coming in second at 1.8%. Capital goods had the lowest at -2.8%, while energy came in at -1.2%. By autonomous communities, Castilla y León had the highest annual industrial production rate at 9%, followed closely by La Rioja at 8%. The communities with the lowest rates were Andalucía and Cataluña at -7.7 and -8.4, respectively. The national annual rate came in at -3.5

General Industrial Production Index

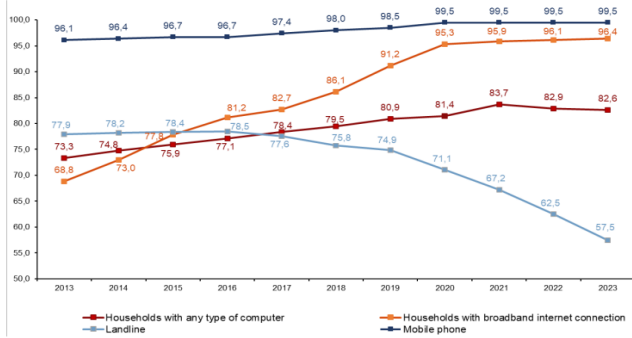


Source: GDP, INE

Spain Highlights

ICT Equipment in households. Year 2023

Percentage of households with a member aged 16 to 74

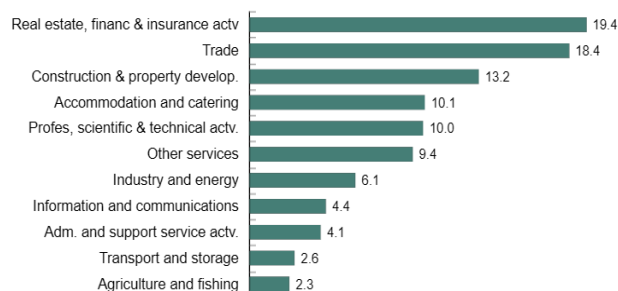


Source: INE

A 2023 survey on ICT usage in Spanish households highlights Spain's ongoing digital transformation across various demographics and regions. Internet access is widely available in 96.4% of homes while usage among ages 16-74 reached 95.4%, a 0.9-point increase from 2022. Online shopping saw a slight uptick, with 55.9% making purchases in the previous three months. Digital skills improved, with 66.2% possessing basic or advanced capabilities. Mobile phone ownership remains nearly universal at 99.5% of households, while landline usage continues to decline. Remote work remains steady, with 13.8% of employed individuals working from home, averaging 3.1 days per week.

Mercantile companies created by main economic activity. August 2024

Percentage



Source: Mercantile Companies Statistics, INE

August saw a 3.9% increase in new mercantile company incorporations compared to 2023, totaling 6,874. However, subscribed capital decreased significantly while capital increases among existing companies also declined. Company dissolutions rose slightly, with most occurring voluntarily. Real Estate, Finance, Insurance, and Trade sectors dominated new incorporations, while Trade and Construction led in dissolutions. Regional variations were notable, with Navarra, Cantabria, and Asturias showing the highest growth in new companies, while País Vasco, Canarias, and Andalucía experienced declines.

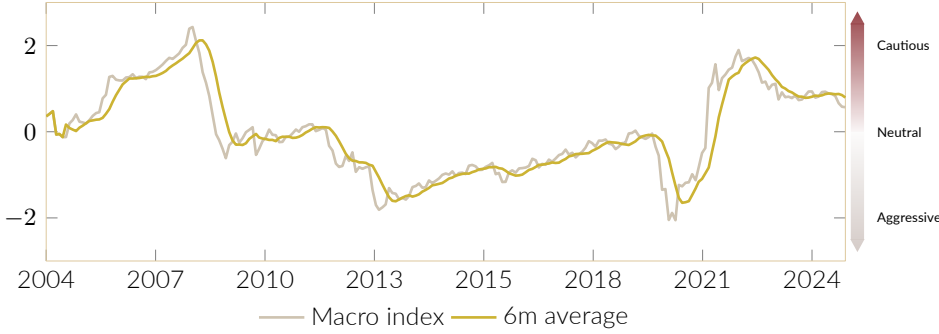
Spain

Inflation rates have lowered, and profit margins have risen amidst low unemployment rates. Equity markets are signaling high volatility, however, bond and dividend yields have had some positive movement. Monetary stability has lowered in risk, making Spain's overall market risk cautiously neutral.

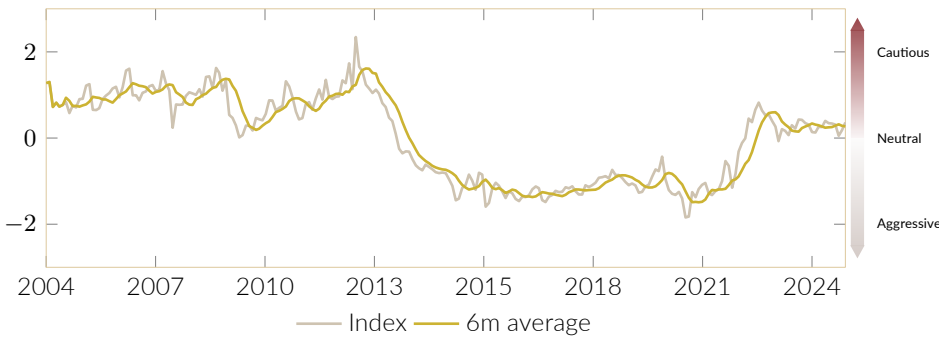


RISK: NEUTRAL

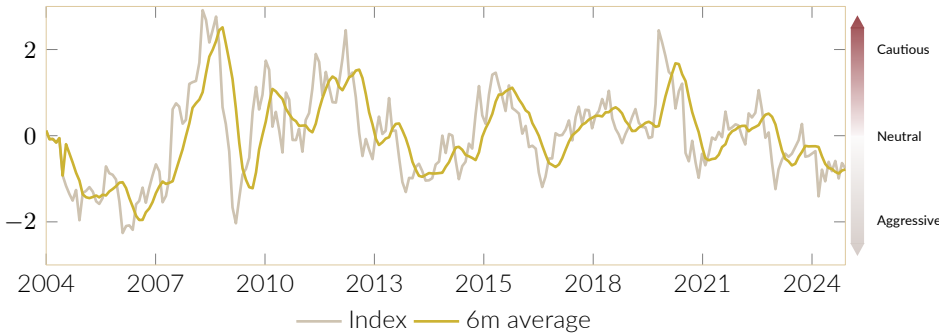
Business Cycle



Investment Environment



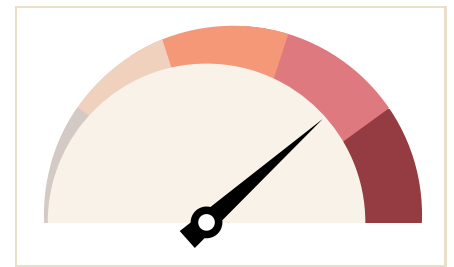
Market Behaviour



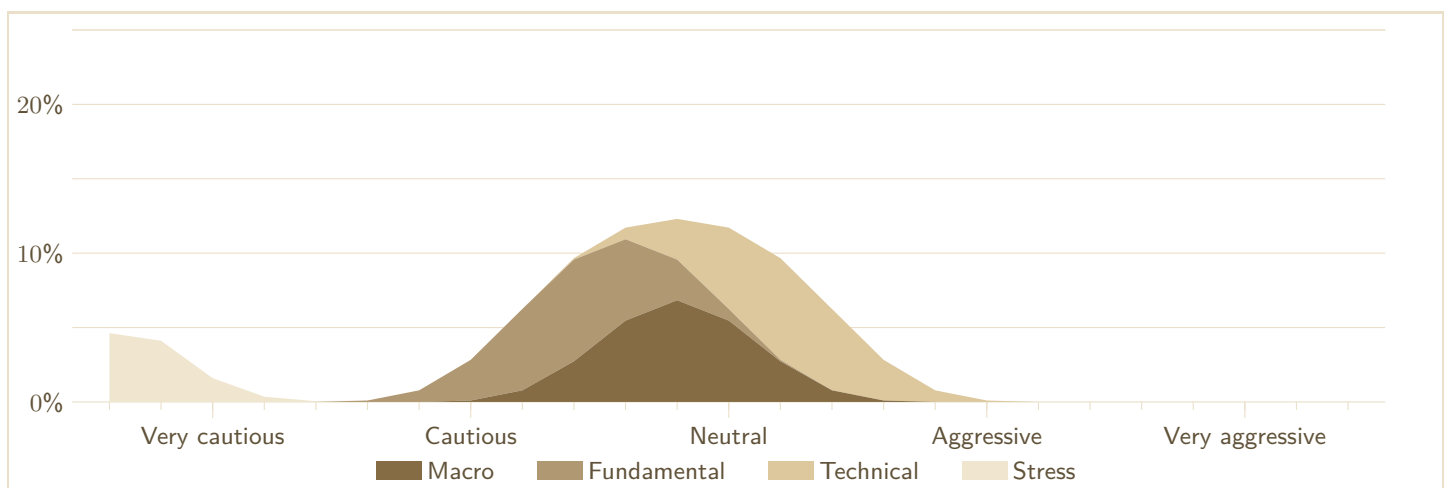
Key Macro Statistics



Monetary Stability



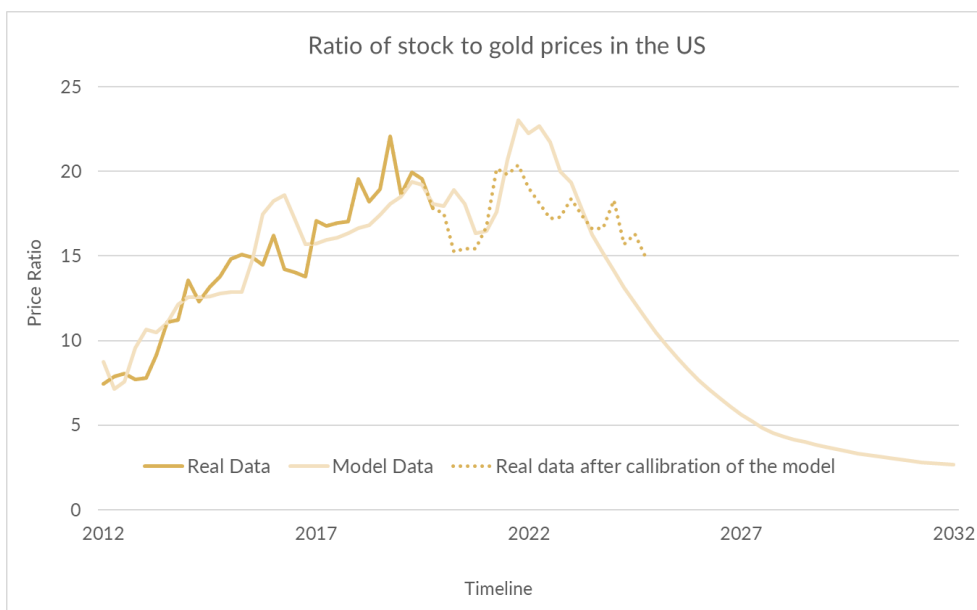
Spain Market Risk Signal



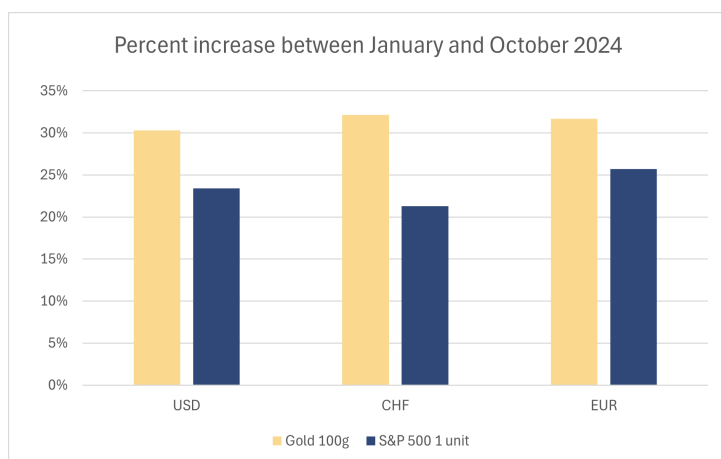
Prediction Model Gold or Stocks?

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 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.