Blackmont Capital
House View

August 2024

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Market Tumult: Insights Amidst Widespread Uncertainty

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Introduction:

As we progress through 2024, global financial markets are mired in turbulence, with sentiment overwhelmingly negative across asset classes. Equities are under pressure from mixed earnings reports and escalating geopolitical tensions, while bond markets struggle to find footing amid rising inflation and central banks' uncertain paths. In the currency markets, the US dollar remains a pillar of strength, exerting significant influence on global trade dynamics. Commodities markets, from oil to gold, are reacting sharply to geopolitical risks and economic instability, with price fluctuations reflecting deep-seated uncertainties. The once-booming crypto market is now cooling, with major digital assets facing significant downturns. In this edition of the Blackmont Markets Outlook, we dissect these unsettling trends, providing crucial insights to navigate these challenging times.

Equity Markets Outlook - August 2024

Global Stock Market Performance: Navigating Volatility Amid Economic Uncertainty

Global equity markets closed a volatile week on a mixed note, with most major indices experiencing sharp fluctuations driven by economic data and corporate earnings. In the United States, the S&P 500, Nasdaq, and Dow Jones ended the week with minor gains despite a backdrop of significant volatility. The S&P 500 recorded its fourth consecutive weekly decline, highlighting investor caution amid concerns over economic growth. In contrast, the Canadian TSX Composite Index managed to secure a slight weekly gain, buoyed by strength in financials and energy sectors.

European markets mirrored this cautious sentiment, with the Eurozone's Stoxx 50 and the broader Stoxx 600 both ending the week in positive territory, though gains were modest. The UK's FTSE 100, despite a positive close on Friday, ended the week slightly lower. In Asia, markets were mixed; Japan's Nikkei 225 and South Korea's KOSPI rebounded from mid-week losses, while China's Shanghai Composite struggled, closing the week near six-month lows.

Valuations Compared to Historical Averages

Current market valuations present a varied picture across regions. U.S. equities, represented by the S&P 500, have gained 12.04% year-to-date, suggesting elevated valuations compared to historical averages. However, forward-looking estimates suggest a potential pullback, with projections for the S&P 500 to decline over the next

12 months. Similarly, the TSX Composite Index in Canada, which has risen 6.46% year-to-date, shows signs of cooling, with forecasts indicating a downward trend in the coming year.

In Europe, the Stoxx 50 has climbed 3.39% since the start of the year, but like its North American counterparts, faces a challenging outlook with expected declines ahead. Meanwhile, Asian markets such as Japan's Nikkei 225 and Australia's ASX 200 show relatively moderate gains, with valuations suggesting that these markets are trading closer to their historical norms, though they too are expected to face headwinds.

Favored Countries and Sectors

In this environment of heightened uncertainty, selective exposure to specific regions and sectors appears prudent. **Japan** and **Australia** stand out as relatively more attractive markets, supported by resilient domestic demand and favorable monetary policy conditions. In terms of sectors, **technology** and **financials** continue to show strength across multiple regions, particularly in the U.S. and Japan, where companies in these sectors have posted strong earnings. Additionally, the **energy** sector, particularly in Canada and the UK, offers opportunities given rising commodity prices and a favorable supply-demand dynamic.

In summary, while global equity markets are currently navigating a period of volatility, opportunities exist in specific regions and sectors. Investors are advised to maintain a cautious stance, focusing on markets and sectors with strong fundamentals and relatively attractive valuations.

Fixed Income Markets Outlook

Interest Rate Forecasts and Bond Market Impacts

In recent weeks, fixed income markets have experienced notable fluctuations in sovereign bond yields, driven by varying economic data and central bank policies across major economies. The yield on the 10-year U.S. Treasury note eased to 3.95%, reflecting market optimism following stronger-than-expected labor market data. However, the yield is expected to decline to 3.72% by the end of the quarter as economic uncertainty persists. In Canada, a weakening labor market has led to a dip in the 10-year bond yield to 3.14%, with further declines anticipated as the Bank of Canada adopts a dovish stance.

European bond markets have also been volatile. German 10-year bund yields rose sharply to 2.22% amid concerns about the global economic outlook, though they are expected to decrease to 2.10% by the end of the quarter. In the UK, 10-year gilt yields edged lower to 3.94%, with further reductions likely as the Bank of England signals a potential rate cut. Meanwhile, Japan's 10-year government bond yield stabilized at 0.85%, with the Bank of Japan expected to maintain its cautious approach to rate hikes.

Corporate Bond Market and Credit Spreads

The corporate bond market has shown resilience amid these fluctuating yields, but credit spreads remain a key focus. In the U.S., corporate bond spreads have tightened slightly, as the robust labor market data has allayed recession fears. However, this trend may reverse if economic data softens or if inflationary pressures lead to further rate hikes by the Federal Reserve. In Europe, corporate bond spreads have widened, particularly in the UK and Germany, reflecting growing concerns about economic growth and the ability of companies to manage higher borrowing costs.

In emerging markets, the picture is mixed. While countries like Brazil and India have seen stable or narrowing credit spreads due to positive economic indicators, markets in Russia and Mexico are experiencing wider spreads due to political and economic uncertainties.

Portfolio Duration Management

In light of the current environment, we recommend a cautious approach to portfolio duration management. Given the expected decline in yields across major economies, particularly in the U.S., Canada, and the UK, extending duration could be beneficial to capture potential price gains as yields fall. However, investors should remain vigilant to central bank communications, particularly from the Federal Reserve and the European Central Bank, as any shifts in policy could trigger sudden yield increases.

In the corporate bond space, a focus on high-quality issuers with strong balance sheets is advisable, particularly in regions where credit spreads are widening. Shortening duration in lower-rated corporate bonds may help mitigate potential losses if spreads continue to widen. Overall, a balanced approach that combines moderate duration exposure with selective credit risk is recommended to navigate the current market uncertainties.

Currencies Market Outlook

Major Trends and Investment Implications

The currency markets have witnessed significant movements over the past month, driven by evolving economic data and central bank policies across the globe. These shifts have critical implications for global investments, particularly as investors navigate the interplay between interest rate expectations, economic growth, and geopolitical risks.

The U.S. dollar index (DXY) has held steady around 103.2, supported by stronger-than-expected U.S. jobless claims data, which eased recession fears. However, the dollar's trajectory remains uncertain as markets adjust their expectations for Federal Reserve rate cuts. The dollar is projected to strengthen to 104.90 over the next 12 months, reflecting persistent economic resilience. This strength could pressure emerging market currencies and commodities, impacting global trade dynamics and investment flows into riskier assets.

The Canadian dollar's recent retreat to 1.374 per USD reflects a weakening labor market and a dovish outlook from the Bank of Canada (BoC). With the BoC likely to ease further, the loonie could face continued depreciation, reaching 1.41 per USD in the coming year. This decline could make Canadian assets more attractive to foreign investors but may also increase import costs, putting pressure on the domestic economy.

In Europe, the euro has stabilized around $1.09, despite heightened expectations for European Central Bank (ECB) rate cuts. The euro's resilience is partially attributed to better-than-expected German factory orders, signaling a potential recovery in the manufacturing sector. However, with the euro likely to weaken to $1.07 over the next 12 months, European exports could become more competitive, potentially boosting the region's economic growth.

The British pound, meanwhile, has faced downward pressure despite briefly rising above $1.276. The Bank of England's recent rate cut and ongoing domestic challenges, including political instability, are weighing on the currency. The pound is expected to decline further to $1.25 over the next year, which could dampen investor confidence in UK assets.

The Japanese yen has depreciated past 147 per USD, reflecting a stronger dollar and continued dovish signals from the Bank of Japan (BoJ). As the yen is forecast to weaken further to 148.51 by next year, this could increase the appeal of Japanese exports but may also exacerbate inflationary pressures.

Other currencies, such as the Swiss franc and the Australian dollar, have also experienced fluctuations driven by global risk sentiment and domestic economic conditions. The Swiss franc has appreciated to around 0.85 per USD, benefiting from its safe-haven status amid U.S. economic uncertainty. In contrast, the Australian dollar has gained against the greenback due to a more hawkish Reserve Bank of Australia, though it is expected to weaken to 0.62 per USD in the next year.

Overall, currency markets remain volatile, with central bank policies and economic data likely to drive further fluctuations. Investors should remain cautious, particularly in emerging markets, where currency depreciation could increase the risk of capital outflows and economic instability. Diversification across currencies and regions will be key to managing risks and capturing opportunities in this uncertain environment.

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Commodities Market Outlook: August 2024

Overview of Key Commodity Markets

The commodities market has been marked by heightened volatility in recent weeks, driven by a mix of geopolitical tensions, fluctuating economic data, and changing weather conditions. This report examines the current trends across major commodity classes—oil, gold, industrial metals, and agricultural products—and their implications for investors.

Energy: Oil and Natural Gas Brent crude oil futures saw a notable uptick, closing at $79.6 per barrel, representing a 3.5% gain over the week. The rally was fueled by a combination of supply disruptions in Libya and rising geopolitical tensions in the Middle East, which increased the risk of further supply constraints. Additionally, the potential for Federal Reserve rate cuts has bolstered demand expectations, further supporting prices. Despite these gains, Brent crude is projected to stabilize around $80.38 per barrel over the next 12 months, as markets weigh the balance between supply risks and demand growth.

Natural gas futures also experienced a strong recovery, trading above $2.10 per MMBtu, driven by a return to warmer weather and positive storage data. However, with production in the Lower 48 states remaining robust, prices are expected to face downward pressure, with forecasts indicating a slight rise to $2.21 per MMBtu by next year.

Precious Metals: Gold Gold prices eased slightly to $2,420 per ounce after a sharp rally, reflecting investor uncertainty over the Federal Reserve's rate policy. Geopolitical risks, particularly in the Middle East and Eastern Europe, have maintained gold's safe-haven appeal. Although gold is expected to decline in the near term, it remains on an upward trajectory, with prices forecasted to reach $2,549.74 per ounce over the next 12 months. Investors should remain attentive to geopolitical developments and central bank actions, which will likely drive future movements in gold.

Industrial Metals: Mixed Signals Industrial metals, as tracked by the LME Index, have shown modest gains, rising 0.83% since the start of the year. This growth reflects cautious optimism around global manufacturing recovery, particularly in Europe and China. However, the LME Index is expected to see moderate gains, reaching 4,070.13 points over the next year, as economic uncertainties and potential slowdowns in industrial demand temper further upside.

Agricultural Commodities: Coffee and Cocoa Arabica coffee prices surged to over $2.4 per pound, influenced by frost risks in Brazil and downward revisions in crop estimates. The outlook remains bullish, with prices expected to rise to $257.87 per pound within a year, as supply concerns persist.

Cocoa futures, on the other hand, have hit a seven-week high, exceeding $8,900 per tonne. The market is grappling with tight supplies from West Africa, despite a more favorable long-term outlook. With concerns over crop diseases and reduced inventories, cocoa prices are anticipated to increase further, reaching $9,195.15 per tonne in 12 months.

In conclusion, while the commodities market remains volatile, opportunities persist across various sectors. Energy markets will be particularly sensitive to geopolitical developments, while precious metals and agricultural commodities will continue to be influenced by supply dynamics and central bank policies. Investors should adopt a diversified approach to navigate the uncertainties and capitalize on potential gains in these markets.

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House View Summary

Stocks

Stocks	Price	Q3/24	Q4/24	Q1/25	Q2/25
S&P 500 Index	5344	-3.7%	-4.9%	-6.1%	-7.2%
S&P/TSX Composite Index	22311	-1.6%	-2.7%	-3.9%	-5.0%
Euro Stoxx 50 Index	4675	-4.6%	-5.8%	-7.0%	-8.2%
FTSE 100 Index	8168	-3.0%	-4.0%	-4.9%	-5.9%
Swiss Market Index (SMI)	11866	-3.7%	-4.8%	-5.8%	-6.8%
S&P/ASX 200 Index	7778	-2.6%	-3.7%	-4.8%	-5.8%
S&P/NZX 50 Index	12243	-0.8%	-1.8%	-2.7%	-3.7%
KOSPI Index	2588	-5.2%	-6.8%	-8.5%	-10.0%
Nikkei 225 Index	35025	-9.6%	-11.3%	-13.0%	-14.7%
Shanghai Composite Index	2862	-1.4%	-2.8%	-4.1%	-5.5%
MOEX Russia Index	2846	-0.9%	-2.3%	-3.7%	-5.1%
Nifty 50 Index	79706	-3.0%	-4.3%	-5.5%	-6.8%
Bovespa Index	130615	-5.0%	-6.2%	-7.5%	-8.8%
IPC Mexico	53052	-3.2%	-4.8%	-6.4%	-7.9%
FTSE/JSE Top 40 Index	80739	-4.1%	-5.6%	-7.0%	-8.5%

Bonds

Bonds	Yield	Q3/24	Q4/24	Q1/25	Q2/25
10-Year Treasury Note	3.9	-5.7%	-6.9%	-8.0%	-9.1%
Canadian 10-Year Bond Yield	3.1	-5.8%	-7.2%	-8.6%	-9.9%
German 10-Year Bond Yield	2.2	-5.5%	-7.2%	-8.8%	-10.4%
UK 10-Year Gilt	3.9	-4.5%	-5.8%	-7.0%	-8.2%
Swiss 10-Year Bond Yield	0.4	-19.9%	-22.9%	-25.8%	-28.6%
Australian 10-Year Bond Yield	4.1	-4.7%	-5.8%	-6.9%	-8.0%
New Zealand 10-Year Bond Yield	4.3	-3.8%	-4.8%	-5.7%	-6.6%
South Korea 10-Year Bond Yield	3.0	-6.1%	-7.2%	-8.2%	-9.2%
Japan 10-Year Bond Yield	0.9	-11.2%	-13.7%	-16.1%	-18.4%
China 10-Year Bond Yield	2.2	-5.0%	-5.7%	-6.3%	-7.0%
Russia 10-Year Bond Yield	14.9	2.8%	2.0%	1.2%	0.4%
India 10-Year Bond Yield	6.9	1.1%	0.8%	0.5%	0.2%
Brazil 10-Year Bond Yield	11.6	1.0%	0.3%	-0.4%	-1.1%
Mexico 10-Year Bond Yield	9.7	1.9%	0.9%	-0.2%	-1.2%
South Africa 10-Year Bond Yield	9.4	0.9%	0.1%	-0.7%	-1.4%

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Cash

Currencies	Price	Q3/24	Q4/24	Q1/25	Q2/25
U.S. Dollar Index (DXY)	103.2	0.0%	0.6%	1.1%	1.7%
USD/CAD	1.4	1.5%	2.0%	2.5%	3.0%
EUR/USD	1.1	-0.2%	-0.9%	-1.5%	-2.1%
GBP/USD	1.3	-0.4%	-1.0%	-1.7%	-2.3%
USD/CHF	0.9	-0.9%	-0.2%	0.5%	1.2%
AUD/USD	0.7	-2.9%	-3.7%	-4.6%	-5.4%
NZD/USD	0.6	-2.2%	-3.0%	-3.9%	-4.7%
USD/KRW	1365.2	0.9%	1.7%	2.5%	3.3%
USD/JPY	146.6	-1.4%	-0.5%	0.4%	1.3%
USD/CNY	7.2	-0.2%	0.2%	0.5%	0.9%
USD/RUB	86.9	-0.4%	1.3%	3.1%	4.9%
USD/INR	84.0	0.1%	0.3%	0.5%	0.8%
USD/BRL	5.5	5.1%	6.3%	7.4%	8.6%
USD/MXN	18.8	6.0%	7.3%	8.6%	9.9%
USD/ZAR	18.3	2.3%	3.6%	4.9%	6.2%

Commodities

Commodities	Price	Q3/24	Q4/24	Q1/25	Q2/25
Gold Futures	2430.6	1.4%	2.5%	3.7%	4.9%
Brent Crude Oil Futures	79.7	-2.8%	-1.6%	-0.3%	0.9%
Natural Gas Futures	2.1	-6.6%	-3.4%	-0.2%	3.1%
Coffee Futures	232.9	1.6%	4.5%	7.6%	10.7%
Cocoa Futures	9087.7	-12.9%	-8.4%	-3.7%	1.2%
LME Index	3843.5	1.8%	3.1%	4.5%	5.9%
Goldman Sachs Commodity Index	542.1	-3.7%	-5.0%	-6.3%	-7.6%
S&P GSCI Agriculture Index	7362.9	-1.9%	-3.6%	-5.2%	-6.8%
Containerized Freight Index	3253.9	6.8%	11.5%	16.3%	21.3%

Crypto

Crypto	Price	Q3/24	Q4/24	Q1/25	Q2/25
Bitcoin/USD	61075	-16.6%	-19.9%	-23.0%	-26.1%
Ethereum/USD	2681	-16.1%	-19.8%	-23.4%	-26.8%
Binance Coin/USD	528	-21.4%	-25.0%	-28.5%	-31.8%
Cardano/USD	0	-17.4%	-22.3%	-26.9%	-31.2%
Solana/USD	156	-26.7%	-32.4%	-37.6%	-42.4%
Ripple/USD	1	-22.5%	-26.4%	-30.0%	-33.5%
Polkadot/USD	5	-20.7%	-25.5%	-30.1%	-34.3%
Litecoin/USD	62	-16.6%	-21.0%	-25.2%	-29.2%
Uniswap/USD	6	-24.1%	-30.4%	-36.1%	-41.5%
Dai/USD	1	-1.1%	-2.1%	-3.2%	-4.2%

Latam Markets

Latam Equity Markets Outlook: Mixed Performances and Valuations

As we progress through 2024, Latin American equity markets have displayed a wide range of performances, reflecting the diverse economic conditions across the region. From robust gains in Argentina to declines in Ecuador, the region presents both opportunities and challenges for investors.

Recent Performance Analysis

Argentina's Merval index has been the standout performer in the region, soaring by an impressive 70.37% year-to-date. This surge is fueled by investor optimism and speculative activity, although it also reflects the country's ongoing inflationary pressures and economic instability. Despite this remarkable gain, caution is advised as the Merval is expected to retreat over the next 12 months, potentially losing over 17% of its value.

In contrast, Brazil's Ibovespa has experienced a more subdued year, decreasing by 2.66% since January. Despite recent gains, including a 3.8% rise over the past week driven by strong corporate earnings from companies like Lojas Renner and Suzano, the outlook remains cautious. The index is projected to decline further by year-end and into 2025 as the market digests Brazil's persistent inflationary pressures and mixed economic signals.

Mexico’s IPC index has struggled as well, down 7.55% year-to-date. The market has been weighed down by concerns over slowing economic growth and political uncertainty. The index is expected to continue its downward trend, with forecasts suggesting a further decline over the next 12 months.

Valuations and Historical Comparisons

Current valuations across Latam equities are mixed when compared to historical averages. Argentina's Merval, despite its recent surge, is trading at inflated multiples that may not be sustainable given the underlying economic challenges. Brazilian equities, although down, still present relatively high valuations in certain sectors, particularly consumer goods, where recent earnings have exceeded expectations. Meanwhile, Mexican stocks are trading at lower multiples, potentially reflecting an undervalued market amidst the country’s economic and political headwinds.

Favored Countries and Sectors

Given the current landscape, our favored markets within Latin America include Brazil and Colombia. In Brazil, despite short-term volatility, the consumer sector shows resilience, particularly in retail, where companies have posted strong earnings.

Colombia, with its 9.64% gain year-to-date in the COLCAP index, presents a more stable environment with positive momentum likely to continue into 2025.

Conversely, we advise caution in markets like Argentina and Mexico, where political and economic uncertainties create significant downside risk. In these regions, defensive sectors such as utilities and consumer staples may offer some protection against potential volatility.

Overall, while Latam equity markets present a complex picture, selective opportunities remain for discerning investors willing to navigate the region's risks.

Latam Fixed Income Markets Outlook: Rate Uncertainty and Credit Spreads

As we advance through 2024, Latin American fixed income markets are poised to experience significant fluctuations, driven by a complex mix of global and domestic monetary policies. Investors need to navigate these waters carefully, balancing the opportunities and risks that come with changing interest rates and credit conditions.

Interest Rates and Their Impact on Latam Bonds

Interest rates across major Latam economies are showing signs of stabilization, yet the future remains uncertain. Brazil's 10-year government bond yield has settled at 12%, down slightly from a recent peak of 12.2% in late July. This movement aligns with expectations of global rate cuts, particularly from the U.S. Federal Reserve, which is anticipated to begin easing as early as September. Domestically, Brazil's Central Bank has maintained its Selic rate at 10.50%, signaling a cautious approach to monetary policy aimed at curbing inflation.

In Chile, the 10-year bond yield stands at 5.82%, with projections suggesting slight declines by year-end as inflation pressures ease. Meanwhile, Colombia and Mexico exhibit higher yields of 10.05% and 9.74% respectively, reflecting ongoing inflationary concerns and the central banks' commitments to maintaining restrictive policies. Venezuela, on the other hand, remains an outlier with its 10-year yield at 10.43%, underscored by significant economic and political instability.

The expected trajectory of interest rates will likely result in mixed performance for Latam sovereign and corporate bonds. Countries like Brazil and Mexico, with relatively high yields, may attract yield-seeking investors, while the risks associated with inflation and economic volatility will need to be carefully managed.

Credit Spreads and Corporate Bond Market Health

Credit spreads in the Latam region have remained relatively stable, though the health of the corporate bond market varies by country. Brazil's corporate bond market is buoyed by strong earnings in key sectors, such as retail and manufacturing, yet is tempered by inflationary pressures that could strain corporate margins. In contrast, Mexico's corporate bond market faces challenges due to political uncertainties and slower economic growth, which have widened credit spreads slightly.

Colombia's corporate bond market has shown resilience, with credit spreads narrowing slightly, reflecting investor confidence in its economic prospects. However, in Venezuela, the corporate bond market remains fraught with risk, characterized by extremely high yields that reflect the country's ongoing financial turmoil.

Portfolio Duration Management in a Fluctuating Rate Environment

In this environment of fluctuating rates, managing portfolio duration is critical. With the potential for rate cuts in the U.S. and a cautious approach from Latam central banks, maintaining a moderate duration strategy is advisable. For investors in Brazil and Mexico, where yields are higher, a slightly longer duration could be advantageous, capturing yield while managing the risk of rate volatility. Conversely, in markets like Chile and Colombia, where yields are expected to decline modestly, a shorter duration may help mitigate the impact of potential rate cuts on bond prices.

In conclusion, while Latam fixed income markets offer attractive yields, they come with significant risks that require careful duration management and a close watch on both global and domestic monetary policies. Investors should remain nimble, ready to adjust their strategies as the economic landscape evolves.

Latam Currencies: Navigating Volatility Amid Monetary Policy Shifts

Latin American currencies are currently navigating a turbulent landscape, driven by shifting monetary policies, inflation dynamics, and global economic trends. As we progress through 2024, currency movements in key Latam economies are set to impact investment strategies significantly, with both opportunities and risks emerging across the region.

Major Trends in Latam Currency Markets

The Mexican Peso has recently shown resilience, strengthening past 19 per USD after briefly touching its lowest level since December 2022 on August 6th. This recovery occurred despite an unexpected rate cut by the Bank of Mexico, which reduced the benchmark rate from 11.00% to 10.75%. The move was a response to a continued decline in core inflation, which reached 4.05% in July, marking 18 consecutive months of reduction. However, the decision also reflects Banxico's acknowledgment of persistent inflationary risks, as headline inflation climbed to 5.57% in July. Looking forward, the Peso is projected to weaken slightly, with expectations of it trading at 19.95 by the end of this quarter and further depreciating to 20.69 within the next 12 months.

The Brazilian Real has similarly rebounded, strengthening to 5.5 per USD after reaching a two-and-a-half-year low earlier this month. This recovery is partly driven by hawkish expectations from Brazil's central bank, which has maintained higher interest rates amid rising inflationary pressures. The Real's performance is also bolstered by global improvements in risk appetite, benefiting emerging market currencies. Despite this, the Real is expected to experience gradual depreciation, with projections indicating a decline to 5.79 by the end of the quarter and further to 5.98 over the next year.

In contrast, the Argentine Peso continues to face severe depreciation, with the USDARS trading near 936.74. Argentina's ongoing economic challenges, including hyperinflation and political instability, are expected to drive the Peso further down, with forecasts predicting a drop to 1,009.42 by the end of this quarter and a staggering 1,277.26 within 12 months.

The Colombian Peso has also experienced volatility, plunging below 4,000 per USD in June due to concerns over the country's widening fiscal deficit. Despite government efforts to address these issues, the currency remains under pressure, with expectations of further depreciation to 4,103.47 by the end of this quarter and 4,261.90 over the next year.

Meanwhile, the Chilean Peso, currently trading at around 932.33 per USD, has shown relative stability but is expected to depreciate gradually. Projections suggest it will weaken to 964.82 by the end of the quarter and 1,008.27 within the next 12 months.

Impact on Latam Investments

The volatility in Latam currencies presents both challenges and opportunities for investors. Currencies like the Mexican Peso and Brazilian Real, while currently strong, may face headwinds due to potential shifts in domestic and global monetary policies. Investors should consider hedging strategies to protect against potential currency depreciation, especially in countries like Argentina and Colombia, where fiscal instability poses significant risks.

Moreover, the anticipated rate cuts in the U.S. could influence capital flows into Latam markets, potentially supporting higher-yielding currencies in the short term but also adding to volatility as monetary conditions evolve.

In conclusion, while Latam currencies are navigating a complex environment, careful management of currency risk and close monitoring of macroeconomic indicators will be crucial for optimizing investment returns in the region.

Commodities Special: Shifting Tides of Metal Markets

In August 2024, the metals markets reflect a landscape of diverging trends driven by a mix of economic data, geopolitical tensions, and supply-demand imbalances. Here's a comprehensive analysis of key metal markets and the primary factors impacting their performance.

Gold: Steady Amidst Uncertainty

Gold prices have steadied around $2,430 per ounce, buoyed by its enduring status as a safe-haven asset. The metal's stability comes as investors await critical U.S. inflation data this week, which could provide insights into the Federal Reserve's upcoming monetary policy moves. While the expectation of a rate cut in September remains intact, recent positive U.S. job data has introduced some uncertainty about the extent of any reduction. Geopolitical tensions, including ongoing conflicts in the Middle East and Eastern Europe, continue to support gold's upside bias. Year-to-date, gold has surged by 18.34%, and is projected to trade at $2,464.46 per ounce by the end of this quarter, with a 12-month forecast of $2,549.74.

Silver: Recovering but Constrained

Silver has bounced back to trade above $27 per ounce after falling to a three-month low of $26.80 earlier in August. The rebound is largely attributed to the broader recovery in precious metals and the dovish stance of global central banks, including anticipated rate cuts by the Federal Reserve. Despite this, silver's industrial demand remains under pressure due to weak global manufacturing activity. Recent PMI data from both the U.S. and China has highlighted sluggish factory momentum, which could temper silver's gains. Silver has increased by 17.31% year-to-date and is expected to reach $28.94 per ounce by the end of the quarter, with a 12-month target of $31.05.

Copper: Downturn Amid Economic Concerns

Copper futures have dipped below $4 per pound, hitting a five-month low due to growing fears of economic slowdown in both the U.S. and China. Weak manufacturing data, including disappointing PMI figures, has dampened copper demand, while China's muted stimulus measures have further pressured prices. Additionally, the emergence of new projects by Chinese smelters aimed at complying with output mandates has eased previous supply concerns, contributing to the bearish outlook. Copper prices have risen by 3.89% since the beginning of 2024 but are forecasted to trade at $4.14 per pound by the end of this quarter, with a 12-month projection of $4.35.

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Steel Rebar: Facing Severe Downturn

Steel rebar futures have plunged to CNY 2,975 per tonne, near their lowest levels since 2016. This decline is driven by weak demand from China's construction sector, compounded by an oversupply as mills flood the market with stockpiles before the implementation of new quality standards. Additionally, China's real estate sector continues to struggle, with plummeting home prices and a low construction PMI exacerbating the situation. Accusations of steel dumping from major trading partners also threaten Chinese exports. Year-to-date, steel rebar prices have dropped by 23.63% and are expected to trade at CNY 2,999.87 per tonne by the end of this quarter, with a forecasted decline to CNY 2,882.53 in 12 months.

Iron Ore: Stabilizing but Weak Fundamentals Persist

Iron ore prices have stabilized above $101 per tonne, halting a recent decline as investors anticipate upcoming economic reports from China. While expectations of a U.S. interest rate cut could potentially boost global growth and metals demand, iron ore fundamentals remain weak. The construction sector, a major consumer of iron ore, shows little improvement, and increased shipments from Australia add to the bearish pressure. Iron ore prices have decreased by 25.75% year-to-date and are projected to trade at $102.13 per tonne by the end of this quarter, with a 12-month outlook of $96.71.

Lithium: Oversupply and Regulatory Pressures

Lithium carbonate prices have fallen to CNY 80,000 per tonne, the lowest in over three years, amid mounting concerns of oversupply. The surge in lithium production, driven by expansion efforts and new reserves, has led to a significant supply surplus. This is exacerbated by government subsidies leading to battery gluts and increased tariffs on Chinese electric vehicles in both the U.S. and EU. These factors have contributed to a 19.69% decline in lithium prices year-to-date. Lithium is expected to trade at CNY 78,196.20 per tonne by the end of this quarter, with a forecast of $74,412.00 in 12 months.

Platinum: Pressured by Weak Demand

Platinum prices have dropped below $920 per ounce, reflecting a pessimistic outlook for demand amid weak manufacturing data. The lack of targeted stimulus from China and poor PMI readings have dampened industrial demand. Despite supply concerns from key mines, the broader economic slowdown and reduced combustion engine sales have pressured prices. Platinum has decreased by 5.10% since the beginning of 2024 and is expected to trade at $953.19 per ounce by the end of this quarter, with a 12-month projection of $1,011.50.

Titanium: Modest Increase Amid Market Flux

Titanium prices have risen by 6.52% year-to-date, trading at 47.86 CNY per kg. This increase comes as the market adjusts to supply and demand dynamics following a historical peak in May 2022. Although the price has moderated from its highs, it remains relatively strong compared to other metals. Titanium is expected to trade at 45.97 CNY per kg in 12 months.

HRC Steel: Significant Decline

Hot-rolled coil (HRC) steel prices have seen a dramatic decline of 37.79% year-to-date, reflecting broader market weakness and oversupply issues. This drop is driven by reduced demand and high inventory levels. HRC steel is expected to trade at $662.07 per tonne by the end of this quarter, with a 12-month forecast of $608.41.

In summary, the metals markets are navigating a complex interplay of economic signals, geopolitical uncertainties, and market adjustments. Precious metals like gold and silver benefit from safe-haven demand and dovish monetary policies, while industrial metals face challenges from economic slowdowns and supply-demand imbalances. Investors should remain vigilant to shifts in economic indicators and policy developments that could impact metal markets in the coming months.