

Blackmont Capital House View

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Blackmont Markets Outlook: Navigating the Complex Terrain

Introduction

As we venture further into 2024, investors face a multifaceted financial landscape shaped by a confluence of economic data, geopolitical events, and market sentiment. This month's Blackmont Markets Outlook delves into the critical movements and trends across equities, bonds, commodities, currencies, and cryptocurrencies, providing a comprehensive view to inform strategic investment decisions.

Equities: Resilient Amid Volatility

Equities markets have demonstrated resilience despite ongoing volatility. Key indices have fluctuated in response to macroeconomic indicators and corporate earnings reports. The persistent inflationary pressures and central bank policies remain at the forefront of investors' minds. Notably, tech stocks continue to exhibit robust performance, driven by strong earnings and innovative advancements, while sectors like consumer goods and industrials show mixed results due to varied economic recoveries globally.

Bonds: Navigating Rate Expectations

In the bond market, yields have been influenced by shifting expectations of Federal Reserve policies. The anticipation of interest rate cuts as early as September has led to movements in Treasury yields. Investors are closely monitoring economic data, particularly inflation and employment figures, to gauge the Fed's future actions. Corporate bonds have seen a steady demand, supported by stable corporate earnings and relatively low default rates, although spreads have widened slightly amidst economic uncertainties.

Commodities: Balancing Supply and Demand Dynamics

Commodities markets are navigating a complex landscape of supply and demand dynamics. Gold prices, trading near \$2,420 per ounce, have been supported by expectations of Federal Reserve rate cuts despite a stronger dollar. Brent crude oil, settling at \$82.63 per barrel, reflects the impact of geopolitical tensions and economic data from major economies like China and the US. Natural gas futures have declined due to milder weather forecasts and operational setbacks at LNG export facilities, underscoring the market's sensitivity to immediate supply-demand factors.

Currencies: Dollar Strength and Global Impacts

The currency markets have been marked by the US dollar's strength, bolstered by robust economic data from the US, including strong manufacturing growth and labor market indicators. This has impacted other major currencies, leading to shifts in trade balances and capital flows. The euro and yen have experienced depreciation, influencing export dynamics and monetary policy considerations in their respective regions.

Cryptocurrencies: Volatility and Long-term Potential

Cryptocurrencies remain a significant area of interest for investors. Bitcoin, trading at \$66,604, and Ethereum, at \$3,489.90, have shown remarkable gains over the past year. However, forecasts suggest potential price corrections, highlighting the inherent volatility of these digital assets. The ongoing developments in blockchain technology and regulatory landscapes continue to shape the future trajectory of the crypto market.

Equity Markets

Global Equity Markets: Navigating a Turbulent Quarter

Recent Performance Analysis

The recent performance of global stock markets reflects heightened volatility and investor caution. In the United States, major indices faced losses with the S&P 500 and Nasdaq falling 0.7% and 0.8% respectively on the last trading session. This drop, driven by profit-taking after record highs, was exacerbated by a global IT outage linked to an update from CrowdStrike. Over the past week, the S&P 500 marked its worst week since April, declining 2.3%, while the Nasdaq ended a six-week winning streak with a 4.2% drop. In contrast, the Dow Jones managed a slight gain of 0.3% for the week.

Canadian equities also faced headwinds, with the S&P/TSX Composite Index down 0.2% on Friday, despite a modest weekly increase of 0.1%. Losses in materials and energy sectors due to falling commodity prices were somewhat mitigated by gains in other sectors.

In Europe, the Stoxx 50 and Stoxx 600 indices experienced their longest losing streaks since October 2023, driven by concerns over US trade barriers and a global tech outage. Both indices ended the week significantly lower, with notable declines in the tech and auto sectors.

Asian markets mirrored global trends with the Nikkei 225 and Topix indices in Japan shedding 2.74% and 1.17% for the week respectively, due to persistent inflation concerns and potential interest rate hikes. Similarly, the S&P/ASX 200 in Australia dropped 0.81% on Friday, reflecting broader market sell-offs and commodity price declines.

Current Valuations Compared to Historical Averages

Current valuations across major equity markets appear elevated compared to historical averages, reflecting the market's anticipation of continued economic recovery despite near-term challenges. For instance, the US500 index has surged by 15.41% since the start of 2024. However, projections suggest a cautious outlook with the index expected to trade lower at 5068.38 points in 12 months. Similarly, the TSX has risen by 8.26% year-to-date, but is forecasted to decline to 20285.42 points over the next year.

European markets, despite recent losses, show a similar pattern. The EU50 index has gained 6.73% since the start of the year, yet it is expected to drop to 4544.37 points in the coming year. The valuations indicate that markets are priced for perfection, with little room for error amid ongoing economic uncertainties.

Favored Countries and Sectors

Amidst the global market turbulence, certain countries and sectors present more favorable investment opportunities. Japan's equity market, despite recent declines, remains attractive given its 19.72% rise since the start of 2024, supported by strong corporate earnings and favorable economic policies. The technology sector, despite recent setbacks, continues to hold promise, particularly in semiconductor stocks which showed resilience in the Shanghai market.

In North America, sectors such as aerospace and defense in the UK and consumer goods in Canada have shown relative strength. Additionally, energy stocks in the US and Canada may offer opportunities as commodity prices stabilize.

Emerging markets like India, with its strong domestic economic data and anticipated Fed rate cuts, present a compelling case for continued investment, particularly in technology and consumer durables.

In conclusion, while global equity markets face near-term volatility and potential corrections, selective opportunities exist across various regions and sectors. Investors should maintain a balanced approach, considering both macroeconomic indicators and sector-specific trends.

Navigating the Interest Rate Landscape and Bond Market Dynamics

Forecast on Interest Rates and Their Impact

Interest rates continue to drive bond market dynamics globally, with notable movements observed in key sovereign bonds. The US 10-year Treasury yield rose to 4.24% on July 19, reflecting investor reassessment of monetary policy in light of robust economic data and cautious Federal Reserve commentary. This yield is projected to stabilize around 4.07% in 12 months, suggesting a moderate decline as inflationary pressures ease and economic growth stabilizes. The Bank of Canada faces a similar scenario, with the 10-year yield at 3.42%, expected to drop to 3.17% over the next year amid softening domestic economic data and potential rate cuts.

In Europe, Germany's 10-year Bund yield stands at 2.46%, influenced by expectations of an ECB rate cut in September. The yield is forecasted to decline to 2.29% in a year, reflecting cautious optimism about economic recovery and controlled inflation. The UK's 10-year Gilt yield, at 4.13%, mirrors US trends, with expectations of easing to 3.88% over the same period due to economic uncertainties and potential rate cuts.

The varying trajectories of sovereign yields highlight the impact of divergent monetary policies and economic conditions. Higher yields typically depress bond prices, negatively affecting portfolios with longer durations. Conversely, anticipated rate cuts and economic stabilization could spur bond market recovery, presenting opportunities for strategic positioning in sovereign bonds.

Analysis of Credit Spreads and Corporate Bond Market Health

Credit spreads have widened modestly, reflecting investor caution amid economic uncertainties and global market volatility. US corporate bonds face headwinds from rising Treasury yields, which increase borrowing costs and challenge corporate profitability. However, robust corporate earnings and liquidity provide a cushion, maintaining relatively stable credit spreads.

In Canada, the corporate bond market remains resilient despite soft retail sales and high borrowing costs. The dovish stance of the Bank of Canada supports corporate bonds, with credit spreads showing limited expansion. Similarly, European corporate bonds benefit from anticipated ECB rate cuts, which could narrow credit spreads as borrowing costs decrease.

The health of the corporate bond market hinges on economic recovery and monetary policy actions. Stable or declining interest rates could boost corporate bond prices, offering attractive returns relative to sovereign bonds. However, investors should remain vigilant about credit quality, particularly in sectors vulnerable to economic downturns.

Recommendations on Portfolio Duration Management

In the current fluctuating rate environment, managing portfolio duration is crucial to mitigate interest rate risk. With expectations of declining yields in the medium term, extending duration could be beneficial, particularly in high-quality sovereign and corporate bonds. This strategy allows investors to lock in higher yields before anticipated rate cuts drive them lower.

However, a balanced approach is essential. Maintaining a diversified portfolio with a mix of short and long-duration bonds can hedge against unexpected rate hikes and market volatility. Allocating to sectors and regions with stable or improving economic outlooks, such as Japan and emerging markets like India, can enhance returns and reduce risk.

Currency Markets Overview

Major Trends and Impact on Global Investments

Dollar Strength and Economic Resilience

The US dollar index (DXY) maintained levels above 104.2, bolstered by robust US economic data. The dollar's recent uptick, climbing 0.21% to 104.37, reflects strong manufacturing activity and sustained job growth despite an unexpected rise in jobless claims due to seasonal factors. San Francisco Fed President Mary Daly's comments on the need for more evidence of sustainable inflation towards the 2% target suggest continued monetary tightening, further supporting the dollar. This strengthens the greenback against other currencies, impacting global investment flows by increasing the relative attractiveness of US assets.

Eurozone Uncertainty

The euro dipped below \$1.090, easing from a four-month high as markets reassess the European Central Bank's (ECB) policy outlook. Despite the ECB holding rates steady, ECB President Christine Lagarde's indication of an uncertain future decision in September has fueled market speculation. This uncertainty, combined with expectations of resumed rate cuts to address growth concerns, pressures the euro, making Eurozone investments less appealing compared to US assets.

Pound and Rate Cut Speculations

The British pound fell below \$1.292, distancing from a recent one-year high. Weaker-than-expected retail sales and slowing wage growth increase the probability of a Bank of England (BoE) rate cut in August. The anticipation of rate cuts in both the UK and the US in the near term reflects a global shift towards more accommodative monetary policies, affecting currency valuations and investment strategies.

Yen Stability Amid Inflation Pressures

The Japanese yen steadied around 157.3 per dollar following inflation data that reinforced expectations of potential rate hikes by the Bank of Japan (BoJ). Market interventions and governmental remarks highlight Japan's efforts to stabilize the yen. These dynamics are critical for investors considering Japanese assets, as they navigate a mix of monetary tightening signals and market stabilization efforts.

Emerging Market Currencies Under Pressure

Emerging market currencies like the Indian rupee and Brazilian real face downward pressure amid a stronger US dollar. The rupee is nearing record lows, constrained by broad Asian currency weaknesses and limited RBI intervention options. The Brazilian real's slide past 5.54 per USD reflects concerns over fiscal discipline under President Lula's administration, adding to the risk premium for Brazilian investments.

Commodity-Linked Currencies and Economic Data

The Australian dollar and Canadian dollar both weakened against the US dollar due to mixed economic data and the robust greenback. Australia's tighter labor market raises concerns over potential rate hikes, while Canada's weakening retail sales and flat producer prices underscore consumer struggles. These factors influence commodity-linked currency valuations, affecting investment strategies in these resource-rich economies.

Global Investment Implications

The continued strength of the US dollar, driven by solid economic data and expectations of sustained monetary tightening, influences global investment flows by enhancing the appeal of US assets. Conversely, the euro and pound face downward pressure from policy uncertainties and economic challenges, potentially redirecting investment away from Europe and the UK. Emerging market currencies are particularly vulnerable to a strong dollar, increasing investment risks in these regions. Commodity-linked currencies like the AUD and CAD remain sensitive to both domestic economic conditions and global commodity prices, affecting their investment attractiveness.

Overall, the currency market trends highlight the interplay between economic data, monetary policy expectations, and global investment strategies, underscoring the importance of vigilant monitoring and adaptive investment approaches.

Commodities Market Outlook

Key Market Trends and Drivers

Gold: Shifting Sentiments Amid Dollar Strength

Gold prices have retreated to near \$2,420 per ounce, stepping back from record highs due to a rebounding dollar powered by strong US economic data. Despite this, gold remains on a positive trajectory with its fourth consecutive weekly gain, reflecting optimism about potential Federal Reserve rate cuts. Market expectations for a September rate reduction are high, with CME's FedWatch Tool indicating a 98% probability. Since the start of 2024, gold has surged by 16.12%, and forecasts suggest it will trade around \$2,353.09 per ounce by the end of this quarter and potentially reach \$2,430.84 in 12 months.

Oil: Geopolitical Uncertainty and Economic Pressures

Brent crude futures dropped 2.9% to \$82.63 per barrel, marking a second straight weekly decline. Market sentiment has been influenced by the potential ceasefire in Gaza and a stronger dollar, which diminishes the demand for dollar-priced oil. Concerns over China's economic slowdown, with Q2 growth at a weaker-than-expected 4.7%, further pressure prices. Despite these challenges, Brent crude has risen 7.22% since early 2024. Projections estimate Brent to trade at \$86.91 per barrel by the end of the quarter and \$92.32 in 12 months.

Natural Gas: Supply Constraints and Weather Impact

US natural gas futures experienced a significant drop of over 10%, falling below \$2.1/MMBtu. This decline is attributed to milder weather forecasts and reduced feedgas to LNG export plants, exacerbated by prolonged shutdowns at key facilities. The US Energy Information Administration (EIA) reported a smaller-than-expected increase in gas storage, maintaining total stockpiles 16.9% above the five-year average. Natural gas prices have decreased by 8.74% since the beginning of 2024, with future prices anticipated to recover to \$2.70/MMBtu by the end of this quarter and \$3.16/MMBtu within a year.

Industrial Metals: Market Dynamics and Economic Indicators

The London Metal Exchange (LME) Index has increased by 7.12% in 2024, reflecting resilience despite global economic uncertainties. The index is projected to trade at 4,220.52 points by the end of this quarter and reach 4,393.75 points in the next 12 months. This performance is driven by fluctuating supply-demand dynamics and broader economic indicators.

Agricultural Commodities: Weather and Economic Influences

Coffee: Arabica coffee prices have eased slightly below \$2.4 per pound following beneficial rainfall in Brazil, alleviating drought concerns. Despite the dip, coffee has risen 26.49% in 2024, with expectations to trade at 233.42 USd/Lbs by the quarter's end and 254.78 USd/Lbs in a year.

Cocoa: Cocoa futures declined toward \$8,300 per pound due to favorable weather in West Africa boosting crop expectations. However, prices remain up over 90% year-to-date, driven by supply concerns and political instability in Ivory Coast. Cocoa is expected to trade at 7,910.61 USD/MT by quarter's end and 9,141.60 USD/MT in 12 months.

Broader Commodity Indices: Diverse Movements

GSCI: Up 5.25% in 2024, projected to trade at 586.19 points by the quarter's end and 610.25 points in a year.

SSE Consumer Commodity Index: Down 15.90% in 2024, expected to trade at 7,175.21 points by quarter's end and 6,827.98 points in 12 months.

Containerized Freight Index: Surged 101.32% in 2024, forecasted to reach 3,875.15 points by the quarter's end and 4,400.72 points in a year.

Overall, the commodities market exhibits diverse trends influenced by geopolitical events, economic data, and weather conditions. These factors will continue to shape investment strategies and market dynamics in the coming months.

Cryptocurrency Market Trends: Volatility and Long-Term Potential

The cryptocurrency market continues to captivate global investors with its dynamic movements and potential for significant returns. In this section, we evaluate the major trends across key cryptocurrencies and their impact on global investments.

Bitcoin and Ethereum: Leading the Charge

Bitcoin (BTC) remains the flagship cryptocurrency, trading at \$66,648 on July 20th, marking a 4.12% increase since the previous session. Over the past four weeks, Bitcoin has gained 2.69%, and over the last 12 months, its price surged by 124.03%. Despite this impressive performance, forecasts suggest a potential correction, with Bitcoin expected to trade at \$58,987 by the end of this quarter and \$48,727 in one year. This anticipated volatility reflects broader market uncertainties and the impact of regulatory developments.

Ethereum (ETH), the second-largest cryptocurrency by market capitalization, traded at \$3,487.50, up by 1.60% from the previous session. Over the last four weeks, Ethereum gained 0.76%, and its price has risen by 84.69% over the past year. Looking ahead, Ethereum is expected to reach \$3,236.16 by the end of this quarter and \$2,608.13 in one year. Ethereum's performance is closely linked to developments in decentralized finance (DeFi) and the growing adoption of smart contracts.

Altcoins: Diverse Performances and Potential

Binance Coin (BNB), trading at \$591.5, increased by 3.63% since the previous session and gained 0.94% over the past four weeks. With a remarkable 146.66% increase over the last 12 months, BNB's growth reflects the expanding ecosystem of the Binance platform. However, projections indicate a potential decline, with BNB expected to trade at \$542.4 by the end of this quarter and \$431.8 in one year.

Cardano (ADA) and Solana (SOL) have shown significant growth, with ADA trading at \$0.44012 and SOL at \$168.77. Cardano gained 16.99% over the past four weeks and 40.33% over the last 12 months, while Solana saw a staggering 26.28% increase in four weeks and 564.45% over the year. Despite their impressive gains, both cryptocurrencies are expected to face corrections, with ADA forecasted to trade at \$0.36094 by the end of this quarter and \$0.26481 in one year, and SOL projected at \$129.2822 by the end of this quarter and \$86.9309 in one year.

Other Noteworthy Cryptocurrencies

Ripple (XRP), trading at \$0.59205, increased by 3.79% from the previous session but has declined by 23.83% over the past year. It is expected to trade at \$0.42786 by the end of this quarter and \$0.30245 in one year. Polkadot (DOT), Litecoin (LTC), Uniswap (UNI), and Dai (DAI) have shown varied performances, with some gaining and others losing value over the past year. These altcoins highlight the diverse and often unpredictable nature of the cryptocurrency market.

Polkadot (DOT) traded at \$6.33, increasing by 3.71% since the previous session, with a 12.04% gain over the last four weeks and 18.23% over the past year. DOT is projected to trade at \$5.76 by the end of this quarter and \$4.25 in one year.

Litecoin (LTC) traded at \$73.130, up by 2.04% from the previous session, with a 2.28% gain over the last four weeks but a 20.38% decline over the past year. LTC is expected to trade at \$68.589 by the end of this quarter and \$52.439 in one year.

Uniswap (UNI) traded at \$7.94, slightly decreasing by 0.36% from the previous session. Over the last four weeks, UNI lost 18.94% but gained 27.47% over the past year. UNI is forecasted to trade at \$8.09 by the end of this quarter and \$5.26 in one year.

Dai (DAI), a stablecoin, traded at \$0.99969, down by 0.01% from the previous session. Over the last four weeks, DAI lost 0.01% and fell by 0.03% over the past year. DAI is expected to trade at \$0.97696 by the end of this quarter and \$0.92544 in one year.

Impact on Global Investments

The cryptocurrency market's volatility offers both opportunities and risks for global investors. The significant price fluctuations underscore the importance of a diversified investment strategy. As cryptocurrencies continue to gain mainstream acceptance, their influence on global investment portfolios will likely increase. However, investors should remain vigilant of regulatory changes and market dynamics that could impact the long-term viability and performance of these digital assets.

In conclusion, while the cryptocurrency market presents considerable potential for growth, it also demands careful analysis and strategic planning to navigate its inherent volatility. By staying informed of market trends and forecasts, investors can better position themselves to capitalize on the opportunities within this evolving asset class.