SIX PATHS MANAGEMENT

Global Macro Report

Economic Outlook & Opportunities 22/23/24

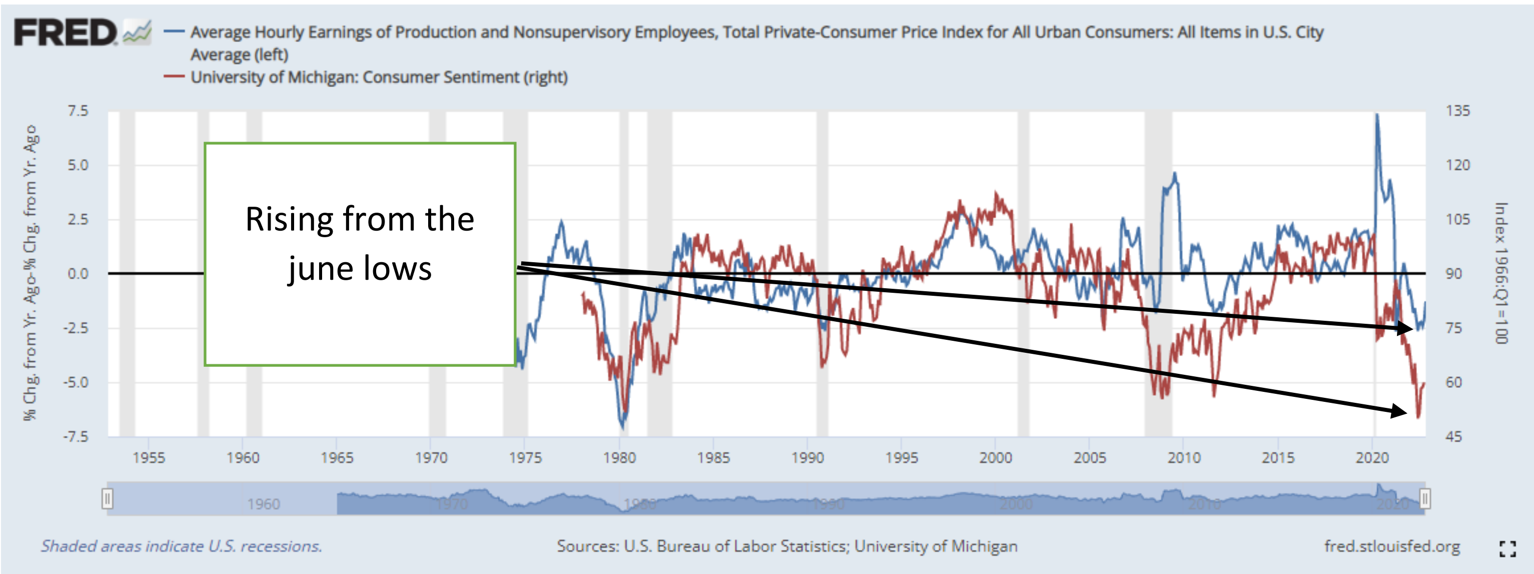
December 2022

Table of content:

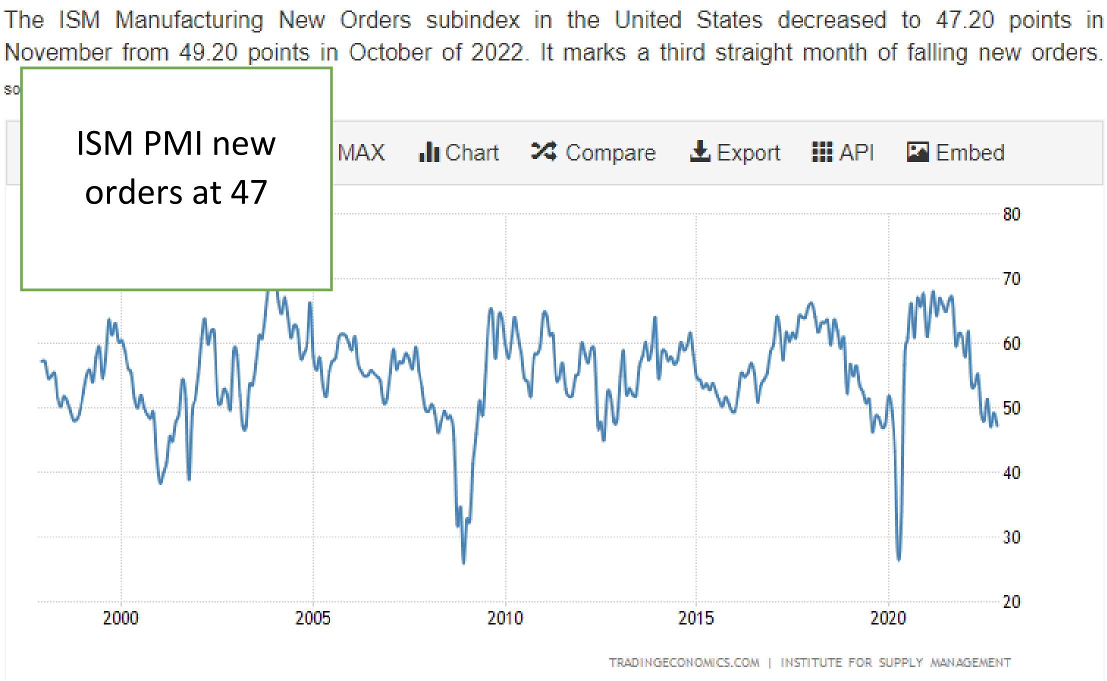
Economic Outlook

1. Short term growth cycle

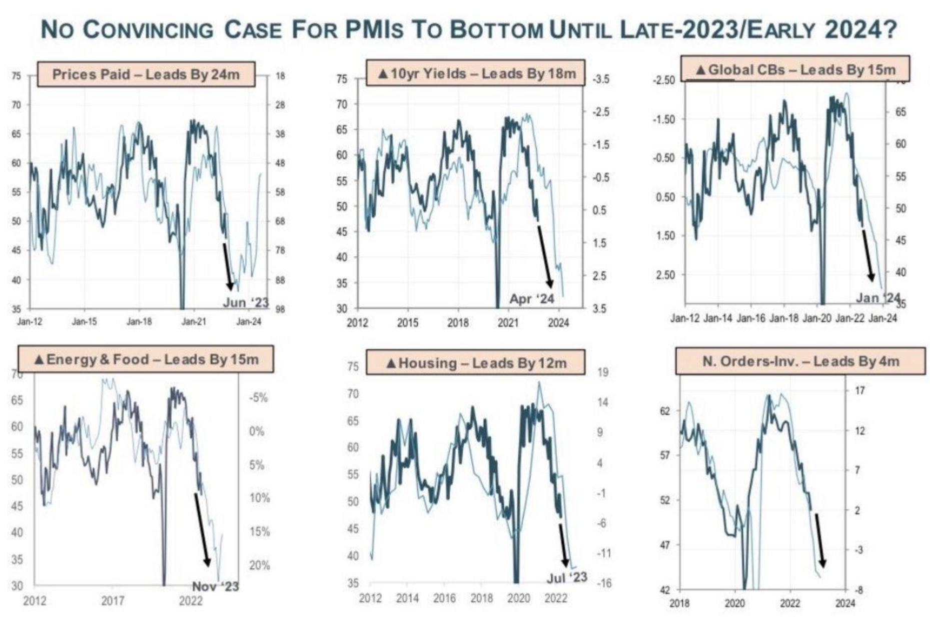
   a. Real wages:



   b. Consumer demand

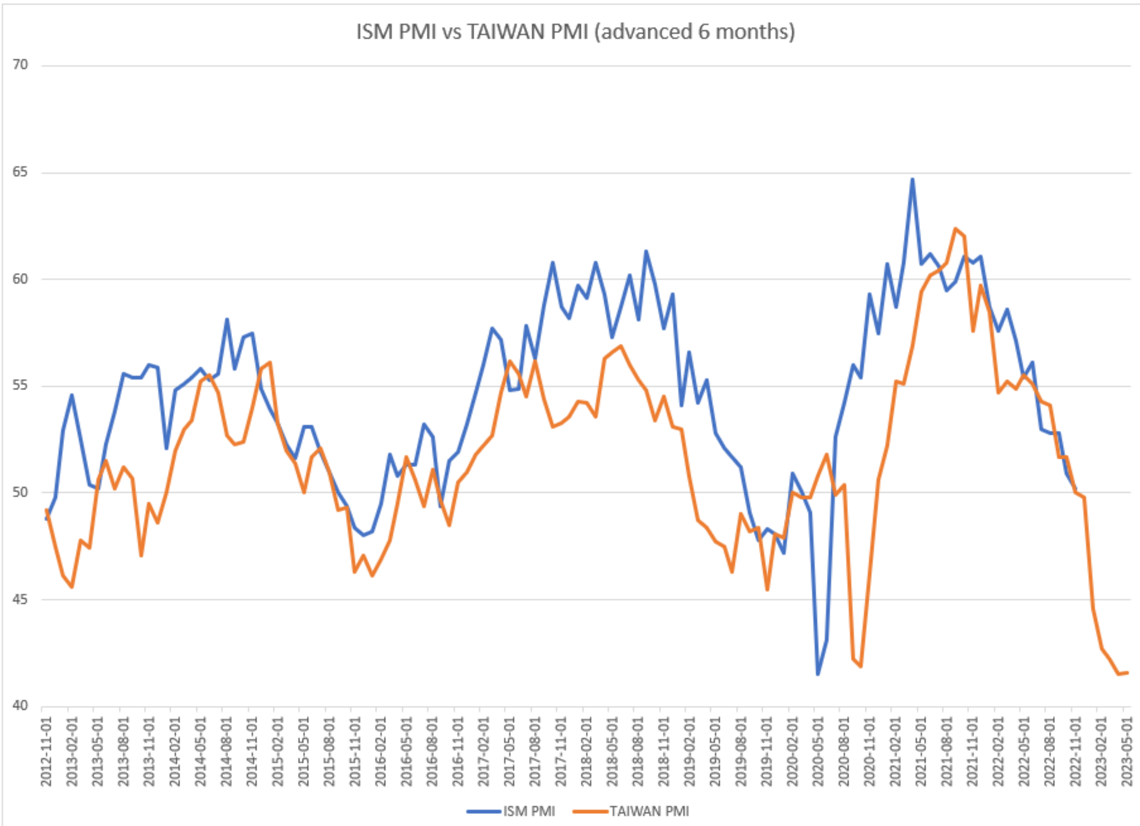


Usually, the ISM PMI bottom 9 to 12 months after the bottom in real wages/consumer sentiment. Therefore, I don't see the PMI bottoming until at least march 2023, conservatively. The economy has yet to be affected by the interest rate hikes so that PMI bottom could be pushed to mid-late 2023. Here are some more data relative to the expected PMI bottom.

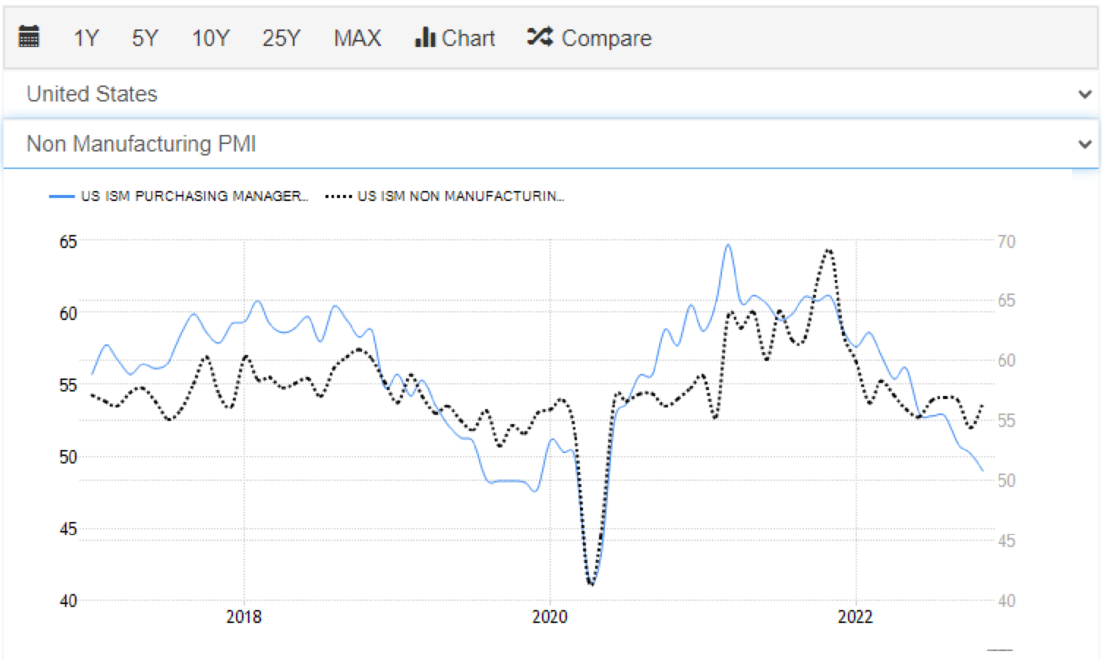


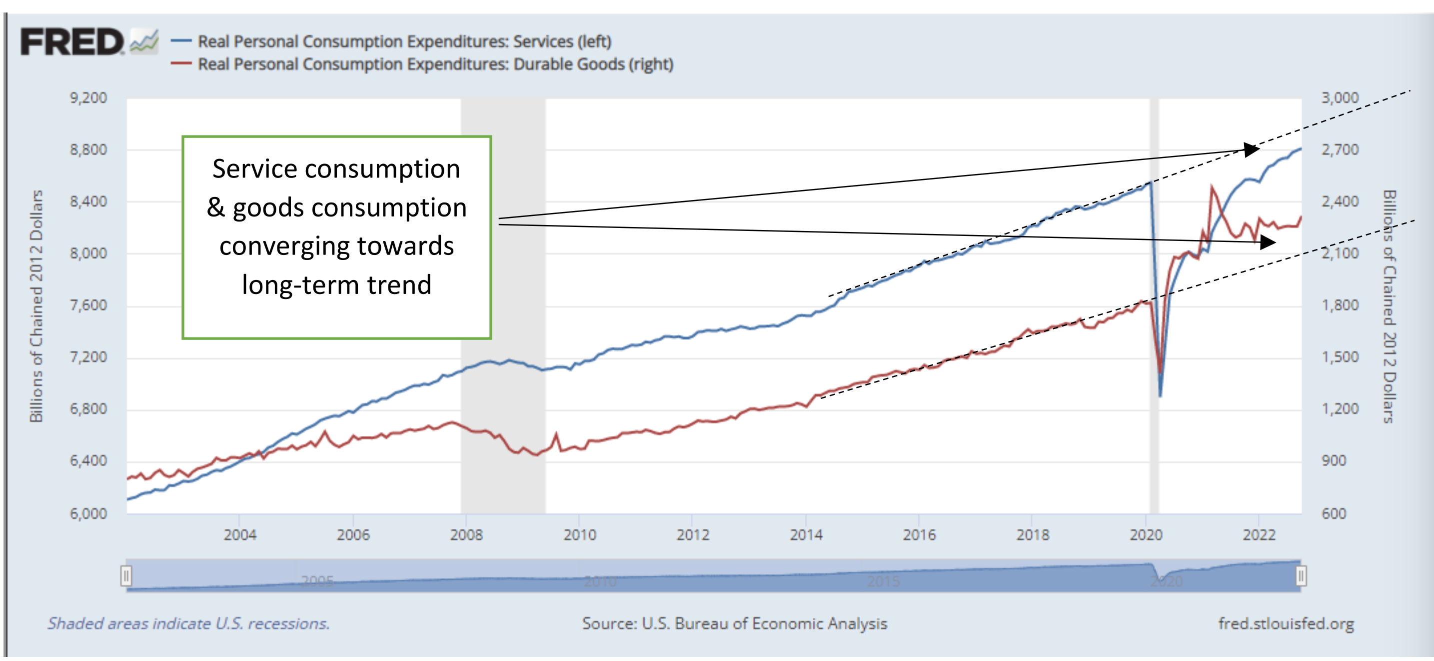
The Taiwan manufacturing PMI is also a good leading indicator of the ISM PMI. We know that Taiwan is a big semiconductor manufacturer, therefore, readings in the Taiwan PMI should give us a proper picture of future ISM PMI readings. (Taiwan = production, USA = Consumption. Therefore, lags in PMI readings)

The Taiwan PMI leads the ISM PMI by about 6 months. This reinforces my view that the ISM PMI should bottom around Q1/Q2 2023.



Another thing, some people point out that the strong service PMI (Latest around 56) figures are a sign of a strong consumer. However, this is not true. What is happening is that consumers are returning to their normal consumption behaviors. They are shifting from goods consumption to services consumption (lockdown distorted normal consumer spending behaviors, goods spending>>services spending). Broad consumption growth is still trending down.





One last thing that I forgot to talk about, excess savings. The next 2 graphs represent the personal saving rate and the stock of excess savings.

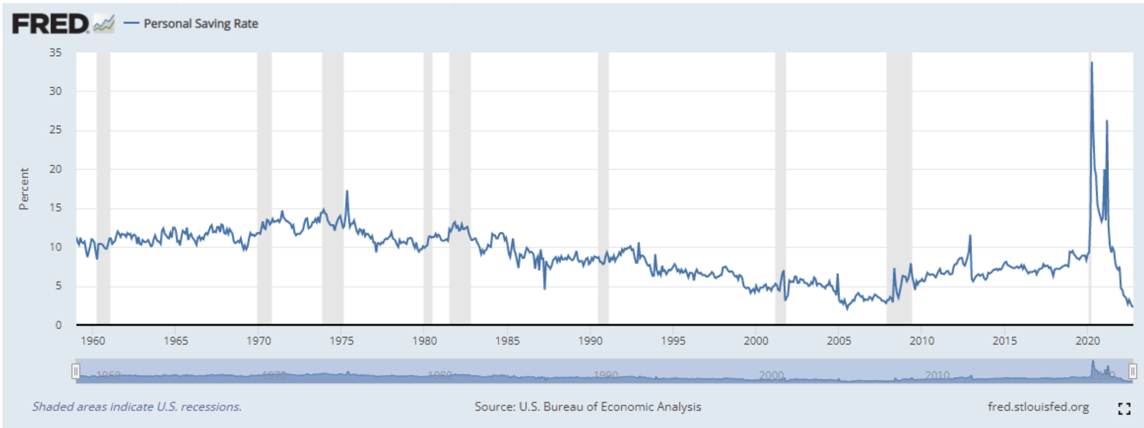
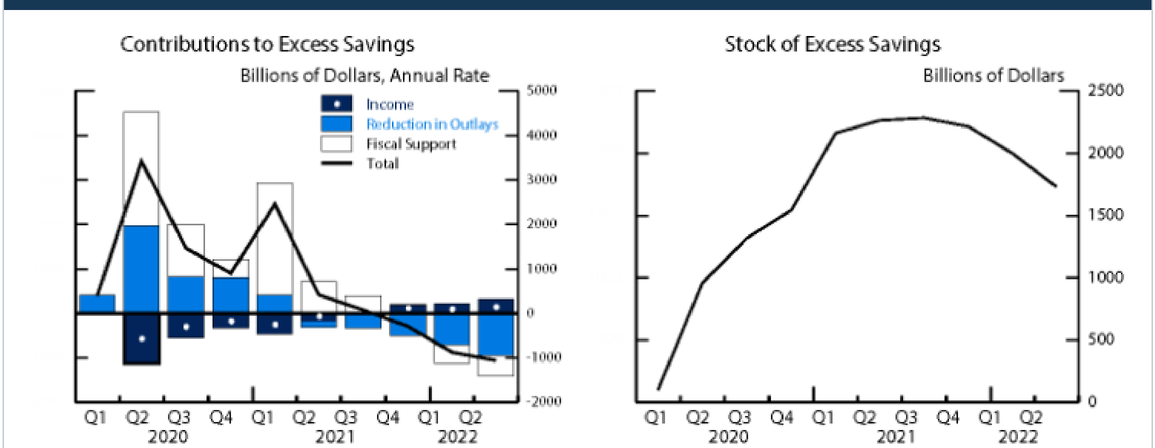


Figure 5. Contributions to Flow of Excess Savings and Its Cumulated Stock



The personal saving rate has been dropping consistently for the past 2 years (currently at 2.3%), meaning that consumers are saving are smaller portion of their paychecks every month. This is due to expenses growing faster than incomes. However, this is unsustainable over the long term. (Important: amount of savings ≠ saving rate)

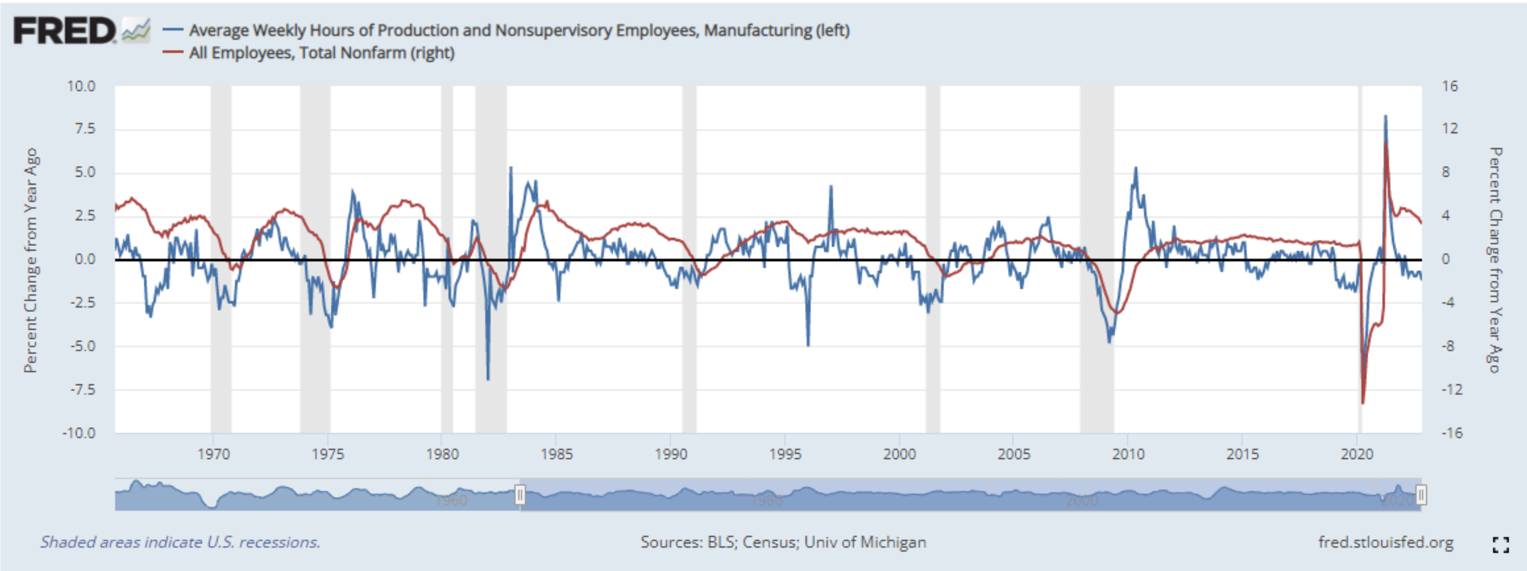
The second graph shows us that householders are sitting on huge amounts of saving. What to make of this?

The huge quantity of savings is often used as an argument to justify the current amount of consumption in an environment of negative real wages.

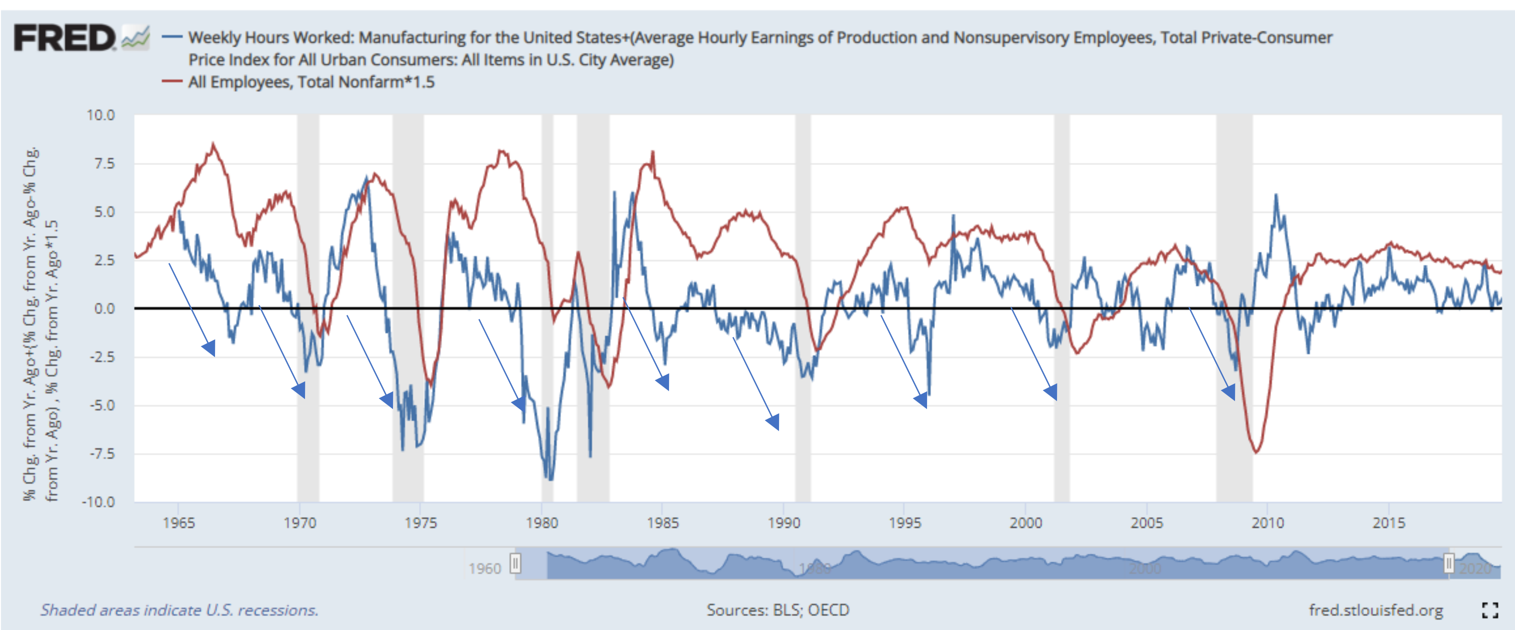
This analysis omits the fact that a lot that excess savings is now considered as wealth, meaning that it is not seen as excess by householders (at least not all of it). Rather, householders will simply consider it as an increase in wealth and do not have the intention of spending the entirety of that excess savings. Also, a portion of those savings have been invested in various investment products (CD account, stocks, etc.) which restrict their mobility.

While it may not boost economic growth as much as before, excess savings should serve as a cushion in difficult times. For that reason, I do not expect a severe recession in the coming years due to healthy balance sheets on the consumer side.

c. Employment

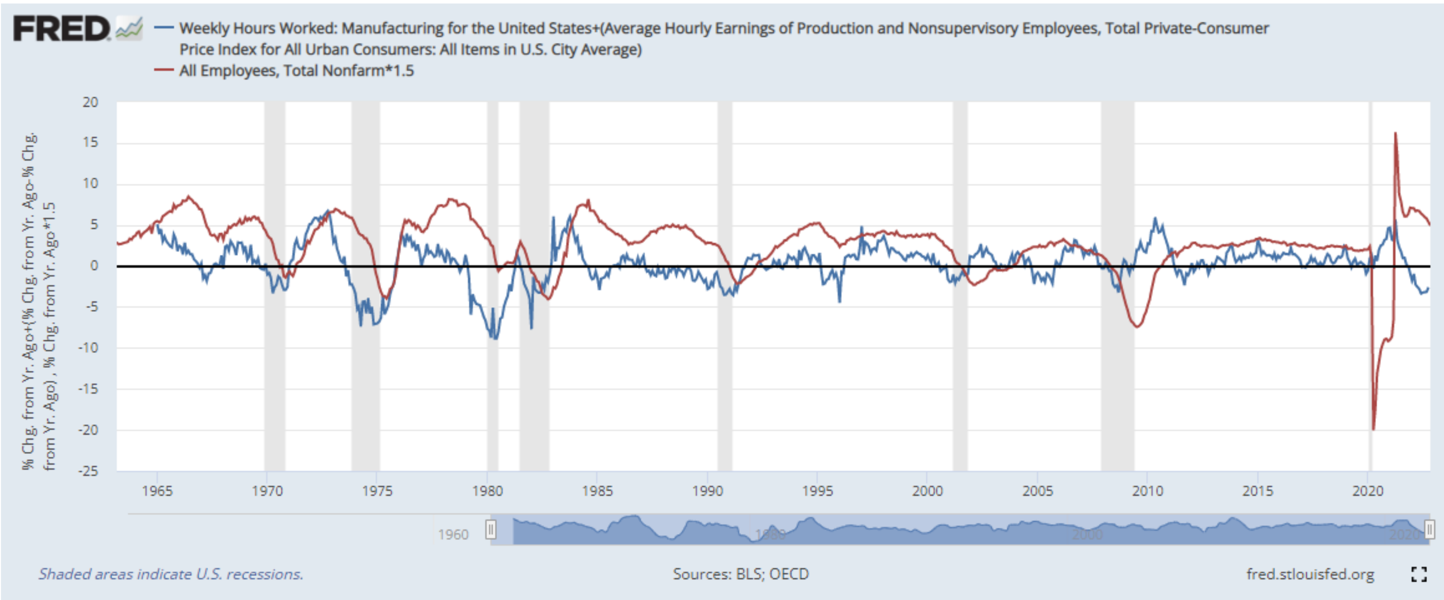


New lows in weekly hours growth this month. However, weekly hours aren't a solid predictor of employment growth. There are many instances where it gives false signals. To give a clearer picture of the employment growth, I combine real wages growth and weekly hours growth. Because of the lag between the 2 components, instances where both data indicate the same thing allow us to forecast employment growth with more precision.



Apart from 2005 (real estate bubble) and 2011, this combined index is very useful in cutting the noise around employment growth and gives clearer signals. Every time the index falls below 0, the rate of employment growth falls considerably (sometimes with lag and not necessarily below 0%).

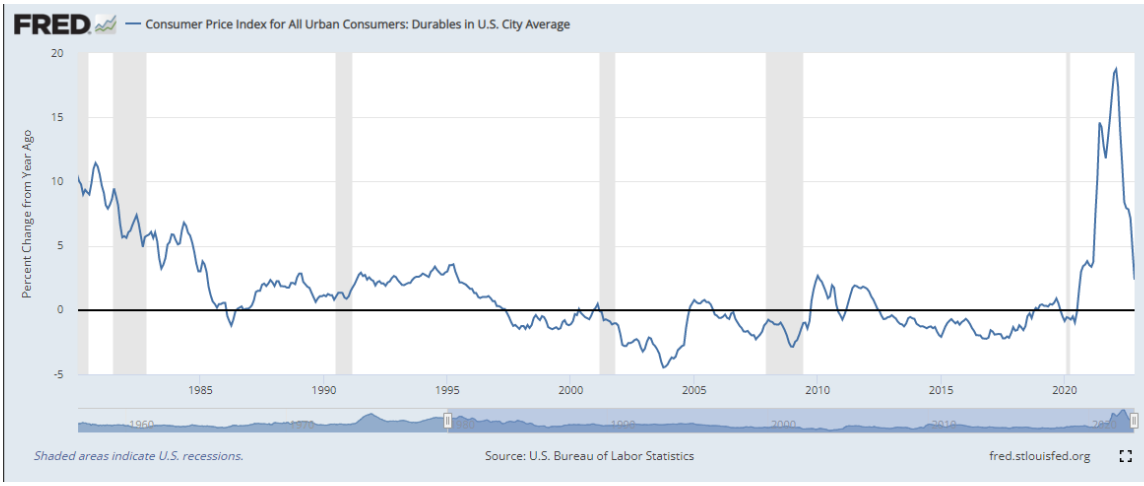
Here's now.


FRED
— Weekly Hours Worked: Manufacturing for the United States+(Average Hourly Earnings of Production and Nonsupervisory Employees, Total Private-Consumer Price Index for All Urban Consumers: All Items in U.S. City Average)
— All Employees, Total Nonfarm*1.5
% Chg. from Yr. Ago+(% Chg. from Yr. Ago-% Chg. from Yr. Ago) , % Chg. from Yr. Ago*1.5
20
15
10
5
0
-5
-10
-15
-20
-25
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
1960
Shaded areas indicate U.S. recessions.
Sources: BLS; OECD
fred.stlouisfed.org

d. Inflation

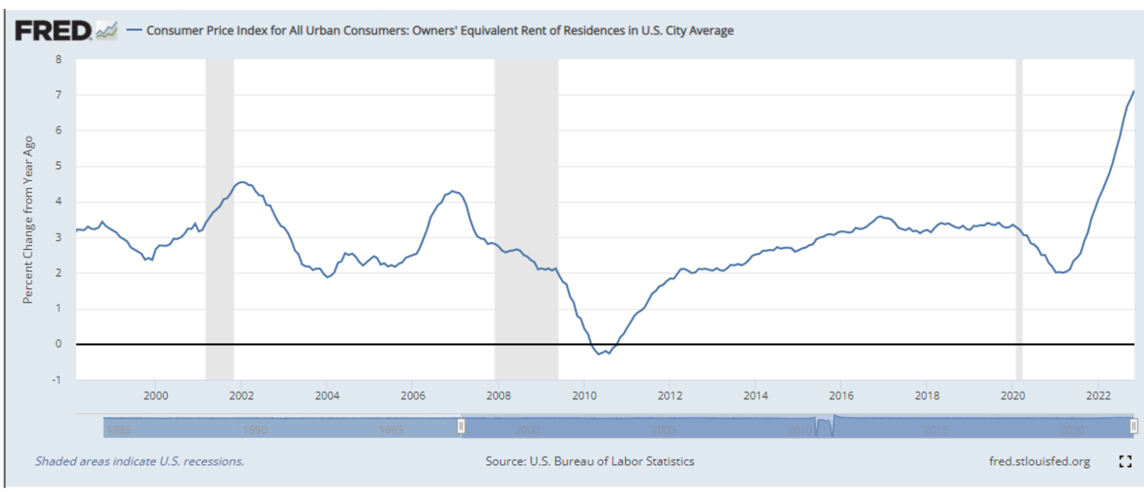
To better analyze inflation, let's separate it into 2 categories, goods inflation (more cyclical) & service inflation (stickier).

Goods inflation:

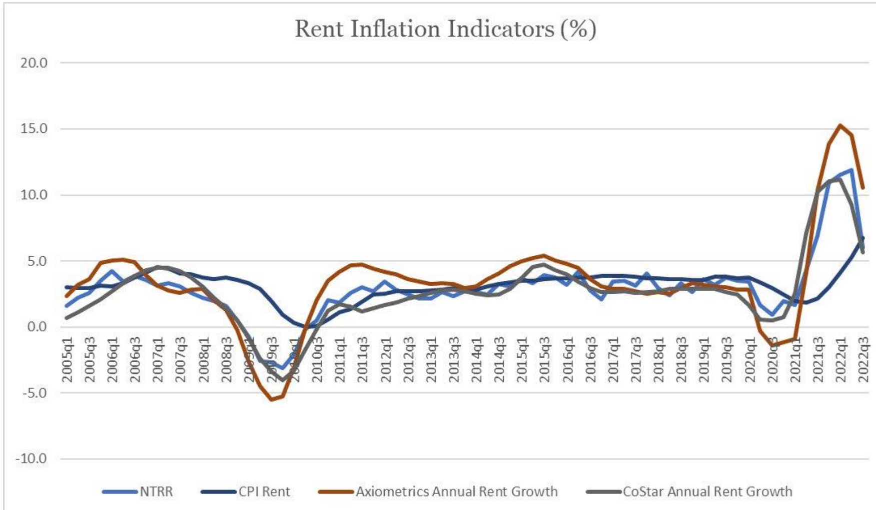


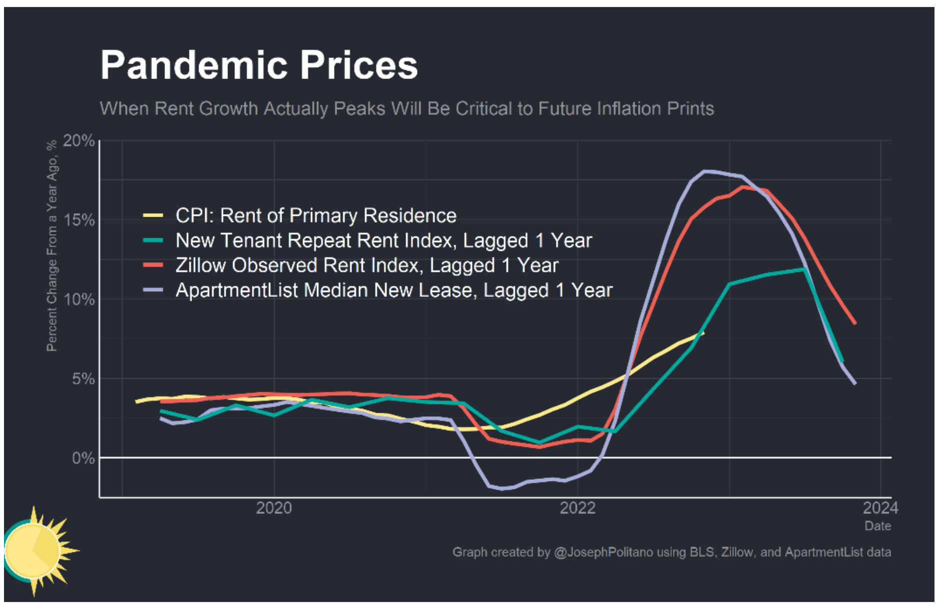
Still falling and I expect it to be negative in Q1 2023. (I talked about it in details in the previous report)

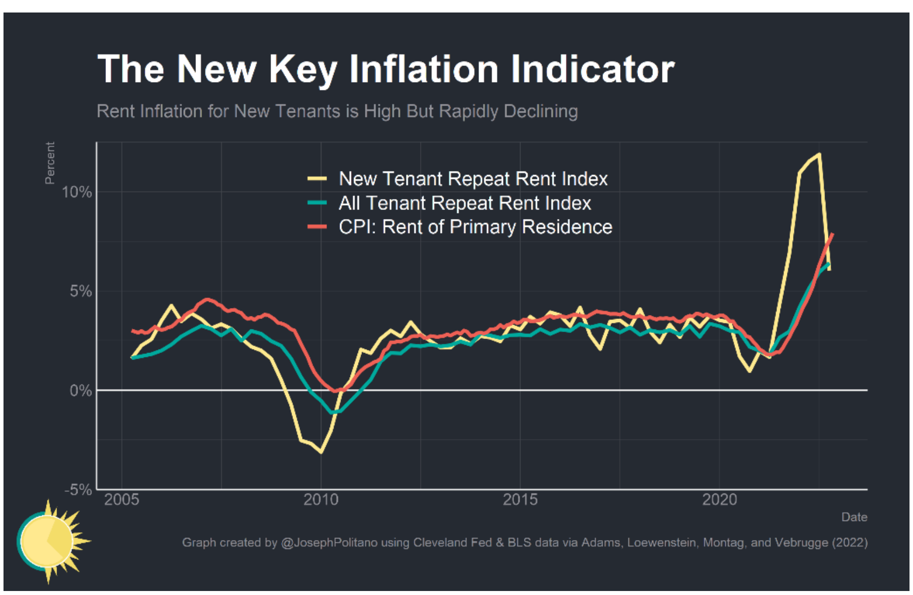
Services inflation (mainly rents):



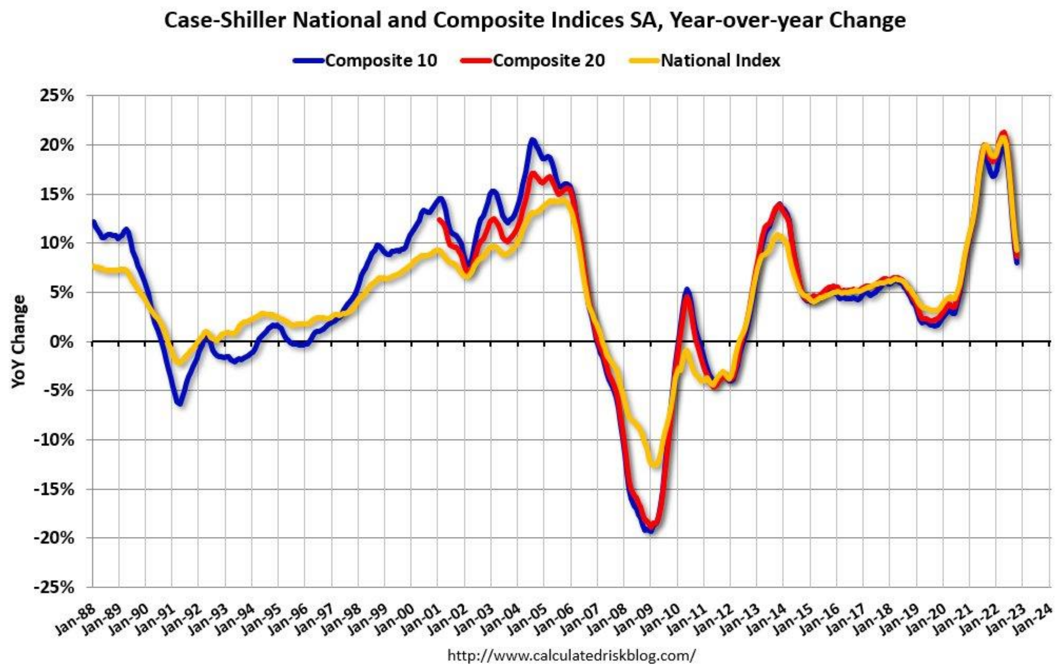
Still very high. But it is important to understand that the slow rental turnover and the survey methodology cause the CPI data to lag the real time data. Rent indexes from private data companies (Zillow, Apartment List, Axiometrics, etc.) are already rolling over.

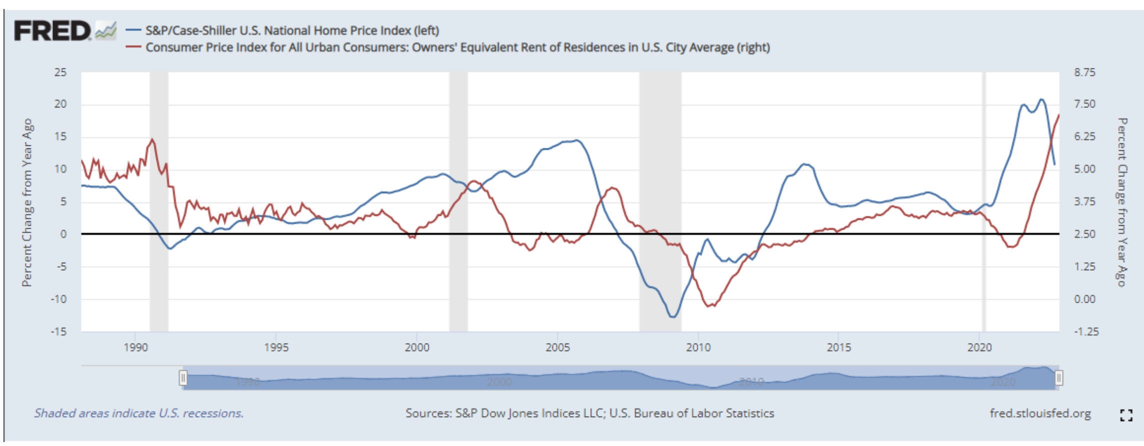

Rent Inflation Indicators (%)
NTRR
CPI Rent
Axiometrics Annual Rent Growth
CoStar Annual Rent Growth


Pandemic Prices
When Rent Growth Actually Peaks Will Be Critical to Future Inflation Prints
Percent Change From a Year Ago, %
CPI: Rent of Primary Residence
New Tenant Repeat Rent Index, Lagged 1 Year
Zillow Observed Rent Index, Lagged 1 Year
ApartmentList Median New Lease, Lagged 1 Year
Date
Graph created by @JosephPolitano using BLS, Zillow, and ApartmentList data


The New Key Inflation Indicator
Rent Inflation for New Tenants is High But Rapidly Declining
Percent
New Tenant Repeat Rent Index
All Tenant Repeat Rent Index
CPI: Rent of Primary Residence
Date
Graph created by @JosephPolitano using Cleveland Fed & BLS data via Adams, Loewenstein, Montag, and Vebrugge (2022)

Real time data is telling us that rents (measured by the CPI) should reverse in Q1 2023.

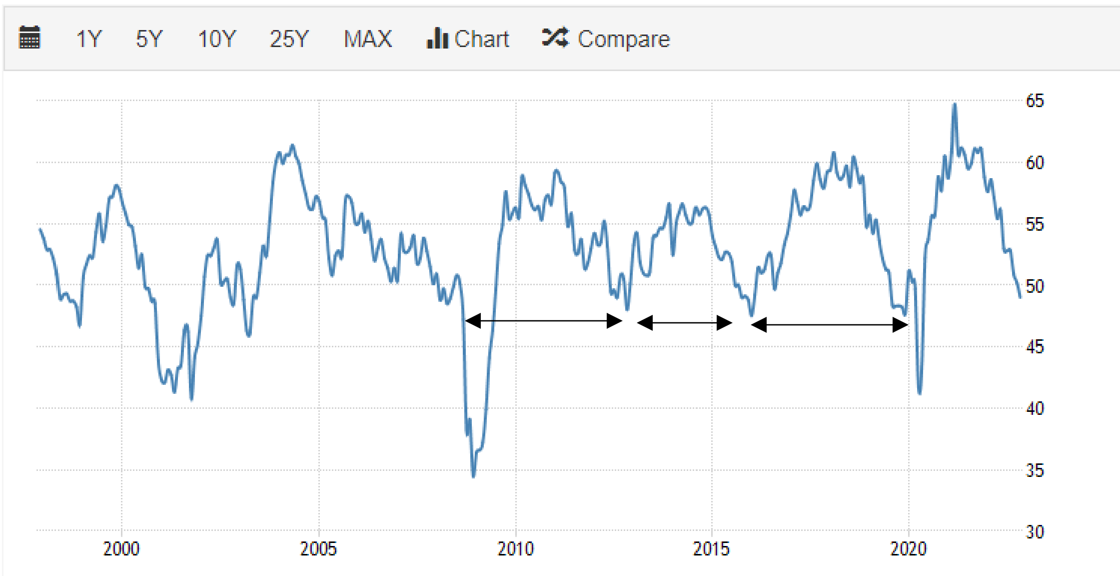




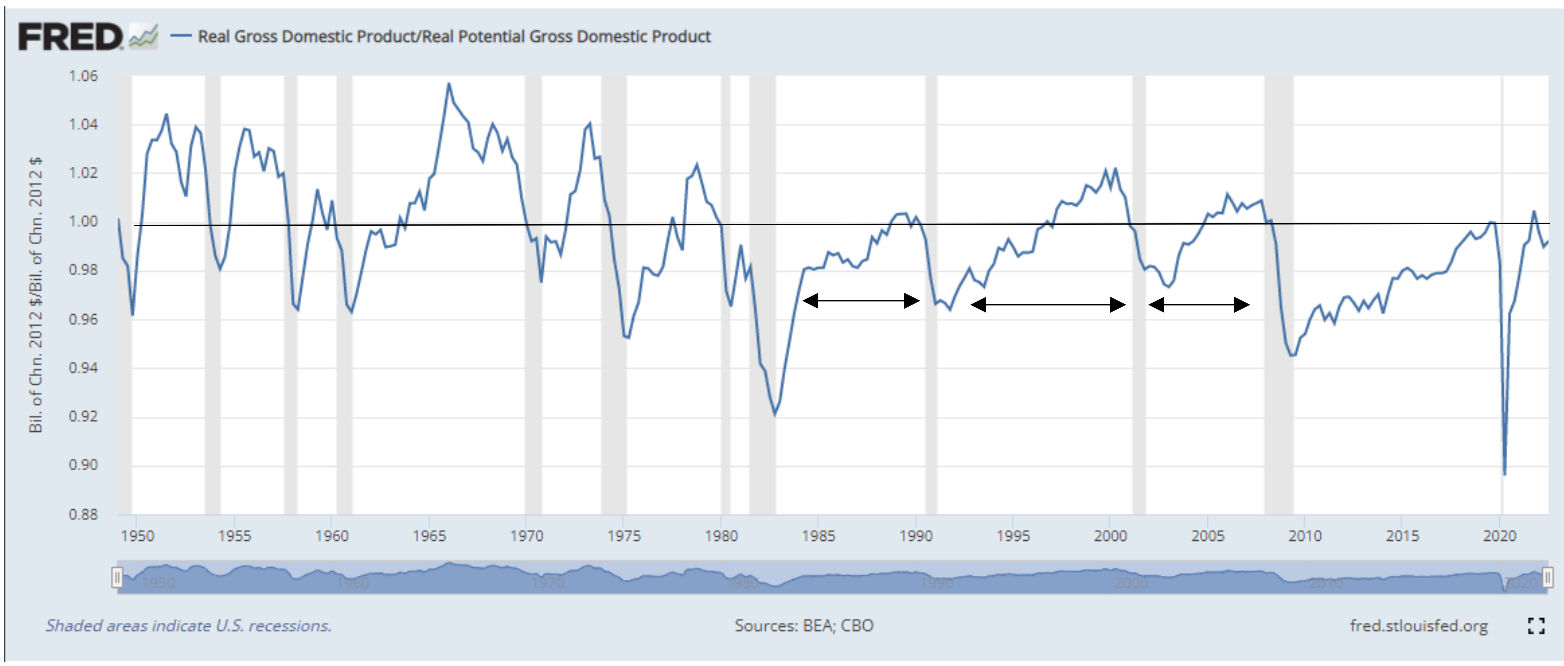
Latest home prices data is telling the same story.

2. Business cycle

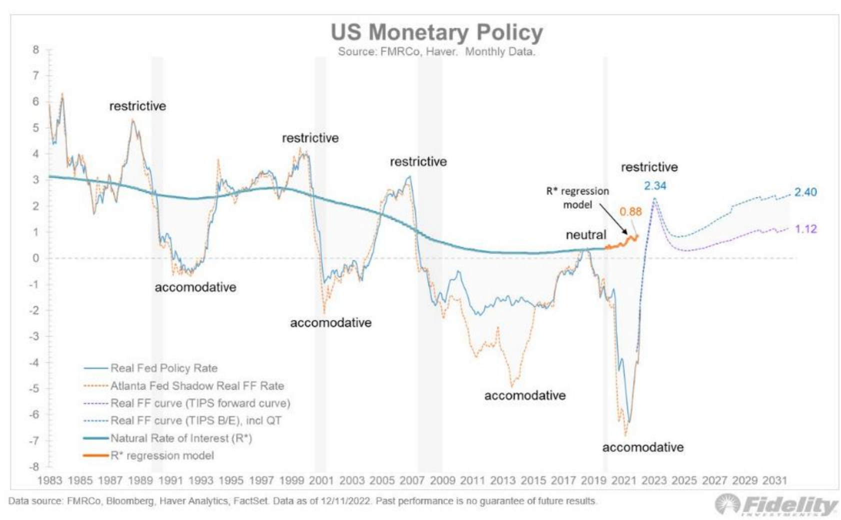
Before we start, a short reminder of the differences between the short-term growth cycle and the business cycle. The short-term growth cycle is affected by various short-term shocks as well as the movement in real wages. Cycles range from 18 to 48 months. It is best represented by the cycles in the ISM PMI.



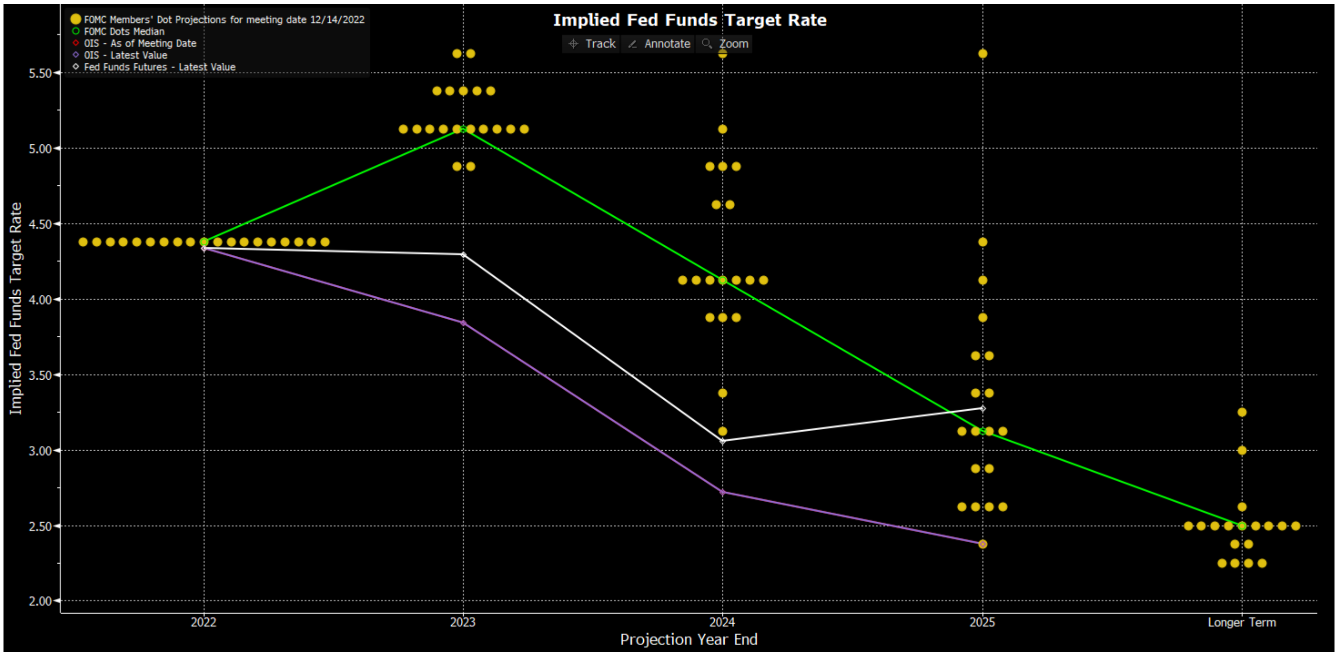
On the other hand, the business cycle is driven by the movement of interest rates around the neutral rate. The neutral interest rate is the rate at which monetary policy neither stimulate nor slows the economy. There is no way to calculate the neutral rate, rather, it is estimated (currently at 2.75% nominal). The fed fund rate is lowered below the neutral rate to stimulate the economy and raised above it to slow it. Those oscillations around the neutral rate are what causes the business cycle. The business cycle ranges from 5 to 10 years in average. It is best represented by dividing real GDP by real potential GDP (also known as the output gap). When real GDP rises above potential, inflationary pressures increase, and monetary policy needs to be restrictive.



Movements in the short-term growth cycle rarely lead to recessions (single negative quarters of GDP can be experienced but rarely a recession). This is because recessions are caused by movements in data that are a lot stickier, mainly employment. The length of the short-term growth cycle is too small to affect those stickier components, hence why it rarely leads to recessions. On the flip side, recessions are almost always caused by downturns in the business cycle and those downturns are always caused by interest rates rising above neutral for long enough periods of time.

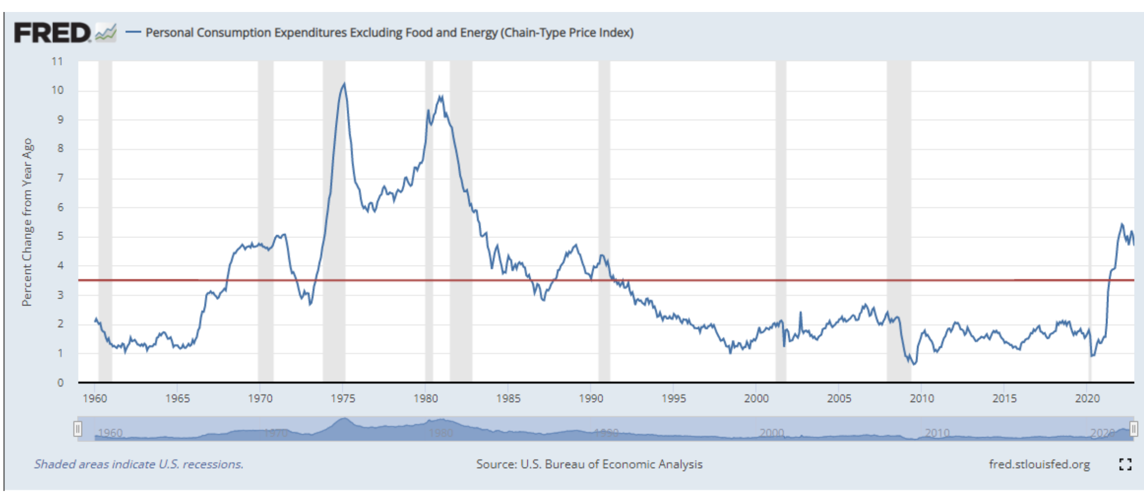


The fed started hiking around Q2 this year. The fed fund rate is currently at 4.25%-4.5%. Here's the fed dot plot below:



The fed expects the fed fund rate to sit at around 5.1% in 2023, 4% in 2024 and at 3% in 2025. I personally think that the likelihood of interest rates following this path is very slim. Even more, I think that by 2024, interest rates are likely to be closer to 0% than to 4%. This is one of my trade ideas and I will expend on it more in the asset outlook section.

The fed also expects core PCE (the fed's preferred data for inflation) to average 3.5% in 2023.



For reference, the implied CPI over next 12 months (measured by fixed inflation swaps) expects the CPI to be at around 2% by the end of 2023.

Bloomberg DTCC SDR Trade — Source Bloomberg — Previous Date 12/09/2022

	Description	Ticker	Curr Val	Curr Dt	Prev Val	Prev Dt
11)	BBG DTCC SDR US CPI M1	MNDERM1	7.21	12/12	7.21	12/09
12)	BBG DTCC SDR US CPI M2	MNDERM2	6.59	12/12	6.59	12/09
13)	BBG DTCC SDR US CPI M3	MNDERM3	6.01	12/12	6.01	12/09
14)	BBG DTCC SDR US CPI M4	MNDERM4	5.85	12/12	5.85	12/09
15)	BBG DTCC SDR US CPI M5	MNDERM5	4.41	12/12	4.41	12/09
16)	BBG DTCC SDR US CPI M6	MNDERM6	4.19	12/12	4.19	12/09
17)	BBG DTCC SDR US CPI M7	MNDERM7	3.40	12/12	3.40	12/09
18)	BBG DTCC SDR US CPI M8	MNDERM8	2.52	12/12	2.52	12/09
19)	BBG DTCC SDR US CPI M9	MNDERM9	2.84	12/12	2.84	12/09
20)	BBG DTCC SDR US CPI M10	MNDERM10	2.80	12/12	2.80	12/09
21)	BBG DTCC SDR US CPI M11	MNDERM11	2.74	12/12	2.74	12/09

It is also important to understand that the transmission mechanism of interest rates is very slow and that the hikes made so far have yet to affect the economy. In average, there is a 9 to 12 months lag between the rise in interest rates and its effect on the real economy.

The main leading economic indicators I look at to forecast the business cycle are all tied to interest rates. The percentage of banks tightening lending conditions for businesses is rising rapidly and is implying 0% employment growth by Q1/Q2 2023. All financial conditions indicators work as well.

Source: Bloomberg

Now what is the point of having all that data? What do we do with it? How can we generate trade ideas from it?

Trade ideas are generated when divergences are formed between what I expect and what the market is pricing. My analysis points to a massive slowdown in economic activity in 2023 yet the market still expects earnings to grow. I also expect inflation to return to 2% by 2024 yet the fed is projecting interest rates to stay elevated for the coming years.

The outcome here is clear, either I will be wrong, or the market will need to reprice itself.

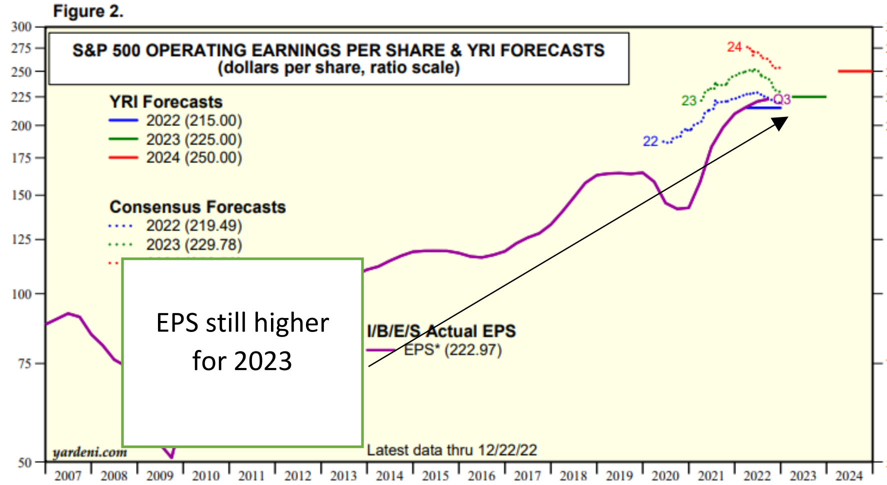
Asset outlook

1. S&P 500 (updated)

In the previous report, I outlined 2 different potential scenarios regarding the path of the S&P for the next 6 months. Both assuming a repricing of the discount rate (valuations up) and both assuming negative EPS growth for 2023, the first one by mid-2023 and the second one by early 2023.

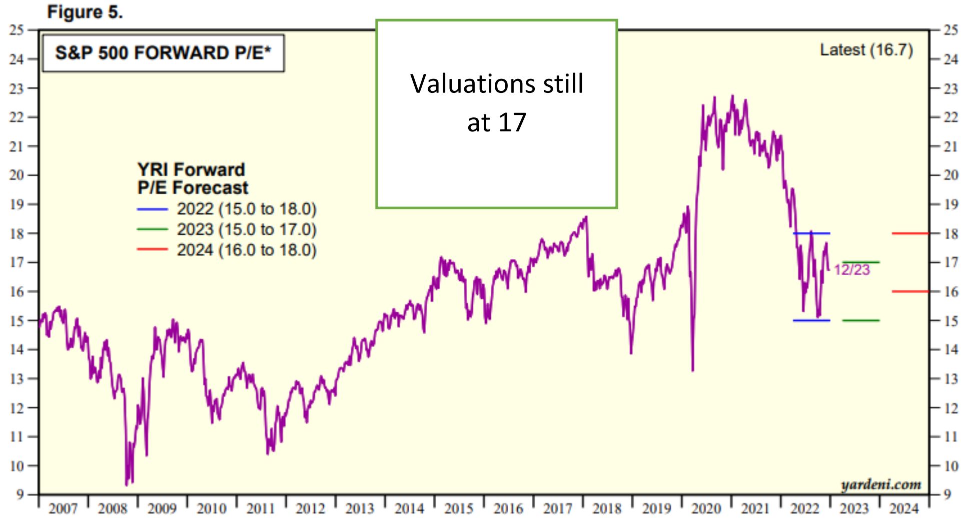
So far, earnings are still expected to grow in the single digits for 2023 but downgrades are pilling up and I expect that number to be negative in the coming months. This makes scenario 2 more likely and this is what price action seems to indicate with the S&P 500 down these past few weeks.

Figure 2.



* Four-quarter trailing sum of operating earnings per share.
Source: I/B/E/S data by Refinitiv.

Figure 5.

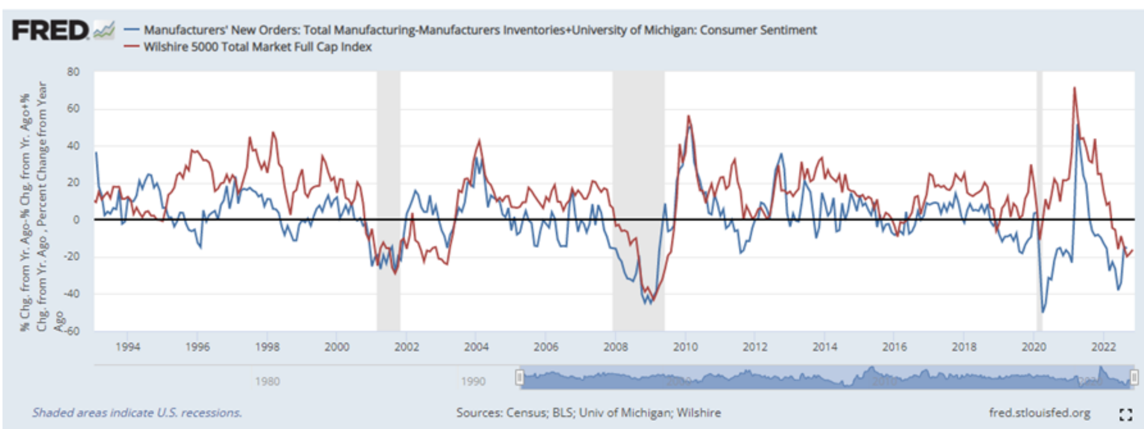


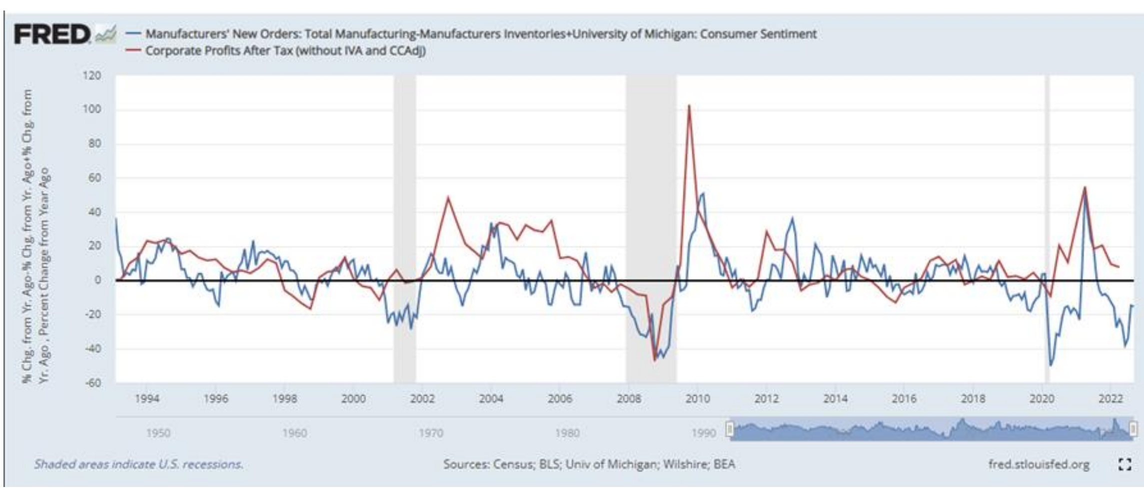
* Average weekly price divided by 52-week forward consensus expected operating earnings per share.
Source: Standard & Poor's and I/B/E/S data by Refinitiv.

EPS outlook:

My outlook is roughly the same for earnings, although I revised my eps target to a more conservative one of 168-178(20-25% fall in eps).

My economic outlook for earnings is the same, current levels of demand are still not sustainable as showed by the continuous fall in the saving rate. Consumer sentiment (real wages) & new orders (future demand) are implying a contraction in corporate profits for 2023. The reason analysts are still expecting eps to grow in 2023 is because employment is still strong, but employment is a lagging indicator whereas my analysis uses forward looking indicators. Ultimately, employment growth will need to readjust itself in a context of negative real wages and rising interest rates.

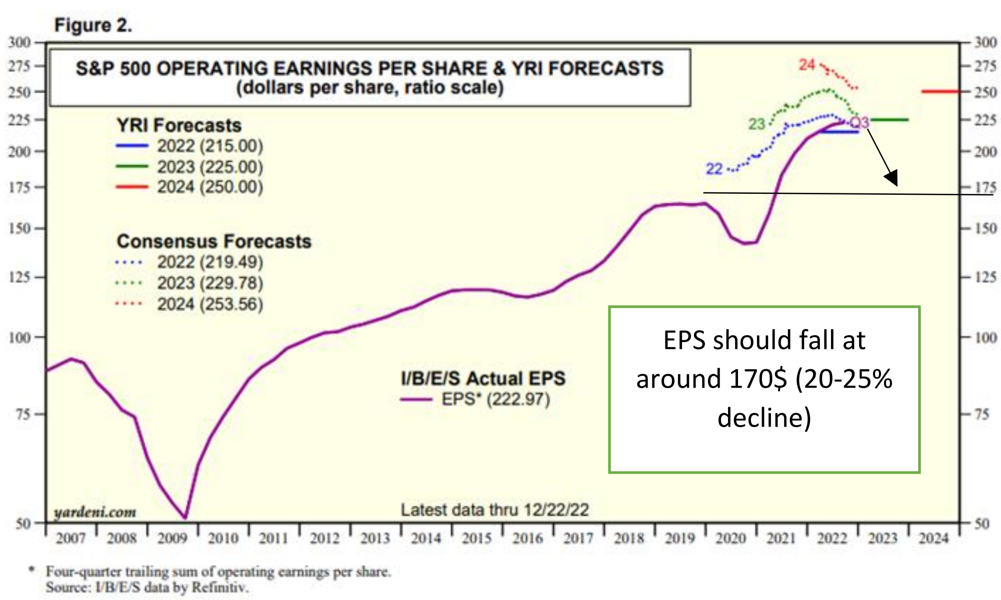




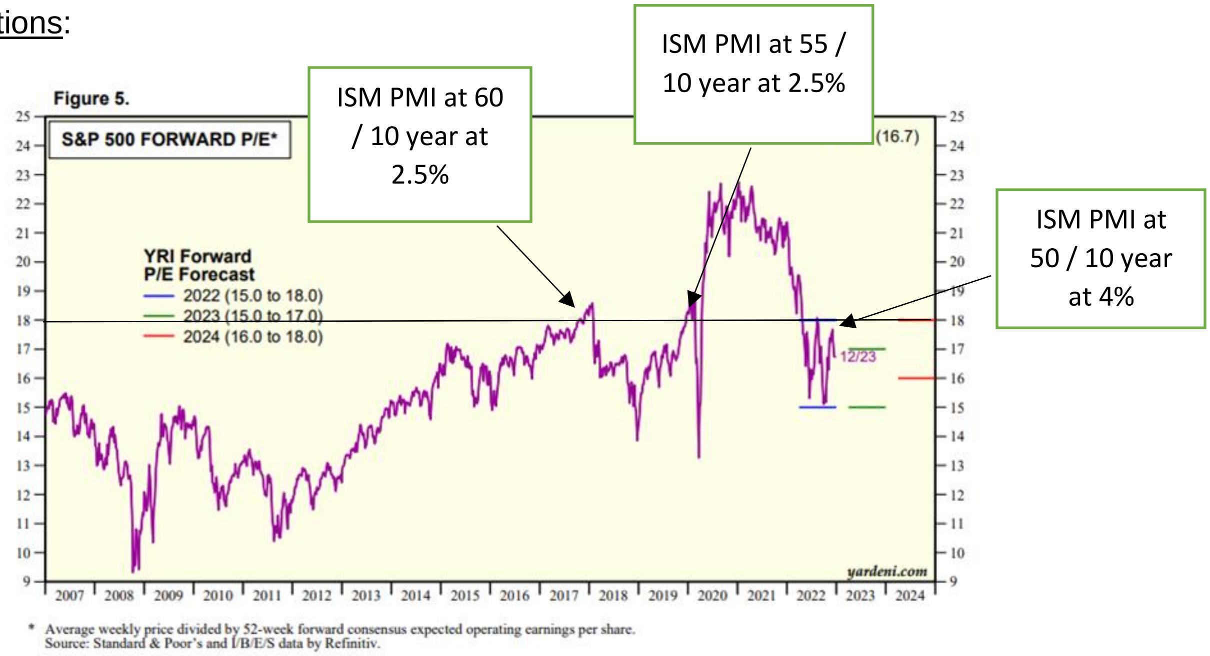
The model is implying that eps (here I use corporate profits, but it is a good proxy for eps) will drop by 25-30% in the next 6 to 12 months.

An important thing to consider is that the fall in those leading indicators has nothing to do with rising interest rates. New orders started to fall way before the fed had raised interest rates.

Like I said before, the lag when it comes to interest rates is around 9 to 12 months. Therefore, the real effect of the hikes will be felt in Q1 2023. Leading indicators have yet to show the real damage made by monetary policy, hence why I say that my eps target is conservative. The aftermath of the fiscal policy shock of 2020/2021 is what is presently reflected in the leading indicators, mainly low consumer sentiment caused by negative real wages.



Valuations:



Reduced inflationary pressures and lower interest rates should lift valuation. However, deteriorating economic conditions should limit any rise in valuation caused by a fed pivot and could even send the forward p/e to 15. My base case for 2023 is a forward p/e of 16.

By using 2017 & 2019 as reference points, the present range of 17-18 should act as a strong ceiling on valuation in my opinion. This is because the economy was much stronger and yields much lower during those 2 periods. Today this is quite the opposite with yields much higher and economic activity much lower.

S&P 500 price outlook:

I expect earnings to decline to 168$ (25% fall) and valuations to be at around 16. This gives a price target of roughly 2700$ for the year.

A price target is not enough, anything could happen between now and price reaching that target. So here some scenarios and some important things to keep in mind.

Short-term outlook:

Let's come back to our 2 scenarios.

Scenario 1

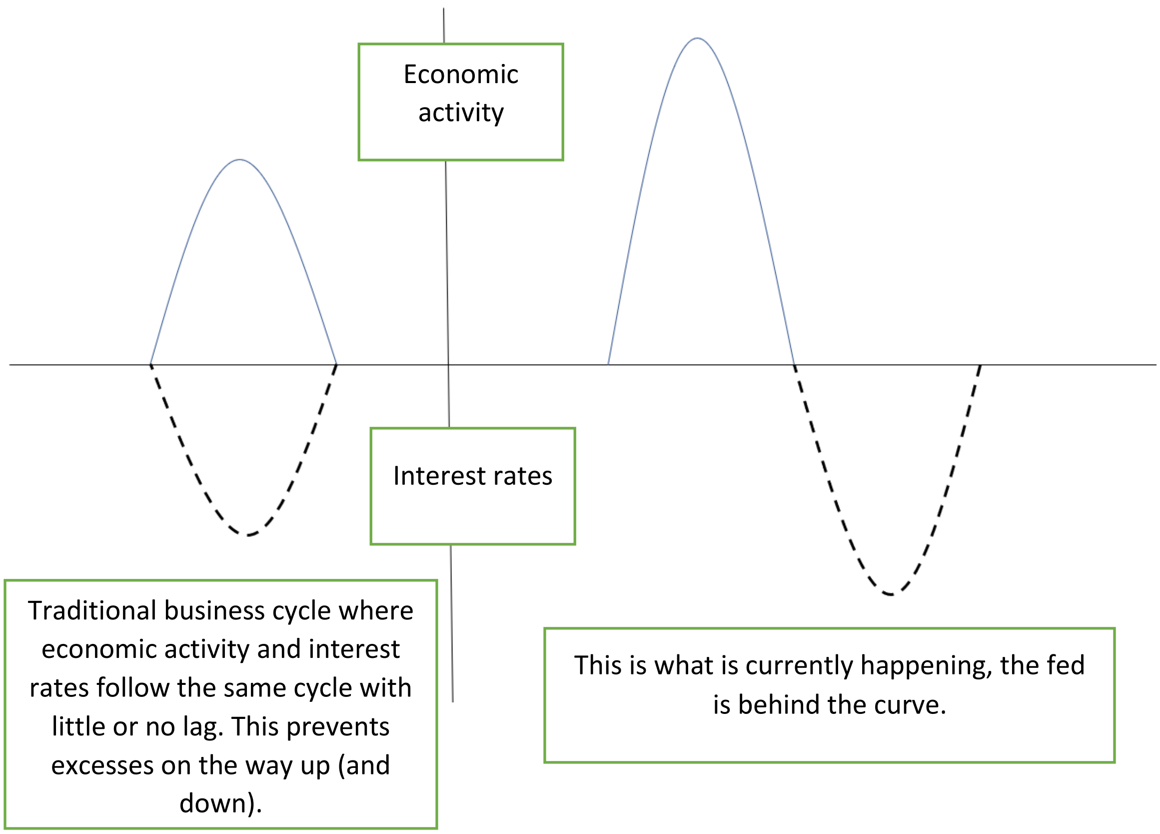
Scenario 2

In scenario 1, eps downgrades happen much later in 2023(end of Q2) which cause the market to rally due to valuations being lifted. Scenario 2 assumes that eps downgrades start now and cause the market to fall. I also said that scenario 2 was more likely considering what leading indicators were saying.

So far, scenario 2 seems to be the correct one.

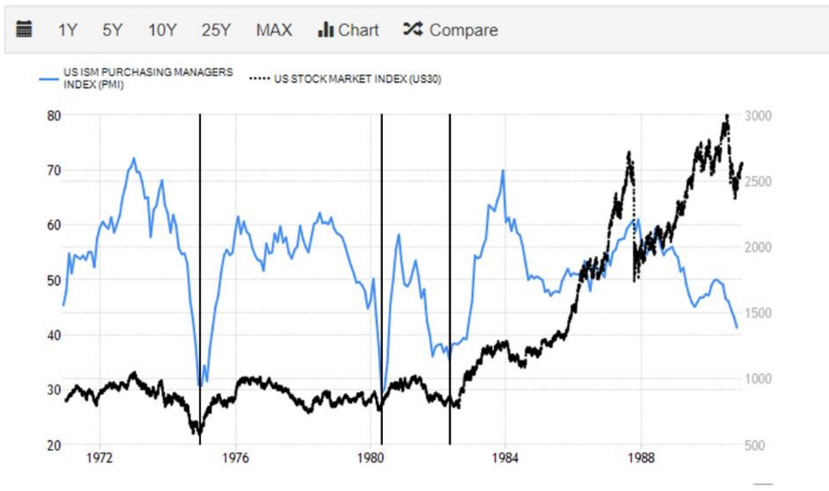
Medium / Long-term outlook:

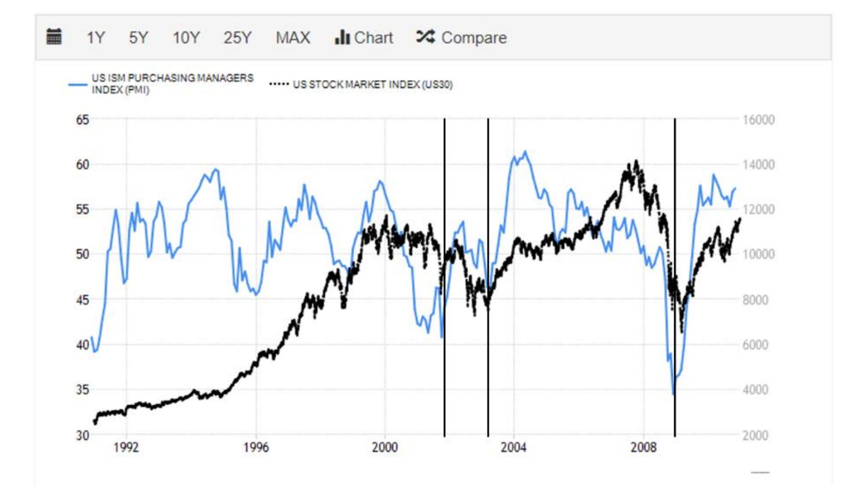
First, I will start by saying that this bear market will last more than investors think. This is because we are currently dealing with 2 shocks back-to-back, the aftermath of the fiscal policy shock of 20/21 & the rapid rise in interest rates. This won't mean that the effect on the economy will be 2 time worse, rather it will simply keep the economy restrained for longer.

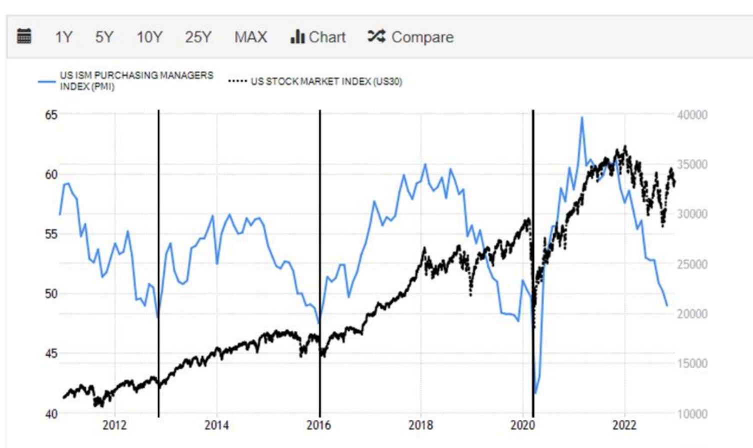


Here are my thoughts regarding the market bottom.

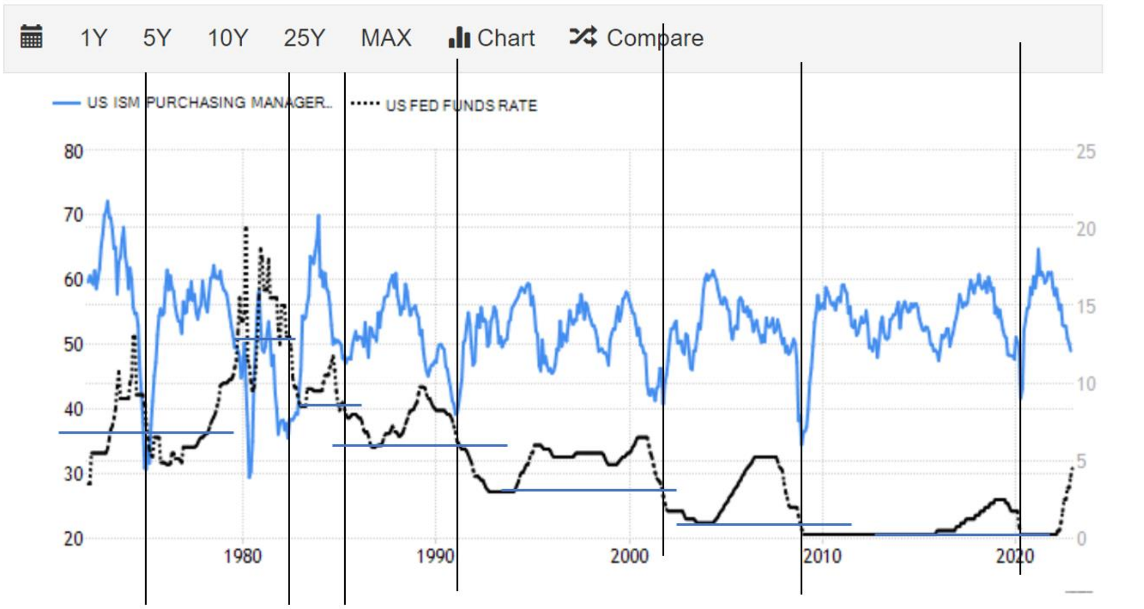
Determining the bottom in the ISM PMI will be crucial to forecast an eventual market bottom (hence why I always refer to the ISM PMI in my economic outlook). The ISM PMI is one of the best leading indicators available. During recessions, trough in the PMI always precedes market bottoms, always.







At first glance, given the current low level of the PMI (as well as the PMI forecasts made in the short-term growth cycle section), it seems that a market bottom is getting closer, at least compared to historical troughs. However, like I explained above, this time might be different. **This is because every time the fed engineered a recession by raising rates above neutral, the ISM troughed only when rates were lowered to their previous starting point in the cycle.**

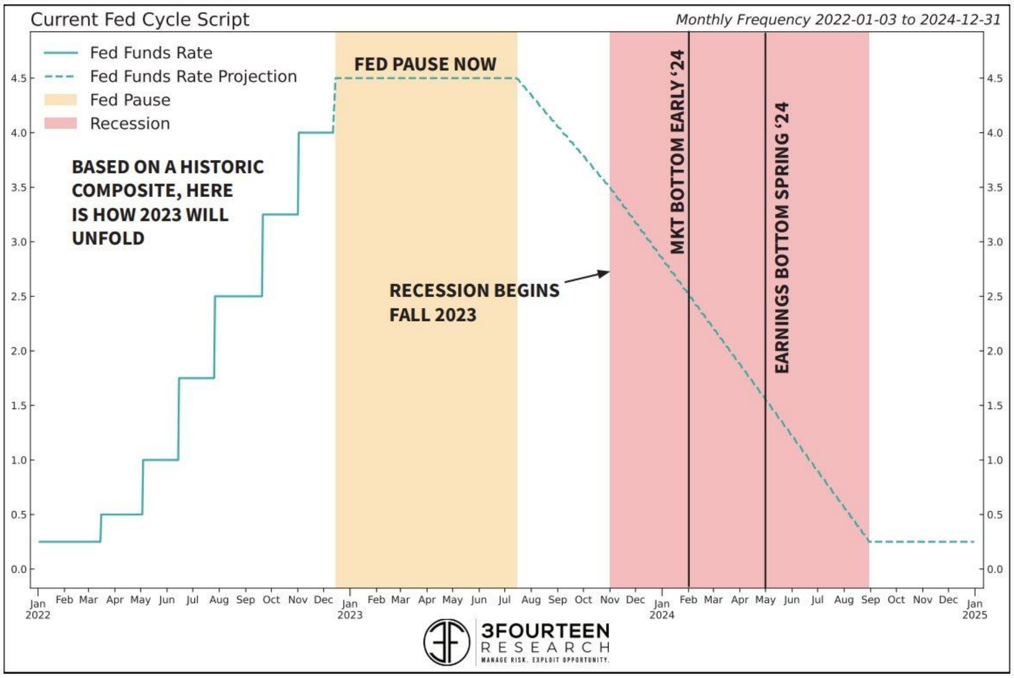


It will be very unlikely for the PMI to bottom before rates are cut. That's because interest rates directly affect PMI readings, the ISM PMI is dependant on interest rates, not the other way around. Therefore, rates must be cut for the ISM to bottom.

This pushes an eventual trough in the ISM to a least 2024 (assuming rates are cut to zero, which isn't the consensus at all). Let us remember that the fed expects rate to stay at around 5% in 23, 4% in 24 and 3% in 25. The good news is that given how late the fed was in raising rates as well as the current state of the economy, the fed should pivot a lot sooner than investors expect.

The only thing that worries the fed now is whether inflation will be higher for longer (secular inflation). They seem to be thinking so given their high core PCE projection for 2023, but I think inflation will fall a lot quicker than they expect. (I will expand more on rates and inflation in the second trade idea below)

If what I think is true and inflation fall quicker than expected, the fed should pivot by the end of Q2/start of Q3 which means that rates could reach 0% by Q2 2024. If this scenario unfolds, the PMI should bottom around Q3/Q4 2023.



This is a historic composite of hiking cycles. The fed usually pauses for 7 months in average before cutting rates. The composite implies a market bottom by early 24, midway through the cutting cycle. Usually, the market would bottom with the PMI and that would happen once rates hit their last cycle lows, 0% in the current case. But given the late fed intervention, the cutting cycle will be more predictable and that should allow the market to bottom way before rates are at zero. End of Q3 or Q4 is my main scenario for now.

It is still too early to draw a definitive conclusion on the timeline of a market bottom. This outlook could change in the coming months, it will be updated regularly.

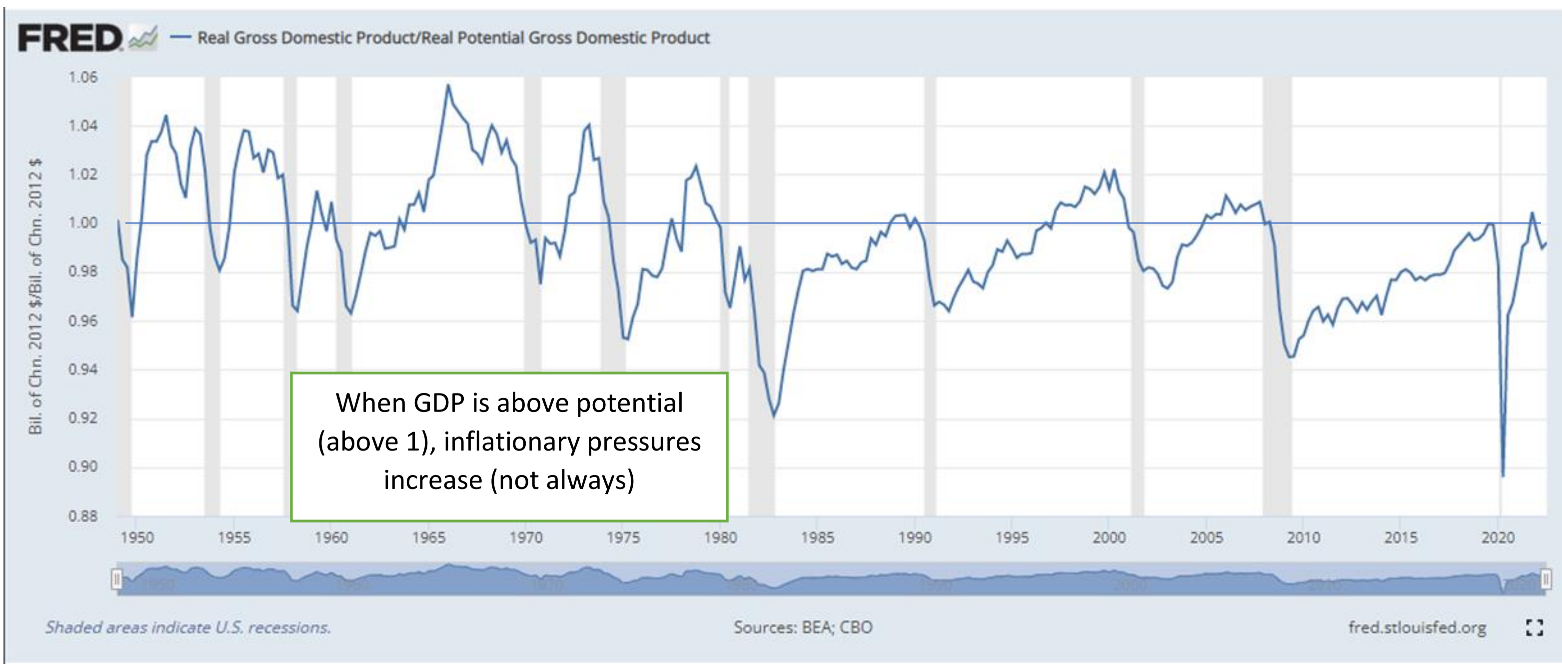
2. Interest Rates (NEW)

There is a current belief among many market participants as well as the Federal Reserve that the current inflation wont return to the 2% levels in the coming years, hence why fed officials expect rates to stay higher for longer. However, I don't think that we are in a new era of secular inflation.

The last period of secular inflation dates to the 1970s. When we analyze the economic data of that period, we can derive clear conclusions about the drivers of secular inflation.

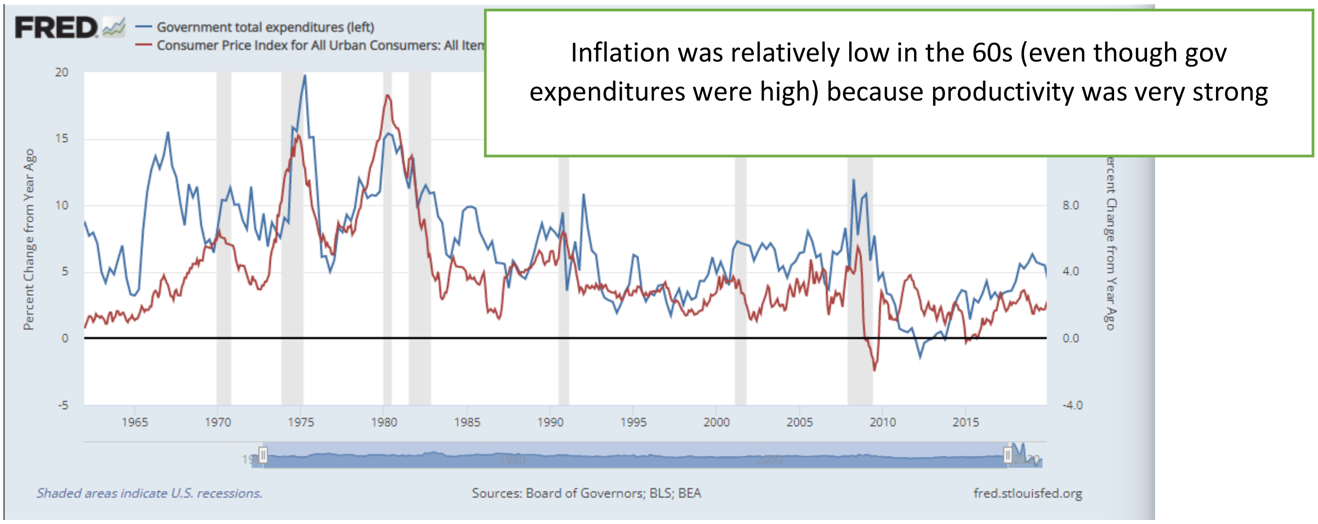
(Secular inflation is prolonged period of rapid price increase that can last for many years, even during economic downturns.)

The secular inflation of the 70s was a product of a continuous positive output gap (aka inflationary gap) sustained by perpetual expansionary fiscal policies.

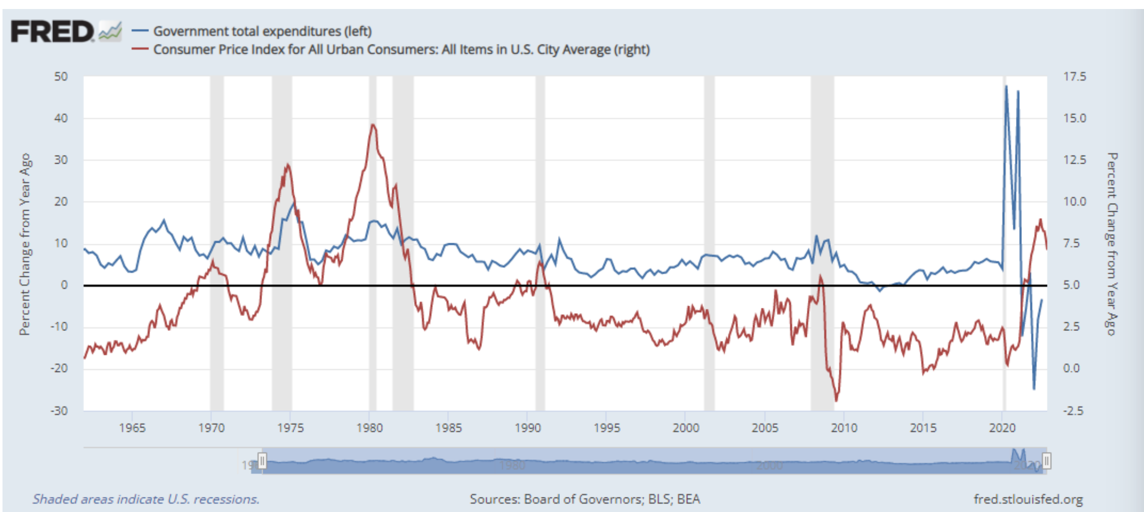


When the GDP runs above its potential, inflationary pressures increase in the economy, but not always. Depending on the shock that propel GDP above potential, inflation can increase or not. Per example, a technological shock (productivity shock) drove GDP way above its potential in the late 1990s, but inflation remained around the 2.5% range. This is because productivity is deflationary.

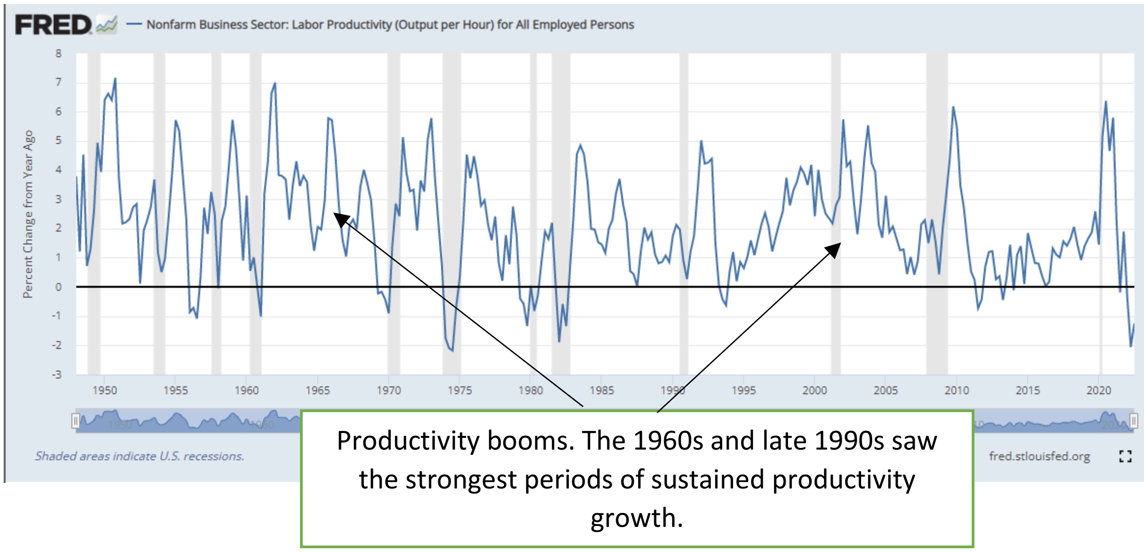
Between 1960 and 1980, a combination of wrong understanding of Keynesian economics, global conflict (Vietnam war) & enormous expansionary fiscal packages led to a sustained period of GDP above its potential. This led to a period of secular inflation that lasted until the 1980s.



Fiscal expenditures have a tight correlation with inflation.

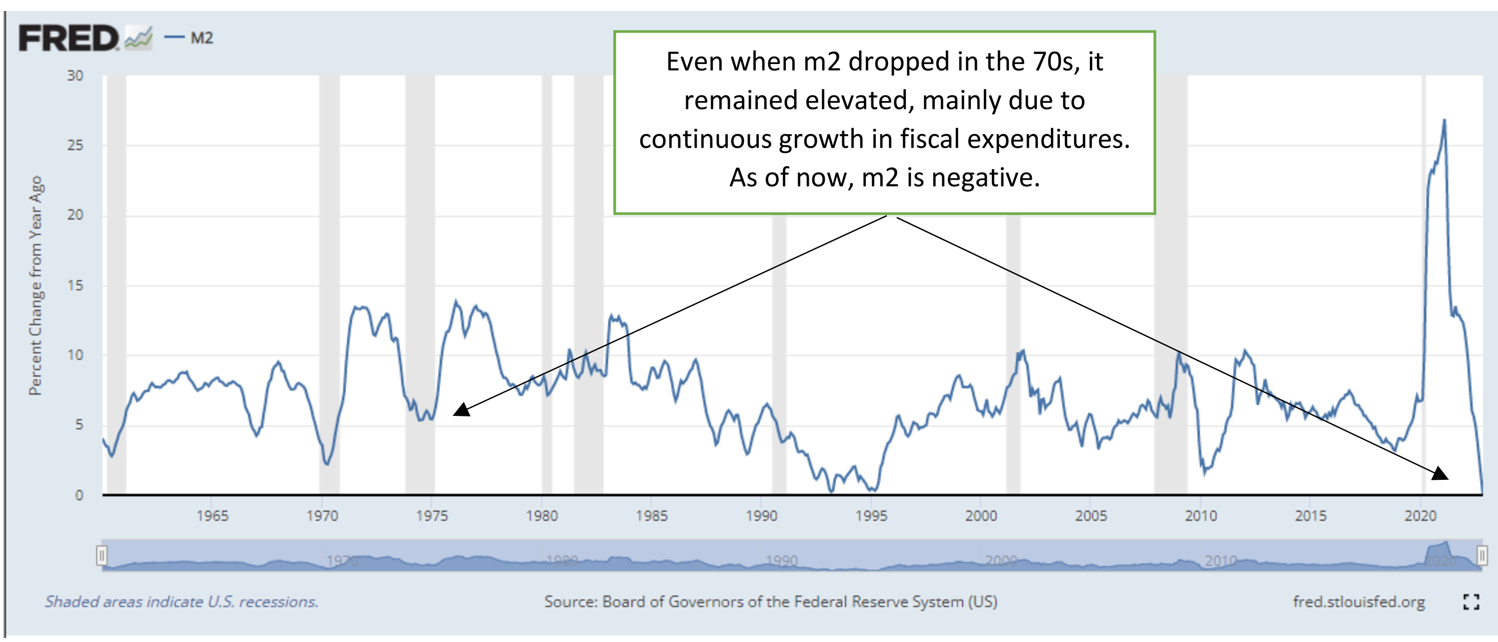


As of now, the fiscal impulse is negative. There is still money in the system, but this limits any further inflation upturn in my opinion (for now).



For inflation to be secular, a shock (ex: fiscal policy) needs to keep GDP above potential for a long enough period while productivity remains low.

Presently, GDP is below potential, the fiscal impulse is negative, and productivity is negative. Therefore, chances of a secular or prolonged era of high inflation are very low. For context, fiscal expenditures were growing at 12% YoY during the 1970s.

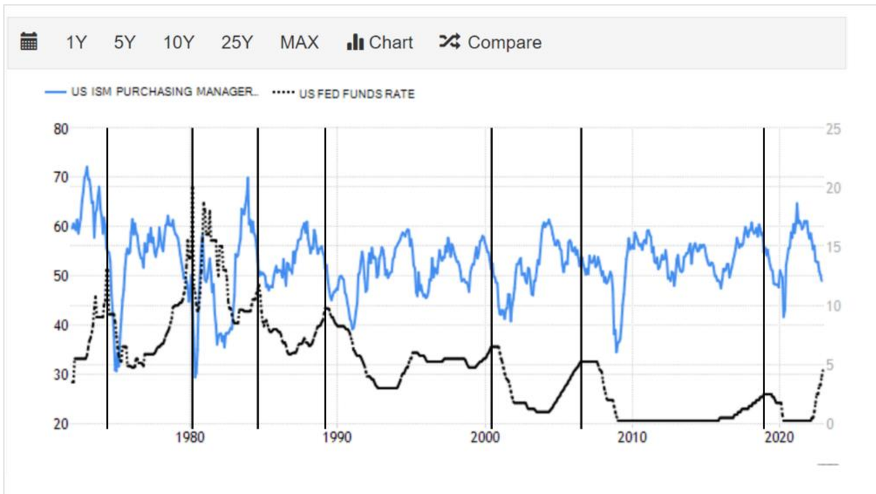


Okay good, now what?

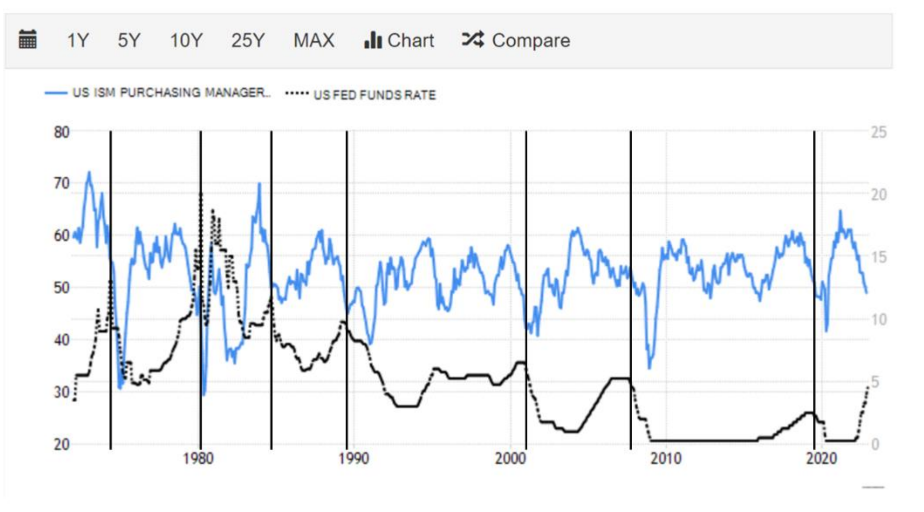
Given its interest rates forecast and inflation projections, the fed seems to be thinking that inflation will be higher for longer. But like I said, I think that they are mistaken.

They are wrong on two fronts in my opinion, the duration of the pause and the interest rates projections.

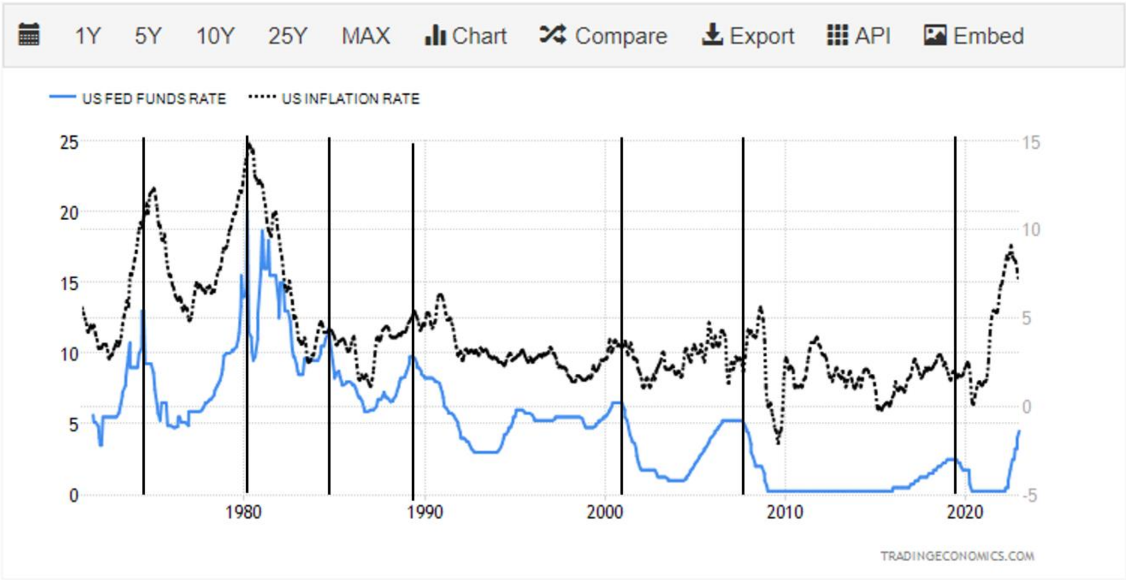
Like I said above, the fed pauses for 7 months in average (3FourteenReserarch) before cutting rates. But the current hiking cycle is quite different from the past ones.



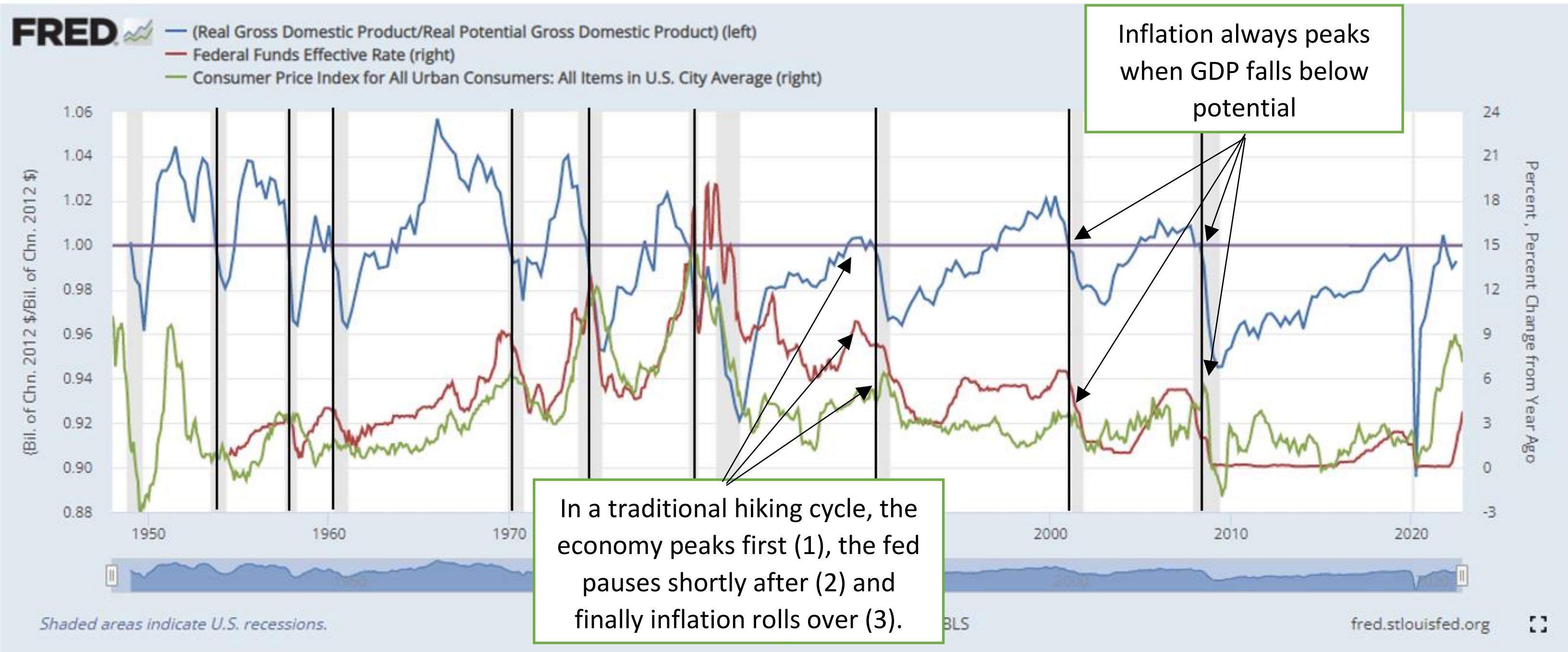
The fed usually stops hiking once the PMI is around 53-54. The PMI is currently below 50 and the fed is expected to hike until mid-2023.



The fed usually starts cutting when the PMI is around 50.



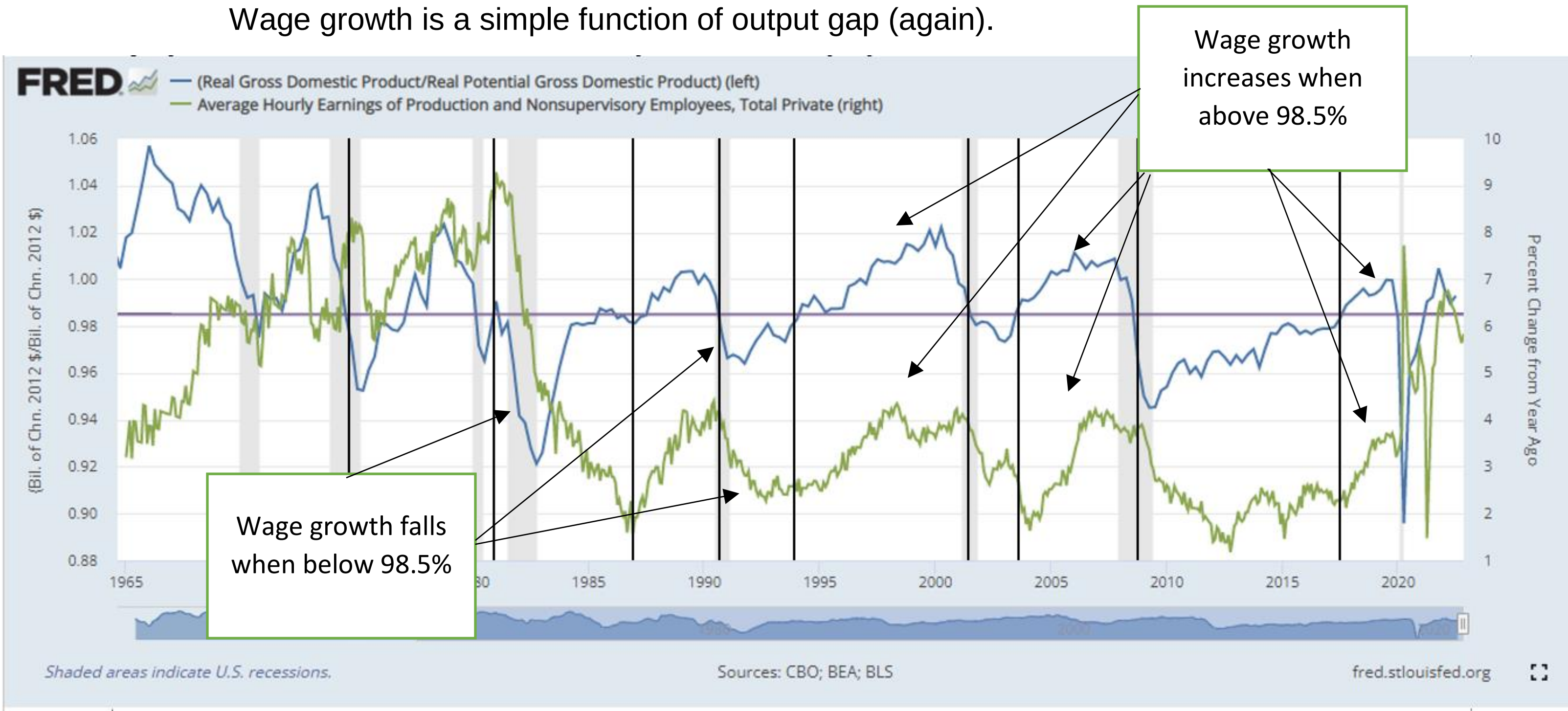
Inflation tends to peak and reverse up to a year after the first cut. Quite the opposite of what is happening now, inflation is reversing while the fed hasn't finished hiking.



Every time the fed brings GDP below potential by raising rates, inflation falls considerably.

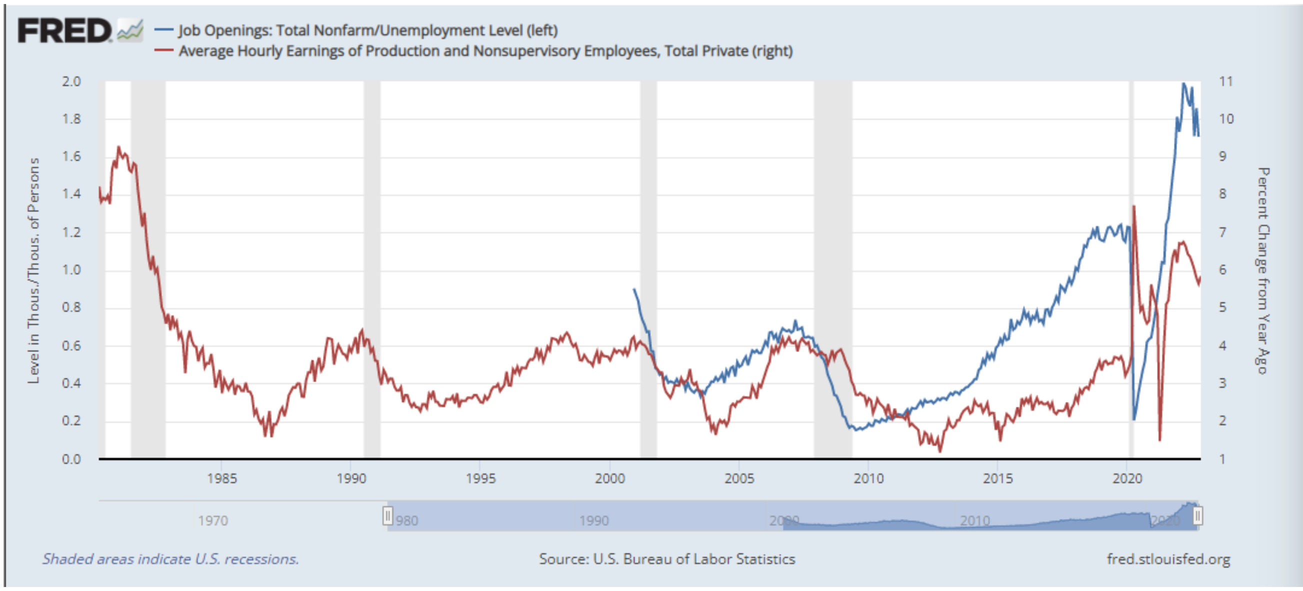
Among the people who believes that inflation is here to stay, the argument that comes the most often is wages. While it is true that wage growth is very high compared to the last cycles, I still think that it will fall along with inflation. Let me explain.

Wage growth is a simple function of output gap (again).



Whenever GDP is above 98.5% of potential, wage growth increases. When it falls below that number, it stabilizes around 2% growth. In the 1960s and 1970s, GDP rarely dropped below that number (98.5%), even during recessions. That explains the secular growth in wages during that period. Given that GDP is already below potential and close to 98,5%, wage growth is likely to fall to 2-3 % in the coming years, at least from a structural perspective.

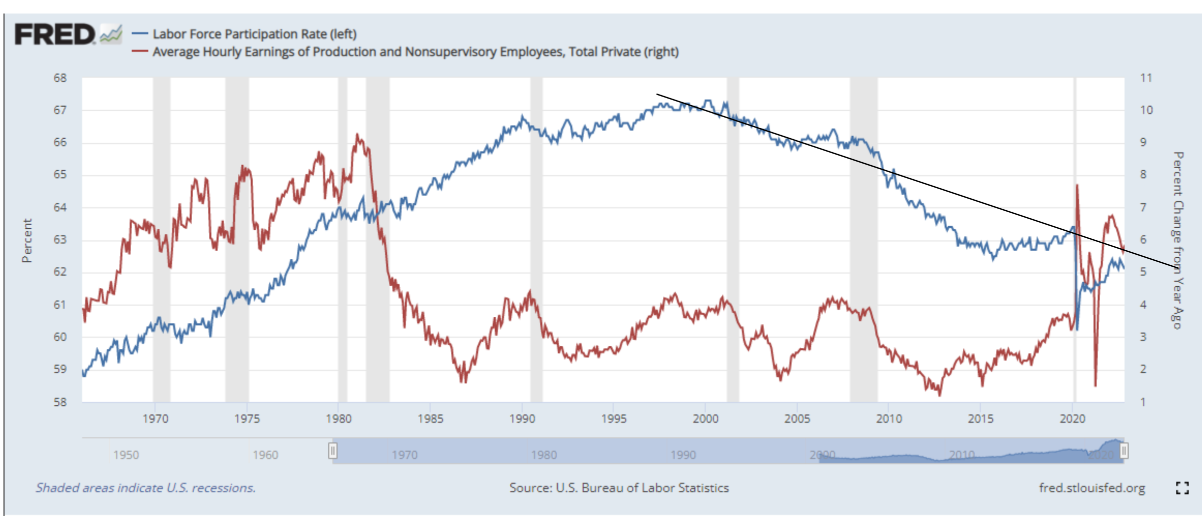
High job openings are also an argument that I see to justify a higher for longer wage growth. However, when we compare the two, there is no real correlation.



In 2007, there was 0.7 job opening for every unemployed person while wage growth was at 4.2%. In 2018, there was 1.2 job opening for every unemployed person while wage growth was at 3.6%. Job openings (adjusted for unemployed person) almost doubled while wage growth fell by 0.6% percent. Therefore, the current level of job openings cannot justify persistent high wage growth.

The reason wage growth is so high is mainly because of the steep drop in the labor force participation rate. During the pandemic, early retirements increased which reduced the supply of workers.

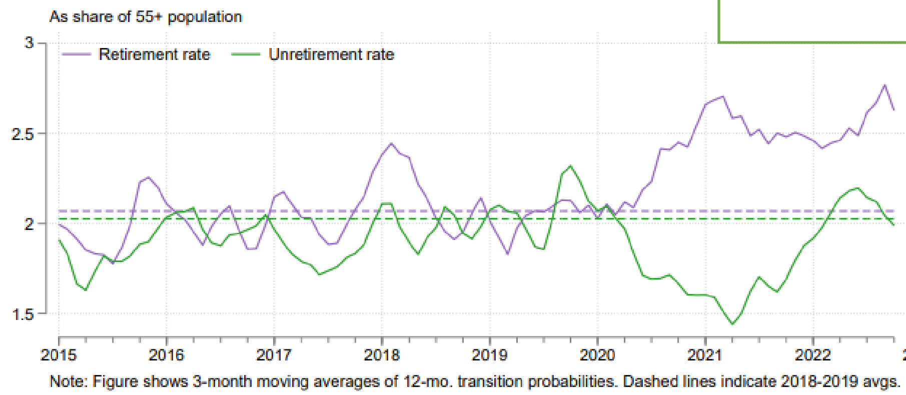
Falling labor force participation rate isn't bad. It's been falling since the 2000s, yet wage growth didn't move. It can be problematic if it falls too steeply and doesn't let time for demand to adjust. This creates a demand/supply imbalance over the short term and wage growth rises.



But eventually, retirement rate come back to normal level and labor force participation rate align with its long-term trend.

Figure 12. Retirement and unretirement rates, as percent of 55+ population

Source : federal reserve

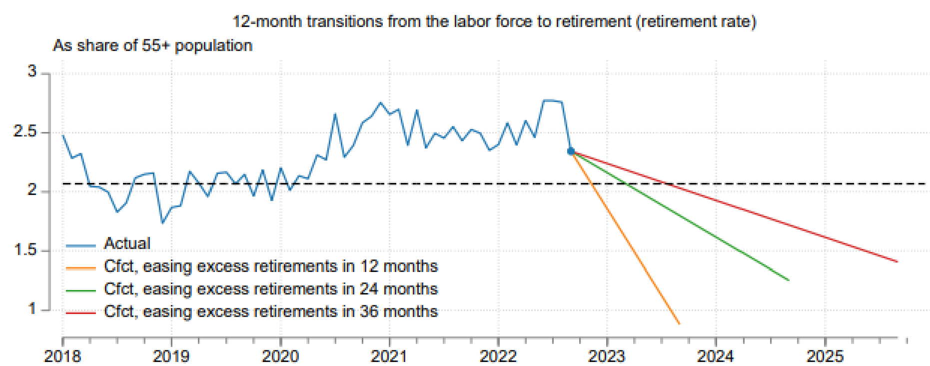


Note. Figure shows the 3-month moving averages of percent of the population moving from the labor force to retirement (purple) and retirement to labor force (green) over 12 months. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Dashed lines indicate 2018-2019 averages.

A one-time event created a surge in the retirement rate. As life return to normal, it should come back to its normal range. A lot of people that were supposed to retire in 2022/23/23 retired in 2020, this means that the retirement rate growth rate will have to adjust downward.

Figure 15. Hypothetical paths for 12-month retirement and unretirement transitions needed to fully ease excess retirements by 12, 24, and 36 months

A. Hypothetical retirement transitions (from labor force to retirement)



So really the current high level of wage growth is a story of short-term strong demand coupled with a short-term fall in the labor supply. Both should come back to normal. From a structural point of view, wage growth is likely to fall in the coming year as GDP falls below potential.

<u>Summary and trade idea:</u>

With the argument I have given on inflation and wage growth, I do not think that the view of the bond market as well as the fed is the right one. There is no certainty here, but I am ready to take the bet given the arguments I have provided.

I would express this view by buying the 2-year T-Note.

<u>How can I be wrong?</u>

- Aggressive expansionary fiscal policy (will be monitored)
- Inflationary shock created by geopolitical events such as a war (will be monitored)

3. Gold (Updated)

Gold is determined by real interest rates (short & long-term real interest rates) and the us dollar as well (to a lesser extent, does not drive gold prices per say, just amplify or lessen the effect of real rates on gold).

Secular real interest rates (long-term):

The price dynamic of gold over the very long term is determined by inflation (globally) & interest rates (developing world, mainly USA).

Inflation:

From a global perspective, rise in commodity prices have a strong influence on inflation. This is because commodities are the primary inputs of all supply chains across the world. Therefore, when there is great demand for commodities, input costs rise and are passed along the supply chain until it reach consumers. This is pretty easy to understand.

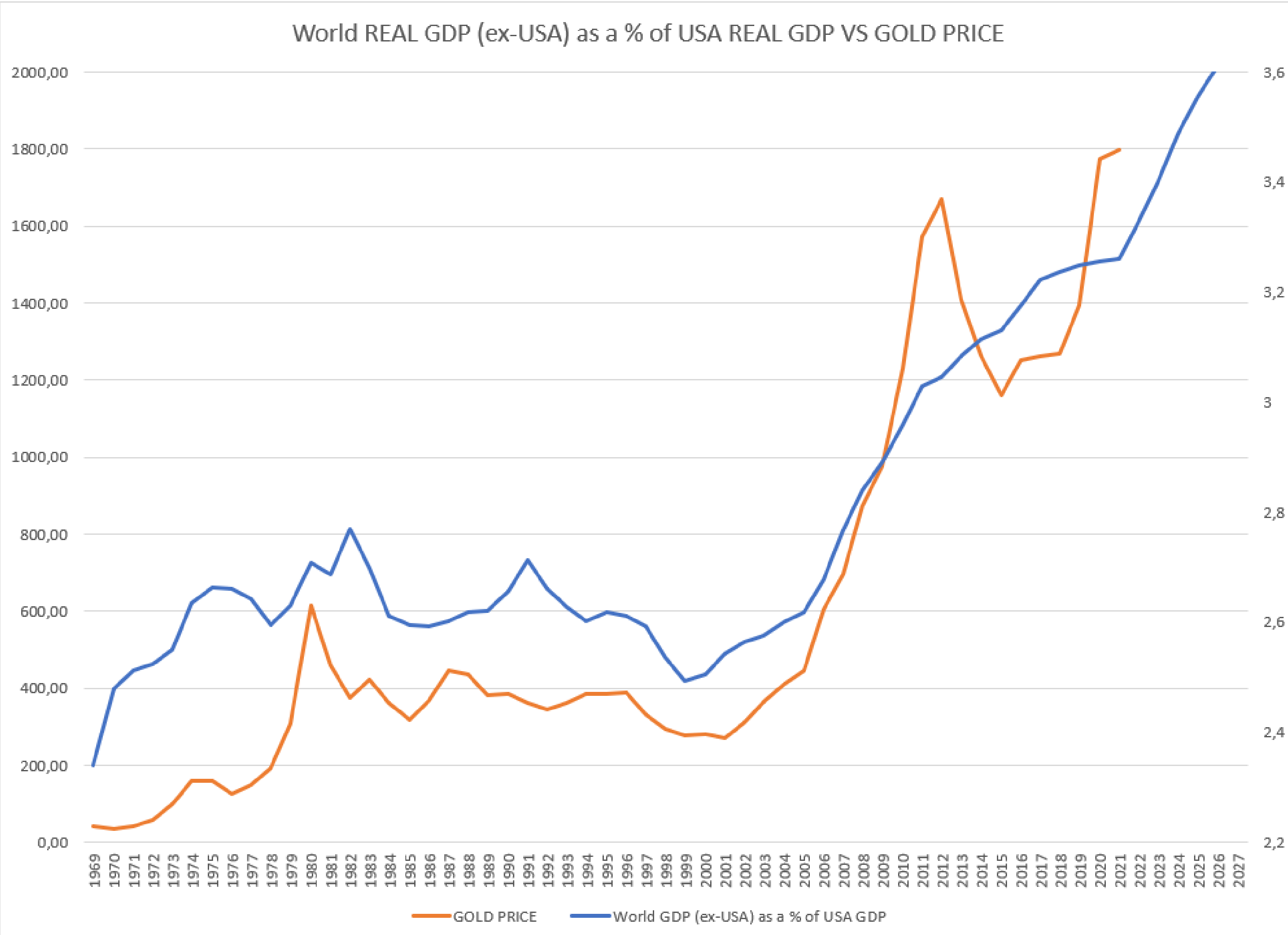
However, when there is strong demand from a specific part of the world due to strong economic growth, the dynamic changes. In such a case, commodity prices will still rise globally and the price increase will be felt on all the supply chains. In the part of world where high economic growth is experienced, there is no problem as the rise in inflation is evenly matched by the rise in economic growth. However, for the rest of the world where economic growth isn't as strong, inflation rises but isn't matched by an equivalent increase in economic growth.

In the latter case, interest rates cannot be raised to match the inflation rate since over the long term, interest rates is determined by economic growth (gdp growth is a proxy the neutral rate). Over the short-term, rates can be raised to match the inflation rate, but it isn't sustainable. Hence this create an evironement of negative real interest rates in the low growth countries.

But why don't investors move their money to high interest rates countries? Shouldn't that solve the problem? Not quite. Interest rates are not the only variables taken into account by investors. When we take into account currency risks, financial & banking infrastructure risks as well as geopolitical risks, the developed world remain the global reference for interest rates. Say tomorrow the central bank of Turkey raises interest rates to 30%, investors will still be reluctant to place their money over there due to the risks mentionned above.

This creates a dynamic where there is a strong transmission of inflationary shocks throughout the world but low willingness of investors to park their money in the developing world where inflation and interest rates are higher. Therefore, as long as the developing world grows faster than the developed world, global real interest rates will continue to decline.

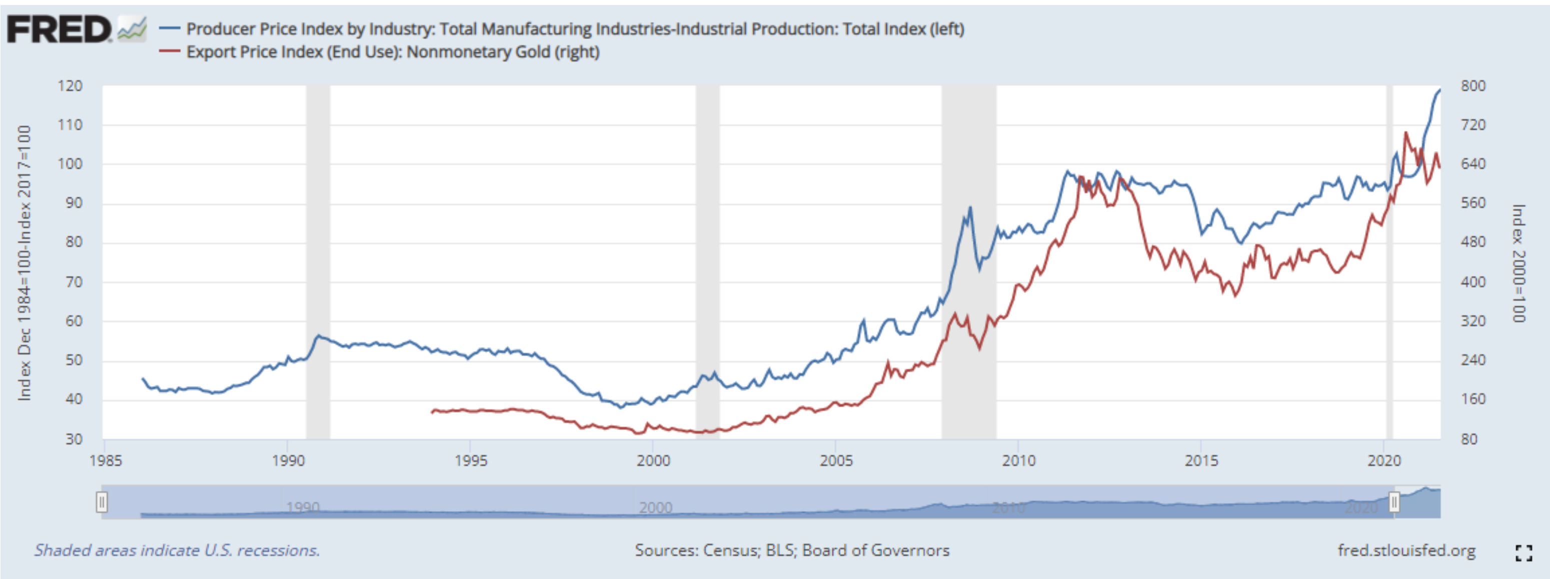
This is best represented by the following chart.

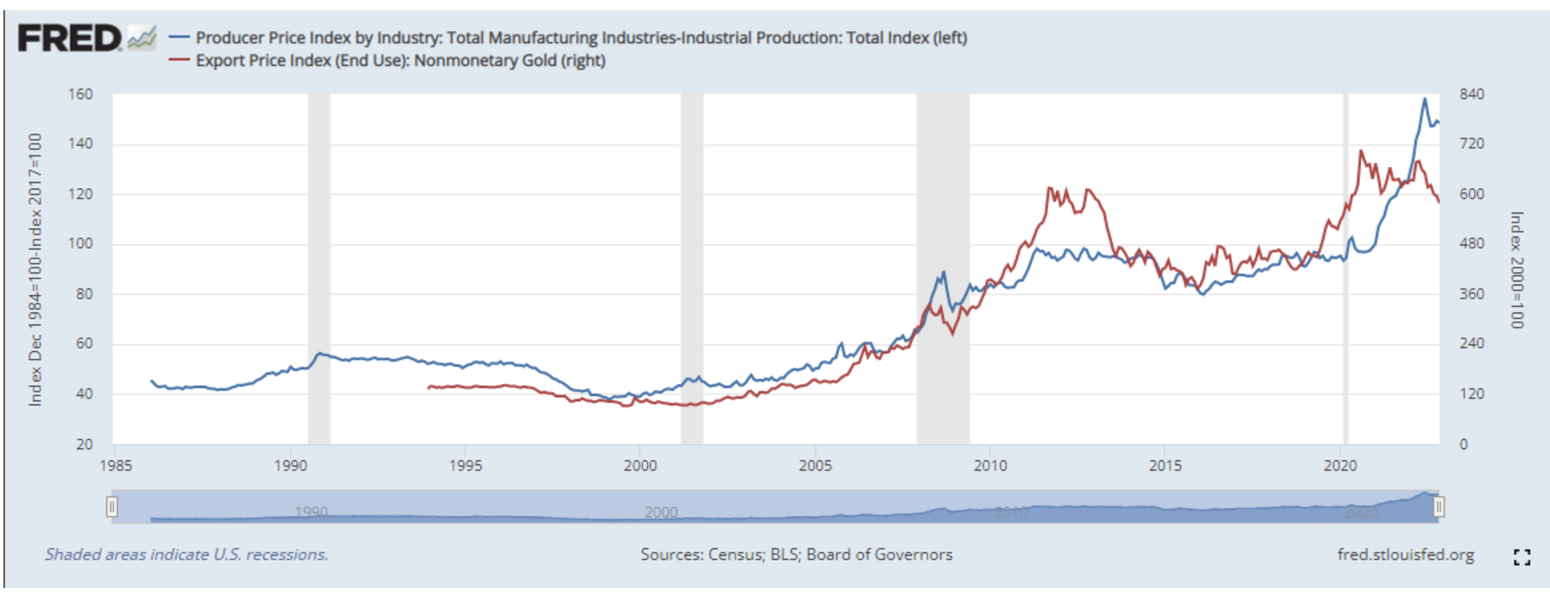


As global real GDP (ex-USA) grows faster than the U.S real GDP, inflation growth is set to be remain above economic growth in the developed world.

Secular real interest rates (medium term):

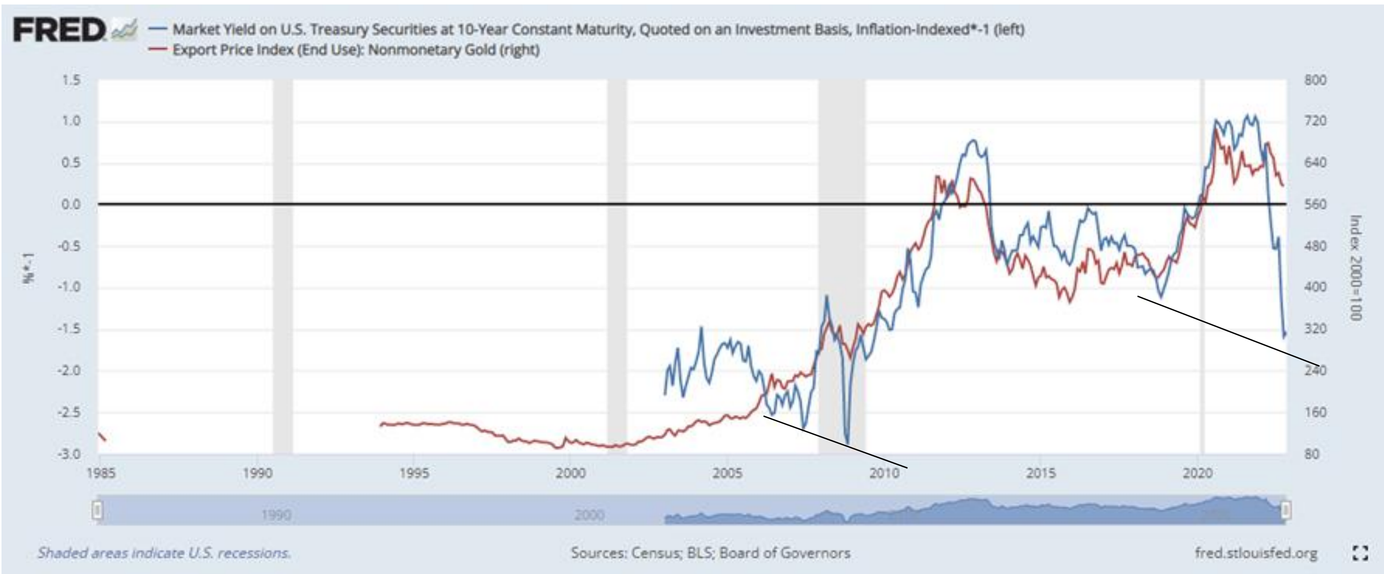
This chart tells the same story as the one above. The only difference is I've used specific indicators. Here we have the PPI minus industrial production. The index is a proxy for real interest rates.

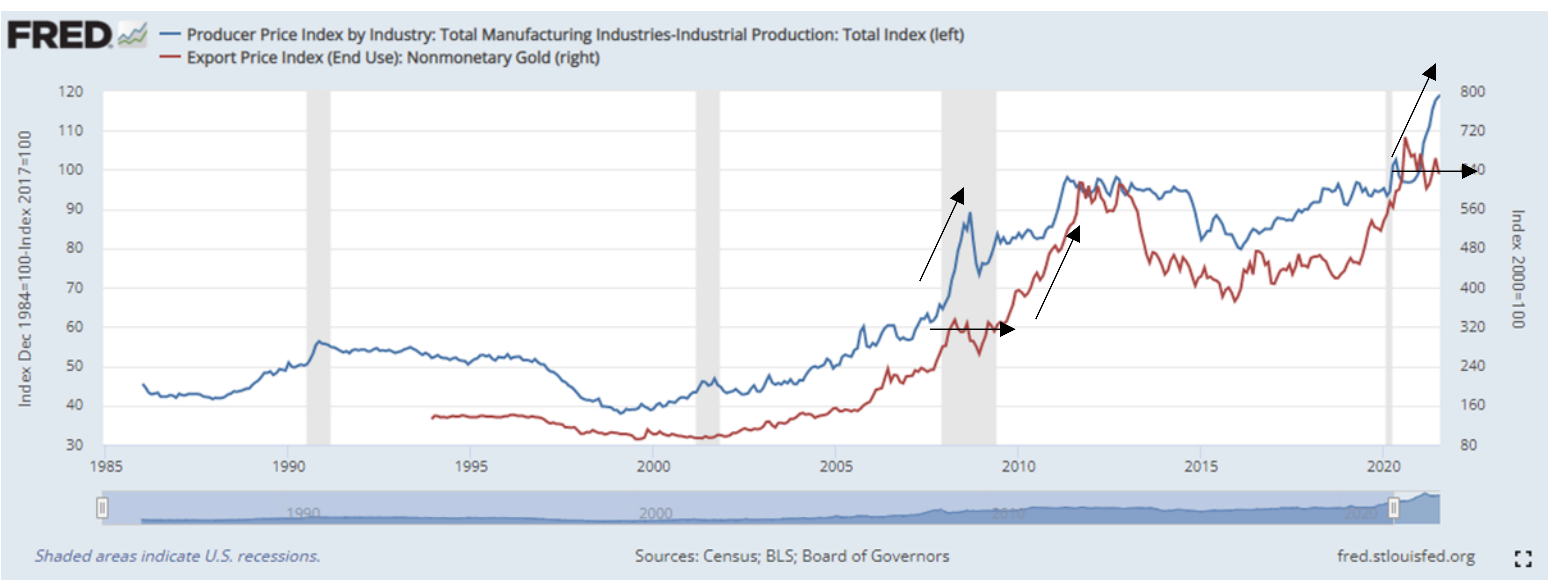




Short-term real interest rates:

I never use this chart to predict gold prices. If anything, gold prices actually lead short term real interest rates (ex: 2013). Short-term real rates tend to oscillate around secular real interest rates, they mainly represent the fed's hiking and cutting cycles.





Current short-term real interest rates levels are implying a price of 1100$ yet gold has barely moved. The same thing happened in the hiking cycle of 2008. In both instances, secular real rates continued their climb, but gold prices were held down by short-term real rates. Eventually the fed started cutting rates and gold resumed its climb towards the fair value implied by secular real rates.

If gold is managing to hold at the current levels despite extreme movement in short-term real rates, it simply means that there is tremendous for gold right now. Once the fed pivots, gold will start rising again. Not only will gold catch up to its fair value (implied by secular real rates), but it should also continue to rise in the following years (from a secular perspective) due to the developing world growing faster than the developed world.

My targets for gold:

- 2400$ by mid 2024
- 3000$ by 2027

4. Conclusion

<u>For traders:</u>

So far, I am only active on 1 one of the 3 trade ideas. I am short the S&P500 that's it (entry: 3925, stop: 4090). Once I find a good entry on gold & the 2 year it will be updated.

<u>For investors:</u>

I do not recommend shorting the market since it requires a bit more technical skill. If you hold stocks that have strong relative strength to the market, keep them. If not, you should probably reduce your position.

I recommend having some exposure to gold through a gold etf, GLD (ETF) should be good. I also recommend having some exposure to short term treasuries (2-5 years), SHY (ETF) should do the trick as well. You can also add exposure to long term treasuries such as the TLT ETF.

I believe those 2 assets will be the best performer in the next 2 years.

This is not financial advice, do your own research before buying or selling anything.