

Market Update

Monthly review of market developments



1 Who we are

We are a group of part time Master's students specialised in Banking, Finance and Analytics at King's College London, with students joining from all corners of the world.

2 Why we do this

Inspired by our diverse community, we created this project in order to join our experience and knowledge and apply it to the formation of a unique perspective on markets. We do so by capturing intriguing stories and combining them with detailed market research and data analysis. In such way we support each other to develop stronger analytical skills and become better investors. We are excited to share our analysis with the Finance community, or with anyone who shares the same passion!

3 What it does for you

Our comprehensive analysis spans across multiple crucial domains including the Macro Economy, stocks, bonds, commodities, cryptocurrencies and real estate. Through the in-depth study of these sectors, we aim to offer a holistic view of the financial world which enables our readers to make informed decisions and gain a strong understanding of the complex dynamics at play.

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September Overview

By: Ali Cem Tezel

The Federal Reserve has delivered a hawkish tone while skipping to raise rates in the September meeting. ECB raised the policy rates despite incoming data implying a recession, more precisely a stagflation. BoE had also skipped this month but showed signs of determination to bring inflation down to desired levels. Investor expectations of rate cuts appear to be postponed towards the end of 2024. We have witnessed a reconciliation between the markets and the central banks on the ground that investors tend not to disregard the prospects of higher rates anymore.

The U.S. CPI inflation was 0.6% in August and 3.7% year-over-year. This reflects an increase from previous headline figures. Even without the pressure from energy and food prices, services inflation proves to be sticky and therefore we may expect higher inflation rates. EU and UK inflation rates are above the U.S. headline inflation, but the government bond yields are below of those in the United States. Even the Japanese economy had ended up with over target rates. In such environment, the prevalence of the USD over major currencies should not be surprising as it stands as the only currency to yield a positive real rate currently. Moreover, the U.S. economy seems to be healthier than the peers in terms of economic activity. The total nonfarm payrolls in the U.S. increased by 187,000 beating expectations but staying way below 12-month average of 271,000 in August while the employment rate rose to 3.8%.

September marked the worst month of the year both in terms of bond and equity markets. There had been a massive destruction in the value of bonds, as bond yields rose to their highest in one and a half decade. The rising rates are also aggravating the stress in the financial markets. Banks are exposed to interest rate risk, and so the rising yields are reducing the value of the fixed income assets listed on balance sheets. The unrealized losses on investment securities have escalated since the U.S. Banking Turmoil which caused a broad panic in financial markets in March 2023. According to the FDIC the increase on unrealized losses in Q2 totaled \$560 billion and are 8.3% over Q1 figures.

Index	2022	YTD as of 30th September 2023	Monthly Return (September 2023)
DXY	7,68%	2,87%	2,46%
SPX	-19,44%	12,08%	-4,86%
DJIA	-8,74%	0,87%	-3,40%
Nasdaq	-33,47%	27,95%	-5,80%
Stoxx 600	-12,90%	3,88%	-1,75%
NIKKEI 225 INDEX	-9,00%	23,50%	-2,34%
S&P 500 Bond Index	-14,14%	0,43%	-2,43%
WTI Futures	7,58%	11,48%	8,56%
Bitcoin	-64,00%	70,96%	3,91%
Gold (XAU/USD)	0,44%	2,29%	-4,65%

Conclusion

September had been a devastating month in terms of various asset classes returns. Both stocks and fixed income securities plunged similarly to the way they have in 2022, while the Dollar Index gained strength. Apart from DXY, monthly returns for Bitcoin and Crude Oil were also positive. While investors are trying to explore the best alternatives amidst the current chaos, orange juice prices seem to have outperformed all the major asset classes in our table returning over 80% in 2023.

De-coupling - Is this inevitable

By: Chun Wang Adrian Ip, Thomas Petters

Introduction

September has brought us a record-breaking number of consecutive September days reaching 30 degrees Celsius and the National Shake Month. Additionally, the Fed and BoE has decided to keep the rates unchanged, while the ECB made history by raising the interest rates to its highest level since 1999, when the euro was launched. There has also been a hot social media trend where TikTok users would ask men around them “how often do you think about the Roman Empire”, though a better question for executives of US companies would be “how often do you think about the US-China decoupling”, after Mexico overtook China to become the largest exporter to the US. Are the two economic powerhouses decoupling, or is this simply an inevitable result of China’s trade strategy?

How it all (mostly the trade war) started

After normalising their relations in 1979, the trade partnership between US and China have exploded and China’s unique position in the global supply chain has hoisted it as the largest exporter to the US. In wake of the “America First” economic policy in 2018, the Trump administration imposed the first of many tariffs on China and other large trading partners to reduce its trade deficit. This effectively made Chinese goods less affordable for US consumers and US manufacturers were forced to explore other production options such as Mexico.

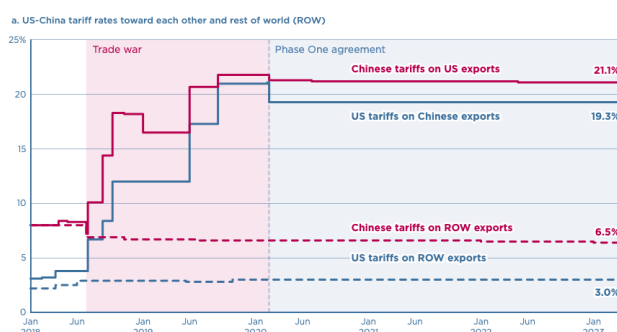


Figure 1. US-China tariffs on exports. Source: Peterson Institute for International Economics

The US tariffs on Chinese exports has risen from 3.8% in July 2018 to the current level of 19.3% in Feb 2020 and in retaliation, China has responded by increasing their tariffs on US exports from 7.2% to 21.3% during the same period (see figure 1), when the tariffs on the rest of world exports are significantly lower.

Building on Trump’s trade policy, the Biden administration have added further tariffs on Chinese imports, export limits and investment bans for Chinese companies operating in sensitive industries in the name of protecting US interests. China’s “No-Limits Partnership” with Russia following the tension with Ukraine also had the effect of further isolating itself from the West. As a result of the US-China trade relationship turning sour, rising labour cost in China and manufacturers embracing nearshoring as a strategy to distance itself from geopolitical tension, Mexico became the biggest beneficiary (see figure 2) as it once again made up the largest share of US imports since 2003.

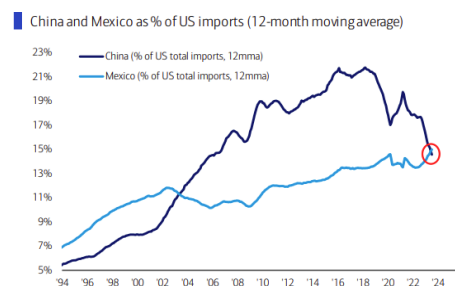


Figure 2. US Importing more from Mexico than China since 2003. Source: BofA Global Investment Strategy, Bloomberg

Mexico's strength is not only reflected in its proportionate export of goods to the U.S., the Peso has also shown relative strength against the U.S. dollar and the Chinese yuan since the beginning of 2022.



Figure 3. Currency Chart: MXNUSD vs. CNYUSD vs. DXY. Source: Tradingview

While the last four decades have been dominated by the growth miracle of China, Mexico is representative of a new group of emerging trading partners that have a wealth of natural resources as well as advantageous demographics. An advantageous prerequisite for export-oriented economies to be able to secure strong productivity gains while maintaining relatively low wage growth. Beside emerging economies in Latin America, the densely populated Indo-Pacific region is steadily attracting heightened strategic attention from the two rival powers, both economically and also militarily.

Recent casualties

The back and forth of US and China imposing tariffs on each other appears like a tennis match with a rally that never-ends. The agriculture, manufacturing and technology sectors have been hit the hardest since the trade war started.

In July, China has imposed exported restrictions on gallium and germanium to the US, rare earths used for making semiconductors and EVs. According to Reuters, aside from having 34% of the world's total rare earth oxide in reserve, China accounted for 70% of world mine production in 2022, processed at least 85% of the world's capacity to process rare earth ores into material manufacturers could use and where US sources 74% of its rare earth imports from as of 2021. While western countries have tried to reduce their reliance on China for critical minerals, companies like the Las Vegas-based MP Materials still have to ship their rare earth oxides to China for final processing after mining in California, since there is no final processing available domestically. This puts China in a dominant position in the rare earths supply chain.

President Biden signed an executive order in August that prohibits US-based PE and VC firms from making new investments in Chinese technology sectors such as semiconductors and quantum information technologies considered critical to national security. This move directly impact the ability for small private Chinese technology companies to gain access to capital, resources and industry experts through PE and VC backing, and consequently, slows down China's development of key technology sectors.

An all-new iPhone line-up announced in the Apple event on 12th September was not sufficient to recover Apple's stock price from evaporating 6%, or equivalent to \$200bn, after the Chinese government ordered officials to not bring iPhones into office or use them for work. China being the third largest market for Apple, contributed to 18% of its total revenue last year and where Foxconn, their biggest supplier manufactures most of its products, such announcement is destined to affect the share price negatively.

What is the data telling us

Let's take a detailed look at China's export numbers. As of 2022, the three largest importers of Chinese goods are the US, Hong Kong and Japan, whereas China and Mexico contributes to 18% and 14% respectively of all US imports by country and also the largest trade partner for the US (see figure 3).

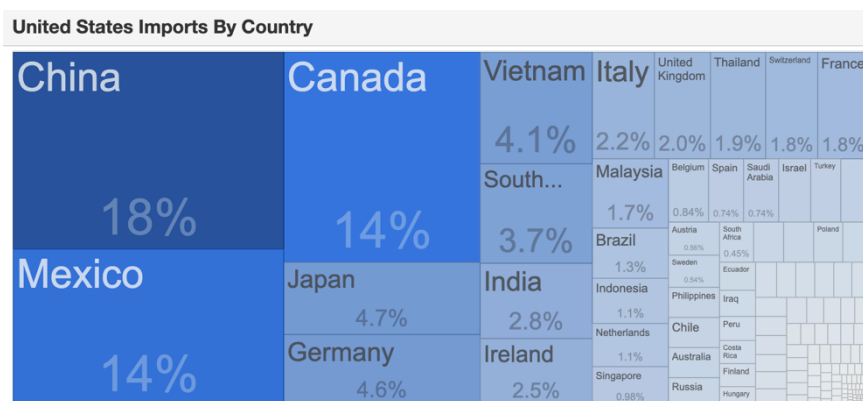


Figure 4. US Imports by Country in 2022. Source: Trading Economics

On a high level, we see a modest decline (5.6%) in year-on-year numbers in China's total exports (figure 4), and in the most cases, it is a direct result of consecutive rate hikes over the past 18 months that are meant to curb consumer spending and investment. After a spending boom in 2020 and 2021, consumers shifted their spending patterns from goods to services. As the world's largest importer of goods, the US therefore imports less products from other countries that import

(4) China's Total Export & Import Values by Country

Unit: USD1 Million - 1-to-8 Total Year-on-Year (±%)

Export Destination	Export chg in %
Total	-5,6
European Union	-10,5
of which: Germany	-13,5
Netherlands	-12,8
France	-10,7
Italy	-15,0
United States (US)	-17,4
ASEAN	-3,6
of which: Vietnam	-7,3
Malaysia	-1,5
Thailand	-2,3
Singapore	14,0
Indonesia	-8,4
Philippines	-13,4
Japan	-8,6
Hong Kong, China	-8,9
R. O. Korea	-7,8
Taiwan, China	-22,4
Australia	-3,7
Russian Federation	63,2
India	-1,5
United Kingdom (UK)	-5,4
Canada	-19,8
New Zealand	-16,4
Latin America	-4,1
of which: Brazil	-7,5
Africa	10,2
of which: South Africa	5,3

Note:
1. The Association of Southeast Asian Nations (ASEAN) includes: Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam;

Figure 5. China's total export & import values by country, Jan – Aug, YoY comparison. Source: GACC

intermediate goods from China. Nevertheless, the value of export is still on trend to beat 3 trillion dollars (Jan-Aug: \$2.22 trillion) and the third highest amount on record.

The export data per Trading Economics also suggests China has been diversifying its export destinations. Using China's largest export destinations for context, Washington has been implementing trade restrictions since 2018, the export value still reached its historic peak in 2022, while the value of export has been growing at a diminishing rate with the US. Simultaneously, we see rapid growth in the trade relationships since the inception of trade war for most other export destinations, in particularly its Asian neighbours such as Japan, South Korea, Vietnam and India.

What does the future hold for China?

With the drops in trades with US, one might ask the question if China's export competitiveness has succumbed to the US' restrictions? The answer is complex and will likely take time to crystallize. We believe that the trade relationship will endure but more entwined, in the form of near-shoring, friend-shoring and probably via the detour of intermediary countries. In a worst-case scenario, a trade relationship could potentially resemble the existing one between Russia and the European Union, with third countries serving as proxy countries of origin for traded goods.

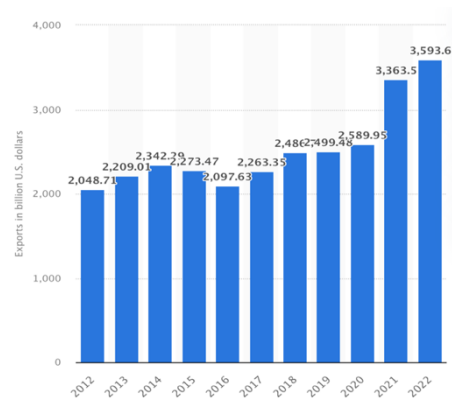


Figure 6. Value of export of goods from China (in billion U.S. dollars). Source: Statista

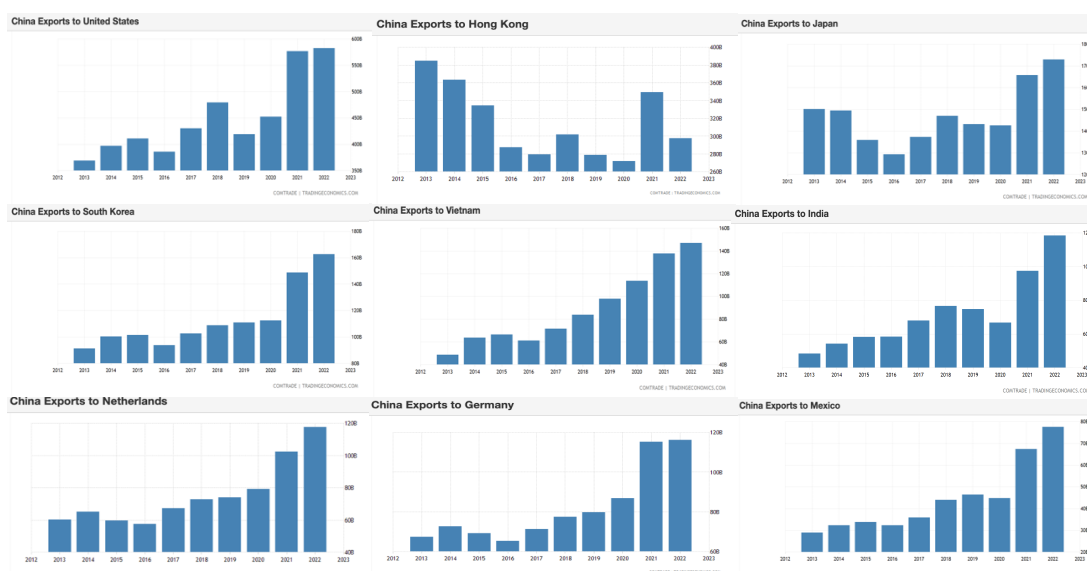


Figure 7. China export growth to its trading partners. Source: Trading Economics

Conclusion

With a small sample size, it is too early to say whether this US-China “decoupling” trade relationship is developing into the buzzword media frequently uses, or a natural course of events. It may add to Beijing's headache if the policymakers in Brussels decide to join in on the trade war. Whether the trade restrictions make another success case like South Korea in the 60s & 70s, or a Pyrrhic victory where the country's own industry benefits from another industry's misfortune remains to be seen. Either way, it is likely that both sides will increase the import prices on the other's affected product categories and make the business environment less friendly, while the importers and consumers suffer. A potential risk from these dynamics could be structurally higher consumer prices in the United States until new trade relationships come into play, as well as structurally lower manufacturing and export growth in China. If that happens, the last two years could serve as a model for investors for the coming decade. As the Chinese saying goes “neither the snipe nor the clam will yield, until a fisherman comes by and snatches them both into his net”. Though one thing is for certain, no amount of milkshake could make Tim Cook a happy man this month.

US Equities Market Update

By: Partha Sharma

Overview

The recent performance of major U.S. stock market indices presents a mixed picture. In the short term, weekly performance has been marked by volatility, with only the NASDAQ 100 managing a small positive return, while the other indices have witnessed declines. Looking at the monthly performance, a general downtrend is evident across all indices, with the Russell 2000 experiencing the most significant decline of -6.46%. This suggests that the past month has been challenging for U.S. equities. However, when considering the year-to-date (YTD) performance, a more optimistic perspective emerges. Despite these recent setbacks, the broader market has still managed to deliver positive returns, with the NASDAQ 100 leading the way with a strong gain of 34.55%.

Index	Weekly (%)	Monthly (%)	YTD (%)
S&P 500	-0.68%	-5.22%	11.78%
NASDAQ 100	0.10%	-4.93%	34.55%
Russell 2000	0.04%	-6.46%	1.36%
Dow Jones Industrial Average	-1.36%	-4.14%	1.09%

Source: Finviz.com

Sector Update

The recent monthly performance of various sectors has presented a wide spectrum of results. While the Energy sector managed to show modest positive growth, several other sectors encountered notable challenges. Specifically, Utilities and Real Estate faced substantial setbacks in the month of September. Communication Services, Financial, Health Care, Materials, Consumer Discretionary, Consumer Staples, Technology, and Industrial sectors all recorded losses in September, each influenced by unique dynamics within their respective industries.

Sector	Weekly (%)	Monthly (%)	YTD (%)
Energy	1.21%	1.72%	3.34%
Communication Services	-0.08%	-3.09%	36.63%
Financials	-1.46%	-3.88%	-3.01%
Health Care	-1.08%	-4.51%	-5.23%
Materials	0.23%	-5.28%	1.12%
Consumer Discretionary	0.03%	-5.41%	24.64%
Consumer Staples	-1.90%	-5.91%	-7.70%
Technology	-0.29%	-6.22%	31.73%
Industrials	-0.40%	-6.75%	3.23%
Utilities	-6.89%	-7.30%	-16.41%
The Real Estate	-1.45%	-8.64%	-7.74%

Source: Finviz.com

The anticipation of a prolonged period of high interest rates has the potential to adversely affect equities, particularly within sectors such as utilities and real estate. This is due to the fact that companies in these sectors often heavily rely on borrowing to fund their operations and expansion. As interest rates climb, the cost of borrowing for these companies escalates, resulting in increased

financing expenses, diminished profitability, and the potential for lower stock valuations. Furthermore, utilities and real estate stocks have traditionally attracted income-seeking investors due to their historically stable dividend yields. However, as interest rates rise, fixed-income investments like bonds become more appealing due to their higher yields and lower risk when compared to stocks. Consequently, investors may redirect their investments away from these equities in pursuit of safer income-generating alternatives.

Sector in Focus: Industrials

The substantial 6.75% drop in the Industrial sector's performance over the past month underscores a notable shift in investor sentiment within this sector. The Industrial sector has persistently trailed behind the broader market for an extended period. The manufacturing sector in the United States has endured nearly four decades of inadequate investment in infrastructure, workforce development, and equipment.



Recent years have accentuated the vulnerabilities within this sector, particularly with the escalation of trade tensions and geopolitical conflicts between China and Western nations. Additionally, the disruptions caused by the global pandemic have exposed unprecedented challenges for manufacturers, particularly in terms of supply chain disruptions. These cumulative factors have underscored the pressing need for renewed attention and investment in the U.S. manufacturing industry to enhance its resilience and competitiveness in an increasingly complex global landscape.

In its most recent report, the Institute for Supply Management's Manufacturing ISM Report offers valuable insights into the major challenges confronting the manufacturing industry. Despite a marginal uptick in the Purchasing Managers' Index (PMI), rising from 46.4 in July to 47.6 in August, the PMI remains situated below the critical 50-point threshold, a clear indicator of the manufacturing sector's ongoing contraction.

Manufacturing at a Glance

INDEX	Aug Index	Jul Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	47.6	46.4	+1.2	Contracting	Slower	10
New Orders	46.8	47.3	-0.5	Contracting	Faster	12
Production	50.0	48.3	+1.7	Unchanged	From Contracting	1
Employment	48.5	44.4	+4.1	Contracting	Slower	3
Supplier Deliveries	48.6	46.1	+2.5	Faster	Slower	11
Inventories	44.0	46.1	-2.1	Contracting	Faster	6
Customers' Inventories	48.7	48.7	0.0	Too Low	Same	3
Prices	48.4	42.6	+5.8	Decreasing	Slower	4
Backlog of Orders	44.1	42.8	+1.3	Contracting	Slower	11
New Export Orders	46.5	46.2	+0.3	Contracting	Slower	3
Imports	48.0	49.6	-1.6	Contracting	Faster	10
Overall Economy				Contracting	Slower	9
Manufacturing Sector				Contracting	Slower	10

*Number of months moving in current direction. Manufacturing ISM® Report On Business® data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

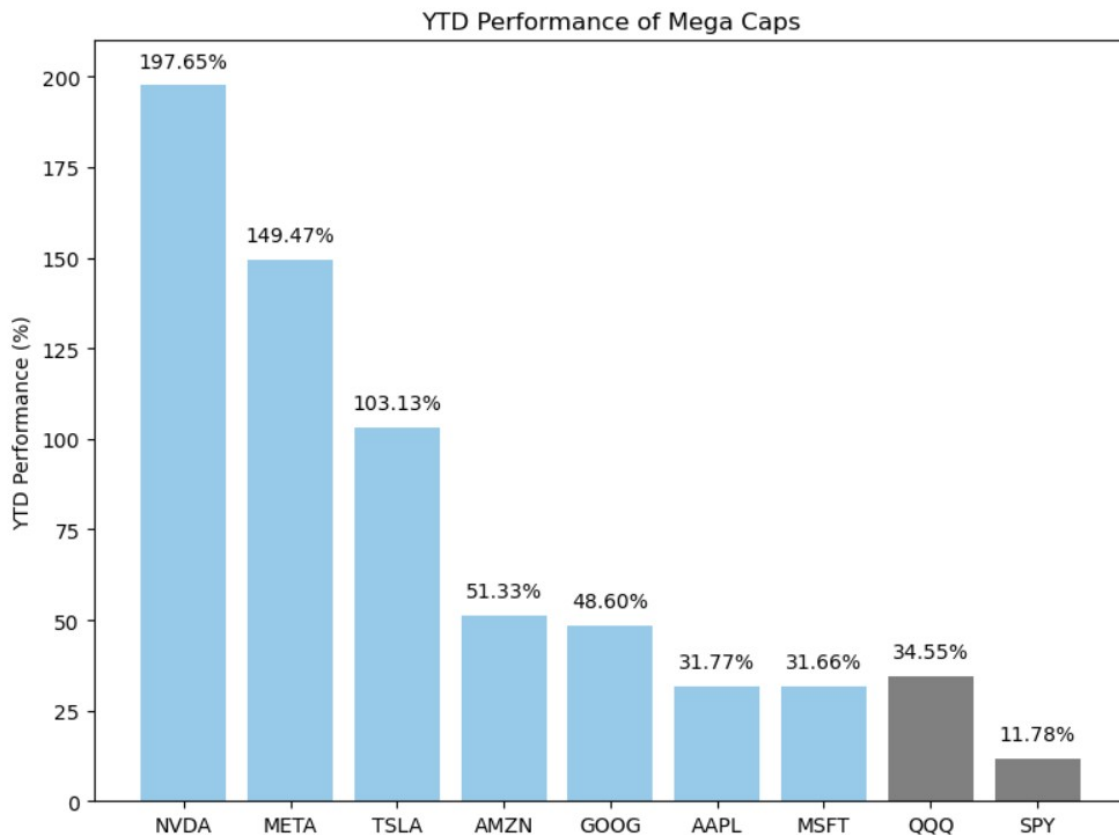
Source: Manufacturing PMI® report

The report highlights a concerning issue where none of the five sub-indexes directly contributing to the Manufacturing Purchasing Managers' Index (PMI) - including New Orders, Production, Employment, Supplier Deliveries, and Inventories - are currently showing signs of growth. This widespread lack of growth in these critical components indicates that the manufacturing sector is facing significant challenges. In the context of a potential economic recession, these indicators raise valid concerns. A sustained contraction in manufacturing can have far-reaching consequences across the economy, affecting factors such as employment, business investments, and consumer sentiment. This, in turn, could contribute to an economic downturn.

Regarding its impact on equities, the challenges in the manufacturing sector, as reflected in these indicators, may lead to reduced corporate earnings. This could have a negative effect on stock prices in the industrial sector and potentially influence overall market sentiment. As a result, investors may become more cautious in the face of economic uncertainties, potentially causing increased market volatility. In summary, the lack of growth in key manufacturing indicators is a significant issue that has broader implications for both the manufacturing sector and the financial markets, potentially impacting investment decisions and market stability.

Stocks to Watch: Big Tech

In the present year, the impressive success of large-cap technology stocks has played a substantial role in boosting the strength of the U.S. stock market. While concerns about a potential economic downturn, an impending federal debt ceiling deadlock, and mounting pressures in regional banking industries have been on the rise, investors have turned to these resilient stocks as a wise defensive approach.



Source Finviz.com

Conclusion

In conclusion, the U.S. equities market has shown a mixed performance recently, with volatility in weekly returns and a general downtrend in monthly performance across major indices. However, when considering the year-to-date performance, there is still optimism, especially with the NASDAQ 100 leading with a strong gain.

Sector-wise, various sectors have faced challenges, particularly Utilities and Real Estate, due to the anticipation of higher interest rates. The potential for higher rates could adversely affect companies in these sectors, impacting their profitability and stock valuations. Additionally, rising interest rates may divert income-seeking investors towards safer alternatives like bonds.

The Industrial sector's significant decline in the past month highlights broader issues within the manufacturing industry, including inadequate infrastructure investment and global challenges. The recent Manufacturing ISM Report indicates that the manufacturing sector is facing contraction, which could have far-reaching consequences for the economy and equity markets.

Large-cap technology stocks have been a reliable choice for investors amidst economic uncertainties, federal debt ceiling concerns, and pressures in regional banking sectors. Their robust performance has helped bolster the U.S. stock market's strength. Investors should carefully consider sector dynamics and broader economic indicators as they make investment decisions in these uncertain times.

Bond Market Outlook

By: Ali Cem Tezel and Teodora Jelusic

Introduction

Government bonds are higher than their historical averages in a global scale. So why would investors be skeptical about investing in the bond markets when the equity-like returns are guaranteed? The first thing that comes to mind is the changing dynamics in the global economy. Inflation is much more dependent on the supply channels than demand in today's world, a challenging dynamic for the rate hikes' ability to contain inflation.

The last time U.S. 2 Year Treasury Notes yielded over 5% was in June 2007 just before the 2008 financial crisis. Back then, the Federal Reserve responded to the crisis by reducing Federal funds rate from 5.25% in September 2007 to a range of 0-0.25% in December 2008. The nominal yields on U.S. government bonds plunged, raising the prices of those securities throughout 2008 which was accompanied by falling inflation rates. If one expects the history will repeat itself, then the current yields can be considered as luscious and falling rates in the near future may provide significant capital gains. However, the moderated inflation rates today are near the peak inflation rates recorded in 2008. The likelihood of inflation retreating further rapidly is out of the picture and FED considers keeping the rates higher for longer in order to fight the inflation. So, there is uncertainty about the timing of the introduction of rate cuts as opposed to 2008 period.

United States

Federal Reserve kept interest rates unchanged while hardening the hawkish stance in FOMC this month. The consequences of the recent meeting were the crushing stock and bond markets, both facing the worst month of the year. The main focus of the committee was the inflationary pressures making a comeback due to the rising energy prices recently. Jerome Powell made it clear that it is a long way to get to the 2% inflation target. At the same time, FED has sharply revised up their economic growth projections¹ for 2023 which points to 2.1% change in real GDP compared to 1.0% change that was stated in the previous "Summary of Economic Projections"² released in June. According to "Dot Plots", Federal funds rate is expected to reach 5.6% by the end of 2023 and this reflects the potential of an additional hike of 25 basis points till the end of the year. Although the projections on the policy rate remained unchanged for the year end, the projections for the future have been revised upwards. The risks to PCE and Core PCE were weighted on the upside according to the participants. FED has signaled that the inflation threat is still around and they will be maintaining their stance, emphasizing the higher for longer message. The market expectations of a rate cut in early 2024 have been reversed following the September meeting. According to the probabilities displayed on CME FedWatch Tool³, FED is likely to skip in the next meeting as well but will not cut the rates before July, 2024. Initial response was the climbing yields in U.S. Treasuries at all maturities. U.S. 2 Year Treasury Note yields exceeded 5% whereas 10 Year yields reached over 4.50%. It has been over a year since the U.S. yield curve has been inverted. The 10-2 spread stands at -0.44% as of 30th of September. The inversion of the yield curve in the U.S. has preceded each economic recession since 1970s.

¹ <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230920.pdf>

² <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230614.pdf>

³ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

Considering that 10-year breakeven inflation is at 2.35%, the real rates historically averaging at 1.00%, and a plausible term premium of 1% for the US 10-year point to a yield of 4.35%. It is fair to say that the current yields reflect the expectations in the US as 10 Year yields are wandering around those levels. However, the inflation risk premium which is supposed to be embedded inside breakeven inflation seems to be underestimated. If the expectations are based on FED's latest projections that the inflation will retreat to 2 percent in the long-term, in that case the current breakeven inflation rate might be justified. The main question is whether the inflation target can be achieved or not. FED keeps the target unchanged while stating that the path to get down to 2 percent is bumpy. There is also a growing debate about the necessity of increasing the target rates because the inflation rates are believed to remain between 3 to 4 percent. Investors' sentiments on the expected inflation confirm that range both for the U.S. and the EU.

U.S. Treasuries

The U.S. Treasury has announced that it expects to borrow \$1.007 trillion which signifies an increase from the figures stated earlier in May. The excess borrowing of the Treasury to fund the government spending - which is lower than pandemic period but higher than 2019 and 2022 currently – is expected to continue towards the end of the year. The unexpected increase in the issuance of bonds that lie in the long end has helped the ease of yield curve inversion.

Treasury Yields

NAME	COUPON	PRICE	YIELD	1 MONTH	1 YEAR
GB3:GOV 3 Month	0.00	5.30	5.45%	+0	+218
GB6:GOV 6 Month	0.00	5.31	5.54%	+4	+161
GB12:GOV 12 Month	0.00	5.16	5.45%	+7	+147
GT2:GOV 2 Year	5.00	99.92	5.04%	+18	+76
GT5:GOV 5 Year	4.63	100.07	4.61%	+36	+52
GT10:GOV 10 Year	3.88	94.52	4.57%	+46	+74
GT30:GOV 30 Year	4.13	90.83	4.70%	+49	+92

Figure 1. Source: Bloomberg

Probability of a rise in inflation rates ahead, Fed's latest projections causing the investors to postpone their expectations for a rate cut, increased supply, lowered credit rating for the government debt and tight U.S. labor market along with sticky wages that point to the likelihood of a soft-landing scenario, are potential threats to possible reductions in UST yields ahead.

In contrast sluggish growth concerns, higher than usual real rates being restrictive, loosening of the labor market followed by a potential recession, continued moderation in inflation in the near future would stand as the prominent factors that may justify a series of rate cuts henceforth which would lower the yields and boost the prices in the market.

Despite the ambiguity shadowing the path, it is clear that the U.S. Treasuries offer mouth-watering returns which are highest for one and half a decade and are considered risk-free. Therefore, investing in these securities can be beneficial for those who are willing to hold them to maturity and cherish the yields over the lifetime. Such an investment strategy will provide both decent returns and protection from whatever the unknown future will uncover.

On the other hand, the current yields can be misleading for those seeking to realize capital gains over their investment in the short-term. The duration of Bloomberg US Aggregate Bond Index is currently 6.10, which is above the long-term average of the index of 4.9 years. This implies that the U.S. bond market is exposed to increased interest-rate risk.

The Treasury Inflation Protected Securities (TIPS)

The TIPS market makes up about ten per-cent of the whole U.S. Treasury market. The yields of these securities are the real rates so they already account for the headline inflation as the principal to be delivered at the maturity is adjusted with respect to the changes in the inflation rates. This means if an investor is going to hold the security till the maturity, he/she will have a protection against the inflation throughout the period. However, that does not mean the prices of TIPS can not fall and investors can not face capital losses. For instance in 2022, the returns for TIPS in the

U.S. were negative despite the highest inflation figures seen in decades. The current TIPS rates in the U.S. are well above the levels seen in 2022. 10 Year Breakeven Inflation Rates are at 2.35% as of 30th of September. This implies if the inflation will average at 2.35%, then TIPS will today yield the same as 10-Year Treasury as the nominal yield is roughly equivalent to 4.58%. On the other hand, if inflation averages a higher rate than 2.35% in the next ten years, then TIPS will outperform U.S. 10-Year Treasury. Considering real rates implied by TIPS yields currently, we can say that given the blurriness of inflation trajectory ahead, these securities pledges sufficient returns for investors seeking for inflation protection.

Treasury Inflation Protected Securities (TIPS)

NAME	COUPON	PRICE	YIELD	1 MONTH	1 YEAR
GTII5:GOV 5 Year	1.25	95.12	2.39%	+26	+41
GTII10:GOV 10 Year	1.38	92.53	2.23%	+36	+56
GTII20:GOV 20 Year	0.75	75.95	2.37%	+36	+41
GTII30:GOV 30 Year	1.50	82.81	2.31%	+33	+59

Figure 2. Source: Bloomberg

Corporates

High-yield bonds have performed well so far this year yielding positive returns. High-yield spreads in the U.S. saw more than 100 basis points decrease since March 2023. Although the high-yield corporate bonds outperformed the investment grade securities so far this year, with the risks escalating throughout the year and the loosening in the labor market signals worries about a possible recession. If the U.S. economy performs a soft landing- as inflation cools down - in other words avoids a recession, then this may be supportive for that market. If the economy slows down while higher than target inflation rates persist, then this will possibly have a disruptive effect on the corporate profits hence pushing the yields of high-yield bonds more compared to investment grade bonds that are considered less risky. According to FT⁴, the average interest rate for US junk bonds climbed to %9 from 8.5% in September outpacing the increase in UST yields. For investors who are willing to take the risk of high-yield bonds by locking up from current high yields, choosing the ones with higher credit rating may provide cushion.

S&P U.S. Aggregate Bond Index returned -0.19% so far this year whereas S&P U.S. High Yield Corporate Bond Index has been up by 5.80% since the start of the year. The return of S&P U.S. Investment Grade Bond Index year-to-date has been limited with 0.60% while S&P U.S. Treasury Bond Index yielded negative returns.

The spreads came down significantly within 2023. The reduction in spreads owes to the strength of the U.S. economy despite the continuing rate hikes. Nowadays uncertainty looms over the U.S. economy as well as many other economies. Soaring mortgage-rates will be weighing on households causing disruptions in disposable income into the future which will reinforce the downturn in the economic activity and the debt refinancing will result in higher interest payments for the corporates. The default rates for high yield

⁴ <https://www.ft.com/content/42968686-926c-4a32-8868-494f891d0e26>

corporates in the U.S. has soared in 2023 compared to mid-2022. The current credit spreads are reflecting neither the rising defaults nor the current credit conditions.

The U.S. banking turmoil emerged in March 2023 was resolved owing to the immediate response from the FED and the FDIC. The increase in 10-year UST yields is roughly equivalent to 150 basis points since then. This will undoubtedly create challenges for the stability of the financial system. The FDIC reported that the unrealized losses on investment securities (available-for-sale and held-to-maturity) totaled \$560 billion approximately which indicates 8.3% increase over the previous quarter that led to the turmoil⁵ (Figure 3).



Figure 3. Source: FDIC

We cannot be certain that the accumulated risks in the system dissolve into another panic in the markets, however the probability cannot be shrugged off. If that materializes, robust sell-off especially in junk bonds is likely. Therefore, investment-grade corporate bonds which offer less than high-yield bonds but over U.S. treasuries can be a safer investment until the fog clears away. Even when choosing amongst the investment grade institutions, investors as well as adopting a sector focused approach, should also be paying attention to those publishing double-digit profits (as percentage) and having relatively low debt levels.

Eurozone

Eurozone is facing a serious downturn in economic activity while facing higher inflation rates compared to the U.S. at a time the yields have reached highest levels for the last 15 years, Germany Bund 2-year yields testing 3.30% and 10-year Bund came close to 3% threshold. The Manufacturing PMI for the Euro Area came in the contraction territory in August 2023 highlighting a streak of 14 consecutive months. Despite growth concerns, the inflation projection of the ECB point to a higher rate than the target inflation even in 2025. The Euro Zone's annual inflation rate was 5.2% in August 2023.

ECB raised the key rate to 4% signaling that this is likely to be the last of the hiking cycle. However, the main fight of the central bank is to ensure the price stability and the price pressures in the area may mean the inflation is sticky so the ECB may be following FED in the higher for longer narrative even though the area is facing stagflation risk.

The United Kingdom

The growth concerns also surrounded the UK. OECD expects the UK's GDP to rise by 0.3% in 2023 and 0.8% in 2024⁶. Bank of England has interrupted their 14 consecutive rate hikes in September but signaled that the rates will stay "sufficiently restrictive for sufficiently long" in order to drag inflation back to target.

⁵ <https://www.fdic.gov/news/speeches/2023/spsept0723.html>

⁶ <https://commonslibrary.parliament.uk/research-briefings/sn02784/>

The core consumer price inflation was 5.9% in the last 12 months to August 2023. The moderation of the inflation since March 2023 till today has been outperforming the EU inflation data. As a result, the gilts saw their yields decreasing since mid-August 2023. However, the rising yields in the U.S. after the Fed's September meeting had a spillover effect into the UK bond market too which had overturned the reduction in yields recently.

Japanese Bond Market

Bank of Japan maintained its ultra-loose policy keeping the rates unchanged in September meeting. The move earlier to lift the range for the 10-year JGBs from plus and minus 0.5% to 0% and 1% supported the prospects of an end to the YCC in the first place. Contrarily, the deterministic stance of the bank during their last meeting ruled out any departure from the control mechanism over the yield curve for the time being. The policy divergence between the BOJ and the rest of the world causes the Japanese yen to plunge. Although 0.746% yield reached by Japan 10-year government bond is the highest in a decade, it is still far from being realistic considering the 3.2% annual inflation recorded in August 2023. If the Japanese bond market is to be attractive any time forward, there are perquisite conditions such as; the acknowledgement of the sticky inflation by the Bank of Japan, further tweaks in the YCC or allowance for higher rates, the improved liquidity conditions.

Emerging Markets

The repricing of UST yields keeps moving across fixed income yields of the emerging markets through several channels. Relatively stronger USD challenges the ability of those countries having high dollar-denominated debt levels to meet their obligations. Even under the assumption that rise in the U.S. Treasury yields is closer to its end than the beginning, overshoots can still occur and that rising oil prices puts an upside risk to inflation. Given the increasing volatility, cutting some emerging markets exposure particularly exposure to Peruvian and Czech bonds seems to be reasonable.

Moreover, investors take on higher risk of exposure to emerging market bonds due to the higher expected returns. At the present time, higher yields for UST are unfavorable for emerging markets, as investors are encouraged to invest in the U.S. market. For the time being, we don't see the broad panic in the EM but also no increase in EM risk-premia to cause us to re-enter.

Conclusion

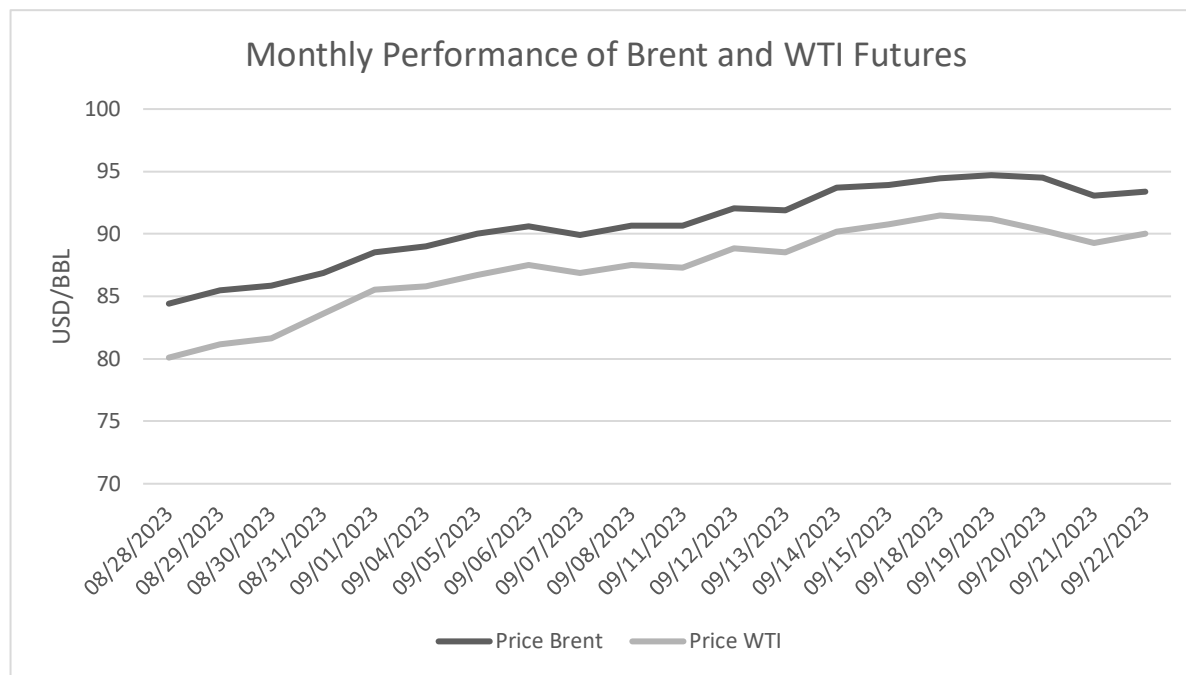
Bond yields continued to rise this month with an increased pace. The prospects of higher inflation rates and recession related worries are the main challenges ahead for the justification of highest yields of the last decade. Although many bond markets offer sufficient returns at all maturities, the investment decisions should be based upon the risks overclouding the future. Considering the U.S. bond market, TIPS yields possess sufficient real rate of returns compared to historical averages which will provide protection against the potential uptick in inflation. In contrary, if the inflation retreats to lower levels and a soft landing is established in the U.S. economy this may lead to significant capital gains in the U.S. bond market. Chances for the latter are tiny though. Fragmentation in global economy is a threat to the ties between bond markets in the near future and policy divergence between economies necessitate comprehensive individual analysis for each market.

Crude oil developments

By: Evgenia Raevskaya

Overview

The August dip in oil prices had not lasted long. Oil prices have been rallying up throughout September, with Brent price reaching a 10-month high of 94.71 USD/BBL on September 19th. The trading week closed with prices at 93.37 USD/BBL for Brent and 90.03 USD/BBL for WTI on September 22nd.

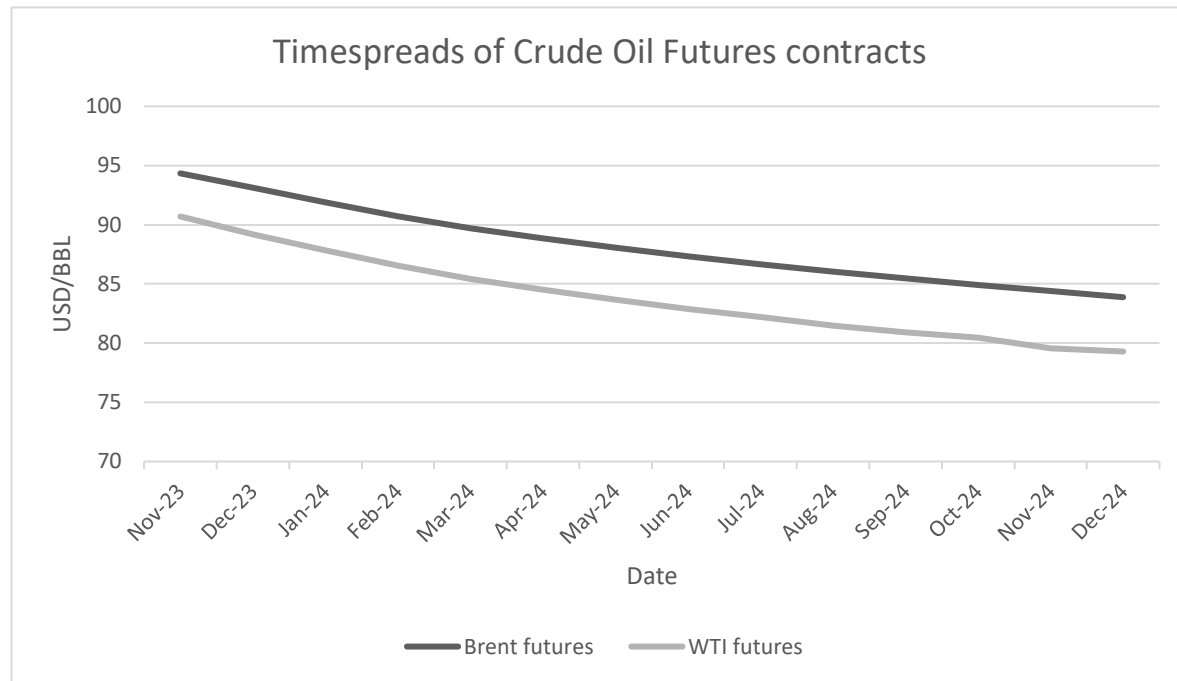


Multiple factors had contributed to this dynamic. At the beginning of September, Saudi Arabia and Russia had extended voluntary supply cuts of a combined 1.3 million barrels of oil per day to year end, therefore tightening the market. As well as that, according to the Summary of Weekly Petroleum Data for the week ending September 15th by EIA, U.S. crude oil inventories are about 3% below the five-year average for this time of the year. Inventory levels affect the price of crude oil, with lower inventories reflecting less supply available, and leading to higher prices. The September 19-20 Federal Reserve meeting had not resulted in another interest rate hike with rates remaining at the 5.25%-5.5% range, thus the price rally remained unhindered.

The upwards movement in oil prices was supported by signs of economic stabilization from China, following implementation of stimulus measures to support the property market, and reduction in the amount of required foreign currency deposits held by financial institutions. Furthermore, China's industrial production rose by 4.5% year-on-year in August, beating previous forecasts. This is a positive sign for stable crude oil demand from China in the near term. Moreover, demand from India may increase in October as it typically does due to increased economic activity post the monsoon season. This is supported by monthly petroleum consumption data for the past two years, obtained from the ODG India platform. The September- October month over month consumption growth was 35% in 2021, and 25% in 2022.

A backwardation environment

We may refer to time spreads for a greater understanding of the current price movements. The oil time spread is defined by the price difference between the front month and second month futures contracts. This is an extremely important metric which represents the dynamics of short-term oil prices. Pricing data for Brent and WTI futures contracts from November 2023 to December 2024 is represented in the below chart.



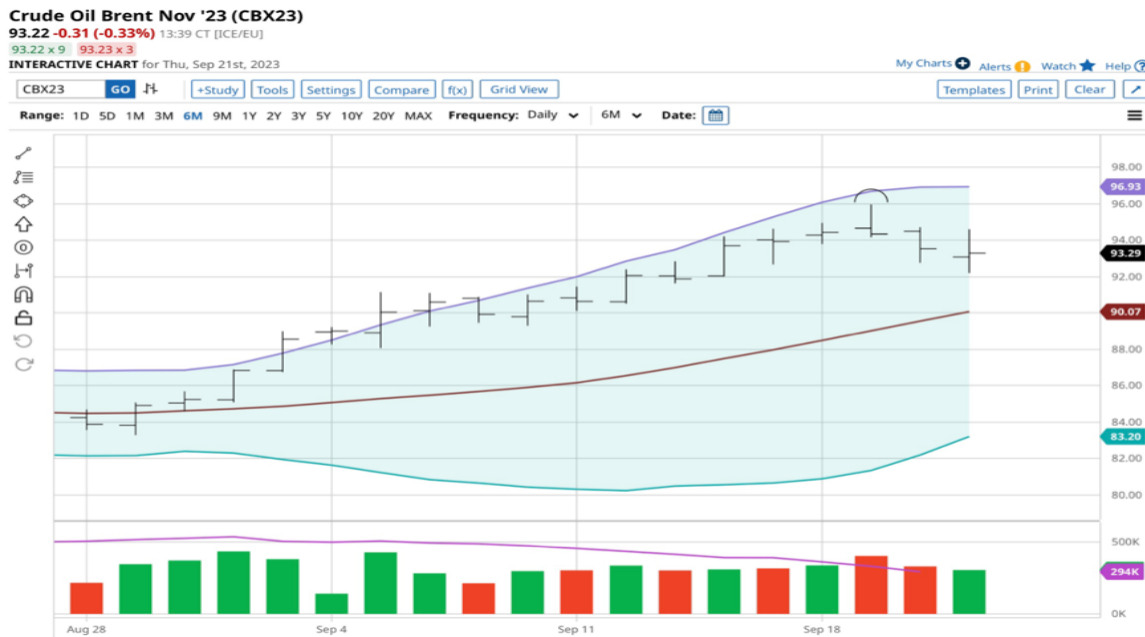
The data shows that near-term futures contracts are more expensive than futures contracts for later dates. This is an environment of backwardation, which is associated with a tight crude oil market reflecting low inventories and high scarcity. The logic is that market participants expect demand to be higher than supply in the immediate future. Crude oil spot prices are expected to increase in such environment. While backwardation implies that oil prices are expected to reduce in the future, any new information about decreasing supply would strengthen the backwardation effect, delaying the timing of this price reduction.

Bullish technical indicators

We have further examined key trading indicators that provide valuable insights into crude oil price movements in the short to intermediate term.

Bollinger Bands

An expansion of Bollinger bands can be observed in September, which means that the market has become more volatile compared to the previous month. When the bandwidth widens and price accelerates, there is an expectation of price correction where price may revert to the mean, or even drop to the lower end of the band. However, the bands have narrowed by September 21st signaling possible reduction in volatility, and the low trading volumes for sell-prevalent days reflect that traders are locking in their gains rather than a shift in the upwards price trend.



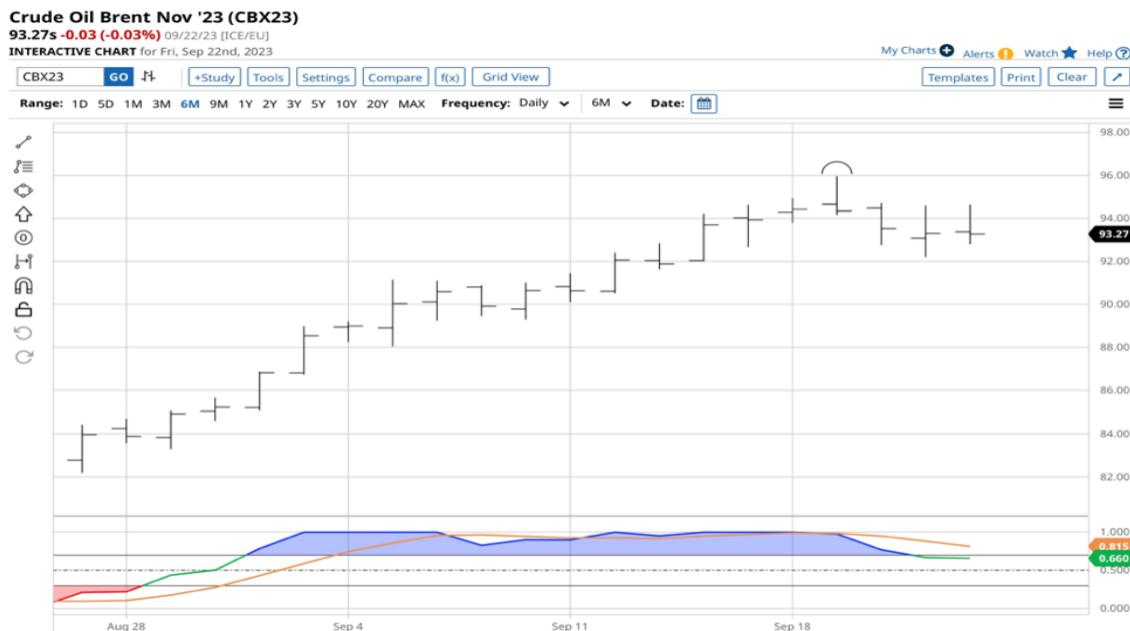
(Source: Barchart.com)

Moving Averages

Crude oil price has broken above the 50-day moving average of 86.58 USD/BBL and above the 200-day moving average of 81.64 USD/BBL. The crossover above the 50-day moving average provides confirmation of short to intermediate-term bullish sentiment. The 200-day moving average may be viewed as long-term trend indicator. The price above this level suggests that buyers are gaining control, and is a signal for maintaining a bullish bias.

Relative Strength Index

The RSI measures the market strength or weakness where readings over 70 are typically considered an overbought market, and readings below 30 are viewed as an oversold market. The RSI as of September 22nd is lower than 70, (0.660) indicating a strong bull market that is not yet in correction territory.



(Source: Barchart.com)

Outlook

Market conditions appear to be favorable for the bull market to continue in October. Short-term corrections are possible, as the dollar strengthens driven by Federal Reserve projections which expressed an intent to keep policy interest rate above 5% through 2024.

Gold prices in a world of uncertainty

By: Ali Cem Tezel and Evgenia Raevskaya

Overview

Gold spot prices (XAU/USD) fell from the beginning to mid-September, followed by a price rally ahead of the Federal Reserve meeting. Prices reached \$1,947 intraday on September 20th, before heading backwards steeply following FED signals of higher interest rates by the end of the year. As of September 28th, spot price was \$1,874 per ounce. The recent moves pushed year-to-date return down to 3%, while indicating a 3.25% negative return since the beginning of the month. The resistance levels on the upside are \$1,903, \$1,940, and \$1,980 whereas \$1,827 and \$1,809 should be considered as the critical values on the downside.



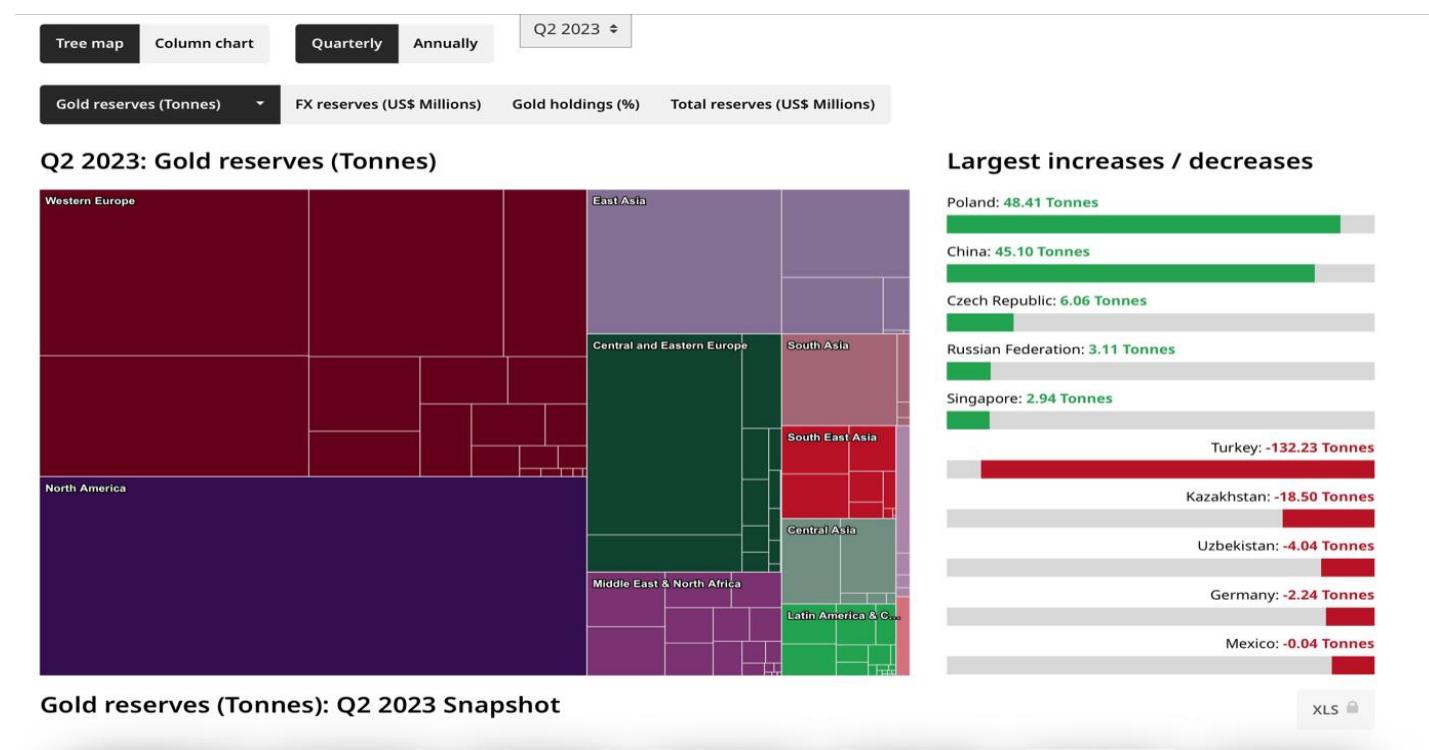
Source: TradingView
Gold Spot / U.S. Dollar Daily

The reduction of US CPI in July appeared to be too early for optimism that inflation was controlled. CPI increased by 50 basis points to 3.7% in August, which may be attributed to rising energy prices. Such upticks in inflation rates widen the gap between FED's 2% target, and the headline inflation. As oil prices continued to rally in September, the FED's September 20th meeting may have occurred at a transition point towards increasing inflationary conditions. Due to the circumstances, the path for the policy rates was revised up. The hawkish stance had in turn changed the sentiment in the gold market. This happened because higher yields

offered by US treasuries are not in favor of gold, and other precious metals, due to those assets not providing any interest. Other factors which possibly contributed to the general downward trend in gold prices were Central Bank selling activity, and ETF outflows. We examine these factors in detail. We further evaluate whether the downward sentiment may be outweighed by increased demand for gold due to investor fears about economic risks which may be realized due to lack of stability in the system.

Central bank gold purchases and sales

Central banks' gold demand fell for a third straight quarter, as massive sales by Türkiye in Q2 2023 outshone buying elsewhere. The Central Bank of Türkiye, released 132 tons of gold into the local market after imports were constrained. Net purchases by the institutions declined 64% to 103 tons in the second quarter, according to a report by the World Gold Council. That took demand to the lowest in more than a year. The below chart shows changes in Central Bank gold reserves in Q2 2023.



Source: www.gold.org

Despite the recent sell off by Türkiye, central bank buying may remain strong in the future as gold is used as a means of liquidity provision, as well as for asset diversification purposes. In those countries which had a renowned history of hyperinflation, an increasing demand for gold by households may be observed, since gold is regarded as a protection mechanism against the severe losses in the purchasing power of the domestic currency. Furthermore, attempts by the BRICS countries to diminish the use of the USD in bilateral trades, makes increasing gold stockpiles more important than ever.

ETF holdings reduction

The observed reduction in Gold ETF holdings, indicates a reduction in gold demand. The reduction sends signals of optimistic investor views about the economy, as ETF holdings generally increase in times of

recession fears. August data from ICE Benchmark administration shows total fund outflows of 2,537 million USD, driven mainly by outflows from North American and European ETFs. Meanwhile Asian funds are increasing reserves driven mainly by inflows in China and Japan, however these inflows do not offset the overall demand reduction.

Gold ETF holdings and flows by region¹:

Region	Total AUM (bn)	Fund Flows (US\$mn)	Holdings (tonnes)	Demand (tonnes)
North America	105.1	-2,676.10	1,683.70	-44.2
Europe	91.9	-314.7	1,471.10	-8.2
Asia	8.4	429.8	127.8	6.6
Other	3.6	23.9	58	0.2
Total	209.1	-2,537.20	3,340.60	-45.6

Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

More recent data can be found by looking at fund flows of the top 5 gold ETF managers (by AUM), with the top two ETFs reducing holdings by a combined 1,006 million USD.

Top 5 ETF fund flows, September 2023

Symbol	Name	Fund Flows (\$mm)
GLD	SPDR Gold Trust	-765.71
IAU	IShares Gold Trust	-240.34
GLDM	SPDR Gold Minishares Trust	+38.20
SGOL	Abrdn Physical Gold Shares ETF	+0
BAR	GraniteShares Gold Shares	+1.93
Total		-965.92

An ambiguous case of gold premiums in China

According to data obtained from ICE Benchmark Administration, the total world demand for gold stands at 1,255 tons in Q2 2023. As per reports from the World Gold Council, gold jewelry demand in China reached 132 tons in Q2 2023. Therefore, gold jewelry demand from China makes up 10.5% of the total world demand for gold. The Shanghai-London premium has reached an all-time record of over \$120 on 14th of September. The main driver for the premium seen in Shanghai Gold Exchange is a restriction of gold imports which caused a supply/demand imbalance. Although the premium reduced from the record levels to US\$84/oz as of

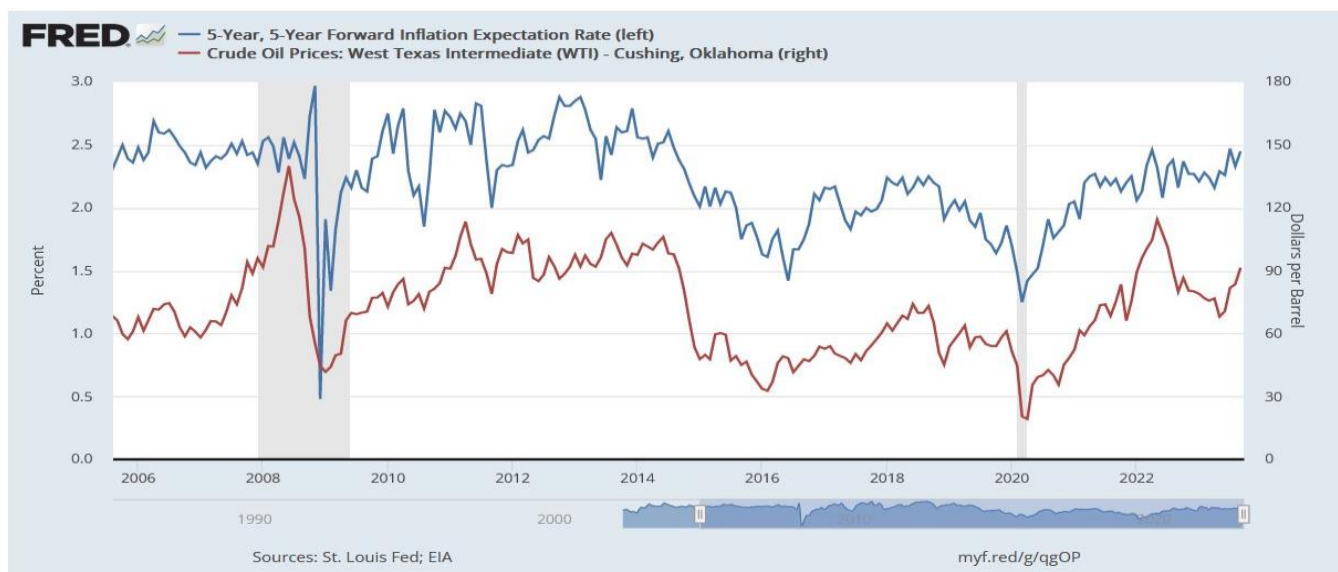
¹ *Data to 31 August 2023.

Sept 22nd, persistent restrictions may eventually dampen consumer interest for gold jewelry, therefore causing a negative impact to world demand. In that case, gold price may decrease. On the other hand, demand had increased 28% Y-O-Y despite the soaring premiums. Therefore, an important question to consider is how high the premium should reach before a reduction in demand occurs. Continuously increasing demand at higher premiums may eventually push up the international price of gold.

Inflation outlook

The dynamics driving inflation have changed rapidly in the recent years. Global inflation is dependent more on the aggregate supply rather than demand nowadays, which results in skepticism on the effects of tighter monetary policies in terms of curbing the inflationary pressures. Although the inflation rates all over the world have gone down considerably from their peak levels in 2022, they are still above the central bank targets in developed economies. If the effects of the energy and food prices are disregarded, the persistence in services inflation imply that the central banks will get to choose either to raise the inflation targets (which are set at 2% currently) or to risk a recession by extending the tightening period.

The relationship between crude oil prices and inflation levels is depicted in the chart below. A positive correlation may be observed between WTI price and the 5-year forward inflation expectation rate. It is expected that the recent rise in oil prices will eventually increase the inflation rates, however the impact is not simultaneous. When the lagged effect on the headline inflation is evident, this tends to be in favor of gold prices.



Source: St. Louis Fed

The magnitude of inflation-related economic risks

Dangers of systemic risks

The rising interest rates may pose a significant risk for the banking sector. The turmoil in the US banking sector in March 2023 was triggered by the higher rates deteriorating the balance sheets of small to mid-size banks. Although the magnitude and average duration of the securities held by the banks are uncertain information, the chance that the banks have reduced their exposure to Treasury securities significantly during the last six months

is also slight. Therefore, the rising rates have the potential to heighten the level of systemic risks when the financial conjuncture is concerned. The impact of such events usually causes gold price to skyrocket, with gold reaching \$2,055 per ounce in April this year.

Rising debt levels

On August 1st, Fitch has downgraded the US credit rating to AA+ stating worries about the prospect of rising debt levels. Although the US debt ceiling case is resolved, the national debt has surpassed \$33 trillion and is expected to rise sharply towards the end of the year. US household debt breached \$17 trillion as of the second quarter of 2023 highlighting challenges for debt repayments amongst soaring mortgage rates.

Influence of recession risk

As the US economy shows signs of strength despite higher interest rates, the growth potential keeps the investors optimistic about a safe landing scenario against a recession. While this contributes to further reduction in gold price, The EU and the UK economies also face a possibility of recession and experience higher inflation rates than the US. This is likely to push the US Dollar higher against other reserve currencies. The strengthening of the dollar typically leads to lower and more controlled gold price, although in an environment that constitutes heightened risk of a recession, gold price may increase regardless of a strengthening US dollar as investors turn to safe haven assets.

On gold Supply

In current market conditions, supply appears to be increasing steadily to meet demand. Therefore, there are no foreseen disruptions from the supply side. According to data by ICE Benchmark Administration, total gold supply had increased by 7% from Q2 2022 to Q2 2023. The data is presented in the below chart.

Gold Supply, 2022-2023.

Tonnes	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	y/y change
Supply						
Mine production	889.3	950.4	948.5	857.1	923.4	4%
Net producer hedging	2	-26.5	-13.3	36.1	9.5	383%
Total mine supply	891.3	923.9	935.2	893.2	932.8	5%
Recycled gold	285.3	268.6	290.7	311.7	322.3	13%
Total Supply	1,176.6	1,192.5	1,225.9	1,204.9	1,255.2	7%

Source: ICE Benchmark Administration, Metals Focus, World Gold Council.

However, in a case of rapidly increasing demand for gold a supply/demand imbalance is likely. Increasing production capacity requires considerable time, studies, and costs to be incurred which may pose a challenge to sustained global production growth.

Upside potential

Regardless of the recent downturn in the gold price, there is a potential on the upside ahead considering substantial economic uncertainty. Recession fears, geopolitical tensions and increased likelihood for potential shocks may drive gold demand upwards. In the event of experiencing a substantial crisis, the price of gold could consolidate at over \$2,000. Technically, such a reinforcement can push the yellow metal over \$2,050 and up to \$2,170 in the medium term. On the downside \$1,827 stands as the medium-term support.



Source: TradingView
Gold Spot / U.S. Dollar Monthly

Conclusion

Taking into account all factors which affect gold prices, the factors which contribute to the reduction in price currently have a stronger and more prevailing impact on market prices, in comparison to factors which drive the price up. The strengthening of the USD, higher government bond yields, reduced central bank buying, further ETF sell offs, or a reduction in demand for jewelry in the Chinese market are amongst those factors which have the potential to reinforce the downward movement of prices in the short term. However, there is a single driver which has the potential to offset the recent downtrend in prices, which is an economic or financial shock. Considering the debt levels in the global economy, along with the potential threat of a persistent inflation, the probability of such a shock is increased. Therefore, it is important to maintain a significant share of gold in the portfolio as a means of risk protection.

The ETF Saga: A Game Changer for Cryptocurrencies

By: David Peisakhov and Estella Zaengle.

Introduction

Cryptocurrencies have long been a topic of debate among regulators, investors, and enthusiasts. Among the numerous factors influencing the crypto market, Exchange-Traded Funds (ETFs) have taken centre stage in recent events. In this article, we will delve into the chronological events and their impact on cryptocurrency prices, specifically Bitcoin (BTC) and Ethereum (ETH). These developments have the potential to significantly affect the market capitalization of cryptocurrencies, making it an exciting time for investors and enthusiasts alike.

Our story started about 5 years ago, in 2019, when most popularly 21Shares and WisdomTree started offering the first crypto ETPs. Since then, more ETP products on different crypto underlyings came to the market.

The Grayscale Court Victory

In August 2023 crypto asset manager Grayscale achieved a significant legal victory. They sued the Securities and Exchange Commission (SEC) over their denied request to convert the Grayscale Bitcoin Trust into a "spot" BTC exchange-traded product (ETP). This victory sparked optimism in the crypto market, with Bitcoin rallying to nearly \$28,200.

The Impact: Grayscale's court victory fuelled hopes of approval for spot BTC ETFs, leading to a 7% price surge to \$25,500. This victory signalled a potential shift in the regulatory landscape.

Crypto ETPs (Exchange-Traded Products) and ETFs (Exchange-Traded Funds) both enable investors to gain exposure to cryptocurrencies, but they differ in their legal structure and ownership of underlying assets. Crypto ETPs encompass a broader category that includes structures like ETNs and ETCs, which may not always hold the actual cryptocurrencies and may lack the same regulatory scrutiny as ETFs. In contrast, crypto ETFs are a specific type of ETP structured as investment funds, typically holding the real cryptocurrencies and subject to more stringent regulatory oversight, offering investors greater transparency and liquidity. The choice between the two depends on factors like regulatory preferences, asset ownership, and investment goals.



The Valkyrie ETF Expansion

In the same month, Valkyrie Funds made waves by expanding its Bitcoin futures ETF to include Ethereum. This move signalled the increasing interest in cryptocurrency ETFs as the fund aimed to provide 50/50 exposure to Bitcoin and Ethereum.

The Impact: The announcement led to a nearly 4% price increase in both Bitcoin and Ethereum over 24 hours, highlighting the enthusiasm surrounding ETFs and their potential impact on cryptocurrency prices.

Crypto's Reaction to the Federal Reserve

In the midst of these events, crypto markets reacted to the Federal Reserve's decision to maintain interest rates. This event marked a turning point for Bitcoin, which had experienced historically low volatility.

The Impact: BTC prices surged as investors anticipated the Fed's decision, and the widely expected news had already been "priced in." This event showcased the interconnectedness of traditional financial markets and cryptocurrencies.

The SEC's Delay in ETF Decisions

Despite the positive developments, the SEC deferred decisions on several ETF applications, including those from BlackRock, VanEck, and WisdomTree. The agency opted to delay these decisions until October 2023.

The Impact: The conflicting signals regarding ETF approvals led to a division among institutional investors. Some saw the delay as a buying opportunity, while others were concerned about the regulatory uncertainty, which influenced crypto market sentiment.

Spot BTC ETF Hopes Post-Grayscale Victory

Grayscale's legal win against the SEC significantly boosted hopes for the approval of spot BTC ETFs. This victory highlighted the inconsistency in the SEC's treatment of similar products, raising expectations for more favourable regulatory decisions.

The Impact: While the approval of spot BTC ETFs remained uncertain, the market sentiment turned bullish, and Bitcoin futures rose by over 6% in the hours following Grayscale's victory.



The G20's Global Approach to Crypto Regulation

The G20 summit emphasized the need for regulatory clarity in the crypto sphere. With 83% of G20 members working toward regulatory clarity for cryptocurrencies, this international consensus underscored the importance of coordinated global regulation.

The Impact: The G20's commitment to crypto regulation marked a significant step towards providing a stable and predictable environment for investors and businesses in the crypto space.

The Road Ahead: Unlocking Crypto Adoption Through ETFs

The developments surrounding ETFs in the cryptocurrency space represent a critical turning point in the broader adoption of cryptocurrencies like Bitcoin and Ethereum. While regulatory uncertainty remains a challenge, ETFs offer a pathway to broader participation in the crypto market.

By allowing ETF trading on Bitcoin, regulators can provide a level of legitimacy and accessibility that appeals to traditional investors and institutions. This shift can result in increased liquidity, reduced price volatility, and overall market stability.

Furthermore, the inclusion of Ethereum in ETFs acknowledges the growing significance of this blockchain platform. As Ethereum continues to evolve, ETFs provide investors with an efficient way to gain exposure to its potential.

Conclusion

The journey of ETFs in the crypto market has been marked by legal victories, regulatory discussions, and market reactions. These events have set the stage for a new era of cryptocurrency adoption, where ETFs play a pivotal role in bridging the traditional and digital financial worlds. As the SEC and global regulators navigate the path forward, the adoption of Bitcoin and Ethereum is poised to accelerate, ultimately reshaping the financial landscape for years to come.

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