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SMARTER TRADING

GLOBAL INVESTMENT TRENDS 2024

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Introduction

Despite concerns about inflation and high interest rates, the regional banking crisis in the USA and growing geopolitical tensions around the world, the US economy remains resilient and the profits of companies are increasing. In 2023, technological companies' shares gained popularity again, with large-cap companies in the lead. This is mainly the case for the Magnificent Seven companies.

Not only did technological companies do well (the trend was set by artificial intelligence), but also those providing communication services or consumer goods. Investors shifting their attention from globally growing interest rates to their possible reductions, already at the beginning of 2024, was one of the key factors. From 1st January to the last days of December, the popular Nasdaq100 gained over 54 percent, the Dow Jones Industrial Average was less than 14 percent and the S&P 500 was around 24.5 percent. Market forces were largely contributed by the growing shares of such companies as, Apple (+48.18%), Amazon (+80.88%), Alphabet (+58.32%), Nvidia (+238.87%), Meta Platforms (+19,413%), Microsoft (+56.8 percent) and Tesla (+101.72%). Defensive companies classified as public utility companies, health care companies or companies offering basic consumer products have recorded worse results.

Crisis of regional banks in the USA

The stability of the share market and its good results for 2023 are particularly impressive, given the fact that the US banking crisis shook the stock exchange in the spring of last year. In just a few weeks, growing losses on investments in crypto- currencies, sudden decreases in the values of bond portfolios and investments in commercial real estate, not to mention the all-out panic on bank deposits, resulted in the collapse of Silvergate Bank, Silicon Valley Bank, Signature Bank and First Republic Bank. The prices of these entities' shares fell sharply, a consequence of lost confidence in the entire banking sector.

Only the quick intervention of the Federal Reserve prevented a wider and deeper crisis. The problems did not "spill" broadly, because the Fed granted rescue loans to banks in difficult positions. At the same time, it guaranteed that clients of the bankrupt institutions would recover their deposits, even if they exceeded $250,000. Other larger institutions (JPMorgan Chase, New York Community Bankorp), which took over the assets of the collapsing banks, were also involved.

Artificial intelligence

ChatGPT and derivative products or services of generative artificial intelligence were one of the main investment themes of 2023. Investors started looking for opportunities in the shares of companies within this field. It seems inevitable that AI (abbr. artificial intelligence) will play an increasingly important role in the future global economy, with investors seemingly noticing that the market is still in the beginning phase of a long-term boom in artificial intelligence technology.

Cryptocurrencies

2023 also witnessed a "thaw" after the cryptocurrency winter of 2022. It saw an increase in the value of Bitcoin by nearly 160 percent. The increase, expected by investors, was certainly due to the launch of the first spot Bitcoin ETF, which is scheduled for January 2024. It is commonly believed that this event will result in the key cryptocurrency gaining the status of a fully fledged investment asset. 2024 will also see the fourth "halving" of the main cryptocurrency. This, combined with the prospect of decreasing profitability of bonds, may be a positive factor for further valuation of this virtual currency.

Geopolitics

When Israel officially declared the war against Hamas in October, the global geopolitical outlook worsened. Investors are also feeling the consequences of this. However, geopolitical destabilisation has helped certain companies and sectors. What is happening in Ukraine and the Middle East is forcing other countries to increase their defence budgets. The shares of aviation and defence companies, such as TransDigm (TDG) (+60%) and Kratos Defence & Security Solutions (KOS) (+99%) have achieved very good results this year.

Year 2024...

It appears that inflation and interest rates will be the most important factors affecting the market in 2024. More expensive money will mean higher costs of loans for consumers and businesses, adversely affecting both economic growth and profitability. High prices will, in turn, influence purchasing decisions, which will reduce demand and will also lead to a slowdown of the global economic situation, primarily in the first half of the year.

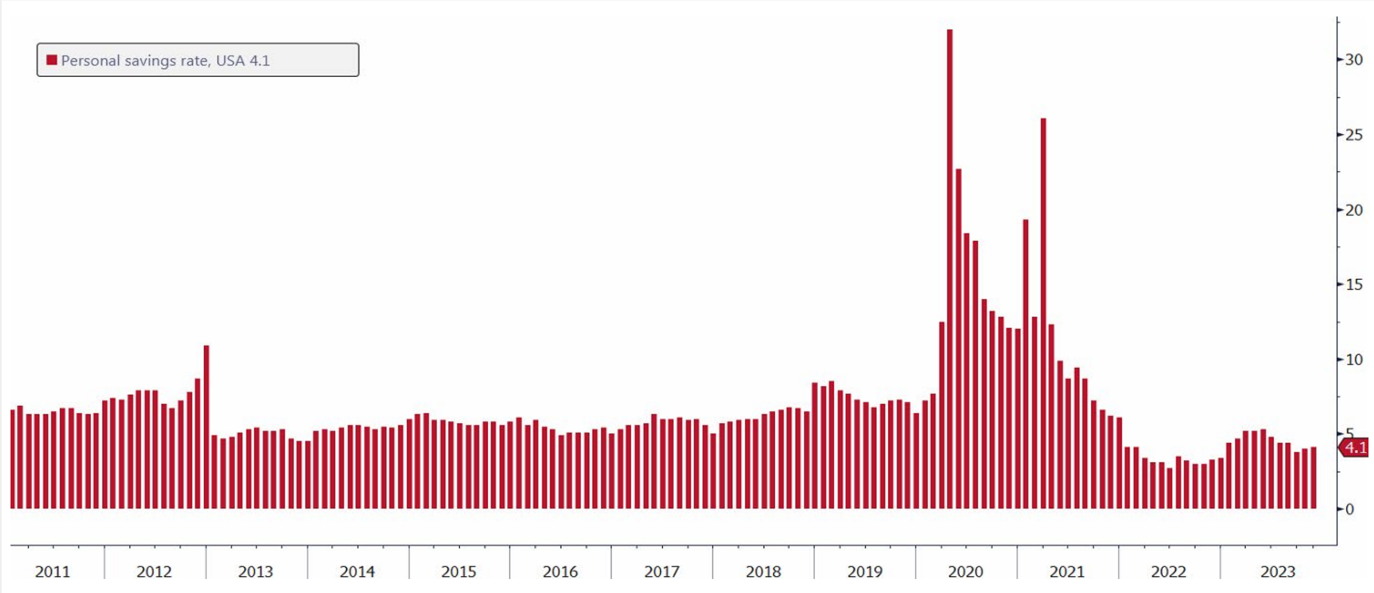
The United States of America

Economy

The US economy was still doing very well in Q3 2023. The increase was driven by private consumption. According to recent data, real GDP grew by 4.9 percent year on year. This is the highest rate of growth in the last 7 quarters. At the beginning of the new year, however, we will probably receive more data indicating cooling. The surplus savings of Americans, collected during the pandemic, have been largely used, thus, re-collecting cash should return to normal levels. As a consequence, the savings rate, which has recently decreased to very low values (4.1 percent in November 2023, at the peak of the pandemic this was approx. 31 percent) should get back on the path of growth. Tighter lending conditions will result in a decrease in the rate of growth in the housing construction sector.

> **A stronger slowdown, bordering on recession, is likely to occur in the USA in Q2 and Q3 2024, when the curtailing effect of the previous dynamic interest rate increases materialises.**

Throughout next year, real GDP, according to the Federal Reserve's assumptions, should be 1.4 percent and, in 2025, -1.8 percent.



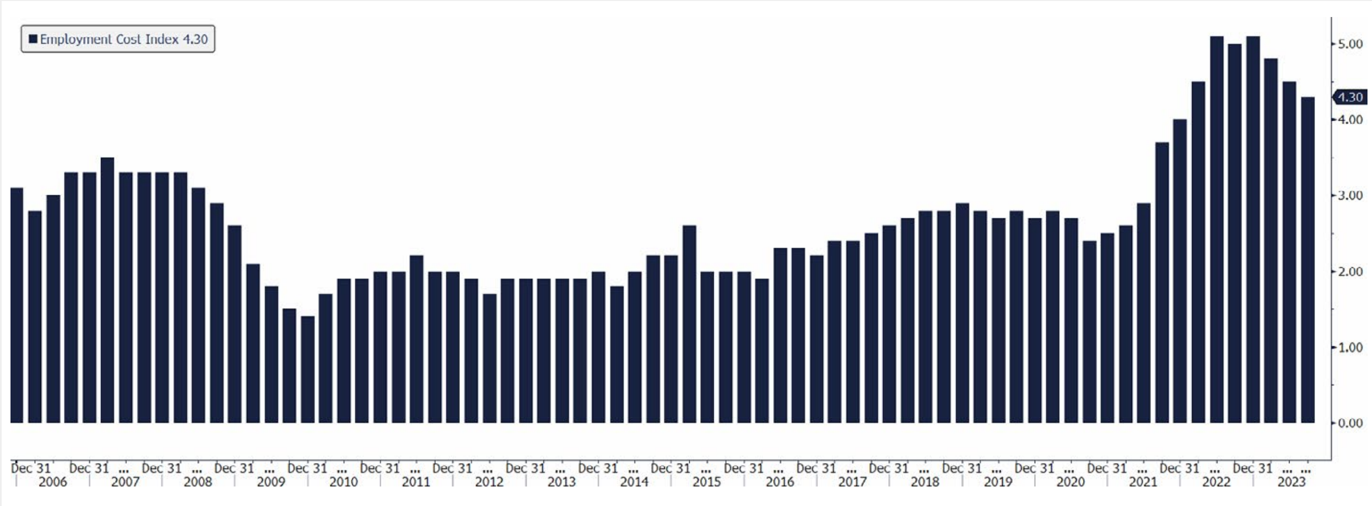
Personal savings rate in the USA, source: Bloomberg

Inflation

Recent months have brought about a significant slowdown to the global growth rate of price increases. The situation has also improved in the USA. The inflation measure preferred by the Fed, i.e. the PCE deflator, which is a measure of changes in prices of goods and services purchased by consumers, decreased in November 2023 to 2.6 percent year on year. The base equivalent, not taking into account the prices of food and energy, decreased to 3.2 percent. The monthly growth rate was also reduced recently.

The medium-term outlook on inflation in the US will depend, to a large extent, on the situation related to housing rents. Until recently, the growth rate in this sector was still high. The available industry data, which includes rent rates in new contracts, suggests that the situation has been improving for some time. According to official data, this is only now beginning to be noticeable.

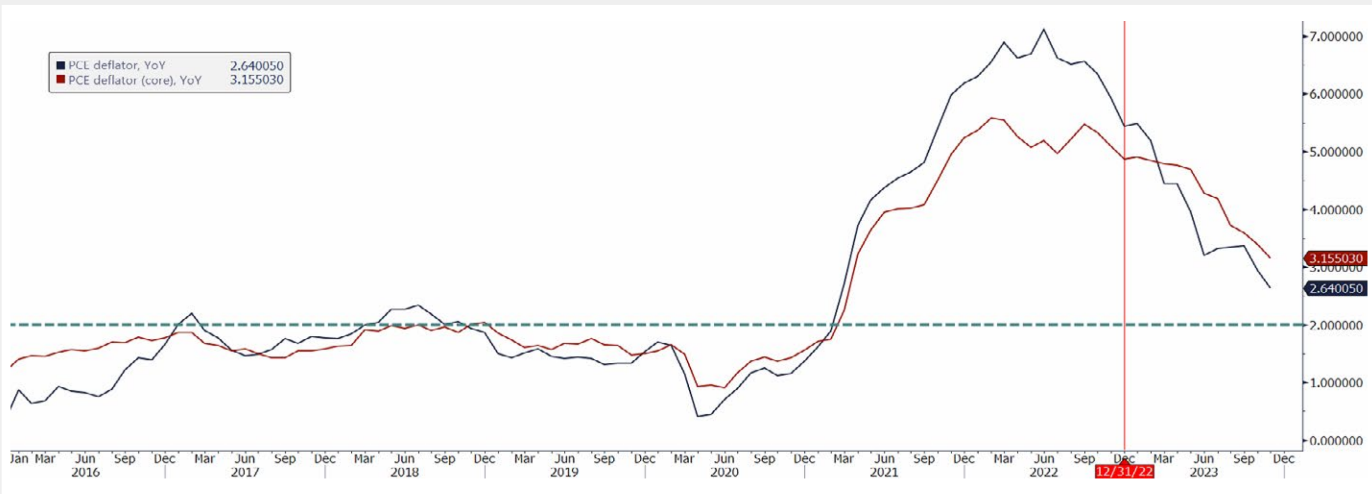
The situation in other services will depend on wage trends. It is in this area of the economy where remuneration comprises the main expense. In November, the hourly wage was 4 percent higher than in the corresponding period the year before. Until autumn 2022, the growth rate exceeded 5 percent. The Employment Cost Index has also been decreasing and is currently at 4.3 percent, which indicates that wage pressure is slowing down, although the pace is slow.



Employment Cost Index (ECI), source: Bloomberg

The latest Fed projections show that the core PCE index in 2024 will be 2.4 percent on average, as will be the base measure.

According to forecasts, both values will be close to the Fed's target of 2 percent in 2025. If the US economy experiences only a soft version of the recession, then reaching the planned value (2 percent) may extend over time. In this scenario, the unemployment rate should not increase significantly, meaning that the further decrease in wage pressure will be limited. In addition, it is important to bear in mind the factors which drive inflation. What is meant by that are the costs of climate policy and the process of deglobalisation.



PCE deflator and core PCE, YoY change, source: Bloomberg

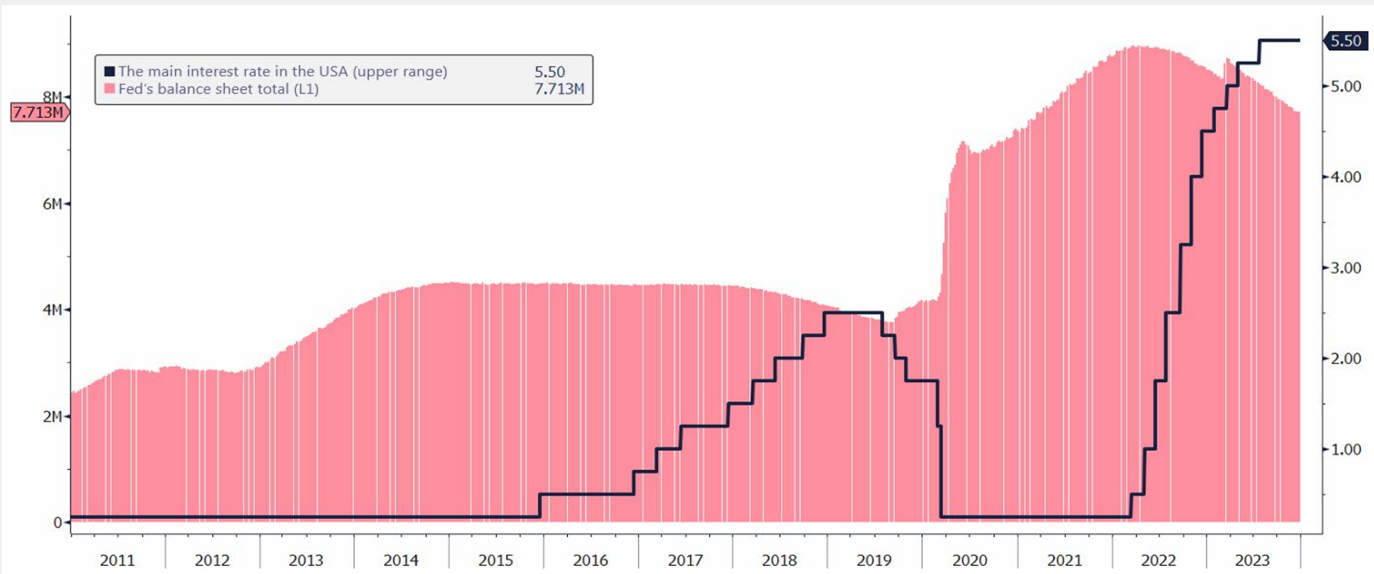
Fed

The decision taken by the Fed in December was in-line with expectations. For the third time in a row, the institution left interest rates unchanged (5.25 – 5.5 percent).

> **According to the updated forecasts, the American central bank will now expect three cuts next year and not, as previously assumed, two. At the same time, the economy is expected to experience a "soft landing."**

With regard to the decrease in inflation, it is likely that the Fed will lower interest rates before the middle of next year. The market response after the meeting was understandable. The US dollar lost its value, the profitability of US bonds decreased, and stock indices grew. The decision was unanimous. Even though, according to its statement, the Federal Reserve does not rule out another increase, in fact, such a scenario is rather unrealistic at this point. This message was only sent to give the Fed room for manoeuvring if the situation related to inflation gets somewhat more complicated. However, some statements were relaxed. Powell's comments suggest that the Fed does not consider this scenario to be likely in implementation.

At a press conference, the chair of the U.S. central bank pointed to the fact that the main interest rate was very close or

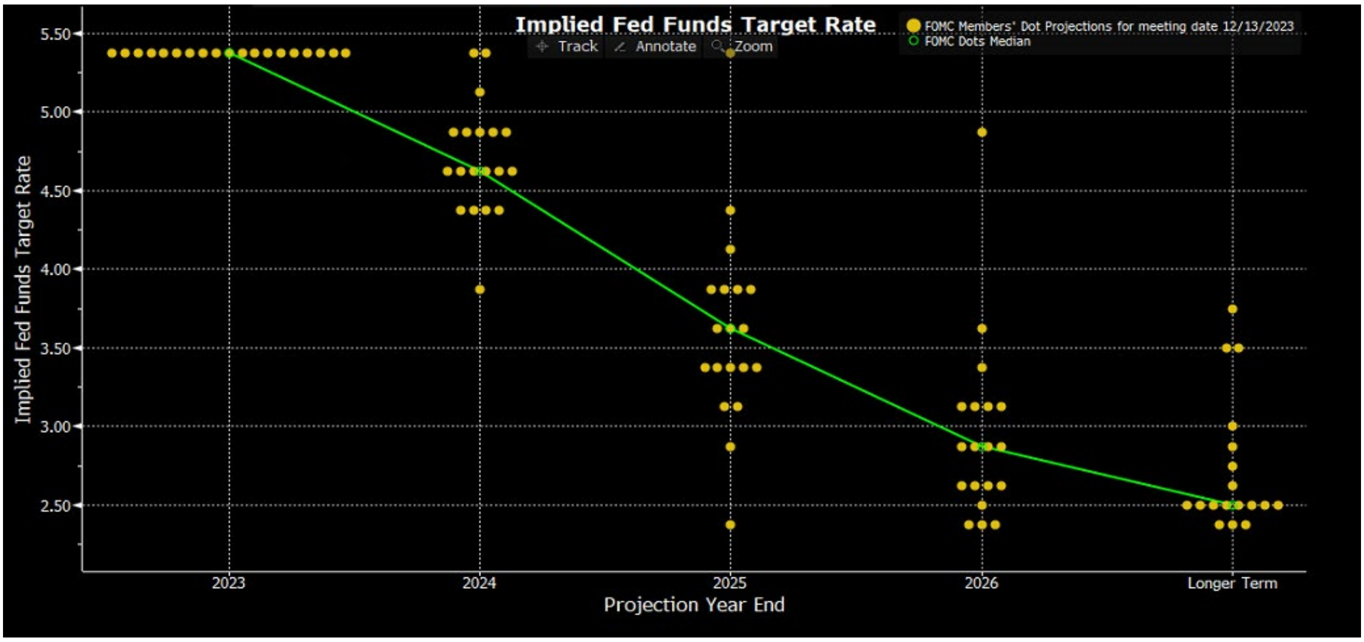


Federal funds rate (upper limit) and Fed's balance sheet total, source: Bloomberg had already reached its peak, which was also confirmed by the dot plot. The most important question for now is: How long will the Fed remain "at the peak"? For the first time, Powell said that the bank's representatives have started discussing the upcoming cuts. Admittedly, we heard again that it was too early to announce a victory over inflation, but the market really did not really bother with this well--known statement and focused on a "dovish" pivot in communication. The Fed has made clear progress in the deflationary process and noted the continued decrease in prices of services as well.

Returning to the dot plot, there has been a change concerning how much the Fed plans to cut the value of money in 2024.

Median expectations of the FOMC representatives suggest a reduction of 75 basis points (down to 4.6 percent), while in September, the consensus suggested two cuts.

However, the market valuation at the end of December 2023 indicated a much more aggressive easing of the monetary policy by the Federal Reserve. Fed Funds Futures suggest that there might be up to 7 cuts, 25 basis points each. This is more than twice as many as the American institution intends to do at this moment.



"Dot plot" showing the median expectations of the FOMC representatives regarding the future path of interest rates in the US, source: Bloomberg

Shares market in the USA

In 2022, the S&P 500 index lost nearly 20 percent, which was a consequence of market expectations for interest rate rises in the USA. However, 2023 brought a considerable rebound, which was the result of discounting the likely easing of monetary conditions by the Fed in 2024. Thus, the main benchmark set a new historical record, exceeding the level of 4,800 points. The growth was mainly driven by a group of technological companies. While high inflation begins to weaken, corporate margins will face serious problems in 2024.

Unless the Fed eases its monetary policy as quickly as it is expected by the market, 2024 is likely to be a period of more difficult macroeconomic conditions for shares. Consumer trends will weaken. Market liquidity is still shrinking as the main central banks decrease their balance sheets at a fast pace, and the interest rate on loans remains high in consumer and corporate segments. American households have reduced their overliquidity, and assets, such as cash, have been reduced from $3.4 trillion to $1 trillion and may be exhausted by Q2 2024.

The geopolitical risk remains at an increased level. There are currently two major conflicts (Middle East, Ukraine), with national elections taking place soon in 40 countries, including the US presidential elections in autumn 2024.

> **The recession forecast for H1 also poses a risk to the USA share market.**
> **The depth of correction on the stock exchange will largely depend on the recession's strength.**

Increased interest rates are likely to limit economic growth. The Federal Reserve predicts, despite everything, that GDP growth in the US will remain positive in the coming year.

Presidential elections in the USA

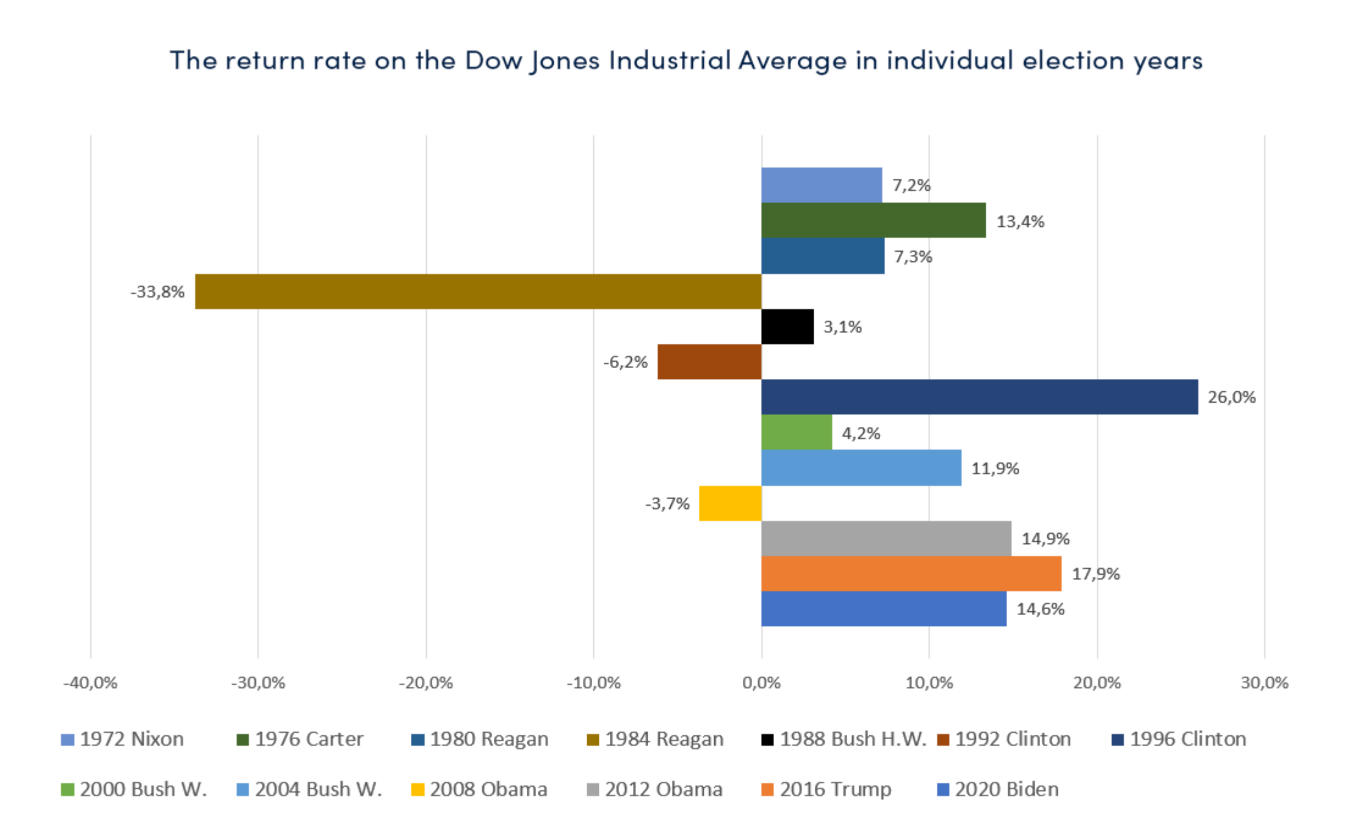
The elections in the USA are one of the topics which financial markets will be closely following in 2024. At this moment, it is very likely that Donald Trump will, once again, become the Republican presidential nominee. His chance of winning is also high. Joe Biden will, in turn, candidate for re-election, despite his old age. How will the markets react to the final result? As a reminder, the US dollar index gained over 5 percent in one and a half months following Trump's victory in 2016. Then, the US dollar lost more than 10 percent over the first year of his term in office. After the falls in 2015, Wall Street indices started to grow again in 2016. The correction came as late as autumn 2018, with the next one in the spring of 2020, which was due to the aftermath of the COVID-19 pandemic.

One might speculate as to whether Donald Trump's victory will again lead to conflicts with all possible trading partners or not. In such a scenario, internal demand for American products may increase. This will be beneficial to the USD, but at the same time, it could increase inflation pressure in the country. On the other hand, if the Republican nominee wins, this may pose a threat to the independence of the Fed. During his presidency, Trump repeatedly criticised the operations of the Federal Reserve and did not refrain from commenting on the US dollar force on the market. This factor may be negative for the "green".

> **During Biden's term of office, much more has been happening globally. The number of negative factors makes it difficult to assess the impact of his presidency on financial markets. The picture is, of course, blurred by the pandemic and the war in Ukraine.**

The results of the election will only be known in November. Statistically, election year is positive for the US share market. In the previous 13 of such periods, the Dow Jones Industrial Average has recorded a positive rate of return ten times. Only three times was it negative.

The index achieved the best results in 1996, when the elections were won by Clinton. The worst results were in the year in which Reagan became the president. In any case, it can be assumed that the statistics support bullish advocates.



Return rates on the DJIA in the election year over the past 13 presidential cycles, mean – 5.9 percent, median – 7.3 percent, data source: Bloomberg, own study.

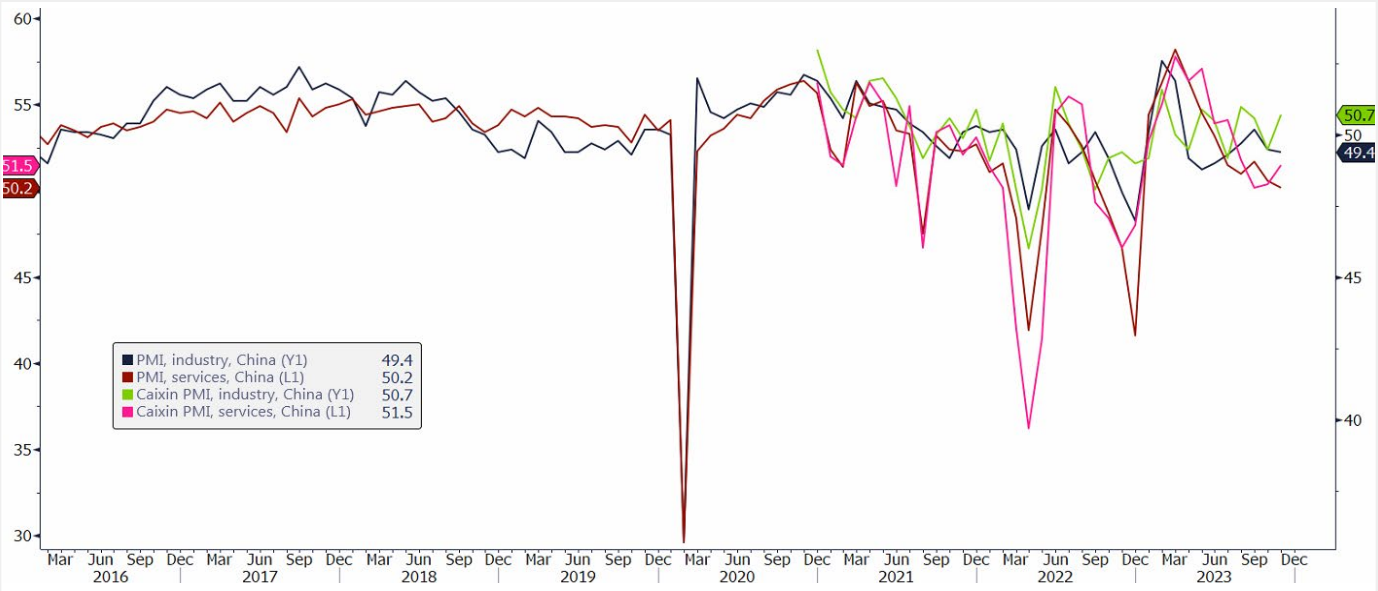
China

In China, a sluggish recovery from 2023 should also be visible in the coming months. The latest PMIs suggest that production is still weak, due to low demand. Further recovery in the industry may encounter various types of difficulties. The real estate market is still in recession, which will negatively affect, among other things, the construction sector.

> **The revival of consumption will be the main driver of the economy in 2024. However, its pace will remain moderate.**

Recent figures show that it is not stable yet. The ongoing slump in the housing market and the weakness of the labour market continue to affect decisions related to expenditure. On the other hand, households collected surplus savings during the pandemic, which may constitute a kind of expenditure buffer. Some of them have already been spent. In Q3 2023, they fell below 30% of disposable income.

PMIs clearly show a weak outlook for services in the nearest future. The official index for the non-production sector dropped again in November to 50.2 points, while the index for services indicated the value of 49.3 points. This means that it has fallen below the boundary level of 50 points for the first time since December 2022.
However, PMI Caixin for services is still below the long-term average despite its recent growth.



PMIs for the Chinese production sector and services, source: Bloomberg

The revival of consumption needs stable employment prospects and income. However, these are still weak. For example, new jobs in urban areas are still below the levels prior to the COVID-19 period.

The issue of the debts of local governments and the poor activity of the private sector, which is due to low levels of confidence after the pandemic and numerous regulatory repressions, will be a burden on the economy. The weakness of external demand, which results from restrictive financing conditions, will also be a negative factor.

A positive thing is that the government is supporting strategic industries: electric vehicles, green energy, semiconductors and pharmaceutical products.

It is likely that it will also continue to respond to the financial needs of development companies and that it will want to solve the problem of local government debt.

Beijing's target for 2024 can, once again, oscillate around 5% of the GDP. However, it may turn out difficult to achieve. In 2023, it was possible to reach 5.2 percent of real GDP, among others, due to the low base of 2022. Now, it will be much more difficult. Economic growth is likely to be close to 4.5 percent – at least, this is what the official forecasts of Bloomberg show.

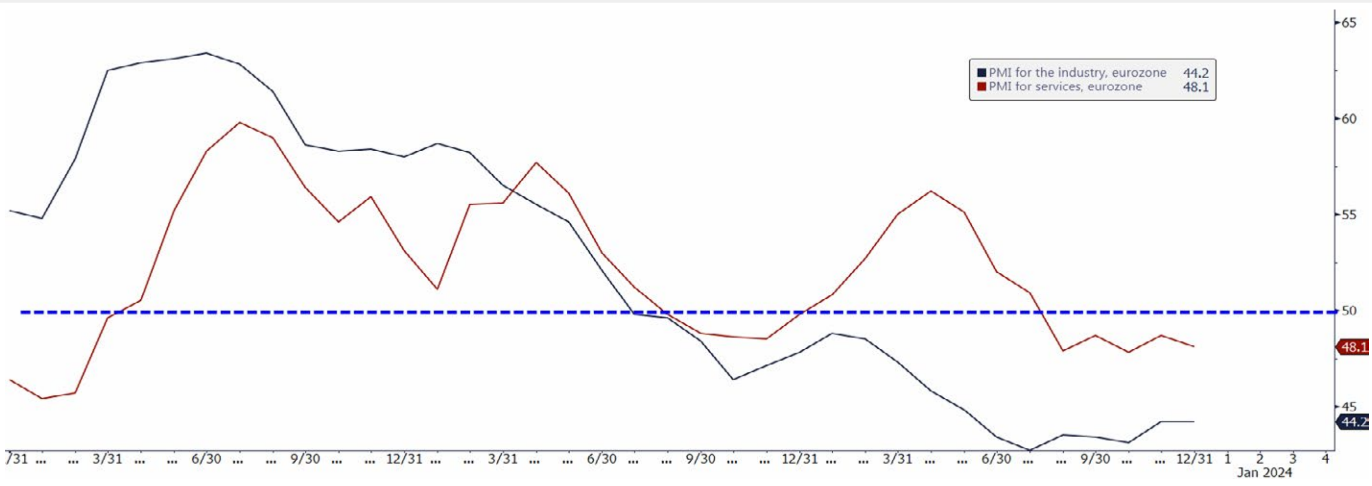
Eurozone

Economy

The economy in the euro area shrunk slightly in Q3 (-0.1 percent). A similar result is likely to be recorded for the last three months of the previous year. Throughout 2023, the growth rate will probably be around 0.5 percent. The Purchasing Managers' Index (PMI) for the services sector – one of the more reliable economic barometers of the euro area – was, again, weak in December and went down from 48.7 points to 48.1 points. This means that it is still below the lower threshold of 50 points. The index remains in an area where the economy has shrunk in the past.
The situation in the production sector is worse, as it is suffering from higher interest rates, weak global demand and worse price competitiveness, due to the appreciation of the euro.

Although the PMI for industry is slightly above the minimum value established in July (42.7 points), it is still in a very negative territory and is 44.2 points (preliminary read for December).

The component of new orders has stayed below the critical level of 50 since May, which indicates their decrease. This decease has not had a significant impact on production so far, as companies continue to catch up with overdue orders that were caused by supply shortages. However, this buffer should now be largely exhausted. As a result, more and more companies are likely to limit production in the coming months. Problems in the construction industry are already being noticed. The high costs of financing, plus a dynamic increase in construction costs, have affected the demand for services in this sector. The latest ECB forecasts assume, that real GDP in 2024, across the euro area, will be 0.8 percent and we can expect an increase of around 1.5 percent as late as 2025. Compared to September estimates, current projections have been revised downwards. The economy will come out of the recession in the spring of 2024, but no dynamic recovery should be expected. The ECB is likely to lower interest rates later than the Fed, which is mainly due to the risk of inflation in the medium term, caused by the continuing high wage pressure.



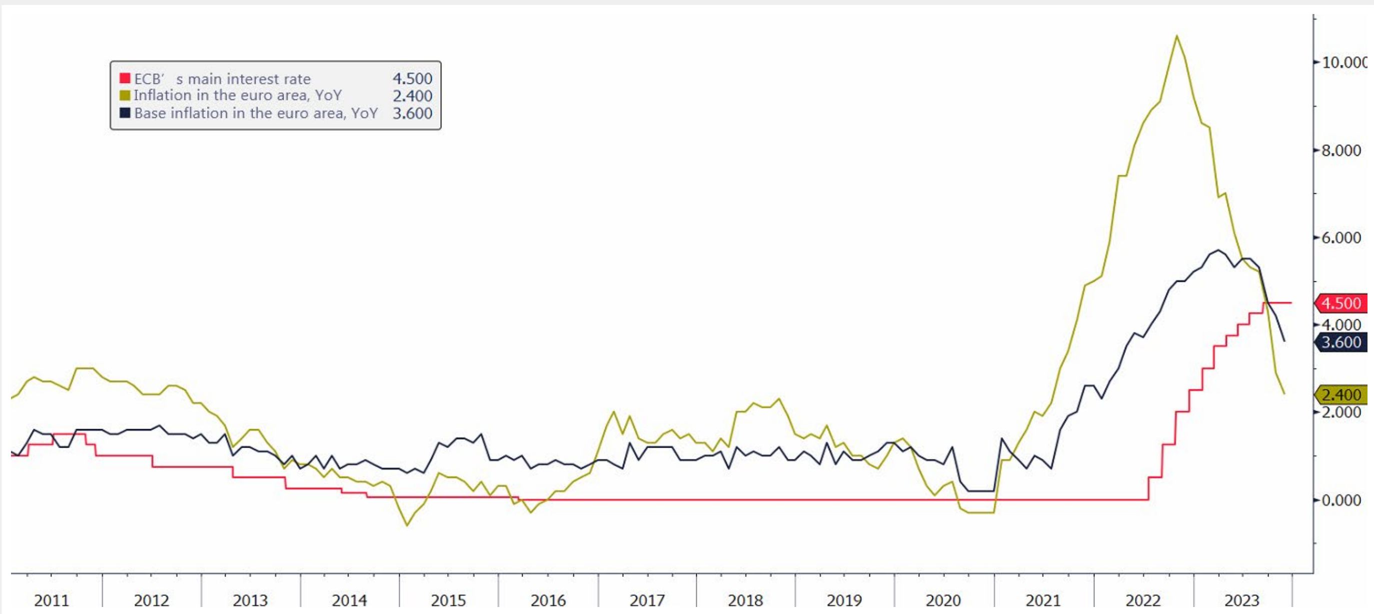
Purchasing Managers' Indices (PMIs) for the services sector and the production sector in the euro area, source: Bloomberg

Inflation

The growth rate in the euro area remains elevated. In November last year, inflation continued to decrease. The HICP was reduced from 2.9 percent to 2.4 percent year on year, while the base rate, excluding food and energy prices, decreased from 4.2 percent to 3.6 percent. With regards to further prospects, a continued decrease in food prices should be expected. The prices of industrial goods (excluding energy) should also be on the decrease. This is due to the fact that companies have already passed on to consumers a major part of the cost increase, which resulted from the higher prices of goods and energy. In the case of services, the situation is slightly more complicated.Here, a further reduction will be hampered by the next wave of increases, due to dynamic pay rises. The assumptions of the ECB indicate that the growth rate of base and headline inflation will be 2.7 percent in 2024. In 2023, the average HICP was around 5.4 percent. In any case, forecast values are still above the ECB target, which is 2 percent.

EBC

During December's press conference, after the ECB meeting, Christine Lagarde tried to tone down market expectations related to a cut in interest rates, which she, to some extent, succeeded in doing. This was reflected in the appreciation of the EUR exchange rate. At the same time, the President of the ECB expressed optimism about the outlook for inflation.

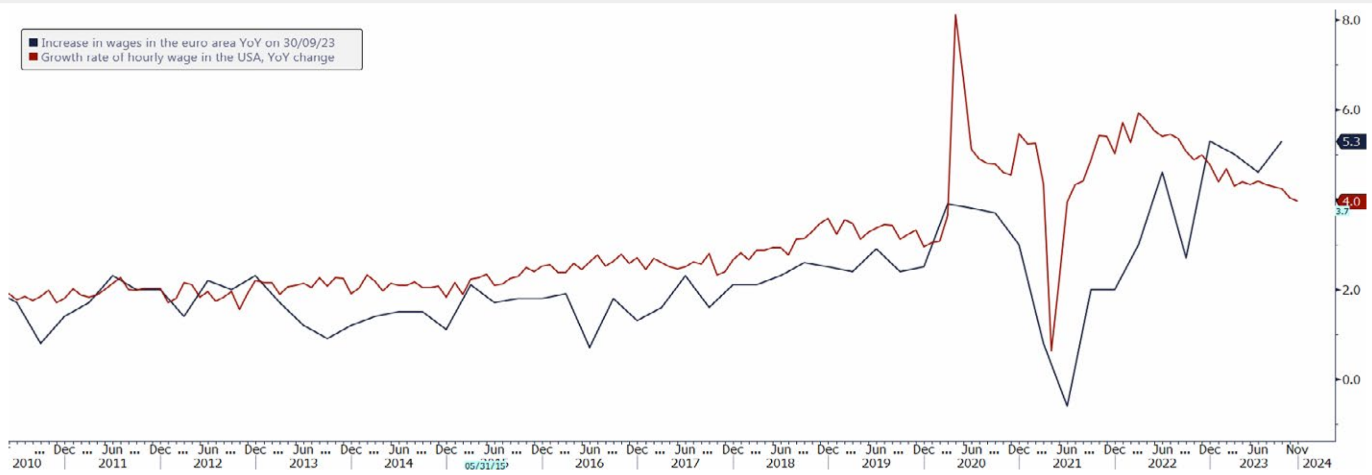


The main interest rate in the euro area (refinancing) and the measures of inflation in the euro area (YoY change), source: Bloomberg

Interest rates in the euro area, once again, were not changed.
Even before the last decision on interest rates in 2023, the financial markets fully valued the first reduction by 25 basis points in March 2024. In total, 150 basis points were expected to be cut by the end of the current year. Representatives of the European bank did not like this interpretation. The suppression of these speculations proved to be successful and, as a result, the EUR/USD exchange rate rose above 1.11, followed by a downward adjustment at the turn of the year. Lagarde no longer said that inflation would remain “too high for too long”. She also explained that, contrary to the Federal Reserve, the Governing Council of the ECB had not discussed any interest rate cuts. She also emphasised the strong wage increase that drives domestic inflation and that the ECB must remain vigilant.

At the same time, it was stressed that the base rate of inflation was lower than forecast. While answering the questions, the President of the ECB did not repeat the statement that rates would remain at the current level for several quarters. The Bank predicts that the base inflation and the “core” indicator will decrease to a target of 2 percent over the forecast period. The latest lower CPIs from the euro area (2.4 percent YoY) are the result of, among other things, lower prices of services.

In spite of all, the decreases in inflation will continue to be constrained by the still strong increase in wages, which is recognised by the ECB. Therefore, interest rates will probably remain at an increased level longer and the first reduction is likely to take place later than the start of the easing cycle, which is planned by the Federal Reserve.



Increase in wages in the euro area (YoY) and the growth rate of hourly wage in the USA (YoY), source: Bloomberg

EUR/USD

There is no doubt that the inflation situation in the USA and Europe has improved significantly. Therefore, both the Fed and the ECB are likely to cut their interest rates earlier than indicated by forecasts.

However, cuts will not be as fast and there will not be as many of them, as the market expects at this point.
Expectations of cuts appear to be exaggerated and will have to be adjusted at some point.

In December 2023, the market expected some sort of breakthrough in central banks' decisions and it can be said that this was achieved. While the ECB adopted a similar restrictive approach as the month before, in the case of the Fed, we can talk about a pivot in its monetary policy, even though its parameters did not change.
In the run-up to December's FOMC meeting, it was considered whether the markets had not gone too far with their expectations and whether the US central bank would therefore act against them in its communication. The President of the Fed, Powell, surprised investors by giving some degree of blessing to those speculations. He welcomed the decrease in inflation, which was much faster than originally expected. Obviously, Powell considered it premature to exclude further increases in interest rates. It became clear, however, that both him and the other Fed members did not consider them to be very likely. Targets related to inflation and full employment now seem to be equal. Previously, the fight against high costs was a priority.

Currently, attention is being paid to the question of how long the Fed will maintain its key interest rates at the highest level. Since July, the target range for federal funds has been 5.25–5.5 percent.

> **The "soft landing" on which the Fed counts and which it considers likely on the basis of its updated forecasts would be facilitated if key interest rates soon fell. Currently, the Fed assumes three cuts in 2024 (previously, only two cuts were predicted) and the change in communication leads to the conclusion that they will take place somewhat earlier.**

On the other hand, before December's ECB meeting, financial markets had already almost fully evaluated the first reduction in interest rates by 25 basis points in March 2024. A reduction in the cost of money of the total amount of 150 basis points was also expected before the end of this year. However, Lagarde met those speculations halfway in an effective manner, simply by saying that the Governing Council had not even discussed any cuts. Quick cuts were negated, despite the fact that the ECB's inflation forecasts for the coming years are more favourable. Economists from the central bank expect inflation to be below 3 percent on average in 2024. The statement that inflation will remain "too high for too long" was even removed from the statement and it was replaced by the following message: "inflation is expected to decline gradually over the course of 2024, before approaching the Governing Council's 2% target in 2025". Latest readings for November must have played a very important role and the lower prices of services has had a positive impact on them. Obviously, there are risk factors that may boost the growth rate of prices. Those certainly are geopolitical tensions and their impact on the price of crude oil. Nor should we forget the ever-increasing salaries, which will increase the costs of businesses and will force them to pass these costs on to consumers to a large extent.

The EUR/USD exchange rate was again 1.10, after which it "attacked" the rate of 1.11. At this moment, monetary policy in the US and the euro area has begun to show some sort of divergence. It is not particularly great, because both institutions are likely to start monetary easing in the foreseeable future. Now, however, it is clear that the Fed's approach is more "dovish" than the one presented by Lagarde and her colleagues. On this basis, it can be assumed that the permanent level of the main currency pair exceeding 1.11 is only a matter of time.

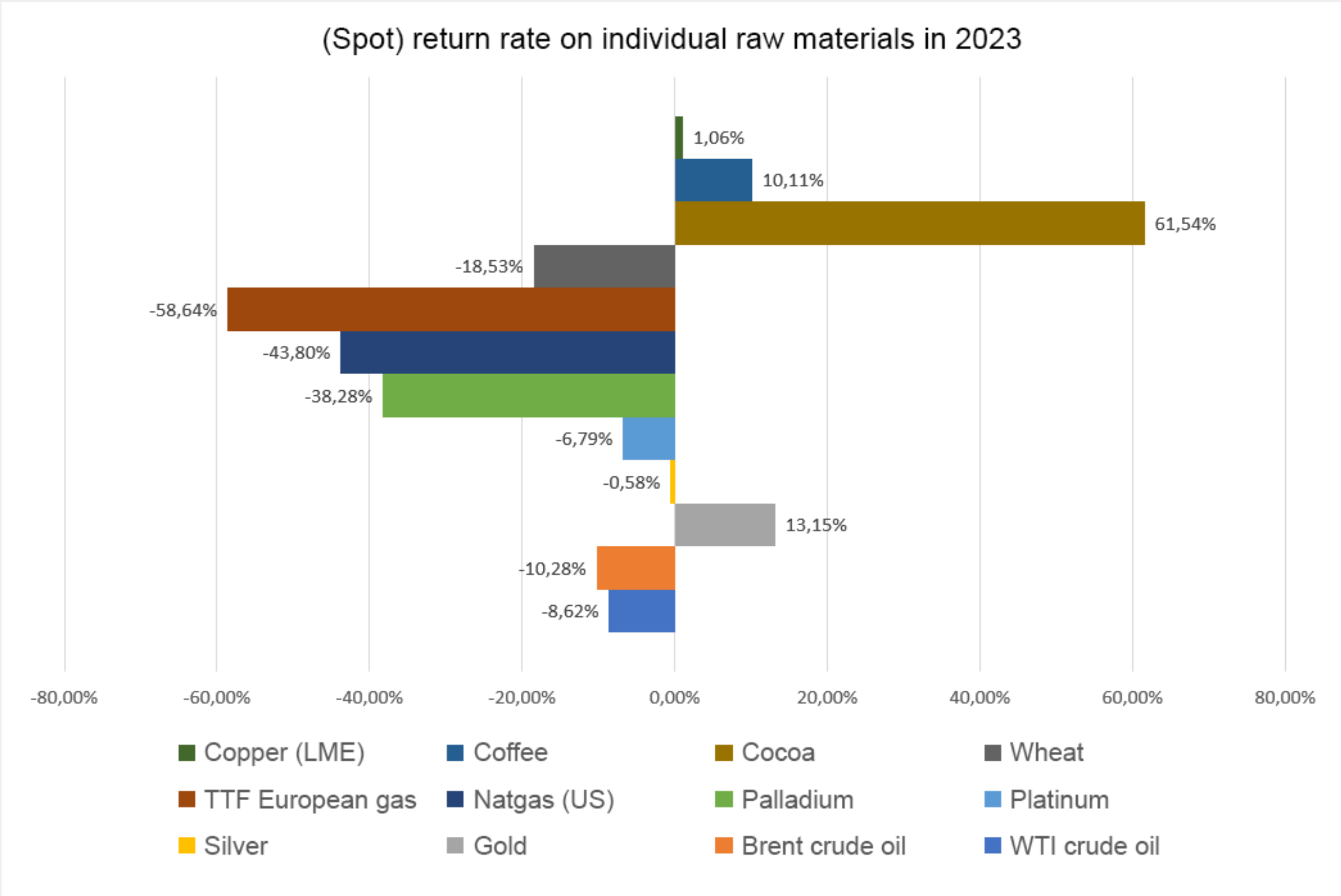
The EUR/USD exchange rate is still within the ascending channel, which has lasted since October 2022 and we assume greater probability of the quotations remaining in it in the coming months. After last year's drop from 1.1270 to a level below 1.0450, quotations started to gain growth momentum, which is still continuing. At the end of December 2023, the exchange rate briefly exceeded 1.11, followed by a downward adjustment towards 1.10. After reaching 1.11, another key resistance level will be 1.1270. If it can be achieved, this could open the way for quotations closer to 1.15.

The EUR/USD currency pair, weekly data, source: Tradingview

Raw materials

After the supply shock in 2022, which was caused by the war in Ukraine, the past 12 months have brought some calm. It turned out that trade flows had adjusted much faster than projected, despite the fact that extensive sanctions were imposed on the Russian energy sector. Supply concerns were replaced by demand concerns. This change resulted from aggressive fiscal tightening by the main central banks. Sentiments in the raw material market were also affected by the disappointing economic recovery in China, after the pandemic.

The good news is the fact that the growth rate of inflation fell considerably, while central banks in most cases reached the end of the interest rate rise cycle. The effects of the restrictive monetary policy over the last two years will be increasingly felt by economies. This will certainly entail a burdening of cyclical goods. The uncertainty related to the global situation may dominate in the first part of the year. In the second half of the year, raw materials (mainly for energy and industrial metals) should do better, when the economies of the USA and the euro area are likely to come out of recession, the GDP growth rate in China gains more momentum and the central banks start to lower the value of money.



(Spot) return rate on individual raw materials in 2023, data source: stoolq.pl, own study

Crude oil

Brent crude oil reached its minimum level in H1 2023, getting close to USD 70 per barrel. WTI crude oil decre-ased to approximately $64. In July, quotations started to grow again, which meant that both types reached their maximum values at $95-96.

Subsequently, prices were under pressure, due to global demand concerns and the unexpectedly strong increase in oil production in the USA. The market also started to value the likely oversupply in the market at the begin-ning of 2024.

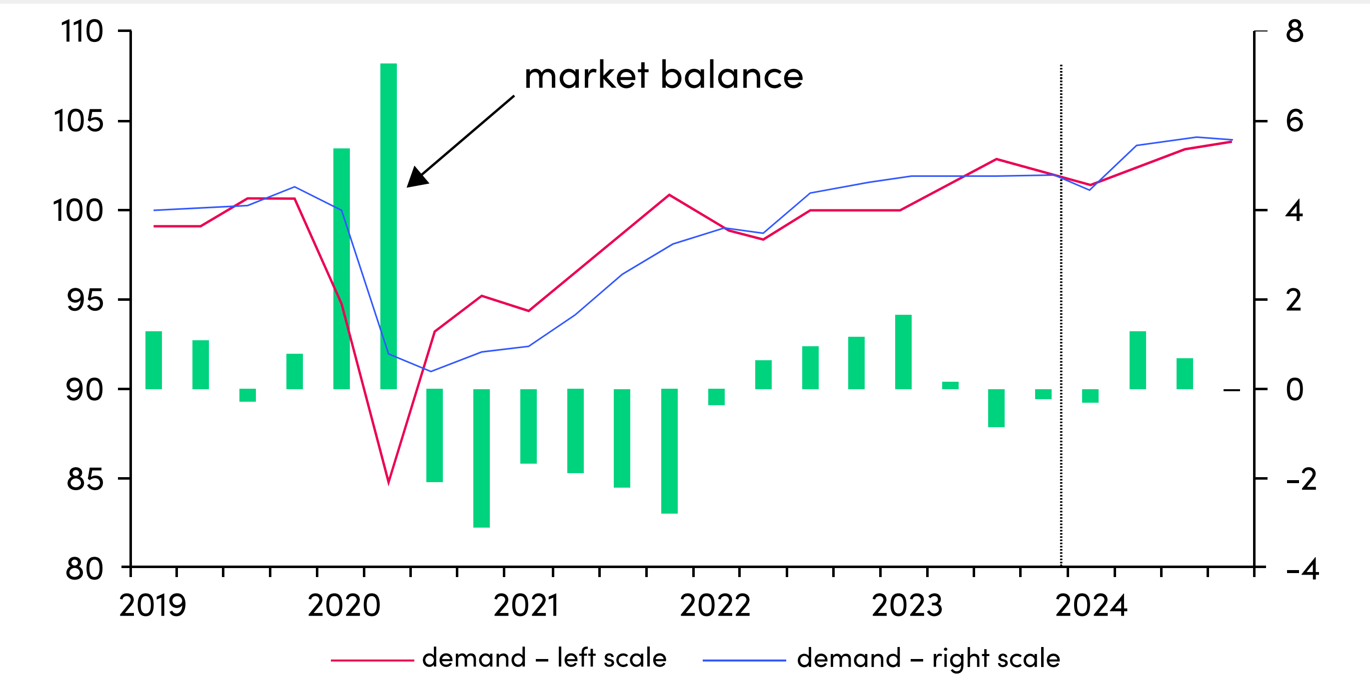
Concerns about it are probably somewhat exaggerated. It should be kept in mind that the decisions taken by OPEC+ at the end of November 2023 will finally tighten the market situation.

Saudi Arabia plans to continue volun-tary cuts in production by 1 million barrels per day by the end of Q1 2024. Russia, in turn, intends to reduce its oil exports by 500 thousand barrels per day, in the same period. Cuts by 300 thousand barrels have already been implemented. This is not the end. Other countries (Iraq, the United Arab Emirates, Kuwait) stated that they would also participate in the reduction in supply and jointly wanted to reduce extraction by 700 thousand barrels in the first three months of the new year. Such voluntary cuts amount to a total of 2.2 million barrels. The new ones (dated November) amount to approx. 900 thousand.

It is therefore likely that there will be no large oversupply in the market, due to such activities. However, the condition is

that declarations made by OPEC+ countries must be reflected in their actual operations.There is also a risk that, after Q1 2024, voluntary cuts may cease to apply and then the market may be better supplied with crude oil.
At this moment, Saudi Arabia and Russia have declared the possibility of extending their arrangements related to decreasing production. This may happen if the demand for crude oil is actually rather weak. Forecasts of the International Energy Agency indicate that, in particular, the first half of the year may be characterised by pent-up demand for this raw material. This will result, among other things, from the expected recession both in the US and in the euro area, and from the occurrence of typical seasonality. The demand for crude oil will probably increase more in the second half of the year.

In its November report, the International Energy Agency raised forecasts for global oil demand. Last year's demand growth was adjusted from 880 thousand to 930 thousand barrels per day. Despite growth, which is almost two-thirds lower than the 2023 result, global demand for crude oil is expected to rise to a record-high annual level of 102.9 million barrels per day in 2024. However, OECD countries will face more economic challenges, which will hamper demand.



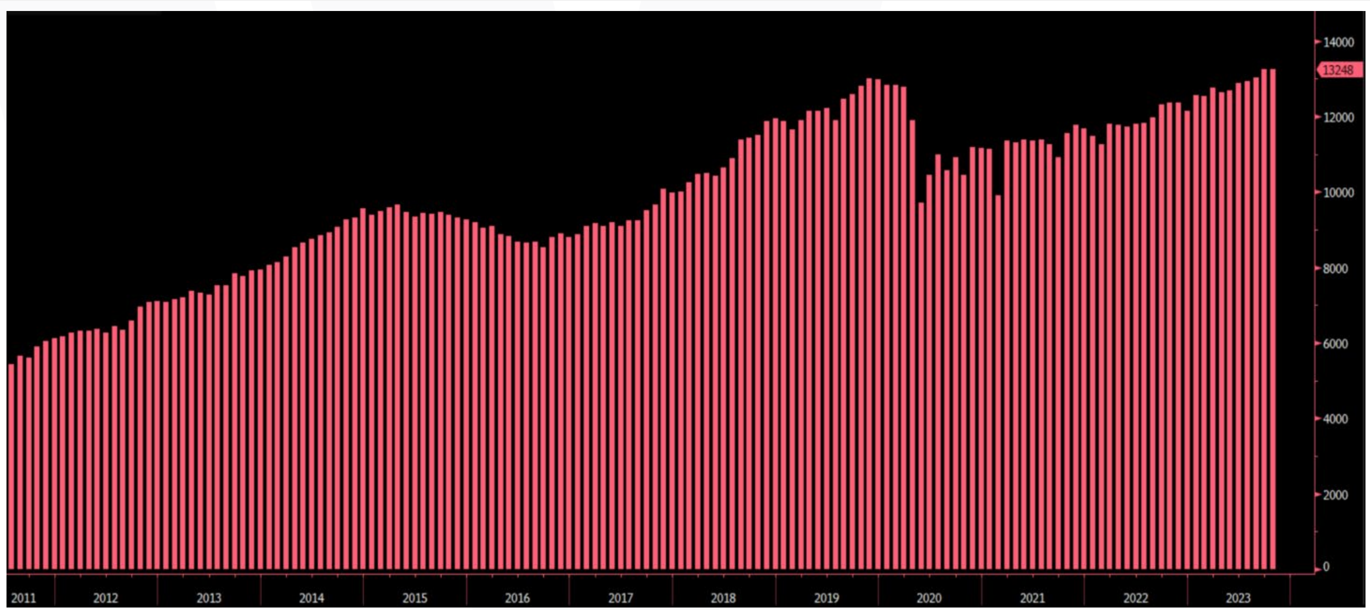
Demand and supply on the crude oil market and forecasts, data in millions of barrels per day, source: IEA (assuming that voluntary cuts in production by OPEC+ countries will last until the end of March 2024).

The US is forecast to significantly lower its oil production in 2024, compared to the previous period. Less crude oil is likely to be delivered from the United States. The American government faces the challenge of replenishing strategic reserves, which have been largely exhausted and set a 40-year minimum level.

The reduction in oil extraction by OPEC+ countries will lead to a balance on the market at the beginning of 2024. We believe that the market has largely evaluated the forecast of lower demand for this raw material in Q1 2024. Growing demand in the coming months should produce upward pressure on the prices of both Brent and WTI crude oil (up to USD 85 and USD 80 per barrel, respectively).

Since October 2023, quotations related to crude oil have been in the descending channel. In mid-December, the price of CFD was close to the horizontal support set by the minimum values reached at the beginning of the summer. The graph shows the potential formation of the inverse head and shoulder pattern.

If the quotation breaks the neckline of the inverse head and shoulder pattern and the upper limit of the aforementioned descending channel, this will be a medium-term technical signal of further increases.



Production of crude oil in the USA, in thousands of barrels per day, source: Bloomberg

Brent oil graph (CFD contract), daily data, source: Tradingview

Gold

Gold set an historical record in the past year and, for a moment, was valued at the level of USD 2,135 per troy ounce. At a relatively fast pace, quotations were adjusted by approx. USD 100. In any case, the result of +12 percent throughout 2023 against other raw materials is a positive result. The value of gold appreciated, in spite of falling inflation. Nevertheless, CPIs persistently above the targets of central banks and the prospect of an increased price growth rate should continue to make this metal an attractive asset, safeguarding investors against inflation. Gold also gained in value, despite the fact that in October last year, the profitability of US bonds grew to the highest level in 16 years.

Despite the increase in prices, the royal metal was not the preferred choice of investors. This can be confirmed by the poor result of the ETFs that have recorded capital outflows in the last 12 months and their total assets have shrunk by as many as 235 tonnes.

It is the change in expectations regarding the outlook for interest rates in the USA, in the autumn of 2023, that probably had a decisive impact on price increases and resulted in the resilience of quotations to these negative factors. The last “dovish” pivot of the Federal Reserve should

continue to have a positive effect on gold quotations in the long term.
The growing expectations of cuts will result in a further decrease in the profitability of debt securities and therefore this factor will be crucial for this raw material. Market valuation indicates the first cuts in the cost of money in the US as early as in the spring. This assumption could be too optimistic. Mid-2024 seems to be a more realistic period. Therefore, interest among investors in passive financial instruments replicating the price of gold (ETF) should be rebuilt. It should be noted that there has been a positive correlation between the price chart of the raw material and the inflow of capital to that fund market for many years. Obviously, we should take into account the fact that future cuts to interest rates in the USA have already been discounted by the market to a certain extent and that some of the last increases in the raw material market are precisely the aftermath of this factor. In any case, we can see the likelihood that the price will exceed USD 2,150 for good.

The gold chart and the quantity of the physical metal held (in troy ounces) by global ETFs, source: Bloomberg

Over the last few years, gold has been moving in a broad consolidation phase between historical peaks and an upper limit of approx. USD 1,650. Q4 2023, when the upper limit of this sideways trend was reached, was a particularly good period. In the short term, quotations are moving in the ascending channel. The new record, set in December, has shown the power of purchasers. Despite a rapid decrease from above USD 2,100/ounce, the price still remains close to the horizontal technical resistance level. In the coming months, it is very likely that this barrier will be broken, the ATH (all-time high) level will be attacked again and then this level will be exceeded.

The gold chart (CFD), weekly data, source: Tradingview

The US bond market

The Federal Reserve is highly likely to have completed its cycle of interest rate hikes. The "Fed pivot" in 2023 was gradually dismissed. In December, however, investors received a signal about the upcoming change from President Powell.

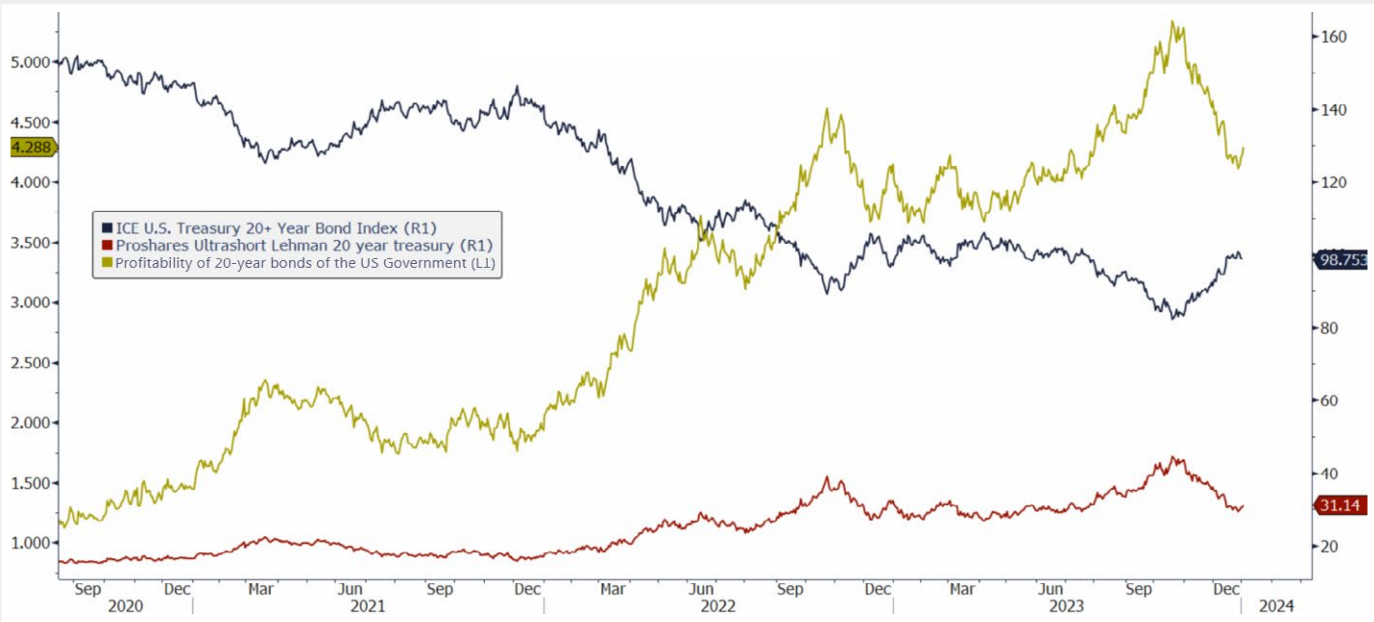
We are awaiting a period of easing of monetary policy by that institution. Under extremely restrictive monetary conditions, prices of bonds have fallen sharply in recent years (mainly in H2 2021 and in H1 2022), and thus their profitability has increased to levels not observed for many years. In 2023, the two- and ten-year securities indicated the same value as in 2006 and 2007. The latest decrease has been moderate so far, therefore we have seen a large space for adjustments to movement over recent years.

Signs are that the "monetary shock" experienced by financial markets is almost over. Looking at the statistics, there is a clear correlation between the end of the interest rate hikes and profitability over the next 12 months. In the last few decades, the end of a restrictive cycle has almost always resulted in a decline in the profitability of 10-year bonds of the US government and an increase in their prices.

The market is at the end of the interest rate cycle in the USA (but not only) and it has historically determined a peak in the profitability of debt securities and, at the same time, a peak on the price chart of these instruments.

In addition, US bonds are statistically one of the best assets in times of recession and reductions in the cost of money, which should encourage investors to engage in this market.

Profitability of US government bonds with different maturity (2, 10 and 30 years), source: Bloomberg



Profitability of 20-year bonds of the US Government (yellow line), ICE U.S. Treasury 20+ Bond (blue line) and ETF Proshares Ultrashort Lehman 20 year Treasury, source: Bloomberg

The Dow Jones Industrial Average index

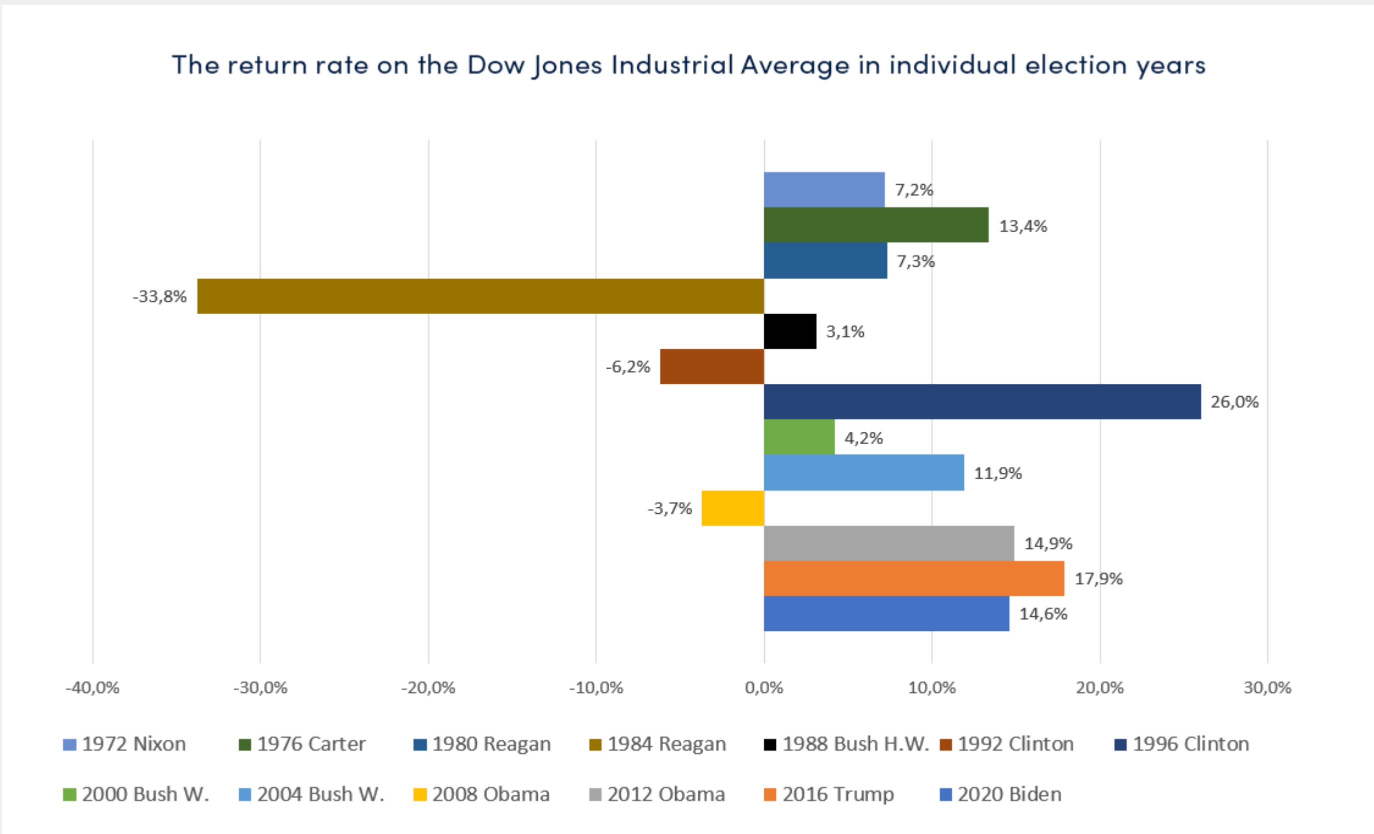
Among the "calendar" cycles in the US share market followed by numerous speculators and technical analysts, the 4-year presidential cycle (the standard 4-year term of the President of the United States between successive elections) and the 10-year "decennial pattern" (a decade cycle) are some of the most popular ones.

A rational explanation for the existence of the "presidential cycle" in the American share market does not seem to be particularly difficult: the administration residing in the White House is trying to send "satisfied" (e.g. not the unemployed) voters to the next elections directly by its fiscal policy (and perhaps by indirectly influencing the monetary policy of the Federal Reserve). This requires applying fiscal policy tools before the next elections, whose delayed positive effects (e.g. low unemployment rate) will occur in the period immediately preceding the presidential elections. The share market captures this pre-election fiscal stimulation well in advance.

> **This is where the speculative rule, which has not failed for 90 years, stems from: according to this rule, purchasing S&P 500 funds is recommended at the end of Q3 of the third year following the presidential elections in the USA and selling them 5 quarters later at the end of the third year, following the elections.**

Over the past 13 4-year presidential cycles, the rate of return on the DJIA in the calendar year – just like the current

one – at the end of which the presidential elections take place in the USA, has been 5.9 percent on average, with a median of 7.3 percent. Since 1968, in a US election year, the rate of return on the DJIA has been negative three times (23 percent of cases): in 2008 (-33.8 percent), in 2000 (-6.2 percent) and in 1984 (-3.7 percent). According to the "decennial pattern", US shares should be purchased at the end of Q3 (at the end of September) of the decade whose date ends with a 2. It is fair to admit that it is much more difficult to rationally explain the "decennial pattern" than the "presidential cycle", but the existence of this phenomenon has long been seen in the US share market. These two cycles – the 4-year presidential cycle and the 10-year "decennial pattern" – synchronise every 20 years (20 is the lowest common multiple of 4 and 10). In other words, every 20 years, there is a perfect moment to purchase US shares, from the point of view of both these cycles at the same time.
In this sense, an attempt can be made to equate the value of the Dow Jones Industrial Average in the autumn of 2022 with the minimum values of this index in 2002, 1982, 1962, 1942, 1921 and 1903 that are analogous, from this perspective.



Return rates on the DJIA in the election year over the past 13 presidential cycles, mean – 5.9 percent, median – 7.3 percent, data source: Bloomberg, own study.

According to this concept, for slightly over a year, the American share market has been in the "decennial pattern", which is very favourable to the growing prices of US shares, and so far, there have been no special reasons why this upward phase in the 20-year cycle would be extremely short.

The Dow Jones Industrial Average Index (vertical lines represent a 20-year cycle), quarterly data, source: Bloomberg

In the short term, the DJIA graph at the end of 2020 exit a short – lasting several months – but deep consolidation phase between February and November 2020 near the top. Its size suggests that the aim of the ongoing increase for the Dow Jones Industrial Average should be around 48,000 points in the medium term (the DJIA has recently reached 37,430 points).

At the moment, the DJIA graph is trying to exit near the top of the consolidation phase, lasting since January 2022. If this was made possible, the size of the consolidation phase exiting near the top would suggest medium-term growth of the DJIA up to 46,000 points.

The Dow Jones Industrial Average (DJIA) index, daily data, source: Bloomberg

Agilent Technologies

Agilent Technologies (dividend yield 0.7 percent, C/Z 27.8, C/S 6.0, C/WK 6.95, capitalisation of USD 40.7 billion) is an American enterprise based in Santa Clara, California, manufacturing scientific instruments, semiconductors, equipment for optical networks and measuring and research equipment for telecommunications. In 1999, it was separated from Hewlett-Packard as an independent enterprise. In 2004, the company employed 28 thousand employees and had revenues of USD 7.2 billion, two-thirds of which were generated outside the United States.

Since 2009, the company's share price has been in the long-term ascending channel, which in 2020 achieved its historical peak of 2000 and continued that increase.

Between 2021 and 2023, the company's share price was adjusted by this strong increase by making a "U-turn" to its peak in 2000. The share price currently resides above its descending 50-week average, which is above the ascending 200-week average of the price.

Theoretically, the share price breaking its peak level of 2000 upward, in 2020, opens the way to the continuation of the long-term increase by the size of the long-term consolidation phase lasting between 2000 and 2020 exiting near the top.

Agilent Technologies' share price in 1999-2023, weekly data, source: Bloomberg

Boeing Company

The share price of Boeing Company (C/S 2.1, capitalisation of USD 158 billion), which is an American aviation, arms and space group, has been in the long-term ascending channel since 1980. The share price has bounced back from its lower limit in 1982, 2009, 2020 and 2022.

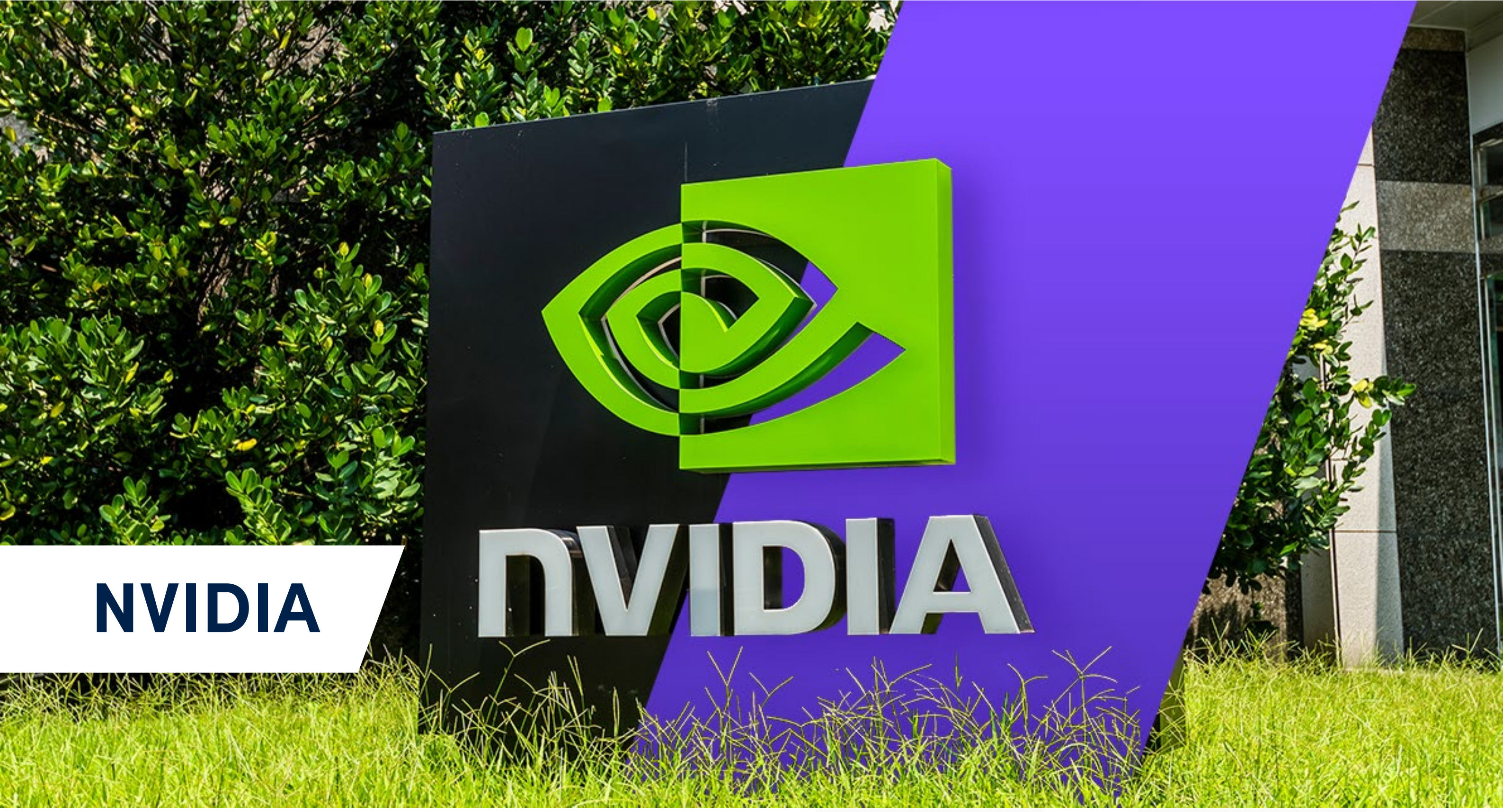
The ongoing war in Ukraine and parallel conflicts in the Middle East have resulted in a general growth in demand for the products manufactured by the arms industry all over the world and Boeing can be perceived as one of the potential beneficiaries of this trend.

Data for 2023 is not available yet, but in 2022 we witnessed an increase in global military spending by 3.7 percent. In Europe, the scale of growth in such spending has been the greatest in at least 30 years.

The share price currently resides above its ascending 50-week average, which is above the descending 200-week average of the price.

It can be discussed whether the increase in the price that started in 2020 and 2022 by bouncing back from the lower limit of the 40-year ascending channel will reach its upper limit, as was the case with the increases which began by bouncing back from the lower limit of said ascending channel in 1982 and 2009.

Boeing Company's share price in 1980-2023, weekly data, source: Bloomberg



NVIDIA

NVIDIA (dividend yield 60.9, C/Z 26.2, C/S 35.26, C/WK 1,175, capitalisation of USD 1,175 billion) is an American computer company and one of the world's largest manufacturers of graphics processing units (GPUs) and other integrated circuits for the computer market, which has recently become a dominant supplier of hardware and software for the Artificial Intelligence (AI) sector. The company's share price between 1999-2020 was within the long-term ascending channel and then it exited the channel near the top.

The term "artificial intelligence" was created in 1956 by the American mathematician John McCarthy, who, among other things, created the LISP programming language. Recent years have brought a significant increase in the popularity of this domain, as a result of making ChatGPT (Chat Generative Pre-trained Transformer) available to a wider audience, whose possibilities made a splash all around the world. Further dynamic development of this relatively new field can be expected.

In 2022, the share prices of NVIDIA returned to the level of the upper limit of the ascending channel that was exited near the top, which has been followed by another increase since October 2022. Currently, the share price is above its ascending 50-week average, which is above the 200-week ascending average.

A graph presenting the shares of NVIDIA in 1999-2024, weekly data, source: Bloomberg

Bitcoin

Every 4 years, the number of Bitcoins granted to the "miners" "extracting" them (probability of "extracting" them) is reduced by half, which is intended to make this instrument resistant to inflation. This process – referred to as "halving" – will probably last until 2140, when all 21 million Bitcoins will have been "extracted". Previous operations took place on 28 November 2012, 9 July 2016, and 11 May 2020. The next operation is scheduled for April 2024, which is in about 3 months.

It can also be speculated that the consent of the US Securities and Exchange Commission expected to be granted by 10 January 2024, under which the first ETF (Exchange-Traded Fund) investing in Bitcoin can start operating, will translate into an increase in demand for this financial instrument.

After the 3 previous "halvings" that took place on 28 November 2012, 9 July 2016 and 11 May 2020, the BTC/USD exchange rate strongly increased by approx. 8,945 percent, 2,769 percent and 703 percent, respectively. These increases lasted 368 days, 533 days and 552 days, respectively. This is an average of 484 days, which is less than 16 months.

One can also try to speculate that the growth pattern of this type for the BTC/USD exchange rate will be repeated again this time, although past experience – 703 percent < 2,769 percent < 8945 percent – suggests that, this time, the final scale of this alleged increase in the BTC/USD exchange rate, lasting on average not less than 16 months, may be again lower than the previous one. The scale of the second increase wave following the “halving” of 9 July 2016 (+2,769 percent) was equal to 25 percent of the first “after-halving” increase that started on 28 November 2012 (+8,945 percent). The third increase in the next cycle after the halving of 11 May 2020 (+703 percent) was equal to 31 percent of the second halving (+2,769 percent). Assuming further weakening of this type of cyclical increase in the BTC/USD exchange rate in the current scale, it can be estimated that this time the increase will be lower than the previous ones and it may reach its highs somewhere near May-November 2025.

At the end of October 2023, the BTC/USD exchange rate broke the resistance level determined by its local maximum level of April and July 2023 and local minimum levels of June 2021 and January 2022.

Thus, from a technical point of view, the probability of achieving the peaks in April and November 2021 is increasing.

BTC/USD exchange rate, weekly data, source: Bloomberg

BTC/USD exchange rate, weekly data, source: Bloomberg

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All price levels were determined on the basis of a conducted technical analysis.

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