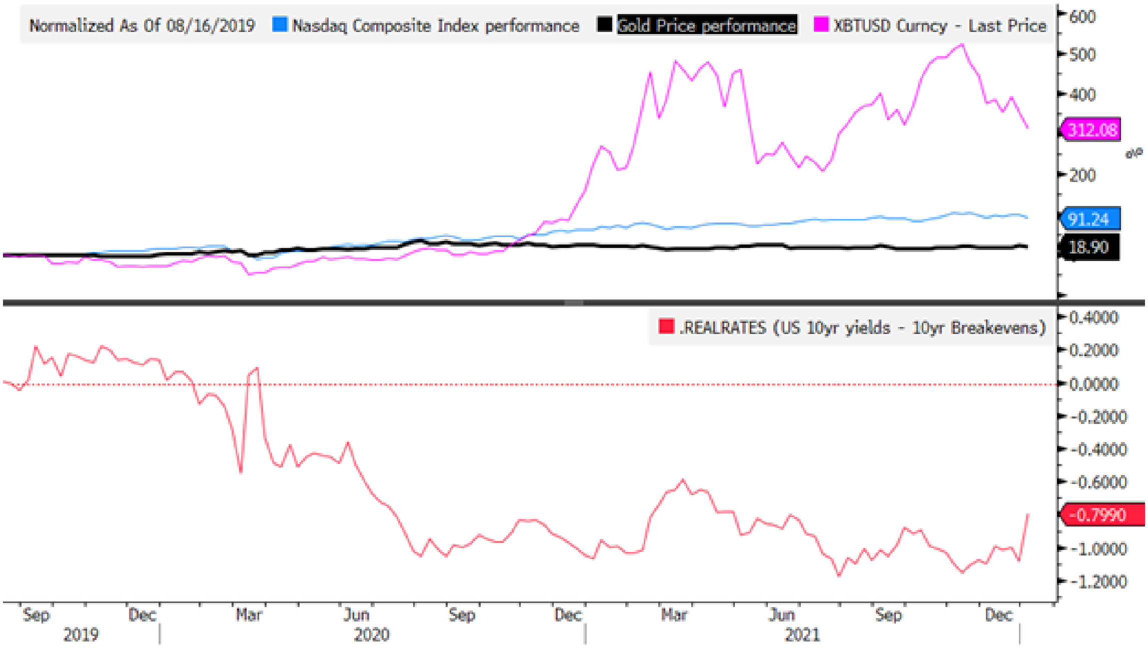
European Daily wrap

Nasdaq, Bitcoin vs Gold and negative interest rates

Nasdaq has outperformed Gold 6-fold, since real interest rates turned negative

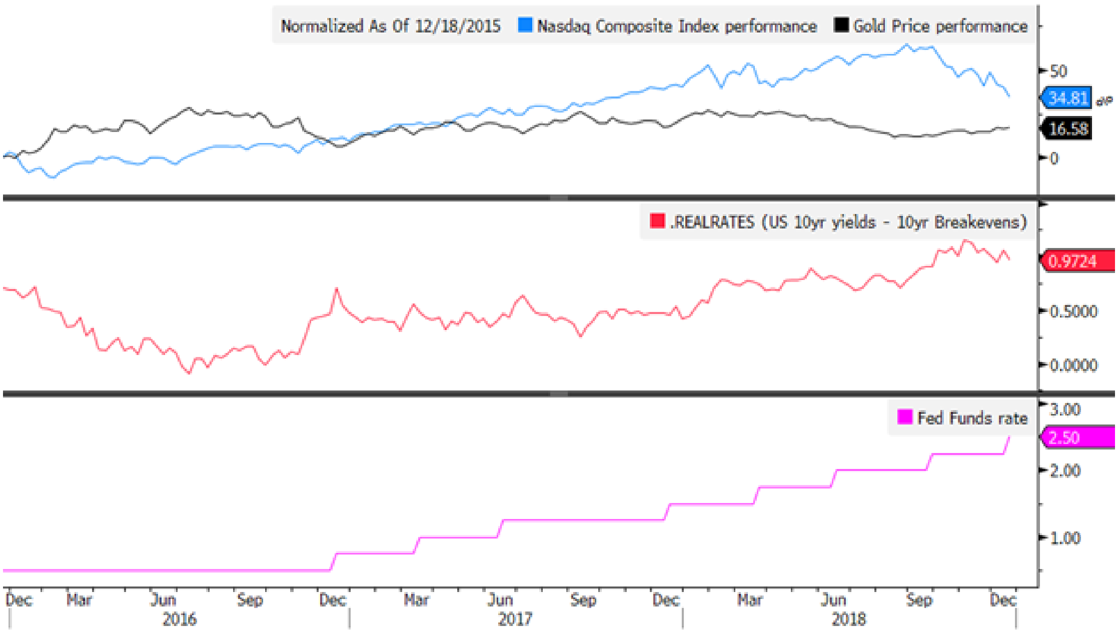


Source: MKS PAMP Group, Bloomberg

CCMP Index (NASDAQ Composite Index) gold nasdaq & real yiel Weekly 16AUG2019-06JAN2022 06-Jan-2022 14:24:29

Nasdaq vs Gold and a hiking Fed cycle

Nasdaq has outperformed Gold 2-fold during the previous hiking cycle



Source: MKS PAMP Group, Bloomberg

CCMP Index (NASDAQ Composite Index) gold nasdaq realy Fed Weekly 15DEC2015-19DEC2018 06-Jan-2022 14:26:49

	1. Current threat of Fed tapering (June '21 - Dec '21)	2. Current threat of Fed hiking (Dec '21 - current)	3. Actual past Fed hiking cycle (Dec '15 - Dec '18)
	Daily correlations between rate sensitive asset classes vs US real Rates**, over specific Fed time frames		
Gold	-0.46	-0.32	-0.48
Nasdaq	-0.02	-0.61	0.16
Bitcoin	-0.01	-0.37	-0.03
	Average weekly performances of rate sensitive asset classes over specific Fed time frames		
Gold	0.0%	0.1%	0.1%
Nasdaq	0.4%	-0.2%	0.3%
Bitcoin	1.4%	-2.8%	4.0%

1. Easy Fed policy behind us, fear of tapering (June '21 tapre FOMC - Dec '21 taper announcement)
2. Fed taper announcement behind us; fear of a faster hiking cycle (Dec '21 FOMC - current)
3. Most recent past Fed hiking cycle from 0-2.5% (Dec 2015 - Dec 2018)
**US 10 year yields - US 10yr Breakevens
Source: MKS PAMP Group

SUMMARY:

- **Analysis attempts to assess whether tech (the "new" interest rate proxy) or gold (the "old interest rate" proxy) is more sensitive to rate hikes and inflation expectations.**

- **Asset classes are forward looking; its about the uncertainty injected around the *fear* of either tapering or hiking, more so sometimes than *actual* tapering or rate hikes.**

- **The rotation out of tech and into travel, banks and big industrial groups sensitive to reopening or a stronger recovery is taking place: i.e.: the "new reflation trade" is the Omicron trade, as markets start pricing it in being the last 'gasp of' the pandemic**

- **Fundamentals matter more in higher interest rates... Overvalued, unprofitable, and overinvested asset classes stand to lose the most as the market transitions from the 'fear of tapering' to the 'fear of more aggressive rate hikes'. Gold is relatively neither overvalued nor overinvested vs tech or bitcoin.**

- **Since real rates accelerated further into negative territory given ultra loose monetary polices in response to COVID, the Nasdaq has outperformed Gold 6-fold (Gold up 20% vs Nasdaq up 120%)**

- **Both Gold, tech (Nasdaq) and Bitcoin are negatively correlated with real interest rates and thus are sensitive to the Feds hiking cycle & comments it can accelerate**

- **Gold is more sensitive to the threat of tapering; Nasdaq and Bitcoin are more sensitive to the threat of rate hikes**

- **Gold is most sensitive to real rates when the Fed is actually hiking, but it can still put in mild gains & remain supportive (dependent on whether real rates stay negative or just simply positive but low)**

- **Gold will still come under pressure on faster Balance Sheet reduction (tapering) and faster rate increases, alongside riskier/overinvested/overvalued rate sensitive asset classes, but it wont underperform those.**

- **Golds been a frustrating trade since the June FOMC, with many 'stop-starts' and false breakouts. It has an uncanny ability to rally when all hope is lost, when the last towel has been thrown in, as was the case in Dec 2015 which marked a clear new cycle bottom at $1050.**

- **Bottoms will be tested if real rates spike, but the appeal for Gold could grow as a hedge against both 1) a Fed policy mistake (either runaway inflation or an aggressive hiking cycle bringing forward recession risk) 2) upcoming equity market volatility and macro fear as money rotates through asset classes, injecting safehaven related buying**

Yesterdays FOMC minutes were hawkish; officials said interest rates could rise sooner or at a faster pace (ie: a 50bp shock hike) to tame soaring inflation. The fallout was a $30 drawdown in Gold (over 2days), with the S&P closing down 2% but the tech-heavy Nasdaq down 3.3%, as bond yields spiked (US 2yrs reached 0.86% as of writing today its highest since pre pandemic (March 2020).

The appeal on many unprofitable tech companies ("spec-tech" – unprofitable speculative tech stocks with high valuations that are dependent on potential/hope of future earnings and therefore sensitive to rising interest rates) were knocked heavily. Fundamentals matter more in higher interest rates...

The rotation out of tech and into travel, banks and big industrial groups sensitive to reopening or a stronger recovery is taking place: i.e.: the "new reflation trade" is the Omicron trade as markets price it in being the last 'gasp of' the pandemic

Gold and Silver, while traditionally are rate sensitive asset classes, but prices are dependent on whether the Fed is ahead/behind the inflation curve (i.e: positive or negative real interest rates respectively), since they are also financial assets and trade less as fundamental commodities.

However, the below analysis, attempts to assess whether tech (the "new" interest rate proxy) or gold (the "old interest rate" proxy) is more sensitive to rate hikes and inflation expectations.

- Since real interest rates (proxied by 10yrs – 10yr BEs) more decisively into negative territory in August 2019 as the global economy reached end cycle and Central Bankers (led by the Fed) led loose policies, the Nasdaq has outperformed Gold 4.5-fold (Gold up 20% vs Nasdaq up 91%)

- Since real rates accelerated further into negative territory given ultra loose monetary polices in response to COVID (March 2020), the Nasdaq has outperformed Gold 6-fold (Gold up 20% vs Nasdaq up 120%)

- During the previous hiking cycle (Dec 2015 to terminal rate of 2.5% in Dec 2018), both Gold & the Nasdaq rallied (+40% & 16% respectively) arguing that a Fed hiking cycle isn't necessarily bearish; however the Nasdaq only outperformed Gold 2-fold. Real interest rates rallied during that time from 0 to 1%, but since they remained historically low (at just 1%) both sectors kept in play.

- *Yes, clearly the Nasdaq includes many profitable stocks which aren't "spec-tech", and tech rallied during lockdowns (which occurred during super low interest rates) but it's a rough proxy for the favored tech sector now under pressure.*

- Table 1 highlights the daily correlations and average weekly performance between rate sensitive assets (Gold, Bitcoin & Nasdaq) and real US interest rates, over 3 specific Fed periods (the threat of taper, the threat of rate hikes and actual rate hikes). Takeaways:

- Gold is more fearful of the taper threat (than the threat of hiking) with a -0.46 correlation with real rates during over June-Dec '21. Its also up on average (+0.1%/week) during this recent period where markets are now fearing Fed hikes (Dec FOMC - current). That's probably since an aggressive Fed hiking schedule will bring forward recession risk and (in time!) create some structural support for gold, as money rotates through asset classes; equity market volatility can inject some safehaven related / ETF buying (as we've seen so far the past week)

- Gold is still is negatively correlated with real interest rates after tapering was announced and such will fall on an any aggressive Fed hiking comments (i.e.: higher real interest rates), but it perhaps wont fall as much as bitcoin and tech.

- Nasdaq is more sensitive to the fear of hikes with a -0.61 correlation with real rates (vs Golds -0.32) and bitcoin is mildly more sensitive than gold to the upcoming hiking cycle (-0.37 correlation).

- During an actual rate hiking cycle (just looking the most recent one, 2015-2018), Gold was actually largely up mildly (+0.1%/week) but it underperformed the Nasdaq (which was up 0.3%/week).

- Asset classes are forward looking; its about the uncertainty injected around the *fear* of either tapering or hiking, more so than actual tapering or rate hikes. Overvalued, unprofitable, and overinvested asset classes stand to lose the most as the market transitions from the 'fear of tapering' to the 'fear of more aggressive rate hikes'. Gold, by all of these metrics is NOT 1). Overvalued (relative to S&P, to other commodities, its historical peak, liquidity still in the system), and NOT 2) overinvested (there's been total investor apathy the past year in the space. COT+ETF hold 106mn oz, 85% of record holdings, somewhat lofty on historical basis, but underinvested vs AUM in stocks & cryptos).

- Gold will still come under pressure on faster Balance Sheet reduction (tapering) and rate increases, alongside riskier/overinvested/overvalued rate sensitive asset classes, but it wont underperform those. Golds been a frustrating trade since the June FOMC, with many 'stop-starts' and false breakouts. It has an uncanny ability to rally when all hope is lost, when the last towel has been thrown in, as was the case in Dec 2015 which marked a clear new cycle bottom at $1050. Bottoms will be tested if real rates spike, but appeal for it is growing as a hedge against a fed policy mistake (either rampant inflation or aggressive cycle brining forward recession risk)

Approved for all external purposes

MKS PAMP GROUP B.V. | World Trade Center - B Tower, 867 Strawinskylaan, Amsterdam, 1077XX Netherlands