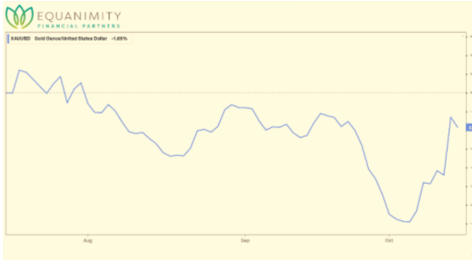
Vol.1 No.2
3 November 2023

Swamp Notes

"No Mud, No Lotus" - Thich Nhat Hanh

Poetic Justice! The ink hadn't even dried on the last note when gold & US Treasuries decided to visit the Titanic? Not playing! It was a deep dive!

Gold! You first! What was that?



I said some kind things about you for the first time in a very long time on 20 September. And, as soon as I've written an encouraging word about you, gold, you nosedive? Look, I know that this trading looks suspicious. And the Twitter-sphere is rife with conspiracies about just who was 'the elephant' that sat on gold at September's end. But it just makes you want to scream.

Freaking gold! We own this thing that goes down when it should go up (deficits! war!). Then it goes up when no one is paying attention - and seemingly for no apparent reason. Maybe it is just meant to frustrate its owners.

Today gold looks and trades similarly to the way it did back in 2000-2002. Back then, most eyes were still on the stock market. Yes, it is true that eyeballs migrated from dotcom and telecommunications stocks to the "blue chip" tech stocks like MSFT, but gold was largely ignored.

Then it went on to rise 7-fold.

So, in the past this trade had worked out well for us - but it sure is lumpy. Still, I stand by my last contention: In difficult environments, the demand for gold should increase, and increase dramatically. This is certainly true of the central banks, who've been buying gold at a pace not seen in over 3 decades. Normally central banks account for 5-10% of gold purchases annually. This has now exceeded 25% of total gold sales for 2 years in a row.

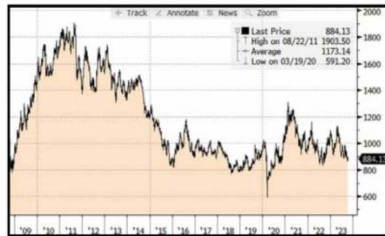
Since that elephant got off of the gold price in early October, the gold price has quietly come within shouting distance of its all-time high. Now that we have written a kind word for gold, it should resume its fall.

Platinum:
Well, now that we've done a number on gold - we should mention Platinum. Platinum prices are among the cheapest that they've ever been.

True, platinum doesn't have the resume' to match gold's 2,500 years of faithful monetary service. And it has some industrial demand (diesel catalytic converters) which has waned since the VW Diesel emissions scandal.

So why now? Recent pullbacks in the price of platinum mean that it has returned to a price level that has, historically, provided strong support over the past 15 years, as the chart below suggests:

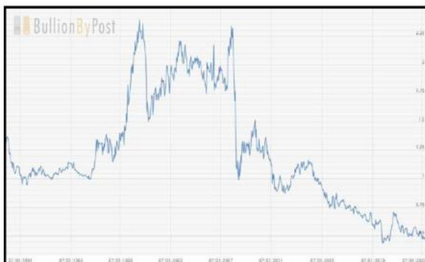
Figure 2   Platinum Price (10/14/2008 – 10/14/2023)



Source: Bloomberg

Another reason is that platinum remains extremely undervalued vs. gold. Further, supply/demand dynamics are moving in its favor.

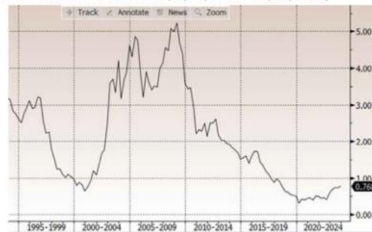
Figure 3   Platinum vs. Gold (10/14/1990 – 10/14/2023)



Source: bullionbypost.com

Back when Volkswagen got caught cheating on emissions testing, the ensuing demand for diesel engines and, therefore, catalytic converters using platinum plummeted. The price of palladium - a sister precious metal and only a slightly-less-effective catalyst - fell further.   Palladium prices fell as low as 30% less than platinum, leading producers to switch to the cheaper precious metal.   Now platinum is about 24% less-expensive, price is leading manufacturers to once again choose the less-expensive metal.

Figure 4   Platinum vs. Palladium (12/31/1993 – 10/13/2023)



Source: Bloomberg

The chart of the Platinum vs. Gold ratio (Figure 3) shows that platinum has historically traded at a rough average of 125% of the gold price. Looking at the chart, we can see that platinum is near its lowest-ever price relative to gold. It is literally almost "off-the-chart".

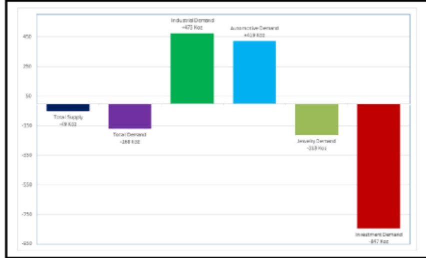
We can also see that as gold rallied into the GFC, platinum remained behind. Then came the emissions scandal. Platinum has not traded at a premium to gold since this 2015 event. And who can forget that this was at the same time as the correction in ***all*** precious metals which bottomed in 2015 (gold at $1050/oz).

So platinum appears to be trading at an historic 54% discount to gold.   If platinum came close to its historic price relationship with gold again it could achieve a price of $2,486/oz. This is 167% above its current price of $930.

But the paramount question is why we think that platinum could again trade in its historical range vs. gold. Cheapness alone is a necessary, but insufficient, condition to generate a sustained rally.

As alluded to earlier, palladium is about 30% higher in price vs. platinum, leading cost-conscious producers to switch back. Looking at supply/demand numbers, one can see that supply has fallen slightly, demand has fallen further.

Figure 5 **Platinum Supply vs. Demand in thousands of ounces (Koz) (12/31/2019 - 6/30/2023)**



Source: World Platinum Investment Council and O'Higgins Asset Management, Inc.

This demand drop is not due to automotive demand, which has recovered, and has been met with strong industrial demand. Rather, it has been due to reduced demand for jewelry and investment.

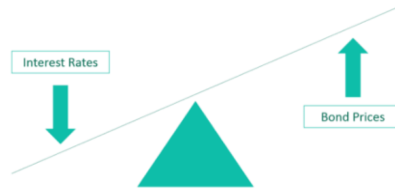
For many of the same reasons which favor gold, we believe that the sources of reduced demand are in the process of reversing. This is especially true if wars and deficits continue. And, sadly, in this present moment no end to these conflicts is in sight. Thus an investment in platinum could pay off very handsomely, while reducing portfolio risk.

US Treasuries: In our previous note, where we had a kind word for gold, we also had some encouraging things to say about US Treasury bonds (USTs).

Since no good deed goes unpunished, USTs, which had paused- and seemingly plateaued, resumed their decline.

So, to be clear, we still hold fast to the idea that interest rates will moderate then fall. And we still hold the idea that inflation is not dead. Far from it.

But we think that over the next 6-18 months, we will see a fall in interest rates.



As every adept knows, when interest rates fall, bond prices will rise. Of course, the opposite has most recently been true, too! Ouch!

However, we now have all members of the Federal Reserve Board of Governors - Kashkari being the lone exception - stating that the Fed is through with the hiking cycle for now. Ditto, the ECB. This was - again- confirmed in the Fed speeches this week (October 31).

Moreover, the Fed has historically refrained from raising rates into a war. Rather they have lowered interest rates during conflict and periods of instability - political or economic.

And of course there are the falling economies of the world- China is slowing markedly, the EU is showing zero growth - possibly recession, depending upon regional inflation. So the #2 & #3 economies of the world are stagnant or declining.

Here at home, a strong *preliminary* US real GDP number of 4.9% for Q3, showed a surprising increase over the 2.1% registered in Q2. Which, very interestingly, was met with a stock market ***decline***.

Commented [BP1]: Source?

But of course, this theme of divergences just won't quit. Chicago PMI just came out at 44.0 vs. 45.0 expected (any number below 50.0 suggests contraction). Terrible number.

When I began my career a reading of 44 on Chicago PMI would have led to an

immediate Greenspan rate cut. Ok, boomer. But these readings are just awful. But in markets, it doesn't matter until it matters.

Yet, I can't help but feel that the "strength" in the US economy is a source of weakness: remember, a public-sector deficit is a private sector surplus. What's that?

$1,695,148,300,531.

That's the private sector "**surplus**" this year so far. Congratulations taxpayers, for funding this economy today with your future payments.

As I write this bonds are rallying. Good. Also, the debt of the US Government has grown by $100M since I began writing this note about 45 minutes ago. Divergences!

We shall see if ***demand*** for USTs increases enough to sop up some of this supply.

Stock Market Thoughts:

The common theme of this year's market has been the triumph of what has now come to be called "The Magnificent 7". As many are well-aware, these 7 stocks, MSFT, AMZN, AAPL, GOOG, TSLA, NVDA, and META, are almost solely responsible for the S&P 500 Index and NASDAQ Index gains this year. Just 7 stocks have driven the indexes higher!

The chart above shows the performance of the "Mag 7" in blue vs. the overall market index (Russell 2000). As can be seen, March is when their magnificence really came into being! The Mag 7 separated from the rest of the market and skyrocketed over the ensuing 5 months into late July.

Maybe the investment community forgot that in the movie only 3 survived?

Well, nonetheless, these stocks had been extraordinary performers. Until recently.

The proximate cause of the March rally in this small handful of tech names was the enormous enthusiasm they engendered over AI - artificial intelligence.

This euphoria began in Mid-March when MSFT CEO Satya Nadella hosted a "special event" detailing MSFT's "future work with AI" and demonstrating how their suite of apps would work with ChatGPT, the AI-driven conversational chatbot. He spoke to tech investors who were all too willing to believe. MSFT's stock soared 46% over the next 4 months adding over $869 billion to the MSFT market capitalization.

This was a more successful effort than GOOG CEO Sundar Pichai's attempt at generating AI buzz with their competing product, Bard, in February. Pichai had called Bard the "next generation in search", but the demo ended in disaster when Bard

Commented [BP2]: Source for facts and claims throughout this section?

provided a wrong answer about planetary telescopes.

Well, Bard, I also didn't know that the James Webb space telescope was ***not*** the first to take pictures outside of our solar system.

Microsoft effectively fired the starting gun with their successful generative AI announcement. Soon we were subjected to a deluge of announcements from other software companies, such as META, who desperately wanted to show that they were involved too. Many went on a spending spree to "train" this new software, and to buy expensive semiconductor chips from Nvidia (NVDA). NVDA was the sole source of the very expensive graphics chips and boards - and NVDA could charge outrageous prices for them. And they did.

Remember IoT? The Metaverse? How about deFi Summer? If you missed those hype-trains, consider yourselves blessed. Unfortunately many innocent civilians were completely run-over by a few of these.

Last month Bloomberg ran a story with the headline "Even Google Insiders Are Questioning Bard AI Chatbot's Usefulness", in which Dominik Rabiej, a senior product manager for Bard states: "My rule of thumb is not to trust LLM (large language model) output unless I can independently verify it." How's that for "intelligence"? Yan LeCun, the chief AI scientist at Meta has said that LLMs are a "fad", and told the Financial Times that AI today is "dumber than cats." Surely an insult to cats.

Well, yesterday, November 2, AAPL, the most Magnificent of The Magnificent 7, reported earnings. I have been wondering when the narrative around Apple, Inc. will change. AAPL, one of the most valuable stock in the world, has been forgiven by investors for consistently declining fundamentals. It is one stock that when it falls, will take much of the market with it.

Commented [BP3]: I would change this to "one of"

The previously invincible Mag 7 have come under pressure lately. The narrative around GOOG, META and, most notably, TSLA has changed. Now, the hype phase for AI seems to be petering out as well.

While I have been awaiting the change in the AAPL narrative from "*...the company that can do no wrong!*" to "*...the company that can't innovate*" (or similar), I don't think this will happen until Q4 results are released in early February.

China is the largest end-market for smartphones - and was AAPL's largest market in Q2. But the new Huawei Mate 60 Pro model has already captured a 13% market share in China for Q3 -growing sales 37% for Huawei year-over-year in that market per Counterpoint Research. So, I expect that these Q3 results will be palatable for Mr. Market, but that he will have indigestion when Q4 results are released. Of course this is opinion- and we shall see. But there is no better weather-vane than AAPL to gauge Mr. Market's sentiment.

We don't know but we shall see!

And, on that note, I would like to say that since we are discussing investments herein,

that none of what I have written is investment advice. In fact, you are better off to consider that all of what I have written is opinion & conjecture! That is, unless and until, your very own due diligence can give you suitable confirmation.

If you're still reading, thank you for your endurance and we also welcome any and all questions.

Of course, if you find any errors or misstatements, please let us know so we can correct the record and learn more ourselves.

Thank you for reading,

Chris

100 Corson Street, Suite 210 • Pasadena, CA 91103
Office: 626.529.8347 • Fax: 626.529.8506

www.equanimityfinancial.com

EQUANIMITY
FINANCIAL PARTNERS

HBA Advisors, LLC dba Equanimity Financial Partners is a Registered Investment Adviser. This is solely for informational purposes. Advisory services are only offered to clients or prospective clients where HBA Advisors, LLC dba Equanimity Financial Partners and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by HBA Advisors, LLC dba Equanimity Financial Partners unless a client service agreement is in place.

www.equanimityfinanical.com

100 Corson Street, Suite 210 • Pasadena, CA 91103 • Office: 626.529.8347 • Fax: 626.529.8506