Brave New World

6th January 2025

Global Macro Outlook 2025

Outlook - 2025

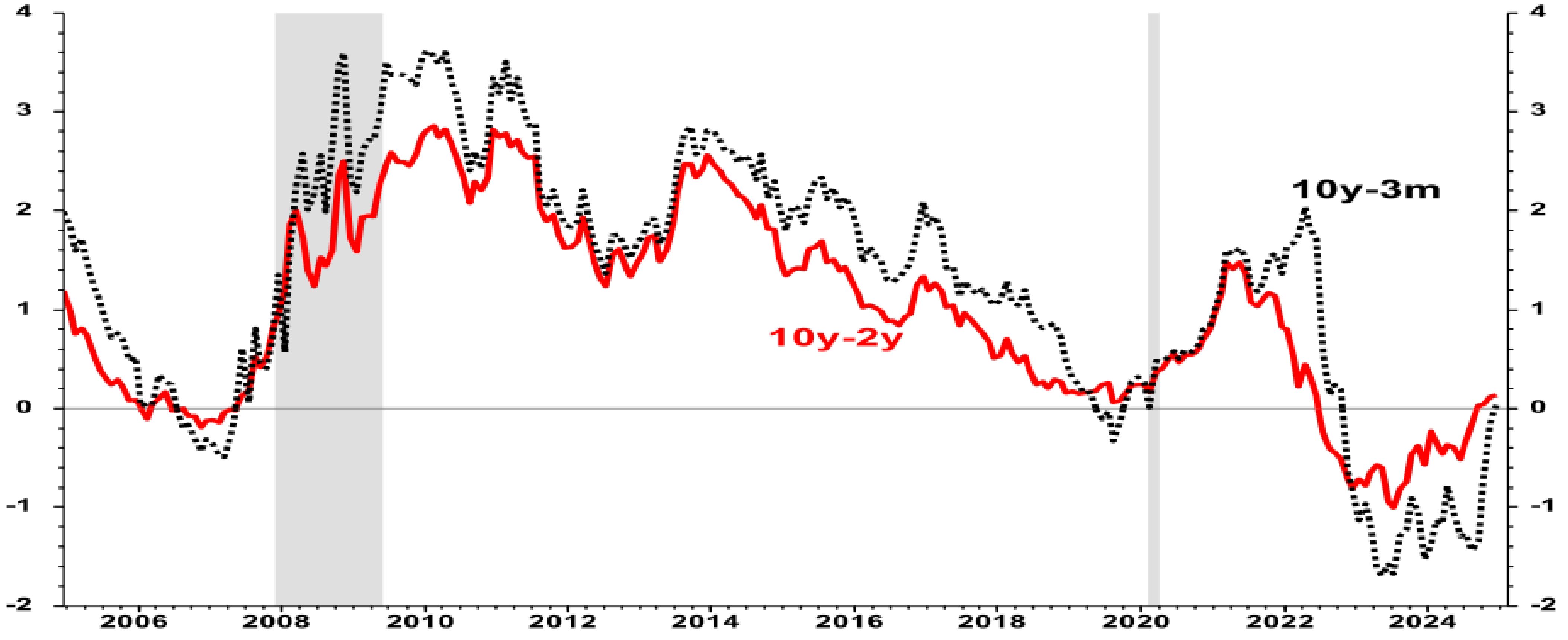
Our Themes for 2025

1. *US outperformance likely over by end of Q1.*
2. Electrification & Nuclear Energy continues to be our macro theme of the decade
3. *Gold in a structural bull run*
4. *China is increasingly looking tradeable*
5. *Argentina – Revival and the beginning of a new shale revolution*
6. *Canadian assets in trouble*
7. *India - structure of the Indian economy is undergoing a change … select small and mid-caps to outperform large caps.*

US Outlook

Here Comes the Evidence

US yield curve inversion has ended, which typically happens just ahead of recession



Source: Datastream

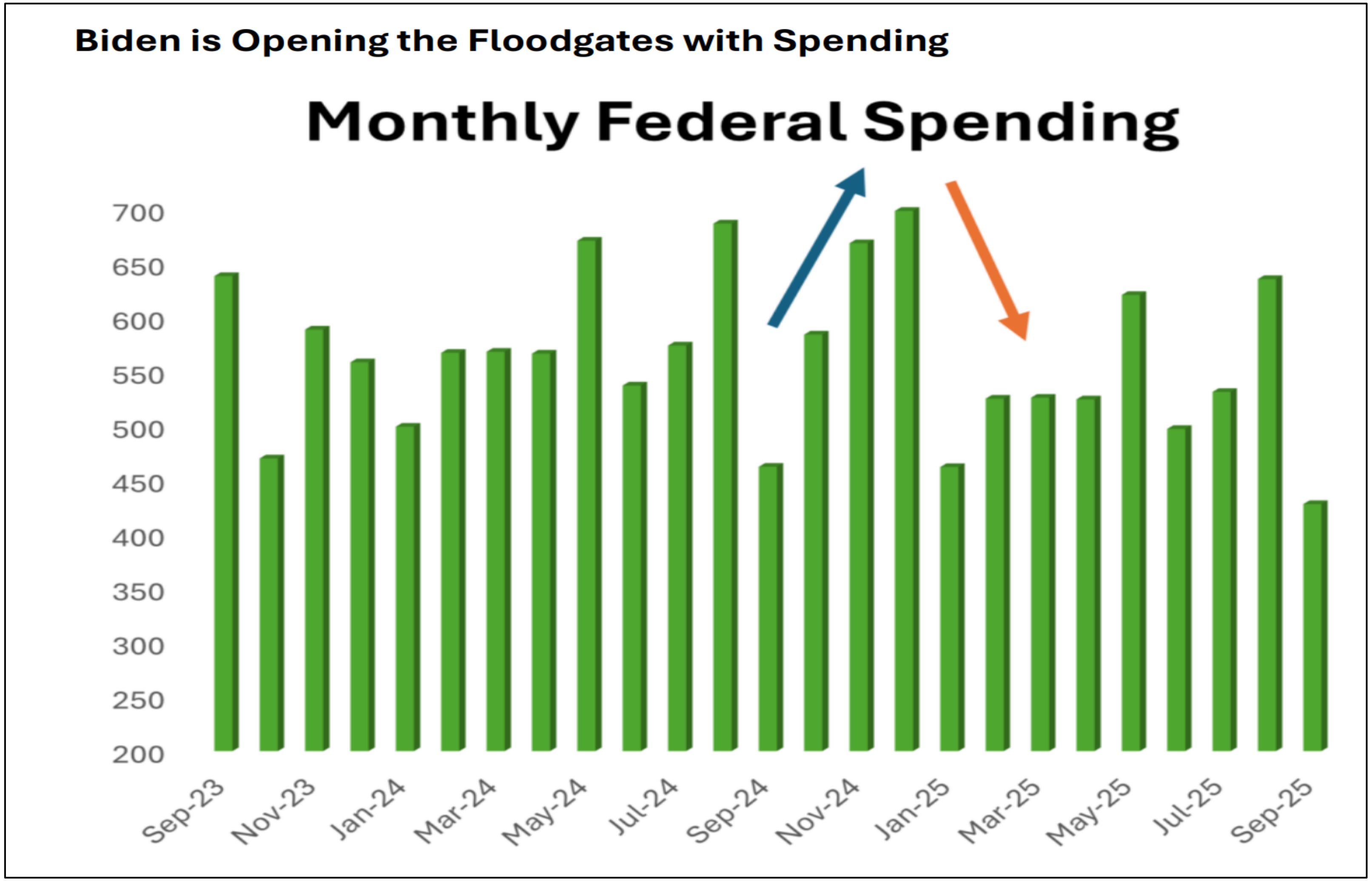
2Y10Y (white); 3M10Y (blue) Recession Starts (red)/Ends (green) as Determined

Source: Bloomberg, Interactive Brokers

Biden is Leaving with a Spending "Bang" and Trump in Tight Spot.

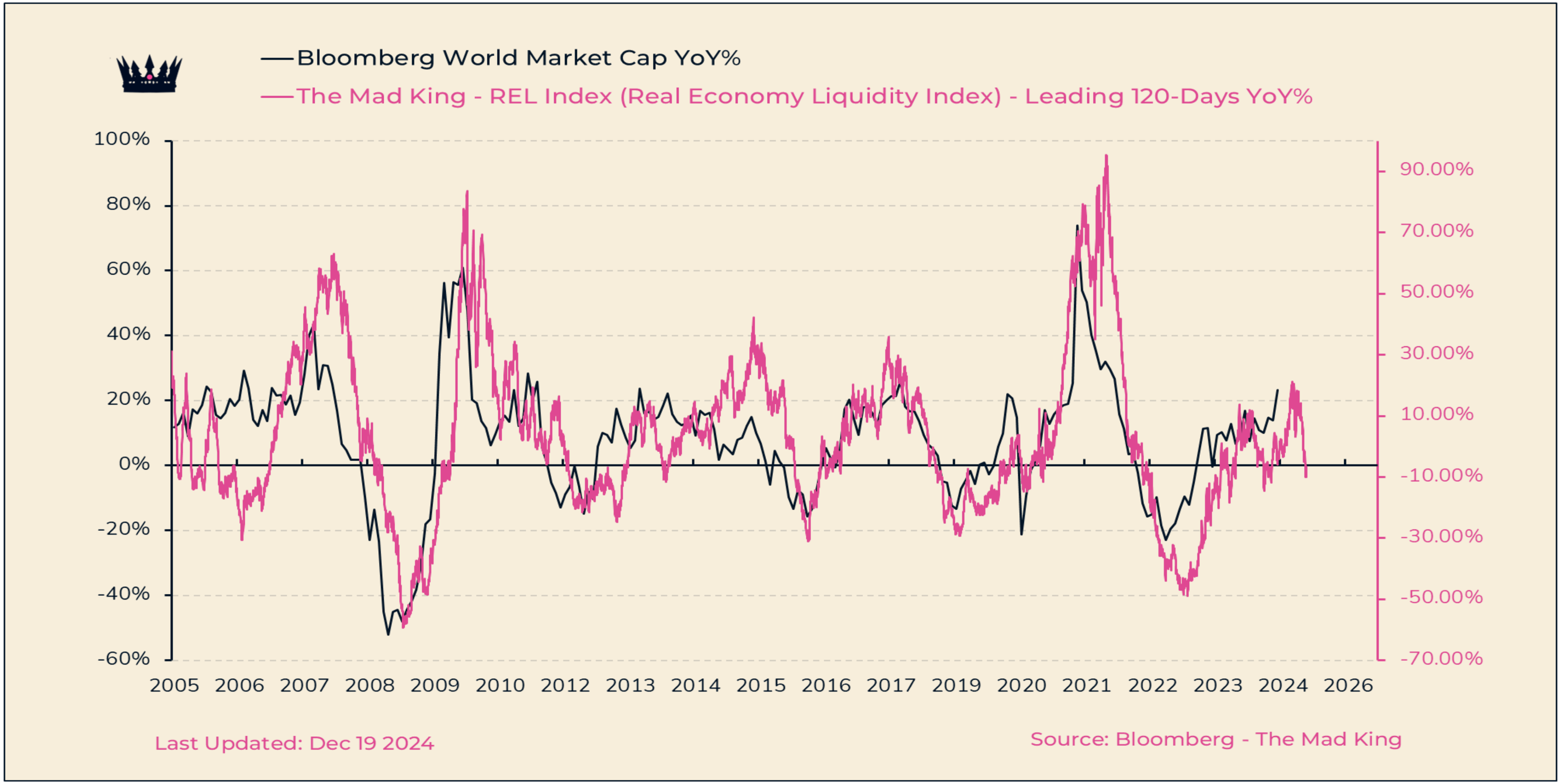
Spending for 2025 is expected to **exceed $2 Tn** by the time Biden leaves office on January 20th.

This is **over 30%** of the annual budget.

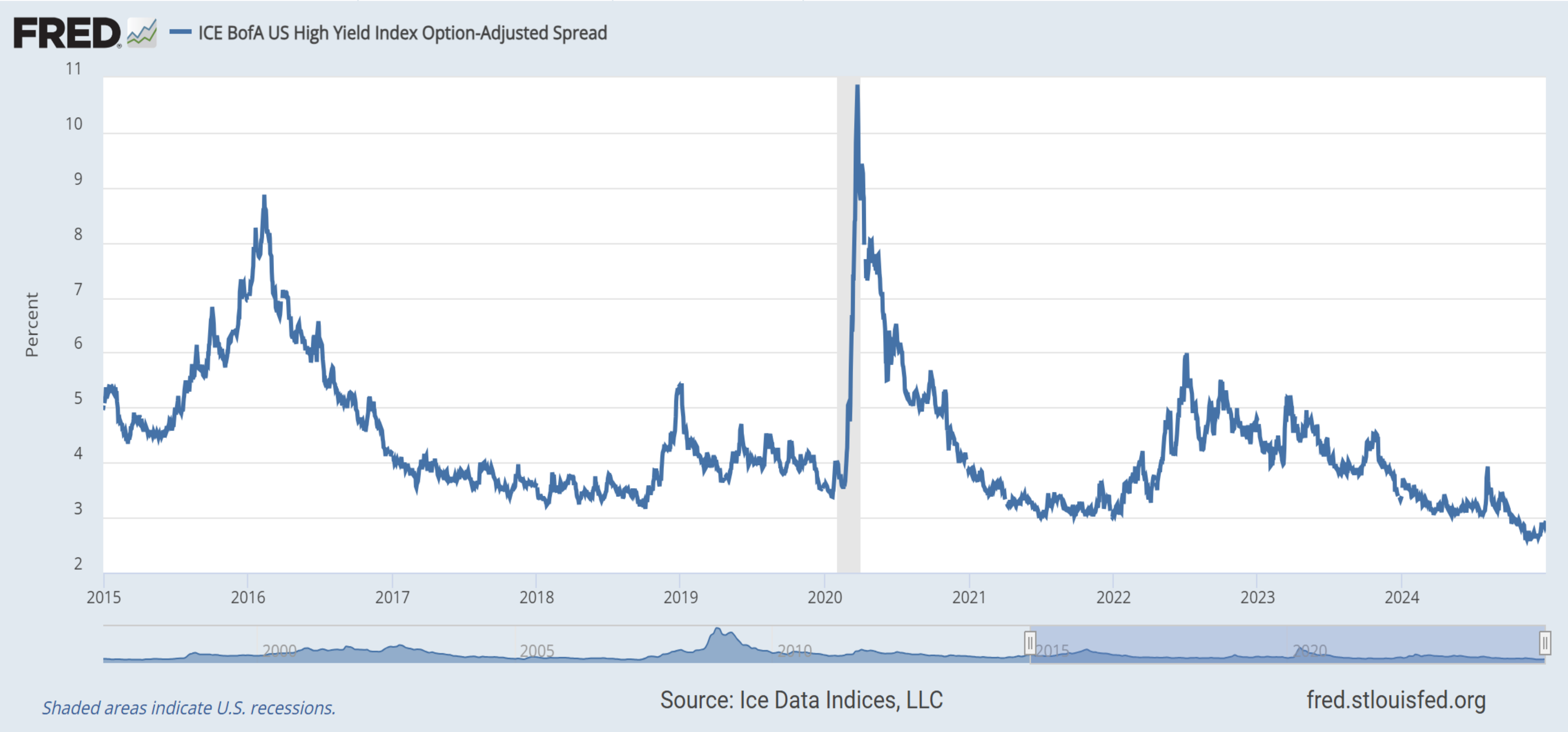


Source: The Bear Traps Report

No More Walk in the Park

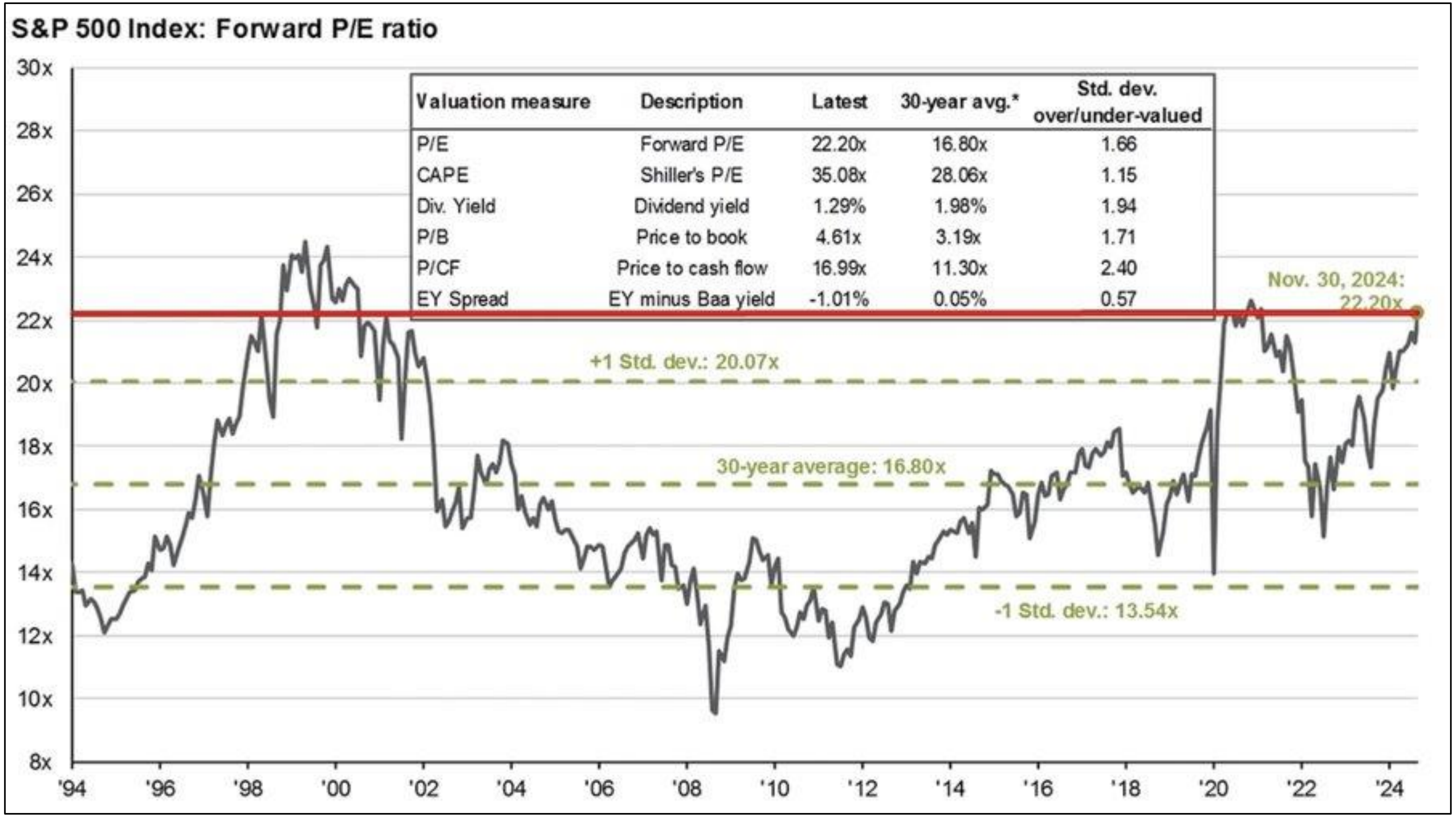


Junk Bond Spreads Widening will be a Good Indication of the Upcoming Recession



US Markets - Overvalued and Overhyped

JP Morgan's "Guide to the Markets" report shows the S&P 500's cyclically adjusted P/E ratio (CAPE) sits at 25% above its 30-year average. It looks like the stock market is OVERVALUED and OVERHYPED.



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	22.20x	16.80x	1.66
CAPE	Shiller's P/E	35.08x	28.06x	1.15
Div. Yield	Dividend yield	1.29%	1.98%	1.94
P/B	Price to book	4.61x	3.19x	1.71
P/CF	Price to cash flow	16.99x	11.30x	2.40
EY Spread	EY minus Baa yield	-1.01%	0.05%	0.57

Source: JP Morgan

Something strange is going on here..

Electrification

Electrification....new Fossil Fuel

IEA – International Energy Agency

Global electricity demand set to rise strongly this year and next, reflecting its expanding role in energy systems around the world

Global electricity demand is forecast to grow by around 4% in 2024, up from 2.5% in 2023, the IEA's Electricity Mid-Year Update finds. This...

19 Jul 2024

Forbes

Hyperscale Data Centers May Fundamentally Alter Global Power Demand

As hyperscale data centers become commonplace, their call on the world's power grids may alter the trajectory of global demand as well as...

2 weeks ago

KITCO

Batteries and minerals driving global electrification

The global energy storage market is poised for a record-breaking year, with installations projected to reach 169 GWh in 2024—a 76% increase from...

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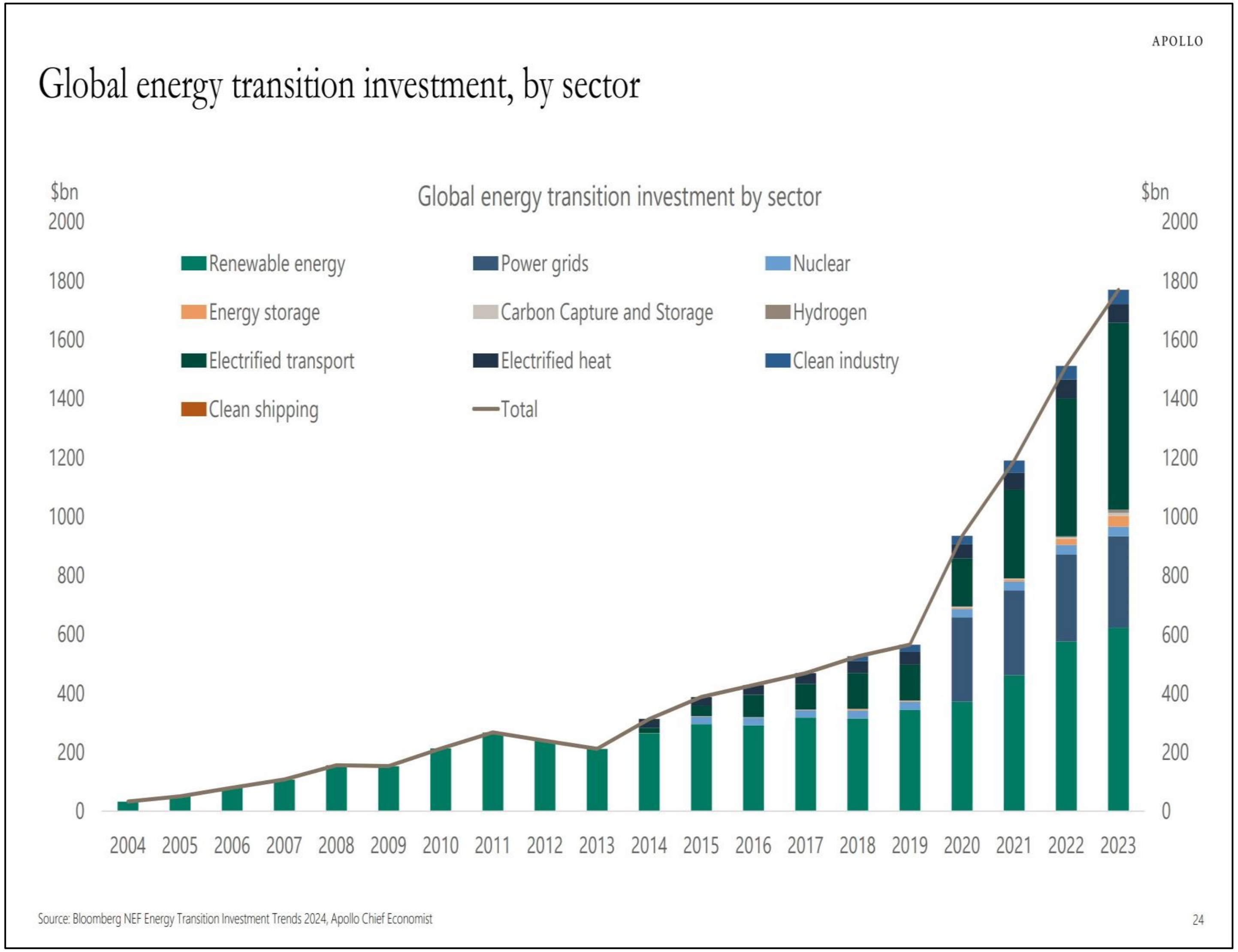


Nuclear Energy

Department of Energy (.gov)

U.S. Sets Targets to Triple Nuclear Energy Capacity by 2050

The U.S. Department of Energy estimates we'll need an additional 200 gigawatts (GW) of new nuclear capacity to keep pace with future power...

1 month ago

mint

Big tech firms bet on nuclear energy: Google, Amazon, Microsoft among others focus on its revival | Today News

Big tech firms like Google, Amazon, Microsoft and Meta are among the most popular companies exploring opportunities or investing in nuclear...

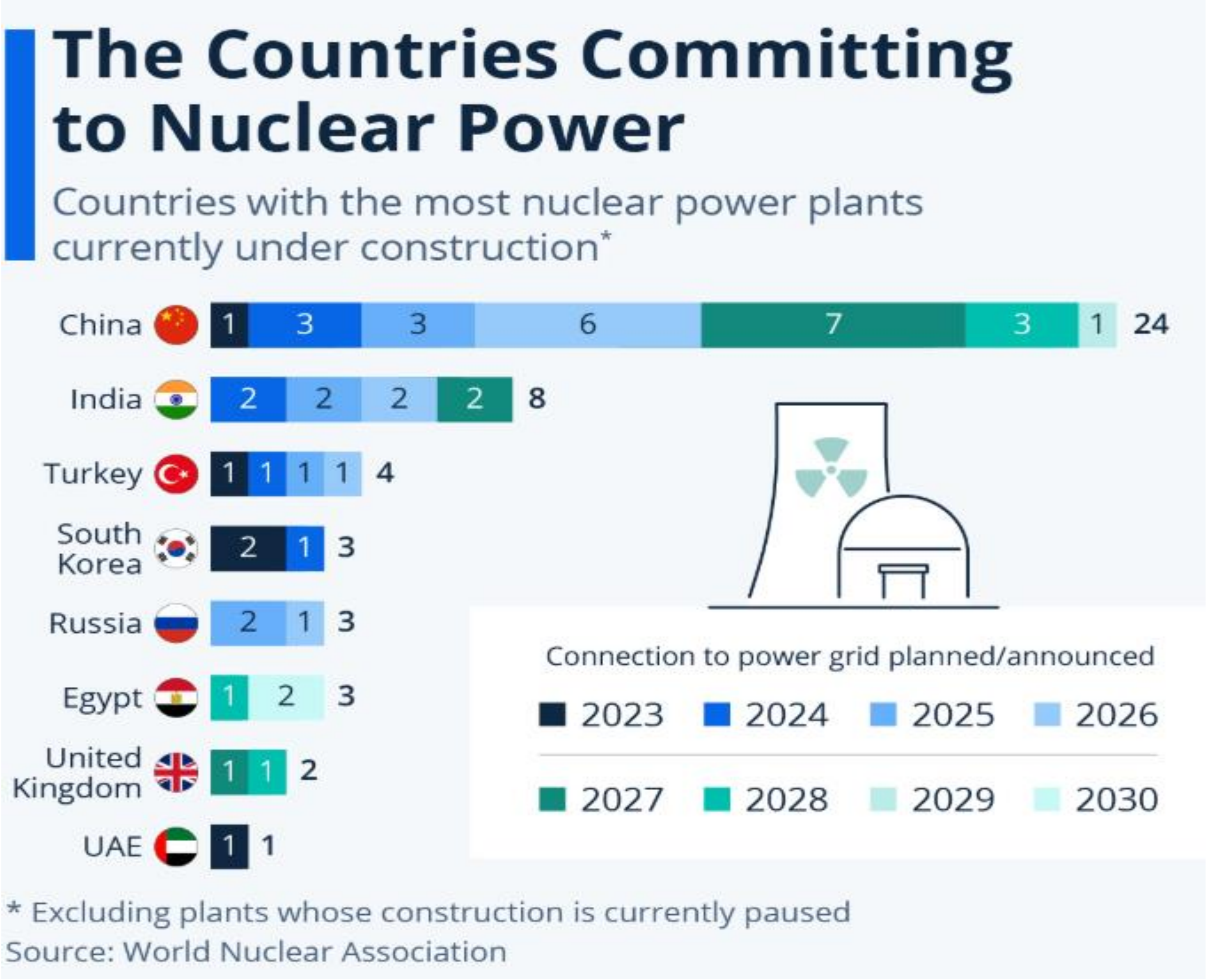
4 days ago

BBC

Three Mile Island nuclear site to reopen in Microsoft deal

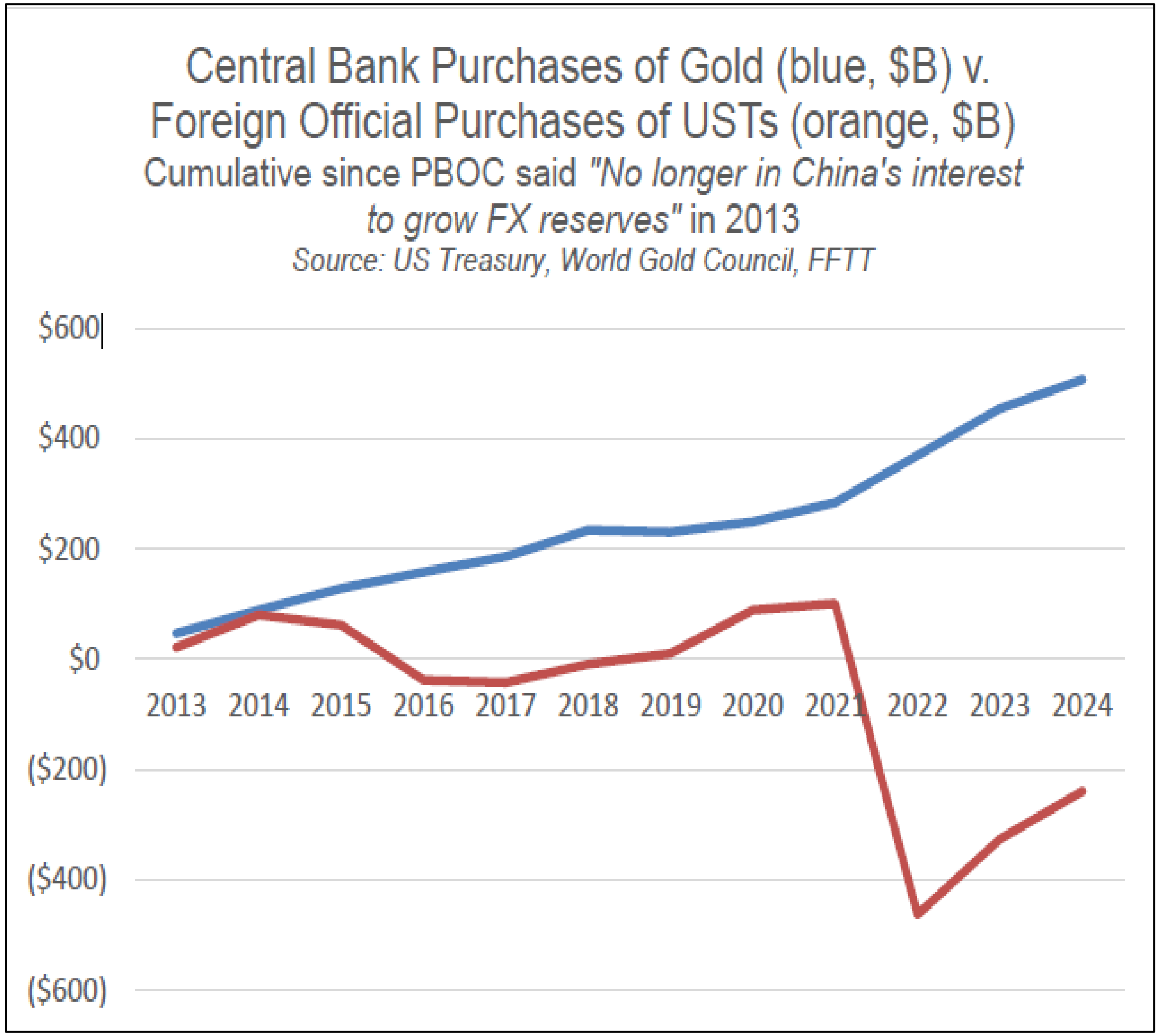
The tech giant said it had signed a 20-year deal to purchase power from the Pennsylvania plant, which would reopen in 2028 after improvements.

20 Sept 2024

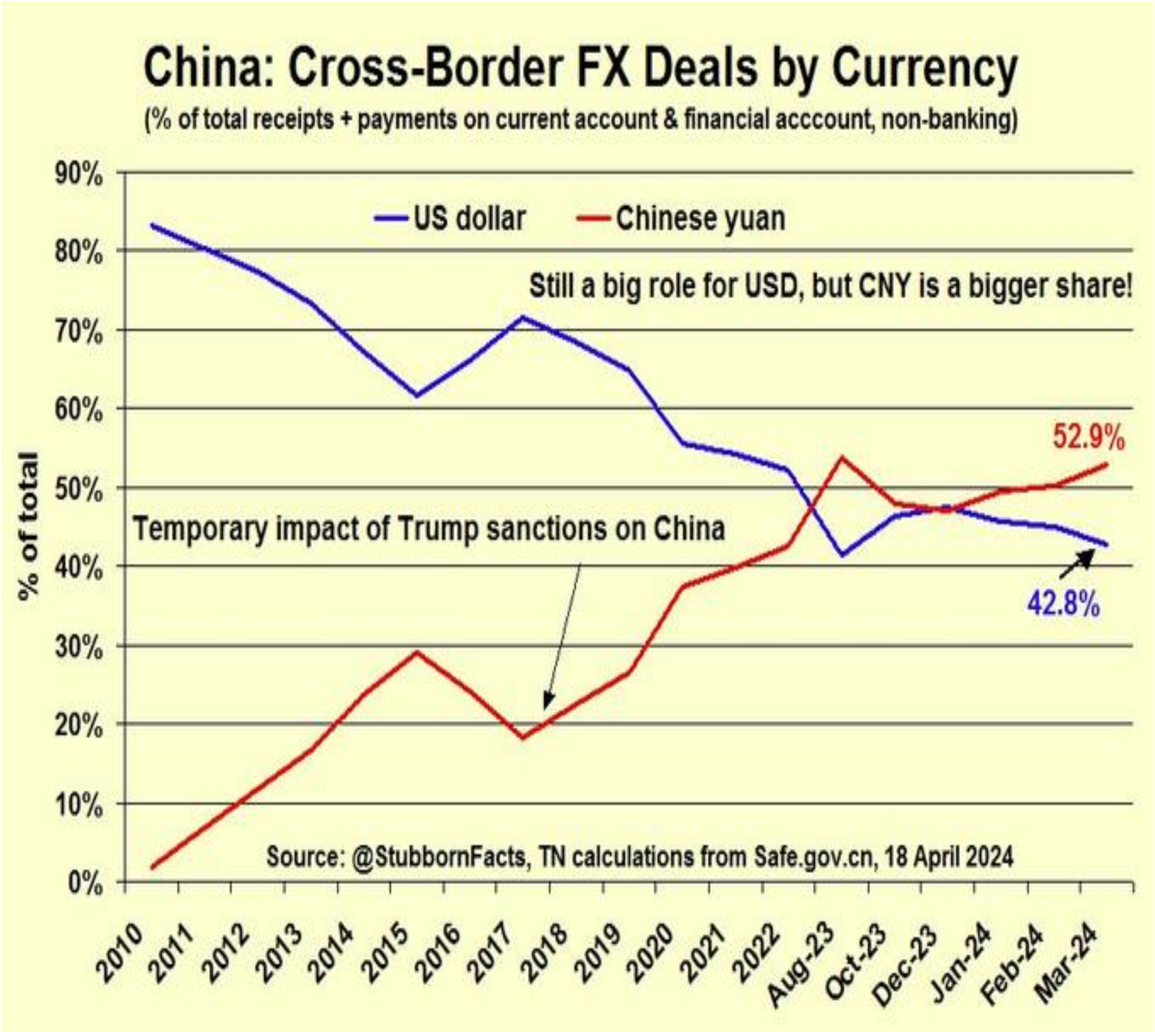


Gold Outlook

Why Gold?



Central Bank Purchases of Gold (blue, $B) v.
Foreign Official Purchases of USTs (orange, $B)
Cumulative since PBOC said "No longer in China's interest to grow FX reserves" in 2013
Source: US Treasury, World Gold Council, FFTT
$600
$400
$200
$0
($200)
($400)
($600)
2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024



China: Cross-Border FX Deals by Currency
(% of total receipts + payments on current account & financial acccount, non-banking)
US dollar
Chinese yuan
Still a big role for USD, but CNY is a bigger share!
52.9%
42.8%
Temporary impact of Trump sanctions on China
% of total
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Source: @StubbornFacts, TN calculations from Safe.gov.cn, 18 April 2024
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 Aug-23 Oct-23 Dec-23 Jan-24 Feb-24 Mar-24

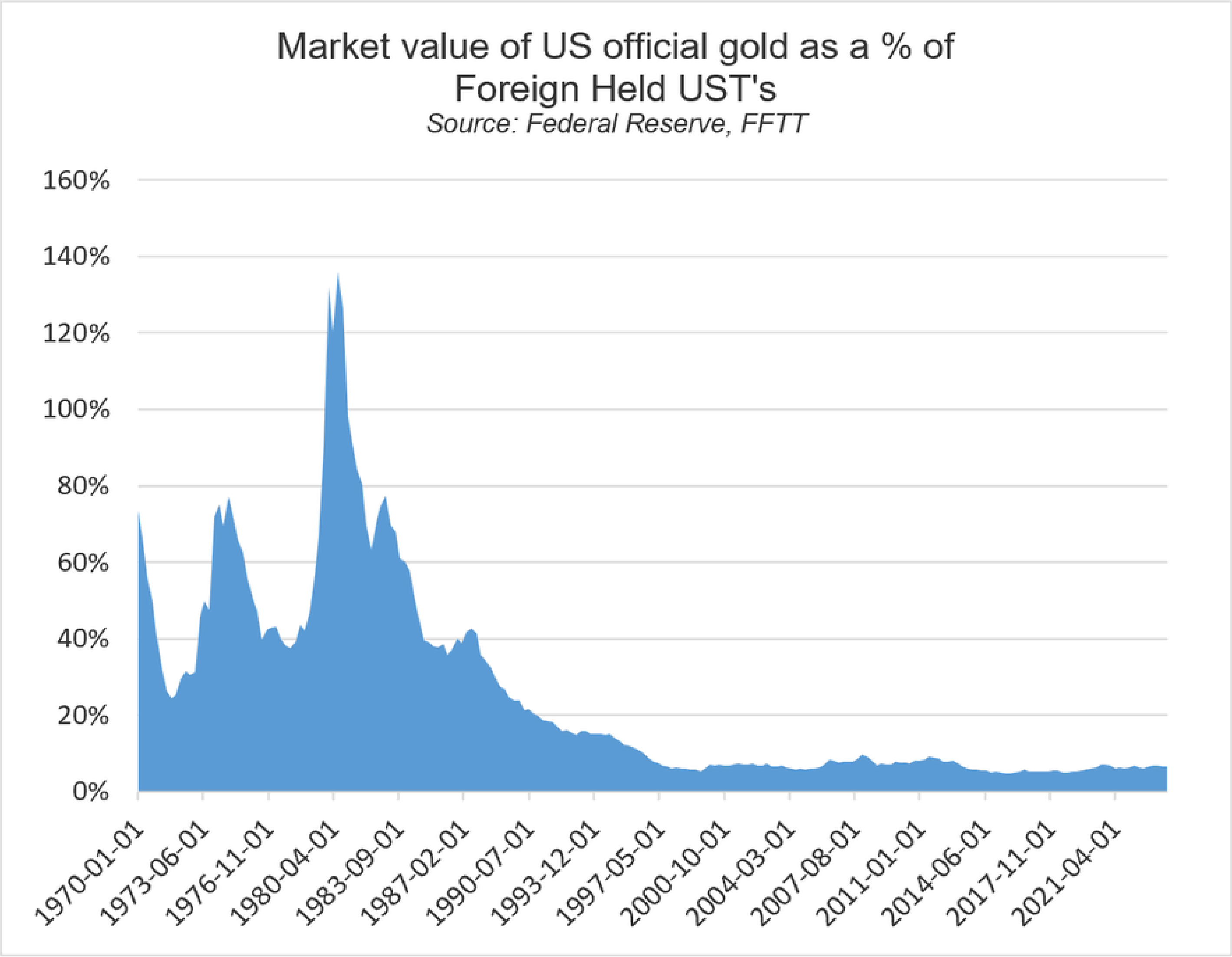
Gold Price Projections

By 2030, Luke Gromen envisions a dramatic increase in gold prices.

At $2700/oz, the market value of US official gold = 8% of foreign-held USTs.

Before 1989 (before the US's unipolar moment), that % was never <20%; the LT average was ~40%. In 1980, it hit 135% (a true gold bubble).

Moving away from US unipolarity implies gold up **3-5x** from here (2700*3 = $8100 per ounce)



China

China Now a Tradable Asset

Bloomberg.com

PBOC Steps Up Liquidity Injection With New Tools At Year-End

China's central bank injected 1.7 trillion yuan ($233 billion) of cash in December, dialing up liquidity support for the economy and...

1 day ago

FXStreet

PBOC Governor Pan: Room for lower rate

People's Bank of China (PBOC) Governor Pan Gongsheng said on Monday that compared to central banks in other major economies,...

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Business Standard

PBOC lowers interest rates, injects liquidity into the banking system

PBOC lowers interest rates, injects liquidity into the banking system · People's Bank of China (PBOC) said it would cut the reserve requirement...

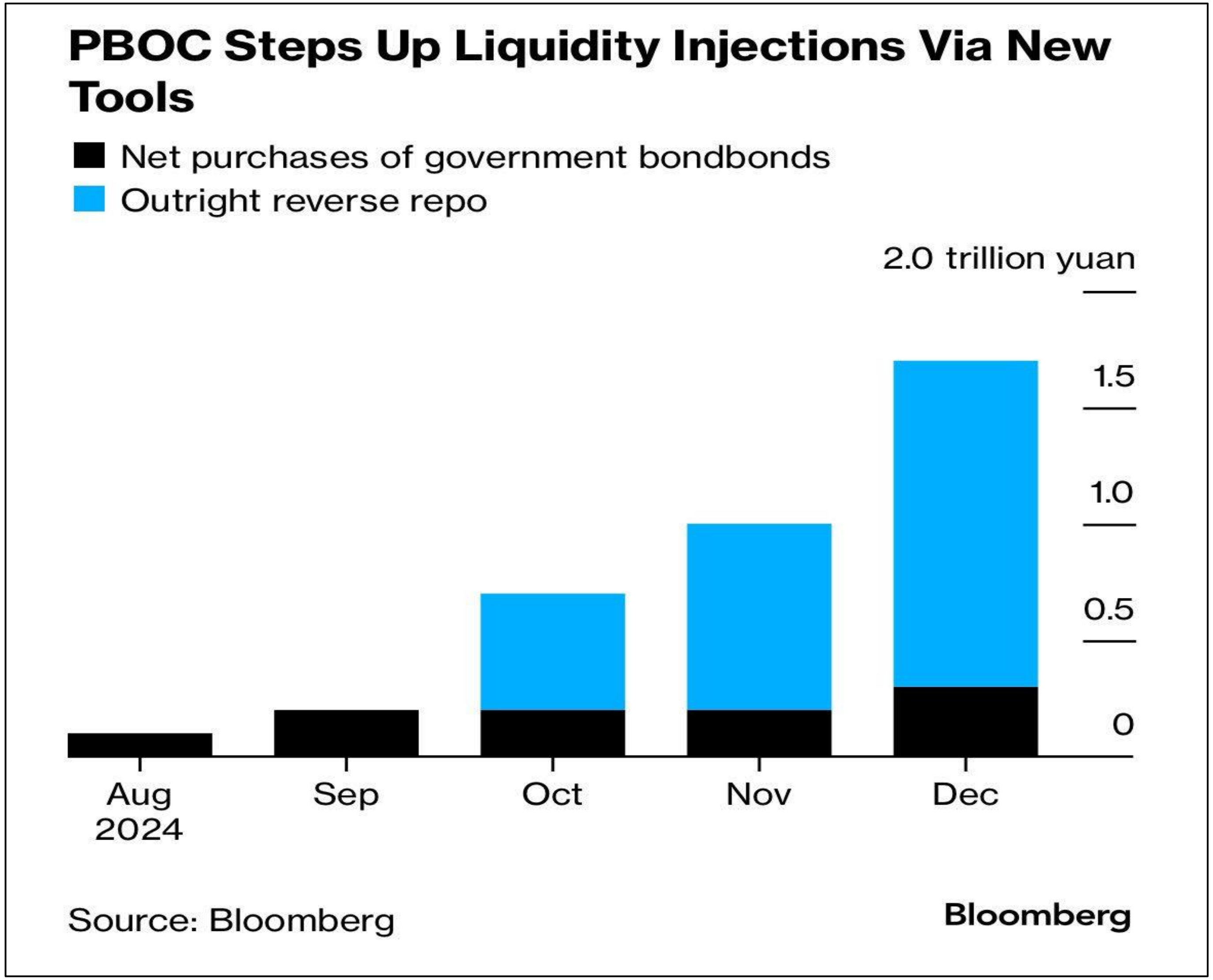
27 Sept 2024

ING Think

China's central bank unveils growth support package

The PBOC announces further easing in attempt to support efforts to reach this year's growth target.

24 Sept 2024



Argentina

Argentina – Revival & Beginning of a New Shale Revolution

The **Vaca Muerta** shale basin is estimated to be the world's **second-largest shale gas deposit** and the **fourth-biggest resource of shale oil**.

World Oil

Vaca Muerta shale boom could propel Argentina to top 3 of region's producers

(Bloomberg) – A shale-drilling frenzy in Argentina has put the country on the verge of leapfrogging regional rival Colombia as a top-three...

3 weeks ago

Brazil Energy Insight

Argentina government OKs key Vaca Muerta gas pipeline project

(Reuters) – Argentina's government has green lit a key $500 million private sector gas pipeline expansion project, the energy secretariat...

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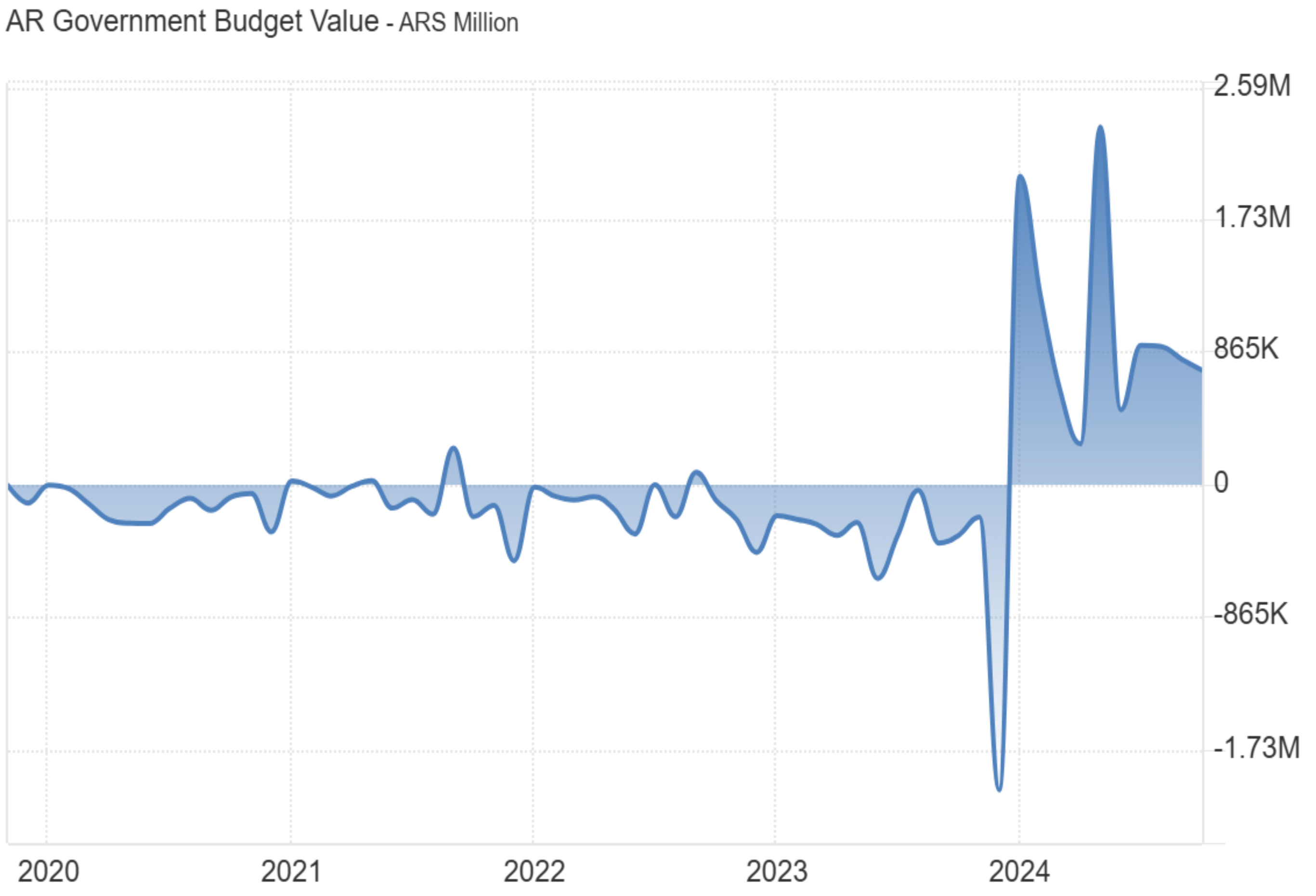

Source: tradingeconomics.com | Ministerio de Hacienda, Argentina

Canada

USD-CAD Breaks Out - Canadian Assets Need US Bailout

- A basket of high tax, weak crime enforcement cities' general obligation municipal bonds, apartment and property developers in those cities, and commercial real estate in those cities are likely to secularly underperform in coming years.

- We have seen this deterioration happen before in the Rust Belt, and it takes a long time to reverse, and these cities do not seem to have even really started trying to fix the problem yet.

Source: Luke Gromen

Vancouver and Toronto real estate to underperform in coming years.

India

Structural Change Underway in the Indian Economy

Why PineTree Macro's Ritesh Jain Is Betting On India Manufacturing Boost

Jain is also bullish on electrification, defense tech, tourism and wealth management in India.

10th May 2024, NDTV Profits

Swarajya

'Second Position In Phone Manufacturing': How India's Business, Competitive And Innovation Ranking Improved Over A Decade

Over the past decade, India has solidified its position as the world's fifth-largest economy, making significant strides in logistics,...

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The Economic Times

India's manufacturing sector's contribution to GVA will surge to 21% by 2032 from 14% now: Report

India's manufacturing sector is set to rise significantly, with its contribution to Gross Value Added (GVA) projected to increase from 14%...

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Select Small & Mid-Caps to Outperform Large Caps

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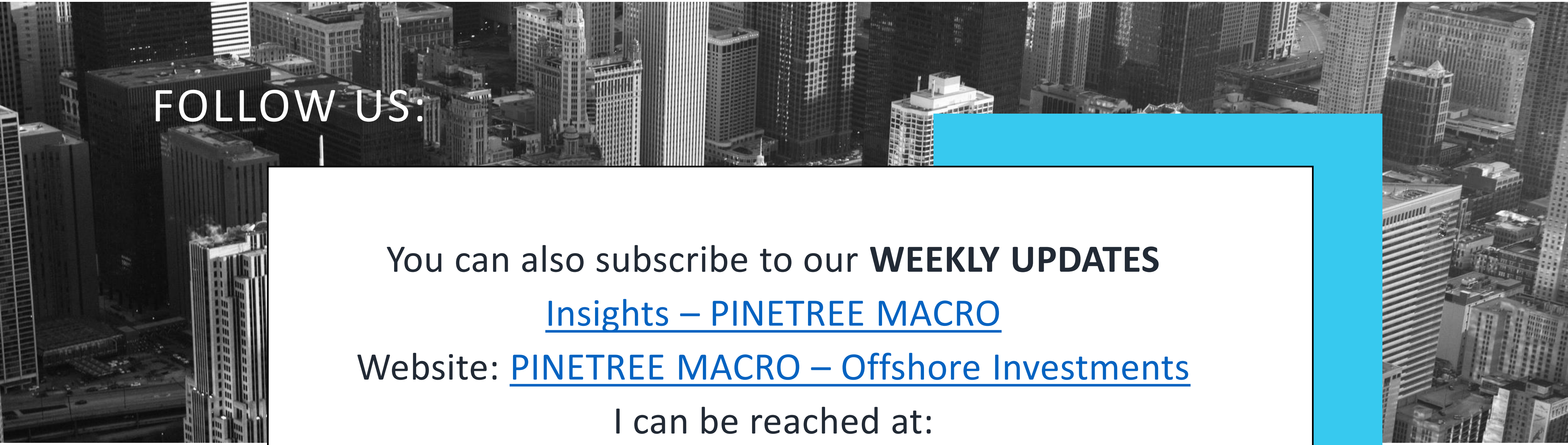

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