SIGNET

Outlook – 2025

Introduction

Lots of Uncertainty, Always an Opportunity

We leave 2024 on something of a ‘high’ and expectations are set for more of the same in 2025. Global growth has been stronger than expected, but it has taken a lot of fiscal support to get us there.

Inflation expectations are drifting back to a more normal level and this creates an opportunity for the central bankers to support any economic slowdown with monetary easing.

There probably isn’t enough evidence of an adverse outcome priced into risky asset class valuations right now, certainly at the index levels. Investors are somewhat complacent and sentiment is high.

Leading economic indicators are still urging caution and they shouldn’t be ignored. We see opportunities in each of the leading asset classes, but we are cautiously positioned in portfolios.

“As we head into 2025 with positive real interest rates, we find money market instruments and liquid, quality bonds attractive.
Equity valuations, at the index level, are stretched but we can still find attractive direct opportunities.
We have a compelling view on commodities with precious and fuel metals featuring, specifically.”

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Macro – 2025

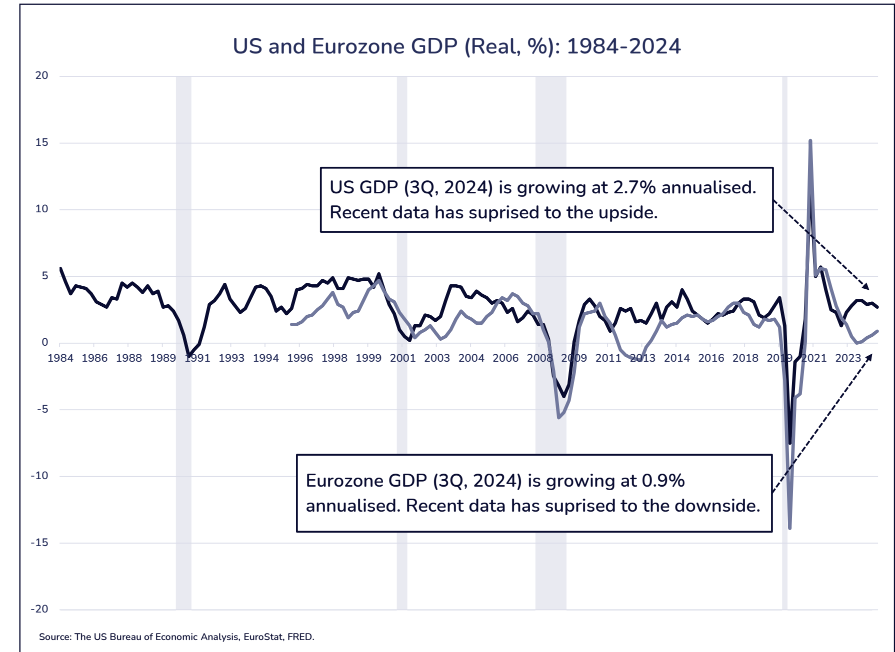
Lots of Uncertainty

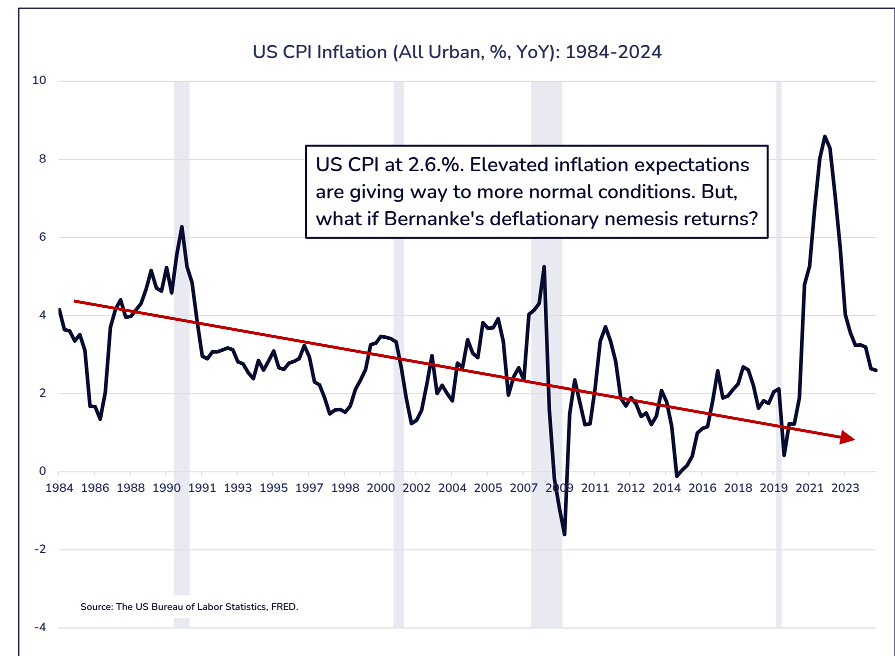
- The Four Horsemen of Uncertainty – Geopolitical, Political, Macroeconomic and Market – are remarkably agitated as we head into 2025. This makes the outlook for 'risk' somewhat elevated and it makes predictions for the future even more tenuous than usual. Our tactical investment position of 'cautious' ultimately reflects this situation.

- The global economy held up better than expected in 2024, at c.3.3% YoY growth, mostly with contributions from the US and emerging markets. For 2025, consensus expectations for growth remain similar, or fractionally lower. The year ahead may bring additional challenges as growth becomes increasingly fragmented. In the US, Trump's administration looks set to attempt stronger economic growth via radical reform. China and Europe face a different set of structural challenges.

- On the surface, the US economy remains resilient and the driver of market optimism going into a new year. Growth, employment, consumer prices, liquidity and sentiment paint a healthy picture. US GDP growth has surprised to the upside recently (top chart), silencing the bears and supporting the case for remaining invested. The Eurozone, Japan and China face economic headwinds that are building, but not enough to panic policymakers quite yet. GDP growth in the rest of the world has largely underwhelmed, often surprising to the downside. World trade volumes improved in 2024, and they support a thesis of continued economic stability in 2025.

- Crucially, one of the leading drivers of negative sentiment in the last two years, elevated inflation, appears to be reverting to the steady state target of 2% and this is supported by market expectations for 2025 (bottom chart). Beneath the surface, some observers are wary of inflation trending below the steady state; deteriorating conditions in China and Europe might trigger further concern. Real interest rates remain elevated, and this provides the monetary authorities with plenty of room to react to market or economic weakness. All other things being equal, the prospect of monetary easing and a disinflationary trend supports equities and bonds going in 2025.





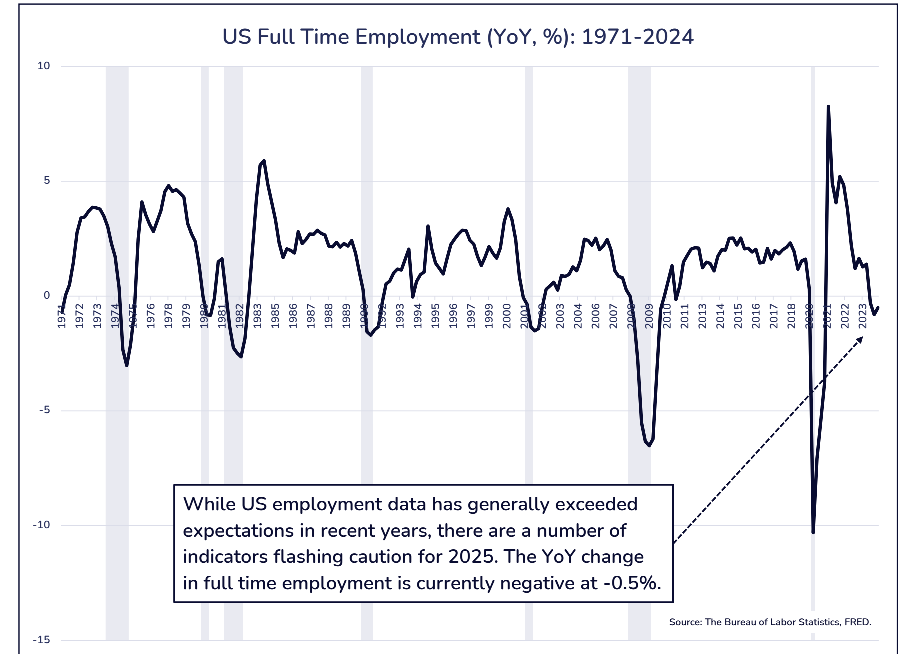
Growth comes at a Cost

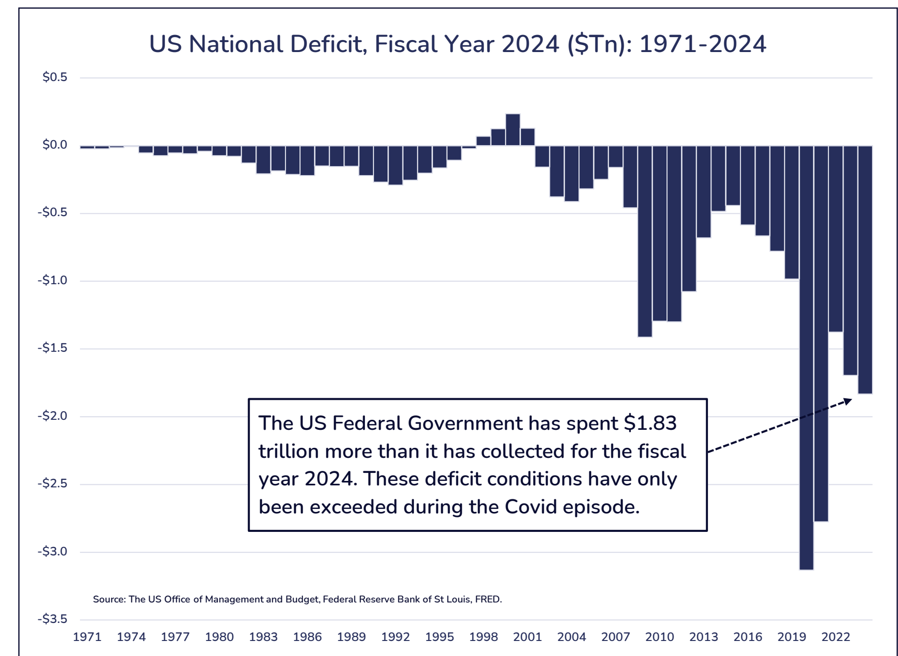
- Global headline unemployment rates have surprised positively in the last few years, allowing central bankers to tighten monetary policy with limited blowback. US unemployment (U-3) remains relatively steadfast at 4.2% and similar rates can be seen in the Eurozone and Japan. This trend bodes well for 2025, although we will add the observation that a number of employment indicators are starting to flag caution. For example, in the US, we note that the full-time employment rate has turned negative (top chart) and temporary hiring has also dropped off (temporary jobs are often the first to go in tough times).

- How can we explain the relatively strong economic data coming out of the US? Lots of liquidity and stimulus. US federal debt climbed from $23.22 trillion in Q1 2020 to $34.59 trillion in Q1 2024 (+49%). The US government is still running a counter-cyclical fiscal policy: the federal deficit just hit a staggering $1.83 trillion (6.2% of GDP) for the 2024 fiscal year. This is the third largest budget deficit in history, exceeded only in 2020 and 2021 (bottom chart). As of September 2024, the government interest expense on its debt came to $1.13 trillion, which represents 17% of total federal spending in the 2024 fiscal year. Since Q1 2020, every dollar of US GDP growth has cost 1.7 dollars in federal debt growth.

- Other developed economies, which have not utilised as much stimulus, have slowed down considerably in the last two years and have fallen below their pre-Covid growth trend rates as well.

- While it may appear that the US economy is no longer sensitive to higher interest rates, perhaps the impact has just been delayed by extraordinary monetary and fiscal stimulus. It is the delayed 'flash to bang' of global monetary policy that we will be watching for in 2025. While private debt dynamics dominate our concerns ordinarily, the global economy currently faces mounting risks from soaring government debt levels – an impending debt glut could disrupt financial markets next year. We should not ignore the wider impact of US monetary policy because it is the Fed that sets – for all intents and purposes – global interest rates. Global debt has just reached $323 trillion, according to the IIF, up from $220 trillion in 2014.





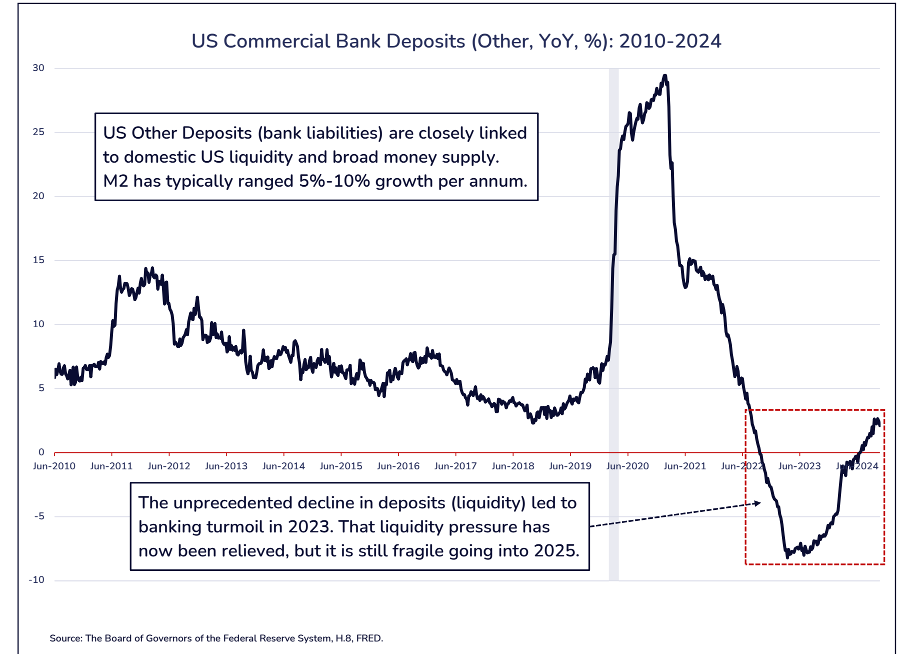
Lubricating the Dollar Economy

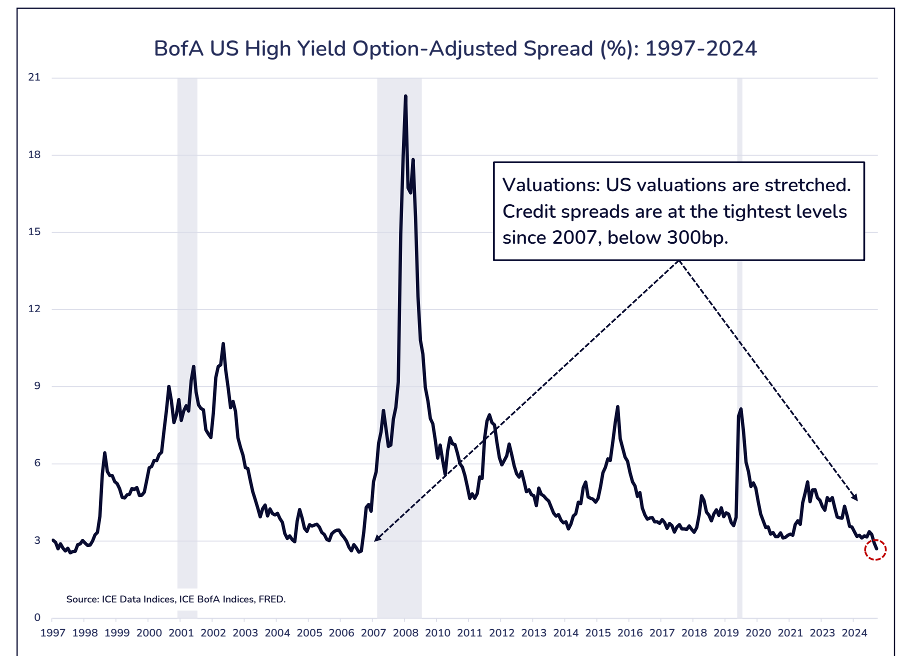
- In the US, M2 money supply growth – the flow – may have slowed down and turned negative between 2022 and 2023, but the authorities reacted quickly to the looming friction (recall Silicon Valley Bank and Credit Suisse in 2023) and they have since supported essential market liquidity – the funding needed to refinance large pools of debt – and normal credit expansion. The stock of money supply is still near the all-time highs. We monitor aggregate commercial bank deposits in the US (top chart), as a useful indicator of capital formation and broad inflation conditions, and the situation going into 2025 is far more comfortable than 18 months ago. Quantitative tightening remains ongoing, although we expect this to be stopped in 2025 as the Reverse Repo facility – excess liquidity – finally drains to zero.

- The excessive liquidity conditions, and foreign inflow, have left a marked impact on US valuations going into the new year. Sentiment for US investment remains strong, but perhaps too strong and we are mindful of conditions that led Alan Greenspan to his 1996 "irrational exuberance" speech.

- The Shiller cyclically adjusted US price-to-earnings ratio reached 38.5x recently, not far off the highs seen in the year 2000. The S&P 500 Price-to-Sales ratio is currently at 3.12x and it peaked at 2.23x in early 2000. In 2007, it was mostly real estate with stretched valuations. Right now, valuation ratios for multiple US asset classes (equities, real estate and credit) are high relative to their historical benchmarks. The US home price-to-income (median, household) ratio is currently at 5.6x, its highest ever. US High Yield Credit spreads have just fallen to 2.6%, the lowest since 2007 (bottom chart). The valuation of private assets, and valuation methods, has been flagged as an emerging risk for private markets.

- As we go into 2025, valuations of riskier asset classes in other parts of the world (ex-US) might be more attractive, although the sentiment in many regions is often weaker. High quality liquid bonds currently offer a positive real interest rate, across the term structure, and this is something that interests us and may gather further attention next year.





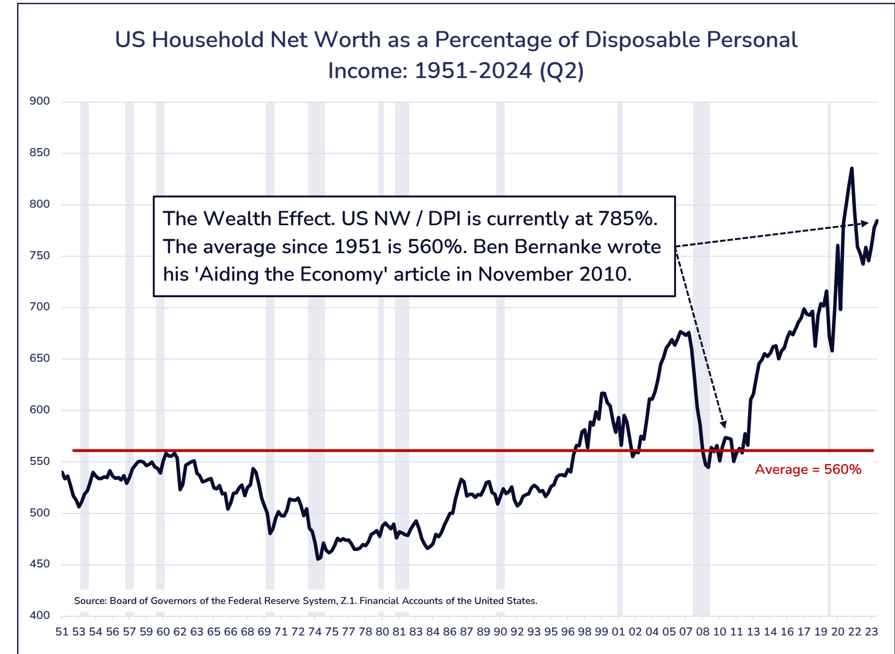
The Wealth Effect

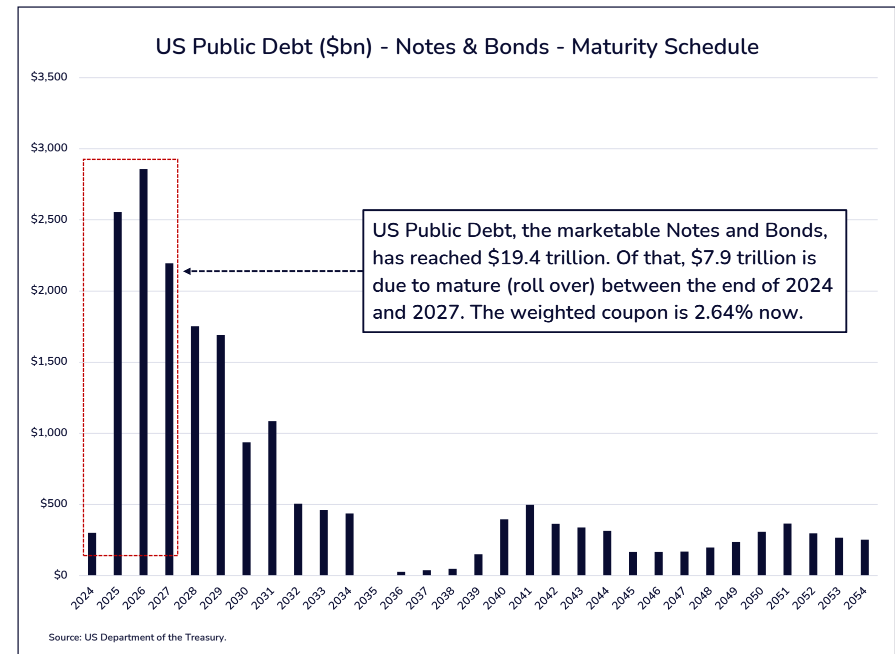
- We can observe stretched multiple asset class valuations in the US, in aggregate, via the ratio of household net worth to disposable income (top chart). An elevated ratio has historically been followed by reversions towards the long-run average. Households have decreased their level of liabilities relative to income since the financial crisis, which is a positive, and it means that the increase in asset prices is not being driven by household leverage. We also like to draw investors' attention to the Fed's determination to exploit and maintain the 'wealth effect' since 2009 – for macroeconomic stability reasons – and this informal policy may neutralise any serious bearish predictions for 2025. We certainly don't use these indicators as precise timing tools anyway.

- While US private sector debt has increased by 80% since 2008, the private debt-to-GDP ratio has reassuringly fallen from 170% to 144%. The private economy's health has been supported with a shift in relative debt loads from the private sector to the public sector and this shift has been driven to help prevent what the economist Richard Koo called a 'balance sheet recession', a phenomenon he observed in Japan following the bursting of their bubble in 1990.

- The US public debt, now at 123% of GDP against 63% in 2008, needs to be serviced and this makes the US public debt maturity schedule an interesting observation (bottom chart). $7.5 trillion worth of marketable coupon instruments need to be rolled between 2025 and 2027. When you include US Treasury Bills (another $6.2 trillion), over 55% of the US marketable debt load needs to be rolled over in the next three years. This makes interest rates a key subject.

- President Trump and his DOGE team will want to cut costs and the government public interest expense is an easy one to tackle. We might expect to see a rapid decline in central bank interest rates for 2025, perhaps driven by political pressure if not economic conditions, and current inflation expectations support this. The 5-Year, 5-Year Forward breakeven inflation rate is 2.2%. The rest of the world will need to follow.





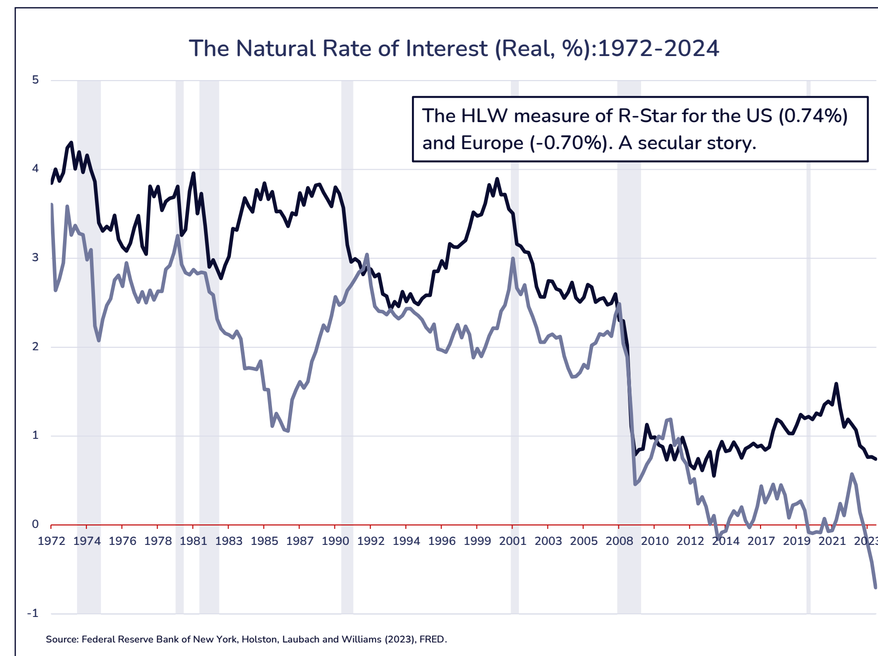
Interest Rates

- Where should USD interest rates be? The Natural Rate of Interest, or R-Star, is the inflation-adjusted interest rate expected to prevail when shocks to the economy have receded and the economy is growing at its potential rate. R-Star helps guide interest rate decisions. There are now three common approaches to inferring R-Star from macro data and the most established is the New York Fed's method (Holston, Laubach and Williams, HLW). The HLW R-Star estimate has returned to the depressed levels seen prior to the Covid pandemic (top chart). The secular forces that were pushing R-Star down for decades are not easy to overcome. This suggests that US nominal interest rates are too tight. Something considerably worse is happening in Europe.

- With inflation back under control, the federal funds rate should probably be below, or equal to, the nominal R-Star – which is circa 2.75%. With an 18-month lag in monetary policy, the economy will be feeling the impact of elevated rates through 2025 and into 2026. Central bankers will be inclined to normalise interest rates, perhaps rapidly, and the need for more accommodative interest rate conditions is even more essential for Europe and China.

- We need to watch China and the country's determination to avoid a balance sheet recession. China's policymakers are acutely aware of Japan's economic stagnation after 1989, and they are determined not to repeat the same mistakes. However, China's inflation, and inflation expectations, are trending dangerously close to deflation (bottom chart). That represents a significant problem with their excessive and unproductive debt loads, and the huge misallocation of capital that has built up in China since 2009.

- China has often appeared to lack the political will to change its economic model. In 2025, China will probably adopt an appropriately loose monetary policy, alongside a more proactive fiscal policy, to drive growth and consumption. China will want to export its way out of its economic slowdown, risking further international political backlash and a global disinflationary wave. When faced with an international response, will China strategically devalue its currency – as it did in 1994 and 2015? Politically, we expect China to fight fire with fire, even if they talk the 'long game'.



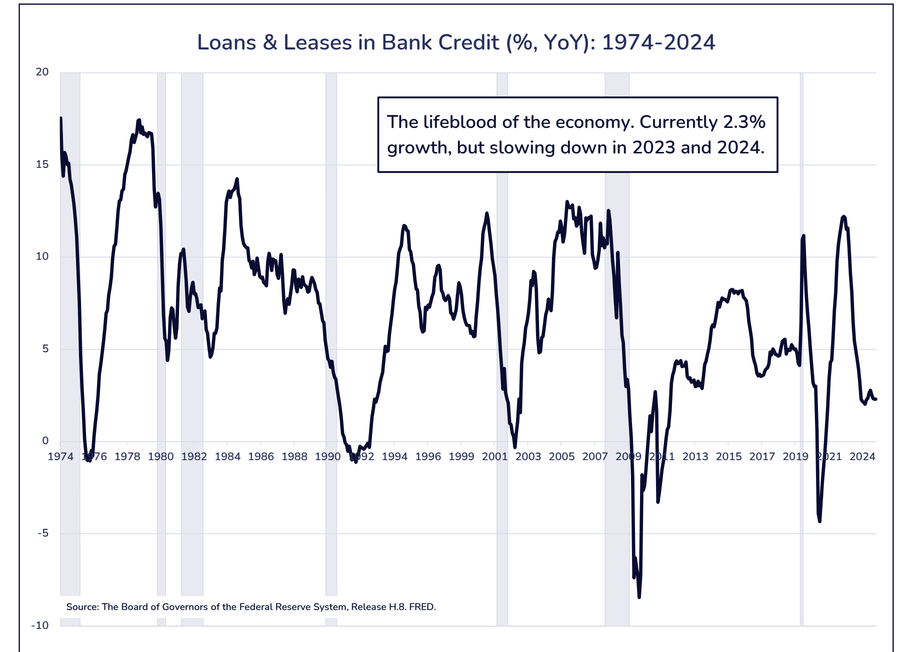
Leading Indicators for 2025

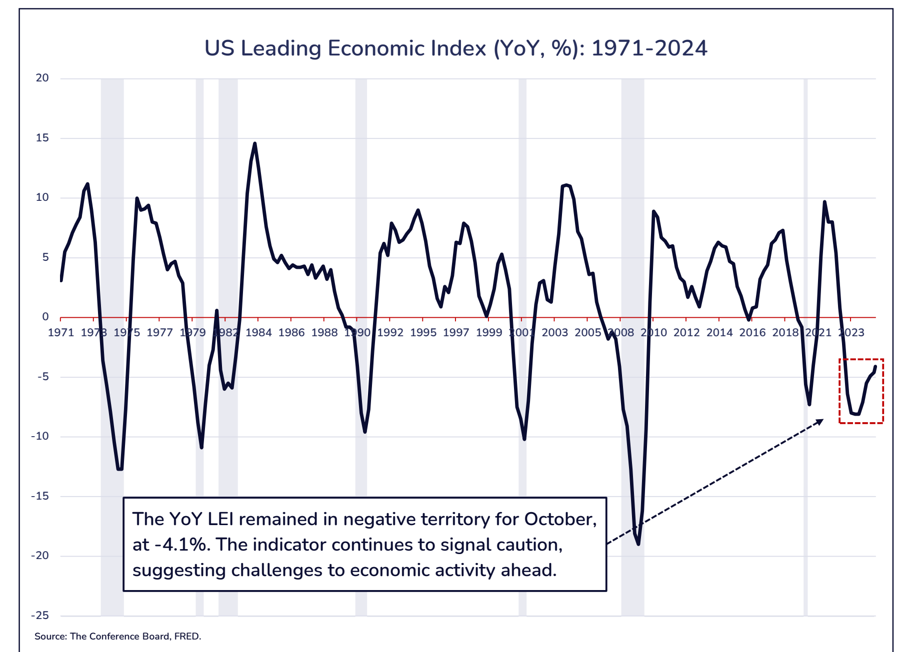
- Beneath the surface, some key leading economic variables are slowing down in the US and the data is even more challenging for the rest of the world. US banking sector loans and leases for the US economy (top chart, $12.6 trillion) have really slowed down in recent quarters and leave 2024 at a 2.4% YoY growth rate. This credit dynamic and the bank lending channels drive the economy; there is a strong, long-standing correlation between loans and economic output. A growth rate below 5% YoY is often associated with recession or emergency monetary policy. Crucially, while the banks' securities book is 'held to maturity' under elevated interest rates, this dynamic is unlikely to improve much.

- Weakness can be seen in the real economy components of the Conference Board Leading Economic Index (bottom chart), as opposed to many of the LEI's financial components, such as equity and credit indices. For 2025, the domestic US private sector will increasingly be called upon to fund the fiscal deficit, at the expense of funding productive investment elsewhere. In that respect, excessive government borrowing may 'crowd out' private investment.

- Politically, with Trump in the driving seat, we expect volatility for 2025. On the surface, an anti-tax, anti-regulation and cost-cutting policy would skew growth and inflation higher. But immigration issues, tariffs, trade wars and the potential for other international escalations are possible headwinds. Geopolitically, we hope tensions remain economic and not kinetic, but that's only a hope. Many nation states are increasingly cautious of US dollar hegemony and are now wary of holding US debt following the liberal use of US sanctions since 2022. China, amongst others, continues to reduce its dependency on the US Treasury Bill 'standard' by shifting reserves into gold where and when they can. We expect more of this in 2025.

- Economically, under excessive and fragile global debt dynamics, we expect 'financial repression' to gain traction in 2025. Financial repression is a politically palatable means to exit a debt trap, and it comprises a range of interventionist policies designed to depress real interest rates and enforce government debt holdings. It is associated with quantitative easing, aggressive nominal interest rate cuts and regulatory imposition (such as the Basel III Liquidity Coverage Ratio).





Asset Classes
Fixed Income & FX

Messages & Ideas

Key Messages

① The US will drive the US but not the rest of the world

- US Inflation under control, paving the way for further rate cuts, with the short end finishing closer to 3%.
- EU growth pressured by tariffs and geopolitical concerns; expecting more continued and aggressive rate cuts.
- Expect further Chinese stimulus to ultimately emerge out of Zero Covid and avoid a balance sheet recession.

② Yield Curve to steepen in a bullish way

- We expect the yield curve to steepen primarily driven by a stronger short end with the longer end to remain broadly at current levels.
- Key residual risks include inflation picking up again on the back of corresponding policies being implemented (Trump 2.0) and if lower rates in the US have an overstimulating effect on the economy.

③ While credit spreads are low, opportunities remain

- BBB Spreads just above 100bps and HY Spreads shy of 300bps mean historically tight levels.
- The quality High Yield Space remains interesting, delivering disproportional pickup due to more limited participants.

Ideas for 2025

① Move It

- Volatility in fixed income markets is more elevated given uncertainties in its drivers such as inflation expectations, and interest rate uncertainties.
- Trades capturing this elevated vol (e.g. callable notes or selling insurance on US Treasuries) can provide compelling Risk/Return characteristics.

② Short Duration High Yield

- Short Duration High Yield has provided similar returns to Full Duration High Yield with on average 25% lower volatility.
- Key to success is to diversify well across issuers with active management being of particular importance.

③ Relative Value Trades in Europe

- Various Opportunities exist amongst EU sovereigns to capture a mean reversion in their respective spreads (e.g. Long France vs Short Germany).

Fixed Income

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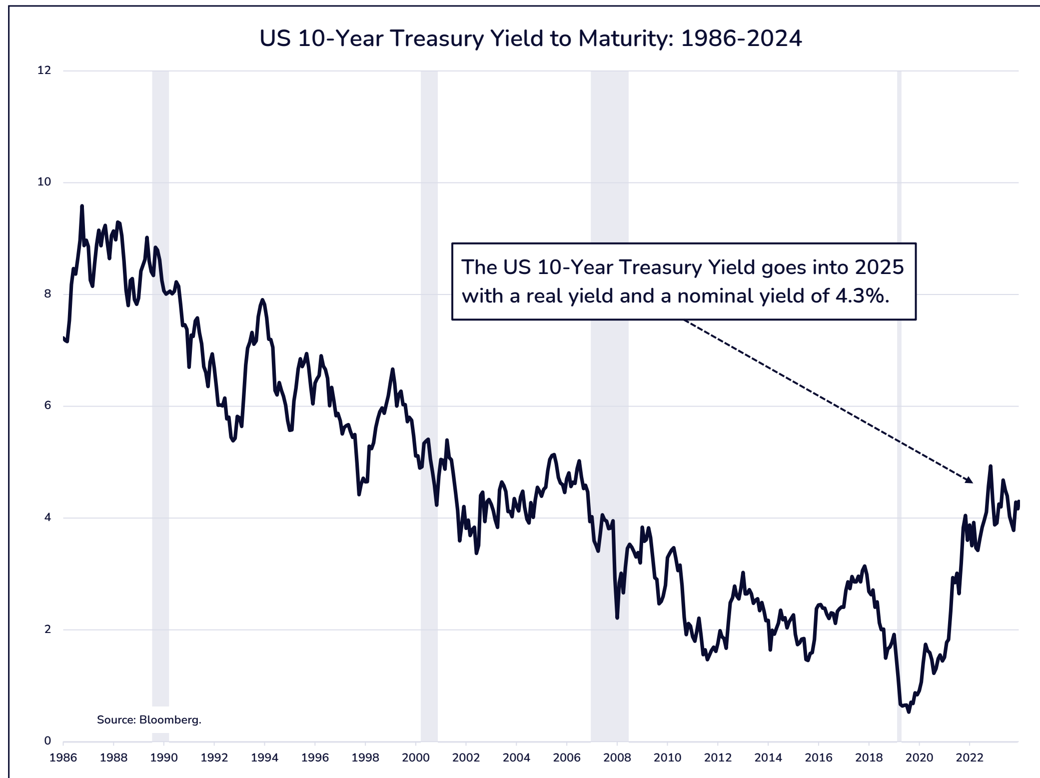
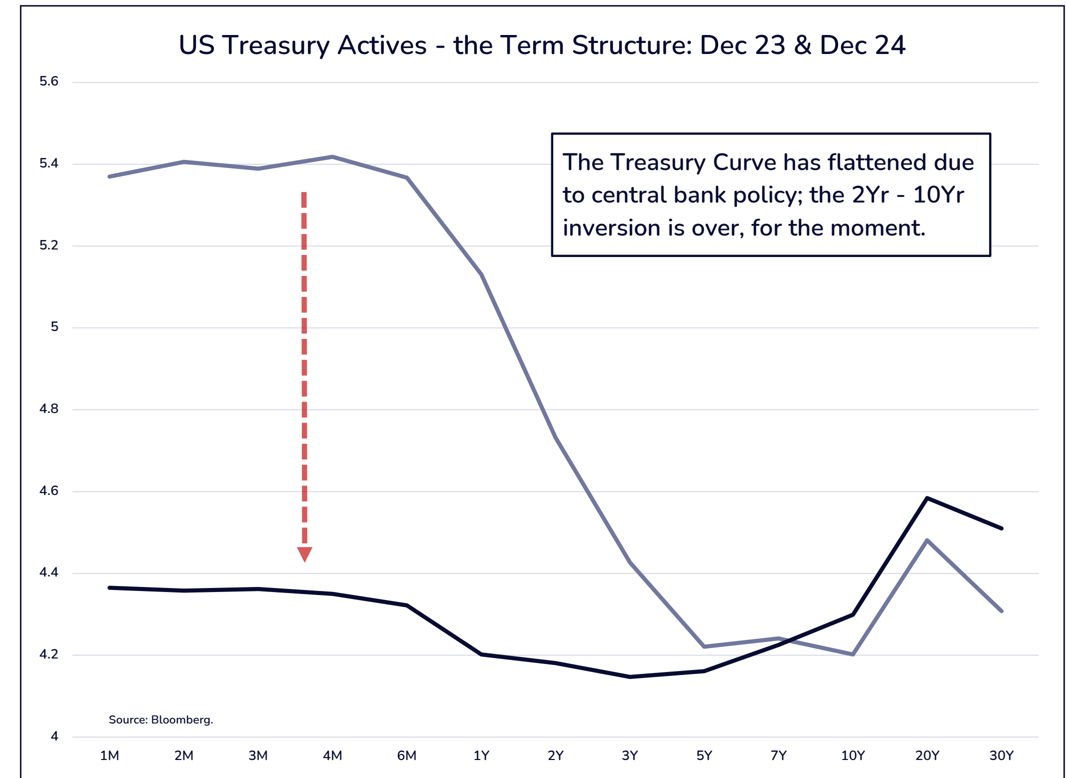




FX Outlook

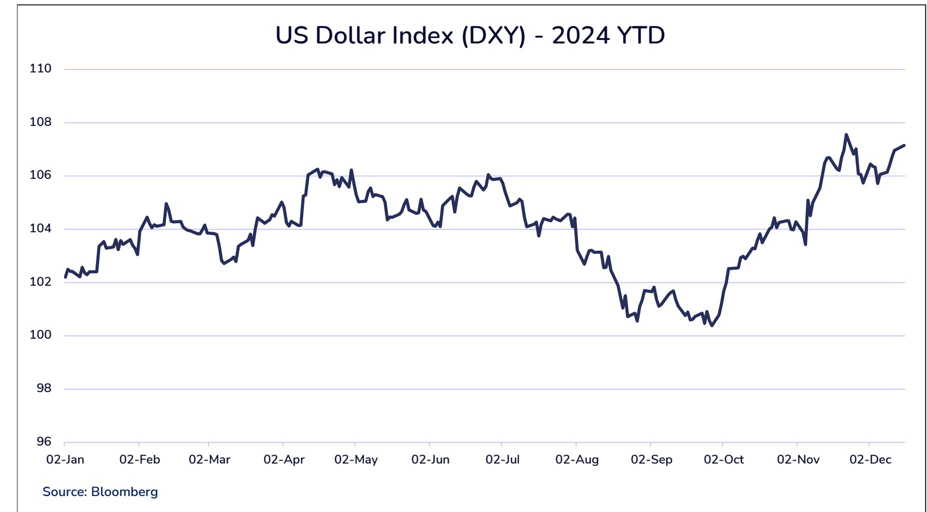
- Year-to-date, the Dollar Index Spot (DXY) has appreciated by 5.5%, with much of the performance accruing after it became likely that Donald Trump will become the next US president.

- The strength of the dollar since the US elections can partly be explained by the markets perceiving Donald Trump's main policies on tariff and industrial policy to be inflationary. These policies would also temper the Fed's ability to bring back rates towards a normalisation path.

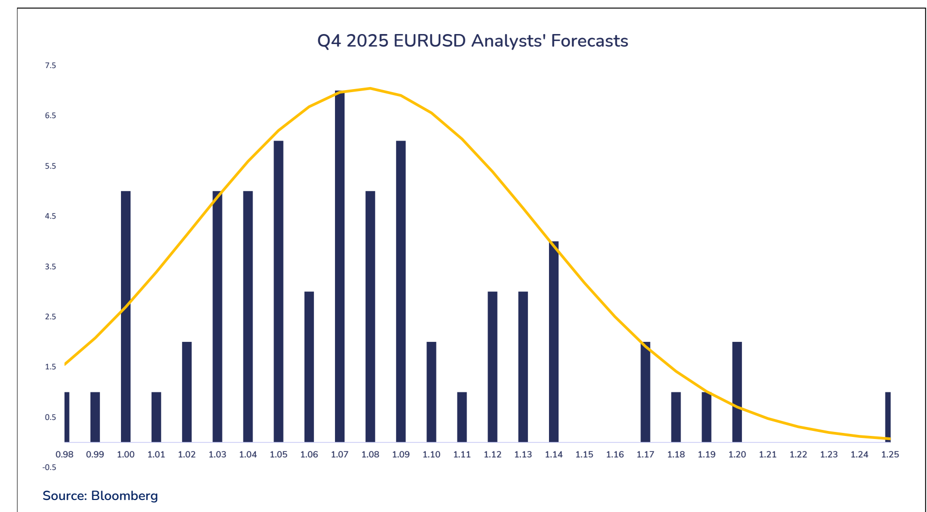
- We anticipate this momentum will carry forward into early 2025, with the dollar expected to strengthen further against its major counterparts. The US economy remains on a growth path, driven by low unemployment, declining interest rates, and sustained productivity improvements.

- Furthermore, we believe the Trump administration is highly aware of the negative effect high inflation had on the Biden administration's popularity. With the midterm elections in focus and the goal of avoiding a two-year 'lame duck' period in the latter half of his term, we expect the Trump administration to moderate its policy agenda to prevent triggering another inflationary surge.

- Additional dollar appreciation is expected as currencies around the world weaken, particularly those of major trading partners like the Eurozone and China. Political instability and economic stagnation in key European economies will likely compel the European Central Bank to maintain an accommodative interest rate policy to avert a deeper slowdown, which in turn will constrain the euro's strength against the dollar.



Source: Bloomberg



Source: Bloomberg

- China, on the other hand, is undergoing its own economic rebalancing and may consider devaluing the yuan as a strategy to boost exports and drive growth, especially if faced with higher tariffs from the Trump administration.

Asset Classes
Equity

Equity markets: Bull & Bear Arguments

Bears' arguments

1 Subdued economic growth outside of the US

- China slowdown: GDP growth of 5.2% in 2023 vs 4.5% in 2025.
- EU growth came to a halt and will be further pressured by tariffs; GDP growth of 1.2% in 2025 in Euro Area.

2 High concentration on single growth theme

- High concentration in equity market indexes (Magnificent 7 accounts for 32% of main US equity index, GRANOLA in Europe accounts for 19% of main EU equity index).
- Elevated valuation due to prolonged multiple expansion in 2023-2024: next year P/E of 21.9x vs 10-year average of 17.0x.

3 Trumponomics – negative

- Higher tariffs leading to potential inflation increase.
- Lower immigration: drop from 3mm in 2023 to 0.75mm in 2025.

Bulls' arguments

1 Macroeconomic environment in the US

- Stable economic growth, decreasing inflation: 1.9% GDP growth in 2025, CPI declining from 2.9% in 2024 to 2.3% in 2025 (consensus numbers).
- Low corporate leverage / subdued delinquency rate: average ND/EBITDA of 1.3x, delinquency rate of 1.5% vs average of 1.9%.

2 Secular growth themes are ramping up

- Cloud growth with AI implementation: cloud growth increased from 20% in Q3 2023 to 27% in Q3 2024.
- Tourism / experiences and related industries: passenger flow by the global airline industry increased from 4.5mm in 2023 to 5.0mm in 2024.

3 Trumponomics – positive

- Lower taxes.
- Deregulation: antitrust, financial, energy.

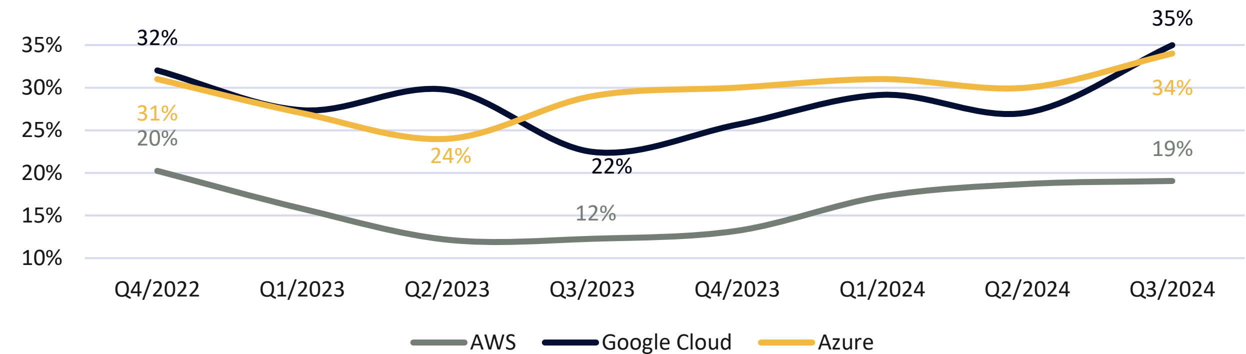
AI: Stable Double-Digit Growth & Accelerating Momentum

- **Further AI adoption will accelerate edge-to-cloud movement**. Level of global AI adoption increased rapidly over the last 5 years: in 2018 only 40% of organizations actively used cloud/AI workstreams while in 2024 that number jumped to 52%. By 2030 global enterprise adoption of AI is projected to grow at CAGR of 37% YoY. 72% of organizations plan to boost their AI investment in 2024. Cloud market growth pace also demonstrates ongoing acceleration **(Pic.1)**.

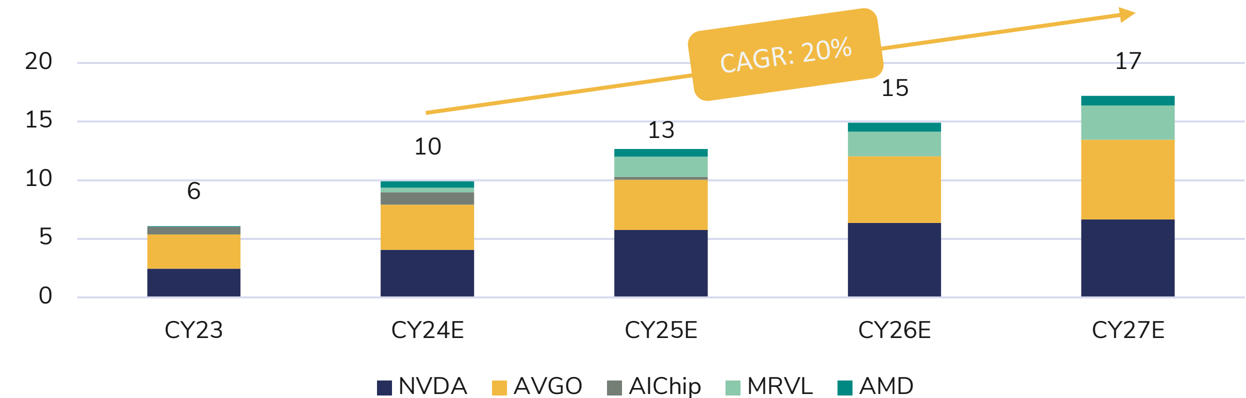
- **Semiconductor market outlook remains positive.** Global semiconductors market is expected to grow 20% YoY in 2024 to $633bn. Semiconductor market will demonstrate growth of approximately 14% in 2025, reaching $722bn. Longer term companies plan to invest about $1trln in semiconductor fabs through 2030. Accelerators subsegment to demonstrate even higher growth with CAGR of 20% YoY **(Pic.2)**.

- **HBM (high bandwidth memory) to become major source of market acceleration.** In terms of market size, the HBM market is expected to quadruple to $16.9 bn in 2024. HBM market size is expected to grow at CAGR of nearly 100% from 2023 to 2026, reaching $30bn by 2026. Volumes are expected to demonstrate CAGR of approximately 55% YoY over 2026 **(Pic.3)**.

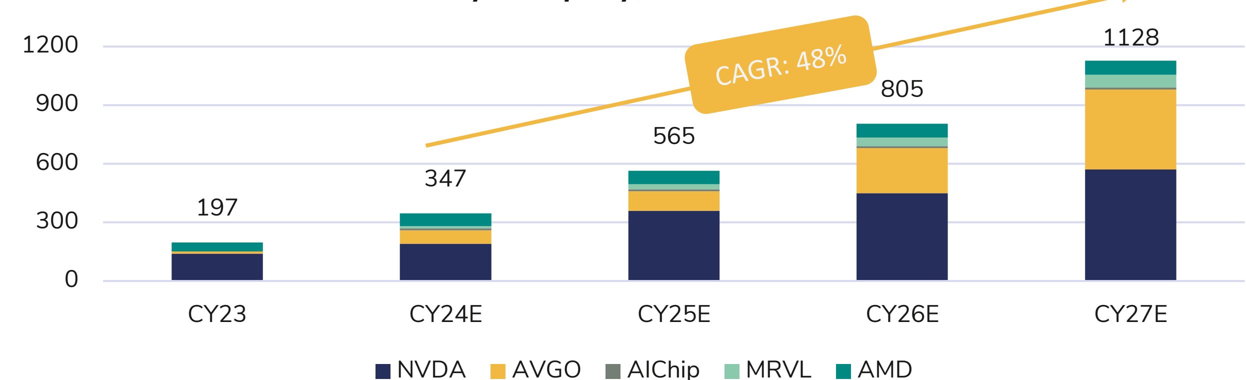
Pic. 1. Cloud sales growth by provider, YoY



Pic. 2. AI accelerators volume by Company, mm



Pic. 3. HBM volumes demand by Company, '000



Notes: (1) Signet Capital, quarterly earning results (2, 3) Broker Research; CARG – Compound Annual Growth Rate

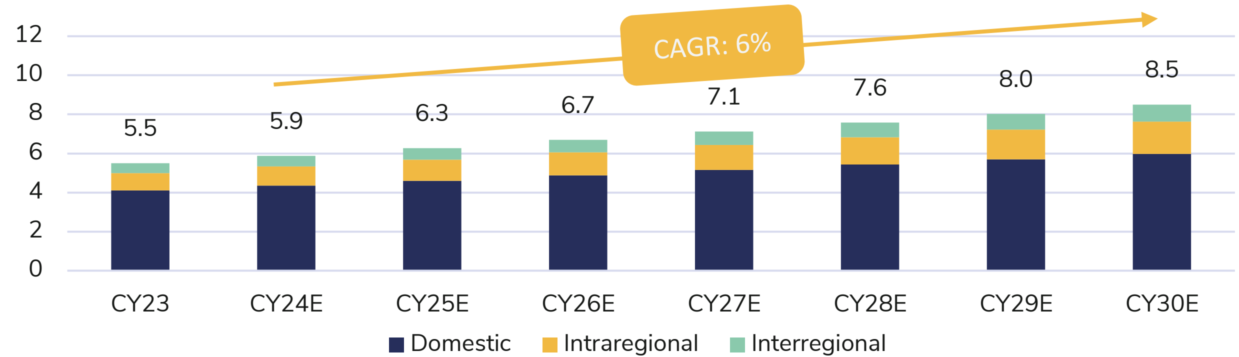
Global Tourism: Rebounded from Covid Lows

- **Global travel spendings almost restored to pre-pandemic levels**. Business travel spending is set to reach a record US$1.5 trln in 2024, exceeding pre-pandemic levels by 6.2%. Longer term travel spending is poised to grow with CAGR c.6% YoY **(Pic.1)**.

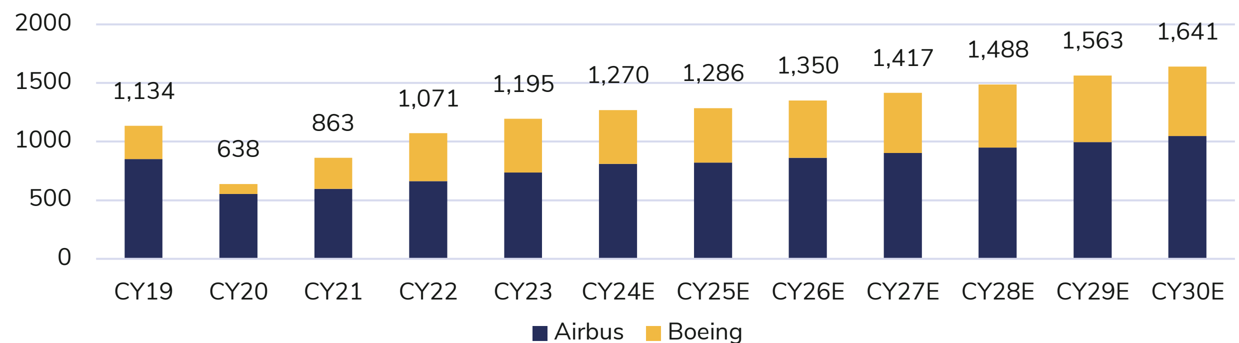
- **Major aircraft providers supply volumes have recovered to pre-pandemic levels.** Despite a reduction in the supply guidance for 2025, both Airbus and Boeing are expecting to demonstrate stable growth in deliveries over the mid-term. Deliveries are expected to demonstrate CAGR c.5% YoY **(Pic.2)**.

- **Number of international tourist arrivals demonstrated stable growth over the last 5 years.** An estimated 1 449 million tourists travelled internationally in 2024 is about 11% more than in 2023, though 1% less than in 2019 **(Pic.3)**. When breaking down the number of international tourist arrivals worldwide by region, Europe has consistently reported the highest volume of inbound travelers, both before and after the impact of the health crisis. In 2024, this region alone accounted for roughly 55% of global inbound tourist arrivals. Meanwhile, Asia and the Pacific recorded the second-highest number of inbound tourist arrivals worldwide in 2024.

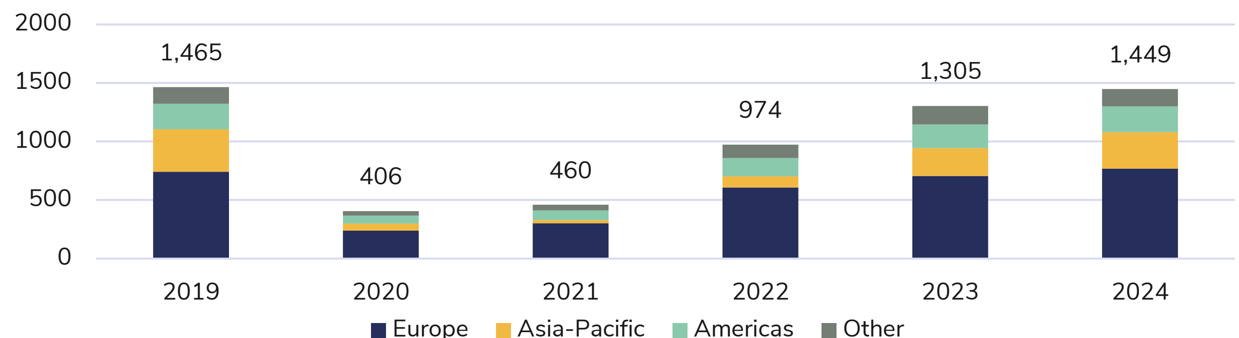
Pic. 1. Global outbound travel spending, by source, $trln



Pic. 2. Supply of aircraft by major providers, units



Pic. 3. Number of international tourist arrivals worldwide, mm



Notes: (1, 3) Signet Capital, based on World Bank data (2) Signet Capital forecast, based on actual numbers and guidance; ; CARG – Compound Annual Growth Rate

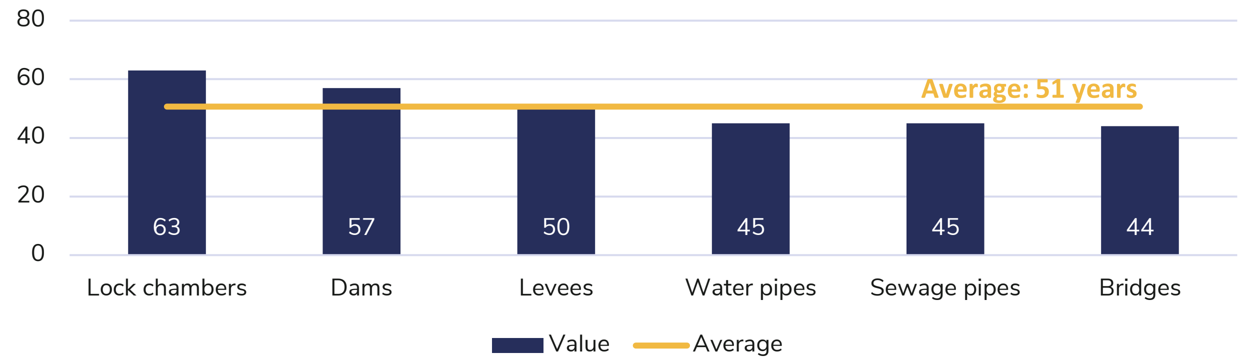
A New Industrial Revolution is Coming

- **Infrastructure act beneficiaries**. New US administration will likely follow and succeed the policy, stated in the Infrastructure investment and jobs act (IIJA). The largest portion of IIJA money is designated for road and bridge construction, followed by rail, broadband, power and water projects. Previous administration has also focused on replacing lead pipes nationwide. Average age of US unfractured currently is 51 years **(Pic.1)**.

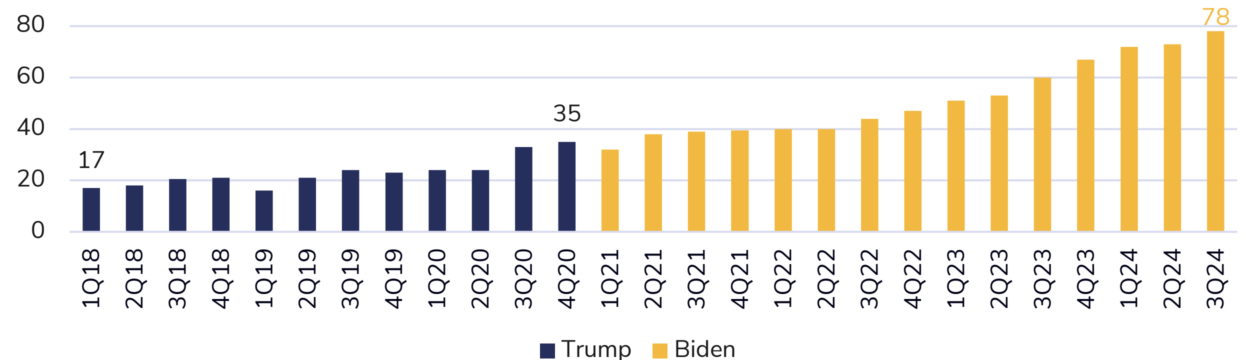
- **Reverse turn in Green energy transition.** President-elect Donald Trump announced intention to review the Biden administration's overall alternative energy policy directions. The key measures will include lifting the ban on issuing export licenses for new LNG projects in the United States and speeding up the issuance of permits for oil drilling off the U.S. coast and on federal lands. Trump also plans to roll back some climate laws passed under Biden, including tax credits for electric vehicles and power plant standards aimed at phasing out coal and natural gas **(Pic.2)**.

- **Power consumption by data centers.** As the demand for data storage and processing power continues to grow exponentially, so does their power consumption. Energy consumption by data centers is expected to demonstrate stable growth of 9% YoY **(Pic.3)**.

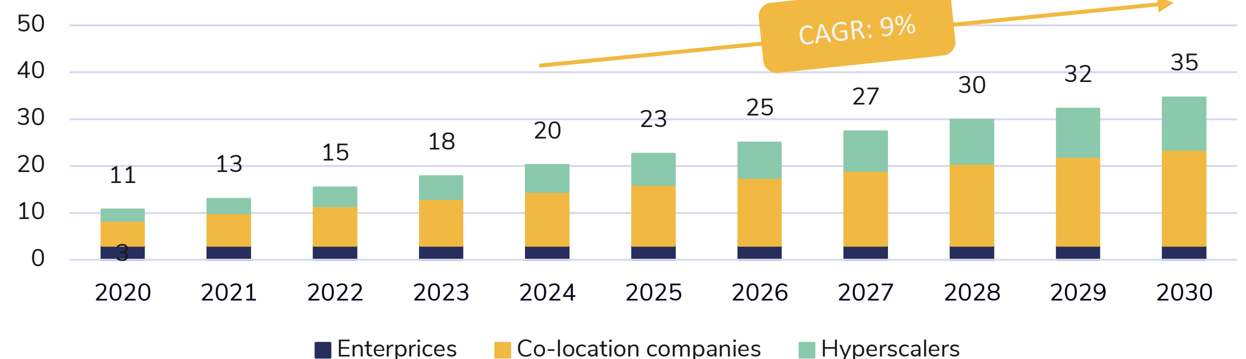
Pic. 1. The age of American infrastructure by type, years



Pic. 2. Clean energy investments, $bn



Pic. 3. US data center power consumption, gigawatts



Notes: (1, 2) Signet Capital, based on Broker research (3) Broker research; ; CARG – Compound Annual Growth Rate

Asset Classes
Commodities

Uranium: The Lost Decade

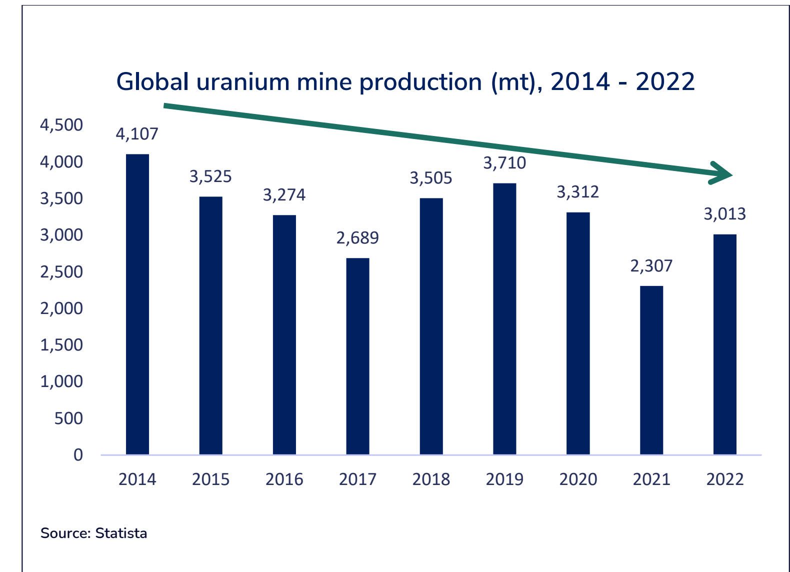
- **The 2011 Fukushima** disaster led to widespread anti-nuclear sentiment, prompting countries like Germany and Switzerland to phase out nuclear power, while Japan shut most of its reactors. This drastically reduced uranium demand, causing prices to fall from over $70 to under $40 per pound, halting mining investment and forcing major producers like Cameco to cut production (see historical prices on next slide).

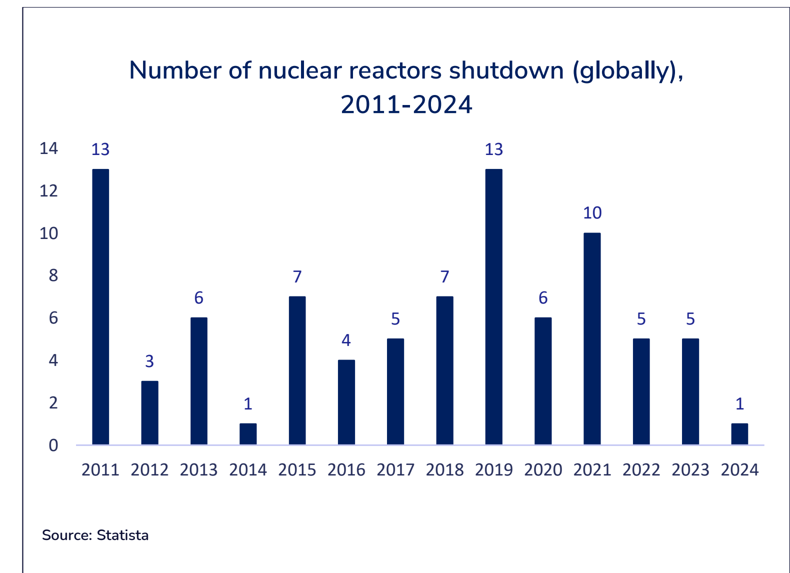
- **From 2012 to 2018**, uranium prices remained low, stabilizing at $25–$30 per pound by 2016. While many Western countries reduced nuclear reliance, China and Russia continued expanding nuclear energy, boosting future uranium demand. Despite low prices, market consolidation occurred, and smaller miners anticipated future price recovery, though investment remained subdued.

- **By 2019, uranium** prices began to recover, reaching $30–$35 per pound in 2021. Tightening supply, growing clean energy focus, and efforts like the U.S. securing domestic supply contributed to the rebound, while Japan gradually restarted reactors. Investment picked up, and producers in Kazakhstan and Canada cautiously increased output in response to improving market conditions and rising global demand for nuclear power.

- The geopolitical landscape surrounding uranium has shifted dramatically since the **beginning of 2020**, firstly due to the Covid-19 outbreak and then subsequently the war in Ukraine. The conflict there has further disrupted already stretched global supply chains, particularly those reliant on Russian enriched uranium. This led to increased demand for alternative sources, such as expanding domestic production and exploring new uranium deposits.

- As a result, since 2011, uranium supply has been constrained by a combination of factors, including the aftermath of the Fukushima disaster, which led to reduced mining investment and production cuts by major producers like Cameco or Kazatomprom, resulting in a persistent supply-demand gap. Although production initially has slowly rebounded by 2019, supply has remained tight due to years of underinvestment, with many mines still operating below capacity or even closing down. Over the next 15-25 years, the uranium market will likely face continued supply challenges unless significant new projects are brought online, as the current infrastructure struggles to meet the needs of an expanding nuclear industry.





Uranium: 35 years of Price History

Uranium Price (USD per Pound): 1990-2024

160
140
120
100
80
60
40
20
0

1990 1991 1993 1995 1996 1998 2000 2001 2003 2005 2006 2008 2010 2011 2013 2015 2016 2018 2020 2021 2023

Although up 2x since 2021, Uranium prices are down -17% in the first nine months of 2024

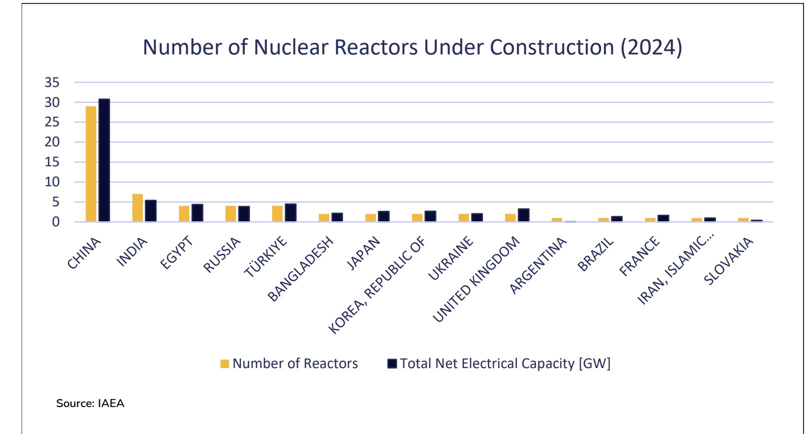
Source: IMF, Primary Commodity Prices, FRED.

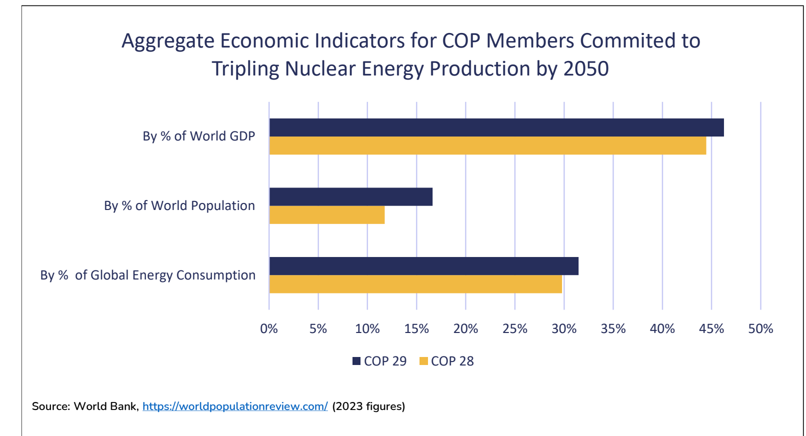
Uranium 2025: Will the Rebound Continue?

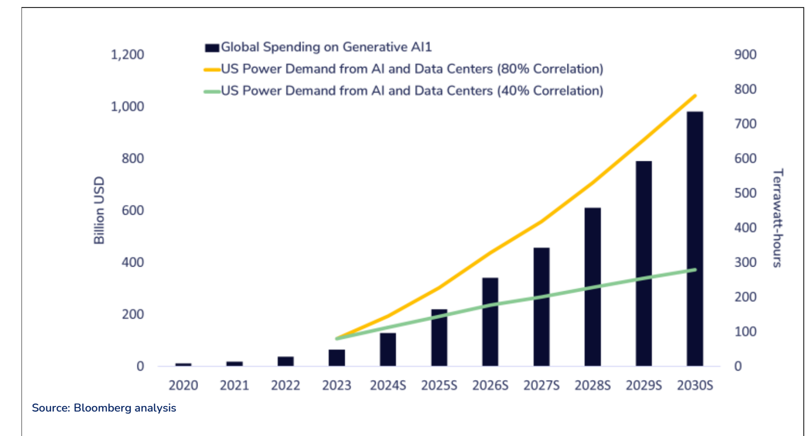
- While uranium prices have seen a notable rise over the past three years, the decade of underinvestment prior to 2021, combined with surging energy demand driven by **AI growth and the expansion of data centres, the push toward net-zero green energy, and increasing appetite from commodity investors**, is creating the ideal conditions for a bull market in the commodity.

- Nuclear energy provides reliable, 24/7 baseload power, **essential for decarbonizing the electrical grid** unlike intermittent renewables such as wind or solar. Its ability to produce large-scale, low-carbon electricity with minimal land use makes it a key component of a sustainable energy mix. Given the political pressures many governments face to tackle CO_2 emissions, it subsequently comes as no surprise that at COP29 (Nov-24) and COP 28 (Dec-23) more than 30 countries signed an agreement to triple the use of nuclear energy by 2050. As a result, according to the IAEA there are currently 63 nuclear reactors under construction, with another 90 reactors under planning approval and more than 300 under proposal[1].

- As mentioned**, AI adoption and the resulting increase in data center buildout** will be on one of the main drivers in energy demand increase over the coming decade. According to a research report by McKinsey[2], data center capacity is set to increase between 19% to 22% per annum by 2030, leading to an estimated electricity demand of 171 to 219 gigawatts (bottom chart). Nuclear is one of the most efficient ways to satisfy this need for energy and this has been proven by the actions of some of the largest hyper scalers in AI. Microsoft announced in Sep-24 that it is sourcing energy directly from a reopened nuclear powerplant Three Mile Island[3]. Furthermore, the CEO of Google specifically mentioned small modular powerplants (SMRs) as a solution to meet its datacenters energy needs, while at the same time company is investing in late-stage nuclear fusion start-ups.







1. https://world-nuclear.org/information-library/current-and-future-generation/plans-for-new-reactors-worldwide
2. https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/ai-power-expanding-data-center-capacity-to-meet-growing-demand
3.Site of the infamous nuclear accident.

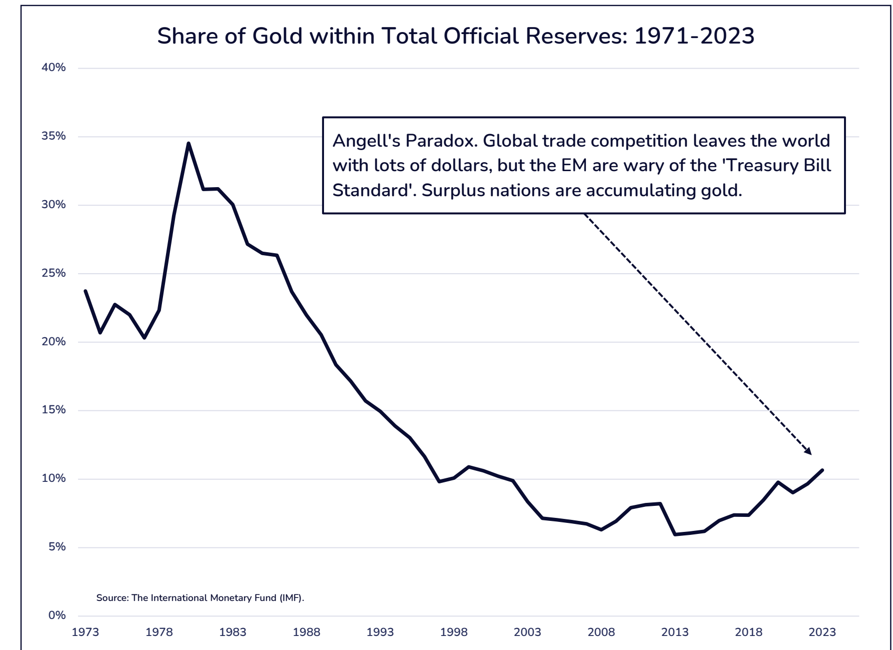
Precious Metals

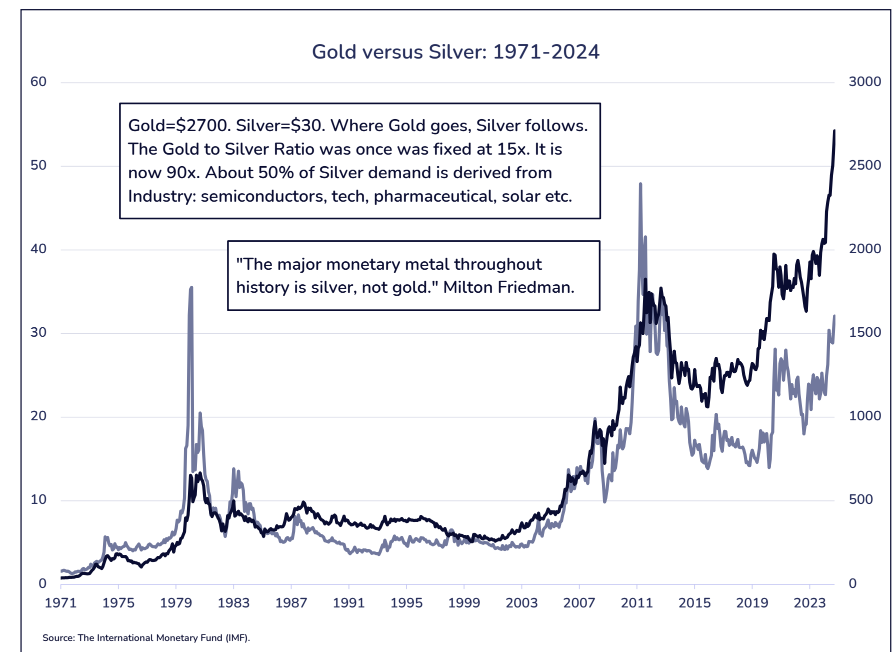
- Gold enjoyed a robust performance in 2024, up c.30% at the time of writing. Gold's recent performance has been aided by abating dollar strength, decelerating real rates, cost-constrained supply and robust central bank buying. Demand elsewhere has been tepid, and the traditionally negative influences of a strengthening US Dollar and burgeoning real interest rates have probably hindered.

- Seizing Russia's foreign exchange reserves over the last two years has been a potentially significant, but underappreciated, mistake made by the US led coalition. If the West is perceived to be failing to uphold the rule of law, capital at risk is less likely to be secured within the West's central or commercial banking system. It will be repatriated to prevent seizure, and not as Treasury Bills. Sir Normal Angell, writing in The Great Illusion (1909), believed that wealth in a modern world would be founded upon credit and commercial contract. If these contracts are abused, it is ultimately the abuser's debt-based status quo that is jeopardised. It became known as Angell's paradox. As predicted by the paradox, we are now witnessing a re-energised interest for EM economic partnerships, based around the BRICS organisation. This should be seen as a strategic move to reduce dependence on western-led financial institutions.

- Because of this dynamic, we are keen on Precious Metals. Gold is viewed as a hedge against economic and geopolitical risks, and central bank gold holdings have been rising ever since the Global Financial Crisis. Specifically, reserve managers in emerging markets have increased their share of reserves held in gold (top chart), at the expense of US Treasury Bills, in response to political and sanctions risk. This has gained further traction since 2022. Gold's share of official international reserve assets, based on the market valuation, has declined from c.30% in the 1970s and 80s to 11% now, but it appears as if the downward trend has changed. The change to gold's status, as a growing reserve asset, is being led by EM central banks and the rise of the East and South in a new multipolar world.

- Evidence of this paradigm shift can be seen in the ongoing demand for gold (bottom chart). The demand for gold seems to be physical and secured locally, as opposed to speculative and custodied, as the cumulative flow of gold ETFs has been declining noticeably since 2022.





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