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THE STERNPOST

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Outlook For The Year 2024

A year ago, at this very time, everything seemed bleak. Risk sentiment was extremely low, with stocks recovering from their worst year since 2008, the cryptocurrency market in disarray, BTC plummeting by over 75% from its previous highs, and many other digital assets suffering even greater losses. Central banks worldwide were aggressively raising interest rates in an attempt to combat inflation, leading to tighter financial conditions, and the outlook appeared uncertain.

But then, 2023 arrived and completely changed the landscape. It turned out to be an exhilarating year for both those interested in macroeconomics and crypto enthusiasts, as it brought continuous and exciting developments. The best of 2023 came only towards the last quarter of the year!

The year 2024 started with a roller coaster, risk off sentiment is back, macro headwinds have shifted again and cross asset class volatility is rising, with this in mind we layout out the broad themes that we think will shape the markets this year and in the end we provide our asset class wise view.

The four broad themes for the year 2024 are:

1. Volatility is back & it is going to be a roller coaster of a year
2. Crypto Markets will breathe new life
3. Better Macro backdrop than 2023
4. AI will become mainstream

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Some Countries going to ballot this year:

1. Taiwan – January
2. Indonesia – February
3. Pakistan – February
4. Spain – February
5. Portugal – February / March
6. Russia - March
7. India – April / May
8. United Kingdom – May
9. Ireland – June
10. Belgium – June
11. European Union – June
12. Germany – September
13. Australia - October
14. United States – November

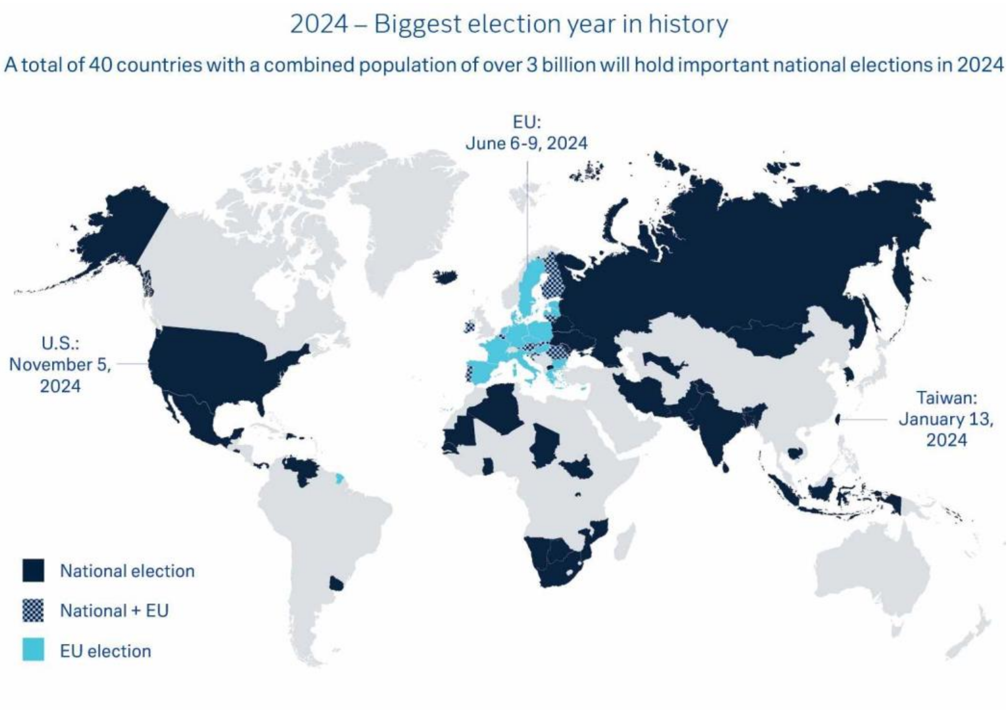
HIGH VOLATILITY REGIME

The year 2024 has a unique distinction for being the year with highest number of national elections in the history of mankind. Many countries are going to vote this year including the world's largest economy (U.S) and the world's largest democracy (India). Investors need to be careful as election years are also the most volatile years.

The first election which can spook the markets is in Jan'24 with Taiwan going to vote on 13 Jan 2024. Lai Ching-te from Democratic Progressive Party (DPP) is expected to pull through a narrow win over Hou Yu-ih from Koumintang (KMT) and this China may not like much as Lai Ching is pro independence leader. Tensions will surely rise between Taiwan and China once Lai Ching comes to power and US might find itself dragged into these tensions although with the purge happening in China Xi already has too much on his platter on domestic front and may not start an outright war with Taiwan in near future.

US elections will continue to dominate the headlines for the entire year. Although, right now Trump is ahead of Biden in polls but things could flip if Trump is barred from running for presidency on legal grounds. Trump has a tough task to clear him name from all the five cases that are filed against him in US courts. The Colorado Supreme court has already barred Trump's presidency candidature in Colorado state. Incase Trump is able to surmount his legal troubles and becomes the president again we expect markets to rally hard just like they did last time when he came to power.

India goes to vote in March-April of this year no surprises expected from there but Indian sub continent is becoming a hot bed of geo-politics and a clean and strong majority for prime minister Modi wil be a shot in his arm and long term stability is good for markets and we expect India to continue to outperform other economies. India is in a secular bull trend and any dips and corrections are opportunities for those who have missed out.



Source: Deutsche Bank

This year the market environment will be in high volatility regime, other than elections there are other geo-political events to watch for like Israel – Palestine, Russia – Ukraine, China – Taiwan. However, we still believe that markets will end up higher at the end of the year compared to last year. Investor will need to be nimble and agile to maximize their returns during this high volatility regime. It is interesting to note that all leap years are marked by high volatility in markets.

YEAR OF CRYPTO

The Crypto industry has gone through a lot in last two years including many self inflicted wounds like FTX scam. The industry fought many battles with politicians and regulators as Operation Chokepoint threatened to curtail all the innovation and advancement in Crypto. Yet we are here!

This year might turn out to be a pivotal year for cryptos. At the very start of the year SEC is expected to make a decision on the Bitcoin ETFs and riding on this very positive development BTC seems to have broken out of its range to the upside another positive development for BTC's price is that this is the year of Halving when the bit coin supply will reduce by 50% , this happens every 4 years.

Here is the complete list of BTC ETFs which are vying for approval from SEC:

Name	Ticker	Issuer	Fee	Exchange	Custodian
Grayscale Bitcoin Trust (conversion)	GBTC	Grayscale	1.50%	NYSE	Coinbase
ARK 21shares Bitcoin ETF	ARKB	21 shares & ARK	0% (0.25%)	CBOE	Coinbase
Ishares Bitcoin Trust	IBIT	Blackrock	0.2% (0.3%)	Nasdaq	Coinbase
Bitwise Bitcoin ETP Trust	BITB	Bitwise	0% (0.24%)	NYSE	Coinbase
VanEck Bitcoin Trust	HODL	VanEck	0.25%	CBOE	Gemini
Wisdomtree Bitcoin Trust	BTCW	Wisdomtree	0.50%	CBOE	Coinbase
Invesco Galaxy Bitcoin ETF	BTCO	Invesco & Galaxy	0% (0.59%)	CBOE	Coinbase
Wise Origin Bitcoin Trust	FBTC	Fidelity	0.39%	CBOE	Fidelity
Valkyrie Bitcoin Fund	BRRR	Valkyrie	0.80%	Nasdaq	Coinbase
Hashdex Bitcoin ETF	DEFI	Hasdex	0.94%	NYSE	BitGo
Franklin Bitcoin ETF	EZBC	Franklin	0.29%	CBOE	Coinbase

Source: SEC, Bloomberg, Exchanges

There is a fierce fee war between these ETFs Bitwise and ARK to waive off fees for first 6 months or 1 billion in assets. Invesco to waive off fees for first 12 months or 5 billion in assets. Blackrock to charge a lower fee for first 12 months or 5 billion in assets. Interesting to note Grayscale is proposing to lower its fees only by 0.5% from 2% presently, this maybe because they have a view that trust structure offers better tax structure for investors.

One the Euphoria around Bitcoins ETFs cools down then focus will shift to Ethereum ETFs which are vying for approval. The first deadline for ETH ETF approval is in May'24. Following are the ETFs which have filed papers with SEC:

Name	Issuer	Exchange	Custodian
VanEck Ethereum ETF	VanEck	CBOE	Gemini
ARK 21shares Ethereum ETF	21 shares & ARK	CBOE	Coinbase
Hasdex Nasdaq Ethereum ETF	Hashdex	Nasdaq	NA
Grayscale Ethereum Trust (conversion	Grayscale	NYSE	Coinbase
Invesco Galaxy Ethereum ETF	Invesco & Galaxy	CBOE	Coinbase
iShares Ethereum Trust	Blackrock	Nasdaq	Coinbase
Fidelity Ethereum Fund	Fidelity	CBOE	Fidelity

Source: SEC, Bloomberg

This year will be a landmark year for the crypto industry and we like Bitcoin, Ethereum and Solana to play this theme without taking risk of shortcomings of altcoin eco systems.

MACRO OUTLOOK FOR 2024

While we expect inflation to track above consensus for most part of 2024 we are not worried about tightening cycle to last long. Till last month market was pricing 6 cuts from Fed in 2024 while the 6 rates may be far fetched but we are no very worried partly because the ON RRP facility will be depleted by March 2024 and from then on the financial conditions should start easing.

Needless to say that Macro backdrop is one thing and the policy stance is another. The 3 J's play the most important role here – Jerome (Powell), Janet (Yellen) and Joe (Biden).

Yellen has very smartly managed to use ON RRP to the best advantage and we continue to think that the policy makers will continue to find innovative ways to ease the financial condition which will benefit the markets. Corollary to this is that dollar will decline in coming months although we may see a rally post US election in US dollar.

We plan another newsletter issue to discuss the full marco outlook in detail.

RISE OF ARTIFICIAL INTELLIGENCE

In 2023, artificial intelligence (AI) captivated every sector, sparking optimism for more efficient and streamlined work processes. At the same time, it raised concerns that the technology might evolve to a point where it could potentially replace human workers. 2024 will be the year when AI will become mainstream and business will have no choice but to integrate AI in their daily operations.

Following are some of the ways in which AI will get integrated in various fields right from academics to entertainment to interior designing:

Customized Generative AI Models: There's a growing focus on tailored generative AI tools designed for specific markets and user needs, like customer support and supply chain management. This approach offers more control over privacy and security, and is especially relevant for sectors with specialized terminology and practices such as healthcare, finance, and legal.

AI and Machine Learning Talent Demand: The need for skilled professionals in AI and machine learning continues to rise. There's a specific demand for talent capable of bridging the gap between theory and practice, with skills in AI programming, data analysis, statistics, and machine learning operations (MLOps) being particularly sought after.

Shadow AI: As AI tools become more accessible, there's an increase in the use of AI within organizations without explicit IT department approval, known as shadow AI. This trend raises concerns about security, data privacy, and compliance.

Democratizing AI: AI technologies are becoming more accessible, enabling innovation beyond large tech companies and into various sectors.

AI in Entertainment and Media: AI is making significant strides in content creation, reshaping the entertainment industry with AI-generated music and personalized media

Stern Thoughts

We Expect Following Stocks to benefit exponentially from the current AI wave:

Top AI Stocks:

1. Microsoft (MSFT)
2. Apple (APPL)
3. Tesla (TSLA)
4. Mongo DB (MDB)
5. Palantir Technologies (PLTR)

Top Cyber security Stocks:

1. Palo Alto Networks (PAWN)

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2. Zscaler (ZS)
3. Crowdstrike Holdings (CRWD)

Top SMID cybersecurity stocks:

1. Telos Group (TLS)
2. Teneble Holdings (TENB)
3. Rapid7 Inc (RPD)

experiences.

AI and Augmented Reality Integration: This year is likely to see a rise in the fusion of AI with Augmented Reality (AR), enhancing experiences in gaming, education, and retail.

AI in Agriculture: AI-driven precision agriculture is transforming farming practices, making agriculture more sustainable and efficient.

Smart Factories and AI in Manufacturing: AI is streamlining manufacturing processes, improving quality control, and reducing operational costs.

AI in Finance: The financial sector is increasingly using AI for automated trading, personalized financial advice, risk management and forensic analysis.

It is anticipated that AI enterprises and AI initiatives will garner significant attention and become a focal point of discussion among investors, traders, and venture capitalists. There are many exponential bets brooming up in this sector but investors also need to be cautious and mindful of the risks.

Source: China National Bureau of Statistics; China Ministry of Agriculture & Rural Affairs

China had to reduce its pork supply by more than 1/3rd because of the ongoing African swine fever leading to a sharp rise in Food & Beverage inflation which carries a weightage of around 32% in the overall consumer price inflation basket and is the biggest item in that basket.

While the mainland Chinese are suffering from consumer price inflation their neighbours in Hong Kong are suffering from what they perceive to be Chinese oppression. The situation in Hong Kong has become worse from bad and Hong Kong has slipped into a recession first time in a decade.

Source: HK Census & Statistics Department

The protests and trade war are taking their toll on Hong Kong's economy. GDP contracted in the second quarter in seasonally - adjusted terms. And there has been a further slowdown in retail sales and visitor arrivals since then, with tourists increasingly staying away from the city. Markets have responded to the deteriorating economic conditions, with the Hang Seng Index underperforming broader Asian markets by an increasingly wide margin.

Further, much of the speculation in Hong Kong property market is driven by buyers from Mainland China, the protests could well scare off the buyers that have propped up the property market in the past decade and lead to a price correction which might be good or bad depends on which way you look at it but we suspect such a situation would be short lived.

Hong Kong Human Rights and Democracy Act

Source: HK Tourism Board; HK Census & Statistics Department

Hong Kong is fighting for its future and it has put China in a tough spot for China must continue to treat Hong Kong with kid gloves. There are many reason why Chinese leadership will resist direct intervention for as long as possible. Hong Kong is a center for dollar liquidity for mainland firms and there is no other city which can replace it. Hong Kong's utility as a financial center is unmatched. Then there are Taiwan elections early next year and Beijing would not like to strengthen pro independence DPP leader Tsai Ing-wen whose chances of win were slim before protests broke out in Hong Kong but in last four months her chances for a comeback have seen a remarkable turn around.

Looking at all of the above and some-more we come to a conclusion that while the official data continues to project that all is under control in China in reality the underlying data points to a very fragile situation which could go either way. Chinese have been smartly able to wither storms earlier but their luck seems to have hit a hard patch. In the meanwhile given a choice between US markets and Chinese markets we would any day choose the former. No doubt there are some lucrative opportunities in China but we are happy to take position in the market where we are able to hedge ourselves effectively.

About Stern Capital

Stern Capital Pte Ltd is a Singapore based investment manager. Stern Capital is a boutique investment firm which specializes in providing macro as well as quant/HFT based approaches to managing investments.

Stern Capital manages three funds:

1. Stern Global Fund VCC
2. Stern Opportunity fund VCC
3. Tembusu Multi Strategy Fund

For details please visit:

www.sterncapital.sg

STERN VIEWS

Asset Class	Oct'19	Comments
Fixed Income		
Investment Grade	→	The bond markets are expected to experience a tailwind due to moderate growth, continued disinflation, and a central bank bias toward easing. Corporate bonds, particularly those of U.S. and European investment grade and high-yield issuers look good but other asset classes offer better retuns.
High Yield	→	
Convertibles	→	
Equities		
US	↑	We expect US markets to be volatile but end up higher at the end of the year. Financials, Technology and Industrials are our preferred sectors.
EUROPEAN	→	There is little to cheer in European markets no change in our view
CHINA	→	China has been dealing with self inflicted wounds and we expect the pain to continue till the time substantial easing and reforms are undertaken
INDIA	↑	India is in a secular bull trend and offers best risk reward compared to other markets
Currencies		
USD	→	Fed's path is unclear while market is pricing in 6 rate cuts but we think this may not happen
BTC	↑	As discussed in detailed above BTC should have a good run for the year
ETH	↑	ETH is positioned better to out perform all other assets except BTC
EUR	↓	Eurozone likely to underperform this year as well
JPY	→	As safe haven and in absence of further monetary stimulus yen is likely to remain in a range
Commodities		
Gold	↑	Momentum in Gold seems to have slowed and in case of further uncertainties Gold is like to trade in a range for short term but eventually it will move higher
Silver	↑	Silver too like gold is likely to follow gold higher
Oil	↑	Geo Political tensions and expected supply cuts down the year will keep the oil prices high