

In search of the unloved "Bull markets"



THEME 4 —
Gold is seen as a protection against
fiscal excesses and government debt.
[Read more on p3](#)

Introduction

While some 'secular' investment themes are strongly represented in portfolios (e.g. the 'Magnificent 7'), this is not the case for other bull markets. We have identified 5 of them.

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The vast majority of investors are looking for what are known as "secular bull markets", i.e. assets backed by factors that remain buoyant for years.

But most of these investments are over-represented in portfolios, with the result that valuation ratios are far too generous. As with all overvalued crowded trades, the risk of a sharp fall in the event of bad news is relatively high.

In the recent past, the GAFAs (Google, Apple, Amazon, etc.) and European luxury goods stocks (LVMH) have suffered relatively intense selling without their long-term fundamentals being called into question.

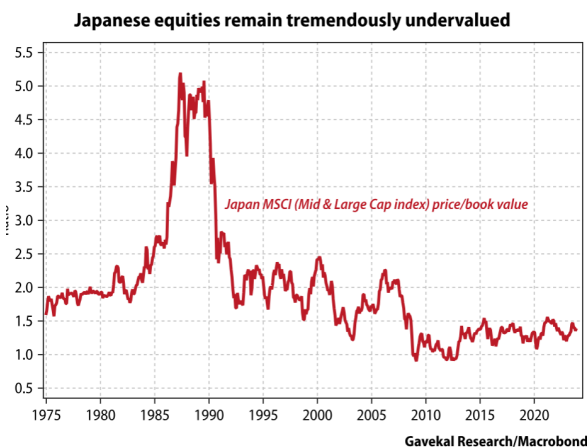
Is it now possible to identify markets that appear to be on a long-term uptrend, but with attractive valuations that are still under-represented in portfolios? Here are 5 examples of assets that seem to combine these characteristics.

THEME 1 —

Japan equities

In a previous FOCUS note (Wasabi - May 2023), we underpinned our favourable investment thesis for stocks in Japan a still-accommodating monetary policy, a weak yen, better corporate governance, an improving economic outlook, a favourable geopolitical positioning (Japan is on good terms with the United States and China), inflows from domestic and foreign investors and attractive valuation multiples. All these ingredients have the potential to lead to a significant market revaluation.

In 2023, the Nikkei 225 finally regained the 30,000-point level last reached in 1989. Despite this bull market, the majority of investors seem to be neglecting Japanese equities, which is rather a positive factor from a contrarian point of view. On the other hand, the market remains undervalued, as shown in the Gavekal chart below (Price-to-book value of the Nikkei 225).



Of course, many risks remain. In the short term, these include a sharp rise in the yen or the negative consequences of a sharp global slowdown (the Japanese economy is one of the most sensitive to the macroeconomic cycle). In the longer term, Japan is suffering from a very unfavourable demographic situation, its dependence on energy imports and its staggering government debt (over 250% of GDP).

However, the indicators for this market remain positive. Japan is one of the few countries that combines favourable fundamentals and an attractive valuation, yet is under-represented in international portfolios.

THEME 2 —

Latam assets

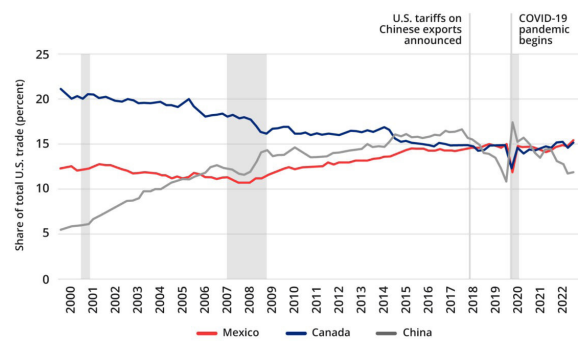
The Latin American countries with the best macroeconomic fundamentals - Mexico, Brazil, Chile, Colombia, Peru and Uruguay - are currently benefiting from three favourable winds: falling interest rates, currency appreciation and rising asset prices (equities, property or corporate debt).

The region is geopolitically neutral, allowing it to trade with the Eastern bloc as well as with the United States and Europe.

The demographic profile is very favourable. The political situation is improving, with the population moving away from the Marxist or pro-revolution votes of yesteryear.

In terms of growth, the region is benefiting from some of the key trends of the current decade, such as rising demand for raw materials, "friendshoring" (Mexico has replaced China as the USA's leading trading partner) and the USA's reliance on foreign labour against a backdrop of rising wages and labour shortages. As a result, remittances from the United States to Latin America are rising sharply, boosting local consumption and the continent's currencies.

Mexico Becomes Top U.S. Trading Partner in 2023



Source: The Hub

Finally, the creation of pension funds in several Latin American countries is boosting demand for local assets.

Latin American bonds and equities remain attractive in terms of valuation, and largely under-held by foreign investors. With the disinflationary trend, there is considerable potential for interest rates to fall. The bull market in the region's assets could therefore continue.

THEME 3 —

Uranium

As mentioned in a November 2021 FOCUS note ("The price of scarcity"), governments around the world are becoming increasingly aware of the importance of reliable, carbon-free electricity generation. Nuclear power emits almost 70 times less carbon dioxide than coal. Meanwhile, the costs of nuclear power plants tend to be relatively low, given the amount of material needed to fuel the plant.

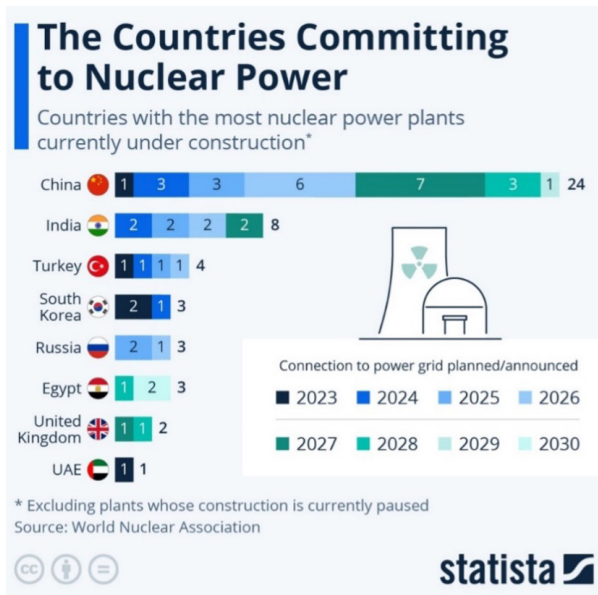
Against this backdrop, it is not surprising that some countries are considering the use of nuclear power for decades to come. In the United States, Joe Biden's \$2 billion "Green New Deal" style infrastructure plan has led to the creation of a new ARPA Climate Agency, which has prioritised the development

and deployment of advanced nuclear reactors. In addition, in 2020 the Senate approved the US Nuclear Infrastructure Act, designed to boost the US nuclear industry, establish a strategic uranium reserve, support improvements to the US nuclear fuel cycle and encourage exports of US reactors worldwide.

At the same time, the energy crisis in Europe has forced politicians and citizens to recognise the inescapable logic of nuclear power. Features such as 24/7 reliability, production resilience in all weather conditions, price stability and superior energy security have put nuclear new build back on the agenda.

At COP 28 in Dubai last December, participants pledged to triple the use of nuclear power over the next decade.

Asia (China, India) has the largest number of nuclear power plants currently under construction.



In light of this renewed investment in nuclear power, uranium is benefiting from a strong upturn in demand against a backdrop of limited supply. Indeed, in the wake of the Fukushima disaster in 2011, many countries established a moratorium on nuclear energy. The impact on uranium has been enormous, because unlike other industries, uranium mining serves a single purpose: to fuel nuclear reactors. The vast majority of uranium mines became unprofitable and drastically reduced their production, resulting in the current shortage of supply at a time when demand is rising sharply.

This imbalance between supply and demand can only be resolved by increasing the price of physical uranium.

Unlike most raw materials, demand for uranium is not very price-sensitive, since price represents only a small part of the total cost of operating a nuclear power plant. Nor is it subject to substitution effects.

In addition, apart from Canada and Australia, most of the uranium produced in the world comes from destinations with a high geopolitical risk: Russia, Kazakhstan (where Russia's ability to tip the balance is colossal) and the Sahel, a vast region of Africa where the French Foreign Legion is increasingly being replaced by the Russian mercenaries of the Wagner group.

Despite all these positive factors and the sharp rise in uranium prices (see chart below), this theme is not very present in international portfolios. Admittedly, uranium is a niche market and there are few ways for investors to participate in a wider revival of nuclear energy. This is especially true as it seems likely that many of the nuclear power plants planned around the world will ultimately be built by Chinese or Indian companies. Investors can gain exposure to physical uranium through the Sprott Uranium Trust, which trades on the Toronto Stock Exchange. On the other hand, the companies that mine the commodity (Uranium mining companies) have a leverage effect on the price of the underlying. The Global X-Uranium ETF (URA) and the North Shore Global Uranium ETF (URNM) are exposed to this.

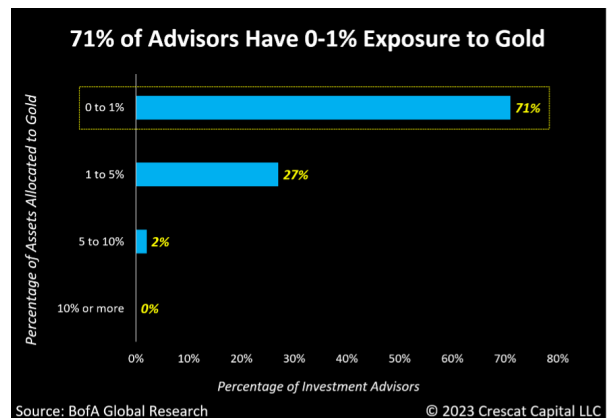


Source: Trading Economics

THEME 4 — Gold

In our last FOCUS of 2023 ("The hidden reasons behind soaring gold prices"), we highlighted the favourable winds currently bolstering gold: the frenetic and significant accumulation of gold by China and Russia, the fall in US real interest rates, a possible depreciation of the dollar in 2024, demand in the technological and industrial sectors, and the fact that the precious metal is seen as a protection against fiscal excesses and government debt.

But while the case for investing in gold is well known, the yellow metal is far from being a 'crowded trade' among international investors. As the chart below from BofA / Crescat Capital shows, 71% of financial advisers in the United States recommend an insignificant allocation to gold (between 0 and 1% of an overall portfolio). This very low level of enthusiasm considering geopolitical tensions and positive correlation between equities and bonds should be seen as a positive factor from a contrarian point of view.



THEME 5 —

Bitcoin

The crypto-currency market rebounded strongly in 2023, with bitcoin recording a rise of nearly 160%.

Bitcoin Returns: 2010 - 2023			
Year	Year Start	Year End	% Change
2010	0.003	0.30	9900%
2011	0.30	4.72	1473%
2012	4.72	13.51	186%
2013	13.5	758	5507%
2014	758	320	-58%
2015	320	430	35%
2016	430	968	125%
2017	968	13,860	1331%
2018	13,860	3,689	-73%
2019	3,689	7,184	95%
2020	7,184	28,775	301%
2021	28,775	47,902	66%
2022	47,902	16,531	-65%
2023 YTD	16,531	42,592	158%

In 2024, digital gold could benefit from an alignment of the planets.

The first driving force will be the SEC's possible approval of one or more bitcoin spot ETFs. With 10 applications filed and a decision expected by mid-January 2024, these ETFs could change the perception of the risk and viability of crypto-currencies. The approval of these ETFs could also result in a substantial influx of funds, which could lead to an increase in demand for bitcoin. In the long term, this decision could promote the accessibility and adoption of bitcoin, which would have a positive influence on the crypto-currency market as a whole.

Firm	AUM, B	Activity	Build or Partner
BlackRock	9,090	Bitcoin spot ETF	Partner - Coinbase
Fidelity	4,240	Bitcoin and Ether trading and custody, full stack crypto wealth management solutions	Build - Fidelity Digital Assets
JPMORGAN CHASE & CO.	3,300	Tokenized USD and EUR transfers via JPM Coin	Build - Onyx private blockchain platform
Morgan Stanley	3,131	Access to three bitcoin funds	Partner - Galaxy, NYDIG
Goldman Sachs	2,672	OTC crypto trading	Partner - Galaxy
BNY MELLON	1,910	Hold, transfer Bitcoin & Ether	Partner - Fireblocks
Invesco	1,484	Bitcoin ETF in Europe, filed for Bitcoin ETF in US	Partner - CoinShares, Galaxy
BANK OF AMERICA	1,467	Bitcoin futures trading	Partner - CME Group
Total Assets	27,294		

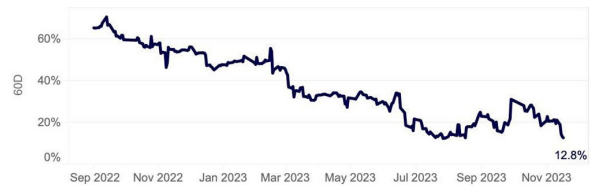
Source: BingX Blog

The second favourable tailwind is the famous "Bitcoin Halving", which will take place in April 2024. This process will reduce daily bitcoin issuance by 50%. The reduction in supply, combined with sustained demand, could push up the market price of bitcoin considerably. History shows that previous halvings have generated substantial bull markets.



A third factor in bitcoin's favour is investors' search for decorrelated assets. Indeed, bitcoin's declining correlation with US equities is boosting its appeal as a diversification asset. As the chart below shows, the correlation between the price of bitcoin and the price of the Nasdaq is currently at its lowest level for two years.

BTC Correlation With Tech Equities
Rolling 60D correlation of daily returns

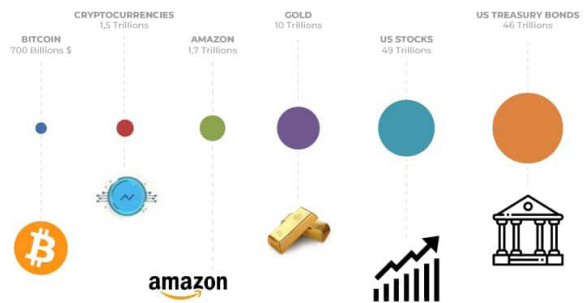


Source: Kaiko Correlation Data.



Despite the great curiosity generated by bitcoin and crypto-currencies among investors, it has to be said that digital assets are very poorly represented in portfolios. The growing adoption of crypto-currencies could change this.

CRYPTO MARKET CAP vs TRADITIONAL ASSET CLASSES



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