

NOVEMBER 4, 2023

MONTHLY



Global Investment Letter



Notable Inside This Issue:

- ***The Psychology of Inflation and Geopolitical Developments***
- ***Staying Flexible with our Short S&P 500 Position***
- ***We Sold our Position in the Indian SENSEX Index***
- ***We Purchased a New Position in 2-Year Treasuries***
- ***Dollar Continues to Look Bullish***
- ***We Purchased a New Position in the Japanese Yen***
- ***Oil is Prone To Geopolitical-Driven Price Spike***
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THE PSYCHOLOGY OF INFLATION AND GEOPOLITICAL DEVELOPMENTS

Just as it seemed impossible for the macro environment for investors to get any more challenging, October brought the addition of the Israel/Hamas war, which threatens to escalate into a regional conflict in a part of the world that plays a critical role in the supply of oil. Beyond the horrendous toll of human suffering, the Israel/Hamas war has the potential to create geopolitical turmoil far beyond the obvious potential for higher oil prices. We live in a world in which traditional market relationships and correlations are breaking down, at least temporarily, in favour of counter-intuitive/surprising developments like the Hamas attack on Israel.

Another, both counter-intuitive and surprising, development in October was the report that third-quarter GDP grew at an astonishing 4.9% pace in the United States, driven by strong consumer spending. Fourth quarter GDP is expected to decline to a more pedestrian (though still strong given the rise in interest rates) 2.3%. It is the strength in consumer spending that we wish to draw subscribers' attention to.

We have written of our belief that inflation is far more of a psychological phenomenon than the direct result of monetary policies. A study of inflationary cycles reveals that the catalysts for inflation are often psychological in nature, such as a breakdown in trust in government or other institutions. Another powerful catalyst is the development of a mindset that expects prices to continue to rise, which spurs consumers to purchase goods/services sooner because they believe prices will be higher later. The tendency of consumers to not defer expenditures was a feature of the persistently high inflation of the 1970s.

We may be seeing signs of a similar phenomenon developing now with the surge of consumer spending in the United States. The aggressive increase in interest rates we have seen since the start of 2022 being applied to historically high levels of consumer debt would normally temper consumer spending. That it has not, to the tune of a 4.9% advance in GDP, indicates that other motivations to spend are in play. We think it probable that it is the development of an inflation mindset on the part of consumers.

Other indications that the expectation of ongoing inflation is taking hold generally is the much more aggressive stance being taken by unions, with both the frequency of strikes and the demands for wage increases rising sharply.

If inflationary expectations have indeed invaded mass psychology, then we may see an analog of the 1970s play out in the 2020s, which will have dramatic consequences for markets in all asset classes.

One wonders if the current pause in rate increases by the Fed and other central banks will be later seen as a replay of the stop/start policies of the Fed in the 1970s that ultimately required the administration of ultra-high interest rates by Chairman Volcker to finally quash inflationary pressures.

We must presume that the 1970s inflation experience is being used as a cautionary example by the current Fed and that the current pause is an effort by the Fed to let its rate increases play catch up to exert a slowing effect on the economy. We have written that it has always been the Fed's intention to create a recession sufficient to quell inflation pressures (their public pronouncements notwithstanding). If we do not see evidence of a meaningful slowing of the economy relatively soon, we can expect rate hikes to resume.

It is for this reason that we continue to believe that a significant recession in the United States is likely in 2024. That it has not appeared as yet is somewhat unusual, and we have attempted to explain the delay in previous issues of this Letter. One way or another, we think it is highly probable that we will experience a recession in the United States in 2024, one that we expect will have notable consequences. Consensus opinion in the United States precludes any notion of a meaningful economic slowdown in 2024, which will serve to amplify the effects of a slowdown when it finally arrives.

The United States remains the conspicuous economic bright spot in an increasingly fragile global economy. The European Union (EU) may be said to have already slipped into recession. The European Central Bank faces a challenge with its interest rate policies. The slowing economy is calling for interest rate relief while inflation remains well above the target range. The EU risks embarking on an era of stagflation, another echo of the 1970s.

The world's second-largest economy, China, is struggling to combat a dramatic slowdown through of a host of policy measures. However effective the attempts by Chinese authorities may be in turning the economy around, the results will not come quickly, nor can we expect China to demonstrate the same economic growth in the future that it displayed over the past 30 years.

The global economy is already exhibiting a marked slowdown, which will be exacerbated if the United States enters recession in 2024, as we expect. We don't believe that global markets reflect such an outcome, which poses risks.

GEOPOLITICAL CONSIDERATIONS

The terrible attack by Hamas on Israel is currently top of mind for everyone regarding geopolitical developments. We see a high likelihood that the Israel/Hamas war will evolve into a regional conflict.

We expect Hezbollah in Lebanon to enter the conflict in a meaningful way once the Israeli Defense Forces are fully committed to urban warfare in Gaza. Seizing a large city requires a significant amount of troops

that cannot be quickly redeployed to other fronts. It is our view that Hezbollah is waiting for Israel to commit a maximum number of troops to Gaza (to diminish the potential Israeli response) before they eventually launch their attack.

The current Israeli/Hamas war is reminiscent to us of the Great Game period of the 19th and early 20th centuries when major powers used the Middle East to wage proxy wars and enhance their influence. The United States is already deeply involved, sending two carrier task forces to the eastern Mediterranean, as are Iran (supporting Hamas and Hezbollah), Russia (already a presence in Syria and intent on creating chaos for the West), and China (actively seeking to gain influence in the “Global South” as a counterpoint to the West).

The Israeli/Hamas war has served to distract attention from the ongoing Ukraine/Russia conflict, but that does not diminish its importance as Putin seeks to test the resolve of NATO and the West.

Worthy of note is that the BRIC group of developing countries recently expanded their membership to include Iran, Saudi Arabia, Egypt, Ethiopia, Argentina and the United Arab Emirates. This announcement illustrates the growing trend towards the development of global trading blocks, which appears to be largely divided between democratic and non-democratic nations. The expansion of the BRIC concept will aid nations such as China and Russia in extending their influence.

The net effect of the increasingly adversarial geopolitical situation is an increase in the potential for further conflict and inhibition of free trade, which will not serve the global economy well.

THE CURRENT INVESTMENT ENVIRONMENT

Not surprisingly, we continue to view the investment environment as being especially challenging, with a host of economic and geopolitical catalysts for significant market volatility. The significant level of investor complacency reflected by markets will serve to exacerbate future volatility when that complacency is eventually shaken.

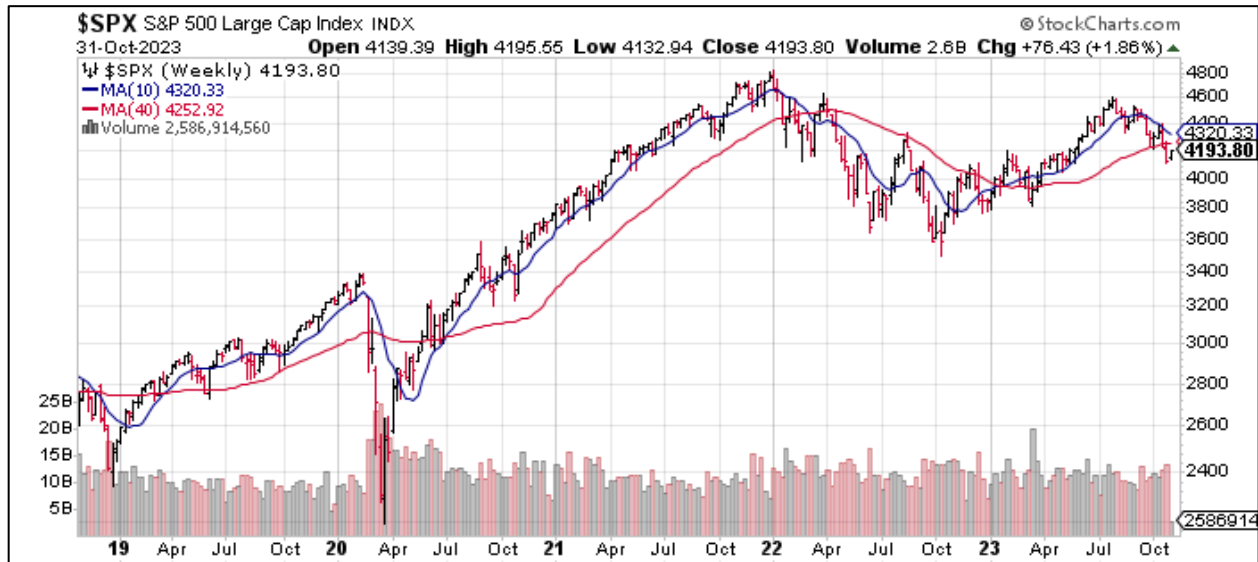
While the potential risks posed by markets in the months and years ahead will be considerable, so will the opportunities. The volatility that we continue to believe will come to define the 2020s will produce wonderful risk/reward opportunities across asset classes.

Successful investing in the 2020s will require heightened attention to risk management and the willingness to invest across markets and asset classes. The ability to adapt to changing circumstances will be critical. The 2020s will not be an era that rewards doctrinaire investing.

The investment transactions we describe later in this issue are examples of what we believe are attractive risk/reward opportunities.

EQUITIES COMMENT

S&P 500 (WEEKLY)



Our short position in the S&P 500 established at 4340 in September showed a gratifying profit of 3.4% at October month-end. The S&P 500 is now trading bearishly below both its 10 and 40-week moving averages.

The 40-week moving average now represents technical resistance for this market, so we will lower our protective buy price from 4410 to 4260.

A move back above the 40-week average would be technically bullish, and we are mindful that November marks the start of the seasonal period for equities, which lasts through April.

As such, we are prepared, in the event of a triggering of our protective sell price, to purchase a full position in the S&P 500 at 4280, placing our initial sell price just below the 40-week average at 4240.

While we remain very cautious of markets generally, the S&P 500 may see a short-term bounce in response to the very strong Q3 GDP numbers and relatively healthy corporate earnings reports. In addition, geopolitical turmoil will drive capital into dollar-denominated assets, some of which may find their way into the S&P 500.

HEALTH CARE TRADE

HEALTH CARE SPDR ETF (XLV) (WEEKLY)



Health care remains one of our core long-term investment themes, though our proxy for the sector, the XLV ETF, tumbled along with the S&P 500 in October.

XLV has carved out a very substantial sideways trading channel going back more than two years. This chart structure includes three major top formations with circa 140 representing serious technical resistance.

We believe the combination of ageing populations in developed nations and the rapid evolution of medical treatments and technology will result in superior growth for this sector in the long term.

A move by XLV to new price highs would be very bullish and prompt us to re-establish a position in a sector that has previously produced gratifying results. Our position would be accompanied by the initiation of a protective sell price a couple of percent below the previous high to guard against a failed breakout.

In the meantime, we will remain on the sidelines of this market.

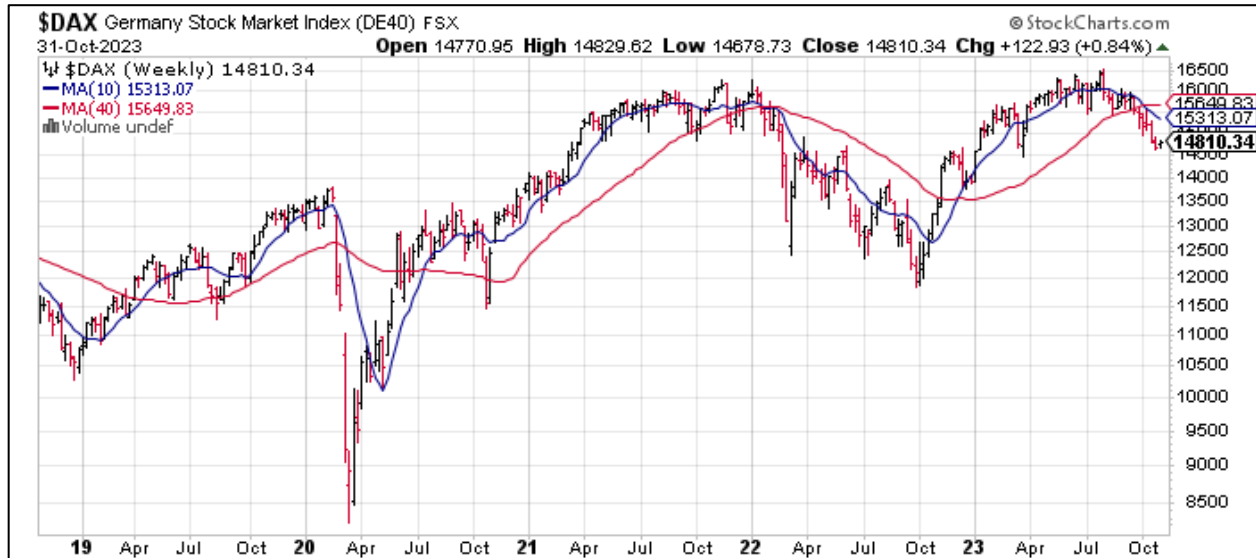
FTSE 100 (DAILY)



The London FTSE 100 index fell sharply in October and is trading bearishly under both its 50 and 200-day moving averages.

Our general macro view of markets, and the particular circumstances of the U.K., provide no reason for us to seek exposure to this market at this time.

DAX INDEX (WEEKLY)



The Frankfurt DAX Index has rolled over after displaying surprising strength earlier in 2023 and is now trading bearishly below both its 10 and 40-week moving averages.

The German economy, and indeed that of the European Union as a whole, has slowed considerably and is now likely in recession. European gas prices have been rising and may continue to increase if this winter experiences seasonal temperatures, which will further squeeze the German economy.

We will exercise patience and wait for the appearance of an attractive purchase opportunity in the DAX.

CAC 40 (WEEKLY)



As with the DAX, the Paris Cac 40 Index performed poorly in October and is trading bearishly below both its 10 and 40-week moving averages.

We will await an improvement in the investment climate before again committing funds to this market.

NIKKEI INDEX (WEEKLY)



As we commented in the last issue, *“The recent sale of our profitable position in the Nikkei has proven timely, as the index traded lower in September. The decline in the index would likely have been greater were it not for the support provided by the continued weakness of the yen, with which the Nikkei has a negative correlation.”*

The sale of our long position in the Nikkei has proven even more well-timed by the additional sharp fall in the Nikkei in October. In addition to the various economic and geopolitical challenges facing all global markets currently, the future path of the Nikkei is heavily dependent on Bank of Japan (BOJ) policies, especially as they pertain to the value of the yen.

Our view is that the yen is now more apt to appreciate against the dollar rather than continue its decline (see our yen comment in this issue), which will exert downward pressure on the export-dependent companies that comprise a major portion of the Nikkei.

We believe further weakness in the Nikkei is likely, so we are content to remain on the sidelines of this market until a buying opportunity once again appears.

SENSEX (WEEKLY)



We raised our protective sell price to 64600, which was triggered last month, leaving us with a modest profit of 1.4% on our position purchased at 63700 several months ago. Though small, we are pleased to have exacted a profit from the position, given how global equity markets have been performing recently.

Most important is to adhere to our discipline of risk management. We raised our protective sell price in recognition of the building bearish pressures on equity markets to retain a semblance of profit on this position, which was accomplished.

Our optimism for India's long-term prospects remains intact (assuming no adverse political developments), and we expect to re-establish a position when the risk/reward proposition appears more attractive.

The relative strength of the SENSEX versus other global indices has been impressive, and we would purchase a break out to new highs. In the meantime, we are content to sit on the sidelines of this market.

EMERGING MARKETS ETF (EEM) (WEEKLY)



The combination of generally weak global equity markets, a stronger dollar, rising long-term interest rates and a spike in geopolitical tensions pushed our proxy for emerging markets, the EEM ETF, lower in October.

The next level of technical support for EEM lies at circa 33. After that, major support exists at the low of the 2020 market crash.

We can find no good reason to establish a position in EEM now, so we await the eventual appearance of an attractive buying opportunity.

FIXED INCOME COMMENT

10-YEAR US TREASURY NOTE (WEEKLY)



As per our comments of last month, “we can expect the price of 10-year Treasuries to remain under pressure as rates rise until the appearance of the “earthquake”, be it a credit event and/or a shaking of investor complacency that produces a sharp decline in markets. This will likely provide a great buying opportunity for 10-year Treasuries as the combination of Fed actions to address the volatility and increased capital flows by investors into Treasuries seeking a safe-haven begin to drive interest rates down (and the price of 10-year Treasuries up).”

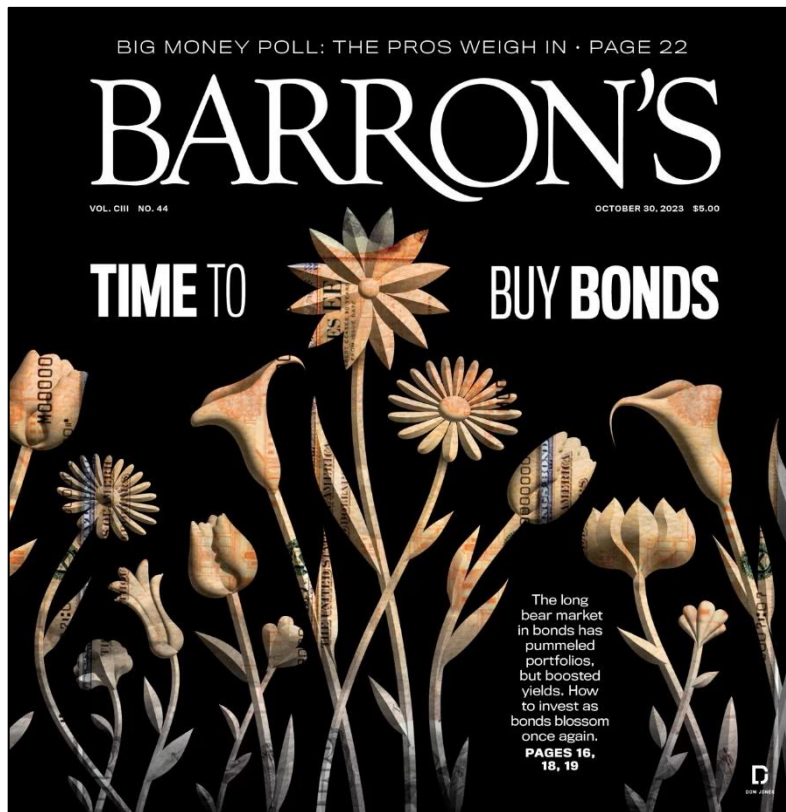
An “earthquake” in capital markets sufficient to shatter investment complacency and create a compelling buying opportunity in stocks and bonds did not occur in October, and thus, we remain on the sidelines of the 10-year Treasury market, awaiting what we expect to be a tremendous buying opportunity.

Indeed, rather than offering a buying opportunity, 10-year Treasuries continued their sharp decline in October, reaching a level that arguably makes them very oversold and ripe for, at the very least, a short-term rally.

What about the major rally that we believe will eventually occur?

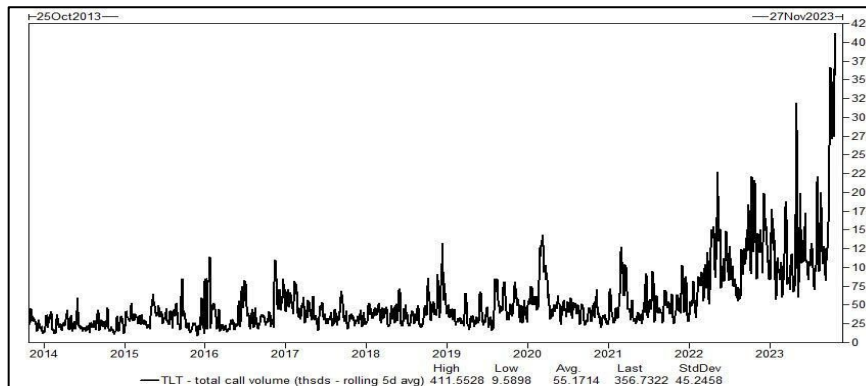
First, we have yet to see a strong reversal bar that typically marks the peak in negative sentiment that produces capitulation selling, nor have we seen more dovish rhetoric from the Fed on rates. Fed rate cuts are likely not on the agenda anytime soon, given the still robust U.S. economy and inflation (circa 3.7%) running well above the Fed’s 2% target. Second, positive investor sentiment around a decline in rates

appears to be building as opposed to a growing level of pessimism that could create a market bottom, as illustrated below and in the chart on the following page.



Cover stories of major magazines have long served as useful contra-indicators, as they tend to reflect extremes of consensus opinion. We would have much preferred this October issue of Barron's to have featured a "sell bonds" story.

The following chart (courtesy of Bloomberg) is an even more telling indication of widespread investor expectations of a looming buying opportunity in bonds at the long end of the yield curve. The chart features call option activity of the TLT ETF and the recent explosion to historic highs of call option buying.



The great surge in call option buying is an unambiguous indication of bullish sentiment that long-term interest rates are due to decline soon. While the TLT ETF holds bonds with maturities of 20 years or more, we believe a similar level of bullishness exists for the focus of our attention, the 10-year Treasuries.

Like the buyers of the call options, we believe a great opportunity will be presented in the 10-year Treasuries. We part company with them on the timing, which remains uncertain to us. A significant reversal in long-term rates may take longer than many expect, given persistent inflation, the enormous American budget deficit and the changing composition of holders of American debt that seek higher yields (former big holders of American debt, such as China and Japan, have been sellers, being replaced by hedge funds and other institutional investors).

Though we remain less than convinced about the near-term prospects at the longer end of the yield, we have found an interesting opportunity in the 2-year Treasury Note.



We have purchased a full position in 2-year Treasury Notes at 101.57, placing our initial protective sell price at 101.25. The premise behind this trade is that when the recession we have been expecting asserts itself, 2-year yields will have more scope to decline, not being burdened with the baggage carried by longer-term Treasuries.

From a technical standpoint, the 2-year chart appears more bullish than that of the 10-year Notes, forming a base near its 2023 price low. The contraction of trading volatility in recent months suggests that a period of higher-than-normal volatility is due (volatility has a strong mean-reverting tendency). While an expansion of trading volatility could occur in either direction, we believe both fundamental and technical considerations suggest that a burst of volatility will result in higher prices for the 2-year Notes.

CURRENCY COMMENT

US DOLLAR INDEX (DXY)(WEEKLY)



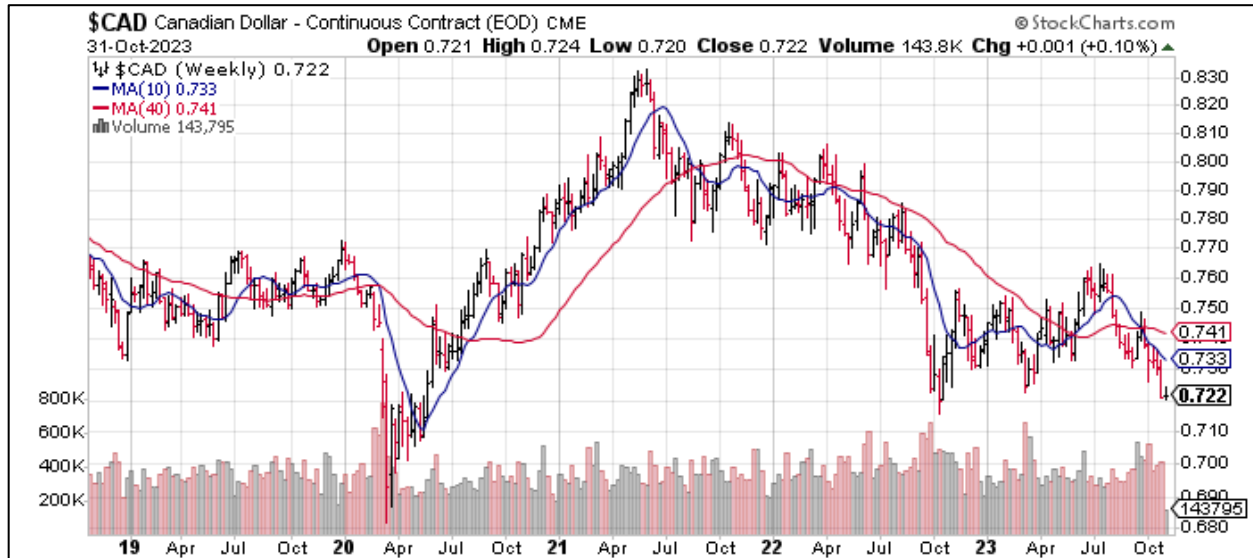
The U.S. Dollar Index continued to inch higher in October, extending its strong rally from its mid-summer price low.

The dollar is behaving as one would expect of the global reserve currency during a time of heightened economic and geopolitical anxiety. It is acting as a haven for capital.

Further supporting the leadership role of the dollar is the relative strength of the U.S. economy compared to other major nations, which increases the probability that other central banks, such as the European Central Bank, will cut interest rates ahead of the Fed. A rate cut by other central banks ahead of the Fed would serve to enhance the interest rate differential in the dollar's favour, which would be bullish for the currency.

Our view of the dollar remains bullish, for the oft-repeated reason that we see no credible alternative to fill its role. An escalation of the Israel/ Hamas war or other adverse geopolitical development is likely to propel the dollar even higher.

CAD/USD (WEEKLY)



The Canadian dollar dropped sharply versus its American counterpart in October, continuing the recent disconnect between the performance of the Canadian currency and the price of oil. The Canadian dollar has historically been highly correlated to oil prices (about .6), but the current macro environment appears to be overpowering the influence of strong oil prices.

The recent weakness of the Canadian currency may owe more to the inherent strength of the U.S. dollar as the global reserve currency in turbulent times than to its own particular failings.

The dollar has fallen to very near the low it reached in the fall of 2022, which represents significant technical support. An at least short-term rally could be expected from current levels from an oversold condition. Should the dollar break below the 2022 price low, the next level of major technical support lies at the March 2020 price low.

An escalation of geopolitical tensions would serve to put additional downward pressure on the Canadian dollar. If events stabilize a rally from current levels would not be surprising.

EUR/USD (WEEKLY)



On balance, the chart of the euro looks bearish, as the currency continues to trade below its long-term 40-week moving average. Also, the chart features a developing bear flag, which suggests the probability of lower prices. Major technical support for the euro exists at .96, which is far below the current price.

We expect the dollar to continue to demonstrate strength, given a turbulent geopolitical scene that threatens to grow even worse. It is in times such as these that the dollar's role as the global reserve currency and a haven for capital is most apparent. As well, the relative economic weakness of the European Union makes it probable that the European Central Bank may cut rates before the Fed, raising the interest rate differential bullishly in the dollar's favour.

Therefore, we remain bearish on the euro.

POUND/USD (WEEKLY)



The British pound declined marginally against the dollar in October.

As we have commented in previous issues, we believe that the less-than-robust economy of the United Kingdom, combined with the ongoing economic challenges created by Brexit, makes a weaker pound in British interests to make exports more price competitive, among other factors.

The Bank of England (BOE) recently announced that it will continue to pause taking any action on interest rates. The BOE has a difficult choice to make on rates. On the one hand, the British economy would benefit from the stimulative effect of a rate cut. On the other hand, inflation remains well above the BOE's target rate and could presumably re-accelerate with a cut in rates.

The path of least resistance appears to be for further downward pressure on the pound.

YEN/USD (WEEKLY)



We commented last month, *“Whether a slowing economy without tighter Japanese monetary conditions will actually permanently quell inflationary pressures is debatable, and current conditions strongly argue for tighter policies by the BOJ. How long the BOJ can maintain its solitary course of ultra-loose monetary policies is uncertain, but economic factors dictate that it must eventually end.”*

The Bank of Japan (BOJ) announced in late October that it will maintain negative interest rates (at least for now) but is distancing itself from yield curve control (YCC) by announcing that 10-year bond yields will be allowed to rise above 1%. The decision to effectively end YCC is expected to be bullish for the yen, as to constrain interest rates the BOJ had to buy bonds, which injected yen into the system, weakening the currency.

That Japan has yet to completely abandon its commitment to its ultra-loose monetary policies remains somewhat of a puzzle. We have commented at length in past issues on BOJ Governor Ueda’s thoughts on adopting tighter policies. The weight of evidence suggests that the BOJ should move to raise interest rates. We believe it is inevitable that positive interest rates will eventually be restored in Japan.

A move by the BOJ to positive rates would be very bullish for the yen and result in enormous movements of capital flows, not least by Japanese capital returning to its domestic market.

Notwithstanding the bullish implications for the yen of the BOJ abandoning YCC, the currency now sits at a level that previously attracted the support of the Ministry of Finance.

We believe this combination of factors creates an attractive risk/reward proposition to purchase the yen. Thus, we purchased a full position in the yen at 151.65, placing our initial protective sell price at 154.1

YUAN/USD (DAILY)



The yuan continues to trade close to the major technical support represented by the price low versus the dollar achieved in the fall of 2022. The significant contraction of trading volatility by the yuan in recent months, combined with the nearness of an important chart level, suggests a major move by the yuan can be expected in the coming months.

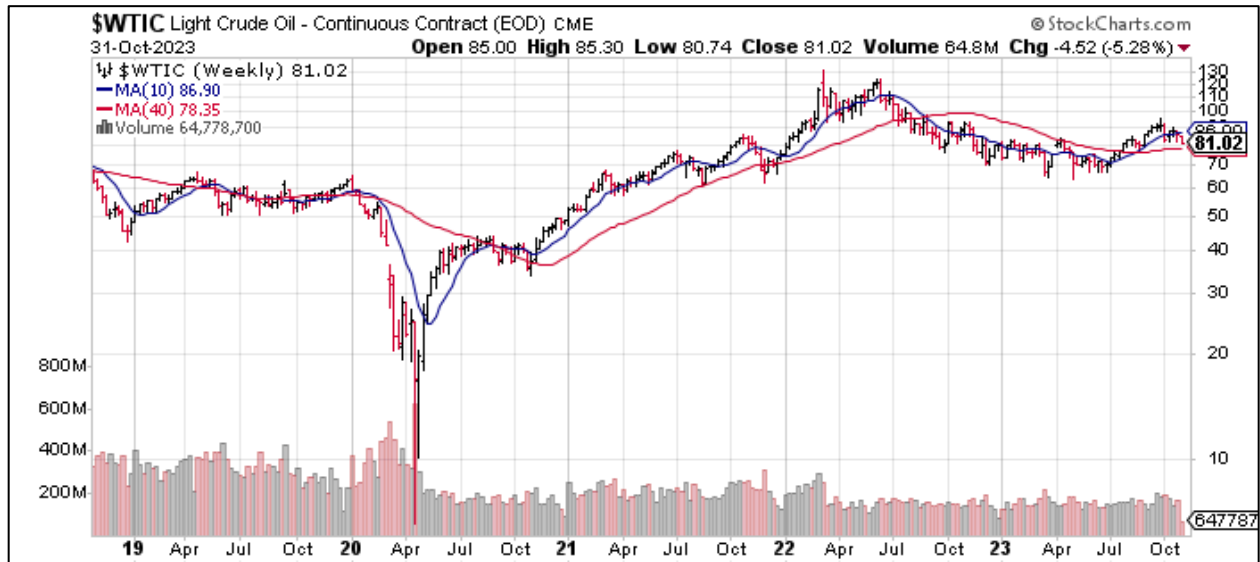
Two potential outcomes lie ahead. Either the yuan trades through the 2022 price low (which would suggest a much lower yuan) or the yuan will rally back to the circa 7 to the dollar level.

We continue to think the path of least resistance produces a cheaper yuan, for that seems to be in China's interests. The future course of the yuan depends on the People's Bank of China (PBOC), which has recently been implementing a host of policies designed to support the weakening Chinese economy.

The yuan has already declined sharply since its high in February. Currency devaluation is a time-honoured recourse of central banks in challenging times, and we will not be surprised if the PBOC continues to let the yuan slide against the dollar.

OIL COMMENT

CRUDE OIL (WTI) (WEEKLY)



Oil prices declined sharply in October, which is somewhat counter-intuitive given the start of the Israel/Hamas war in the always troubled Middle East. A good part of the decline occurred previous to the October 7 attack by Hamas, as weakening economic indicators pointed to the European Union entering recession, which is expected to negatively impact oil demand. Oil demand has also been softening in many emerging markets.

The thought that interest rates may stay higher for longer (produced by the rise in long-term rates) raised concerns about the long-term oil demand, which prompted market participants in the United States and elsewhere to exit the oil market. As a result, the open interest in oil futures declined.

Offsetting this bearish view of demand by the market is the ongoing strength of the world's largest economy, the United States, which has yet to reflect significant evidence of recession. Oil demand from the United States will also receive a boost from the announcement by the Biden administration that it plans to begin refilling the strategic oil reserve by some 6-7 million barrels in December/January (though it says it will not pay more than \$79 per barrel).

It is on the supply side that the price of oil may see a significant boost. We have commented regularly about the vulnerability of oil to geopolitical shocks, and the Israel/Hamas war certainly qualifies as such. The war has yet to produce a spike in the oil price because the parties involved are not important oil producers and the war has not yet escalated to include those that are.

We think this war is highly likely to escalate into a regional conflict, with a spectrum of potential outcomes. None of them include lower oil prices until relative calm is restored. The Israel/Hamas war adds an additional measure of uncertainty to an always uncertain market.

In the absence of geopolitical considerations, we believe oil prices should trend lower from current levels. The global economy is slowing, which will negatively impact demand. We expect the American economy to succumb to the effects of higher interest rates and slip into recession in 2024. Without geopolitical considerations at work, we see little motivation for OPEC+ to impose further cuts on production to maintain prices at current levels.

However, we feel it would be unrealistic to believe that the Israel/Hamas war will not escalate to a surge in price from current levels. Trading in markets subject to major geopolitical influences, as oil is now, is fraught with risk and should be treated with care.

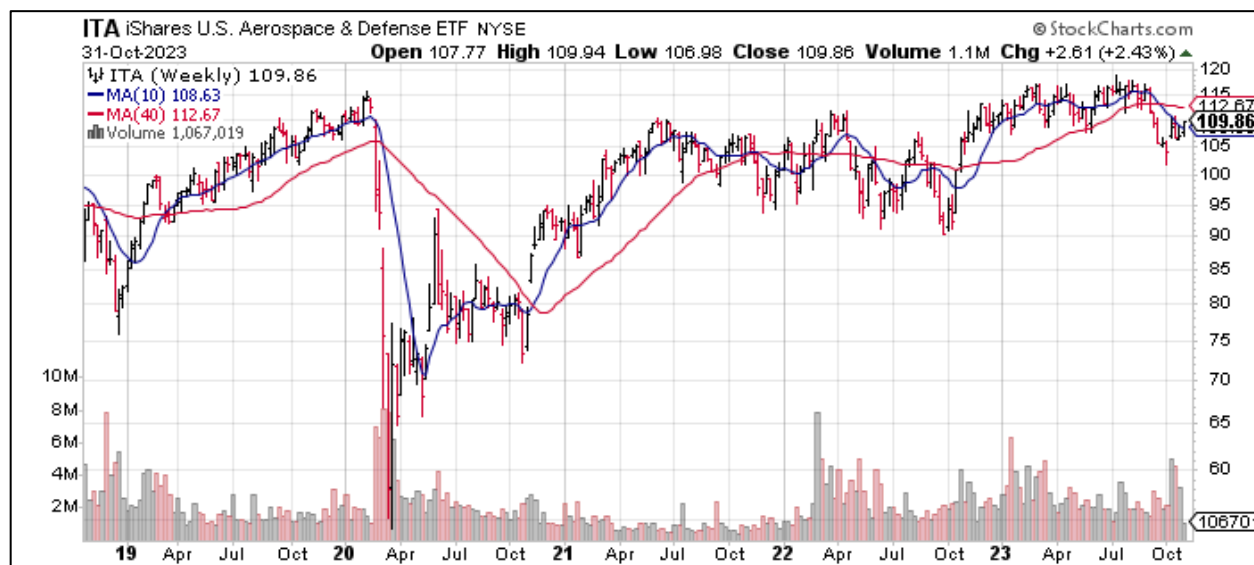


Our small position in XLE, recently purchased at \$90.85, was sold in October when our protective sell price was triggered at \$88.75. The swift reversal of XLE illustrated the value of our risk management practices, as the purchase of only a small position and the use of a protective sell price limited the loss on the trade to a fraction of what it might have been.

We will stand on the sidelines following the failed breakout by XLE. We will, however, again purchase a small position on a fresh break out to new price highs, placing our protective sell price a couple of percent below the previous high to guard against another failed break out.

DEFENCE SECTOR COMMENT

US AEROSPACE & DEFENCE ETF (ITA)(WEEKLY)



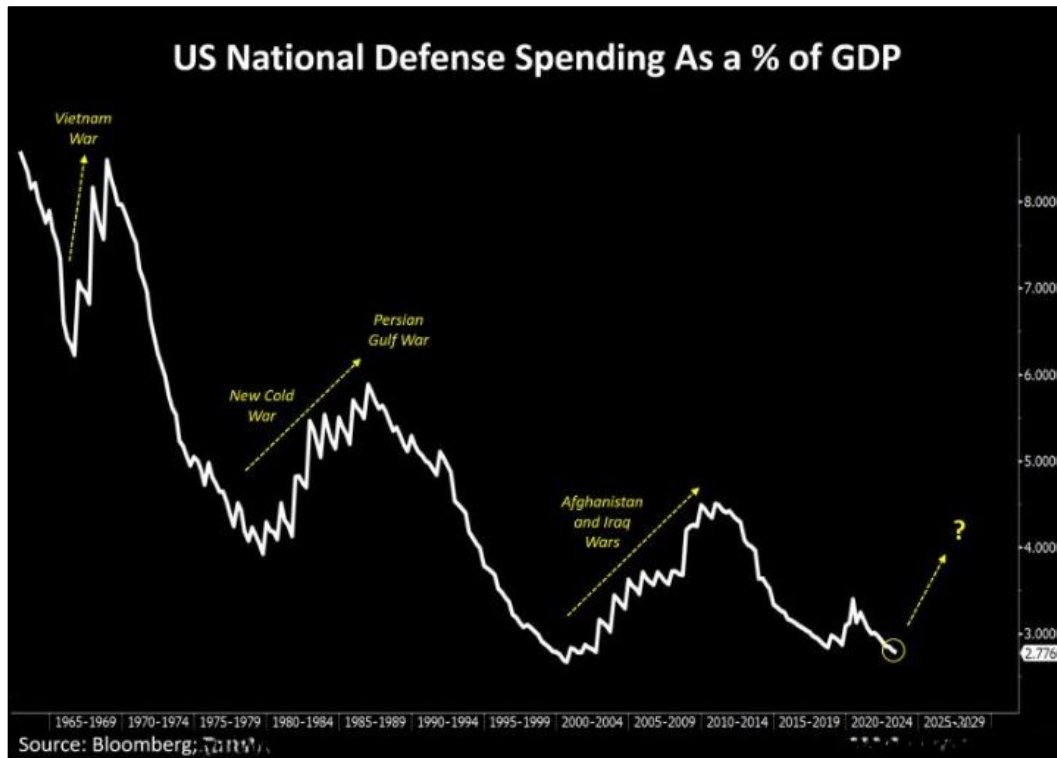
The Hamas attack on Israel prompted our proxy for the defence sector, the ITA ETF, to exhibit considerable relative strength by rising sharply in October while the S&P 500 declined.

The defence sector has been among our core investment themes since the first issue of the Global Investment Letter and has been the source of strong profits. However, since the sale of our position in ITA ahead of the March 2020 market crash, we have been on the sidelines of this market because of the dismal relative strength it exhibited.

The lack of the appearance of an attractive buying opportunity in ITA since 2020 has been surprising, given the steadily deteriorating geopolitical landscape and the demands on militaries to upgrade their weapon systems in response to technological developments.

We continue to maintain that the fundamental growth prospects for the global defence sector look strong for many years ahead, despite the failure of ITA to trade consistently above its price high of early 2020.

Adding to our bullish view of future defence spending is the serious under-investment by NATO members in military capabilities since, at least, the end of the Cold War. This decline in military spending extends even to the United States, as the chart on the following page demonstrates.



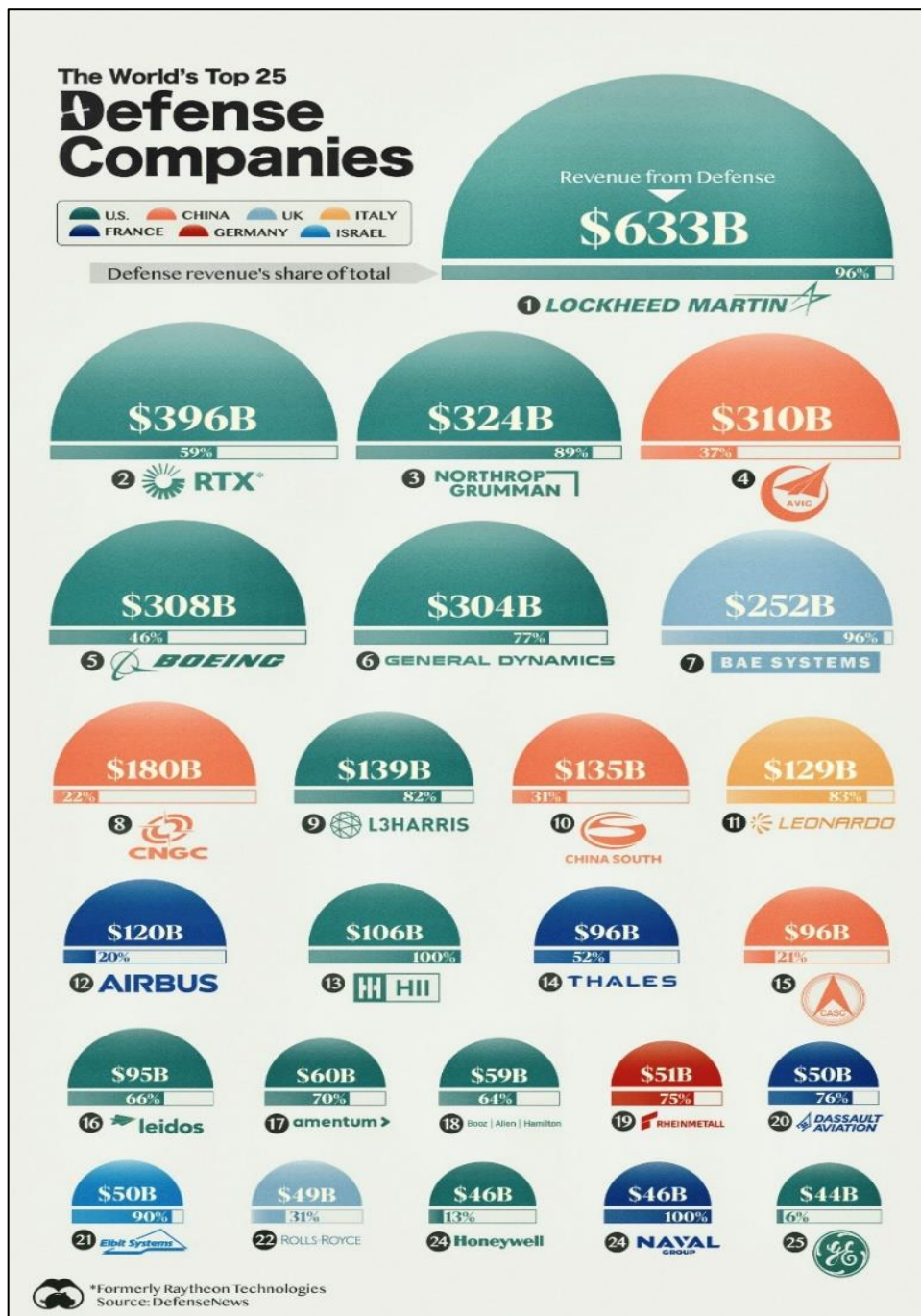
While the United States continues to spend far more than any other nation on defence, its spending as a percentage of GDP has fallen by 50% since the end of the Cold War (with an uptick during the Iraq and Afghan wars).

It's perfectly reasonable to reduce defence spending when the geopolitical climate appears benign, as after the collapse of the Soviet Union. However, an optimistic view of the geopolitical landscape is no longer realistic, with two significant wars raging in close proximity to Western Europe and the increasingly adversarial stance of China and Russia.

A return on the part of American defence spending as a percentage of GDP to the high point of the Iraq/Afghan period would suggest a 50% increase in spending from current levels. And this is just from the United States, let alone the balance of NATO.

We will continue to defer purchase in ITA until it breaks out to a new price high. A breakout would be very bullish and prompt us to establish a full position, establishing our initial protective sell price a couple of percent below the previous high to guard against the prospect of a failed breakout.

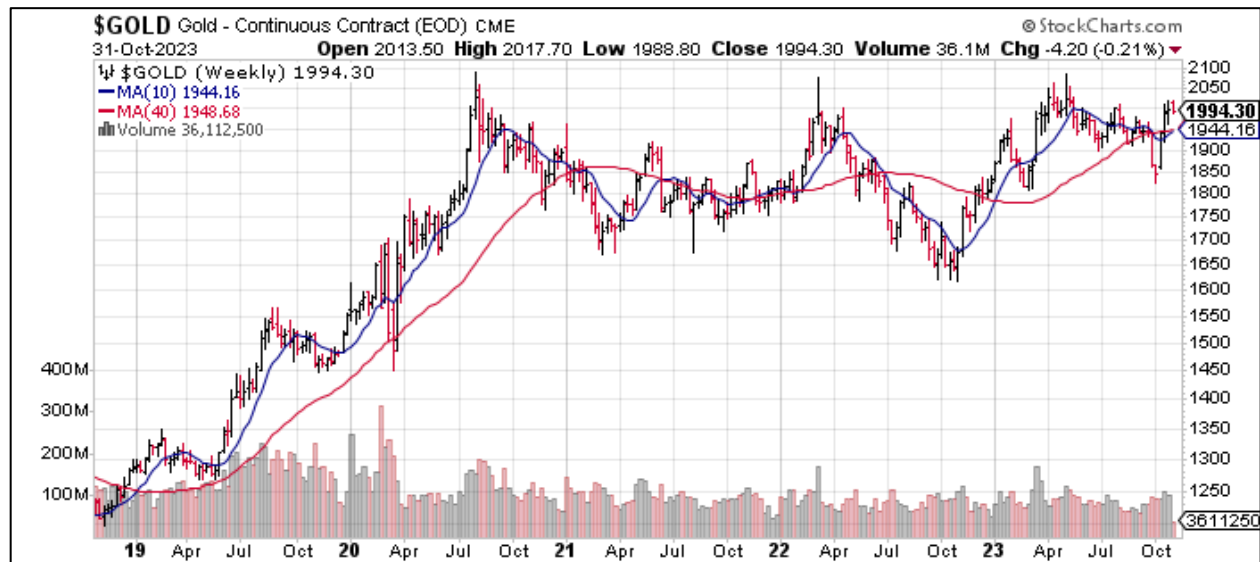
For those wishing to buy individual defence companies rather than an ETF, we continue to favour composing a portfolio of companies whose products involve the highest technological inputs, such as aerospace, missiles etc. The graphic on the following page illustrates some potential candidates.



Upon a breakout by ITA to new price highs, companies such as Lockheed Martin, Northrup Grumman, RTX, Boeing, General Dynamics and BAE Systems (among others) stand to do well.

GOLD & SILVER COMMENTARY

GOLD (WEEKLY)



The price of gold posted a strong advance in October, which supports our belief that the key driver of the gold price is investor anxiety rather than inflation or supply/demand considerations. If the Israeli/Hamas war, which produced last month's surge in gold, escalates to a broader conflict (the most likely outcome), then further upside pressure on the price of gold can be expected. If it can somehow be contained, we are likely to see a retreat in the gold price such as we saw after the initial price advance following Russia's invasion of Ukraine.

The circa \$2100 price level continues to represent enormous technical resistance to a sustained advance. A move by gold through this triple-top formation would be extremely bullish and suggest that a significant price rally was underway. If such a breakout occurs, we would be a buyer of a full position in gold and would establish our initial protective sell price at \$2050 to guard against a failed breakout.



The gold & silver index, our proxy for investment in precious metal equities, posted a gain in October though it did not fare as well as gold bullion due to the weakness of equity markets. We are inclined to defer the purchase of XAU until a clear price breakout by gold is evident.



While the price of silver rose in October, it lagged the advance of gold by a wide margin. Gold tends to respond more strongly to geopolitical threats because of its much higher price than silver, which makes it a more convenient repository of large amounts of capital.

The silver market continues to appear less than compelling, so we continue to defer purchases.

ABOUT THE EDITOR

The Editor and Publisher of the Global Investment Letter is Jonathan Baird CFA. Prior to founding the Global Investment Letter, Jonathan spent more than 25 years as an award-winning money manager in Canada, most recently winning a Lipper Award in 2010 for managing the #1 Global Equity Fund in Canada. Jonathan managed several #1 ranked funds over the course of his career as a money manager, investing in all major industries, asset classes and markets. Along with his interest in the world of investment, Jonathan has been a lifelong student of history and uses the lessons of history to help interpret and provide context to current events. Jonathan no longer invests money for others, managing only his own account. The Global Investment Letter represents his personal thoughts and opinions.

Jonathan well understands the difficulty of the investment process and the essential role that quality information and opinion play in successful investing. Each monthly issue will contain comments on major markets, economics, geopolitics as well as investment ideas. There may also be a discussion of investment philosophy or practices and reviews of books deemed of potential interest to readers.

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