

American Exceptionalism Is Real

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by Frank Holmes
of U.S. Global Investors



Nearly 120 years ago, an American engineer named Willis Carrier invented the very first electrical air conditioner. The device was such a hit that he founded the Carrier Corporation in 1915 to meet demand, making it the world's first HVAC (heating, ventilating and air conditioning) company.

Fast forward to today, and Carrier Global, as it's now called, is one of the largest HVAC manufacturers in the world. Last year it did some \$18.6 billion in sales, close to half of it overseas. The Florida-based company employs approximately 53,000 people across six continents.

The reason I bring up Carrier now—besides the fact that, this being July, most of you reading this likely have your air conditioners running full blast—is because the company was the best performing S&P 500 stock for the first six months of 2020, up 67.9 percent.

Carrier's stellar price action should come as no surprise. With millions of people around the globe following stay-at-home orders, HVAC services have become a top priority. There are few things worse than being cooped up in a building with a busted air conditioner.

What's more, the company offers a number of air filtration solutions for hospitals, malls and other indoor areas. Its OptiClean air scrubber features high-efficiency particulate air (HEPA) filters that pull the air in, remove contaminants and discharge the air back into the room cleaner than it was before.

“Coronavirus Stocks” Were Winners in H1 2020

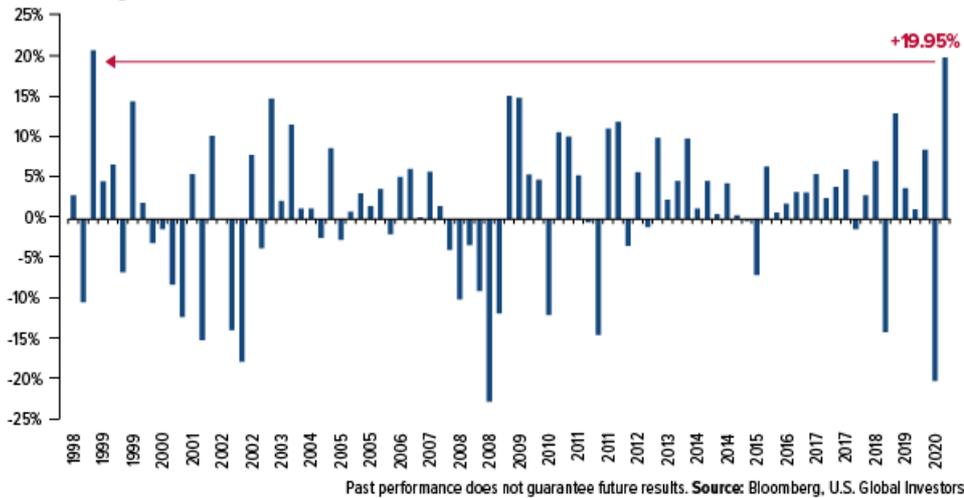
The stay-at-home line of thinking doesn't end at air conditioning, of course. In your head, list some other things you probably couldn't have done without during lockdown.

Whatever product or service you name, there's a fair chance that shares of the company or companies behind it also performed well in the first half of 2020. That includes disinfectant products (Clorox, up 45.3 percent in the six months ended June 30), home entertainment (Netflix and Activision Blizzard, up 42.1 percent and 29.7 percent), online retail (Amazon and eBay, up 49.4 percent and 47.7 percent) and—because restaurants were shut down—groceries (Kroger, up 17.7 percent).

These names are what some analysts have been referring to as “coronavirus stocks,” and they helped the market notch its best quarter in more than 20 years. The S&P 500 ended the June quarter up nearly 20 percent, the most since 1998.

S&P 500 Notches Its Best Quarterly Performance Since 1998

Percent Change



[click to enlarge](#)

America Drives Global Innovation

There's another reason why I opened with Carrier. Like many other essentials and creature comforts people all over the world enjoy on a regular basis, the air conditioner—named the 10th greatest engineering achievement of the 20th century by the National Academy of Sciences (NAS)—is an American invention.

American ingenuity is something to take pride in this weekend as we (safely) celebrate the Fourth of July.

Until recently, the U.S. held the largest number of international patents. China became the biggest source of applications in 2019 for the first time since the global system was set up more than 40 years ago. But as Bloomberg reported in 2018, most of the country's patents are "worthless," with many Chinese patents being discarded by their fifth year.

The U.S. is also the world's leading country by far for receiving Nobel Prizes. As of last year, the U.S. held an astonishing 385 Nobels, or close to three times as many as the second-place country, the U.K. Or as the American Enterprise Institute's Mark Perry observes, "American laureates have received more Nobel awards (385) than the 372 prizes awarded to laureates in the next five countries combined (U.K., Germany, France, Sweden and Japan)."



U.S. LEADS THE WORLD
IN THE NUMBER OF NOBEL PRIZES
1901 – 2019

RANK	COUNTRY	NOBEL PRIZES
1	United States	385
2	United Kingdom	133
3	Germany	109
4	France	70
5	Sweden	31
6	Japan	29
7	Switzerland	28
8	Canada	27
9	Russia and Soviet Union	26
10	Austria	22

Source: American Enterprise Institute (AEI), U.S. Global Investors

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Tesla Now the World's Most Valuable Car Company

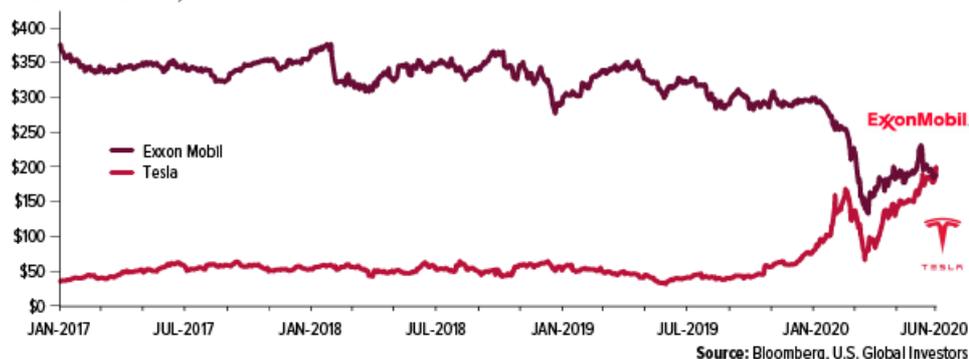
Among the biggest American innovation success stories of the past few years has been Tesla. Shares of the electric vehicle (EV) and battery manufacturer soared past \$1,200 this week and are now up close to 190 percent so far this year, making CEO Elon Musk \$25.8 billion richer.

Thanks to a much better-than-expected second quarter—Tesla reported more than 90,000 vehicles sold in the same three months that major Detroit auto manufacturers reported dramatic sales declines—the Palo Alto-based company is now the world’s most valuable carmaker. Tesla ended Wednesday with a market cap of \$207.2 billion, pushing it ahead of the now-former leader, Toyota.

The move was also enough to beat Exxon Mobil’s \$185 billion market cap. Exxon is the world’s second largest energy company after Saudi Aramco, so the achievement should be seen as nothing less than wildly significant. I agree with others who call this a “symbolic energy shift,” but beyond that, Tesla’s success represents just the latest chapter in the ever-growing book of American ingenuity.

Energy Shift: Tesla Overtakes Exxon in Market Capitalization

In Billions of Dollars, as of June 30



[click to enlarge](#)

Tesla may very well join the S&P 500 sooner than expected, which would put the 49-year-old Musk on the younger end of S&P CEOs. In 2019, the median age was 58.

Gold Futures Above \$1,800 an Ounce

Changing subjects a bit, gold futures rose above \$1,800 an ounce on Tuesday for the first time since 2011. As impressively as the market performed in the first half of the year, gold performed better than 91 percent of stocks in the S&P 500.

The precious metal peaked at \$1,807 on Wednesday before declining as U.S. payrolls in June beat expectations.

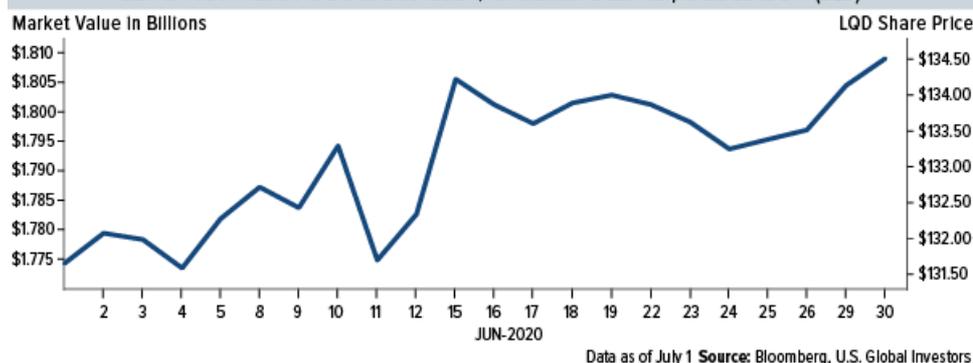
Even so, as I showed you last week, gold is currently trading higher at this time of year than it ever has, and there’s still incredible potential for it to head higher on not just seasonality demand but also unprecedented monetary and fiscal policy. Today, in fact, Bridgewater Associates’ Ray Dalio told Bloomberg that central bank balance sheets will “explode.” The Federal Reserve’s balance sheet now stands above \$7 trillion.

To help businesses borrow in the time of COVID-19, the Fed has been buying corporate debt ETFs as well as individual corporate bonds. Through June 30, the Fed has spent an estimated \$8.7 billion on such securities and, incredibly, is now one of the top holders of certain corporate debt ETFs.

For example, the Fed is the third-largest holder of the \$55 billion iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD). As of June 30, its position was valued at \$1.8 billion. The ETF itself invests in debt issued by companies ranging from Anheuser-Busch to CVS Health to Microsoft.

Federal Reserve is Now the Third-Largest Holder of Corporate Debt ETF

Size of Fed’s Position in the iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD)



[click to enlarge](#)

This is a new level of money-printing we've never seen in the U.S. In Japan, yes, where the country's central bank owns some 8 percent of Japan's entire equity market, mostly through ETFs. But not in the U.S.

Could stocks and equity ETFs be next for Jerome Powell & Co.?

For more on the impact of Fed policy on gold, watch my interview with Kitco News' David Lin by clicking [here!](#)

On behalf of everyone at U.S. Global Investors, I want to wish you a happy and safe Fourth of July!

Gold Market

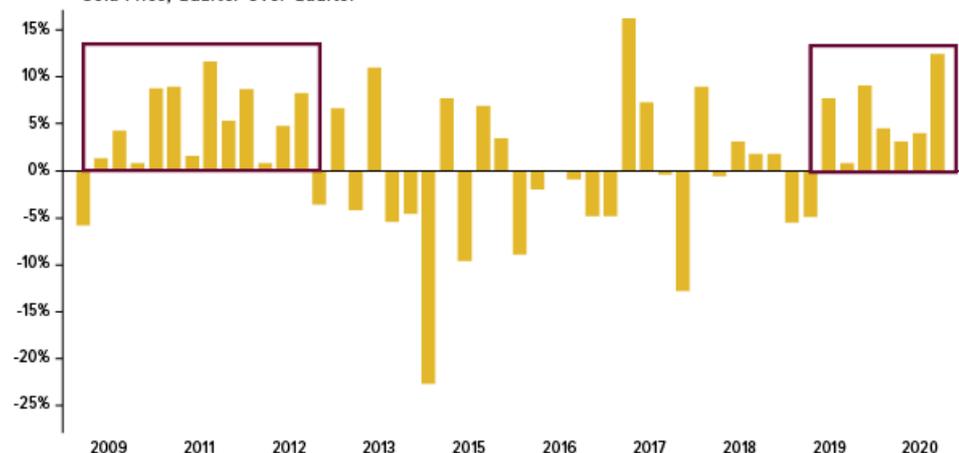
This holiday shortened week spot gold closed at \$1,775.38, up \$4.08 per ounce, or 0.23 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 3.37 percent. The S&P/TSX Venture Index came in up 4.81 percent. The U.S. Trade-Weighted Dollar fell 0.22 percent.

Date	Event	Survey	Actual	Prior
Jun-29	Hong Kong Exports YoY	-5.5%	-7.4%	-3.7%
Jun-29	Germany CPI YoY	0.6%	0.9%	0.6%
Jun-30	Eurozone Core CPI YoY	0.8%	0.8%	0.9%
Jun-30	Conf. Board Consumer Confidence	91.5	98.1	85.9
Jun-30	Caixin China PMI Mfg	50.5	51.2	50.7
Jul-1	ADP Employment Change	2900k	2369k	3065k
Jul-1	ISM Manufacturing	49.8	52.6	43.1
Jul-2	Change in Nonfarm Payrolls	3230k	4800k	2699k
Jul-2	Initial Jobless Claims	1350k	1427k	1482k
Jul-2	Durable Goods Orders	15.8	--	15.8%
Jul-9	Initial Jobless Claims	--	--	1427k

Strengths

- The best performing precious metal for the week was palladium, up 1.49 percent after falling for previous three weeks. Gold futures rose above \$1,800 an ounce for the first time since 2012 on June 30 and ended the second quarter with its best in four years. Bullion also had its longest streak of weekly gains since January, with the week ended June 26 being its third straight. Bank of America head of commodities and derivatives research Francisco Blanch raised his 18-month price target for gold to \$3,000 an ounce.

Gold Set To Top A Run of Seven Quarterly Gains With Its Best Performance Since 2016



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- President Nicolas Maduro's Bank of Venezuela sued the Bank of England earlier this year to try and retrieve \$1 billion worth of gold held in its vaults. This week a London judge sided with opposition leader Juan Guaido, saying that he should be recognized as the country's interim president, and blocked the attempt to access the gold. Venezuela is in a state of crisis and desperately needs funds to help its economy and people but remains in a battle between Maduro and Guaido. The blocking of gold will prevent Maduro from potentially misusing it.
- According to the World Platinum Investment Council, sales of platinum bars and cars surged to record highs in the first quarter of this year. Purchases totaled 312koz – an annualized rate five times higher than that in any other year in the last 40 years. "It is widely understood that this increased demand came from savvy industrial and manufacturing buyers – including jewelry fabricators – exercising a value-led response and taking the opportunity to increase stock levels." Kitco News notes that platinum prices are still lagging compared to gold.

Weaknesses

- The worst performing precious metal for the week was gold, up 0.23 percent. After rising early in the week, gold retreated on Friday after better-than-expected jobs data. The Bureau of Labor Statistics said that 4.8 million jobs were created in the U.S. in June, above expectations of 3 million. Unemployment fell to 11.1 percent, down sharply from the April high of 14.7 percent, reports Kitco News. Gold also retreated on Thursday after news broke of a new experimental vaccine for the coronavirus.
- Palladium had a fourth monthly loss in June, the longest streak since 2015, as car sales plummet due to the economic impact of COVID-19. This is in stark contrast to palladium soaring almost 50 percent in 2019 due to stricter environmental standards boosting demand for car catalyts.
- The Perth Mint said its sales of gold products declined 30 percent in June from a month earlier. Gold coin and minted bar sales fell to 44,371 ounces last month, down from 63,393 in May. However, silver coin sales surged to 1,573,752 ounces, up from 997,171 in May.

Opportunities

- According to Moody's Investors Service, gold producers are expected to bounce back quickly from COVID-19 related setbacks. Due to higher gold prices and lower operating costs, miners could see greater margins. Moody's expects second-quarter production to come in lower, but that levels will normalize in the second half of the year. Low fuel and energy process could reduce operating costs by 3 to 5 percent.
- Anglo American Plc is making a big green shift. The mining giant is advancing plans to convert its fleet of more than 400 diesel-fueled mine trucks to hydrogen power, reports Bloomberg. A pilot project will start next year at Anglo American Platinum's open-pit Mogalakwena operation in South Africa where a 3.5-megawatt electrolyzer will produce hydrogen on site.
- Norilsk Nickel was already the world's top palladium miner, but due to the pandemic it has grown market share even more. Norilsk's Russian operations have barely missed a beat, while its main rivals in South Africa had to close operations for weeks due to a nationwide lockdown, reports Bloomberg. The miner has so far maintained its 2020 palladium output guidance, despite the pandemic and lower metal prices.

Threats

- Kirkland Lake Gold was sued on Monday in U.S. federal court for allegedly defrauding shareholders about its business plans before its \$3 billion purchases of Detour Gold Corp caused its stock to fall, reports Kitco News. A shareholder accused the Canadian miner of making false statements about its all-in sustaining costs and reserve grade.
- Commerce Department data released Thursday shows that the U.S. trade deficit increased 9.7 percent to \$54.6 billion. The pandemic has pushed exports to their lowest since 2009 and has strengthened expectations that the economy will contract in the second quarter at its steepest pace since the Great Depression.
- The economic recovery appears further in the distance as COVID-19 cases surge in America. New virus cases rose by nearly 50,000 on Wednesday alone – led by populous states such as California, Florida and Texas. With the holiday weekend, there's a risk of even more infections if residents do not adhere to social distancing and protection measures. San Francisco Fed President Mary Daly said on Wednesday that in her best-case scenario unemployment will still be above 10 percent at the end of this year and it could take four to five years to get to a pre-pandemic level.

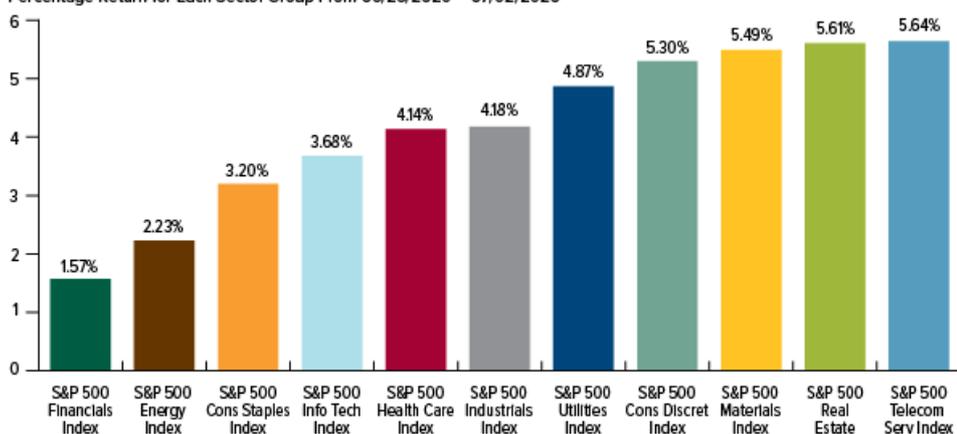
Index Summary

- The major market indices were up this week. The Dow Jones Industrial Average gained 0.32 percent. The S&P 500 Stock Index rose 1.50 percent, while the Nasdaq Composite climbed 1.90 percent. The Russell 2000 small capitalization index gained 1.31 percent this week.
- The Hang Seng Composite gained 1.50 percent this week; while Taiwan was up 1.24 percent and the KOSPI rose 1.09 percent.
- The 10-year Treasury bond yield fell 1.6 basis points to 0.67 percent.

Domestic Equity Market

S&P 500 Economic Sectors

Percentage Return for Each Sector Group From 06/26/2020 – 07/02/2020



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)

Strengths

- Communication services was the best performing sector of the week, increasing by 5.64 percent versus an overall increase of 4.26 percent for the S&P 500.
- Fedex Corp. was the best performing S&P 500 stock for the week, increasing 19.53 percent.
- Lemonade Inc., the online home insurance provider backed by SoftBank Group Corp., jumped as much as 86 percent after raising \$319 million in its U.S. initial public offering. Shares of the company opened at \$50.06 and rose as high as \$53.96 in New York trading Thursday.

Weaknesses

- Financials was the worst performing sector for the week, increasing by 1.57 percent versus an overall increase of 4.26 percent for the S&P 500.
- HollyFrontier Corp was the worst performing S&P 500 stock for the week, falling 3.51 percent.
- U.S. shale oil giant Chesapeake Energy filed for bankruptcy, making it the biggest casualty among U.S. energy giants as the coronavirus pandemic upends the oil industry.

Opportunities

- Finnish telecoms equipment maker Nokia Oyj said on Monday it has won a 5G contract worth about 400 million euros (\$449.48 million) from Taiwan Mobile, reports Business Insider, to build out the telecom operator's next-generation network as the sole supplier.
- Uber is in discussions to buy Postmates for about \$2.6 billion as it looks to consolidate its position in the food delivery market. A deal, which could be announced in the next week, marks a different direction for Postmates which had been planning to file for an IPO, the Wall Street Journal reported.
- Google has confirmed it will buy smart glasses maker North, in a move that hints at higher ambition in augmented reality tech, writes Business Insider. The price of the deal is unknown, although a previous report claimed Google was buying the company for \$180 million.

Threats

- Shell cut its valuation by \$22 billion as it battles the impact of the coronavirus on the oil industry. The energy major expects oil prices to level at \$50 a barrel in 2022, versus an initial prediction of \$60 a barrel.
- Apple is re-closing 30 more stores in the U.S., reports CNBC, as coronavirus cases have spiked across the country. The company will be re-closing stores in Alabama, California, Georgia, Idaho, Louisiana, Nevada and Oklahoma.
- Oil and gas exploration company Denbury Resources skipped an \$8 million payment on its senior convertible notes due in 2024. S&P Global Ratings said it believes Denbury is unlikely to make this payment within the 30-day grace period and lowered its long-term issuer credit rating to "D" from "CCC+".

The Economy and Bond Market

Strengths

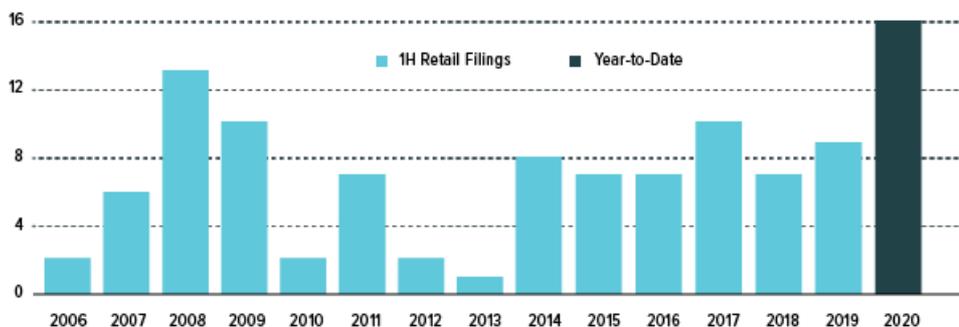
- Nonfarm payrolls soared by 4.8 million in June. Economists surveyed by Dow Jones had been expecting a 2.9 million increase. The jobs growth marked a big leap from the 2.7 million in May, which was revised up by 190,000.
- The unemployment rate fell to 11.1 percent, which is better than economist forecasts of 12.4 percent.
- More than half of manufacturers reported better-than-expected expansion in June, the first time that has happened since the coronavirus pandemic began. The Institute for Supply Manufacturing survey showed that 52.6 percent of

companies said their businesses are growing – up from May’s 43.1 percent and a 41.5% trough in April.

Weaknesses

- More American retail companies sought bankruptcy protection in the first half of 2020 than in any other comparable period. Three retailers filed last week, including Grupo Famsa SAB de CV, CEC Entertainment Inc. and GNC Holdings Inc. That made 16 bankruptcies for the year-to-date, the most ever for the first six months of a year, according to Bloomberg data going back to 2003. The sector remains under pressure from lockdowns that are crushing demand.

Retail Companies Are Going Bankrupt At Fastest Pace On Record



*Note: Filings are Chapter 11/7, \$50m+ liabilities Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- New jobless claims remained high last week with another 1.427 million Americans filing, above the estimate of 1.38 million.
- Construction spending fell 2.1 percent at a seasonally adjusted annual rate (SAAR) of \$1,356.4 billion in May, according to the Census Bureau. Spending on private construction was 3.3 percent below the revised April estimate of \$1,035.2 billion.

Opportunities

- The ISM Non-Manufacturing Index release next Monday will be important to watch, as economists are forecasting a breakeven reading of 50, up from the prior 45.4.
- The Fed minutes made it clear that rates will stay near zero for a long time. If policy signaling is more important than specific tools, which most experts believe, investors should focus on the Fed’s commitment to keep the funds rate low as inflation increases.
- As the coronavirus continues to spread globally, new hope may be emerging in the race to develop a vaccine. Pfizer, one of a handful of companies racing to develop a vaccine, reported promising new data Wednesday from its early stages of trials.

Threats

- U.S. credit is susceptible to a selloff caused by a second wave of coronavirus infections, according to Citigroup analysts led by Calvin Vinitwatanakhun. “The rapid surge in Covid-19 cases across the U.S. South and West has raised fears that the second wave in the U.S. could derail the economic recovery,” the analysts wrote in a note Thursday.
- Municipal Market Analytics is turning more bearish on state and local governments because of the fiscal challenges caused by the coronavirus pandemic, wrote Matt Fabian and Lisa Washburn in a note to clients. Rapidly rising estimates of state and local governments’ revenue losses due to the coronavirus shutdowns and cost surges suggest that credit quality is “increasingly likely to face serious challenges” across a longer timeline and wider geography than formerly assumed.
- In Texas, one of the few states without an income tax, more than half the government’s revenue comes from its cut of what residents spend in stores, restaurants and bars. But with the coronavirus raging, bars shuttered and nearly 2 million residents out of work, the state’s sales-tax revenue is tumbling, leaving the government poised to draw down the savings it built up when the economy was still booming. Texas’s sales-tax collections in June dropped 6.5 percent from a year earlier to \$2.7 billion.

Energy and Natural Resources Market

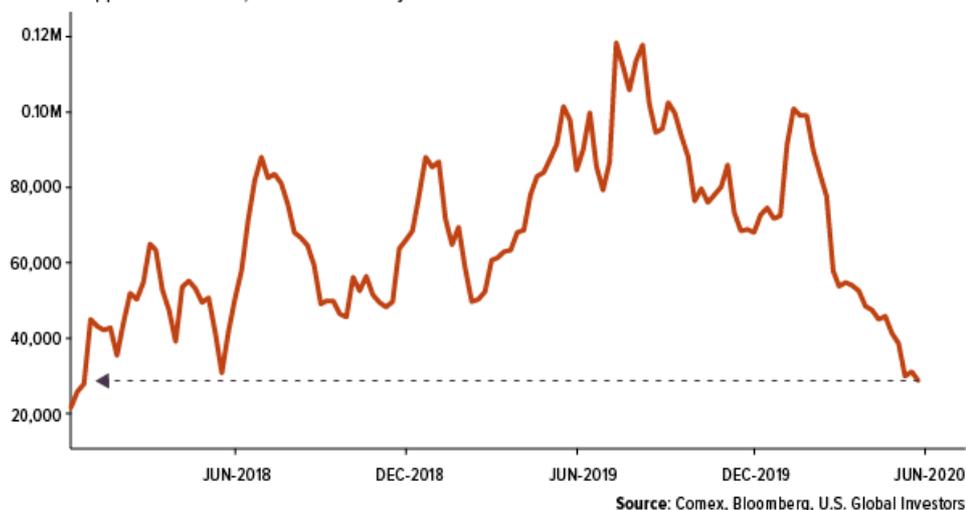
Strengths

- The best performing commodity for the week was natural gas, up 11.45 percent and the most in eight months, on the forecast for hotter than average weather. Copper extended its rise above \$6,000 a ton as top producer Chile has cut

back operations due to the coronavirus. BHP Group announced plans to scale back operations at one of its copper mines in the country. The red metal is also benefiting from China's economic recovery, as it is the top consuming nation. China's manufacturing PMI rose to 51.2 in June, up from 50.7 in May.

Funds Exited Copper Short Positions Amid Supply Risks In South America

Comex Copper Gross Shorts, Number of Weekly Contracts



Source: Comex, Bloomberg, U.S. Global Investors

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- BHP Group, the world's top miner, used blockchain to sell iron ore for the first time. The company completed a trial sale of \$14 million of iron to China Baowu Steel Group, China's biggest steelmaker. Bloomberg notes that the global pandemic is pushing commodities traders to rethink their dependency on paper and use new technologies such as blockchain.
- Oil rose for a second day on Thursday and held near \$40 a barrel on a bigger-than-expected drop in American crude stockpiles and plunging output from OPEC producers, reports Bloomberg. OPEC output fell to the lowest since June 1991 – demonstrating that producers are committing to efforts to boost prices.

Weaknesses

- The worst performing commodity for the week was iron ore, down 3.07 percent on the restart of Brazilian production that had been curtailed by the coronavirus. Chesapeake Energy Corp, one of the pioneers behind the shale boom, filed for bankruptcy protection on Sunday. According to a report from Haynes & Boone, more than 200 North American oil and gas producers, owning over \$130 billion in debt, have filed for bankruptcy since 2015. Royal Dutch Shell Plc said it will write down between \$15 billion and \$22 billion in the second quarter – a sign of how severely the coronavirus has hit the oil majors.
- A mud slide after intense rains led to a mine collapse in Myanmar that killed at least 113 and is expected to top 200 deaths. Hundreds of miners were digging for jade illegally when a huge wave of water slide down a hillside and trapped people instantly. The government ordered the closure of mines in the region due to high landslide risk during monsoon season, but illegal workers often come in to take the place of regular miners despite risks.
- Citigroup said this week that demand growth for oil products will never return to the levels it reached before the coronavirus outbreak. The bank added that it expects oil prices to remain closer to \$45 a barrel than \$60 a barrel in the long-term.

Opportunities

- BP Plc has agreed to sell its chemicals business – a big step toward strengthening its finances and furthering its transition away from being a traditional oil company. Bloomberg reports that BP is hitting its target of selling \$15 billion of assets ahead of schedule.
- China, the world's largest solar market, plans to subsidize 434 photovoltaic power projects with combined capacity of 26 gigawatts this year, reports Bloomberg. This is a 13 percent increase in subsidy-eligible solar projects from last year.
- BloombergNEF reports that offshore wind turbine makers that sell the biggest machines are the most successful at securing billion-dollar contracts. Siemens Gamesa has 4 gigawatts worth of orders for its new 14-megawatt machine. Bigger turbines are attractive to developers since it saves them costs in construction and operations.

Threats

- Height Securities said in a research report that the \$1.5 trillion infrastructure package "looks doomed" due to opposition from the White House and a surge in coronavirus cases. The analysts wrote that an infrastructure bill "is a prime candidate for stimulating economic recovery only once the country has moved beyond the crisis mitigation phase." Bloomberg reports that the Trump administration said in a statement on Monday that the bill was

“problematic.”

- According to a new report by Horizon Advisory, America is vulnerable to China’s dominance in rare earth minerals as it can be used as leverage against the West. Nathan Picarsic, a Horizon co-founder, says that China is “not concerned with economic return in many of these cases. They see controlling this type of [industry] as a path to win without fighting.” China grew its rare-earth industry through years of state subsidies.
- Dairy farmers continue to face a crisis after dumping millions of gallons of milk, slowing output and selling older cows. Despite receiving stimulus from governments worldwide, the money will dry up eventually. Bloomberg reports that dairy accounts for around 14 percent of the global agricultural trade and more than 150 million farmers keep at least one milk animal. With the pandemic raging on and restaurants closing or limiting operations, demand for dairy remains painfully low.

Emerging Europe

Strengths

- Poland was the best performing country this week, gaining 2.4 percent. KGHM Polska Miedz, a copper producer, was the best performing equity trading on the Warsaw Stock Exchange, gaining 7.8 percent over the past five days. The price of copper continues to move higher as demand from China is picking up, while the coronavirus pandemic is negatively affecting output in Chile, the world’s top metal producer.
- The Hungarian forint was the best performing currency this week, gaining 1.3 percent. The currency rebounded after a sell off last week due to the central bank unexpectedly cutting its main rate. Peter Krpata, a strategist at ING, said that last week’s market reaction to the rate cut was exaggerated and he expects the forint to rebound from oversold levels.
- Consumer staples was the best performing sector among eastern European markets this week.

Weaknesses

- Hungary was the worst performing country this week, losing 38 basis points. The EU recommended earlier this week that members states should start lifting travel restrictions for 14 countries as well as China. However, Hungary stated that it cannot comply with the EU request and opened its borders only to neighboring Serbia. Waberer’s International NYRT, a logistics service company, was the worst performing stock trading on the Budapest Stock Exchange, losing 6 percent over the past five days.
- The Russian ruble was the worst performing currency in the region this week, losing 1.1 percent. The currency sold off on renewed talks of sanctions on Russia following reports that the country offered the Taliban to pay monetary rewards for killing U.S. soldiers in Afghanistan. The report is not confirmed.
- Consumer discretionary was the worst performing sector among eastern European markets this week.

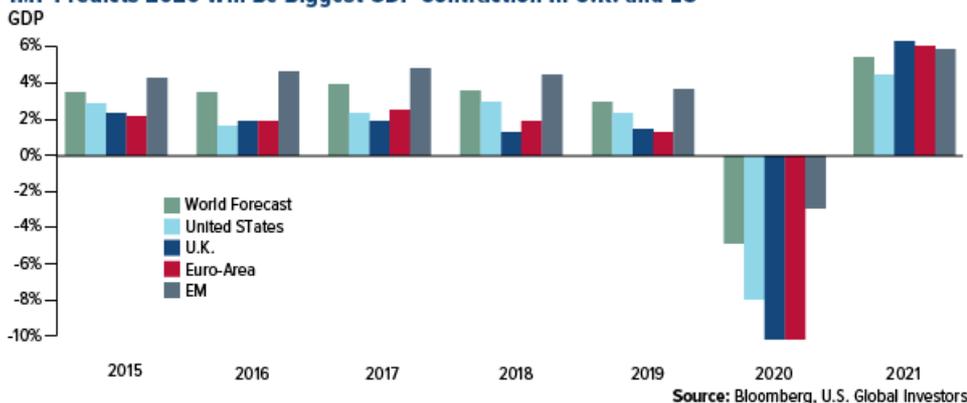
Opportunities

- Russian voters overwhelmingly backed the constitutional amendments that allow Vladimir Putin to seek two more six-year terms, potentially extending his rule until 2036. The results are great for Vladimir Putin, however the opposition may question the accuracy of the results released by government officials.
- The eurozone manufacturing purchasing manager index (PMI) posted an increase in May with the waning impacts of COVID-19, according to a flash estimate unveiled on Monday. The PMI, which dropped to 33.4 in April, rose to 39.4 this month, a report by London-based global data firm IHS Markit said. It remains below the 50 level that separates growth from contraction but is moving in the right direction.
- The United Kingdom will allow almost 3 million Hong Kong citizens to move to the U.K., after China imposed the new security law in Hong Kong prohibiting acts of secession, subversion, terrorism and collusion with foreign forces to endanger national security. There are 350,000 people in Hong Kong holding the status of British Nationals (Overseas), with a further 2.5 million eligible for it. Family dependents will be allowed into the U.K. and there will be no limit on the number allowed to apply, Bloomberg reported. The United Kingdom will benefit from skilled people entering the country’s workforce.

Threats

- Last week the IMF released a more pessimistic global growth outlook. The agency now sees a global contraction of 4.9 percent this year versus its original forecast of 3 percent contraction in April. The United States is forecast to have a shallower decline this year of 8 percent compared to the United Kingdom and the EU area, contracting the most by 10 percent.

IMF Predicts 2020 Will Be Biggest GDP Contraction In U.K. and EU



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- About one-third of Russian companies said they are at risk of bankruptcy, according to survey conducted by the Center of Strategic Research in Moscow. Companies in Russia are not allowed to file for bankruptcy due to a moratorium that is due to be lifted in September.
- Official involved in Europe's recovery fund talks said negotiations still have a long way to go before a summit of EU leaders meets later this month. The negotiators aim to keep the size of the proposed €750B recovery fund, but reduce the size of the EU's multi-year budget slightly. Europe is months into the coronavirus outbreak and needs to support its economy, but member states cannot find the much-needed common ground quickly.

China Region

Strengths

- China was the best performing country this week, gaining 3.7 percent. Despite talks of potential new sanctions coming out for China for the implementation of the new security law in Hong Kong, equities moved higher on stronger economic data. China Evergrande Group., a residential property developer, was the best performing equity among stocks trading in the China Large-Cap ETF (FXI), gaining 14 percent over the past five days.
- The Indian rupee was the best performing currency this week, gaining 1.2 percent. The currency rallied 80 basis points on Thursday against the dollar as the Central Bank of India was seen stepping away from dollar purchases amid inflows, said Anindya Banerjee, a currency strategist at Kotak Securities.
- Information technology was the best performing sector in the Hong Kong Stock Exchange this week.

Weaknesses

- Vietnam was the worst performing market this week, losing 1 percent. Vietnam's economic situation in the second half of this year is very challenging with enormous pressure on inflation control, according to Vietnam's government officials. Vietnam is still not opening its doors to other countries for now as the coronavirus pandemic is still not under control. PetroVietnam Power Corp., a power generation company, was the worst performing local equity among stocks trading in the Vaneck Vietnam ETF, losing 7.4 percent over the past five days.
- The Thailand baht was the worst performing currency this week, losing 50 basis points. The baht dropped after Prime Minister Prayuth Chan-Ocha said the country's economy is expected to fall as much as 6 percent this year and downside risks remain.
- Conglomerate stocks were the worst performing in the Hong Kong Stock Exchange this week.

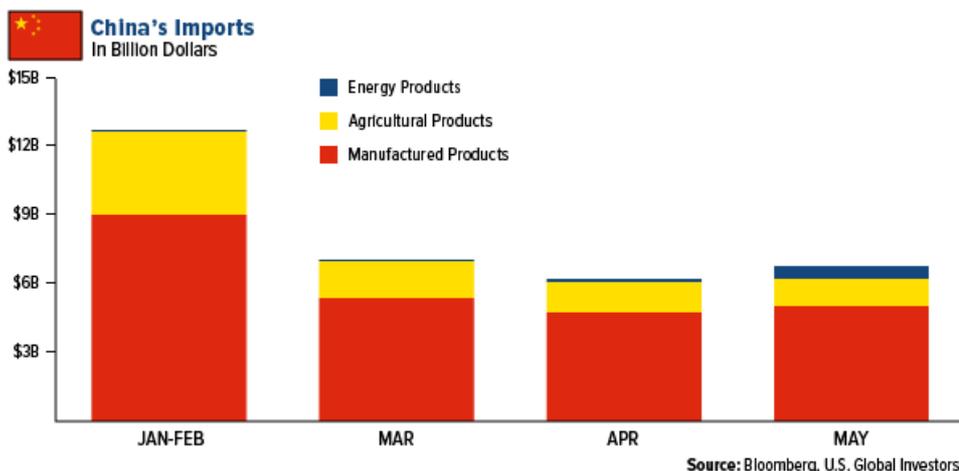
Opportunities

- China's June manufacturing PMI came in above expectations. The index notched in at 50.9, higher than predictions of 50.5, and above May's 50.6. Production activity rose to 53.9 and export orders rose to 42.6.
- JPMorgan notes that the People's Bank of China (PBOC) announced a 25-basis point rate cut for re-lending and re-discount facilities. This cut mitigates speculation on whether monetary easing has come to an end.
- China's State Council decided that special local government bonds will be allowed to support small and medium-sized banks in replenishing capital, reports Xinhua. This should help banks enhance their ability to support micro, small and medium-sized companies.

Threats

- China has officially passed the national security law for Hong Kong that prohibits acts of secession, subversion, terrorism and collusion with foreign forces to endanger national security. The law took effect on July 1 – the 23rd anniversary of Hong Kong's handover to China from British rule. The U.S. Commerce Department said it was suspending Hong Kong's preferential treatment over China – in a rebuke to China passing the national security law.
- The global economic slowdown due to the coronavirus is making it harder for China to meet its trade obligations with

the U.S. Beijing bought just 19 percent of the 2020 target in the first five months of this year.



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- James Lim, a senior analyst at hedge fund Dalton Investments LLC, is warning that retail investors could pull out of South Korea’s equity market due to an earlier-than-expected curb in the global pandemic or a lifting of a short-sell ban, reports Bloomberg. “I feel uneasy over the Korean stock market these days. The entire health care sector is so expensive.”

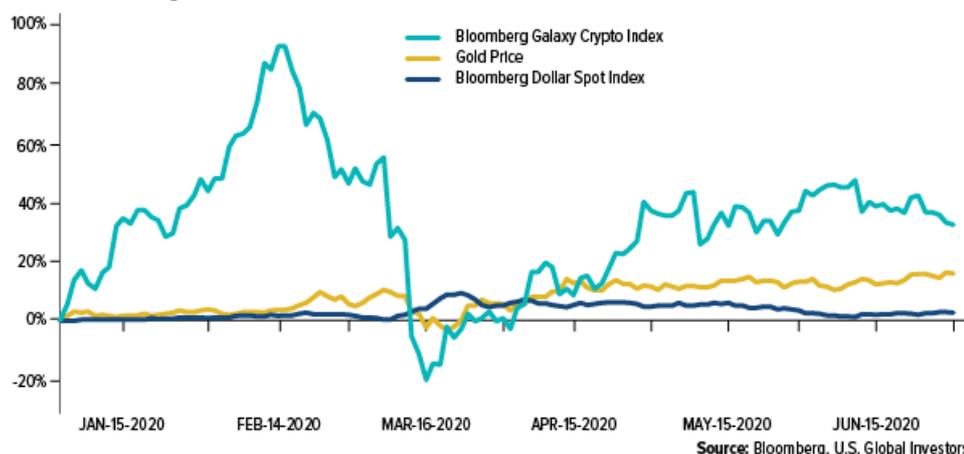
Blockchain and Digital Currencies

Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended July 2 was Egoras, up 591.28 percent.
- Even after dismal performance for the month of June, bitcoin is still up 27.8 percent on a year-to-date basis, reports CoinDesk. In fact, the popular digital currency is outpacing gold and the U.S. dollar, which are reporting 16 percent and 5.4 percent gains for 2020, respectively.

Cryptocurrencies Outpace Gold and U.S. Dollar

Year-to-Date Through 06/30/20



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- A New Zealand investment firm, Techemy Capital, has launched an ETF-like product, reports CoinDesk. The Compound investment portfolio is comprised of proxies of stablecoins dai and USDC. This “mini ETF,” as the article explains, allows holders to earn interest on decentralized lender Compound and gain exposure to “yield farming.”

Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended July 2 was NOIZ, down 97.69 percent.
- At the start of the week, bitcoin chalked out minor price gains ending its longest run of daily losses for half a year on Sunday, writes CoinDesk. Having suffered losses in each of the preceding five days, the leading cryptocurrency by market value jumped 1.2 percent. According to the article, the last time prices took a beating for five consecutive days was in early December.
- Russia’s blockchain-based voting system for the constitutional amendments has reportedly been attacked via an election observer’s node, writes CoinTelegraph. The attack took place June 27 around 8pm CET but did not cause a

system malfunction, meaning all e-votes will be successfully recorded on the blockchain.

Opportunities

- In the latest episode of his “Keiser Report” TV show, Max Keiser predicted that the Iranian and Venezuelan regimes would force the Trump administration to embrace bitcoin, writes CoinTelegraph. In fact, the digital currency could hit \$500,000 because the U.S. will start a giant hash war with the two countries – and it’s already started, Keiser says. “Iran has already got 3 percent of global hash rate, so now I think Venezuela will get 3-5 percent pretty quickly,” Keiser continues.
- Global payments giant PayPal is rumored to be considering listing crypto assets on its platform, writes CoinTelegraph. The company is currently hiring crypto and blockchain specialists, meaning the potential arrival could be more than just a wild guess. But what does this mean for the industry? The most obvious implication is adoption – if a “financial service with 325 million active users starts listing digital assets, it is likely to make crypto more viable in the eyes of the financial mainstream.” This could also mean the price of BTC and Ether could be driven higher.
- HitBTC, one of the leading digital asset exchanges in terms of market liquidity and trading pairs, has released a mobile version of its trading platform for iOS devices, writes CoinTelegraph. HitBTC for iOS joined the exchanges Android application among its mobile offerings starting on June 30.

Threats

- Balancer Pool, a decentralized finance (DeFi) liquidity provider, admitted Monday morning that it had fallen victim to a sophisticated hack that exploited a loophole, writes CoinDesk, tricking the protocol into releasing \$500,000 worth of tokens. “The person behind this attack was a very sophisticated smart contract engineer with extensive knowledge and understanding of the leading DeFi protocols, 1inch said in its blog post about the breach.
- Shareholders in German fintech Wirecard are filing a criminal complaint against Big Four auditor EY in the fallout from the scandal now engulfing the company, writes CoinDesk. The auditor continues to defend its position, claiming that “even the most robust and extended audit procedures” would not be able to derail a “collusive fraud” of this nature. The German shareholders’ association has nonetheless filed a criminal complaint against three of the EY auditors.
- Dr. Anthony Fauci, the director of the National Institute of Allergy and Infectious Diseases, says the number of daily infections in the U.S. could reach 100,000 per day if immediate precautions are not taken, writes CoinTelegraph. With the warning, stocks reacted with caution and now investors are predicting that a downturn in equities could lead to a correction in the bitcoin price, the article continues.

In the News

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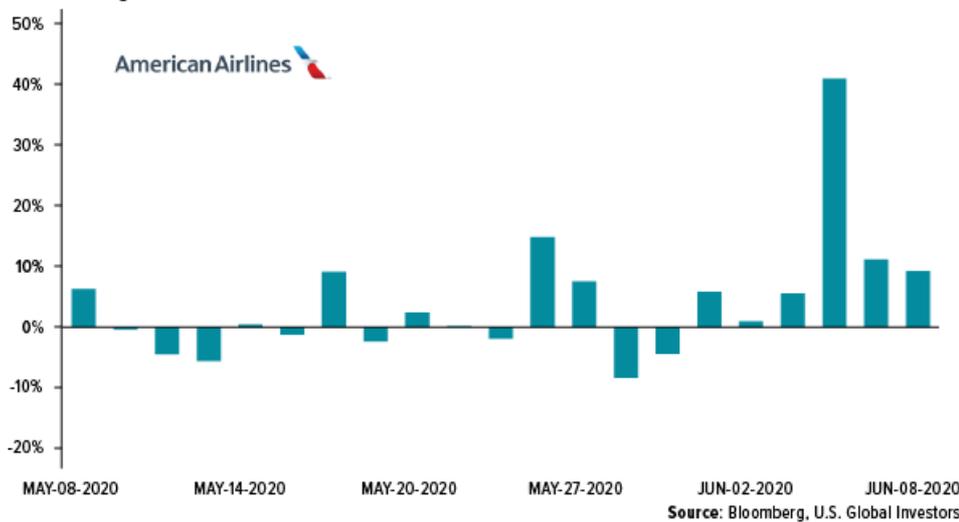
Airline Sector

Strengths

- U.S. airlines, as measured by the S&P 500 Airlines Index, had the biggest week of gains ever – up an astonishing 35 percent for the five trading days ended June 5. On June 4, American Airlines stock exploded 41 percent alone after announcing it would increase July flights by 74 percent compared with June. Several airlines rallied in early June as the number of coronavirus cases globally appeared to slow. However, that trend reversed later in the month.

American Airlines Rose 41 Percent on June 4

Percent Change In Share Price



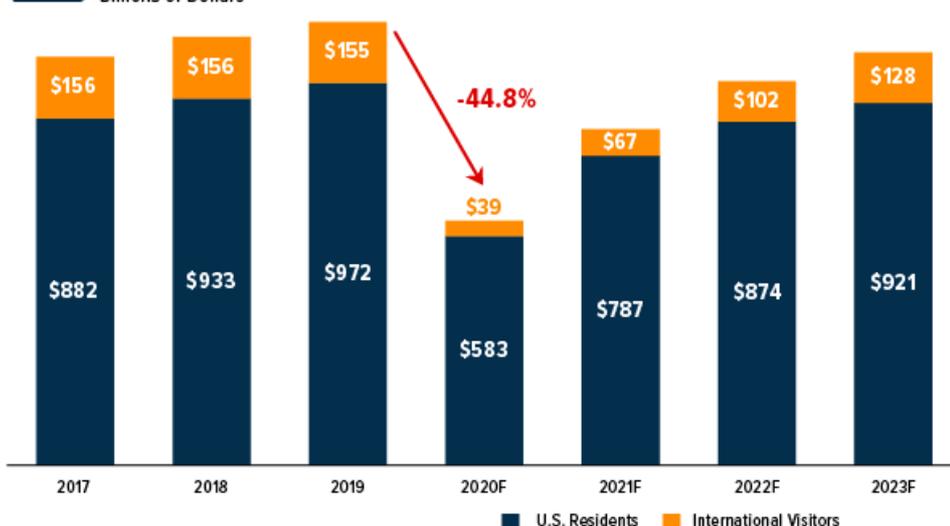
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- According to OAG Aviation Worldwide, airlines added the most seats since the coronavirus outbreak began for the week ended June 30. Globally carriers added 8.2 million seats to capacity, which is a 21 percent increase from the week prior. Analyst John Grant said, “the arrival of July and the summer season has a feeling of optimism at least for the aviation industry.” Bloomberg notes that Chinese domestic capacity is now at 86 percent of pre-pandemic levels.
- Ethiopian Airlines, Africa’s largest and consistently profitable carrier, said that it expects to remain profitable for its fiscal year ending in July, reports Bloomberg. CEO Tewolde Gebre-Mariam said, “we may not be as profitable as we expected but we registered some profit.” Revenue from cargo allowed the carrier to maintain monthly fixed payments of \$120 million to \$150 million to service loans, aircraft leases, salaries and rentals.

Weaknesses

- The International Air Transport Association (IATA) predicts that globally carriers will lose a combined \$84 billion this year and \$16 billion in 2021. The estimate is significantly greater than the \$31 billion lost during the 2008-2009 recession. IATA CEO Alexandre de Juniac said “there is no comparison for the dimensions of this crisis.” In the U.S., spending on travel is not expected to fully recover until 2023.

Spending on Travel in the U.S. Not Expected to Fully Recover Until 2023



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- As carriers cancel thousands of flights, fewer jets will be in operation and aircraft are being retired at an accelerated pace. Lufthansa said its fleet of Airbus SE A380s will be parked for at least two years and may never return to service as demand for long-haul travel remains subdued, reports Bloomberg. Long-haul aircraft are at risk of demise as smaller, more efficient jets are available. However, Emirates had said it will resume flying its A380s to London and Paris.
- Carriers were luring passengers by leaving middle seats unsold to promote social distancing amid the pandemic –

but it seems that trend was short-lived. American Airlines said it would start selling flights to full capacity starting July 1. United Airlines was criticized for misleading passengers about its booking practices. Travelers thought United would leave middle seats open, similar to what other carriers implemented, but many were shocked to be on full capacity flights.

Opportunities

- Several European countries are tying airline aid to lower-emission travel by raising ticket prices and reducing short-haul flights. Bloomberg News notes that Air France, which received a 7 billion-euro package, is cutting domestic services by 40 percent and slowly cutting services between cities less than 2 and a half hours by train. Although such steps might seem negative because it encourages different means of transportation, the reductions in flights and hike in ticket prices could help carriers lean out. A reduced number of flights is positive for the goal of achieving lower carbon emissions.
- Carriers globally are making plans to return to profitability, secure government aid and lure investors. Analysts are particularly optimistic on Qantas Airways. Bloomberg notes the Australian carrier is taking the following steps: raising \$1.3 billion, cutting 20 percent of its workforce and keeping the largest aircraft idle for three years. Morgan Stanley analysts say that even with share dilution from raising capital, they expect a faster return to “normal profitability”. Jefferies notes that the Qantas has a strong position in the Australian market.
- Vistara, jointly owned by Singapore Airlines and Indian conglomerate Tata Group, could gain a share of the Indian travel market. India doesn’t allow foreign airlines to directly fly passengers to a third country, which allows Vistara to provide non-stop connections overseas and lure passengers away from Emirates and Etihad, the current major players, reports Bloomberg. Vistara chief commercial officer Vinod Kannan expects long-haul international travel demand to rise when travel restrictions lift. “There will be an increase in the number of people who want to travel direct, say, from India to Europe, because they don’t want to transit through another hub that increases travel time, that increases exposure.”

Threats

- With a resurgence of COVID-19 cases, particularly in the U.S., airlines’ optimism heading into mid-summer has vanished. Delta said it will likely stop adding flights to its schedule after adding 1,000 flights in July and August. The U.S. saw over 41,000 new coronavirus cases on June 29 alone, spiking fears that the resurgence in travel demand and economic recovery was short-lived. The number of infections has also risen drastically in Latin America.
- Because of this resurgence, travel bans are returning. The European Union said it will open its borders to visitors to 15 countries as of July 1, but not to travelers coming from the United States. This is in stark contrast to the U.S. being the first country to bar visitors from the EU in March as the pandemic spread across Europe and shows that as one area of the globe recovers from the virus, another can succumb to it.
- One ongoing threat is for the aviation industry. One in 15 jobs in America is related to airlines, and a sustained period of job cuts could mean long-term economic pain. Airlines, and manufacturers, continue to announce tens of thousands of layoffs as air travel has plummeted and shows no sign of near-term recovery. Pilots aren’t racking up as many hours, risking the need to re-train. The British Airline Pilots Association notes that to maintain “recency”, commercial pilots must perform three takeoffs and landings within 90 days.

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