Asset Class Reset Trends Favor Gold, Bitcoin

BI Commodities, Global Dashboard


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Gold, Bitcoin Foundations Firmer Post-Shakeout Shift to Equities

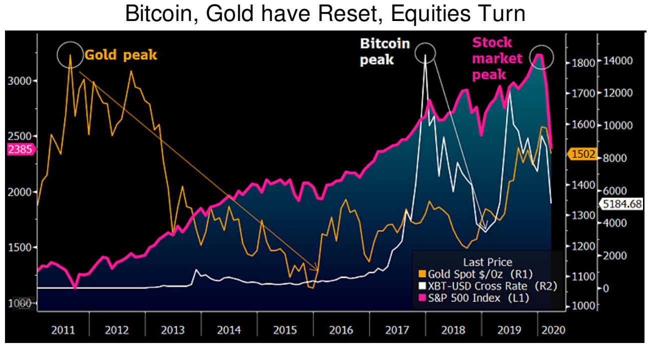
(Bloomberg Intelligence) -- Gold got too hot in 2011, Bitcoin in 2017 and the stock market's turn to reset in 2020 tilts appreciation probabilities back toward the quasi-currencies, in our view. Gold and Bitcoin appear as consolidation bull markets with firming foundations that are well under their peaks. Its been only about a month since the stock market high. (03/18/20)

1. Gold, Bitcoin Have Passed Shakeouts

A primary price-appreciation benefit of gold and Bitcoin, in our view, is they are on the back ends of significant shakeouts. The 2020 mean-reversion process in the stock market -- with a worthy catalyst in Covid-19 -- may be more enduring, if history is a guide, yet the initial drag on the quasi-currencies should be temporary. They've had their resets. Our graphic depicts the stronger foundations for gold and Bitcoin after having corrected about 40% and 80%, respectively, and remaining well below their peaks.

It was only about a month ago to March 17 that the S&P 500 reached an all-time high, which distorts drawn-down analysis due to the virus crisis. On a 52-week basis, the index decline of about 14% is minor historically. In 2000-01 and 2008, the S&P dropped over 35%. (03/18/20)

Bitcoin, Gold have Reset, Equities Turn



Source: Bloomberg Intelligence

2. Gold Bulls Poised for Championship Ring

Gold prices have dipped into a firming foundation, on the back of typical positive drivers -- declining interest rates and rising stock-market volatility. Our graphic depicts the metal revisiting the halfway mark of the 2011-16 decline and upward sloping 12-month moving average. Gold prices are below recent highs and fundamentals have improved. Similar to 2008, the 12-month average of the CBOE S&P 500 Volatility Index (VIX) is recovering from life-of-index lows.

It was the cut to zero interest rates by the Federal Reserve in December 2008 that accelerated the gold bull market to the 2011 peak. Covid-19 is a worthy catalyst to buoy gold toward its highs. That fact that the metal has reached records in most currencies leads us to expect that a similar result for dollar-denominated gold is only a matter of time. (03/18/20)

Gold Is Poised to Revist 2011 Peak

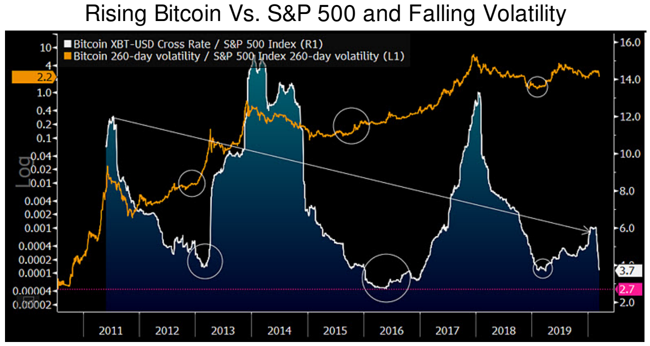
Source: Bloomberg Intelligence

3. Bitcoin Volatility Gaining Favor vs. Stocks

Bitcoin volatility on the decline vs. increasing for the stock-market tilts performance bias toward the crypto, in our view. Despite Bitcoin annualized volatility that's about 4x that of the S&P 500, in 2020 to March 13, the first-born crypto and the stock market are each down about 20%. This is a sign of divergent Bitcoin strength. Our graphic showing declining crypto 260-day volatility vs. the same measure of the S&P 500 has dropped sharply recently, led by the wobbly stock market.

The trends are gaining technical and fundamental momentum. Bitcoin volatility is diminishing with natural maturity and increasing adoption and vehicles for participation. The 100-week average of S&P 500 Volatility Index (VIX) appears to have begun recovering from record lows reached in 2018 as global recession risks rise. (03/16/20)

Rising Bitcoin Vs. S&P 500 and Falling Volatility



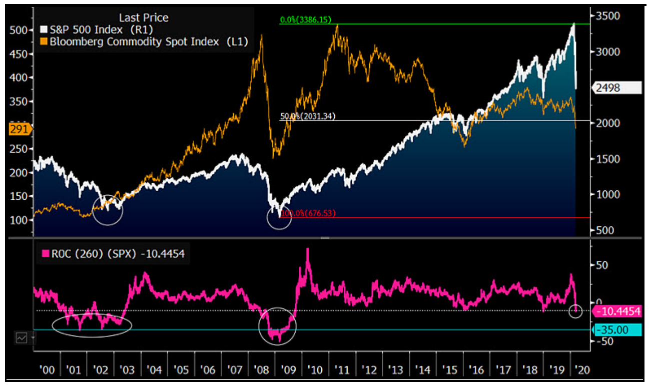
Source: Bloomberg Intelligence

4. S&P 500 About 2,000 the Mean That Matters for Crude, Copper Lows

The sooner the mean-reversion process in the stock market is over, the more likely most commodities will bottom, but history indicates the 2020 equity swoon has been relatively minor so far. Our graphic of the 260-day rate-of-change in the S&P 500 shows about a 10% decline to March 16. In 2001-02 and 2008-09, decreases closer to 35% were achieved. The extreme, global-demand shock of the Covid-19 virus should result in a stock-market slump more akin to those periods, in our view.

Akin to the most macroeconomic commodities -- copper and crude oil, which were in fundamentally bearish situations before the virus -- the relatively elevated stock market at the onset of 2020 contributes to mean-reversion risks. About 2,000 in the S&P 500 is essentially the mean, median and mode of the bull market -- a prime target support. (03/17/20)

About 30% Seems Worthy Year-Over-Year S&P 500 Drop



Source: Bloomberg Intelligence

Signs Are Showing That a Bottoming Process Has Begun in Stocks

Contributing Analysts Gina Martin Adams (Strategy) & Michael Casper (Strategy)

Breadth and volatility signals imply peak panic is emerging in stocks, and our financial conditions index suggests equities may now be ahead of other financial assets, pricing a worse-than-average recession scenario. While there's no evidence yet that the absolute bottom has formed, and immediate recovery is unlikely given economic uncertainty, washed-out sentiment signals imply a high probability of positive returns over the next 12 months.

(03/17/20)

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