Investment Strategy Update

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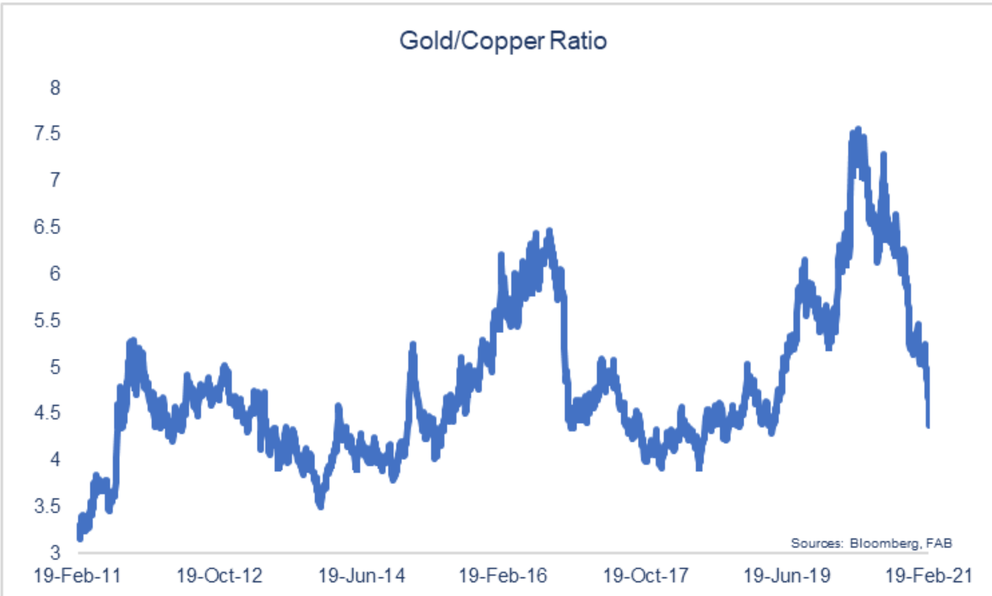
The reflation trade is also playing out among commodities

- **Copper prices neared US$9,000/ton, the highest price for the metal since September, 2011.**
- **The red metal is up 15.5%, year-to-date, the best start of the year since 2008 for the commodity.**
- **Copper is often seen as a barometer for future economic growth given its importance in the construction and electronics industries.**
- **On the other side of the spectrum, gold is down 5.34% year-to-date and is nearing an important support level.**
- **The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight alternatives.**



Any pundits questioning whether the ultimate driver for the steepening Treasury yield curve is future growth and inflation expectations needs only to look at the metals market. There, a similar trade of betting on cyclical commodities and exiting haven investments is playing out.

Copper, often seen as a barometer of future economic growth, is up 15.5% year-to-date, its best performance for the period since 2008, when it rose 26.1% in the same period. The red metal neared US$9,000/ton today, its highest price since 2011. Meanwhile, gold prices are down 5.34% in the same period.

In early 2008, copper was rising on the back of strong demand for the metal from housing construction across the world. Unlike this year, gold was on the rise at the time, too, as some people had started to spot the frothiness of the market.

The relationship between the two metals is also a good indicator that investors are seeing strong economic growth ahead, and potentially higher inflation. The amount of copper needed to buy an ounce of gold has fallen to the lowest since April, 2019, suggesting many investors see construction picking up.

Housing numbers support the argument. The US saw the biggest number of new houses being built since 2007 last year. China also saw record new residential construction, even though in this market things are starting to cool off.

Then there is the fiscal stimulus. US lawmakers could send an up to US$1.9 trillion package to President Joe Biden as early as next week. And there may be more coming up. Nobel laureate Joseph Stiglitz said in an interview with Bloomberg this weekend that he expects an infrastructure package to follow later this year. News reports suggest this second package could add up to US$2 trillion.

The amount of copper needed to buy an ounce of gold has fallen to the lowest since 2019

This is all great news for copper prices. It could mean, however, even higher bond yields later this year, as the US Treasury sells more debt to finance all this stimulus.

Unfortunately, for some investors, higher Treasury yields are not very supportive of higher gold prices. Given the yellow metal is often held as a form of haven asset, if Treasuries, the other safe investment, offer higher yields, they could look relatively more attractive than gold.

Higher Treasury yields could affect other asset classes as well, such as emerging markets and even stocks, which are all sensitive to market interest rates. These, however, will probably benefit more from a copper hot economy than they will suffer from rising Treasury yields.

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