



Outlook for: Now up to 3 months

Markets may be ready for a downward correction. The reasons being:

- Markets have performed extremely well in the last weeks
- Pressure on corporate earnings increasing due to:
 - Higher interest rates – in US
 - Continuing high oil / energy prices
 - High commodity prices
 - Weak(ening) consumer spending
- Oil price has increased again in the last weeks and geopolitical tensions may increase more. Supply threat is evident and may materialize any day.
- Interest rates: Short end (US, EU) level, long end possibly more pronounced inversion.
- Interest rates – long: with slowdown of US economy inversion in the US may become more pronounced.
- Housing slowdown in US and other areas, with negative impact on GDP.
- Historically and consistently, max 3 months after new Fed Chief some sort of disturbance.

Investments conclusions: profit taking and higher liquidity is warranted, but for energy, precious metals and commodities, any correction is an opportunity to buy more.

Oil: should continue to perform well even in case of a consolidation

Uranium: as oil. We may see another consolidation phase before prices of stocks move up again. Move to mid-tier producer seems to create more upside potential.

Gold /Silver: Correction is either here or will come. Reasons:

- Too heavy buying in the past weeks resulted in a sort of bull market
- Inflation fears as a media explanation for gold buying are less pronounced
- Concerns about production cost for mining companies due to higher energy prices in the past months.

Investment case remains intact due to:

- Alternative for paper money, currency upheaval
- Demand growth intact: resurgence of central bank buying, Asian buying
- Physical gold will show higher volatility than mining stocks

Commodities: HARD commodities may be in for a correction due to

- past price explosion
- earnings outlook and anticipated (temporary) weaker growth and demand
- build up of more and more production overcapacity in China

SOFT commodities may be in for price increases due to:

- lagging in price developments in the last year (with exception)
- increasing world population and demand

- agriculture is subject to weather disturbances.
- has not been in the focus of investors.

USD: in spite of ever growing budget and fiscal deficits in the US, the USD may further strengthen due to:

- interest rate differentials
- (continuing) weak EU economies
- Contained inflation in US, and increasing trust in USD and US policies
- Disregard for ever growing twin deficits (for the time being). Stronger USD and high(er) energy prices will drive up trade deficit.

CAD: may weaken against the USD in the coming months as a result of weakening commodity prices. New government may loosen fiscal discipline increasing pressure on the CAD. CAD may not weaken as much against the EUR.

Renmimbi: pressure to appreciate against USD may ease

Outlook for: 3- 12 months

- Spending power will continue to decrease and savings rates may increase – at least in Western countries due to:
 - Higher commodity and energy prices
 - Higher savings rates due to tapped out debt levels, endangered retirement financing
 - Higher tax rates in the U.S.?
- Market indices have reached a bottom and will stay there
- Oil / energy to remain a (very) strong play
- Consolidation in commodity markets should end and upside, long-term investment case will take off again
- Precious metals: To move onto the next higher level due to confidence issues moving to the forefront again and due to increasing demand (individual, institutional as well as central banks)
- Interest rates: Conflict between support of domestic consumption (lower rate) and support of USD (higher rates) may get more pronounced
- Pressure on USD may finally increase significantly; EU may not be the alternative.

Trend investment cases: medium- and long-term

- Energy producers and alternative solutions (very selective)
- Commodities (hard and soft)
- Precious metals, including diamonds
- Water
- Generic medication
- Low labor cost: Central Europe
- Energy and commodities power houses: Russia, Canada, Australia
- Emerging economies: India, Vietnam, Brasil
- Domestic consumption growth, exports: Taiwan, Japan

Roy Darphin, Partner

Specific investment advice and -recommendations is reserved for our clients. Cottonfield Family Office AG is a asset management company and member of the AQUILA Investment AG. Among our clients we count Swiss and international high net worth individuals as well as institutional clients. We are located in Zurich, Switzerland.