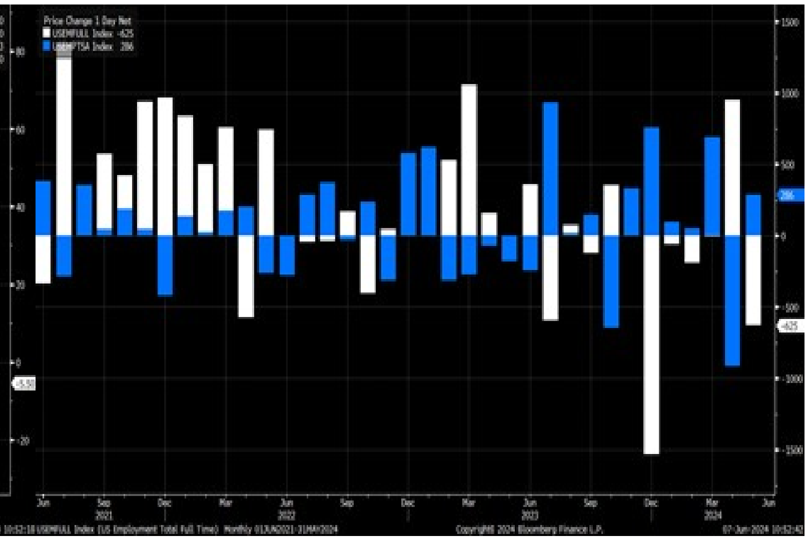
# May 2024 Macro Commentary

While the program ended May with a small loss, there are quite a few things that are starting to fall into place which should allow for a sharp turnaround in performance. On the surface, the US economy is strong, but there are several underlying factors that bring that thesis into question.

I'll start off with a couple of charts that support the main thesis that the US economy is slowing. First, the Citibank surprise index has gone from sharply higher to negative indicating that the data is coming in weaker than expectations (left-hand chart). In addition, despite a large increase to the headline non-farm payrolls, a large amount of the increase was simply due to the Fed's estimate of birth/death of new companies. If you look at the number of part-time vs. full-time employees, full-time dropped sharply while part-time increased (right-hand chart, blue is part-time and white is full-time).



The number of full-time workers has declined in 5 out of the past 6 months. In addition, the number of people working multiple jobs has risen by about three million since the Covid low.


Lastly, despite the headline number beating estimates by ~90k, the unemployment rate actually ticked up by 0.1% to 4.0%. If it ticks up by another 0.1% next month, that may give the Fed ammunition to move into a rate cutting cycle.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DAVIS COMMODITIES LLC

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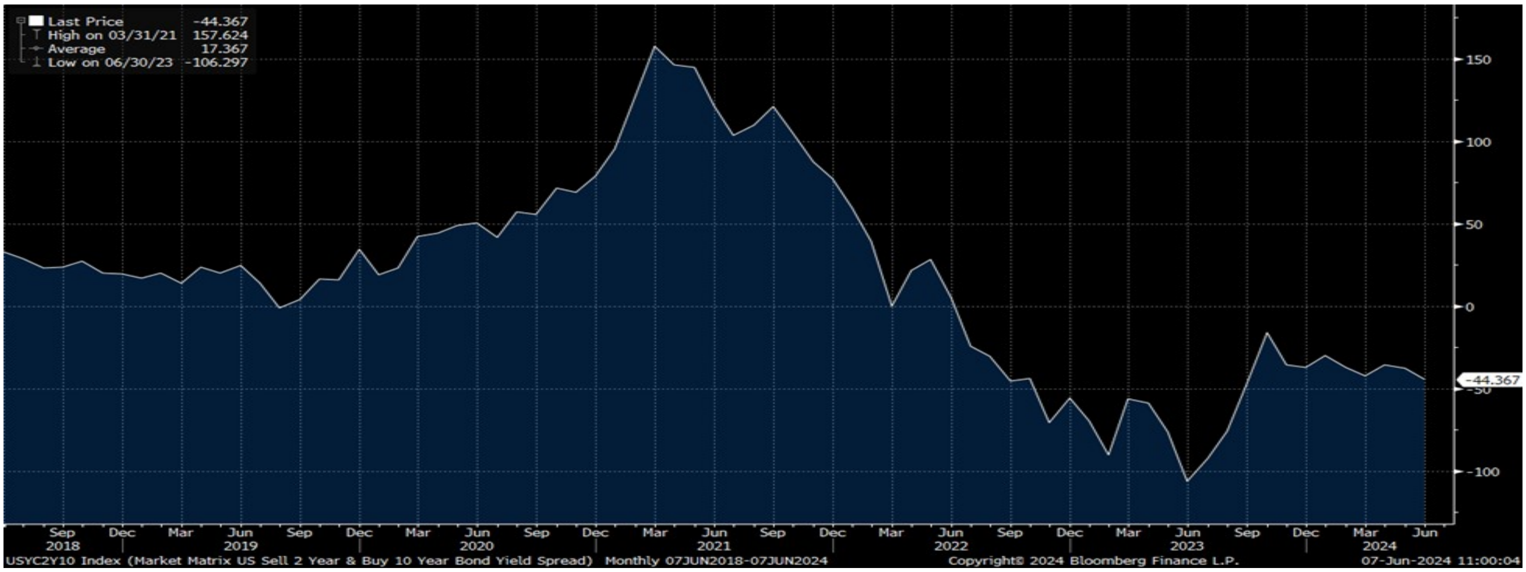
One of the recurring themes has been the yield curve relationship. With the relative weakening of the US economy and odds increasing of a Fed cut to interest rates, the yield curve should start to normalize. As you can see in the chart below, the yield curve has basically been in a range for almost a year. Once the Fed embarks on a rate-cutting cycle, we should move into positive territory with the 10yr note yield once again eclipsing the 2yr. With inflation falling and crude oil staying range-bound, odds are increasing that this trade could finally break out to the upside.




Regarding the yen position, it is beginning to feel like I am waiting for Godot. The Bank of Japan has been unserious thus far about truly rectifying the fall in the yen. They did intervene last month by buying yen and selling dollars, but the market didn't seem to care. The truth of the matter is that either the BOJ has to get serious about raising yields or the US economy needs to falter. The structure of the trade makes it low risk/high reward. I am going to give it a little more time, but patience is growing thin.

The final trade in the portfolio is a defined risk option spread in silver. With most developed countries seemingly intent on destroying their store of value, the precious metals space gets more interesting. In addition to the "shiny pet rock" component, silver also is seeing industrial demand growth from the green energy sector. With demand on the rise, the longer-term outlook for precious metals should be a move to higher prices.

Sincerely,

Stephen Davis

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June 7, 2024



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