

December posted a modest gain and closed out the year with a resumption of an internal benchmark style of return. As most are aware, the goal at Davis Commodities has always been stable, consistent returns with relatively low volatility. With the New Year upon us, that is once again the goal.

Volatility has truly reared its head in the overall commodity space led by the metals. While I regret (to some extent) getting the gold position called away, I don't find it a terrible proposition considering the volatility in the precious metals space. With swings this massive, positioning will have to wait until volatility compresses and risk can be better defined. That said, nothing has changed in the overall outlook for the precious metal space. In fact, the arrest of Maduro in Venezuela simply underscores the risk to the upside. The combination of unbridled spending by developed nations and appropriation of wealth from those who don't "toe the line" should keep an overall tailwind to the space. Look for a resumption on the long side when risk can be better defined.

One of the favorite trades in the portfolio right now is long the Bloomberg Commodity Index (BCOM). While not perfect, owning the overall "blob" has been and should continue to be the right trade. Inflation has been coming down, but look for a push higher as we move through the new year. The combination of incentives included in the One Big Beautiful Bill (OBBB) and continued profitability of US corporations should provide a tailwind for prices moving higher. It doesn't hurt that the Fed has dropped interest rates by 1.75% over the past year or so. The short-term concern is that employment rates have been falling. If that continues, the trade could struggle until Congress passes another stimulus bill. Make no mistake. Congress is fully Pavlovian in nature and will throw money at any problem (real or perceived).

Finally, regarding the yield steepening trade, this market has finally started to move again after going basically nowhere for about seven months. The continued tax and spend (or tax less and still spend) should keep deferred yields supported for the foreseeable future. On the other hand, if employment continues to weaken, the Fed will cut rates on the front end of the curve. The combination should support the overall thesis of a steeper curve over time. Look for a bit more of a trading affair occurring in the portfolio. Dips will be bought and rallies sold to take a bit more advantage of the fluctuations we have seen recently.

Thank you for your continued support and best wishes for a prosperous and happy New Year.

Sincerely,



Stephen Davis
January 6, 2025

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