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From Mobile Games to Smart Cities: A.I. Leads Innovation

July 6, 2018

By Frank Holmes

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U.S. Global Investors



I had the pleasure of meeting Gabe Leydon, CEO of Satori, this week.

This week I had the privilege of meeting a young tech superstar in Palo Alto, California—Gabe Leydon, cofounder and now-former CEO of mobile game producer MZ. Previously known as Machine Zone, the Sunnyvale-based company is responsible for developing some of the highest-grossing mobile games of all time, including *Game of War: Fire Age* and *Mobile Strike*, both of which profited from high-dollar marketing campaigns worthy of some Hollywood films. You might have seen [Game of War's Super Bowl commercial](#) featuring swimsuit model Kate Upton, or [Mobile Strike's](#), starring Arnold Schwarzenegger.

Gabe, 38, oversaw the creation of these games, among others, which have generated more than a combined \$6 billion in revenue in just four years—a stunning accomplishment. His company has succeeded largely by reaching traditional as well as nontraditional players of all ages.

But MZ was only the beginning. Last month, Gabe stepped down as CEO to shift his focus to bigger and better things—cryptocurrencies, artificial intelligence (AI) and his next big project, Satori.

Satori Welcomes You to the Future

An extension of MZ's real-time streaming platform, Satori is a distributed, decentralized AI “mesh.” That probably doesn't mean anything to you right now, but Gabe believes it could change the world in a number of ways. In short, Satori aims to aggregate the world's public information feeds—from Twitter to weather sensors—and distribute them in easy-to-search data structures.

According to Gabe, Satori can process 500 million events per second, a computing speed that's a little hard to fathom. Paired with the Hedera hashgraph platform, a blockchain-like distributed ledger, it will be able to “read and write the entire internet.”

I know this all sounds incredibly abstract, so let's look at a couple of examples of what Gabe's talking about.



For one, Satori can, in real-time, read all 110,000+ tweets that appear on Twitter every second. Not only that, it can analyze and categorize each tweet and, amazingly, translate it into 32 different languages. Let me repeat—this can all be accomplished in real-time. It's blisteringly fast.

The technology behind the translator, by the way, was developed by MZ so gamers from all over the globe could speak to one another while storming castles in *Game of War* or deploying troops in *Mobile Strike*. No doubt you can think of dozens more applications for this technology.

Improving the World—One Parking Spot at a Time

Satori could also lead to the creation of “smart cities.” Today, each part of a city's infrastructure is isolated, or siloed, from every other system. The traffic lights run separately from the water supply network and electrical grid, and there's little to no communication between them to increase efficiency. With Satori, the various datasets can all be ingested and computed in one AI-powered, real-time ecosystem. As many as 500,000 live video streams—from any publicly accessible camera—can be funneled into one meta-channel.

According to Gabe, this has innumerable applications. Tired of not being able to find a parking spot downtown? With Satori and technologies like it, parking availability will be a problem of the past. Excited about self-driving cars? Without a dependable, lightning-fast distributed ledger to deliver real-time data, from weather to traffic conditions, it's hard to imagine their success.

I sense your skepticism. But the truth is that Gabe has already demonstrated Satori's effectiveness. Two summers ago, the city of Auckland, New Zealand, experimented with Satori, using it to monitor and analyze the movements of its 3,000 buses. This allowed the city to improve bus routes and develop new plans to increase ridership, such as dynamic pricing.

Stay Curious to Learn and Improve

I think it's only natural for us to question the new and unfamiliar. The ancient Greek philosopher Socrates was famously against writing because he thought it would lead to rampant forgetfulness. In his 1854 classic *Walden*, Henry David Thoreau dismissed the telegraph.

"We are in great haste to construct a magnetic telegraph from Maine to Texas," Thoreau wrote, "but Maine and Texas, it may be, have nothing important to communicate."

No one today has the same grievances toward written language and telecommunications because we recognize that without them, life as we know it now would be impossible. A generation or two from now, we might similarly wonder how we got by without the technologies that underlie advanced systems such as smart cities.

Curious to learn more? I urge you to watch [Gabe Leydon's presentation](#) at the Hedera hashgraph network launch in March. Also, be sure to [visit Satori's website](#), where you can read about the company's own digital token, LIT.



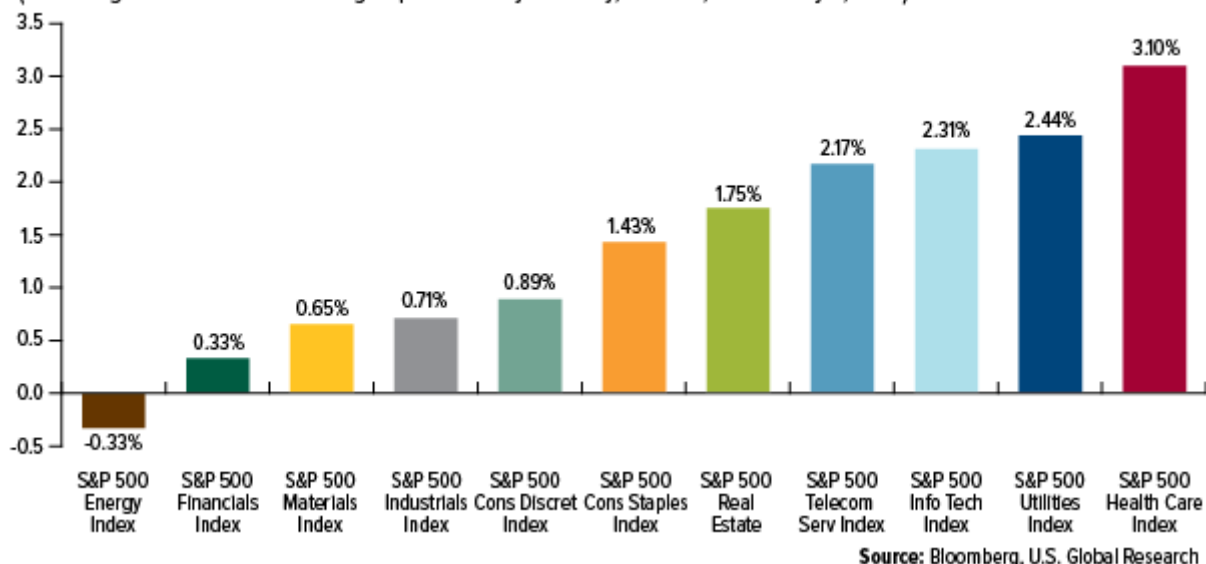
Index Summary

- The major market indices finished up this week. The Dow Jones Industrial Average gained 0.76 percent. The S&P 500 Stock Index rose 1.52 percent, while the Nasdaq Composite climbed 2.37 percent. The Russell 2000 small capitalization index gained 3.10 percent this week.
- The Hang Seng Composite lost 2.94 percent this week; while Taiwan was down 2.11 percent and the KOSPI lost 2.29 percent.
- The 10-year Treasury bond yield fell 3 basis points to 2.82 percent.

Domestic Equity Market

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, June 29, 2018 – July 6, 2018)



[click to enlarge](#)

Strengths

- Health care was the best performing sector of the week, increasing by 3.1 percent versus an overall gain of 1.43 percent for the S&P 500.
- Biogen Inc. was the best performing stock for the week, increasing 23.17 percent.
- Despite tougher Federal Reserve stress tests, Wall Street's top banks stand to distribute a record payout to investors. After the central bank's annual stress tests ended, the nation's four largest lenders — JPMorgan Chase, Bank of America, Wells Fargo and Citigroup — announced that they will distribute more than \$110 billion through dividends and stock buybacks. More than 20 firms have since described how they will reward their owners over the coming four quarters. Wells Fargo plans to boost payouts more than 70 percent to around \$33 billion, while JPMorgan signaled a 16 percent increase to \$32 billion.

Weaknesses

- Energy was the worst performing sector for the week, decreasing by 0.33 percent versus an overall gain of 1.43 percent for the S&P 500.
- Wynn Resorts LTD was the worst performing stock for the week, falling 6.26 percent.
- Glencore is being subpoenaed as part of a US Department of Justice money-laundering investigation. Shares of the commodities giant nosedived on word its operations in Venezuela, Nigeria and the Democratic Republic of Congo are being looked at as part of this investigation.

Opportunities

- The fast-growing \$3.6 trillion U.S. market for exchange-traded funds (ETFs) is closer to getting a shot in the arm after Wall Street's main regulator advanced a proposal for streamlining its approval process for the products. The Securities and Exchange Commission (SEC) plan approved for public comment would make it easier to bring new ETFs to market by laying out formal steps for setting up less-complicated funds. The change would eliminate the need for many issuers to seek a special order from the SEC to allow funds to operate. This could be a boon for the large and small ETF players alike.
- Tesla has hit its goal of producing 5,000 Model 3s per week. The company has struggled to ramp up production for the Model 3 since it was launched in July 2017, twice missing deadlines for its goal of producing 5,000 of the vehicles per week. This milestone could be the beginning of a turnaround in its production issues.
- Nasdaq is going after the CME Group in the bond market by launching a new futures contract tied to US Treasuries which aims to take advantage of a \$1 trillion shift in the economy.

Threats

- The U.S. arm of Deutsche Bank failed its first public stress test. The Federal Reserve faulted the company's internal controls, giving another black eye to executives trying to shore up investor confidence. The Fed found "widespread and critical deficiencies across the firm's capital-planning practices." It cited weaknesses in Deutsche Bank's risk-management functions and data capabilities, as well as the methodology and assumptions used to forecast how the unit would fare under stress.
- According to Morgan Stanley, costs across the trucking industry are likely to continue rising and could reach a breaking point where shippers explore other options. This could be detrimental to industrial and shipping companies until better solutions are found.
- MoviePass has filed paperwork to raise up to \$1.2 billion to stay afloat. The money will help keep the cinema subscription business going, but will also help fund some acquisitions. Given its weakening business, this financing has the potential to end in a complete cash burn for investors.



The Economy and Bond Market

Strengths

- The Institute for Supply Management (ISM) said on Monday its index of national factory activity jumped to a reading of 60.2 last month from 58.7 in May. A reading above 50 in the ISM index indicates an expansion in manufacturing, which accounts for about 12 percent of the U.S. economy. "Demand remains robust, but the nation's employment resources and supply chains continue to struggle," said Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee. "Respondents are overwhelmingly concerned about how tariff-related activity is and will continue to affect their business."
- Construction spending rose 0.4 percent month-over-month from May to June and 4.5 percent year-over-year to a seasonally adjusted annual rate of \$1.3 trillion, according to the latest data released Monday by the U.S. Census Bureau. Spending during the first five months of the year totaled \$497.1 billion — 4.3 percent higher than the first five months of 2017.
- New orders for U.S. manufactured goods unexpectedly rebounded in the month of May, according to a report released by the Commerce Department on Tuesday. The Commerce Department said factory orders climbed by 0.4 percent in May after falling by a revised 0.4 percent in April. Economists had expected orders to come in unchanged compared to the 0.8 percent decrease originally reported for the previous month.

Weaknesses

- In an ominous sign for the economy, the Citigroup Economic Surprise Index, which falls when economic data proves worse than forecast, has dropped below zero for the first time since September 2017. The decline is a contrast to expectations for this quarter to record the strongest gross domestic product (GDP) growth since 2014.

U.S. Economic Surprise Index Falls Below Zero For First Time In Nine Months



click to enlarge

- Unemployment rate pushed up to 4.0 percent from 3.8 percent. The Labor Department says that the rate rose due to more people looking for a job. Labor force participation rate increased to 62.9 percent from 62.7 percent.
- Trump administration officially followed through to impose 25 percent tariffs on \$34 billion worth of Chinese goods. The Wall Street Journal noted that a commission of China's State Council responded by saying it applied tariffs on 545 items "including agricultural products, vehicles and aquatic products.

Opportunities

- Whether the Fed moves one or two more times in 2018 could hinge on actual inflation readings and inflation expectations. The past two Fed statements added an extra reference to the central bank's "symmetric" inflation target, an addition seen by many as a signal that policymakers would tolerate inflation slightly above their goal. Next week's consumer price index (CPI) reading will be closely watched for clues.
- Consumer confidence has remained high despite increasing concern by economists about an unraveling of trade tensions. Next week's consumer sentiment report will show if this trend remains intact.
- Despite a slow start, the U.S. economy is expected to expand at 3-percent or so in 2018 due to tax cuts, booming profits and credit, reports analysts at BNP Paribas.

Threats

- The Trump administration reportedly drafted a bill to abandon key World Trade Organization (WTO) rules. The administration has drafted a bill known as the United States Fair and Reciprocal Tariff Act that would allow President Donald Trump to raise tariffs without congressional approval, according to Axios.
- A stronger dollar could make policymakers reconsider their forecasts. The Bloomberg Dollar Spot Index has appreciated around 6 percent since mid-April. A stronger dollar could curb growth by hurting exports, an impact seen by economists as more persistent and consequential.
- Alaska's plan to cover budget gaps by drawing cash from a portion of its \$65 billion oil-revenue endowment could result in eventually depleting that account, Fitch Ratings said. In May, legislators passed a framework in which they will draw a percentage of the Permanent Fund Earnings Reserve annually to cover operations and dividends to residents. The account contains about \$18 billion of the \$65 billion endowment and was established in 1976 to invest a portion the state's oil royalties and provide each eligible man, woman and child a check based on a share of the investment gains.

Gold Market

This week spot gold closed at \$1,254.94, up \$1.78 per ounce, or 0.14 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 1.95 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index was essentially unchanged by the end of the week. The U.S. Trade-Weighted Dollar continued to lose momentum this week, falling 0.49 percent. The dollar has been down for three weeks in a row and down for five of the last six weeks.

Date	Event	Survey	Actual	Prior
Jul-1	Caixin China PMI Mfg	51.1	51.0	51.1
Jul-2	ISM Manufacturing	58.5	60.2	58.7
Jul-3	Durable Goods Orders	-0.5%	-0.4%	-0.6%
Jul-5	ADP Employment Change	190k	177k	189k
Jul-5	Initial Jobless Claims	225k	231k	228k
Jul-6	Change in Nonfarm Payrolls	195k	213k	244k

Jul-10	Germany ZEW Survey Current Situation	78.2	--	80.6
Jul-10	Germany ZEW Survey Expectations	-18.5	--	-16.1
Jul-11	PPI Final Demand YoY	3.1%	--	3.1%
Jul-12	Germany CPI YoY	2.1%	--	2.1%
Jul-12	Initial Jobless Claims	226k	--	231k
Jul-12	CPI YoY	2.9%	--	2.8%

Strengths

- The best performing metal this week was gold, up 0.14 percent. St Barbara produced a record-breaking 403,089 ounces, up 6 percent from the 2017 fiscal year, according to Bloomberg. This is the first time the company has exceeded 400,000 ounces in a year. Mining in higher grade zones of the South West Brank resulted in an average grade of 13.2 grams per ton of gold. At June 30, the total cash at bank and term deposits was A\$344 million, up from A\$262 million on March 31.
- Top officials at the Chinese Central Bank gave their assurances on Tuesday that yuan devaluation would not be used as a weapon in the trade war despite speculation that the weakening currency is a deliberate attempt to gain an advantage over the United States. The yuan lost 3.7 percent over the past three weeks, making it the worst performing currency in Asia for the period. “Since the start of the week, everyone’s become a lot more nervous about what’s happening in China,” says currency and metals strategist Georgette Boele of ABN Amro.
- The yuan’s share in the Russian Central Bank’s foreign-exchange and gold assets almost tripled in the last three months, jumping from only 1 percent in the third quarter to 2.8 percent. “The rise in the share of yuan assets... reflects Russia’s intentions to diversify away from major currencies,” said emerging markets currency strategist Piotr Matys. Russian policymakers cited China’s economic success in the past year and the renminbi’s appreciation against the U.S. dollar to explain their decision to buy yuan.

Weaknesses

- The worst performing metal this week was platinum, down 1.02 percent as declining European diesel sales continue to weigh on demand. Platinum is used to reduce emissions in diesel engines and that segment of the automobile market has fallen to 38 percent versus a year ago at 47 percent in wake of the VW emission rigging scandal. Gold imports to India dropped over 25 percent in June from a year earlier, reports Bloomberg. The rupee's extended slump hit record lows last month, making overseas goods more expensive. Between the weaker rupee and changing attitudes among Millennials, Indian jewelers are struggling to gain new customers as young, urban professionals increasingly choose vacations, electronics and other luxuries over jewelry. India's gold consumption has been declining since 2010 due to government crackdowns on "black money," which moves outside the official economy and escapes taxation.
- Centerra Gold's Mount Milligan mine is facing a water shortage that could impact production. The company has requested the BC Environmental Assessment Office update its environmental assessment to allow for access to additional ground- and surface water sources through 2020. Without additional water, Centerra could see decreased output levels in quarter four of 2018.
- Exchange-traded funds with a focus on commodities experienced outflows for the eighth straight week, reports Bloomberg. Precious metal funds also suffered from outflows, with SPDR Gold Shares experiencing the steepest loss at \$686 million. However, VanEck Vectors Gold Miners added a net \$178.2 million in a single trading session, increasing the fund's assets by 2.1 percent, according to Bloomberg. This is the largest one-day increase since May 29 and the twelfth straight day of inflows.

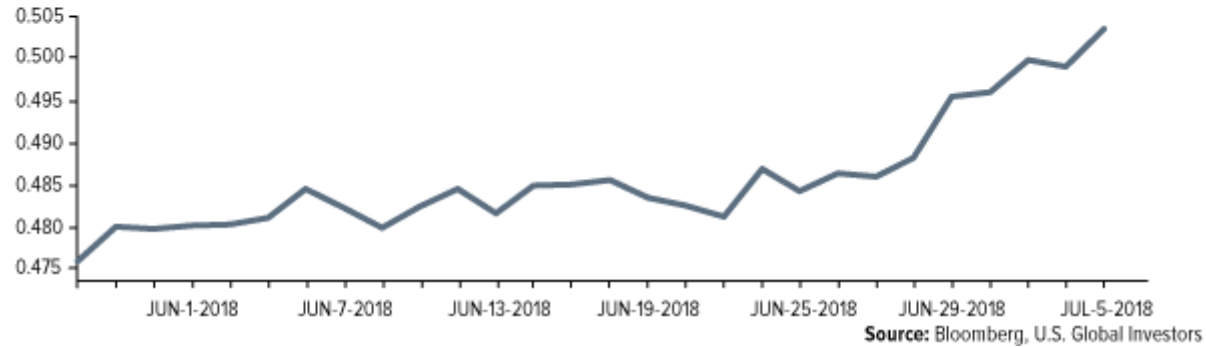
Opportunities

- As seen in the chart below, gold stocks have outperformed bullion for the past five weeks. In fact, the spread between the two shows outperformance of gold equities by over 500 points. This increase in the value of the gold mining companies relative to gold is borne out by the money flows cited in the prior bullet point, in that money is coming out of precious metal funds and instead are buying the stocks of the companies that mine gold. Perhaps this rotation is anticipating the seasonal buying pattern in the yellow metal, which normally rises as the fall season approaches, but the stocks can perform much stronger than gold bullion itself.

Gold Stocks Outperform Bullion For Past Five Weeks



Spread Between Gold Stocks and Bullion Shows 500+ Points of Outperformance



click to enlarge

- Forecasts from Australia, the world’s second-largest producer of gold, expect the yellow metal to “perform well” in the second half of 2018, reports Bloomberg, namely due to political uncertainty and trade tensions. The Department of Industry, Innovation and Science said in its quarterly commodities outlook, “Any sustained overheating in the U.S. economy would likely see inflation rise and gold demand rise, as investors seek an inflation hedge.”
- Commodity bull Goldman Sachs says the trade war between China and the U.S. will have an economic impact, but a “small” one, reports Bloomberg, particularly when it comes to the threat on raw materials. The investment bank forecasts a 10 percent return on commodities over 12 months as the dollar drops, and reiterated its bullish call on crude oil. In another bit of news this week, it seems that returns on U.S. Treasuries have turned Japanese investors sour on America. In reaction to Japan shedding Treasuries, investors there have plowed record amounts into U.S. stocks, corporate bonds and agency-backed securities, writes Bloomberg.

Threats

- According to Bloomberg, the U.S. dollar could be the best place for global investors to find safety amidst a trade war and higher rates from the Federal Reserve. “That’s because the conflict is unfolding alongside what could be an even more powerful dynamic: U.S. monetary-policy normalization,” the article continues. Demand for the dollar is rising higher, leaving gold (historically known as the safe-haven asset) to drown. In fact, the yellow metal is heading for the lowest close in a year.
- U.S. authorities demanded documents related to possible corruption and money laundering from Glencore Plc this week, sending the stock down the most in two years. “The documents relate to the company’s business in Nigeria, the Democratic Republic of Congo and Venezuela from 2007 to present,” reports Bloomberg. Two days after the plunge in price, Glencore announced that it will spend up to \$1 billion buying back its own shares before the end of the year. Some analysts say this buyback plan makes major acquisitions by Glencore less likely in the near future.
- The Associated Press reported on Friday that some immigrant U.S. Army reservists and recruits who enlisted in the military with a promised path to citizenship are quietly and abruptly being discharged. Immigration attorney and retired Army Reserve lieutenant colonel Margaret Stock, who helped create the immigrant recruitment program, said she has been inundated over the past few days by recruits being discharged. “Immigrants have been serving in the Army since 1775,” Stock said. “We wouldn’t have won the revolution without immigrants. And we’re not going to win the global war on terrorism today without immigrants.”

Frank Talk <i>Insight for Investors</i>					
	July 6, 2018 <u>Iran Sanctions Have Disrupted Oil Prices</u>		July 5, 2018 <u>Top 10 Countries with Largest Gold Reserves</u>		July 3, 2018 <u>Will Russia Win Financially in the World Cup?</u>
A blog by Frank Holmes, CEO and Chief Investment Officer					

Blockchain and Digital Currencies

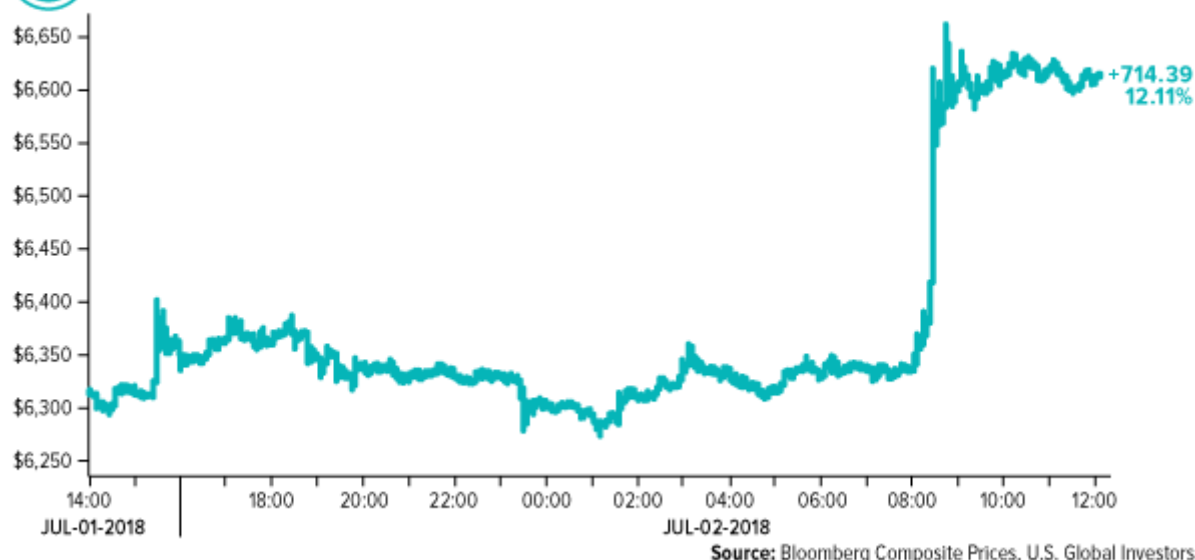
Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended July 6 was ERC20, which gained 164.23 percent.
- Bitcoin rallied on Monday, kicking off the second half of the year with a bounce from its 2018 low, reports Bloomberg. From last Friday, the cryptocurrency climbed more than 12 percent to \$6,620 this week, which is the biggest intraday increase since April.



Bitcoin Kicks Off Second Half With Bounce From 2018 Low

Bitcoin Price In U.S. Dollars



[click to enlarge](#)

- Michael Alexander, former CEO at Jeffries Group Asia, is joining cryptocurrency firm Block.one, which is behind a recent \$4 billion cryptocurrency offering, reports Bloomberg. Alexander will head the venture capital arm with a focus on developing projects that rely on the firm's EOSIO blockchain software, according to a statement by the company.

Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended July 6 was Aditus, which lost 31.27 percent.
- Cryptocurrency miners are drawn to climates that are cool in temperature and green in energy, like Iceland for example. Some experts in Iceland say that they are looking past the “faddishness” of miners taking over, however, and toward other projects that need the same kind of infrastructure, reports Bloomberg. “Bitcoin probably won't be here far into the future,” said HS Orka power plant business development manager Johann Snorri Sigurbergsson. But he says the mining centers themselves will become new technology incubators, and “that's the bet we're making.”
- India's top court refused to overturn a central bank directive prohibiting banks, financial institutions and other regulated industries from providing any service related to virtual currencies, reports Bloomberg. This is a move that “effectively outlaws the nascent industry in Asia's third-largest economy,” the article reads.

Opportunities

- Ten hedge funds and family offices have started using the custody service debuted by Coinbase last week, which seeks to safeguard digital tokens in a manner similar to traditional securities, reports Bloomberg. Coinbase aims to have 100 large institutional customers by the end of the year, according to Sam McIngvale who is leading the effort, with as much as \$5 billion in assets under management.
- The ocean between Hawaii and California are home to around 87,000 tons of plastic and other debris, reports Bloomberg. A handful of companies are now working to cut the problem off at the source, using blockchain technology to divert the plastic. Plastic Bank and IBM are working together to design a blockchain-based app that functions as an electronic ledger, allowing people to collect plastic bottles in exchange for digital tokens that can be exchanged for goods such as food, water, school tuition or cash, the article continues.
- IBM has secured a \$740 million deal to become a central technology partner of the Australian government over the next five years, reports Bloomberg. According to IBM's Asia Pacific head Harriet Green, the contract will see services such as automation and blockchain provided to federal departments like defense and home affairs.

Threats

- In its initial quarterly report on coin theft, CipherTrace (a California-based blockchain security firm) reported that in the first half of the year, more than \$760 million in cryptocurrency was stolen from exchanges. That's almost three times more than in all of 2017, Bloomberg reports. "This overall market expansion has created a whole new generation of cyber criminals that didn't exist 15 months ago," CEO of CipherTrace said in a phone interview.
- Will blockchain technology soon be the end of exchange-traded funds? According to MarketWatch, the advent of decentralized technologies could soon enable entire indexes to be traded as tokens on a blockchain. Instead, maybe this would mean the transformation of ETFs into "BTFs" – or blockchain-traded funds. Someday there could potentially be a token for every index, which could be traded on the blockchain, explains Torso CIO Mike Venuto, and there might not be a need for traditional ETF custodians any longer.
- Bitcoin prices have carved out a fresh, near-term nadir, writes Mark Decambre of MarketWatch. Extending a downtrend that has taken hold of the world's number-one virtual currency since a recent peak in May and raising doubts about a bullish forecast for the coin. Fawad Razaqzada, technical analyst at Forex.com, says, "I can't base my analysis on anything other than technical and right now the charts are looking very bearish. Therefore, as things stand, I have no reason to expect bitcoin to go to those crazy levels again."

Energy and Natural Resources Market

Strengths

- Coal was the best performing major commodity this week rising 1.63 percent. The commodity rallied after the Environmental Protection Agency appointed a new leader in Andrew Wheeler, a former coal industry lobbyist.
- The best performing sector this week was the NYSE Arca Gold Miners Index. The index rose 1.95 percent after its tracker ETF, the GDX ETF, capped a 12th straight day of inflows, which raised the assets under management by nearly 10 percent.
- The best performing stock for the week was Daqo New Energy. The Chinese manufacturer of photovoltaic cells for use in solar power rose 8.5 percent following reports that competitors have idled the equivalent of 30 percent of installed capacity to adjust to lower market prices.

Weaknesses

- Copper was the worst performing commodity this week. The commodity dropped 4.74 percent, nearing one-year lows amid concerns that the trade conflict between the U.S. and China will slow global growth.
- The worst performing sector this week was the FTSE 350 Mining Index. The index of major diversified miners dropped 3.5 percent after copper, zinc, and iron ore prices slid to year-to-date lows as investors fret about the potential impact of escalating trade tensions between the U.S. and China.
- The worst performing stock for the week was Nine Dragons Paper Holdings. The Chinese container and packaging producer dropped 8.5 percent to a fresh 52-week low after it was highlighted as one of the Chinese stocks to be most affected by the heightening of trade tensions between Washington and Beijing.

Opportunities

- Buy commodities as the clock ticks toward trade war, suggests Goldman Sachs. Raw materials have been hurt by the growing concern among global investors about the potential impact of the trade tariffs planned by Washington. Goldman believes the notion that a trade war between the U.S. and China impacting commodities is not correct, arguing instead that commodities will see very little impact. Instead, as the U.S. dollar drops, it is time to buy after this recent decline.

After Commodities Sank In June, Goldman Says They Are Now A Buy

Bloomberg Commodity Index



click to enlarge

- The world's seaborne shipping market does not appear concerned about a trade war. Whether it's the price of hiring giant freighters to haul iron ore and coal, or smaller carriers moving grain, there is a theme emerging: dry-bulk shipping rates are rallying despite an escalating trade war. Experts argue the rally is a result of China's macro data proving resilient to the trade war fears, as well as the relatively small size of direct trade between the U.S. and China in the context of global commodity flows.
- Steel prices may be in for a run in the second half due to capacity cuts in China altering the demand supply balance. Bloomberg analysts expect tight regional supply dynamics as a result of lower Chinese steel exports. In addition, high gas and electricity prices may delay new capacity additions.

Threats

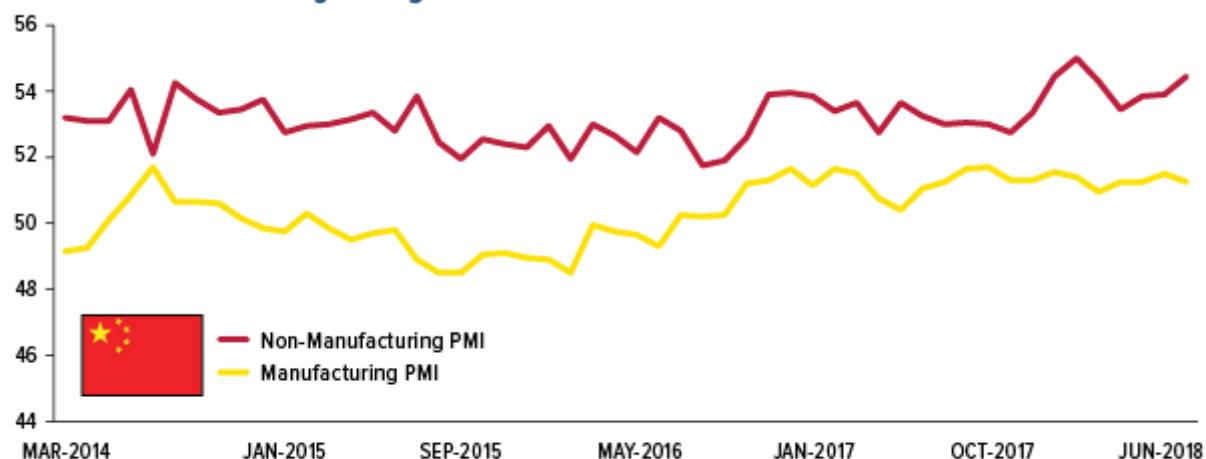
- Emerging market currencies have continued to devalue relative to the U.S. dollar as economists ponder the impact of a U.S. China trade war. As the U.S. readies to enact tariffs on \$34 billion worth of Chinese goods, China has vowed to retaliate, fueling concerns that President Trump may target \$200 billion worth of Chinese goods. The drop in emerging market currencies has generally correlated with weaker commodity prices.
- President Trump once again attacked Organization of the Petroleum Exporting Countries (OPEC) officials this week, accusing them of artificially inflating crude prices. As crude prices have continued their ascent, gasoline prices rose to a 4-year high into the peak driving season of the 4th of July. This rise has Trump feeling uneasy about consumer's pockets, and it is to be expected that he will continue pressuring OPEC to boost production and lower prices.
- Gold has been temporarily replaced by the "greenback" as a safe-haven amid the Trump trade war, according to Saxo Bank. After President Trump asserted that trade wars are "easy to win," the U.S. dollar has become the main destination for safe-haven investors, according to the bank's analysts. Any further upside to the U.S. dollar could bring about opposing downside for commodity prices and the resource sector.

China Region

Strengths

- While China's official manufacturing PMI clocked in at 51.5 (down from the 51.9 showing last month and ever-so-slightly behind an expected 51.6 print), the non-manufacturing PMI came in slightly better than expected at 55.0, ahead of an anticipated 54.8. The Caixin China Manufacturing PMI came in at 51.0, almost in line with analysts' expectations for a 51.1 showing, and the Caixin China Services PMI clocked in at an expectation-beating 53.9, well ahead of an anticipated 52.7 print and up from May's 52.9.

China's June Purchasing Managers' Index Data



Note: PMI data shown are averages of China Government PMI and Caixin China PMI
Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- Utilities constituted the strongest sector in the Hang Seng Composite Index over the last calendar week, rising 3.34 percent in a week that saw the HSCI itself fall 79 basis points.
- Thailand's SET Index maintained a positive week, climbing 1.22 percent, a green standout amid a mostly red region over the last few days.

Weaknesses

- Energy was the worst-performing sector in the Hang Seng Composite Index over the last calendar week, dropping 3.71 percent in that time.
- Year-over-year exports from South Korea missed expectations this week as the June reading showed a 0.1 percent decline, down from the prior month's 13.5 percent growth and well short of analysts' anticipated pace of 2.2 percent growth.
- Macau gaming revenue came in lighter than expected, with the latest numbers showing only a 12.5 percent year-over-year growth rate versus analysts' anticipated pace of 18.0 percent.

Opportunities

- Investment Bank Goldman Sachs issued a bullish report on commodities this week, pouring “cold water,” as Bloomberg News reported it, “on the notion that a trade war between the U.S. and China represents a serious threat to raw materials,” and “saying most of them aren’t likely to be significantly impacted.” The call seems to be paired with some expectation that the recently-strong U.S. dollar will weaken and that the global (and Chinese) economic backdrop remains relatively steady in the face of trade spat headlines.
- Negotiations on the Regional Comprehensive Economic Partnership, or RCEP, continued in Asia recently, with the latest Tokyo meetings wrapping up amid a bit of optimism that as many as 16 nations could sign on to the free trade agreement and form the world’s largest economic bloc as early as the end of the year. Of course, only time will tell.
- China’s travel and tourism phenomenon is not expected to end any time soon, and just last week, Radisson announced plans to triple capacity in China over the course of the next five years.

Threats

- Today, the United State of America formally implemented the first \$34 billion in tariffs on Chinese goods, prompting an immediate Chinese response, and media reports later in the day suggested that President Trump is now mulling the idea of placing tariffs on all Chinese imports. The market remains subjected to headline and actual economic risks related to real or perceived possibilities of detrimental effects of tariffs and trade wars.
- North Korea reportedly continued developing rocket facilities straight up to the Singapore summit with the United States. U.S. Secretary of State Mike Pompeo traveled to Pyongyang late this week to seek more detail on North Korean intentions and to attempt to wrangle together a little more clarity. Like the trade war with China, North Korean issues may not resolve quickly or by means of a fixed, short-term timetable, which introduces degrees of ongoing uncertainty in both situations.
- The Philippines’ latest reading on its consumer price index clocked in at a scorching 5.2 percent, well above the prior month’s 4.6 percent reading and above analysts’ consensus expectations of 4.8 percent. Inflation remains an ongoing threat for the Philippines, particularly after this latest reading.

Emerging Europe

Strengths

- Turkey was the best performing country this week, gaining 2.3 percent. The Istanbul index has been moving higher since snap elections were held on June 24. New cabinet members will be announced on Monday after market close. A state of emergency was imposed after the failed coup back in 2016 and may be lifted on July 19.
- The Hungarian forint was the best performing currency this week, gaining 2.2 percent against the dollar. The currency appreciated after the central bank announced that it would not be able to maintain an ultra-loose policy for a prolonged period.
- The information technology sector was the best performing sector among eastern European markets this week.

Weaknesses

- Greece was the worst performing country this week, losing 1.4 percent. Greece is on its way to end its bailout program in August, but the market remains volatile. The Greek Prime Minister Alexis Tsipras promised to stick with the financial commitments he agreed on with European leaders and he said that Greece would not go back to its old spending habits.
- The Russian ruble was the worst performing currency this week, losing 40 basis points against the dollar. The ruble declined with the price of crude oil, Brent which lost 3 percent, closing at \$77.09 per barrel.
- The real estate sector was the worst performing sector among eastern European markets this week.

Opportunities

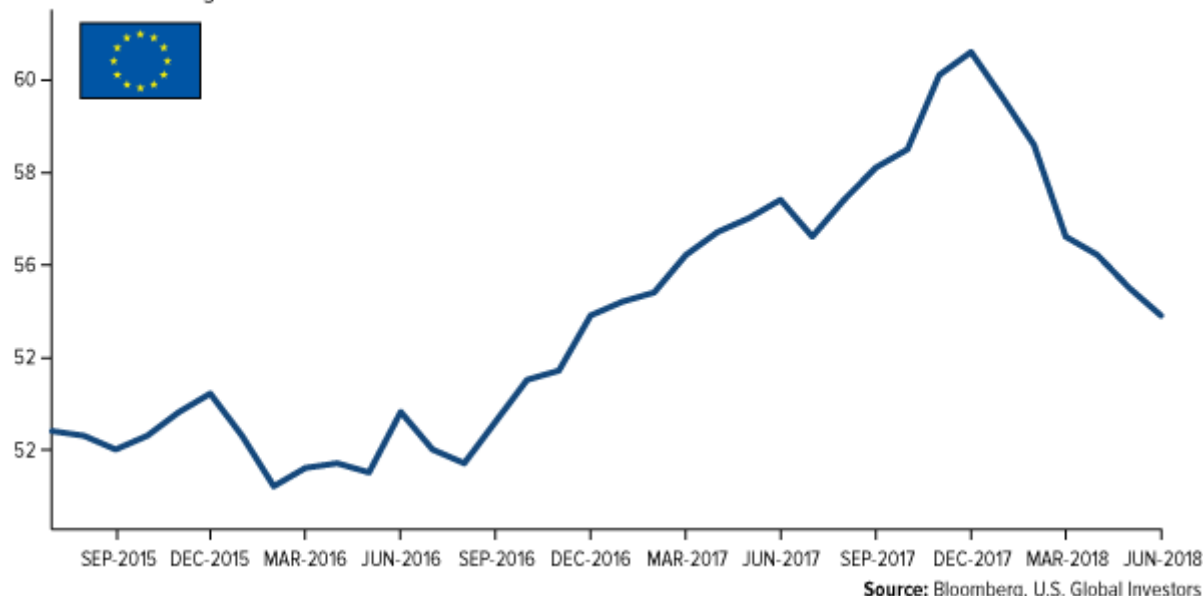
- German industrial output jumped back in May, suggesting that factories in Europe's largest economy are working at a faster pace after a slow start at the beginning of the year. Output rose 3.1 percent in May from a year earlier, beating the estimate for 1.5 percent growth.
- German Chancellor Merkel struck a deal on immigration with Interior Minister Seehofer, who threatened to resign last weekend, which pushed the three-month-old German government to the brink of collapse. The agreement calls for the creation of transit centers on the German-Austrian border for asylum seekers who have already been registered in other EU countries. Seehofer had previously insisted that such refugees should immediately be turned away from the German border, a demand Merkel rejected.
- The Turkish lira fell more than 1 percent on Tuesday after inflation spiked 2.61 percent month-over-month in June and saw a 15.39 percent rise year-over-year. The central bank may have to hike its rates further despite recently rising by 500 basis points, a move that should support the lira.

Threats

- The Euro-area manufacturing PMI dropped to 54.9 in June, the lowest in 18 months and revised down from the flash estimate of 55. Both output and new orders slowed as business optimism declined over trade war risk.

Eurozone PMI Drops to 18-Month Low

June Manufacturing PMI



click to enlarge

- The European Union has launched legal action against Poland over its Supreme Court reforms. The new law will force two-fifths of the Supreme Court justices into retirement next month unless they receive special permission to stay on from President Andrzej Duda. The European Commission has declared Poland’s move to reduce the judicial retirement age from 70 to 65 to be a threat to democracy and the rule of law. Poland has a month to respond.
- Citing data from EPFR Global, the Financial Times reported that European equity funds saw \$2.9 billion of outflows in the week ended July 4, bringing total outflows over the last 17 weeks to \$45 billion. This longest string of outflows since 2016 could be due to recently recurring factors such as Italian political risk, global trade tensions, a stronger U.S. dollar, and Fed policy normalization.

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Russell 2000	1,694.06	+50.99	+3.10%
S&P Basic Materials	366.01	+2.36	+0.65%
Nasdaq	7,688.39	+178.08	+2.37%
Hang Seng Composite Index	3,862.00	-116.97	-2.94%

Index	Close	Weekly Change(\$)	Weekly Change(%)
S&P 500	2,759.82	+41.45	+1.52%
Gold Futures	1,256.00	+1.50	+0.12%
Korean KOSPI Index	2,272.87	-53.26	-2.29%
DJIA	24,456.48	+185.07	+0.76%
S&P/TSX Global Gold Index	194.29	+2.75	+1.44%
SS&P/TSX Venture Index	740.10	+0.14	+0.02%
XAU	83.75	+2.16	+2.65%
S&P Energy	559.67	-1.87	-0.33%
Oil Futures	73.83	-0.32	-0.43%
10-Yr Treasury Bond	2.82	-0.04	-1.29%
Natural Gas Futures	2.86	-0.07	-2.36%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Korean KOSPI Index	2,272.87	-180.89	-7.37%
Hang Seng Composite Index	3,862.00	-470.75	-10.86%
Nasdaq	7,688.39	-0.86	-0.01%
XAU	83.75	+0.37	+0.44%
S&P/TSX Global Gold Index	194.29	+4.57	+2.41%
Gold Futures	1,256.00	-45.40	-3.49%
S&P 500	2,759.82	-12.53	-0.45%
S&P Basic Materials	366.01	-14.69	-3.86%
DJIA	24,456.48	-689.91	-2.74%
Russell 2000	1,694.06	+18.11	+1.08%
SS&P/TSX Venture Index	740.10	-35.00	-4.52%
Oil Futures	73.83	+9.10	+14.06%
S&P Energy	559.67	+2.24	+0.40%
Natural Gas Futures	2.86	-0.04	-1.42%
10-Yr Treasury Bond	2.82	-0.15	-5.01%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Korean KOSPI Index	2,272.87	-164.65	-6.75%
Hang Seng Composite Index	3,862.00	-238.17	-5.81%
Nasdaq	7,688.39	+611.84	+8.65%
Natural Gas Futures	2.86	+0.18	+6.73%
Gold Futures	1,256.00	-78.70	-5.90%
S&P 500	2,759.82	+96.98	+3.64%
S&P Basic Materials	366.01	+3.41	+0.94%
S&P/TSX Global Gold Index	194.29	+9.88	+5.36%
XAU	83.75	+2.28	+2.80%
DJIA	24,456.48	-48.74	-0.20%
Russell 2000	1,694.06	+151.13	+9.79%
SS&P/TSX Venture Index	740.10	-30.46	-3.95%
S&P Energy	559.67	+52.53	+10.36%

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Oil Futures	73.83	+10.29	+16.19%
10-Yr Treasury Bond	2.82	-0.01	-0.32%

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The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.

The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.

The Russell 2000 Index is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000, a widely recognized small-cap index.

The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.

The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.

The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.

The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.

The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.

The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.

The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.

The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.

The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.

The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.

The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.

The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.

The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.

The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.

The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.

The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

The FTSE 350 Mining Index is a capitalization-weighted index of all stocks designed to measure the performance of the mining sector of the FTSE 350 Index. The index was developed with a base value of 1000 as of December 31, 1985.

The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median).

The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar.

A bond's credit quality is determined by private independent rating agencies such as Standard & Poor's, Moody's and Fitch. Credit quality designations range from high (AAA to AA) to medium (A to BBB) to low (BB, B, CCC, CC to C).

The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities. The index represents 20 commodities, which are weighted to account for economic significance and market liquidity.

The Borsa Istanbul 100 Index is a capitalization-weighted index composed of National Market companies except investment trusts.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The Caixin China General Services PMI (Purchasing Managers' Index) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The index tracks variables such as sales, employment, inventories and prices.

The Caixin China Manufacturing PMI (Purchasing Managers' Index) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private manufacturing sector companies.

The Bangkok SET Index is a capitalization-weighted index of all the stocks traded on the Stock Exchange of Thailand.

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