

A close-up photograph of several gold nuggets of various sizes and shapes, scattered on a dark surface. The nuggets have a rough, crystalline texture and a warm golden-yellow color. A dark blue rectangular box is overlaid on the left side of the image, containing the title and date.

Gold Market Update

February 2, 2021



Louis-Vincent Gave, Founding Partner and CEO

The Great Reversal...

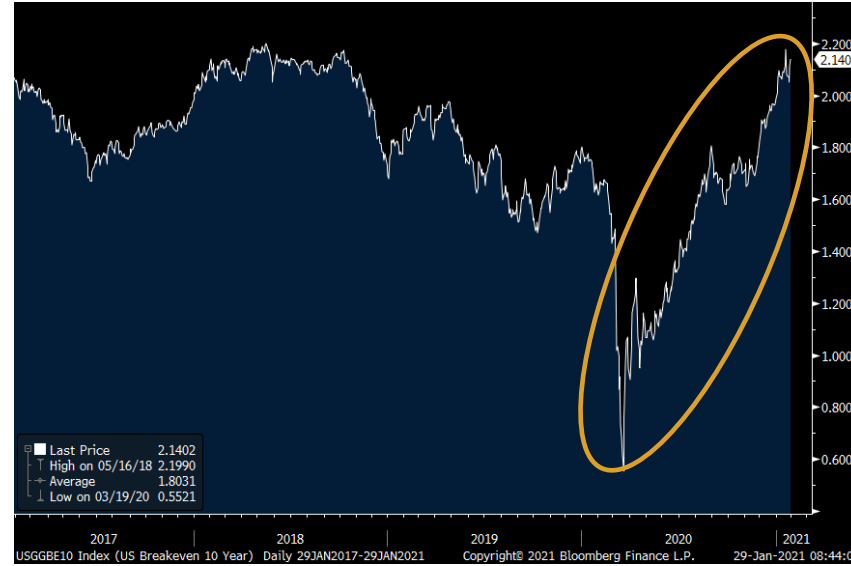
- The three great prices that turn the globe: US 10-year yield, oil price and the U.S. dollar
- One year ago: the 10-year yield and oil price were falling while the U.S. dollar was rising
- Today, the 10-year yield and oil price are rising while the U.S. dollar is falling - *the world has changed*
- *“When I see a market where interest rates are rising and the currency is falling, alarm bells go off”*

Devaluation of U.S. dollar and rise in gold...

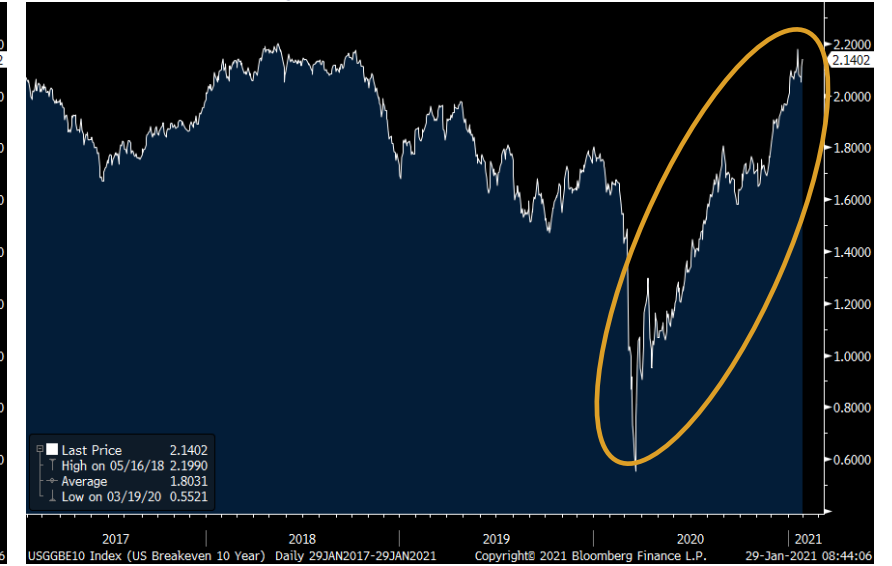
- U.S. government debt has increased by >US\$4 trillion
- This new debt is unproductive (no major investments)
- U.S. forced to cap interest rates to keep borrowing costs low. When they do, U.S. dollar will take a 20% hit
- Near-term growth expected to drive inflation over 2%
- *“So come this spring, if the Fed caps interest rates, gold will thrive”*

- We have entered a new inflationary era: think the stagflation of the 70s
- The labor market recovery is very weak, requiring stimulus
- Huge deficits need to be monetized without raising rates
- Massive stimulus is going into the mainstream economy, not just banks, supporting consumption, not productive assets
- Supply chains have been disrupted, causing shortages
- Vaccines will bring excess savings into consumption
- Strengthening Renminbi driving up price of Chinese imports
- U.S. companies restocking low inventories with a falling dollar
- Money supply is rising at an unprecedented rate

U.S. Personal Consumption Core Price Index (YOY)



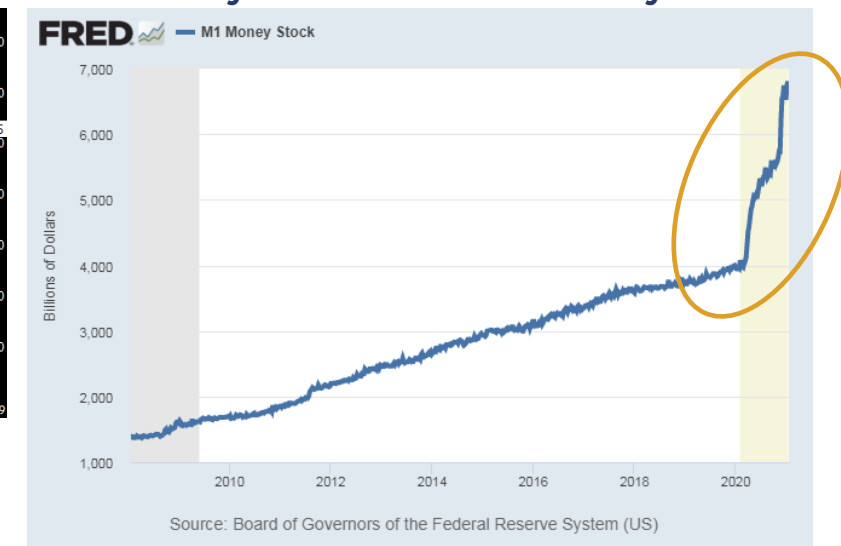
10-Year Treasury Breakeven (Inflation Expectation)



10-Year German Break-Even



40% of today's dollars are less than 1 year old



- Initial jobless claims are still running at **4X** pre-Covid levels
- The latest ISM data was negative
- The December jobs report was a disaster... **140K jobs lost**
- Half the jobs lost to COVID are still not back



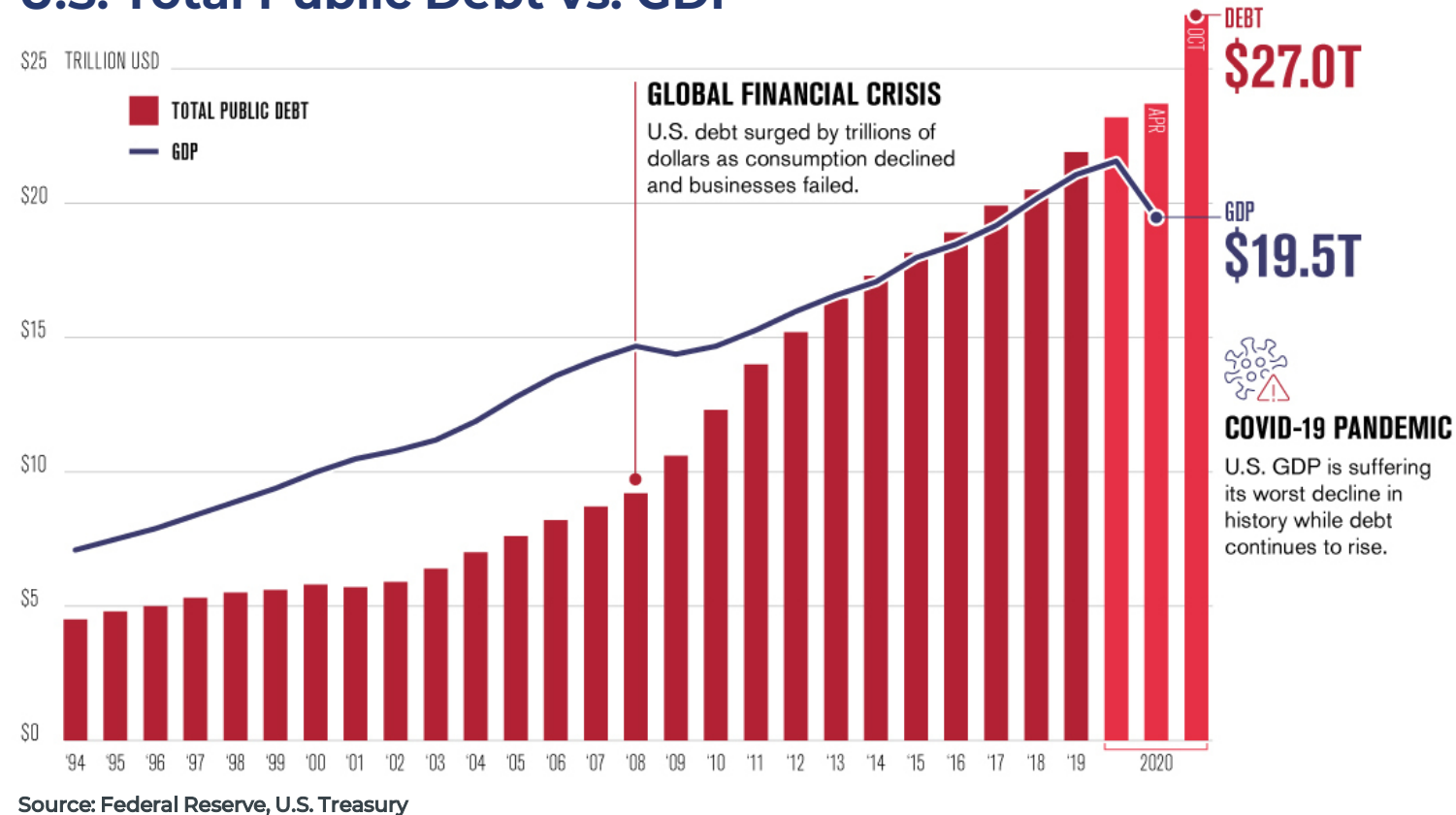
Fiscal Stimulus is Desperately Needed

- Nearly 20M adults currently behind in rent or mortgage payments
- In 3Q 2020, nearly 25% of household income came from government transfer payments
- 50% of Americans don't have US\$400 to meet an emergency
- In 2021, Congress is expected to approve US\$2.6T in stimulus on top of budgeted deficit

The Fed Must Fund the Stimulus

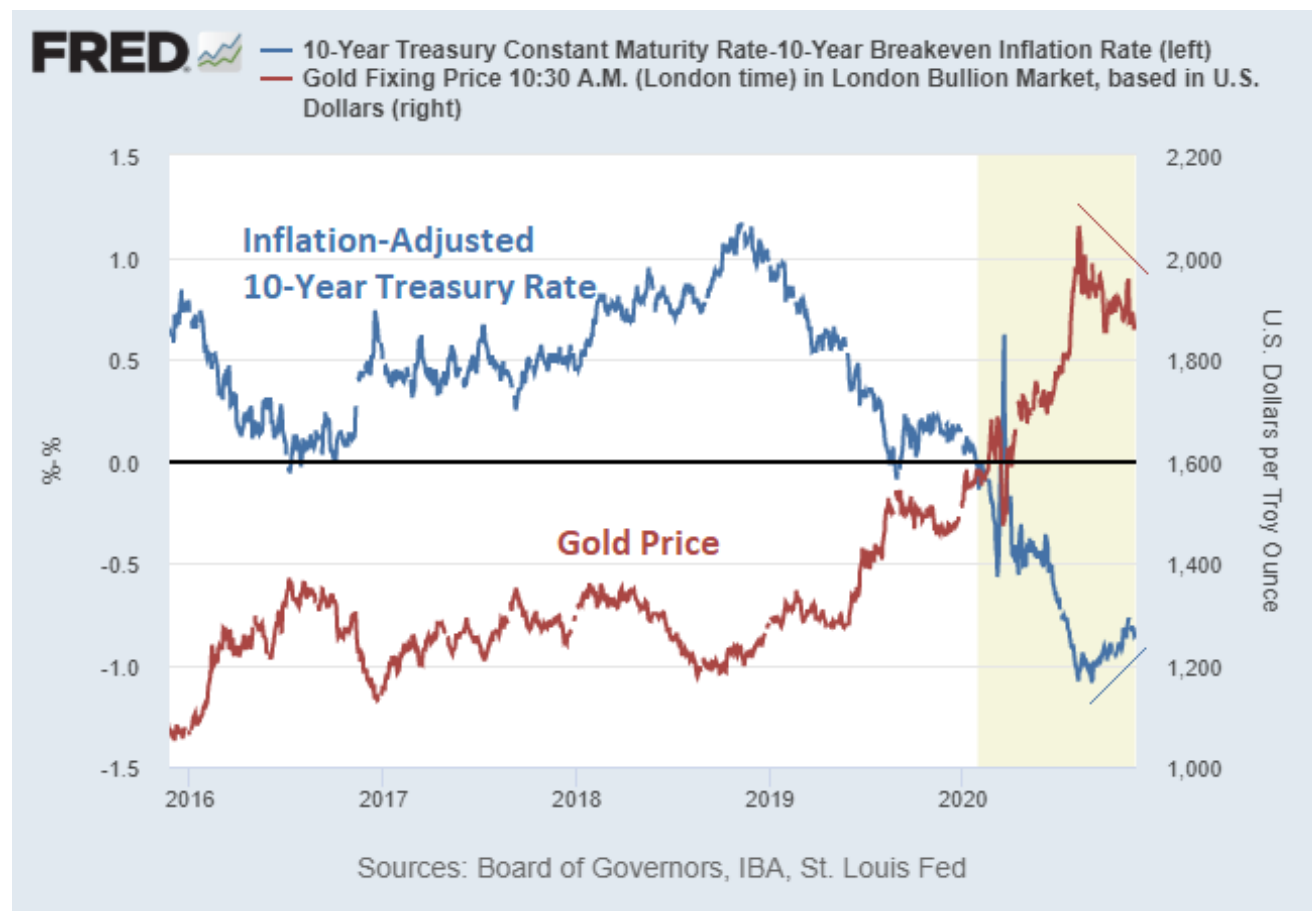
- The fiscal 2020 deficit was US\$3.1T
 - Federal expenditures were double tax revenues
- Another US\$3T+ deficit projected for 2021 or US\$30T in debt by year-end
- In 2020, the Fed's addition to its balance sheet was almost exactly equal to the increase in the deficit (monetization)
- The Fed will have to fund at least US\$3T in quantitative easing this year to fund the deficit
 - The current pace is 'just' US\$1.44T
- Foreign ownership of Treasuries at a 10-year low

U.S. Total Public Debt vs. GDP



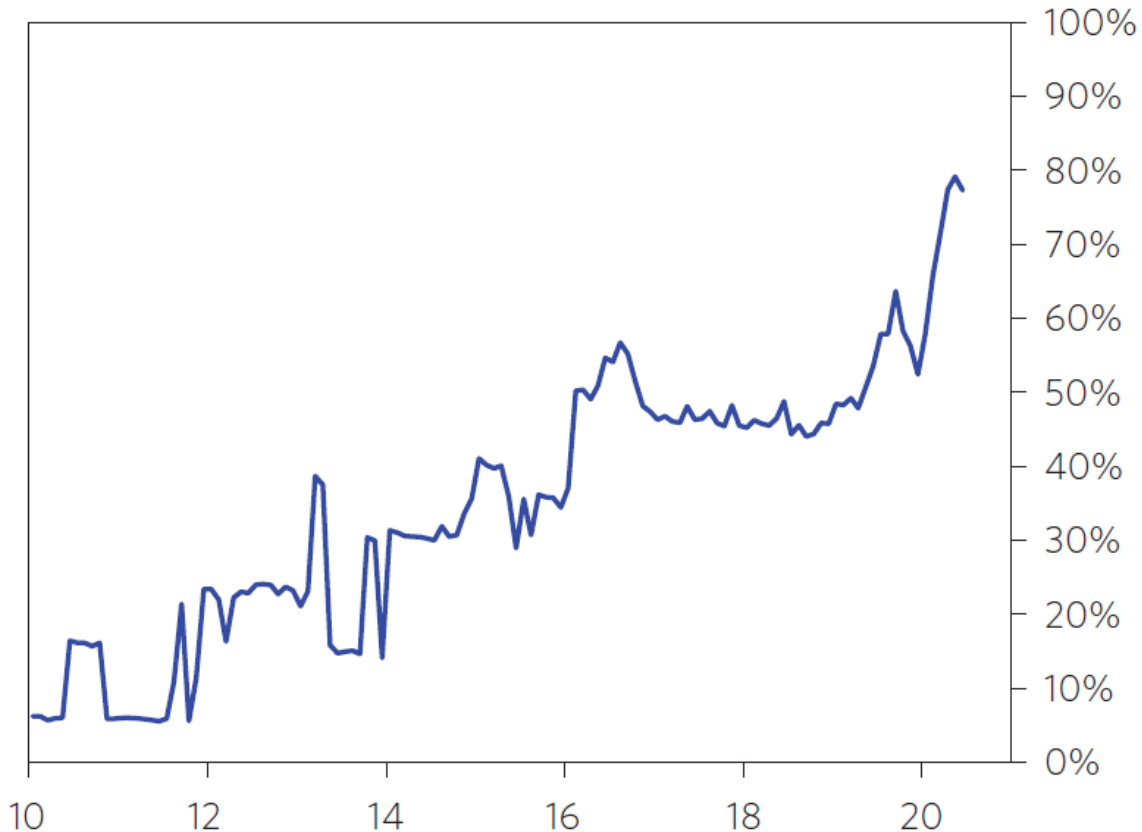
U.S. debt hit US\$27 trillion in Q3 2020. Since 2008, the U.S. has added US\$17 trillion in debt (63% of its entire debt)

- The Treasury is going to flood the market with new net issuance, putting upward pressure on interest rates
- Market expectations of an economic recovery have also boosted rates
 - +50bp increase = budget of the US Navy
- The economy can't afford higher rates
 - 20%+ of US public companies are zombies with operating income < interest expense
- Fed is likely to implement yield control in 2021



- Increased QE/Fiscal Stimulus will further weaken the U.S. dollar
- Yield control will lower real yields
- Low yields will drive investors from bonds to gold. Global bonds have grown to more than US\$100 trillion

Historic percentage of global debt in local currency yielding below 1%



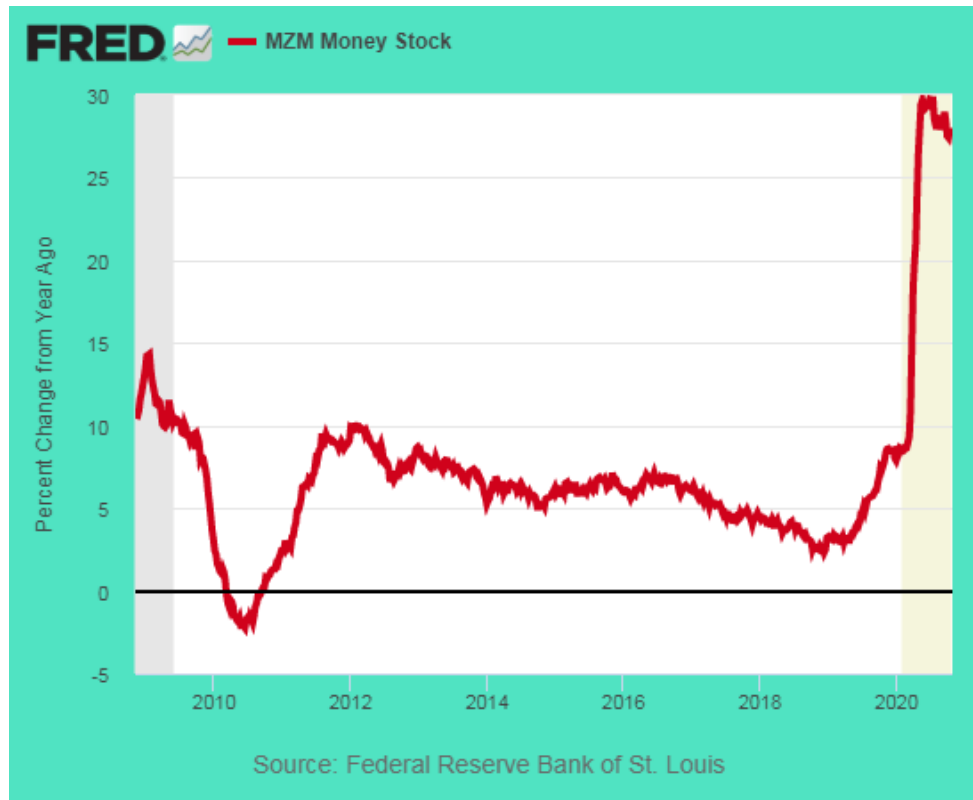
Source: Bloomberg

©2020 Crescat Capital LLC

The Gold Bull Market Has Just Begun

- The global supply of gold is growing at about 1.3% per year vs. >28% for U.S. dollars
- Global above ground gold is less than 0.5% of global money supply
- Gold's share of global assets is less than 3%
- Apple's market cap is equal to 2.5x the entire gold industry

Historic growth in U.S. money supply



Gold's share of global assets remains near multi-year lows

