Gold Market Update

June 8, 2021

Inflation is Ramping Up

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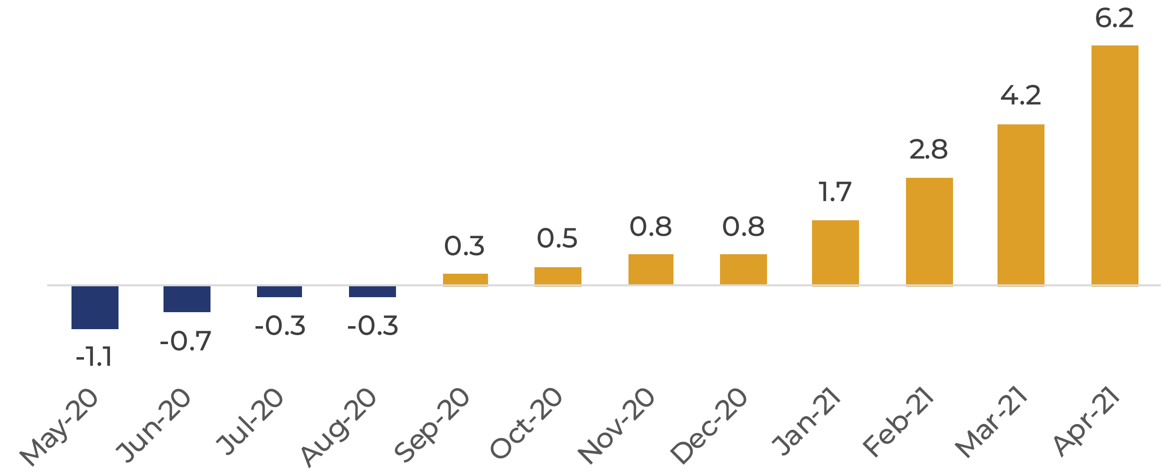
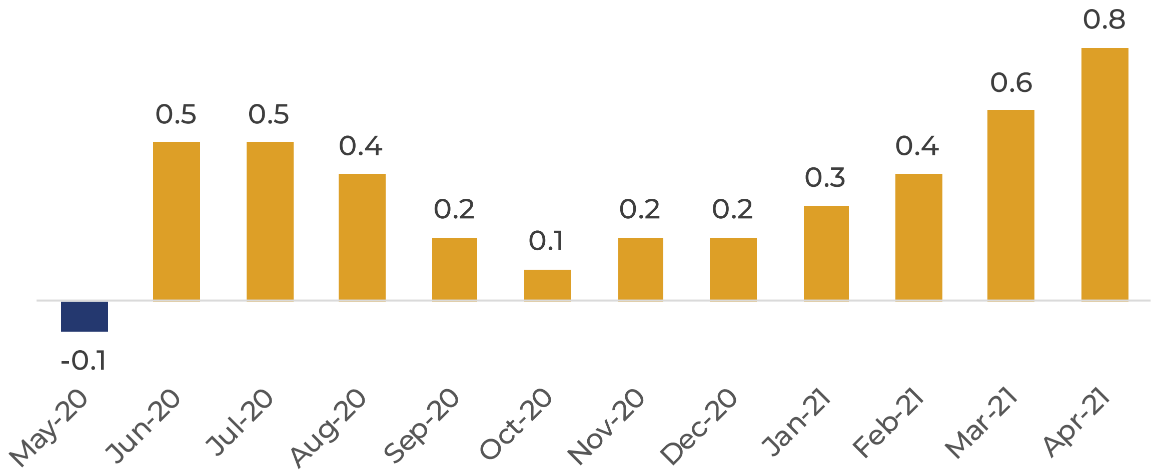
- Inflation is accelerating across commodities, goods and services and wages, similar to the 1970s

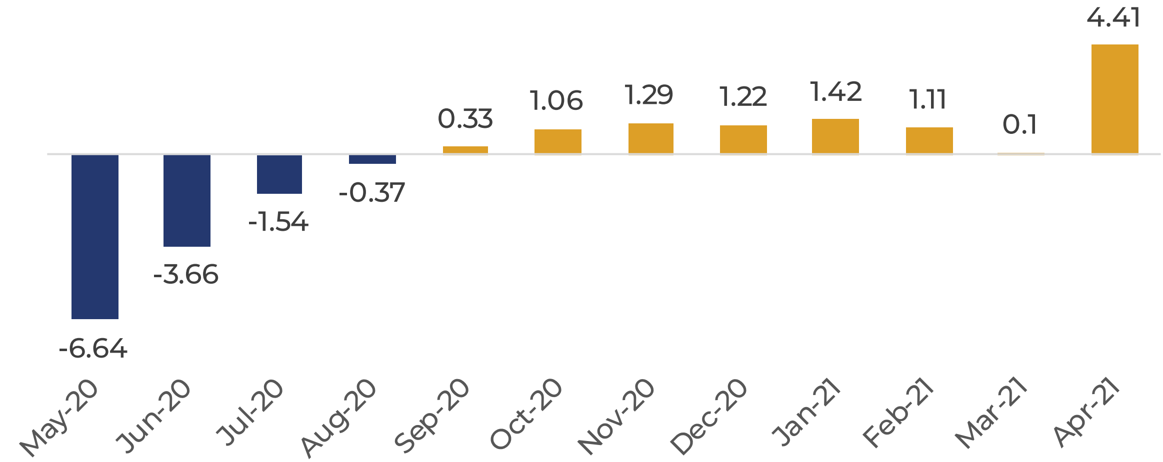
U.S. Producers Prices



U.S. CPI (month-over-month)



U.S. Wage Growth



Source: Tradingeconomics.com

Money Supply Growth Continues to Accelerate

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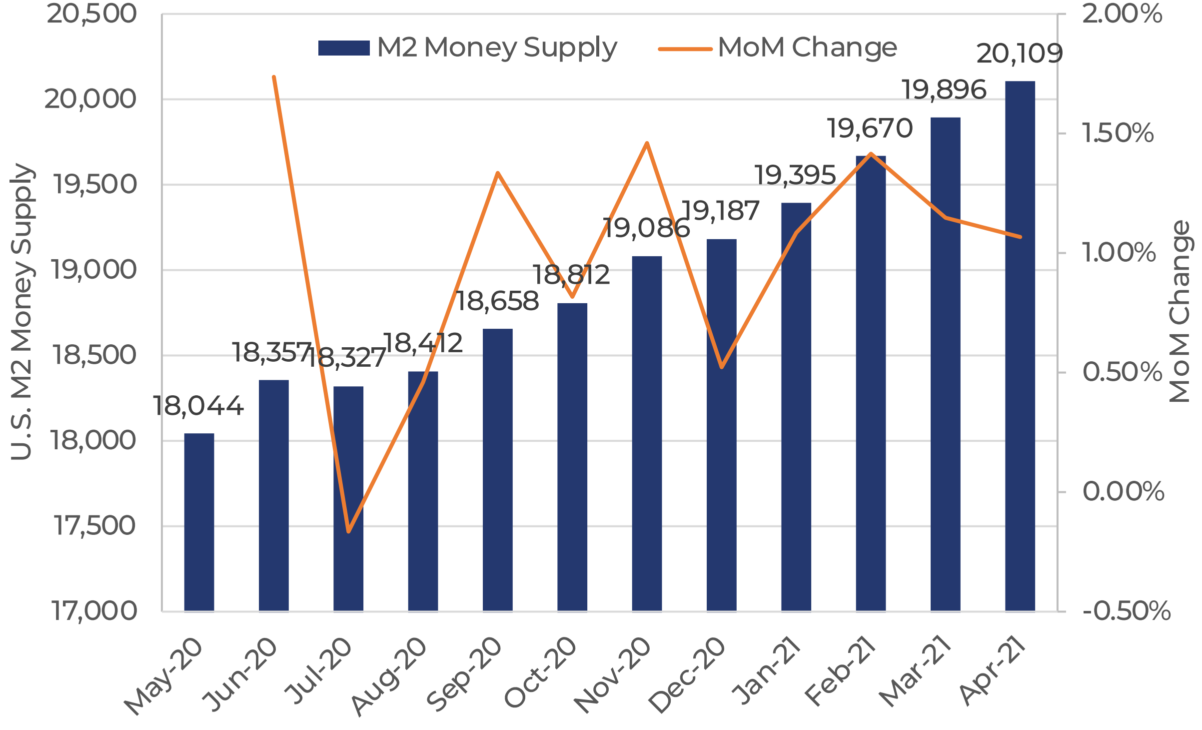
- U.S. money supply average monthly money supply growth:

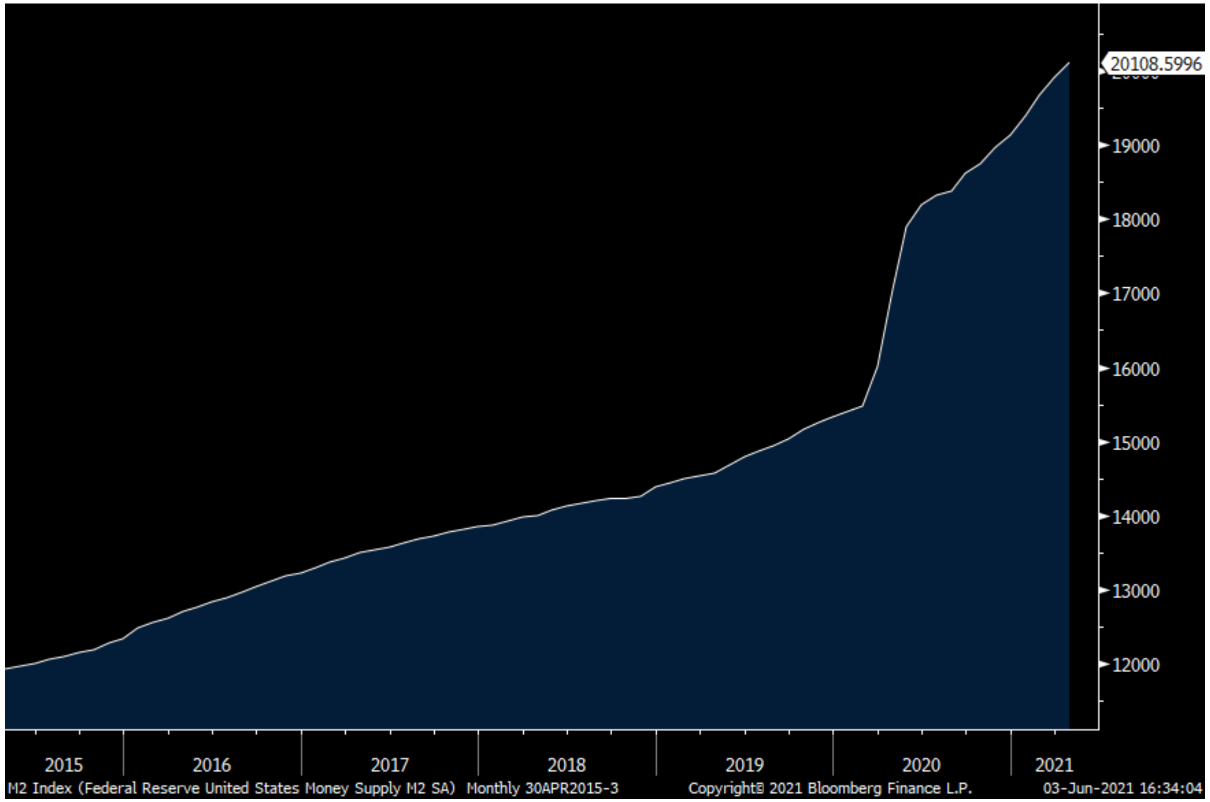
first 4 months of 2021	US$244B/month	↑53%
first 6 months of 2020	US$159B/month	

U.S. Money Supply (M2)



Source: Tradingeconomics.com

Federal Reserve U.S. Money Supply (M2)



What Does a Debt-to-GDP Ratio of 130% Mean?
Restructuring or Default

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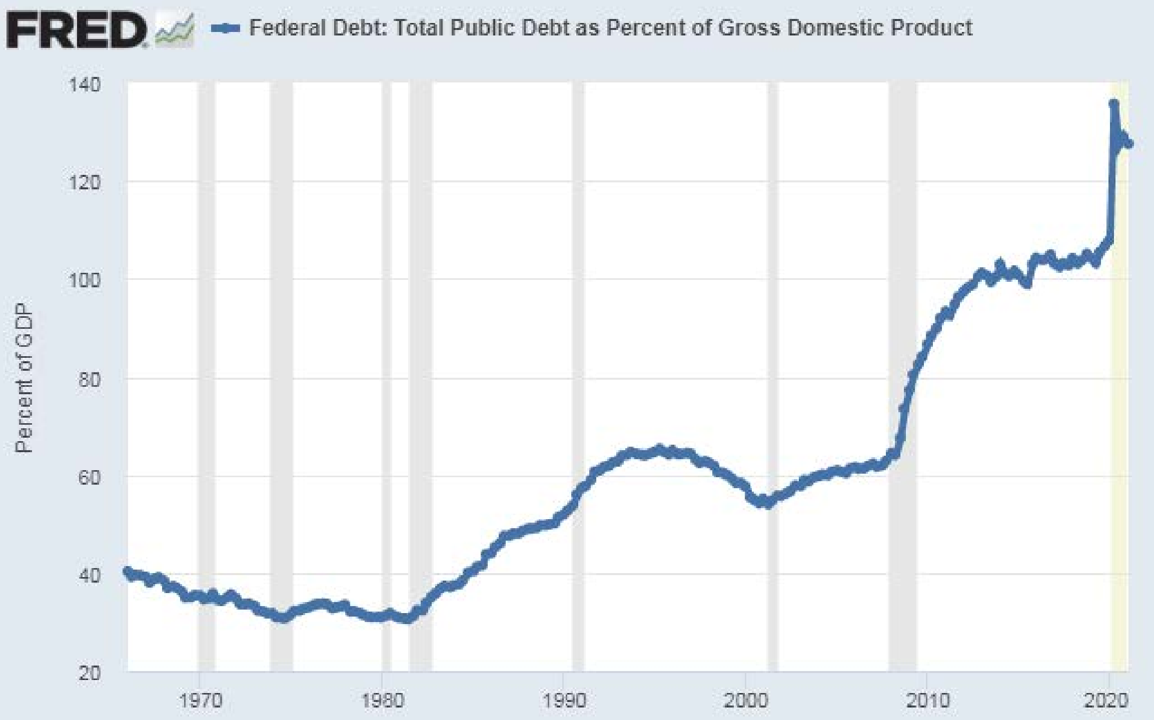
U.S. Total Debt as a % of Gross Domestic Product



Sources: OMB; St. Louis Fed

Examples of Government Defaults

Country	Year 130% Threshold Crossed	Default Year	Default Type	Default Cause
Argentina	1827	1827	Outright default	Independence
Spain	1869	1877	Restructuring	Revolution
Turkey	1872	1876	Outright default	Drought and floods
UK	1919	1931	Devaluation	World War I
France	1920	1920	High inflation	World War I
Germany	1918	1922	Hyperinflation	World War I
Japan	1943	1943	Various	World War II
Australia	1945	1946	High inflation	World War II
Canada	1946	1946	High inflation	World War II
Ghana	1960	1966	Restructuring	Lower exports
Costa Rica	1981	1981	Outright default	Lower exports
Greece	2010	2010	Bailout	2008 Financial Crisis

Source: Reinhart and Rogoff, RIETI Japan, Bloomberg, HC estimates

Tapering is Not an Option

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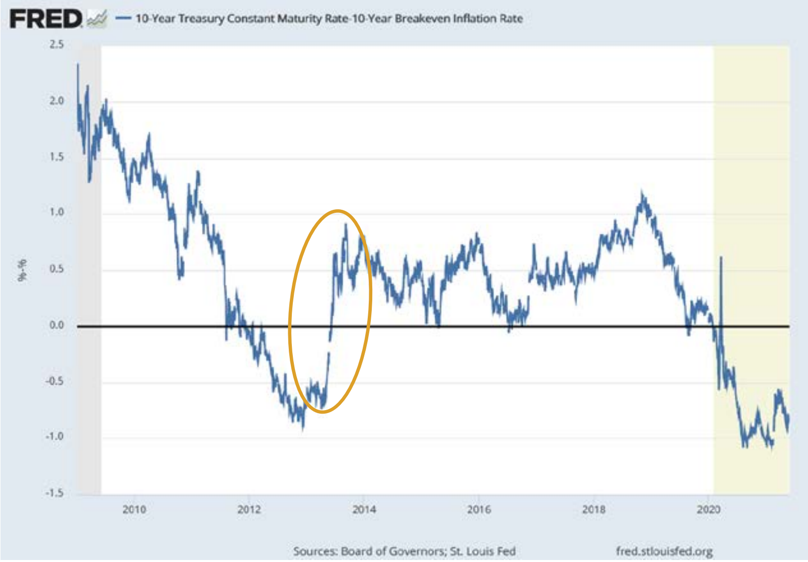
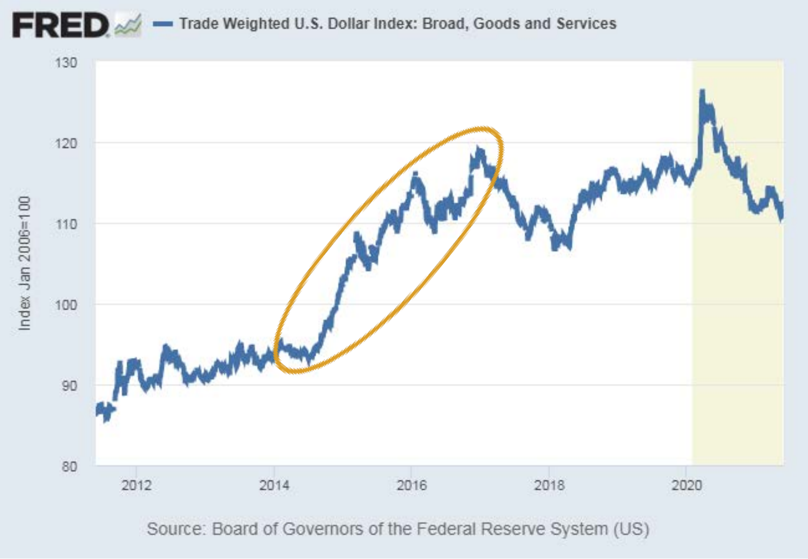
- If it created a panic at a 100% debt-to-GDP ratio in 2014, what does it do at 130% during a period of trillion dollar deficits and declining foreign funding

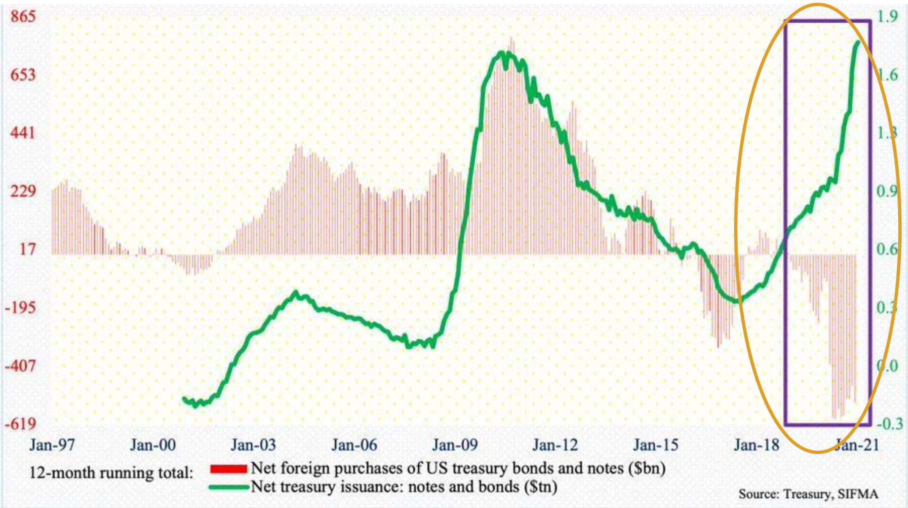
10-year Treasury Constant Maturity:10-year Breakeven Inflation Rate



Trade Weighted U.S. Dollar Index (Broad Goods & Services)



Foreign Purchases to U.S. Treasury Bonds/Notes Continue to Decline Despite Massive Increase in New Issuances



The Problem is the Twin Deficits in the U.S.

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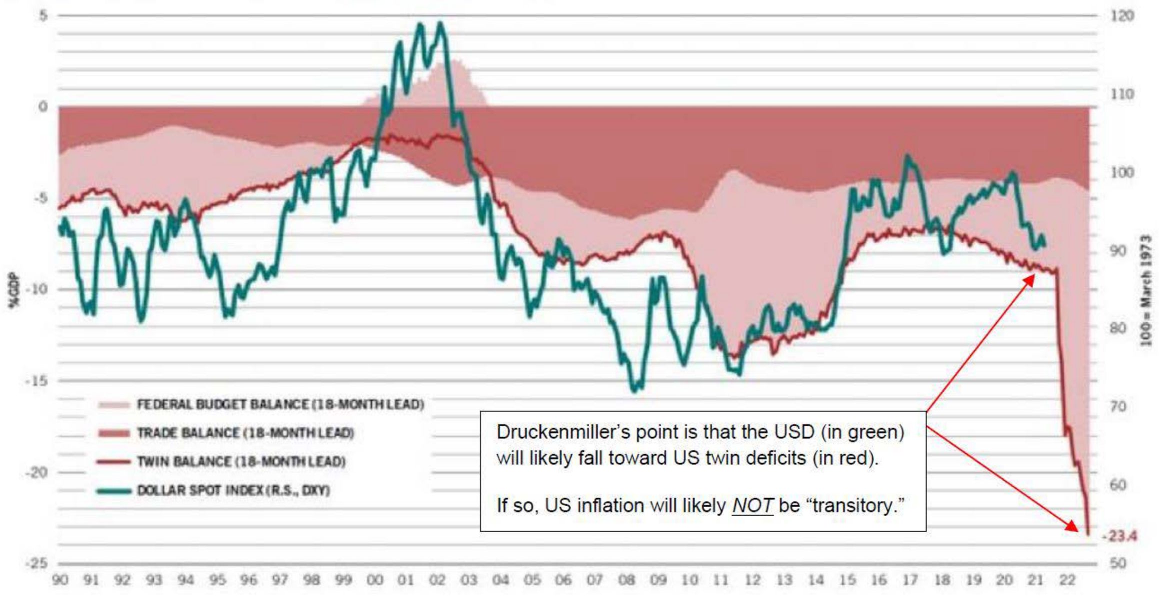
- Savings = Investment = Growth
- The U.S. has negative savings
- Foreign savers funded U.S. deficits and U.S. growth until 2018 when cross-currency hedging costs skyrocketed
- The Fed must now provide the 'savings' as the U.S. deficit has exploded
- The dollar must pay the price

U.S. Dollar Index (100 = March 1973) & Twin Balance (% of GDP)



Source: Patrick Zweifel, Pictet Asset Management

The Fed has Filled the Hole

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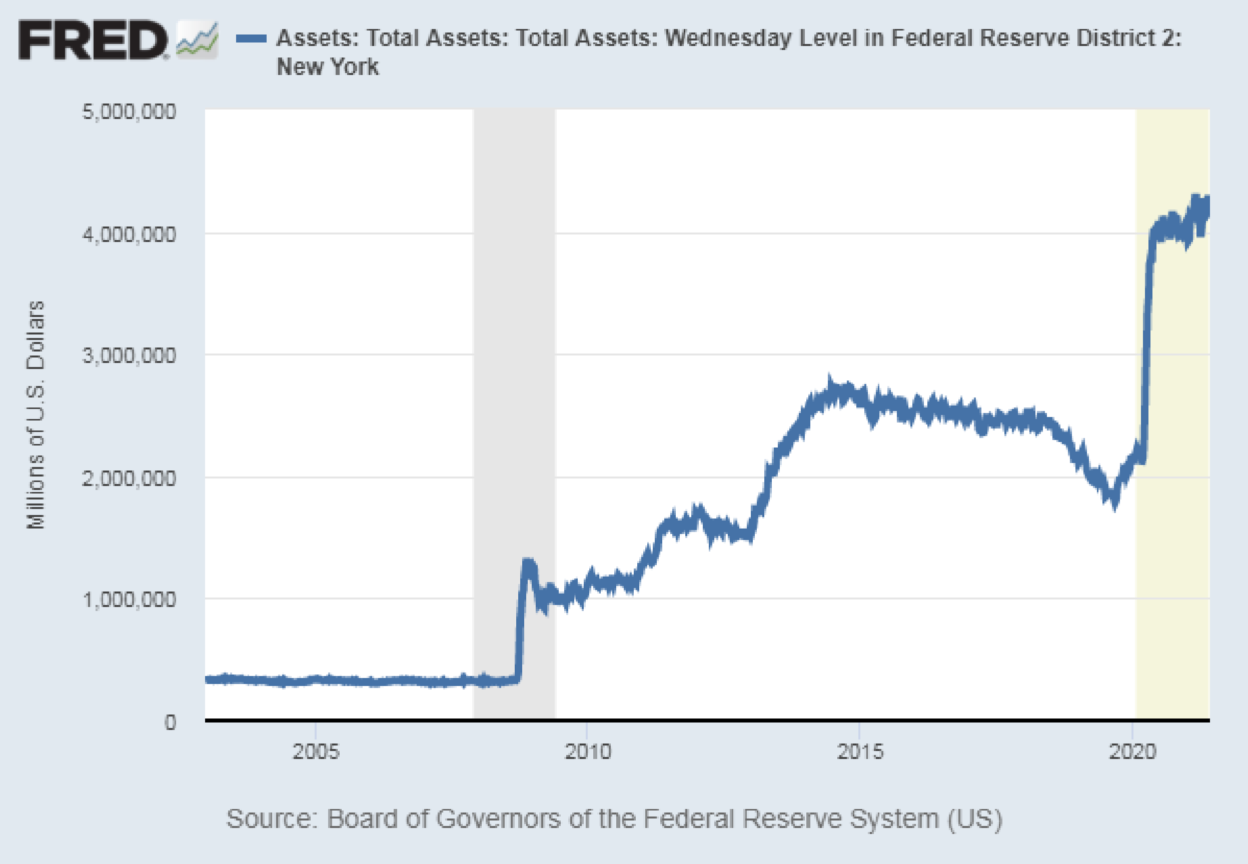
This is what monetizing sovereign debt looks like



Only Option: Deleverage the U.S. Balance Sheet by Inflating Away the Debt

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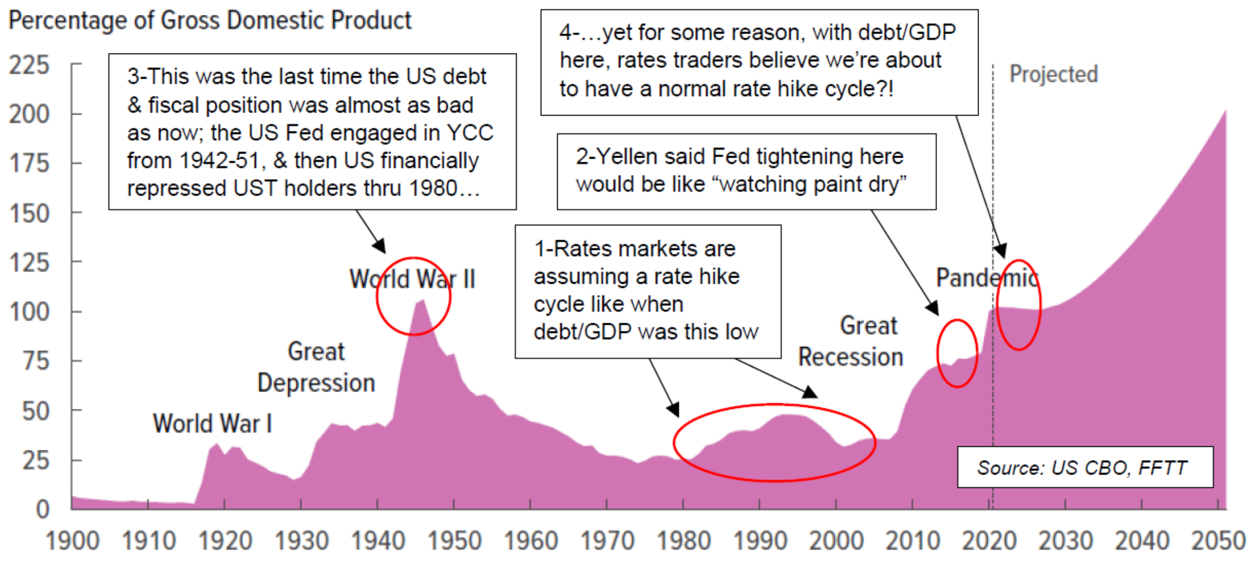
A Policy of Untransitory Inflation

Phase I

- Yellen/Biden have promised greater income equality
- They have committed to 'go big'
- New income support programs, infrastructure spending
- Very aggressive carbon objectives
- The stimulus won't stop...MMT is here

Phase II

- US$ trillion deficits to continue (CBO)
- Savings = Investment = Growth
- U.S. has net negative savings (twin deficits)
- Growth has been funded by foreign savers buying Treasuries
- This funding has ended
- The Fed must fund the 'savings'



Where are we Headed?

- Aggressive deleveraging of the US balance sheet
- 130% U.S. Debt to GDP is unworkable Nominal U.S. GDP must grow faster than debt
- Interest rates must remain well below nominal growth rate
- Financial repression: it's 1946 again
- Yield control and deeply negative rates
- A much weaker dollar and a real gold bull market

Sneak Preview Signals

- Two significant changes to the U.S. budget
- Real net interest payment calculation (after inflation)
- Real net interest payments as percentage of debt
- Why do this without expecting higher inflation?