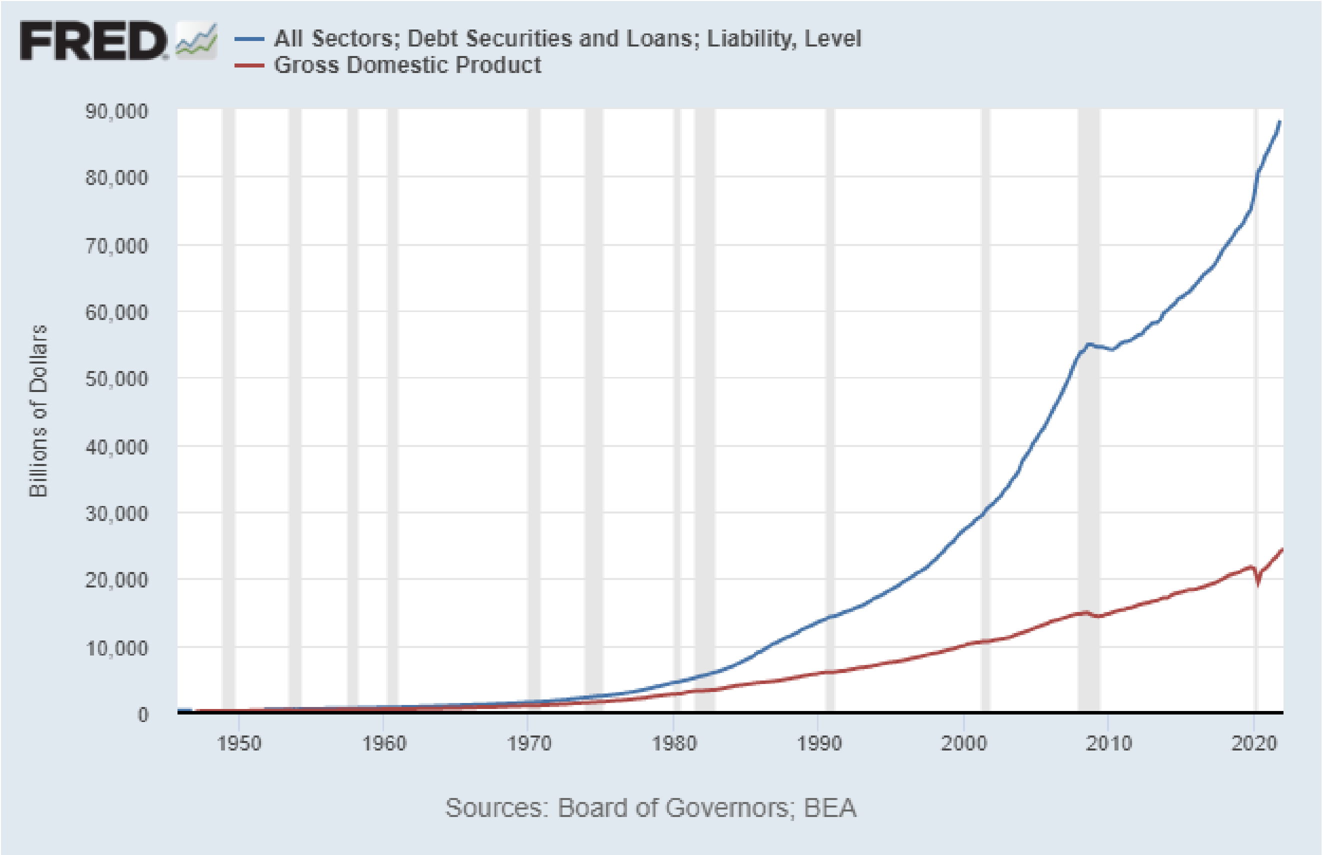
SEABRIDGE GOLD

GOLD MARKET UPDATE

June 29, 2022

THE FED'S DILEMMA

- One man's debt is another man's asset. We own debt as deferred consumption, a form of savings. Debt is a claim on goods and services. Stocks too!
- The basic problem: We have created far more claims on goods and services than we produce goods and services
- Investment and productivity have declined while debt has accelerated…an unsustainable trend
- COVID response triggered a crisis: massive new debt-funded spending while GDP collapsed, unleashing inflation
- Inflation or default is needed to reconcile the two lines
- This is the Fed's dilemma



THERE ARE NO GOOD CHOICES

OPTION 1: FIGHT INFLATION AND TAKE DOWN THE VALUE OF FINANCIAL ASSETS

- Raise interest rates at the short end. Reduce the Fed balance sheet (called QT, taking money out of the system and retiring it)

IMPLICATIONS

1. Marginal businesses go bust and unemployment rises
2. Tax receipts fall while public expenditures rise, driving the deficit higher and threatening a sovereign debt crisis (the market is the economy)
3. QT, falling tax receipts and a declining sovereign credit rating drive down Treasuries, raising yields and interest expense, further pressuring the Treasury (China and Japan are selling)
4. Dollar goes higher, helping inflation but worsening balance of payments and dislocating third world economies which borrowed in dollars
5. Bank savings rates rise
6. The Debt to GDP ratio rises from the current 125% and at these levels every sovereign has defaulted historically
7. Gold is constrained until default fears drive bondholders to gold

Bottom line: the last financial crisis transferred debt ‘upstairs’ from corporates to central banks. There is nowhere else to go now but bust

THERE ARE NO GOOD CHOICES (CONTINUED)

OPTION 2: EMBRACE INFLATION AND SAVE DEBT FROM DEFAULT

1. Restart QE and save the Treasury market in nominal terms
2. Brings down yields and interest payments. Deeply negative real rates return. (-14% in 1950)
3. Finances Treasury spending to ameliorate the social impact of double digit inflation.
4. Brings down the debt/GDP ratio (inflating away the debt)
5. Accelerates needed re-shoring of the U.S. economy and increases defense capabilities
6. Devastates retirement incomes and lower income earners
7. Encourages the rise of activist unionism. Rebalances labor's share of national income
8. Gold flies and is confirmed as the only reliable form of money for storing wealth

Bottom line: the only real choice because the current paradigm continues.
The U.S. has done this before