Gold Market Update

December 2020

Economic Outlook

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The bulls say…

- Expect H1 2021 rapid real economic growth due to vaccines plus some added stimulus but no inflation
- Inflation expectations are on the rise

We say…

- Serious damage has been done to corporate balance sheets
- The labour market is very weak and getting weaker
- The economy has been held together by unprecedented fiscal stimulus. Millions of consumers are at the breaking point
- Massive fiscal stimulus will be required, much of it financed by the Fed's quantitative easing

Economic Snapshot: a Weak Labour Market

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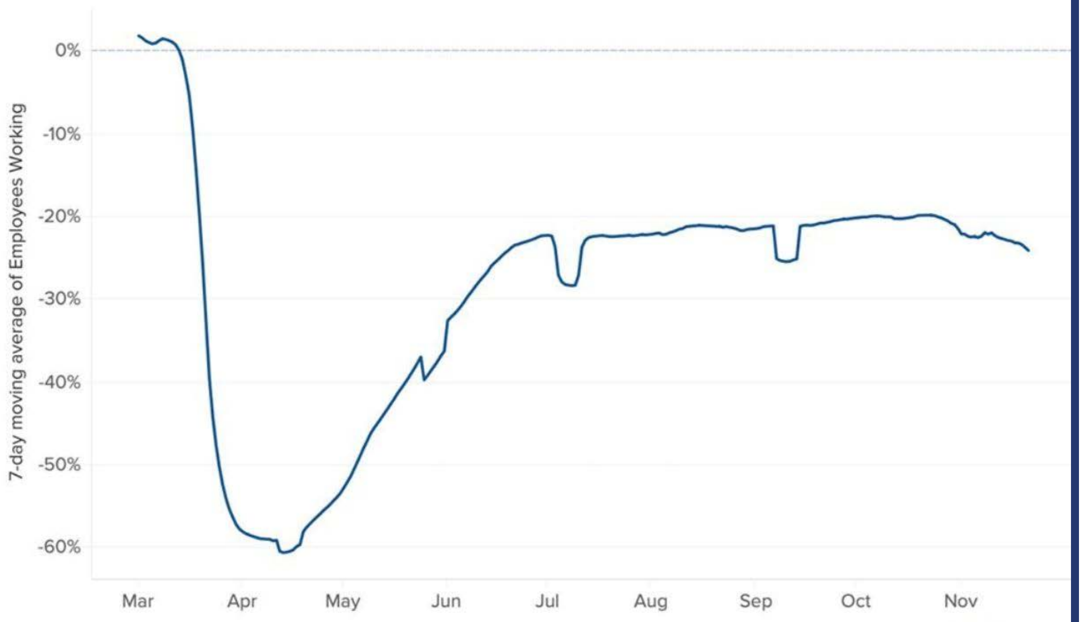
- Initial jobless claims are running at 4x pre-Covid levels
- The latest ISM data was negative
- The November jobs report was a disaster... only 245K jobs added vs 470K expected and 610K revised for October
- The December jobs report is likely to be negative

Monthly change in non-farm payroll employment in the U.S. (2015 to 2020)

Source: U.S. Bureau of Labour Statistics

14 million workers face losing unemployment benefits at the end December

THE 7-DAY AVERAGE OF SMALL BUSINESS EMPLOYEES NOT WORKING HAS STARTED TO CLIMB AGAIN



Source: Homebase

CNBC

Historic Fiscal Deficits Insufficient to Meet Demands of COVID-19

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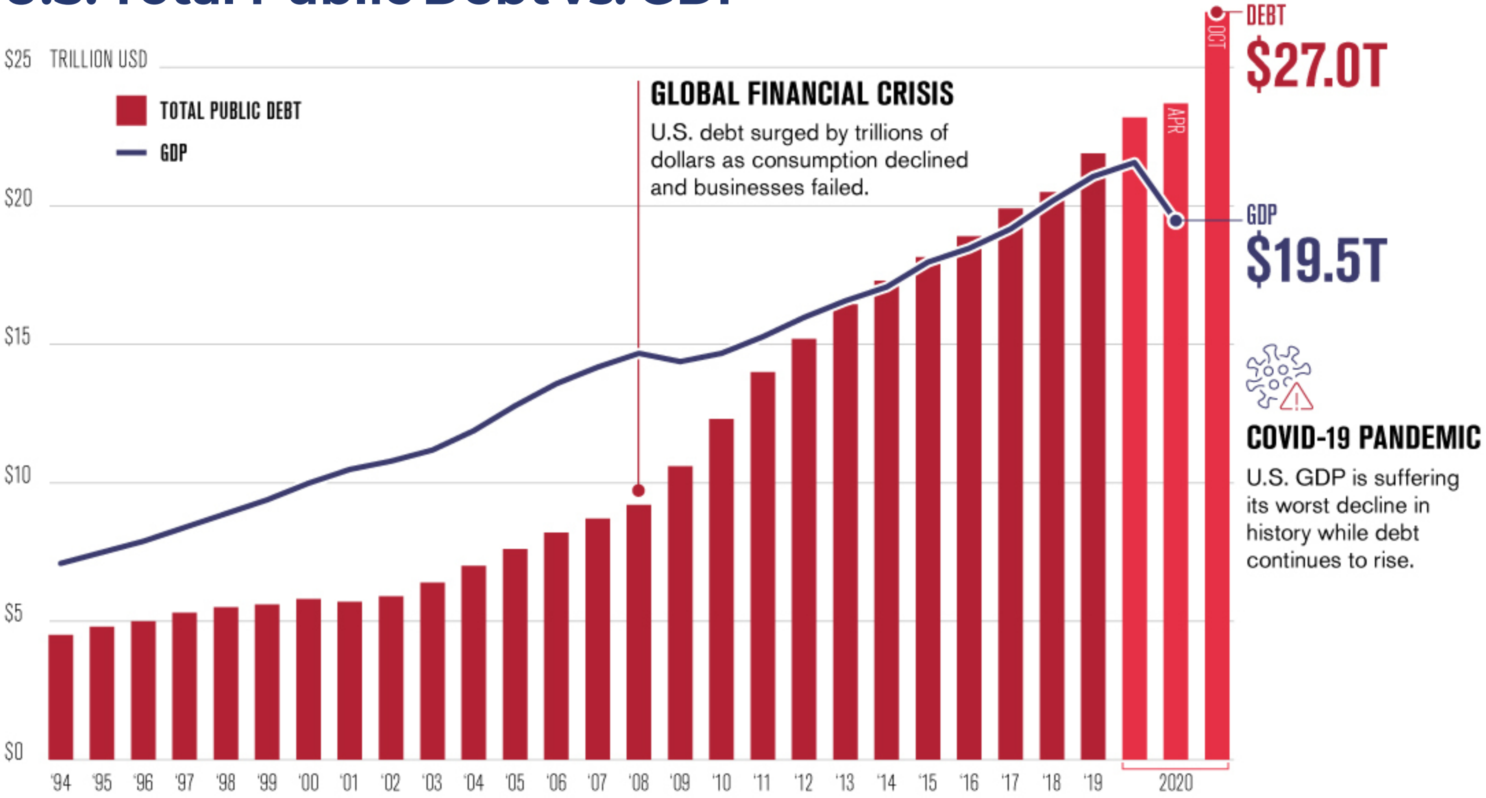
Fiscal Stimulus is Desperately Needed

- 17.8M U.S. adults currently behind in rent or mortgage payments
  - U.S. Census Bureau predicts 5.8M adults face eviction or foreclosure by January 1, 2021
- In 3Q 2020, nearly 25% of household income came from government transfer payments
- 75% of Americans do not have $500 to meet an emergency

The Fed Must Fund the Stimulus

- Fiscal 2020 deficit was US$3.1 trillion
  - Federal expenditures were double tax revenues
- Another US$3 trillion+ deficit projected for 2021 or US$30 trillion in debt by year-end
- In 2020, the addition to the Fed's balance sheet was almost exactly equal to the increase in the debt
- The Fed will have to do at least US$3 trillion in QE this year to fund the deficit. The current pace is 'just' US$1 trillion
- Foreign ownership of U.S. treasuries at a 10-year low

U.S. Total Public Debt vs. GDP



Source: Federal Reserve, U.S. Treasury

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 Fed's Dilemma

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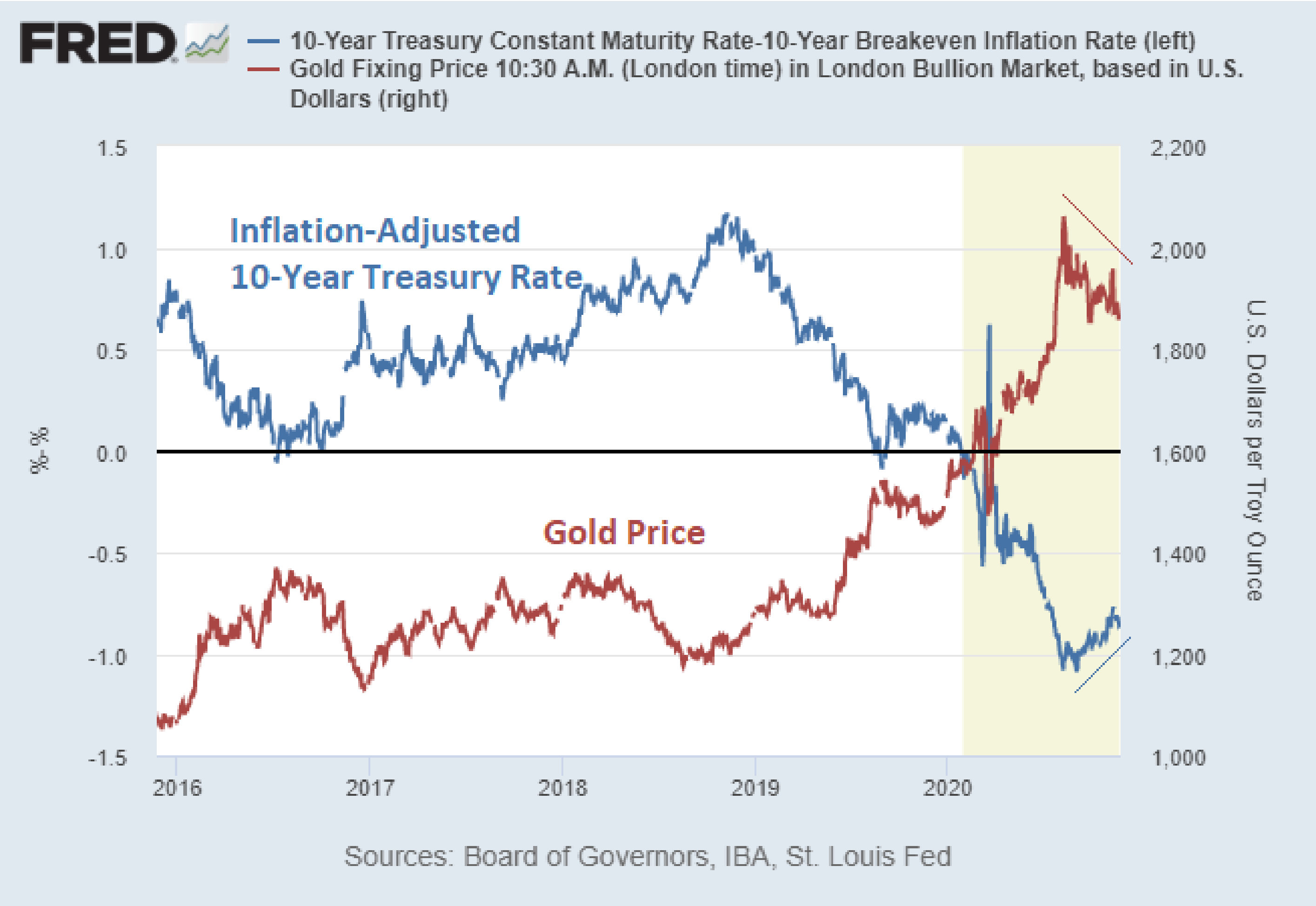
- The Treasury is going to flood the market with new net issuance, putting upward pressure on interest rates
- Market expectations of an economic recovery have also boosted rates
  - The net short speculative position in long duration Treasuries is at an all-time high
- The Fed can't afford to see rates go up
  - Over 20% of U.S. public companies are zombies
- Fed is likely to implement yield control in 2021



Gold Friendly Fed Policy Expected in Q1 2021

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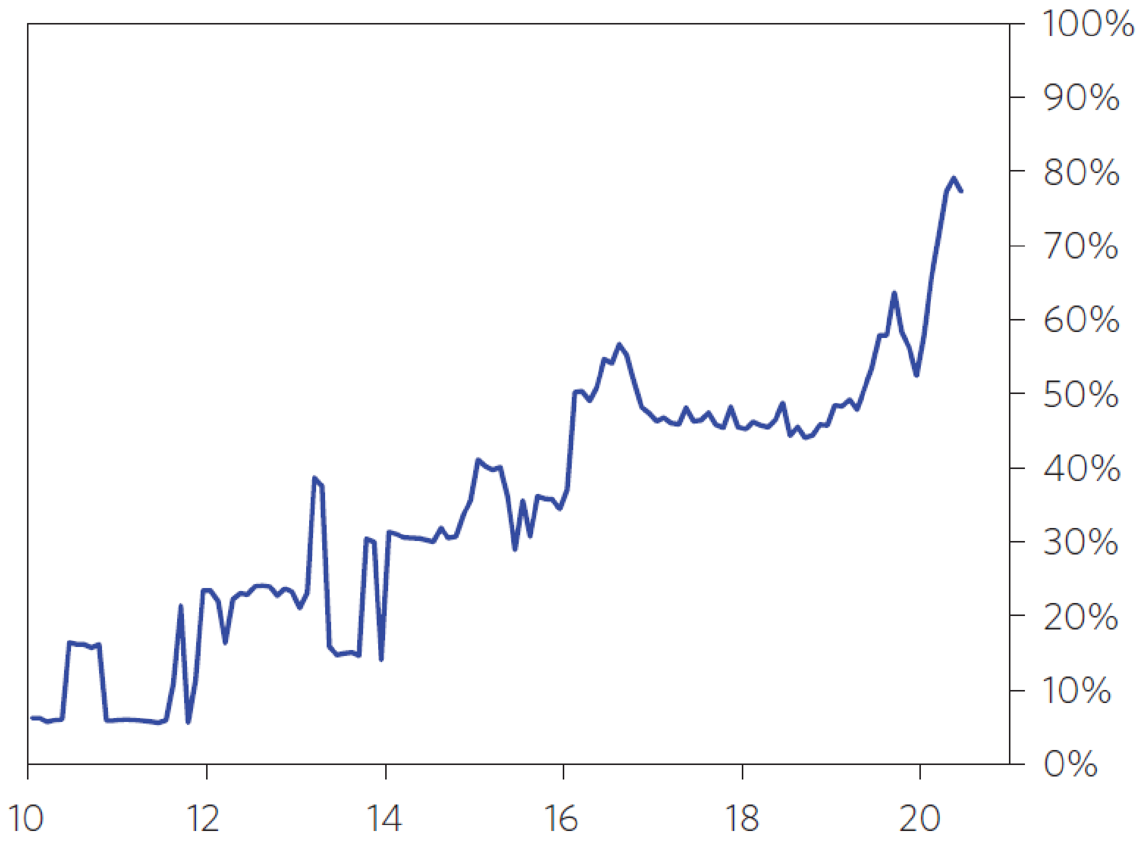
- Increased QE/Fiscal Stimulus will further weaken the U.S. dollar
- Yield control will lower real yields
- Low yields will drive investors from bonds to gold. Global bonds have grown to more than US$100 trillion

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



The Gold Bull Market Has Just Begun

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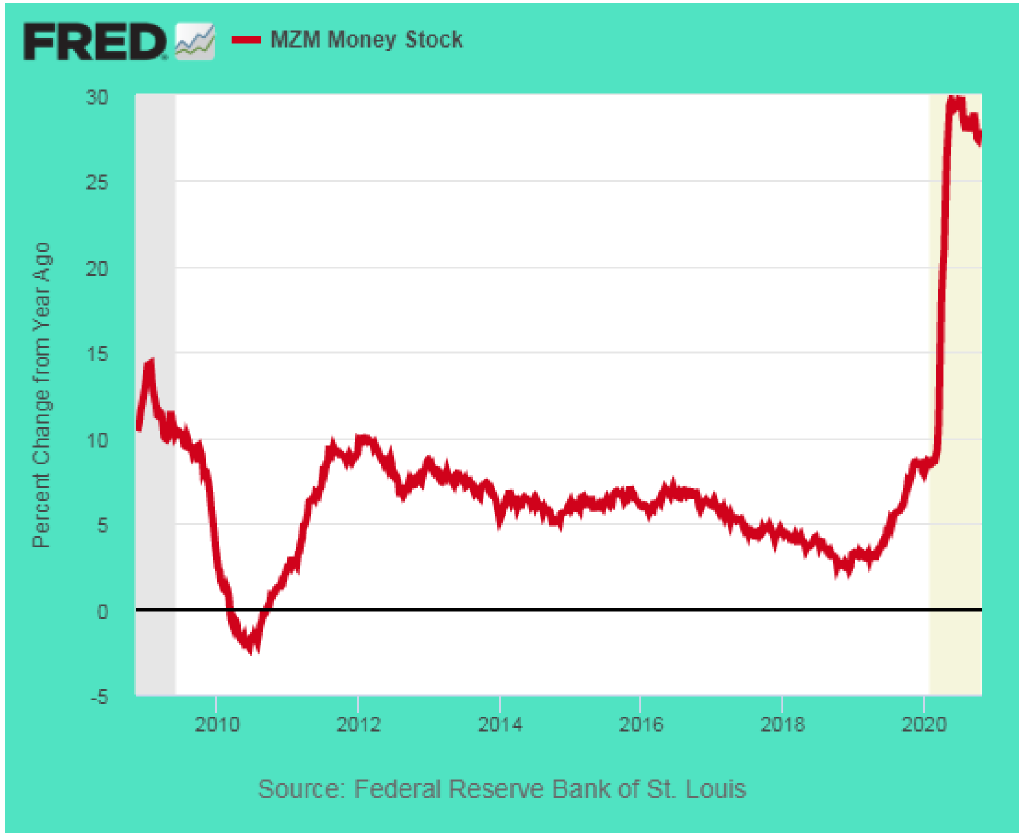
- The global supply of gold is growing at about 1.3% per year vs. 28%+ for U.S. dollars
- Global above ground gold is less than 0.5% of global money supply
- Gold's share of global assets is less that 3%

Historic growth in U.S. money supply



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