

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

December 13, 2021

The New Gold Bull Market: *Waiting for the Other Shoe to Drop*



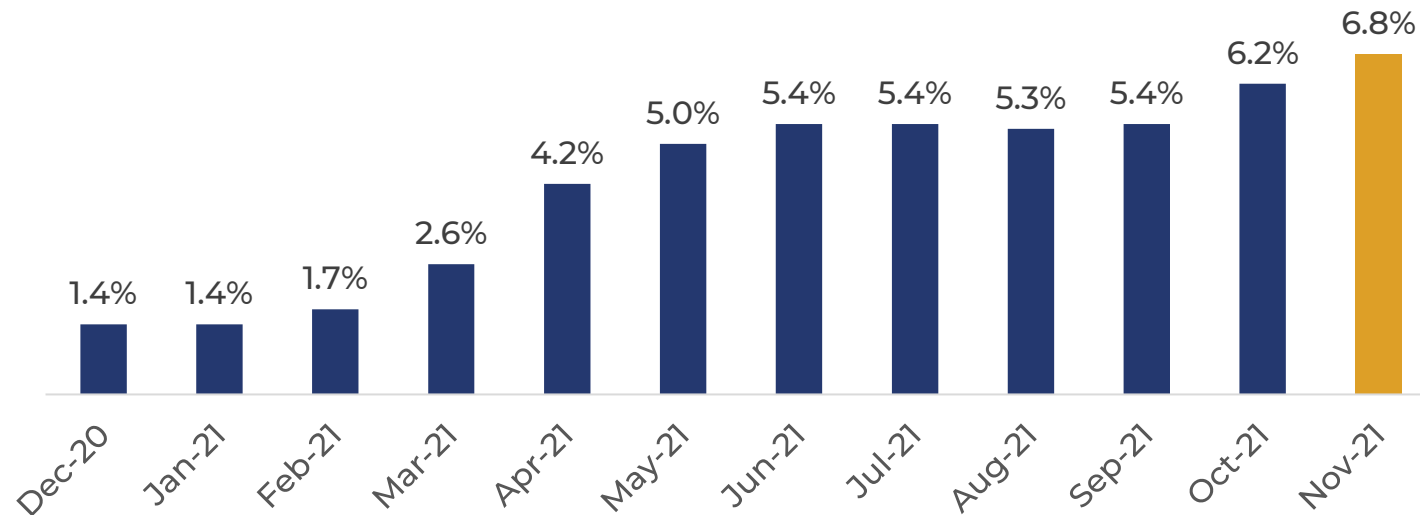
“Timing is everything. The moment they relax and stop waiting for the other shoe to drop, I let ‘em have it!”

The First Shoe has Already Dropped: Inflation is No Longer Transitory

Bloomberg headlines of Fed Chair Jay Powell’s Congressional testimony

- “Risk of more persistent inflation has risen”
- “Baseline expectation is that inflation will move back down over the course of next year”
- “Time to retire the word transitory regarding inflation”
- “At next meeting, will discuss accelerating taper by a few months”

U.S. Annualized Inflation Rate



Source: Tradingeconomics.com

Probability of 3 Rate Hikes by End of 2022



Source: Bloomberg

But the Fed is going to deal with it...

The Second Shoe to Drop: When the Fed Doesn't Raise Rates

Illiquidity signals since the Fed committed to tightening:

- ✓ Dollar up
- ✓ Yield curve flattening dramatically resisting an expected bond rout
- ✓ The eurodollar curve is starting to invert
- ✓ Extraordinary volatility in stocks and bonds
- ✓ The rockiest 30-year Treasury bond auction in a decade
- ✓ A one week 30% drop in liquidity-correlated BTC
- ✓ A crash in the Turkish Lira

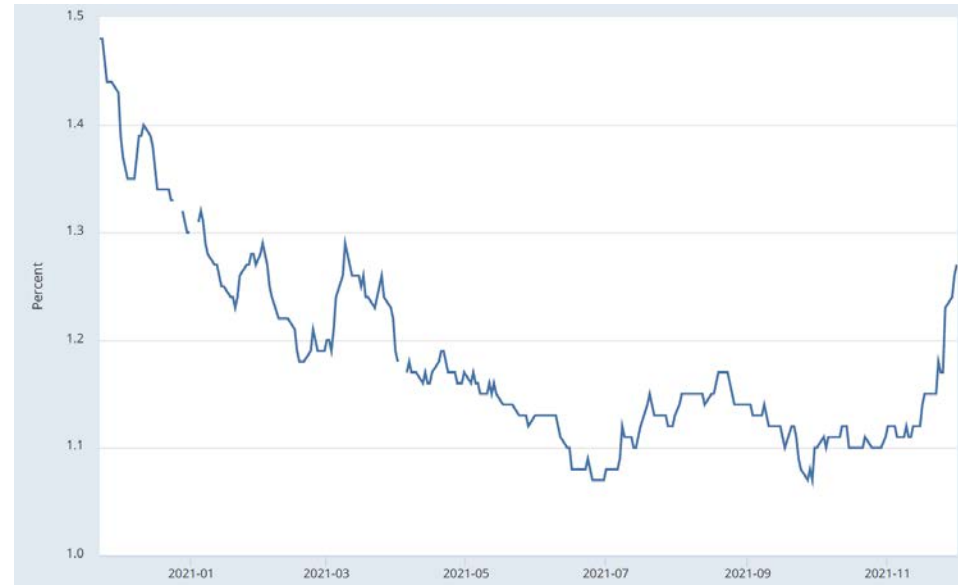
Bloomberg U.S. Gov't Securities Liquidity Index



Source: Bloomberg

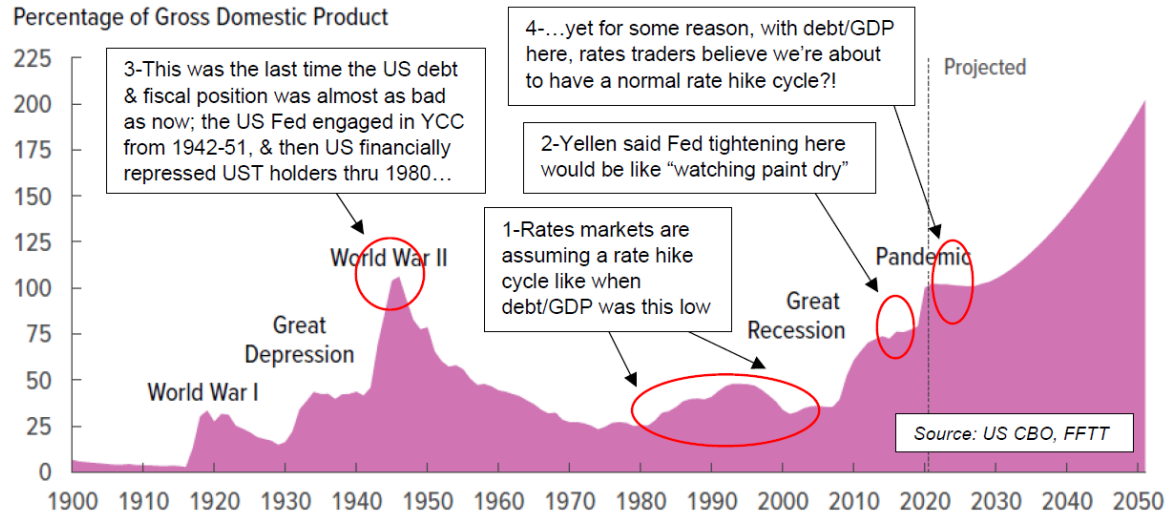
U.S. government securities are becoming harder to trade

ICE BofA BBB U.S. Corporate Index Option-Adjusted Spread

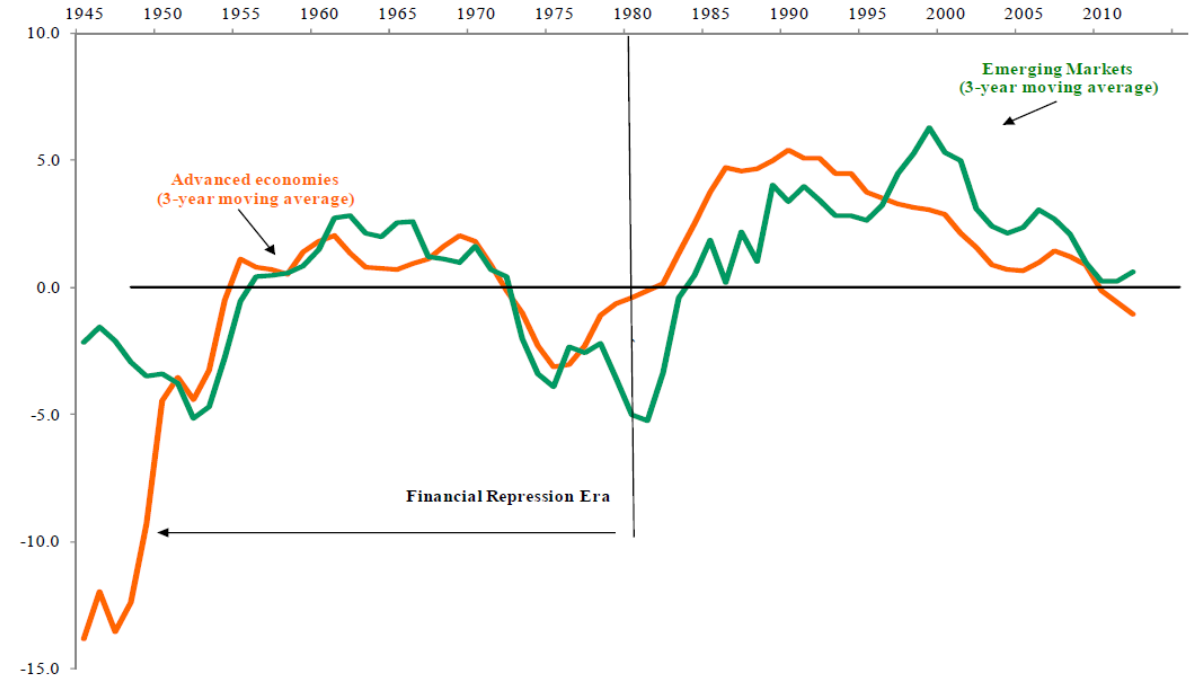


Source: Ice Data Indices, LLC

The Fed needs to embrace inflation ... and will



Average Ex-post Real Rate on Treasury Bills: Advanced Economies and Emerging Markets, 1945 – 2012 (3-year moving averages, in %)

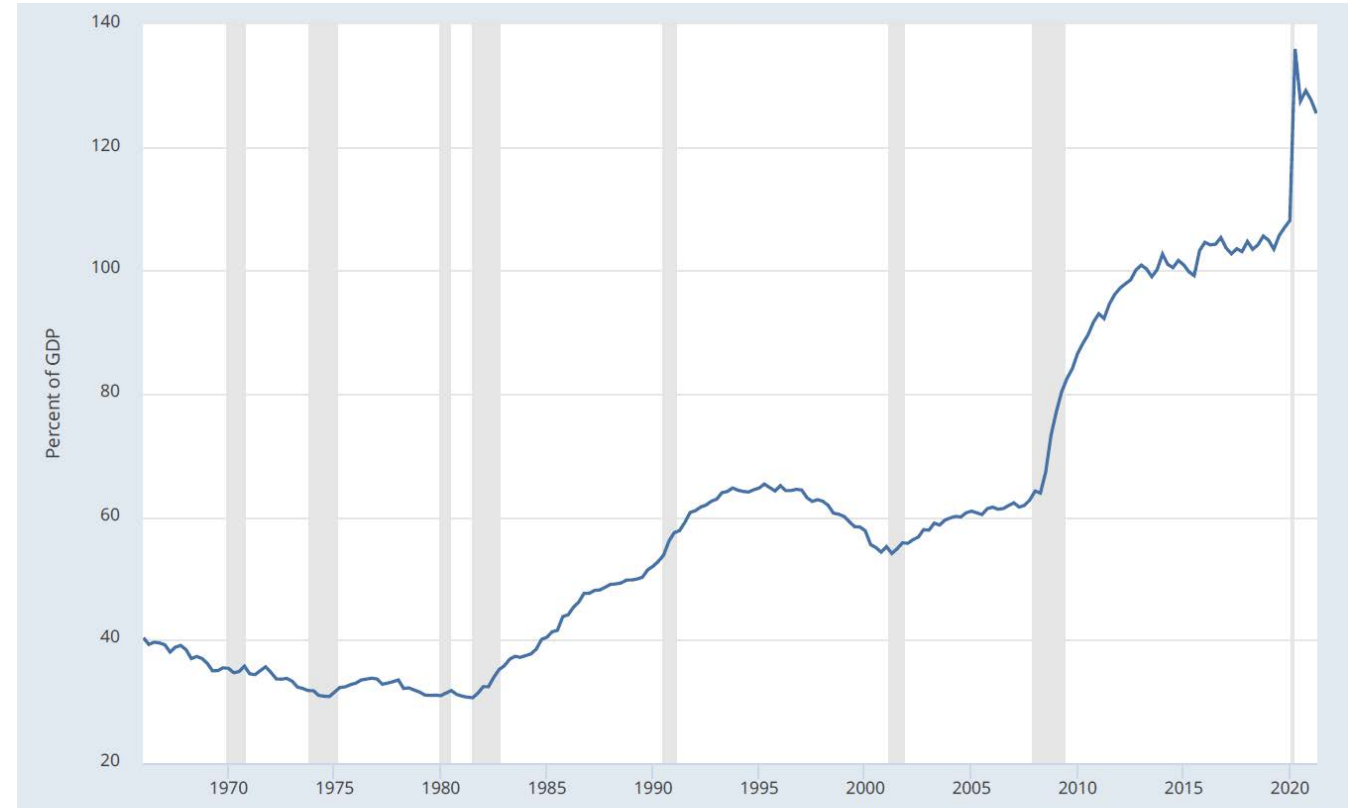


It is not the 1970s ... it is the 1940s. Debt must be inflated away

The Second Shoe Will Drop in 2022 Via Continuing Financial Repression

- Nominal growth rate must exceed rate of debt increase
 - Inflation must run above interest rates
- Dollar will lose substantial value and gold will re-enter a bull market on the way to new highs
- Debt to GDP has already dropped from 135% to 125% thanks to 6%+ inflation. Target: 70%

Federal Debt: Total Public Debt as a % of GDP



Source: fred.stlouisfed.org. (OMB, St. Louis Fed)