Gold Market Update

July 14, 2021

The Current Narrative: Goldilocks Growth and Transitory Inflation

- Not enough growth to trigger rate hikes this year or next
- Not enough inflation to trigger a normal rate hike cycle
- The Fed will do the right thing when needed
- Gold is not needed...hedge funds have divested

The Bond Market: Inflation is Transitory and so is Growth

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- The bond market usually gets the macro right
- Yields are down since March 2021…has growth peaked?

U.S. 10-Year Treasury (Constant Maturity Rate)

Declining Economic Growth

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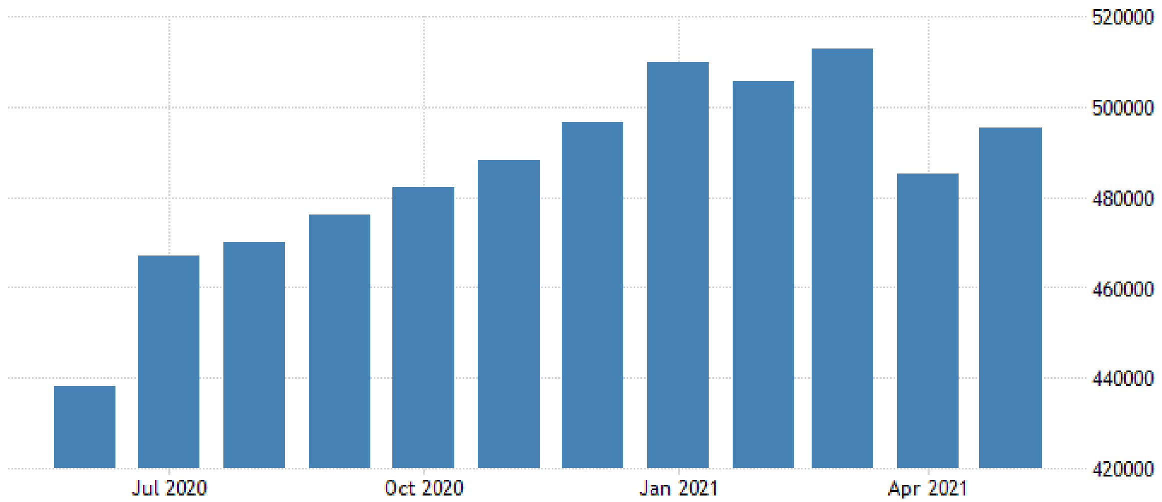
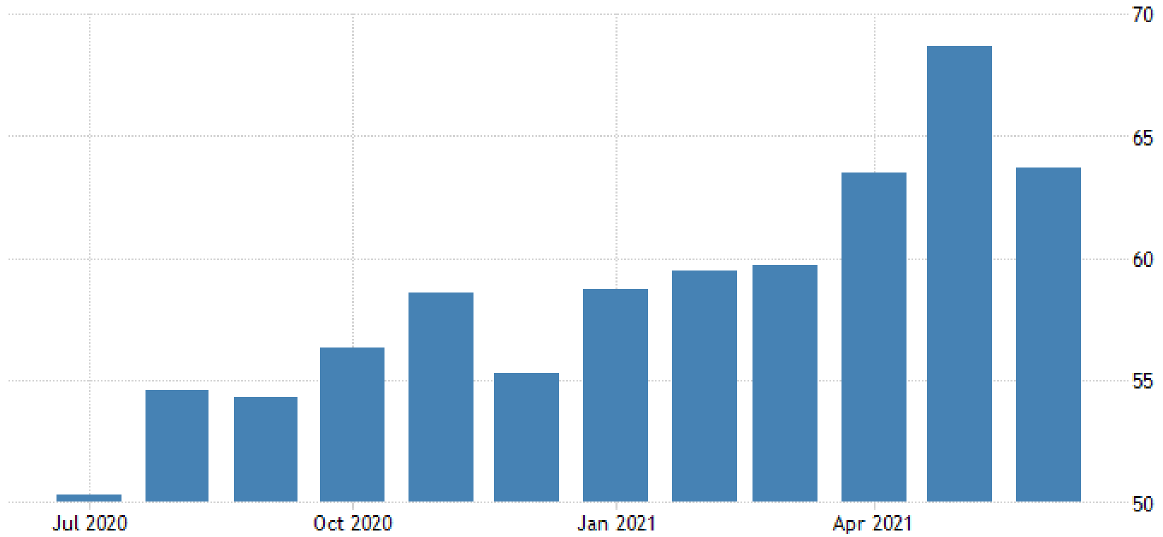
- The June ISM services PMI fell to 60.1 from 64, below the estimate of 63.5 and at a 4-month low
  - Of 18 industries surveyed, 16 saw growth vs all 18 in May

U.S. New Orders



Source: Tradingeconomics.com, U.S. Census Bureau

U.S. Composite PMI



Source: Tradingeconomics.com

A Great Leading Indicator of Future U.S. Growth

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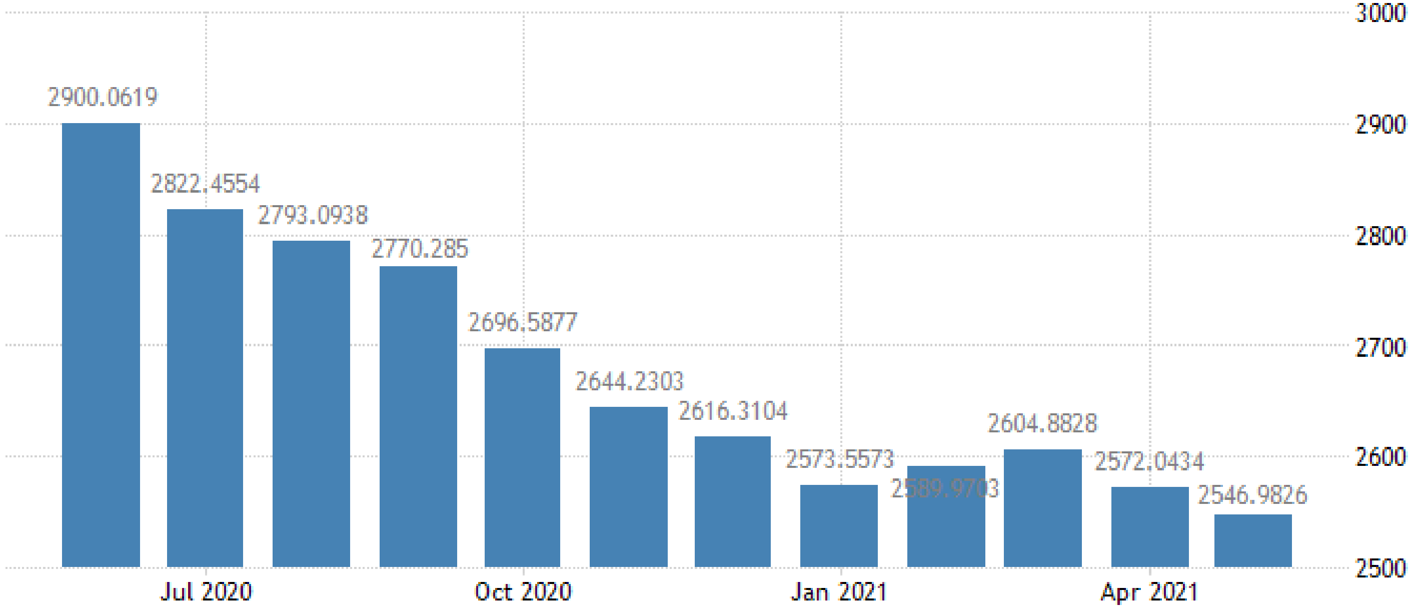
- Clear trend showing declining U.S. private sector investment
- Liquidity not flowing to major drivers of U.S. economic growth

U.S. Loans to Private Business



Source: Tradingeconomics.com, Federal Reserve

U.S. Federal Government Spending as a Percentage of GDP

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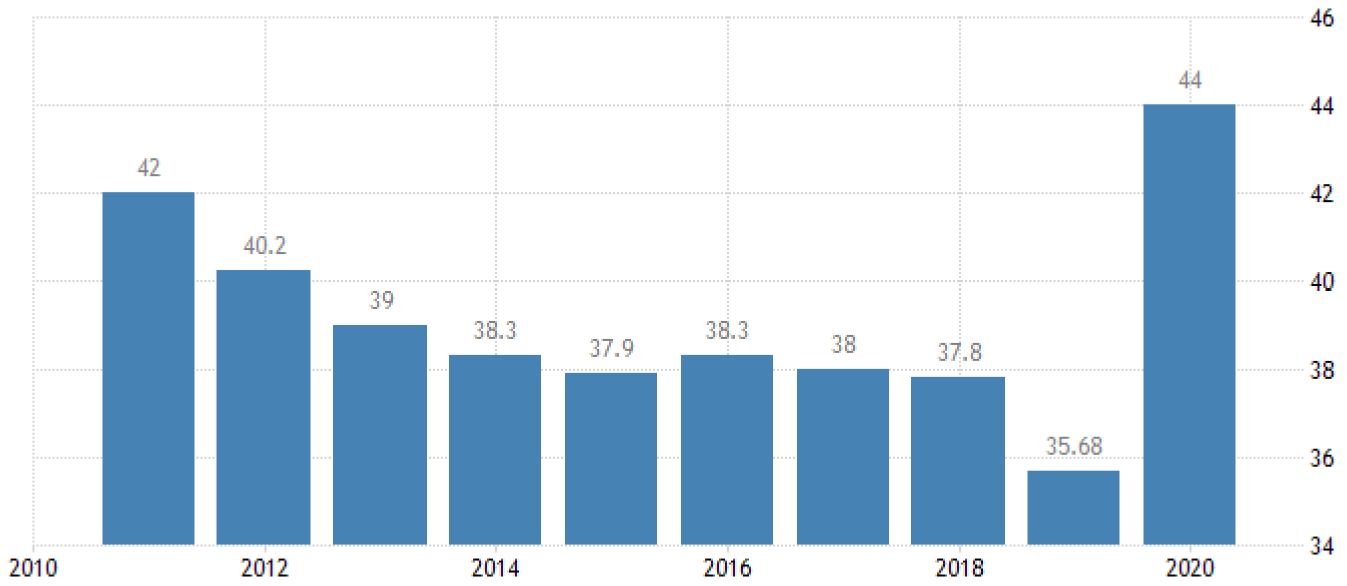
- This is where the ‘growth’ comes from
- 44% of nominal GDP is Federal government expenditure
- U.S. is in recession without Federal deficits



Source: Tradingeconomics.com, U.S. Bureau of Economic Analysis

No Indication of Slowing Inflation

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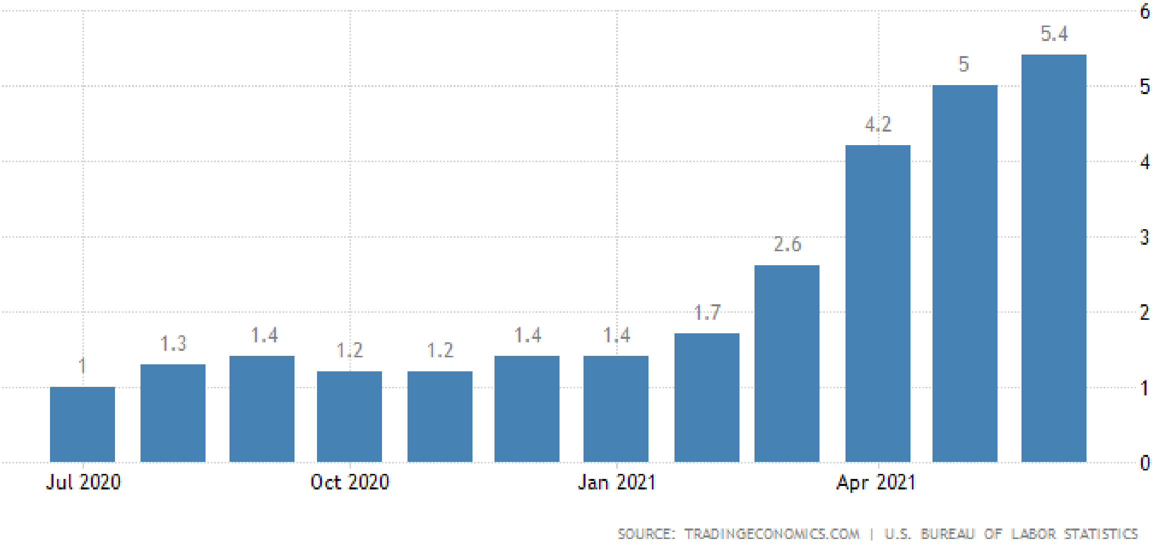
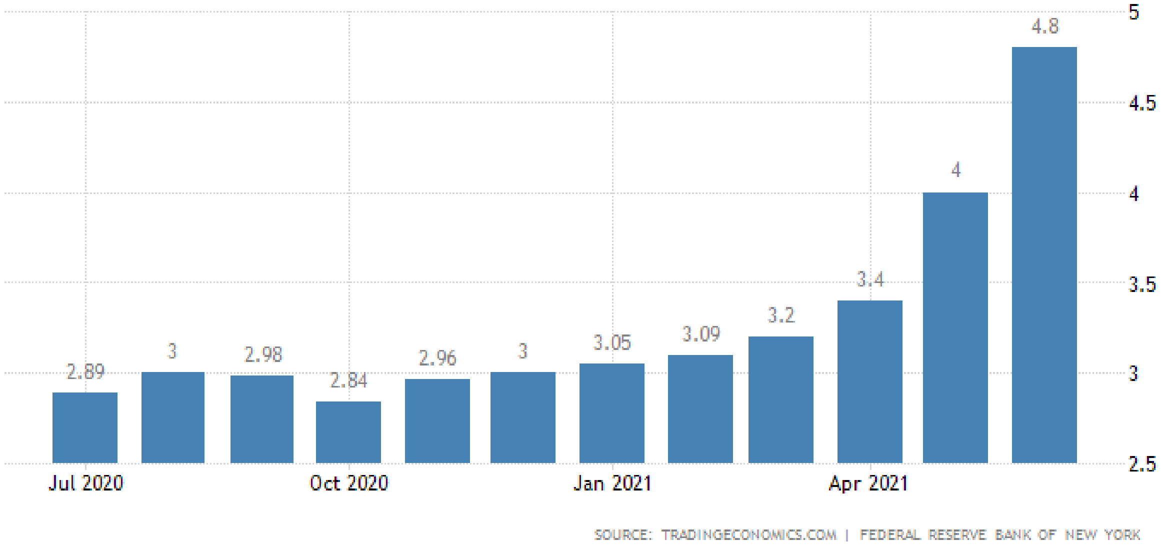
- Services inflation higher and is never transitory
- No longer anchored at less than 2%

U.S. Inflation Rate (year-over-year)



U.S. Consumer Inflation Expectations



The Bureau of Economic Analysis is shifting to a market-based measure of owners' rents...potentially an inflation bombshell...making real rates more negative.

U.S. Wages and Salaries Growth

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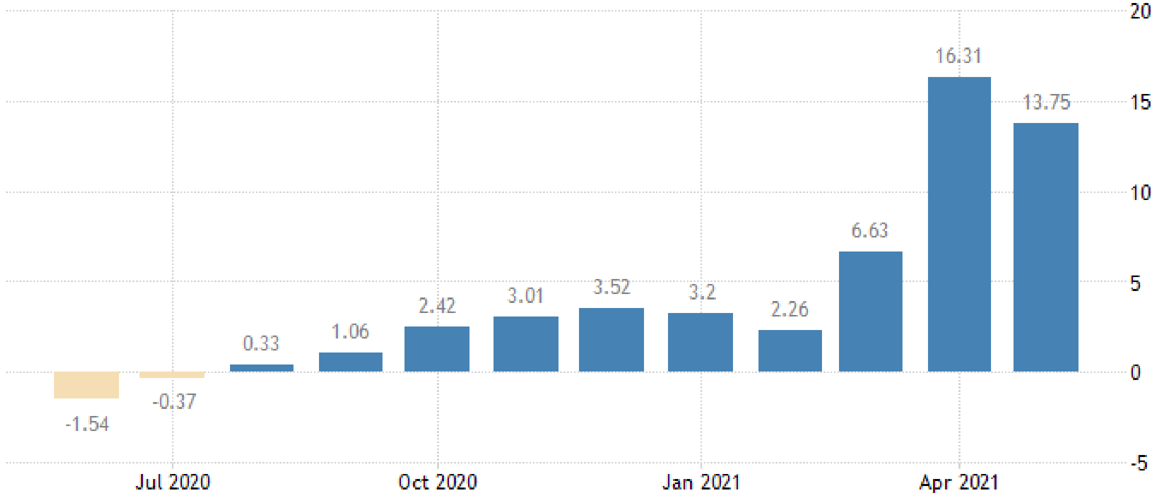
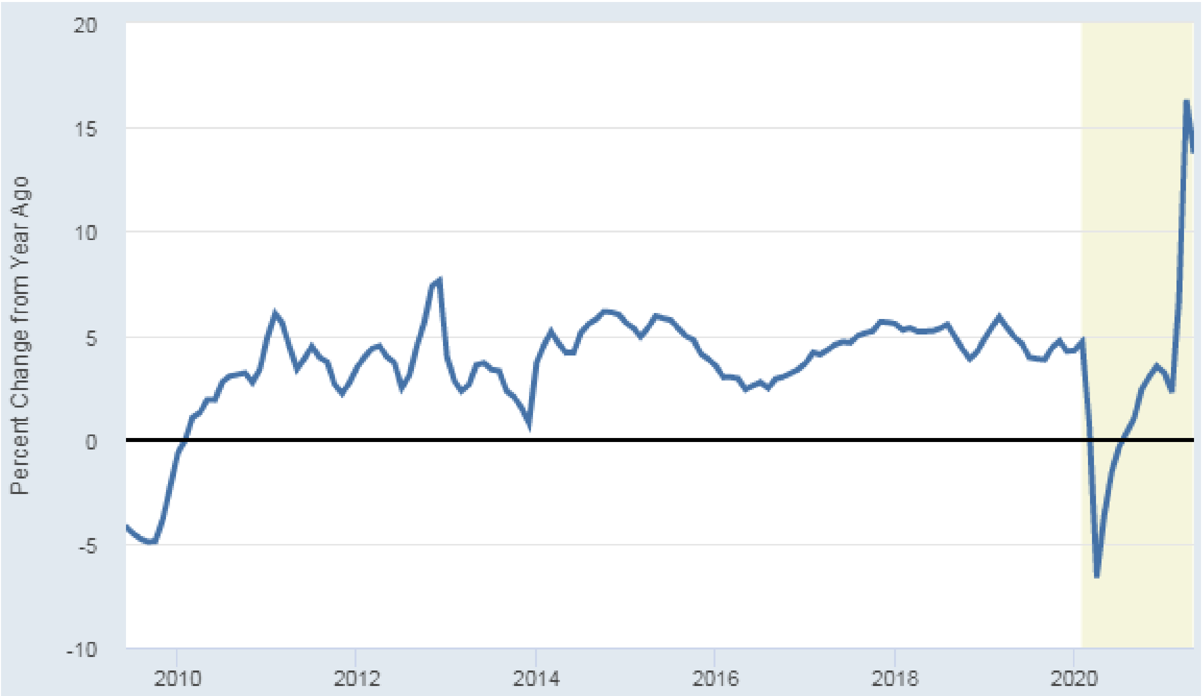
- Data does not include most signing bonuses and stock compensation

U.S. Wages and Salaries Growth (year-over-year)



Source: Tradingeconomics.com, U.S. Bureau of Economic Analysis

U.S. Wages and Salaries Growth (year-over-year)



Source: U.S. Bureau of Economic Analysis

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

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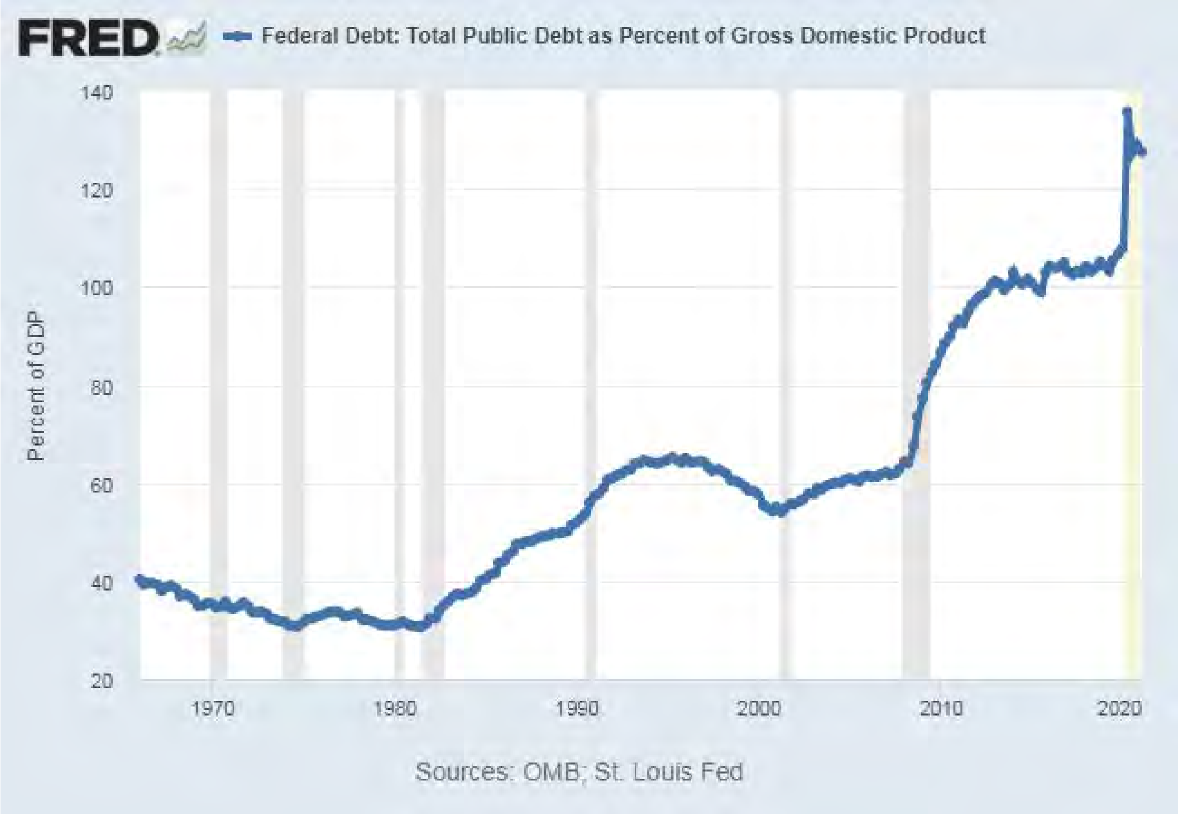
U.S. Total Debt as a % of Gross Domestic Product



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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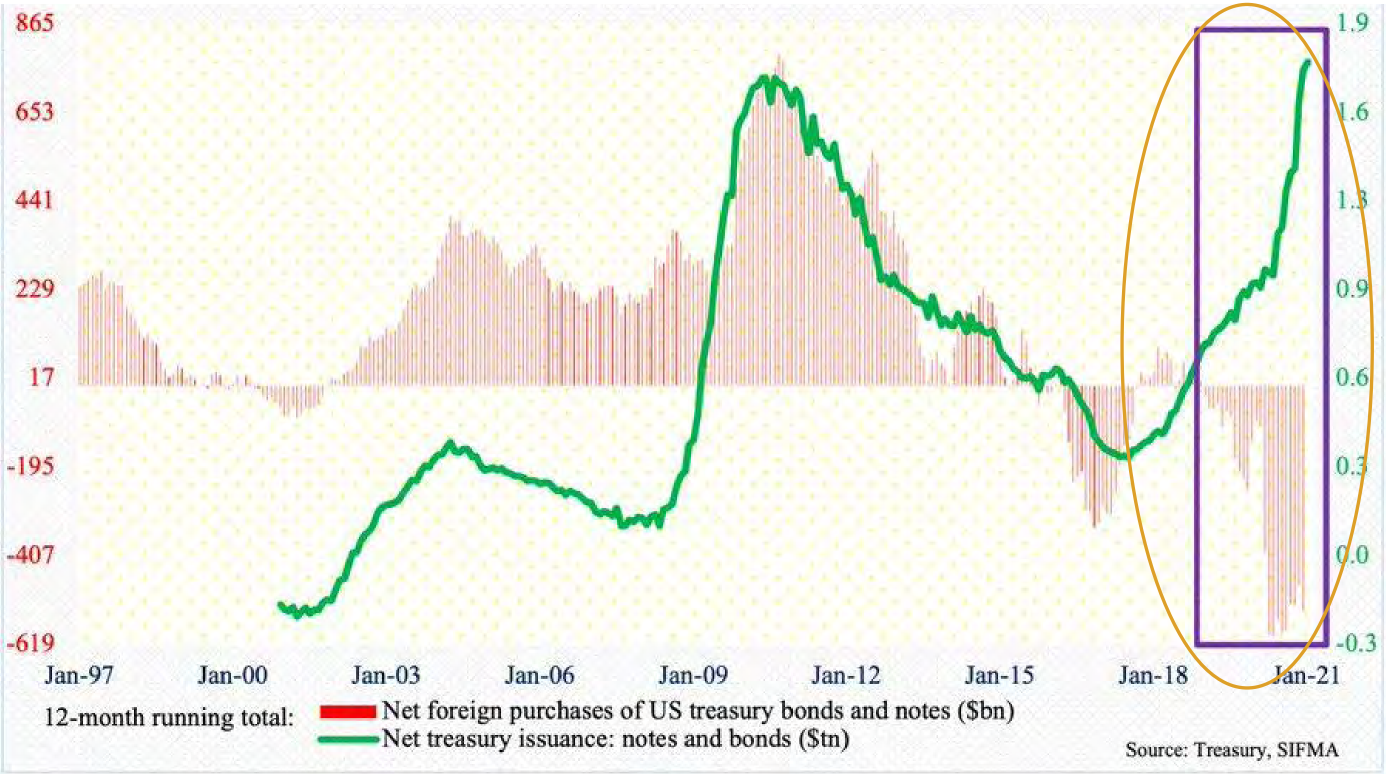
- Tapering created a panic at a 100% debt-to-GDP ratio in 2014 when foreigners were funding the Treasury. What does it do at 130% during a period of trillion dollar deficits and declining foreign funding

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



Negative Real Interest Rates

- The only reason the U.S. has been able to grow Debt-to-GDP to 130% is declining (negative) real rates
- "*Unless U.S. real rates keep steadily falling toward -10% (or lower), it is highly likely the U.S. government will nominally default on USTs or Entitlements (or both) without Fed help.*"
  - Luke Gromen, the founder of Forest of the Trees (a macro-thematic research firm)

Treasury Inflation-Indexed Long-Term Average Yield

Source: Board of Governors of the Federal Reserve System (U.S.)

Our Prediction

- Real growth trends down
- Inflation is not transitory
- The Fed can’t tighten
- Treasury deficits will grow and the Fed must fund them
- Real interest rates continue to fall
- Dollar collapses and real gold bull market begins (+US$2,500)