INSIDE THE VAULT

A QUARTERLY NEWSLETTER FEATURING PRECIOUS METAL INSIGHTS - JULY 2021

EXCITING TIMES

We are very pleased to announce two new services now available to SWP clients:

Our e-commerce platform is live! Go to swpcayman.com/metals, login and shop for your favorite gold and silver products online.

Virtual Audit Service – Many of our clients enjoy travelling to Cayman to visit their precious metals. Due to current travel restrictions, we've launched a new virtual audit service which allows clients to view their metals via live feed from our Cayman facility. Please contact us for details.

Also, be sure to check out Chris Vermeulen's quarterly technical analysis video (right) and Senior Precious Metals Analyst Jeff Clark's market update (below). Enjoy!

Mark Yaxley, General Manager for Strategic Wealth Preservation (SWP). He has been focusing on the diverse needs of retail and commercial precious metal investors since 2006.

Follow Mark on Twitter @YaxleyYax

GOLD AND SILVER TECHNICAL ANALYSIS

Video by Chris Vermeulen, Chief Market Strategist for TheTechnicalTraders.com

You can follow Chris on Twitter @TheTechTraders

GOLD IN Q2: PRICE STABILIZES, WHILE POTENTIAL CATALYSTS BUILD

Jeff Clark, SWP Advisory Board Member, Senior Analyst GoldSilver.com

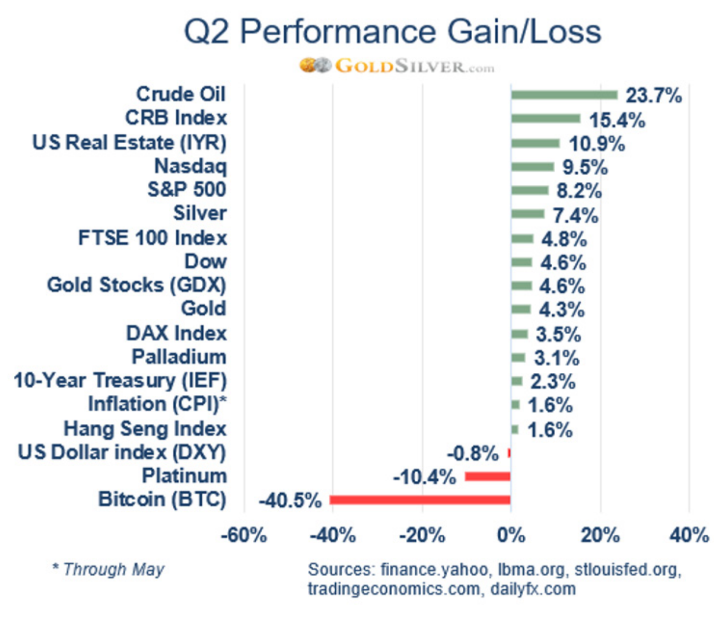
The big story in Q2 was the jump in CPI numbers, as lockdown restrictions eased across many parts of the world.

Our ITV report examines the performance of gold and other major asset classes during the second quarter and year-to-date, along with a review of the conditions that could impact precious metals in the second half of the year.

Gold Q2: Price Rebound

After taking a hit in Q1 from spiking yields, gold responded to headlines of spiking inflation in Q2.

Here's how gold and other major asset classes performed in the second quarter.



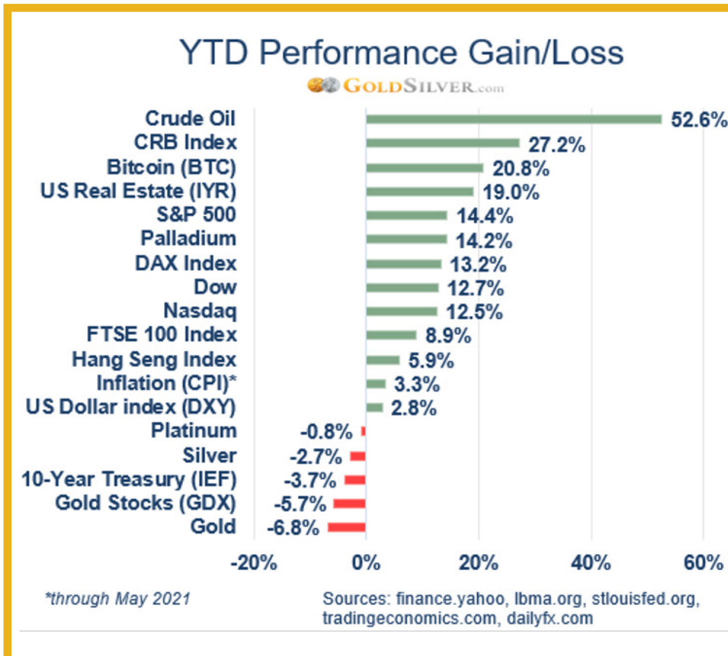
Despite falling 7% in June—its worst monthly drop since November 2016—gold ended the quarter 4.3% higher. Silver outperformed gold, gaining 7.4%. Platinum underperformed, while palladium gained.

Oil prices stole the spotlight, shared by commodities and real estate prices. It's also noteworthy that the S&P 500 ended the quarter at a record high.

On the negative side, Bitcoin fell over 40%, once again highlighting its volatility.

Gold YTD: Just Below the Zero Line

Despite a 13% run mid-quarter, gold ended the first half of the year negative.



Gold struggled last month when Fed officials indicated an increased likelihood of interest rate rises in 2023. Higher inflation could push the Fed to raise rates.

While the kneejerk reaction may be to sell gold if nominal rates rise, the real rate (10-year Treasury minus the CPI) has the most influence on the price. Negative real rates look to remain indefinitely, even if the Fed raises the nominal rate.

What Does 2H Bring?

As we begin the second half of the year, to state the obvious this will be no ordinary summer. Much of the world is slowly exiting the pandemic, the easing of restrictions accompanied by an eagerness to travel. Meanwhile, reflation remains a dominant driver for many asset prices.

This and more are some of the factors that could impact economies and markets. Here's what we're watching that will likely have the most effect on precious metals.

The "Transitory" Question. When inflation spiked the Fed stated it would be transitory. Most investors and economists seemed to agree at the time. But now doubt has started to creep in…

- Fed Chair Powell acknowledged that a "lasting period of uncomfortably high inflation is a possibility."
- St. Louis Fed president James Bullard said the "pickup in prices might persist."
- The Bank of England stated, "It is possible that near-term upward pressure on prices could prove somewhat larger than expected."
- Larry Summers said Biden's spending plan could overheat the economy and "set off inflationary pressures of a kind we have not seen in a generation…"
- Noriel Roubini wrote that "today's extremely loose monetary and fiscal policies, when combined with a number of negative supply shocks, could result in 1970s-style stagflation (high inflation alongside a recession). In fact, the risk today is even bigger than it was then."

It's not just government officials and economists. According to a Harvard CAPS/Harris poll in late June, 85% of Americans are "concerned about inflation." Perhaps for good reason… General Mills just announced it is raising prices across nearly all its grocery categories, citing the "highest costs in a decade." Campbell Soup and J.M. Smucker made similar announcements, and the Costco CFO said on their recent quarterly call that "the feeling is that this [inflation] will continue for the most part of this calendar year."

Meanwhile, the Producer Price Index (a measure of wholesale costs) rose 6.6% in May (latest data available), the fastest increase on record. Input costs also rose at the fastest pace since data collection began in 2007, weighed down by ongoing and severe supply-chain disruptions and labor shortages. Delivery times for suppliers also lengthened to the greatest extent on record in June.

And despite the selloff in lumber prices, most other commodity prices remain elevated. Oil is now above $75 a barrel, a three-year high, pushing the average price of unleaded gas to $3.12 per gallon, a 43% increase over last year.

And now record temperatures and a nationwide drought are piling on to the woes. Climate scientists report that 9.8% of the U.S. is currently in an "exceptional drought," the most severe designation, which includes widespread crop and pasture losses. Roughly 44% of the nation is experiencing some level of drought. This condition could push food prices higher.

While the transitory question may not be answered immediately, if elevated inflation rates persist investors are bound to look for hedges, gold and silver being obvious choices.

Fiscal Spending: The Democrat-controlled House just approved a $715 billion surface transportation and water infrastructure bill, an early step in President Biden's $1.2 trillion infrastructure deal, which also has reached tentative agreement with Republicans and is to be finalized by September.

These funds would represent a direct injection into the economy, as opposed to QE efforts that tend to inflate asset prices.

In light of the multiple stimulus measures, the Congressional Budget Office projects the deficit will reach 13.4% of GDP this year. That would be the second-largest level since 1945, exceeded only by 2020 spending.

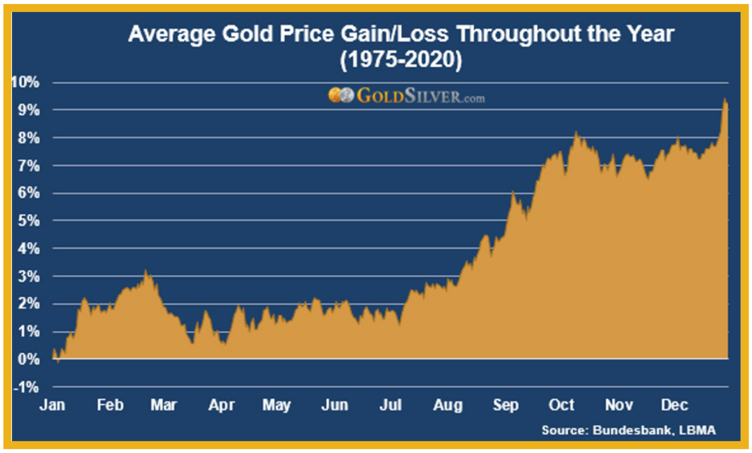
This level of fiscal spending is likely to weigh on the U.S. dollar, which would support gold prices.

Stock Market: In light of high stock valuations, the Skew Index—a measure of the difference between the cost of derivatives that protect against large market declines and the right to benefit from such—just reached record highs. Gold has historically acted as a buffer against stock market weakness.

Housing Prices: The boom in home valuations is largely global, reaching from the U.S. to the U.K. to China. Bloomberg Economics reports that global valuations are now rising at the fastest pace since 2006.

Many drivers, however, appear to remain in place: mortgages below 3%, a post-pandemic desire for more space, newly-remote workers relocating, and perhaps FOMO—the fear that one might need to buy now before it gets even more expensive. As with stocks, gold can hedge against reversals in real estate prices.

Seasonality: The second half of the calendar year is typically a strong period for the gold price. This chart shows the average daily gain and lose since 1975; the run that typically begins after the U.S. July 4th holiday sticks out.



Over the past 46 years, there is a strong tendency for gold prices to advance in the second half of the year, accounting for much of its annual gain. This is also true of silver.

Higher Taxes: In addition to the prospect of higher tax rates in the U.S. to fund new spending plans, a group of 130 nations just agreed to a global minimum tax on corporations, part of a "broader agreement to overhaul international tax rules." Higher tax rates could depress company earnings, or add to inflationary pressures if costs are passed on to consumers.

Silver Outperformance: Part monetary metal like gold, but also an industrial metal whose uses will climb in the infrastructure spending plan, this dual role could push it to advance more than gold. It's noteworthy that silver rose more than gold in Q2, and is down less YTD.

The gold/silver ratio (gold price divided by silver price) ended Q2 at 68.5; despite the decline from its record high of 123 in March 2020, the ratio is still 24% above its long-term average of 55, showing it remains undervalued relative to gold. The ratio fell to 32 in 2011.

Black Swans: The environment remains ripe for an unforeseen event. Potential candidates include a spread of Covid variants, fallout related to the Fed's reverse repo facility now near $1 trillion, or issues surrounding the deadline for reinstatement of the federal debt ceiling at the end of July. Another shock to the global economy or markets would underscore the importance of gold's hedging abilities.

The Precious Metals Hedge

The circumstance of rising inflation, large fiscal stimulus plans, and elevated stock and real estate prices creates an ideal scenario for gold.

The most likely scenario for the second half of 2021 is one where gold continues to offer a meaningful and necessary hedge, along with the distinct possibility of yet another set of record high prices.

You can follow Jeff on Twitter @TheGoldAdvisor

STORM PROTECTION

Jeff Thomas

Storm's a-comin'. And it's going to be one for the record books.

History tells us that, for millennia, whenever great powers exceed their grasp, they get into monetary problems and they ultimately rely on debt to keep them going. The greater the power, the more debt is required to keep the leviathan floating, beyond its natural sell-by date.

Once debt exceeds the empire's ability to even pay the interest on it, the fate of the empire is sealed. It matters little whether we are discussing the Roman Empire, Byzantine Empire, Spanish Empire, or the present one – the US Empire. The formula remains the same, and the empire collapses due to its insolvency.

An interesting facet of this recurring situation is that the level of debt is an excellent indicator of the magnitude of the resultant collapse. In essence, "the bigger the debt, the harder they fall."

And in that regard, we are in new territory. The present US Empire, along with its cohorts – the other countries that comprise the First World – has created a level of debt that is far beyond any level the world has previously seen.

And so, we can anticipate a collapse of epic proportions. And historically, no empire has ever risen from its own ashes. Once it's gone, that's it.

So, what does this mean? Is it the end of the economic world?

Well, no, because invariably, the remainder of the world invariably fills the void created by the former empire. Countries that were previously on the sidelines take the economic lead. And this time around, we can count on Asia to arise to fill the void. In fact, any meeting that we have with successful Asian businessmen reveals that they uniformly look forward to what they consider an Asian renaissance in the making.

What this means is that the wealth of the world will still exist, but it will change hands and change geographical locations. It will only be the end of the economic world for those who remain within the existing system and ride it into the ground.

In addition to the fact that all empires eventually collapse, there has been another consistent occurrence throughout history: in every era, in every geographical location, whenever fiat currencies have bitten the dust, as they inevitably do, mankind has returned to the world's most stable store of wealth: precious metals. For 5000 years (even before fiat currencies were first created), gold, in particular, has been the medium by which mankind has made the economic transfer from the dying world to the blossoming world.

For many years, I've predicted that an economic storm was brewing and that, in order to survive it, we would need to prepare. That storm is now upon us.

To understand that better, we might imagine living on a farm in, say, Kansas. We're out in the yard and see a tornado on the horizon. That tells us that it's time to bring the porch furniture into the house, shut up the windows and doors and get the family down to the root cellar.

When an economic tornado is on the horizon, it's time to hunker down economically.

In past years, I was able to advise people that the storm was years away and we had plenty of time to plan, but that's no longer true. The economic crisis has begun and we're witnessing all the panic signs – governments creating trillions of dollars, the payment for which they cannot meet, the buildup of a police state and the beating of war drums in a vain hope to create a distraction to shift the blame to other nations.

Taxation will increase dramatically. Digital government-issued currencies that have been planned for many years will soon be created, making it easy to confiscate the wealth of the populace at a mere keystroke.

Invariably in such times, markets take a tumble. The stock market is in a bubble of unprecedented proportions. Worse, a massive bond bubble eclipses the stock market bubble.

As is always the case, they will collapse suddenly. In their wake, we can expect to see bank closures across the board. Some will re-open, but with new restrictions. This time around, we can expect to see rationing of bank withdrawals, as have become common in Greece, and bail-ins, similar to the one in Cyprus in 2013. (Bail-in laws now exist in the US, Canada and the EU to legally duplicate what was done in Cyprus.)

As these and other dramatic changes take place, threatening the ability for individuals and businesses to function financially, people worldwide will find it necessary to return, as they always do in a major crisis, to precious metals. Transactions may be as large as transferring ownership of hundreds of ounces of gold to maintain international trade, to the use of an ounce of silver to pay for a tank of fuel for the car.

Regardless of the size of the transaction, precious metals will once again rise to the need, as they have throughout history.

It has often been said that 10% or 15% of an individual's wealth, held in precious metals, is a good insurance policy against economic downturns. However, during a major storm like the one that has begun, a much larger holding is advisable.

Whenever stocks, bonds, currencies and other financial assets take a significant dive, precious metals hold their value. We tend to say that they are rising in value, but in truth, what occurs is that financial assets plummet against metals. What metals really do is *hold their purchasing power.*

The crisis has begun, but it has not by any means reached its nadir. From here on in, the sooner we load up on precious metals, the greater will be our ability to survive the crisis with our skin on.

Strategic Wealth Preservation

ABOUT US

Strategic Wealth Preservation (SWP) is an international precious metals dealer and secure storage provider headquartered in the Cayman Islands. We specialize in the acquisition and secure storage of precious metals for individuals, companies, trusts and wealth management professionals on behalf of their clients. We deliver precious metals worldwide to homes and businesses and offer secure storage in vaults located in the Cayman Islands, Canada, the United States, Switzerland, Liechtenstein, Singapore and New Zealand. We also offer corporate disaster recovery services for businesses located in the Cayman Islands.

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George Town, Grand Cayman

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