In our August report (*Imbalanced*), we cited runaway performance of the S&P 500 Index as leading contributor to lackluster sentiment in the gold sector. Through the end of September, sentiment and price momentum for both gold and gold equities remained soft. In early-October, however, a sequence of anticipated market developments (details follow) has strengthened our conviction in new highs for spot gold in coming months. Most important, we are now comfortable making one of the trickiest tactical calls in the investment business: ***the time is ripe for aggressive accumulation of gold equities.***

Bad Rap

To most investors, gold equities remain a fringe asset. To begin with, anything related to precious metals is generally perceived as antithetical to conventional investment themes. Owning a gold stock is tantamount to admitting something is wrong in the investment world, introducing implicit tension with proprietary rationale for core portfolio holdings. Complicating matters, the combination of gold shares' trademark volatility, scant sponsorship and obtuse business metrics tends to frustrate generalist investors, who simply view the sector as more trouble than it's worth.

Indeed, most institutional investors are still of the opinion that investing in gold shares makes you a gold bug—a moniker no self-respecting investment professional would countenance. Of course, these ***same*** institutional investors, in aggregate, own the majority of Exxon and Chevron without being labeled ***oil bugs***, and Archer-Daniels-Midland without being seen as ***corn bugs***. For some reason, professional investors pigeon-hole gold shares, more than the equities of any other industry group, as little more than a perpetual call on the price of the industry's sole output: gold bullion. Having wrestled in this sector for two decades, all we can say is, we wish it were that simple!

While a rising gold price is certainly a supportive backdrop for productive investment in gold shares, there are many occasions, just as in the energy and agricultural sectors, when market variables align to make gold shares a compelling risk/reward proposition, irrespective of a rising gold price. Not to mention the fact that well-managed gold-mining companies, especially since the industry's post-2013 revamp, are just as capable of creating shareholder value as Exxon, Chevron and Archer-Daniels have been in their respective industries.

Trade of the Decade

By any conceivable measure, broad equity averages are trading at historically rich levels. Reflecting this general market ebullience, relative gold-equity valuations have lagged toward historical lows. In this report, we present our contention that at today's prices, even a nominal reallocation of capital (2%-3%) from S&P 500-type vehicles to gold shares is a trade with exceptionally high probabilities for improving future performance of any investment portfolio. Indeed, this proposition is shaping up as the trade of the decade. Importantly, while we will address matters of ***timing*** later in this report, our reallocation call from general equities to gold shares is based overwhelmingly on gaping ***valuation*** differentials.

In Figure 1, on the following page, we present a wide range of valuation, profitability and leverage statistics for the S&P 500 Index and the NYSE Arca Gold Miners Index (GDM Index) [on which the high-profile Vaneck Gold Miners ETF (GDX) is based]. All figures are Bloomberg data, sourced from basic Bloomberg financial analysis functions (which applied 10/14/21 price numerators to all other data as of 9/30/21). We recognize that blanket comparisons of aggregate statistics for the 500 companies (and 505 distinct equities) in the S&P 500 and the 55 companies in the GDM hold limited relevance to investing in individual components of either index. Nonetheless, we believe our comparative analysis is an eye-opening exercise, so here we go.

In the first section of our table, we present eight valuation metrics for the S&P 500 and the GDM. Because our readers are good at math (and valuation is a subjective exercise), we have skipped providing a column hammering home percentage differentials between the two indices. Suffice it to say, while the S&P 500 and GDM trade at similar multiples to sales, S&P 500 components trade at average multiples to earnings, cash flow and book value in completely different zip codes from their GDM counterparts—***much higher***.

Now, on one hand, it seems logical that an equity index including America's most iconic and ***disruptive*** corporations would trade at higher valuations to underlying profitability than a select group of companies whose business model involves scratching the earth's crust to extract a few grams of gold from every ton of rock. On the other hand, the gold industry's billions-of-dollars of reliably repeatable cash flow aren't exactly chopped liver, especially in today's yield-challenged investment landscape. Summarizing the two columns of comparative metrics at the top of Figure 1, the market is currently pricing every dollar of S&P earnings, cash flow and EBITDA at ***two-to-three times*** the valuation of equivalent dollars being generated by GDM companies. From this point forward, in which column does compelling value reside?

Metric	S&P 500 Index	GDM Index
Price/Earnings	24.34	13.45
Price/Cash Flow	19.24	6.78
Price/EBITDA	14.82	5.89
Price/ Sales	2.98	2.7
Price/Book	4.51	1.6
Ent. Value/EBIT	22.87	10.15
Ent. Value/EBITDA	16.58	6.37
Ent. Value/Sales	3.33	2.93
Gross Margin	34.70%	41.49%
Operating Margin	14.50%	29.50%
Profit Margin	11.32%	19.10%
Return on Capital	8.44%	10.36%
Free Cash Flow Yield	3.36%	7.32%
Dividend Yield	1.38%	2.31%
Total Debt/Ent. Value	0.24	0.12
Total Debt/Total Equity	117.34	19.44
Total Debt/Total Assets	24.43	13.01
Net Debt/EBITDA	1.13	0.14

Figure 1: Various Valuation Metrics for S&P 500 Index (SPX) & NYSE Arca Gold Miners Index (GDM) (9/30/21) [Bloomberg Financial Analysis Functions]

Consensus would argue that S&P valuation premiums are justified because the S&P 500 is composed of businesses of far higher quality than gold mining. Subjectively, perhaps. But objectively, as demonstrated in the middle section of Figure 1, GDM profitability metrics are actually far superior to their S&P 500 counterparts. GDM gross margins exceed the S&P 500 by 41.49% to 34.70%. GDM operating margins (29.50%) are more than double S&P 500 operating margins (14.50%). And GDM profit margins (19.10%) are almost 70% higher than S&P 500 profit margins (11.32%). Adding this all up, we bet most gold-share critics would be surprised to learn that the GDM's free-cash-flow-yield (7.32%) is ***more than double*** the S&P 500's free-cash-flow-yield (3.36%).

OK, but a generalist would argue that the S&P 500's ace in the hole is the value proposition of its superior ***dividend yield***, right? Well actually, no—and these days, it's not even close. The GDM's 2.31% dividend yield is now ***67% higher*** than the S&P 500's 1.38% dividend yield. Canaccord Genuity (8/31/21) estimates in Figure 2, below, that gold industry dividends will approximate $5 billion in 2021, up 92% from $2.6 billion in 2020. Indeed, the gold mining industry has cleaned its financial house to such degree that for the first time in memory, gold mining companies are returning excess capital to shareholders by ***selectively*** engaging in share buyback programs. Canaccord estimates gold industry share buybacks totaled $1.3 billion in 2020 and $376 million so far in 2021 (8/31).

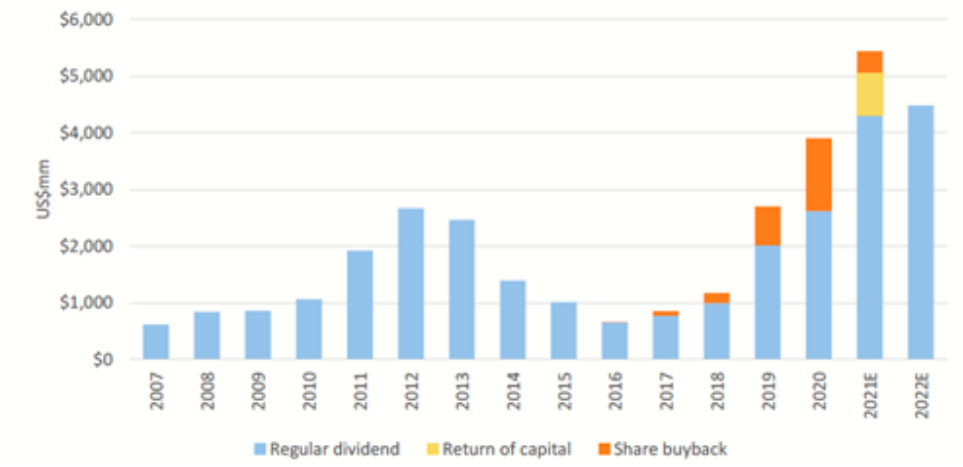


Figure 2: Annual Value of Dividends and Share Buybacks for Precious-Metal Miners in Canaccord Coverage Universe (2007-2022E) [Canaccord Genuity]

OK, but a skeptic would scoff that serial mismanagement and poor capital allocation have saddled gold-miner balance sheets with debilitating debt loads, right? Well actually, not anymore. Truth be told, leverage comparisons between the S&P 500 and the GDM are almost laughable. The S&P 500's debt-to-equity ratio (117.34%) is ***over five times higher*** than the GDM's debt-to-equity ratio (19.44%). And the S&P's ratio of net debt-to-EBITDA (1.13x) is ***over seven times higher*** than the GDM's (0.14x). In fact, as shown in Figure 3, below, Canaccord estimates that gold miners in its coverage universe will see 2014 aggregate net debt of $18 billion flip all the way to a ***net cash position of $15 billion*** by 2022.

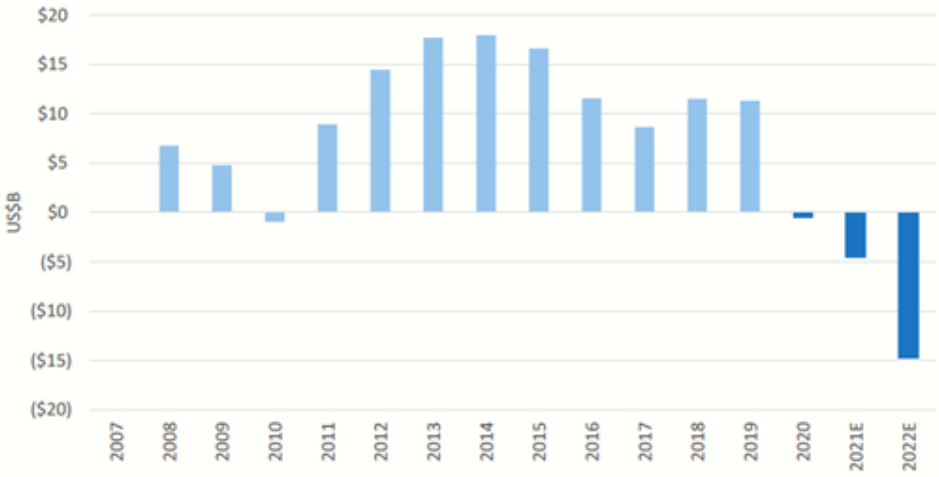


Figure 3: Aggregate Net Debt of Gold Miners in Canaccord Coverage Universe (2007-2022E) [Canaccord Genuity]

OK, OK, but ***everyone*** would agree that equity markets are a discounting mechanism, so the most important component of corporate market-cap and enterprise values are expectations for future earnings growth. No one in their right mind would view growth prospects for gold miners favorably to those of the S&P 500, right? Well, let's take a look.

In Figure 4, below, we reproduce annual per-share earnings (2017-2019) and earnings estimates (2021E & 2022E) for the S&P 500 and the GDM. For the GDM, we utilized data from Bloomberg financial analysis functions. Given the virtually infinite variety of methodologies for calculating S&P 500 earnings (operating, reported, GAAP, non-GAAP, before or after extraordinary items), we consulted a trusted source (S&P Dow Jones Indices) and reviewed the ***reported earnings*** columns of their proprietary *S&P 500 Earnings and Estimate Report* (Link in Addenda).

Year	S&P 500 Earnings
2022E	$206.57
2021E	$185.15
2020	$94.13
2019	$139.47
2018	$132.39
2017	$109.88

Year	GDM Earnings
2022E	$62.97
2021E	$53.28
2020	$46.34
2019	$21.62
2018	$11.07
2017	$21.37

Figure 4: Annual Per Share Earnings of S&P 500 Index and GDM Index (2017-2022E) [S&P Dow Jones Indices; Bloomberg]

Now here is an instance where Covid has complicated even straightforward financial analysis. Given Covid's varied impacts on corporate profitability, what is the most appropriate time frame to measure earnings growth for any equity index? For either the S&P 500 or the GDM, which base and terminal years should be employed to properly quantify earnings growth? Throwing out 2020 for obvious reasons, reasonable arguments could be made for using either 2017, 2018 or 2019 as the most appropriate base year, and either 2021E or 2022E as the terminal estimate year. In Figure 5, below, we calculate compound earnings growth rates for the S&P 500 and the GDM over each of our six contemplated time spans.

Time Span	S&P 500 Index Cmpd. Earnings Growth Rate
2019-2021E	15.26%
2019-2022E	13.99%
2018-2021E	11.86%
2018-2022E	11.76%
2017-2021E	13.96%
2017-2022E	13.46%

Time Span	GDM Index Cmpd. Earnings Growth Rate
2019-2021E	56.98%
2019-2022E	42.81%
2018-2021E	68.84%
2018-2022E	54.44%
2017-2021E	25.66%
2017-2022E	24.13%

Figure 5: Compound Earnings Growth Rates for S&P 500 Index and GDM Index over Six Time Spans (2017-2022E) [S&P Dow Jones Indices; Bloomberg]

We will let readers decide for themselves which timeframe most accurately reflects the S&P 500's intrinsic earnings power. No matter which timeframe is selected, however, the rate of GDM earnings growth over the same timeframe is ***multiples*** higher (between 80% and 480% higher). Our point here is that historically elevated valuations for the S&P 500 now rest predominantly on ***expectations*** for robust profit growth in 2021 and 2022. With all due respect to the ten-or-so disruptive behemoths dominating the S&P 500, we would suggest the developing combination of ***exploding cost inflation*** and ***collapsing GDP estimates*** casts serious doubt on consensus S&P earnings forecasts.

On the cost side of the ledger, we would point to the October PPI's 11.8% year-over-year explosion in cost of finished goods, ***the sharpest increase since 1980***. As corroborating evidence, we submit a collection of CEO inflation commentary in our Quotes section. On the slowing-growth side of the ledger, we would cite Atlanta Fed GDPNow Forecasts for Q3, which have fallen from ***13.7%*** on 5/5/21, to ***6.0%*** on 8/24, to ***3.2%*** on 9/27, to ***2.3%*** on 10/1, to ***0.52%*** on 10/18. As Wolters Kluwer warns in its October *Blue Chip Economic Indicators* report (Figure 6, below), Wall Street Q3 GDP forecasts still range between 2% and 5%, with the consensus average still over 3.5%. We expect S&P 500 earnings expectations to be downgraded significantly during Q4 2021.

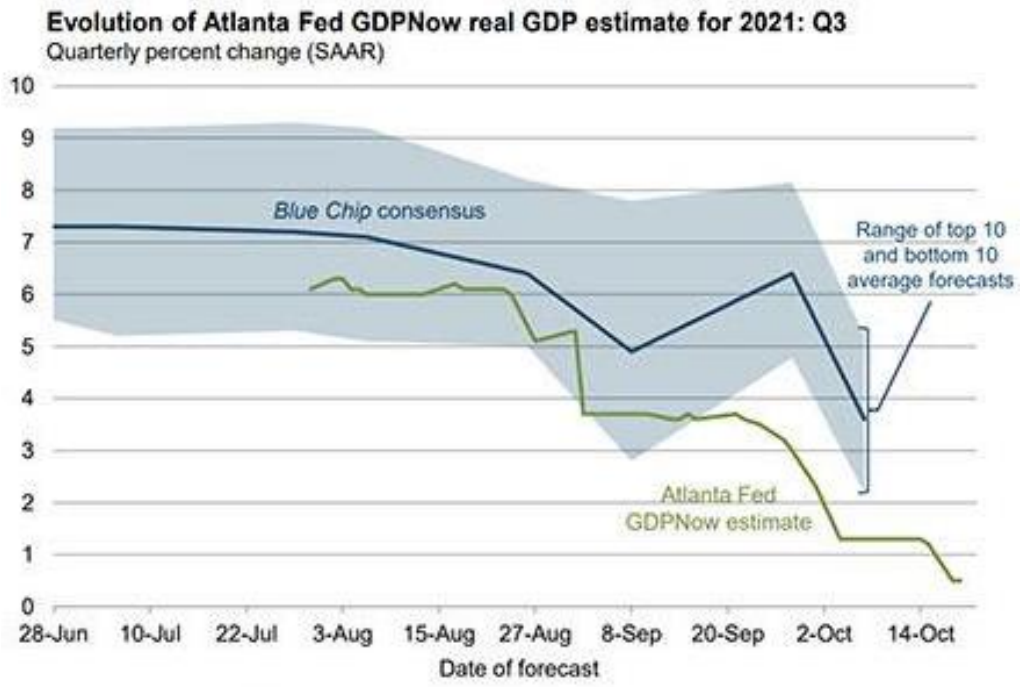


Figure 6: Atlanta Fed GDPNow Estimate vs. Blue Chip Range & Consensus Estimates for Q3 2021 GDP Growth (6/28/21-10/18/21) [Federal Reserve Bank of Atlanta; Blue Chip Economic Indicators]

Pit Inflation?

Obviously, gold miners are not immune from the general cost inflation now roiling American business. Of course, gold mining is one of the rare global industries that has almost nothing to do with the United States, so ***domestic*** business trends have little impact on industry profitability. Additionally, in inflationary times, gold miners enjoy the inherent advantage of producing recorded history's highest profile inflation hedge: gold bullion.

More quantitatively, we credit the widely underappreciated discipline of gold-mining managements for keeping a tight grip on industry costs during the evolving inflationary episode. During the past decade, no industry has experienced more of a cost-culture renaissance than precious-metal mining. The industry's traditionally myopic focus on cash-costs-per-ounce has been superseded by comprehensive modeling of ***all*** corporate costs on an ***attributable ounce*** basis.

In Figure 7, below, for example, CIBC models average "fully loaded" costs for gold miners in the CIBC coverage universe from 2013 through 2024E. In addition to cash costs, sustaining capex and corporate G&A, the CIBC methodology also apportions on a ***per-mined-ounce*** basis all other corporate expenses, including non-sustaining capex, growth capital and ***paid taxes!*** By way of example, 42% of the year-over-year increase in CIBC's 2021 estimate for fully loaded costs accrues from paying higher (cash) taxes due to higher realized gold prices. As White House Chief of Staff Ron Klain might phrase it, paying more taxes is a "high class" problem.

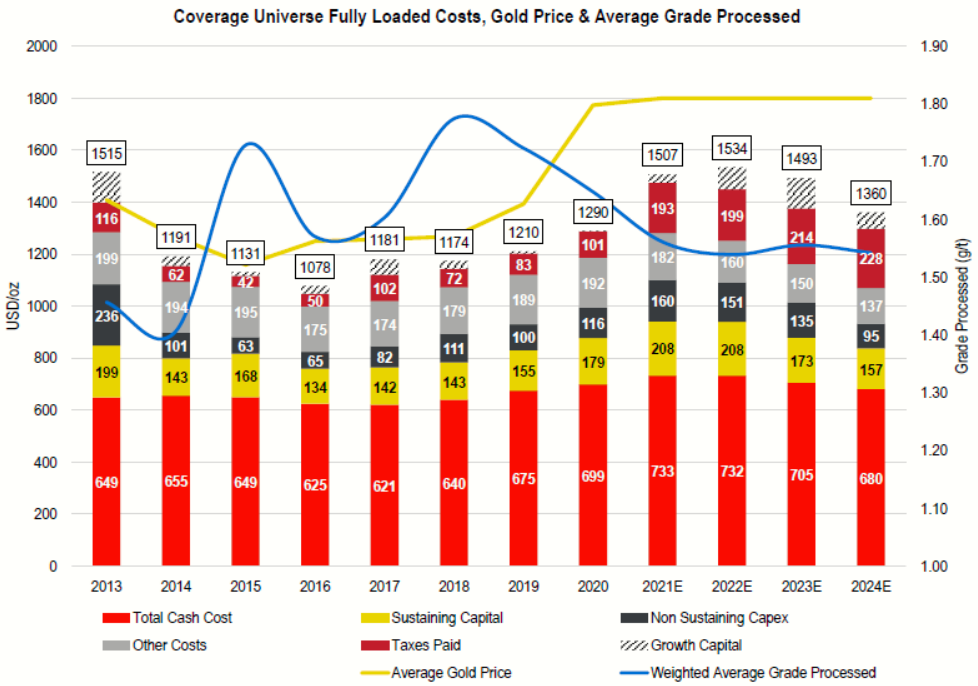


Figure 7: Average Fully Loaded Costs for Gold Miners in the CIBC Coverage Universe (2013-2024E) [CIBC]

Our point here is that one contributing factor to recent underperformance of gold shares has been undue concern over impacts of cost inflation on a business known for having very high fixed costs. In our view, comparatively strong operating margins (see Figure 1) and focused industry management teams combine to put gold miners in great shape to weather ongoing inflationary pressures.

Anticipated Sequence

In our opening paragraph, we mentioned that our confidence in new highs for spot gold has been reinforced by an October sequence of anticipated developments We now expand on this sequence because these developments are crucial in quantifying probabilities and trajectory for the advance in the gold complex we expect.

1.) Sentiment Washout

One admittedly nettlesome aspect of precious-metal markets is the sheer magnitude of cyclical swings in trading sentiment. Why an asset of such proven store-of-value pedigree should trade as manically as gold often does remains a puzzle to us. But the fact remains that gold's short-term trading cycles often require ***extreme*** sentiment readings to exhaust themselves. For the record, ***we*** attribute gold's mercurial sentiment swings to shallow conviction among today's population of gold traders. Clearly talking our own book, we interpret the fickleness of contemporary gold sentiment as demonstration that the type of largescale and purposeful gold accumulation which we ultimately expect from the largest pools of institutional capital hasn't even started yet.

Nonetheless, back to the present, the washout in prominent measures of gold-sentiment which traditionally clears the slate for fresh advance occurred ***conspicuously*** in September/October. Having oft cited these sentiment measures, we reference them here in precis form.

- On 9/30/21, the Hulbert Gold Newsletter Sentiment Indicator (HGNSI) registered an eye-popping ***negative 45.16%***, a reading lower than 99.6% of all readings since 2000.

- On 8/9/21, the Bernstein Daily Sentiment Indicator (DSI) for gold-futures trading registered a rare 8% bullish reading, and then on 9/16/21 and 9/28/21 registered a similarly rare 10% bullish reading.

- After twice probing the $1,700-level (mid-August and late-September) spot gold has rebounded back to $1,800 in late-October, breaking above 50, 100 and 200-day moving averages (classic retest and breakout).

- On 9/28/21, CFTC Commitment of Traders Report (Addenda Graph #1) disclosed the Managed Money net position of gold futures hit a low of 30,861 contracts, the 2nd lowest level in over two years and down 72% year-to-date (versus 8.7% year-to-date decline in spot gold).

- After many months of Covid-related softness, Indian ex-duty premiums rebounded to bullish levels in early October (10/1 AM $10.40, PM $7.34; 10/14 AM $10.58, PM $9.73). Especially given U.S. investors' current obsession with Fed handicapping, Indian ex-duty premiums are important because Indians' world-leading demand for physical gold is a ***local*** phenomenon, detached from U.S. algorithmic trading of 10-year Treasury yields and FOMC jawboning.

- The Gold Miner Bullish Percent Index (Addenda Graph #2) hit its traditional inflection point (80% bearish) in early October and has since assumed an upward trajectory.

- The number of GDM components trading above their 200-day moving averages (Addenda Graph #3) hit absolute zero in late-September (yes, zero) and has since rebounded. The prior two instances when this occurred (September 2018 and March 2021) marked clear turning points for gold-share performance.

While we are always available to discuss any of these data points in more detail with interested readers, all we can say is the fact that ***all of them have now occurred in tight sequence*** bodes exceptionally well for a significant advance in the gold complex.

2.) Fading Correlations

Among the litany of gold's acclaimed correlations with other investment assets, perhaps the most universally heralded is the relationship between spot gold and 10-year Treasury yields (both nominal and real). In prior reports, we have shared our extensive research on this topic, including our repeated conclusion that ***over the long term***, commonly perceived correlations between gold and 10-year Treasury yields are significantly overstated.

Flipping our bench-clearing statement on its head, the good news is that while spot gold goes through periods of being traded in algorithmic stutter-step with long yields, the reason these trading relationships generally fail over time is that gold's ***long-term*** performance is determined by variables far more consequential than interest rate fluctuations. Along these lines, when gold's correlation to long yields breaks down, as it has in recent months, it is usually a sign that gold's monetary characteristics are being increasingly coveted in the marketplace.

Figure 8: Spot Gold versus 10-Year Treasury Yield (1/2/12-10/21/21) [Bloomberg]

In prior reports, we have shared our favored depiction of the relationship between spot gold and 10-year Treasury yields, which we update in Figure 8, above. We have shaded our graph in four rough quadrants. Between early-2013 and 2019, the 10-year Treasury yield oscillated between 1.5% and 3% (white-shaded quadrant), while the gold price oscillated between $1,050 and $1,400 (purple quad). Then, the repo-crisis-through-Covid-meltdown period flipped the prior 1.5% ***floor*** for 10-year Treasury yield to the new ***ceiling***, while the low confine collapsed all the way to 0.5% (green quad). Simultaneously, this collapse in long-rates flipped gold's trading range upward, to a range roughly between $1,600 and $2,000 (red quad).

In our March report, *Here We Go Again!*, we observed that while the August 2020 collapse in 10-year Treasury yield (to a low of 0.502%) was the primary trigger for gold's steep rally to an 8/7/20 high of $2,075.47, the subsequent more-than-tripling of the 10-year yield to a March 2021 high of 1.762% was ***not*** accompanied by an equivalent drawdown in the gold price. Indeed, gold's March 2021 double bottom around $1,675 was some $200-$300 higher than reflexive math of our four-quadrant graph would have predicted.

Importantly, as the10-year Treasury yield recently erupted ***32%***, from a 9/22 low of 1.2938% to a 10/21 high of 1.7029%, spot gold completely decoupled. Instead of declining sharply, as algorithmic traders might expect, spot gold actually rose modestly (0.83%) over the same timespan (from a 9/22 close of $1,768.16 to a 10/21 close of $1,782.90). Obviously, gold is marching to a much different drummer than fluctuating long yields. It is just our opinion, but we would suggest gold is rallying in the face of surging long yields because markets are finally beginning to worry about the constellation of gold-bullish fundamentals we favor: unruly inflation, collapsing growth prospects, excessive debt levels and a debauched U.S. dollar.

3.) Gold Shares Outperforming

Over time, an interesting aspect to gold-complex performance is the ***relative*** performance of gold versus gold shares. At various junctures and for a variety of reasons, the performance of gold sometimes leads gold shares and sometimes the reverse is the case. In our experience, however, especially following an extended period of consolidation such as the past year for the gold complex, whenever gold shares break their downtrend decisively, and in the process sharply outperform gold, probabilities for an important advance are rising. Along these lines, as shown in Figure 9, below, the GDM has decisively broken its recent downtrend, surging 12.5% between 10/1 and 10/22, or ***six times*** the coincident 1.8% gain for spot gold.

Figure 9: NYSE Arca Gold Miners Index (GDM) (12/31/20-10/25/21) [Bloomberg]

4.) S&P Downshift

While not necessarily a requirement for a significant rally in the gold complex, the final component of a perfect storm in gold's favor would be a significant drawdown for the S&P 500. After setting a new closing high on 54 of the first 169 trading days of 2021 (through 9/2/21), the S&P 500's 10/4/21 close (4,300.46) marked its first 5% correction since November 2020. While the S&P 500 subsequently closed at a new high on 10/21 (4,549.78), it took 34 trading days (following its 9/2/21 high) to accomplish this feat. At the very least, the S&P 500 juggernaut appears to be losing a bit of steam. Given the clear contraction in equity-market breadth pictured in Figure 10, below, perhaps the combination of rising inflation and slowing GDP growth is about to supply the final piece in the gold rally puzzle.

Figure 10: S&P 500 Index vs. Percent of New York Stock Exchange Equities Trading Above Individual 200-Day Moving Averages (2019-10/22/21) [Meridian Macro]

What's the Downside?

In this report, we have presented what we believe to be a compelling investment case for ***gold equities***, without the requirement of a rising ***gold price***. In wrapping our price-agnostic narrative, however, it is important to address the potentiality of a ***declining*** gold price, no matter how remote we view such a possibility. What if the Fed ***can*** raise rates without tanking the U.S. financial system? What if the U.S. dollar ***were*** to strengthen significantly at gold's expense? How does one quantify potential downside risks to gold shares?

As of close on:		22-Oct		
		$1,792	Historical Premium (2013 - present)	
Company	Implied Gold Price	Premium / Discount	Low	High
AEM	$1,706	-5%	-8%	40%
AU	$1,455	-19%	-25%	8%
AUY	$1,388	-23%	-25%	15%
EGO	$1,044	-42%	-43%	3%
GFI	$1,463	-18%	-23%	6%
GOLD	$1,480	-17%	-20%	24%
IAG	$1,285	-28%	-34%	8%
KGC	$1,353	-24%	-27%	10%
NCM (1)	$1,572	-12%	-19%	-11%
NEM	$1,723	-4%	-6%	24%
Average	**$1,447**	**-19%**		

Figure 11: Various Valuation Statistics for Senior Gold Miners in Scotiabank Coverage Universe (10/22/21) [Scotiabank]

Well, today's gold-share valuations are sufficiently depressed that they ***already*** discount lower gold prices. To document this assertion, we reproduce the detailed work of Scotiabank Senior Precious Metals Analyst Tanya Jakusconek. As a starting point, for each company in Scotiabank's senior miner coverage universe, Tanya calculates a net asset value per share (NAV) at the current spot gold price ($1,792 on 10/22/21). Then Tanya compares the current ***share price*** of each company to her ***calculated NAV.*** In the second column of Figure 11, above, Tanya records the percentage discount of each company's share price to its NAV.

As shown in Column 2, every company in the Scotiabank senior-miner universe is currently trading at a discount to its NAV. To lend perspective, Tanya also lists in columns 3 and 4 the steepest discount-to-NAV and the highest premium-to-NAV at which each company has traded since 2013. The point of this part of the exercise is to demonstrate that not only is every company in the Scotiabank universe trading at a discount-to-NAV, but current discounts are ***at or near the steepest discounts-to-NAV at which these companies have traded in almost a decade!***

For further perspective, since all companies are trading well below their intrinsic NAV's at a $1,792 spot gold price, Tanya adjusts her models to calculate how far the gold price would need to fall to bring NAV's for each company ***down*** to its current share price. As shown in Column 1, spot gold prices between $1,044 and $1,723 would be required to reduce individual NAV's to current share prices. On average, however, current share prices for senior miners in the Scotiabank universe are already discounting a $1,447 spot gold price.

To lend ***visual*** perspective to how cheaply gold miners are currently trading, the Scotiabank team constructed the detailed graph we reproduce in Figure 12, below. While a touch on the busy side for casual readers, this graph does an excellent job of portraying the discount of reigning gold-miner valuations to intrinsic NAV's and historical valuation ranges.

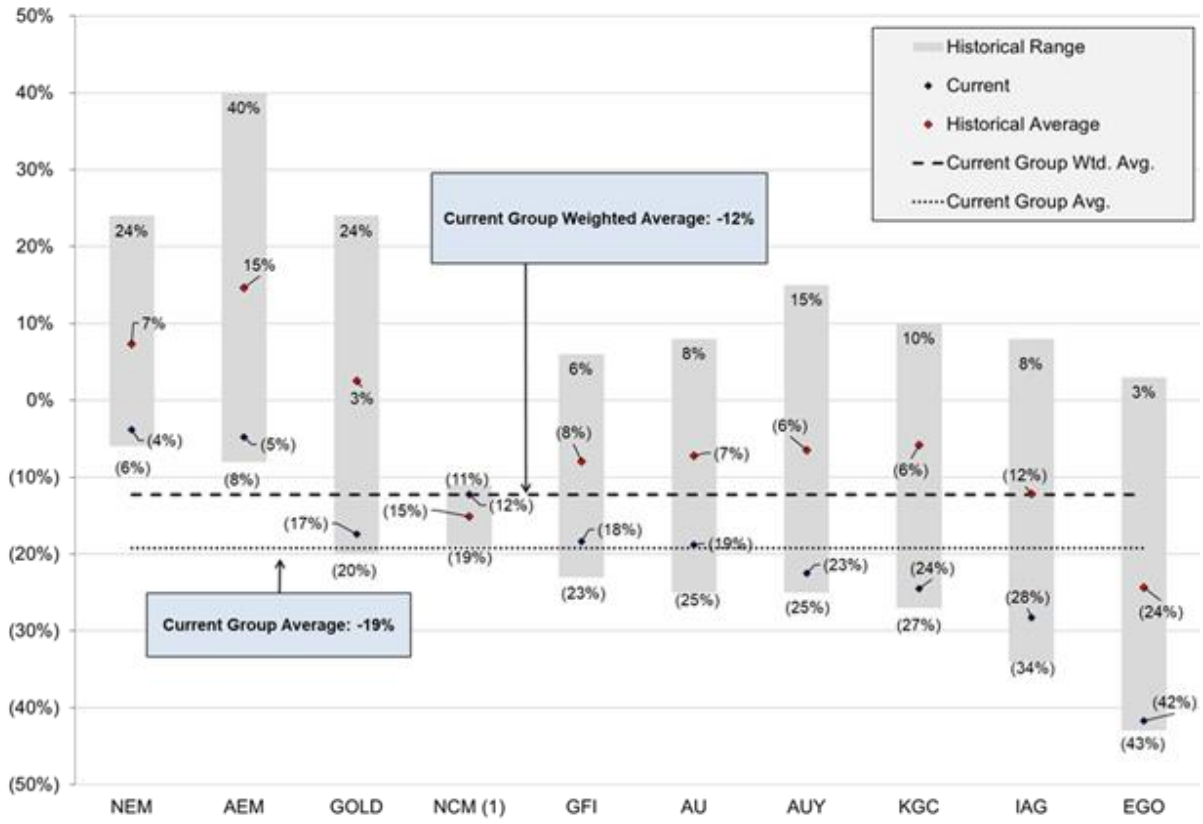


Figure 12: Various Valuation Statistics for Senior Gold Miners in Scotiabank Coverage Universe (10/22/21) [Scotiabank]

For ease of quick graph review:

- Each vertical gray bar portrays the full ***high-to-low range*** of discount or premium-to-NAV at which each company has traded from 2013 to the present.
- Each red bullet marks the ***average*** discount or premium-to-NAV at which each company has traded over this nine-year span.
- Each black bullet marks the ***current*** discount-to-NAV at which each company is trading.

We offer one final perspective on current gold-miner valuations. An important aspect of the "beta-to-bullion" leverage gold shares provide to moves in the gold price is the fact that the multiples-to-NAV at which gold shares trade tend to rise during the enthusiasm of bull markets and fall during the indifference of bear markets. As shown in Figure 13, below, the average price-to-NAV multiple at which senior miners in the Scotiabank coverage universe have traded since 1985 has ranged between 0.55x and 2.40x, with the 36-year average approximating 1.55x. At today's 0.81x multiple to NAV, gold shares are trading at roughly half their 36-year average and ***below*** the inky valuation depths of the 2008 commodity collapse. They just don't come any cheaper!

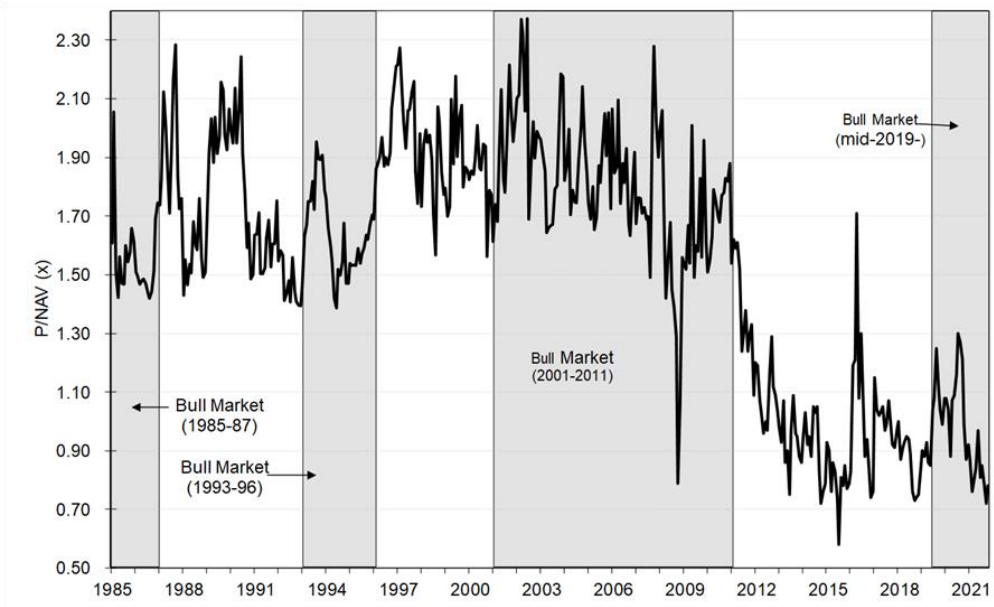


Figure 13: Average Price-to-NAV multiple for Senior Producers in the Scotiabank Gold-Miner Coverage Universe (1985-10/19/21) [Scotiabank]

Soapbox Conclusions

In the *Anticipated Sequence* section of this report, we highlighted gold's recent decoupling from its traditional correlation to Treasury yields. We suggested this disconnect signaled growing market concern over the types of gold-bullish fundamentals we study. We wanted to close this report with a few vignettes to emphasize just how dysfunctional the malinvested-but-hyper-stimulated U.S. economy has become.

On 10/21/21, Evan Spiegel (CEO of social media company Snap) partially attributed his company's Q3 revenue shortfall to the fact that Snap customers have slashed advertising expenditures because their supply chains are so broken it would serve no purpose to stimulate incremental demand. On Snap's earnings call, Mr. Spiegel observed:

> This impact was compounded by the ongoing macroeconomic effects of the global pandemic, with our advertising partners facing a variety of supply chain interruptions and labor shortages. This in turn reduces their short-term appetite to generate additional customer demand through advertising at a time when their businesses are already supply-constrained.

If our Fed stewards would stop focusing on trading their own accounts, they might recognize QE and ZIRP are ***not*** solving ***any*** problems but ***are*** exacerbating systemic imbalances. In the picture-is-worth-a-thousand-words department, Meridian Macro illustrates in Figure 14, on the following page, one particularly graphic example of how excess Fed liquidity is clearly damaging the U.S. economy. A decade of absurd Fed liquidity has elevated U.S. median home prices far above 2007 housing bubble peaks, outpacing income gains, crushing affordability and collapsing home-buying intentions to the lowest levels since 1982. Nice job guys!

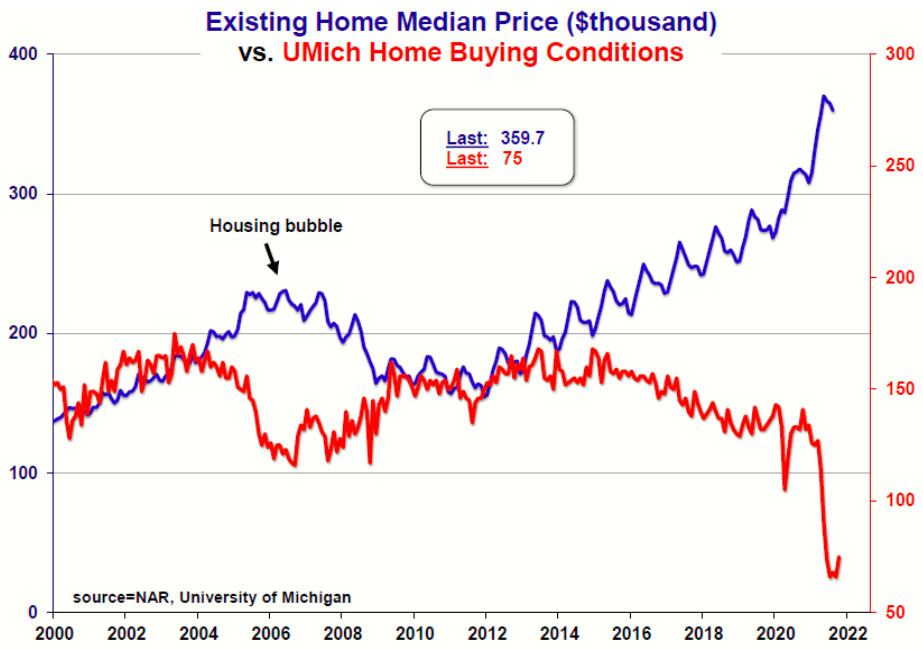


Figure 14: Median Price of Existing Home Sales vs. University of Michigan Consumer Survey Buying Conditions for Houses (2000-October 2021)
[Meridian Macro; National Association of Realtors; University of Michigan]

Similarly, we cannot resist offering our take on the supply-chain disaster now roiling the U.S. economy. As with the March 2020 financial market collapse, near unanimous consensus now attributes the supply-chain implosion to the Covid pandemic. We view this reasoning as just the latest example of cognitive dissonance from fat-and-happy equity bulls. For the past decade, we have expressed concerted alarm that one particularly insidious repercussion of the Fed's ZIRP policies has been suicidal reallocation of U.S. corporate capital from traditional rates of CAPEX investment to egregious levels of share buybacks.

All we can say is when any economy spends a decade underinvesting in its intrinsic resilience, while squandering its precious resources on share-price flattering stock repurchases, ***this is what you get!*** We are tired of the pandemic blame game. The U.S. economy has been hollowed out by decades of QE and ZIRP. Period. All Covid has done is provide fresh cover for the Fed to feed imbalances and make matters worse.

Finally, while our instincts are always to avoid political commentary, we have become increasingly concerned about President Biden. We cannot decide which is more alarming: his confiscatory attitude towards American wealth or the dreamworld in which his mind appears to operate. We provide an Addenda Video of the portion of President Biden's 9/24/21 press conference in which he opines about taxing ***unrealized*** capital gains. For offline readers, we also include our painstaking transcription. Please take 11 minutes to listen/read.

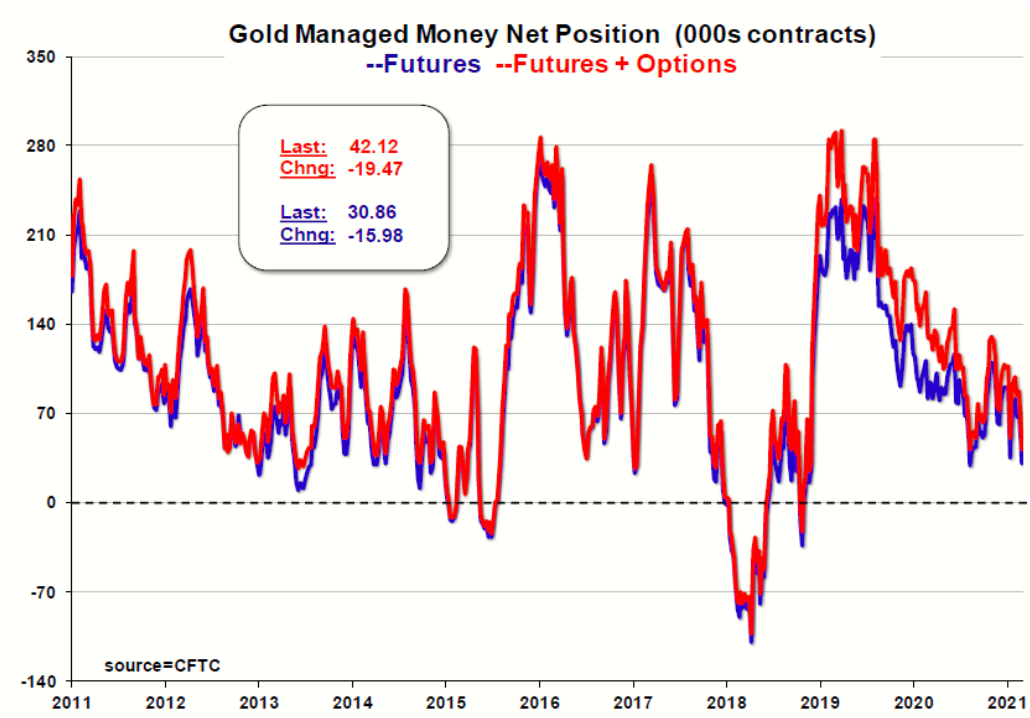
Gold is starting to sense that the jig is up for the Fed. Inflation is accelerating while growth prospects are imploding. The Fed needs to end QE and raise rates, but they haven't yet, because they know they can't without damaging markets and stressing the fragile U.S. financial system. Gold is set to soar and gold equities are poised to go bonkers.

But that is just ***our*** opinion!

Cheers,

Trey Reik
Managing Member
Bristol Gold Group LLC
(508) 775 7056

Addenda Graphs



Addenda Graph #1: CFTC Commitment of Traders Report for Managed Money Net Position in Gold Futures (2011-9/28/21) [Meridian Macro; CFTC]

Addenda Graph #2: NYSE Arca Gold Miners Index (GPM) Bullish Percent Index (10/19/19-10/19/21) [StockCharts.com]

Addenda Graph #3: Percent of VanEck Gold Miners ETF (GDX) Components Trading Above Their 200-Day Exponential Moving Average [Top Panel] vs. Price Performance of VanEck Gold Miners ETF (GDX) [Bottom Panel] (8/1/17-10/22/21) [StockCharts.com]

Addenda Link

https://www.google.com/search?q=s%26p+dow+jones+indices+s%26p+500+earnings+and+estimate+report&rlz=1C1GCEA_enUS869US869&oq=s%26p+dow+jones&aqs=chrome.0.69i59l2j69i57j0i512l5j0i67j0i512.7448j1j15&sourceid=chrome&ie=UTF-8

Link to S&P Dow Jones Indices S&P 500 Earnings and Estimate Report

Addenda Video

https://www.youtube.com/watch?v=Jv5C2ZoILuM&t=1101s

Ken: Thank you Mr. President. When you met with Congressional leaders this week you told them to try to find a number less than $3.5 trillion on the reconciliation package that they could live with. What is that ***top-line number in your mind***, as you deliberate these considerations, and then, separately, you mentioned how you're going to pay for some of these provisions***. Senator Wyden has a proposal on annual taxes on billionaires' unrealized gains. Is that a proposal that you support?***

President Biden: ***Yes I do!*** I, look, I support a lot of these proposals. We don't need ***all*** of the things I support to pay for this [laughing]. But I ***do*** support ***that***!

Look, you uh, um, uhhh if you, if you get a uh, if you file a W-2 form, um, you know, the uh, ***the IRS has access to your bank account, and your bank tells ya' how much you've made, whatcha' have in there, and you know, and they estimate your tax.*** **[*Huh?*]** Well, if ya', if ya' have no income, you're just, it's all, uh, if you have no ***earned*** income and it's all ***invested*** income***,*** it's hard to figure out what the hell you—excuse me—what the heck ***you have.***

And that's why we have to—and I know some people don't like this—that's why we have to rehire some IRS agents—and not to do anything—not to try to make people pay something they don't owe. Just say, 'Hey, step up! Step up and pay like everybody else does!' Look. ***I really mean this.*** I lived my whole career, and I come from the, you know, the 'corporate state' of America [Delaware]. I just think it's about just paying your fair share for Lord's sake. Now we can argue whether or not the corporate tax should go back up to 26.5% or 28 or 24. But the ***idea*** that ***fifty***?—***FIFTY?***—major corporations in America making a sum-total of ***forty billion dollars*** pay ***zero***? ***C'mon!*** C'mon, it's just wrong. It's just not fair. And I think it's beginning ta', you know, sink through the ether a little bit here on [unintelligible]…I think there clearly is enough from a panoply of options to pay for whatever it is that, that folks decide to pay for.

And lemme' finish by answering the initial part of your question, if I may. The way I look at it is—what I've been telling my colleagues, and it surprises them sometimes, when we, in those rooms, and I don't know whether you heard, ***both*** meetings went ***very well***. I mean it was, it was, it was, they were collegial. It wasn't—no one's hollerin'--everybody's yunno', and people are hanging out afterwards in the Oval, and, anyway, both the progressives as well as uh, the uh the moderates. And one of the things that I think, I, is important, for, and I'm trying to get people to focus on, is, ***'What is it ya' like?'***

What do you think we should—forget a number—what do you think we ***should*** be doing? Is it appropriate, in your view, to cut taxes for working class people, by providing for day care, providing for early education, three and four years old? Is it appropriate to do something about, uh, free community college? Or do you wanna' means test it [unintelligible]? I'm telling ya', 'What are your priorities?'

And several of them, when they go through their priorities, it adds up to a number higher [laughing] than they said they were for. Because I think this is, [unintelligible] we, we, we, we're gettin' down to the, you know, the hard spot here. People are having now to go in and look in detail as to what it is ***specifically*** they're for. It's a little bit like what we went through, and I'll end with this, it's a little bit like when we went through the issue of the, uh, bipartisan deal on infrastructure. Um, there were a lot of negotiations on that. And it wasn't until people were forced to look at, 'Whaddya' for?' Are ya' ***for*** taking care of that highway or bridge in your state, or that region, or your region? Are ya' ***for*** doing something about environmental degradation?

Are ya' ***for*** something that deals with allowing us to provide for monies to states so that they can, in fact deal with things like what happened in, in, in states where the major utility lines come down? What are we, whaddya' do to build those things back better to keep, to prevent that from happening. And, and as sort of a, there's a, and you all speak to all these folks, so you speak to as many as I do, I find that they're going, "Hmm, I never really thought that through before. I think it makes sense." And that's how we finally got to a bipartisan deal on what is a serious infrastructure proposal that really does a number of things including, including things where people said, "I don't wanna' do anything with the environment." And then they start thinking, well, wait a minute. I have all these diesel busses at home. It would be a hell of a lot better if we had electric busses and would change the circumstance and ***boom-boom-boom***.

So, I think that this is a process. That's why I said at the front end that although we got off to a very fast start with the first piece of legislation, I don't expect this to be done, and us being in a position where we can look back and say, OK, did we get it done, until basically the end of the year. I don't mean the vote on the two pieces of legislation relating to the economy, but I think it's just gonna' take some time. And look, you know, we're, we're, my guess is, we all come from similar backgrounds.

Remember you used to sit around the table, the kitchen table, in the morning, if you had the chance to do that, or at dinner at night with your mom and dad and your brothers and sisters? What'd people talk about? They talked about, you know, are we going to be able to pay the mortgage—at least, my house. I mean, what's gonna' happen if we have another one of those floods? And that, you know, blows through here like it did in Queens. What's gonna' happen? What are we gonna' do?

By the way, I don't, I don't yunno' and all, I, I, I, I'm just not sure that I want, you know, uh, my son or daughter to uh, uh, to be going into school when so many people are not vaccinated. I mean yunno', it's just you know, you know I'm not sure I want Kenny to be there or doing this. But these are practical things people are talking about. And they're looking down the road and they're looking at cost of living issues as well. And so what's the cost of living issues? Well, its because we're in a position where, the, the ability to have the product, the, the elements of the production of a product that in fact need to go into the production of that product, are, are are hard to get a hold of, because people are in trouble. They're not able to produce them. They're not able to get it. Or, or they're being hoarded. Just like, you know, we have with, and we're making progress, but like what we're doing with regard to uh, um making sure we have the computer chips to be able to keep up, uh, in the vernacular to keep, you know, build automobiles.

I mean I think everybody was kinda' surprised when I, I think if I had said to you, I may be dead wrong, but if I had said to you in say uh, um, April, that I was gonna' get all three major manufacturers of American automobiles saying they're gonna' go electric, uh, I doubt you'd thought that could be done. Well, we're out here on the back lawn. They've all of a sudden figured it out. They've had a bit of an epiphany. They've realized, woah, wait a minute, man, China's investing billions of dollars, China's, they're getting battery technology and we're gonna' blah-blah-blah and this is going to happen anyway.

And again, I'll just conclude by saying, this is a process. And it's going to be up and down. That's why I don't look at the polls [laughing]. Not a joke. Because it's gonna' go up and it's gonna' go down it's gonna' go up and hopefully at the end of the day, I'll be able to deliver on what I said I would do. One, bringing the country together on a few very important things, like on infrastructure. Getting us in a position where we can have some, some coherent policy relevant to foreign policy where there is agreement. Moving us in a position where we're able to actually generate the kind of change in the dynamic of how we grow the economy.

Not eliminate the super wealthy, not at all, but allow the working class and the middle class to be able to build out and up. And that can be done, and, like I said, every time I hear, and I drive my staff crazy, every time I hear this is gonna' cost A, B, C, or D, the truth is, based on the commitment that I made, it's gonna' cost nothing. Because we're going to ***raise*** the ***revenue***. Raise the revenue to pay for the things we're talking about. And we're gonna' give, and right now, if you take a look at the, uh, the reconciliation piece, a trillion dollars of that is in tax cuts. Not raising anybody's taxes, it's tax ***cuts***. ***People paying less taxes.*** But the people paying less taxes are going to be working class folks. Put women back to work. It's people in situations where they have, I know you're tired of hearing me saying it, but I'll never, my Dad's constant refrain: just give people a little breathing room. ***A little breathing room.*** Thank you guys!

Joe Biden, President, United States, 9/24/21

Dollar Sentiment Quotes

We set a very clear marker, I think, not a quantitative marker, but a very clear marker that we want substantial further [employment] progress relative to where we were [before Covid]. That's where I am focused, clearly right now we have not achieved that…This is a time of very high uncertainty. I'm not going to give a forecast of when the committee will come to a decision around changing the pace of asset purchases.

John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 7/12/21

Despite the encouraging pace of recent hiring, employment is still far below where it was. In June of this year, there were 6.8 million fewer jobs than there were in February 2020.

Michelle Bowman, Governor, Federal Reserve [Permanent FOMC Voter], 8/3/21

Jonathan Ferro: What's more important, QE or rates? Let's bring in Steve Ricchiuto for more on that—from Mizuho Securities—the Chief U.S. Economist.…You think that QE is actually the more important tool here…Why?

Steve Ricchiuto: You're living in a world of excess supply and therefore what you ***need*** to do is you ***need*** to create the liquidity that allows [the] inflation rate to actually not get sucked into a deflationary bias. And this has been the Fed's ongoing risk by continuing to fall back into their preemptive ways…QE1 worked very, very well in avoiding a deflation initially during the financial crisis, and QE2 worked very, very well to do exactly the same thing. And it worked very, very well in here until the Fed began the process of backing away from being reactive to being preemptive—by laying out forecasts of when they thought it would be appropriate to exit QE. ***I don't think they should ever exit QE. I think they have to trim it back to the pace of nominal GDP growth and leave it on autopilot.***

Lisa Abramowicz: This is a huge call! They should ***never*** exit QE? And the follow-on here is they should ***never*** shrink their balance sheet? The idea here that an $8.2 trillion Fed balance sheet is ***not big enough***? How big ***should it be***, Steve?

Steve Ricchiuto: Well, I don't think there's an answer to how big it ***should*** be. Let's take a look. $5.4 trillion of the big expansion here was done under the environment of offsetting the huge drag on the economy as a result of the Covid-19 lockdown mitigation strategy. ***That is a one-time permanent increase in the balance sheet.*** **[*Whoa!*]**

Allowing the balance sheet to then continue to grow at the pace of nominal GDP suggests primarily that you're continuing to support the economy. You want ***that*** level of nominal GDP to be consistent with, let's say, a 5% nominal GDP growth so you can get a [real GDP] growth rate that's somewhere between 2 ½% and an inflation of 2-to-2 ½% [sic]. And therefore, it gives you an environment where you are ***supporting that inflationary bias*** in the economy, to avoid the bigger risk of falling into deflation—which ***Japan*** has been doing for 30 years. ***Europe*** is arguably there now with 30-year bunds trading into negative territory [and] 10-year bunds down at minus-fifty. Europe has gone down the deflation path. There's arguments that ***China*** has gone down the deflation path—or ***is going*** down the deflation path. ***That's 38% of global GDP. They're all net creditors. We're a net debtor. If we have deflation, it's a real problem…***

The reality is the ***stimulus*** that ***we're*** providing is ***transfer payments*** and, to a great extent, it has been a one-time transfer of wealth—because households have been allowed to deleverage, which is good, [and] increase their savings, which is good. ***So, we've taken wealth from the public sector and we've given it to the private sector—that's good!*** **[*Really?*]** That assures you a longer sustained expansionary environment…And I think in a global deflationary world where we have a [monthly U.S.] trade deficit of $75.7 billion, we're basically, we've leaked a lot of the ***stimulus transfer payments***—the ***demand*** that was created—overseas, and they [the Fed] still can't get out of a deflationary bias. [***Speechless!***]

Steve Ricchiuto, Chief U.S. Economist, Mizuho Securities, 8/5/21

When you look at the job gains we saw last month, the month before, you look at the level of inflation right now, I think it would suggest that ***the level of accommodation we're providing right now is probably not needed in this scenario***. So, I would be ready to talk about taper sooner rather than later.

Esther George, President, Federal Reserve Bank of Kansas City [2022 FOMC Voter], 8/26/21

We do have a new framework [and] we did say that we would allow inflation to run above target for some time, ***but not this much above target***. So, for that reason I think we want to get going on taper. Get the taper finished by the end of the first quarter next year. And then we can evaluate what the situation is, and we'll be able to see at that point whether inflation has moderated and if that's the case we'll be in great shape. If it hasn't moderated, we're going to have to be more aggressive to contain inflation…Getting taper done early gives the Fed options on raising rates.

I think that there is worry that we're doing more damage than helping with the asset purchases because there is an incipient housing bubble in the U.S. The median house price, at least the number I saw, was approaching $400,000. We got into a lot of trouble in the mid-2000s by being too complacent about housing prices, so I think we want to be very careful on that this time around. James Bullard, President, Federal Reserve Bank of St. Louis [2022 FOMC Voter], 8/26/21

I'm going to be suggesting that we should move toward announcing a [tapering] plan as early as our September meeting and beginning our tapering process in October…So, one thing about these purchases: they were very effective and very critical in 2020 and in early '21, before we had vaccines. They are very well designed to stimulate demand, they're not so well designed for the situation we have now, where a lot of our challenges are supply-related…I'm concerned about some of the excesses and imbalances that these purchases create in risk-taking in the housing market, which can ripple into higher rents. And so my going-in view is ***these purchases had their purpose and their time, but they're not well suited to the environment we're in now***…I don't think the housing market needs any further support from the Fed…

And on financial markets, I think you're seeing people move along the risk curve. There's more risk taking, particularly in the non-bank financial markets. I think when you look at credit spreads, real yields are historically low. And those are some of the side effects, that are going to ultimately need to get normalized. It will be much healthier if we wean off these purchases soon…and remove some of these probably unintended side effects.

Robert Kaplan, President, Federal Reserve Bank of Dallas [2023 FOMC Voter], 8/26/21

I would like to go [taper] early this fall. I don't see any reason that we would need to wait until next year. That's my own view, unless something really bad comes out in the job market report next week, which I just don't expect to happen… Some others have stated that they would like to wait and see a few more [reports], but when you adjust the labor force jobs for early retirements, if we get another million, we will recover about 85% of the jobs that were lost and that took almost seven years after the last recession…I do think it's [inflation] going to be more persistent than what I may have thought back in May. Christopher Waller, Governor, Federal Reserve [Permanent FOMC Voter], 8/27/21

We've met the criteria, we're very close to it. It's time to step back from some of that extraordinary accommodative policy that we put on, in particular the asset purchases.

Loretta Mester, President, Federal Reserve Bank of Cleveland [2022 FOMC Voter], 8/27/21

We could go relatively rapidly. You could taper at a pace of $20 billion per month on Treasuries, $10 billion per month on mortgage-backed securities. I think most of this taper is already priced into markets. You saw today in reaction to the [Powell] speech, equities actually went up.

James Bullard, President, Federal Reserve Bank of St. Louis [2022 FOMC Voter], 8/27/21

We should be trying to get our policies back into a more normal situation. We have been at a very extreme level of accommodation and the economy calls for us to pull off of that a little bit and let the economy stand on its own…My view would be, let's start the taper, let's do it quickly, let's not have this linger.

Raphael Bostic, President, Federal Reserve Bank of Atlanta [2021 FOMC Voter], 8/27/21

I was glad to see him [Fed Chair Powell] moving towards beginning tapering this Fall. I still think he's operating within the same paradigm that he's been operating in, which…I don't think is quite right. ***He made a whole set of arguments on the serene side with respect to inflation***…but I was struck, for example, that he didn't say anything about the housing sector—that's the largest part of the consumer price indices. I saw a statistic...the other day that said on average when a new tenant moves into a rented residence, they're paying 17% more than the old tenant. That suggests a lot of rental price inflation. If you look at owner occupied houses, the prices are taking off. None of that has been reflected yet in our price indices and yet, on any common-sense definition, that's surely inflation. And so my guess is you'll start to see the housing components of inflation show up as rising pretty rapidly, or, if you don't, it'll reflect defects in the way we create the price indices…

He was more serene about all of that. He was referencing that we had had 4% unemployment before Covid without rapidly accelerating inflation and he was right about that, of course, but I see that we're having far more structural change in the economy as businesses rethink their business models, when people aren't going to be coming to the office, as people rethink their lives after a year without commuting, as the whole structure of the economy changes—and I think with all that structural change you're likely to see some substantial increase in the level of unemployment that the economy can sustain without excessive inflation.

So, there's no certainties, but ***I think the inflation risks are graver than those that the Chairman recognized. I think that the toxic side effects of QE are rather greater than the Chairman recognized.*** So, in the range of places where this speech seemed likely to come down, I think it came down in a relatively good place from my point of view, pointing towards a taper this year. But in terms of the issues I've been concerned about for quite some time—that we're kind of making a bit of a paradigm error—I didn't expect that the speech was going to represent a deviation from the paradigm, and I don't think it did. Larry Summers, Former Secretary, U.S. Treasury, 8/27/21

Currency devaluation globally is going to be quite significant next year given the incredible amount of money supply that has been printed…10% [of portfolio capital] should be put into physical gold. It is going to be very, very good to have physical gold that you can access immediately… Mark Mobius, Founder, Mobius Capital Partners, 8/30/21

We believe that gold does very well in times of inflation. The last time gold went parabolic was in the 1970s, when we had two years of double-digit inflation. The reason why gold goes parabolic is that basically there's a very limited amount of investable gold. It's on the order of several trillion dollars, while the total amount of financial assets is closer to $200 trillion. So as inflation picks up, people try and get out of fixed income. They try and get out of cash. And the logical place to go is gold. But because the amount of money trying to move out of cash and fixed income dwarfs the amount of investable gold, the supply and demand imbalance causes gold to rise…

We thought in 2009 with the Fed doing quantitative easing, which is essentially printing money, it would lead to inflation. But what happened was while the Fed printed money, at the same time they raised the capital and reserve requirements in banks. So, the money sort of recycled. The Fed bought Treasuries, created money, which wound up in the banks and then was redeposited at the Fed. And the money never really entered the money supply. So, it wasn't inflationary. However, this time it has entered the money supply. The money supply was up about 25% last year and the best indicator of inflation is money supply. So, I think we have inflation coming well in excess of what the current expectations are…

I would say that cryptocurrencies are a bubble. I would describe them as a limited supply of nothing. So, to the extent there's more demand than the limited supply, the price would go up. But to the extent the demand falls, then the price would go down. There's no intrinsic value to any of the cryptocurrencies except that there's a limited amount. Cryptocurrencies, regardless of where they're trading today, will eventually prove to be worthless. Once the exuberance wears off, or liquidity dries up, they will go to zero. I wouldn't recommend anyone invest in cryptocurrencies.
John Paulson, Founder, Paulson & Co., 8/30/21

Asset valuations are very high. John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 9/8/21

Market structure is broken. When there's a real fundamental reason for the market to go down, it's going to go down so fast that your head is going to spin. There's no stabilizing forces in the market right now. When the market goes down, it'll move so fast your head will spin. It's all algorithms…I see a lot of negatives to this [the Fed's] interest rate policy. The Fed is creating the environment to allow this to go forward. Leon Cooperman, Founder, Omega Advisors, 9/9/21

I don't think we're anywhere close to the kind of Carter-era double-digit inflation, but I do think we're in very serious danger of repeating almost all the mistakes of the 1960's and early 1970's…I see more and more economists starting to say, 'well if the inflation target moves from 2% to 3%, that'll be OK, we can't risk doing anything that might hurt the economy.' That, I think, is setting ourselves up for some very substantial difficulties down the road.
Lawrence Summers, Former Secretary, U.S. Treasury, 9/10/21

Commentary from Morgan Stanley Laguna Conference (9/11-9/15)

The inflation is unprecedented. Monish Patolawala, Chief Financial Officer, 3M Co., 9/15/21

I wish I could tell you exactly how long this transitory inflation was going to last.
Greg Hayes, Chief Executive Officer, Raytheon Technologies Corp., 9/15/21

'Unprecedented' is the word we'd use around the inflation side.
Chris Kuehn, Chief Financial Officer, Trane Technologies Plc, 9/15/21

Inflationary pressures are increasingly getting structural in nature. Larry Culp, Chief Executive Officer, General Electric, 9/15/21

Inflation is not a transitory situation. David Petratis, Chief Executive Officer, Allegion Plc, 9/15/21

Much to our surprise, and to the surprise really I think of everybody in the industry, we've seen that things [inflation] actually got materially worse. I'm hopeful that by the time we get to the end of this year, things have settled a bit. But I'll acknowledge as well—we got it wrong. I think we all got it wrong.

Craig Arnold, Chief Executive Officer, Eaton Corporation, 9/15/21

The central bank [Fed] should announce [at its September FOMC meeting] the immediate initiation of a tapering of quantitative easing with a goal of eliminating the $120 billion of monthly purchases in the first half of next year; and it should signal through its forward policy guidance a gradual lifting of near-zero interest rates starting in the second half of next year…Yet the Fed is unlikely to do so this week for several reasons, from the inability to embrace sufficiently yet the extent to which the demand and supply paradigm has shifted to concerns about triggering a disorderly correction of elevated asset prices after the excessive risk-taking encouraged by years of ample and predictable liquidity injections.

Rather than proceed with a taper now and signal the initiation next year of a measured and gradual normalization of interest rates, the Fed is likely to adopt a more dovish approach. This could include signaling the possible start of a taper later this year or early next year, reiterating that the taper decision is decoupled from the policy rate decision, signaling a delayed and slower interest rate normalization and packaging all of this in highly conditional language.

I suspect that most market participants, including long-term investors, would much prefer this course of action to the alternative, which I believe is necessary and feasible. 'QE infinity' remains their top policy choice for the Fed given the extent to which central bank liquidity has turbocharged asset valuations, allowing for such a historical decoupling from underlying economic fundamentals.

Yet as appealing as this seems, it would be rather shortsighted because it would allow economic and financial risks to continue to rise unduly, threatening the long-term inclusive recovery needed not just for sustainable economic well-being but also for underpinning genuine financial stability. Indeed, by the time the Fed finds itself forced to hit the brakes, the window for doing so in an orderly fashion may prove worrisomely tight.

Mohamed El-Erian, Chief Economic Adviser, Allianz, 9/20/21

I don't think there's long-term viability for five or six thousand private forms of money. So, in the meantime, I think it's worthwhile to have an investor-protection regime placed around this [cryptos]. Stablecoins are almost acting like poker chips at the casino right now. We've got a lot of casinos here in the Wild West, and the poker chip is these stablecoins at the casino gaming tables…A lot of people are going to get hurt.

Gary Gensler, Chair, U.S. Securities and Exchange Commission, 9/21/21

Crypto/Defi today is on a path that looks similar to CDS in the early 2000's. Fortunately, this group [Blockchain Association] has the power to change paths and avoid a crisis….Crypto/Defi solutions to problems in the real economy are rare.

Michael Hsu, Acting Chief, U.S. Office of the Comptroller of the Currency, 9/21/21

For me [to support November taper], it wouldn't take a knockout, great, super-strong [September] employment report. It would take a ***reasonably good*** employment report for me to feel like that [taper] test is met. And others on the committee—***many*** on the committee—feel the test is ***already*** met. Others want to see more progress, and, you know, we'll work it out as we go. But I would say that in my own thinking, ***the test is all but met***, so I don't personally need to see a ***very*** strong employment report, but I'd like to a good—a decent—employment report. Again, it's not to be confused with the test for liftoff, which is so much higher.

Jerome Powell, Chairman, Federal Reserve [Permanent FOMC Voter], 9/22/21

There's lots of Evergrande's out there in China. Evergrande just happens to be one of the biggest. But all developers look like this. The whole Chinese property market is on stilts…In many ways, you don't have to worry that it's a Lehman-type situation, but in many others, it's far worse because it's symptomatic of the whole economic model and the debt that's behind the economic model. If you try to deflate this bubble, it's fraught with risks…Has the Chinese Communist party grappled with the implications of that? That remains to be seen.

Jim Chanos, Founder, Kynikos Associates, 9/22/21

I think it's clear that we have made substantial further progress on achieving our inflation goal. There has also been very good progress toward maximum employment. Assuming the economy continues to improve as I anticipate, a moderation in the pace of asset purchases may soon be warranted.

John Williams, President, Federal Reserve Bank of New York [Permanent FOMC Voter], 9/27/21

The forward guidance on maximum employment and average inflation sets a much higher bar for the liftoff of the policy rate than for slowing the pace of asset purchases. I would emphasize that no signal about the timing of liftoff should be taken from any decision to announce a slowing of asset purchases.

Lael Brainard, Governor, Federal Reserve [Permanent FOMC Voter], 9/27/21

I think the FOMC's own actions and communications are playing an important role in restraining long-run inflation expectations. **[*Really?*]** Taken altogether, ***I am more uneasy about us not generating enough inflation in 2023 and 2024 than the possibility that we will be living with too much.*** **[*Wow!*]** I do not think the supply-side-induced transitory surge in inflation we are seeing today will be enough to do the trick. I expect that we will need a period of sustained, monetary-policy-induced overshooting of 2% inflation to boost long-run inflation expectations enough to deliver on our mandated goals…Though the modest overshooting projected from 2022 through 2024 is an improvement, I don't think it is a strong signal of sustainable inflation above 2%. I feel we need to go beyond trying to thread the needle by a couple of tenths in order to be assured of a sustainable moderate overshoot. **[*Oh Boy!*]**

Charles Evans, President, Federal Reserve Bank of Chicago [2021 FOMC Voter], 9/27/21

We don't want to overreact to short-term price movements. We want to make sure we can get the economy back to full strength and put as many Americans back to work as possible. To me, that is our highest priority—put people back to work…The auto sector has been a big source of the increase in inflation and suppliers to those auto companies have also been under a lot of pressure. My base case scenario is these are going to work themselves out. There is not going to be a permanent high demand for autos. There is not going to be a permanent high demand for toilet paper at home or for lumber. Some of these adjustments are taking more time…It wouldn't surprise me if it takes six months or most of next year to get people fully back to work. Neel Kashkari, President, Federal Reserve Bank of Minneapolis [2023 FOMC Voter], 9/27/21

China firmly opposes the U.S. unilateral sanctions on the Russian side. The U.S. hegemonic and bullying practices are rejected by Russia and China and will meet rejection and opposition form more and more countries.

Hua Chunying, Director General, Information Department, Foreign Ministry, China, 9/27/21

Our current estimate is that Treasury will likely exhaust its extraordinary measures by October 18. At that point, we expect Treasury would be left with very limited resources that would be depleted quickly. America would default for the first time in history. The full faith and credit of the United States would be impaired, and our country would likely face a financial crisis and economic recession as a result…

Clearly, inflation this year is going to be above 2%, just the experience so far this year makes that clearly true. But I think we are seeing monthly inflation rates taper off. 4%

I do support eliminating stepped up basis. The reason is that a very large share of the income of wealthy individuals is simply never taxed. Individuals hold onto these assets during their lifetime, that income is never taxed. And we know that for some of the wealthiest individuals in the country, they pay very low taxes overall because ***most of their income takes the form of unrealized capital gains***. **[*Huh?*]** The Biden administration proposed that at death those gains be taxed. And with careful consideration, not in any way to harm the prospects of family-owned farms or small businesses, there were substantial exemptions to protect them. Even if there is not actually taxation imposed at death, getting rid of stepped up basis would mean that an heir would inherit the original basis of the asset. And when that person eventually sold the asset, taxes would be paid. But I regard step up of basis as a kind of loophole that allows a very large portion of income in this country of the wealthiest individuals to go untaxed. Janet Yellen, Secretary, U.S. Treasury, 9/28/21

This agenda [$3.5 trillion 'reconciliation' bill] is not some fringe list. It is the president's agenda the Democratic agenda, and what we all promised voters when they delivered us the House, Senate and White House. Let me be clear. Bringing the so-called bipartisan infrastructure plan to a vote with out the #Build Back Better Act at the same time is a betrayal. We will hold the line and vote it down. This is not the time for half measures or [to] go back on our promises.

Pramila Jayapal, U.S. Representative (D-Washington), Chair Congressional Progressive Caucus, 9/28/21

Renominating you [Chair Powell] means gambling that for the next five years, a Republican chair who has regularly voted to deregulate Wall Street won't drive this economy over a financial cliff again. So far you've been lucky…[but] your record gives me grave concern. Over and over, you have acted to make our banking system less safe, and that makes you a dangerous man to head up the Fed. And it's why I will oppose your renomination.

Elizabeth Warren, U.S. Senator (D-Massachusetts), Vice Chair Senate Democratic Caucus, 9/28/21

Strikingly reminiscent of what we saw in the early 1970's…inflation will stay at these elevated levels for longer than we thought. We are sort of one supply-chain-glitch away from stagflation. That seems to be playing out, unfortunately.

Stephen Roach, Former Chairman, Morgan Stanley Asia, 9/28/21

Coronavirus was just a convenient excuse for the Fed to do more of what it was already doing. Now, the Fed is using the limited reopening as a scapegoat for rising prices. Of course, anyone who understands Austrian economics understands that rising prices are a symptom, not a cause, of inflation. Inflation is the very act of money creation by the Fed. Rising prices that diminish the average American's standard of living are not the only result of the Fed's manipulation of the money supply. The manipulation distorts economic signals, producing results including booms, bubbles, and busts.

Ron Paul, Former U.S. Representative (R-Texas), 9/28/21

It is frustrating to acknowledge that getting people vaccinated and getting Delta under control 18 months later still remains the most important economic policy that we have. And it's also frustrating to see the bottlenecks and supply chain problems not getting better—in fact at the margins apparently getting a little bit worse…

The current inflation spike is really a consequence of supply constraints meeting very strong demand, and that is all associated with the reopening of the economy, which is a process that will have a beginning, a middle and an end. We see those things resolving. It's very difficult to say how big those effects will be in the meantime or how long they will last…We see that continuing into next year probably and holding up inflation longer than we had thought…We need those supply blockages to alleviate, to abate before inflation can come down. We do believe that it will…

This is not the situation that we have faced for a very long time and it is one in which there is a tension between our two objectives. Inflation is high and well above target and yet there appears to be slack in the labor market…***Managing through that over the next couple of years is the highest and most important priority and its going to be very challenging.*** **[Ya' think?]**

Jerome Powell, Chairman, Federal Reserve [Permanent FOMC Voter], 9/29/21

Every Member of Congress has a solemn duty to vote for what they believe is best for the country and the American people, not their party. Respectfully, as I have said for months, I can't support $3.5 trillion more in spending when we have already spent $5.4 trillion since last March. At some point, all of us, regardless of party must ask the simple question – how much is enough?

What I have made clear to the President and Democratic leaders is that spending trillions more on new and expanded government programs, when we can't even pay for the essential social programs, like Social Security and Medicare, is the definition of fiscal insanity. Suggesting that spending trillions more will not have an impact on inflation ignores the everyday reality that America's families continue pay an unavoidable inflation tax. Proposing a historic expansion of social programs while ignoring the fact we are not in a recession and that millions of jobs remain open will only feed a dysfunction that could weaken our economic recovery. This is the shared reality we all now face, and it is this reality that must shape the future decisions that we, as elected leaders, must make…

If there is one final lesson that will continue to guide me in this difficult debate ahead it is this: America is a great nation but great nations throughout history have been weakened by careless spending and bad policies. Now, more than ever, we must work together to avoid these fatal mistakes so that we may fulfill our greatest responsibility as elected leaders and pass on a better America to the next generation.

Joe Manchin, U.S. Senator (D-West Virginia), 9/29/21

We can take for granted that the outcomes [income inequalities] we see today are inevitable and watch as the pandemic makes existing gaps deeper and our prospects for future growth even slower; or, we can see them as a sign that resources aren't being used to their fullest and that people with great potential are being kept each day from realizing it.

Mary Daly, President, Federal Reserve Bank of San Francisco [2021 FOMC Voter], 9/29/21

We monitor very carefully, but we certainly have no reason to believe that these price increases we are seeing now will not be largely transitory going forward.

Christine Lagarde, President, European Central Bank, 9/29/21

Inflation isn't going down. Inflation is hot, hot at the core level. Mohamed El-Erian, Chief Economic Adviser, Allianz, 10/1/21

I am concerned about the changing mentality I would say around prices in the economy and the relative freedom that businesses feel that they can just pass on increased costs easily to their customers. For years this has not been the case in the U.S. They felt like if they raised prices, they would lose market share. It would hurt their business. And consumers were rabid about moving to the lower-cost places, low-cost products. ***That may be breaking down***…This is a great debate, an important debate about how to handle this going forward. ***I am concerned that the risks are to the upside***, that we will continue to get higher than anticipated inflation and that this higher inflation will persist into 2022. It will dissipate somewhat but not down to where we would like it to be in 2022.

James Bullard, President, Federal Reserve Bank of St. Louis [2022 FOMC Voter], 10/4/21

In order to further increase Poland's financial security, we will continue the current policy—we will certainly strive to increase our gold holding. The scale and pace of purchases will depend, inter alia, on the dynamics of changes in official reserve assets and current market conditions. I initially assume that I will propose to buy a further 100 tons in 2022.
Adam Glapinski, President, National Bank of Poland, 10/5/21

President Biden asked me about it [French outrage over Australian nuclear sub deal] and I told him...He asked me. He said, 'What's the situation?' And I explained exactly—he wasn't—he had not been aware of that. He ***literally, literally*** had not been aware of what had transpired. And I don't want to go into the details of it, but, suffice it to say, that the President, my President, is very committed to strengthening the relationship [with France] and making sure that this is a small event of the past and moving on to the much more important future. John Kerry, Biden Administration Climate Envoy, 10/5/21

As the sitting chair of the Federal Reserve, the responsibility to safeguard the integrity of the Federal Reserve rests squarely with him [Chair Powell]. Setting the right culture at the Fed and making sure safeguards are in place to prevent self-dealing and protect the public's confidence should be the minimum standard any Federal Reserve Chair should meet. And, once there is a problem, a quick and aggressive response is critical. Chair Powell has failed at both tasks. Last week, I said that I would not support Chair Powell's renomination because in one decision after another, he has consistently failed to serve as an effective financial regulator. But that is not his only failure. Chair Powell has also failed as a leader. Our nation needs leaders who are willing to set and enforce strong ethics standards and who act swiftly when a problem arises. Our nation does not need a go-along-to-get-along leader who doesn't know or doesn't care when, on his watch, people with great responsibility advance their own interests over those of our nation, or someone who drags his feet in dealing with problems that shake the public's confidence in the institution he leads. We need changes at the Fed.
Elizabeth Warren, U.S. Senator (D-Massachusetts), Vice Chair Senate Democratic Caucus, 10/5/21

In figuring out how to deal with resurgent U.S. inflation, the Federal Reserve needs to understand the nature of its adversary: Is the current economic situation similar to what it was after the 2008 financial crisis, or something new and different? I'm concerned that the Fed is making the mistake of fighting the last war.

During the recovery from the recession of 2007 to 2009, the problem was not enough inflation. The Fed struggled to achieve its 2% target, in part because the unemployment rate required to do so proved to be considerably lower than anticipated. As inflation readings persistently fell short, people's expectations of future inflation declined, too. The Fed responded to that experience with a change in strategy. Under its new long-term monetary policy framework, introduced last year, the central bank targets an inflation rate of 2% on average — meaning that misses to the downside must be offset by misses to the upside…This strategy isn't necessarily well suited for today's circumstances. Inflation is already well above the 2% target, and the Fed's Index of Common Inflation Expectations indicates that inflation expectations are very close to the Fed's 2% inflation objective…

If the economic outlook evolves in unexpected ways, Fed officials will almost certainly be slow to respond – because they'll need time to update their views, because their new framework demands patience, and because they think the negative consequences of delay are very modest. Hence, if inflation proves more persistent than anticipated and even accelerates as the economy pushes beyond full employment, they'll have to tighten much more aggressively than they expect…A faster pace of tightening would come as a shock for financial markets and could risk tipping the economy back into recession. That's the danger of fighting the wrong war. Bill Dudley, Former Vice-Chair, Federal Reserve, 10/6/21

I do worry that this will be ongoing inflation, and we could easily end up with 3.5% 10-year Treasuries, which again just increases the cost of the national debt and creates budget issues…There should be a discussion around what is the appropriate level of national debt and national spending. Steven Mnuchin, Former Secretary, U.S. Treasury, 10/7/21

We're in this situation where you still have this inertia from demand, it is pushing up against constrained supply and that has pushed inflation up. And while the consensus is that that will be very transitory and bounce right back, we don't think so, because there is plenty of inertia from that spending to continue and it's just not going to be that easy to resolve these supply constraints, particularly as Covid remains an issue. It starts to look a bit like the 70's and the oil shocks. Raising interest rates isn't going to increase oil supply…

If there is inflation, the Fed is in a box because the tightening won't really do much to reduce inflation unless they do a lot of it, because it is supply driven. And if they do a lot of it, it drives financial markets down, which they probably don't want to do. Deciding between the lesser of two evils, what do you choose? I think most likely you choose inflation because you can't do much about it anyway. Bob Prince, Co-Chief Investment Officer, Bridgewater Associates, 10/8/21

I myself believe that the 'substantial further progress' standard has more than been met with regard to our price-stability mandate and has all but been met with regard to our employment mandate…I continue to believe that the underlying rate of inflation in the U.S. economy is hovering close to our 2% longer-run objective and, thus, that the unwelcome surge in inflation this year, once these relative price adjustments are complete and bottlenecks have unclogged, will in the end prove to be largely transitory. That said, I believe, as do most of my colleagues, that the risks to inflation are to the upside, and I continue to be attuned and attentive to underlying inflation trends, in particular measures of inflation expectations.

Richard Clarida, Governor, Federal Reserve [Permanent FOMC Voter], 10/12/21

'Transitory' is a dirty word. You'll notice I brought a prop to the lectern. It's a jar with the word 'transitory' written on it. This has become a swear word to my staff and me over the past few months. Say 'transitory' and you have to put a dollar in the jar…It is becoming increasingly clear that the feature of this episode that has animated price pressures—mainly the intense and widespread supply-chain disruptions—will not be brief. Data from multiple sources point to these lasting longer than most initially thought. By this definition, then, the forces are not transitory…I believe evidence is mounting that price pressures have broadened beyond the handful of items most directly connected to supply chain issues or the reopening of the services sector…

In my view the real danger is that the longer the supply bottlenecks and attendant price pressures last, the more likely they will shape the expectations of consumers and businesspeople, shifting their views on pricing and wages in particular. Inflation expectations among businesses and consumers, in fact, have risen this year. Short-run expectations are sharply higher; indeed, the Atlanta Fed's one-year ahead Business Inflation Expectations measure has hit the highest level in the survey's 10-year history. More importantly, longer-run inflation expectations measures have climbed, with many reaching levels we haven't seen in about a decade. Rafael Bostic, President, Federal Reserve Bank of Atlanta [2021 FOMC Voter], 10/12/21

I personally think that bitcoin is worthless. I don't think you should smoke cigarettes either. Our clients are adults. They disagree. If they want to have access to buy or sell bitcoin—we can't custody it—but we can give them legitimate, as clean as possible access.

Jamie Dimon, Chief Executive Officer, JPMorgan Chase, 10/12/21

Gold is kind of worthless too, and so is silver, I mean they have some industrial uses but they are minor. The reason I own Bitcoin is because the U.S. government and every government in the western hemisphere is printing money now to the end of time and this is a finite amount of something and it can be traded globally.

Barry Sternlicht, Co-Founder, Starwood Capital Group, 10/14/21