GOLD, THE U.S. DOLLAR, AND FEDERAL DEBT

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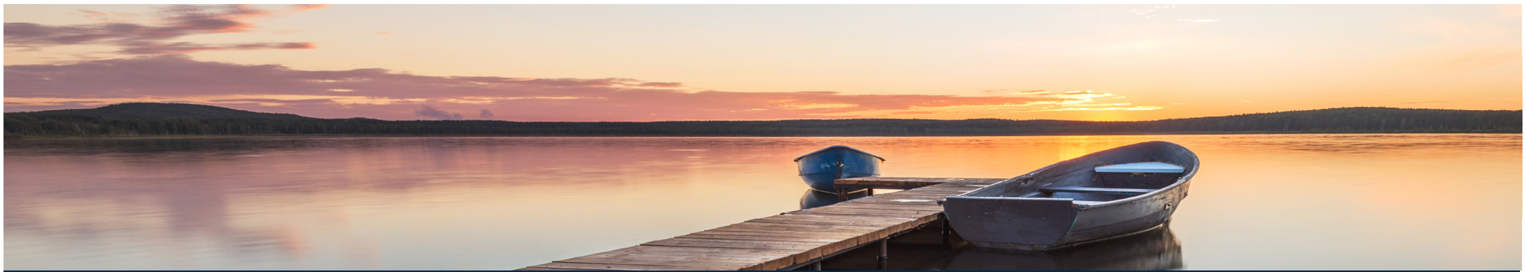

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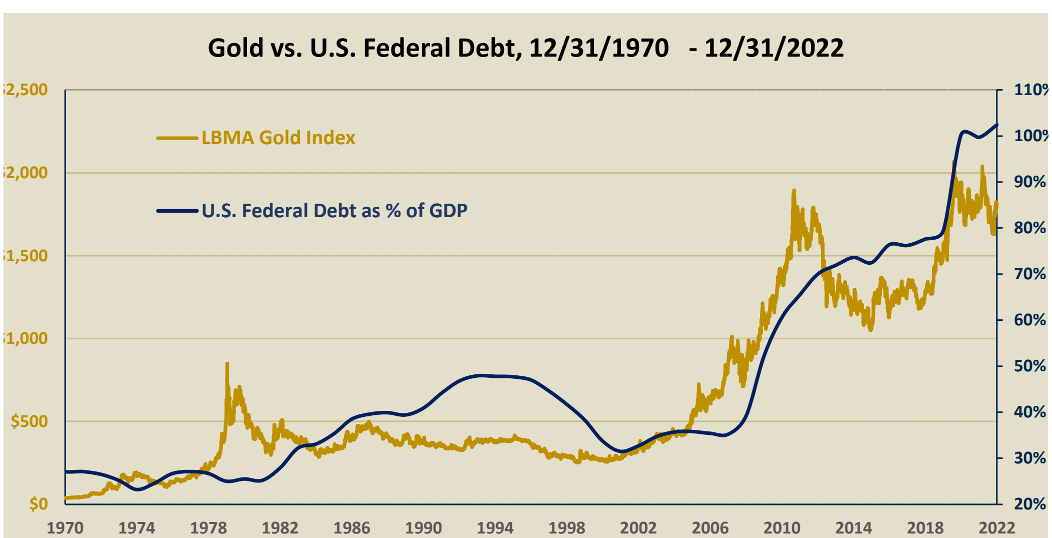
2021 marked 50 years since the Nixon Administration unpegged the U.S. Dollar from Gold, thus cancelling the direct convertibility of the Dollar to Gold bullion. Overnight, the Dollar became a free-floating currency, measurable only by comparing it to other world currencies. Three years later, The Ford Administration took this move a step further, signing a bill that allowed Americans to freely buy and trade Gold. The combination of these two changes have had massive economic ramifications, both positive and negative. One consequence, whose merits are up for debate, was to remove the natural limit to how much money could be printed, which had formerly depended on the amount of Gold in the nation's reserves. No longer faced with this constraint, discipline regarding government spending went by the wayside, and our federal debt has ballooned in the years since to over $31 trillion as of 12/31/22. Today, the Federal Debt, the U.S. Dollar, and the price of Gold are all inextricably linked, and its important for investors in gold to understand these relationships and what they may mean for a portfolio.

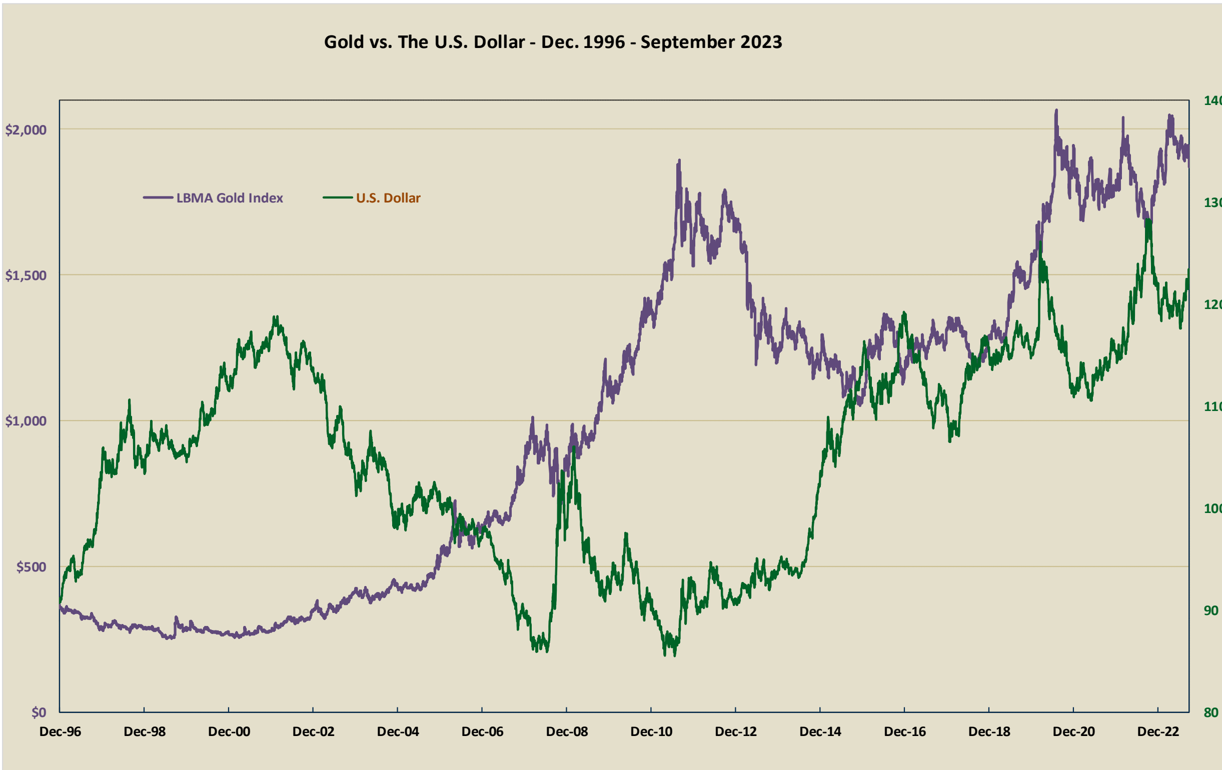
A Fiscal Deficit arises when a government's annual expenditures exceed its annual revenues. The Fiscal Deficit relates to a specific period, typically a year, whereas the Federal Debt relates to the accumulation of annual deficits. From 1971 to 2021, the U.S. government has run deficits for all but four fiscal years, meaning that the Federal Debt has grown for 46 out of the last 50 years. In 2020 alone, the government spent a total of $6.55 trillion, and only collected about half of that in tax revenues, thereby adding another $3+ trillion to the Federal Debt. Government spending is expected to continue operating at an elevated level for the foreseeable future.

As Federal Debt grows, worries about inflation tend to increase, as do worries about whether the government will be able to meet its debt payments, or if it will be forced to cut spending or increase taxes, potentially hampering economic growth. As confidence in the economy wanes, many investors turn to Gold as a safe-haven asset that does not depend on the strength of the economy. This positive relationship between the price of Gold and the percentage of Federal Debt outstanding is illustrated in the chart below.



Source: Bloomberg

An increasing Federal Debt also has a two-fold effect on the strength of the U.S. Dollar. First, as described previously, growing indebtedness shakes investor confidence in that nation's economy, and thus its currency. Secondly, as Federal Debt grows, the debt service, or interest and principal payments, on that debt also increases. These increasing obligations are often met by printing more money, and when the money supply is increased, the value of every Dollar in circulation is dampened. When consumers are losing money simply by holding it, safe-haven demand for Gold soars again. This negative relationship between Gold and the U.S. Dollar can be seen in the following chart.



Source: Bloomberg

Since the unpegging of the Dollar in 1971, the intertwined dynamics of government cash flow, the U.S. Dollar, and the demand for Gold have been fascinating. There is no doubt that anyone looking to add Gold to their portfolio should keep a close eye on these dynamics. When the government runs a large deficit and the Dollar weakens, Gold may provide a boost to a portfolio. When the opposite is true, Gold may provide a drag on overall returns. And as a particularly volatile asset class, these swings in the price of Gold are often swift. Thus, we feel that a tactical approach to Gold management, with the ability to move to cash at appropriate times, is essential.

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BTS:

- Seeks to preserve capital
- Aims to offer downside protection and upside potential
- Strives to reduce volatility while delivering consistent long-term returns

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