Alps Precious Metals Group

Commentary – February 18, 2022

“We’ve Only Just Begun”

Source: http://greginhollywood.com/wordpress/wp-content/uploads/tumblr_lt4cwu8ICJ1qz8gt5o1_500.jpg

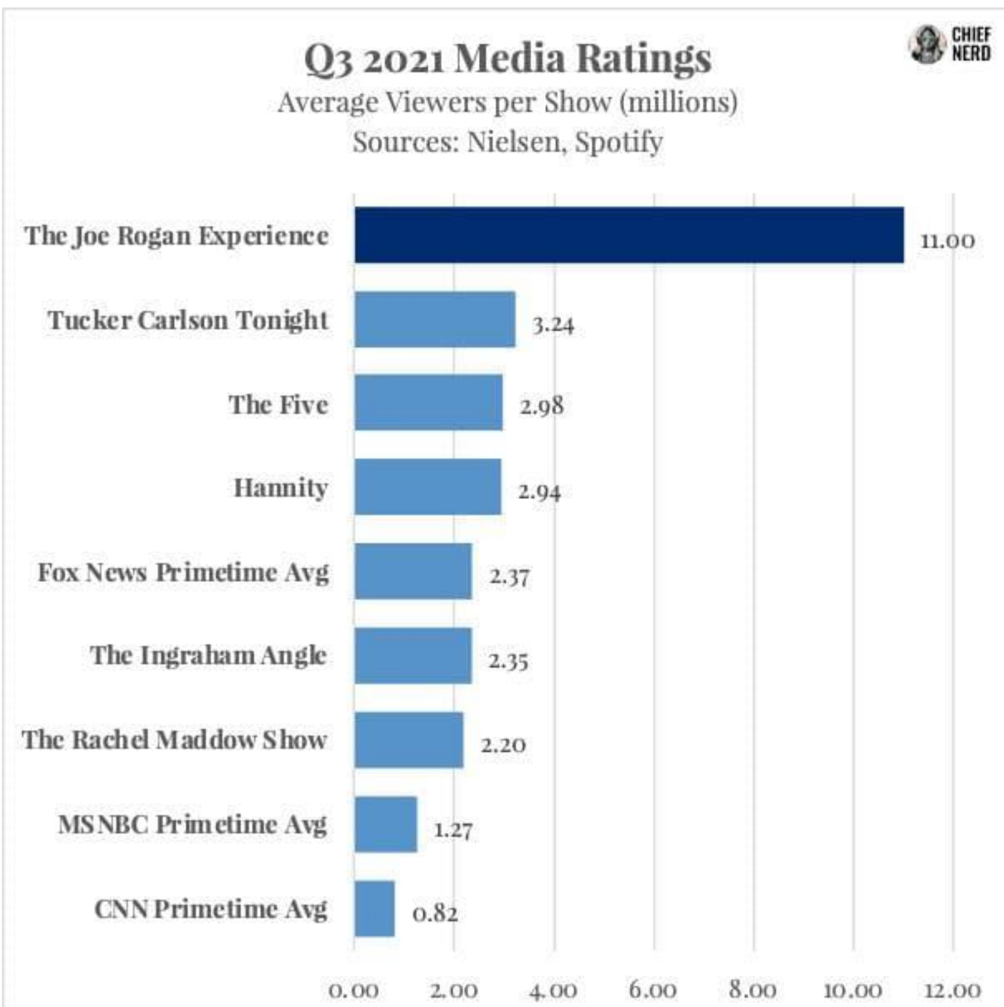
“…Sharing horizons that are new to us; watching the signs along the way…
And, yes, we’ve just begun…”

“We’ve Only Just Begun” – Performed by Karen and Richard Carpenter, Music by Roger Nichols, Lyrics by Paul Williams - Universal Music Publishing Group - https://www.lyrics.com/lyric/35343684/We've+Only+Just+Begun

“Markets hate War”.

I believe the truism above was written by Llewellyn Rockwell of the Ludwig Von Mises Institute as the markets were plummeting in the fall of 1990 during the lead-up to “Desert Storm”. This quote has stayed with me ever since; and “truism” is the perfect term for something that has been shown to be transparent *Veritas* time and time again.

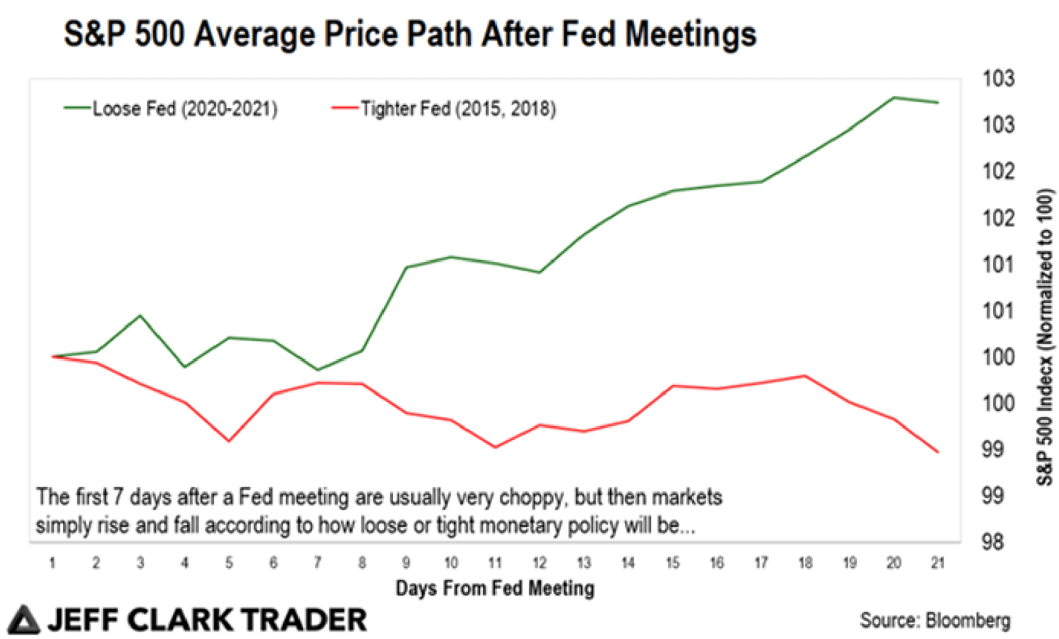
“War” has been manifested in several ways in the 30 years since that cogent line was committed to memory. The conventional way, of course, as seen in Desert Storm, 9/11, and today in the attempts by the current U.S. regime and NATO to *incite* a war with Russia. Non-conventional examples would include the war “Western Democracies” are waging against their own people – in the form of Canadian truckers being arrested, elementary school Moms and independent small businesses being harassed, et.al., relative to their collective protests against unhinged and unscientific Covid-19 response measures. Also qualifying would be the war from the summer of 2007 until March of 2009 against the dissolution of overleveraged legacy banks. Finally, there is a war being fought over what is and is not truth and what is and is not open, honest journalism and discourse. The following chart doesn’t lie:



Markets do indeed hate war.

Another war that is upon us is that of the battle against inflation - an inflation that is clearly not "transitory" as it was said to be a grand total of 7 months ago. Is the source of this very material problem strictly monetary? Or is it mainly, as our colleague Keith Weiner of Monetary Metals has described it, a function of idiotic mandates, whether of the useless Covid-19 variety or the equally useless "green-energy" type? Irrespective of what the primary source is, interest rates are going higher via the Central Bank upward maneuvering of short-term interest rates and the halting of open market vacuuming of debt of all types. The end of QE is the missile being fired at the inflation enemy.

What does this mean for equity and bond markets? For the former, a repricing to some level below "utterly insane valuation" would seem rather likely. Here is the general flight path to expect:



For the latter, that's a good question, for two answers likely exist depending upon whether one is asking about the short-term or long-term. In the short-term, it is completely conceivable that the technical channel shown below will continue to hold up far longer than anyone could have possibly imagined. This 30+ year lowering of yield/strengthening of the U.S. Government bond market is in fact the only fixed income setting we have known given that a career that began 33 years ago almost to the day, in February of 1989.

In the long-term, when the channel below is definitively and sustainably broken to the upside in terms of yield………well, we will be in a very different financial world:

Source: Refinitiv and Zero Hedge, February 16, 2022 - https://www.zerohedge.com/the-market-ear/crowded

The reason we would not be surprised in the least to see the yield on the 10yr U.S. Treasury bond fall to -0- or even go negative – keeping it snugly within the channel above – is because when the world goes "Risk-Off", it doesn't matter how often "Ctrl-P" is hit by Central Banks, overwhelming investment demand is for "very short-term, very liquid" (see 2008 for how overwhelming such demand can be). On the other hand, if the Fed stays the course with tightening financial conditions to fight inflation in the midst of a major shift to Risk Off, an inverted yield curve with the 2-year defining the apex of the curve at, say, 2.5%, and the 30 year at 0%, is, believe it or not, conceivable. Such an event would of course force the Central Banks' hands to reverse the tightening, returning us to the same normal shape curve we have today with Fed Funds at 0%, the 2yr at 1.50%, 10's at 1.93% and the 30yr at 2.25%. Leaving the Fed right back where they started with a material inflation problem and negative real yields.

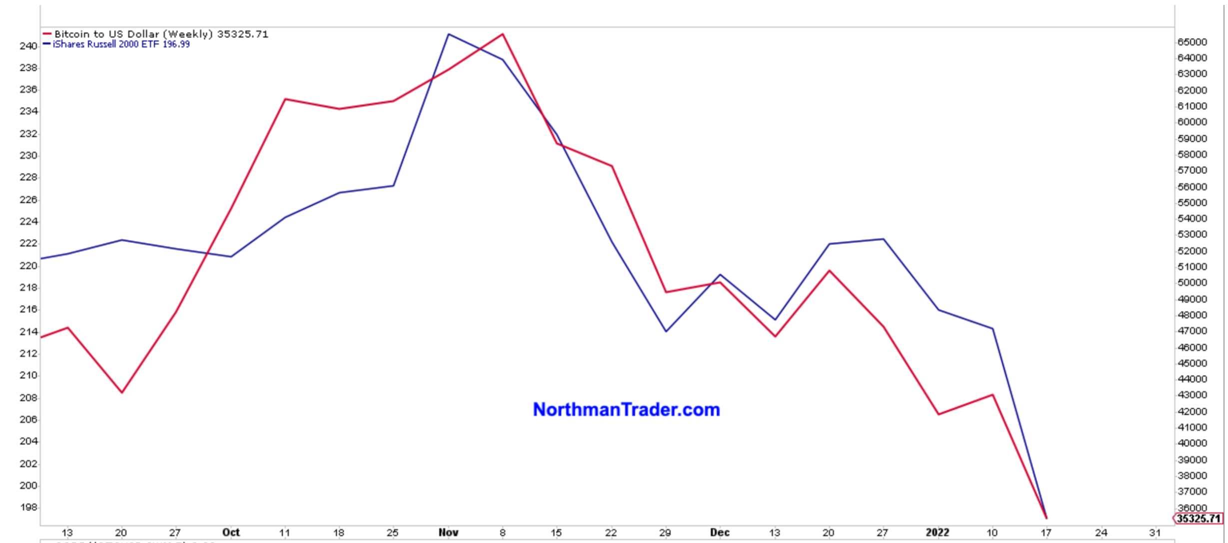
We have often referred to Goldman Sachs' research piece of September of 2017 entitled "Gold – The Hedge of Last Resort". None of the takeaways from that article have changed one iota over the years since its publication. On Monday the 14th, Goldman updated their thoughts with a new research piece which "upped" their opinion on the Precious Metal of Kings to "Gold – The Hedge of *FIRST* Resort".

The all-timer line in that essay that Jeff Currie gave the markets was this:

“Gold is a ‘Risk-Off’ Inflation hedge; Bitcoin is a ‘Risk On’ Inflation hedge”

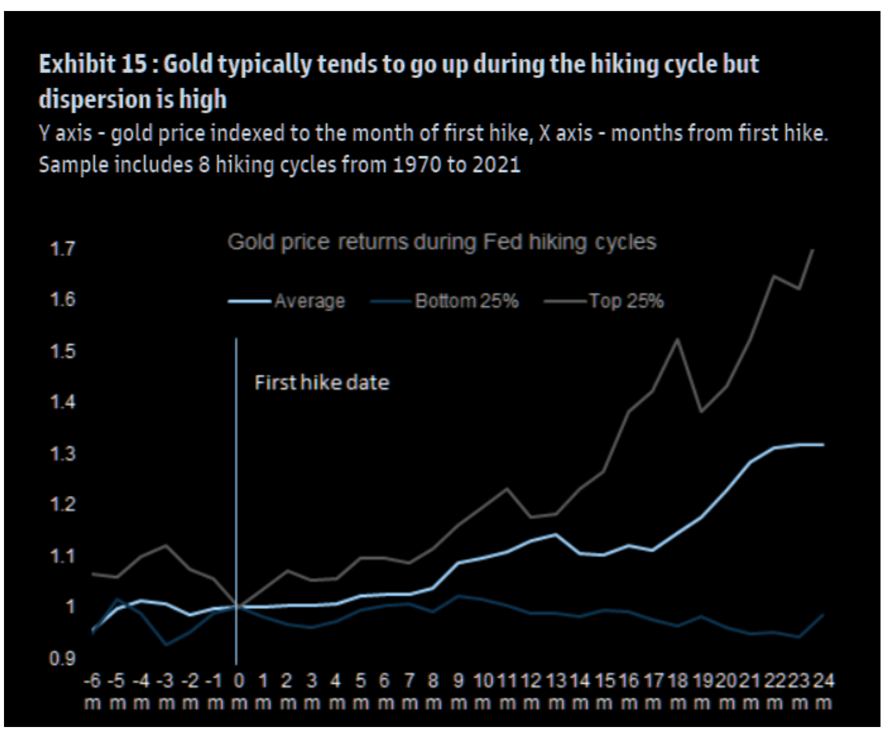
Jeff Currie, Goldman Sachs Commodity Research, February 2022

Here again, the proof is in the pudding. What is Bitcoin’s correlation to stocks asks you? ***93%*** says I (and Sven Henrich):



Source: https://northmantrader.com/2022/01/22/revolution/

And what about Gold? Well, typically “Higher Interest Rates” is congruent with “Risk Off”. Here’s what the last 50 years have yielded when it has come to rate hikes by the Fed and Gold – 24 months after rates have begun to rise, the average rally in Gold is 30%:

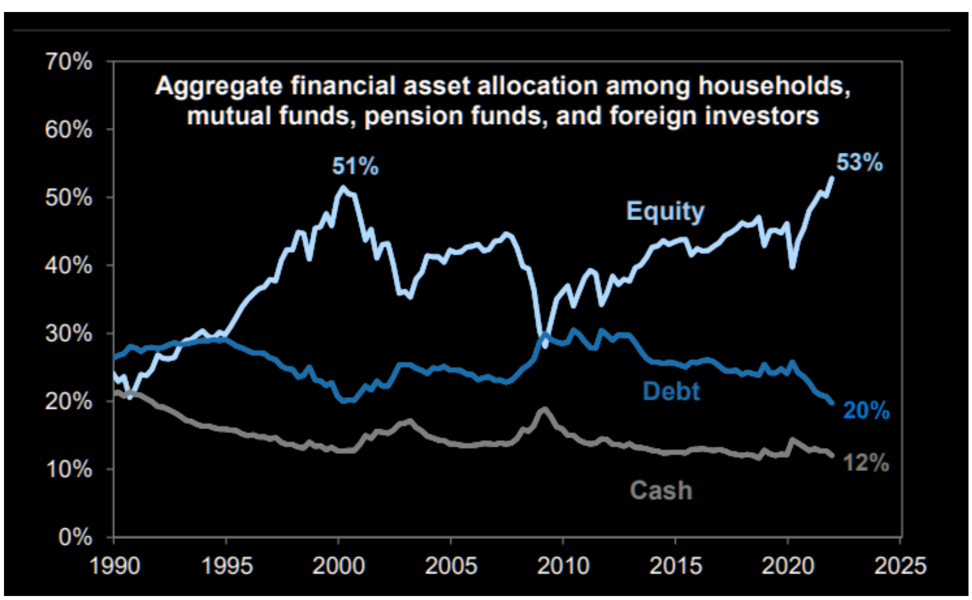


Source: https://www.zerohedge.com/the-market-ear/longold

So, to recap, we have before us a rather potent witches' brew of War and Rate Hikes which could very easily lead to the most aggressive "Risk Off" posture seen in markets since 2008. For a visual of what that may look like and where stocks could head in a Risk Off world, there's this:

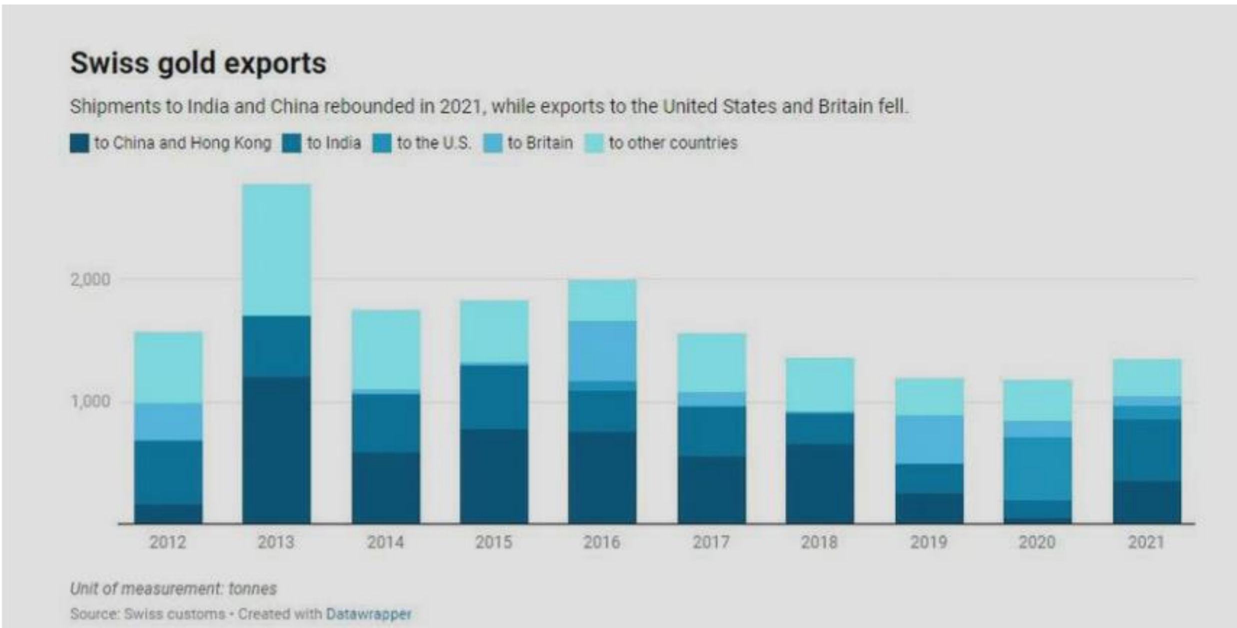
Source: Zero Hedge, February 17, 2022 https://www.zerohedge.com/markets/bonds-bullion-bid-bullard-blinken-bloviation-batters-big-tech-bitcoin

For some reference points, for the market to return to the same valuation level as the market ***TOP*** in 2000, the stock market would need to fall some 15-20%. To get close to the market levels seen just before the Q4 2007 through Q1 2009 collapse, the selloff would be nearly 50%. And to return to the low of March 2009 when all the fun and games began, we need to be down about 70-75%. Are we simply "around the bend" pointing out such things, or are we Cassandra? Given the amount of exposure investors currently have to Equities, well…is hope a strategy?



Source: The Market Ear, "Waiting for the Next Leg", 1/27/2022 https://www.zerohedge.com/the-market-ear/signs

As for Gold, given its generally reliable performance in Risk-Off investment worlds, one can be further heartened by the fact that government demand is rising alongside the traditional bid that the current investment landscape engenders. The last time India and China were buying these quantities of Physical Precious Metals from the source country of 70-80% of the world's refined Gold was 4 years ago. If they're headed back to their 2013 appetite, then we're looking at quite a bullish setup for the Midas Metal:



Swiss gold exports, 2021

Source: https://www.zerohedge.com/news/2022-02-04/despite-being-heavily-out-favor-fund-managers-india-and-china-have-quietly-buying

Fed Governors and other Central Banks generally don't want to roil markets unless they have no choice. When Fed Open Market Committee *voting* member James Bullard starts unbosoming comments like "our credibility is on the line" and the decision to aggressively fight inflation is "existential" for the Fed, one may infer that at least some sort of fortitude to watch markets precipitously fall is within the guts of the Committee Members. Perhaps also, as Tom Luongo of the "Gold, Goats and Guns" report has suggested, the Fed is getting a "tap on the shoulder" by Wall Street, which has had some existential reflections of their own as to the end game for the current reset envisioned by the self-anointed "enlightened" denizens of the World Economic Forum. Whatever the reason, we have need to be concerned about the robustness of risk appetite in the foreseeable future.

When investment risk-taking is not in vogue, equity markets do not fall in a straight line, nor do precious metals markets rise in a straight line. However, generalities can be inferred. Sailors say "Red skies at night, sailors delight; red skies in the morning, sailors take warning".   We would argue that as far as risk is concerned, the morning has begun bright red.

But as far as Gold and Silver are concerned, we see picturesque ruddy and auburn hues, as the sun sinks slowly into the Western horizon.

And, yes, we've just begun.

Alps, LPMG, St. Joseph Partners and Monetary Metals

Alps Precious Metals Group via our partnerships with Liechtenstein Precious Metals Group (our Global and Offshore clients) and St. Joseph Partners (our U.S./Canadian focused clients) is dedicated to providing the global standard for the finest and most secure storage and trading of Physical Precious Metals. Our Vaults have some of the highest security standards in the world ("Class 10" at LPMG) and, via our insurance partners, each client's specie is insured at 100% of its market value. Our trading desks provide liquidity on each and every business day with as little as next day settlement. All of these benefits are enjoyed while simultaneously being freed from the status quo global financial system.

We have an additional partnership with Monetary Metals ("MM") appropriate for both foreign and domestic clientele. MM has a unique niche in the Precious Metals markets, which is summarized in their motto: "A Yield on Gold, Paid in Gold". For investors who would like exposure to the Precious Metals sector but require an income flow from the investment, our partnership with MM can provide the same.

Contact us (www.alpspmg.com) to discuss how Alps can become a trusted partner in the creation, protection and utilization of the hard money portion of your portfolio.

James P. Hunter
Managing Partner
Alps Precious Metals Group