In the Spotlight

GDX360®

In Gold We Trust

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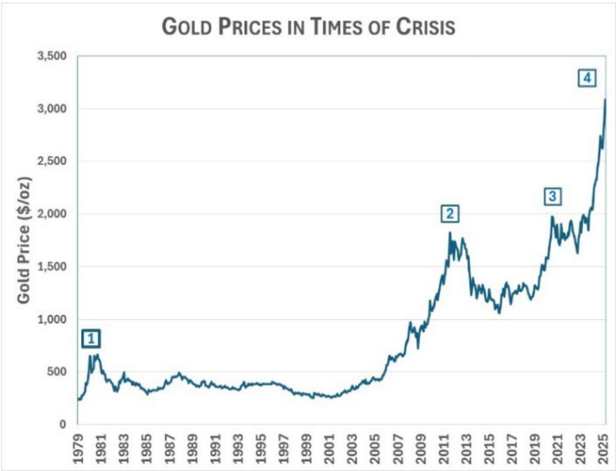
The phrase *In God We Trust* was formally established as our national motto in 1956 when Congress passed a law making it so. The motto emerged during the Civil War, reflecting a national desire for reassurance and faith in the face of conflict and insecurity. It first appeared on our coinage in 1864 following an act of Congress and on our paper currency in 1957. While the government's motto may help bolster confidence in our country and currency, in times of crisis, it seems that the people's motto is *In Gold We Trust:*

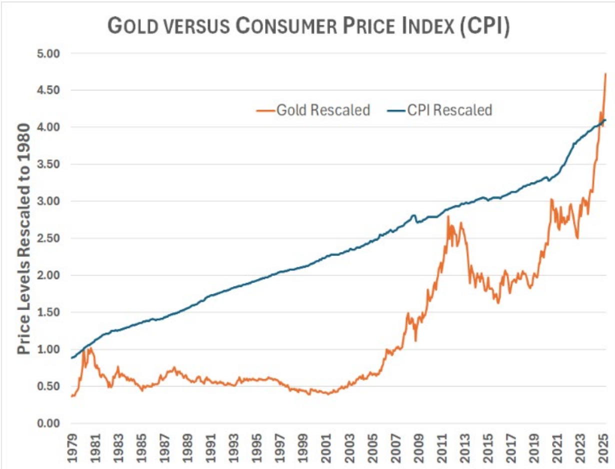


1. The 1979 oil crisis. The Iranian hostage crisis. Inflation peaks at 14.5%. Hunt brothers attempt to corner the silver market. Silver peaks near $50/ounce (still not back there yet). Gold peaks near $850/ounce. Fed funds rate peaks near 20%.

2. Global Financial Crisis. Lehman and Bear Stearns go belly up. S&P 500 falls below 700, more than a 50% decline. Big Bank Bailouts. S&P downgrades U.S. long-term credit rating.

3. COVID crisis. Unemployment skyrockets. Massive government spending (27% of GDP). Inflation peaks at 9.1%

4. Geopolitical crisis. Russia invades Ukraine. Trump pivots away from Ukraine and Europe towards Russia. NATO Article 5 commitment in doubt. Tariff/trade war. Trump-induced instability. Central bank buying



Gold is a crisis hedge, not an inflation hedge. It just so happens that inflation often accompanies a crisis. It has failed as a long-term inflation hedge. Since the gold price peaked in 1980, it has taken 45 years for it to catch up to and finally exceed CPI.

Gold pushed past CPI this year on Trump's bumpy tariff policy alongside his budding imperialist foreign policy. However, gold's move is less about policy specifics and more about trust and fear. Our presumed allies fear they can no longer trust that presumption. Our trading partners fear they can no longer trust us to be a reliable trading partner. Our adversaries are building trading networks that don't rely on the dollar-based financial system. This helps them blunt sanctions. Confidence in the U.S.-led world order is diminishing. Gold is a salve for the confidence wound.

Last year, central banks added over 1,000 tonnes of gold to reserves, worth more than $100 billion at $3,000 an ounce. It was the third year in a row that they bought over 1,000 tonnes. The prior three years averaged less than half that. Investor inflows into gold ETFs reached $9.4 billion in February, the highest inflow in nearly three years. It is reasonable to expect continued central bank and investor buying so long as fear and distrust reign. That said, post-crisis gold performance has been abysmal.

Morningstar analyst Jon Mills thinks gold could fall by as much as 40% over the next five years. Higher prices incent more production and recycling, and according to a World Gold Council Survey, 71% of central banks said they expected their gold holdings to remain the same or decrease in the coming 12 months.

While gold may still have some momentum, better long-term risk-reward profiles can be found elsewhere.

Email research@wealthcarecapital.com with questions, comments or requests. Sources include the World Gold Council, Morningstar, Bloomberg, Google, and Wealthcare.

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