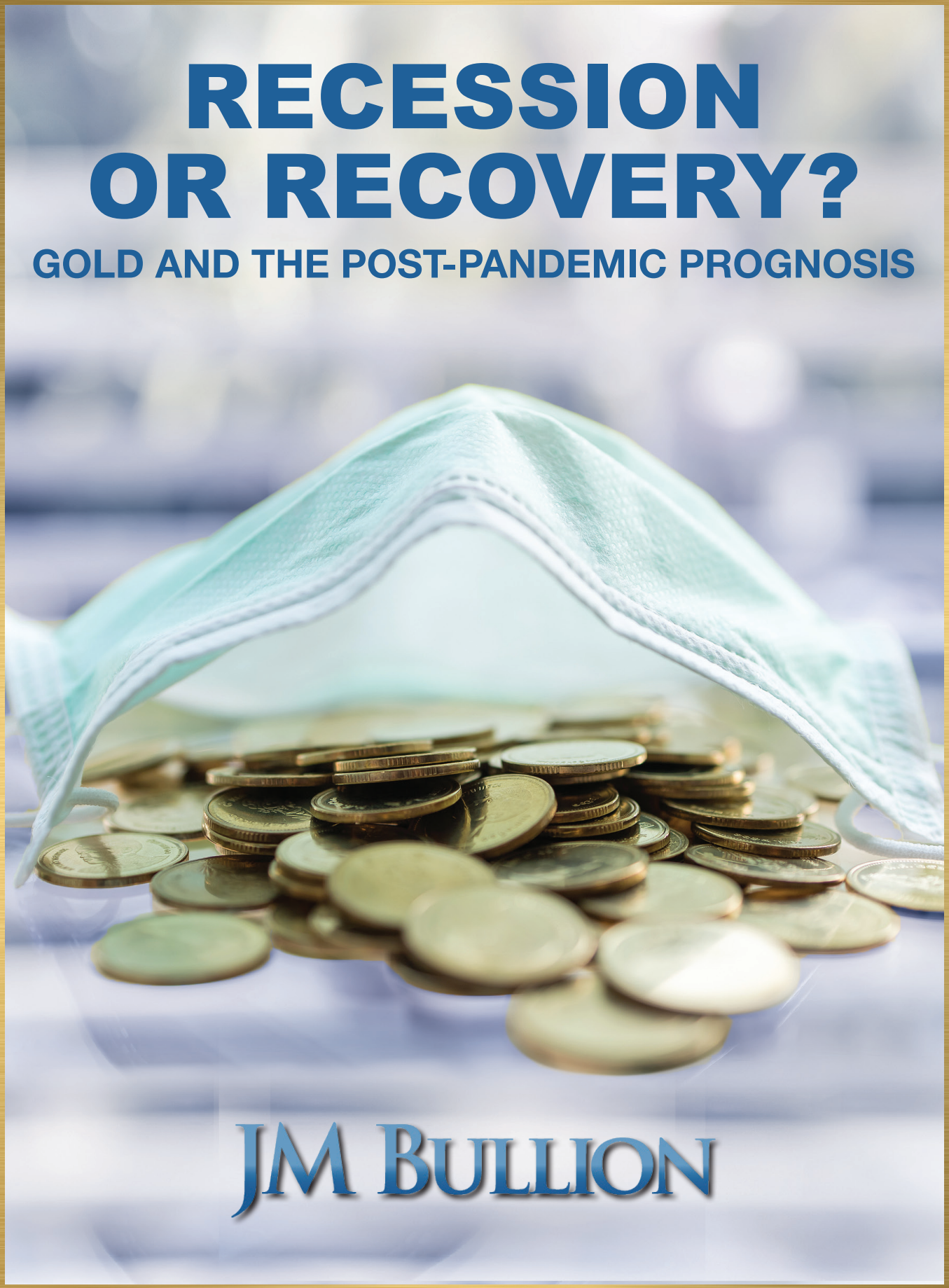
RECESSION OR RECOVERY?

GOLD AND THE POST-PANDEMIC PROGNOSIS



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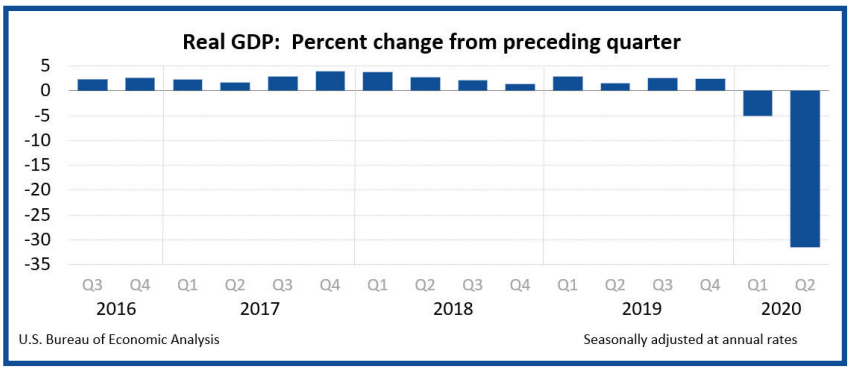
And Along Came Coronavirus

At the start of 2020, we were basking in the euphoria of the longest economic expansion on record. America was experiencing record job growth; hourly earnings were on the rise and unemployment was sitting at a 50-year low.



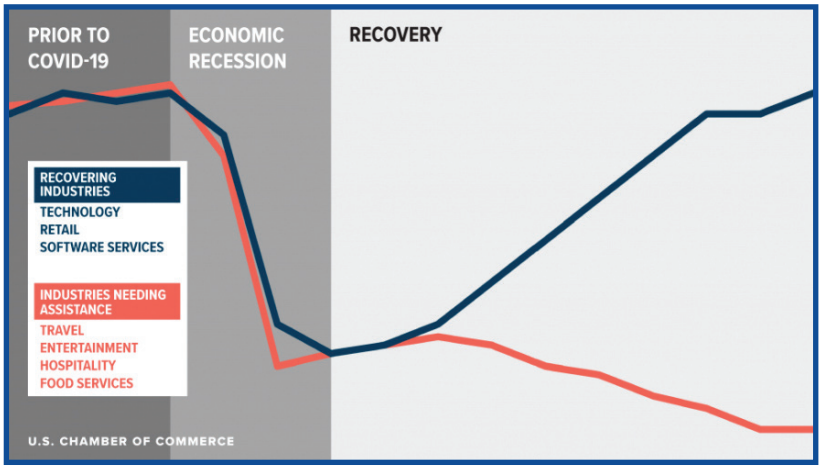
All seemed right with the world. The pace of hiring was brisk — particularly in hospitality, construction, healthcare and professional services. Then along came coronavirus and the worst economic contraction in modern history. Restaurants were shut down, stores were closed, sporting events were canceled, factories were padlocked and travel came to a screeching halt. The U.S. economy collapsed in the second quarter as GDP plummeted 31.4%. As a matter of fact, the economic shock in April, May and June was nearly four times worse than the deepest, darkest days of the Great Recession.

As coronavirus cases now decline and the economy re-opens, questions abound about the strength and speed of the recovery. Will there be a quick economic rebound? Will political divisions impact new growth? Will winter bring new virus cases? How much more can the Fed stimulate the economy? And will the dollar hold up?

The economic landscape of the U.S. has changed dramatically, and there's little consensus as to the pace or shape of the recovery. As we head into 2021— uncertainty and volatility remain imposing forces. With lockdowns still on the table, the Fed warning of an uncertain recovery, and the dollar under siege — it will be a treacherous time to hold paper assets. As investors scramble for safety and stability, we could be entering one of the most robust precious metals markets in recent history. 2020 has been a record-setting year for gold and a break out year for silver, and the perilous road ahead suggests more of the same.

The Shape of Recovery

The world is collectively holding its breath awaiting the COVID recovery, but what will it look like? Some have suggested that a "V" shaped upturn is already underway. In this scenario, the downturn is sharp and brief while the rebound is equally vigorous. Others maintain that we're facing a "U" shaped recovery where we'll languish at an economic bottom for months or even years before climbing out.



Then there's talk of a "Swoosh" recovery where the economic freefall is quickly halted but any return to a pre-pandemic norm is extremely gradual. Lastly, there's the "K" shaped recovery where different parts of the economy improve at different rates. We've clearly seen this playing out due to the nature of the lockdowns which have disproportionately impacted restaurants, travel and tourism while ecommerce, distribution and online entities have thrived.

But what do the experts say? According to Minneapolis Fed President Neel Kashkari, the recovery is going to be slow and hard. "Unless something dramatic changes or we have a breakthrough sooner than we expect on vaccines, or there is some dramatic change in policy, I think we are in for a grinding recovery from here," he told a trade group in September.

Eric Winograd, a Senior Economist at AllianceBernstein agreed stating that, "the V-shaped recovery is already pretty much off the table." Winograd points to the millions that are still unemployed and the many industries that will feel the lockdown fallout well into next year.

Analysts at Amundi Asset Management warned that, "The bottom has passed, but economies do not seem to be climbing out of it quickly enough to ensure a fast healing." The Paris-based investment management company has subsequently downgraded their economic forecast and now has global GDP contracting between 3.5% and 4.7%.

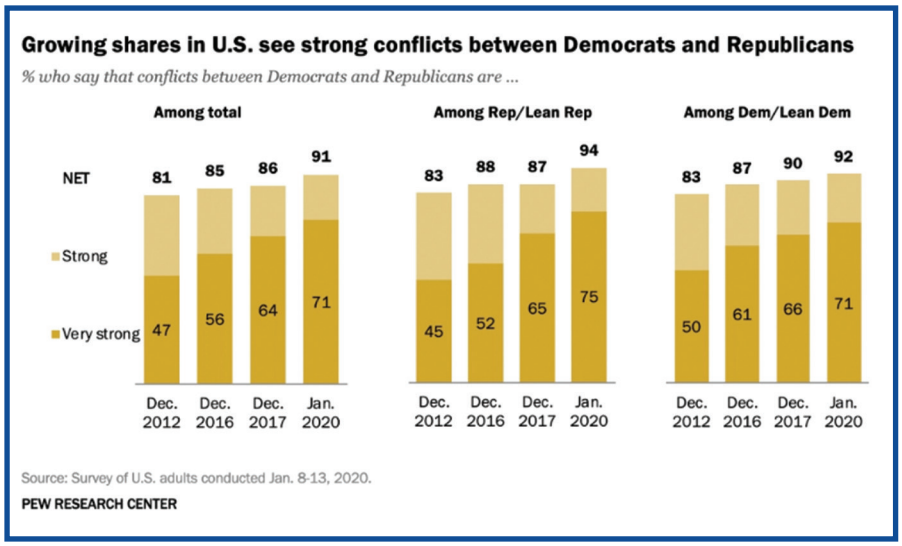
No matter what shape the post COVID economy takes, the historic losses of 2020: jobs, spending, consumption and global output will have a lasting impact; and the return to the pre-crisis economy will be slow, uneven and uncertain.

Political Division and Election Chaos

Investors despise uncertainty and according to the *New York Times,* the current political climate is "giving them agita." The U.S. has an ever-widening partisan divide that has spiraled into radical polarization. 2020 has been rocked by politically charged protests, demonstrations, looting, and months of endless violence over racial equality and social injustice.

While Democrats and Republicans have historically been at odds, the current divisions seem particularly severe. Political discourse is strained, and rarely civil. Legislation on Capitol Hill has been obstructed, subverted, and delayed. And, the two-party system is looking more and more like a grand clash of diametrically opposed ideologies where each side is proclaiming that the other will destroy the country.

According to a recent Pew Research Study, the growing discord between America's warring political factions far overshadows all other conflicts — with 91% stating that they are "strong" or "very strong." This is a far higher negative sentiment than during the past two Presidential elections (of 2016 and 2012).



The integrity of our polling process has also been questioned as the notion of free and fair elections has been undermined by claims of voter suppression, intimidation, ballot stuffing and a mail-in process that has revealed confusion, delays and a lack of protocols. New York's primary election in late June was a debacle where 1 in 5 mail-in ballots were rejected due to missing postmarks, mishandling, and general incompetence.

In a feature article in *The Atlantic* called, "The Election that could Break America," author Barton Gellman summed up the risk as follows:

> "In this election year of plague and recession and catastrophized politics, the mechanisms of decision are at meaningful risk of breaking down. Close students of election law and procedure are warning that conditions are ripe for a constitutional crisis that would leave the nation without an authoritative result. We have no fail-safe against that calamity. Thus, the blinking red lights."

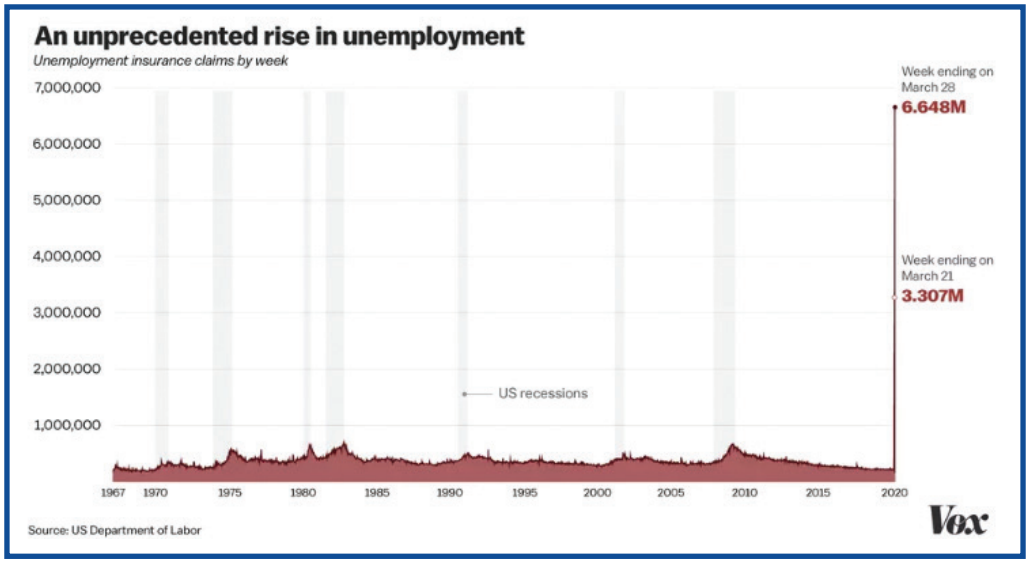
An uncertain, muddy or contested election on any level, will leave investors scrambling to put their money into something safe and secure — and it won't be found in volatile markets or high-risk assets subject to sudden contraction or catastrophic loss of wealth.

Lockdown 2.0?

There is perhaps nothing more uncertain than the macro impact of a worldwide pandemic. COVID-19 is both a public health crisis and an economic disaster. As health ministers and hospital workers around the world grappled with hot spots, testing delays, and the availability of PPE — government officials and global leaders wrestled with quarantines, curfews and economic shutdowns. Despite the best efforts of medicine and monetary policy, tens of millions have been infected, more than a million have died and a global economic recession has ensued.

The social distancing, isolation and lockdowns that were enacted to "control the spread" precipitated a demand shock that resulted in record setting joblessness, the collapse of retail sales, and a merciless hit to the airline, restaurant and hospitality industries. The economic toll proved more rapid and more dramatic than anything in modern history.

Prior to the COVID crisis, the highest single weekly unemployment surge came during the recession of the 1980's when 680,000 people filed for unemployment in the week ending September 18, 1982. This was only slightly more than the week ending March 28, 2009 when 665,000 people filed. Both of these records were obliterated when the week ending March 21, 2020 saw nearly 3.3 million Americans file for unemployment, the highest since the federal government began keeping records more than 50 years ago.



COVID-19 not only ended the longest economic expansion in U.S. history, but generated economic losses at historic levels and in record time.

In their August report, "Taking Stock of the COVID-19 Recession," the *Harvard Business Review* offered a cautionary tale about the road ahead,

> "Six months after the start of the coronavirus recession the macroeconomic landscape has become more, not less, confusing. Business leaders have to navigate shattered expectations, widely disparate outcomes, and continued uncertainty."

The stunning job losses and stinging recession demonstrate just how punishing quarantines and lockdowns truly are. It's a stark reminder of the choice and painful tradeoff between saving lives and saving the economy. And, with winter, flu season and a possible second COVID wave on the horizon, personal wellness and financial security must be top of mind.

The Big Ditch Economy

In commenting on the current state of the U.S. economy, San Francisco Federal Reserve President Mary Daly recently said, "we're in a very big hole, a big ditch if you will." Daly believes more federal help is needed in the form of stimulus and direct support to specific areas of the economy that have not yet recovered. At the current rate of job growth, she and other experts believe it will take two or three years for the U.S. to return to pre-pandemic benchmarks.

The Fed has various tools at its disposal to stimulate hiring and growth, and little has been held back thus far. In March, the central bank announced aggressive measures to support the stricken economy which include:

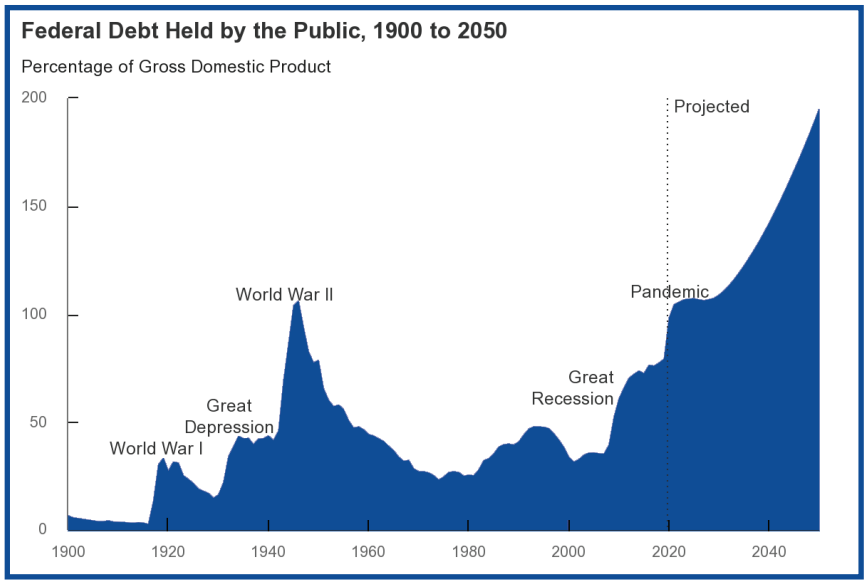
- The purchase of $700 billion in Treasury securities and agency mortgage-backed securities
- $300 billion in new financing to employers, businesses and consumers
- New bond and loan issuance to large employers
- Expansion of the Term Asset-Backed Securities Loan Facility (TALF) program to help restore credit to consumers and small businesses
- Expansion of the Money Market Mutual Fund Liquidity Facility (MMLF) to facilitate the flow of credit to municipalities
- Expansion of the Commercial Paper Funding Facility (CPFF) to boost liquidity and provide both businesses and individual with greater access to credit.

Glossary and Timeline of Fed Emergency Lending Facilities

Announcement Date	*Operational Date or Proposed*	*Facility*	*Funded by CARES?*	*Acronym*
March 17	April 14	Commercial Paper Funding Facility	No	CPFF
	March 20	Primary Dealer Credit Facility	No	PDCF
March 18	March 23	Money Market Mutual Fun Liquidity Facility	No	MMLF
March 23	June 29	Primary Market Corporate Credit Facility	$50 Billion	PMCCF
	May 12	Secondary Market Corporate Credit Facility	$25 Billion	SMCCF
	June 17	Term Asset-Backed Securities Loan Facility	$10 Billion	TALF
April 9	April 16	Paycheck Protection Program Liquidity Facility	No	PPPLF
	June 15	Main Street Lending Program	$75 Billion	
	May 26	Municipal Liquidity Facility	$35 Billion	

This, of course, is in addition to cutting interest rates to zero on March 15th and the signing of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27th — which established Paycheck Protection and designated funds for businesses to cover payroll costs including benefits.

For those that believe Ben Bernanke's response to the Great Recession was aggressive, FX Empire's Arkadiusz Sieroń points out, "Bernanke was an amateur compared to Jerome Powell. The latter quickly reintroduced ZIRP, implemented unlimited quantitative easing, and provided bailouts to Wall Street – and now he risks higher inflation as a result."



In a major policy shift, the Fed has made it clear that it will accept higher inflation. At the virtual Jackson Hole symposium in August — Powell announced that the Fed will actually, let inflation run. "Many find it counterintuitive that the Fed would want to push up inflation," he stated during the event. "However, inflation that is persistently too low can pose serious risks to the economy."

The Fed Chair added that low inflation can lead to an adverse cycle of ever lower inflation, leaving policymakers with, "little room to lower rates during times of economic crisis."

But with $3.5 trillion in federal spending since February, the federal balance sheet has hit record levels. The Congressional Budget Office (CBO) estimates that combined emergency spending, lending and stimulus measures will push the federal deficit to over $3.3 trillion in 2020 or 16% of GDP, the highest level since World War II. If this doesn't summon a safe haven move, then what does?

The Dollar Downtrend

In response to the downturn of 2020, the Fed has outdone itself. But what does all of this spending mean for the U.S. dollar? The greenback is directly influenced by monetary policy, economic growth, and global risk sentiment. Subsequently, the dollar is now trading at its lowest level in over three years.

Its decline has been fueled by easy money and the prospect of higher inflation causing many investors to reduce their position.

According to the Official Monetary and Financial Institutions Forum (OMFIF), "the dollar has started a multi-year depreciation against other major currencies. Low and declining yields, the growing fiscal deficit and less risk-aversion should continue." Some strategists are predicting an extended dollar bear market and up to a decade-long decline.

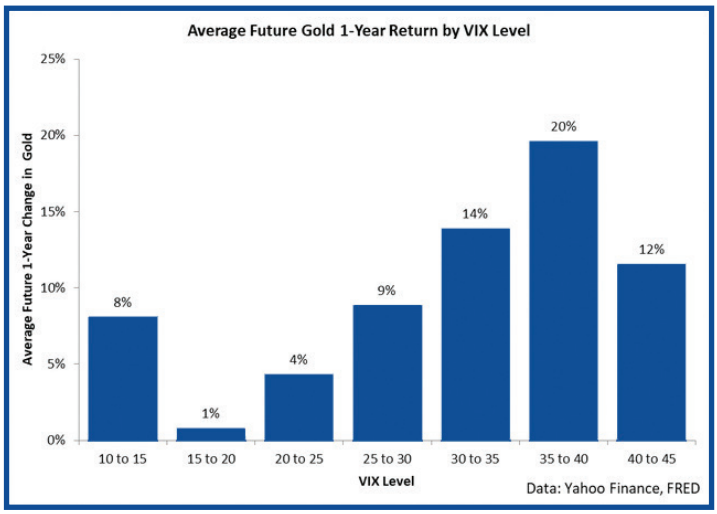
In September, Stephen Roach, former Chair of Morgan Stanley Asia, offered a more fatalistic assessment:

> "I continue to expect this broad dollar index to plunge by as much as 35% by the end of 2021.This reflects three considerations: rapid deterioration in US macroeconomic imbalances, the ascendancy of the euro and the renminbi as viable alternatives, and the end of that special aura of American exceptionalism that has given the dollar Teflon-like resilience for most of the post-World War II era."

Clearly soaring U.S. debt has put pressure on the buck and the prospect of 'lower for longer' interest rates has taken away a critical path for driving up its value. This is a wake-up call for those heavily weighted in dollar assets and a potential boon for gold which tends to enjoy increased demand and a more powerful safe haven position when the dollar is weak.

Wealth Protection in 2021

Right now, gold is one of the best performing assets in the world and all of the critical triggers that propelled it through 2020 remain in play heading into 2021.



Gold helps to offset the risk of loose money and exploding federal debt. It is an inflation hedge, a portfolio diversifier, and has a strong negative correlation to a declining U.S. dollar. Above all, it has been the asset of choice for those seeking refuge from the financial fallout of a punishing pandemic.

And we're still well within the woods. Panelists from the National Association for Business Economics (NABE) not only predict a slow recovery but a possible 'double dip' recession. Many other experts are forecasting growth to slow substantially by year-end and without further stimulus from a divided Congress, the economy could slip deeper into recession.

With post-pandemic forecasts ranging from unremarkable, to gloomy, to downright grim — the case for owning gold is compelling. With disunity, uncertainty, and volatility in the forecast, it becomes a statistical windfall.

Gold has always delivered in a rush-for-safety environment. It is clearly the ideal crisis asset for an economy that has been deeply damaged, a Fed that has been fundamentally changed, and a recovery that could take years before all economic sectors -improve. That is, in fact, if we don't come face to face with a second wave of new coronavirus cases and renewed calls to quarantine, shutdown and lockdown.

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