What is Gold Communicating To Us about the Trump 2.0 Administration?

Gold is significantly outperforming the S&P 500 YTD and Over the Past 3 Years.

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Disclosures

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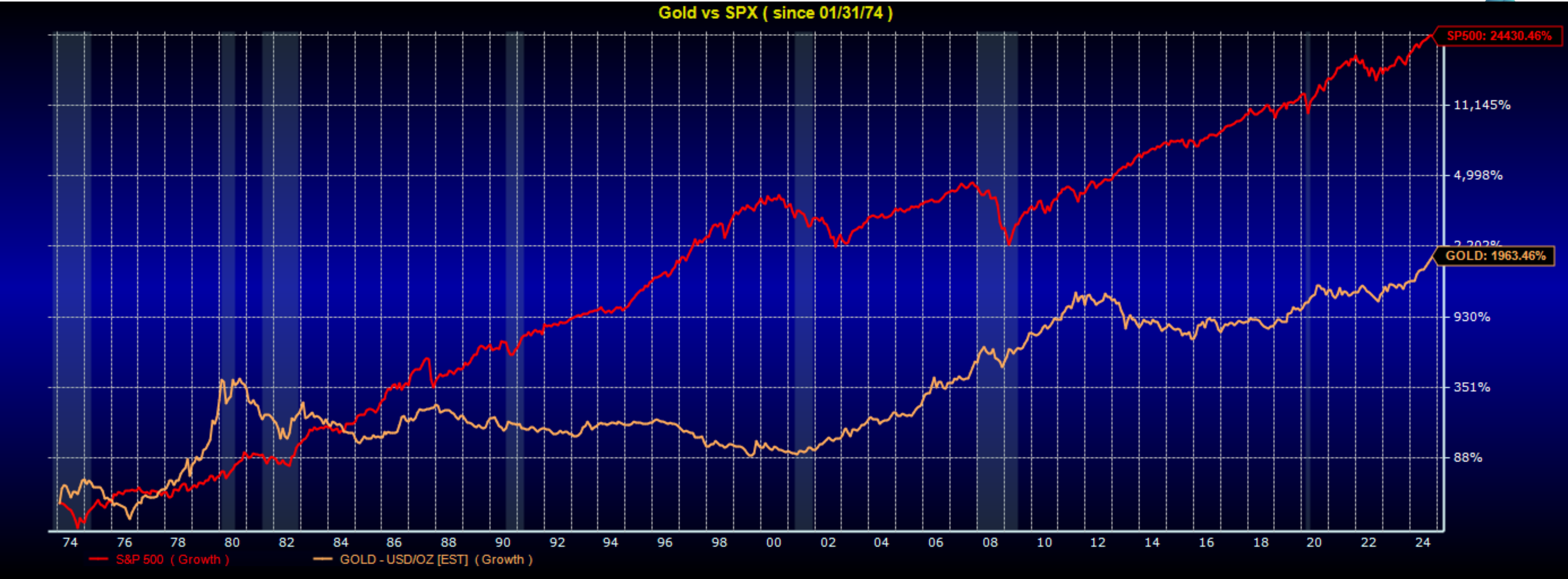
Gold Has Surprised Investors Over Multiple Timeframes

Timeframe	Gold Return	SPX Return	Difference
YTD (10/31/2024)	31.5%	21.0%	+10.6%
1 Year	36.9%	38.0%	-1.1%
3 Years	15.6%	9.1%	+6.5%
10 Years	8.8%	12.8%	-4.0%
25 Years	9.0%	7.8%	+1.2%
50 Years	5.7%	12.0%	-6.3%

Source: Zacks Investment Research



Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
S&P 500 (Gr)	24654.97%	-32.24%	2646.30%	24430.49%	24430.49%	11.28%	01-31-1974	10-31-2024
GOLD - USD/OZ [EST] (Gr)	1963.47%	-21.51%	207.60%	1963.47%	1963.47%	6.06%	01-31-1974	10-31-2024

Source: Zacks Investment Research

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
S&P 500 (Gr)	560.51%	-39.07%	26.00%	554.52%	554.52%	7.71%	11-30-1999	10-31-2024
GOLD - USD/OZ [EST] (Gr)	832.57%	-11.15%	313.90%	832.57%	832.57%	9.23%	11-30-1999	10-31-2024

Source: Zacks Investment Research

Gold is soaring over the past year and YTD.
What could this possibly be telling us?

Gold behaves very differently from the consumer price index, contrary to popular opinion of gold being an inflation hedge

Gold's Relationship with CPI has been.....mixed, at best

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
GOLD - USD/OZ [EST] (1-Yr % Change)	179.42%	-37.71%	5.60%	23.12%	6792.90%	7.94%	12-31-1970	07-31-2024
CPI-U - ALL ITEMS (HEADLINE) - NSA (1-Yr % Change)	14.76%	-2.10%	3.20%	2.90%	734.32%	3.91%	12-31-1970	07-31-2024

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
GOLD - USD/OZ [EST]	2,513.40	37.38	396.21	2,513.40	6623.92%	8.04%	12-31-1970	08-31-2024
CPI-U - ALL ITEMS (HEADLINE) - NSA (1-Yr % Change)	14.76%	-2.10%	3.20%	2.53%	735.01%	3.90%	12-31-1970	08-31-2024

In my view, gold is not a direct proxy to consumer price inflation, per se.

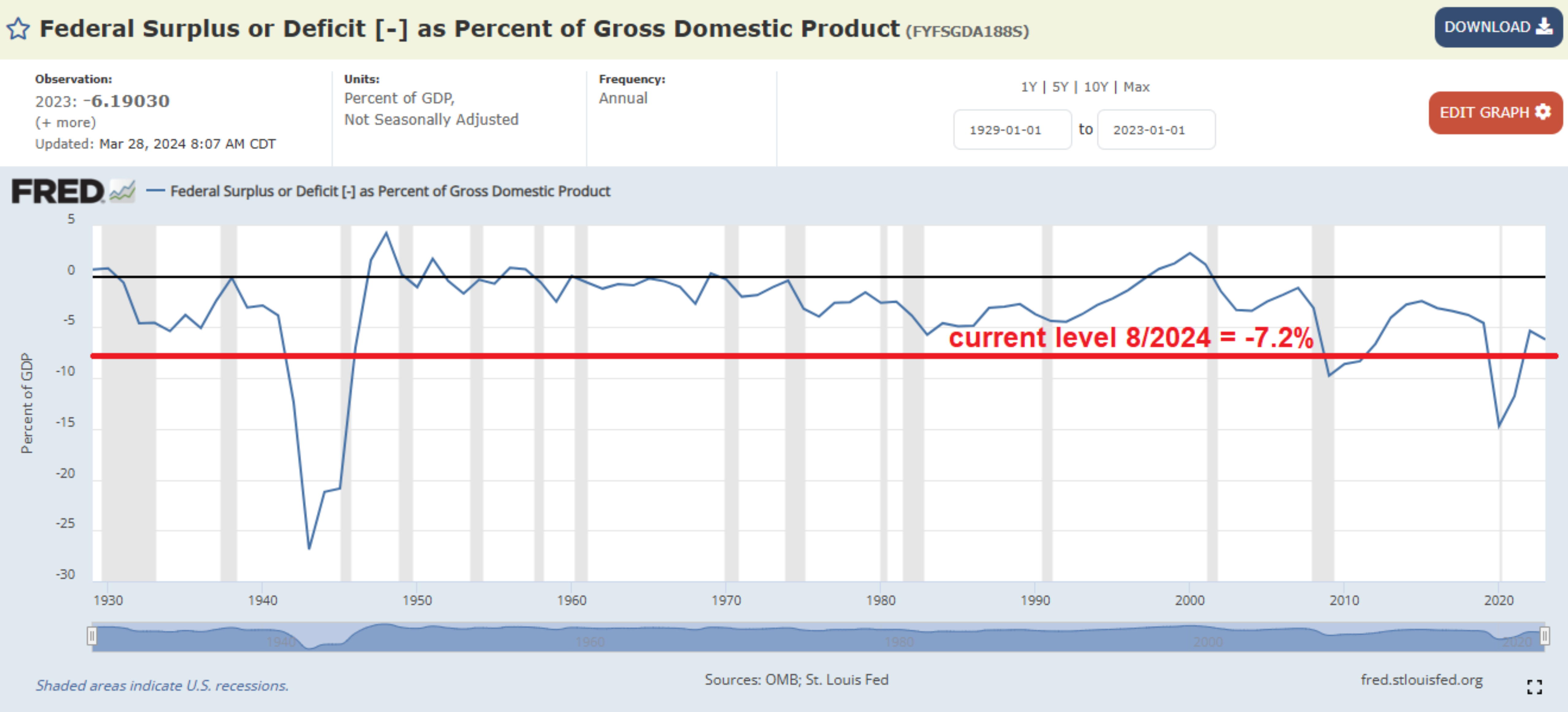
Gold is a reflection of forward-looking expectations of **excess liquidity**.

Excess Liquidity = Supply of money – Demand for money

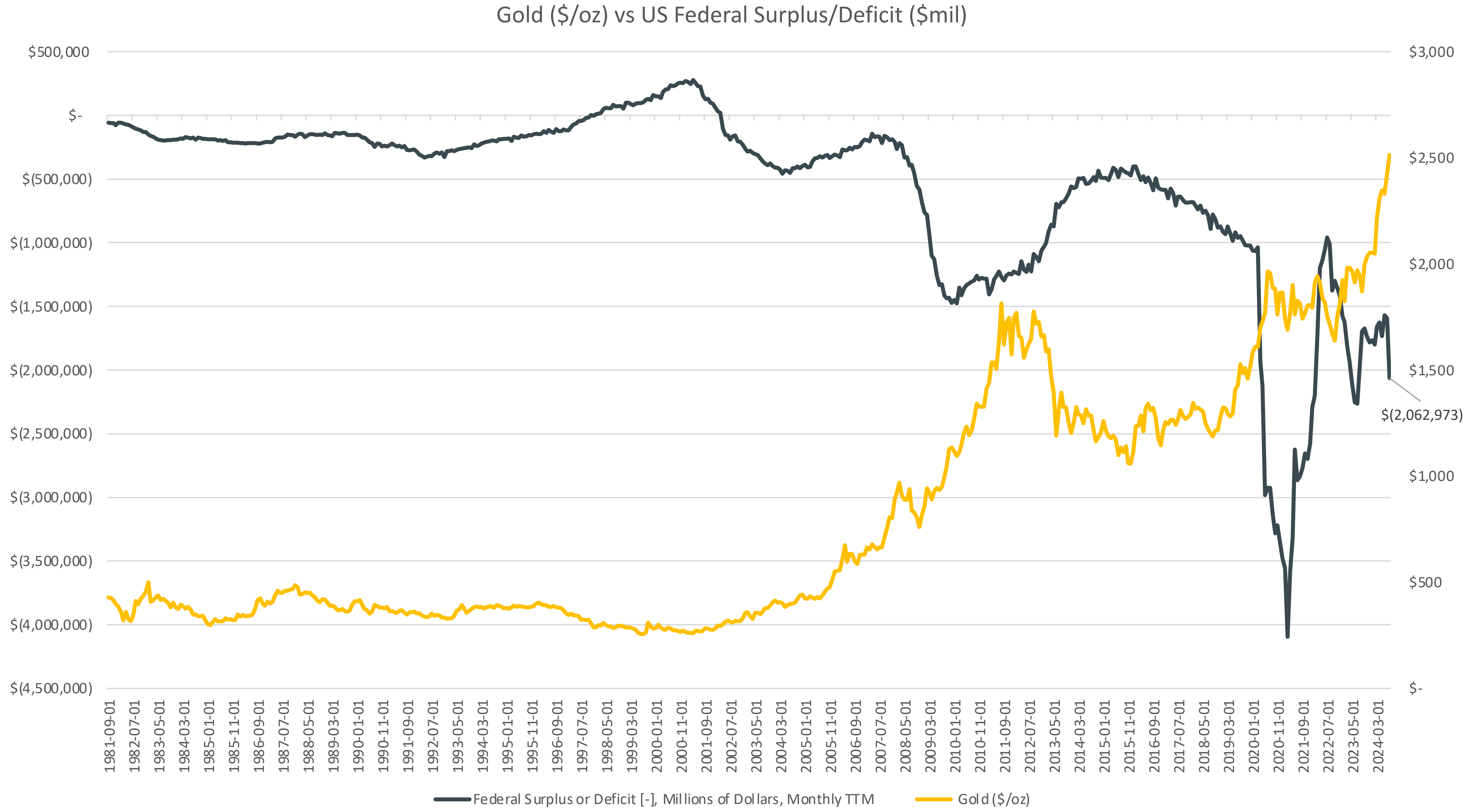
Item	**Description**
Supply of Money	M2 Money Stock
- Demand for Money	Private Consumption & Investment
Excess Liquidity	

One way to possibly forecast the **direction of future excess liquidity** is to look at the trend of the federal government budget deficit/surplus.

Fiscal Deficit as a % of GDP Most Severe in Any Non-Emergency Year



Gold's Inverse Relationship with the Fiscal Deficit



Source: OMB, Board of Gov Federal Reserve, Zacks Investment Research

Gold has had a 0.70 leading correlation to the US budget deficit/surplus

As deficits rise, liquidity must eventually rise to accommodate it.

With gold rising materially over the past year, I believe its forecasting increasing fiscal deficits, which has already crossed $2 trillion, or 7.2% of GDP

However…

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
GOLD - USD/OZ [EST] (Gr)	19.17%	-0.08%	7.70%	11.49%	11.49%	33.34%	06-28-2024	11-13-2024

Source: Zacks Investment Research

With the sweeping Republican victories in November, the market may be in the very early innings of a significant repricing in gold, as it re-assesses the direction in which **<u>both</u>** sides of the equation go: US federal deficits—and therefore, the supply of money—and private-sector GDP growth—and therefore, the demand for money.

Gold’s decline is signaling that the era of massive deficits may be coming to an end, **but it’s still very early**.

Bullish Aspects of the Trump Agenda (Bearish for Gold):

- ✓ Renegotiating trade deals to either make American exports more attractive abroad, or incentivize foreign companies to set up shop in the continental US
- ✓ Bringing the Corporate Tax rate to potentially 15%, making the United States the lowest among OECD countries. This would be a magnet for investments and business formations.

Bearish Aspects of the Trump Agenda (Bullish for Gold):

- ➢ Mass deportations of illegal immigrants
- ➢ Mass layoffs of federal employees

This will have positive long-term effects, but may cause significant short-term pain.

Rising gold = excess liquidity
Falling gold = not enough liquidity
Flat gold = well balanced liquidity

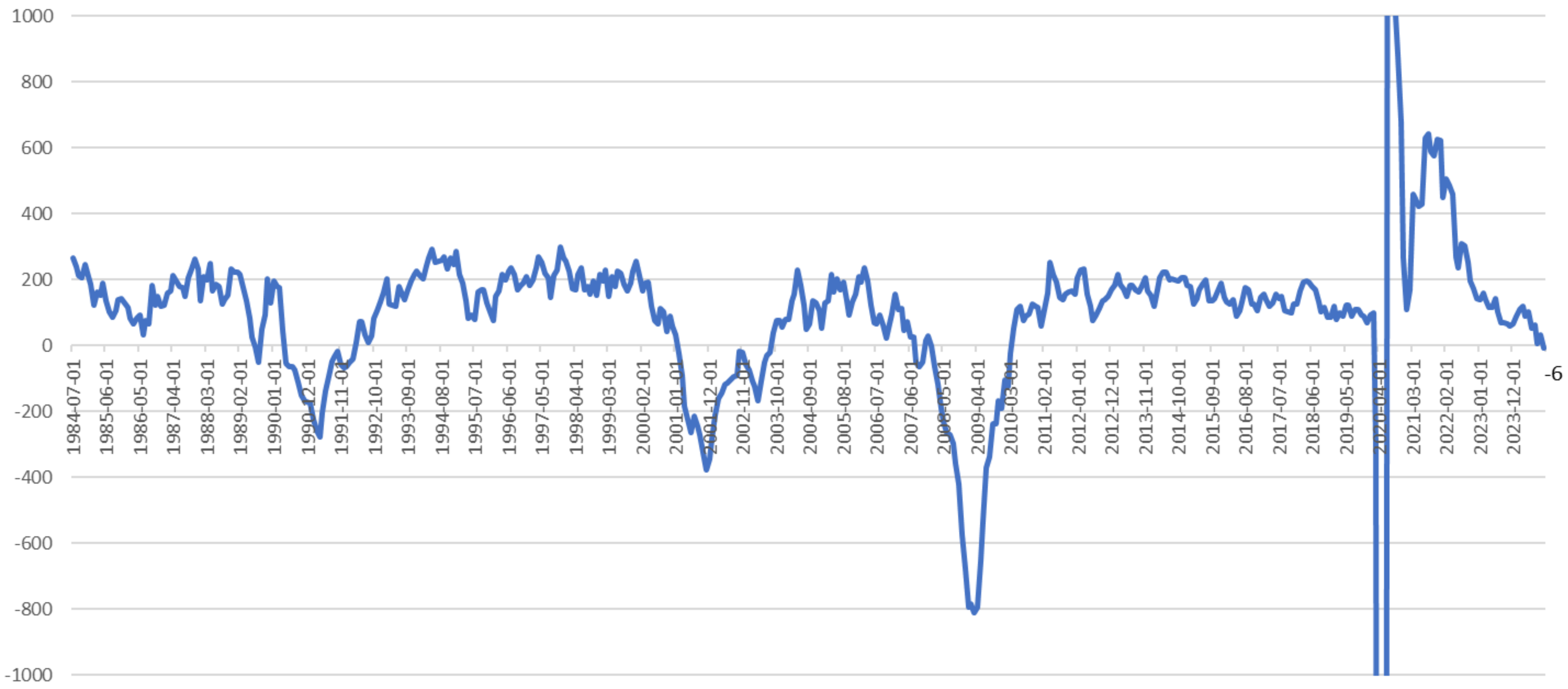
When gold is flat over extended periods of time, it means the money supply is well balanced with credit demand

True bull markets are when stocks rise while gold is mostly flat.

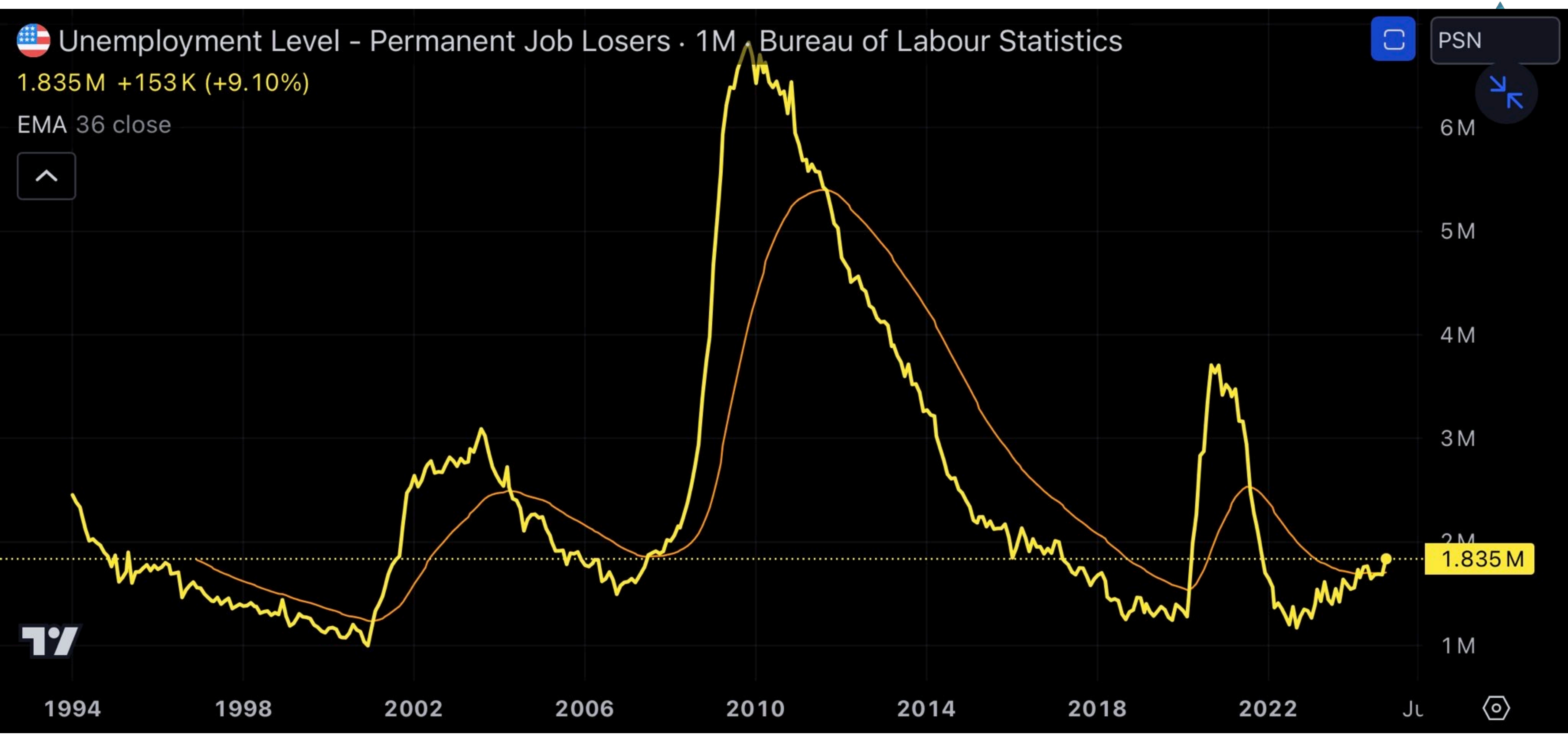
In my view, gold is still signaling a recession on the horizon, but *may* be amidst a major repricing to reflect stronger economic growth ahead which mops up the excess liquidity built up over the past 15 months.

This is a very bullish scenario, but is a double edged sword, since the US economy is currently highly dependent on government spending and jobs.

True Private Payrolls Growth - 3mma
[Nonfarm Payrolls - Government, Education & Healthcare Payrolls]



Source: BLS, Zacks Investment Research Calculations



Source: BLS, TradingView

The order in which the Trump agenda is executed will matter greatly on the outcome of economic growth.

If the deportations and federal layoffs come first, there will be a recession before the long-term gains take effect.

But if the pro-growth side of the agenda comes first, it may entirely offset the short-term negatives.

Takeaways

- Continue watching gold – a break below the 200-day moving average may signal the trend reversal and therefore a bullish outlook.

- But if the gold bull trend simply continues, then the base case of recession still holds.

- S&P 500 trades at a highly elevated 22.5x forward P/E with very bullish growth expectations next year. The bar is extremely high—in the top decile over the past 30 years.

- As such, the forward earnings yield of the market is at parity with the 10-year yield. Historically, market returns over the following 5 years have been poor at these levels.

- Remain long the Zacks Earnings Certain Proxy

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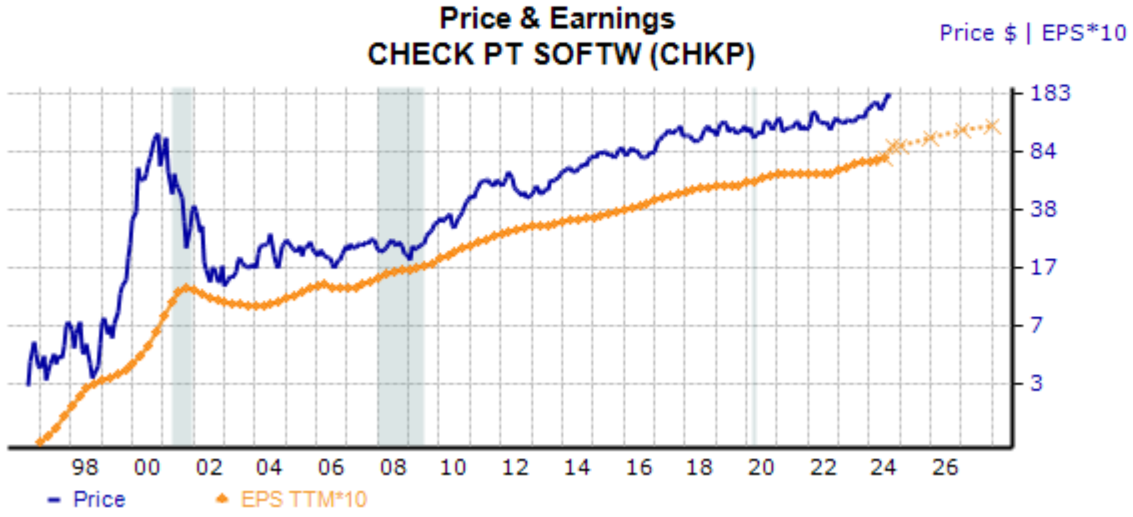
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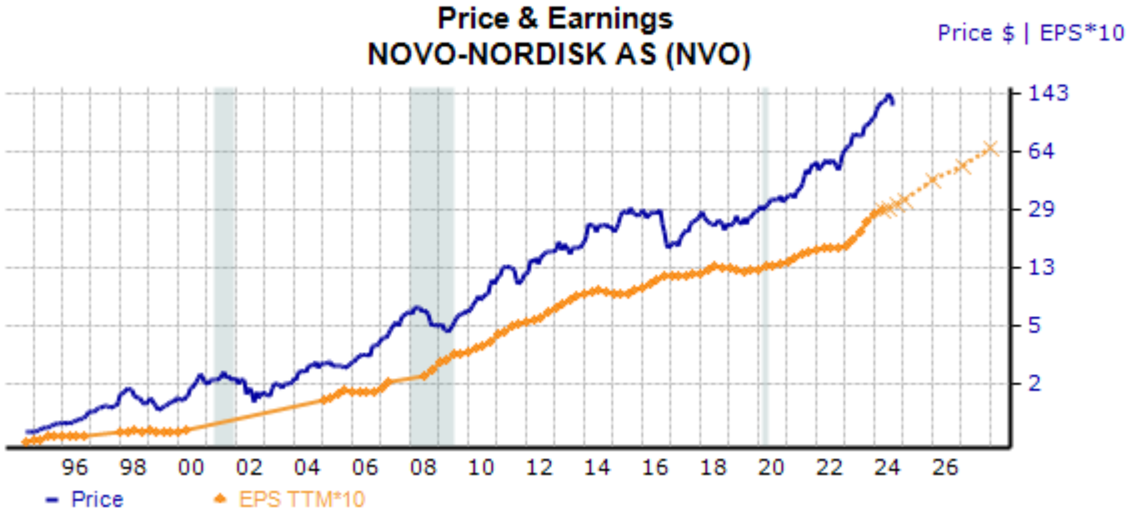
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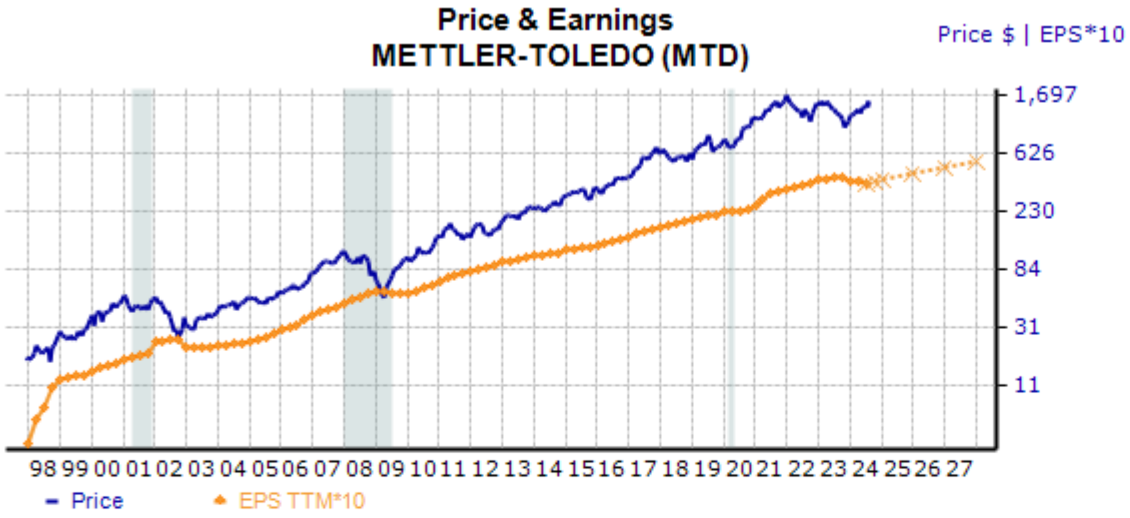
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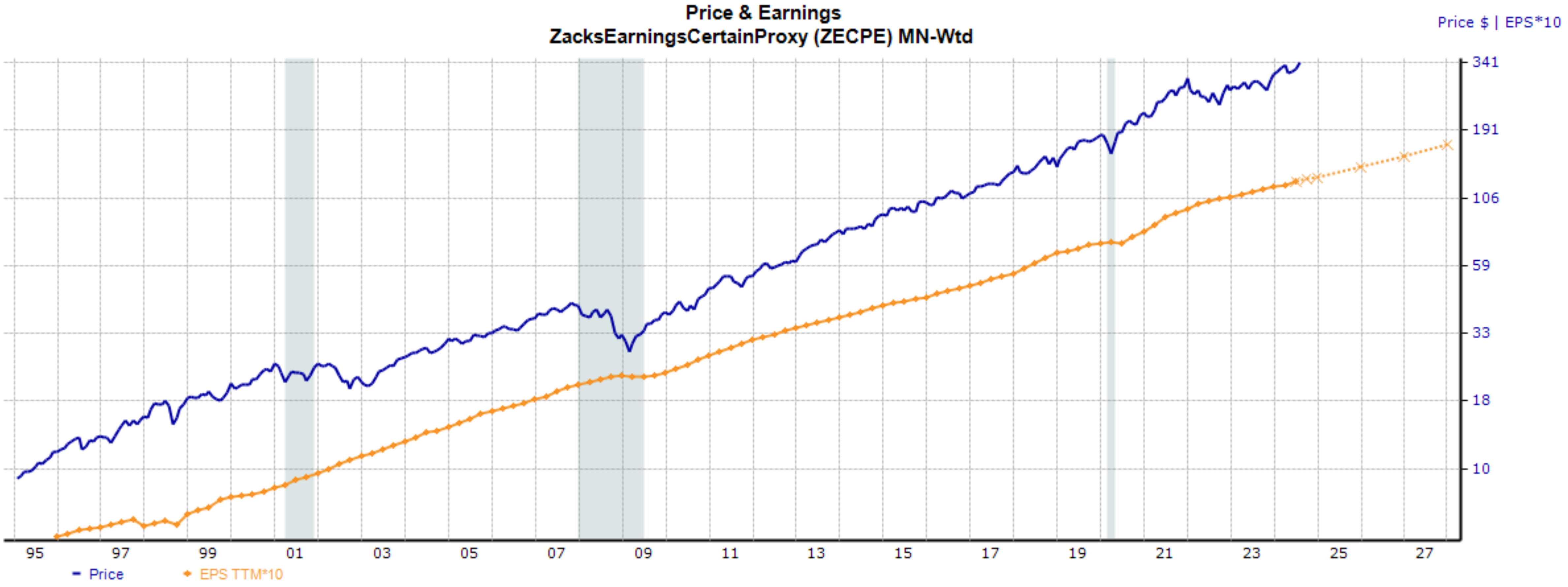

Thank You for Attending!

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