SEMI-MONTHLY FISCAL/MONETARY UPDATE - TRADE, IMMIGRATION, MUELLER, YADA, YADA, DEFICITS EXPLODE

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There is lots of economic/political/social news day to day, but we believe the underlying fiscal/monetary problems will soon dwarf the currently discussed issues. In this country alone, billions of dollars per day (in deficit spending) are being created out of thin air. It's been said that "money is the source of all evil". That may be true, but a currency of some sort is necessary to exchange goods and services to make social progress. Since we are in the midst of the largest monetary experiment in the history of the planet, and we don't believe it will end well, unfortunately, we continue to monitor developments.

While there was quite a bit of intra-month volatility in the capital markets in November, the changes were minimal over the entire month. The precious metal markets were much quieter, but there was one notable down day, November 23rd, the reason not quite clear, with mining stocks down 3-4% which was not recovered by month end. In any event, the gold mining industry, represented by GDXJ (the small to mid-cap miners) and the three prominent funds, Tocqueville, Oppenheimer and Van Eck were down about 2.7%.

Every indication is that the long-term financial issues overhanging the worldwide economy are becoming more intense every day, any one of which could ignite the monetary embers:

(1) The US Treasury must raise over $100B every week, to finance the growing deficit and refinance the maturing debt, and the Federal Reserve is no longer a buyer but a seller of securities. The “bid to cover” ratio for two-year US Treasuries has been coming down in recent months, and last month was the lowest since December 2008, the peak of the financial crisis.

(2) Major foreign purchasers of our debt, including China, Japan & Russia have backed off or eliminated entirely their purchases of US Treasury securities, to some extent replacing that portion of their foreign reserves with gold. As a corollary, the US trade balance that President Trump is so desperate to improve, would reduce the US dollars in foreign hands, which would in turn reduce the demand for our debt, contribute to higher interest rates, slow our economy, and trigger greater stimulus.

(3) Only six to nine months ago, reporters were talking about “worldwide synchronized growth” with no sign of inflation, truly a “goldilocks” situation. Just two weeks ago, headlines in the Wall Street Journal said “GLOBAL ECONOMIC SLOWDOWN DEEPENS”, “INFLATION TICKS

HIGHER…", "INTERNATIONAL FIRMS IN US SEE AUTO TARIFFS AS A THREAT". As a corollary, Japan and Germany reported GDP contraction in Q3, Chinese growth continues to slow. So much for Goldilocks.

(4) The US current deficit, is exploding, will clearly be over $1 trillion in FY ending 9/30/19, with the total debt going up by more like $1.5T including borrowing from the Social Security Fund. There is no chance of less government spending, especially the next two years with the two houses of Congress split. According to the Wall Street Journal, the US will spend more on interest in 2020 than it spends on Medicaid, more in 2023 than it spends on national defense, and more in 2025 than it spends on all non defense discretionary programs combined. *THIS IS SERIOUS, AND IT IS IMMINENT. The relevance of the deficits and debt is that the higher the debt load, the chance of the economy breaking out with productive expansion is reduced.*

(5) The long-term suppression of interest rates has serious unintended consequences. Among them is the "misallocation of resources" as investors large and small "reach for yield". The current news flow is starting to reflect it. The Wall Street Journal two weeks ago had the headline DEMAND FOR RISKIER DEBT LETS COMPANIES SHIFT ASSETS. The text …." Investors are literally giving away the store to squeeze out meager returns from picked over market for corporate debt. Demand for riskier bonds and loans has been so intense that companies…are able to move valuable assets beyond the reach of creditors. Investors continue to make it easier for them to do so by agreeing to terms …that offer fewer and fewer protections." The financial community has a very short memory. Ten years ago, the phrase was "covenant light", and mortgage companies were making NINJA loans to homeowners with No Income No Job, and No Assets. Who said, "history doesn't repeat, but it rhymes"? Just this morning, this was described in the Wall Street Journal in relation to sub-prime Auto Loans.

(6) Don't take it from me. I'm just a veteran restaurant analyst. What could I know? However, within the last few months: Richard Fisher, former Dallas Fed Chair said: "…interest expense and healthcare expenditures will soon be more than 50% of revenues. At some point you have to pay the piper…We (the Fed) have been suppressing the yield curve. it's a ticking time bomb".

Ludwig von Mises, the legendary Austrian economist long ago taught us: "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come soon as the result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

(7) Just last week Goldman Sachs came around (finally) to the view that markets **"**offer an extremely attractive entry point for longs in gold **…** We see diversification value in adding gold to portfolios." Goldman is (finally) forecasting a slowing US economy….at this stage of the business cycle, gold may be particularly appealing as a portfolio diversifier given that long-term bonds may be hurt if U.S inflation surprises to the upside … If U.S. growth slows down next year, as expected, gold would benefit from higher demand for defensive assets."

Unfortunately, though Jay Powell, and other Central Bankers, might wish to persist in their collective attempt to contract credit, the politicians around the world can be expected to continue to kick the can down the road. Their unstated reality is “whatever happens will happen, but “not on my watch.” Politicians, economists, and capital market strategists, will soon be screaming “DO SOMETHING” and the Central Bankers will accommodate. Jay Powell gave us the first indication of that with his comments last week. Steven Mnuchin, Treasury Secretary, confirmed that just this morning, saying Powell is trying to position the Fed to stimulate when necessary.

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