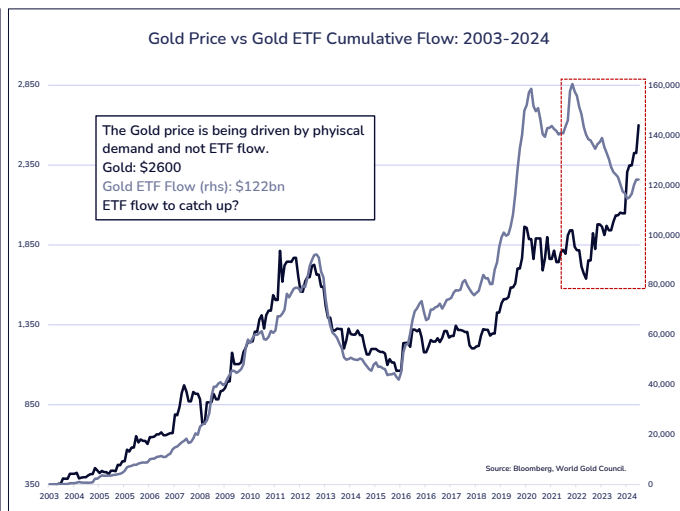
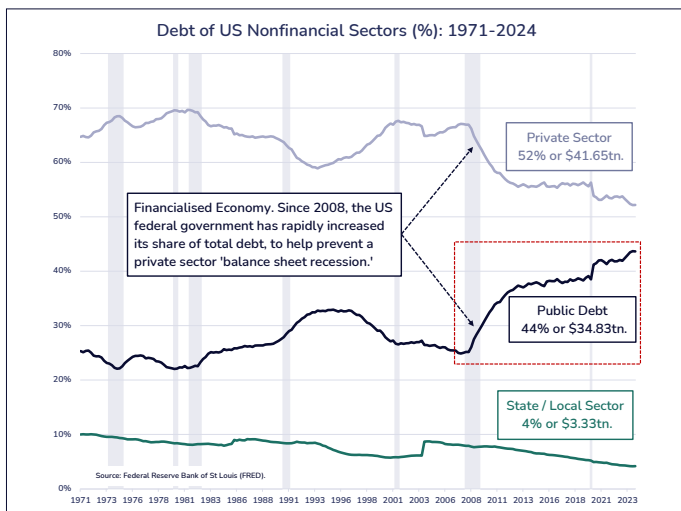


In Gold we Trust

- The secular rise of global debt in recent decades has resulted in the necessity to prioritise the refinancing of that debt ahead of new issuance, and by a ratio of 7:1 according to Crossborder Capital. The health and capacity of private balance sheets is paramount, especially when liquidity dries up under tighter monetary conditions. Total US public and private debt (all sectors) is formally recorded at \$99.76 trillion or 344% of GDP, and within that the debt of the nonfinancial sectors is \$79.82 trillion. For recurring economic dynamics, we focus on private sector debt because its cyclical evolution often drives the booms and busts. While US private sector debt has increased by 80% since 2008, the private debt-to-GDP ratio has reassuringly fallen from 170% to 144%. Conversely, we focus less on mainstream sovereign debt in cyclical economics. US government debt has increased by 277% since 2008 and its debt-to-GDP ratio now stands at 120%, versus 64% in 2008. Therefore, an increasing share of total US debt has shifted to the federal government and away from the private sector (chart, below left). The objective of this shift has been to maintain the US economy's health via aggressive monetary and fiscal policies, and to help prevent what Richard Koo called a 'balance sheet recession', a phenomenon he observed in Japan following the bursting of their bubble in 1990. Other large countries have copied this process and facilitated private-sector deleveraging by shifting debt to the public sector. China will probably be the next. The root cause of this secular process has been the 'financialisation' of the global economy. Financialisation is a transformational process where financial markets, financial institutions and their supporting infrastructure gain a greater influence over economic policy, geopolitical events and economic outcomes. Since 1971, it has put the dollar system, and dollar-denominated debt, at the centre of the international economy as the world's reserve currency.
- This secular dynamic leaves us with at least two problems on the radar, which may impact investment opportunities or escalate risk. First, the US private sector will increasingly be called upon to fund the fiscal deficit at the expense of funding productive investment elsewhere. In that respect, excessive government borrowing may 'crowd out' private investment. The debt supercycle is ultimately linked to secular stagnation. Second, many nation states are increasingly cautious of US dollar hegemony and are now wary of holding US debt. The BRICS summit in late October, with its expanded membership including Iran and the UAE (Saudi Arabia pending), will likely focus on a new global reserve currency, a payments system that avoids US surveillance and sanctions, and its new multilateral body (the New Development Bank), which will help members bypass the policies of the IMF and World Bank. A new BRICS digital currency would potentially change the financial dynamics around the world and permit vast swathes of the global economy to assert their economic independence at the expense of the US Treasury, the dollar and the US-led banking system. Evidence of this paradigm shift can be seen in the ongoing demand for gold (chart, below right). The demand for gold seems to be physical and secured locally, as opposed to speculative and custodied, as the cumulative flow of gold ETFs has been declining noticeably since 2022. We postulate that gold underlying the ETFs is being transferred from the West's bullion banks to the East. Please reach out for further detail and advice.



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