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THREE BIG GOLD DRIVERS HEADING INTO 2023

In June, gold managed to stay above water as bonds and stocks around the world plunged in the new stagflationary environment afflicting the global economy. Then gold, as well as silver, declined in July and continued weakening into September. Although **gold has still outperformed the stock and bond markets**, the metal's summer weakness was driven by climbing global interest rates, as well as a strong dollar.

"King Dollar" reigns and gold cannot keep up with it, Wall Street economists believe. But it is only in the U.S.A. that gold is down: Japanese gold holders have seen gold rise 18% this year, while Europeans are up 14%; even the Swiss, famous for their strong currency, have seen gold rise 3% in francs. Moving forward we believe gold is about to jump significantly in dollars, as well.

The first driver is stagflation. Historically it's the most important driver of gold demand, which explains why premiums for gold and silver coins are at an all-time high: investors are looking ahead. With inflation causing the Fed to push interest rates higher we are heading for a recession, perhaps a brutal one. Consider the catastrophe unfolding in the real estate market, which traditionally sets the direction for the whole economy: **last year, an**

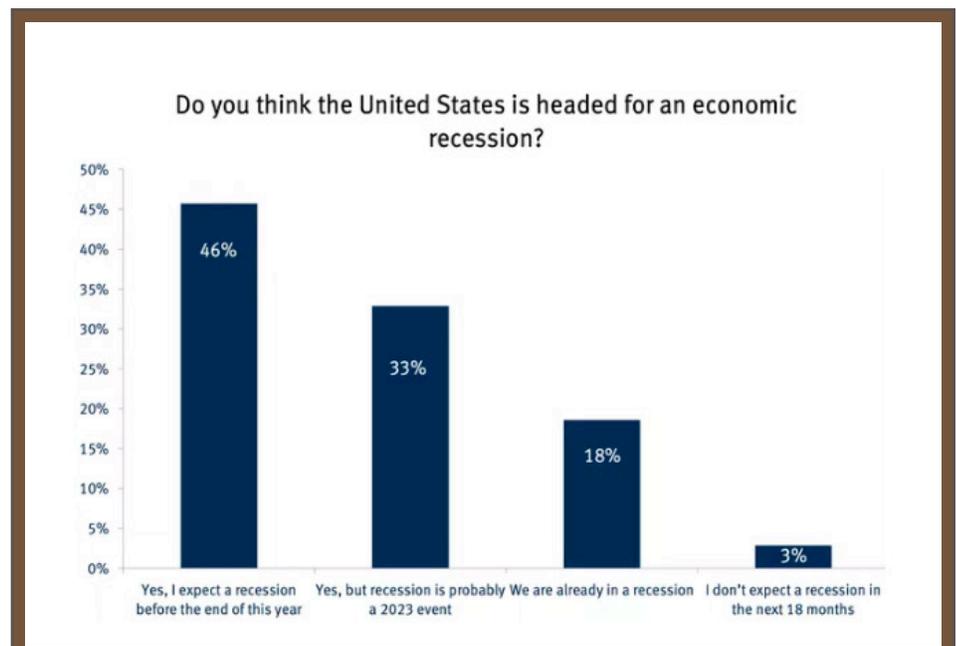
upper middle class family with 20% down and a \$2,500 monthly payment could afford a \$765,000 home.

Today, a \$2,500 payment would only be sufficient to buy a \$485,000 home, a 37% collapse in value.

Needless to say, both sellers (who can find fewer buyers of their now far more expensive homes) and buyers (who need to settle for much smaller homes or continue renting) are in a serious predicament. They have both watched mortgage rates double since last year.

Most Americans believe we are already in a recession. The chart below, which shows responses from American business executives, shows that **97% believe we are already in a recession or will be in one soon.**

But what will make this recession different from last 3 or 4 (including the 2008-09 Great Recession) is that **inflation was not a problem** in the past 30 years. The Federal Reserve was able to cut interest rates aggressively, which allowed the government to boost the deficit without deeper consequences. Back then it could borrow very cheaply, often at 1 or 2%, but those days are gone. With inflation at the highest in 40 years, it will take a long time (and a lot of job losses) for price levels to come down significantly and the Fed's hands will be tied despite the weakening economy. **This is the environment it faced in the 1970s, as the Fed was caught between inflation and recession risks and**



gold and silver soared: there was nowhere else to secure wealth in volatile markets and both metals jumped more than 2,000%.

There is another important driver, what economists often regard as the Doom Loop: where interest on the national debt is about to become higher than what we spend on Social Security. This is an economic concept the world will need to consider very carefully as we move into the new year.

Much has been written (for many years) about the national debt, the trillions in unfunded liabilities related with Social Security, Medicare and Medicaid, as well as trillion dollar deficits. The U.S. debt situation is shown clearly at [USDebtClock.org](https://www.usdebtclock.org) in real time: the national debt, now \$31 trillion, went from 35% of GDP in 1980, to 56% in 2000 and soared to 125% today with \$7 trillion spent on Covid relief. It would seem there has been no consequence: the dollar has not collapsed, the U.S. bond market is functioning properly (even considering present conditions) and when Washington needs money for anything, it is borrowed with no need to ask how it will be paid for.

On Sept. 30th, the *Wall Street Journal* reported:

The gross interest expense on the national debt hit \$88 billion in August. That's \$1.06 trillion a year. **Interest on the national debt is exploding and heading toward what economists refer to as a "doom loop", the vicious circle in which the government's borrowing to pay interest generates yet more interest and yet more borrowing...**

It's highly likely that gross interest expense will rise well above \$1 trillion and surpass Social Security as the largest item in the federal budget.

There's an optimistic school of thought asserting that as long as the economy is growing faster than the national debt, then we can avoid the doom loop. But clearly debt is growing dramatically more quickly than the economy. What happens when the economy goes in reverse?

The final key driver is what is already beginning to happen: the potential for global currency and market disruptions as financial markets are unable to handle higher interest rates. **After the new British prime minister announced drastic tax cuts funded by larger deficits, markets were shocked and the British pound and bond markets collapsed. Panic ensued, forcing the Bank of England to intervene and buy up bonds with freshly printed money. They then quickly changed course due to public outcry against the extreme fiscal policy. As a result, gold shops in London sold out as gold approached an all-time high while the pound collapsed.**

As insiders in the precious metals market, we can tell you with absolute certainty that we are very busy with both new and existing clients looking for a safe haven, all of them trying to protect their wealth in a very uncertain

financial environment. Many of our customers are looking past the "King Dollar" commentary wondering how can the dollar be strong with inflation at a forty-year high? It simply doesn't make sense, unless you are comparing the dollar to other currencies around the world in a similar position. Then, maybe the dollar is strong but if you're trying to save, raise a family and run a business, it sure doesn't seem like the dollar is strong, does it?

Premiums for physical gold and silver coins and bars are currently at an all-time high, even higher than the onset of Covid in early 2020—with no end in sight. World mints and private refineries cannot keep up with the demand for physical metal and there are very few physical sellers at current price levels. The only reason gold is down from \$2,000 to \$1675 (only 17%) is due to the strength of the dollar, the direct result of the Fed raising interest rates to combat inflation.

Our advice is to take advantage of the current price dips and accumulate metals before the next run-up occurs. To get up to the minute pricing and market reports, just give us a call. We'll help formulate a game plan customized for your own goals and objectives.

