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Austin Rare Coins - 13809 Research Blvd, Ste 405 Austin, TX 78750 - AustinCoins.com - 800-928-6468

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GOLD AND STAGFLATION

A Familiar Setup

The situation in Iran has caused crude oil and gasoline prices to spike over 50%, bringing back memories of stagflation in the 1970s. It began just as there were increasing signs that the U.S. economy was starting to slow down. Economic growth forecasted by the widely followed Atlanta GDPNow index fell from above 5% in January to 2% in February and sits at 1.3% as we go to print. Inflation has turned higher as well, with the most recent CPI report showing a jump to 3.3%, and the full effect of the energy disruption has not yet rippled its way into consumer prices - but it's coming. **Inflation typically trails oil shocks by several months.**

With inflation elevated by high oil prices and economic growth beginning to slow, you would be right in thinking it feels like the decade starting in 1969. In the 1970s the stock market went sideways for fifteen years (see below) with a lot of volatility and investment disappointment. Prices were jumping, and **interest rates hit 20% in 1980**, making it extremely costly to buy a car or house. Stagflation, high inflation coupled with sluggish or negative economic growth, makes financial investment a minefield, and real assets tend to outperform, with oil, copper, and other commodities rising. The top performing assets in this scenario are precious metals, and **both gold and silver rose 2,400% from trough to peak during the 1970s.**

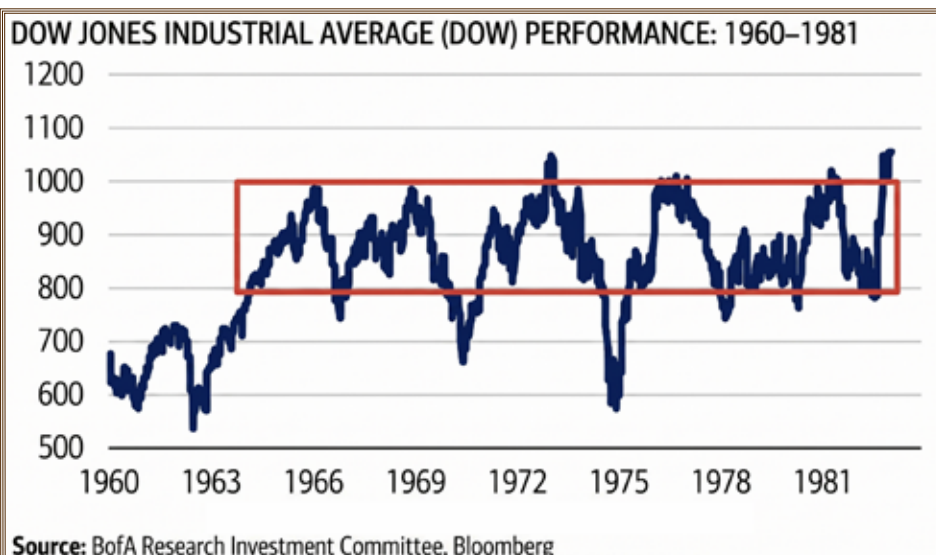
Are we now facing a stagflationary scenario like we saw in the 1970s?

Why Today's Math Is Worse

We believe the coming stagflation in the 2020s will be very different from the 1970s because of the starting point for government finances, which are abysmally worse. The federal debt in that decade represented around 50% of GDP compared with over 100% today, a level expected to soar in the years ahead considering Social Security, Medicare, and Medicaid obligations. In the 1970s, the federal deficit averaged 1.9% of GDP compared with three times that level today, a whopping 6 to 7%, figures typically seen during wartime.

What is truly concerning is that when we eventually do go into recession, the deficit should climb by around five percentage points, as the government expands emergency spending, to over 10%, an unseen level unseen in U.S. history - implying an unprecedented economic emergency. Adding to the pressure, Washington is weighing a **\$1.5 trillion military spending request that will have to be borrowed or printed.** Consumers are feeling it as well with the University of Michigan Consumer Sentiment survey (released monthly since 1978) near an all-time low, the lowest being during the worst days of Covid.

The implications are deeply troubling and we don't write this lightly.



Controlling our government expenses, which both major parties ignore because it requires desperate measures to rein in spending and raise revenues, should be the highest priority, and yet no major political figure has dared address the topic. Former U.S. Treasury Secretary Henry Paulson, who served President Bush early in the Global Financial Crisis, recently sounded the alarm along similar lines, warning that the government needed to be prepared for a potential crash in U.S. Treasuries given the oversupply in the market and the potential for a sharp decline in values. **“This crisis is different.** When you hit the wall and try to issue Treasuries and the Fed is the only buyer, that’s a dangerous thing.”

Metals in Consolidation

Against this backdrop, gold and silver continue to do what they have always done in environments like this one. As we go to print, gold and silver prices are building a solid technical base at new, higher levels. Gold trades near \$4,600 an ounce, roughly 17% below the all-time high of \$5,589 reached earlier in the year, while silver sits around \$73, more than 40% off its \$121 peak the same week. **These are real pullbacks, and they deserve a serious consideration**

from anyone who has been watching from the sidelines.

While metals are down from those peaks, the fundamental reasons for owning precious metals have not changed. In fact, they are growing stronger each day as our government continues to print money and issue debt at historic levels. Add to this the coming ripple-effects of the energy supply chain disruption in the Middle East, and the case for owning physical precious metals strengthens even more. We feel the pullbacks from recent all-time highs offer our clients a very attractive entry point to add to their existing positions. In addition, premiums are currently far lower compared to earlier this year.

The Setup Ahead

After relatively fast rallies that took silver from \$30 to over \$120, and gold from \$2,000 to well over \$5,000, we are in a period of consolidation, and history suggests this is often where the next leg begins. The most powerful and enduring rallies for metals often start in early summer, and financial crises, when they hit (1929, 2008), tend to occur early in the fall after gold and silver have often risen ahead of brewing problems. A subdued spring does not mean a subdued year, particularly given the points listed above.

The structural bid for gold reinforces the point. Central banks continue to accumulate at a pace not seen in generations, and major Wall Street banks including J.P. Morgan and Deutsche Bank are holding year-end gold price targets well above current levels, with neither revising downward despite the correction. When the smart money buys into weakness, history tends to reward those who pay attention and do the same.

The Bigger Picture

Step back from the ever-changing daily headlines, and the picture comes into focus. Higher gas prices are working their way through a slowing economy. Inflation is climbing again. The federal balance sheet is deteriorating at a pace without peacetime precedent, and Central Banks around the world are voting with their reserves, moving out of dollars and into gold at a pace not seen in generations. Gold and silver do not rise because they are in fashion. They rise because the alternatives are being debased, sometimes slowly, sometimes all at once.

This is a case built not on any singular headline but on the steady convergence of forces that have defined every meaningful precious metals bull market in history: **out-of-control spending, monetary expansion, geopolitical instability, and a loss of faith in the instruments that were supposed to be safe.** Precious metals have served this role for five thousand years, not because they promise returns, but because they don’t require anyone’s promise at all. That is what makes them fundamental, and why, in a moment defined by broken promises and unreliable outcomes, owning them is not a speculation. It is a foundation.

We believe the case for owning precious metals has never been stronger. Let our decades of experience help you navigate this increasingly complex financial environment.

