

COMMENTARY

Gold has captured human interest for thousands of years with civilizations and kings even going to war over this unique mineral. Recently, gold started moving higher and broke out of its nine-year base and we believe there are three driving factors moving gold prices – Inflation hedge, perceived safe haven, and technicals.

Inflation Hedge – Gold has historically acted or been used as an inflationary hedge. When governments can print money with no limit, economic theory suggests inflation will rise if governments do this in excess (although modern monetary theory argues otherwise). Inflation itself is not a bad thing, but it seems the current fear around inflation actual stagflation which refers to a high rate of inflation, slow economic growth, and unemployment that remain steadily high. Seem like a reasonable argument – governments around the world



ECONOMIC HIGHLIGHTS

S&P 500	3,271.12
DIJA	26,428.32
NASDAQ	10,745.27
OIL	\$40.27/BARREL
GOLD	\$1,985.90/OUNCE
10-YEAR TREASURY FIELD	0.54%
UNEMPLOYMENT	11.10%
GDP	-32.90%
PPI	-0.84%
CPI	0.71%



As researchers and governments around the world continue to work on potential COVID-19 vaccines, we have seen some positive developments. At the time of writing this, there are 6 vaccines in phase 3 trials, and another 12 vaccines in phase 2.



Negotiations between the White House and Congress around a fifth COVID-19 stimulus package are ongoing. Most parties agree that additional economic support is needed, ideally before existing relief programs expire, however politicians are struggling to find common ground making the timeline uncertain.



U.S. GDP fell at an annualized rate of 32.9% in 2Q, by far the worst quarter for GDP ever recorded. The previous record fall occurred in the second quarter of 1921, when GDP fell 28.6%.

are flooding the economy with money, we have a global pandemic that is causing leaders to restrict daily activities, which in-turn is triggering companies to furlough and/or lay-off workers.

Perceived safe haven – U.S. Treasuries, gold, and Japanese Yen are all asset classes that have traditionally been considered safe havens and typically weather the storm when equities get volatile or sell-off. The reason why gold is viewed as a safe haven is not entirely certain and there are good arguments against gold being a safe haven as it has little to no intrinsic value from a pure economic standpoint. But just like fiat currency, gold has the public confidence in its ability to store purchasing power in the future.

Technicals – this top of this month’s chart shows gold and the bottom of the chart shows relative strength of gold vs the S&P 500. Gold had a peak in 2011 and from there formed a long-term base and struggled to move above 1400 until last year when it finally pushed passed it. Volume also was increasing further supporting a possible breakout. But when comparing gold to the S&P 500 I think gold has more work to do before we can say we would favor gold over equities. The relative strength chart is still basing, and more time is needed.

Although we do not have a dedicated gold position in our portfolios, we still monitor this asset class as part of our top-down approach. In hindsight, we could have moved out of equities and into gold instead of treasuries when we made that move a few weeks ago, but hindsight is 20/20 and our portfolio volatility would have increased. Gold is still on our radar and could find its way into the portfolio in the future.

Our long-term view on the equity market is still bullish and we believe we are in the middle part of a secular bull market that from a historical perspective could have another 10 years left. From a tactical portfolio position, we are currently overweight equities but did reduce overall exposure in June 2020 with a directed trade. We have also followed our disciplined rebalancing process which triggered sells in equities and purchases in fixed income. We see long-term opportunities in high-yield fixed income with active management being a key component to avoid companies that have weak balance sheets. Until a vaccination for COVID-19 is discovered and distributed, we expect the markets continue to be bumpy. From a portfolio positioning standpoint, we are always looking for intermediate-term and long-term opportunities and continue to monitor accounts daily with our commitment to rebalance accounts as they fall outside of their equity-to-fixed income ratio.

MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	12.87%	11.96%	12.01%	11.49%
MSCI EAFE	10.42%	-1.67%	0.83%	2.10%
BAR AGG BOND	2.61%	10.12%	5.69%	4.47%



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