



The case for gold and gold equities

Carey MacRury
Canaccord Genuity Corp. (Canada)
cmacrury@cgf.com
1.416.867.6130

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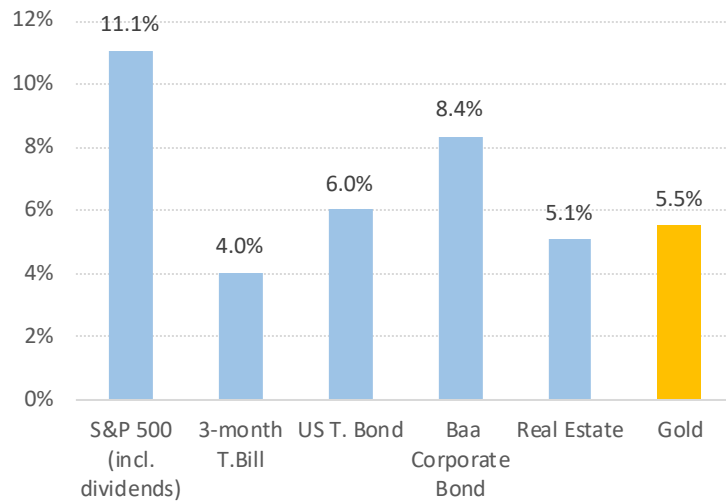
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Gold is a misunderstood asset class

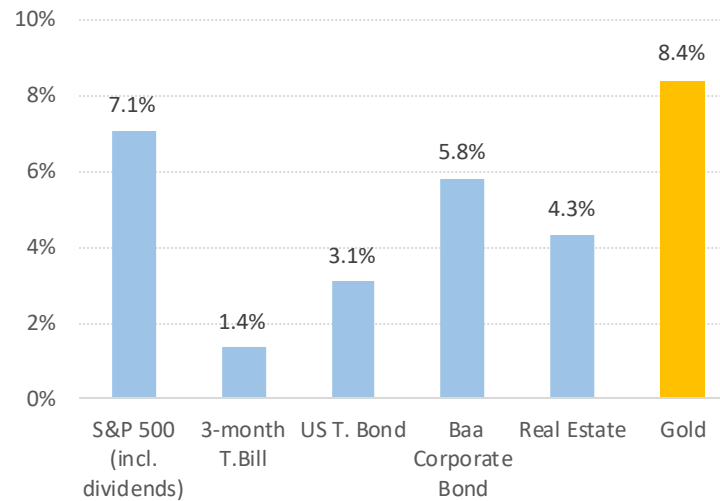
- Unlike stocks, bonds, and industrial commodities, many investors struggle with gold or are just indifferent
 - No yield
 - "It's a historical relic, not a real investment"
 - How do you value it?
- "Nobody really understands gold prices, and I don't pretend to understand them either." - Ben Bernanke (2013)
- "Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." - Warren Buffett (1998)

Gold performance: long-term, uncorrelated returns

50Y CAGR (1973-2023)



25Y CAGR (1998-2023)



Gold has outperformed the S&P500 in 14 of the past 25 years

25Y annual return correlations with gold:

- S&P500 0.04
- US 3M Tbill 0.07
- US Tbond 0.26
- Baa corporate 0.51
- Real estate -0.35

Source: Aswath Damodaran, NYU, <https://pages.stern.nyu.edu/~adamodar/pc/datasets/histretSP.xls>

Past performance is not indicative of future results.

How do investors look at gold?

Commodity view?

- Commodity prices set by annual supply and demand flows
- Generally limited inventories relative to annual production
- Some metals recycling but mostly new production; energy commodities consumed
- Prices can be in contango or backwardation
- Example: Oil market
 - Market size: ~100Mbbbl/day
 - Short-term changes in physical supply and demand can have a meaningful impact on price
 - Annualized volatility is >30%

Financial asset view?

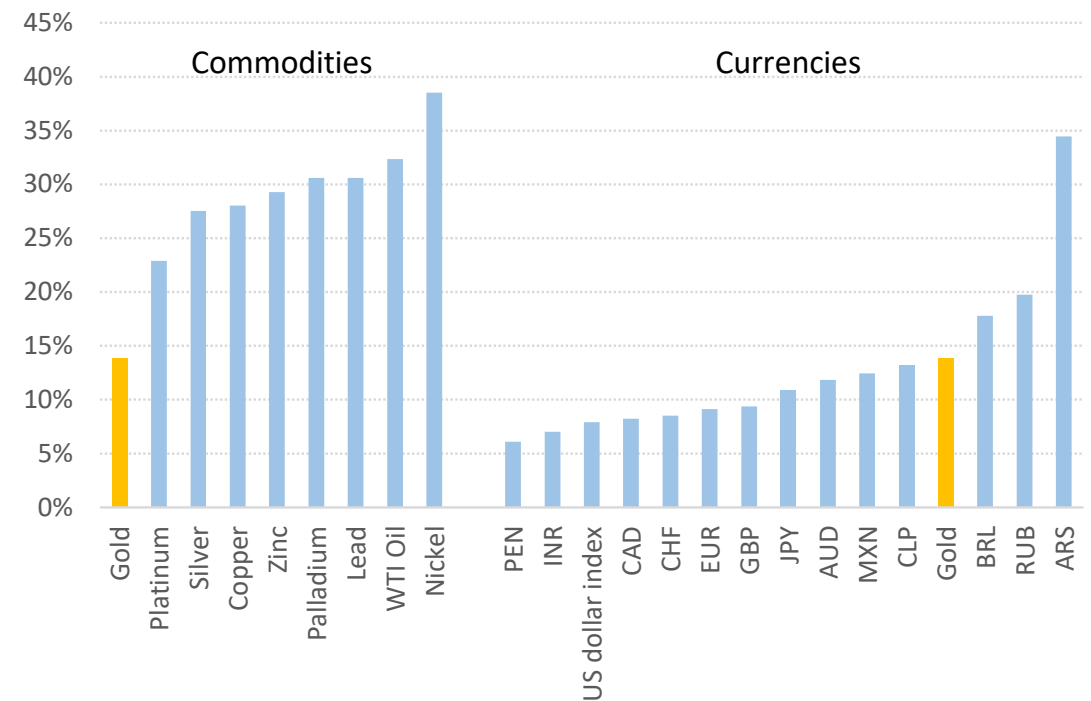
- Prices set by economic or financial outlook (growth, interest rates, inflation, debt levels)
- Total assets >> annual flows
- Prices usually in contango
- Example: US treasury market
 - Market size: ~\$35 trillion
 - Short-term changes in physical supply and demand usually outweighed by macroeconomic outlook

Gold is a financial asset

Financial asset

- Price set by economic or financial outlook (growth, interest rates, inflation expectations, debt levels)
- Gold is not consumed, total amount of gold mined in history is estimated to be ~212,000t, annual production is ~3,600t
- Gold supply increasing by ~1.6% on average since 1971 vs. US M2 money supply at 6.8%, and US Federal debt at 8.8%
- Prices in contango
- Gold market:
 - Market size: ~\$16 trillion or ~212,000t
 - Annualized price volatility is 14%

Annualized volatility



Source: Bloomberg, Canaccord Genuity

Gold: a liquid financial asset in limited supply

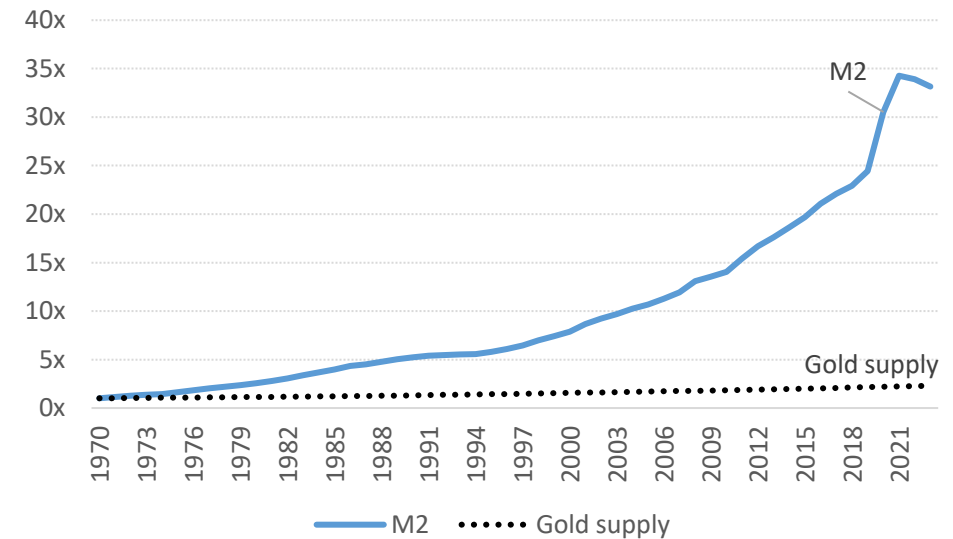
Since the US severed the link between gold and the dollar in 1971:

- US money supply has increased by 33x (6.8% CAGR)
- US federal debt has increased 87x (8.8% CAGR)
- US federal debt rose at 1.5% per year between 1945 and 1971
- Gold supply has increased by 2.3x (1.6% CAGR)
- Gold price has gone from US\$35/oz to ~US\$2,500/oz (71x)

Unlike currency, gold does not depend on a central bank

Unlike government debt, gold does not depend on a government

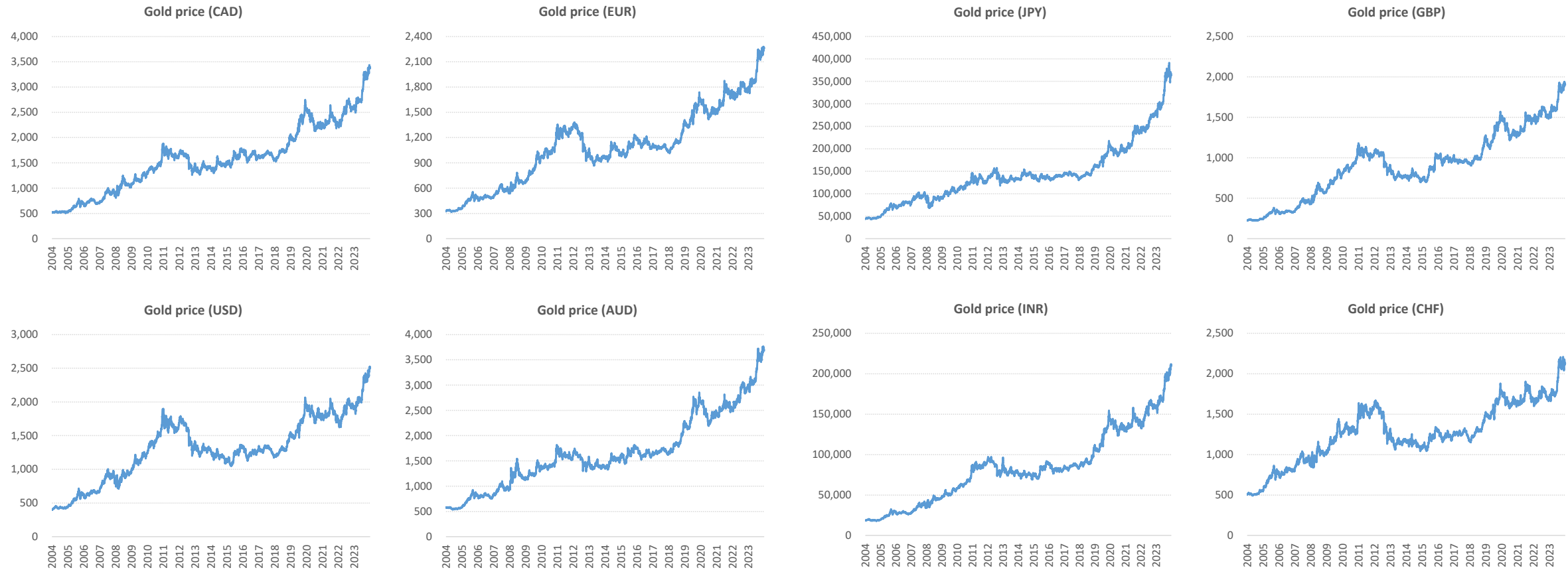
Relative growth in US money supply and gold supply



Source: Bloomberg, World Gold Council, USGS, Canaccord Genuity

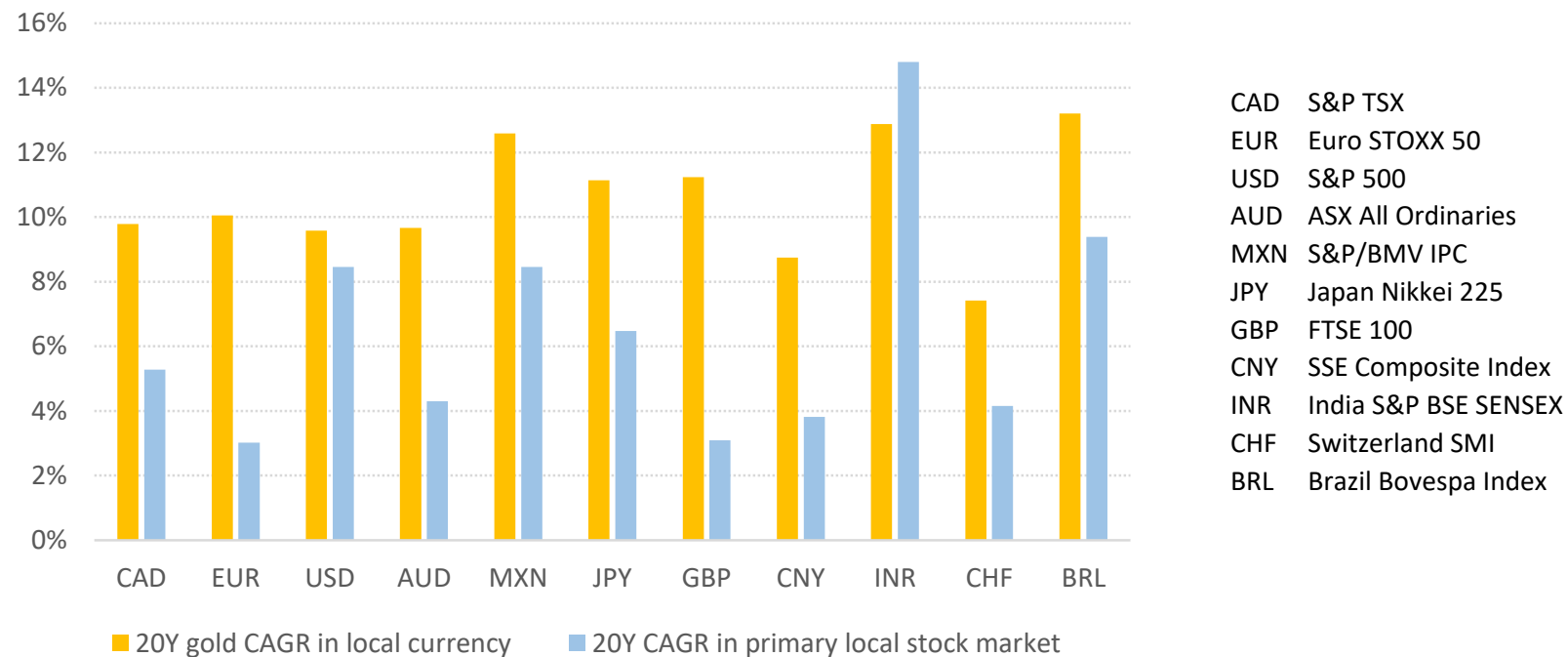
"I view gold as the primary global currency. It is the only currency, along with silver, that does not require a counterparty signature." - Alan Greenspan

Gold in various currencies



Source: Bloomberg, Canaccord Genuity

Gold vs. local stock markets

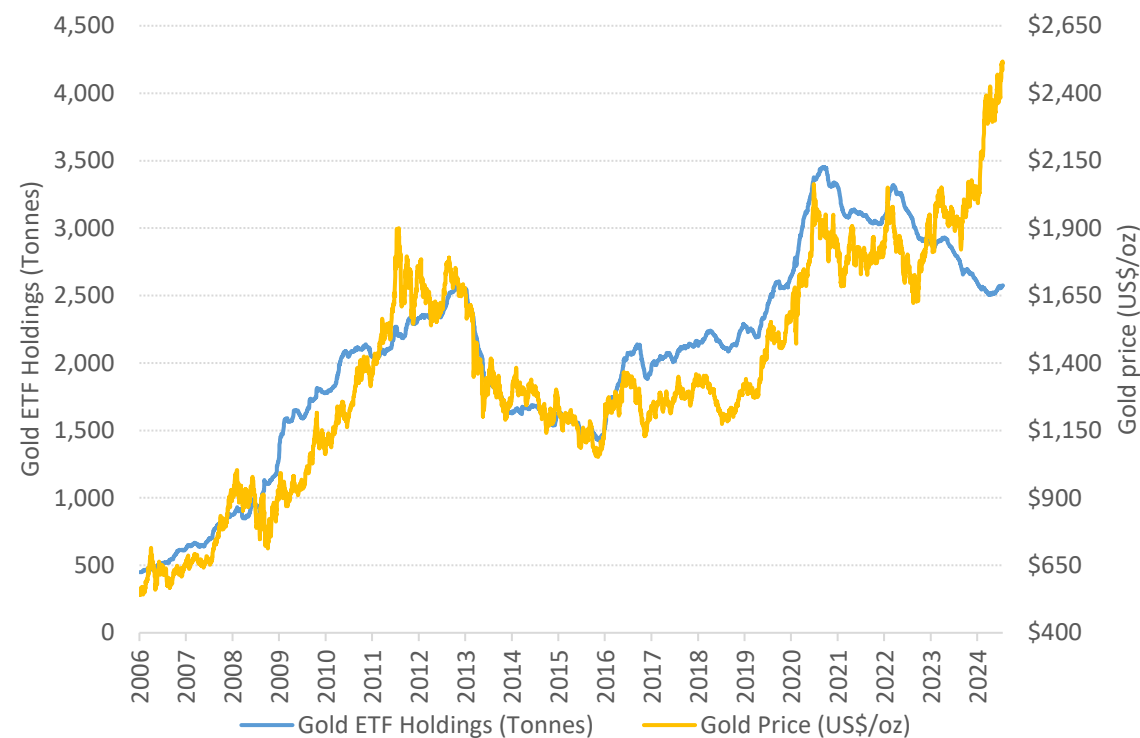


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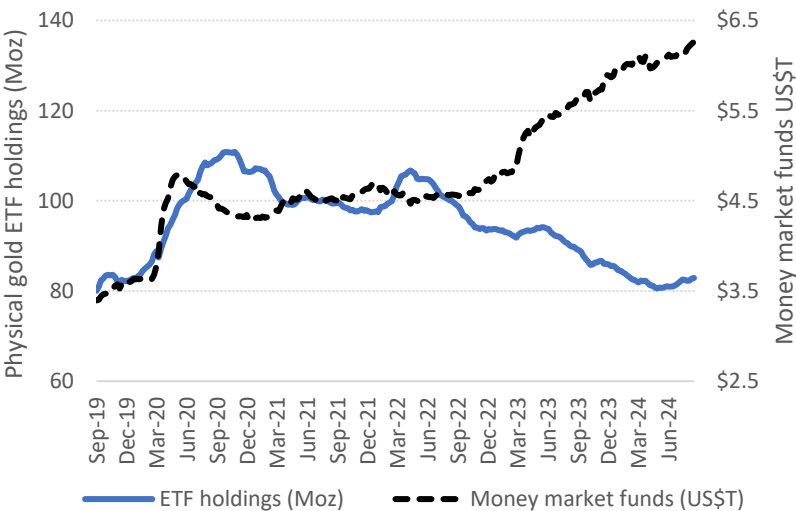
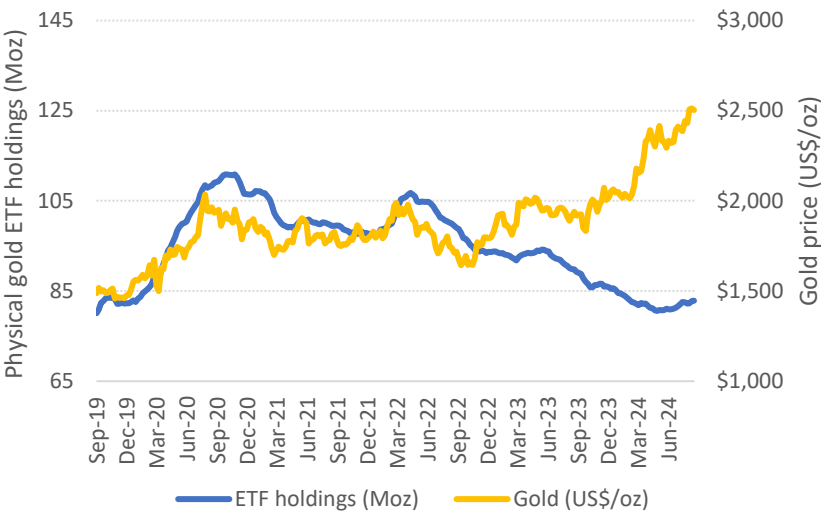
Source: Bloomberg, FactSet; Canaccord Genuity

Gold ETF outflows

Gold ETFs represent <2% of global gold holdings

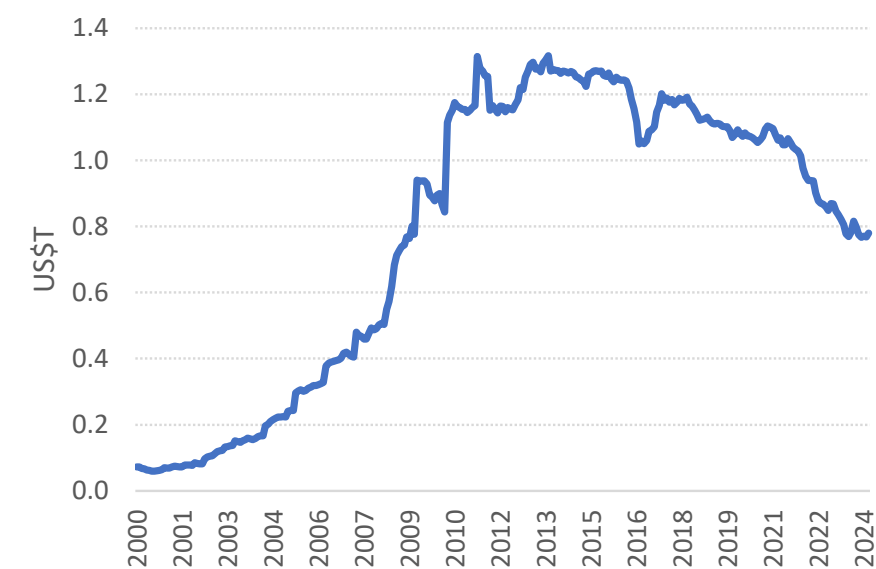


Source: Bloomberg, Canaccord Genuity

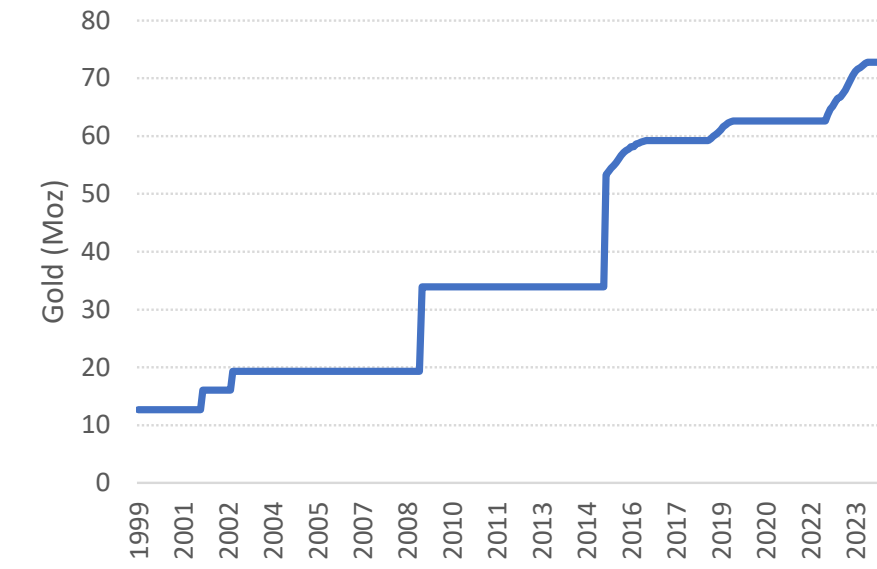


China treasury and gold holdings

Treasury holdings

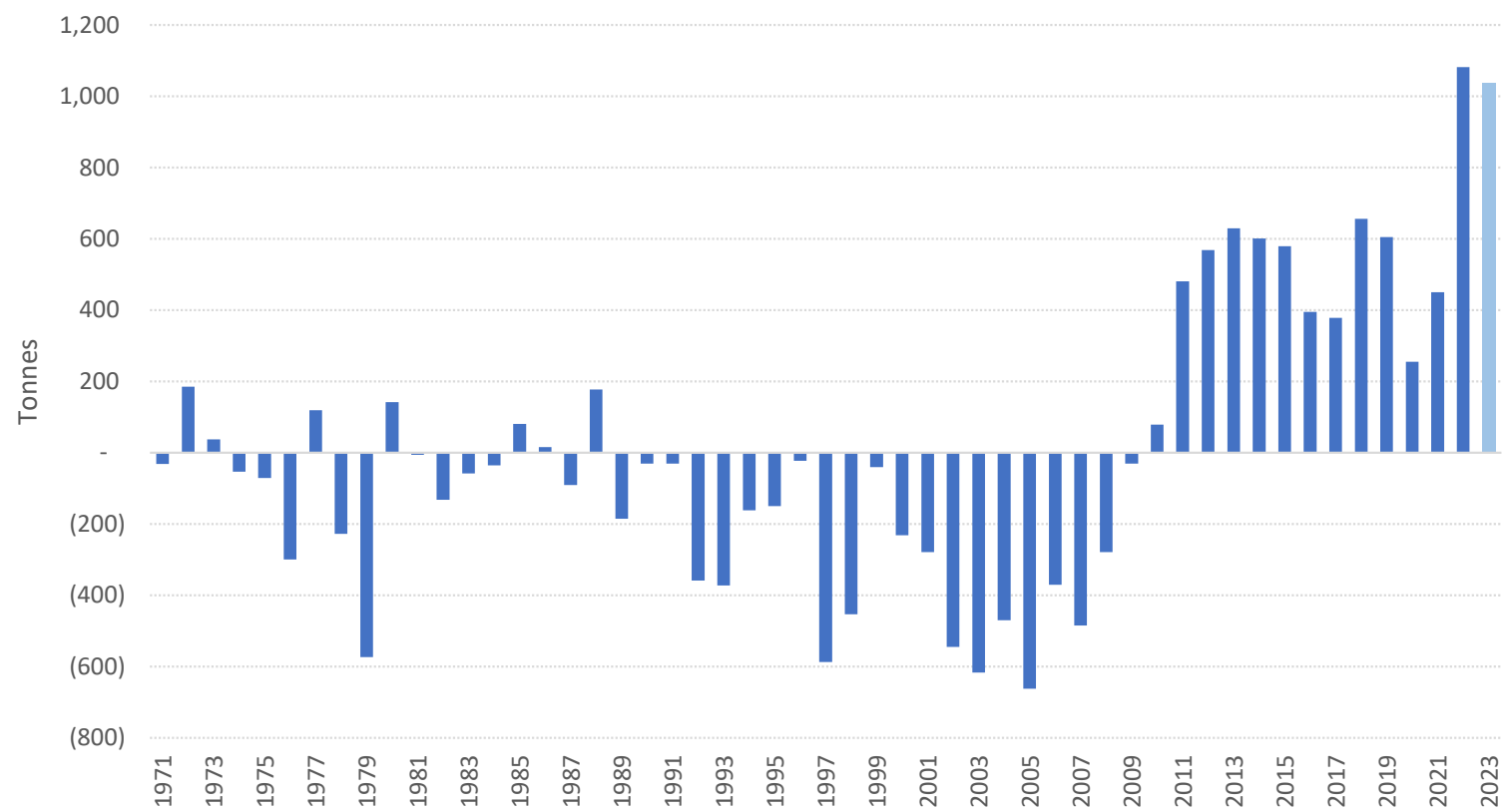


Gold holdings



Source: Bloomberg, Canaccord Genuity

Central bank gold purchases

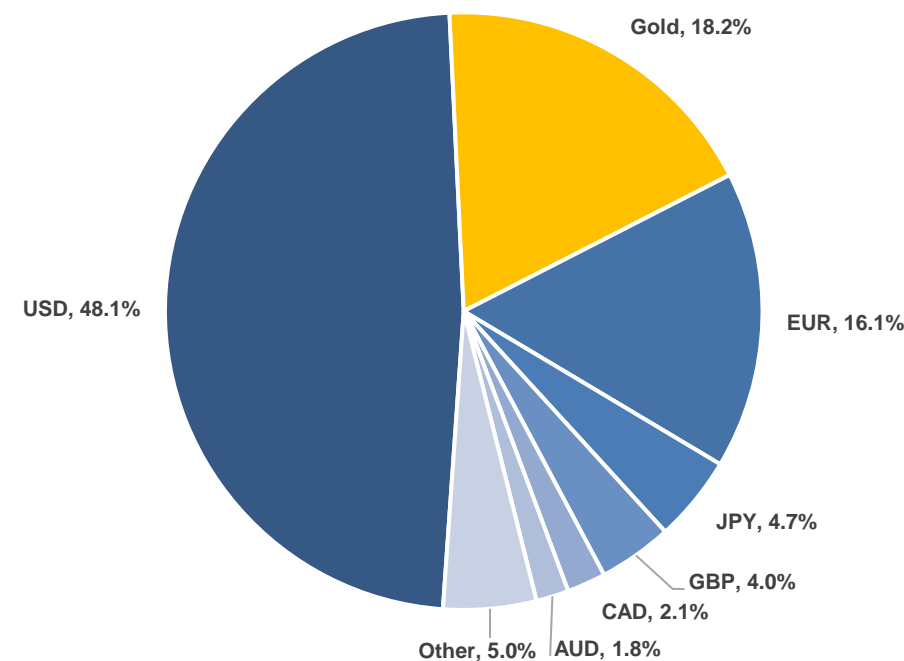


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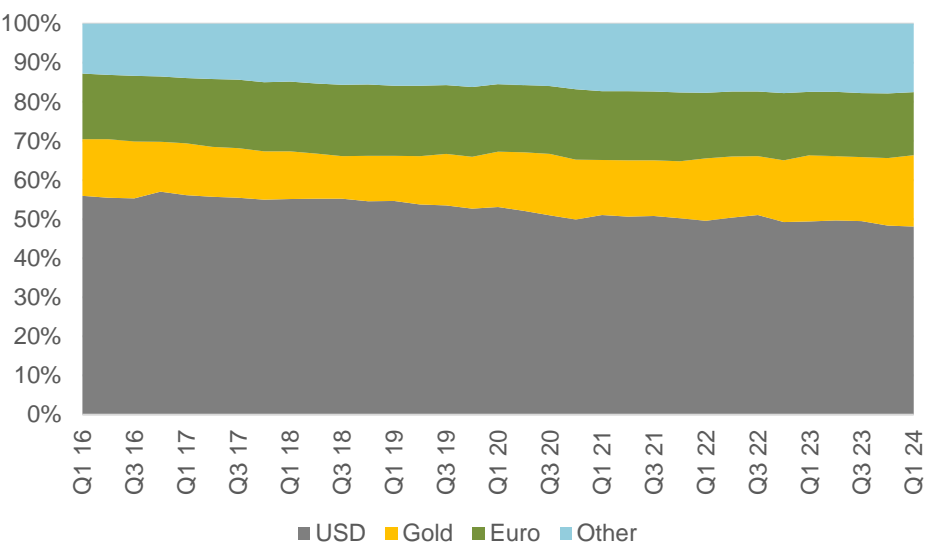
- 2002-2022 Central bank supply and demand from GFMS, World Gold Council
- 1971-2002 derived from Central bank gold holdings from the World Gold Council

Gold: second largest reserve currency

Composition of reserves Q1/24



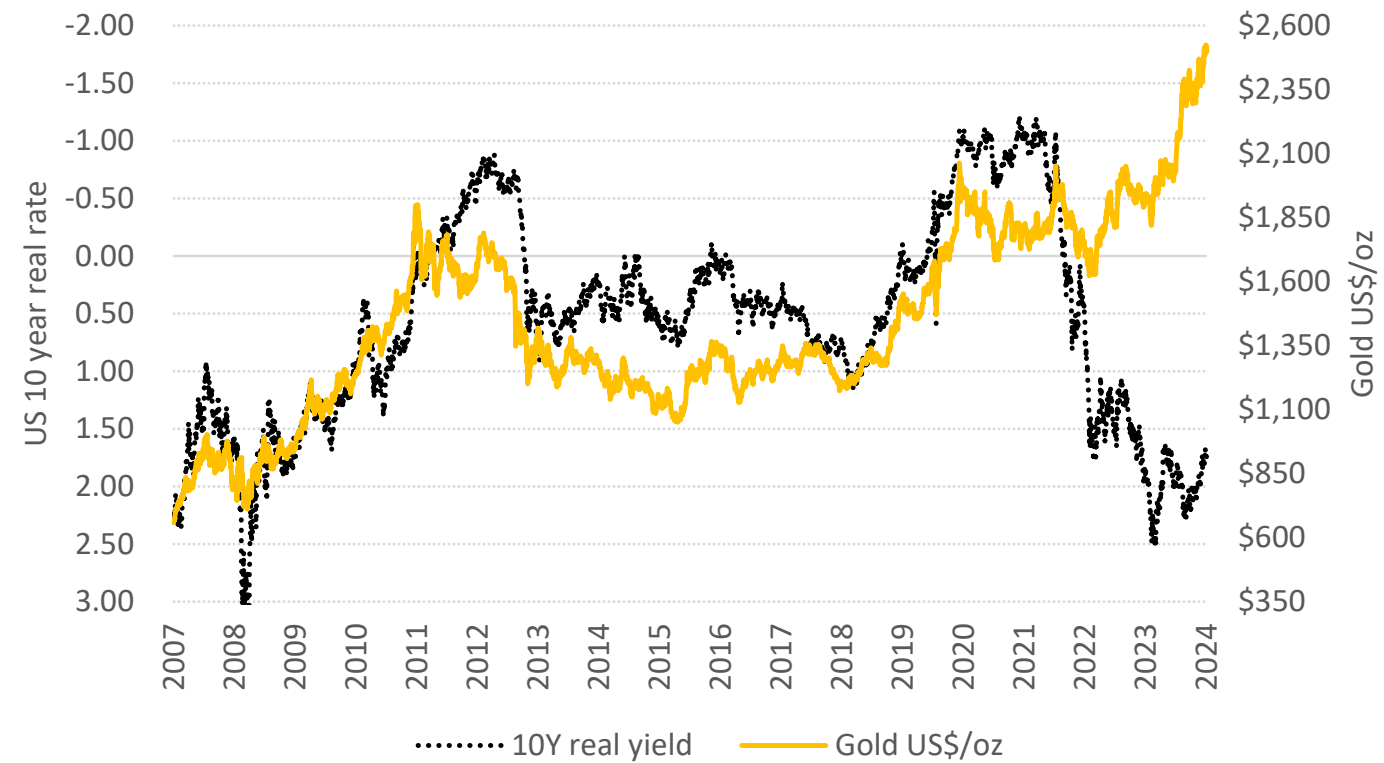
Historical composition of reserves



Six currencies represent ~94% of global reserves (ex-gold); and those six currencies cover just 13% of the global population.

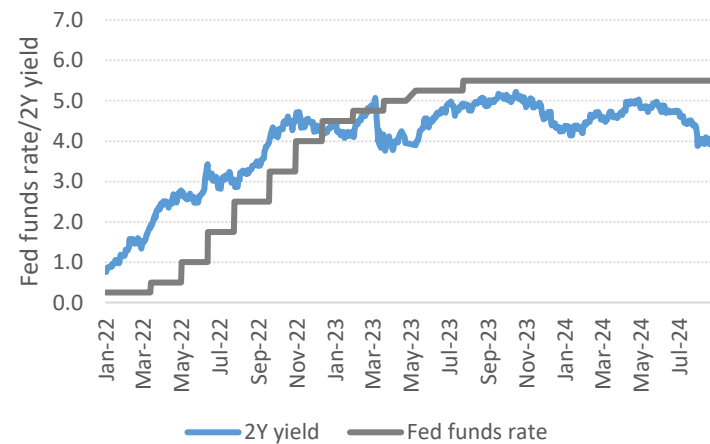
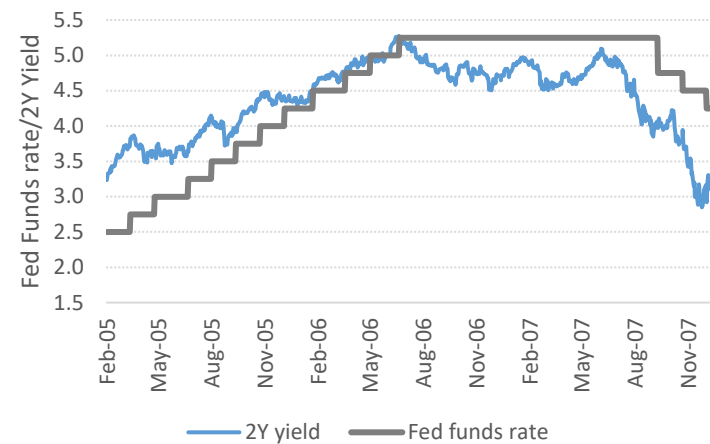
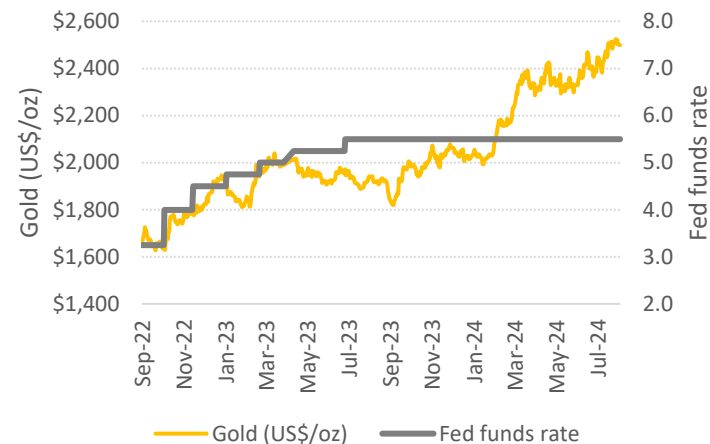
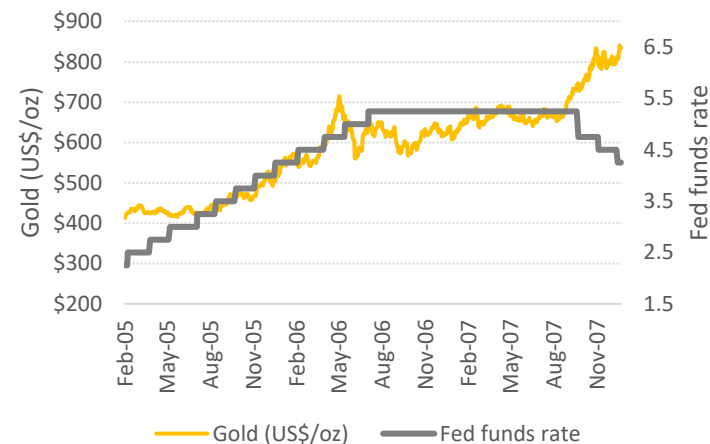
Source: IMF, Canaccord Genuity

Gold vs. real rates



Source: Bloomberg, Canaccord Genuity

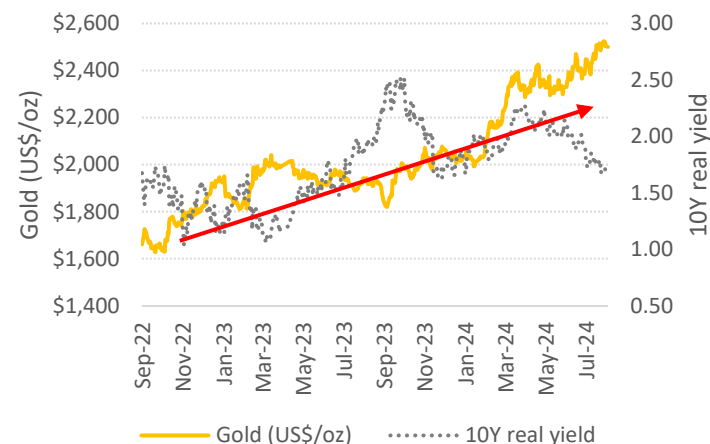
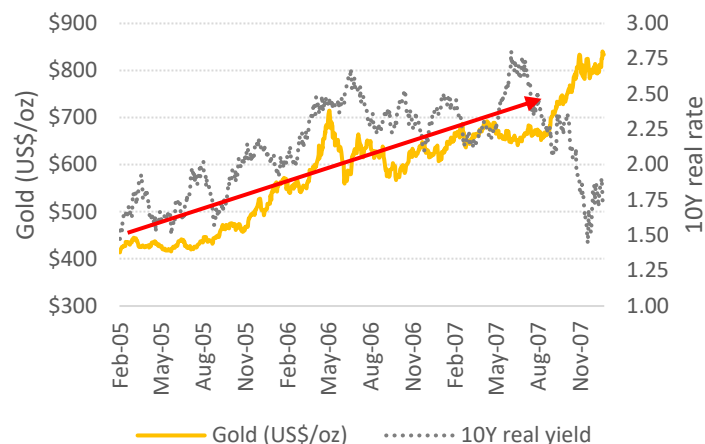
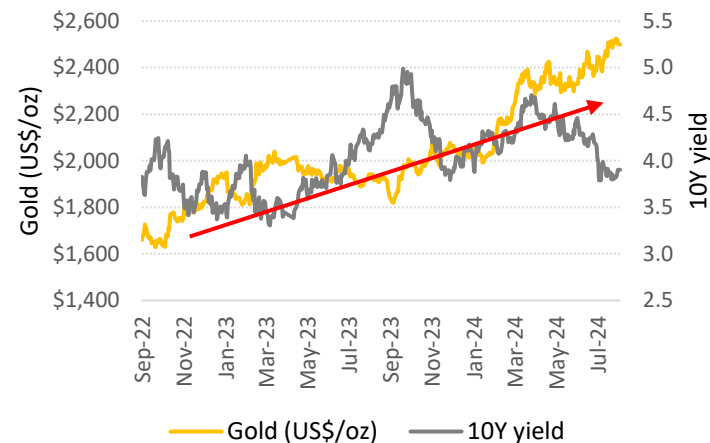
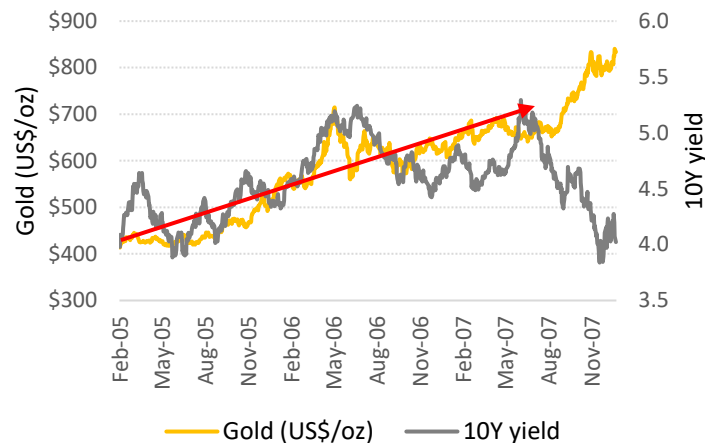
2005-2007 vs. today



Source: Bloomberg, Canaccord Genuity

Past performance is not indicative of future results.

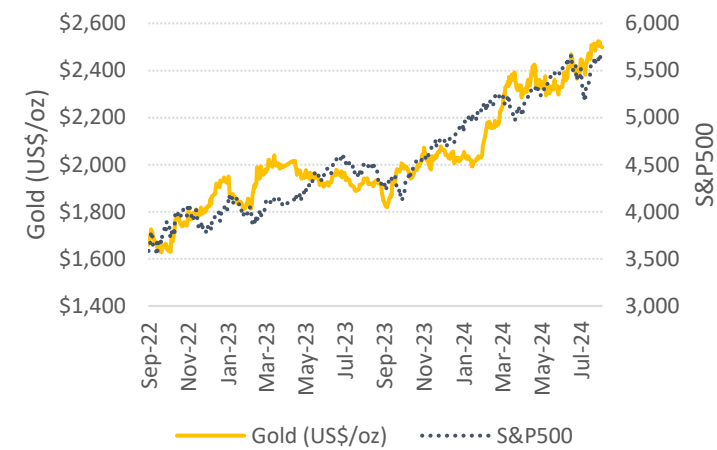
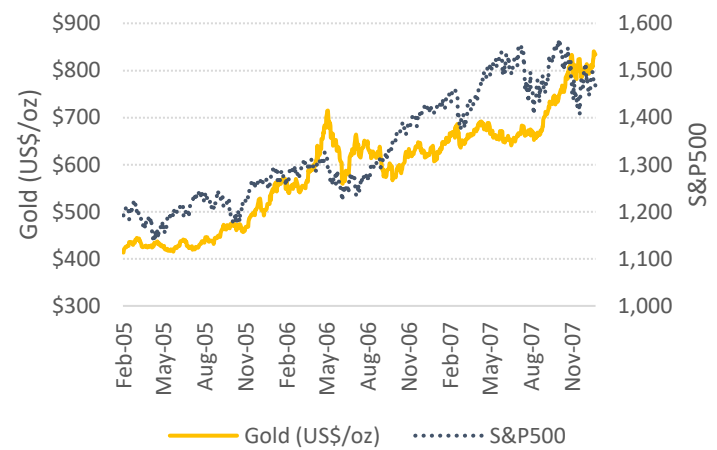
2005-2007 vs. today



Source: Bloomberg, Canaccord Genuity

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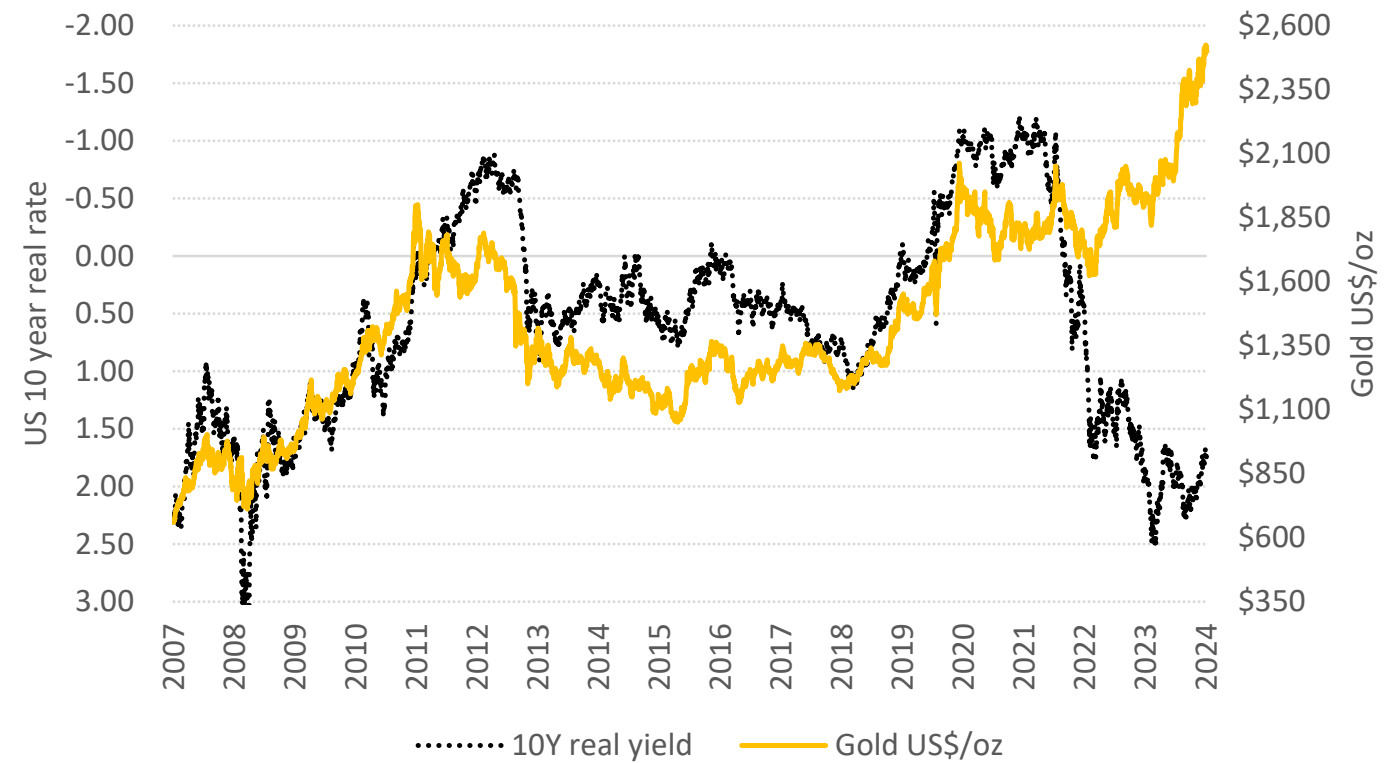
2005-2007 vs. today



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Source: Bloomberg, Canaccord Genuity

Gold vs. real rates



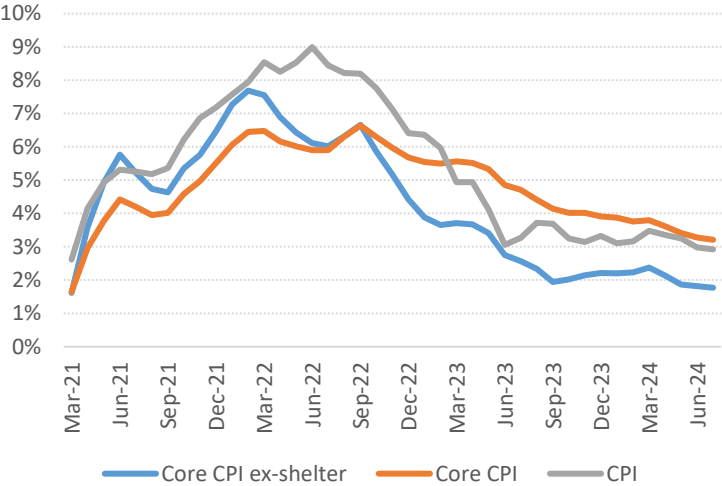
Source: Bloomberg, Canaccord Genuity

Where are we today?

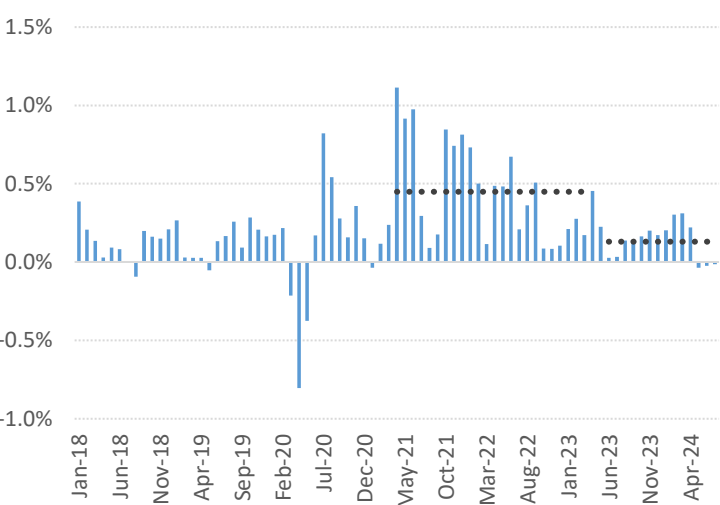
- After the fastest rate hike cycle in modern history:
 - Inflation is slowing
 - Labour market is weakening with unemployment at cycle high
 - Fed on cusp of first rate cut in September
 - Most major central banks already easing or expected to ease
- What's the consensus view?
 - Soft or no landing; the economy is still pretty strong
- Our view:
 - Higher probability of a harder landing

Inflation is slowing

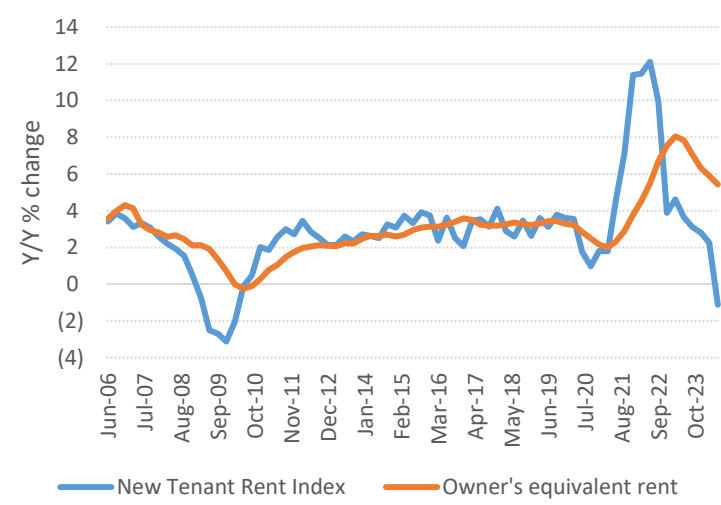
CPIs y/y rates



Core CPI ex-shelter (m/m)



OER vs. New Tenant rent index



Source: Bloomberg, Canaccord Genuity

Inflation breakevens

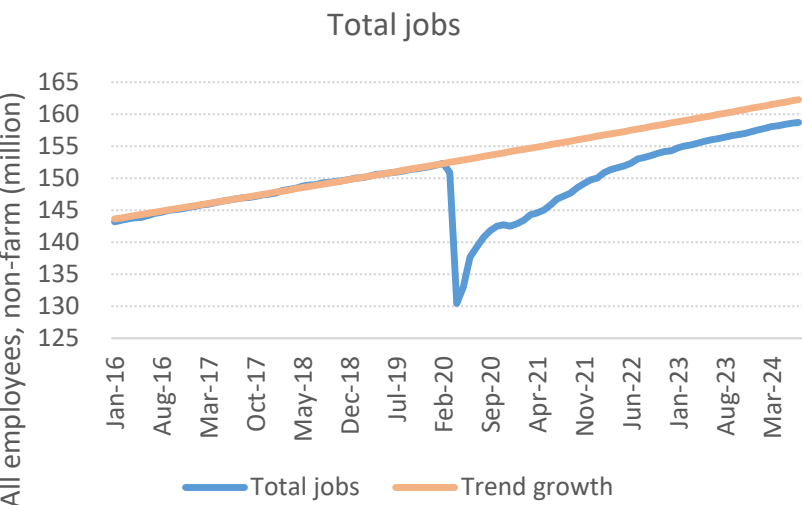
5Y breakeven rate



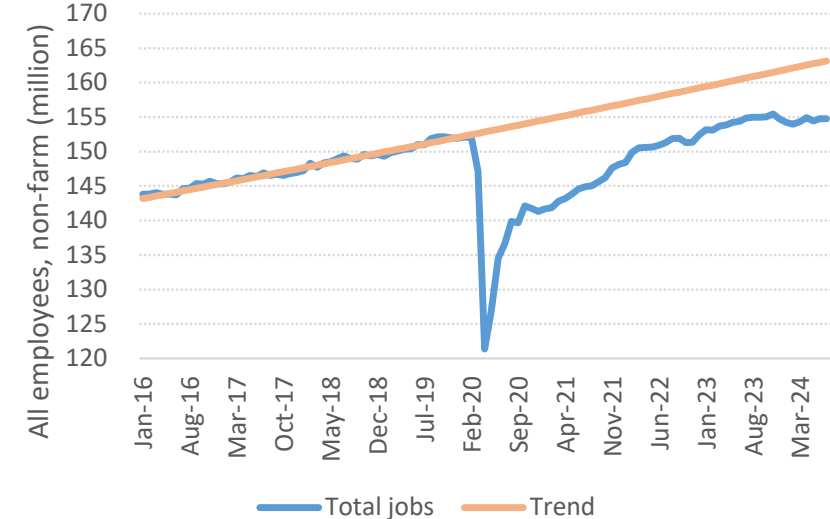
Source: Bloomberg, Canaccord Genuity

Labour market softening

Establishment survey



Household survey



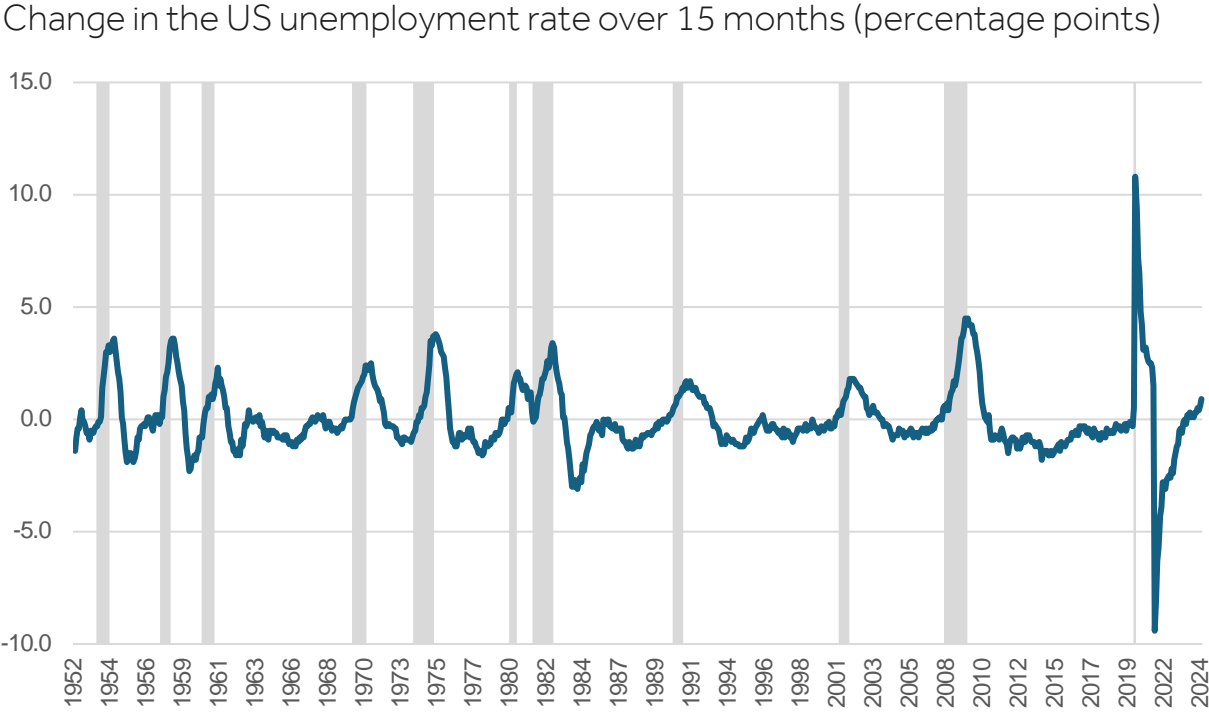
Establishment survey is the typical focus for investors, but:

1. BLS recently announced highest negative revision* (-818k) since 2009
2. The negative benchmark revision is after the data already being previously revised down in 10 of 12 months (-362k)
3. ~60% of new jobs in that period came from government, healthcare, and education
4. Excluding these sectors, job growth was closer to zero, net of revisions in most of the private economy

* preliminary

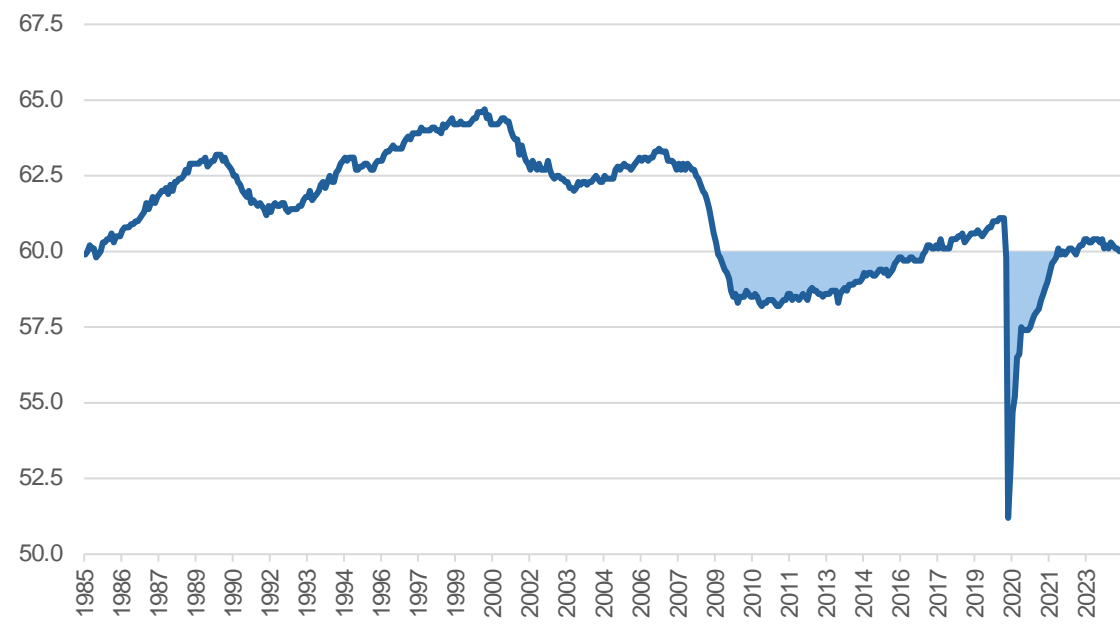
Source: Bloomberg, Canaccord Genuity

Labour market softening



Source: Bloomberg, Canaccord Genuity

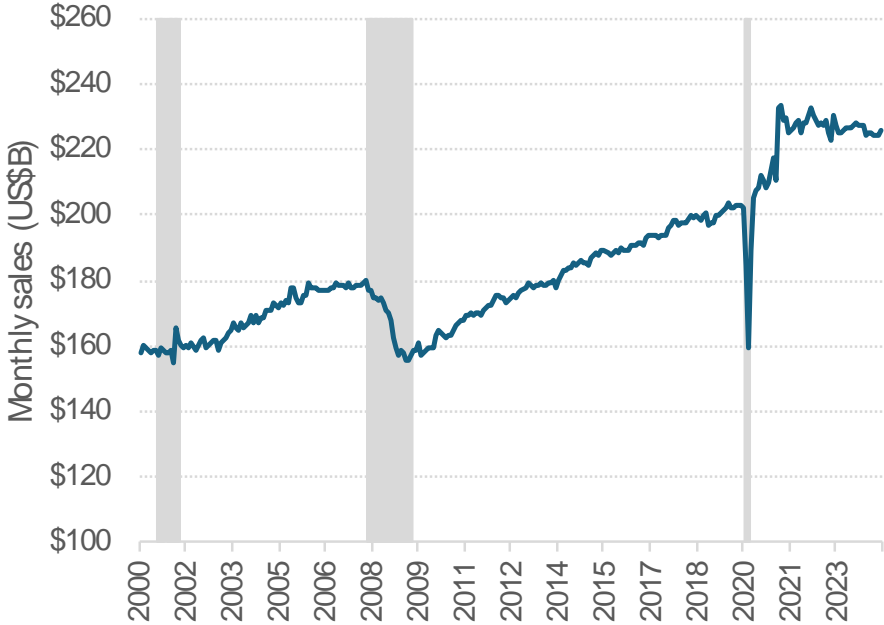
Employment to population ratio



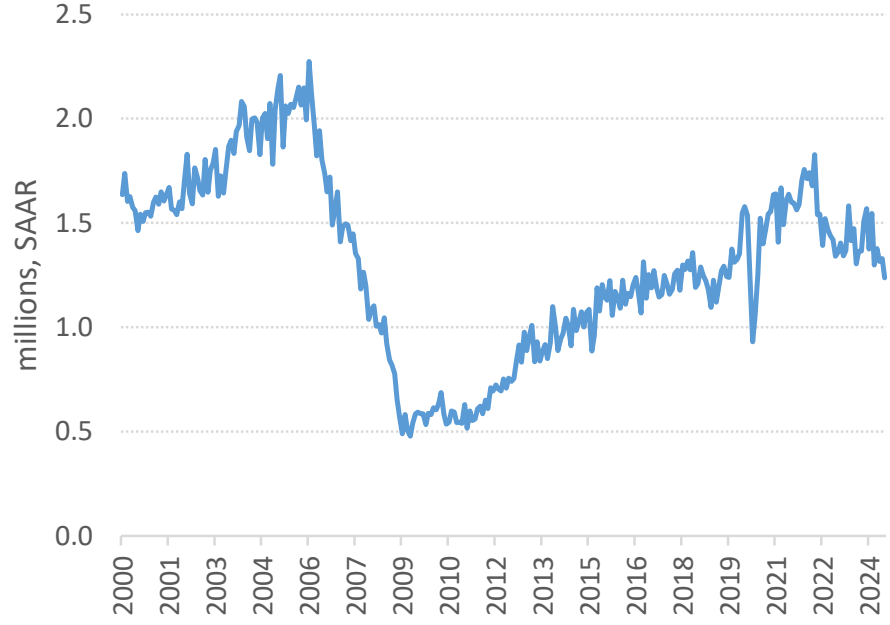
Source: Federal Reserve, Canaccord Genuity

Retail sales and new home sales

Retail sales: sideways for 2.5 years

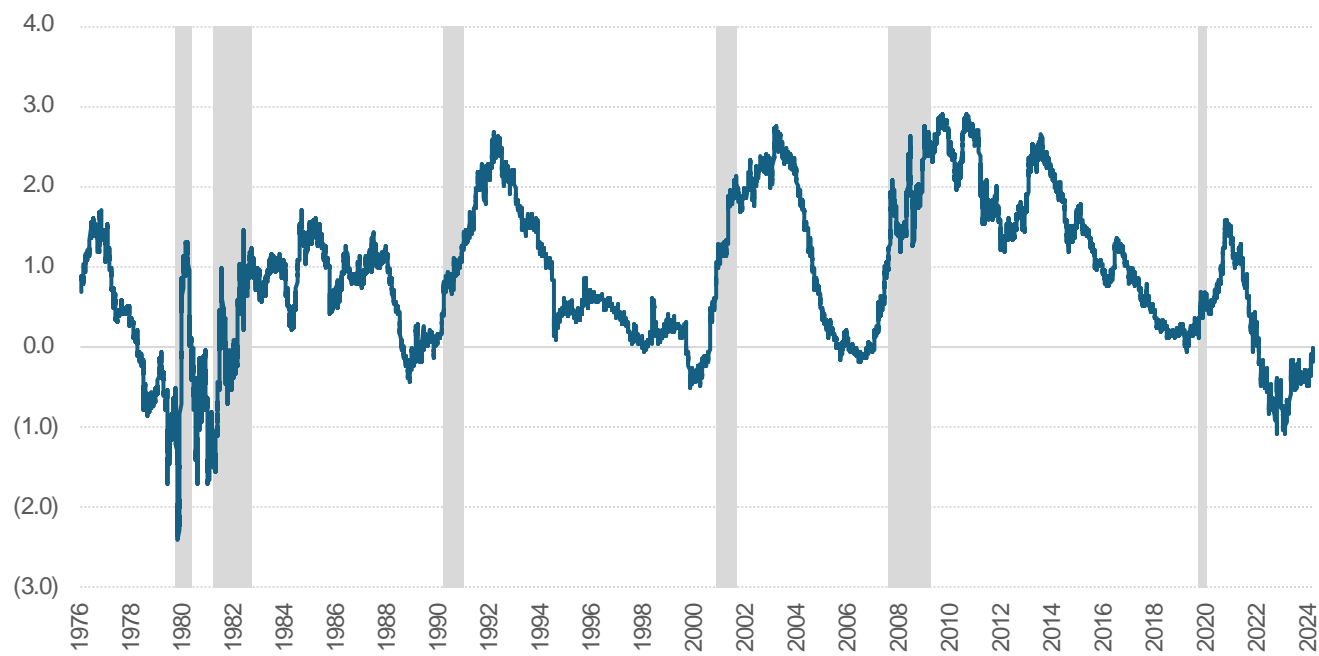


New home sales: down 32% from recent peak



Source: Federal Reserve, Bloomberg, Canaccord Genuity

Yield curve inversion



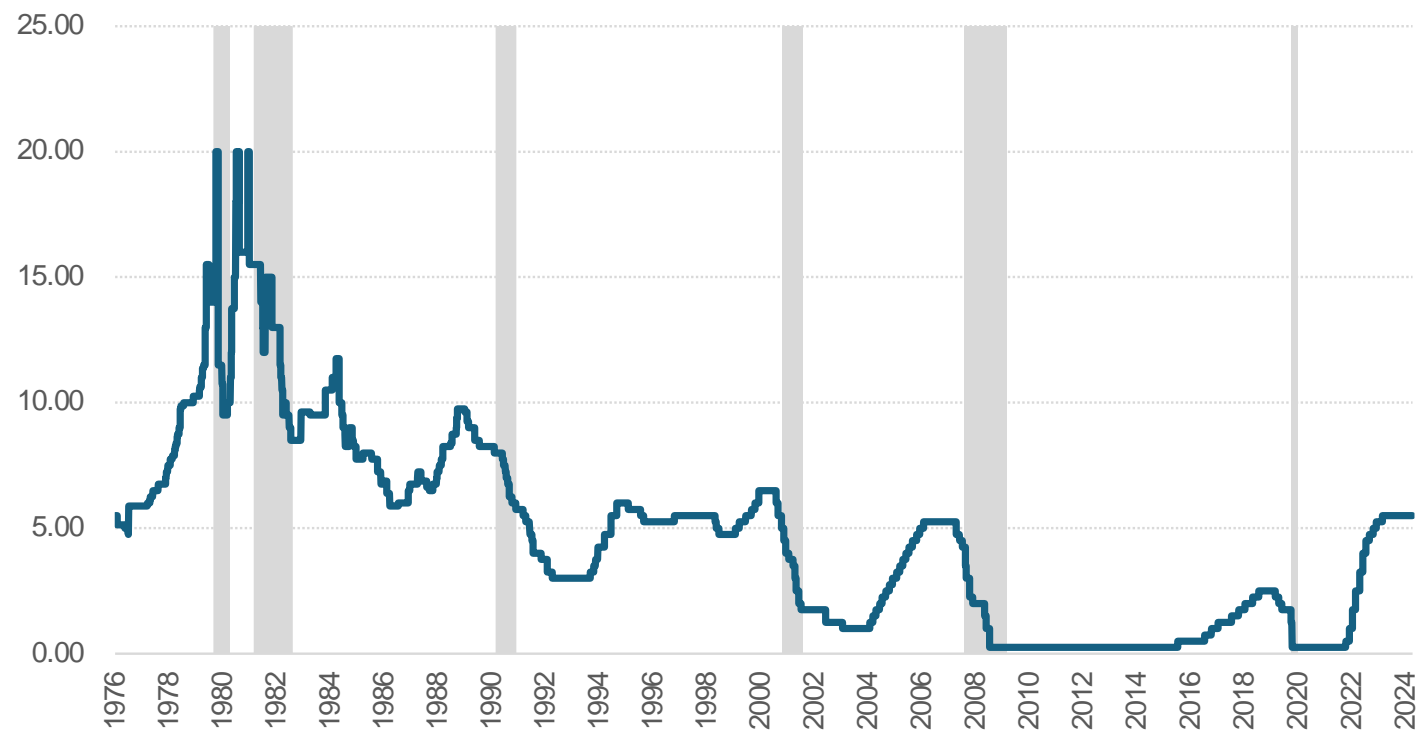
Source: Bloomberg, Canaccord Genuity

Gold to copper ratio



Source: Bloomberg, Canaccord Genuity

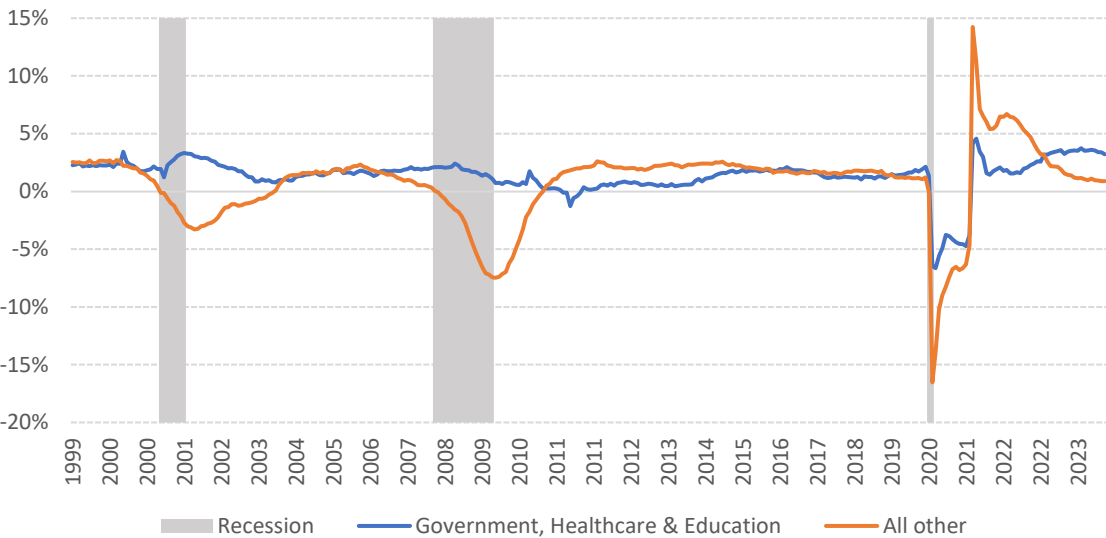
Fed funds rate history



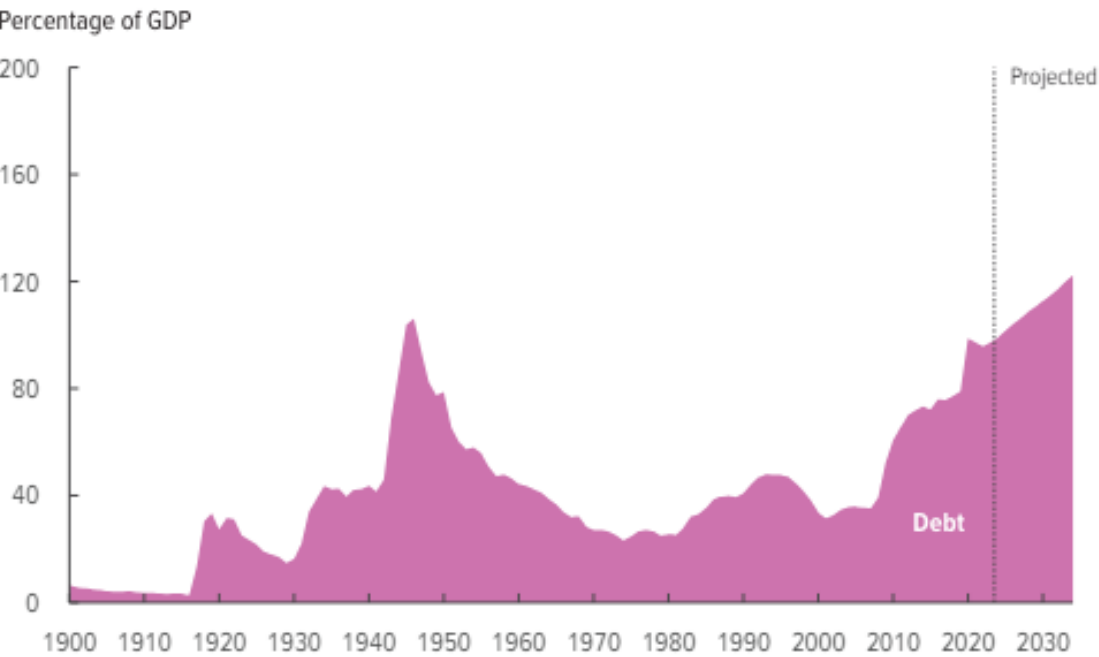
Source: Bloomberg, Canaccord Genuity

Government stimulus and debt

Y/Y job growth in government, healthcare & education vs. other sectors (pre-benchmark revision)

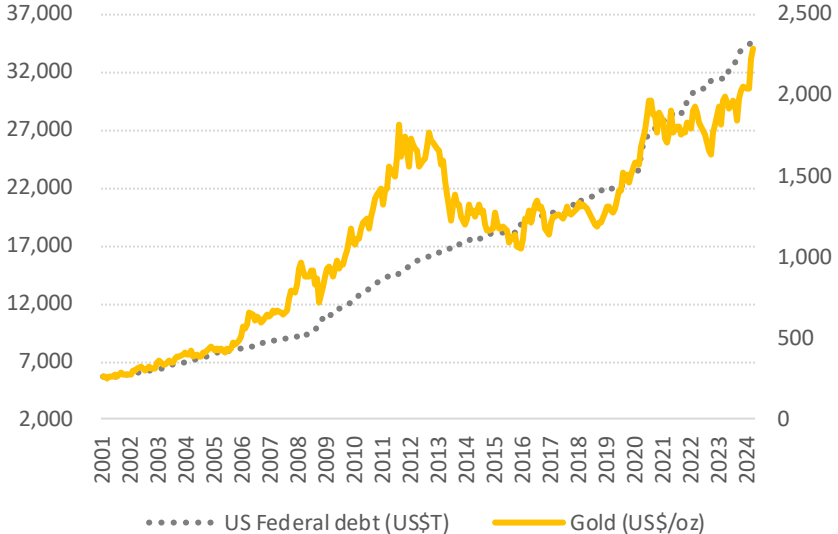
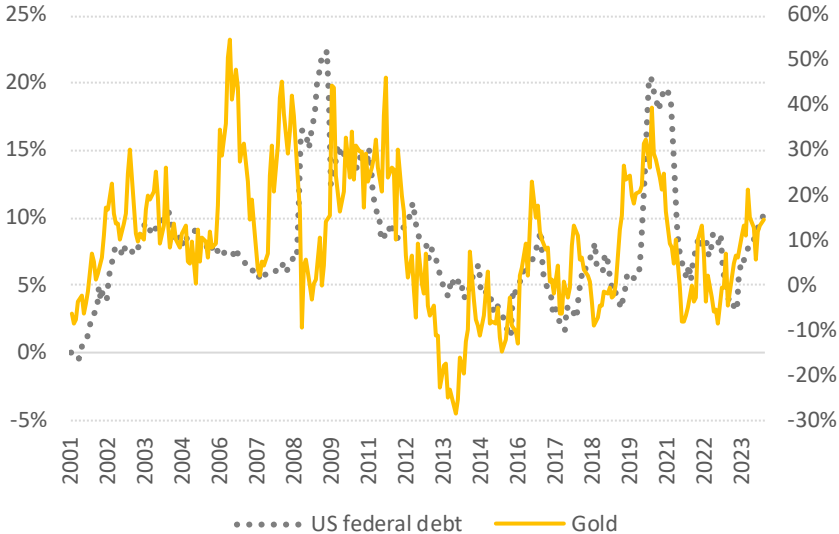


CBO forecast of US Federal debt as % of GDP



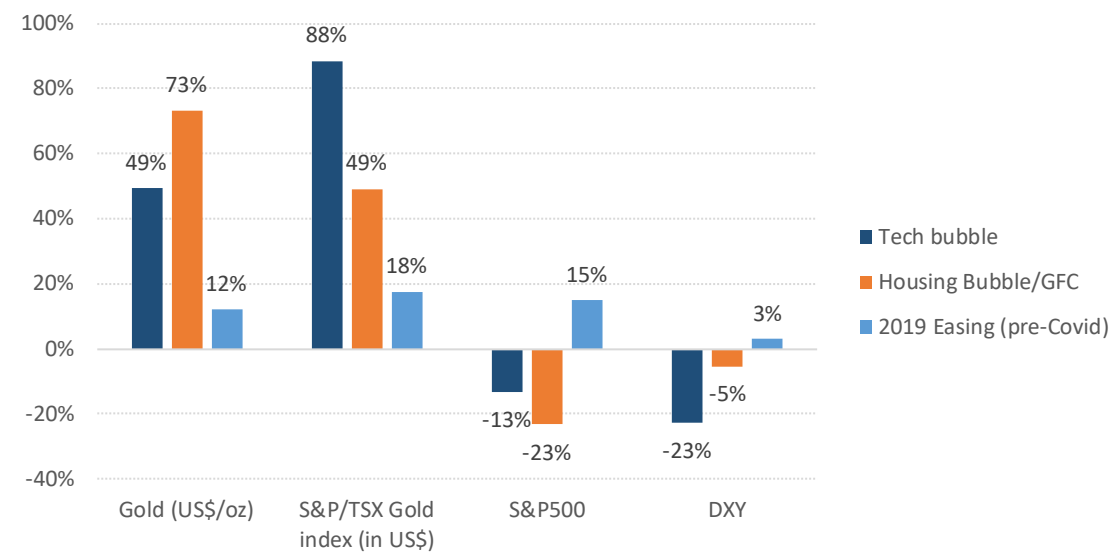
Source: Bloomberg, BLS, CBO, Canaccord Genuity

US debt and gold



Source: Bloomberg, Canaccord Genuity

Performance during Fed easing cycles (30D before first cut to one year after last cut*)

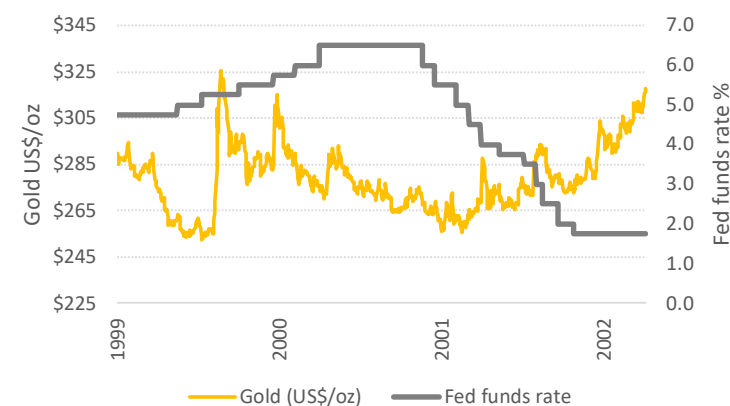


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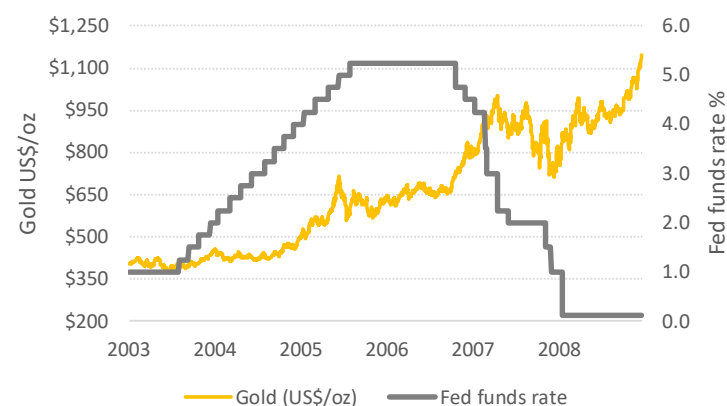
* we cut off the data from the 2019 easing cycle before COVID emerged in March 2020
Source: Bloomberg, Canaccord Genuity

Fed easing cycles

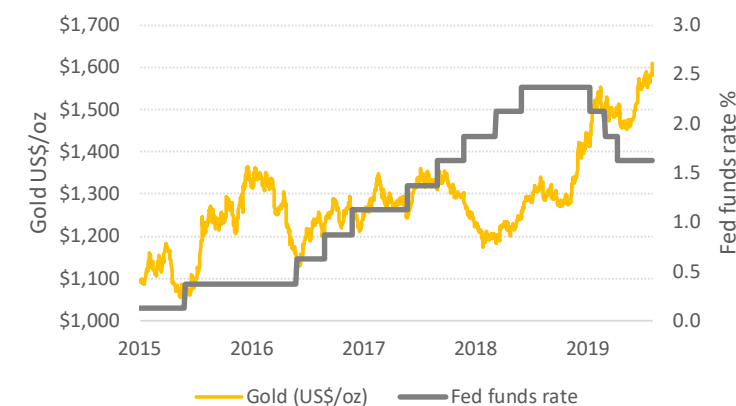
Post tech bubble easing



Post housing bubble/GFC easing



Pre-COVID easing



Source: Bloomberg, Canaccord Genuity

Our macro summary

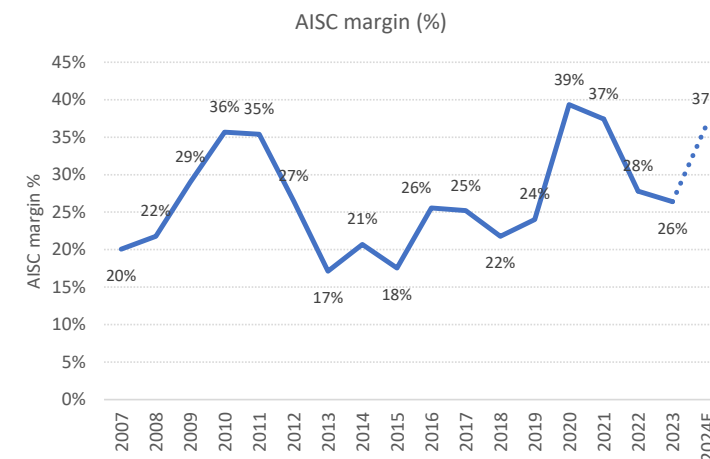
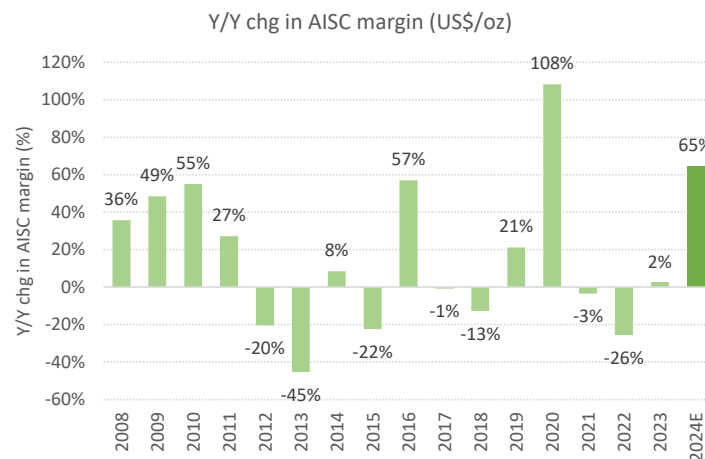
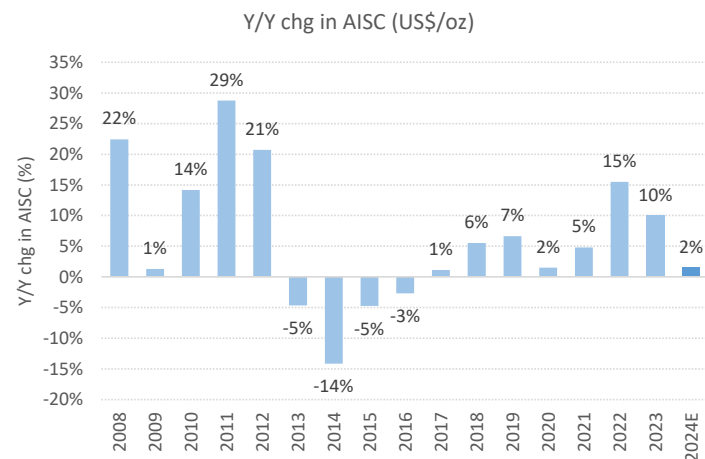
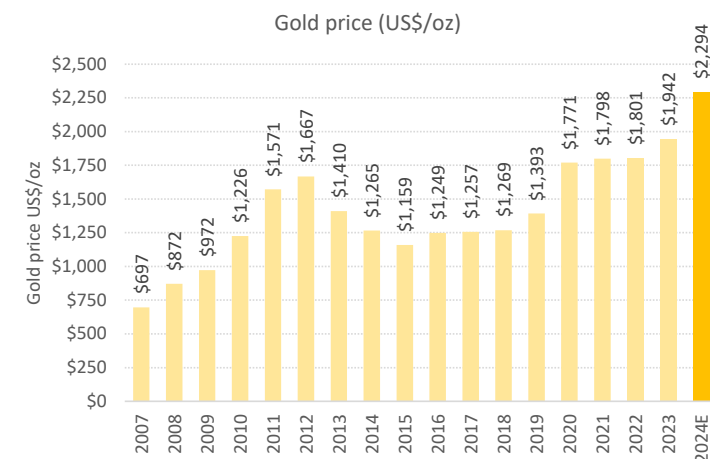
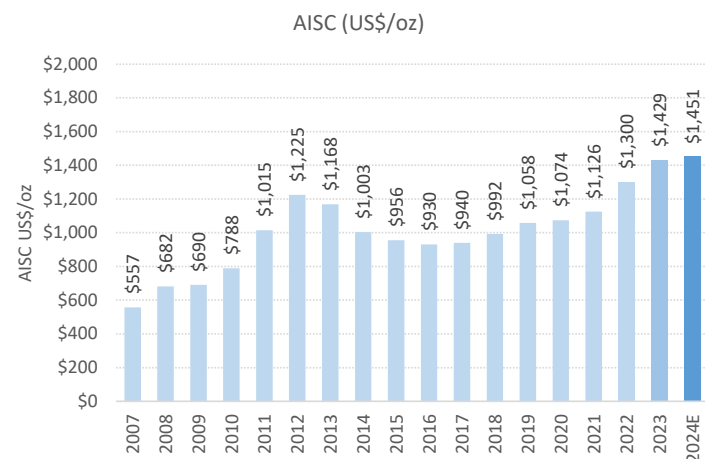
The data is softer than it looks to us:

- Inflation (ex-shelter) running at or below Fed target
- Labour market: unemployment rising and at cycle high, large deviation between the household vs. establishment survey
- Slowing growth, nominal growth back to pre-pandemic levels
- Retail sales: sideways in real terms for 2.5 years; new home sales down ~30% from recent peak
- Yield curve inversion track record
- History: the Fed has only achieved one soft landing in modern history
- Economy is supported by \$2 trillion federal deficit (~7% of GDP)

Our Gold sector outlook

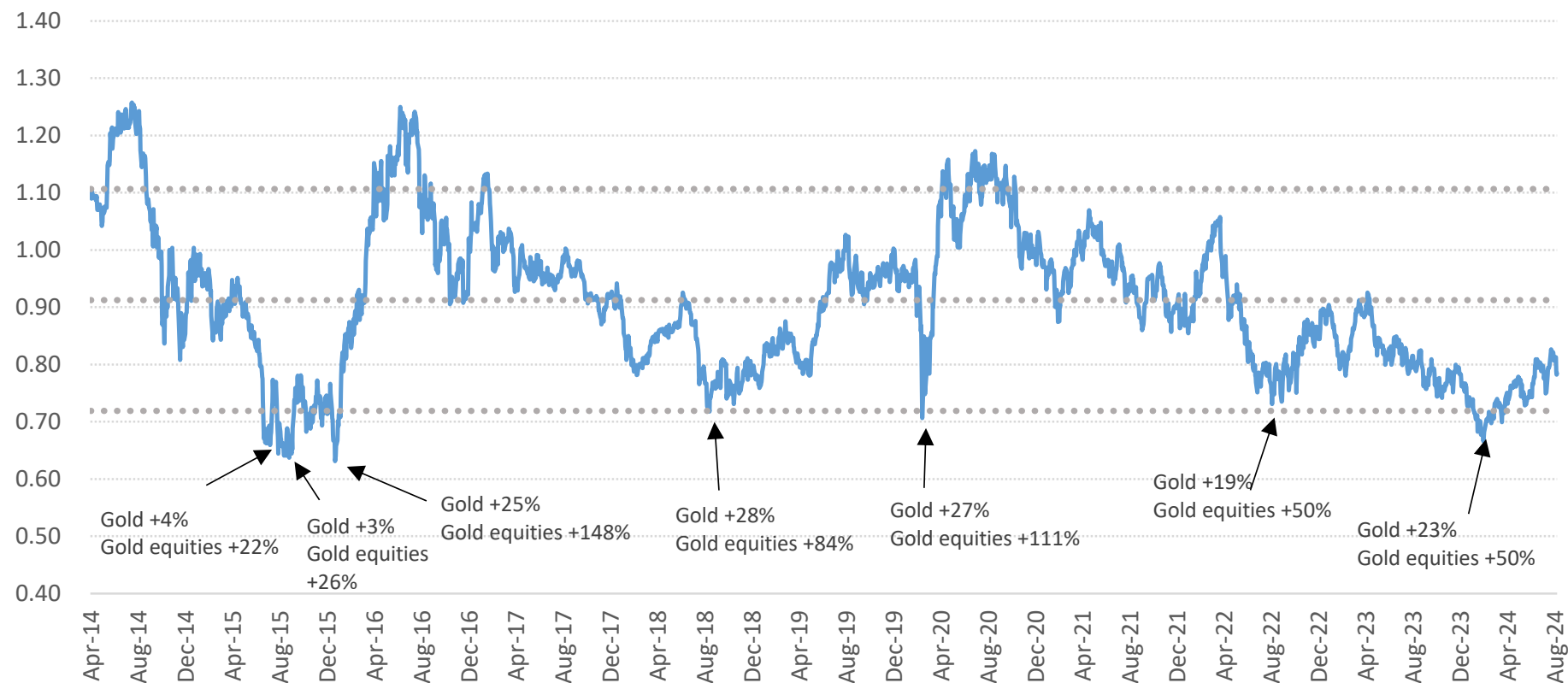
- Poised for record margins
- Generally disciplined on capital allocation and M&A
- Gap between gold and gold equities
- Inexpensive

Poised for record AISC margins



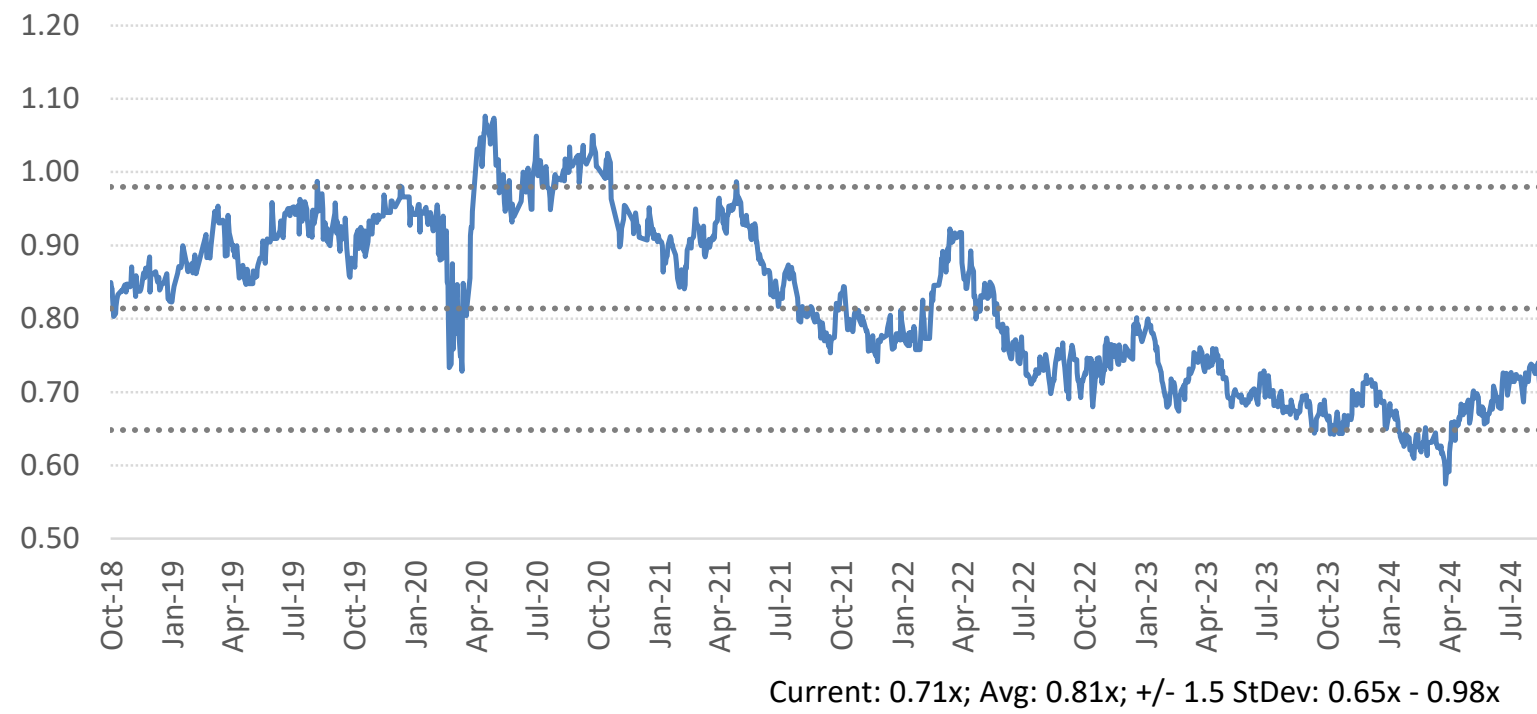
Source: Company reports, Canaccord Genuity estimates

Gap between gold and gold equities



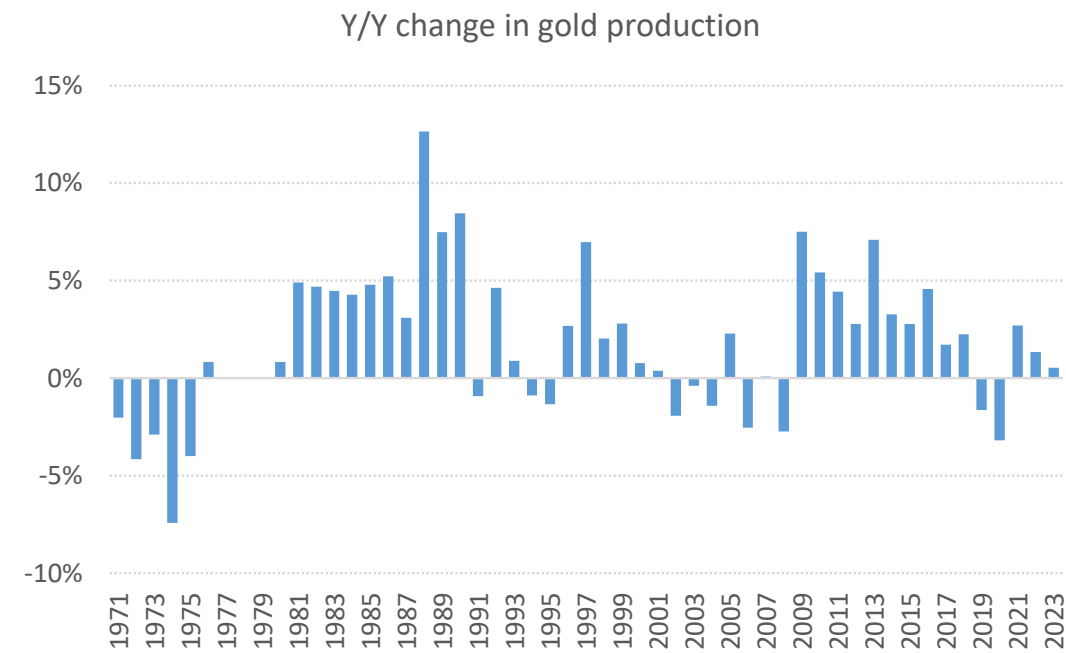
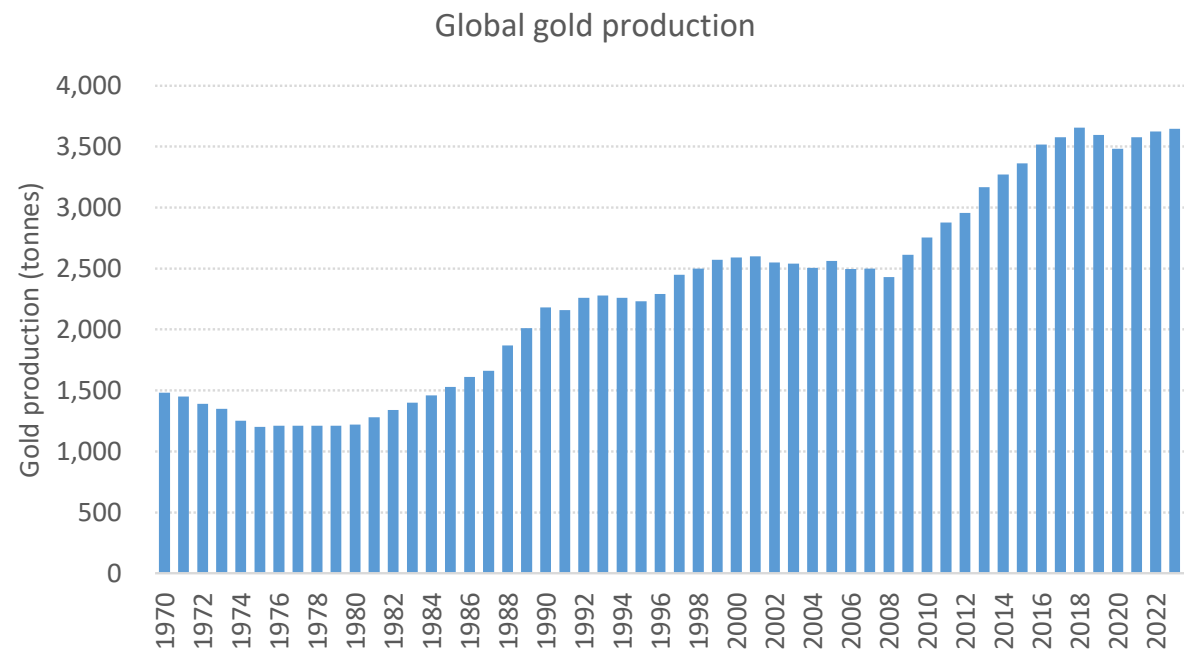
Source: Bloomberg, Canaccord Genuity

Valuation: Senior gold P/NAV (on daily forward curve)



Source: FactSet, Canaccord Genuity estimates

Global gold production



Source: World Gold Council, USGS, Canaccord Genuity

Summary: why we like gold now

- Slowing economy, end of tightening cycle
- Debt levels at record highs and climbing
- Central banks are buyers
- Geopolitical tensions rising
- Gold supply is challenged

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Date and time of first dissemination: September 06, 2024, 08:41 ET

Date and time of production: September 06, 2024, 08:41 ET

Distribution of Ratings:

Global Stock Ratings (as of 09/06/24)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	610	66.89%	22.62%
Hold	132	14.47%	11.36%
Sell	15	1.64%	6.67%
Speculative Buy	144	15.79%	49.31%
	912*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate returns greater than 10% during the next 12 months.

HOLD: The stock is expected to generate returns from -10% to 10% during the next 12 months.

SELL: The stock is expected to generate returns less than -10% during the next 12 months.

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*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

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