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WHAT HAPPENS WHEN THE WORLD'S FINANCIAL SAFEHOUSE SHOWS SIGNS OF CRACKING?

SUPPLY AND DEMAND IMBALANCES IN THE TREASURY MARKET CREATE A SIGNPOST WORTH WATCHING

- What the bond market is signaling for the inflation outlook;
- Why a shift in who buys Treasurys could wreak havoc on the market;
- How continued QT (quantitative tightening) is expected to impact the market;
- What central banks who have been net-selling Treasurys have replaced their reserves with;
- How the issues around China remain a critical economic signpost;
- And more!

***Please note the content of this newsletter does not constitute financial, investment or tax advice; it is being provided for informational purposes only. You should consider any investment based on your own financial position, risk tolerance and other factors. Please consult your own advisor(s) before making any decision to invest.**

In the days leading up the Fed's Jackson Hole event, the yield on the 10-year Treasury reached its highest level in about 15 years. As a reminder, bond prices and yields move in the inverse—that is, as bond prices rise, yields fall and as bond prices fall, yields rise.

The bond market is often considered the "smartest money", but everything these days is sending at least a bit of mixed signals if not fully scrambled ones.

Some economists are musing that the rise in medium and long-dated Treasury bonds signaled that inflation would remain sticky for longer.

With entrenched inflation, even at lower rates than in previous years, but still well above both what can be absorbed by Americans and the Fed's target of 2%, yields could be pushed higher in anticipation of further Fed rate hikes.

Or, being that the Fed often follows the bond market and not the other way around, the bond market might just try to combat inflation itself. Higher yields create an environment of higher capital costs. A higher cost of capital makes it more difficult to invest and grow, and that can slow an economy.

The concerns about inflation were echoed by Fed Chair Jerome Powell's hotly anticipated speech in Jackson Hole near the end of August. He signaled that the Fed may not be done hiking and that there was at least an expectation of rates being higher for longer.

The Fed's whipsaw shifts in interest rates and the resulting high yields in the Treasury markets haven't quite fully worked their way through the economy. While surprising to some, it shouldn't be—with nearly 15 years of suppressed interest rates, around nine of those years with ZIRP (zero interest rate policy), many businesses and consumers locked in abundant, low-cost debt financing.

However, the Fed's actions are having other impacts, including in the banking sector. The banking sector, where they should have had a keen understanding of risks and timing related to Fed policy shifts, was somehow caught flat-footed, causing bank failures, mergers, downgrades, and others to be teetering on the edge of ruin.

High yields in the global "financial safehouse" market- the Treasury market- have attracted some capital, certainly from households (away from banks). Banks and insurance companies are often large purchasers of Treasurys, but as discussed above and in my previous Goldline economic newsletters, there have been some structural issues that have held down what might otherwise be substantial demand.

As for central banks around the world, the second biggest holder of Treasurys, China, has been a net seller, getting rid of Treasurys and instead buying substantial amounts of gold. With 9 consecutive months of purchases, their accumulated gold holdings now sit at more than 2100 tonnes.

China's outlook looks to be one that won't include Treasury purchases. They are working with the BRICS nations (expanding to BRICS+ with the recent invitation of Saudi Arabia, Iran, the UAE, Argentina, Egypt, and Ethiopia) to engage in more trading without dollars.

But, perhaps more urgent, is the reported softness in the Chinese economy. This has led many economists and investors to muse that China will continue to sell dollars to support its own CNY currency and/or put in place other capital controls, putting more pressure on Treasury bond pricing.

Japan, who is the largest holder of US Treasurys, has for the first time in a very long time also increased its sovereign paper yields. While those yields are significantly less than the US's today, it may be a push to try to keep more capital inside the country. The Financial Times reported, "Higher bond yields have led some investors to anticipate a significant repatriation of Japanese money, with notable flows out of Treasuries."

And the Fed has, as part of its inflation battle, been lightening up on its own balance sheet through QT (quantitative tightening), letting approximately $1 trillion in securities thus far, primarily Treasurys, roll off its balance sheet without repurchasing securities to replace them.

While technically the Fed has had some other programs supportive of market liquidity, not having them as a net buyer in the market is great for normalization of policy but also bad for the supply/demand imbalance in Treasurys that stands to put long-term pressure on bond prices and thus act as a catalyst for continued yield expansion.

With the potential for cracks in the global financial safehouse of the Treasury market, what does that mean?

All of this is leading some investors to believe that we are in for a continued, and possibly chaotic, rise in bond yields and with that a rise in global capital costs. Beneficiaries of such an outcome would be a strong relative dollar (vis-à-vis other currency, not vis-à-vis your purchasing power), as well as gold.

Now, with concerns about China’s economy and potential for credit events in the domestic and global economy, that catalyst could undo some of the above issues, as investors who seek safety often come back to Treasurys as that safe haven.

But, in the mid-to-long-term, there are plenty of issues to suggest that with the government continuing to run large deficits and a shift in global financial needs, any supply/demand imbalances we are seeing today could create a systemic issue.

While the Treasury market is dealing with the aftermath of severe manipulation of global financial markets by central banks around the world, led by the Federal Reserve, the physical market for precious metals stands firm and remains a good long-term hedge against financial chaos.

If you haven't had an opportunity to hedge your portfolio, or perhaps the issues with the Treasury market haven't been on your radar screen and you haven't hedged enough, consider giving my friends at Goldline a call to help you. Their knowledgeable account executives can assist in helping you navigate what might be ahead by using precious metals as a potential hedge, along with any other diversification and hedging strategies that might be appropriate for you.

Call Goldline at 800-319-9533

We've had a historic and unprecedented amount of central bank intervention in markets that is just beginning to unwind, and governments that aren't heeding any of the warnings. It is going to be a while before we are fully out of the woods. Make sure you are prepared for any and all outcomes.

***The views and opinions expressed in this newsletter are those of Carol Roth and do not necessarily reflect the views or positions of Goldline or its parent company or affiliates. These views and opinions may have been previously disseminated on television, radio, Internet or another medium.**

Will The FED's September 20th Announcement Impact Your Wallet?

On September 20, 2023 — a potential financial tremor is looming. The Federal Reserve is gearing up to make a pivotal announcement – one that could reverberate through the heart of the U.S. economy and dive deep into the contents of your wallet…

And with interest rates already catapulted to figures like 5.25-5.5% - unseen since 2001, the stakes are incredibly high.

- Will they take another step and hike interest rates?
- What aftershocks might this decision send across the economy?
- And most crucially, what will it spell for your finances for the rest of 2023 and into 2024?

At Goldline, we don't believe in idly watching the dice roll. We believe in strategic preparation, in arming you with insights so razor-sharp, you'll not only understand the FED's next move, but you'll also know exactly how to react to it.

And for this mission, who better than Carol Roth? A former investment banker and *New York Times Best Selling Author*, she's been at the forefront of decoding the economic maze for years now.

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Why This Event Might Just Be the Most Crucial Live Event of Your Year:

- **Immediate Insights:** Razor-sharp insights just hours post FED’s briefing.
- **Navigate Turbulence:** Actionable steps for the times ahead.
- **Beyond Survival:** Gear up to thrive, not just survive.
- **Streamed Live on YouTube Easy Access, No Downloads:** Simply click on the link we send you from your desktop, laptop, tablet, or cellphone and sit back and watch.
- **Stay Informed:** Priority updates and reminders for live access.
- **Interactive Q&A:** Get your pressing questions answered by Carol.

REGISTER NOW ›

Mark September 20th on your calendar.

This isn't just another Wednesday—it's your chance to get real, no-nonsense insights about your money and what's going on in the economy. Don't miss this.

Save the Date: 8pm Eastern Time | 5pm Pacific Time on September 20th.

REGISTER NOW ❯

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Goldline Deal of the Week

Looking to enhance your Gold & Silver portfolio?

>>**Click Here to Discover this Week's Special Deal!** <<

If you prefer to speak with someone, feel free to **call 800-319-9533** and chat with our attentive Goldline team directly - just mention that you're interested in "The Deal of the Week". Like all good things, it won't last forever.

CAROL ROTH

Recovering Investment Banker

Carol Roth is a "recovering" investment banker, entrepreneur, business advisor, creator of the Future File legacy planning system, TV and media business, finance and economic commentator, and author of the books "The War on Small Business" and the *New York Times* Best Sellers "The Entrepreneur Equation" and "You Will Own Nothing."

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Bonus Content for You From Carol Roth:

If you enjoyed Carol Roth's content here, and you like to be prepared, check out her latest piece for Fox News on 3 Big Things You Need to Leave Your Loved Ones Before You Die, featuring her Future File Legacy and Wishes Planning System, which helps you prepare a roadmap for your loved ones with your information and wishes in case of emergencies, aging issues, incapacitation or passings.

Also, check out her piece on How Chinese-style Social Credit is Already Here in America, excerpted from her new New York Times bestselling book, "You Will Own Nothing: Your War With a New Financial World Order and How to Fight Back". If you haven't grabbed the book yet, you can do so here or wherever you buy your books!