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WHY ONE OF THE MOST SEASONED AND POWERFUL EXECUTIVES IS URGING YOU TO FINANCIALLY PREPARE

In this email newsletter, Carol covers:

- The **warning Jamie Dimon** is giving out about **risk management**;
- The **biggest headwinds** creating economic and geopolitical uncertainty today;
- Why the **latest GDP read** seems like a disconnect from reality;
- **Warnings and issues** ahead for the **Treasury market**;
- **The war wildcard**;
- How **you should be preparing**;
- And more!

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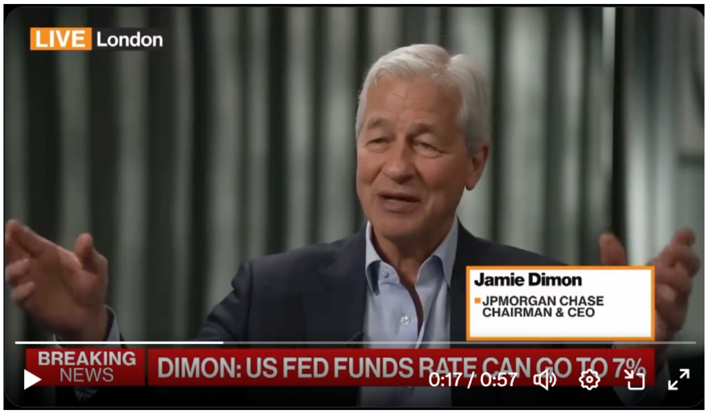
In a recent interview, Jamie Dimon, head of JPMorgan Chase and one of the most seasoned and powerful executives in the financial services industry, had a lot to say about risk management, which is more imperative today than ever.

In a clip of the interview (which you can watch here), he explained why he wasn't worried about his company. He said that JPMorgan Chase could handle a range of outcomes, whether interest rates went to 2% or 7% and everything in between. "Risk Management is not the same thing as guessing the future" Dimon says. He then notes that risk management is about, "looking at the range of potential outcomes and saying to yourself 'we can handle this, we can handle this-we don't really expect it-and we can handle the in between'….we may have a soft landing, we may have a mild recession, we may have a harder recession." He then noted the worst economic outcome would be stagflation.



The takeaway message from Dimon is that when it comes to what's ahead for the economy, it's not about being 100% right, it's about being prepared no matter the outcome.

This is particularly relevant given what's ahead and the mixed signals in the economy.

- Will the Treasury market falter or remain a safe haven?
- Will the US government be able to extract itself from a disastrous cycle of financial mismanagement?
- Will geopolitical conflicts escalate?
- Will pressures force the Fed to keep raising rates or have to intervene with QE again in the not-too-distant future?

There are plenty of scenarios ahead and what many people are underestimating is how different outcomes are likely to be "this time".

Yes, we have had prior cycles of inflation or war or other crises, but we haven't had them at a time when we are concurrently seeing US debt-to-GDP levels exceeding 120% and deficits that exceed 8% of GDP, among other shifts in the global economic backdrop.

This creates an urgency to do what you can to shore up your financial portfolio, which includes hedges (which can include physical gold and silver).

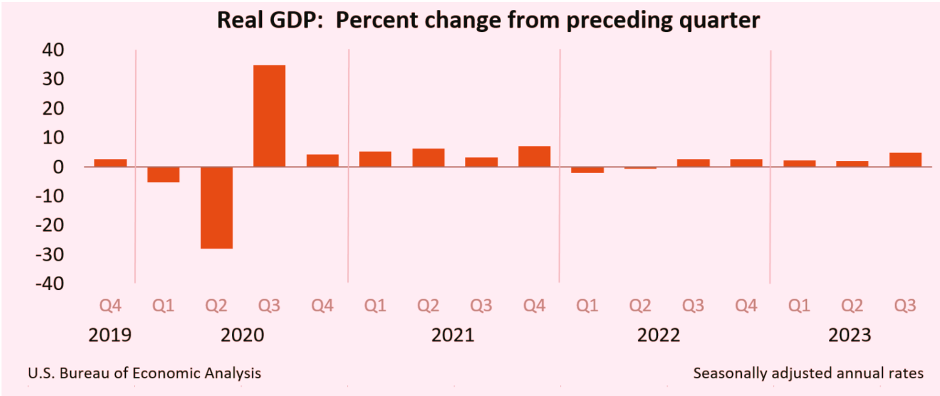
With that, what are some of the key areas of uncertainty top of mind?

Is the economy really growing 4.9%?

Q3 GDP came in higher than expected at 4.9% (annualized). In addition to robust spending by the government and to normalize inventories, consumer spending also came in very strong.

As we have talked about, consumers having jobs means consumers will keep spending, even at the expense of their own balance sheets. But something else is going on. As several commentators have suggested, even though real GDP is adjusted for inflation, it is adjusted for the inflation that is reported by the government. We all know the tricks that have been plaguing the inflation calculation for decades, which means what you are experiencing is higher prices than what is being reported.

And, with that, if you adjusted for the inflation that you were actually experiencing, the real GDP would probably be much lower. GDP is being inflated by the differential in what is reported and what you are having to spend. (By the way, this differential between what's reported and reality impacts the other GDP components).



This foots with a note included in the BEA's GDP release, "Real disposable personal income decreased 1.0 percent, in contrast to an increase of 3.5 percent" in the second quarter.

But with this headline expansion, it is historically unusual to also have the government running such substantial deficits.

The Treasury Market is Teetering on the Edge

As I talked about in detail in a recent Goldline newsletter, there are many concerns about the Treasury market. A long-term supply/demand imbalance in this market is a real issue. Large deficits will continue to add supply. Central banks continuing to sell Treasurys or at least not buy them given geopolitical issues will also tip the balance.

The Fed is supposed to be letting their assets, including Treasurys, roll off their balance sheet. Traditional buyers of Treasurys, such as banks, have their own issues to contend with.

In Bloomberg, Christopher Condon and Chris Anstey echo our recent analysis and concerns:

> "In a year when the US economy exceeded almost everybody's expectations, the underlying federal deficit roughly doubled, spotlighting a dire fiscal trajectory likely to only worsen the partisan budget battles in Washington.
>
> The government ran a $2.02 trillion deficit for the fiscal year through September, after adjustments to remove the impact of President Joe Biden's student-loan forgiveness program, which was scotched by the Supreme Court. The gap is $1.02 trillion more than the prior year.
>
> The surge is a powerful illustration of a fiscal path that's triggered warnings from economists, politicians and credit rating agencies. It also helps explain why yields on longer-term US Treasuries are reaching highs unseen since before the global financial crisis, with the government needing to issue ever more debt to cover the shortfall of revenues relative to spending."

This has been pushing yields into territory not seen since the Great Recession Financial Crisis times. Given this recent price action, as many commentators and media outlets have noted, the US Treasury bond market is amidst a sharp sell-off.

In the Financial Times, noted economist Mohamed El-Erian talked about the bond market losing its strategic footing, going deeper than just inflation data and interest rate moves. He writes, "The US bond market is losing its strategic footing, whether in economics, policy, or technical aspects," later continuing, "No matter how you look at it, the world's most crucial benchmark market is on an unpredictable journey with an uncertain destination."

Hedge fund manager Bill Ackman agreed with the broader thesis above and placed a massive short bet against long-term Treasurys (that is, he expected the price of bonds to go down from here, which would lift long-term bond yields).

Now, in recent days, Ackman, covered (aka closed out) that short bet due to concerns about the geopolitical backdrop, which could shift Fed policy or investor behaviors, particularly in the short-term.

As I talked about in a recent Goldline piece, further uncertainty could cause more investors to flock to bonds as a safety trade. There's at least enough of a possibility of that that Ackman didn't want to have that big bet on the table.

Also, that means that in the short term, rising yields could attract some investors from gold, but in the long term, it can create a level of chaos and/or economic impacts that become quite bullish for gold.

But, whatever happens in the short-term, the longer-term issues persist. Projections are for government spending to increase, not decrease. There are only so many options to deal with this level of spending, especially with an increasing amount of interest expense (paying for what we have already bought) and entitlements.

The options are few for government to deal with this. One option is to increase "revenue" via taxes. We know that the current congressional set isn't capitalistic enough to further cut taxes to increase economic growth and revenue. We also know that there's only so much that taxes can be raised without having a negative impact on the economy/GDP and without actually decreasing the amount of revenue collected. Look for additional talks of wealth, inheritance or "unrealized capital gains" types of taxes, which would be a disaster, but that never stops the government.

Other options are to cut services and take back promises, which we know is politically unpopular and elected officials are mostly political animals, leaders or doers.

That leaves issuing more debt and likely having to monetize it, via more QE or Yield Curve Control (YCC, which is like QE, but instead of a set bond buying program, the Fed buys as much debt as required to hold yields at a certain level). This will create the currency debasement/inflation we have seen as the obvious outgrowth of printing money in excess of any actual gains in productivity.

This is a real scenario that requires immediate planning and protection before it is too late to do so.

The War Wildcard

I think many commentators have been irresponsible in their statements around geopolitics, and that's likely because hedge fund managers making these statements tend to have an agenda—their own benefit—in making them.

While a massive war escalation is not a given, the probabilities certainly have increased over the past few weeks.

Several days ago, Reuters reported "Russia says it rehearsed delivering a massive retaliatory nuclear strike." The Wall Street Journal reported that, "Hamas Fighters Trained in Iran Before Oct. 7 Attacks." Days ago, President Biden sent a warning to Iran's leadership against targeting US troops abroad. Several Middle East nations stepped up their anti-Israel rhetoric publicly.

While recent developments have certainly made the international backdrop even more tenuous and fragile, we need to hope for the best. But, returning to Jamie Dimon's note above, this is an area where it makes sense to insure for and manage the risk. Gold and silver are hedges that should be considered as part of your plan.

If you haven't fully hedged your portfolio, please don't hesitate and call my friends at Goldline (800-319-9533). Their seasoned executives are up to speed on the issues you are worried about and can help you find the right precious metals hedges for your objectives and portfolio.

It couldn’t be clearer that the future is not likely to resemble the recent past. The next 15 years are not likely to look like the past 15 years. We don’t know exactly how this plays out and on what timeline, but as Jamie Dimon showed us, we don’t have to be right to be prepared.

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