History Lesson: Trust Gold Rather than Sovereigns

written by Matthew Piepenburg | December 21, 2022

Below, we consider a blender of history, simple math, sober facts and comical arrogance to better understand gold's loyalty in a time of disloyal financial stewardship.

Hubris Comes Before the Fall

History (whether on battle fields or sports fields) is riddled with tragi-comical examples of human blundering (and hubris) in the face of otherwise obvious and self-inflicted risk—you know: The final swagger just before imminent defeat.

Remember "Mission accomplished"?

Like well-dressed officers steaming the Titanic at full speed ahead despite repeated ice warnings, the arrogant yet misguided faith our central planners/bankers have in their "unsinkable" financial (i.e., Keynesian) models and verbal platitudes is astonishing.

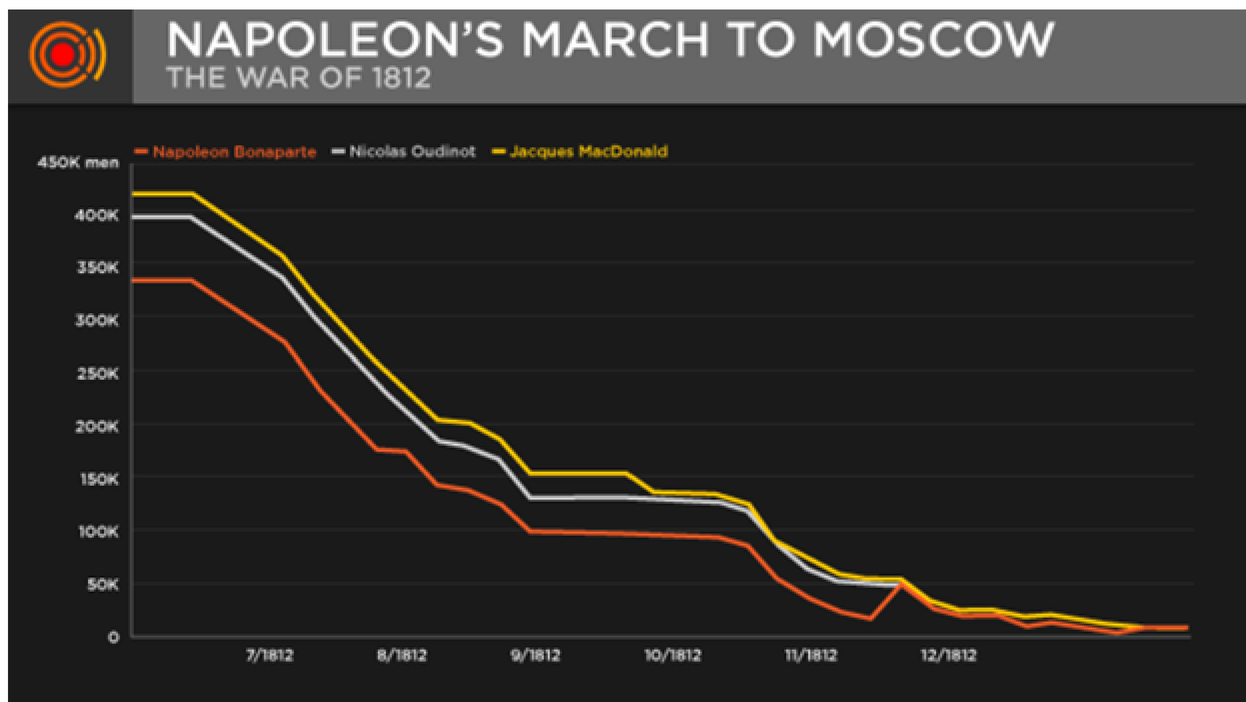
If the financial model, for example, says "raise rates to fight inflation,"

then the model must be right—especially given the credentials of our elite "model followers," all collectively swimming within an echo-chamber of model-making, yes-saying, self-selecting and PhD-affirming back-slappers from MIT to Stanford, U-Chicago to Harvard Yard.

Linear Models & Thinking in a 3D World: Fantasy vs. Complexity

Yet such singularity of purpose and linear thinking (recently exemplified by openly **failed COVID vaccine "models"** and **backfiring Putin sanctions**) in an otherwise three-dimensional backdrop of ignored complexity theory reveals a staggering incapacity among our so-called policy-leaders to consider the side effects (and astonishing collateral damage) of such singular goals—such as "defeating inflation."

Just like Napoleon's war (and singular focus) against the Russian Tzar in 1812 ignored the subtleties of cold weather and the panache of the Cossacks, resulting in the destruction of his Grande Armee as graphically seen here…



…the Fed's 2022 war (and singular focus) against inflation has equally ignored the subtleties of budget deficits, currency expansion and the panache of natural market forces, resulting in the destruction of the all-mighty USD's *purchasing power* as graphically seen in almost identical fashion here:

In short: Powell is missing the bigger picture.

At a recent Brookings Institute presentation, for example, a mathematically cornered J. Powell repeated his heroic aim to defeat inflation (which the year before he claimed was “transitory”) and bring CPI levels back toward the carefully-modelled 2% range.

That’s all very Napoleonic, but what a linear-thinking Powell deliberately failed to consider in his tough-talk included some other critical, percolating yet ignored 3-dimensional themes (and alternative/ignored facts) of economic *Realpolitik*, namely a string of crises (icebergs) relating to balance of payments, fiscal expansion, debt destruction and currency risk.

Free Advice to Expensive Leaders

Perhaps one of Powell’s sub-lieutenants ought to remind him of some of the following tactical considerations (i.e., hard realities) which the Fed has missed in its “blinders-on” effort to defeat inflation via rising rates.

In other words, here’s some free advice and timely reminders of what central bankers like Powell might want to consider, namely:

* US tax receipts (crippled by tanking capital gains from a tanking market thanks to spiking rates) have fallen 11% y/y and getting worse;

* Uncle Sam’s bar tab (USTs, or “IOUs”) is heading toward annual levels of $4-$5 *trillion* (with a T), which means the global supply of US Treasuries is poised to overtake global GDP growth as bonds tank and yields rise, thus killing everything in their wake except for a temporarily and **Frankenstein-strong** USD;

* Last month, Federal deficits expanded to record-high levels of $249

billion;

* No one wants **Uncle Sam's debt**. The recent auction for 10-Year USTs was a disaster, adding more downward pressure on bonds and hence upward pressure on US yields (above 3.6%) and rates—all of which makes repaying combined US public, private and corporate debts ($90T) one step closer to its breaking point;

* By "tightening" the money supply (QT) to "fight inflation," Powell has decapitated M2 supply growth (i.e., needed liquidity, lower line below) from 25% to basically 0%— and all he has to show for his linear "war" against inflation is a mis-reported decline in an otherwise misreported and **bogus CPI rate** from 8% to 7.1%. That's what historians call a "pyric victory":

*US Federal deficits are growing at far greater rates than world GDP growth, which means that there is mathematically, empirically, objectively and candidly not enough natural demand for Uncle Sam's desperate IOU's to be "bought" unless the Fed re-ignites a money printer (i.e., "pivots") to absorb/purchase the same. If not, bonds will literally tank and the relatively strong and poisonous USD will move fatally and sharply higher along with rising yields/rates.

American Exceptionalism: A Debt-Soaked Paper Tiger

It seems General Powell has forgotten that the post-08, Fed-distorted (i.e., debt-driven) dystopia of American "exceptionalism" is a nothing more than a financial and economic paper tiger that is highly sensitive to rising rates and tanking markets, making the odds of a U.S. "soft landing" about 0%.

Instead, and as warned all year, the US and global economy is effectively (i.e., *already*) on its debt-poor knees, and *when*, not *if*, we officially arrive at the *hard landing* of a local and global recession marked by tanking US (and other sovereign) bond markets, global yields will spike "gilt-like" —ushering in a period of global market and economic dysfunction far beyond

the pale of anything seen prior.

The Blame Game

It also seems that Powell (like all the other central bankers on the BIS payroll which influence all global leaders/puppets) doesn't like to face bad news until the situation is already too bad to fix.

At that point, it then becomes necessary to blame their financial sins on a flu, a Russian bad guy or a global warming fear campaign.

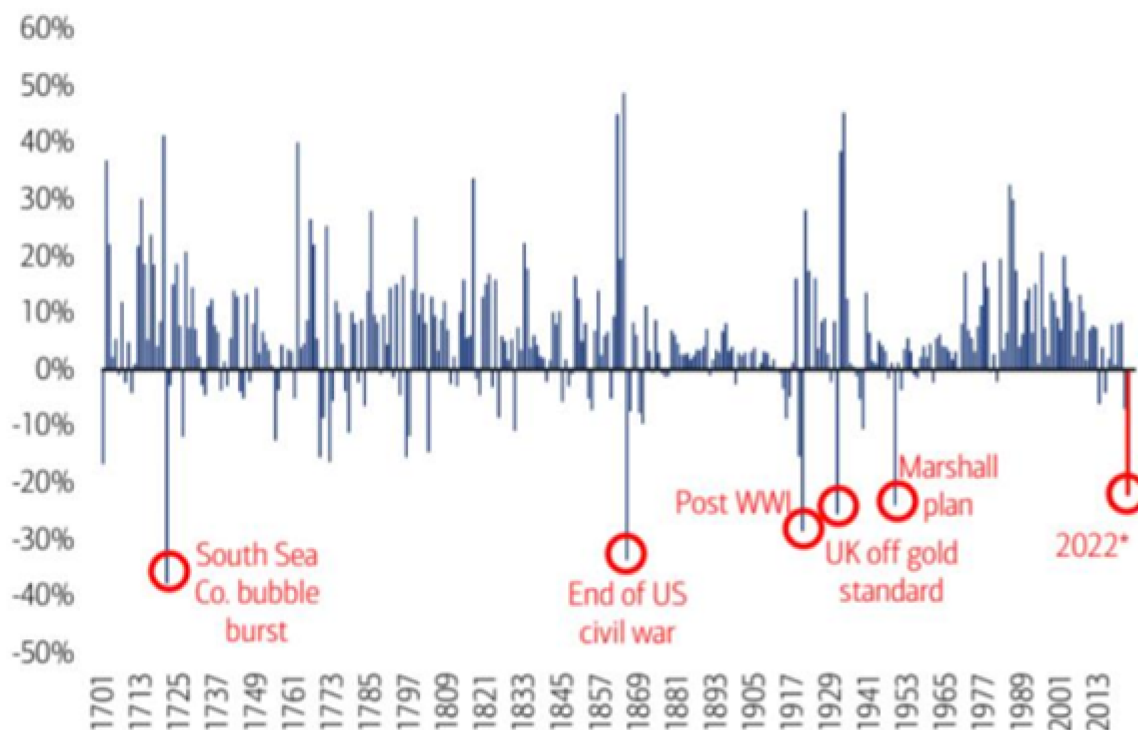
But what none of these current excuses can hide is the simple fact that our global, fatal and entirely central bank created $300+ trillion debt bubble was in motion long before the current excuses (lies) became the scapegoats for the failures of our central-banking real goats.

The Bond Market is THE Thing

In short, and as we've consistently warned for years, "the bond market is the thing," and when it goes, so does just about everything else.

And by the way: That bond market is dying right before our wide-open eyes.

If this seems hard to believe or "sensational," just consider what Bank of America already knows, namely that global government bonds are poised to record their 6th worst annual return since 1700. Yes, 1700.



In my view, such bad news for our embarrassing credit markets is only about to get worse, not better.

Why?

Because if US deficits were “just” 32% of global GDP growth in 2022, think what 2023’s bond markets will do when those deficits grow wider—far wider into a new year with even less available global balance sheets to purchase the debt of increasingly bankrupt/broke nations.

Even Blackrock has lost its appetite for sovereign bonds, which, without money-printer support, are nothing more than junk bonds hiding behind well-dressed prompt-readers and absolutely clueless (and increasing cashless) Treasury Secretaries.

The Trillion Dollar Question

So, with all these unwanted, un-supported and unpayable bonds floating around the globe, will the Fed eventually do what the markets have already priced in and thus re-heat the money printers and mouse-clicked Dollars?

In other words, will more inflationary QE come back despite Powell’s public QT **ruse to fight inflation**?

Failing the anticipated QE pivot and liquidity injection, bonds will tank,

which means stocks will tank and the only asset rising before investors' watering eyes will be an otherwise artificially rising USD.

In short: Should Powell continue with his linear QT model to avoid the inflationary shame and legacy of an Arthur Burns by embracing the **fantasy comparison to Paul Volcker,** the very "everything bubble" which the Fed alone created will end in a global recession of which the Fed also singularly created.

This is because **centralized global markets** are now entirely and unnaturally driven by central banks rather than natural supply and demand forces.

Or stated otherwise: The Fed giveth, and the F ed taketh away.

Chaos: It's Now Inevitable Rather than Theoretical

All things (and hence markets) so rigged, centralized and artificial ultimately result in destruction.

Whether 2023 witnesses more QT, or a resigned and panicked pivot to QE, the end result is the same: Chaos of one form or another is just around the corner.

Either we suffer 1) a deflationary implosion of global risk assets and economies, or 2) an inflationary surrender to more currency-destroying QE.

As I've said elsewhere, Powell and the rest of us will have to pick our poison. But in my view, we are likely to see both.

Two Poisons at Work

That is, the one-dimensional and arrogant "modeled" mind of Powell will tighten (de-or-dis-inflationary) until the markets truly break in a backdrop of fatally rising yields and rates.

Then, as if the global economy can be turned up or down like a home thermostat, Powell will throw in the towel and print more fake money (inflationary).

But not long after that critical pivot moment, Powell will discover what most folks in Germany (where energy costs are 12% of economic output) already know, namely: Your thermostat doesn't work and your left standing in the cold.

Like too much of anything (from martinis to steroids), eventually the stimulus effect of fatally debased, mouse-clicked money fades.

At that point, rather than enjoy the old buzz or high, markets and economies will suffer the puking sensation of a global hangover. Translated to simple speak: Not even more QE will save us.

Again: More chaos, however you look at it.

But what does that mean for precious metals like gold?

Gold Loves Chaos

As I've **argued throughout 2022,** an artificially rising USD has been an obvious headwind to USD-priced gold.

But should the USD rise even further and longer under a fork-tongued Powell, and even if the DXY resumes its bumpy gyrations south and then north again, not even a stronger Dollar (or rigged COMEX market) can keep gold forever repressed.

This is because a too-strong USD under continued Powell tightening will expand the aforementioned deficit levels and GDP growth ratios to a breaking point which cripples credit markets, destroys equity markets and knee-caps economies.

When this happens, **faith in the system**, as well as the individuals who run them, will rightfully disintegrate faster than SBF's weird sex life.

It is precisely at such moments of lost faith, as I recently **discussed with Grant Williams**, in which gold shines brightest.

Alternatively, should Powell try to restore illiquid markets with a pivot toward more QE, the net result will be an inflationary and historic tailwind of currency debasement which will send gold in an equally northern direction.

Most Still Trust the Wrong Things

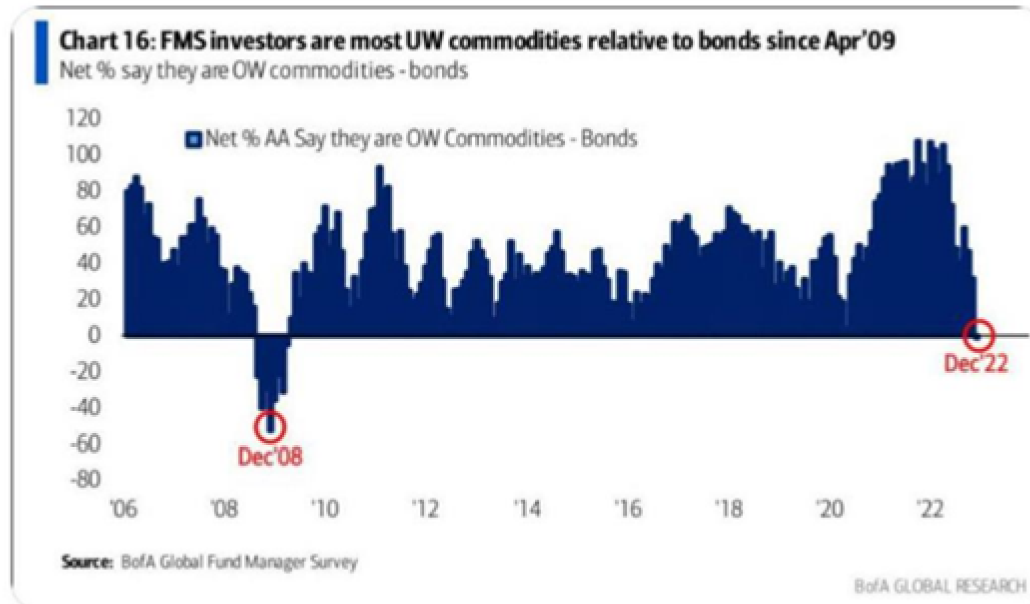
Despite such undeniable pressures on stocks and bonds, investors still think bonds will save them, especially once the Fed inevitably (who knows the date?) resumes its artificial support of the credit markets.

This might explain the bemused observations of our colleague and advisor, Ronni Stoeferle, who recently tweeted that investors remain the most underweight commodities relative to bonds since April of 2009.

Ronnie Stoeferle @RonStoeferle · Dec 14

Interesting one from the most recent BOFA Fund Manager Survey: Professional investors are most Underweight #Commodities relative to bonds since April 2009!

@TaviCosta @wmiddelkoop @TaviCosta



Source: BofA Global Research, via Twitter

Sadly, such misguided investor behavior is often a superior contra indicator in times of percolating market stress, as most investors run to the *wrong assets* at precisely the *wrong time*, a phenomenon we've seen at the edge of every market bubble from the NIKKEI in the late 80's to MBS in 2008.

But let's not poke fun at the wrong-headed behavior of retail investors when there's so much more to learn from the wrong-headed behavior of our policy makers and sovereign leaders.

Please: Don't Trust the "Experts"

As I **wrote long ago** (even before the insanity of a global lock-down, the corruption of a crypto exchange and the comic tragedy of an avoidable war with—and sanctions against—Russia), we would all be better served trusting our own judgement and objective facts rather than the self-interest and invented facts of our so-called elites.

That is: It's not always wise to trust the experts and their so-called "models"—be they economic, political or scientific.

Yes, lofty titles and superior educations are attractive and seductive.

The best educations, after all, were at least ostensibly designed (once upon a time) to teach critical thinking and the capacity to challenge rather than blindly follow historical models which no longer work.

But such educations, and such critical thinking, are entirely wasted on the uncreative, the “post-modernist” corrupt and the consensus-driven.

As stated above, uber-Keynesian US financial leadership (entirely ignorant to the debt lessons of the Austrian School) is the product of old models and PhD themes shared among a cabal of policy makers wandering the campuses from Cambridge and Chicago to NYC and Stanford with an eye toward public safety in numbers and private self-promotion from the inside.

This explains the small (and profoundly self-interested) thinking of Treasury Secretaries like **Summers** or **Yellen**, the Ignoble Prizes awarded to figures like Bernanke or the confusion of cornered Fed Chairs like Powell.

They simply won’t admit the failures of their career-enhancing models…

Thanks to years of confusing unprecedented debt with economic growth, and decades of replacing sound money with mouse-clicked money, our global credit and equity bubbles are now morphing into their **final gasps of currency bubbles** already popping in every corner of the globe but for the U.S. and its currently strong but otherwise doomed USD.

But that bubble too will do what all bubbles do: Pop.

And when (and as) it pops, now and in the months ahead, gold will do what it has always done: Provide loyal currency support for systems destroyed by disloyal leadership.