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Table of Contents

Have Commodities Reached an Inflection Point?

By Frank Holmes
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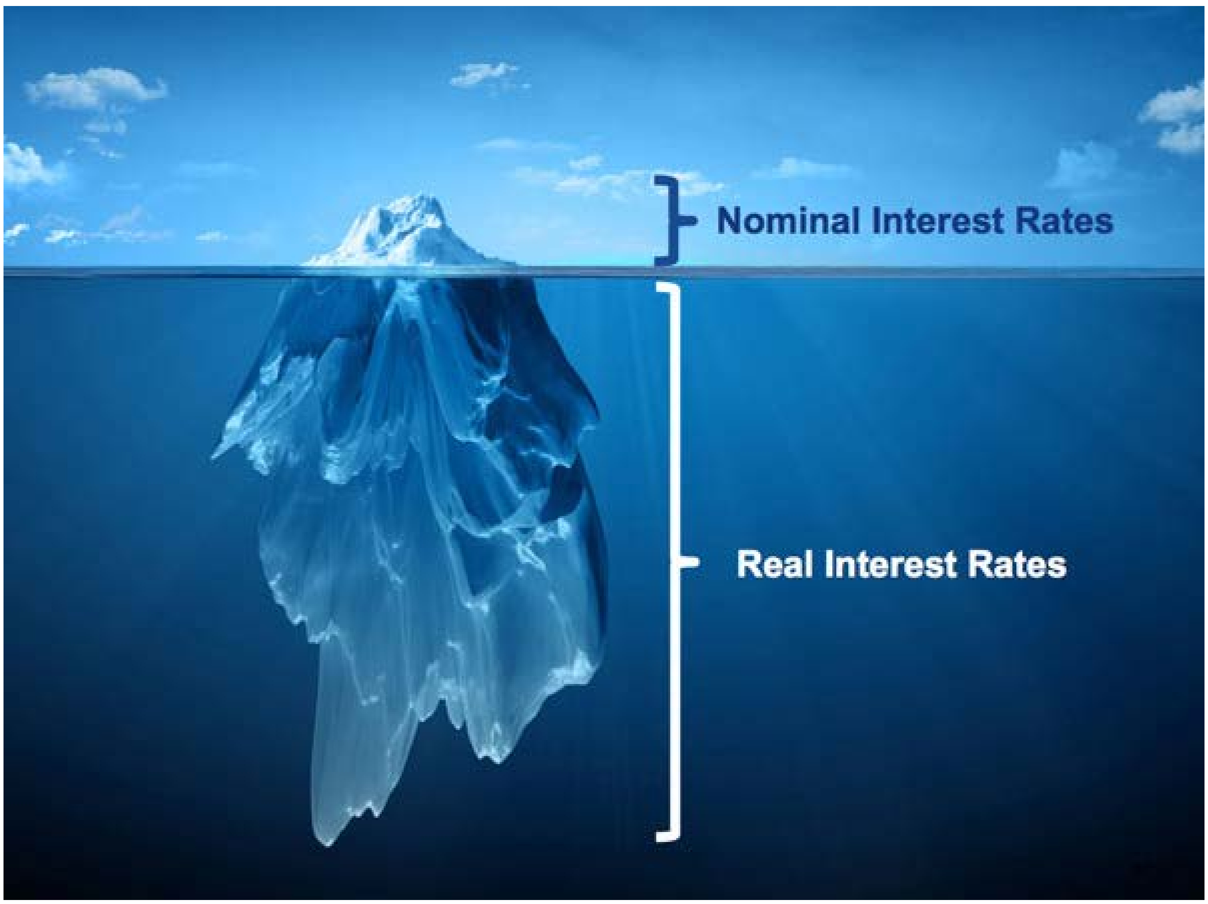
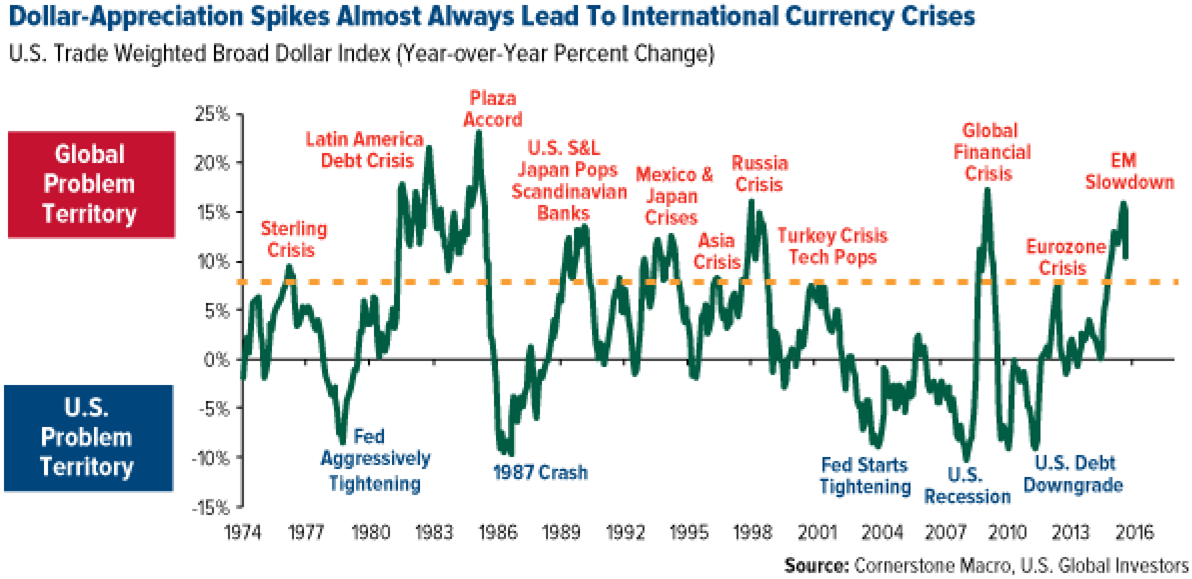


This week the Federal Reserve announced that it would delay the interest rate liftoff yet again, but while everyone seems concerned about nominal rates—the federal funds rate, in this case—*real* rates have already risen about 5 percent since August 2011. This "invisible" rate hike is much more impactful to commodity prices and emerging markets than a nominal rate hike, which is simply the "tip of the iceberg."

Since July 2014, the U.S. dollar has appreciated more than 20 percent. This has had huge implications for net commodity exporter countries, both developing and emerging, which typically see their currency rates fluctuate when prices turn volatile.

But why does this happen?

The main reason is that most commodities, including crude oil, metals and grains, are priced in U.S. dollars. They therefore share an inverse relationship. When the dollar weakens, prices tend to rise. And when it strengthens, prices fall, among other past ramifications, as you can see in the chart below courtesy of investment research firm Cornerstone Macro.



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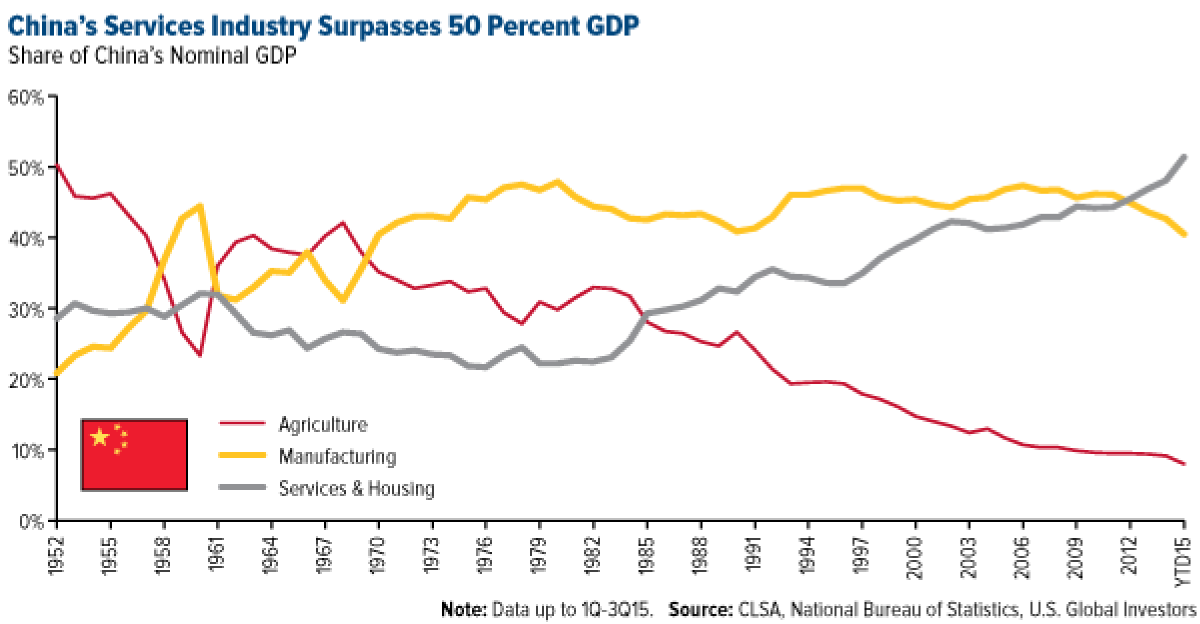
Indeed, commodities have collectively depreciated close to 40 percent since this time a year ago and are at their lowest point since March 2009. We might very well have reached an inflection point for commodities, which opens up investment opportunities.

Net Commodity Exporters under Pressure

The number of developing and emerging markets that are dependent on commodity exports has risen in recent years, from 88 five years ago to 94 today, according to the United Nations Conference on Trade and Development (UNCTAD). Many of these countries—located mostly in Latin America, Africa, the Middle East and Asia—have a dangerously high dependency on a small number of not only commodity exports but also trading partners.

For many suppliers, China is the leading buyer. But the Asian giant's imports have been slowing as its economy transitions from manufacturing to services and housing, forcing many net commodity export countries to rethink their dependency on China.



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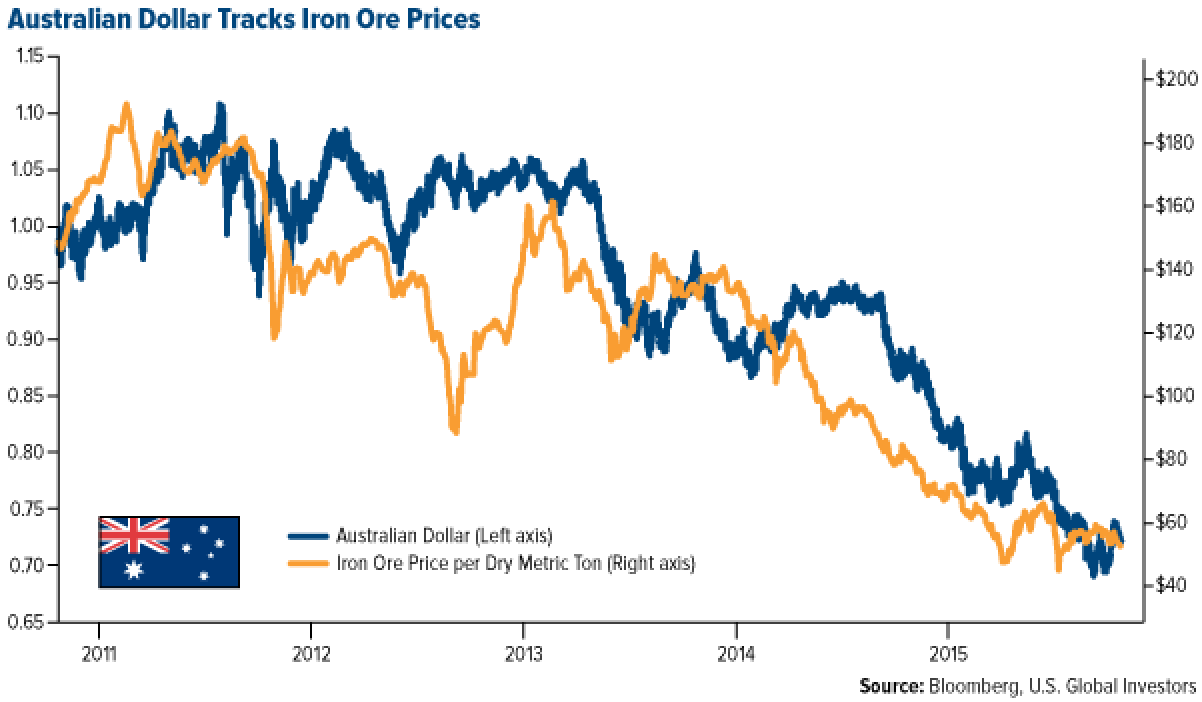
This is the position Indonesia finds itself in right now. As much as 50 percent of its total exports consists of crude oil, palm oil, copper, coal and rubber, all of which China has historically been a vital importer. A stunning 95 percent of Mongolia's exports flow into its southern neighbor, according to the World Factbook. And for

Chile, commodities represent close to 90 percent of total exports, about 25 percent of which goes to China.

But countries needn't have such a high dependency on commodities for their currencies to be affected. The Australian dollar, for instance, has a positive correlation with iron ore prices.



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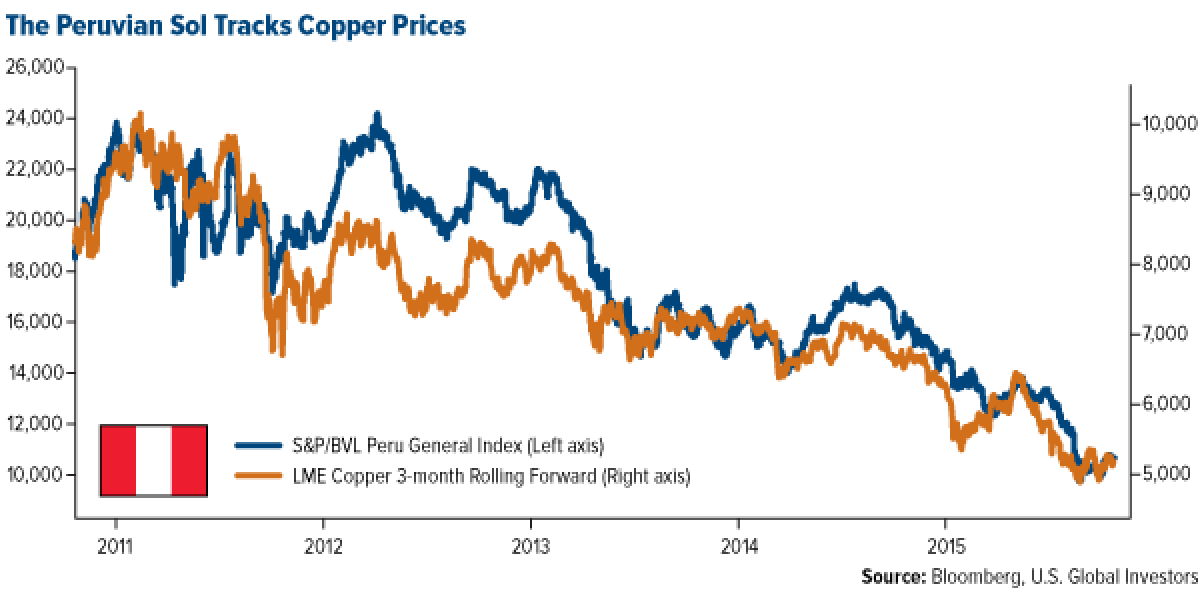
About 98 percent of the world's iron ore supply is used to make steel. So important is the metal to the state of Western Australia, where most of the continent's deposits can be found, that every $1 decline in prices results in an estimated $49 million budget loss.

The same relationship exists between the Peruvian sol and copper. Peru is the fourth-largest copper producer in the world, preceded by Chile, China and the U.S.



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The Russian ruble, Canadian dollar and Colombian peso all follow crude oil prices. (Russia is the third-largest oil producer in the world; Canada, the fifth-largest; Colombia, the 19th-largest.)

Russian Ruble Tracks Oil Prices

Source: Bloomberg, U.S. Global Investors

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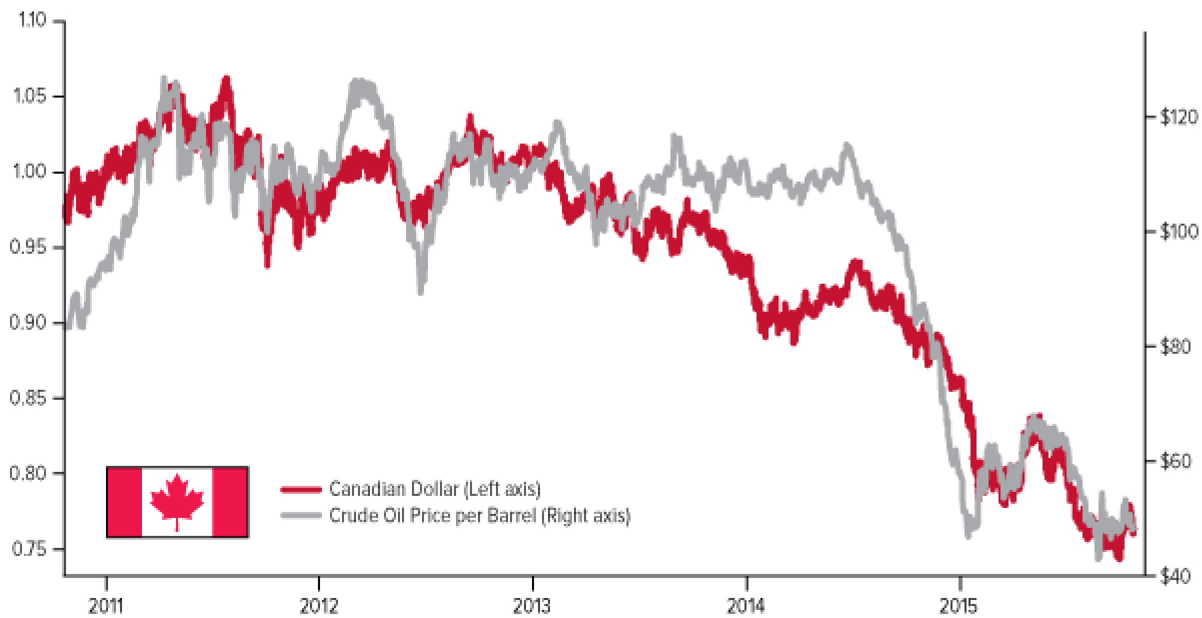
Canadian Dollar Tracks Oil Prices



Source: Bloomberg, U.S. Global Investors

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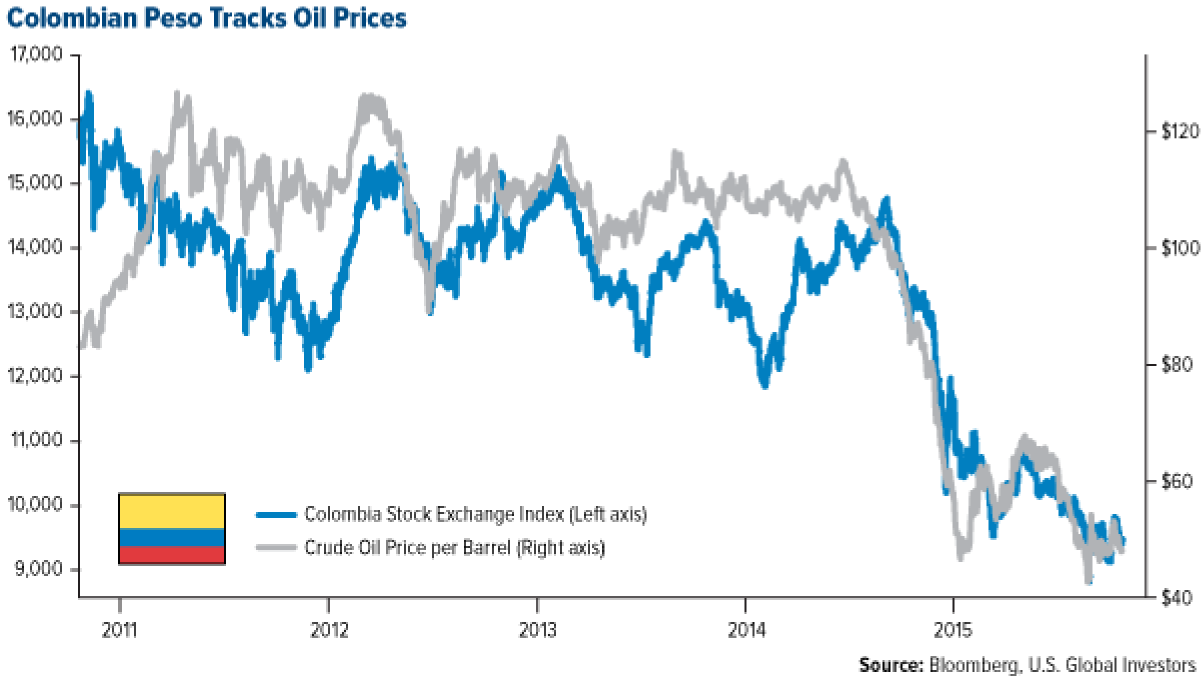

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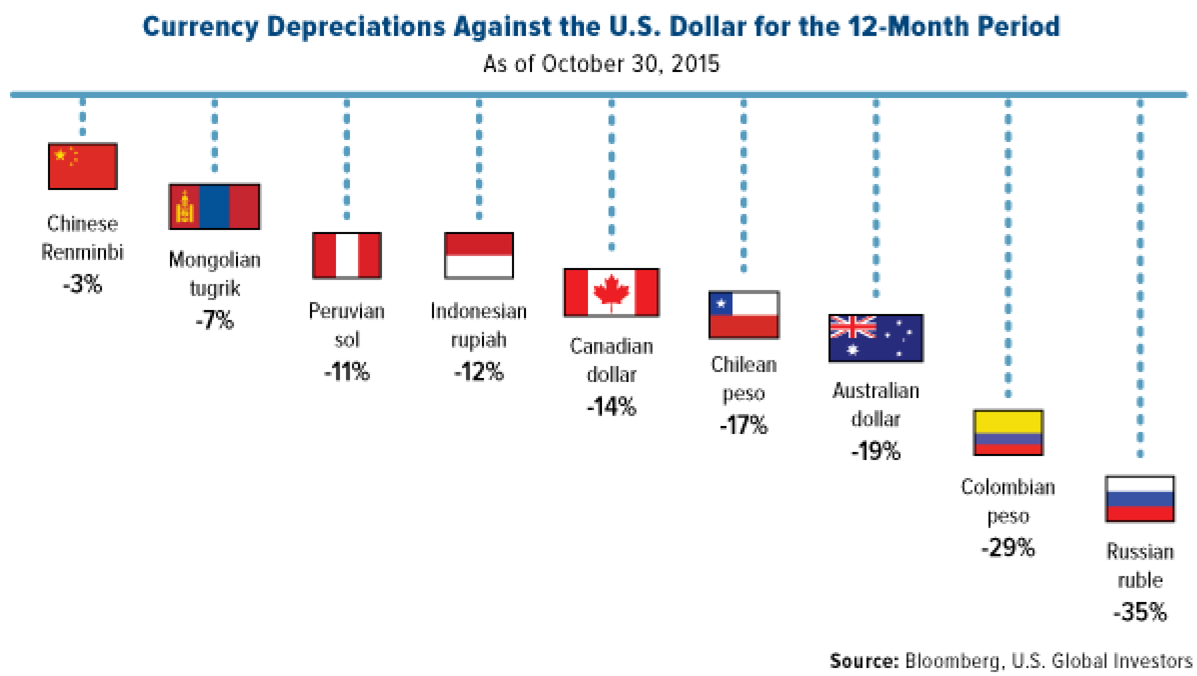
It's important that we see stability in emerging market currencies, which would help support resources demand. We've seen some stabilization in the Chinese renminbi after it was depreciated in August, but a few others are down pretty significantly.



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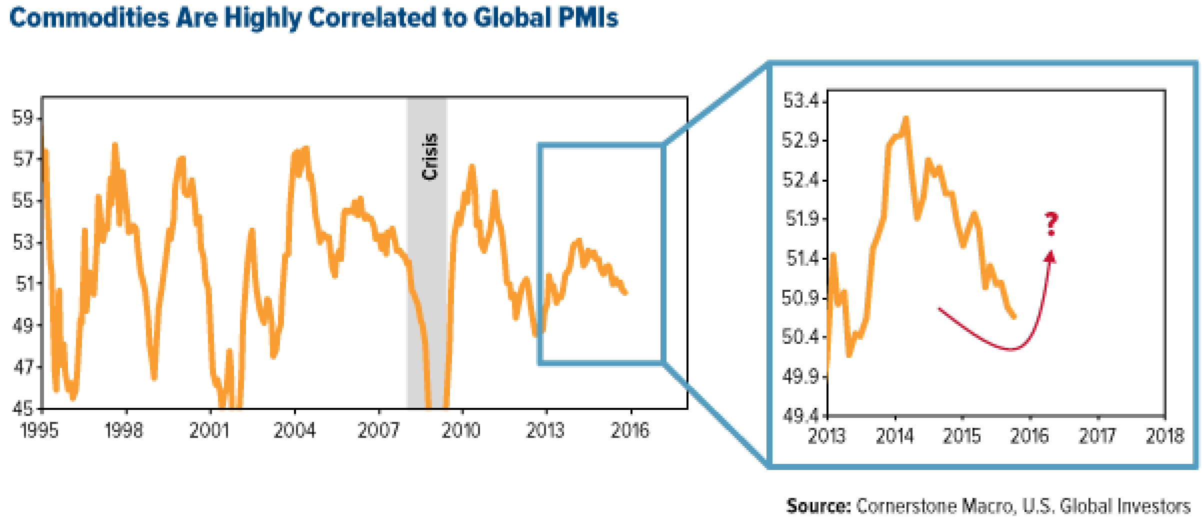
Global Manufacturing Could Reverse Course Sooner Than You Think

I've shown a number of times that commodity demand depends on manufacturing strength, as measured by the global purchasing manager's index (PMI). This indicator has steadily been trending lower. Although the reading is still above the neutral 50.0 line, commodity prices have reacted negatively.



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Cornerstone Macro believes both the Chinese and global PMI are "likely" to rise in October, leading to a full year of upside potential. If true, this is indeed welcome news, but it's worth remembering that the PMI looks ahead six months, meaning it'll take approximately that long for commodities to recover.
In any case, now might be a good time for investors to consider getting back into commodities and natural resources since we could be in the early innings of an upturn.

"You want to buy commodity stocks when they're out of favor, because they are cyclical," Brian Hicks, portfolio manager of our Global Resources Fund (PSPFX), told The Energy Report this week. "If you look out 12, 18, 24 months from now, those equity values should reflect equilibrium commodity prices and move significantly higher from here."

Conference Hopping

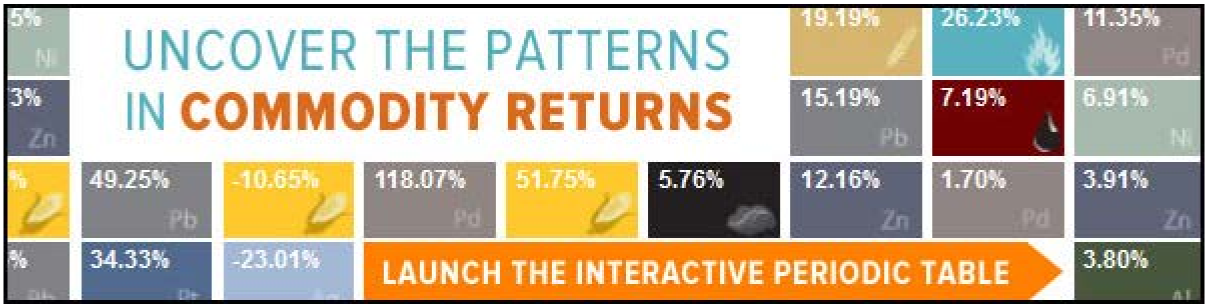
I just returned from the 2015 New Orleans Investment Conference, widely considered as the "World's Greatest Investment Event," where I participated in an investment panel and presented a speech. For 41 years, this event has attracted some of the world's most distinguished speakers—from Margaret Thatcher to Steve Forbes to Dr. Ben Carson—and this year was no exception. Among the attendees were respected Fox News commentator Charles Krauthammer, "Gloom, Boom & Doom Report" publisher Dr. Marc Faber and James Rickards, author of "Currency Wars."

Next week, I'll be heading to Peru for the Mining & Investment Latin America Summit. The following week, I'll wrap things up in Melbourne, Australia, at the International Mining and Resources Conference.

Index Summary

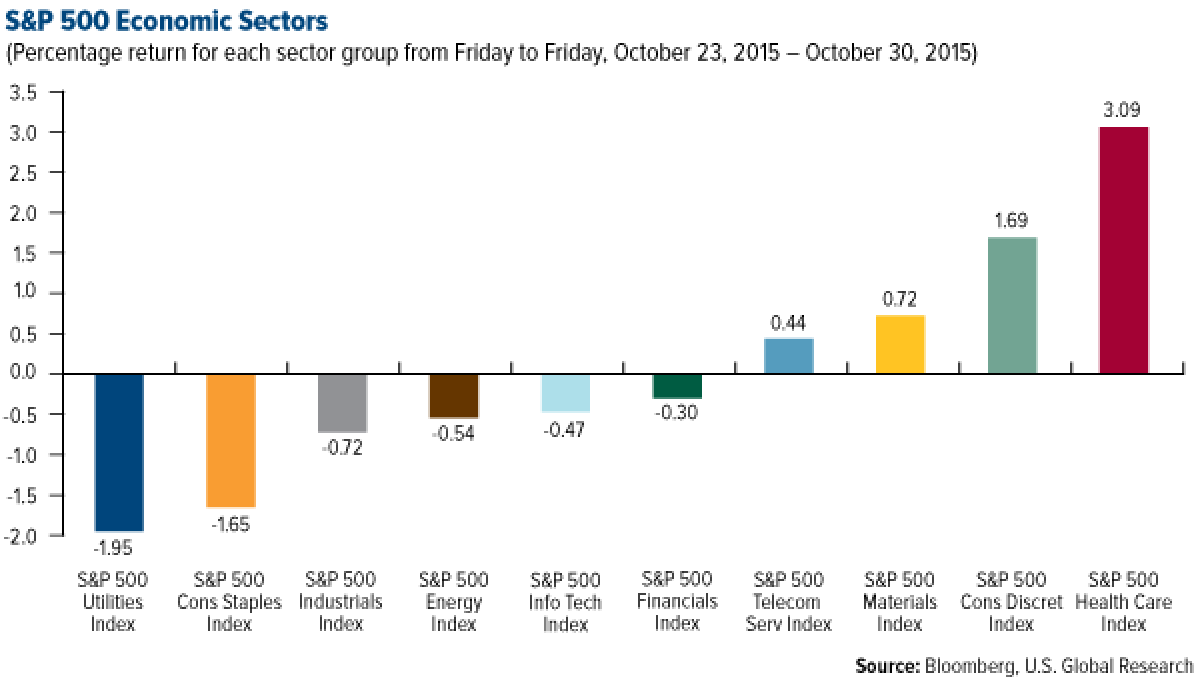
- The major market indices finished mixed this week. The Dow Jones Industrial Average gained 0.10 percent. The S&P 500 Stock Index rose 0.20 percent, while the Nasdaq Composite climbed 0.43 percent. The Russell 2000 small capitalization index lost 0.36 percent this week.

- The Hang Seng Composite lost 1.98 percent this week; while Taiwan was down 1.38 percent and the KOSPI declined 0.54 percent.
- The 10-year Treasury bond yield rose six basis points to 2.73 percent.



All American Equity Fund - GBTFX • Holmes Macro Trends Fund - MEGAX

Domestic Equity Market



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Strengths

- Healthcare was the best performing sector in the S&P 500 Index this week after experiencing an oversold bounce. The S&P 500 Healthcare Index rose 3.06 percent this week.
- Durable goods orders contracted by less than expected, according to official data released on Tuesday.
- Initial jobless claims came in at 260,000 compared to an expected 265,000, adding to the case that the labor market continues to improve.

Weaknesses

- Utilities was the worst performing sector in the S&P 500 Index this week as the Fed appeared more hawkish and pushed up both short and long term rates. The S&P 500 Utilities Index fell 1.95 percent.
- Third quarter GDP growth slowed to 1.5 percent from 3.9 percent in the second quarter.
- New home sales fell to 468,000 in September, compared to 552,000 in the prior month. The housing market remains strong overall.

Opportunities

- Although it slowed in the month of October, the Markit U.S. Services PMI remains very robust at 54.4 percent. Services make up the vast majority of the U.S. economy.
- The MNI Chicago Business Barometer jumped to 56.2 for the month of October, the highest level since January.
- Economists are expecting the Markit U.S. Manufacturing PMI for the month of October to remain at a healthy 54 percent.

Threats

- Consumer confidence declined sharply during the month of October. The Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index fell to 97.6 and 90, respectively.
- The Fed is causing fear in the markets again after it toned down its concern over slow global growth. Rate-sensitive areas could be at risk should the Fed hike rates in December.
- Contrary to expectations regarding the Markit PMIs, the ISM Manufacturing PMI is expected to slow to 50 percent.

U.S. Government Securities Ultra-Short Bond Fund - UGSDX • Near-Term Tax Free Fund - NEARX

The Economy and Bond Market

U.S. stocks rose overall while global equity indices were uneven. U.S. economic reports were mixed and generally in line with expectations. Data from Japan and the eurozone were stronger than expected. The yield on the 10-year U.S. Treasury finished the week at 2.14 percent, while the Chicago Board Options Exchange Volatility Index (VIX) remained in the 14.5 range. Crude oil prices rose to near $46 and $49 per barrel, respectively, for U.S. West Texas Intermediate and Brent.

Strengths

- The U.S. Federal Reserve maintained low interest rates this week, but said officials would consider a possible rate increase at its December meeting. By then, the Fed will have had fresh GDP data and employment reports for October and November to consider.
- The S&P/Case-Shiller home price index rose 4.7 percent in the 12 months ended in August, up a notch from July. The 10-city and 20-city indices also rose slightly, and 18 of 20 cities had month-over-month price increases before seasonal adjustment.
- The Chicago PMI leaped to 56.2 in October from 48.7, surpassing expectations of 49.5 and reaching the strongest level since January. The index points to solid growth in the Chicagoland business activity.

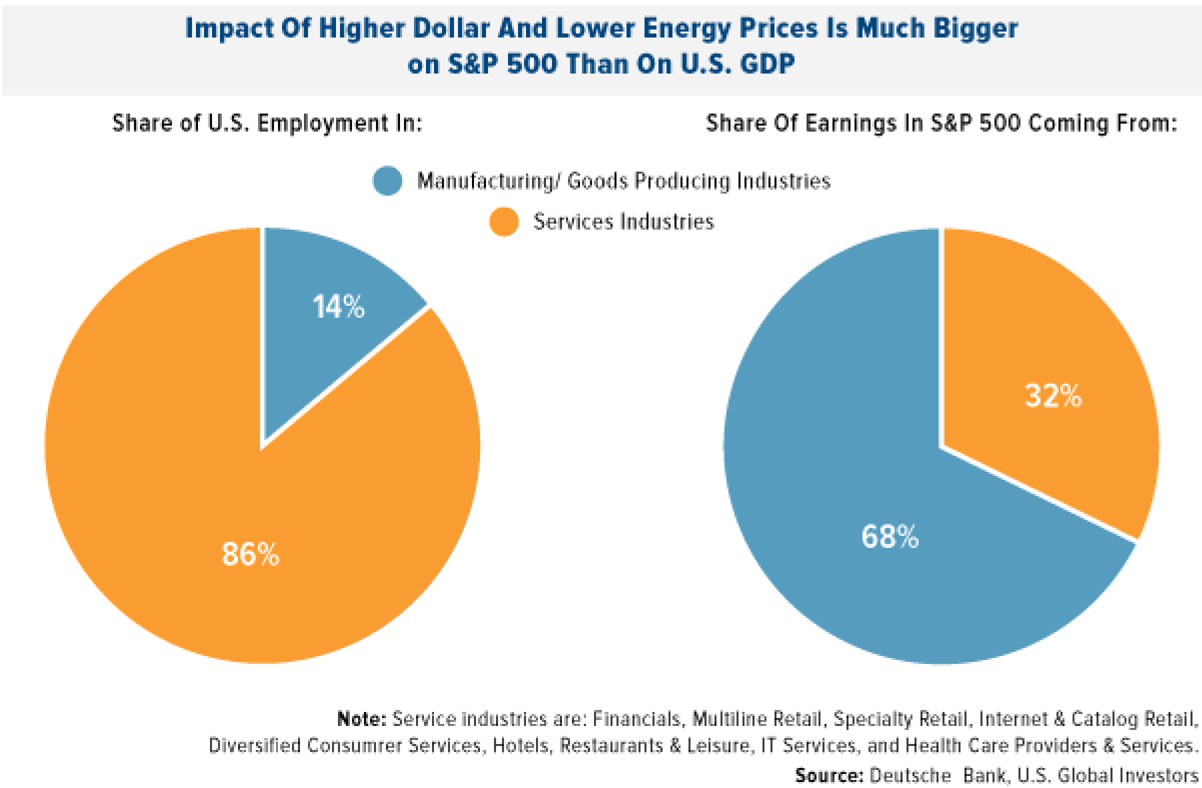
Weaknesses

- U.S. economic growth slowed to a 1.5 percent annual rate in the third quarter, held back by a large inventory drag that took 1.44 percentage points off the GDP. Surprisingly, trade was a neutral factor, as exports and imports largely offset one another. Consumer spending grew at a 3.2 percent rate, down from 3.6 percent in the second quarter. Real final sales, a measure of economic output that excludes changes in inventories, rose at a 3 percent pace. U.S. durable goods orders fell a seasonally adjusted 1.2 percent in September after a revised 3 percent drop in August. Nondefense capital goods orders excluding aircraft, a key proxy for business spending plans, fell 0.3 percent after a downwardly revised 1.6 percent decline in August.

- New U.S. single-family home sales fell in September to close to a one-year low after a couple of monthly gains. Sales fell 11.5 percent to a seasonally adjusted annual rate of 468,000 homes.
- U.S. consumer spending rose just 0.1 percent in September after climbing 0.3 percent and 0.4 percent in July and August. September's increase was the smallest since March. The price index for personal consumption expenditures, the Fed's favored inflation gauge, fell 0.1 percent in September and rose just 0.2 percent from a year ago. Core prices, excluding food and energy costs, rose 1.3 percent for the year. The Conference Board's Consumer Confidence Index fell from 102.6 in September to 97.6 in October. Consumers were less positive about present day conditions and had a moderately less optimistic short-term outlook.

Opportunities

- The higher dollar and lower oil prices have a much bigger negative impact on the S&P 500 companies than on GDP. While most of the earnings of the S&P 500 come from the manufacturing/energy/goods producing sectors, those sectors make up only 14 percent of total employment in the U.S. economy. Given that lower oil prices will continue to support consumer confidence and consumer spending, we could end up having a corporate profit recession without an economic recession.



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- After the strong PMI report this week, next week's ISM Manufacturing survey on Monday and Non-Manufacturing survey on Wednesday will be important to gauge whether the PMI report was a one-off or perhaps the beginning of a resurgence in manufacturing.
- The latest jobs reports have been lukewarm, next week's Friday report will be important as we start heading into the Thanksgiving and Christmas holiday season.

Threats

- There has been a very steady net inflow into U.S. corporate debt of $140 billion year-to-date in 2015. Somewhat surprisingly, this surge in net foreign demand for U.S. corporate paper has occurred during a period of credit spread widening for both Investment Grade (IG) and High-Yield (HY) debt. One possible conclusion is that foreign inflows into U.S. corporate debt have helped limit some of the spread widening in U.S. corporates versus their foreign equivalents, as global investors seek out higher yields without necessarily taking more credit risk. However, increased foreign demand cannot change the underlying creditworthiness (and fair value) of U.S. corporate debt, which continues to steadily worsen on the back of deteriorating profitability and rising leverage.

- With the European Central Bank and Bank of Japan gearing up for additional QE programs (and the Riksbank already committing to more), there is a clear onus on the Fed to back off from rate hikes. If not, dollar strength will only exacerbate current growth, inflation, and corporate profit woes.
- Persistently below-target inflation could cause long-term inflation expectations to eventually shift lower, as happened in Japan during the 1990s. But even if that did not happen, persistently low inflation would make it more difficult for households, firms, and governments to grow out of their debt burdens, thus prolonging the deleveraging process. Moreover, the lower inflation gets, the less scope central banks have to cut rates in the event of an economic slowdown. This is a major problem, given that the neutral real rate – the interest rate consistent with full employment – is very low, and possibly negative, in many economies.

Gold Market

For the week, spot gold closed at $1,142.16 down $22.40 per ounce, or 1.92 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, tanked 9.14 percent. Junior miners outperformed seniors for the week as the S&P/TSX Venture Index lost just 1.67 percent. The U.S. Trade-Weighted Dollar Index trimmed off 0.22 percent for the week.

Date	Event	Survey	Actual	Prior
Oct -26	US New Home Sales	549K	468K	552K
Oct -27	HK Exports YoY	-4.00%	-4.60%	-6.10%
Oct -27	US Durable Goods Orders	-1.50%	-1.20%	-2.00%
Oct -27	US Consumer Confidence Index	102.9	97.6	103
Oct -28	US FOMC Rate Decision (Upper Bound)	0.25%	0.25%	0.25%
Oct -29	US Initial Jobless Claims	265K	260K	259K
Oct -29	US GDP Annualized QoQ	1.60%	1.50%	3.90%
Oct -29	GE CPI YoY	0.20%	0.30%	0.00%
Oct -30	EC CPI Core YoY	0.90%	1.00%	0.90%
Nov -1	CH Caixin China PMI	47.6	--	47.2

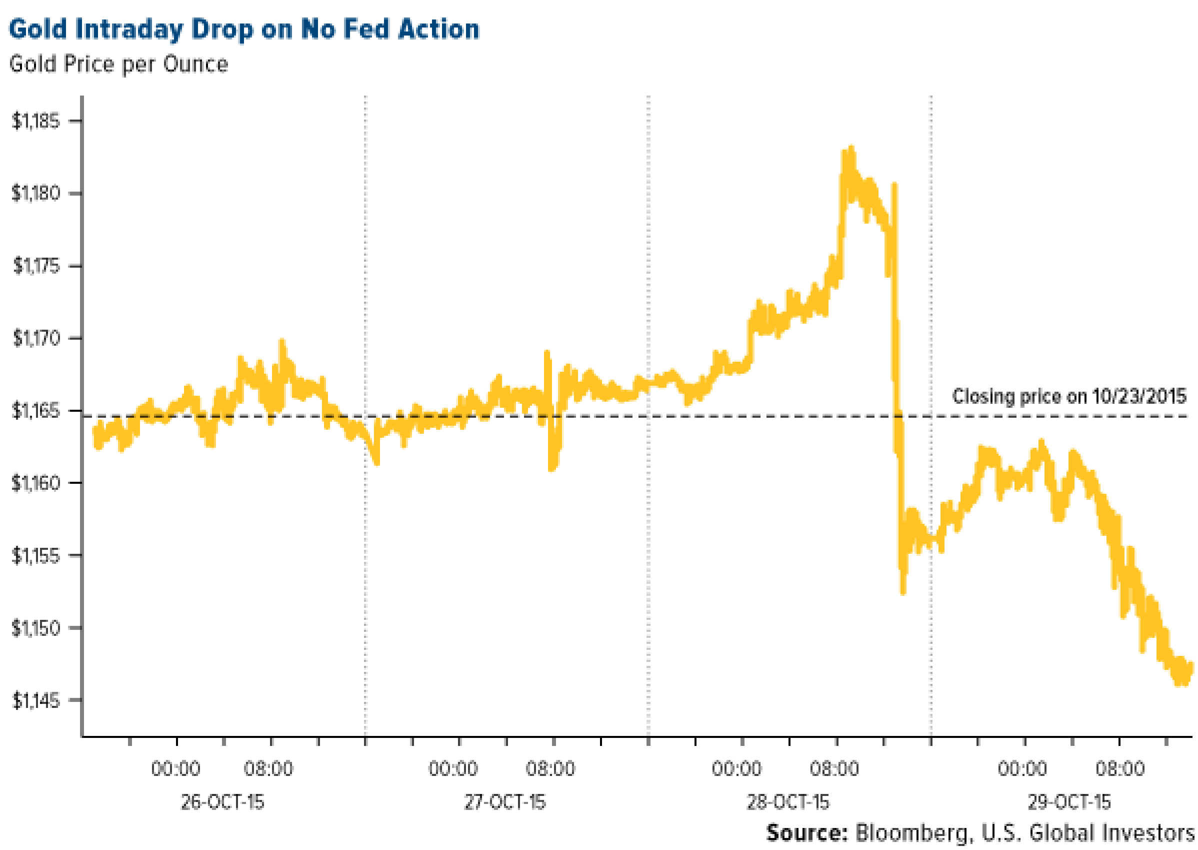
	Mfg			
Nov -2	US ISM Manufacturing	50	--	50.2
Nov -4	US ADP Employment Change	180k	--	200k
Nov -5	US Initial Jobless Claims	260k	--	260k
Nov -6	US Change in Nonfarm Payrolls	180k	--	142k

Strengths

- Platinum was the best performing precious metal, although it still suffered a loss of 1.61 percent for the week. Platinum had held up pretty well for most of the week but slipped below $1,000 an ounce on Friday. Impala Platinum noted it sees its output rising 17 percent in 2016.
- India has regained the top spot from China as the biggest overall consumer of gold in the first nine months of this year with total consumption of 642 tons. China is trailing by just 63 tons.
- Gold consumption in mainland China may match or exceed the record in 2013 after financial market turmoil and the yuan's devaluation have boosted the metal's appeal. Further, China's net imports of gold from Hong Kong increased for the third month in September as lower prices and inventory building before a week-long holiday spurred buying. Net purchases rose to 96.6 metric tons from 54.7 tons in August and 61.7 tons a year earlier.

Weaknesses

- Palladium was the worst performing precious metal, falling 2.48 percent for the week. Momentum in gasoline auto sales is likely to fall as pent up demand has largely been satisfied and consumers do not appear to be abandoning diesel powered vehicles.
- Disappointing earnings releases from Alamos Gold, New Gold, and Goldcorp sent the stocks on a downward spiral this week that saw prices collapse by more than 15 percent. Goldcorp reported third-quarter profits that missed analysts' estimates. The company's net loss was $192 million, or 23 cents per share, wider than the loss of $44 million, or 5 cents per share, a year earlier.



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- For more than a month, investors had been piling into gold anticipating that the Fed would be forced to keep U.S. interest rates near a record low for longer. However, Fed officials announced Wednesday that they expect moderate growth for the economy and left open the option to raise rates in December. As a consequence, prices dropped immediately after the policy statement, retreating from the biggest gain in more than two weeks.

Opportunities

- BCA points out that perhaps market participants are reading too much into this week's Fed statement, as it suspects the Fed had become annoyed that the market had moved so quickly to price out a December rate hike. As such, hawkish language was designed to give the Fed more maneuverability as well as to restore the view that it was the Federal Open Market Committee (FOMC), and not the investment community, that was in charge of monetary policy.

- BCA is also worried that the Fed does not fully appreciate the extent to which the unleashing of all the pent-up demand that was accumulated during the recession has helped sustain growth during the recovery. For example, auto sales went from a low of 9 million in 2009 to 18 million today. Clearly, sales are not going to increase by another 9 million over the next few years. BCA states the same is true for capital expenditures and orders for core capital goods were down 7.7 percent year-over-year in September, the biggest decline in six years. The economy may not have the depth to withstand a policy mistake by the Fed.

- UBS recommend buying gold on dips as holding gold against tail risks would be attractive for longer-term investors, especially against the backdrop of broader macro uncertainty and potentially lower real rates than anticipated.

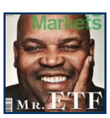
Threats

- According to GFMS, the research unit of Thomson Reuters, gold is set to remain under pressure until there is more clarity on the timing and the scale of U.S. rates normalization. It expects that gold could drop below $1,100 in the fourth quarter.

- India's government is set to issue sovereign gold bonds beginning November 26. Investors will receive interest of 2.75 percent per year, payable semi-annually. Commission for distribution shall be paid at a rate of 1percent of the subscription amount. India hopes the scheme will lower the country's appetite for imported gold by creating a mechanism that encourages the recycling of idle gold.

- Venezuelan central bank gold holdings declined by 19 percent between January and May of this year, according to its financial statements, likely reflecting gold swap operations and lower bullion prices. This underscores the efforts the government is taking to raise the cash to repay creditors and fund imports amid a punishing recession, inflation exceeding 100 percent and a collapse in the price of oil, its main export. With $3.5 billion of bond payments due this week and next, the country's international reserves are hovering near a 12-year low and there potentially could be some gold sales by Venezuela to meet debt payments.

Frank Talk Insight for Investors



October 26, 2015
Follow the Leaders: Learning from ETFs, BCA and the New PM

October 22, 2015
The "Oprah Effect" and Gold

October 19, 2015
Will Gold Finish 2015 with a Gain?

A blog by Frank Holmes, CEO and Chief Investment Officer

Global Resources Fund - PSPFX

Energy and Natural Resources Market

Strengths

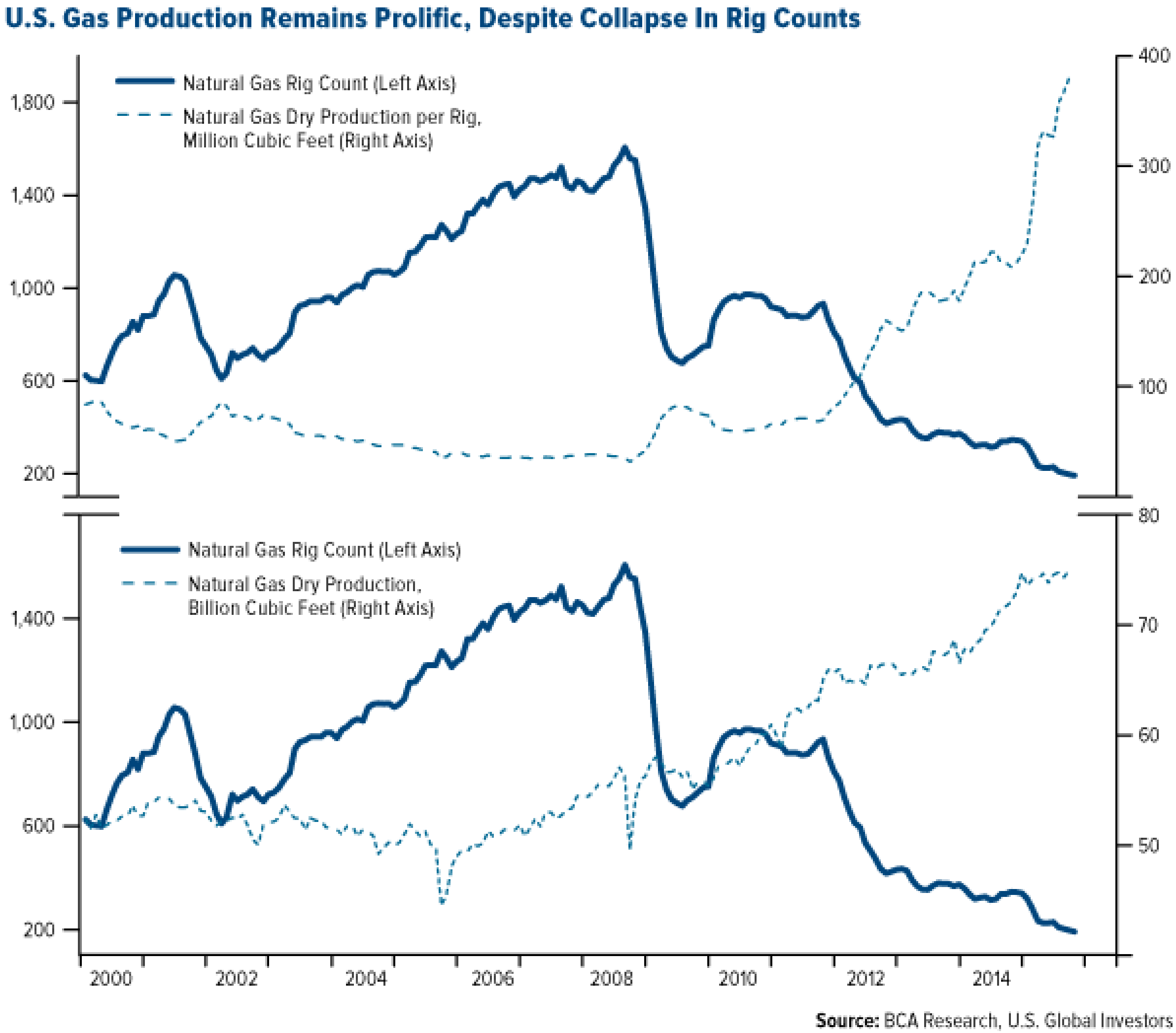
- Refiners were the best performers this week as crack spreads improved which could translate into higher margins for the group. The S&P Supercomposite Oil & Gas Refining & Marketing Index rose 6.18 percent this week.
- Master Limited Partnerships (MLPs) outperformed this week as investors retreated into more defensive areas as commodity prices continue to slump. The Alerian MLP Index rose 1.91 percent.
- Construction and engineering stocks rallied this week as the industry fundamentals remain healthy. The S&P Supercomposite Construction & Engineering Index rose 1.99 percent this week.

Weaknesses

- Canadian metals and mining stocks underperformed this week as a result of the Presidential elections and further weakness in base metals prices. The S&P/TSX Capped Diversified Metals & Mining Index fell 9.32 percent this week.
- Gold stocks suffered this week as the Fed statement seemed to tone down global growth concerns, adding to the case that a rate hike will occur in December. The NYSE Arca Gold Miners Index fell 8.78 percent this week.
- Rail stocks slumped this week on renewed traffic concerns. The S&P Supercomposite Railroads Index fell 5.71 percent this week.

Opportunities

- Companies continue to shut down oil & gas rigs as prices remain unprofitable. The Baker Hughes United States Oil and Gas Rotary Rig Count fell to 775, its lowest level since 2002. It appears to be only a matter of time until the supply-demand balance puts stronger upward pressure on oil and gas prices.



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- China continues to stimulate its slowing economy and many analysts are expecting even larger stimulus packages to be implemented in the near future.
- China's manufacturing PMI for the month of October will be released tomorrow and is expected to rise up to 50 percent.

Threats

- The Fed reignited investor fears of a rate hike this year. Gold and other precious metals could see further downward pressure.
- Global growth remains unimpressive and there has yet to be an effective catalyst to spur it.
- The Fed's comments along with further foreign easing, particularly in China and the eurozone, will put further upward pressure on the dollar.

China Region Fund - USCOX

China Region

Strengths

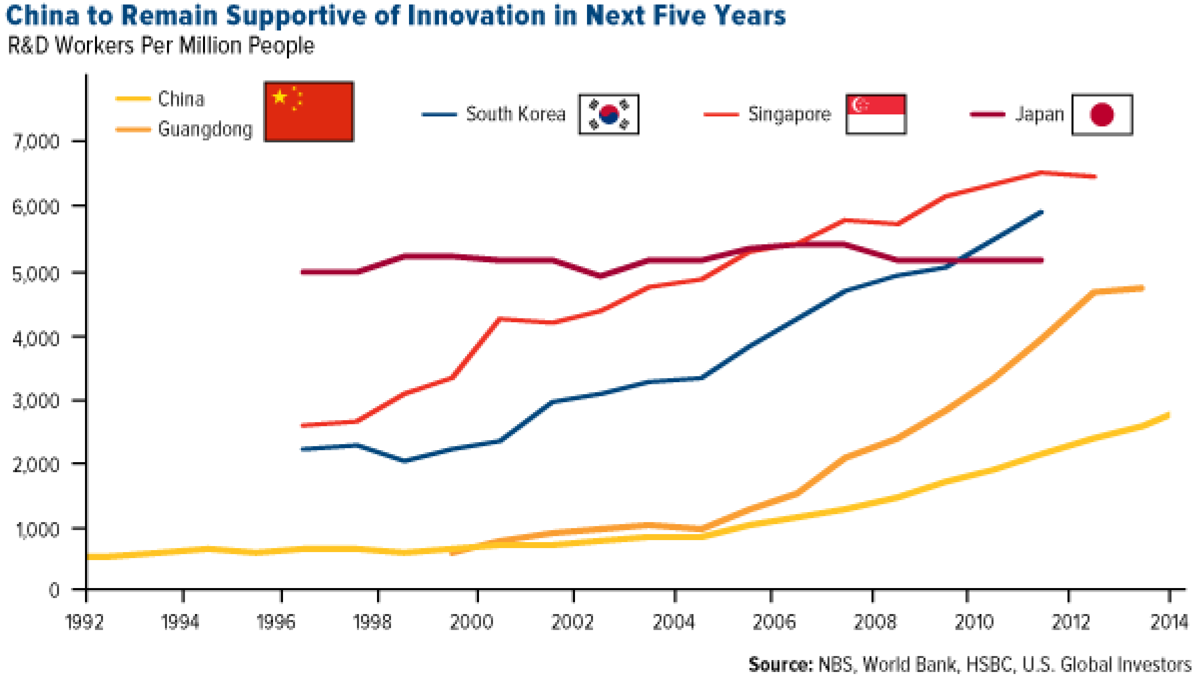
- Vietnam was the best performing market in Asia this week. Fitch Ratings affirmed Vietnam's Long-Term Foreign and Local Currency Issuer Default Ratings at BB- with a stable outlook. The Ho Chi Minh Stock Exchange eked out a 0.97 percent gain this week.
- Healthcare was the best performing sector in Asia this week, with companies in healthcare distribution, equipment, and facilities leading the pack. The MSCI Asia Pacific ex Japan Healthcare Index fell 0.7 percent this week, the mildest pullback among all the sectors.
- The Chinese renminbi was the best performing currency in Asia this week, strengthening by 0.3 percent. The renminbi made its biggest one-day gain against the dollar in more than 10 years in onshore markets on Friday, as investors remained hopeful of the currency's prospect to be added to the International Monetary Fund (IMF) reserve basket in November.

Weaknesses

- Indonesia was the worst performing market in Asia this week, as the country's exports of coal fell 20 percent from January to September this year. The Jakarta Composite Index retreated 4.25 percent this week.
- Materials was the worst performing sector in Asia this week, with construction materials and steel companies being hit the hardest. The MSCI Asia Pacific ex Japan Materials Index lost 3.74 percent this week.
- The Malaysian ringgit was the worst performing currency in Asia this week, weakening by another 0.94 percent. The currency dropped to a 17-year low in September as Brent crude prices fell by more than half from a 2014 peak, crimping government revenue for the region's only major net oil exporter.

Opportunities

- China has every reason in its 13th Five Year Plan (2016-2020) to promote innovation as a key approach to boost productivity growth in the next half decade, because at least 16 to 20 years is required after its latest relaxation of one-child policy to help counter its shrinking labor force. While China still lags its richer Asian peers in national innovation-related investment, wealthier provinces in southern China such as Guangdong have made significant advances and nurtured industry leaders in technology and consumer-related services. Bellwether corporate innovators focusing on an increasingly tech-dependent population should continue to benefit from government policy support.



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- While near term economic impact from China's latest move to abolish one-child policy might be negligible, long run benefit ought to be recognized due to its favorable effect on the country's demographic profile. Industries to reap structural dividends from a wave of newborns include such consumer-related areas as residential property, automobiles, education, healthcare, and tourism, among others.
- South Korea's better than expected GDP growth at 2.6 percent in the third quarter thanks to a strong rebound in private consumption and government spending should reinforce investors' preference for Korean sectors geared toward domestic demand rather than global demand. Financials, consumer staples, and pharmaceuticals may continue to outperform electronics and industrials exporters.

Threats

- The Federal Reserve's statement this week was interpreted as hawkish by the market and rekindled investors' concern that a December interest rate hike in the U.S. is not impossible. This, coupled with the ECB's easing bias, could provide short term impetus for the U.S. dollar to strengthen and cause resumed volatility in emerging Asian currencies and equities as a result of further liquidity exodus from the region.
- Resurgence of the 2-year U.S. Treasury yield and visible pull back of more commodity-related Southeast Asian markets such as Malaysia and Indonesia this week might be early signs of exhaustion for the global countertrend rally in October. Lower quality companies, especially in energy and materials, with leveraged balance sheets and inferior cash flow, are vulnerable after the earnings season.
- Mixed third quarter earnings release from Macau casinos do not assuage investor concerns over the secular appeal of casino gaming industry, against no fundamental change in Chinese anticorruption policy direction and little proof of valuation distress. The bear market in Macau casino stocks has shown little signs of being over.

Emerging Europe Fund - EUROX

Emerging Europe

Strengths

- Czech Republic was the best relative performing market this week, declining by 33 basis points. Economic sentiment weakened in October, while consumer confidence improved. Czech Republic's M2 Money Supply climbed from 6.4 percent a year ago to 7.7 percent.
- The Hungarian forint was the best performing currency this week, gaining 20 basis points against the

dollar. September unemployment data unexpectedly declined to 6.4 percent versus a prior reading of 6.7 percent a year ago.

- Healthcare was the best sector among eastern European markets this week.

Weaknesses

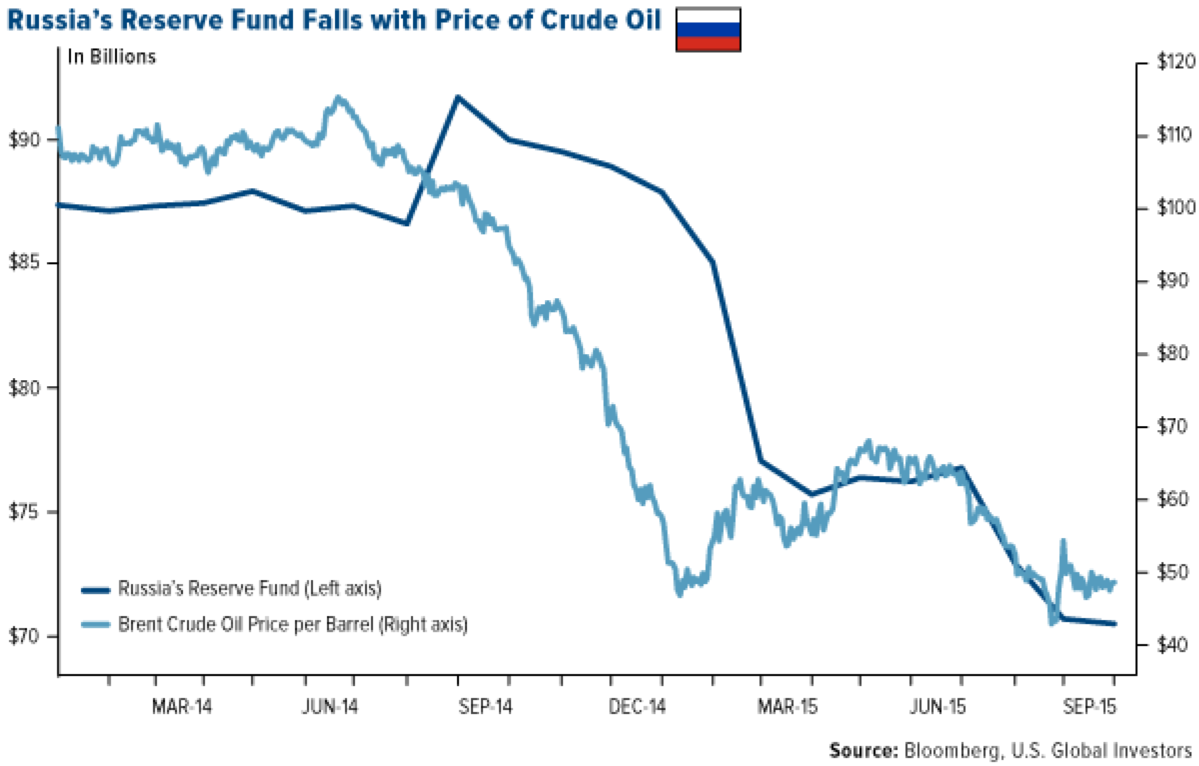
- Poland was the worst performing market this week, losing 1.8 percent. As expected, Law & Justice (PiS), Eurosceptic opposition party won the parliamentarian election. The new government has promised to increase social spending to 50 billion polish zloty per year ($13.3 billion) and soon the new budget will have to be set.
- The ruble was the worst performing currency, declining by 2.2 percent against the dollar. The tax payment cycle ended on Monday in Russia, the ruble lost the support from exporters converting their dollar denominated revenue into local currency. 483 billion rubles ($7.54 billion) were due in taxes to the government by Monday. On Friday, the Central Bank of Russia left its benchmark rate unchanged at 11 percent, missing economist's expectations of a 25 basis point cut.
- Consumer staples was the worst performing sector in the region this week.

Opportunities

- Eurozone Economic Confidence data rose to 105.9 in October from 105.6 in September, reaching its highest level since June 2011 and remaining well above the average of 100 going back to the start of the series in 1990. This could suggest that the weak euro and low commodity prices are more than offsetting the negative impact of the Chinese slowdown and the Volkswagen scandal.
- Last week the National Bank of Hungary kept its main interest unchanged for the third month at 1.35 percent, and this week Vice President of the National Bank, Marton Nagy, commented that the central bank can keep its rate unchanged into 2019 and will boost lending and economic growth. A comprehensive package aimed to boost lending should be presented next week on November 3.
- Consumer prices in the eurozone were unchanged in October from a year earlier, putting pressure on the ECB to provide additional stimulus to meet its target for price rises. The CPI annual rate remains well below the target rate of 2 percent.

Threats

- Russian Finance Minister Anton Siluanov said that the country's Reserve Fund could be entirely exhausted in 2016 if oil prices stay at the current level. The Reserve Fund is worth 4.67 trillion rubles ($70.51 billion) and it could decrease by approximately 2.6 trillion rubles ($40.85 billion) this year, more than half. Russia's Reserve Fund accumulates federal budget revenue from the production and export of oil and natural gas products. The chart below illustrates the sharp decline in the price of crude oil along with the declining assets in the Reserve Fund.



click to enlarge

- Turkish people will go to voting polls this weekend once again. Recent polls suggest that the dominant political party AKP, co-founded by President Recep Tayyip Erdogan, will have to try to form a coalition once again and share power for the first time in thirteen years. AKP lost its parliamentary majority in June and failed to form a coalition government with its rivals.
- Law & Justice right-wing, Eurosceptic and anti-liberal party won an outright majority of seats in the lower and upper chamber of Polish Parliament, it is the first party to win majority since 1989. Moody's rating agency said on Tuesday that the PiS election victory could jeopardize Poland's status as a regional safe haven for investors, and it was negative for credit rating. Socially conservative PiS made promises to increase state control of the economy, tax banks and stop privatization.

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
DJIA	17,663.54	+16.84	+0.10%
S&P 500	2,079.36	+4.21	+0.20%
S&P Energy	502.11	-2.74	-0.54%
S&P Basic Materials	284.64	+2.05	+0.73%
Nasdaq	5,053.75	+21.89	+0.43%
Russell 2000	1,161.86	-4.20	-0.36%

Hang Seng Composite Index	3,117.65	-62.90	-1.98%
Korean KOSPI Index	2,029.47	-10.93	-0.54%
S&P/TSX Canadian Gold Index	133.93	-12.96	-8.82%
XAU	51.45	-4.85	-8.61%
Gold Futures	1,141.60	-21.20	-1.82%
Oil Futures	46.44	+1.84	+4.13%
Natural Gas Futures	2.32	+0.04	+1.57%
10-Yr Treasury Bond	2.15	+0.06	+2.73%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
S&P Basic Materials	284.64	+33.74	+13.45%
S&P Energy	502.11	+50.78	+11.25%
XAU	51.45	+5.20	+11.24%
DJIA	17,663.54	+1,378.84	+8.47%
S&P 500	2,079.36	+159.33	+8.30%
Nasdaq	5,053.75	+433.58	+9.38%
Russell 2000	1,161.86	+61.17	+5.56%
Hang Seng Composite Index	3,117.65	+244.04	+8.49%
Korean KOSPI Index	2,029.47	+66.66	+3.40%
S&P/TSX Canadian Gold Index	133.93	+9.77	+7.87%
S&P/TSX Canadian Gold Index	133.93	+11.07	+9.01%
XAU	51.45	+3.88	+8.16%
Gold Futures	1,141.60	+26.40	+2.37%
Oil Futures	46.44	+1.35	+2.99%
Natural Gas Futures	2.32	-0.20	-8.00%
10-Yr Treasury Bond	2.15	+0.11	+5.25%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
Gold Futures	1,141.60	+46.50	+4.25%
Korean KOSPI Index	2,029.47	-0.69	-0.03%
DJIA	17,663.54	-26.32	-0.15%
S&P 500	2,079.36	-24.48	-1.16%
S&P Energy	502.11	-5.94	-1.17%
S&P Basic Materials	284.64	-3.60	-1.25%
Nasdaq	5,053.75	-74.53	-1.45%
Russell 2000	1,161.86	-76.82	-6.20%
Hang Seng Composite Index	3,117.65	-230.02	-6.87%
Oil Futures	46.44	-0.68	-1.44%
Natural Gas Futures	2.32	-0.39	-14.51%
10-Yr Treasury Bond	2.15	-0.04	-1.65%

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

Stock markets can be volatile and share prices can fluctuate in response to sector-related and other risks as described in the fund prospectus.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. By investing in a specific geographic region, a regional fund's returns and share price may be more volatile than those of a less concentrated portfolio.

The Emerging Europe Fund invests more than 25 percent of its investments in companies principally engaged in the oil & gas or banking industries. The risk of concentrating investments in this group of industries will make the fund more susceptible to risk in these industries than funds which do not concentrate their investments in an industry and may make the fund's performance more volatile.

Because the Global Resources Fund concentrates its investments in a specific industry, the fund may be subject to greater risks and fluctuations than a portfolio representing a broader range of industries.

Gold, precious metals, and precious minerals funds may be susceptible to adverse economic, political or regulatory developments due to concentrating in a single theme. The prices of gold, precious metals, and precious minerals are subject to substantial price fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. We suggest investing no more than 5 percent to 10 percent of your portfolio in these sectors.

Bond funds are subject to interest-rate risk; their value declines as interest rates rise. Though the Near-Term Tax Free Fund seeks minimal fluctuations in share price, it is subject to the risk that the credit quality of a portfolio holding could decline, as well as risk related to changes in the economic conditions of a state, region or issuer. These risks could cause the fund's share price to decline. Tax-exempt income is federal income tax free. A portion of this income may be subject to state and local taxes and at times the alternative minimum tax. The Near-Term Tax Free Fund may invest up to 20% of its assets in securities that pay taxable interest. Income or fund distributions attributable to capital gains are usually subject to both state and federal income taxes.

Investing in real estate securities involves risks including the potential loss of principal resulting from changes in property value, interest rates, taxes and changes in regulatory requirements.

Past performance does not guarantee future results.

Some link(s) above may be directed to a third-party website(s). U.S. Global Investors does not endorse all information supplied by this/these website(s) and is not responsible for its/their content.

These market comments were compiled using Bloomberg and Reuters financial news.

Fund portfolios are actively managed, and holdings may change daily. Holdings are reported as of the most recent quarter-end. Holdings as a percentage of net assets as of 9/30/15:
Alamos Gold, Inc.: World Precious Minerals Fund, 0.01%
New Gold, Inc.: Global Resources Fund, 0.15%; World Precious Minerals Fund, 0.08%
Goldcorp, Inc.: 0.0%

*The above-mentioned indices are not total returns. These returns reflect simple appreciation only and do not reflect dividend reinvestment.The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.
The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.
The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.
The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.
The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.
The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.
The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.
The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.
The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.
The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.
The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.
The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.

The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.
The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.
The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.
The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.
The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.
The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.
The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.
The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.
The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.
The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.
The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
The MNI Chicago Business Barometer provides a monthly snapshot of U.S. economic activity as seen by a survey panel of local purchasing and supply management professionals.
The Consumer Confidence Index (CCI) is an indicator which measures consumer confidence in the Economy.
The University of Michigan Consumer Sentiment Index is a survey on consumer attitudes and expectations in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This index is comprised of measures of attitudes
towards personal finances, general business conditions, and market conditions or prices.
The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) shows the market's expectation of 30-day volatility.
The S&P/Case-Shiller Index tracks changes in home prices throughout the United States by following price movements in the value of homes in 20 major metropolitan areas.
The S&P Oil & Gas Refining and Marketing Index tracks the market performance of downstream oil and gas companies.
The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships. The capitalization-weighted index includes 50 prominent companies.
The S&P Supercomposite Construction & Engineering Index is a capitalization-weighted index.
The S&P/TSX Capped Metals and Mining Index is a capitalization-weighted index.
The S&P Supercomposite Railroads Index is a capitalization-weighted index.
The Baker Hughes United States Oil and Gas Rotary Rig Count includes rigs that are significant consumers of oilfield services and supplies and does not include cable tool rigs, very small truck mounted rigs or rigs that can operate without a permit. To be counted as active a rig must be on location and be drilling or "turning to the right."
The Ho Chi Minh Stock Exchange is the largest stock exchange in Vietnam.
The MSCI Asia Pacific ex Japan Healthcare Index is a free-float weighted equity index.
The Jakarta Stock Price Index is a modified capitalization-weighted index of all stocks listed on the regular board of the Indonesia Stock Exchange.
The MSCI Asia Pacific ex Japan Materials Index is a free-float weighted equity index.