U.S. Global Investors
Investor Alert

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Press Release: U.S. Global Investors Reports Financial Results for the Third Quarter of 2016 Fiscal Year

Gold Demand Just Had Its Strongest-Ever First Quarter

By Frank Holmes
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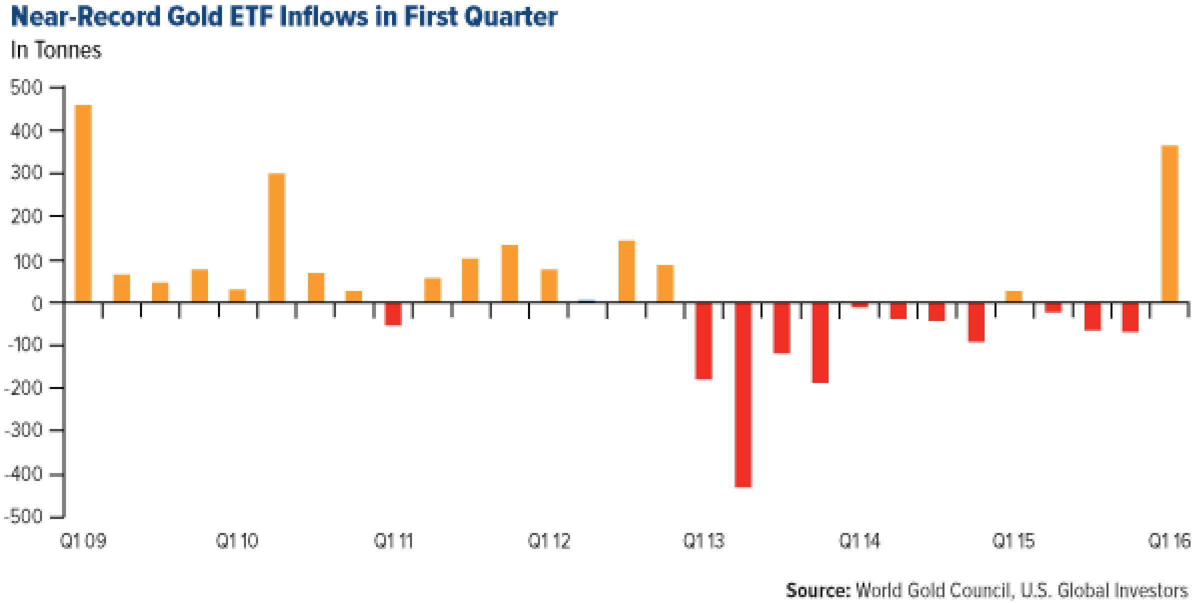
This year’s first quarter is one for the history books. Not only did gold appreciate at its fastest pace in 30 years, but demand for the yellow metal was the strongest it’s ever been on record.

Let me repeat that: the strongest it has ever been.

Demand surged 21 percent from the same period a year ago, according to the latest World Gold Council (WGC) report. Most of this demand was driven by investment, with net inflows into gold ETFs reaching 363.7 tonnes, a seven-year high.



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Meanwhile, demand for bars and coins shot up 55 percent year-over-year, from 11.8 tonnes to 18.3 tonnes. Appetite for American Eagle coins jumped 68 percent.

Bad News Is Good News for Investors Who Have Diversified with Gold

Uncertainty over the world economy, not to mention central bank policy, continues to act as a major catalyst for demand, heating up the Fear Trade. With many countries currently locked in a global race to see who can devalue their currencies the fastest, investors are seeking better, more reliable stores of value, and gold is happy to oblige.

This was the message shared by Wayne Allyn Root, the "Capitalist Evangelist," whose presentation I had the pleasure to see at the MoneyShow earlier this week in Las Vegas. Last week I said I would be speaking at the event, which was founded in 1981 by my dear friend Kim Githler, and I had no idea how popular Root really was. A businessman, politician and author, Root was the vice presidential candidate for the Libertarian party in 2008 and this year endorsed Donald Trump for president. At the MoneyShow, he packed the room with 1,400 people. Whole crowds turned out to hear him sermonize on entrepreneurship, individual rights and the importance of owning tangible assets such as precious metals and rare coins as a hedge against inflation and today's uncertain financial markets. Owning gold, he said, is no longer a luxury but a necessity.

Former Libertarian Vice Presidential nominee Wayne Allyn Root, whose latest book is "The Power of Relentless"

One of his most interesting data points is just how much purchasing power the dollar has lost since 1913, the year the Federal Reserve was created: A million dollars then is worth about $25,000 today. Gold, on the other hand, has not only held its value but appreciated. One million dollars in gold in 1913 would now be worth more than $60 million.

Get educated on diversifying into gold!

Other huge names that were attracted to speak at the MoneyShow included Gary Shilling, Art Laffer and Craig Johnson, a Piper Jaffray CFA and President of the Market Technicians Association. I had an enjoyable dinner with Craig, who called the current rally a "FOMO" rally. (I only recently learned, from my niece, that FOMO stands for "fear of missing out" and is widely used on social media.)

Another illuminating presentation I'd like to mention was conducted by IBD's Amy Smith, who convincingly spoke on how the 2016 elections might change the stock market. The most actionable takeaway was that most blue chip stocks have typically done well no matter who occupies the White House, confirming my own attitude that, at the end of the day, it's the policies that matter, not the party. The most compelling example she used was Netflix, whose stock has been a steady climber throughout both Bush 43 and Obama's presidencies.

A reasonable, well-positioned portfolio, then, consists of strong, entrepreneurial names; gold (I always recommend a 10 percent weighting: 5 percent in gold stocks, 5 percent in physical bullion); and short-term, tax-free municipal bonds, which have historically done well even in times of economic turmoil, such as the tech bubble and the financial crisis.

Learn more about the $3.7 trillion muni market!

Follow the Smart Money

The smart money is indeed flowing into gold right now. Earlier this month I shared with you the fact that hedge fund manager Stanley Drukenmiller, notable for having one of the best money management track records in history, cited gold as being his family office fund's number one allocation. Druckenmiller is joined by billionaire Paul Singer, whose hedge fund oversees $28 billion. In his letter to clients last month, Singer wrote: "It makes a great deal of sense to own gold... Investors have increasingly started processing the fact that the world's central bankers are completely focused on debasing their currencies."

About a third of global debt right now comes with a negative yield.

Elsewhere in the letter, Singer suggested that gold's phenomenal first quarter, in which the metal rose 16.5 percent, is "just the beginning." Further loss of confidence in central bankers' ability to jumpstart growth could take the metal even higher.

This is the assessment of Paradigm Capital, who wrote in a recent report that "a standard gold price rally, a percentage exceeded or achieved in four of five major upcycles since 1976, would take us to around $1,800 ounces over the next three to four years."

Lucara Diamond Sparkles Brightly

It seems only natural to follow a discussion on gold with one on diamonds. Just as gold demand is largely driven by the Love Trade, especially in India and China during religious and cultural festivals, diamonds rely largely on celebratory lifestyle events such as engagements, weddings and anniversaries.

Lucara Diamond has given us another reason to celebrate.

The Vancouver-based company was founded by billionaire Lukas Lundin, an old friend. We believed in his vision to build a profitable diamond company in South Africa, and we were one of its earliest investors. In any case, Lucara just sold an incredible 813-carat diamond for $63 million, a new record for a rough gem. Known as "The Constellation," the rock was discovered in the company's Karowe mine, located in Botswana, the second largest diamond producer following Russia. In 2013, diamonds accounted for more than 80 percent of the small African country's export earnings and 26 percent of its GDP.

As part of the deal, Lucara retains a 10 percent interest in the diamond, allowing the company to continue to profit from the stone after it's been polished and cut.

The Constellation's record might be short-lived, however. Another Lucara diamond—the 1,109-carat "Lesedi La Rona," the second largest diamond ever discovered—is scheduled to be auctioned off next month at Sotheby's and could very well fetch an even higher price.

We've been very happy with Lucara's leadership and performance. So far this year, its share price has appreciated 75 percent and is now trending at a nine-year high.

click to enlarge

The mid-tier company posted a stellar first-quarter net income of $17.1 million, up 185 percent from the same period a year ago. Total sales averaged $649 per carat, compared to $278 per carat in 2015. This is especially impressive considering overall diamond prices have declined more than 10 percent over the last 12 months, according to the Zimnisky Global Rough Diamond Price Index, mainly due to subdued demand and excess supply.

Register Today for Our Next Gold Webcast!

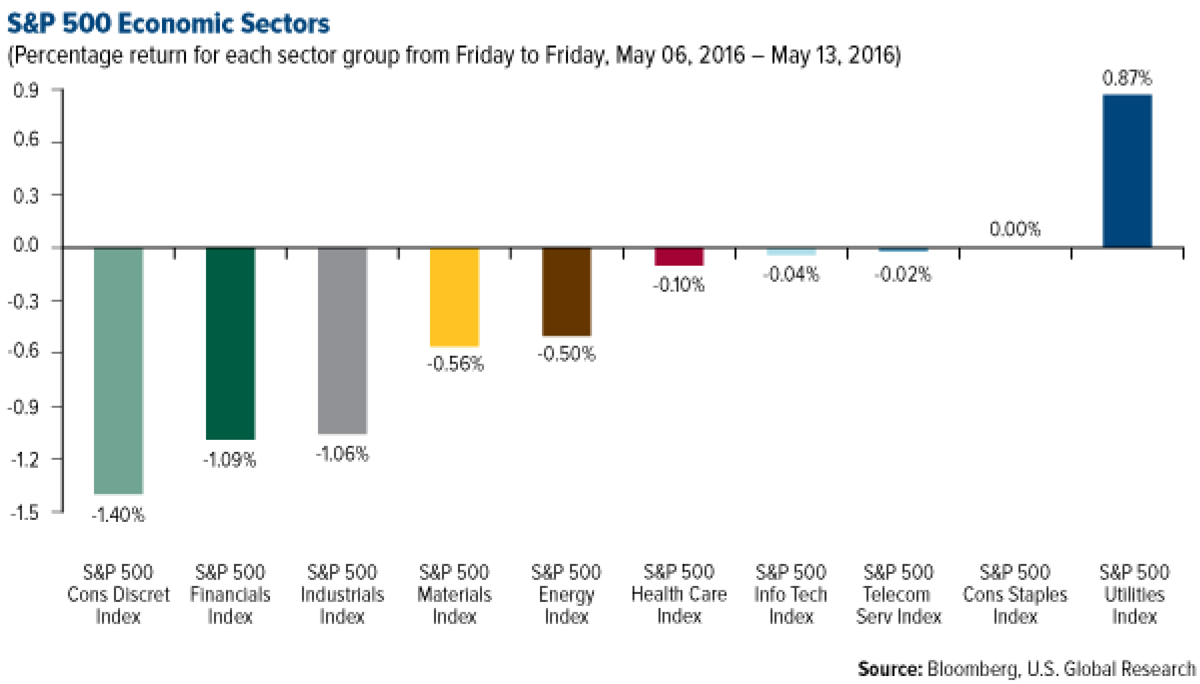
I invite all of you to register today for our next webcast, titled "All Eyes on Gold: What's Attracting Investors to the Yellow Metal." I'll be discussing the chief factors driving gold demand right now, how historical and seasonal patterns affect gold and why the metal can be an integral part of your portfolio. The webcast will be held on **June 8, starting at 4:15 PM Eastern time (3:15 PM Central time).**

This is an exciting time for gold. I hope you'll join me!

Index Summary

- The major market indices finished down this week. The Dow Jones Industrial Average lost -1.16 percent. The S&P 500 Stock Index fell -0.51 percent, while the Nasdaq Composite fell -0.39 percent. The Russell 2000 small capitalization index lost -1.10 percent this week.
- The Hang Seng Composite lost -1.89 percent this week; while Taiwan was down -1.14 percent and the KOSPI -0.49 percent.
- The 10-year Treasury bond yield fell 7 basis points to 1.70 percent.

Domestic Equity Market



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Strengths

- Utilities was the best performing sector for the week, increasing by 0.87 percent versus an overall decrease of -0.51 percent for the S&P 500.

- Electronic Arts was the best performing stock for the week, increasing 17.61 percent. The company posted a strong finish to its fiscal 2016 year. Sales rose 10 percent to reach $1.3 billion in fiscal fourth quarter, as a wide range of its titles attracted millions of new players. That healthy demand helped push profitability, net revenue, and cash flow to new annual records.
- Iconic doughnut seller Krispy Kreme agreed to be acquired by JAB Holding Company for $1.35 billion. JAB owns a number of coffee brands, including Keurig Green Mountain.

Weaknesses

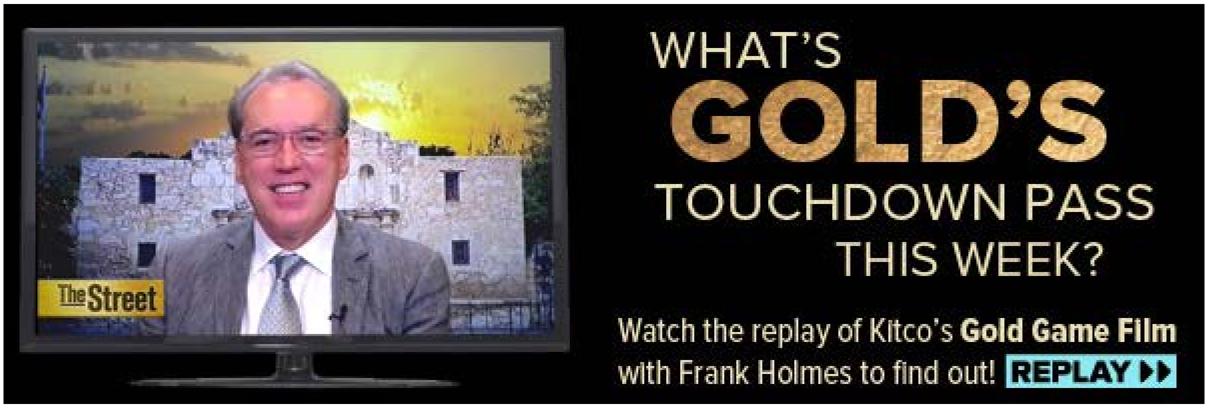
- Consumer discretionary was the worst performing sector for the week, falling by -1.40 percent versus an overall decrease of -0.51 percent for the S&P 500.
- Staples was the worst performing stock for the week, falling -19.20 percent. Its takeover of Home Depot was ruled out by the FTC and the company will have to pay Home Depot a $250 million merger break-up fee.
- A federal judge halted the merger of office goods giants Staples and Office Depot this week over concerns that the new company would impair competition. Both firms have abandoned the deal and Staples will pay Office Depot a $250 million breakup fee. Several high-profile deals have been scuttled in recent weeks amid greater antitrust scrutiny globally.

Opportunities

- After a prolonged slump, consumers are allocating a rising share of spending to insurance products, consistent with increased housing turnover and robust vehicle sales. In turn, insurance companies have been able to lift premiums at a solid rate. This shift in spending patterns bodes well for profit outperformance, and ultimately, a re-rating in extremely cheap relative valuations.
- Pharmaceutical stocks are trading at historically cheap relative valuations on the back of political pressure on a few high-profile specialty pharma companies. This could be an opportunity to add to positions in the more traditional pharma space.
- Higher food prices could help the chemical sector end its brutal bear market. This group has been savaged by the collapse in agricultural commodity prices, worries about the return of Argentine supply and China’s future import growth. However, the good news is that these headwinds are more than discounted. The combination of U.S. dollar softness and two years of farming financial pain are sowing the seeds for a recovery in food prices.

Threats

- The computer hardware, storage and peripherals sector is facing headwinds. The sector is highly sensitive to swings in capital spending budgets which are under pressure from a narrowing in the gap between the return on and cost of capital in the overall business sector.
- Air freight stocks have been unable to gather speed during the most recent bout of overall market strength. Persistently high business inventories mean that companies are not under pressure to use rapid delivery services to fulfill customer requirements. Indeed, when inventories are tight, demand for high-margin freight services increase as businesses rush to catch up. This dynamic acts as a weight on valuation multiples for air freight companies and is unlikely to change soon based on the downbeat message regarding global trade from the IFO survey.
- Declining global export prices spur increases in the volume of globally traded goods, and packaging companies benefit from the number of goods sold rather than their value. Packaging firms primarily serve the food and beverage industry and the volume of food and beverages sold is inversely correlated with prices paid. Currently, the weak U.S. dollar is helping to boost raw food prices which could put a damper on the recovery in packaging demand.



The Economy and Bond Market

Strengths

- U.S. retail sales rebounded in April, rising 1.3 percent, the biggest increase in a year. Soft March sales figures were revised higher to -0.3 percent from -0.4 percent. The sales gains were broad-based, though strong automobile sales were a standout. The retail sales bounce argues for faster U.S. growth in the second quarter after an anemic 0.5 percent growth rate in the first quarter.

- Headline producer prices grew 0.2 percent month-over-month (MoM) in April, but core prices (excluding food, energy and trade services) gained 0.3 percent.

- Consumer sentiment leapt to 95.8 in the preliminary May report, rising from 89.0 in April.

Weaknesses

- Initial jobless claims jumped up to 294,000 for the week ending May 7, from 274,000 in the prior week.

- The month-over-month Import Price Index came in at 0.3 percent for April, lower than the expected 0.6 percent.

- According to a new report from Bank of America Merrill Lynch, equity funds saw $7.4 billion in outflows over the past week. The cumulative outflow from equity funds over the past five weeks was $44 billion. BAML's Michael Hartnett, who characterized this as an "equity exodus," noted that this was the largest redemption over a five-week period since August 2011.

Opportunities

- Eurogroup finance ministers met this week to discuss debt relief for Greece. Finance ministers hope to reach a deal by their next meeting on May 24, which would release aid funds needed for Greece to make large debt payments due in July. The deal being discussed does not include measures to forgive debt, but would open the door for extended maturities, interest rate caps and longer grace periods. With the U.K.'s Brexit vote looming, ministers are widely expected to work out a deal for Greece so as to avoid a crisis that could provide ammunition to Britain's "Leave" camp.

- The communique after the FOMC meeting in April depicted a Federal Reserve that is in no rush to raise rates. The minutes of that meeting will be released on Thursday.

- Industrial production for April (released on Tuesday) is expected to rebound to 0.3 percent from the previous -0.6 percent. Additionally, the Leading Index is expected to pick up to 0.4 percent from the previous 0.2 percent.

Threats

- In credit markets, large defaults (greater than $1 billion) have risen to the highest level since 2009. This has been driven by natural resources.

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- Both the Bank of England (BOE) and the International Monetary Fund (IMF) warned this week that the U.K. economy will grow slower if Britain votes to leave the European Union. The BOE said a vote to leave the EU would materially alter the outlook for output and inflation while the IMF said a Brexit would have negative and substantial effects on the U.K. economy. The IMF warned of heightened uncertainty, leading to market volatility and ultimately hurting growth.
- In a letter to a U.S. congressman, U.S. Federal Reserve Chair Janet Yellen said negative interest rates cannot be ruled out as a possible policy tool in an adverse economic scenario, but the Fed would use other tools at its disposal before resorting to negative interest rates. Yellen said the central bank is trying to learn as much as possible from recent actions by the Bank of Japan and the European Central Bank.

Gold Market

This week spot gold closed at $1,273.07, off $14.83 per ounce, or 1.15 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, lost 1.19 percent. Junior miners outperformed seniors for the week as the S&P/TSX Venture Index traded up 1.61 percent. The U.S. Trade-Weighted Dollar Index recovered 0.73 percent for the week.

Date	Event	Survey	Actual	Prior
May-12	U.S. Initial Jobless Claims	270k	294k	274k
May-13	Germany CPI YoY	-0.1%	-0.1%	-0.1%
May-13	U.S. PPI Final Demand YoY	0.2%	0.0%	-0.1%
May-14	China Retail Sales YoY	10.6%	--	10.5%
May-17	U.S. Housing Starts	1120k	--	1089k
May-17	U.S. CPI YoY	1.1%	--	0.9%
May-18	Eurozone CPI Core YoY	0.7%	--	0.7%

May-19	U.S. Initial Jobless Claims	--	--	294k

Strengths

- The best performing precious metal for the week was gold, down just -1.15 percent on a slightly stronger dollar and better than expected U.S. retail sales. Money flows for gold are benefiting from what Bank of America is calling an "equity exodus." The bank points out that while $7.4 billion in equity outflows have taken place over the past five weeks, $3.5 billion went into bonds and $1 billion into precious metals. In the first three months of 2016, investors snapped up gold at a record pace, and even commodities investor Dennis Gartman told CNBC that he is becoming more bullish on the yellow metal.

- Paradigm Capital put out a research note this week, highlighting "open season for development projects." The report discusses that Kaminak and Goldcorp have entered into a definitive agreement whereby Goldcorp will "acquire all of the issued and outstanding common shares of Kaminak," with the shares representing a value of C$2.62/ Kaminak share. The transaction seems a bit off from what Goldcorp had communicated to the street concerning lots of internal opportunities and is not without risk with regards to permitting and construction timelines before first gold production would take place.

- Kenneth Rogoff comments this week in Business Standard his opinion on whether or not emerging market central banks are overweight in dollars and underweight in gold. Rogoff explains, "There is a good case to be made that a shift in emerging markets toward accumulating gold would help the international financial system function more smoothly, benefitting everyone." Interestingly enough, China topped up its gold reserves in April, according to data from its central bank. The Perth Mint also reported that sales of Australian bullion coins and bars eased in April compared to March, but surged over the levels posted a year earlier.

Weaknesses

- The worst performing precious metal for the week was platinum, down -2.59 percent. Platinum fell 3.30 percent at the start of the week as a news story from the prior week highlighted that electric vehicles will have a big impact on reduced platinum group metal's demand.

- Following the announcement from a Federal Reserve official that it's fair to expect two interest rate increases this year, reports Bloomberg, gold declined for the fifth time in six days as the dollar strengthened. Bill Gross stated he believed that policymakers may act at their next meeting in June, with other analysts agreeing with his comments.

- Thailand is set to shut down its largest gold mine by the end of the year, reports Bloomberg. The government ordered a review of the Chatree mine last year after complaints were made by local residents. Young gold buyers in China are seeking "fresh and modern" takes on jewelry designs, reports China Daily, causing jewelry sellers in the Asian nation to face new challenges. Coupled with declining gold consumption in the first quarter, sellers will need to accommodate this post-90s generation since they have a differing view on investing in such pricey goods.

Opportunities

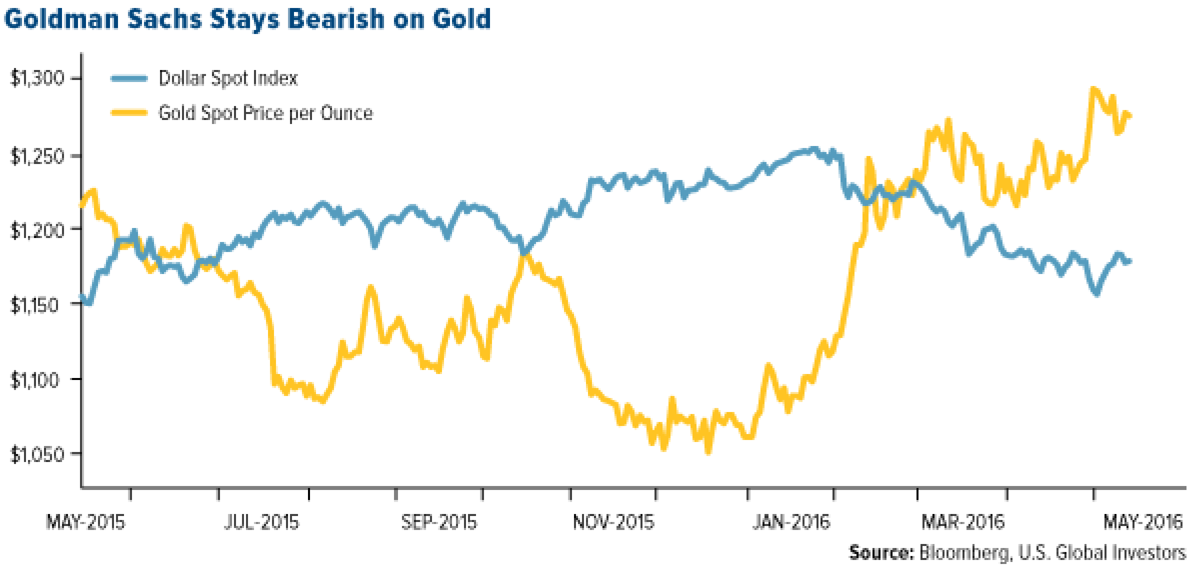
- It looks as though the Comex vault does not have enough gold, reports The Daily Reckoning. The number of paper claims tied to an ounce of deliverable gold went from essentially flat in the early 2000s, to an enormous level of 542-to-1 in 2015/2016. The article notes, if even one claimant shows up to take delivery of physical gold, the cupboard will be bare.

- Jim Bianco, president of Bianco Research, believes that gold is a "high yield asset" in a negative rate world, according to Financial Sense. Bianco points out that the argument against owning gold – that it has no yield – "doesn't hold water when $8 trillion of government debt around the globe is yielding negative," continues the article. In agreement with Bianco's statements, JP Morgan's global head of fixed income, currencies and commodities, reasoned this week in a piece by CNBC, that with so many negative interest rate policies around the world, gold will continue to be bought as an alternative currency.

- In a BCA Research piece this week, "The End of the Debt SuperCycle: An Update," the group details how the ease of engineering a new credit upcycle by the Fed has turned more challenging than ever before, beginning during the 2007-09 meltdown in the U.S. "Since then, even zero policy rates have been unable to trigger a strong revival in credit growth in the major developed economies." They noted that it has been 20-years since the Japanese debt supercycle ended and their markets have not recovered yet.

Threats

- Goldman Sachs raised its forecasts for bullion prices this week, reports Bloomberg, although the bank remains bearish on the metal's prospects. Similarly, Singapore-based Oversea-Chinese Banking Corp. (another gold bear) was prompted to raise its gold forecasts this week, continues Bloomberg. The group noted a jump in fund holdings along with doubt from investors for higher U.S. borrowing costs. Billionaire hedge fund manager Paul Singer, however, thinks the gold rally is just beginning. "It makes a great deal of sense to own gold," Singer said. "Other investors may be finally starting to agree."



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- According to Kitco News, hedge funds' gold positioning is reaching all-time highs. In the article, Bart Melek of TD Securities explains that this rally in gold is highly dependent on the Fed and interest rates. "While gold looks overbought on numerous metrics, speculative positioning looks similar to what it was back at the end of 2005/early 2006, before a large rally started," Melek said. "If the Fed is more restrictive than traders currently expect, gold is due for a big correction."

- In South Africa, a court in the country has allowed thousands of former mineworkers to proceed with a class action seeking damages from mining companies, reports Bloomberg. The judgement opens way for nearly 500,000 people to join a suit, for suffering from lung diseases they contracted while working at their operations.

Energy and Natural Resources Market

Strengths

- Gold investors continue to increase their exposure to the yellow metal as China, a potential Brexit, and the election continue to dominate news headlines. Gold net long holdings jumped 27 percent from the previous week, and the metal is within reaching distance of its all-time record high seen more than five years ago (when prices rose above $1,800 per ounce), according to Ole Hansen, head of commodity strategy at Saxo Bank.

- The S&P 500 Fertilizers & Agricultural Chemicals Index was a leader among natural resources sectors for the week after Monsanto Co., its largest holding, was said to be the target of a potential bid by Germany's Bayer AG. The potential merger would create the world's largest supplier of seeds and farm chemicals.

- Agricultural commodities were the best performers for the week after a government report said rising exports would curb inventory growth in the US. For soybeans particularly, the U.S. Department of Agriculture said inventories could fall 24 percent next year, mainly as a result of poor harvests in South America due to inclement weather.

Weaknesses

- Miners around the world dropped this week as copper imports by China slumped from record, and stockpiles rose. China April trade data softened, reviving concerns that supply gluts could worsen. The rout comes after miners rallied this year as indications of a stabilizing economy and speculation that the government would take further steps to boost growth buoyed the outlook for demand in China, as stated by Bloomberg.

- The worst performing commodity for the week was iron ore. Prices in Dalian, China dropped over 6 percent for the week as worries about faltering demand out of China were compounded by yet another round of measures imposed by authorities to curb commodity speculation.

- Freeport-McMoRan dropped heavily on Friday after announcing it may issue up to $540 million in common stock to Noble Corp. after it terminated its contract with the driller over two offshore drill ships. Shares of Freeport traded up on the announcement of the cancellation, but dropped after details of the possible common stock issuance were made public.

Opportunities

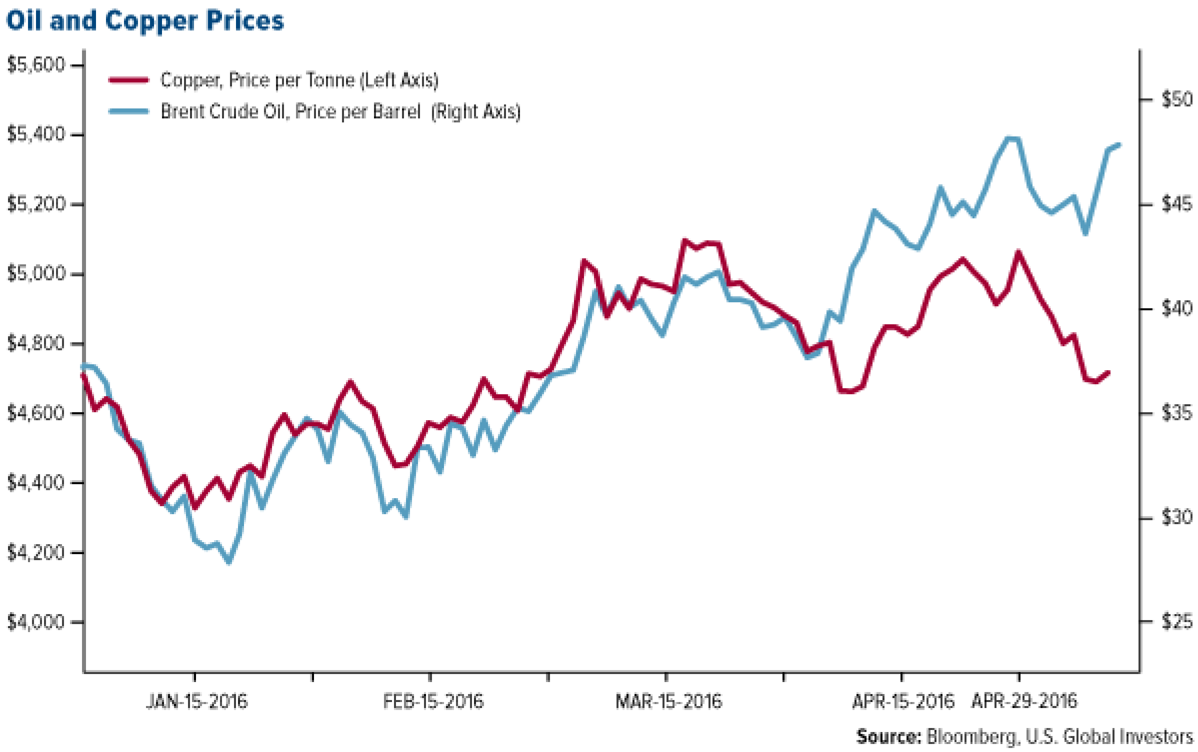
- There is zero chance of a Federal Reserve rate hike before the election, according to Jefferies' Chief Market Strategist David Zervos. According to Zervos, the "Democratic Fed" will do everything it can to prevent a Republican candidate from being elected. In his opinion, to achieve this, the Fed will refrain from raising interest rates, which would limit U.S. dollar appreciation, and should translate into a tailwind for risky assets, mainly commodities.

- Zinc prices may outperform base metals in 2016 as structural deficits become tangible for consumers. Zinc global stockpiles fell to their lowest level since 2009 as Glencore Plc, the world's largest miner of the metal, warned that structural deficits are returning due to a lack of new quality projects, and an already tight spot market.

- The global energy market will need another Saudi Arabia to meet demand needs by 2040, according to the most recent EIA research. The reference case has global oil demand just shy of 121 million barrels per day by 2040, the equivalent of adding another U.S. and China to the market. The supply picture, however, is less clear considering that at historic expansion rates of 1 million barrels per day of annual growth, the deficit could be equivalent to that of current day's Saudi Arabia production. The EIA's report is certainly one that oil bulls should love.

Threats

- The divergence between crude and copper may be about to collapse as temporary supply outages bring the market back into oversupply. Capital Economics' Tom Pugh argues that the recent divergence can probably be explained by wildfires in Canada and pipeline outages in Nigeria. Meanwhile, the price of copper has fallen back as concerns build over China's ability to absorb the supply glut. Absent a rapid pickup in demand, or the appearance of new supply outages, crude could rapidly lose its gains for the year.



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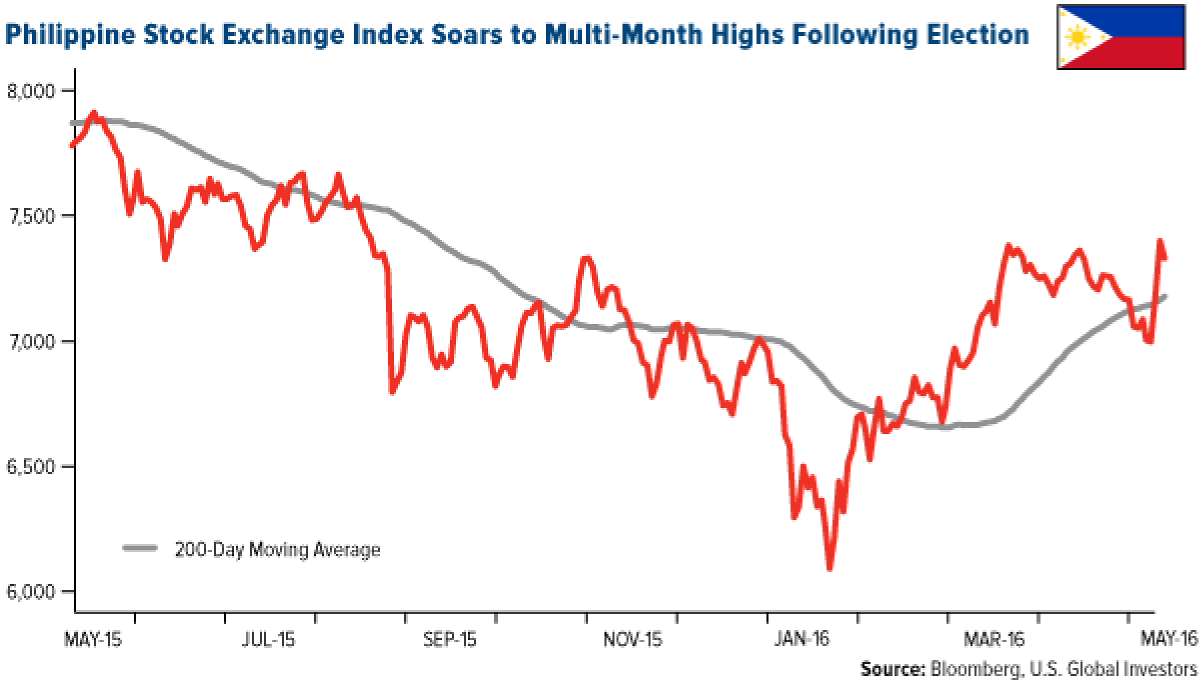
- The U.S. dollar has bottomed as traders overreacted to the downside, according to Goldman Sachs. "We remain dollar bullish and think the trajectory is higher from here," Robin Brooks, Goldman Sachs' chief currency strategist. Goldman Sachs says the post-payrolls rally in the U.S. dollar shows that market expectations for economic growth and Federal Reserve interest-rate increases have fallen too far, too fast, positioning the currency for a rebound. A rally in the dollar may result in declining commodity prices.

- Oil bankruptcies are accelerating despite the recent rally in crude prices. Eighteen North American oil companies filed for Chapter 11 bankruptcy protection in March and April, the most in a two-month period since oil prices began their slide in the summer of 2014. The reason is likely to be the recent, semi-annual process of re-appraising borrowing limits by banks. This spring, banks are said to be cutting limits by 20 to 25 percent, much deeper than the 15 to 20 percent last fall. Even with the aid of higher spot prices, the reassessments are likely to tip more over-levered borrowers into bankruptcy.

China Region

Strengths

- The Philippine peso (PHP/USD) climbed back above its 200-day moving average after the results of last weekend's presidential election, which was won handily by tough-talking populist Davao City Mayor Rodrigo Duterte. Election results also supported a relief rally in the week's top-performing regional equity index: the Philippine Composite Index rose 6.40 percent.



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- FX reserves in China came in steady, and slightly better than expected, at $3.219 trillion, slightly ahead of analysts' estimates for $3.202 trillion.

- Malaysia's first quarter GDP beat expectations for a rise of 0.7 percent quarter-over-quarter, coming in slightly better at 1.0 percent. Malaysia's first quarter also beat on a year-over-year basis, rising 4.2 percent, ahead of expectations for a rise of 4.0 percent.

Weaknesses

- China's New Yuan Loan numbers disappointed after the close today, missing expectations for 800.0 billion yuan and coming in at only 555.6 billion. Aggregate yuan financing also missed, as did Chinese trade numbers last weekend. Exports declined year-over-year by 1.8 percent, missing expectations for no decline at all. Imports also fell, declining 10.9 percent year-over-year, missing expectations for a decline of only 4.0 percent. China state newspaper *People's Daily* quoted a "person of authority" (a term not used lightly in a state-run paper), who warned specifically about the country's rising debt, and called the notion of continued monetary easing to stimulate the economy a "fantasy."

- The Shanghai Composite Index fell nearly 3 percent in the last five trading days, making the SHCOMP Index the week's worst performing equity index in the China Region.

- Hong Kong's first quarter GDP contracted quarter-over-quarter, falling 0.4 percent, worse than estimates for a minor decline of only 0.1 percent. Year-over-year, first quarter GDP also missed, rising only 0.8 percent and falling short of expectations for a growth rate of 1.5 percent.

Opportunities

- Expectations are for a 6.7 percent year-over-year GDP growth rate in the Philippines, which releases first quarter GDP data next week. Presumably forthcoming details about Mr. Duterte's future economic policies may fuel additional investment interest in the island nation.

- Next week we also get first quarter GDP data for Thailand. Expectations are for quarter-over-quarter growth of 0.6 percent and year-over-year growth of 2.8 percent.

- Apple Inc. announced today that it has made a $1 billion investment in a company known as Didi (legal name Xiaoju Kuaizhi Inc.), China's largest ride-hailing service. Among other things, the investment signifies continued growth in mobile technology trends in China, as well as broader trends in urbanization, automobiles and the sharing economy.

Threats

- With a further decline in the China's New Yuan Loans number today there may be more pressure on banks and financial stocks next week.

- Hedge fund manager Kyle Bass sounded alarm about the rapid credit expansion in the Chinese banking system, reportedly stating in an investor letter that he believes the Hong Kong property market to be in "free fall."

- An S&P report this week suggests that despite resolution about the outcome of the election itself, political uncertainty in the Philippines will be somewhat higher in a Duterte administration.

Emerging Europe

Strengths

- Greece was the best performing country this week, gaining 2.8 percent. Talks between Greece and its creditors continue and now many European officials are confident of reaching a deal in late May or early June. Gross domestic product shrank 0.4 percent in the first quarter compared to the last three months of 2015, and was less than the expected contraction of 0.7 percent. Some economists predict that Greece could return to growth in the second half of the year.

- The Russian ruble was the best performing currency this week, gaining 65 basis points against the dollar. The Russian currency is highly correlated with the price of oil, and Brent crude oil gained 5.5 percent during the week after supply reductions were reported.

- The health care sector was the best performing sector among Eastern European markets this week.

Weaknesses

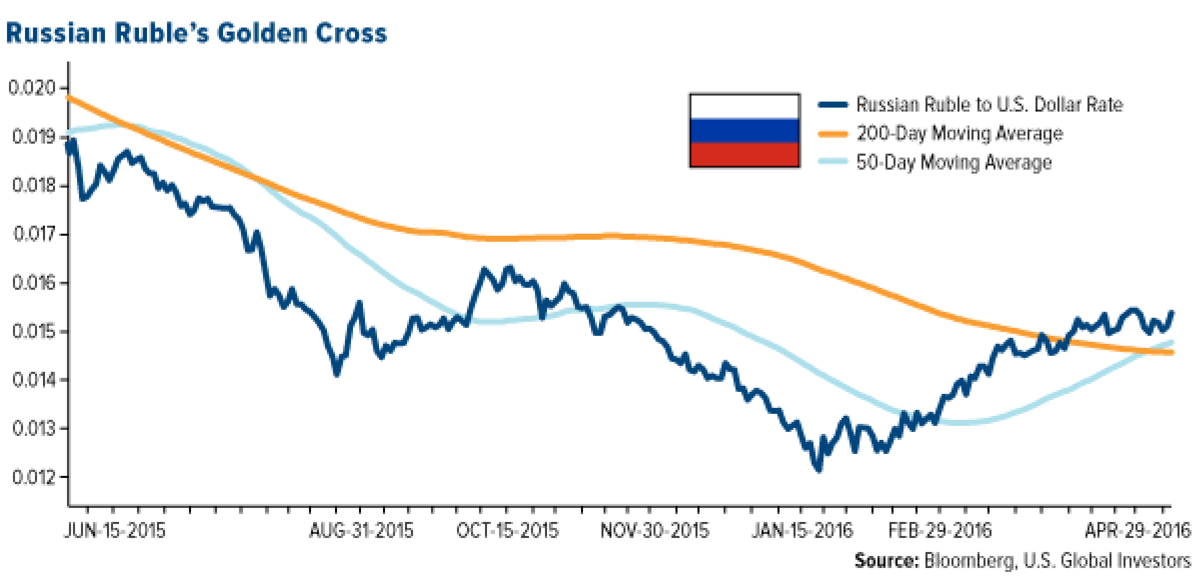
- Poland was the worst performing market this week, losing 1.3 percent. Investors have been anticipating Moody's rating downgrade from its current A2, following the S&P Rating Agency cut in January earlier this year.

- The Turkish lira was the worst performing currency this week, losing 1.4 percent against the dollar. Political risk and expected rate cuts put further pressure on the lira.

- The utility sector was the worst performing sector among Eastern European markets this week.

Opportunities

- The ruble's rally may have further to run, according to technical indicators. The currency's 50-day moving average against the dollar crossed above its 200-day moving average for the first time in almost a year. The ruble may continue to rise on higher oil prices.



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- Over the past weekend, the Greek Parliament passed the pension and income tax reform bill entailing 2 percent of GDP in fiscal measures. The coalition still faces a vote for another 1 percent of GPD in other measures but the Internal Monetary Fund is under heavy European pressure to accept Greek austerity policies that will allow Greece to make a payment this summer when large bonds fall due.

- Bloomberg analysts predict further easing in Hungary and another 15-basis-point rate cut at the end of this month, boosting the economy. For the longer term easing, Prime Minister Viktor Orban's cabinet is working on tax cuts for some food staples, internet and restaurant services in 2017.

Threats

- Eurozone industrial production fell sharply for the second straight month in March, suggesting that recovery is still fragile despite a stronger start to the year. Industrial Production fell 0.8 percent from February and it was just 0.2 percent higher than in March 2015, a much weaker outcome than anticipated.

- Pacific Investment Management Corporation's Total Return Fund cut its holdings of emerging market debt from 28.9 in August of 2015 to 9.4 percent in April. A three-month rally in emerging markets bonds peaked in April and correction may follow on the back of Federal Reserve rising interest rates.

click to enlarge

- Austrian Chancellor Werner Faymann, the European Union's longest serving national leader after Angela Merkel in Germany, resigned after his Social Democratic party lost in polls to the Austrian Freedom Party, EU skeptics who support an anti-immigration platform. Populist movements are stretching across Europe as voters are becoming more EU skeptical.

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
DJIA	17,535.32	-205.31	-1.16%
S&P 500	2,046.61	-10.53	-0.51%
S&P Energy	485.15	-2.44	-0.50%
S&P Basic Materials	288.04	-1.63	-0.56%
Nasdaq	4,717.68	-18.48	-0.39%
Russell 2000	1,102.44	-12.28	-1.10%
Hang Seng Composite Index	2,693.28	-51.89	-1.89%
Korean KOSPI Index	1,966.99	-9.72	-0.49%
S&P/TSX Canadian Gold Index	224.46	-4.15	-1.82%
XAU	86.98	-1.55	-1.75%
Gold Futures	1,274.70	-19.30	-1.49%
Oil Futures	46.34	+1.68	+3.76%
Natural Gas Futures	2.10	-0.00	-0.10%
10-Yr Treasury Bond	1.70	-0.08	-4.44%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
DJIA	17,535.32	-372.96	-2.08%
S&P 500	2,046.61	-35.81	-1.72%
S&P Energy	485.15	+5.85	+1.22%
S&P Basic Materials	288.04	-0.62	-0.21%
Nasdaq	4,717.68	-229.74	-4.64%
Russell 2000	1,102.44	-27.49	-2.43%
Hang Seng Composite Index	2,693.28	-210.94	-7.26%
Korean KOSPI Index	1,966.99	-14.33	-0.72%
S&P/TSX Canadian Gold Index	224.46	+22.41	+11.09%
XAU	86.98	+8.55	+10.90%

Gold Futures	1,274.70	+26.40	+2.11%
Oil Futures	46.34	+4.58	+10.97%
Natural Gas Futures	2.10	+0.06	+3.09%
10-Yr Treasury Bond	1.70	-0.06	-3.63%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
DJIA	17,535.32	+1,561.48	+9.78%
S&P 500	2,046.61	+181.83	+9.75%
S&P Energy	485.15	+68.45	+16.43%
S&P Basic Materials	288.04	+36.77	+14.63%
Nasdaq	4,717.68	+380.16	+8.76%
Russell 2000	1,102.44	+130.45	+13.42%
Hang Seng Composite Index	2,693.28	+213.26	+8.60%
Korean KOSPI Index	1,966.99	+131.71	+7.18%
S&P/TSX Canadian Gold Index	224.46	+43.62	+24.12%
XAU	86.98	+26.34	+43.44%
Gold Futures	1,274.70	+34.80	+2.81%
Oil Futures	46.34	+16.90	+57.40%
Natural Gas Futures	2.10	+0.13	+6.77%
10-Yr Treasury Bond	1.70	-0.05	-2.74%

Holdings are reported as of the most recent quarter-end. The following securities mentioned in the article were held by one or more accounts managed by U.S. Global Investors as of 3/31//2016:
Lucara Diamond Corp.
Goldcorp Inc.
Home Depot Inc./ The
Apple Inc.

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 S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of leading global currencies versus the U.S. dollar. The index represents both developed and emerging market currencies that have the highest liquidity in the currency markets and the biggest trade flows with the U.S. The Bloomberg USD Emerging Market Sovereign Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities of sovereign issuers in emerging markets as identified by Bloomberg. The Philippine Stock Exchange PSEi Index is composed of stocks representative of the industrial, properties, services, holding firms, financial and mining & oil sectors of the Philippines Stock Exchange. The S&P 500 Fertilizers and Ag Chemicals Index is a capitalization-weighted index that tracks the companies in the agriculture and chemicals industries as a subset of the S&P 500. The Zimnisky Global Rough Diamond Price Index was created to consolidate reliable rough diamond price information and publish current respective price changes of rough diamonds on a weekly basis in the form of an index. The Index is based on an initial value of 100 using data starting on April 4, 2004 and is updated on a weekly basis, typically on Saturday. An import price index measures changes in the prices of imports of merchandise into a country. The index numbers for each reference period relate to prices of imports landed into the country during the period. The Shanghai Composite Index (SSE) is an index of all stocks that trade on the Shanghai Stock Exchange.