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U.S. Global Investors
Investor Alert

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Take the Long-Term View in a Late-Cycle Market

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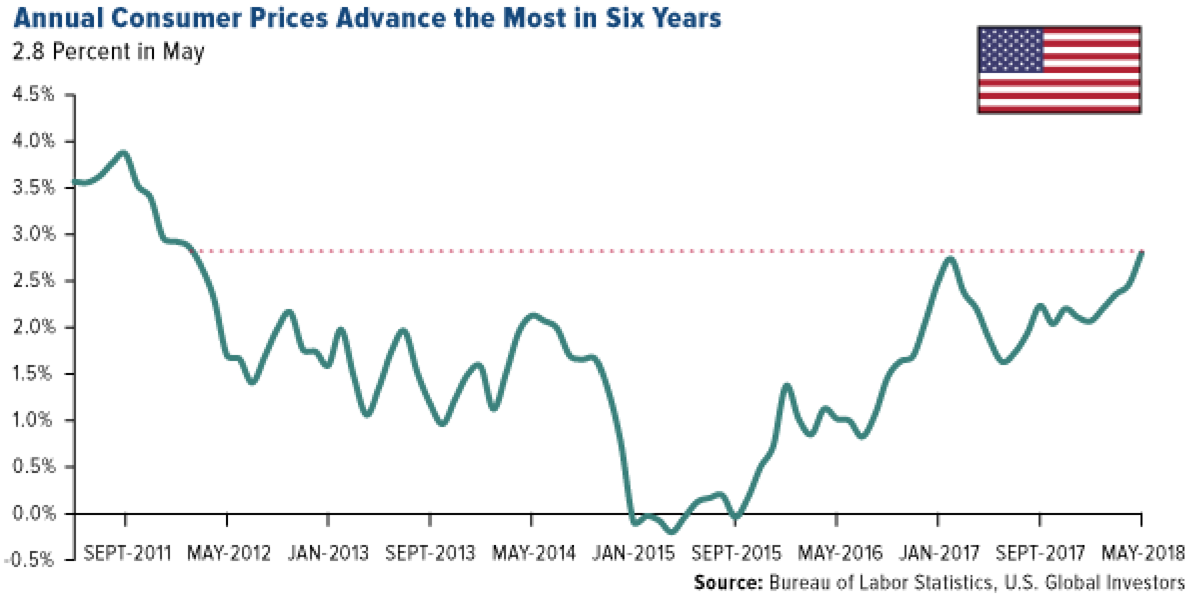
The U.S. inflation story made further inroads this month, with year-over-year price growth for consumers and producers alike hitting multiyear highs. U.S. consumer prices expanded at their strongest pace in more than six years, climbing to an annual change of 2.8 percent in May. Prices for final demand goods, meanwhile, grew 3.1 percent, their strongest annual surge since December 2011.



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As you might expect, energy was the greatest contributor to higher prices in May, with fuel oil jumping more than 25 percent from the same month a year ago. The current average price for a gallon of regular gas nationwide was just under $3.00, compared to only $2.33 in June 2017, according to the American Automobile Association (AAA).

Inflation is set to get an even bigger jolt now that President Donald Trump has formally approved 25 percent tariffs on as much as $50 billion of Chinese goods. In response, China has vowed retaliatory action. While I agree some targeted tariffs are welcome to address intellectual property theft, tariffs at the wholesale level are essentially regulations that threaten to undermine all the work Trump has done to supercharge the U.S. economy. They act as headwinds to further growth, which in turn makes gold look attractive as a safe haven investment.

Blaming OPEC

Let's return to energy for a moment. Hot off the success of his historic summit with North Korea leader Kim Jong-un, Trump took a stab at foreign oil producers this week, tweeting: "Oil prices are too high, OPEC is at it again. Not good!"

The president isn't wrong, but I believe he may be overselling the Organization of Petroleum Exporting Countries' influence here. In May, the 14-member cartel added an extra 35,000 barrels per day (bpd) in output compared to the previous month, to reach a total of 31.8 million bpd. This is down from the average 32.6 million and 32.4 million bpd OPEC collectively produced in 2016 and 2017.

Venezuela's output deteriorated once again, falling more than 42 percent in May to 1.4 million bpd, which is less than half of what it produced 20 years ago.

The beleaguered South American country didn't have the biggest monthly decline among OPEC members, however—that title belonged to Nigeria, which saw its April-to-May production tumble 53.5 percent to 1.7 million bpd. Analysts predict output could fall further to 1.4 million bpd by July—a level not seen since 1988—as the country's Nembe Creek Trunk Line (NCTL) has had to be closed recently to address product theft along its route.

OPEC will meet later this month and is widely expected to loosen production curbs as global demand strengthens. In the meantime, the U.S. continues to pump even more oil on a monthly basis, and by 2019 it could be producing more than 11 million bpd for the first time ever. This would make it the world's top oil producer, above Russia.

Want to learn more? Watch this brief video featuring Samuel Pelaez, who outlines the six factors we use to select best-in-class oil and gas exploration and production companies!

Gold Glitters on Inflation Fears and U.S. Budget Imbalance

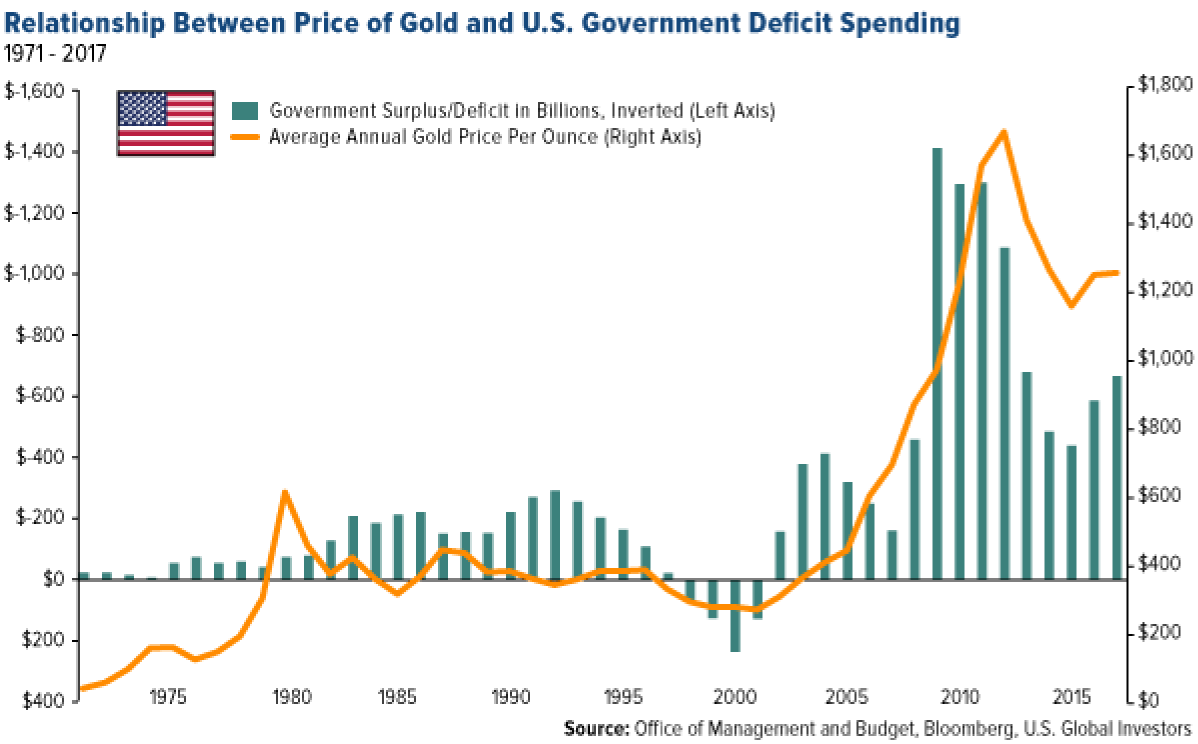
The inflation news helped support the price of gold, which traded as high as $1,309 an ounce Thursday, its best intraday showing in four weeks.

The price jump came a day after the Federal Reserve lifted interest rates another 0.25 percent, the second time it has done so this year. Although rising rates have historically made the precious metal look less competitive, since it doesn't offer a yield, gold markets could be forecasting slower economic growth as a result of higher borrowing costs, not to mention costlier servicing of corporate and government debt.

Gold surged to a four-week high after the Fed raised rates a second time this year and signaled two more hikes in 2018.

On that note, the Treasury Department announced this week that in the first eight months of the current fiscal year—October through May—the U.S. government deficit widened to a whopping $532 billion, or 23 percent more than the same eight-year period a year ago. That's already more than the total deficits in fiscal years 2014 and 2015. Because of higher spending and lower revenues, it's estimated that the deficit by the end of the fiscal year will balloon to $833 billion, which would be the greatest amount since 2012.

I believe this makes the investment case for gold and gold equities even more appealing as a store of value. In the chart below, notice how the price of gold has responded to government spending. I inverted the bars, representing surplus and deficit, to make the relationship more clear. In the years following the Clinton surplus of the late 90s, the difference between expenditure and revenue surged to new record amounts on the back of military spending in the Middle East and the multibillion-dollar bailouts of financial firms during the subprime mortgage crisis. Consequentially, the price of gold exploded.



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Learn more about what's driving the price of gold right now by clicking here!

How Close Are We to the End of the Business Cycle?

But back to the Fed. Besides lifting rates, the central bank has also signaled that we can expect two more hikes in 2018, suggesting it sees less and less need to accommodate a booming U.S. economy. Since the start of this particular rate hike cycle two and a half years ago, we haven't yet seen four increases in a single calendar year.

This raises the question of how close we are to the end of the business cycle.

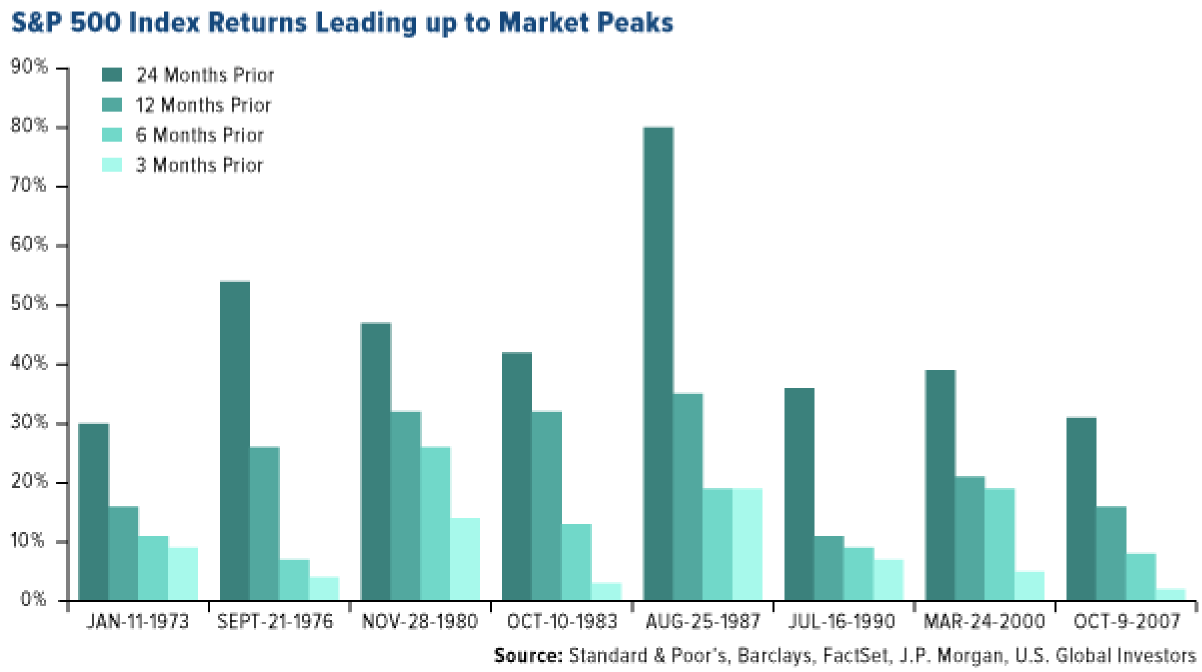
Rising rates, among other indicators, have often preceded the end of economic expansions and equity bull markets. Among other telltale signs: a flattening yield curve, record corporate and household debt, an overheated jobs market and increased mergers and acquisition (M&A) activity. So far this year, the value of global M&As has already reached $2 trillion, a new all-time high. The last two periods when M&As reached similar levels were in 2007 ($1.8 trillion) and in 2000 ($1.5 trillion), according to Reuters. Careful readers will note that those two years came immediately before the financial crisis and tech bubble.

Now, the world's largest hedge fund, Bridgewater Associates, has reportedly turned bearish on "almost all financial assets," according to one of its most recent notes to investors.

In the firm's Daily Observations, co-CIO Greg Jensen writes that "2019 is setting up to be a dangerous year, as the fiscal stimulus rolls off while the impact of the Fed's tightening will be peaking."

Don't Miss the Opportunities

Be that as it may, calling the end of the cycle would be a fool's errand and could result in missed opportunities, as J.P. Morgan's Samantha Azzarello points out in a recent note to investors. Late-cycle returns can still be quite substantial, she says. Take a look at the chart below, which highlights returns 24 months, 12 months, six months and three months leading up to the past eight market peaks. Obviously returns were higher in the longer-term periods, but even the three-month periods delivered some attractive returns—returns that would be left on the table if skittish investors exited now. According to Azzarello, it's important to "rebalance, stick to a plan and remember: get invested and stay invested."



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As further proof that many investors still see plenty of fuel in the tank, the June survey of fund managers conducted by Bank of America Merrill Lynch (BAML) found that equity investors are overweight U.S. stocks for the first time in 15 months. Commodity allocations are at their highest in eight years. And two-thirds of managers say the U.S. is the best region in the world right now for corporate profits, which is at a 17-year high.

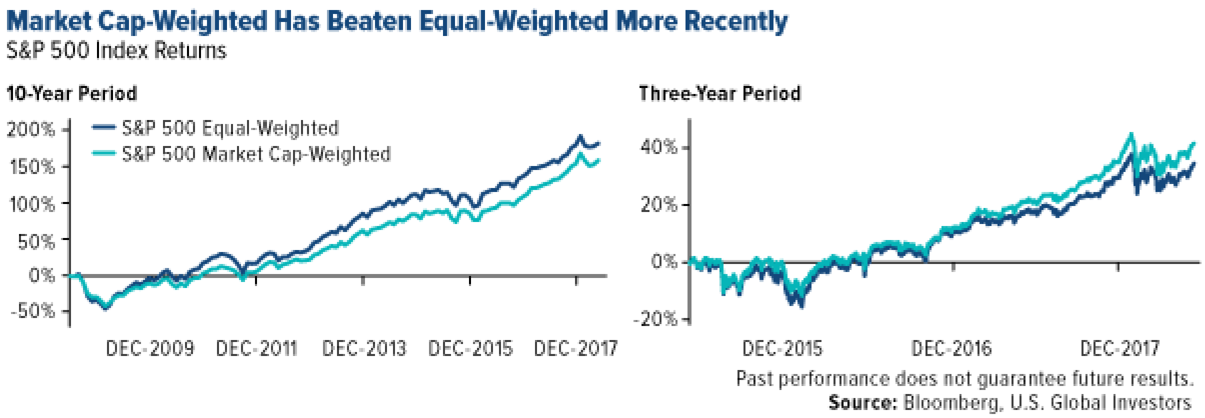
That's not to say there aren't risks, however. Forty-two percent of survey participants said they believed corporations were overleveraged. That's well above the peak of 32 percent from soon before the start of the financial crisis. Fund managers cited "trade war" as the biggest "tail risk" for markets at present.

This is largely why we find domestic-focused small to mid-cap stocks so attractive right now. These firms are well positioned to take advantage of Trump's high-growth "America first" policies, yet because they don't have as much exposure to foreign markets, they bypass many of the trade war pitfalls large multinationals must face. Since Election Day 2016, the small-cap Russell 2000 Index has outperformed the large-cap S&P 500 Index by more than 8.5 percent.

Get the scoop on small to mid-cap stocks by clicking here!

Rethinking Market Cap-Weighting

On a final note, I want to draw attention to a change we've observed in S&P 500 returns—specifically, the difference in performance between an equal-weighted basket of stocks and one that's market cap-weighted. For the longer-term period, equal-weighting outperformed. But more recently, market cap-weighting has pulled ahead. This is the case for the one-year, three-year and five-year periods.



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So why is this? Simply put, the phenomenally large FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) have made the S&P 500 top heavy. Today, these five stocks represent a highly concentrated 12 percent of the S&P 500, nearly double from their share just five years ago. Apple alone represents 4 percent of the large-cap index.

Ten years ago, the FAANG stocks—excluding Facebook, which wasn't public yet—had a combined market cap of $390 billion, according to FactSet data. In 2018, they're valued at more than eight and half times that, or right around $3.32 trillion—a mind-boggling sum.

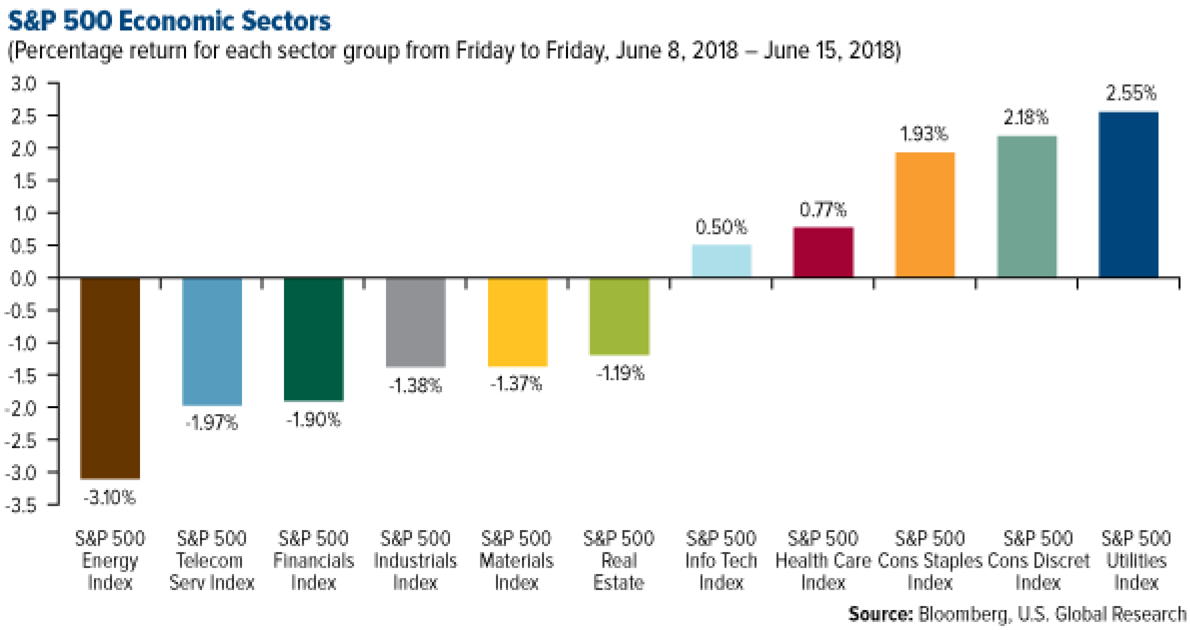
Market cap-weighted also means more money is disproportionately being reallocated to top winners such as Apple and Amazon, and so it becomes a self-fulling prophecy. This leaves you with too much exposure to companies that would be hardest hit in the event of a market downturn, and too little exposure to names and sectors that might rotate to the top in the next cycle.

Learn more about the domestic market by clicking here!

Index Summary

- The major market indices finished mixed this week. The Dow Jones Industrial Average lost 0.89 percent. The S&P 500 Stock Index rose 0.01 percent, while the Nasdaq Composite climbed 1.32 percent. The Russell 2000 small capitalization index gained 0.68 percent this week.
- The Hang Seng Composite lost 1.83 percent this week; while Taiwan was down 0.62 percent and the KOSPI fell 1.94 percent.
- The 10-year Treasury bond yield fell 2.6 basis points to 2.921 percent.

Domestic Equity Market



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Strengths

- Utilities was the best performing sector of the week, increasing by 2.55 percent versus an overall decrease of 0.10 percent for the S&P 500.
- Discovery was the best performing stock for the week, increasing 18.03 percent.
- Paul Singer's Elliott Management and Bluescape Resources revealed its latest target in the power and utilities space, Sempra Energy, reports CNBC. Singer called for a sweeping overhaul, the news sending shares up 18 percent.

Weaknesses

- Energy was the worst performing sector for the week, decreasing by 3.10 percent versus an overall decrease of 0.10 percent for the S&P 500.
- H&R Block was the worst performing stock for the week, falling 18.83 percent.
- Net neutrality has been repealed. Internet providers now have the authority to block or slow access to particular internet services and to create a "fast lane" to them.

Opportunities

- Invesco, which acquired Guggenheim Investments' $39 billion ETF business this year, is planning to launch 10 new funds for investors in the municipal-bond market, according to a Securities and Exchange

Commission registration filing. The funds will focus on investment-grade bonds with maturities from 2019 to 2028. The ETF business has been a fast-growing, if still small segment of the $3.8 trillion municipal market, where more than 40 percent of the securities are held directly in individual investors’ accounts instead of by vehicles like mutual funds. While the holdings of municipal ETFs have swelled to about $31 billion from about $1 billion a decade ago, the funds still account for only about 0.8 percent of the market, according to Federal Reserve figures. That compares with 2.6 percent of corporate bonds and 6.8 percent in the U.S. equity market, according to a report by the Municipal Securities Rulemaking Board.

- Optimism among chief financial officers in the U.S. held near an all-time high in the second quarter, while the hiring and retaining of workers in a tight labor market remained a top concern. An index of CFO sentiment was little changed at 71.1 after a first quarter reading of 71.2 that was the highest since the survey began in 1996, according to a report from Duke University’s Fuqua School of Business and CFO Magazine. The survey of 228 companies was conducted from May 22 to June 8.
- Bloom Energy, the Kleiner Perkins-backed maker of fuel-cell power systems, filed for an initial public offering in the U.S.

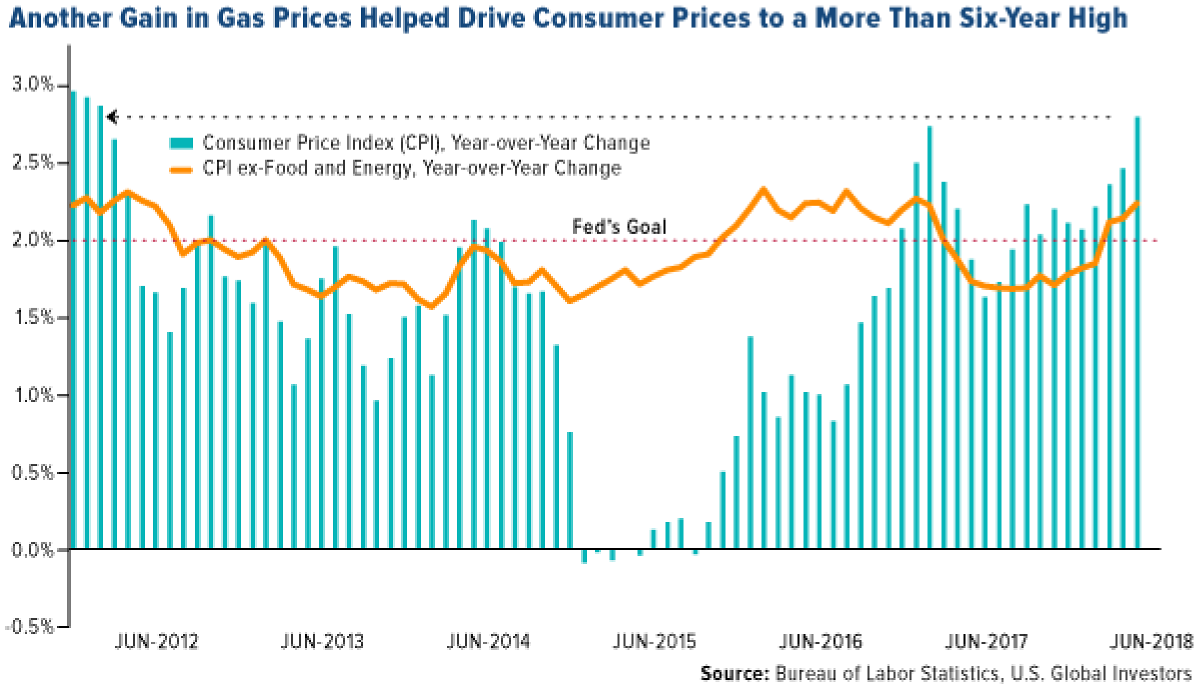
Threats

- Discretionary retailers may discover the hard way that macroeconomic indicators suggesting a strong U.S. consumer such as unemployment, job growth, wage increases and GDP are really a mirage, writes Bloomberg Intelligence analyst Seema Shah. The rising cost of housing, health care and energy, combined with ever-increasing auto and student loan debt, mitigate the benefit of tax refunds and limit income available for inessential items. This could dent sales of discretionary retailers already struggling from secular headwinds such as Signet Jewelers and Bed Bath & Beyond. Stores targeting low-end consumers, including mass merchants, may also be affected.
- U.S. stocks are facing several headwinds that will prompt a short-term pullback, says Bloomberg macro strategist Mark Cudmore. The Fed was unmistakably hawkish and that’s discouraging for equities. The negative impact is compounded with the signal sent by the flattening curve: policy is getting closer to being restrictive rather than accommodative. Trump’s latest comments on trade have clarified that the U.S.-China trade spat is set to return in a negative way. While G-7 and Nafta concerns have been rising, many investors had bought into the narrative that the worst had passed for Sino-American tensions. That was clearly premature. Trade will be an issue that ebbs and flows all year so there should be no surprises if another bout of negativity flares up on that front. With Trump bolstered by a self-declared victory on North Korea, he may move to take on the tech sector next. This idea gathered momentum Wednesday after Trump retweeted House Majority Leader Kevin McCarthy’s attack on "Big Tech."
- Hedge funds love to pitch stocks to investors at conferences and then exit those positions right after, according to a paper published by Patrick Luo, a Harvard Business School Ph.D. candidate who analyzed 341 stocks pitches by 29 hedge funds over five years.

The Economy and Bond Market

Strengths

- Inflation in the U.S. continued to advance in May, reinforcing the Federal Reserve's outlook for gradual increases in interest rates. The consumer price index (CPI) rose 2.8 percent in the last 12 months, the largest year-over-year gain since February 2012, as gasoline prices and housing costs kept rising, Labor Department figures showed on Tuesday. The CPI excluding volatile fuel and food components increased 2.2 percent from May 2017, the most since February of last year. CPI service pressures exhibited a broad-based acceleration in most underlying categories, which is likely reflective of the ongoing pickup in labor costs.



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- Federal Reserve officials raised interest rates for the second time this year and upgraded their forecast to four total increases in 2018, as unemployment falls and inflation overshoots their target faster than previously projected. Wednesday's decision was a unanimous 8-0. It was the sixth quarter-point increase in 18 months, raising the benchmark federal funds target rate to a range of 1.75 percent to 2 percent.

- U.S. states' finances are continuing to improve as the nation's long economic expansion has left fewer governments facing budget deficits for the coming fiscal year, according to a new report by the National Association of State Budget Officers. Only 13 states projected shortfalls totaling $9.5 billion for fiscal 2019 when putting together spending plans, compared with $26 billion seen by 19 states last year.

Weaknesses

- U.S. industrial production ended three straight months of growth in May with an unexpected decline. Industrial output, a measure of everything produced by the nation's factories, mines and utilities, slipped 0.1 percent in May from April in seasonally adjusted terms, the Federal Reserve said Friday. Economists surveyed by The Wall Street Journal had forecast a 0.2 percent increase.

- A slump in euro-area industrial production is adding to a series of underwhelming economic data. Output dropped 0.9 percent in April, weighed down by a plunge in energy, Eurostat said. Production fell in the region's four biggest economies and the overall decline exceeded the 0.7 percent forecast in a Bloomberg survey.

- German investor confidence tumbled to its lowest level since 2012 as U.S. trade tariffs and Italy's political turmoil added to concerns that the economy is weakening. The ZEW Center for European Economic Research said its index of investor expectations fell to -16.1 in June from -8.2 in May, marking the fourth monthly decline this year. Economists in a Bloomberg survey predicted a drop to -14.

Opportunities

The release of May's Leading Index next week will provide guidance as to future growth in the economy.

- Unexpected monthly retail sales readings are the strongest mover of yields in the Treasury market, vying with surprise U.S. payroll data as the economic releases with the most influence when unanticipated, write Bloomberg Intelligence strategists Ira Jersey and Aleksandr Nozhnitskiy. In addition to moving yields and prices, economic data surprises result in recalibrations of trend forecasts.

- The short end of the municipal market is getting crowded, according to Patrick Luby, municipal strategist at CreditSights, who sees opportunities further out the curve. "It is possible that additional redemption flows will make the short end even more crowded, as June 15 redemptions will total over $10 billion," he said in a note.

Threats

- The rebound from the Italy-related rally puts Treasury yields back into ranges from a few weeks ago, write Bloomberg Intelligence strategists Ira Jersey and Gina Martin Adams. Ten-year Treasury yields target 3.03 percent, while the two-year yield could see a more meaningful move higher, toward 2.72 percent. The trend toward flatter yield curves and higher real yields remains intact. BI continues to believe 10-year yields may remain volatile within the current range, and may extend the upper end of the range toward 3.20 percent, but ultimately thinks these yields will not trend meaningfully higher as the Fed raises interest rates and curves flatten.

- New Jersey, Connecticut and Illinois bonds are "overvalued," said Peter Hayes, head of BlackRock's municipal bond group. "Prices are rising when credit profiles are deteriorating," he said. "Their prices might be trading too high which means their yields are low, partially because of tax reform," which "created this new demand for municipals in high tax states. They don't issue a lot of debt so the prices are rising and shouldn't be. Their credit profile tells us the prices should really be falling."

- Next week's Markit U.S. Manufacturing PMI is forecast for a softer reading compared to the prior release.

Gold Market

This week spot gold closed at $1,279.55, down $19.80 per ounce, or 1.52 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week lower by 0.51 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index came in off 2.69 percent. The U.S. Trade-Weighted Dollar moved higher this week with a gain of 1.35 percent.

Date	Event	Survey	Actual	Prior
Jun-12	Germany ZEW Survey Current Situation	85.0	80.6	87.4
Jun-12	Germany ZEW Survey Expectations	-14.0	-16.1	-8.2
Jun-12	CPI YoY	2.8%	2.8%	2.5%
Jun-13	PPI Final Demand YoY	2.8%	3.1%	2.6%
Jun-13	FOMC Rate Decision (Upper Bound)	2.00%	2.00%	1.75%
Jun-13	China Retail Sales YoY	9.6%	8.5%	9.4%
Jun-14	Germany CPI YoY	2.2%	2.2%	2.2%
Jun-14	ECB Main Refinancing Rate	0.00%	0.00%	0.00%
Jun-14	Initial Jobless Claims	223k	218k	222k
Jun-15	Eurozone CPI Core YoY	1.1%	1.1%	1.1%
Jun-19	Housing Starts	1315k	--	1287k
Jun-21	Initial Jobless Claims	221k	--	218k

Strengths

- The best performing metal this week was silver, down just 1.37 percent. Gold traders and analysts were bullish on the yellow metal due to speculation that the now confirmed interest rate hike by the Federal

Reserve could ease the dollar's rally, according to Bloomberg. It is of interest to note that over the last three weeks gold stocks, as measured by the NYSE Arca Gold Miners Index, have outperformed bullion by 121 basis points. While too early to call it a meaningful trend, that gold stocks are outperforming bullion, the seasonal summer lift in bullion buying should start to pick up in July and investors may be positioning themselves now in the equities.

- The World Gold Council is reportedly preparing a fund which would charge less than any other gold ETF, according to Bloomberg. Regulatory filings show that the SPDR Gold MiniShares Trust (GLDM) will cost 18 basis points in management fees. That is $1.80 for every $1,000 invested. For comparison, GLD charges $4 for every $1,000 invested.

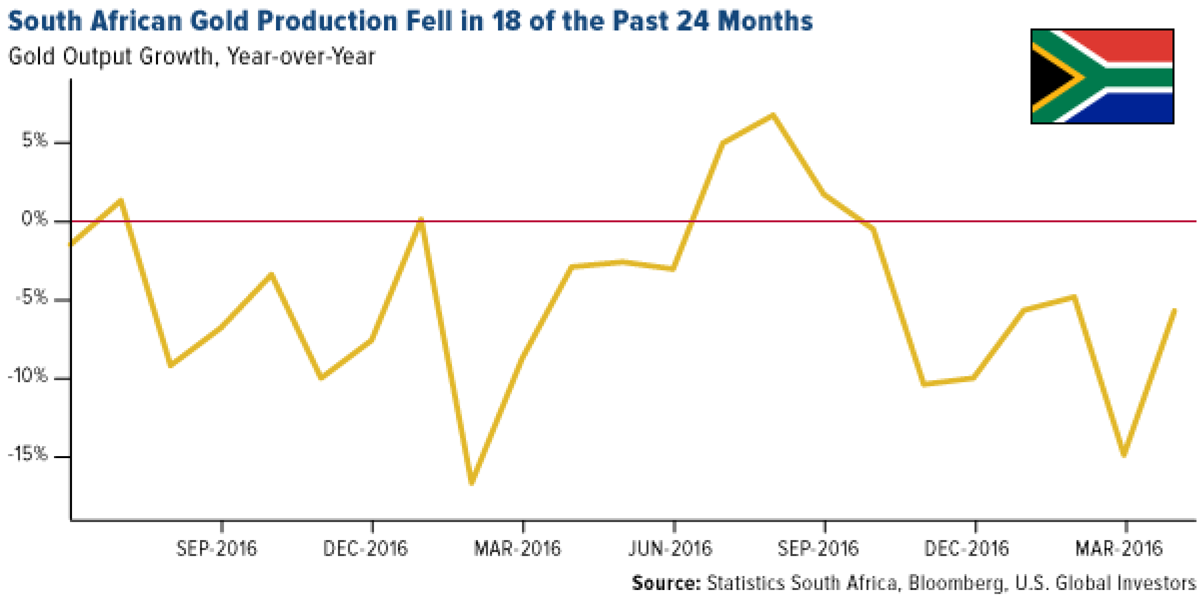
- Gold priced in euros is nearing the biggest gain since September as a result of the European Central Bank's pledge to maintain the currently record-low borrowing costs over the next year. "That means there's going to be a large disparity between U.S. interest rates and European interest rates," says George Gero, a managing director at RBC Wealth Management, "and that is going to probably increase the demand for gold." Additionally, green credentials will be required from the world's biggest gold producers in order to be traded on London's bullion market, according to the Financial Times.

Weaknesses

- The worst performing metal this week was palladium, down 2.23 percent even with hedge funds adding more exposure to their net long position. The dollar headed for its best week since November 2016, which dropped gold prices as a result, according to Bloomberg. Kotak Commodity Services analyst Madhavi Mehta noted, "Weighing on [gold] price are sharp gains in the U.S. dollar against the euro amid diverse monetary policy outlook for the Fed and ECB." During the past week, investors withdrew from commodity exchange-traded funds, reports Bloomberg. Precious metal funds saw $408 million in outflows, as opposed to $1.02 billion during the prior week.

- In India, gold discounts are at their widest in nine months, according to Business Standard. Dealers are providing discounts as large as $7.50 per ounce over domestic prices this week, up from $5 last week. This is the sixth straight week of discounted gold in India. The falling rupee played a significant role in denting demand for gold jewelry, which is on track to decline 18 percent this year.

- South Africa, the eighth largest gold producer globally, saw a drop in gold production for the seventh straight month in April, reports Bloomberg. Platinum-group metal production in South Africa similarly fell for the fifth straight month. In Mexico, the Penasquito mine suffered a 12-day blockade by a group of truckers who claim Goldcorp Inc. did not follow through on promises to hire locally. This mine is Goldcorp's most significant asset. As of writing this piece, the blockade has been called off.



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Opportunities

- Wheaton Precious Metals and Colbalt 27 Capital signed separate streaming agreements with Vale for an upfront consideration of $690 million. In return for finished cobalt from Voisey's Bay mine, Wheaton agreed to pay Vale $390 million upfront for 42.4 percent of Vale's cobalt production, along with a future payment of 18 percent of spot cobalt price. The streaming company will be entitled to production starting in 2021.

- Nighthawk Gold Corp. announced updated Inferred Mineral Resource estimate this week, of 50.305 million tonnes, with an average grade of 1.62 grams per tonne. This is for the 2.613 million ounces of gold for its 100 percent owned Colomac Gold Project, Bloomberg reports. Recent test work for the Colomac project confirms favorable recoveries for all process options including heap leaching, flotation and gravity separation. In other company news, Wesdome Mines has been raised to "strong" buy from buy, a recommendation made by Industrial Alliance Securities analyst George Topping. The company's price target is set to C$5, implying an increase of 98 percent from its last close, reports Bloomberg.

- Inflation in the U.S. accelerated during May to the fastest pace in over six years, reports Bloomberg. The consumer price index (CPI) rose 0.2 percent from April and 2.8 percent from a year earlier. Average hourly wages, however, were unchanged from May 2017 when adjusted for inflation, which shows employees' incomes were stagnate. The trend of no growth in real purchasing power for employees cannot go on forever. The first rounds of teacher strikes this past school year likely won't be a onetime event or one sector of the economy shock. Labor markets are tight. Immigration labor is being choked off from participation in the future which should lead to increased Unit Labor Costs. Cornerstone Macro notes that Unit Labor Costs accelerated sharply in the 1970s driven by a jump in compensation gains which led inflation and gold during that decade.

Threats

- Consumer debt is piling up in the U.S. while borrowers keep their credit profiles healthy for now, reports Bloomberg. Dean Athanasia, co-head of Bank of America's consumer and small-business operation, noted in a recent conference that "people and clients are definitely leveraging up and we have to watch that." Meanwhile, senior executives and directors at Netflix, Amazon, Facebook, and Google's parent Alphabet Inc. have disposed of $4.58 billion of their own stock so far in 2018. "If they continue selling into that weakness, then that'll be a strong indicator of insider sentiment," says Jonathan Moreland, director of research at InsiderInsights.com.

- Due to recent tax cuts and increased federal spending, U.S. deficit is ballooning towards 125 percent of gross domestic product after 2030, according to Congressional Budget Office predictions. "It is pretty much unprecedented that we're seeing this level of debt expansion so late in an economic cycle," says Jeffrey Gundlach, chief investment officer of DoubleLine Capital.

- Grievances against Randgold Resources turned violent in the town of Kéniéba, Mali, resulting in one person's death and at least six injured. The incident was sparked when 15 employees who staged a sit-in against Randgold's hiring practices and the dismissive local government were let go, according to Jane's 360. On another note, mining companies in the Democratic Republic of Congo are battling new legislation that voids existing agreements and increases costs. DRC is Africa's largest copper producer and the source of two-thirds of the world's cobalt.

Blockchain and Digital Currencies

Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended June 15 was FirstCoin, which gained 713.29 percent.

- The price of ethereum classic rose 25 percent on Tuesday after Coinbase announced that the coin would be added to its trading options, reports Coindesk. The exchange wrote that the engineering work to integrate ethereum classic with its platform has begun and that service will be live within a few months. The represents a big turnaround from March when Coinbase noted that it had not made any decisions on adding new assets. On a related note, bitcoin and ethereum both traded up sharply on Thursday following a statement by the Securities and Exchange Commission (SEC) to the effect that the two cryptocurrencies are not securities and should therefore not be regulated as such.

- When former basketball star Dennis Rodman arrived in Singapore this week for the U.S.-North Korea summit, he was wearing a t-shirt prominently featuring the PotCoin logo. PotCoin, which sponsored Rodman's trip, is a cryptocurrency geared toward the growing cannabis industry and soared 90 percent from its price the day before the summit.

Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended June 15 was GoByte, which lost 36.61 percent.

- Apple released new policies that explicitly prohibit the mining of cryptocurrencies on its devices. The rules announced at the company's annual developer conference are in response to "sneakily" inserted mining software in unrelated advertisements and apps that mined cryptos in the background of devices of unassuming users. The tech giant does, however, permit many crypto applications such as wallets, exchanges and software that mine cryptocurrencies on a server.

- Around $42 billion of market value was erased from cryptocurrencies over last weekend, in part due to an exchange hack in South Korea and continued concerns over regulatory measures on crypto trading platforms in China, reports Bloomberg. Coinrail, the South Korean cryptocurrency exchange, confirmed via a tweet that it was hacked over the weekend. The news sent the price of bitcoin down 10 percent on Sunday to two-month lows.

Opportunities

- American Express (Amex) is deepening its commitment to blockchain-powered payment services, according to CoinDesk. A partnership from November between Amex, personal banking firm Santander Bank and currency exchange Ripple is taking a new turn as both Amex and Santander are now using Ripple's xCurrent tool to facilitate faster and more transparent transactions across borders around the world. "Ripple offers instantaneous, point-to-point conversations between the sender and receiver of funds," says Amex vice president Colin O'Flaherty, adding that this could "alleviate most of the issues our customers are facing."

- Steve Bannon is buying into bitcoin, the New York Times writes. The controversial former chief strategist to President Donald Trump says bitcoin and other altcoins have the potential to disrupt the banking system the same way Trump disrupted American politics. On behalf of his investment business, Bannon & Company, he has reportedly met with a number of cryptocurrency investors and hedge funds to work on initial coin offerings (ICOs), including one cheekily named "deplorable coin," referring to the word then-presidential candidate Hillary Clinton used to describe Trump supporters.

- GroundX announced that it will begin working with a government-backed agency to develop blockchain projects centered on social and public services, writes Coindesk. The blockchain subsidiary of South Korean messaging giant Kakao will team up with the Seoul Digital Foundation and tackle social issues such as tracking the temperature during the distribution of heat-sensitive vaccines in developing countries.

Threats

- According to Reuters, banks are unlikely to use distributed ledgers to process cross-border payments for now. This has to do with scalability and privacy issues, says Ripple, one of the most prominent startups developing the technology.

- A new report takes the contrarian case that blockchain technology is an overhyped fad that will all but disappear by 2025. GlobalData, a London-based digital media firm, spent 18 months researching blockchain and speaking with about 100 different organizations, and concluded that in "19 out of 20 cases… you can easily replace [blockchain] with a database" or some other traditional, cheaper and often faster technology. Among GlobalData's criticisms is that decentralization "comes at a very significant cost"—namely, "many of the claims of cost reduction, and improved efficiency, [are] open to debate at best and simply false at worst."

- Over the past six months bitcoin has shed 66 percent of its value, reports Bloomberg. From December's record high, the cryptocurrency is down by around two-thirds, and it appears to be unraveling on par with the Nasdaq index during the dot-com bust, the article continues. Although some are calling the current price of $6,500 a "screaming buy" and others are predicting a rebound to $10,000 within the year, such bullishness might be premature.

Energy and Natural Resources Market

Strengths

- Natural gas was the best performing major commodity this week rising 4.78 percent. The commodity rallied as hot weather in some of the biggest U.S. cities spurred demand for gas-fired power to run air conditioners, limiting stockpile gains.

- The best performing sector this week was the S&P 1500 Construction Materials Index. The index rose 0.91 percent as early producer price index (PPI) data appears to show materials companies in the U.S. have quietly raised prices, reflecting positive business conditions.

- The best performing stock for the week was Braskem SA. The Brazilian petrochemical producer rose 14.89 percent as market commentators suggest LyondellBasell has once again approached the company for a takeover.

Weaknesses

- Iron ore was the worst performing commodity this week. The commodity dropped 12.04 percent, the worst weekly fall in at least three months after President Trump enacted tariffs on $50 billion worth of Chinese goods.

- The worst performing sector this week was the S&P/TSX Diversified Metals and Miners Index. The index dropped 6.35 percent after copper prices posted negative returns every day this week. The metal fell as labor negotiations at BHP Chilean operations advanced successfully, while also falling on expectations that the U.S. trade war with China may escalate.

- The worst performing stock for the week was West Fraser Timber Co. Ltd. The Canadian lumber producer dropped 10.62 after lumber prices fell on expectations that President Trump may take a more aggressive stance against Canada after the G7 meeting failed to reach trade agreements amongst the two nations.

Opportunities

- China's factory-gate inflation accelerated in May, confirming a reflationary tailwind for the industry triggered higher by commodity prices. PPI rose 4.1 percent, boosting profits for the industry which may lead to a pick up in industrial metals demand.

China's Factory-Gate Inflation Accelerated in May

Source: China National Bureau of Statistics, Bloomberg, U.S. Global Investors

click to enlarge

- The International Energy Agency (IEA) believes the collapse of Venezuela's oil production and the loss of Iranian barrels after the re-imposition of U.S. sanctions, could take 1.5 million barrels per day off the market by next year.
- While the world focused on the G7 meeting held in Canada last weekend, Xi Jinping and Vladimir Putin announced the expansion of the Shanghai Cooperation Organization to include India and Pakistan. The group will boost cooperation on energy and agriculture, while focusing on lowering trade and investment barriers across the member nations.

Threats

- President Donald Trump approved tariffs on about $50 billion of Chinese goods as the U.S. ratchets up its trade fight with Beijing. The U.S. has also completed a second list of tariffs on an additional $100 billion in Chinese goods, in preparation for an in-kind retaliation from Beijing.
- Russia plans to propose that OPEC and its allies be allowed to increase crude production back to October 2016 levels, rolling back most of the output cuts enacted then. The production increases could hit the market as soon as July.
- The optimism among German investors tumbled in June to its lowest level since September 2012, weighed down by an escalation in a trade dispute with the U.S. The ZEW Research Institute showed economic sentiment amongst investors fell to -16.1 in June, a notable contraction from the highs on 20.4 set in the first quarter of 2018.

China Region

Strengths

- Malaysia's industrial production came in a little better than expected, at 4.6 percent and ahead of an anticipated 4.4 percent print.
- Taiwan and Malaysia fared better than most regional indices this week, with the Taiwan Capitalization Weighted Stock Index falling only 60 basis points and the FTSE Bursa Malaysia KLCI Index falling only 90 basis points.
- In a down week for the Hong Kong's Hang Seng Composite Index—which fell 1.83 percent in that time—

even the best-performing consumer services sector still declined by 21 basis points.

Weaknesses

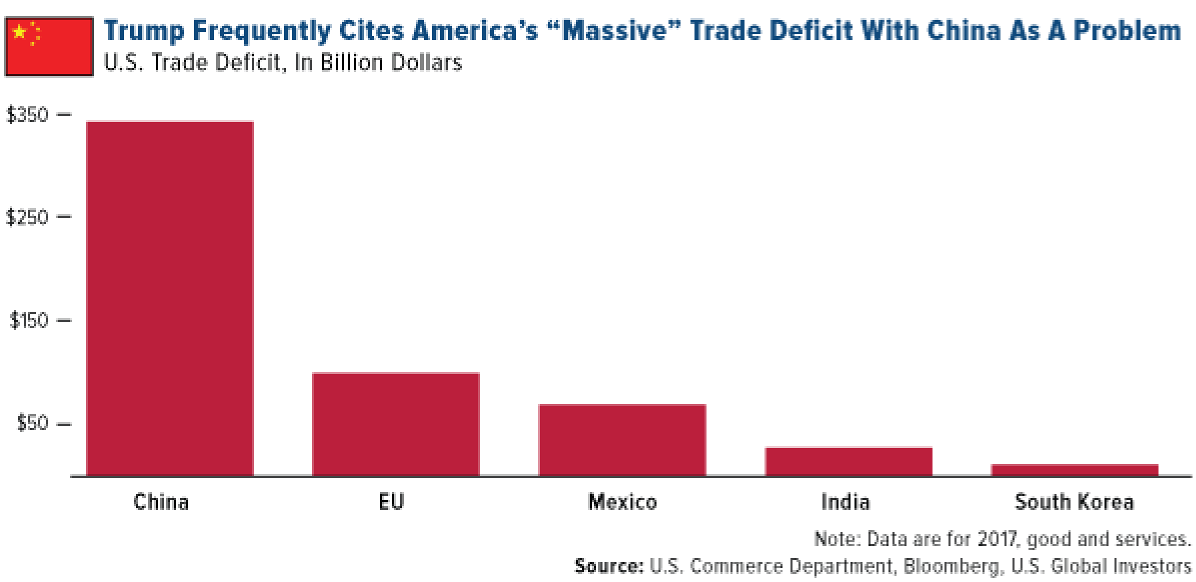
- Chinese retail sales, industrial production and fixed asset investment (FAI) all came in lower than expected. Retails sales came in up only 8.5 percent year-over-year for May, short of expectations for a 9.6 percent pace. Intellectual property clocked in at 6.8 percent for the same period, below analysts' anticipation of a 7.0 percent pace, and FAI came in at 6.1 percent—the lowest level since 1999—well below expectations for a 7.0 percent print.
- China's Shanghai Composite finished the week at new 52 week closing lows.
- Unemployment in South Korea came in higher than expected, at 4.0 percent, higher than the 3.7 percent analysts were after.

Opportunities

- U.S. President Donald Trump and North Korean leader Kim Jong-Un met on Sentosa Island in Singapore earlier this week in an historic summit that may have marked a well-televised potential turning point in North Korea's relations with the outside world. The summit, which did not yield much with respect to immediate, concrete steps toward denuclearization or firm timetables, nonetheless laid the groundwork for an ongoing process of negotiation and discussion. While both sides proclaimed commitment to denuclearization of the Korean Peninsula, and while the U.S. is electing to hold off on certain military exercises with South Korea for the moment, the U.S. also announced that there will be no troop reductions in South Korea and that the United States intends to leave current economic sanctions on North Korea in place until denuclearization is achieved. Again, for a relatively brief, one-day meeting between two historic enemies full of distrust, a friendly summit and the establishment of more open lines of communication seems like a solid place to start. Clearly, there remain an abundance of unknowns. But Mr. Trump was reportedly nominated in Norway for the 2019 Nobel Peace Prize this week, and we can all certainly hope that the Trump administration policy of "maximum pressure and maximum diplomacy" pays off.
- China eased curbs on foreign investors this week, announcing a scrapping of a 20 percent limit of repatriation for companies in the Qualified Foreign Institutional Investors program.
- "Thailand said cementing the 16-nation Regional Comprehensive Economic Partnership [RCEP], a pact championed by China, is now a policy priority," Bloomberg News reported this week.

Threats

- A U.S.-China trade war (or the perception of a trade war) remains a significant threat to global markets. And why does the Trump administration remain so focused on the trade deficit with China? One obvious part of the answer lies just below:



click to enlarge

- Philippine inflation remains a concern, as the Philippines' central bank announced it was moving its next meeting forward slightly and as the peso continues its struggle, even as the U.S. Federal Reserve hiked rates again this week and indicated two more hikes likely in 2018.

- The exact fate of Chinese communications equipment maker ZTE remains uncertain as the company is stuck, so to speak, between Congress and the Trump administration, with a bleak outlook at best. What is certain is that ZTE plunged more than 48 percent this week after the company finally reopened for trading in Hong Kong.

Emerging Europe

Strengths

- The Czech Republic was the best performing country this week, gaining 5 basis points. All emerging Europe markets closed lower this week, with exception of the Prague exchange, which had a slight gain. Equites traded down as trade wars between major economies are picking up. Eurozone imposed retaliatory tariffs against the U.S. on imports of jeans, motorbikes and whiskey, worth $3.3 billion.
- The Russian ruble was the best relative performing currency this week, losing 1.3 percent against the U.S. dollar. Central Bank of Russia left its main rate unchanged at 7.25 percent, while the market was expecting a 25 basis points cut.
- Information technology was the best performing sector among eastern European markets this week.

Weaknesses

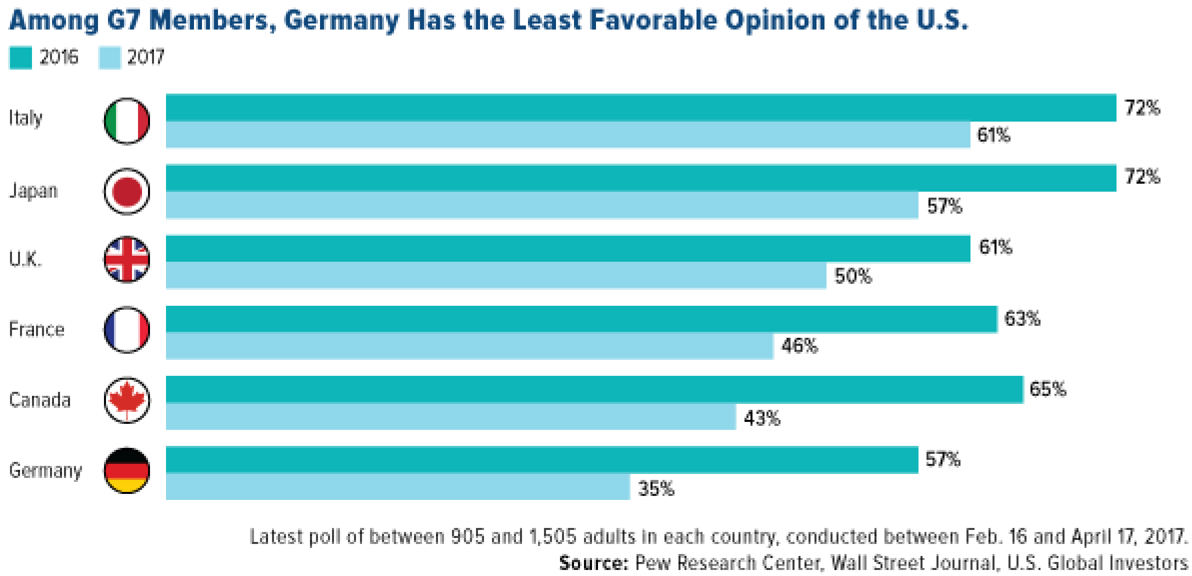
- Poland was the worst performing country this week, losing 2.2 percent. Energy and commodity stocks sold off the most as fear of global trade is rising. President of Poland, Andrzej Duda, proposed a referendum on EU law primacy and domestic matters. Fifteen questions were proposed, and if approved by the Senate, the referendum will take place in the middle of November.
- The Turkish lira was the worst performing currency this week, losing 5.2 percent against the U.S. dollar. Current account deficit widened and the Fed’s decision to raise rates by 25 basis points put further pressure on an already weak lira.
- Real estate was the worst performing sector among eastern European markets this week.

Opportunities

- Russia will be in the center of news for the next few weeks. FIFA World Cup 2018 kicked off Thursday in Russia, where 12 stadiums will be hosting games over the next month. Russia has spent eight years and 700 billion rubles getting everything ready for this tournament. Moscow expects up to 1 million fans during the 2018 World Cup.
- Elections are over in Russia and as expected Prime Minister Medvedov announced an increase in the retirement age and the Value Added Tax (VAT). Renaissance Capital estimates that an increase in the retirement age to 63 for women and 65 for men might lift Russian GDP growth by 0.5 percentage points in the medium term. An increase in VAT might bring up to RUB2.5 trillion to the budget in the next five years. The VAT could go from 18 percent to 20 percent, raising government funds to cover the additional spending as outlined in the new Presidential decrees for 2018-2024.
- The European Central Bank (ECB) left all its rates unchanged as expected and outlined plans to end its stimulus program by the end of this year. The bank said Thursday that if incoming data followed its forecasts, then its monthly bond purchase program would extend by three months. However, the monthly bond-buying amount will drop from 30 billion euros, to 15 billion. The rates might stay unchanged until next summer.

Threats

- The G7 meeting took place last weekend and this opportunity for global leaders to discuss their economic issues became a battlefield. Trump once again has said that Europe and Canada are benefiting from the trade surplus with the U.S. and has tasked Europe and Canada to stop ripping off America. The EU has a $151 billion surplus and Canada’s surplus with the U.S. stands at $100 billion. Among G7 countries, the share of people with a favorable opinion of the U.S. has dropped since 2016. Germany, Europe’s largest economy, has the least favorable opinion of the U.S.



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- Eurozone industrial production fell more sharply than expected in April, resuming its 2018 decline after a March bounce. The European Union's statistics agency said Wednesday that the output of factories, mines and utilities across the 19 countries that use the euro was 0.9 percent lower in April than in March, although 1.7 percent higher than a year earlier. Each of the eurozone's five largest members saw a drop in output, with the Netherlands experiencing the sharpest decline at 4.4 percent. A drop in industrial output, which accounts for a quarter of the eurozone economy, might lead to weaker economic growth.
- The U.S. Treasury imposed sanctions on three Russian individuals and five companies on Monday, saying they had worked with Moscow's military and intelligence on ways to conduct cyber-attacks against the United States and its allies. Stocks trading on the Moscow exchange were little changed at the begging of the week.

Frank Talk Insight for Investors

June 12, 2018
Top 10 Gold Producing Countries

June 11, 2018
Texas Gold Investors Just Got Their Own Fort Knox

June 5, 2018
Gold, World War II and Operation Fish

A blog by Frank Holmes, CEO and Chief Investment Officer

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
Russell 2000	1,683.91	+11.42	+0.68%
S&P Basic Materials	374.44	-5.20	-1.37%
Nasdaq	7,746.38	+100.87	+1.32%
Hang Seng Composite Index	4,207.03	-78.64	-1.83%
S&P 500	2,779.42	+0.39	+0.01%
Gold Futures	1,282.40	-20.30	-1.56%
Korean KOSPI Index	2,404.04	-47.54	-1.94%
DJIA	25,090.48	-226.05	-0.89%

S&P/TSX Global Gold Index	191.65	+2.46	+1.30%
SS&P/TSX Venture Index	754.40	-20.82	-2.69%
XAU	82.58	-0.35	-0.42%
S&P Energy	547.51	-17.51	-3.10%
Oil Futures	64.60	-1.14	-1.73%
10-Yr Treasury Bond	2.92	-0.03	-0.88%
Natural Gas Futures	3.03	+0.14	+4.78%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
Korean KOSPI Index	2,404.04	-55.78	-2.27%
Hang Seng Composite Index	4,207.03	-90.24	-2.10%
Nasdaq	7,746.38	+348.08	+4.70%
XAU	82.58	+0.65	+0.79%
S&P/TSX Global Gold Index	191.65	+5.09	+2.73%
Gold Futures	1,282.40	-15.00	-1.16%
S&P 500	2,779.42	+56.96	+2.09%
S&P Basic Materials	374.44	+1.24	+0.33%
DJIA	25,090.48	+321.55	+1.30%
Russell 2000	1,683.91	+67.54	+4.18%
SS&P/TSX Venture Index	754.40	-27.10	-3.47%
Oil Futures	64.60	-6.89	-9.64%
S&P Energy	547.51	-23.51	-4.12%
Natural Gas Futures	3.03	+0.21	+7.57%
10-Yr Treasury Bond	2.92	-0.18	-5.68%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
Korean KOSPI Index	2,404.04	-89.93	-3.61%
Hang Seng Composite Index	4,207.03	-163.59	-3.74%
Nasdaq	7,746.38	+264.39	+3.53%
Natural Gas Futures	3.03	+0.34	+12.65%
Gold Futures	1,282.40	-41.50	-3.13%
S&P 500	2,779.42	+27.41	+1.00%
S&P Basic Materials	374.44	+3.63	+0.98%
S&P/TSX Global Gold Index	191.65	+7.69	+4.18%
XAU	82.58	+3.88	+4.93%
DJIA	25,090.48	+143.97	+0.58%
Russell 2000	1,683.91	+97.86	+6.17%
SS&P/TSX Venture Index	754.40	-79.27	-9.51%
S&P Energy	547.51	+49.58	+9.96%
Oil Futures	64.60	+2.26	+3.63%
10-Yr Treasury Bond	2.92	+0.08	+2.67%

Holdings may change daily. 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 (03/31/2018):

Signet Jewelers
BHP Billiton Ltd.
Wesdome Gold Mines Ltd
Nighthawk Gold Corp.
Vale SA
Wheaton Precious Metals Corp.
Goldcorp Inc.

*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 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 Conference Board index of leading economic indicators is an index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

ZEW Germany Expectation of Economic Growth is a survey on the question of economic growth in six months.

The S&P 1500 Composite is a broad-based capitalization-weighted index of 1500 U.S. companies and is comprised of the S&P 400, S&P 500, and the S&P 600. The index was developed with a base value of 100 as of December 30, 1994.

The S&P/TSX Composite Diversified Metals & Mining Sub Industry Index is a subset of the constituents of the S&P/TSX Composite Index.

The Producer Price Index (PPI) measures prices received by producers at the first commercial sale. The index measures goods at three stages of production: finished, intermediate and crude.

Russell 2000 refers to an index that measures the performance of approx. 2000 small cap companies and it is maintained by the FTSE.

The FTSE Bursa Malaysia KLCI, also known as the FBM KLCI, is a capitalization-weighted stock market index, composed of the 30 largest companies on the Bursa Malaysia by market capitalization that meet the eligibility requirements of the FTSE Bursa Malaysia Index Ground Rules. The index is jointly operated by FTSE and Bursa Malaysia.

Taiwan Capitalization Weighted Stock Index is a stock market index for companies traded on the Taiwan Stock Exchange.

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