

The economy is currently in an interesting state. Corporate profits have been good, yet some of the hard data is starting to disappoint. One of the key metrics is the non-farm payrolls which continue to disappoint. This morning's release came in at only 22k jobs added. In addition, the two month revision continued to contract with another 21k jobs lost. With unemployment starting to tick higher and the tariffs just now really kicking into gear, risk appears to be elevating. With stock multiples at decades high levels, there is a risk of a quick correction. As discussed in previous updates, the Pavlovian response by the government is to throw more money at any problem. If this turns out to be a "soft patch" then Congress will probably just let us muddle through. If it turns into a recession, look for a bailout.

The program remains long precious metals. Regarding gold specifically, the developed economies continue to print/spend which is supportive to prices due to overall currency debasement. In addition, central banks continue to accumulate physical gold. When you throw in the retail community buying, the bid appears to be deep and healthy. While silver doesn't have the central bank support, it also derives some of its value from currency debasement. The other driver is industrial use ranging from 50-60% of the total demand depending on the year. Electronics and solar panels are the main drivers there. With the majority of countries still expanding their solar energy production, that demand seems solid. That said, the primary driver for both should be currency debasement. As long as deficits continue to expand, gold and silver should be the outlet to help preserve wealth. With gold breaking out to new all-time highs (lh side) and silver (rh side) at the highest since the great financial crisis, long positions will continue to be held.



While nothing has been done for the program yet, a tactical short position in stocks looks increasingly appealing. As mentioned above, valuations are stretched and the economy appears to be slowing. The true impact of the recently implemented tariffs has yet to be seen in the corporate earnings. How much of the import price is able to be passed on to the consumer has yet to be seen. While I am not abjectly bearish the stock market overall, some p/e compression would be healthy for the market.

Sincerely,



Stephen Davis

September 5, 2025

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