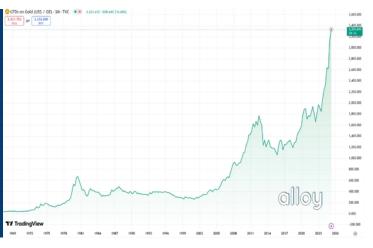


Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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Gold prices, as
depicted in the chart,
exhibit periods of
dramatic volatility due
to various factors,
including the abandonment of the U.S. gold
standard in 1971.
Recently, the explosion
in demand by central
banks has been a
major contributor to
record gold prices.



Gold Prices and the Economy

If you are not interested in gold prices, you could be missing an opportunity of a lifetime, according to many "gold bugs." Gold is a unique metal among only a few elements that do not deteriorate. This characteristic has allowed gold to become the king of precious metals and has been so for centuries. Beyond being a metal attractive for use in jewelry, it was milled into gold coins that became a medium of exchange because it maintained its value during periods of inflation. Central banks accumulated gold bars to keep their currencies from falling in value. The last currency to break the connection with gold was the United States, when President Nixon took America off the gold standard in 1971, ushering in the concept of a fiat currency—the U.S. dollar's value was not tied to any physical commodity. What gave the currency value was the fact that people had to pay their taxes in dollars.

Historical data indicate that when inflation rises, gold prices tend to rise in tandem. The rationale is straightforward: if a currency is losing value due to inflation, investors will flock to tangible assets to preserve their wealth, and gold prices will rise. If the economy is sluggish and inflation is low, gold prices are likely to remain stable. Over the past year, gold prices have surged to all-time highs even though inflation has been falling. What's going on? Essentially, global concerns about future inflation and political uncertainty have prompted central banks to accumulate gold as a means of protecting their currencies. For example, in 2024, central banks collectively bought approximately 1,086 metric tons of gold, a record in recent decades. During the period from 2016 to 2020, the average annual net purchases were only 400-500 tons. Such a significant shift in purchasing expectations, which is expected to persist, would suggest that gold prices continue to rise. On the other hand, any decline in economic activity or reversal of inflation trends may turn the tide in gold prices as it did back in 1980 when gold prices peaked above \$800 and then subsequently fell to about \$300 in 1983, a loss of over 50%! Investors who step in to take advantage of this unusual spike in gold prices must bet that central banks will continue to provide support for this market, as well as attract other investors based on the gold price movement of recent years.

"Do not go where the path may lead, go instead where there is no path and leave a trail."

- Ralph Waldo Emerson

Market Commentary

U.S. equity indexes finished September with modest gains. The S&P 500 is on track for its fifth consecutive monthly gain, and the index has had 23 record closing highs and the best September return in 15 years. The advance broadened to small-cap stocks, bringing the quarterly gain to more than 9%. Mid-caps eked out a return of less than 1% and are still lagging for the year. Asian stocks increased, with the S&P Asia index finishing up 4.1%. South Korea grew 10% to bring year-to-date returns to nearly 48%! European equities, measured by the STOXX Europe 600 index, rose 1.5 % — the best September in seven years. Highyield and corporate bonds continued to outperform broader credit markets last month, while Treasury yields eased somewhat, with the 10-year yield finishing at 4.1%. The U.S. dollar remained under pressure, while gold rallied to new highs.

On the prediction-markets platform Polymarket, the odds of the US entering a recession in 2025 began the year at 18%, peaked at 65% on April 8, but hit a year-to-date low of 5% on September 17.