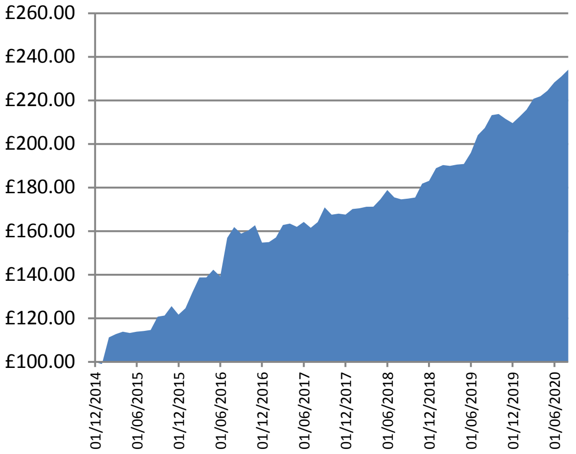
THE RIO CLUB

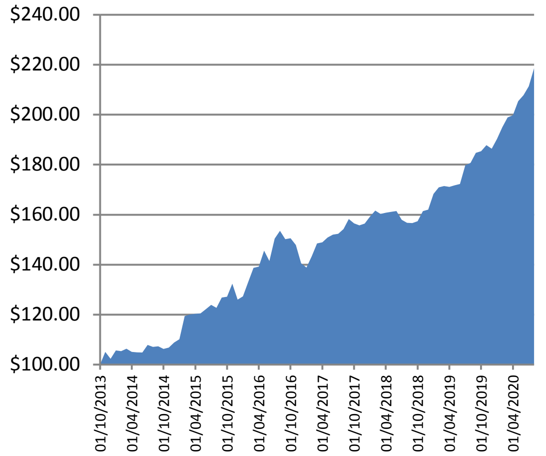
24 August 2020

RIO ARC BULLION ACCOUNTS

The ARC accounts continue to produce the desired results with both in the list of RIO investments that have returned in excess of 100%, in fact the ARC Bullion account Sterling has produced 134.09% since launch and the ARC USD 118.59%, both are regularly commented on by our membership.



ARC GBP



ARC USD

Gold

Members will perhaps be unaware that this gold bull market is both broad and big; statistical data clearly shows that as of today investment capital currently holds more gold than most countries in the world. That is, except for the USA and its 10,000 plus tonnes and also most likely China, which have officially declared 1948 tonnes but probably own four times that in my opinion. Many gold experts would agree with this comment as China has massively under declared their holdings for years.

Looking forward this bull market is far from over, the current situation continues to drive investors to gold and this is likely to continue. There is a simple rationale for that conclusion: governments are broke. In fact, several countries have fallen into debt traps, as such they are no longer in a position to raise interest rates. That statement alone should ring alarm bells, to make this clear if they raised rates the cost of servicing their national debts would be catastrophic and damage economies.

We are not talking small numbers here, as of March, the UK had a debt-to-GDP ratio of 100.9%. The last time that the UK was in such position was in 1963. However, that is not the position today, which is far worse, in the last five months the quantity of debt issued by the Government has significantly increased. The question on everyone's lips should be how it is going to be paid back? The actual number stood at £1.95 Trillion in March and the cost of servicing the debt alone is a very relevant consideration, as such the Bank of England can't raise rates without serious consequence.

The USA and the Dollar, which remains for now the main reserve currency, are in exactly the same situation. To underline and clarify, at the start of 2008 the US debt to GDP was circa 62%. It has since rocketed, and as of June 2020, the US government debt to GDP stood at 136%. The US leadership's strategy, regardless of the occupant of the White House, has been to accumulate debt as the first response to every major problem since Clinton was president. To what extent is this sustainable, and when, not if, will it cause its own financial crisis? The US Congress is currently debating a further $3.5 Trillion package, the biggest single spending initiative in history.

The sensible question is whether this is sustainable, and if not, will this colossal debt be the cause of the next financial crisis?

This time round it's not just RIO that's sounding the alarm, the bond market and its investors has also concluded that governments are now deep in debt traps. The US is in a dire fiscal condition when compared to either the UK or EU which also have their issues. The US government have been borrowing money to pay the interest on the existing debt, while also borrowing more money to fund day-to-day operations. This practice is called negative amortization.

Governments print the additional currency required and as a result paper money (or fiat money) value deteriorates. For much of the past ten years the dollar had escaped much of this but today this is the primary reason the dollar is getting weaker. Since 2017 the US has been far more aggressive than the rest of the world in running deficits, and they have doubled down on debt accumulation in response to the Covid-19 crisis. The increased danger comes from the fact that debts have accelerated higher this year in response to the Covid-19 crisis, this situation is made worse by the fact that every major government is now in the same boat, they are all stuck with massively increased debt servicing costs. Today, we are in a "back to the future" situation we are entering the same kind of debt monetization which took place in the early 1970s.

The true state of the economy at present does not, in my opinion, get reflected across all market environments. Record stimuli and easy money provided by central banks appear to have driven investments in equities higher, despite weak economic indicators. Ultimately, it could be the behavior of central banks with their continued expansionary monetary policy that drives gold to over $2,500.

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