TIM UNDERWOOD

Monthly Report – January 2023

In the first week of February 2023 the major central banks raised interest rates. The US by a quarter to 4.5%, the ECB by a half to 2.5% and the bank of England by a half to 4%. This continues the process started last summer, to raise rates in an effort to reduce inflation. Fundamentals such as profits, cash flow, dividends etc often seem less important to markets, at least in the short term, than these actions. At the moment the big question in the global economy is, are we are going into a recession this year? Will demand fall leading to lower activity, profits and higher unemployment?

As mentioned in my November 2022 report (see timunderwood.com) the US 2-10 year yield curve has gone negative. Also the Germany 2-10 yr yield curve. This is usually a very good indicator of a coming recession. Also in the USA the ISM manufacturing new orders came in recently at 42.5 which did not mean much to me, until I saw this was the same level as in the 2008 recession. Policy makers are however optimistic that a recession has ben averted. One thing which is clear is that if data does show economic weakness then central banks will drop rates and swiftly. Lets see how this action of dropping rates impacted the gold price in former recessions.

<u>Recession 1 – Dotcom Bubble</u>

Date Mar 2001 to Nov 2001 Duration 8 months

Gold $ 260 to $ 280 +12%

Following peak $ 680 +160% 5 years later in May 2006

<u>Recession 2 – US Housing Bubble</u>

Date Dec 2007 to Jun 2009 Duration 18 months

Gold $ 800 to $ 920 +15%

Following peak $ 1,760 + 120% 4 years later in Aug 2011

<u>and next Recession ?</u>

Date Apr 2023 to Apr 2024 12 months ?

Gold $ 1,850 to $? + % ?

Following peak $? +% ?

If we do fall into a recession central banks will swiftly lower interest rates and that will be very positive for gold. Hence holding some gold related assets in a portfolio makes sense at the moment.

Tim 12 February 2023