

Gold Miners Should Rise As The S&P 500 Declines

Metals and Miners (March 28, 2026)

Host: Gary Bohm

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[Brian Hirschmann, Managing Partner of Hirschmann Capital]

And so, of course, I would expect those companies to decline. But the gold mining equities should be in a very different situation because their revenues should be improving, because gold prices should be appreciating. And at the same time, their labor, fuel, steel, and equipment costs should be under pressure, potentially declining because of the reduction in economic growth due to the recession.

So that's an important reason why I think gold mining equities are likely to appreciate during the next bear market, even as the S&P 500 is getting crushed.¹

[Gary Bohm]

Welcome back to Metals and Miners. I'm your host, Gary Bohm. Today, we have an exciting and timely discussion to work through with Brian Hirschmann, with the focus being on gold and gold miners.

Brian's a gold stock hedge fund founder of Hirschmann Capital. He is a CFA charterholder and former Wall Street investment banker. Brian, it's an honor to have you on Metals and Miners for the first time.

Welcome to the show.

[Brian]

Thanks, Gary. It's great to be here.

¹ Statements regarding future recessions, sovereign-debt crises, inflation, interest rates, gold prices, gold mining equities, Fund holdings, operating costs, margins, or potential Fund outcomes are forward-looking opinions as of the recording date. Actual outcomes may differ materially. Gold mining equities involve substantial risks, including commodity-price risk, financing risk, permitting risk, operational risk, political risk, currency risk, liquidity risk, and the risk of permanent capital loss.

[Gary]

Brian, your career in capital markets spanned several decades. You launched your fund in 2014, and since its inception, from what I found, it's outperformed the S&P 500,² despite being considered the world's most bearish hedge fund.³ Previously, you were an associate at Goldman Sachs Principal Strategies, a multibillion-dollar hedge fund in and of itself, whose alumni list is pretty prestigious.

You graduated with distinction from Yale, where your investment philosophy was strongly influenced by Professor Robert Shiller. You have an incredible background, really. There's a lot to discuss today.

But before we do, what's the big takeaway for those tuning in that you hope they walk away with after listening to our conversation?

[Brian]

Sure. I'd mention three quick things. The first is I continue to think this is the most dangerous time in U.S. financial history because it's the first time any major economy has had three bubbles all at the same time in U.S. equities, U.S. real estate, and U.S. bonds. And all three of those bubbles should probably burst at the same time. And that could be very soon. And the consensus view on Wall Street is that that's not a problem because the government will bail out the economy and markets.

But I think that couldn't be more wrong. If the government could always bail out the market, then it would have been discovered 2,000 years ago, not just in recent years. Instead, I think this era of bailouts that we've had for the last 40 years is over because 40 years of government deficit spending has pushed the U.S. government's finances to the breaking point. So, in the next recession, instead of a bailout, we're likely to have a government debt crisis with extremely high interest rates and very high inflation because the U.S. has this deadly combination of high government debt to GDP and very high borrowing from foreigners. The second point I'd make is that investors' portfolio allocations to gold are still far less than they were in 1980 at the tail end of the last inflation crisis. And when investors increase their portfolio allocations to gold, the gold price increases because the supply of gold is mostly fixed in the short term.

And as stagflation from the inevitable government debt crisis crushes bonds, equities, and real estate, investors should rush to gold, and that should in turn cause gold allocations to increase, which in turn should cause gold prices to increase. In fact, if investors were to take their portfolio allocation back to what it was around 1980, then the gold price would roughly double from where it is now. And the third quick point I'll make is that the Toronto Stock Exchange (TSX) gold mine developers, which my fund is

² This performance comparison refers to the period from October 1, 2014, through March 25, 2026. Fund returns are presented net of applicable Fund fees and expenses, including any performance allocation, and include reinvestment of dividends and other earnings. The S&P 500 comparison uses the S&P 500 Total Return Index. The S&P 500 is unmanaged, does not reflect Fund fees or expenses, and is materially different from the Fund's concentrated private-fund strategy. Past performance is not indicative of future results. Please review the [Complete Returns PDF](#) for full net-of-fee performance, benchmark information, and methodology.

³ The "World's Most Bearish Hedge Fund" designation was published by ValueWalk on May 2, 2017, based on that publication's own criteria. Third-party rankings and recognitions are no guarantee of future investment success and should not be construed as an endorsement of Hirschmann Capital.

currently concentrated in, remain far more attractive, in my opinion, than gold bullion or larger gold mining companies.⁴

In fact, at the start of the year, our portfolio was trading for only 20 percent of its present value (intrinsic value) at current gold prices, which means if gold prices are flat over the next few years, then the portfolio still has the potential to more than triple.⁵ And that's an important reason, I think, why as of today, the fund is *[redacted for SEC compliance]*.⁶ And since we mentioned performance, I should quickly note that those are net returns; past performance is no guarantee of future results.

And investors should review the Fund's offering documents for important disclosures, including risk factors.

[Gary]

Yeah, that's good information. All right. So, Brian, everyone is wondering why the price of gold has plunged about 20 percent from its record high since the start of the war.

Gold as a safe haven should have gone up on the worsening inflation outlook and the mounting geopolitical risks. These are usually bullish developments for gold and should remain so. What is your read on why gold has fallen as it has?

[Brian]

Yeah, maybe I'll answer that in two parts. First, I'll talk a little bit about why I'm bullish on gold in the long term, and then I'll talk a little bit about why I think returns have been weaker this year. And I think as we were just talking about, historically, investors have increased their portfolio allocations to gold when they become worried about sovereign default, whether that default was going to potentially happen through an outright default, as in the European debt crisis around 15 years ago, or whether that default was through inflation, as was the case in the U.S. in the 1970s. And I have a great chart in my most recent investor letter, which is available to everyone on my website, which shows how investors' gold portfolio allocations

⁴ Statements regarding asset classes, sectors, securities, commodities, cash, non-U.S. value equities, gold, gold miners, silver miners, or other instruments are general market commentary as of the recording date and do not constitute individualized investment advice or a recommendation that any investor buy, sell, or hold any investment. No statement in this transcript considers any investor's specific investment objectives, financial situation, risk tolerance, tax status, or liquidity needs.

⁵ Statements regarding intrinsic value, present value, portfolio upside, or the portfolio's potential to "more than triple" are unscripted, valuation-based opinions as of the recording date. They are based on Hirschmann Capital's subjective estimates and assumptions, which may prove incorrect. They should not be interpreted as target returns, expected returns, guarantees, or official projections of Fund performance. Actual Fund results may be materially lower, and investors may lose all or a substantial portion of their investment. These statements do not account for all fees, expenses, taxes, liquidity constraints, changes in portfolio holdings, changes in commodity prices, financing risk, permitting risk, operational risk, political risk, currency risk, or other risks described in the Fund's private offering memorandum.

⁶ The original interview included a contemporaneous performance reference that has been omitted from this transcript. Any performance figures discussed during the interview were point-in-time estimates or summaries and should not be relied upon as official performance information. For official net-of-fee performance history, benchmark information, and methodology, please review the [Complete Returns PDF](#).

have varied over the last 55 years and have been affected by various macro events.⁷ But the basic summary is that during the 1970s, when the U.S. government was effectively defaulting through inflation, investors' gold portfolio allocations were very high. And then again, we saw an increase in portfolio allocations during the European sovereign debt crisis when investors were worried that the eurozone might break apart.

And then we saw a big increase in portfolio allocations after COVID when governments around the world were being very, very aggressive with stimulus and deficit spending. And then, of course, last year, we also saw an increase in gold portfolio allocations as the U.S. continued to run huge deficits and we got very erratic policy coming out of Washington. But the key point here, I think, is that this concern about sovereign debt risk should continue because since 1825, all 55 net debtor countries with gross government debt to GDP of more than 120 percent ultimately defaulted.

And when I say "net debtor," to simplify, I mean countries that borrow heavily from foreigners. So that would include the U.S., which is the largest net debtor in history. But it wouldn't include a country like Japan that doesn't borrow very much from foreigners.

But the key point is that the U.S. has already crossed that critical 120 percent threshold. And after the next recession, we should be way beyond that 120 percent danger zone. And so, investors' gold portfolio allocation at the start of the year was around six and a half percent.

And that's well below the 12 percent allocation they had around 1980. And I think that, given that private debt is much higher than it was in 1980 and that the U.S. has a much bigger bubble in equities and real estate than it had in the 1970s, the next crisis, the next recession, should be far worse than 1980. So gold allocations could easily surpass their 1980 peak.

And I think another way to think about it is, as you said, gold does well when concern about inflation and defaults pick up. It's the one asset that's nobody's liability. It doesn't depend on fixed coupon payments in the future, which is why investors tend to shift from bonds, which do depend on fixed coupon payments, when inflation picks up. And since the start of this year, as you said, inflation risk has increased, and default risk has increased as recession risk has increased since those two usually go hand in hand.

So, as you said, that's bullish for gold. But I think the problem is, if we look back at 1972 to 84, the average gold portfolio allocation at that time was around 7 percent, which is around where it is right now. As I mentioned at the start of this year, the allocation was around six and a half percent.

But during the 1970s, the U.S. government was already defaulting through inflation. And today, we don't yet have that seven and a half percent inflation. So, investors seem to be anticipating a future sovereign debt crisis, anticipating future inflation that hasn't yet appeared.

So, you can make the argument that given where gold prices currently are, investors are getting a little bit ahead of themselves, because if you look at other asset classes like U.S. equities, U.S. equities are near their highest valuation ever. And that type of U.S. equity valuation only makes sense if you expect very

⁷ Historical market data and comparisons, including references to sovereign-debt defaults, gold portfolio allocations, prior bear markets, and historical gold-mining-equity performance, are based on Hirschmann Capital research using sources believed to be reliable. Definitions, index composition, time periods, and methodology can materially affect results. Historical performance of asset classes, sectors, indices, countries, or securities is not indicative of future results and should not be interpreted as Fund performance.

low and very stable inflation in the future. So gold investors are pricing in a more pessimistic scenario than investors in other asset classes.

And so, gold is now less attractive than it was at the start of 2025. So, for that reason, I'm not surprised to see that in Q1 returns have been weaker than they were in 2025. But I'm still very bullish on gold over the long term because inevitably we're going to have this sovereign debt crisis, or almost certainly we're going to have this sovereign debt crisis, and that has the potential to send gold above \$8,000.⁸

[Gary]

So, it almost sounds like what has taken place in terms of gold price deleveraging has been more of a mechanical thing: gold got ahead of itself, it got stretched too far. Maybe it needed a catalyst, maybe it didn't, you know, maybe it was going into a more realistic position versus any alarm that we should have because of the fall since the start of the war. Would you say that's accurate?

[Brian]

Yeah, I think that makes sense. It's always very difficult to tell what exactly is going on because gold is traded around the world and in many different markets. And as with any asset class, you have momentum buyers that are buying and selling based on price movements rather than actual fundamentals.

And my fund really tries to take a more long-term perspective. We have very patient clients, which allows us to do that. And for a long-term investor, I think gold is still reasonably priced.

We're almost certainly going to have a sovereign debt crisis at some point. And the gold valuation and portfolio allocations should go much higher when that happens. But more importantly, and maybe we'll talk about this today, the gold mining developers that I mentioned earlier that my fund is invested in look extremely attractive. And so, we want to stay invested in those as long as the gold price is still reasonable.

[Gary]

Yeah, OK, so, Brian, Deutsche Bank recently stated that gold's rising sensitivity to the U.S. dollar is the central driver in the recent weakness. As the dollar has gotten stronger since the beginning of the war, they further stated that gold's beta to the dollar has reached extreme levels. At the same time, its correlation with equities remains elevated relative to recent history. So, they finished by saying this combination has repositioned gold within the macro framework, aligning it more closely with liquidity conditions rather than traditional safe haven behavior.

What is your takeaway on what Deutsche Bank is saying here, that gold's role has fundamentally and permanently changed from safe haven to being affected by liquidity as if it were a risk asset?

[Brian]

Yeah, first, before I get to that, first, regarding the dollar, I would agree with what a lot of other people on this show have said: in 2008, for example, the dollar was undervalued. And so, the dollar was generally

⁸ Price targets and asset-price forecasts, including statements regarding gold above \$8,000 or a potential doubling in gold prices, are subjective opinions as of the recording date, based on assumptions that may prove incorrect. They are not guarantees, are not recommendations to buy or sell any security, commodity, option, or other instrument, and should not be relied upon as predictions of actual market outcomes.

appreciating during the global financial crisis, and that limited U.S. dollar returns for gold investors. But now we're in a situation where the U.S. dollar is overvalued. And so, you generally expect the U.S. dollar to be depreciating over the next few years. And so that's going to be a tailwind, something that's going to help the gold price, and then as far as the correlations, look, these correlations change all the time. They're very unstable.

And, because we're making gold mining investments that we're holding for five years or more sometimes, I don't worry too much about how the correlation is changing month to month. I think fundamentally, as we were talking about earlier, gold is the one asset that's nobody's liability. And so, when companies start defaulting, when governments start seizing private assets, when governments start defaulting through inflation, or through outright default, gold should still do very well if its valuation is reasonable.

And as I was mentioning earlier, I think gold's valuation is a bit high. It's higher than its 55-year historical average, but it still looks very reasonable given how likely it is that we're going to have the mother of all financial crises.

And the same goes for gold's inflation protection properties. Regardless of what the correlation was, regardless of what any investment bank says, gold doesn't depend on fixed coupon payments the way Treasury bonds do. So, when those assets are getting annihilated by inflation, gold will look more attractive to investors, and you'll see capital shifting from bonds to gold, if gold's valuation is reasonable. If the gold allocation was 75 percent, then of course, I would be concerned. But if it's still within a reasonable level and I know that investors are going to be more concerned about inflation and default in the future than they are now, then gold looks very attractive.

If the valuation was unreasonable, then it would be a different story. So, I don't worry too much about the correlation. And I don't think the U.S. dollar movement this year explains the fluctuations in gold. So, I think that's another issue with that argument.

[Gary]

OK, one of the concerns that folks have right now, and this is just since the war started and, you know, because war brings unknowns, there's a fog of war where there's a lot of unknowns. You don't know how long it's going to last. You don't know what the impacts and the second-order impacts are going to be.

Has demand for gold materially changed since the war began?

[Brian]

Essentially, we're talking about investors here, right? Unlike other industrial commodities, demand for gold comes almost entirely from investors. Very little is used for industrial purposes.

It's hard to tell exactly what's going on with investor demand. I guess the best indication of what's going on with investor demand is the price. So, we've seen some decline in investor demand, but I think investor demand is very fickle.

So maybe they're selling gold now to reduce leverage or something like that. But all the fundamental properties of gold that I mentioned earlier remain true. The one asset that is nobody's liability, a very good asset that is uniquely protected against inflation.

And for all those reasons, I expect investor demand to increase dramatically over the next several years as we have this inevitable or as we almost certainly have this inevitable financial crisis that will make gold

look more attractive to investors relative to equities, bonds, and real estate, and push gold portfolio allocations much higher.

[Gary]

Do you have a target range for gold at the end of '26?

[Brian]

Yeah, you mentioned one of my Yale professors earlier, and one of my other Yale professors was David Swensen, who used to manage the Yale endowment. And some consider him the best endowment manager ever, and one of the best institutional investors ever. And the first lesson he taught us in his class was that it's very, very difficult, if not impossible, to make predictions about what's going to happen over the next year.

All the investment banks always try to do that, of course, but I think their track record is mixed. So, I think I would say that if we have that financial crisis and gold goes back to the allocation that it was at in 1980, that 12 percent allocation, then the gold price should go well above eight thousand. It could go potentially higher than that since the next crisis should be much worse than the 1980 recession.

But I would say it's impossible to predict exactly where it's going to be at the end of 2026. So, I think it's not a great idea to invest money that you need next month or next quarter. It's better to make long-term investments here because, as with any asset class, there can be a lot of fluctuations in the short term.

[Gary]

Yeah, that is absolutely true. All right, so sentiment typically drives buying behavior in the markets in the January, February time frame. Sentiment for gold and gold miners was incredibly high. The war has completely washed out sentiment, and now it sits at a historically low range.

In fact, the last time that I saw it was in this range was around October of 2022. What's your read on sentiment for gold and gold miners right now, and how instructive is it for you?

[Brian]

Yeah, I would say one way to look at sentiment is just ask what are valuations, how do they compare to history? And that's kind of a simple way of gauging what sentiment is. And I think if we look at gold, you can make the argument that sentiment is still positive.

Yes, March has been rough, but 2025 was fantastic. And even though gold is well below the portfolio allocation it was in 1980, it's well above its 55-year average portfolio allocation. And so that means we can make the argument that sentiment is above average right now.

But I think sentiment should be above average because the risk of a sovereign debt crisis has never been higher. And so, I'm not surprised that investors are trying to protect themselves by raising their gold portfolio allocations.

And then I think sentiment for gold producers such as the main companies in the GDX seems reasonable. They seem undervalued, but not extremely undervalued.

And then I'd say, as I alluded to earlier, the sentiment for the TSX developers that my fund is invested in still seems excessively pessimistic. And so that's why my fund is invested there.

That seems to be where investors are most pessimistic. But ultimately, I think that sentiment should improve, which should mean higher valuations for our mining companies. And we should hopefully benefit from both higher gold prices and improving valuations.⁹

[Gary]

Do you view where it is now as more of a consolidation zone where it would then take off for a new leg at some point? It might be weeks, months from now, quarters, who knows? But it's more of a zone where it's building a new base, just like it did back then.

We'll call it sub-2000 in that range there from 1650 to 2000. Do you view this? We'll call it the 4100 to maybe 4800 zone in that light.

[Brian]

Yeah, it's always hard to predict the short term, and I'm not much of a technical analyst. I'm really taking more of a five-year long-term value-oriented view.

So, I would say the crisis could happen at any time. That should almost certainly drive gold much higher. And that should cause the gold price to potentially double or maybe even increase even more. What it does in the short term, I don't know. And to be honest, I don't care that much. I care more about how it does over the next five years.

And if we have a rough month or a rough month or two, it's OK. I do think that the downside is limited because sovereign debt is so high. Investors, I think in their heart of hearts, investors realize that U.S. equities are a bubble. Maybe they feel a lot of pressure to stay invested because they don't want to get fired and they want to keep up with their benchmarks. That's the problem with Wall Street. But we have the highest U.S. equity valuations ever. It's the worst fiscal outlook ever for the U.S. government. That's a problem for many governments across the world. Real estate worldwide is severely overvalued.

Since the U.S. government has so much debt, the Fed is going to have a very difficult time raising interest rates to try to contain any increase in inflation. And that's going to be a problem for central banks across the world because government debt is a problem in a lot of places. And private debt is at record levels.

So, this is a long-winded answer. But my point is the risk in the system is clearly so high. So, I think investors aren't going to take their [gold] portfolio allocation back to where it was in 2000 when it reached an all-time low back when the U.S. government was running budget surpluses. That's not going to happen again anytime soon. So, I think this sovereign debt risk is clear. It should be clear that this is the most dangerous time in financial history.

And so that should provide a floor on the gold price. And I don't think we'll get too much consolidation for that reason.

[Gary]

⁹ Statements regarding asset classes, sectors, securities, commodities, cash, non-U.S. value equities, gold, gold miners, silver miners, or other instruments are general market commentary as of the recording date and do not constitute individualized investment advice or a recommendation that any investor buy, sell, or hold any investment. No statement in this transcript considers any investor's specific investment objectives, financial situation, risk tolerance, tax status, or liquidity needs.

Yeah, so, you know, and to your point, the debt is only going to increase from here. Baby boomers are retiring in droves. They're going to need a lot more medical care.

They're going to get Social Security. They're living longer than ever before. Interest expense on the debt is growing.

The debt itself is going to probably grow a lot faster because we need more war spending and other types of spending. So, to your point, you know, that is an issue that is only increasing pressure on the budget. But I was asking you the question just for everybody's sake here.

You know, some have a much more measured long-term view like yourself, but others tune in who, you know, struggle with the day-to-day machinations of the movements here. And I really was looking for your response to help them bring more of a calm perspective to the outlook. And I think you did that, and I appreciate that.

[Brian]

Sorry to interrupt. I was just going to add, you know, what would make me concerned about gold? It would be if the U.S. government were to start running budget surpluses and paying down its debt, then I would really start to question my thesis. But I think we all agree that we're far away from that. And so, I think that's why long-term investors in undervalued gold mining equities can sleep peacefully.

[Gary]

Yeah, and this is not a comedy show, so, you know, just FYI. Yeah. All right.

So, oil prices are a great proxy for expenses for the miners. Oil prices were sitting under 70, 75 for the better part of the last 18 to 24 months. They're now sitting at 90 to 100 since the war started, with a brief move to 120.

Obviously, there's pain at the pump for people, and there's panic, maybe overdoing it a little bit. But how do you see these higher oil prices affecting gold mining equities?

[Brian]

Yeah, I think higher fuel prices hurt gold mining companies, especially open-pit operations, since they use more diesel. On the other hand, as I've said, I think we're headed for the mother of all financial crises, and that should ultimately crush oil demand and crush oil prices. And then that should be the perfect storm for gold miners because we should have higher gold prices.

At the same time, we should have lower fuel, labor, and equipment costs due to the downward pressure on these costs from the crisis or recession. But if oil prices stay high, I think for the open-pit gold mining companies that we're invested in, fuel costs are probably only around 12 percent of mining costs. And you also have things like tires and engine oils, which are petroleum-based products.

So, the prices of those things will increase. But I think a 30 percent long-term increase in oil prices might only cause a five percent increase in open-pit mining costs, which is small compared to the appreciation we saw in gold in 2025. And it's small compared to how much I expect gold to appreciate in the future.

And yes, oil could go much higher in the short term, but that should be a temporary increase, I think, because either Trump is likely to back off or a financial crisis is likely to occur due to a huge oil spike. And that financial crisis would then lead to an oil crash and solve the oil problem for the gold miners.

Plus, nearly all the companies we're invested in are building mines. They're not yet producing gold. And so, what happens to oil next month or in May doesn't really matter. What matters more is the average price over the next few years.

And that should be much lower than the price in April 2026. So, I think for a long-term investor in gold mining equities, the oil price rise isn't a huge concern.

[Gary]

All right, so Brian, everyone is always fearful of the next bear market to come. The Iran war has only heightened those fears. The 2000 and 2008 markets were very different, but both left lasting impacts on investors' minds.

During the next bear market, do you see more of a 2000-type market reaction, where, you know, there's a rotation in the underbelly of the markets towards hard assets, including gold and gold miners, as they performed fantastically from 2000 to 2002? Or do you see more of a 2008 deflationary type vortex that just pulls everything down with it, including gold and gold miners?

[Brian]

Yeah, we talked a little bit earlier about how the U.S. dollar is overvalued now, whereas it was undervalued leading up to the 2008 global financial crisis. So that's one thing that is going to be positive for the dollar over the next few years and was a bit of a headwind in 2008. But I think the bigger difference versus 2008 is I don't think investors are going to rush into Treasuries the way they did in 2008.

So, I think instead of the next crisis looking like 2000 or 2008, I think it's going to look more like 1980. Where gold allocations soared, and Treasury bonds were crushed. Indeed, this year we're already seeing Treasury bonds declining as recession risk rises.

And so, I think that's going to be the key difference for gold. And then for what's going to happen with gold mining equities, I think when you're thinking about what's going to happen to any equity investment during a recession, there are essentially three things that matter. One is how is the company's cash flow going to be changing?

The second is how is its perceived riskiness going to be changing during the bear market or recession? And third is how is it going to look compared to other investments? And I think for the typical S&P 500 company during the next recession, the next bear market, it should have plummeting cash flow and profits.

And so, of course, I would expect those companies to decline. But the gold mining equities should be in a very different situation because their revenues should be improving, because gold prices should be appreciating. And at the same time, their labor costs and their fuel costs and their steel costs and their equipment costs should be under pressure, potentially declining because of the reduction in economic growth due to the recession.

So that's an important reason why I think gold mining equities are likely to appreciate during the next bear market, even as the S&P 500 is crushed. And then the second point is that the typical S&P 500 company during the next recession will look riskier as its profits get crushed and its margins compress. But the gold miners' profit margins should be improving dramatically, and especially the margins of the gold mine developers that my fund is focused on.

Their perceived riskiness should decline as their margins improve during the next bear market. And that should lead to higher valuations and higher stock prices. Now, the problem will be that comparisons to other investments will be more difficult during the next bear market if interest rates are soaring due to a sovereign debt crisis.

And so, bonds and cash will look more attractive relative to gold mining equities, and S&P 500 valuations should be improving. So, the S&P 500 will look more attractive. But the valuations of these sorts of gold mining companies that we're invested in are already so low, so I think they'll still look very attractive relative to those other assets.

So, to kind of sum up, I think the gold miners that we're invested in should do very well if there's a severe bear market because their valuations are low, because their profits should be improving during the recession, and because they'll look safer due to their improving margins.¹⁰ And in fact, we've seen gold miners do very well in past bear markets such as 1929, the 1970s, and 2000. But as we talked about before, anything can happen in the short term.

So, I think investors should take a long-term perspective with gold mining equities.

[Gary]

So clearly, the common theme is you're taking a longer-term view, you're expecting there to be a strong recession kicked off by a sovereign debt crisis at some point. That's the central key theme to the thesis that's driving capital towards the gold miners. What's the catalyst that kicks off the sovereign debt crisis?

How soon could it possibly kick off? Are you seeing warning signs that it's getting close to kicking off? You know, where are you with the actual bear market, the actual sovereign debt crisis that's going to lead to capital flows shifting?

[Brian]

Yeah, I think the one key point that I don't think I've mentioned or I haven't emphasized is that anything that causes a recession has the potential to trigger the sovereign debt crisis, because, as I mentioned, right now, U.S. gross government debt to GDP is more than 120%. The next recession should push us closer to 150 percent. And if you look at my year-end 2023 letter, which is up on my fund's website, I explain why 150 percent is a reasonable estimate of where government debt might end up after a recession.

And if we're at 150 percent, we are so far beyond the red line. We are so far into the danger zone that I think a sovereign debt crisis is almost certain. And it's, of course, impossible to say exactly when a recession is going to happen, but it's certain that at some point there will be another recession.

And we're very much overdue since we haven't had a significant recession since 2008. And so, yeah, any number of things could happen, could trigger a recession and trigger the sovereign debt crisis. What's going to trigger a recession?

¹⁰ Statements regarding future recessions, sovereign-debt crises, inflation, interest rates, gold prices, gold mining equities, Fund holdings, operating costs, margins, or potential Fund outcomes are forward-looking opinions as of the recording date. Actual outcomes may differ materially. Gold mining equities involve substantial risks, including commodity-price risk, financing risk, permitting risk, operational risk, political risk, currency risk, liquidity risk, and the risk of permanent capital loss.

I guess the other point I would make is that you don't need a big event for the U.S. stock market bubble to start to collapse, for the U.S. real estate bubble to start to collapse. There was a famous professor who said an overvalued market is like a ruler balanced vertically on someone's hand, and any little gust of wind can trigger a crash. And if you look at the 1929 crash or the 1989 Japanese stock market bubble and crash, or if you look at the 2000 dotcom bubble, there wasn't any big pandemic event.

There wasn't any Lehman Brothers moment. Yes, you had tighter monetary policy in all those cases. Still, it was just a slightly tighter monetary policy, combined with minor events, that caused those bubbles to collapse and trigger the recession. And today we have a tighter monetary policy than in 2022; interest rates have remained relatively high and may increase this year.

So, it may just be a question of what minor event is going to combine with this increase in interest rates to trigger the collapse of these bubbles, which would in turn trigger the sovereign debt crisis. And I should also say it's impossible to say whether the sovereign debt crisis is going to happen first or the equity bubble crash is going to happen first. The problem is they're all connected, and regardless of which one starts first, it should trigger the collapse.

If the stock market crashes, that should wreck the U.S. government's budget, which should then make the stock market even worse. And either way, gold should go much higher, but the bond market could also sell off first, which would cause the stock market bubble to crash. It doesn't really matter where it starts, when you have this much leverage in the system and these many asset bubbles.

So, there's a lot of ways that gold investors can win.

[Gary]

Yeah, so we've got 120 percent, as you said, debt-to-GDP, tighter policy. It's like the Fed is in this box. You know, they can't print because the debt levels are going to kick off much higher inflation.

If the economy starts spiraling, if the stock market starts spiraling, do you see them stepping aside because of that 120 percent debt-to-GDP number and saying, "we'll just let it find its own natural equilibrium"? Or do you still think they'll print?

[Brian]

Yeah, I think that's a very good question.

[Gary]

Ultimately, the Fed is going to, because if it needs to find its own equilibrium with the housing bubble, the stock market bubble, the credit bubble, we could be looking at a Great Depression part two. Are they just going to stand aside?

[Brian]

Yes, exactly. And of course, we know that every time there's been a minor crisis or a recession over the last 40 years, the government has stepped in to try to bail out the economy. So, I'd expect them to try to do that again, because you can make the argument: "Oh, if they step aside, it's going to be so painful. But it's better for the economy in the long run, because we need to have that correction to get the debt in the system and the valuation of asset classes back to more reasonable levels and to get rid of the inefficient companies."

But no regulator is going to take that view. They always go for the bailouts, of course. They always want to kick the can down the road and shift the sovereign debt problem to someone else.

[Gary]

And the pressure, the pressure from the populace to do something, the people are going to be screaming out. You've got to do something. You know, we have elections every two years.

I mean, there's going to be an enormous amount of pressure on them to do something to help the people who are suffering.

[Brian]

Yes, that's exactly right. That's arguably how we got into this mess: there's a relatively short election cycle. So, nobody has the backbone to implement the austerity or make the painful changes that would improve our budget outlook. As a result, these problems have been building for 40 years.

[Gary]

If Elon Musk can't get it done, if he gets kicked out of town that quickly and he was on the road to finding things, who can get it done?

[Brian]

Right, right. I think I heard Seth Klarman, the famous value investor, make that same point. But the key difference now is that the bailouts will no longer be an option.

Every time we had a recession or crisis over the last 40 years, it was the government stepping in to bail out the private sector through deficit spending, direct bailouts, and interest rate cuts. But now, because sovereign debt levels have gotten so bad, the Fed is essentially going to lose control of interest rates. The Fed is going to be trapped.

And we're going to end up with this stagflation-on-steroids situation. You may have heard the term "fiscal dominance": we're going to end up with fiscal dominance, where the nation's terrible fiscal situation dominates monetary policy. And whatever the Fed tries to do, we're going to get higher inflation. For example, if the sovereign debt crisis starts and the Fed tries to cut interest rates, that'll lead to more inflation because it'll increase the money supply.

If the Fed tries to hike interest rates, that will raise the government's borrowing costs, worsen the deficit, and thereby further increase inflation expectations. If the Fed tries to implement QE, that's going to cause it, depending on how they implement QE. If they print money to buy the bonds, that'll cause inflation, which will make the debt crisis worse.

If they try to fund the QE, as they have been, by issuing short-term floating-rate bonds, that won't work well because short-term debt will be incredibly expensive during a debt crisis. And when investors see that the government is issuing lots of short-term debt, they're going to see that the government is just increasing its debt rollover risk, which will make them dump Treasuries even faster. So, whatever the Fed does, it won't be able to solve the debt crisis.

And that's why the central banks in countries like Argentina, Turkey, and Brazil were never able to get those countries out of their sovereign debt crises: ultimately, a central bank loses its power in a sovereign debt crisis. So, I think investors are like junkies addicted to government bailouts that we've been getting

through these Fed rate cuts. But during the next crisis, instead of a bailout, investors will likely be decimated by stagflation, and the government, rather than being the savior, will be the source of the crisis.

[Gary]

Do they stand aside and let the bond market collapse, the biggest market on earth, or do they sacrifice the dollar? You know, what do you think ultimately is tried by the Fed? What are you expecting the Fed to do?

[Brian]

I think ultimately, if we look at other sovereign debt crises, we'll get much higher interest rates, much higher inflation. The currency should get weaker because the dollar is overvalued. We should have much lower equity and real estate prices.

Much higher inflation, if I didn't already mention that.

[Gary]

But gold mining equities are not in with the other equities in your view here.

[Brian]

Yes, I don't think so. I think that because their profits should be improving dramatically, their margins should improve dramatically as well, which will make them seem much safer. And because their valuations are so low, I think they should do extremely well.

[Gary]

OK. All right. So, Brian, I understand that your fund does not own any silver miners.

Would you please share why you don't?

[Brian]

Yeah, as I've mentioned, I like to value gold by tracking investors' portfolio allocations, which works well for gold because it is primarily used for investment. Very little gold is used for industrial purposes. Silver is much more industrial.

So, I couldn't use only that same portfolio allocation methodology to value silver, because it would only capture half the demand. It wouldn't be telling me anything about industrial demand. So, I have much less confidence about what silver's intrinsic value is.

The second issue, I think, is that it's tougher to find silver mines in countries I consider safe and that also have overvalued currencies. I want countries with overvalued currencies because, as the currency depreciates, it'll get less expensive to operate a mine there. For example, Australia is a relatively safe jurisdiction. They don't have many silver mines. You find many more silver mines in places like Peru and Mexico, which I consider higher-risk.

And then the third issue is it's tough to find pure silver deposits. They usually occur with lead and zinc, and those are more pro-cyclical commodities. And I would prefer just exposure to precious metals. I don't

want to get hurt if the China bubble bursts and lead and zinc get crushed, which would hurt the profits of the silver mine.

[Gary]

Yeah, that's great insight. I appreciate you sharing that.

Brian, as we wrap up the discussion, would you share a key takeaway you want viewers to keep in mind as they walk away from this video, and let everyone know where they can learn about your work and how they can connect with you?

[Brian]

Sure. I would add that, although my fund is concentrated in gold mine developers and I have the vast majority of my net worth invested in the fund, I think investors who want more diversification could also consider holding cash as Warren Buffett is doing. And they might also consider non-U.S. value equities, as Jeremy Grantham has suggested.¹¹ And my fund's website is HCapital.LLC, and on Twitter, I'm at HCapitalLLC. Thanks very much for having me.

[Gary]

Yeah, absolutely. It's been a lot of fun. I will have all the information on the screen.

So, guys who are tuning in right now, you can either type it in or go to the video's description, where I'll have links. You can get over to Brian easily there. Brian, thanks again for coming on to Metals and Miners.

You've been generous with your time, analysis, and ideas. I've really enjoyed the time that we've had together. This is the first time, but hopefully you'll come back sometime soon.

¹¹ Statements regarding asset classes, sectors, securities, commodities, cash, non-U.S. value equities, gold, gold miners, silver miners, or other instruments are general market commentary as of the recording date and do not constitute individualized investment advice or a recommendation that any investor buy, sell, or hold any investment. No statement in this transcript considers any investor's specific investment objectives, financial situation, risk tolerance, tax status, or liquidity needs.

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