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QUARTERLY INVESTMENT OUTLOOK

APRIL 2022

SUMMARY

- We expect forward twelve months earnings growth of 8-10% which should be supportive for equities over the next 6-12 months. The value style should continue to outperform growth.

- Analysis of the Conference Board's Leading Economic Indicators signals widespread strength and solid economic growth for 2022

- Market expectations of 5-9 Fed rate hikes in 2022 are far too optimistic. The Fed will not have that much maneuvering room to raise rates that rapidly.

- The outlook for monetary policy suggests that it should be supportive of growth through 2022-23. Policy is expected to gradually become less accommodative in 2024, with an increasing risk of recession.

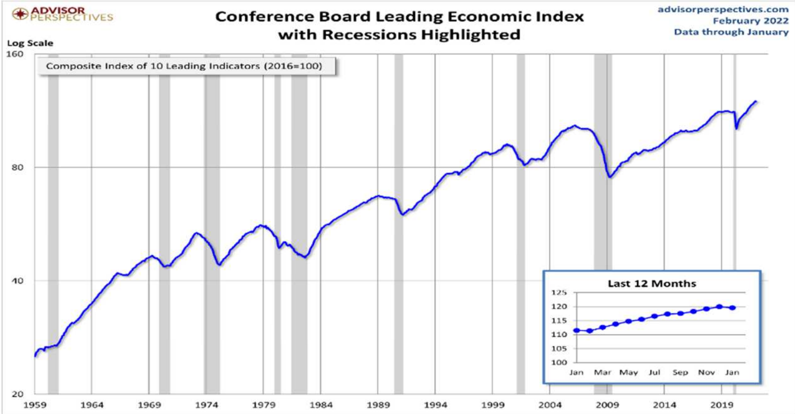
- According to noted geopolitical analyst Marko Papic, formerly with BCA Research, geopolitical risk will remain elevated for at least the next decade. While the Russia/Ukraine war will keep volatility high, a Chinese invasion of Taiwan would be a potential game changer for risk assets.

- Gold has broken out of a multi-year cup with a handle pattern, confirming a continuation of its bull market trend, which began in early 2016.

- A recent addition to our core holdings – Gold Royalty Co. (GROY – NYSE).

THE LEADING ECONOMIC INDICATORS (LEI) ARE FLASHING A GREEN SIGNAL

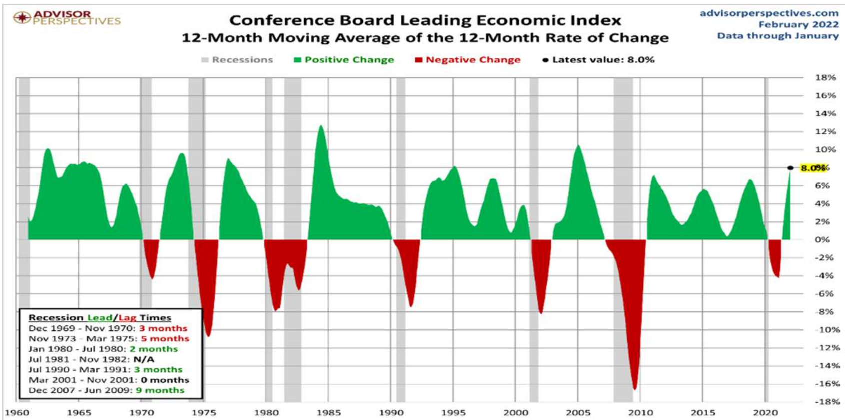
The December LEI registered a gain of 0.8% from November with 8 of 10 components expanding. Growth of the LEI slowed to 4.0% in 2H21 from 4.4% in 1H21. Nevertheless, we would characterize growth as being both strong and widespread. Our analysis of Coincident Indicators of economic trends also indicate strength, confirming the trend in the LEI.



Courtesy: dshort.com

Noteworthy is the Conference Board, creator of the LEI, is predicting GDP growth at a relatively healthy 2.2% annual rate for the first quarter of 2022, and at a robust rate of 3.5% for all of 2022. This would be well above the pre-pandemic trend growth.

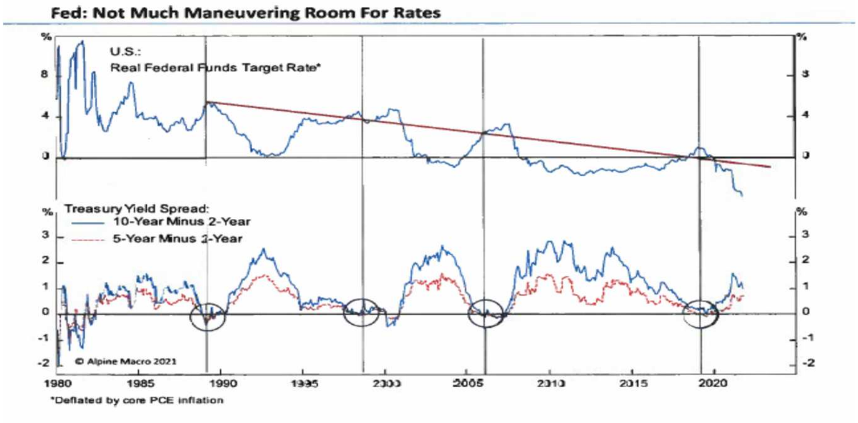
The chart below shows a 12-month moving average of the 12-month rate of change in the LEI which is used as a smoothing method to eliminate wide fluctuations in the data. Its current reading of +9.0% is one of the strongest in six decades and augers well for continuing expansion of the U.S. economy. Historically this indicator has led the start of recession by an average of 6.7 months.



Courtesy: dshort.com

THE FED TIGHTENING CYCLE COULD BE EXTENDED

Our analysis of monetary policy is that market expectations of multiple (5-9) Fed policy rate hikes in 2022 is far too optimistic. The chart to follow, courtesy of Alpine Macro, shows the Fed funds rate adjusted for PCE inflation since 1980 in the upper panel. Shown in the lower panel are two measures of the Treasury yield curve, i.e., the 10-year minus the 2-year yield and the 5-year minus the 2-year yield. The vertical lines drawn connect the points at which the yield spreads reach zero bound with the adjusted policy rate at that point in time. That policy rate represents r*, or the theoretical rate that balances savings and investment generating maximum employment with stable inflation.

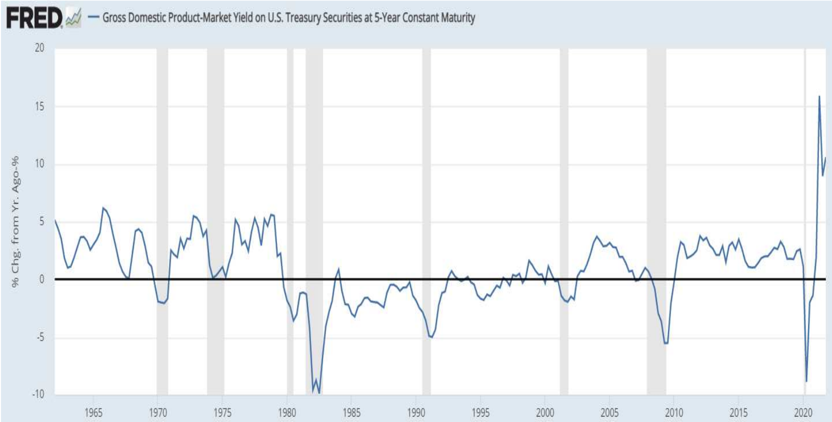


Courtesy: Alpine Macro

A line is drawn connecting the points where the vertical line intersects the policy rate. As shown, the line (red) is downward sloping, with each successive tightening cycle peaking at progressively lower policy rates. In the current cycle, the peak adjusted policy rate is projected to be at -1%, according to Alpine Macro. Given Alpine's forecast that core inflation should taper to 3% in 2H22 coupled with a zero current nominal policy rate, the current estimate adjusted policy rate is -3%. This implies two percentage points of potential tightening before interest rates reach r*. We expect this tightening cycle to be spread over 3 years, implying 2-3 quarter point Fed rate hikes per year. Current elevated market volatility, with the VIX above 30, also is a signal to the Fed to go slow.

TRACKING MONETARY POLICY

The indicator in the chart on page 4 depicts the degree of monetary accommodation in the financial system. It is produced by subtracting the five-year U.S. Treasury yield from the yoy change in nominal GDP. As long as the treasury yield, representing the cost-of-capital, is less than the change in income, the monetary policy setting is deemed accommodative. An accommodative policy historically promotes growth and is favorable for risk assets. This occurs when the indicator depicted on the chart is above zero (horizontal line). The latest plot represents the highest spread between income growth and the cost-of-capital in over 60 years, indicating that monetary policy is highly accommodative!



The Fed is on a track to raise its policy rate to 2% by 2024. Assuming inflation averages 3% over the 2022-24 period, the Fed funds could top out in 2024 at 2%. Should GDP growth slow to 3% and the 5-year treasury yield increases to 3%- 3.5%, the aforementioned spread between income growth and the cost-of-capital would approach zero. As shown in the preceding chart this would signal that real growth could turn negative (recessionary) which would be challenging for financial assets. However this is unlikely to occur before 2024.

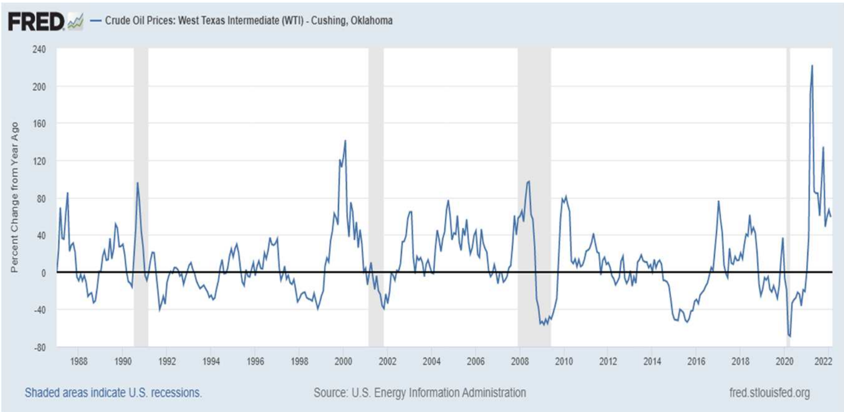
GEOPOLITICAL RISK WILL REMAIN ELEVATED

We believe there is minimal risk to the global economy/trade from Russia's invasion of Ukraine. However, since Russia is a major energy exporter, higher oil prices are a tax on consumption. An article in the February 28 issue of Barron's noted that stock market declines and rebounds following invasions, assassinations, embargos, terrorist attacks, etc. tend to be short-lived. For example, following the 2001 terrorist attack it took stock prices 31 days to get back to even. Following the Vietnam 1968 Tet Offensive, the market took 65 days to fully recover. In the post Iraq invasion of Kuwait in 1990 stocks fully recovered their loss in 189 days.

Marko Papic believes that "geopolitical alpha" will remain elevated for at least the next decade. On the other hand, he noted China invading Taiwan would be a far more negative event for the global economy. China makes no secret in its belief that Taiwan should ultimately be under its sovereign rule. China has already installed military infrastructure and armaments in the Sakoku Islands in the South China Sea. In the event that China initiates a military attack against Taiwan, a major global semiconductor supplier, financial market stability would be severely jeopardized. Papic believes Premier Xi is in no hurry to attack Taiwan. Rather he will most likely sit back and see how the rest of the world responds to Russia.

OIL: FROM SURPLUS TO SUPPLY DEFICIT IN LESS THAN TWO YEARS

The chart to follow, courtesy of the Federal Reserve Board of St. Louis, shows the yoy change in the U.S. West Texas Intermediate oil price. The shaded vertical bars denote U.S. recessions. There were four recessions over the past 37 years, roughly one every decade. The most recent in 2020 lasted roughly one quarter and was atypical as it was largely related to the COVID-19 pandemic. During the first three recessions, oil prices peaked on a rate-of-change early in the recession, as evidenced during the Gulf War and dot-com recessions. Oil prices peaked out six months prior to the beginning of the Great Financial Crisis Recession in 2007.



The recent surge in oil price momentum (yoy change) is the largest in almost four decades, having exceeded 200 %, although it has now backed off to +56.5%. The V-shaped recovery in the rate of change reflects the fact that in April, 2020 prices briefly traded in negative -$37/bbl. This was caused by spec long futures liquidation due to the pandemic driven demand collapse. As a result, oil inventories surged, and storage facilities (Cushing, Oklahoma) were filled to capacity. Speculators were forced to pay producers to take delivery against their maturing futures contracts. That marked the major bottom in oil prices which have since recovered to over $100/bbl. led by a strong rebound in demand. Meanwhile, supply is constrained with producers maximizing cash flow in lieu of increasing production.

In the short-term energy stocks are vulnerable to a correction. Any diminution in Russia/Ukraine tensions could cause traders to “sell the news.” However, due to the growing gap between supply and demand, and simultaneous inventory drawdown, we believe any correction in oil prices/energy stocks will be a buying opportunity. For several years U.S. energy policy has been driven by the movement towards de-carbonization. Given the elevated geopolitical risks evidenced in the Russia/Ukraine conflict, specifically the vulnerability of Europe to Russian gas, U.S. energy policy may now include a renewed focus on increasing our investment in traditional fossil fuels.

GO FOR GOLD – A MAJOR BREAKOUT CONFIRMED BY A POSITIVE TREND CHANGE

As shown in the chart below, which plots the monthly range of gold beginning in 2012, the metal has formed a massive cup-with-handle. In technical analysis jargon this pattern is indicative of long-term accumulation (the cup) and a corrective structure (the handle). The corrective pattern began with gold peaking in August 2020 at 2,062. Since then, gold has formed a series of lower highs and higher lows culminating in a tapered wedge or symmetrical triangle which we have drawn. In late February, 2022 gold breached the downward sloping trendline and has now effected a major breakout. This was confirmed by the 100-day moving average of price rising above the 200-day moving average.

GOLD ROYALTY, INC. (GROY- NYSE)

We believe GROY is a growth stock trading at a value price. The company was formed last year from a merger of Ely Gold Royalties with Gold Royalty. Prior to the merger GROY had been spun out of Gold Mining Corp. a mid-tier gold producer. We believe owning a gold royalty company is a conservative way to participate in a gold bull market. The business begins with the acquisition of mineral claims which are ideally positioned in close proximity to known deposits. Claims are held until an exploration company interested in acquiring them, contacts the royalty holder, and offers to exchange them for a net smelter royalty (1%-3%). The royalty typically covers future mine production and lasts over the life of the mine.

GROY has acquired interest in 192 royalties. Seven are currently producing mines expected to generate an estimated $7 million in revenue in 2022. Twenty-one are royalties with mines in the development stage, with the expectation that the mines will be producing within 12-18 months. GROY expects revenue to rise to $23 million by 2024. The remaining 164 royalties in their portfolio are in the early exploration phase.

GROY owns royalties on two of Canada's largest gold mines. These include a 2.5% nsr on the Malarctic mine, owned and jointly operated by Agnico Eagle and Yamana Gold. The underground mine resource is estimated at 2.35 million oz. gold grading 13.5 grams/ton. A second royalty, recently acquired, covers the southern portion of the Cote´ mine owned and operated by Iamgold Mining. This royalty was acquired for $15.87 million from a private estate. A technical report covering the project envisions annual production over an 18-year mine life averaging 367,000 oz gold per annum at an all-in-sustaining cost of $802/oz. A third project currently underway is the Ren, a joint venture between Barrick and Newmont Mining. The Ren resource is 1.214 million oz. gold grading 7.3 gram/ton. Any grade exceeding 7 gm/ton is considered high grade.

We are impressed by GROY management. David Garofalo is the CEO. David was formerly CFO of Agnico Eagle and CEO of Goldcorp until its acquisition by Newmont in 2019.

GROY is currently offering to acquire Elemental Royalty Company in a share for share transaction. We expect GROY to become a consolidator in the royalty space, where scale will enable them to acquire interests in larger projects.

RISKS

- The Fed hikes rates aggressively into a slowing economy.
- High oil prices choke off economic growth.
- Earnings growth slows prompting a contraction in price/earnings ratios.

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April 2022