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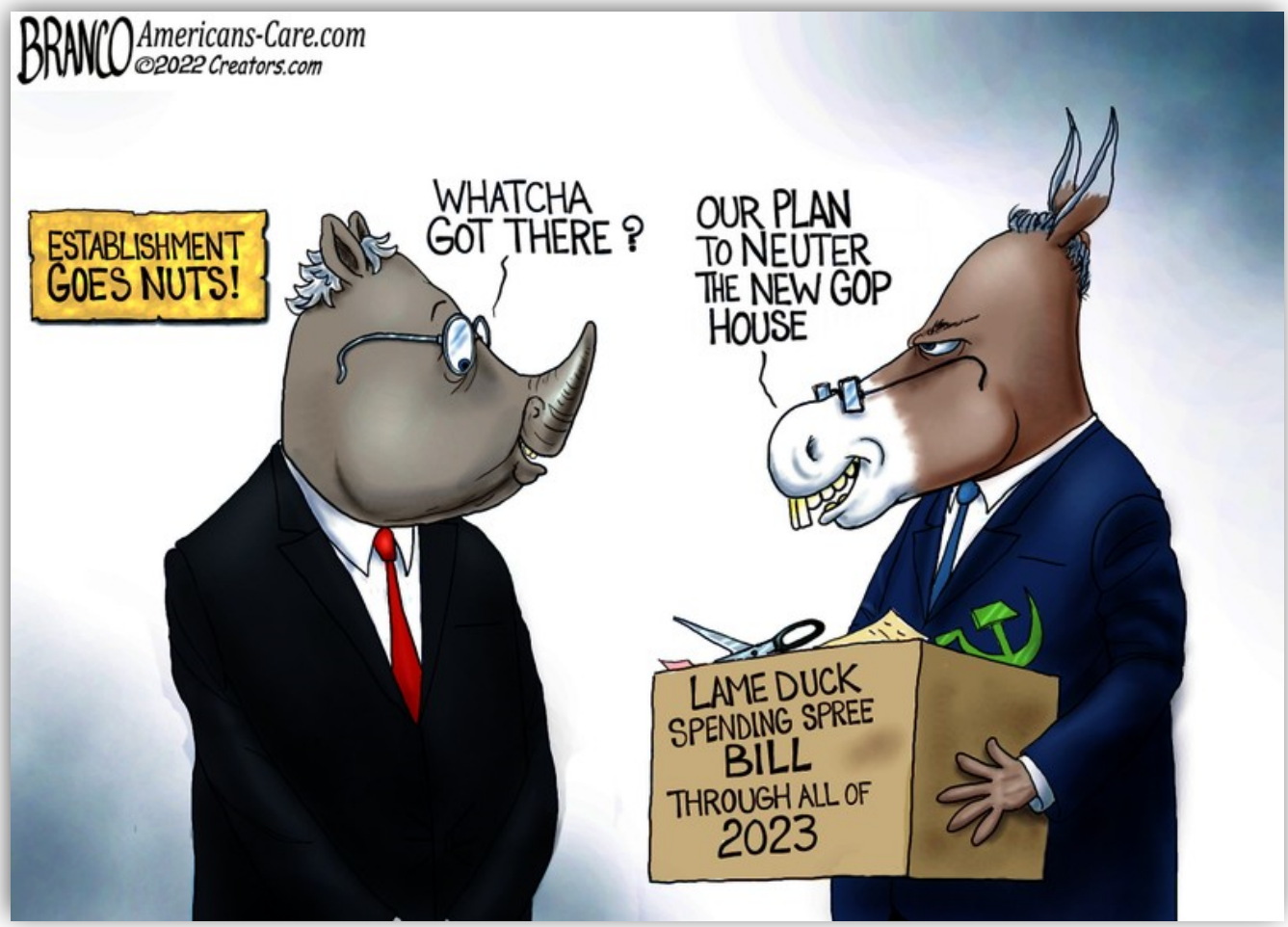
Baron Point Research
December 12, 2022

Baron Point issue research describing current intermediate term trends and topics we find interesting. This research is intended to complement the regular Monthly Fact Sheets which include our monthly return updates.

If you have any comments please feel free to email us at info@baronpoint.com or call +1 (212) 248-2733 x701.



Baron Point Research
By Victor Sperandeo
December 12, 2022

Fed Rate Hikes With Declining Inflation

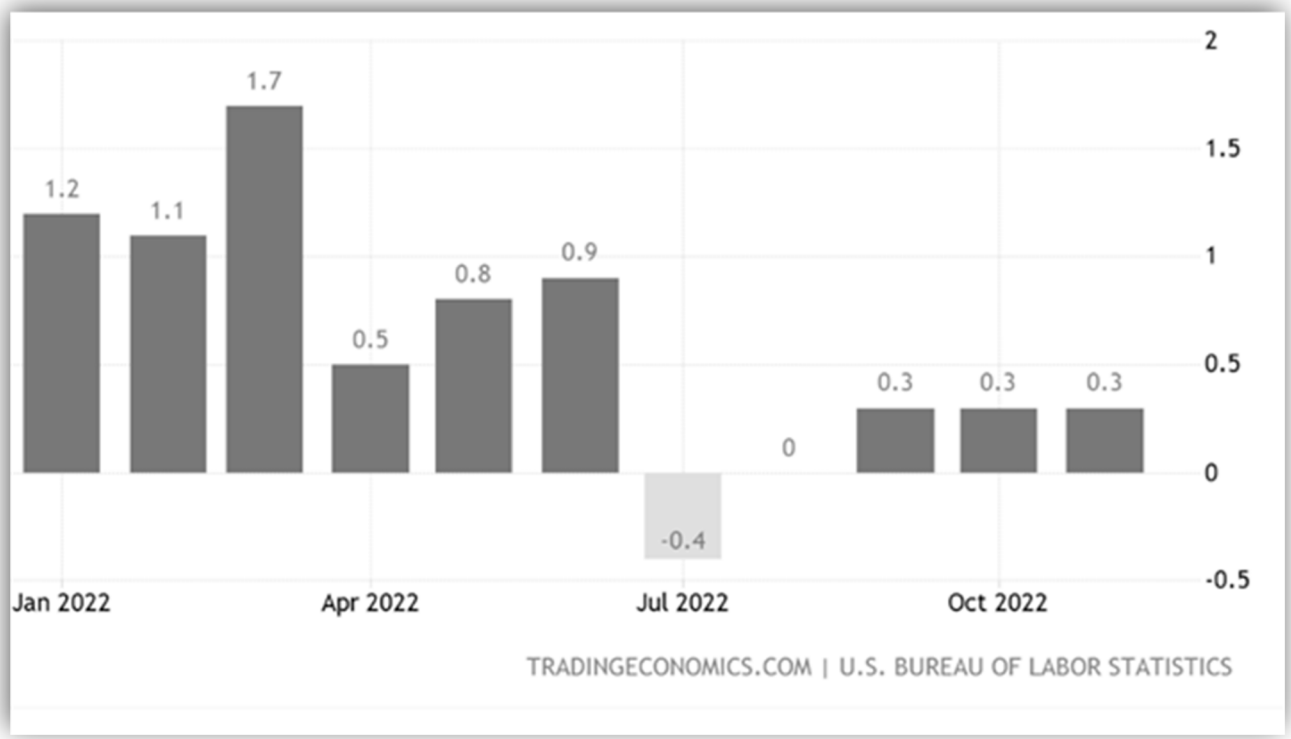
The Fed is still in the "we want to make you poor mindset" in order to stop the inflation that they created by ballooning the money supply! Therefore, Fed heads continue to look for excuses to talk the markets down with their hawkish drumbeat.

Few others comment on this outrageous Fed strategy. The talk about future rate hikes is done without evaluating the forthcoming economic data or debate at FOMC meetings.

After four consecutive 75 bps "jumbo" rate hikes, the Fed is widely expected to raise the Fed Funds rate by 50 bps on Wednesday. That despite that Inflation has been decreasing.

Firstly, the wholesale producer price index ("PPI") has fallen from a monthly rate of 1.7% in March to 0.3% for September, October, and November. It came in 0.1% higher than the consensus expected in November, which was an excuse for the markets to decline. That's a sham as estimates always have a range.

PPI 2022 YTD



The consumer price index ("CPI") has also declined – from 8.1% in June to 6.9% in October. As you can see in this table, the inflation trend is clearly down.

CPI 2022 YTD

Month	Index Value	Monthly	Annually
May	151.9	1.4%	7.7%
June	152.9	0.75	8.1%
July	153.1	0.1%	7.6%
August	152.6	-0.3%	7.0%
September	152.7	0.1%	6.9%
October	153.8	0.7%	6.9%
Annual	150.163	0.725%	6.838%

We would expect the economy to weaken further in 2023, likely significantly, and in turn, inflation should continue to decline, further.

Recession Forecasts are Everywhere

Recession talk is getting louder, and just about everywhere you look people are forecasting a recession. It continues to be our opinion that the U.S. is already in a recession, which likely started in the 1Q2022.

Given the extent and aggressive rate hikes, we are fearful that the US economy and labor markets are headed for worse.

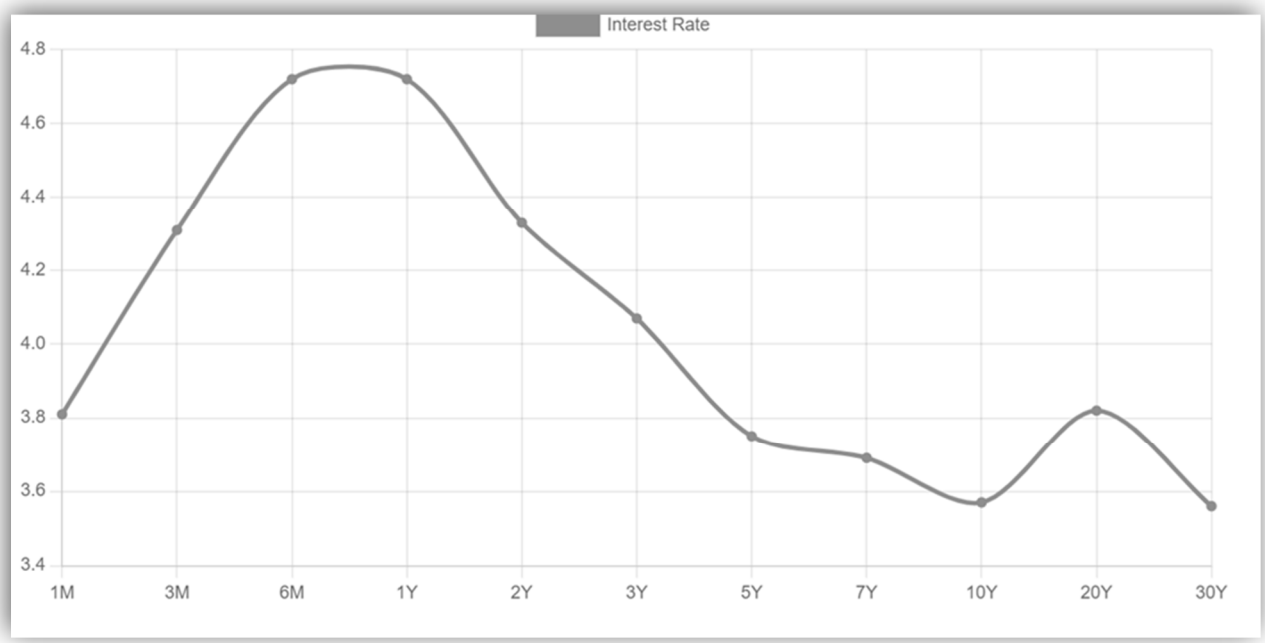
We believe strongly that the global economy has already exited a four-decade era of stable growth and inflation, and this is now coupled with a new era of geo-political tension. These forces and their knock-on effects seem to indicate a new period of heightened instability for economies and markets around the world.

This means policymakers will no longer be able to support markets as much as they did during past recessions, a team of BlackRock strategists led by vice chairman Philipp Hildebrand wrote in a report titled 2023 Global Outlook.

> *"Recession is foretold as central banks race to try to tame inflation. It's the opposite of past recessions," BlackRock said. "Central bankers won't ride to the rescue when growth slows in this new regime, contrary to what investors have come to expect."*

Troubling Economic Red Flags

U.S. Treasuries Yield Curve



The yield curve continues to be deeply inverted. Since 1960, an inverted yield curve has preceded nearly every recession.

Along with the inverted yield curve, here are some other aggravating economic facts, as espoused by two professionals.

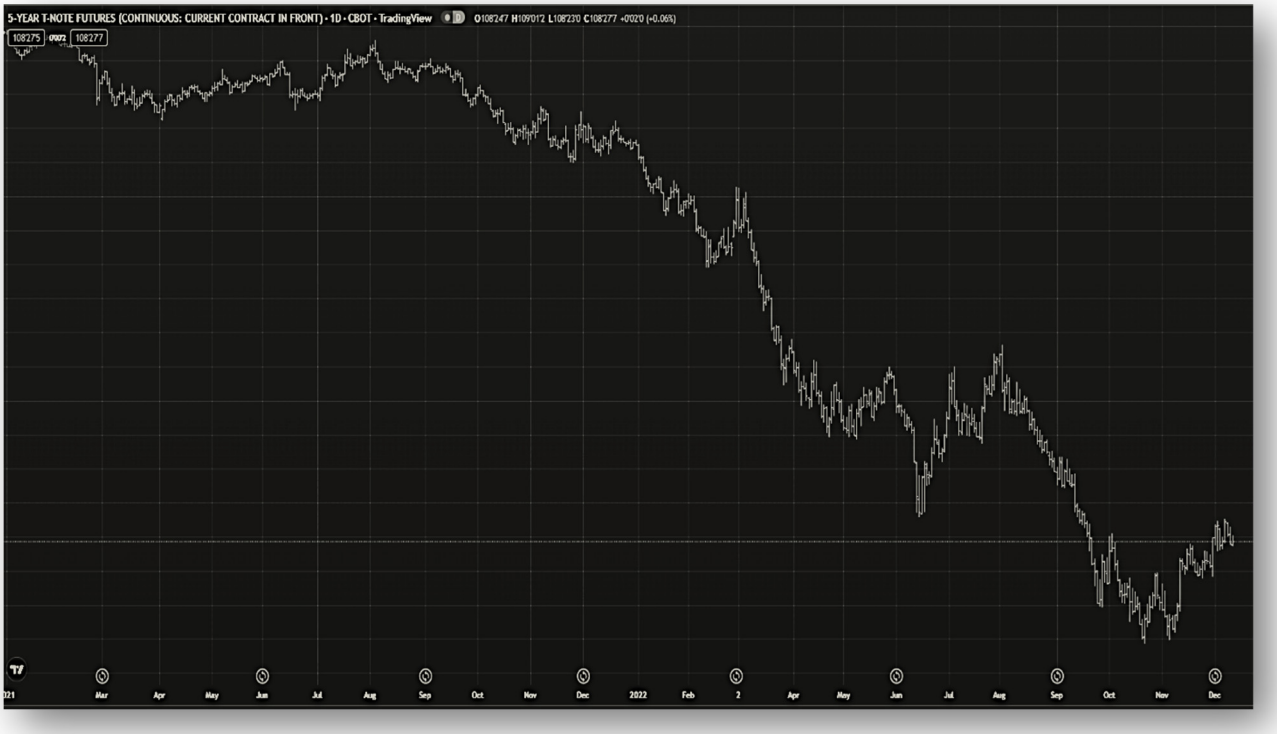
"Total Debt to GDP ratio is 420% higher than the Great Depression (1929-1939) and after WW II. With governments unwilling to raise taxes or cut spending Central Bank deficit monetization will once again be seen as the path to least resistance."

- Jesse Felder

"After years of ultra-loose fiscal, monetary, and credit policies and the onset of major negative supply shocks, stagflationary pressures are now putting the squeeze on a massive mountain of public- and private-sector debt. The mother of all economic crisis's looms, and there will be little that policymakers can do about it."

- Nouriel Roubini

Bonds look to be bottoming



Since the economy may experience a deeper than expected recession, bonds look to have now reached a significant low. Normally, the Fed starts its change of policy by slowing down rate increases, then pausing and finally easing. The yield curve begins to revert to the norm from its inverted status when unemployment starts to increase.

Real estate has big problems for now

According to research reports and media releases, real estate is clearly in decline in America:

- Morgan Stanley: Home prices will fall 7%
- Goldman Sachs: Home prices poised to fall 5% to 10%
- Moody's Analytics: Home prices will fall 5% to 10% — more if recession hits.
- Redfin: The US housing market's deep freeze is likely to accelerate next year and result in the first year-over-year decrease in home prices in a decade, according to experts at real estate firm Redfin. The median U.S. home sale price is projected to fall 4% to $368,000 in 2023, according to Redfin's forecast for the upcoming year.

Bitcoin and Crypto Fall out

After the Sam Bankman-Fried fraud and FTX bankruptcy, it appears that the SEC will finally regulate this market. Crypto's are "securities", and that designation will end what will come to be known as one of the longest lasting and worse Ponzi schemes of the past 150 years.

Bitcoin has no insurer, thereby it is considered a commodity. It will survive regulation for now. Other Crypto's will likely decline or even disappear in 2023.

Gold

Gold (along with bonds) should move higher for the same reasons. As the economy weakens materially, the Fed will do its one trick pony and start to ease. Gold is inversely correlated with the U.S. dollar which seems to have topped. As a result, we believe gold has made its lows for this cycle.

Silver and the implications for Central Bank Digital Currencies (CBDC)

Most silver bulls have been calling for a huge rise for years… mostly because demand is much greater than new production. The problem is there are many sellers of silver, particularly from India and elsewhere who have scrap inventory.

However, we are bullish on silver, because the central banks are coming out with central bank digital currencies ("CBDC"). A CBDC is the digital form of a country's fiat currency. A CBDC is issued and regulated by a nation's monetary authority or central bank. As of March 2022, there were nine countries and territories that had launched CBDCs: The Bahamas, Antigua and Barbuda, St. Kitts and Nevis, Monserrat, Dominica, Saint Lucia, St. Vincent and the Grenadines, Grenada, and Nigeria. There are 80 other countries with CBDC initiatives and projects underway.

CBDCs will make it possible for central banks to impose deeply negative interest rates and might prevent citizens from taking money out of banks. If that happens, there will be a huge demand for gold and silver coins.

Silver might be preferred over gold as it is less likely to be confiscated by the U.S. government. (Note that in 1933 the U.S. government confiscated gold from its citizens. It was unconstitutional, but no one seems to mention this or complain about it).

Governments won't confiscate silver, because it's an important industrial metal used in many manufactured items (e.g., electrical switches and solar panels). Almost every computer, mobile phone, automobile, and appliance contains silver.

It's interesting to note that silver coins are far more valuable than silver futures. Currently, Dec 2022. Silver futures are at $23.56 while a 1 oz minted U.S. Silver Dollar coins cost $41.00.

Commodity Backed Currency Would be Very Bullish for Precious Metals

The other major reason gold and silver may increase in price is if the BRICS (Brazil, Russia, India, China and South Africa) create a commodity backed currency to compete with the U.S. dollar. The details are not final, but we believe it could happen as soon as 2023.

The key element is the Saudi's joining the BRICS and accepting payment for oil in other currencies. That would end Petro Dollar recycling, and this will put pressure on U.S. Dollar prices.

CBDCs and a new BRICS commodity backed currency could ultimately cause substantial weakness in the dollar and strength in Silver and Gold.

Commodities

Commodities initially rose sharply during the first few months of 2022 but have corrected after the Fed started jumbo rate hikes.

The CRB Commodity Index made its high for the year on June 10th at +40.84% (without T-Bill interest included). The Fed started its 75-bps rate increase crusade shortly thereafter on June 15th. The CRB has corrected almost 2/3rds of this year bull move and is now +14.43% YTD.

We are bullish on commodities for all the above reasons starting the end of next month. We expect the Fed to then begin to see the light on the damage they have caused by jumbo rate hikes.

Conclusions

Inflation, boom/bust cycles, governments increasing regulations and taxes all make the political privileged class wealthy, while destroying the middle class. Sadly, the U.S. political system has become a Kleptocracy and Thievocracy:

- Kleptocracy is a government whose corrupt leaders (kleptocrats) use political power to expropriate the wealth of the people and land they govern, typically by embezzling or misappropriating government funds at the expense of the wider population.

- Thievocracy literally means the rule by thievery and is a term used synonymously to kleptocracy.

One feature of political-based socioeconomic thievery is that there is often no public announcement explaining or apologizing for misappropriations, nor any legal charges or punishment levied against the offenders.

Thanks for reading,

James Louis Coppola III
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If you would like to discuss anything in this paper or any other topic, email us at info@baronpoint.com or call +1 212 248 2733.