

Cougar Global Viewpoints

Central banks and the enduring demand for gold

MAY | 2023

- Gold is a liquid asset, carries no credit risk, and is scarce, which contributes to its long-term investment appeal;
- Cougar's outlook suggests high probabilities of Recession and Chaos scenarios, which are the most favorable environments for gold;
- Central banks have accelerated gold purchases due to a perceived de-dollarization trend; and
- Central banks' willingness to hold more gold in their reserves, and the prospect of increased demand from investors, will likely put a floor under gold prices.

The price of gold has strongly trended upward since late 2022. It advanced above US \$2,000 per troy ounce in May, which approached its highest level on record. This strength was driven by the weakening of the U.S. dollar, declining U.S. bond yields, recent banking industry turmoil, and other factors. Large-scale geopolitical conflicts are known to have an impact on the demand for physical financial gold, and developments related to the war in Ukraine have increased central bank gold purchases since last year.

It is worth remembering that gold is a highly liquid asset, carries no credit risk, and is scarce, which can preserve its value over time. Its scarcity is seen in the slow growth of above-ground gold stocks; mine production has increased by approximately 2% annually. The World Gold Council (WGC) reports that the physical financial gold market accounts for almost 40% of total gold stocks: 21% held in the form of bars and coins, 17% held by central banks in the form of reserves, and 2% held in physically backed gold ETFs.

Central banks have been an important indicator of where the smart money is going. The world's central banks more than doubled their gold purchases in 2022, which the WGC reports as the highest level of buying on record. This shift

from central banks might be partially determined by the fear of de-dollarization of the global economy. As of April 30, the U.S. Dollar Index had lost more than 10% from its September 2022 peak.

Central banks' demand for gold increased significantly in the first quarter of 2023, and four of them accounted for the majority of reported purchasing during this period: the central banks of Singapore, China, Turkey, and India. The latter three have genuine incentives to diversify away from the U.S. dollar.

What does this all mean for Cougar Global's outlook and portfolios?

We maintain our belief in gold as an attractive asset class that can help diversify portfolios by providing low correlations with equities and bonds. Our proprietary scenario analysis indicates that Chaos and Recession are the most favorable environments for gold prices, which means that "safe haven" purchases of gold accelerate in times of economic and geopolitical turmoil.

Currently, our 12-month forward economic outlook suggests elevated possibilities for negative outcomes, with the combined probabilities for Recession and Chaos scenarios at 58% (please read our Monthly Outlook and Tactical Update commentary for details). Accordingly, Cougar Global's portfolios include allocations to gold.

Nevertheless, we acknowledge the volatility of gold prices, and we monitor them closely. Although gold prices have recently been consolidating, the robust gold reserve acquisitions of central banks — along with the potential for increased demand from investors once recessionary concerns come to the fore — should put a floor under prices and maintain gold's ability to diversify portfolios.

ABOUT COUGAR GLOBAL INVESTMENTS

Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

ABOUT RAYMOND JAMES INVESTMENT MANAGEMENT

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClarVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

DISCLOSURES

This research material has been prepared by Cougar Global Investments. Opinions and estimates offered constitute Cougar Global's judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Before investing in commodities, like gold, and commodity-indexed securities, it is important to understand the risks involved. Commodity prices can be volatile due to a variety of factors. Additionally, commodities and commodity-index linked securities can be impacted by changes in interest rates, weather, disease, embargoes, political and regulatory developments, as well as trading activity in the underlying commodities. It is important to carefully weigh the benefits and risks of investing in commodities and seek advice from a qualified professional before making any decisions.

An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: non-diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error. All investments are subject to risk. Asset allocation and diversification do not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

Cougar Global Investments Limited (Cougar Global) is an investment manager that utilizes tactical asset allocation to construct globally diversified portfolios. Effective 4/30/15, Cougar Global Investments is a wholly owned subsidiary of Raymond James International Canada which is a wholly owned subsidiary of Raymond James International Holdings. Raymond James International Holdings is a wholly owned subsidiary of Raymond James Financial as is Raymond James Investment Management. Prior to 4/30/15, Cougar Global was an independent investment management firm not affiliated with any parent organization. Cougar Global is registered as a Portfolio Manager with the Ontario Securities Commission (OSC) and with the United States Securities and Exchange Commission (SEC) as a Non-Resident Investment Advisor. Prior to 01/02/2013, the firm was named Cougar Global Investments LP.

DEFINITIONS:

A Recession scenario is defined as the U.S. economy shrinking (a negative quarter over quarter growth rate).

A Chaos scenario is defined as a high impact, low probability event ("Black Swans").

De-dollarization refers to the trend of countries reducing their reliance on U.S. dollars as a reserve currency, medium of exchange, or unit of account.

The World Gold Council is a market development organization that has been established as a nonprofit association of the world's leading gold producers.

The financial physical gold market consists of bars, coins, physically backed gold ETFs and central bank reserves.

The U.S. Dollar Index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies. It was established by the U.S. Federal Reserve, and it is currently maintained by ICE Data Indices.

Correlation is a statistic that measures the degree to which the values of investable assets move in relation to each other.

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