KITCO®

Inflation is the only way to deal with debt, so protect your wealth with gold - Midas Funds

Editor's Note: Get caught up in minutes with our speedy summary of today's must-read news stories and expert opinions that moved the precious metals and financial markets. Sign up here!

(Kitco News) - While the gold market has struggled to find solid footing after falling from August's all-time highs, one fund manager says that growing fiscal imbalances will continue to support long-term gold prices.

In a recent interview with Kitco News, Tom Winmill, portfolio manager at Midas Funds, noted that in October, U.S. national debt stood at $27 trillion, representing 143% of GDP.

"It's going to be difficult for the United States to deal with this kind of economic-financial situation," he said.

Winmill noted that some of the scenarios that governments have for dealing with massive debt burdens include taxation, growth, inflation, or default. He added that out of all these scenarios, inflation is probably the easiest option, and in that environment, gold will continue to shine as an alternative asset for wealth preservation, he said.

Looking out to 2021, Winmill said that he sees precious metal pushing back above $2,000 an ounce as investors look to hedge growing inflation risks. He added that in five years, he expects gold prices will be "substantially higher."

"If you want to try to preserve capital, gold has historically been a good way to do that," he said.

While inflation isn't expected to grow to levels seen in 1970, Winmill said that because interest rates are already so low, it won't take much of an increase to impact consumer purchasing power. He noted that $17 trillion in global government bonds already offer negative real yields, which includes inflation pressures.

Many analysts have noted that gold saw significant selling pressure in November following optimistic news of potential vaccines to fight against the COVID-19 pandemic. Gold prices dropped more than 5% last month, its worst selloff in four years.

Winmill said that he is looking past gold's recent lackluster performance and focusing on long-term issues. Although vaccine hopes have renewed expectations for faster economic recovery, he added that it still won't be enough to deal with the massive amount of debt created this past year.

In October the International Monetary Fund said that it sees the global economy expanding 5.2% next year.

“$4.4 trillion were added to the debt this year,” he said. “You would have to see growth of 25% to deal with the debt that we have created. You would have to have a 100% tax on 25% growth to bring the budget back into a steady state with the deficit.”

By Neils Christensen
For Kitco News

nchristensen@kitco.com
www.kitco.com