Gold still looks good as Fed underestimates inflation pressures - Midas Fund

(Kitco News) - The gold market may continue to suffer as bond yields move up, according to one fund manager. However, he also warned that investors are losing sight of the looming threat of currency debasement and rising inflation with all this focus on the bond market.

Tom Winmill, portfolio manager of the Midas Fund, noted in a recent interview with Kitco News that not only are bond yields trading at their highest level in almost a year, but they are up significantly from 0.5% seen in August. The yield on U.S. 10-year notes last traded at 1.36%.

So far this week, the gold market has been able to shake off the effects of the bond market as prices hold ground above $1,800 an ounce. April gold futures last traded at $1,804.40 an ounce, down 0.20% on the day.

While bond yields can move higher in the near-term, he added that because of all the debt the U.S. government has racked up trying to support the economy devastated by the COVID-19 pandemic, the selloff in the bond market is not sustainable. Winmill explained that debt now represents 133% of U.S. GPD.

"The growing government debt is a looming problem that will have to be dealt with," he said. "If bond yields continue to rise, the government could have a difficult time meeting its obligations."

Winmill said that if yields continue to rise, at some point, the Federal Reserve will step into the market to buy Treasuries. When that happens, he added investors would once again turn their attention to inflation. Along with keeping interest rates lows, the central bank wants to see inflation rise above 2%, Winmill said.

Tuesday, Federal Reserve Chair Jerome Powell avoided commenting on the rise in bond yields. He noted that generally, yields are rising because investors are pricing in more "robust and complete economic recovery."

Although the U.S. central bank is not ready to cap yields just yet, Powell noted that the Federal Reserve is far from achieving its targets and will continue to maintain its accommodative monetary policies.

While the Federal Reserve has been relatively complacent on the inflation threat, Winmill said that the official government numbers aren't reflecting what is happening in the general economy. Rising commodity prices, rising home prices, and equity market valuations are all signs of increasing inflation.

Winmill added that consumers looking at their grocery bills could see the impact inflation is having on their lives.

Winmill said that consumers would continue to feel the tightening grip of inflation as energy prices continue to rise. West Texas Intermediate (WTI) crude oil prices are currently trading above $60 a barrel, their highest level in more than a year.

"We are starting to see inflation creep into the economy more and more, and this is going to create the classic tightening cycle," he said. "Inevitably, when the Fed starts to tighten, if they ever do it, they are going to be significantly behind the curve, and that will be good for gold."

Although there are expectations for the U.S. economy to see more robust economic growth later in the year, Winmill said that it would not be enough to offset the inflation pressures associated with the activity.

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