PORTFOLIO POSITIONING/MACRO UPDATE

A portfolio update the day before another newsletter report, now that's not something I have done often. Given the situation at hand though, especially with regards to the weaker equity pricing and worried messages I have received, I deemed it necessary to provide some thoughts on both the weakness we have seen in the market and how I am handling that right now. I will apologize ahead of time for any overlap between this update and tomorrow's report, but I wanted to make sure I didn't just keep referencing ‘more on that in tomorrow's report’ every few sentences. As for portfolio positioning, I once again want to note that investing remains a profoundly personal endeavor and that reaching that important sleeping level, the right risk profile and conviction level for your portfolio is something that only you can decide, so please keep that in mind when going through both my macro views and the portfolio section later. With that being said, let's dive in.

Starting with the Fed, it has held its policy rate at 3.50% to 3.75% since late last year and at its mid-June meeting it stopped pretending the next move would be a cut. You all already knew that, but it's still important to discuss as the weakness that was already present in the more risk-on equities got notably worse from that point onwards. Kevin Warsh's first gathering as chair produced a unanimous hold, a policy statement cut roughly in half, the removal of the easing bias, and a dot plot in which 9 of 18 officials penciled in at least one hike before year end. The median projection for the end of 2026 moved to 3.8% from 3.4% in March. The committee lifted its own PCE forecast to 3.6% from 2.7%, and core to 3.3%, which is the largest single-meeting revision I can remember seeing. Warsh declined to submit a dot of his own as I reported at the time as well, being a longstanding skeptic of forward guidance, and the minutes from Wednesday afternoon showed a few members making the case for a hike outright. May PCE printed 4.1% year over year, a 3-year high. Rate futures now put September hike odds near 70%, up from 58% the day prior.

The 10-year touched 4.60% this week, its highest since May, and the 2-year has been printing fresh 2026 highs above 4.2%, all while yields across the global board are breaking out (with the notable exception being, you guessed it, China). The dollar index sits near the top of its 52-week range after gaining more than 2% in June alone and touching 101.50 on the DXY recently. It's now right at a critical level, where if it goes over 102, there is a case to be made that it could run to 110 again, which is not great for commodities and commodity related equities. Yes, I do still believe we will see the USD being used as a release valve to alleviate stress on the fiscal system, but just because I believe this is inevitable doesn't mean that it is imminent. That combination is what has been the main driver and everything else is decoration, at least in my opinion. Warsh has also been arguing for a smaller balance sheet, achieved by trimming the Fed's holdings of longer-dated notes and bonds, which pushes duration back onto private hands and lifts the term premium at the long end. Bonds have been under pressure from that. Layer on a Treasury rolling an enormous stock of debt into a market already being asked to absorb more of it and you get a long end that struggles to rally even when the growth data disappoints. Slow, structural weight on anything valued off a discount rate, if you will, and hard assets are no exception.

Oil pushing up certainly is also not helping risk related assets, because the market clearly associates a rising oil price with further geopolitical turmoil and in turn more uncertainty for the entire fiscal system given how it pushes up inflation and enables UST market dysfunction. You all know the sequence that goes through and how that ends up bleeding into the broad equities market and risk-on related equities in particular, which is what we are seeing in 4K HD live action right now and it can be labeled something of a horror movie.

PORTFOLIO POSITIONING/MACRO UPDATE

So what happened on the geopolitical and oil front over the past week? Well, Trump had given Tehran what he called a week off from negotiations. On Tuesday the IRGC attacked 3 vessels transiting Hormuz, including a Qatari LNG carrier and a Saudi crude tanker, and the US-led maritime coalition raised its threat assessment for the waterway to severe. Washington then revoked the waiver that had allowed Iran to sell crude, which is the sort of thing you do once you have decided a deal is dead in my opinion. Overnight the US hit more than 80 targets inside Iran, air defenses, command networks, radar sites, some 60 IRGC small boats, etc etc you get the idea by now of this whole "you hit us, we hit you harder and then we get hit harder again, repeat until UST market dysfunction" playbook. Come yesterday, Trump was in Ankara calling the ceasefire over and the Iranian leadership scum, threatening a renewed naval blockade and floating strikes on Iranian power and desalination plants. Tehran says it answered by hitting 85 American military sites across Bahrain and Kuwait. A second round of American strikes followed that evening, and by the time I was reading reports before the sun was even up this morning, cruise missiles were landing in Golestan province, roughly 900 miles from the strait, which tells you the target set is widening and more targets are on the menu, which is not a good sign.

An oil shock arriving in the middle of a cutting cycle sends money into gold, and an oil shock arriving while the committee is openly debating a hike sends money into the front end of the curve instead, because the market reads the shock as inflation and reads the policy response as tighter. Does it actually need to get tighter? No and I still think that's not the most likely scenario, but if the market starts pricing it in then it will still have an effect. That is the inversion at the heart of this whole damn thing. Escalation in the Gulf used to be viewed as the proverbial gold catalyst, and now it routes through an inflation-fighting central bank first, and the metal gets run over on the way through. Checked that twice, because it still feels wrong to type, but that is simply the hand that gold has been dealt.

That once again brings us to job data and June payrolls came in at 57,000 against expectations closer to 110,000, with April and May revised down by a combined 74,000, and the participation rate fell 0.3 points to 61.5%, its lowest since early 2021. A labor market cooling faster than the 4.2% headline unemployment rate suggests, and for about like 36 hours there it gave the metals some air, with gold posting its first weekly gain in 5 weeks and silver adding nearly 7%. Then the tankers got hit and the whole thing was overwritten inside two sessions. From what I can tell the market has decided that a Fed staring at 4% inflation will look through one soft payroll print and that means more risk-off measures.

The Gold Miners Bullish Percent Index, which measures the share of gold mining stocks sitting on point and figure buy signals, printed 100 in January and hit 0.00 in early June. Zero, spelled out for dramtic effect, which is not a reading that indicator is designed to produce I don't think. The weekly retail sentiment survey published last Thursday showed bulls collapsing 13.6 points to 31.4% against bears at 42.3%. Chinese gold ETFs bled roughly $1.5 billion inside a month. Leveraged product unwinds have been doing real damage on down days, since triple-leveraged miner vehicles reset daily and force selling into weakness whether anybody wants to sell or not and yet speculative net length in Comex gold rose to 194,000 contracts at the end of June from 181,000 the week prior, which says the leveraged futures crowd has been buying this decline rather than capitulating into it. Those two readings do not reconcile, which means there is still no clear winner between the bulls and the bears as the tug-o-war continues around that $4000-4100 range for gold.

PORTFOLIO POSITIONING/MACRO UPDATE

As for fundamentals, the People's Bank of China bought 14.93 tonnes of gold in June, its largest monthly purchase since 2023 and its 20th consecutive month of accumulation, lifting official holdings to 2,346 tonnes. Uzbekistan added 9 tonnes and Poland remains the largest official buyer on the year. Gold is under 9% of Chinese reserves against roughly 70% for the United States, and a reserve manager answers to a 30-year mandate, so a July FOMC meeting barely registers. This year's central bank surveys showed a record share planning to add over the next 12 months. Somebody is absorbing every ounce the momentum crowd throws out, and it is not a hedge fund. I remain very bullish on gold, even despite the recent weakness. As for our other commodities, and again I will have more details on this in tomorrow's report, uranium has barely twitched through any of it, with spot near $85 to $86 a pound, flat on the month and up 15% on the year, and the term price at its highest in 18 years when grabbing the recent TradeTech numbers. Utilities contract on 10-year horizons and do not consult the dot plot, but equities still move with winds of the broad market for now. Frustrating? Absolutely, but also an opportunity I would say, given that the term price keeps rising and equities will respond in due course when the smoke clear. So, what breaks the spell for everything else?

June CPI lands next Tuesday, and a soft core print unwinds a piece of the rates complex and gives the metals room to breathe, while a hot one pulls the feared (and still uncertain, because few want this) hike forward and this grinds on for another quarter. The end-of-month Fed meeting is a near-certain hold either way. The variable I am watching frequently right now is Hormuz throughput and while ships are still passing despite the back and forth sound of missiles, we are not yet anywhere near pre-war volumes. A discount rate has moved over the last few months and discount rates mean-revert while ounces in the ground do not. Price gets set at the margin by the last and most leveraged seller, whereas the value of a producing asset comes from what it generates across a full cycle and those two things have rarely been further apart in hard assets than they are today and honestly that is what the gold sentiment index shows as well (with DSI bleeding a lot lately). The way I see it, this is a rates drawdown wearing a war costume like its carnival and it resolves when the rates story resolves and the USD is being weakened again. That is uncomfortable, and I will not pretend the last few months have been anything other than painful, but the end does now feel in sight.

Which means it is time to put some of the cash position to use in my view. How much? That depends on what your sleeping level allows, but from a personal perspective I am happy to draw down a third of my cash position here and leave around 10% on the table. Why a third? Because I believe that reflects the need to take advantage of clearly depressed sentiment in commodities and commodity related equities, but also leaves ample room in case things are flaring up again and there is still plenty of uncertainty around rates and the USD. Again, this is all personal, so please consider what feels right for you, but I am adding to:

- UUUU (CEO adding shares, plenty of recent positive news, building a REE giant, down 50% from highs)
- MAI.V (Already a full position, but simply one of the best growing US based gold producers in my view)
- APM.V (Bolivia is still a risk, but improving, and the company is still a two-asset producer)
- MRLN (High risk AI play, please read my analysis, but has taken a massive hit. Now a full position)

Very gold focused, I know, but that's mostly because I already have over a third of the portfolio in uranium related equities even now, which I deem adequate to capture the thesis and in the meantime I remain very bullish on gold and want to build more on that during this weakness. I would also argue some of our industrial names like LibertyStream and Comstock are looking very attractive here, but I am already way overweight there myself. Thank you for reading and I hope you have a good and healthy rest of your day, cheers! ~Mart

CONTRARIAN CODEX DISCLAIMER