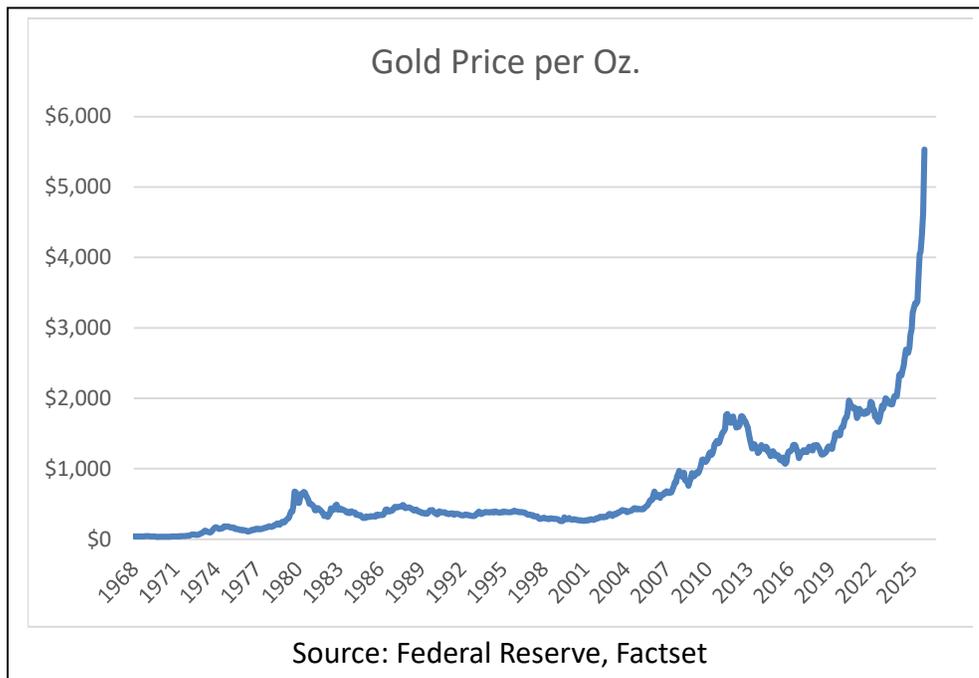


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Gold has Gone Vertical

The rise in gold prices this year has reached escape velocity, as it is said regarding a rocket about to leave the earth’s atmosphere. But the risks of the ascent continuing are high. The upward momentum in gold accelerated last year after the European Central Bank (ECB) reported that gold had overtaken the Euro as the second biggest reserve asset for central banks. The ECB report noted that large buyers included India and China, and that central bank gold reserves worldwide were approaching levels not seen since 1965 during the Bretton Woods era. While gold is an inert metal that pays no interest, and entails costs for storage, it is attractive as a historic store of value with no counter-party risk or exposure to sanctions. With both the U.S. and the EU threatening Russian assets, nations around the world have taken note and are seeking to lessen their exposure to such counter-party risk.



It is often said that inflation is the main fuel for gold, but there has been little development on that front lately. Instead, the vertical rise in gold reflects simultaneous sources of instability and concern around the globe:

1. **Without doubt, the instability triggered by the current U.S. administration, with its on and off tariff policy and threats over Greenland, present a level of risk not seen in decades.** Recent threats of 100% tariffs on Canadian imports, after the Canadians made moves to get closer to China, only highlight the temporary nature of any agreement with the current U.S. government. Furthermore, while private sector debt, both household and corporate, has been declining, government debt has continued to increase at an unreasonable pace.
2. **The political turmoil in Paris is pointing to ongoing instability in that large and important European economy.** Government spending is already approaching a suffocating 60% of GDP, and there appears no political compromise in sight that will enable the French to cut social spending and regulations and get the economy and debt levels on a proper path. The French problems portend negative developments for the Euro, especially since even the German economy has flatlined under the weight of high energy prices and government controls.
3. **Japanese government debt already exceeds an astounding 200% of GDP after decades of government “stimulus spending,” and Yen denominated bond yields shot above 4% after recent government talk of more such spending.** The new spending plans reflect Prime Minister Sanae Takaichi’s strategy to strengthen her political position by calling early elections. The resultant weakness in the Yen versus the dollar led to reports of coordinated efforts to support the Yen’s foreign exchange value.
4. **The recent purge in China’s People’s Liberation Army points to heightening instability in the world’s second largest economy.** China’s economy is suffering from mountains of bad debts created after decades of malinvestment in real estate and government supported businesses. When private investors make investment decisions based on their best evaluation of pending economic opportunities, investment decisions can still go wrong. But when economic decisions are made by politicians using other people’s money for purposes of establishing and increasing their power, it’s virtually guaranteed. And when it’s on a huge scale over a very long period, as we’ve seen in China, the ending is usually epic.

Given the points just made, one may think that it’s a great idea to join the crowd and jump into gold. We would urge great caution. Great fortunes are made and lost at extreme turning points. Crashing markets are often points where people sell their stocks, often to great regret as stocks have always found a bottom and ultimately come back to new highs. Similarly, great sadness has ensued when investors, caught up in the excitement of seeing others earn riches in a skyrocketing market, buy into markets going vertically upward. The points made above, all of which support the price of gold, are already well known and the gold rush is on. Our perspective, based on many years of academic study and decades of experience, suggests that now may be a good time to stand aside and watch the spectacle. In fact, those who already have substantial

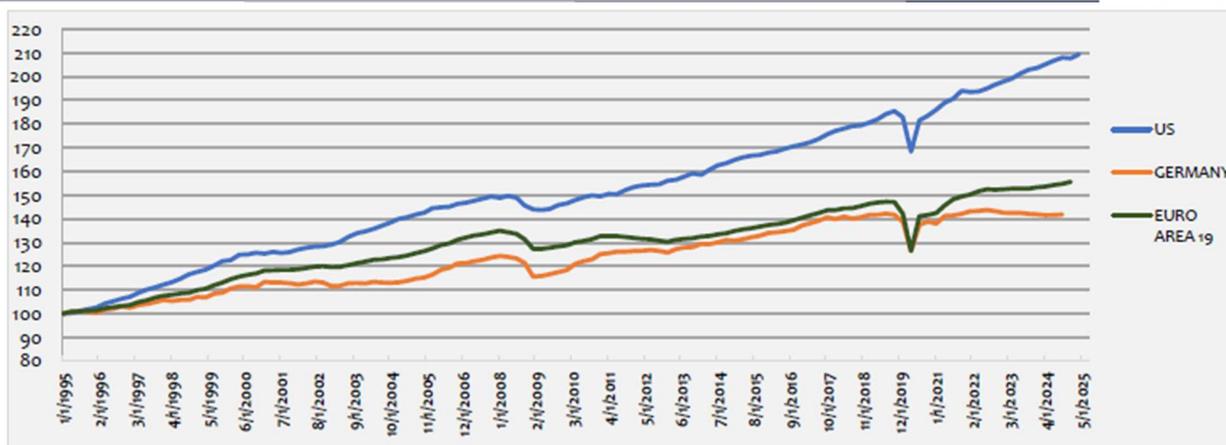
exposure to gold should consider selling a portion of their holdings into this rally, take some profits, and reduce exposure/risk.

The U.S. Dollar Fundamentals

We hear recurring reports from Europe about the imminent death of the dollar. Such reports are typically exaggerated. In fact, from a high-level perspective, what we are seeing is not so much a decline in the dollar versus other currencies, as all fiat currencies are declining versus gold. It does seem that the Trump administration has done nearly everything possible to make the dollar unattractive to foreign dollar holders. Frankly, we think it's amazing how well the dollar's foreign exchange value has held up considering all of the damage wrought. But the U.S. has many fundamental advantages that enable the nation's economy and businesses to sustain such damage. We've covered these fundamentals in past reports, but they include an entrepreneurial culture that rewards innovation, punishes inflexibility, and attracts human talent from all over the world. There is no greater or more important asset than the free human mind, and the U.S. continues to draw aces. And, compared to other regions, government intervention in private enterprise is low. Taxes, labor and other regulatory policies are comparatively favorable and encourage economic development. And with the most liquid and advanced capital markets, the business environment in the U.S. is like rich and nutritious soil ready for growth.

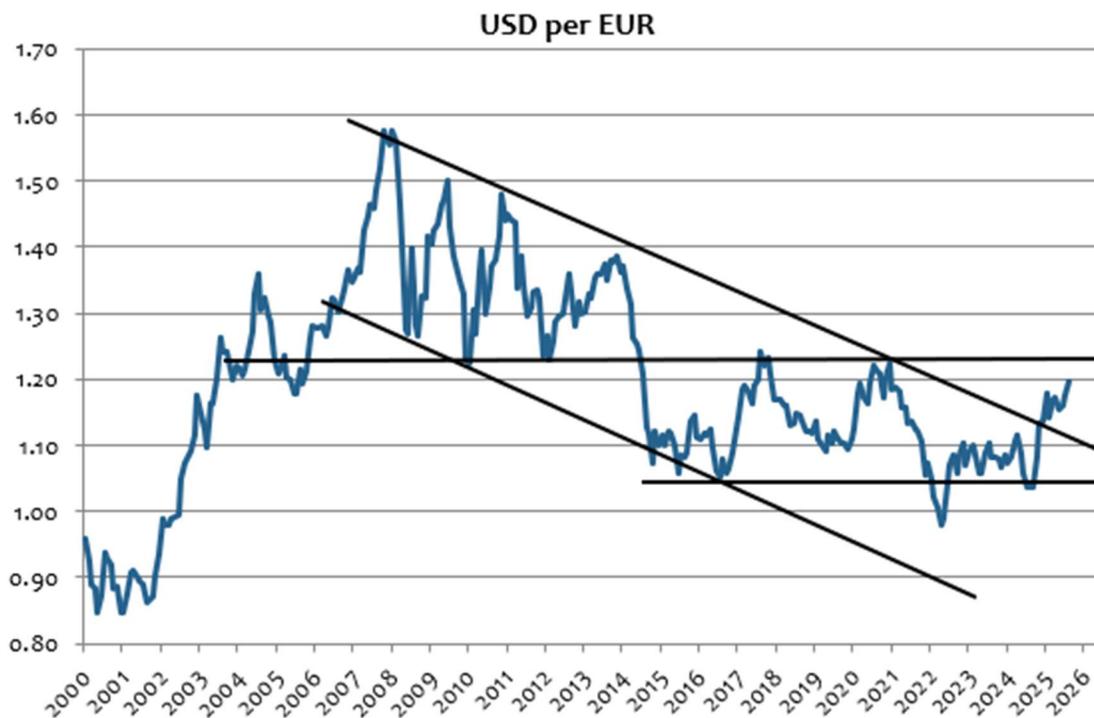
Real Gross Domestic Product Index 1995=100

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Alan Greenspan, who was Chairman of the Federal Reserve in the 1990's, famously noted that currency exchange rates were virtually impossible to model, and we are not bold enough to contradict him and make F/X forecasts. However, we do watch trends in the F/X markets. Some will disagree with the value of trend watching, but there is not a lot more to chew on other than relative interest rates. NOTE: Changes in foreign currency exchange rates are primarily driven

by global capital flows which typically are affected by relative investment opportunities, i.e., yields. U.S. yields still exceed those in Europe primarily due to the higher rate of economic growth in the U.S., and that is not likely to change soon. The current administration’s “Big Beautiful Bill” takes effect this year. In addition to putting more cash in the pockets of laborers, businesses are able to fully write off capital expenses immediately rather than over a period of years. Real GDP expanded at a 4.4% annualized rate in the third quarter of 2025, up from a 3.8% rate in the second quarter. Current expectations are that U.S. growth will only be in the 2.0% to 2.5% range for 2026. We doubt it. We think the surprises will be to the upside. That will support bond yields and the dollar. And, as we started by talking about trends, we would point out that the trends in the chart below point to Euro resistance at about \$1.22. Just as gold is looking stretched, the Euro’s dollar value is also looking rich.



Source: Wall Street Journal. Month end data except for January 29, 2026.

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