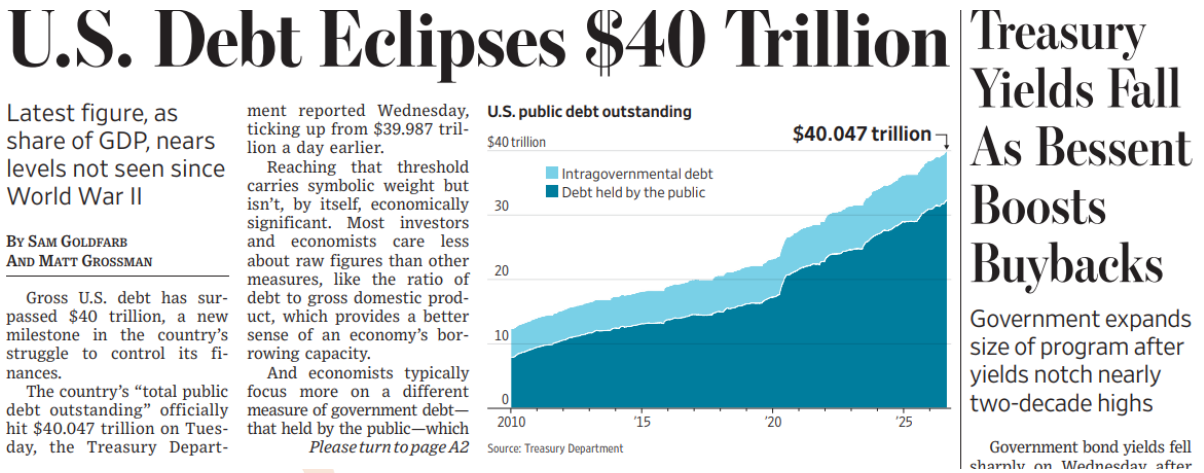
Vallum Debates the Future of Asset Classes: And it All Trace Back to Gold!

20th August 2026 Morning Meeting at Vallum Capital, Mumbai Office.



U.S. Debt Eclipses $40 Trillion

Latest figure, as share of GDP, nears levels not seen since World War II

By Sam Goldfarb And Matt Grossman

Gross U.S. debt has surpassed $40 trillion, a new milestone in the country's struggle to control its finances.

The country's "total public debt outstanding" officially hit $40.047 trillion on Tuesday, the Treasury Department reported Wednesday, ticking up from $39.987 trillion a day earlier.

Reaching that threshold carries symbolic weight but isn't, by itself, economically significant. Most investors and economists care less about raw figures than other measures, like the ratio of debt to gross domestic product, which provides a better sense of an economy's borrowing capacity.

And economists typically focus more on a different measure of government debt—that held by the public—which

Please turn to page A2

Treasury Yields Fall As Bessent Boosts Buybacks

Government expands size of program after yields notch nearly two-decade highs

Government bond yields fell sharply on Wednesday after

A peculiar juxtaposition of headlines on the US market in WSJ caught the Vallum team's attention. The economics textbook suggests that the yield should rise as the debt balloon. Four of us, undeterred by the incessant rain, made it in early and started the discussion.

PARTICIPANT 1, while Sipping Morning Indian Tea

Something happened overnight that needs to be on the table before we discuss anything else this morning. US debt is exploding — it has crossed $40 trillion — and long yields are being manipulated. Publicly held US debt stands at 100.6 percent of GDP. Federal net interest expense has compounded at 22.9 percent per year between 2020 and 2025, against nominal GDP growth of 7.6 percent per year over the same period. Net interest is compounding at three times the rate of the economy's capacity to service it. Net interest expense has now crossed above defence spending; the threshold economists refer to as Ferguson's Law. Net interest as a percentage of federal revenues has risen from 10 percent five years ago to 19 percent today. *Are we missing something here about the US?*

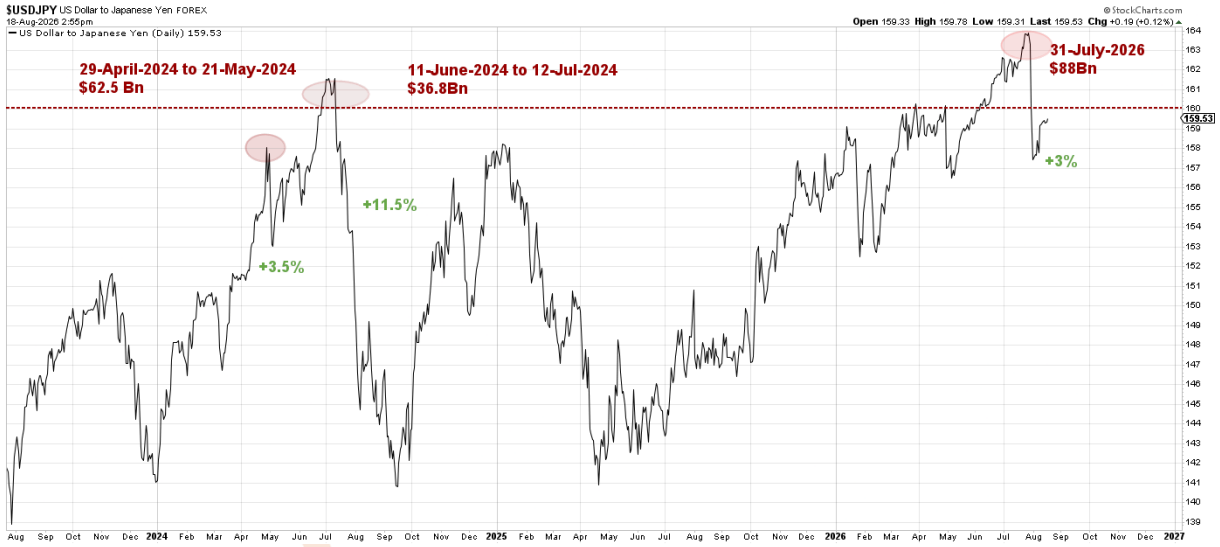
PARTICIPANT 2, While Sipping Black coffee

I smell a rat here. Just a few days back, the United States Treasury and the Bank of Japan were jointly in the currency market with coordinated intervention to support the yen. This was the first time the two governments have operated that way since 1998. I see some parallels with what the US government has been doing. The Japanese central bank has been intervening in

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the currency market for quite some time. The ferocity of the latest one was last matched in 1990. The Ministry of Finance has consistently cited excessive volatility precisely at that level across multiple public statements. I saw a similar sequence with the UAE, since the start of the war. Let me open charts. Before we get into what it means, look at this chart. It suggests that aggressive intervention by the BOJ always happens when the yen crosses above 150/$.

CHART 1: USD/JPY Exchange Rate, January 2024 to August 2026



Source: Stockcharts, as of 21st August 2026

Daily USD/JPY exchange rate from January 2024 through 18 August 2026. Three intervention episodes are annotated: 29 April 2024 - 21 May 2024, 12 July 2024, and 30-31 July 2026. In each episode the yen had weakened past the 160 per dollar threshold before Japan acted. The July 30-31 2026 joint operation was triggered as USD/JPY approached approximately 164, the highest level in the series. The pair has since retraced to 159.73 as of 18 August 2026, already drifting back toward the intervention threshold.

PARTICIPANT 1,

Wait, first explain to me why Y/$ at 160 keeps acting as the trigger? Is that a technical level or something the Ministry has explicitly defended?

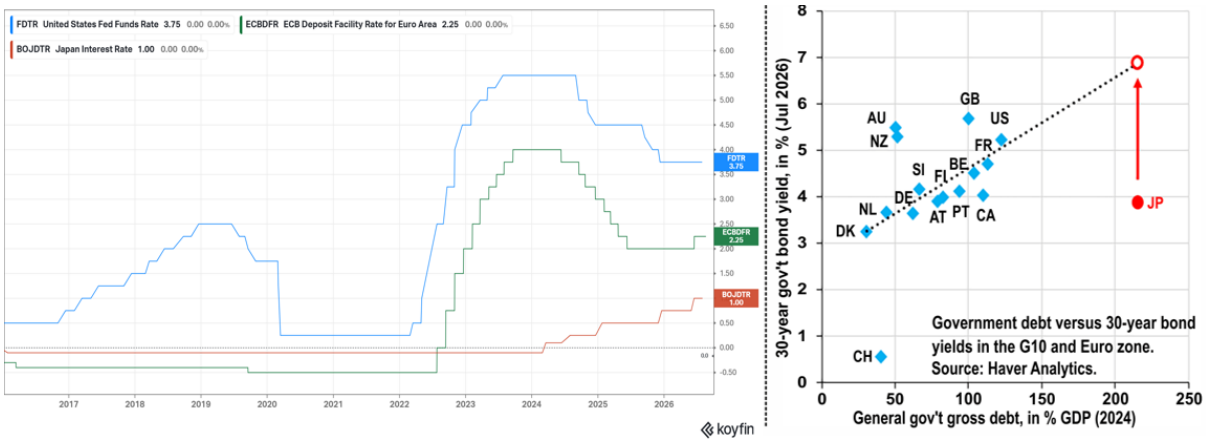
PARTICIPANT 2,

Back in 2016, the Bank of Japan formalised what markets already understood: Yield Curve Control (YCC), a hard peg on the 10-year JGB at zero percent. The BOJ would purchase whatever volume of government bonds was necessary to hold that cap. For six years it held. The BOJ eventually owned over half of all outstanding JGBs. When global inflation arrived in 2022 and every other major central bank hiked sharply, the BOJ stayed anchored, widening the band incrementally through 2022 and 2023. In March 2024 it formally abandoned YCC and raised rates for the first time in seventeen years. Abenomics was over. But yields did not stop rising once the cap was removed. They kept going, because the underlying reality of a government carrying 230 percent debt-to-GDP had not changed. The policy held the price artificially for a decade. The market is now finding the real one. The BoJ rate remains well below peers, with the rate differential to the Fed sustained near 300 basis points throughout the BOJ hiking cycle. Right panel suggests: Scatter plot of general government gross debt as a percentage of GDP against 30-year sovereign bond yields across G10 and Eurozone nations as of July 2026. Japan plots as a stark outlier: the highest debt load in the sample at over 200

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percent of GDP, with a 30-year yield far below what the trend line would predict, implying substantial repricing potential as the market re-rates Japanese sovereign risk.

CHART 2: Japanese Interest Rates vs G10 Peers and Government Debt-to-Yield Scatter



Source: Koyfin, Brookfield as of 21st August 2026

Left panel: *Tracks US, ECB, and BOJ policy rates since 2016. While the Fed and ECB hiked sharply from 2022, Japan held near zero, creating a 275-basis-point differential that sustained yen weakness and the carry trade across the full cycle.*

Right panel: *Each dot is a country. The trend line says it plainly:* ***higher government debt demands higher bond yields. Every G10 nation roughly follows it. Japan, at over 200% debt-to-GDP, sits dramatically below the line****. The red arrow is the repricing gap, the distance between where Japanese 30-year yields are today and where its debt burden says they mathematically belong. That gap closing is not a question of if. It is a question of when, and how disorderly.*

PARTICIPANT 3: Sipping Flat White**,**

How does YCC work, and how does what's happening in Japan relate to the US and to us sitting in Mumbai?

PARTICIPANT 1,

Silently, the Fed is picking up what the BOJ left off in 2024. The Fed never formally announced Yield Curve Control (YCC) in 2020–21, but policy functioned similarly. From August 2020, the Average Inflation Targeting (AIT) framework gave the Fed room to keep rates at 0–0.25% while tolerating inflation above 2%. At the same time, it bought $80bn/month Treasuries + $40bn MBS, pushing the balance sheet from $4.2tn to $8.9tn. Rather than explicitly capping yields, the Fed suppressed them through massive purchases. U.S. M2 rose from $15.5tn in February 2020 to $21.7tn by April 2022, roughly +40%. Liquidity entered through Fed asset purchases, government stimulus transfers and increased bank lending. The key takeaway is that 2020–21 was not officially YCC, but massive QE + zero rates effectively compressed the yield curve while enabling unprecedented fiscal and monetary expansion**.** Bessent is attempting the same.

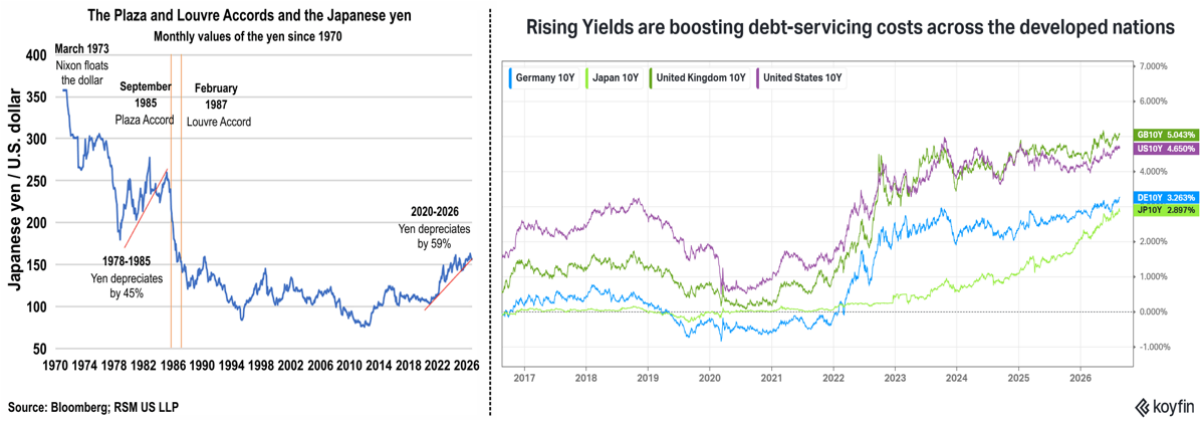
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PARTICIPANT 1,

Let me add, it matters because Japan is the world's largest creditor nation, and its capital has been quietly subsidising global bond markets for thirty years. Japan holds approximately 3.1 trillion dollars in US long-term securities, of which over one trillion is direct Treasury paper, making it the single largest foreign holder of US government debt. Beyond the government balance sheet, Japanese life insurers, pension funds, and regional banks spent decades borrowing in yen at near-zero cost and deploying into higher-yielding foreign assets: US Treasuries, European sovereigns, Australian bonds, emerging market credit.

The entire architecture of global bond demand has been funded by cheap yen. Now with rising yields, Japanese investors earn more at home and repatriation begins. And repatriation means selling foreign bonds. That selling pressure exports Japan's fiscal repricing directly into the US yield curve and every other market Japanese capital has been supporting.

CHART 3: G7 Government Borrowing Costs, 2008 to 2026



Left panel: *The yen's current 59% depreciation from 2020 to 2026 already exceeds the 1978 to 1985 episode that forced the Plaza Accord. History required a G7 emergency intervention then. The same pressure is building now.*

Right panel: *Every major economy's 10-year yield has risen in lockstep since 2022. Japan at 2.89% remains the outlier, held artificially below peers despite carrying the heaviest debt load. The gap between Japan and the rest is the unresolved tension in the entire global rate system.*

G7 yields bottomed near or below zero between 2020 and 2021 and have since reversed in lockstep. This is not a country-specific repricing. It is a synchronised global sovereign debt regime shift, with OECD gross borrowing requirements hitting $18 trillion in 2026, where every developed government faces rising debt-servicing costs at the same moment. In 1985, the Plaza Accord could solve the problem by redistributing currency pain. Today there is no clean redistribution because every sovereign is simultaneously under pressure, and the only remaining release valve is the one that requires no political agreement: devaluing the measuring stick itself.

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CHART 4: CBOE 10-Year US Treasury Yield, Long-Term Cycles, 1962 to 2034



Source: Stockcharts as of 21st August 2026 - Monthly 10-year US Treasury yield from 1962 to present. Three structural phases are annotated: a 35-year structural uptrend in yields peaking at the Volcker high near 16 percent in 1981; a 40-year structural downtrend from 1981 through the 2020 trough; and a nascent third cycle of structurally rising yields now underway. Band compression in the lower panel preceded each prior turning point. A comparable compression registered in 2020 to 2022, immediately before the current yield breakout.

Guys, you must remind yourselves enough that when Japan's YCC broke in 2024, the last anchoring mechanism in the global rate system was removed. Every G7 sovereign was already repricing. Japan's exit confirmed what the bond market had been signalling since 2022: this is the opening chapter of the third great secular bear market in bonds.

Fiscal Metrics are deteriorating

(metrics as % of GDP)

Year	Publicly-held debt	Net Interest	Defence	Mandatory Exp. (net)
1973	25.20%	1.30%	5.70%	7.20%
1979	25.00%	1.60%	4.60%	9.00%
2000	33.70%	2.20%	2.90%	9.40%
2008	39.20%	1.70%	4.10%	10.70%
2026	**100.60%**	**3.30%**	**2.80%**	**14.20%**

Source: Congresssional Budget Office (CBO)

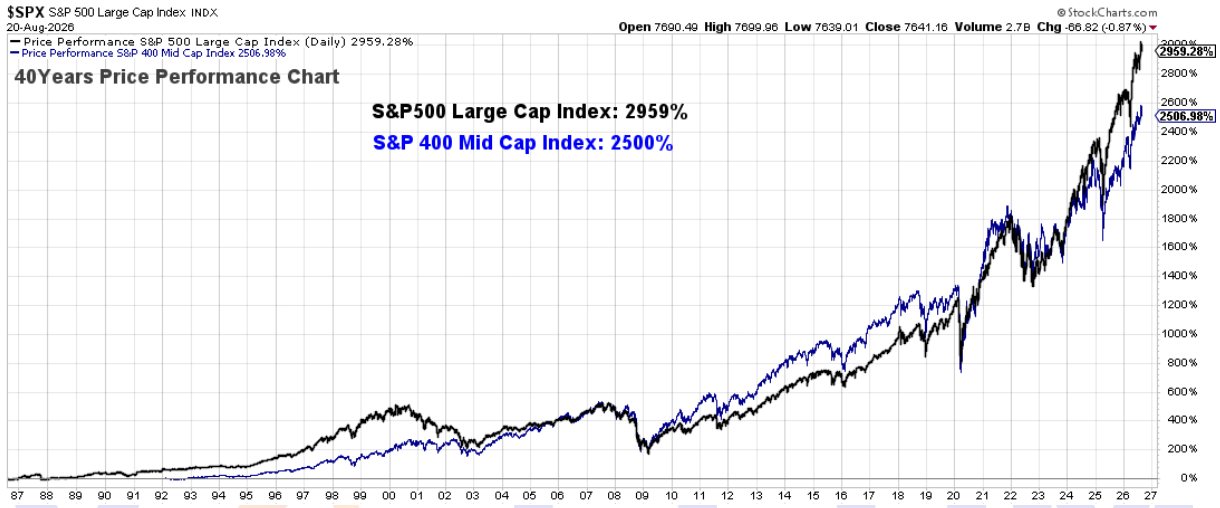
The revenue side offers no structural relief. Federal outlays have run above their 50-year average of 21.2 percent of GDP while revenues have sat near their 50-year average of 17.3 percent, and the CBO projects that gap to widen through 2036. Social Security exhausts its trust fund in approximately six years. This year alone, the United States must refinance approximately 9.2 trillion dollars in maturing obligations, the single largest rollover in the nation's fiscal history. The supply-side tailwinds that made Volcker's medicine work are absent in this cycle. He inherited a debt burden one-quarter the size of what exists today, with a growing prime-age labour force, collapsing input costs from globalisation, and a commodity deflationary wave just beginning. None of those structural advantages are present now.

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PARTICIPANT 3,

The United States has been in fiscal trouble before. Every decade, someone produces a chart showing the numbers are unsustainable. Every decade, the system adapts. Buffett spent forty years predicting structural dollar deterioration and spent those same forty years compounding capital in American businesses. The country finds a way. Look at S&P returns vs. mid-cap returns, which you guys have been recommending to me for the last few years.

CHART 5: S&P 500 (Large Cap) vs. S&P 400 (Mid Cap): 40-Year Price Performance



Source: Stockcharts 21st Aug 2026

PARTICIPANT 4, Sipping Protein Shake

Agreed. The country finds a way. That is not the question. The question is what the finding of that way costs in real purchasing power terms, and how directly that connects back to what we discussed about Japan. My sister lives there, so I can tell you a lot more about what's happening in the US.

PARTICIPANT 3,

Then tell me precisely how it ends. Not the mechanism. The outcome.

PARTICIPANT 1,

Let me explain: there are two paths, and only two. Either the bond market forces the adjustment, or the dollar absorbs it.

In the first path, markets impose the discipline. Yields spike to levels where the fiscal arithmetic becomes publicly unserviceable. The Federal Reserve is compelled to intervene on emergency terms, at a moment when its inflation credibility is already strained and the fiscal starting conditions are the most extreme in the post-war era. The adjustment is disorderly, front-loaded, and transmitted instantly across every asset class simultaneously. In the second path, the adjustment is managed and gradual. Nominal growth is allowed to run ahead of the

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weighted average coupon on outstanding obligations. Inflation runs structurally at three to four percent rather than at the stated target. *Real purchasing power erodes quietly over years rather than collapsing over months. Every percentage point of sustained inflation above the average coupon on outstanding bonds is an invisible, partial transfer of real value from creditors to the sovereign issuer. A restructuring without the legal event or the headline.*

PARTICIPANT 4,

How do you know which path has been chosen?

PARTICIPANT 2,

Because the people running the policy have said so, in plain language, when they believed fewer people were paying attention. I remember, before becoming Treasury Secretary, Scott Bessent wrote in a client letter that a weak dollar policy, not tariffs, was the preferred instrument, and that deliberately depressing the dollar's value early in the term would restore the competitiveness of US manufacturing. The characterisation was explicit, not euphemistic. In the Senate, JD Vance argued directly to the Federal Reserve Chair that reserve currency status operates as an implicit subsidy to consumers and a structural tax on producers. When pressed on whether the US economy might benefit from no longer anchoring the global reserve system, his framing of devaluation was precise: a word that sounds alarming, he said, but in practice means American exports become more price-competitive in global markets.

Let me revisit his statements,

*"Wall Street traders and strategists say US Treasury Secretary **Scott Bessent** is sending fresh signals that he's eager to keep bond yields from spiking higher. First, he staged the US's first currency intervention to prop up the yen since 1998, mitigating the risk that Japan would dump US government bonds to raise the dollars needed to buy the currency on its own. And he pointed to a Federal Reserve facility that Tokyo could tap in the future. Then at last week's quarterly bond sales announcement, a subtle and unexpected change to his department's guidance was seen as opening the door to potential cuts in long-bond sales" -Bloomberg, 8/9/26*

"I think in some ways you could argue that the reserve currency status is a massive subsidy to American consumers, but a massive tax on American producers." J.D. Vance - realclearpolitics.com

*"Vance argues that the dollar's reserve-currency status boosts U.S. consumer purchasing power through cheaper imports but acts as a **'massive tax on American producers,'** contributing to deindustrialization, weaker manufacturing and less domestic production. Powell acknowledges potential burdens but argues the dollar's reserve status stems from U.S. institutional strength and does not materially hinder the Fed's ability to control domestic inflation" J.D. Vance realclearpolitics.com*

When the two officials with the most direct institutional authority over dollar policy have both independently and explicitly characterised a strong dollar as an economic problem they intend to manage, the rational response is to weight that signal above their subsequent official reassurances, not below it.

PARTICIPANT 3,

Wait. Back up. If the administration's revealed preference is a weaker dollar, how does the yen intervention actually serve that? Intervening to support the yen is intervening to weaken the dollar. That I understand. But you are describing a coordinated operation between the world's

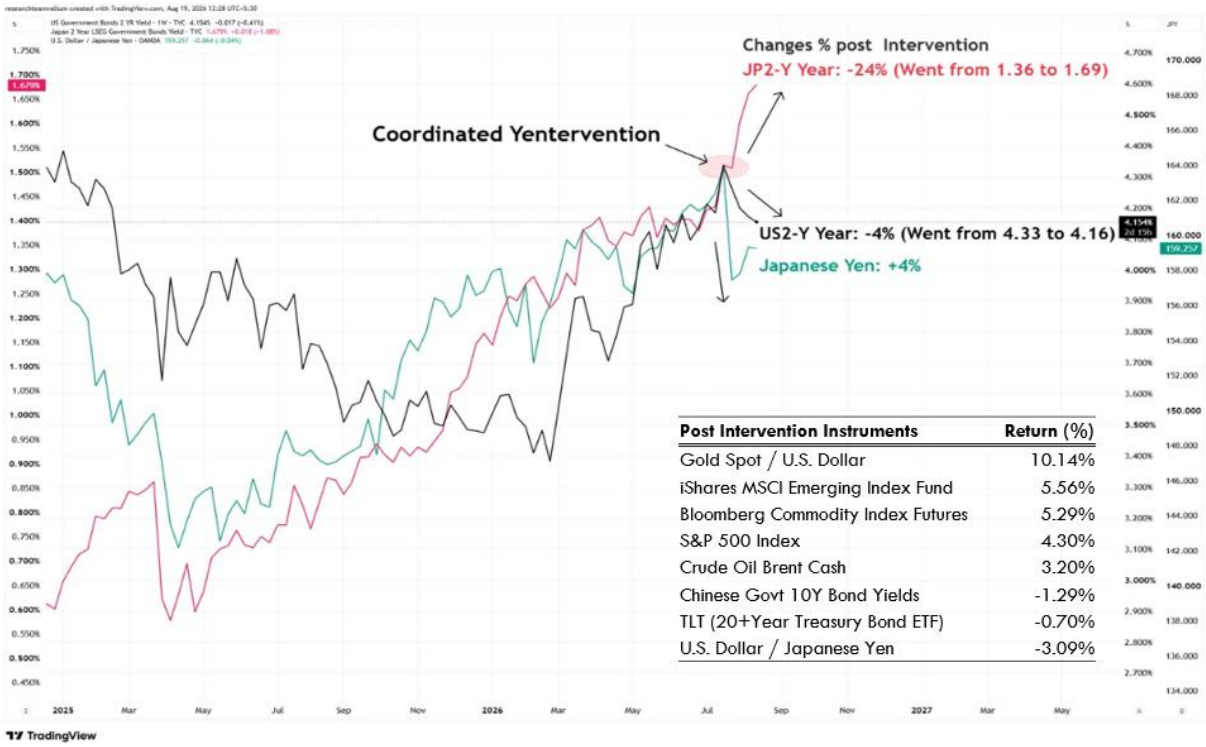
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two largest economies, one of which is simultaneously claiming a strong dollar policy. How do those two things coexist?

PARTICIPANT 2,

They coexist because a strong dollar is a label and a weak dollar is a destination. The label manages the bond market's expectation in the short term. The destination is where the debt arithmetic points over the medium term. In every solo intervention Japan conducted over three years, it sold dollars. Each time it did, it drew down reserves that were mostly held in US Treasuries. Treasury sales push yields higher. That is precisely what the United States cannot afford when it is rolling over 9.2 trillion dollars in obligations this year. *The coordinated operation on July 30 and 31 was not charity toward Japan. It was the US structuring a mechanism by which Japan could defend its currency without selling American bonds***.** The distinction matters enormously. Look at the charts.

CHART 6: US 2-Year vs Japan 2-Year Yields and USD/JPY, January 2025 to August 2026



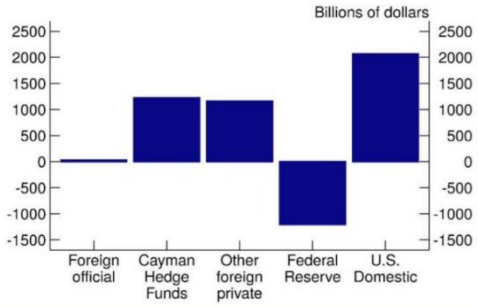
Source: Trading View, as of 21st August 2026 US 2-Year vs. Japan 2-Year Government Bond Yields and USD/JPY (January 2025 to August 2026).

The yen strengthened four percent. That was the visible result and the one that made the headlines. But the post-intervention return table is where the market's actual verdict on the event was recorded.

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PARTICIPANT 1,

Figure 5. Absorption of Net Issuance of U.S. Treasury Notes and Bonds, January 2022 – December 2024



The US has a genuine problem finding buyers for UST

The chart tells you the starting point. Between January 2022 and December 2024, foreign official holders absorbed net zero of new Treasury note and bond issuance; the Fed sold $1.4 trillion; and US domestic buyers had to absorb $2 trillion to keep the market functional. That was before the accelerated selling of 2026. If Japan sold $47.7 billion of Treasuries in March alone, and China sold another $41 billion in the same month, and Saudi Arabia, UAE, India, Taiwan, and Canada were all net sellers simultaneously, that is $138 billion of paper hitting the market in thirty days. Someone absorbed that.

The buyers were a mix of sovereigns and domestic US institutions: pension funds, insurance companies, and money market funds that stepped into yield levels above 4.2 percent after years of duration avoidance, plus stablecoin issuers. Tether held US Treasury bills worth $122.32 billion as of December 31, 2025. Circle held $20.9 billion in US Treasury securities as of March 2026. Combined, those two issuers hold more Treasuries than Germany, Saudi Arabia, or South Korea. Mr. Flat White, in 2024 Tether ranked as the seventh-largest buyer of US Treasury bills globally, ahead of Canada, Taiwan, and Mexico, even as Japan and China reduced their holdings by $400 billion and $300 billion, respectively.

PARTICIPANT 2,

The US has made a very smart move to generate demand for UST.

Because every dollar minted in stablecoin form must be backed by something. Issue $1 of USDT, hold $1 of T-bills. The GENIUS Act, signed into law in July 2025, codified this: permitted payment stablecoin issuers must maintain reserves on a one-to-one basis consisting only of US dollars and short-term Treasuries. Total dollar-stablecoin supply has reached $323 billion as of May 2026. The stablecoin market is projected to reach $2 trillion by 2028, nearly all of it dollar denominated. At that scale, stablecoin issuers would collectively hold more Treasuries than Japan and China combined. Japan and China currently hold US Treasuries worth $1.13 trillion and $784 billion, respectively. Bessent has been explicit that he views stablecoins as a strategic tool to export dollar demand globally while creating a structural bid for short-dated US debt. In emerging markets across Latin America, Southeast Asia, and Africa, USDT functions as a de facto savings account for people who cannot access dollar banking. Every one of those users indirectly holds a US Treasury bill. Now you can imagine how bad the problem of finding buyers for UST really is.

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PARTICIPANT 3,

Hold on. I just noticed above on **CHART 5**, post-intervention **gold gained 10.2 percent.** Emerging market equities gained 5.6 percent. The Bloomberg Commodity Index gained 5.3 percent. The S&P 500 gained 4.3 percent. TLT, the long Treasury bond fund, fell 0.70 percent. The dollar fell 3.09 percent against the yen. Am I reading that hierarchy correctly? It is the market's precise interpretation of what the intervention structurally meant. This is just crazy!

PARTICIPANT 1,

Yes, you are right. When a coordinated dollar-selling, yen-buying intervention produces **gold as the single largest beneficiary across every major asset class, the market is not reading the event as a temporary currency stabilisation**. It is reading it as dollar debasement confirmation. The market has sensed that the problem is not going away. It tells you the market is specifically pricing inflation risk and monetary credibility risk, not just a weaker exchange rate. Gold carries no counterparty. It cannot be printed through a repo facility. It captures the dollar debasement and the inflation risk premium simultaneously, which is why it leads every other asset class on an event that was, on its surface, a currency intervention. Just to add, **TLT (iShares 20+ Year Treasury Bond ETF)** has recorded losses for the last 4–5 years. The ETF holds long-end U.S. Treasury bonds**, which are down roughly 40% from their peak**. This means U.S. bondholders are sitting on substantial losses.

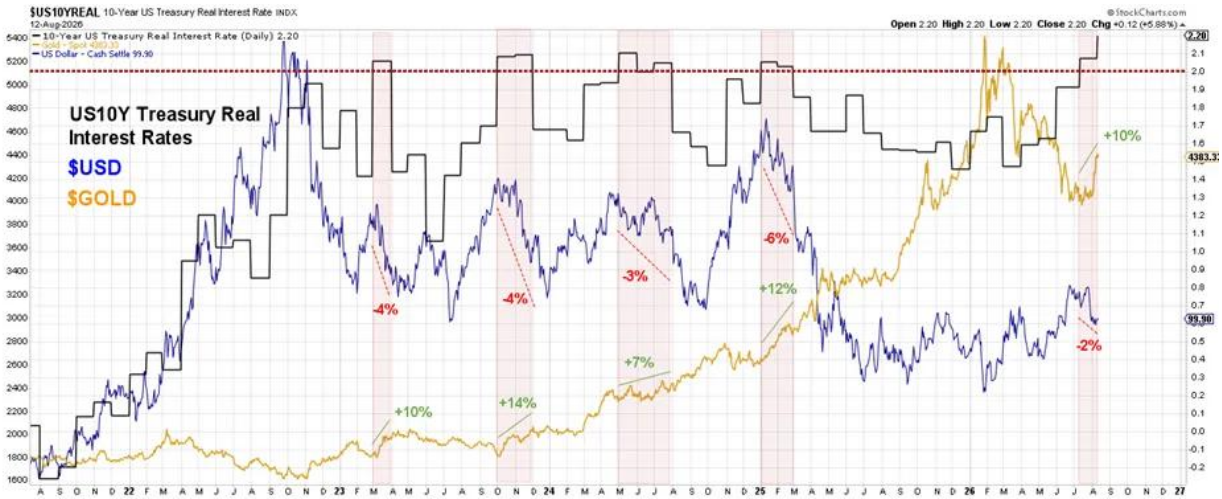
PARTICIPANT 2,

Time has come to load up on gold, guys (remember the "12th-Fail" song "Restart"?)

I must tell you a secret: the magic 2.0 percent US real yield line is not a technical level drawn by a chartist. It is a fiscal dominance threshold identified by the Federal Reserve, and what the data reveals is the opposite of conventional rate theory. Each time real yields have reached this level, rather than gold suffering as the opportunity cost argument would predict, the dollar has weakened and gold has strengthened. The explanation is the debt arithmetic. At 100.6 percent of GDP in publicly held debt, a 2 percent real yield is not a sustainable equilibrium. It is the precise level at which debt servicing cost overwhelms the fiscal revenue base. **The market does not wait for the formal suppression to arrive**. It prices the inevitability of it immediately, selling the dollar and buying the asset that cannot be repo'd, capped, or managed through any facility that Bessent can build.

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CHART 7: US 10-Year Real Interest Rate, USD, and Gold, Mid-2021 to August 2026



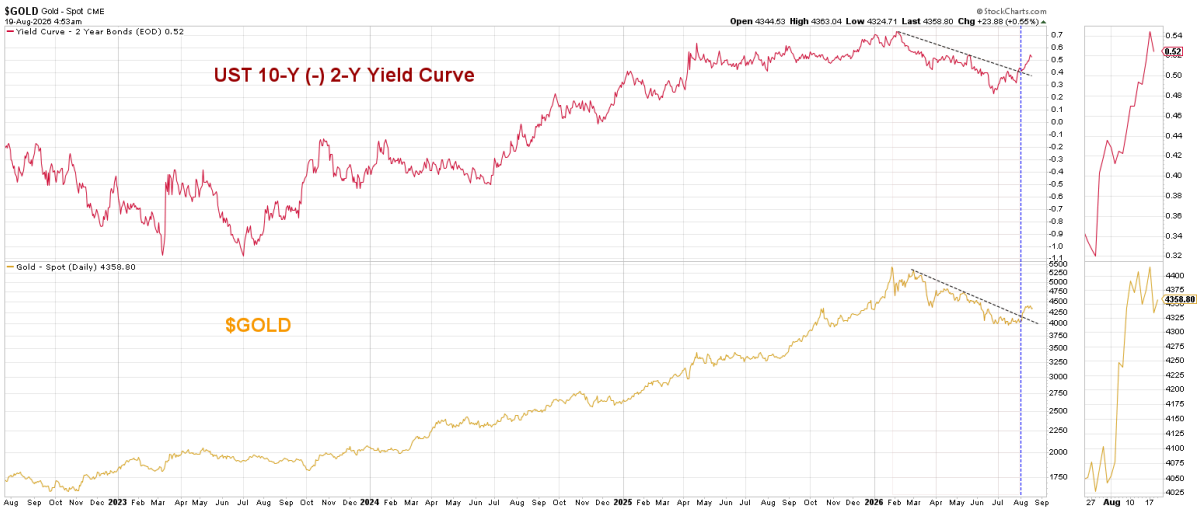
Source: StockCharts, 21st August 2026 - A red dotted horizontal line marks the 2.0 percent level identified by the Federal Reserve Bank of St. Louis as the threshold at which US fiscal dynamics become immediately problematic. Five Red-shaded episodes mark the periods when real yields approached or breached this threshold. In each episode, the dollar declined across all five windows by an average of -4% while gold gained an average of +10% across the same periods. The current real yield reads 2.20%, above the threshold for the fifth time since 2021. Gold sits at approximately $4,383.

PARTICIPANT 1,

Look at the curve. Not the level. The shape.

For two decades, the relationship between real yields and gold was mechanical and reliable. Real yields up: gold down. Real yields down: gold up. From the late 1990s through 2021, that inverse correlation held with enough consistency that it became the primary institutional model for pricing gold. Then 2022 happened. The Fed raised real yields from negative one percent to positive two percent in fourteen months, the most aggressive tightening cycle in forty years. Gold, instead of collapsing as the model predicted, held and then went to $5,600. The old model did not just weaken. It broke.

CHART 8: US Treasury 10Y-2Y (Yield Curve) Vs $Gold



Source: StockCharts, 20th August 2026 UST 10-Year Minus 2-Year Yield Spread vs. Gold Spot Price (Daily, August 2023 to August 2026). Source: StockCharts.com. The chart shows the yield spread rising from negative 130 basis points in mid-2023 to positive 52 basis points by August 2026, with gold spot rising in close correlation from approximately $1,900 to $4,359 over the same period.

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And guys, understanding why it broke is the core of what this chart is showing. A 100-basis-point hike on $9.2 trillion of near-term rollovers adds tens of billions to annual interest costs immediately. Higher costs widen the deficit. A wider deficit requires more issuance. More issuance at higher yields pushes rates further. **The loop is self-reinforcing, and the Fed is trapped inside it**. So, the short end stays at 3.50 to 3.75 percent while CPI prints 4.2 percent, a real short rate of negative 57 basis points. That is de facto yield curve control on the front end, unannounced and structurally enforced. The long end floats where the market prices the consequence: fiscal stress, inflation persistence, and a foreign buyer retreat from duration. That is why the 10Y minus 2Y spread has swung 183 basis points from the 2023 inversion to today's positive 52. The curve is not pricing recovery. It is pricing recognition. **This explains what is keeping Bessent up at night and what keeps pushing gold prices up.**

PARTICIPANT 3,

It's been a while since you guys have been bulldozing this early morning with Yield Curve Control (YCC) arguments or fiscal dominance frameworks. Let me offer a grounding observation. The god of equity markets, Warren Buffett's 2012 remark on gold has always struck me as definitive. Buffett estimated that the world's approximately 170,000 tonnes of gold would form a cube roughly 68 feet on each side. At approximately $1,750 per ounce, it was worth about **$9.6 trillion**. For the same amount, an investor could theoretically purchase all 400 million acres of US cropland, sixteen Exxon Mobils, and retain approximately $1 trillion in cash.

After a century, the farmland would have produced enormous quantities of food. The oil companies would have distributed trillions in dividends while retaining productive assets. The gold cube would remain the same physical size. Does Buffett deserve some respect here and at least when we are starting our day?

PARTICIPANT 4,

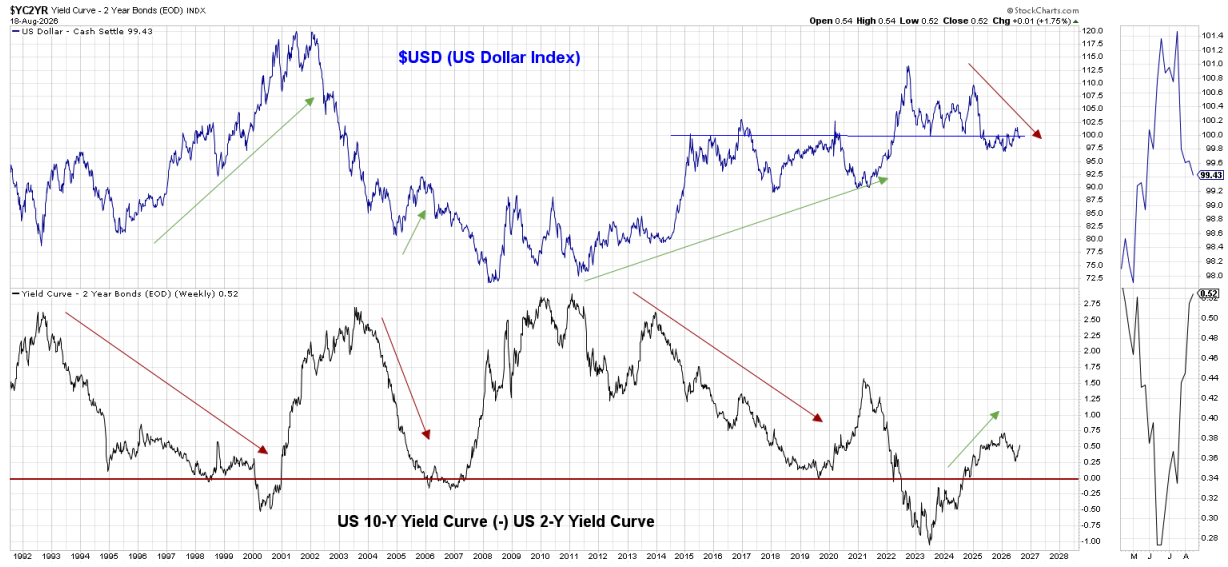
I will subscribe to Buffett, after I have made enough. If gold is the trade today, I will buy. **Fight broke out.** Participant 4 to Participant 3. You have been secretly nursing a dream of becoming a hedge fund manager and working with Soros who can do long, short etc. So, guys like Bessent are your role models and can't hear anything against him. Am I right, Mr Flat White?

Participant 2,

Guys, let's hear the argument first. As I understand now, this is the environment monetary history has produced before. Real rates on the reserve currency managed below zero. The curve deliberately held steep to let inflation do the work the government cannot do fiscally. The nominal economy being asked to grow faster than the debt service burden. When that configuration has appeared in prior cycles, the assets that repriced were the ones with no issuer, no coupon subject to repression, no rollover wall, and no central authority able to expand their supply by decision. **Gold satisfies every one of those conditions.**

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CHART 9: US Treasury 10Y-2Y (Yield Curve) Vs $Gold



Source: Stockcharts, as of 21st August 2026 - The chart overlays the dollar index in blue against the yield curve spread in black across three full steepening cycles: early 2000s, 2009 to 2011, and 2019 to 2021. In each cycle, the dollar peaked near the prior inversion and weakened as the curve widened into positive territory. Green arrows mark historical dollar turning points during curve steepening. Red arrows mark prior dollar peaks at inversion.

PARTICIPANT 4,

Which is precisely the problem the macro thesis is describing, compressed into one line. The geopolitical, price-insensitive holders of duration, Japan and China as sovereign creditors, are being replaced by price-sensitive retail aggregators and crypto protocols. Stablecoin reserve demand is concentrated in bills and overnight collateral. The new buyers buy short. The long end is left to the market. That is why the ten-year keeps drifting higher even as the Fed holds. That is one of the reasons why the spread widens. The divergence between who holds what maturity is the fulcrum of everything else in this conversation.

PARTICIPANT 2,

Two threads are running through this morning without enough challenge. The first is AI. Every major technology adoption cycle has been structurally disinflationary: railroads, electrification, the internet. Each drove productivity that compressed costs across the economy for decades. Why should AI be different? The second is the debt maturity argument. Treasury rolling into bills does not create money. It does not expand the monetary base. On what basis is shorter maturity inflationary? Finally, gold is going to have a blast to the upside.

PARTICIPANT 4,

On AI: the technology may well be disinflationary in the mature adoption phase. That is not the debate. The debate is timing. The Fed's own calculations show AI-related capital expenditure contributed 1.36 percentage points to US GDP growth in Q1 2026 alone. Business fixed investment rose at an 11 percent annual rate in the same quarter, with the Fed attributing most of the strength to AI infrastructure. Hyperscale capex across the five largest platforms is running at $730 billion in 2026 and is projected to exceed $1 trillion by 2029. That

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spending is demand today. Global data-centre electricity consumption is projected to roughly double from 485 terawatt-hours in 2025 to approximately 950 by 2030. Construction costs have already risen from $7.7 million per megawatt in 2020 to $10.7 million in 2025. US PPI for electronic components was up 27.6 percent year-over-year in June 2026. The productivity payoff is later. The physical bottleneck in power, chips, grid equipment, specialist construction labour and advanced semiconductors is here now. AI is inflationary in the short to medium term. Add Hormuz, war-like conditions in the Middle East. **So, in a nutshell, inflation is here to stay, the Fed is in a tight spot because it cannot raise interest rates as that hurts interest payments, and buyers of UST are disappearing. Period!**

What happens to silver if gold is on its ascent?

PARTICIPANT 2,

Silver has done something consistent across every cycle in which gold has made a sustained advance. It has outperformed gold, and not by a small margin.

CHART 10: Gold to Silver Ratio and Historical performance



Source: Stockcharts, as of 21st August 2026 Gold-to-Silver Ratio Panel (Monthly). Source: StockCharts.com. with the long-run median band of 45 to 50x marked in blue. Ratio currently reads 69x, elevated above median, with prior cycles showing compression toward and through the median band at the point of peak silver outperformance

Four cycles. Every single one produced silver returns that exceeded gold by a meaningful margin. 698 percentage points in the 1970s cycle. 274 percentage points in the 2007 to 2012 cycle. 121 percentage points in the early 2000s cycle. The current cycle from 2021 to 2026 has already produced silver at 263 percent versus gold at 164 percent, a 99-point outperformance with the ratio still sitting at 69x against a long-run median of 45 to 50x. Gold moves first, because institutional capital and sovereign reserve reallocation move first. Silver follows because it carries the same monetary logic with an additional industrial demand floor from solar, semiconductors, and grid infrastructure that gold does not have. In every prior cycle on

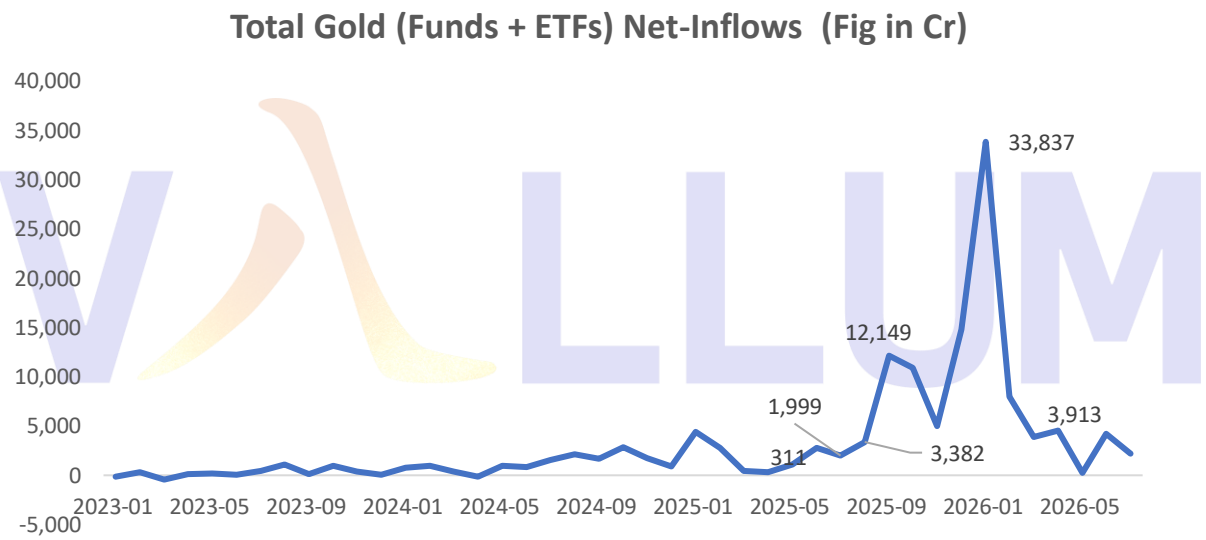
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that lower panel, the ratio compressed back toward the median, and in two of the three cases it broke through it entirely.

PARTICIPANT 3,

The 2007 to 2012 investor who held silver through the GFC drawdown absorbed a comparable shock in a single quarter. Silver fell 57 percent from its March 2008 peak to its October 2008 low, and then returned 441 percent from the cycle entry by April 2011. The intraday violence of January 30 does not change the ratio's current position, which is 40 percent above the median that every prior cycle has reverted toward. If the macro thesis is executing, as the curve, the FIMA architecture, and the dollar trajectory all suggest, the ratio does not hold at 69x. It has never held elevated once the steepening was confirmed and M2 was expanding. The Indian flow data gives you a different kind of evidence. Not the institutional thesis. The retail cost of it.

CHART 11: Gold ETFs & Funds Combined Net inflows



Total Gold Funds and ETFs Combined Net Inflows, India (Monthly, January 2023 to July 2026, figures in Indian Rupees crore). Source: Morningstar

Between Jan 2025–Jan 2026, Indian retail investors put ~₹93,000 crore into gold funds and ETFs, with a record ₹33,837 crore in Jan 2026 alone, near gold's $5,608/oz peak. Following Warsh's nomination, gold fell 25–30%, wiping ~₹23,000–28,000 crore from that year's new inflows in mark-to-market terms. Gold later recovered from ~$4,196 to ~$4,359.

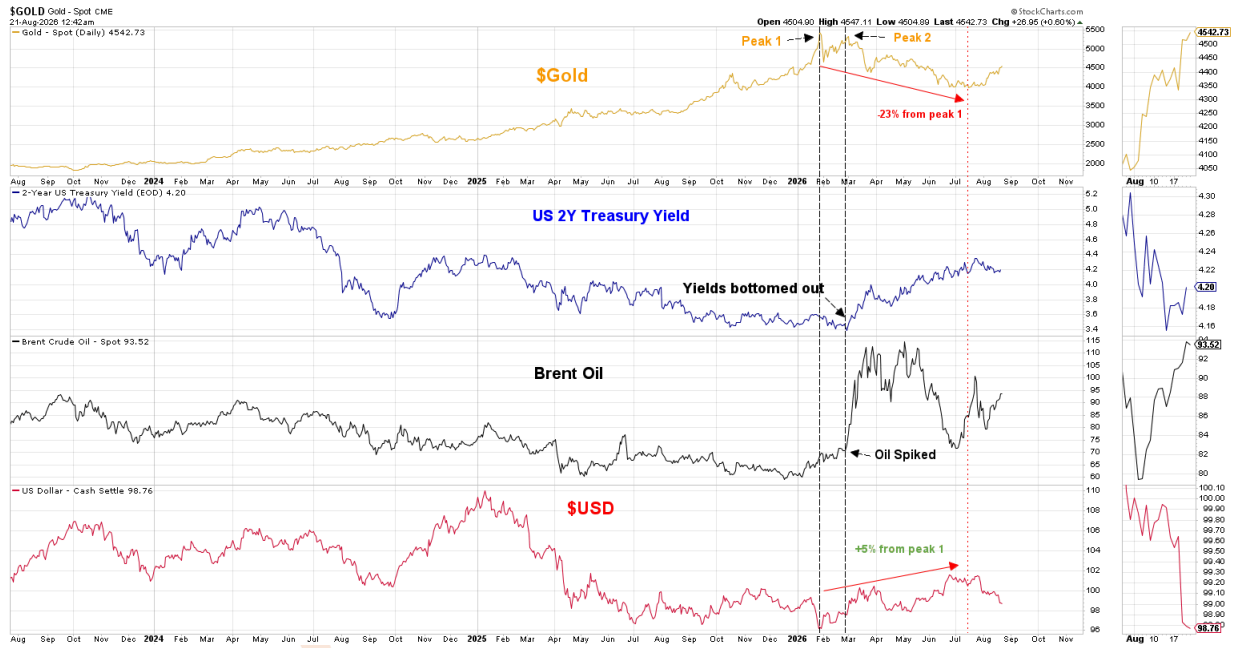
Also, if this is the case, then why did gold peak earlier this year? And what's happening now?

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PARTICIPANT 4,

Watch this chart!

CHART 12: Gold Vs 2-Y UST Yields Vs Brent oil Vs USD



Source: Stockcharts as on 21st Aug 2026

Gold's first peak formed not on fear but on consensus. Through 2025 and into January 2026, every narrative thread converged: central banks accumulating above one thousand tonnes annually for three consecutive years, geopolitical fractures multiplying, and a market increasingly persuaded that the incoming administration would subordinate the Federal Reserve, force rate cuts, and let inflation run persistently above the two percent target. Gold surged 29.5 percent in January 2026 on that single thesis. The peak crystallised near five thousand six hundred dollars, **almost precisely coinciding with the nomination of Kevin Warsh, the most hawkish candidate in modern Fed history, as the incoming Chair**. What followed was not a gold story. **It was a dollar story**. The Strait of Hormuz closure sent Brent from seventy-eight to one hundred and fifteen dollars in twenty-nine days, driving the two-year Treasury yield toward four-point two three percent and triggering a **global dollar squeeze**. **Banks that had stockpiled gold as crisis insurance sold it to raise dollars**. Turkey, Russia, and others followed. Warsh removed the easing bias entirely at the June 17 FOMC. Gold bore the full convergence and corrected twenty-three percent from its peak. The second peak is now forming under categorically different conditions. Oil has normalised as of now. The Warsh trap, two paths and both leading to real depreciation of the dollar over the medium term, remains as intact as it was in January. And gold is now reclaiming ground with the Dollar Index five percent above where it stood at Peak 1. That last fact carries the thesis entire: a metal making new highs against a stronger dollar is not retracing a trade. It is repricing a regime.

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PARTICIPANT 3,

Let me make the bear case plainly. Gold traded sideways for twelve years from 2011 to 2023. Anyone who bought at $1,900 in 2011 waited twelve years to break even in nominal terms. The macro argument for gold has been made many times and the metal has disappointed many times. What is structurally different now?

Also, just in case you missed it, we have mapped this same sequence in our VIMAS Q1-FY27 Quarterly Letter to Stakeholders.

PARTICIPANT 2,

The demand composition. That is the only answer that matters, and the World Gold Council's most recent quarterly data makes it impossible to misread.

Gold supply and demand

Table 1: Quarterly gold supply and demand by sector, tonnes

	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	q/q % change	y/y % change
Supply							
Mine Production	947.7	1,028.1	986.6	901.3	965.6	7	2
Net Producer Hedging	-25.8	-0.2	-20.2	-22.1	-22.8	-	-
Recycled Gold	346.7	342.7	365.8	373.8	326.1	-13	-6
Total Supply	**1,268.6**	**1,370.6**	**1,332.2**	**1,253.1**	**1,268.9**	**1**	**0**
Demand							
Jewellery Fabrication	354.2	420.0	438.9	332.1	310.3	-7	-12
Jewellery Consumption	335.3	375.6	434.8	294.2	278.2	-5	-17
Jewellery Inventory	18.9	44.4	4.1	37.8	32.1	-15	70
Technology	78.6	81.7	82.1	81.6	80.4	-2	2
Electronics	65.8	68.6	69.1	69.3	68.3	-1	4
Other Industrial	10.8	11.1	11.0	10.4	10.1	-3	-7
Dentistry	2.1	2.0	2.0	1.9	1.9	0	-6
Investment	486.8	554.1	603.9	539.2	262.2	-51	-46
Total Bar and Coin	315.6	328.4	428.1	476.8	307.1	-36	-3
Bars	250.7	251.0	331.4	397.1	247.8	-38	-1
Official Coins	40.1	31.6	54.3	51.8	33.5	-35	-16
Medals Imitation Coins	24.8	45.9	42.4	27.9	25.8	-8	4
ETFs and Similar Products	171.1	225.7	175.7	62.4	-44.8	-	-
Central Bank and Other Institutions	177.9	226.3	208.2	56.5	288.9	411	62
Gold Demand	**1,097.4**	**1,282.1**	**1,333.1**	**1,009.4**	**941.8**	**-7**	**-14**
OTC and other	171.1	88.5	-0.9	243.7	327.1	34	91
Total Demand	**1,268.6**	**1,370.6**	**1,332.2**	**1,253.1**	**1,268.9**	**1**	**0**
LBMA Gold Price (US$/oz)	3,280.4	3,456.5	4,135.2	4,872.9	4,506.3	-8	37

Note: For an explanation of these terms, please see the Notes and definitions download: www.gold.org/goldhub/data/gold-demand-by-country.
Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

Quarterly Gold Supply and Demand by Sector, tonnes. Q2 2025 to Q2 2026. Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council. Key Q2 2026 figures: Mine Production 965.6t (y/y +2%), Recycled Gold 326.1t (y/y -6%), Total Supply 1,268.9t (y/y 0%). Demand: Jewellery Consumption 278.2t (y/y -17%), Investment 262.2t (y/y -46%), ETFs and Similar Products -44.8t, Central Bank and Other Institutions 288.9t (q/q +411%, y/y +62%), OTC and Other 327.1t (y/y +91%). Total Demand 1,268.9t (y/y 0%). LBMA Gold Price Q2 2026: $4,506.3/oz (y/y +37%).

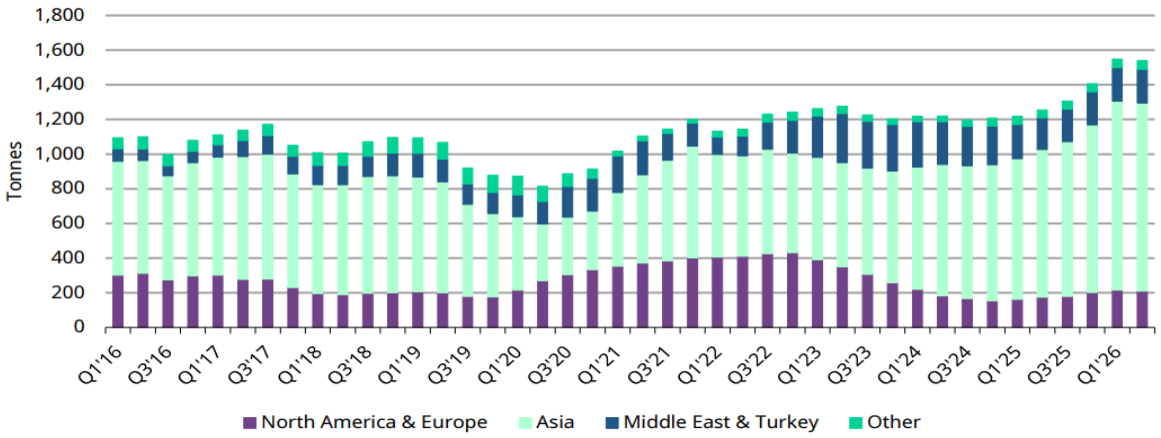
In Q2 2026, gold ETFs had net outflows of 44.8 tonnes. Western speculative money was leaving the trade. Jewellery consumption fell 17 percent year on year because the metal is too expensive for price-sensitive buyers at $4,506 per ounce. Investment demand in aggregate fell

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46 percent quarter on quarter. By every metric that drove the 2011 to 2020 price cycle, demand was contracting. Yet gold is 37 percent above its year-ago level. Central banks purchased 288.9 tonnes in Q2 2026 alone, a 411 percent surge from the 56.5 tonnes in Q1 2026. OTC and unreported institutional demand hit 327.1 tonnes in Q2 2026, up 91 percent year on year.

Chart 7: Asian markets have increasingly dominated global bar and coin demand in recent years

Four-quarter rolling bar and coin investment by region, tonnes*



*Data as of 30 June 2026
Source: Metals Focus, World Gold Council

Four-Quarter Rolling Bar and Coin Investment by Region, tonnes, Q1 2016 to Q1 2026. Source: Metals Focus, World Gold Council. Data as of 30 June 2026. Asia (light green) dominates and is the primary driver of the structural uptrend, reaching approximately 1,500 tonnes on a rolling four-quarter basis by Q1 2026. North America and Europe (dark purple) remain a small and stable fraction of total demand. Middle East and Turkey (dark teal) provide a secondary structural layer. The chart shows a clear and sustained shift in the geographic centre of gravity of physical gold demand toward Asia since 2021.

PARTICIPANT 3,

And the supply side? Do you have any target price for gold and silver?

PARTICIPANT 1,

Gold is sending an extraordinary signal. In Q2 2026, mine production rose just 2% year-on-year even though gold prices were 37% higher. Recycled supply, despite elevated prices, declined by 6%. Consequently, total gold supply recorded virtually no growth. In almost any other commodity, a price increase of this magnitude would trigger meaningful supply. In gold, it has produced almost none. The reason is structural: developing a new mine from discovery to first pour typically takes 10 - 15 years. *The asymmetry is increasingly evident. Demand has shifted decisively towards relatively price-insensitive sovereign buyers and Asian physical investors, while the supply curve remains incapable of responding quickly to the price increase this demand is generating.*

Consider the scale: above-ground gold is worth roughly $31 trillion, against $102 trillion in major central bank money supply and $350 trillion in global debt. Even a doubling in price wouldn't close that gap. And gold can't be created at will money and debt can and increasingly will be. No precise target, but after the last six months' correction, the risk-reward looks compelling again reinforcing our decision to add gold to VIMAS.

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The Story That Got Us Here

1. The United States is carrying a debt load so large that raising interest rates now actively worsens the very problem it is trying to solve. The Fed is not independent. It is cornered by arithmetic.
2. Rather than admitting this openly, policy is working through the back door. Currency Intervention is the new Yield Curve Control. Short rates are held below inflation. The dollar is being managed weaker by design. Japan's crisis gave Washington the perfect cover to demonstrate exactly that.
3. The people running dollar policy have said on record that a weaker dollar is the goal. Central banks across the world heard that message first. They bought gold at the fastest pace in recorded history, even as Western investors were selling.
4. Gold's earlier correction was not a thesis failure. Warsh's nomination signalled rate hikes, the oil spike added inflation cover for more hikes, and a stronger dollar did the rest. But that case has quietly collapsed. Hiking rates now means higher refinancing costs on $9.2 trillion of rolling debt and larger interest payments on every dollar already owed. The cure became the poison.
5. **The Endgame:** When the bond market eventually forces the Federal Reserve's hand, the likely response is balance sheet expansion, more dollars created to absorb the pressure. But the deeper intention is inflation. Running inflation structurally above the interest rate on outstanding debt is the only politically viable way to make a $36 trillion obligation gradually smaller without a formal default. Every percentage point of inflation above the yields is a quiet, invisible transfer of losses from the bond market onto the currency market — the purchasing power of the dollar itself. Bondholders lose in real terms. The sovereign survives in nominal ones. The losses do not disappear. They simply move from the Treasury market into your currency. **That is the moment precious metals stop being a hedge and become the trade**.
6. Gold and silver are not a call on chaos. They are a call on the most predictable outcome in fiscal history: that governments with unpayable debts eventually find a way to make the debt smaller by making the currency worth less. That process is not coming. It is already running.

It is time to reload Gold and Silver, as they appear to be poised for a significant upside move.

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Vallum Capital is a Portfolio Management firm managing equity investment for family offices and HNIs based in Mumbai, India. For any comments or queries, reach out to us at email address connect.vallum@vallum.in

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