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NovaGold Resources Inc

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A power vacuum is opening up in the space where the American middle classes once ruled supreme, and nervous investors are buying gold and precious metals in response

Price: 23.5

Market Cap: $41.79 billion

1 Year Share Price Graph

Share Information

Code:		GOLD
Listing:		NYSE
52 week	**High**	**Low**
	31.22	**13.01**
Sector:		**Gold & silver**
Website:		**www.novagold.com**

Company Synopsis:
NovaGold is a precious-metals mining company with a 50% stake in the Donlin gold project in Alaska. .

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In the immediate term markets were largely unmoved, or even moderately encouraged, by the statement from the chairman of the Federal Reserve Jerome Powell, that from here on in policy will be to allow inflation to move above the traditional 2% target.

Such arcana is not the stuff generally of headlines, although it was noticeable that the yield curve steepened as investors sold off longer-dated bonds. Why? Because with more inflation around, the value of long-term debt denominated in fiat currency is likely to be lower than if currency values were holding steady.

Because the Fed was extremely cautious in its wording, other effects were minimal. There was some cheering that the prospect of slightly higher inflation would give a corresponding boost to earnings, but then the equities markets have been acting as something of an inflation hedge since the time of the global financial crisis, if not before.

After all, that old mantra that the financial advisors pitch - that the stock market has a better performance over time than other asset classes - is another way of saying that while inflation devalues money, actual businesses are better at holding their value.

The other side of the same coin, of course, is that interest rates will be held down. So, the value of cash will be kept to a minimum. It's a strategy designed to make sure as much capital is deployed in economic activity as possible, and makes sense from the perspective of a cabal of central bankers who are running out of other options.

But in terms of long-term sustainability, such economic policies just look like pie in the sky. In the end, someone is going to have to pay for all this easy money. The question is: who will it be?

From the late 1930s all the way through to the 1990s the American middle classes had both the economic muscle and the will to dictate policy. They had things their own way, but they paid their way too.

Neither of those dynamics is in place now. The relative economic power of the American middle classes is on the wane as is their ability to dictate policy. As we speak that's left something of a power vacuum, which is why Black Lives Matter is gaining traction, why the Chinese government is more influential than ever, why Donald Trump has a constituency he could never have dreamed of having in the 1970s and 1980s when he helped dig New York out of its economic collapse, and why although Joe Biden might well win the US election this November, hardly anybody, even in his own party actually wants him to.

And if he gets elected, he'll have an even bigger problem that President Trump has: he'll be expected to have policies to meet the current myriad of crises that the country is facing. Because, yes, the US middle classes will be asked to pay

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for all the swathes of new debt that the country is taking on, and no, they won't want to, and more to the point they are less able to afford it than at any time in the last century.

Where does the US go, therefore? One strategy, of course, is simply to push the debt further and further down the line, and try to leave the real inflationary damage for later generations to manage. But markets are wise to this - it's why long-term yields rose in comparison to short-term yields after Mr Powell made his speech.

Another strategy, of course, would be to try to get somebody else to pay. The catch-22 here, of course, is that unless things are managed very carefully from a legislative perspective, whoever's paying ultimately has more leverage than anyone else. Or, to put it another way, the power and influence of the middle classes will decline further.

In that scenario, it's tempting to do what many on the right of US politics are already doing: call every man for himself. And, while the morality of such a position may be open to question, the markets themselves are not known for their moral sensitivities. Indeed, markets in general would, over time, have regarded the strength of the US middle class as a source of stability, and by extension wealth. But wages and incomes in the US have been stagnating since the 1990s and, as the middle class has found itself increasingly vulnerable financially, it's no coincidence that morally it's under attack too, from elements both within and without.

In that situation, markets will look at the weakness of the middle classes as symptomatic of a wider and growing instability. In the advent of a crisis, such as the coronavirus chaos, it's not helpful that the middle classes have shown themselves wholly inept at any sort of management, either of information or of systems. But it's not surprising either: it's symptomatic.

In these circumstances it's hardly surprising that the oldest store of value under the sun, gold, has enjoyed a remarkable renaissance. How much of a coincidence is it that the seeds of the US economic malaise were planted at the same time it abandoned the Bretton-Woods agreement and came off the gold standard? Perhaps no coincidence at all, say the markets, which have been buying gold, and silver, like there's no tomorrow.

They've been buying gold and silver companies too, from the big to the small, from Barrick (NYSE:GOLD)(TSE:ABX), Newmont (NYSE:NEM) and Pan American Silver (TSE:PAAS), through New Pacific Minerals (TSE:NUAG), First Majestic (TSE:FR), Endeavour Mining (TSE:EDV), Fortuna Silver (TSE:FVU), and all the way down to Greatland Gold (LON:GGP), ECR Minerals (LON:ECR), Anglo Asian Mining (LON:AAZ) and Conroy Gold and Natural Resources (LON:CGNR).

Times may be hard, but one way really to take the edge off is to be invested in precious metals and the companies that mine them.

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