



Ninepoint Silver Equities Fund

Q2 2022 Commentary

The Ninepoint Silver Equities Fund, Series F returned -30.13% for the second quarter of the year 2022.

Precious metals equities were casualties of the wholesale sell-off in equities and bonds alike. Investor fear resulting from the Russia-Ukraine conflict and a hawkish Federal Reserve (“Fed”) led to virtually all assets being liquidated during the second quarter of this year. This included equities, bonds and gold alike with the latter declining 6.75% as measured by the GLD ETF. It must be noted that the S&P 500 and the Nasdaq declined by 16.11% and 22.50% respectively during this period. Once the dust settles, we expect that lingering inflation and rising probabilities of a recession in developed economies of the world will help fortify demand for precious metals as safe-haven assets.

Investment Team



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Ninepoint Silver Equities Fund- Compounded Returns¹ as of June 30, 2022 (SERIES F NPP 866) | Inception Date - February 28, 2012

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-14.3%	-30.1%	-33.5%	-30.1%	-38.8%	9.1%	1.0%	0.5%	-3.4%

Why has gold not benefited from rising inflation?

This has been one of the most important common questions lately. It is true that gold has languished over the past year as inflation has shot up. However, the past year has been a noisy one to say the least. Rising inflation, rising bond yields and hawkish rhetoric from the Central Banks have all done their part to muddy the waters. It is precisely during these noisy periods that one must step away from the noise to gain a better perspective. In doing so, we can separate the forest from the trees. CPI (Consumer Price Index) measures changes in the prices of goods and services paid by the consumer in the United States. Figure 1 examines the relationship between the Chained CPI basket of goods and gold.

Figure 1. Spot Gold Price Versus Chained Consumer Price Index



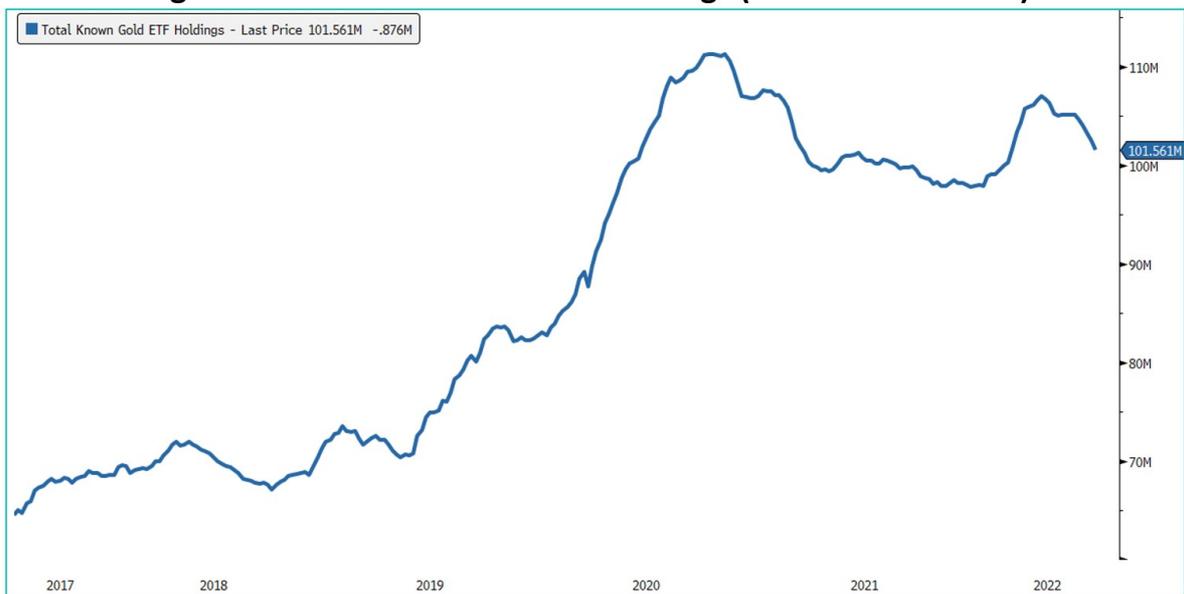
Source: Bloomberg, BLS. Data as of 6/30/2022. Included for illustrative purposes only.

Over the past 20 years, CPI has risen from 105.6 in June 2002 to 165.1 as of June 2022, gaining just over 56%. The price of gold on the other hand has increased from US \$315/oz to US \$1,807/oz, rising over 570%. Gold hasn't just kept up with the ever-increasing prices since 2002, but has lapped the CPI increase by almost 10 times. There have been numerous instances where the relationship between gold and inflation broke over the past twenty years. For example, gold lagged the CPI through 2004-2005 and in 2018, but these divergences were not long-lived. As the noise subsides and fundamentals reassert themselves, gold will play catch-up with inflation yet again.

Shouldn't gold be trading higher given the geopolitical uncertainty?

This is the second most common question we are encountering from investors. In addition to being frustrated by gold's recent doldrums, we are puzzled by the recent investor behaviour as it pertains to gold. Investors have been liquidating their gold bullion as seen by ongoing liquidations of gold ETF holdings.

Figure 2. Total Known Gold ETF Holdings (Millions of Ounces)

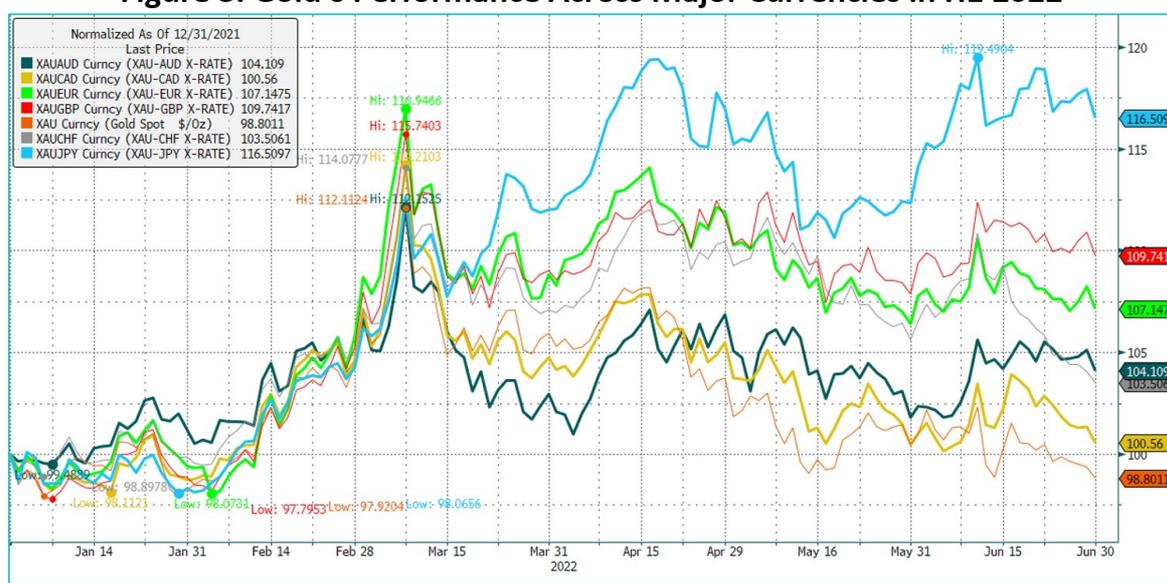


Source: Bloomberg. Data as of July 22/2022. Included for illustrative purposes only.

As far as we know, inflation has not magically disappeared. Neither has the war in Ukraine ended. The Eurozone continues to struggle mightily as the threat of uncertain Russian gas supplies looms. The Chinese economy, once an engine of global growth, has sputtered owing to its widespread COVID lockdowns. Indeed, the uncertainty of the moment we find ourselves in today underscores the importance of owning a safe-haven asset like gold or other precious metals. And yet, gold continues to be sold by investors and not bought.

The answer for this strange behaviour probably lies in shorter-term liquidity. While gold is a highly liquid asset, during times of distress, it is often used as a source of funds. Over the past few months in particular, investors have massively deleveraged their portfolios and reduced their exposure to various major economies and their respective currencies including the Euro, Yen and the Pound. We have seen a stampede into the perceived stability of the U.S. Dollar which has propped up its value against other currencies as well as against gold. In fact, if you look at the performance of gold in 2022, it is having a positive year in many major currencies, except the U.S. Dollar.

Figure 3. Gold's Performance Across Major Currencies in H1 2022



Source: Bloomberg. Data as of June 30, 2022. Included for illustrative purposes only.

The stampede into the U.S. dollar has turned into extremely crowded trade. We don't expect this move to last for very long, which in turn should provide a tailwind to gold and other precious metals.

Inflation continues to be a thorn for policy makers and central bankers alike. While there is talk of inflation approaching a peak, the current round of tightening has created a significant drag on the U.S. GDP (gross domestic product) growth. The probability of the U.S. entering a recession continues to rise by the day. This view is priced into the equity and bond markets. What isn't priced in today is a real possibility of a tepid economic rebound combined with an uncomfortable level of inflation — a stagflationary scenario.

Prior economic downturns have been met with a firehose of liquidity through various forms of QE (quantitative easing) as well as fiscal largesse to artificially prop up the GDP. Yet again, we think that the Fed will blink when faced with the twin dragons of inflation and rising unemployment, choosing to fight the latter more forcefully and sacrificing the fiat dollar.

Precious metal miners are scraping the bottom

While the price of gold has held steadier versus equities and bonds this year, precious metals miners as well as silver bullion have suffered mightily. Sentiment towards precious metals equities has essentially hit rock-bottom. Stockcharts.com publishes the Gold Miners Bullish Percent Index (\$BPGDM), which is a useful indicator for observing the price action in the gold mining sector. This index currently sits at levels last seen in

March 2020 and well below the oversold levels last seen in Q4 2018 and Q4 2021.

Figure 4. Gold Miners Bullish Percent Index



Source: stockcharts.com. Data as of 7/22/2022. Included for illustrative purposes only.

Precious metals miners are also trading near the low end of their valuations. Equities have underperformed bullion badly this year. However, the profitability of miners continues to be strong. The price declines have made valuations cheaper. The GDM index currently trades near 5.7x EV/EBITDA.

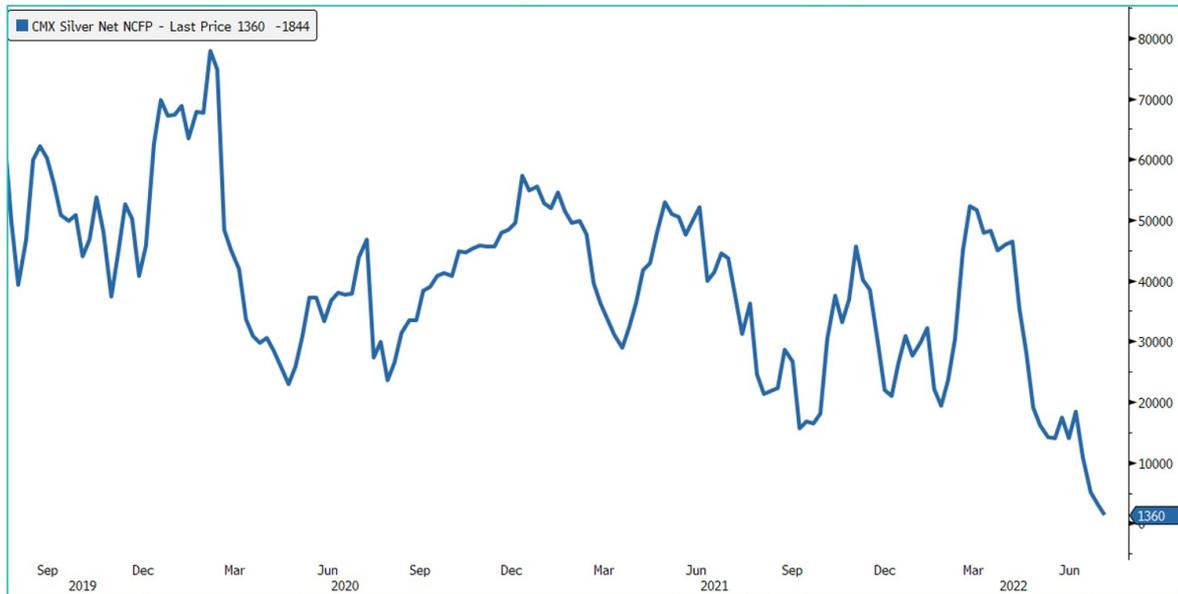
Figure 5. EV/EBITDA Ratio of Companies in the NYSE Arca Gold Miners Index



Source: Bloomberg. Data as of July 22, 2022. Included for illustrative purposes only.

Silver has suffered the same fate as the precious metals miners. While silver demand has benefited greatly from its expanding use in the photovoltaic industry, it has fallen out of investor favor lately. This is most obvious when looking at the CFTC (Commodity Futures trading Commission) Commitments of Traders report. The speculative position in silver today, sits near a 3-year low with the net positioning of speculators barely above zero. Speculators have almost zero net long positions in silver today!

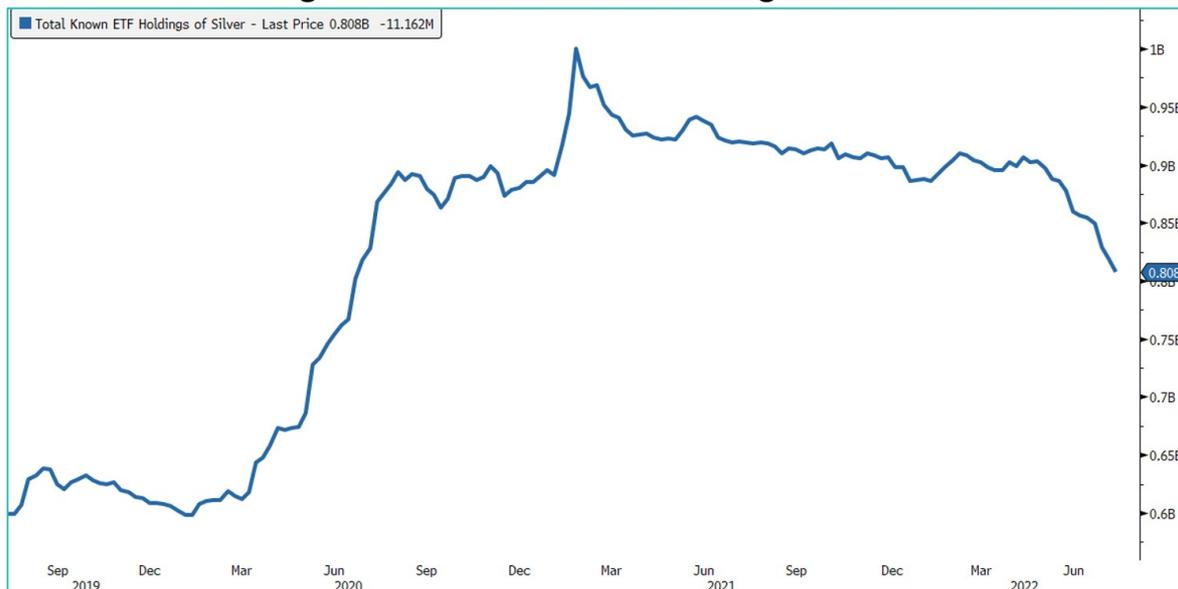
Figure 6. Net Positioning in Silver Futures by Speculators



Source: Bloomberg. Data as of July 22/2022. Included for illustrative purposes only.

Similarly, silver ETFs have been massive sellers of silver bullion, having liquidated almost 100M ounces of silver out of their coffers. Combined with the selling we have seen in the silver futures market, the sell-off in silver ETFs point to investor capitulation for the white metal.

Figure 7. Total Known ETF Holdings of Silver



Source: Bloomberg. Data as of July 22 Included for illustrative purposes only.

The past quarter has been unkind to virtually all asset classes and precious metals equities have been mauled. The entire complex is currently exceptionally oversold and valuations are near 10-year lows. The current setup has the classic hallmarks of capitulation. Astute investors seek to invest during periods marked by heightened

chaos and investor anxiety. This is where we find ourselves today. Opportunity abounds.

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Sprott Asset Management

Sub-Advisor to the Ninepoint Silver Equities Fund

NINEPOINT SILVER EQUITIES FUND - COMPOUNDED RETURNS¹ AS OF JUNE 30, 2023 (SERIES F NPP866) | INCEPTION DATE: FEBRUARY 28, 2012

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	INCEPTION
Fund	-8.0%	-16.3%	-20.3%	-16.3%	-7.1%	-12.3%	2.4%	2.7%	-3.7%
MSCI Silver Select (CAD)	-6.9%	-9.6%	-17.3%	-9.6%	1.6%	-9.5%	0.7%	2.2%	-4.7%

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at June 30, 2022; e) 2012 annual returns are from 02/28/12 to 12/31/12. The index is 100% MSCI ACWI Select Silver Miners IMI (CAD) Index and is computed by Ninepoint Partners LP based on publicly available index information.

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