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THE WEATHER REPORT

FROM A FUND FOR ALL SEASONS®

A WORD FROM THE PRESIDENT

I am pleased to present you with the second edition of *The Weather Report*, our semi-annual newsletter where we provide investors with interesting insights into current events impacting the markets, outlooks, opinions and topics of interest, all of which are designed to help you achieve success in reaching your financial goals.

In this issue of *The Weather Report*, we wonder what the ultimate end game is regarding China trade and tariffs, explore renewed interest in the gold market, consider the status of the market cycle and implications for the Fed and credit, and analyze the state of the yield curve.

Whether you are reading *The Weather Report* on the patio or in the office, enjoy the fall season and Happy Reading!

– Michael J. Cuggino

ROAD TO NOWHERE

In April of 1984, President Reagan became the third sitting President to visit China. The visit was an important marker that represented China's first foray into economic expansion. A couple days later, *Time Magazine* ran a cover story, "China's New Face: What Reagan Will See?" The accompanying picture was of a gentleman on the Great Wall wearing a very proletarian outfit, nervously clenching a bottle of Coca Cola in both hands. Coke was the chosen brand because … well … we know how the song goes. Rich symbolism for U.S. hopes of a Chinese Marshall Plan. At about the same time Air Force One was leaving Beijing, David Byrne and the Talking Heads were penning the lyrics for what would be a Billboard top 20 single – "Road to Nowhere" – which is the perfect metaphor for the ongoing China-U.S. tariff dispute.

The ongoing trade war with China has become a catalyst for negative market movements worldwide and is leading the U.S., China and their economies into uncharted and dangerous territory. Not only is the exchange of goods and services at risk in this stare down, but it has also turned into a currency war. At the beginning of August, the Chinese depreciated the Yuan by approximately 10%, essentially off-setting the tariffs placed on China by President Trump. Not to be outdone, the trade war has been cited by economists as a primary reason why the U.S. Federal Reserve needs to cut interest rates, despite a healthy U.S. economy and historically low unemployment. Who's winning so far? Hard to tell. China's economy is the weakest it's been in years and its people continue to protest in Hong Kong, while the U.S. farming, commodities, manufacturing and technology sectors have experienced major setbacks due to business losses and supply chain disruptions, not to mention financial market volatility. Additionally, during the first week of August, President Trump threatened a 10% tariff on $300 billion in Chinese goods which sent the S&P 500 Stock Index reeling, dropping more than 7% over the course of a week. Yet within days, under the guise of "we're talking" or "making progress" on tariffs, much of those losses were recovered only to retest the losses days later. Given the philosophical divide between the parties, the pending U.S. election cycle and material questions at hand (property rights, rule of law, access to markets, technology transfers, etc. for the U.S., giving up those advantages for the Chinese), it's fair to question what if anything will or can be done, and how does one invest as a result. While in the short term the Chinese economy and their exports appear to be suffering more than the U.S. economy as we buy more from the Chinese than we sell to them, the longer-term effects remain uncertain.

INSIDE THIS ISSUE

With China being the biggest trade partner of the U.S. and a significant creditor, the consequences for an extended trade war could be severe. This unknown means C-Suites across industries may reduce capital expenditures, hiring and investment decisions due to uncertainty around the effects of a continued trade war, cooling the animal spirits of the U.S. economy, thereby hollowing out its growth from within. There is evidence that this is already occurring in Q3 data points. It will be difficult to determine the magnitude and direction of a continued standoff between the world's two largest economies, which makes an investor think – is my portfolio at the mercy of a midnight tweet or the decidedly stubborn whims of the Beijing ruling class? As the Talking Heads put it – "We're on a road to nowhere, Come on inside, Taking that ride to nowhere, We'll take that ride …" Yet another argument for diversification.

WHAT'S GOING ON WITH GOLD – AN INTERVIEW WITH MICHAEL J. CUGGINO

Q: Can you provide a brief summary of gold over the last ten years?

Michael: For the better part of the two decades prior to 2000, gold was an unloved asset, due primarily to declining inflation, positive interest rates, a strong U.S. dollar, faith in the financial system, little global risk and a strong equity market. As a result, in relation to other asset classes, it became undervalued over time. After the recession of 2000-2002, several of those factors changed, and given the stock market correction during that time, investor perceptions changed as well regarding previously unloved assets. Investors began to think more about diversification. This catch-up on valuation, plus the broader commodity super cycle and a very low federal funds rate during that time created a multi-year rally for gold that was further enhanced through the financial crisis and its aftermath. Around 2013, many of these factors and associated risks had subsided, and investors began more of a "risk on" equity-based mentality that exists to this day. Since that time, gold has again built a base in a range of between approximately $1,050 and $1,300 per ounce and has again become undervalued. Factors, including a potential U.S. recession, inverted yield curve, trade and tariff issues, weak global growth, central bank buying and geo-political risk have gotten the attention of investors and gold has become interesting again, thus the recent breakout.

Q: Speaking of cycles, let's discuss valuation. Housing, stocks and bonds are all very expensive right now and credit is very cheap. Speak to gold's valuation in this environment?

Michael: Agreed. On a relative basis, gold is undervalued verses these other asset classes. As an example, the recent price of an ounce of gold verses the price of a share of the S&P 500 Stock Index is at levels we last saw around 2006-2008.

Q: What are the main drivers for price movements in gold?

Michael: Many of the factors I previously mentioned, which boiled down, amount to valuation, real (after inflation) short-term interest rates or monetary policy, inflation expectations, confidence and geo-political risk. Investor psyche also plays a prominent role. For example, over the past several years, investors wanted high beta, high growth and high correlation across their portfolios. That worked given the environment at that time, in much the same way it worked in the 1990s. Looking forward, I think lower correlation to the equity and bond markets, and investment in real and inflation-sensitive assets that tend to be immune from monetary policy are going to re-emerge. This bodes well for gold. Silver too.

Q: Do you think there are more reasons to own gold and silver today than three or four years ago?

Michael: Absolutely, for the reasons given. Investors appear to be questioning valuations of equities lately in light of the environment, hence more big daily moves, and the VIX moving above a tight trading range of $10-$14. Volatility in the equity markets is generally a positive indicator for gold. Also, the U.S. Dollar Index (DXY) has recently retreated from all-time highs – a weaker dollar relative to a basket of other currencies has also helped drive recent price action in gold.

Q: Doesn't it seem like every country is reducing the unit value of their currency?

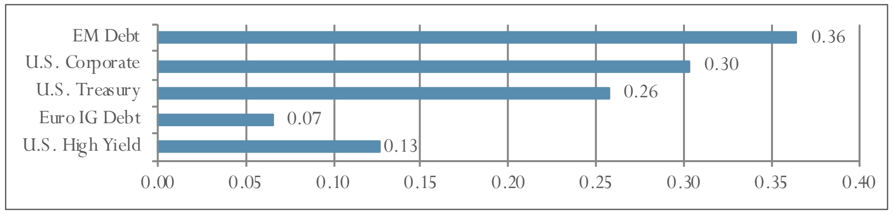
Michael: Yes, it does. We are doing it here in the U.S. as well through lower rates and continued deficit spending. This constitutes a loss of purchasing power to the holder of the currency, and is a reason you would want to own gold to offset that loss, regardless of the paper currency you own. Central banks are having to hedge currency risk and based on what we're seeing, many foreign central bankers over the last year or so have moved from being neutral on gold to being net purchasers of gold. Central banks bought more than 370 tons of gold this year – that's a significant increase and another bullish factor for the metal.

Q: Can you speak to the U.S. Treasury market and its relationship to gold?

Michael: The U.S. Treasury market right now is a selling point for gold. U.S. Treasuries are very expensive right now, and after inflation, offer negative yields. We've seen a recent inversion as well. Thus, U.S. Treasuries do not earn the "risk-free" tagline they are given. You are basically lending at 100 and accepting something less after inflation in a future period. It's worse for other sovereign debt by the way. That's not risk free, and we believe investors can do much better in the marketplace despite the risk factors out there. So basically, if you buy U.S. Treasuries today, you have the following possible outcomes – yields go further negative and you may gain capital appreciation by selling to the greater fool who is willing to accept, say, 95 for his 100; things stay the same, but you lose purchasing power in real terms; or, rates rise and U.S. Treasury prices reset lower, leaving you with a principal loss.

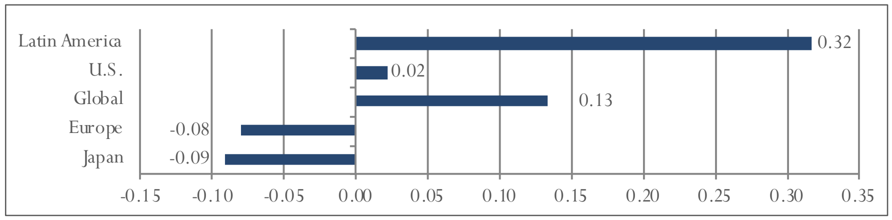
BOND MARKET CORRELATION TO GOLD[1]

June 1, 2000 - July 31, 2019



EQUITY MARKET CORRELATION TO GOLD[2]

June 1, 2000 - July 31, 2019



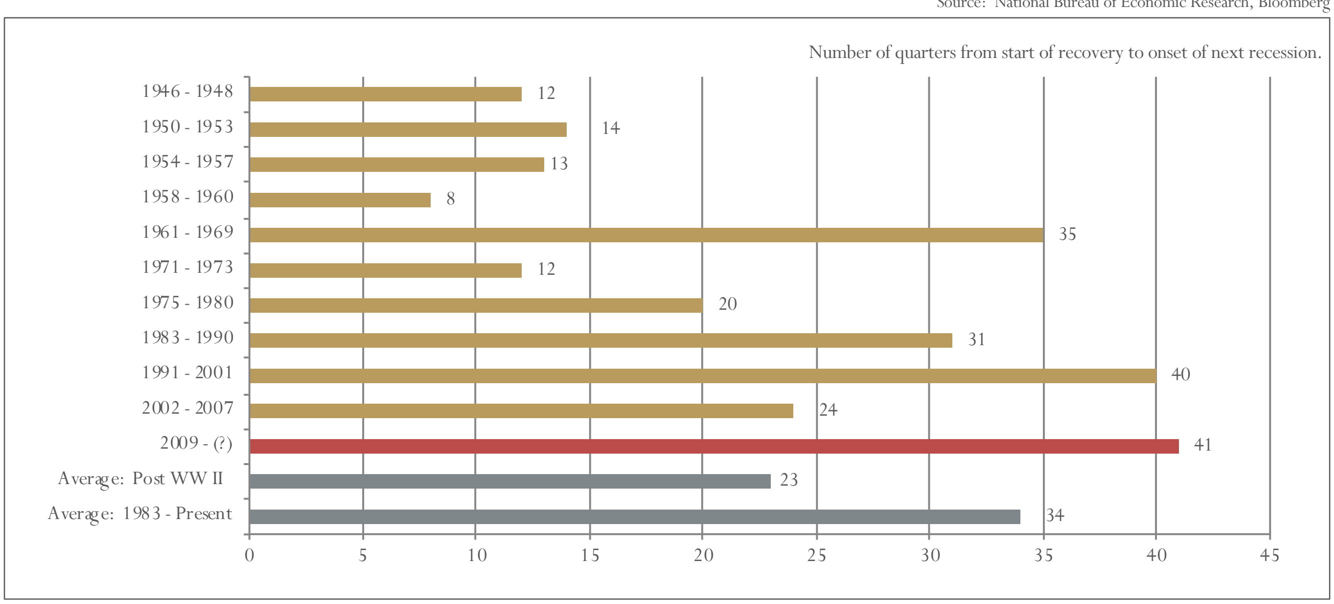
ECONOMIC HOT TAKES

A Longer Run than Friends or Seinfeld

Not getting enough attention is the fact that the end of July 2019 marked our current economic cycle as the longest on record in the post-World War II era. While recessions are not calendar-based and they generally don't start with healthy corporate performance, historically low unemployment, strong consumer and business spending, cheap liquidity and low inflation, circumstances can change quickly, and we certainly have several potential catalysts out there for an economic reversal. Last we checked, the business cycle was alive and well. The question is, will investors cash out on their terms or be forced out.

POST WORLD WAR II ECONOMIC CYCLES

Source: National Bureau of Economic Research, Bloomberg

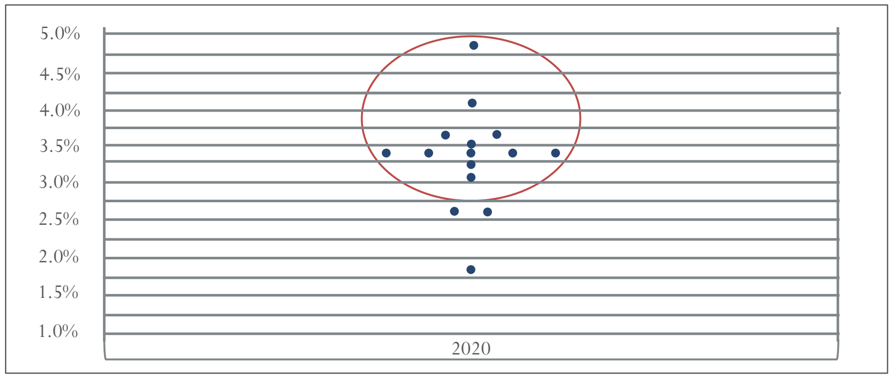


The Market Tail Wags the Fed Dog

Sixteen months ago, 80% of the Federal Reserve's Rate Setting Committee judged the midpoint rate to be above 3% in 2020. Today, the entire Committee is judging the midpoint rate to be below 3%, and pundits and economists laid out a 75% chance of at least a 25 basis points cut at the next meeting – September 17th and 18th, with many advocating for an even larger 50 basis point cut.

FED'S 2020 JUDGEMENT IN MARCH 2018

Source: Federal Open Market Committee

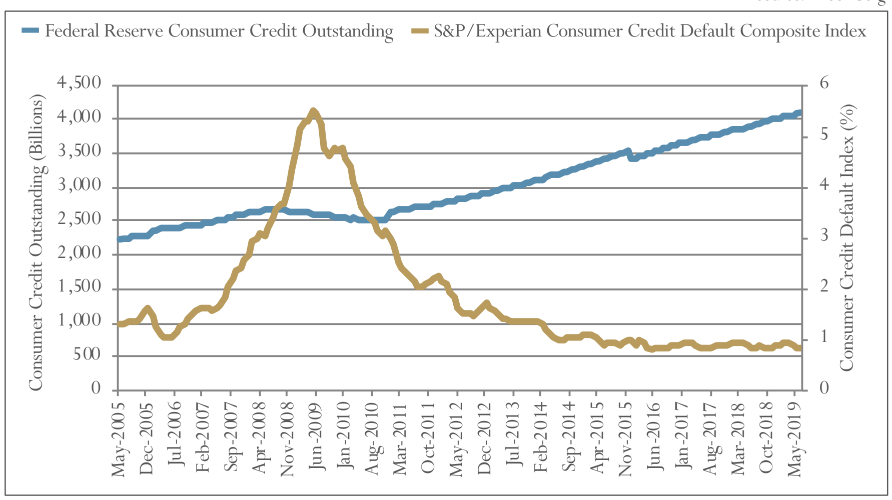


Bring On the Debt

Consumer spending drives about 70% of the U.S. economy. Is the economy wholly dependent upon the consumer? No, however consumer credit outstanding has increased approximately 20% since the Fed's first rate hike on December 16, 2015, a healthy increase. Will the prospect of lower rates propel the consumer to borrow more? Likely. In today's terms, we only need a consumer credit default rate of approximately 3.3% to match the dollar of consumer credit defaults in May 2009, which totaled approximately $144 billion.

CONSUMER CREDIT OUTSTANDING FULL STEAM AHEAD

Source: Bloomberg



DEREK'S DESK: U.S. TREASURY CURVE – HOW'D WE GET HERE?

The price/yield action of the U.S. Treasury (UST) curve since our last issue has been nothing less than astounding and its lack of predictability reminds me of my favorite Wall Street saying – there are two types of people in the world, those that don't know where rates are headed and those that don't know they don't know where rates are headed.

In February, the 30-year UST was approximately 3% (now 2%) and the 2-year UST was approximately 2.5% (now 1.5%). How did we get here? I believe – arbitrage to Europe's negative rates and trade war machinations with China. In my opinion, both reasons are short term and transitory. When do both clear up? Most likely a détente in the trade war relieves pressure before the 2020 elections. Europe's negative rates will take more time. However, an article in the August issue of *BARRON's* had an interesting perspective – "There's nothing natural about zero or negative rates ... If money has no value, work

INTERESTING READS

Online Articles

"China Will Be on Top of the New World Order" – BARRON'S

"Germany's Bond Market Is a Global Problem" – Bloomberg

"Surge in corporate debt with negative yields poses risk 'unlike anything' investors have ever seen" – CNBC

Looking for a good book?

We recommend *American Kingpin: The Epic Hunt for the Criminal Mastermind Behind the Silk Road,* by Nick Bilton.

has no value." The European Union is on perilous footing indeed.

That brings us back to the U.S. and how best to invest and maneuver in the current U.S. fixed income market. In August, an economist sent three separate emails with the following data points: (1) "Core up .3%, Core stronger than expected;" (2) "Very strong July retail sales;" and, (3) "Q2 productivity up 2.3%." Add in a very strong employment/jobs market and decent consumer confidence and in our opinion the 2-year and 30-year have no business sitting at approximately 1.5% and 2%, respectively.

Back in February, I correctly advocated for investment grade bonds, though I did not predict the 30-year going from approximately 3% to 2%. That said, I still like investment grade, but would want to wait for cheaper U.S. Treasuries. I'm not a fan, in general, of emerging market debt. Why? Look no further than the recent news coming out of Argentina and Venezuela.

Going forward, for perhaps better returns than the current UST curve offers, look at non-traditional areas of fixed income – preferred stock and convertible debt. Several high-quality real estate investment trusts (REITs) issue one or more tranches of preferred stock – some offering 2- to 5-year call protection with 400 basis point spreads. Similarly, convertible bonds issued by technology, energy infrastructure and manufacturing issuers have traded down in price as the equity markets sold off in August. There is work to do in this area if you want to find good companies, but in some cases the equity option is undervalued.

Getting back to my Wall Street saying: at least be the investor that doesn't know where rates are headed and plan accordingly.

The PERMANENT® PORTFOLIO Family of Funds

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The Prospectus contains this and other important information about the investment companies. A hard copy may be obtained by calling (800) 531-5142. Read the carefully before investing. Opinions expressed and views mentioned are those of Michael J. Cuggino and Derek D. Hyatt as of the date provided. They are subject to change at any time, are not guaranteed, and should not be considered investment advice. Any forward-looking statements speak only as of the date they are made and the Fund assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements. Data source for the Bond Market Correlation to Gold and Equity Market Correlation to Gold charts is Bloomberg and all correlation calculations in both charts are derived from monthly total return indices in U.S. dollars.[1]EM Debt - The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. U.S. Corporate – The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. U.S. Treasury - The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. Euro IG (investment grade) Debt - The Bloomberg Barclays Pan-European Aggregate Index tracks fixed-rate, investment-grade securities issued in the following European currencies: Euro, British pounds, Norwegian krone, Danish krone, Swedish krona, Czech koruna, Hungarian forint, Polish zloty, and Slovakian koruna. U.S. High Yield - The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. [2] Latin America - The MSCI EM Latin America Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1987. U.S. - S&P 500 Total Return Index is calculated intraday by S&P based on the price changes and reinvested dividends of the index with a starting date of January 4, 1988. Global - MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1987. MXWD includes both emerging and developed world markets. Europe - The MSCI Europe Index in EUR is a free-float weighted equity index measuring the performance of Europe Developed Markets. It was developed with a base value of 100 as of December 31, 1998. Japan - The MSCI Japan Index is a free-float weighted equity JPY index. It was developed with a base value of 100 as of December 31, 1969. Standard & Poor's 500 Composite Stock Index is a market-capitalization weighted index of common stocks and represents an unmanaged portfolio. CBOE Volatility Index (VIX) is a measure of expected price fluctuations in the S&P 500 Index options over the next 30 days. Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. U.S. Dollar Index (DXY) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. S&P/Experian Consumer Credit Default Composite Index measures the default rates across autos, first and second mortgage and bankcards, and also offers investors a broader benchmark combining and measuring the default rates of all four indices included in the S&P/Experian Consumer Credit Default Indices. You cannot invest directly in an index. Yuan is the basic monetary unit of China. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument. A yield curve is a graph that depicts yields on all of the U.S. Treasury bills ranging from short-term debt such as one month to longer-term debt, such as 30 years. Beta is a measure of systematic risk or the sensitivity of a manager to movements in the benchmark. Correlation is a statistical measure of how two securities move in relation to each other. **The price of gold may fluctuate, sharply or gradually, and over short or long periods of time. The price of gold may be significantly affected by factors such as changes in inflation or expectations regarding inflation in various countries, the availability of supplies and demand, change in the attitude of speculators and investors towards gold, changes in industrial and commercial demand, developments in the mining industries, sales by governments, central banks or international institutions, and the investment and trading activities of market participants.** As of June 30, 2019, Permanent Portfolio held 9.30% in Gold Bullion and 12.55% in Gold Coins, as a percentage of net assets. Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. **Diversification does not assure a profit, nor does it protect against a loss in a declining market. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in foreign securities involve greater volatility and political, economic and currency risks, and differences in accounting methods. Mutual fund investing involves risk; loss of principal is possible. Not FDIC Insured. No Bank Guarantee. May Lose Value.** Pacific Heights Asset Management, LLC ("Pacific Heights") is the investment adviser to Permanent Portfolio Family of Funds ("Fund"). The Fund is distributed by Quasar Distributors, LLC ("Quasar"), a member of FINRA. Quasar is not affiliated with Pacific Heights. Permanent Portfolio®, The Permanent Portfolio Family of Funds®, A Fund for All Seasons® and The Permanent Portfolio Family of Funds logo are registered trademarks of Pacific Heights.