

Last quarter, we presented a long-term bullish case for gold, driven by central bank allocations. While this trend persisted, additional investor demand pushed gold prices to an all-time high, surpassing \$3,000 for the first time. The final surge was largely fueled by safe-haven demand amid geopolitical concerns, particularly those related to the Trump tariffs. For the first time in years, gold as an asset class has gained broad validation (even displacing the Bitcoin replacement narrative of recent years).

Despite strong price tailwinds, gold equities have yet to fully reflect the expected fund flows tied to the commodity's move. While index constituents have performed well, broader market participation remains uneven. Some equities are outperforming, while others with similar fundamentals are lagging due to fund flows and liquidity constraints. Generalist funds have remained underweight in the sector, yet they are participating selectively—especially in financing deals where they can secure a meaningful position in one move. This gradual process suggests that as liquidity improves, additional fund flows are likely, particularly as generalist funds with full-investment mandates seek value. Silver, typically a laggard behind gold, now presents even more compelling fundamentals. A potential silver squeeze could trigger a price spike. Acknowledging this opportunity, the Fund has made its largest allocation to the sector to date, though still relatively modest.

At the start of the year, we developed an investment thesis focused on the rising global demand for electricity. The expansion of data centers, artificial intelligence advancements, the nuclear power resurgence, the energy transition, and infrastructure upgrades are driving demand for critical raw materials. However, many demand-supply forecasts fail to fully account for these trends. Even without these factors, the long-term fundamentals for key commodities remain strong.

Copper and uranium are poised to be primary beneficiaries. Despite sustained supply deficits, however, uranium stocks have fallen nearly 50% over the past year due to sentiment-driven concerns. Meanwhile, copper prices have reached record highs, yet copper equities have also declined nearly 50% from their peaks. While electric vehicle demand has softened in Western markets, China continues to set record sales, both domestically and through exports. A particularly underappreciated growth area (which China again dominates) is Battery Energy Stationary Storage (BESS), now the fastest-growing battery demand market globally. This, alongside increasing geopolitical attention on critical minerals as strategic necessities, reinforces the long-term demand outlook. Most market participants still remain short-term focused, as reflected in current pricing structures versus the longer-term opportunity.

Finally, we have compared the S&P 500's outperformance over the TSX in the past 15 years to the TSX's decade-long outperformance following the dot-com bust. Given the current fundamental backdrop and valuation differentials, we may be approaching an inflection point reminiscent of that historical precedent.

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