PEREGRINATION

SECOND QUARTER JULY 2025

PEREGRINE
WEALTH

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LOOKING THROUGH THE NOISE

George Herman
Chief Investment Officer

As we enter the second half of 2025, investors are confronted by a market narrative that appears increasingly disconnected from the underlying economy and risks. At Peregrine Wealth, our role is to cut through the short-term noise, focusing instead on the structural dynamics that will shape financial outcomes in the months and years ahead.

Trump and the trade tariff shadow

The headlines around tariffs flip-flop so fast that most are now just ignored. President Trump's language is also extremely ambiguous, and multiple messages can be read from what he says. The overall policy posture from the White House, however, remains firmly protectionist, and uncertainty around United States (US) global trade rules continues to pose a major threat to global economic outcomes. Tariff implementation may be staggered, but the longer-term economic and inflationary effects are likely to be felt in delayed waves - impacting costs, margins, and, ultimately, global growth.

A rally that ignores risk

Since April, global equity markets have staged a robust rally, driven largely by optimism around potential rate cuts, strong corporate earnings in specific sectors, and a resilient consumer financed by fiscal stimulus. However, markets appear increasingly priced for perfection with little regard for the looming risks posed by renewed trade tensions, stubborn inflation, and a fragile geopolitical backdrop. Complacency may be creeping in at precisely the wrong time. As always, overreaction and under-pricing of risk tend to lead to periods of increased volatility.

Seeing clearly, acting wisely

At Peregrine Wealth, we continue to view markets through a long-term lens. Our multi-scenario investment approach is designed not just to participate in rallies, but to remain resilient through periods of market volatility. By acknowledging uncertainty without being paralysed by it, we help our clients remain focused on their long-term goals while sidestepping the emotional traps that noise-driven markets often create.

Remaining grounded in fundamentals

We believe that the months ahead will require heightened selectivity, disciplined diversification, and careful attention to valuation. While markets may be celebrating, the economic and geopolitical crosswinds continue to gather strength just beyond the headlines. We encourage investors to stay invested - but to stay invested wisely.

Enjoy this edition of Peregrination.

THE CLOCK IS TICKING ON TRUMP'S RED SWEEP

Maarten Ackerman

Chief Economist

Since United States (US) President Donald Trump took office on 20 January 2025, he has undoubtedly kicked up a lot of dust and sent markets into a tailspin. With the US mid-term elections coming up in 2026, in this edition of Peregrination we unpack Trump's policies and look at why the clock may be ticking on his current red sweep – a Republican Presidency, Senate and House of Representatives.

Shortly after his election win, Trump announced the top priorities for his presidency – immigration, tariffs and fiscal stimulus. If we look back at Trump's first 100 days in office, we see that he wasted no time. He executed an unprecedented number of executive orders, some of which have been implemented and others that are still being debated in the courts. In addition, Trump used that time to have conversations with an extraordinary number of world leaders. He met with Ukraine and Russia and worked on trade deals with the United Kingdom (UK), China, and Vietnam.

However, the fallout from Trump's policies is hitting his voter base hard.

An initial fear for a global recession

The true impact of his policies came through on 2 April, when Trump announced sweeping tariff hikes on all of the US's trading partners. These hikes ranged from the 10% baseline tariff on all imported goods, to up to 50% tariffs for countries like Lesotho. Markets reacted as if the world had come to an end, and a global recession was predicted on the back of this decision. While the Trump administration implemented a 90-day pause on tariff increases to support trade negotiations, this merely postponed what now appears to be the next chapter of uncertainty.

Cutting federal jobs

Another blow for Trump was that while his plan for greater government efficiency did not achieve the promised savings, it did see federal employment reduced. However, a number of the job cuts impacted his voter base, which is a huge negative for Trump.

Joining the war

Trump has further alienated voters by getting involved in the Israel-Iran skirmish. In his campaign, he stressed that he, and the US, were done fighting other people's wars. While it was short-lived, there was a lot of pushback when the US bombed Iran's nuclear facilities, with many saying that he should have consulted Congress on the move.

The Big Beautiful Bill

Adding to the loss of faith in Trump's presidency is the *One Big Beautiful Bill Act* that covers Trump's tax proposals. This controversial bill has sparked debate over the US's deficit, the (negative) reform of social programmes, and increased federal spending levels. The bill proposes large tax cuts, while adding $3.3 trillion to the federal deficit over the next 10 years.

This bill was the trigger for the massive public spat between Trump and Elon Musk. The funding for this bill was meant to come from savings Musk had promised through his Department of Government Efficiency (DOGE) efforts. However, by the time Musk left the White House, he had only managed $160 billion in savings, nowhere near the $2 trillion promised. Musk argues that the US cannot afford Trump's bill, because it is giving tax breaks while increasing spending, and he is questioning where the money will come from.

As an aside, many believe that Musk's outrage is less about the cost of the bill and more about the fact that it will see the scrapping of the $7,500 subsidy for buyers of electric vehicles, which will have a direct impact on the Tesla business model.

The vulnerable penalised

The Institute on Taxation and Economic Policy examined the impact Trump's proposed tax laws will have on various income groups. Despite arguments that new laws will boost take-home pay, the Institute found that the top 5% of US earners will benefit from the new tax laws, while all other earners will end up paying more - with the two lowest income brackets being the most effected – as the Bill will see many of these people lose access to Medicaid and food aid. With the bill appearing to only benefit the ultra-wealthy, this may not go down well with his lower-income voter base.

The reaction to Trump's first 100 days

As we settle into Trump's second term, we may start seeing some resistance to his policies. In November 2026, halfway through his presidency, Trump faces the US midterm elections. With his policies impacting the US economy, jobs and taxes, he may find his capacity to introduce wide-ranging changes severely curtailed.

As such, following his first 100 days in office, we are seeing Trump allowing the dust to settle. He appears to be taking a more measured approach on some of his initial reform proposals. I believe this could be because he is realising that his political capital is under pressure and his "red sweep" could be under threat. Trump is also seeing his own party members turn against him, with the passing of the Big Beautiful Bill only being ratified because of the swing vote of Vice President JD Vance.

In addition, Trump is also seeing pushback from his policies on the ground:

- Trump's immigration policies have seen widespread protests in Los Angeles, a sanctuary city (where municipalities do not cooperate with federal immigration enforcement), with protestors taking and sharing pictures of immigrants being arrested.
- His tariff policies have seen the markets question whether the dollar can remain a safe-haven currency, especially given the increase in government debt in an economy running on enormous deficits, which will be compounded by the proposed tax cuts.
- Moody's downgraded US government bonds from the highest rating to one below. While this is not significant, it does send an extremely important message around the sustainability of US debt levels.

Markets go from overreacting to underreacting

Trump's first 100 days saw massive reactions from markets which created unprecedented volatility across all asset classes. The 2 April tariff announcement saw huge equity sell-offs on Wall Street, which experienced its worst day since the 2020 COVID-19 pandemic.

However, the deeper into Trump's presidency we go, the more markets appear to be becoming circumspect around Trump's unpredictable leadership style. They are realising that Trump himself is volatile, and what he says in the morning is not what happens in the evening. Now markets are starting to look at the longer-term implications of his policies and are asking, "Where is the world going to be after Trump?"

In addition, following the 2 April tariff announcement, the consensus expectation was that these policies will drive the US and the world into a recession. On the day, nobody anticipated a pause in the implementation of the tariffs or that some more favourable trade agreements would be struck during the 90-day hiatus. Given these latest developments, the International Monetary Fund (IMF), the World Bank and the Organization of Economic Cooperation and Development (OECD) have brightened their outlooks. So, while a recession was expected in April, they are now predicting that the global economy will continue to slow but is unlikely to enter an economic recession.

If we look at the OECD and the changes to its growth assumptions, the largest adjustment was made to US growth. From March to June this year, the OECD cut US growth projections by roughly 80 basis points. This highlights that the US will be hurt the most by Trump's policies and will be the most impacted by inflationary pressure caused by tariffs – again reiterating why the clock is ticking on Trump's term. Trump's policies have also put the US Federal Reserve (Fed) in a very difficult position. Even if the US central bank would like to cut rates due to a slowing economy, it is reticent to do so given the stickiness of US inflation. We expect this to continue for the next 12 to 18 months.

At Peregrine Wealth, we agree that the world economy will slow to below capacity growth, while countries adjust towards the tariffs and find new trading partners, driving the global economy back to a new equilibrium and capacity growth over the next three to five years. We must also remember that Trump and the US still want to trade, and, as such, Trump is still working on trade agreements with major trading partners, like the European Union (EU) and Japan.

EU CONFIDENCE BOOSTED BY DEFENCE SPENDING

On the other side of the Atlantic, business confidence in the UK and EU has increased significantly – despite economic growth remaining weak – on the back of the announcement of the once-in-decades fiscal spend. We believe this boost in confidence is unlikely to be sustained. This is primarily because the increased fiscal spending is directed toward defence rather than productive infrastructure such as roads and bridges. As a result, the stimulus is less likely to generate long-term economic benefits or be recycled effectively through the broader economy.

The increase in fiscal spend, specifically in Germany, comes as the EU calls for defence spending to be increased to 5% of GDP. This spending is not to enter a war, but rather for EU countries to have the ability to protect themselves, especially given that the US support of its allies is diminishing. The magnitude of this spend is designed to match the trend of increased military spend by countries like Russia and China over the last decade.

The announcement of this defence spending has coincided with Trump's return to the Oval Office. It has resulted in a massive increase in the share prices of defence sector stocks, especially in the EU, which has supported EU equity markets year to date. The recent outperformance of EU markets, however, should not be seen as the beginning of the end of US exceptionalism given that it boils down to very specific sectors and companies. From a fundamentally economic perspective the US still remains well ahead of Europe.

When trying to predict the future of the EU economy, we need to understand that the EU finds itself in an interesting position. While the US has positive population growth, through legal immigration, the EU countries are struggling with aging populations, along with low productivity levels. So the promise of increased fiscal spending that is boosting business confidence in the region, is not going to get them out of low economic growth given structural issues like demographics and labour productivity. Therefore, EU growth should pick up towards capacity but will remain below 1.5% over the next few years.

WORLD ECONOMY A LITTLE BRIGHTER IN SECOND HALF

Now in the second half of the year, there are encouraging signs of progress compared to the more subdued outlook in April. While we have readjusted our global growth outlook for the next 12 to 18 months to below capacity growth - with the biggest adjustments being made to the US growth outlook, as it will take the brunt of the impact of Trump's policies - given how dynamic the global economy and companies are, we do see the global economy normalising and finding a new equilibrium over the next three to five years.

On the positive side, the threat of a global recession is fading, and the global economy will get back to capacity growth of around 2.5%. We believe that is more than enough for the world to muddle along and for companies to make reasonable profit, especially those that are well-positioned to navigate the current volatility and uncertainty.

What is important to note, at this juncture, is that the US's contribution to global growth will reduce over the next few years, and that emerging Asia will pick up a lot of the slack from reduced US trade. As such, the makeup of the global economy will change going forward, where the US is going to make a smaller contribution to global growth.

WRAPPING UP

The global environment is currently marked by significant challenges and heightened uncertainty. As risk managers, our role is to actively navigate these conditions, safeguarding your wealth through prudent risk management while also identifying opportunities to grow it. Amidst the ongoing volatility, our focus remains on protecting the long-term security of your hard-earned wealth.

ASSET VALUATION SIGNALS

Harold Strydom
Investment Strategist

Scenario modelling has formed part of Peregrine Wealth's investment philosophy for over two decades, and it enables us to better understand potential market outcomes and construct stronger portfolios. The Peregrine Wealth Investment team has a core or "High Conviction" scenario based on a three-year view, which is expressed as macroeconomic and market assumptions, including economic growth, inflation, interest rates, price-earnings multiples, and credit spreads, to list a few. Based on these assumptions, our asset valuation models produce expected returns for various asset classes. This section is used to summarise our High Conviction view and the resulting asset signals.

HIGH CONVICTION SCENARIO: MEDIUM-TERM EXPECTED RETURNS

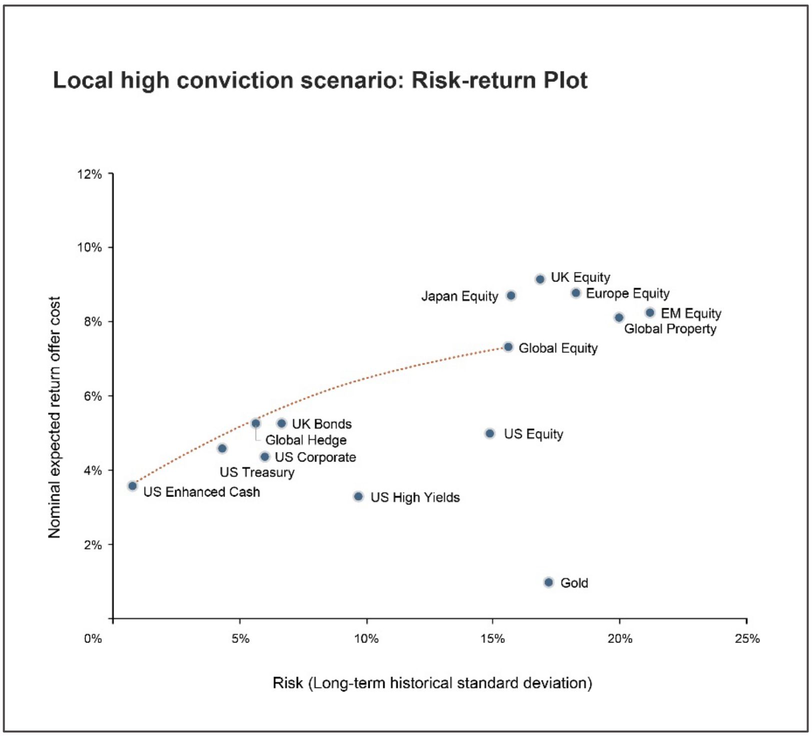
Our High Conviction scenario assumes the global economy will grow close to capacity over the next three years. However, we expect that the United States' (US's) growth will soften over the next 12 months, before recovering. Fiscal packages in Europe and China should support activity in those regions. Inflation is currently near target in most areas, although core inflation remains sticky. US tariffs will put upward pressure on US inflation in the near-term. Labour markets are still tight, but signs of softening are emerging. Central banks in the US and United Kingdom are expected to cut rates further, albeit cautiously, but rates are expected to be on hold in Europe and Japan. While lower rates should support growth and earnings, the impact will vary across regions and unfold at different speeds.

Year-to-date, the US market has underperformed EU and Emerging Market (EM) markets on price (measured in US dollars) but continues to deliver stronger earnings growth. Under our High Conviction scenario, US earnings are expected to remain solid, while growth in other regions remains subdued. US valuations remain elevated, whereas EM and European markets are trading closer to long-term averages. Over the medium term, global equities - including Europe, and EMs - are rated neutral, while US equities moved to below neutral following the recent rally.

Cash remains attractive, despite projected rate cuts over the next three years. US bond yields are slightly above our fair value assumptions. Government bonds are rated neutral, as is investment grade credit, even though spreads remain tighter than our fair value estimates.

The United Kingdom (UK) continues to face headwinds from weak growth and elevated inflation. The Bank of England is navigating a complex environment but is expected to lower interest rates further over the coming year, which should lend some support to both households and corporates. UK government bond yields remain above our fair value estimates amid ongoing volatility, though we maintain a neutral stance. Credit spreads reflect current conditions reasonably well, and our view on corporate bonds remains neutral. UK equities offer compelling valuations, though the near-term earnings outlook remains uninspiring. As a result, we retain a neutral view on medium-term return prospects.

The chart below shows the three-year expected return versus the historical standard deviation of each asset class, based on our High Conviction scenario.



NEAR-TERM ASSET CLASS VIEWS

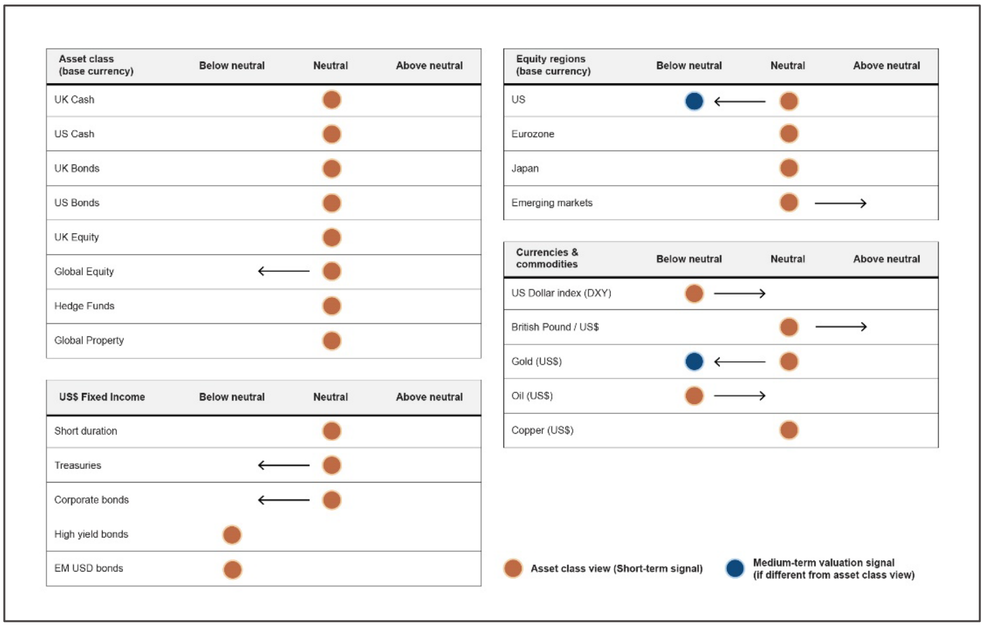
Our investment process is anchored by a High Conviction macroeconomic scenario and the corresponding expected returns for asset classes. This foundation helps us form expectations about how markets should behave. However, we are keenly aware that short-term market behaviour frequently deviates from these expectations. We have long recognised that medium-term, valuation-based signals are often poor guidance for short-term asset performance.

To address this, we've developed a range of tools and indicators to enhance our short-term analysis. These include a close examination of market dynamics, cross-asset correlations, and currency and commodity trends, and several other technical factors. These insights help us adapt our views and make more informed short-term decisions.

The diagram below gives a visual representation of how these two parts of the process play into each other.

In addition to our top-down analysis, we integrate the bottom-up insights provided by our analysts. Their detailed research on individual companies and sectors plays a crucial role in shaping our overall views. When bottom-up analysis reveals fundamentals that diverge from market signals – positive or negative – we take this into account in refining our positioning. This dynamic approach allows us to balance macroeconomic factors with granular insights, ensuring our investment decisions reflect both the broader market environment and underlying characteristics of individual assets.

Our latest asset class views are summarised below. The orange blocks represent the short-term views from the team, with an indication of risks leaning towards the up or downside. Where the High Conviction scenario medium-term signals are different from the short-term views, it is indicated in blue. To determine the signal as Neutral or Above and Below, the model compares expected returns to what investors have historically required from these asset classes. For example, a Neutral Outlook implies a real expected return range of -0.5% to 1.5% for US Cash, 0.5% to 3.5% for US Bonds, and 3.5% to 8.5% for Global Equity. No currency views are taken; currencies are assumed to move in line with short-term interest rate differentials for modelling purposes.



Asset class (base currency)
Below neutral
Neutral
Above neutral
UK Cash
US Cash
UK Bonds
US Bonds
UK Equity
Global Equity
Hedge Funds
Global Property
US$ Fixed Income
Short duration
Treasuries
Corporate bonds
High yield bonds
EM USD bonds
Equity regions (base currency)
US
Eurozone
Japan
Emerging markets
Currencies & commodities
US Dollar index (DXY)
British Pound / US$
Gold (US$)
Oil (US$)
Copper (US$)
Asset class view (Short-term signal)
Medium-term valuation signal (if different from asset class view)

WHEATON PRECIOUS METALS: A STREAMLINED APPROACH TO PRECIOUS METAL MARKETS

VICTOR VON REICHE
Portfolio Manager

"The best business is a royalty on the growth of others, requiring little capital itself." ~ *Warren Buffett*

Judging by the amount of press coverage they have received, one could easily be forgiven for thinking that the investment universe of global stocks is restricted to the "Magnificent 7", a group of United States (US) large-cap tech companies comprising Alphabet (parent company of Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, Nvidia and Tesla. Never in history have we seen such dominant and profitable business models so unaffected by the burden of size.

To illustrate their dominance of the global equity market, at the beginning of June 2025 the MSCI World Index comprised 1,325 stocks with a combined market capitalisation of about $85 trillion. The Magnificent 7's combined market capitalisation was $18 trillion, around 22% of the index by weight. Despite significant investment in research and development, as well as capital expenditure, the Magnificent 7 businesses are still expected to cumulatively earn around $650 billion in net income in 2026.

However, this article will focus on one of the other 1,318 other companies in the index, which also has a unique and extremely profitable business model - Wheaton Precious Metals Corp.

Wheaton Precious Metals - a background

Wheaton Precious Metals, trading under the ticker WPM on the New York Stock Exchange and Toronto Stock exchange, was established in 2004, with its headquarters located in Vancouver, Canada. The company initially operated as Silver Wheaton, maintaining an exclusive focus on silver streaming agreements - where the company provides upfront capital to a silver mine, with the right to purchase a percentage of the mine's future silver production at a predetermined, but discounted price.

Over time, recognising broader opportunities within the precious metals sector, the company strategically diversified its portfolio. This evolution culminated in its rebranding to Wheaton Precious Metals in 2017, reflecting its expanded scope beyond just silver.

A significant aspect of Wheaton's history is its pioneering role in the streaming concept itself. The company was instrumental in developing and popularising this financing model within the mining industry starting in 2004. This first-mover advantage has been a cornerstone of its success. Since its inception, Wheaton has executed over $12 billion in streaming transactions, contributing more than 40% of the total committed capital to the mining industry during this period. This historical and ongoing market share underscores foundational influence and leadership in the sector. The extensive institutional knowledge, established relationships, and refined operational processes, developed through this pioneering role, provide a substantial competitive advantage, making it challenging for newer entrants to replicate Wheaton's scale and quality of agreements. Today Wheaton Precious Metals stands as the world's preeminent precious metals streaming company, distinguished by its portfolio of high-quality, long-life, and low-cost assets.

The company's client base comprises some of the world's largest and most reputable mining companies. Key mining partners include major multinational corporations such as Vale, Newmont, Glencore and Barrick Gold. These partnerships with top-tier miners represent a strategic choice to align with large, established, and financially stable operators. Such partners typically possess robust balance sheets, superior operational expertise, and greater capacity to navigate complex regulatory and geopolitical challenges compared to smaller, less capitalised entities.

Wheaton's portfolio is geographically diverse with streaming agreements covering mines in North America, Europe, South America and Africa, on 18 operating mines and 27 development-stage projects. The company's extensive geographic and project diversification significantly reduces single-asset or single-jurisdiction risk, a common vulnerability for traditional mining companies. Furthermore, the portfolio boasts an estimated average "life of mine" of 28 years based on proven and probable reserves, with over 80% of its production originating from assets operating in the lowest half of their respective cost curves. This focus on low-cost assets ensures profitability and resilience even during periods of commodity price fluctuations, providing long-term, stable cash flows.

The company's portfolio is predominantly exposed to gold, which in 2024 accounted for 62% of its revenue, silver about 36%, and palladium and cobalt, which are more recent additions, at 1% each. While gold and silver are traditional precious metals, palladium is crucial for automotive catalysts, and cobalt is a vital component in batteries used for electric vehicles and renewable energy storage.

Wheaton's management's focus to increase diversification extends Wheaton's revenue streams beyond traditional safe-haven demand, signifying a forward-thinking strategy and positioning it to benefit from the broader global transition towards electrification and sustainable technologies. This strategy will see the company hedging against potential stagnation in pure safe-haven metal demand.

Wheaton's unique business model

Wheaton operates on a unique and highly effective streaming business model. At its core, this involves providing upfront capital to mining companies. This initial payment serves as an advance for a portion of their future precious metals. A key aspect of Wheaton's approach to these capital commitments is that most of the funds are often disbursed upon the completion of various stages of mine construction, which helps protect Wheaton in the event of project delays.

A crucial aspect of this model, especially for Wheaton, is that the metals involved in these streaming agreements are often by-products of the mining company's primary operations. For instance, a mine might primarily focus on extracting base metals like copper, but in the process, it also produces gold or silver. These precious metals, while valuable, might be considered secondary or non-core assets by the primary miner.

This "by-product" dynamic creates a mutually beneficial scenario:

- For the Mining Partner: The mining company gains a non-dilutive and flexible source of capital by monetising these non-core assets. This upfront funding can be used for various strategic purposes, such as financing new acquisitions, distributing dividends to shareholders, supporting community programmes, building or expanding mines, or repaying debt. It allows them to unlock value from their diverse metal productions without diluting equity or incurring traditional debt obligations.

- For Wheaton Precious Metals: Wheaton benefits significantly by acquiring these metals at a substantial discount, often below the prevailing spot price. Since these by-products may be undervalued by the primary miner (whose focus is on the main commodity), Wheaton can secure even more favourable pricing, leading to consistently high cash operating margins. This model provides Wheaton with cost predictability and the ability to leverage any potential increases in precious metal prices, while largely mitigating inflationary cost pressures and operational risks that typically affect traditional miners.

Once the mine begins production, the operating company delivers the agreed-upon proportion of metals to Wheaton. At this point of delivery, Wheaton makes an additional predetermined "delivery payment" per unit, which is generally set at a fixed, deeply discounted price relative to the prevailing spot market price of the metal. Wheaton then sells these acquired metals at the market spot price, generating its revenue. This strategic focus on by-product streams, combined with the structured payment timing, allows Wheaton to access high-quality production with a lower risk profile, as it avoids the direct operational responsibilities and associated capital expenditures of running a mine.

In short Wheaton positions itself as a hybrid between a financier and a miner—without exposure to operational risks.

Wheaton vs traditional mining companies

Table 1 summarises what we see as the most important differences between Wheaton and traditional mining companies. Across various operational and financial criteria, the streaming model is superior, allowing investors to capture significant commodity price leverage while avoiding some of the inherent risks associated with traditional mining. Generally, we avoid investing in commodity companies when looking for global investment opportunities for several reasons. While commodity prices can be volatile and may experience sharp rallies, companies face persistent challenges such as rising operating costs, capital expenditure requirements, regulatory and geopolitical risks, and the need to manage complex supply chains.

Aspect	Streaming Model (Wheaton)	Traditional Mining
Asset Ownership	No direct mine ownership; holds contracts on production	Owns and operates mines
Operational Risk	Low: Not exposed to mining, environmental, or labour risks	High: Exposed to all operational risks
Capital Outlay	Upfront payment plus fixed delivery payment per ounce	High ongoing capital and operating expenditures
Commodity Price Leverage	High: Pays below-market price for metals, sells at spot	High, but margins eroded by cost inflation
Cost Predictability	High: Contractually defined, inflation-protected costs	Low: Subject to cost overruns and input price shocks
Exploration Upside	Yes: Benefits from mine expansions and discoveries at no extra cost	Yes, but must fund exploration and development
Portfolio Diversification	Yes: Streams across multiple mines, geographies, and operators	Limited to owned assets
ESG Exposure	Lower: Indirect, but partners with responsible operators	High: Direct responsibility for ESG compliance
Dilution/Debt	No share dilution or debt for mine operators; non-dilutive financing	Often requires debt or equity issuance
Dividend Stability	High: Supported by predictable cash flows and margins	Variable: Linked to operational and price volatility
Mine Life	Long: Streams typically on long-life, low-cost assets	Variable: Dependent on reserve base and exploration
Liquidity	High: Focus on large, liquid markets	Variable

Table 1: Major differences between streaming and traditional mining business models

Figure 1 below illustrates the strength of Wheaton’s business model more clearly. Over the last 20 years an index of gold mining companies has significantly underperformed both spot gold and silver prices. Wheaton, by virtue of its unique business model, which explicitly avoids these risks has consistently outperformed.

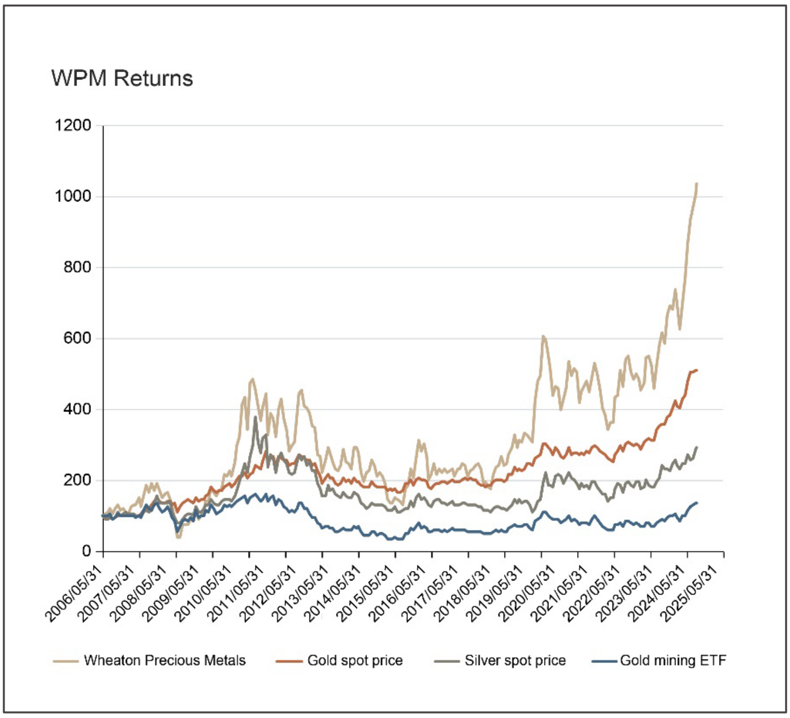


Figure 1: Various price returns of Wheaton, gold, silver and a gold miner ETF (indexed to 100)

The investment case

When looking for investment opportunities, being able to get exposure to various positive idiosyncratic drivers (factors that affect price or performance of an asset) is ideal. We see Wheaton as an effective hedge, which diversifies our equity exposure, while also allowing us to benefit from key industrial trends. In summary, we see the following as key arguments for the investment case:

- Benefitting from safe-haven demand: Ongoing geopolitical conflicts, trade disputes, and global economic uncertainty contribute to an environment of risk aversion. In such times, investors often flock to safe-haven assets like gold and silver, driving up demand and prices.
- Preserving value during fiscal instability and financial risk: Gold demand rises sharply during periods of fiscal instability, as investors and central banks seek a safe-haven asset that is free from counterparty risk and immune to currency devaluation or sanctions. This strategic shift has led to record gold purchases in recent years, with gold's unique ability to preserve value and provide security making it a preferred hedge against mounting government debt, inflation, and systemic financial risks.
- Increased gold prices due to central bank buying: China, India, and Turkey have maintained near-record levels of gold bullion purchases for the third consecutive year, acquiring over 1,000 tons annually, and accounting for about 20% of global gold demand. This sustained buying spree is driven by central banks' efforts to hedge against inflation, enhance financial stability, and diversify their reserves, providing a significant tailwind for higher gold prices. In addition, Basel III Endgame is the final phase of regulatory reforms by the Basel Committee, requiring banks to strengthen capital ratios and adjust risk calculations, with implementation expected soon in the US. Gold will be classified as a Tier 1 Asset under these new rules, likely boosting demand for the precious metal by major banks and supporting higher gold prices.

- Capitalising on increasing industrial demand: Beyond their investment appeal, precious metals like silver, platinum, and palladium have significant industrial applications, particularly in burgeoning sectors like renewable energy (solar panels), electric vehicles (catalytic converters), and electronics. The global push towards decarbonisation and technological advancement is expected to drive sustained industrial demand for these metals.
- Hedging against supply constraints: New discoveries of high-grade, easily accessible precious metal deposits are becoming increasingly rare and challenging to develop. This structural supply constraint, coupled with rising costs for traditional miners, provides a fundamental support for higher precious metal prices over the long term.
- Protection through portfolio diversification: One way to measure portfolio diversification benefit is to look at historical correlations. As Figure 2 shows the rolling 12-month correlation between Wheaton and the MSCI World Index is generally low with an average correlation of 0.35 and in times of stress like the Global Financial Crisis, the European debt crisis, and the COVID-19 pandemic, the correlation falls rapidly as the company acts as a very effective hedge.

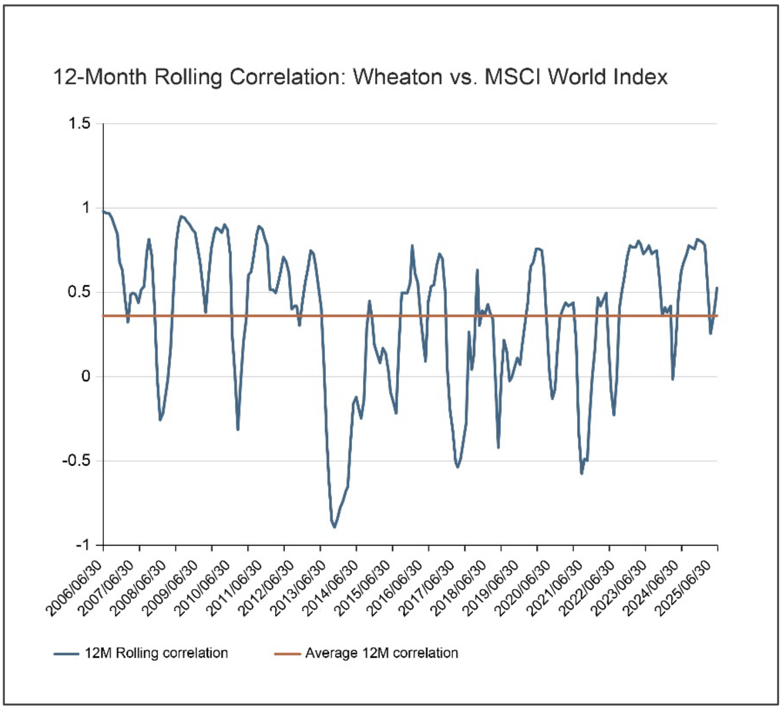


Figure 2: Rolling 12-month correlation of Wheaton versus the MSCI World Index (correlation coefficient: -1 = inversely correlated, 0 = not correlated, +1= positively correlated)

Conclusion

Wheaton Precious Metals stands as a compelling investment opportunity within the precious metals sector, offering a unique combination of high-margin profitability, diversified growth, and mitigated operational risk, through its pioneering streaming model. The company's robust financial position, strategic asset selection, and commitment to shareholder returns, underscore its long-term viability and attractiveness.