

Myrmikan Research

November 10, 2026

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The Gold Cycle Turns

Gold stocks continued their slide in October, with the HUI Gold BUGS Index falling 12% and the GDXJ Junior Gold Miners ETF sinking 16.7%. Examining previous gold cycles makes it difficult to believe that gold is entering a prolonged bull market. From 1999 to mid-2008, gold ran from $250/oz to $1,000/oz after suffering an epic twenty-year bear market. Gold was actually losing purchasing power during this time of manic credit growth: the price of West Texas Intermediate crude, for example, jumped from $15/bbl to $150/bbl over this same time period, a 900% increase compared to gold's 300% increase. This was a credit bubble story, not debasement.

Then the 2008 crisis came. Gold corrected 30% top-to-bottom while oil plunged 80%—gold mining stocks got crushed even though this was a very good time for operating margins. Then Bernanke's QE devalued the dollar to make debts easier to pay. The price of gold showed that he was successful as it ran from a trough of $692/oz in 2008 to a peak of $1,921/oz in 2011. Bernanke's money printing was directed not to consumers but at the banks, which used the new money to restart credit growth. And gold doesn't like credit growth—gold is fundamentally a bet on credit contraction. As the new credit cycle began, it made sense that gold should suffer, and it did.

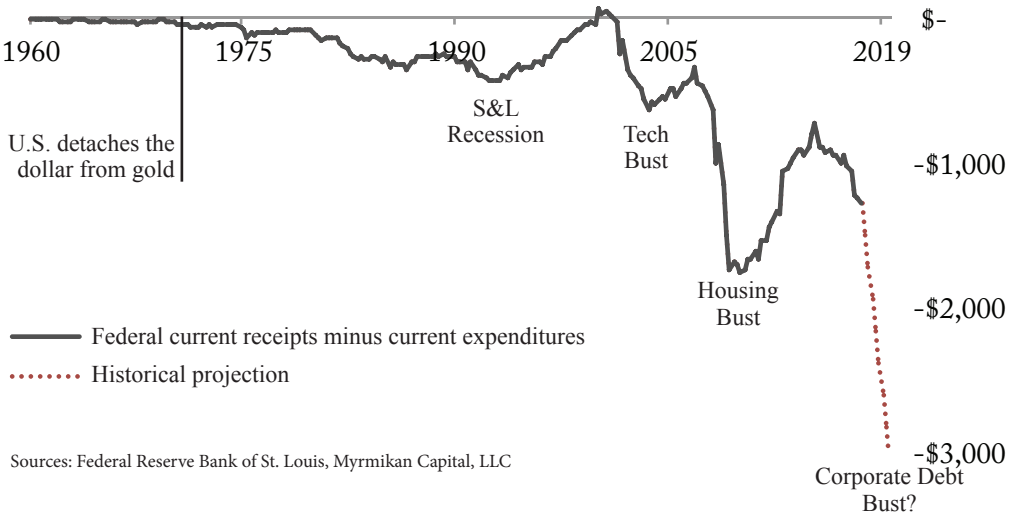
After a brief respite in 2016, the gold price continued to languish as credit growth continued apace. But then in 2018 gold made an important bottom and started to creep higher. The Fed had begun a tightening cycle in 2016, and two years later the rising rates finally started to bite. High tech stocks such as Apple and Facebook had steep corrections along with bank stocks. Real estate prices and sale volumes in places like Manhattan and Seattle and California began to retrench. Lumber plunged by 20%, copper by 36%, oil by 40%. The high-yield issuance market froze.

We wrote in January 2019—"The scary question is what happens in the next credit crisis. The current credit bubble is larger than in 2008 (which was larger than in 2000), but let us assume that the dynamics are the same as last time, that government revenue will decline by 20% and spending increase by 25%. If we use the last data point, Q3 of 2018, as the current baseline, the next credit crisis will see deficits explode past $3 trillion—annually, at least for a couple of years. If the past is any guide, deficits will then stabilize at the previous crisis's extreme, or around $1.5 trillion per year"—and we offered the chart on the following page.

In fact, the peak 12-month rolling deficit would reach $3.7 trillion (this is not the reported annual figure; it is current receipts minus current expenditures over a 4-quarter rolling basis) and current account deficits are stabilizing at around $1.7 trillion.

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KEYNESIANS ARGUE THE STATE SHOULD RUN SURPLUSES IN GOOD TIMES AND DEFICITS IN BAD
(4-quarter rolling average basis)



We had no idea COVID was coming, nor did anyone else. But we knew that a credit bubble cannot withstand rising rates for long and that the Fed would have to print. Powell began to loosen shortly after we wrote the paragraph above. First he canceled anticipated rate hikes. Then in March 2019 Powell ended the reduction of the Fed's balance sheet. In August the Fed lowered rates by 0.25%. He was printing by September. By mid-2022 he had printed up $5 trillion (checkable deposits and currency held by the public jumped from $731 billion in Q3 2019 to $4.5 trillion by mid-2022.). The gold price surged, just as it did in 2009.

But there was a difference: Bernanke had bailed out the banks (and was well rewarded personally); Powell bailed out the consumer. Whereas Vladimir Lenin had agreed with St. Paul when he said: "He who does not work shall not eat," Powell disagreed and distributed free cash to workers who were legally barred from working (or, often, who did not even exist).

Not all of the money went to consumers, however. Former president of the New York Fed and chief economist at Goldman Sachs William Dudley said the quiet part out loud: "the Fed's enormous purchases of Treasuries … was, in fact, a backdoor bailout of highly leveraged hedge funds.… Real-estate investment trusts that invest in mortgage-backed securities were forced sellers as they struggled to meet margin calls. Again, the Fed purchases helped limit their losses. Heavily indebted corporations also got a helping hand. This is significant because many corporations took on lots of debt by choice.… These actions also protected investors in high-yield mutual-bond funds.… Whatever you thought was the size of the moral-hazard problem before, now it's gotten even larger." (He also admitted: "If I were in the Fed's shoes, I would have pushed for the same forceful interventions").

Gold made an interim high in March 2022 as the Fed's balance sheet neared a peak and began to decline. Had Powell bailed out the banks only, like Bernanke, then gold likely would have had a reaction similar to its 2013 retrenchment, as the credit bubble reignited and drew funds back into speculative markets. But Powell had sponsored both credit growth and monetary debasement, so there was only lethargy in the gold price, not a crash.

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Then, as we've discussed in other letters, the vandals inside the Biden administration kicked Russia out of the international banking system, destroying the foundation of the Eurodollar system, and gold went vertical, launching from $2,000/oz to a spot high of $5,595/oz before correcting to the current price of around $4,000/oz.

The road map of the past few decades shows that gold falls compared to commodities during periods of credit growth; it increases in real terms when credit contracts (often violently), even the nominal price gets hit; it spikes when the Fed panics and prints trillions to save the credit system; then it fades when the Fed's money printing sparks the next credit cycle.

The market is nowhere near the next credit cycle. In fact, we have just passed the peak of the largest credit bubble in history. OpenAI has quietly reduced its pre-IPO fundraising goal from $30 billion at a $1.4 trillion valuation to $20 billion at $1.25 trillion. Anthropic's IPO valuation has been cut from $2 trillion to $1.5 trillion and now, rumor has it, to $1 trillion. These valuations are still absurd for companies that have yet to show that a profitable market exists—they are a result of predictions such as from the Brookings Institute that A.I. will draw over $10 trillion in investment dollars over the next six years, surpassing even the railroad bubble buildout in terms of GDP. Just a slowing in the perceived rate of growth has profound implications for valuations and for the whole supply chain as well. The SOXX Semiconductor ETF is off 33% from its June 2026 high. Coreweave, the largest of the neoclouds, is down 74% from its peak.

As a reminder, the PE industry now controls $1.5 trillion of life insurance industry balance sheet and has so far shoveled $849 billion of the $2 trillion private credit market on to unsuspecting policy holders. And the PE market is frozen: the Wall Street Journal estimates that there was $3.91 trillion of portfolio companies stuck on PE balance sheets as of September 2025. Major investors agree to extend the PE funds because institutions do not want the investments marked to market at valuations that would look awkward on their own balance sheets.

Just as the Fed's rate hikes starting in 2016 began to freeze the market three years later, leading to the wholesale stealth bailout of the debt markets in the fourth year (paid by debasement), we are now just over four years into the rate hikes that began in 2022. Though off the news cycle, the $82 billion Blackstone Private Credit Fund had 10% in redemption requests at the end of Q3. Apollo Debt Solutions received 14.7% redemption requests of its $26 billion fund. Blue Owl saw its $35 billion income fund suffer 16.8% in redemption requests, and its $6.2 billion technology fund was hit with 39% in redemption requests. These funds pay out at only 5% per quarter. Their investors are unlikely to see their money soon, or ever, unless the Fed prints big.

Gold suffered for two decades during the epic credit boom that began in 1981. Gold continued to suffer in real terms after Greenspan launched the housing bubble to replace the internet bubble. Gold suffered in 2011 and beyond as Bernanke's QE relaunched the credit bubble in more virulent form. Gold languished briefly during Powell's 2022 credit mania. With the 10-year Treasury yield having moved from 0.65% to 5.0%, with the AAA bond yield at levels not seen since 2002, with CCC bonds yielding 17.8%, with Caterpillar stock in free fall, we are approaching the end of the current credit cycle, which means we are close to the launch of the next gold cycle.

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Close does not mean we are there yet, however. We consider now what we also pondered in early March 2020: "For months and years the most pressing question for gold investors has been whether gold and gold stocks would get hit when the credit bubble first pops, as they did in 2008."

On one hand, gold is the ultimate collateral—the whole point of it is to have an asset to sell when all other assets fail. As the Middle East kleptocracies run short of oil revenue, as banks and individuals blow up on the A.I. trade, as high interest rates make current debt levels unsustainable, there will be pressure to liquidate gold reserve to ward off default.

On the other hand, the financial world is well aware of the 2008 and 2020 models—if the Fed has to choose between saving the banks or the currency, it will save the banks. Warsh told the Hoover Institute: "In my judgment, we should be shrinking the central bank balance sheet, taking the Fed out of these markets unless and until there's a crisis… And in so doing, you'd have less inflation that way," a formulation he has used on multiple occasions. Warsh's logic also works in reverse: if and when there's a crisis, they should be increasing the central bank balance sheet, and in so doing, we'd have more inflation that way (*inflation* here is a misnomer; what he really means is *debasement*).

On a deeper level, the prospect that financial operators will have to dump gold to maintain debts assumes that debts remain denominated in dollars and gold sellers are selling gold to raise dollars. This assumption may still be somewhat correct—the dollar remains the primary reserve currency—but it is much less correct following Biden and Blinken's weaponization of the dollar.

We have little ability to predict short-term gold price movements, a skill best practiced by bullion bank traders who see real-time capital flows. We can't compete with AI trading bots capturing every squiggle on the charts. We remain confident, however, that the dollar system (and by extension the world) remains in the largest credit bubble the world has ever seen, that the A.I./Treasury bond bubbles are nearing their ends, that gold is the surest asset to ride through the collapse, and that gold miners offer operational leverage to that bet, enabling a small amount of capital to insure the value of a much larger portfolio.



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