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UPDATE: China Wants to Conduct the World's High-Speed Rail Market

By Frank Holmes

CEO and Chief Investment Officer

U.S. Global Investors

The construction of the American transcontinental railroad in the 1860s, which cost upwards of \$136 million and covered 1,800 miles over arduous terrain, could not have been as easily accomplished without the major influx of Chinese immigrants into California. Tens of thousands of Chinese laborers worked grueling 12-hour days, six days a week, often at paltry wages and with little or no accommodations. They gained a reputation as indefatigable and resilient workers because they hardly ever became ill or died as a result of their boiling all of their drinking water and pasteurizing their food.

Now, close to a century and a half later, the Chinese want to return to the railroad business. This time, however, they strive to become the world's leading go-to provider of high-speed rail and exporter of mass transit technology.

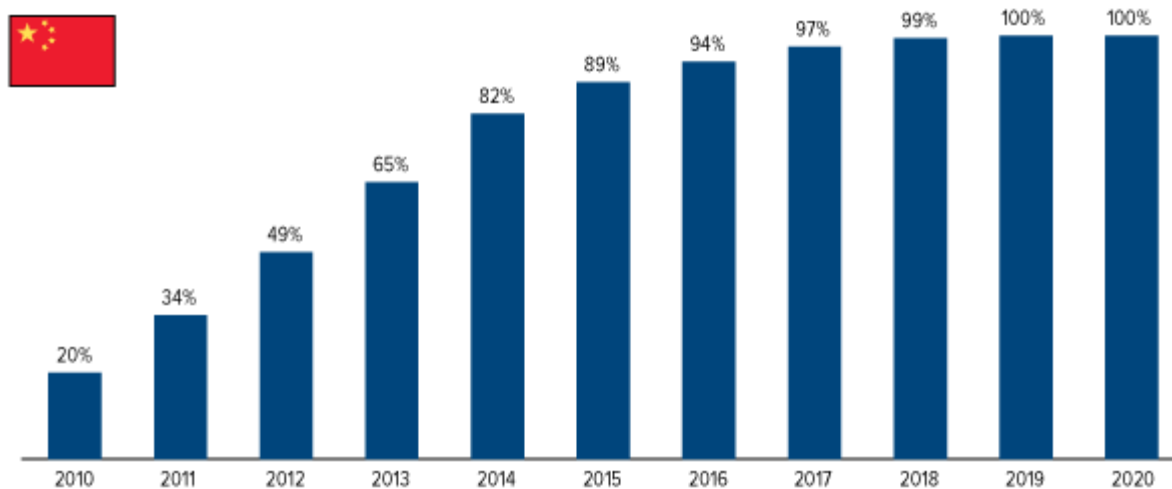
They certainly have the credentials and experience to back up their ambitions. By the end of last year alone, more than 6,800 miles of high-speed rail spanned the fourth-largest country, with another 7,500 miles currently under construction. UBS's research reports that "China has the largest high-speed rail network in the world, with a total of more than 20,000+ kilometers [12,400+ miles] high-speed passenger-dedicated lines scheduled to be operational by end-2015."



In the 1860s, Central Pacific Railroad employed over 12,000 Chinese laborers, more than 90 percent of its workforce.

Most Cities in the Network Should Be Connected in the Next Five Years

Percent of Cities Connected to High-Speed Rail Network



Source: Morgan Stanley Research, U.S. Global Investors

[click to enlarge](#)

A lot has changed with Chinese rail since I previously wrote about it [back in March 2012](#). Back then, the country was struggling to get new projects started, one of the catalysts of which was a bullet train crash in 2011. At the time, out of five countries, including Australia, the U.S., Russia and China, the Asian giant came in last place for the total length of railway per capita.

Then, in August 2013, [BCA Research](#) highlighted the massive increase in the country's urban subway systems, as the "length of light rail and metro will be extended by 40 percent in the next two years, and tripled by 2020."

We're currently seeing the arrival of this Chinese railway Renaissance.

As I told *Wall St for Main St* a couple of days ago: "The [Chinese] government is promoting light rail train everywhere in the world, and it's only accelerating."

China Seeking Consumers

In recent months, Chinese Premier Li Keqiang has emerged as the nation's top salesman for what he calls the "New Silk Road"—miles upon miles of high-speed transportation connecting all corners of the world. His plan might very well become one of China's most lucrative exports and culturally significant contributions to the world: fast, efficient and reliable railways.

Which many areas of the world sorely need.

In numerous countries, including here in the U.S., rail systems are outmoded and deteriorating. Five years ago, the [U.S. Department of Transportation's Federal Transit Administration](#) concluded that "more than one-third of [rail] agencies' assets are either in marginal or poor condition, indicating that these assets are near or have already exceeded their expected useful life." A whopping 92 percent of railroad ties in the U.S. are still made of wood and, in many cases, fall within a range of 15 to even 100 years old. A few lines, such as the one that connects Los Angeles and Las Vegas, no longer receive regular service.

In India, where thousands of citizens rely on mass transportation, railroads have been combating a [years-long](#)



The closer: Chinese Premier Li Keqiang.

[rash of onboard fires](#) relating to aging equipment and poor electrical maintenance. Last month, the state-owned India Railways chalked out plans with China to improve its lines and begin construction on a \$33 billion, 1,090-mile high-speed rail connecting Delhi and the southern coastal city of Chennai.



Premier Li Keqiang to Indian commuters: Here, let us give you a hand.
Source: Odyssey Treks Inc.

Also in November, China Railway Construction Corp. (CRCC), which we own in our [China Region Fund \(USCOX\)](#), signed a contract with Nigeria to construct a \$12 billion, 870-mile rail system from Lagos, the nation's second-most populous city, to the seaport town of Calabar. In an effort to shed China's reputation for using only Chinese workers in foreign projects, CRCC Chairman Meng Fengchao "pledged to hire at least several thousand workers from Nigeria," according to [Bloomberg Businessweek](#).



China at the starting gates, ready to bring high-speed rail to the world.

But China's most ambitious plan to date comes in the form of a proposed \$230 billion high-speed rail system linking Beijing and Moscow—what will be the longest in the world of its kind—which will largely replace the storied 100-year-old Trans-Siberian Railway. Whereas the Trans-Siberian takes about six days one-way, the new high-speed line will cut travel time down to only two days. The estimated distance is 4,350 miles, "more than three times the world's current longest high-speed line, from the Chinese capital to the southern city of Guangzhou," according to [Business Insider](#).

Following the announcement, the market handsomely rewarded CRCC. Since the end of October, its stock has surged 16 percent, beating for the first time this year the Hang Seng Composite Index, the benchmark for USCOX.

China Railway Construction Corporation (CRCC) Leaps Ahead of Hang Seng Composite Index on Beijing-Moscow High-Speed Rail Announcement



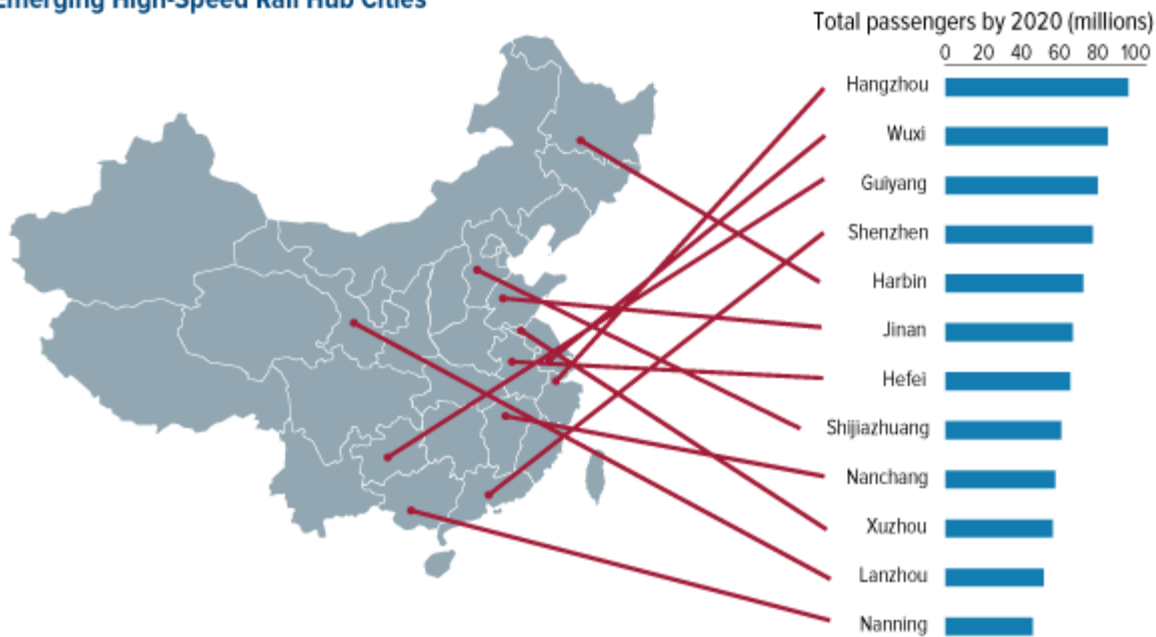
Past performance does not guarantee future results.
Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

Just as significant as the proposed line itself is what it symbolizes: a strengthening relationship between Beijing and Moscow. Already Russia has signed a multibillion-dollar gas and oil export deal with its southern neighbor, a clear snub at the European market.

In any case, China's goal is to do for other countries what it has done for its own. In only ten years' time, China has amassed an impressive network of rails that helps citizens from all corners of the nation—from the rural to urban—stay connected.

Emerging High-Speed Rail Hub Cities



Source: Morgan Stanley Research, U.S. Global Investors

[click to enlarge](#)

Unfathomable Amounts of Resources Will Be Needed

As impressive as the Beijing-Moscow project is, it only begins to reveal the large host of jobs China has lined up.

In the map below, each shaded country denotes the location of current or pending Chinese projects, with many more possibly to come. UBS reports that 64 new projects have been signed in 2014 alone, with the months of October and November seeing a huge spike in approvals.

Countries That Have Either Already Signed Contracts or Are Negotiating with Chinese Infrastructure Complex



Source: UBS, U.S. Global Investors

[click to enlarge](#)

A few highlights are worth mentioning. Last March, CNR Dalian Locomotive and Rolling Stock Company signed a \$17.6 million contract with Ethiopia to provide 41 modern tramcars. Around the same time, South Africa ordered 232 diesel locomotives from CNR, a job worth \$930 million. In July, China, Peru and Brazil agreed to cooperate on the construction of a railway that would connect the Peruvian Pacific coast to the Brazilian Atlantic coast. And in October, the Massachusetts Department of Transportation awarded a \$567 million contract to CNR to build 284 train cars for Boston's subway system.

These projects will require astronomical amounts of resources and raw materials, including heavy-duty steel, carbon fiber, aircraft-grade aluminum, copper and concrete—all of which should bode well for our [Global Resources Fund \(PSPFX\)](#).

Missing in action here is California, but perhaps not for long. Next year, the California High Speed Railroad Authority will begin accepting bids on what will eventually be the U.S.'s first high-speed rail system. Right now a bidding war for the estimated \$566 million contract is brewing between China's CSR Corporation Limited and China CNR Corporation.

Also missing is Mexico. Early last month, CSR won the bid to manufacture train cars while CRCC arranged to build the Latin American country's first-ever high-speed railroad. Costing \$4.3 billion, the line would have spanned 130 miles, from Mexico City to Queretaro. But just days after the contract was signed, [Mexico canceled the deal](#) "amid new reports that one of the bid partners built a home for [Mexican] first lady Angelica Rivera," according to Bloomberg. CRCC has threatened legal action.

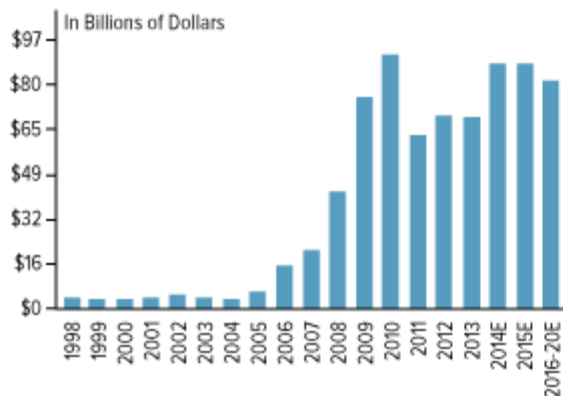


Frank Holmes
High-Speed Train, China

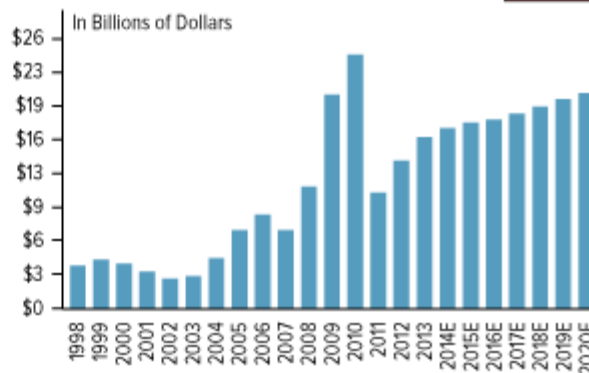
Still, there are numerous investment opportunities in Premier Li's "New Silk Road" initiative, as you can see below.

Chinese Railway Infrastructure Investment

New Build



Renovation



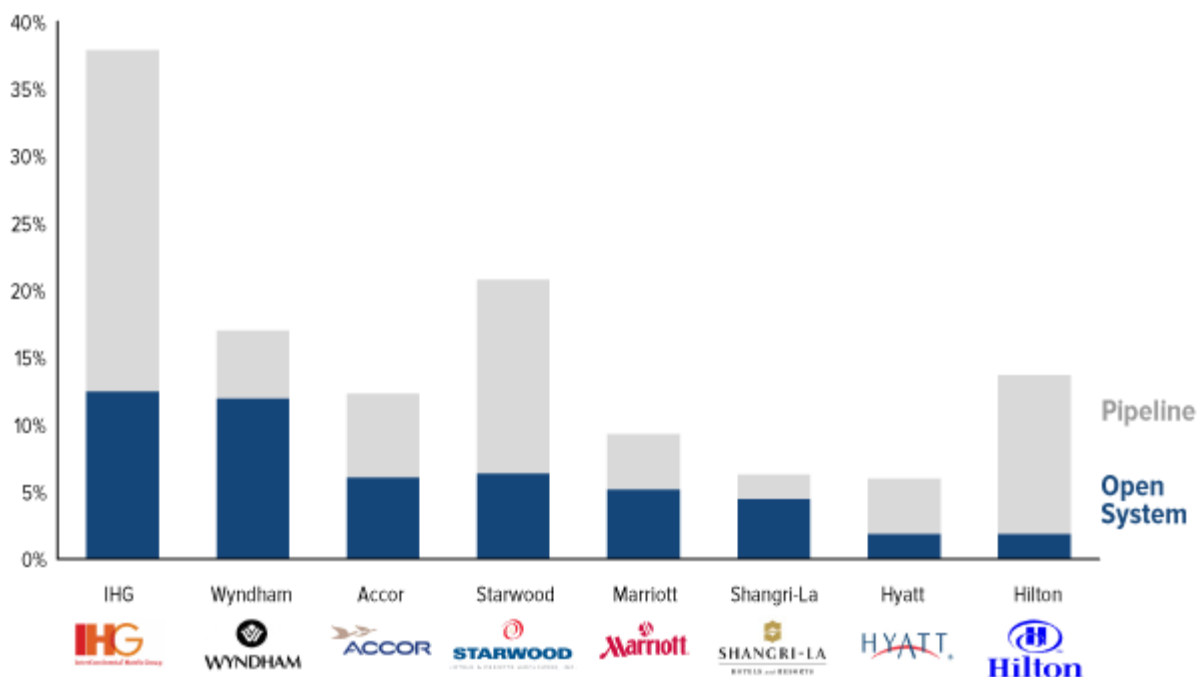
Source: CEIC, Ministry of Railways, Ministry of Transport, UBS, U.S. Global Investors
[click to enlarge](#)

And the opportunities don't stop there. Along with a greater number of domestic Chinese rail lines comes an explosion in service industries catering to weary travelers, including restaurants, hotels, car rentals, discretionary goods, property and more.

Many of these companies, in fact, hail from the U.S. Fast food restaurants such as McDonald's, KFC, Pizza Hut and Starbucks—which we own in both our [All American Equity Fund \(GBTFX\)](#) and [Holmes Macro Trends Fund \(MEGAX\)](#)—have lately taken aggressive positions in and close to China's growing number of depots.

American hotels have also seized on the opportunity to service Chinese travelers making overnight stays along the way, with massive growth in the works.

Hotel Operators Current Market Share and Pipeline



Source: Morgan Stanley Research, U.S. Global Investors

[click to enlarge](#)

Playing the Train Game

In a [recent Barron's piece](#), emerging markets analyst Shuli Ren highlighted the attractiveness of investing in China rail stocks, especially in light of the People's Bank of China's (PBoC's) recent interest rate cut, which will help railroad companies deleverage:

“ While China Railway Construction Corp. [which we own in USCOX] and China Railway Group both are major winners, given their 40 to 45 percent market share each in railway construction in China, CRCC currently has only a small exposure overseas, which means more upside. About 25 percent of CRCC's new contracts come from overseas markets, the highest among its peers. CRCC is also less indebted, with “only” 94 percent net gearing.

Chinese banks' recent decision to lower financing costs and increase lending has helped railroad companies, both state-owned and listed, gain a market advantage throughout the world.

BCA Research has additionally cited the PBoC's rate cuts and the Chinese leadership's efforts to lower the cost of borrowing as further enticing reasons to consider Chinese rail: “interest rate sensitive sectors such as... ‘asset-heavy’ industries such as materials, industrials and energy” all benefit. As these industries are directly and indirectly related to the construction and maintenance of railroads, they are also clear beneficiaries.

Expressing positivity in “Chinese growth, especially on stocks, going into the New Year,” BCA encourages readers “to be invested in Chinese shares and overweight Chinese equities in managed global and EM [emerging market] portfolios.”

One such EM portfolio that investors can take advantage of to catch opportunity is our very own [China Region Fund \(USCOX\)](#).



McDonald's now has a strong presence in many parts of China.

On Our A-Game

One final note I want to leave you with is the strong performance of Chinese A-shares lately. Even though they tend to be volatile, they've been climbing pretty steeply since the summer.

Shanghai Composite Index



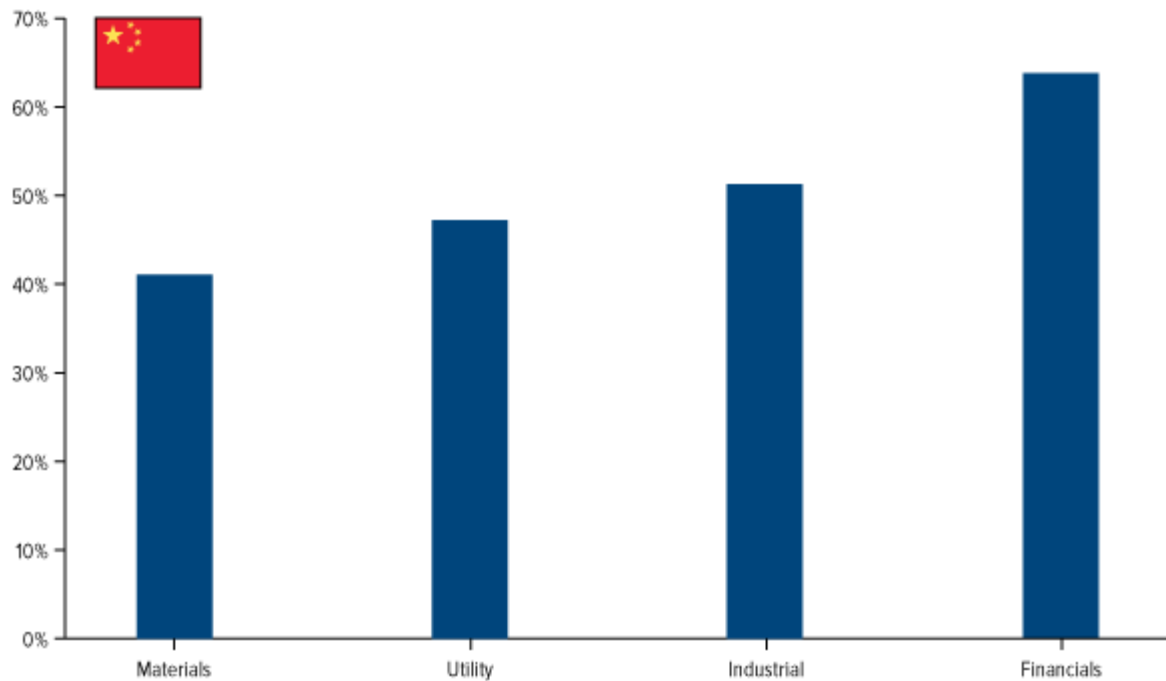
Source: CLSA, Bloomberg, U.S. Global Investors

[click to enlarge](#)

The financial sector has been the clear winner, which USCOX maintains significant exposure to. And as I've previously said, materials, utilities and industrials all have residual benefits to the railway industry.

Rally Leaders: China Domestic A-Share 6-Month Return

June 2014 to December 2014



Source: BCA Research, U.S. Global Investors

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Index Summary

- Major market indices finished mixed this week. The Dow Jones Industrial Average fell 3.78 percent. The S&P 500 Stock Index fell 3.52 percent, while the Nasdaq Composite declined 2.66 percent. The Russell 2000 small capitalization index fell 2.54 percent this week.
- The Hang Seng Composite fell 2.61 percent; Taiwan gained 1.95 percent and the KOSPI fell 3.27 percent.
- The 10-year Treasury bond yield fell 9.71 percent for the week.



What's gold's touchdown pass this week?

Watch the replay of Kitco's **Gold Game Film** with Frank Holmes to find out! 

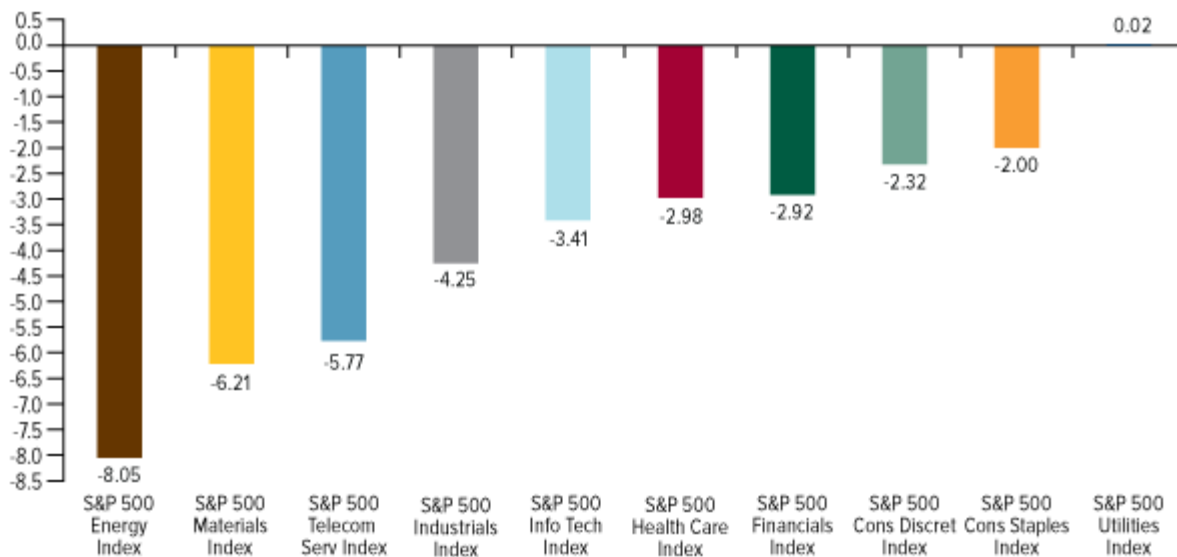
[All American Equity Fund - GBTFX](#) • [Holmes Macro Trends Fund - MEGAX](#)

Domestic Equity Market

The S&P 500 Index was negative this week, falling 3.52 percent and closing at the lowest level seen in over a month. The market retracted on global fears despite positive economic data domestically.

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, December 5, 2014 – December 12, 2014)



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)

Strengths

- Although essentially flat for the week, utilities came in as the top sector. While the rest of the market fell, and utilities being a defensive sector, large-cap companies such as Entergy, Duke and PG&E saw the best performance up 4.46 percent, 2.43 percent and 2.20 percent, respectively.
- The consumer staples sector also outperformed the broad market but fell 2 percent. This group was led by Walgreens, up 8.60 percent. The company's CEO is stepping down, with the new top shareholder, Stefano Pessina, set to take control. This brings the shares to an almost two-year high, as the market questioned the direction the former CEO was taking the pharmacy compared to its biggest domestic rival CVS.
- The best performing company this week was Staples, rising 14.57 percent. Activist Starboard Value announced a stake in the company and said it will push for a merger between Staples and Office Depot.

Weaknesses

- The energy sector was the worst performer this week, down 8.05 percent. The entire sector was pulled down by falling oil prices, which are at the lowest levels in more than four years. Nabors Industries, ONEOK and Williams Companies were among the worst performers down 18.10 percent, 14.55 percent and 14.55 percent, respectively.
- Another area of weakness was materials, falling 5.71 percent. Commodities in general have fallen sharply and margins are under pressure across the sector. Freeport-McMoRan and Dow Chemical fell the most, down 16.26 percent and 13.58 percent, respectively.
- The worst performing company this week was Nabors Industries, which fell as mentioned above 18.10 percent. The company's completion and production services business was to be sold, but the buyer, C&J Energy Services, had to delay the deal due to current market conditions.

Opportunities

- Global airlines and beneficiaries of the industry continue to show strength both from falling fuel costs and an increase in travel demands. There is a growing amount of disposable income to the consumer now, as airline names continue to climb to new sector highs this week even after a midweek correction. This could stay strong for the next few months as oil historically hits a bottom in February.
- Strong retail sales numbers helped boost the theme of consumers spending their savings from oil price declines. This is evident with the market down over 2 percent. Many of these names remained positive and will expect to do well as long as energy prices are depressed.
- With energy prices down now for five straight months, and over three standard deviations from the broader market based on the last five years of trading data, one can expect a reversion to take place sooner rather than later.

Threats

- U.S. energy producers with weak balance sheets, or companies who are regionally exposed to higher production costs, could be at greater risk, including railroads, frac sand, pipelines and construction.
- The European Central Bank (ECB) is under pressure to act with weak data emerging from the individual countries, and conflicting ideas on the best ways to solve the lacking growth problems at hand.
- As conflict in Ukraine is on the rise again, and Russia is overstating its available cash reserves, the instability of their economies and the potential for a domino effect is always present.

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U.S. Government Securities Ultra-Short Bond Fund - UGSDX • Near-Term Tax Free Fund - NEARX

The Economy and Bond Market

U.S. Treasury bonds staged a huge rally this week with 10- and 30-year bond yields falling by as much as 20 basis points. Oil prices continue to fall and the stock market fell for the first time in seven weeks. With rising fear in financial markets and falling oil prices dampening Fed tightening expectations, bonds became a safe haven and money flowed in this week.

10-Year Treasury Bond Yield



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

Strengths

- Bonds rallied very sharply this week as falling oil prices put downward pressure on inflation expectations and this would likely push out Fed interest rate increases. A multitude of factors are building that mean the Fed would likely stay on hold for the foreseeable future.
- Numerous confidence indicators are pointing to better days ahead as the IBD/TIPP Economic Optimism Index, the Bloomberg's Consumer Comfort Index and the NFIB's Small Business Optimism Index were all reported higher this week.
- November retail sales rose 0.7 percent, the highest reading in eight months, which beat expectations.

Weaknesses

- China reported that trade activity in November contracted as imports fell a very sharp 6.7 percent year-over-year and exports came in well below estimates at 4.7 percent growth year-over-year.

- Chinese inflation slowed to the lowest level in five years at 1.4 percent in November. While this would likely allow government policymakers to act, it just exemplifies the threat of global deflation and the potentially tough path policymakers have ahead of them.
- Italy was downgraded to just above “junk” status by S&P and is another example of the difficulties facing policymakers to pursue growth- and reform-oriented policies at the same time.

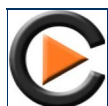
Opportunities

- The European Central Bank (ECB) choose not to act recently but left the door wide open to full-blown quantitative easing in the first quarter of 2015.
- Bond yields are at the lowest levels since May 2013 and bonds have been in a bull market all year.
- Municipal bonds continue to look like an attractive alternative in the broad fixed income universe.

Threats

- Greece is generating negative headlines again and while it appears to be an isolated political event, it does reinforce the idea of the potentially fragile nature of the euro currency.
- Oil prices appear to be extremely oversold, and even a bounce in oil could change the mood in the market and bonds could sell off in reaction.
- The geopolitical situation remains unusually fluid and could take a negative turn.

In the News



December 11, 2014
Why is Frank Holmes Positive on Commodities?



December 11, 2014
China's Role in the Gold Market



December 11, 2014
A Healthy Correction for China A-Shares

World Precious Minerals Fund - UNWPX • Gold and Precious Metals Fund - USERX

Gold Market

For the week, spot gold closed at \$1,222.50 up \$29.99 per ounce, or 2.51 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, fell 0.89 percent. The U.S. Trade-Weighted Dollar Index slid 1.09 percent for the week.

Date	Event	Survey	Actual	Prior
Dec 11	Germany CPI YoY	0.6%	0.6%	0.6%
Dec 11	US Initial Jobless Claims	297K	294K	297K
Dec 12	China Retail Sales YoY	11.5%	11.7%	11.5%
Dec 12	US PPI Final Demand YoY	1.4%	1.4%	1.5%
Dec 16	Germany ZEW Survey Expectations	20	--	11.5%
Dec 16	US Housing Starts	1040K	--	1009K
Dec 17	Eurozone Core CPI YoY	0.7%	--	0.7%

Dec 17	US CPI YoY	1.4%	--	1.7%
Dec 18	US Initial Jobless Claims	295K	--	294K

Strengths

- Gold traders are exhibiting bullish sentiment for a third week as the price of bullion continued through a second weekly advance. Assets in the SPDR Gold Trust, the world's largest bullion exchange-traded product, rose on Tuesday at the fastest pace since July. The holdings are up almost 1 percent in December, snapping four straight months of losses.
- Gold prices jumped this week in reaction to a pullback in various equity markets worldwide. Shanghai stocks had their sharpest fall in five years as a consequence of tightening credit conditions.
- U.S. Mint American Eagle silver coins made history this week, topping 400 million in all-time sales and setting a new annual sales record as sales have surpassed 43 million for the year. HSBC analyst James Steel noted, "The beauty of coin demand is that it is a very good barometer of retail demand."

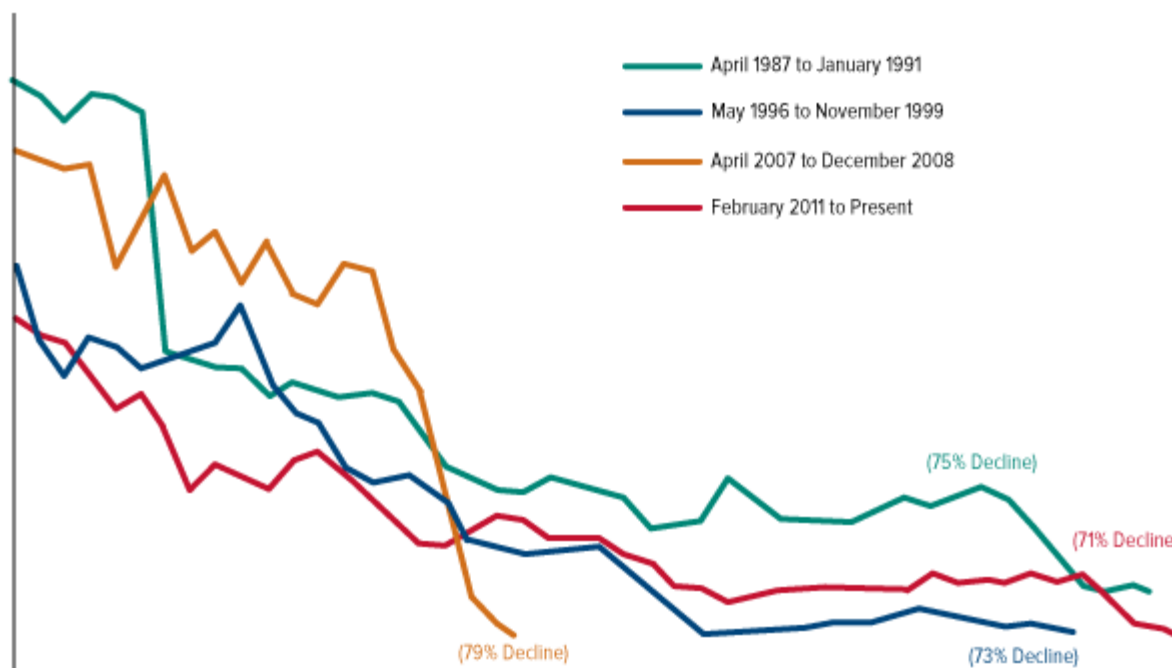
Weaknesses

- Allied Nevada Gold slumped after a heavily discounted sale of shares and warrants raised \$21.5 million this week. This comes amidst news last week that the company cut its gold and silver sales forecast for 2014.
- After several attempts to raise capital through a debt offering, Platinum Group Metals raised \$110 million through a bought deal managed by BMO and GMP. The share price pulled back about 13 percent on the news.
- Guatemala's government approved a new law that raises taxes on transnational miners from 1 percent to 10 percent. Canadian junior Firestone Ventures and Vancouver-based Tahoe Resources are part of a group of affected entities that are joining forces to challenge the law.

Opportunities

Longest Small-Cap Mining Correction in 30 Years

TSX Venture Composite Index Performance Over 3-Month Increments



Note: Past performance does not guarantee future results.

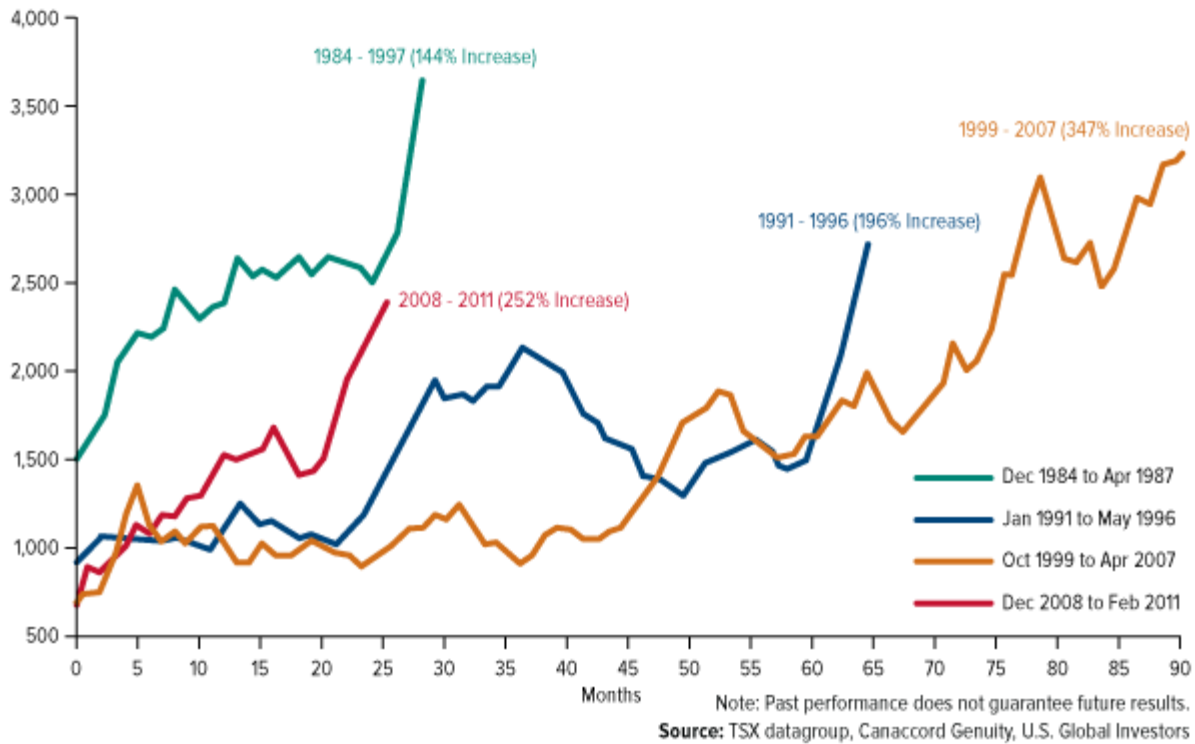
Source: Canaccord Genuity, U.S. Global Investors

[click to enlarge](#)

- Canaccord Genuity recent updated its study looking at the four major TSX Venture corrections in the

last three decades. The TSX Venture index is considered a good proxy for small-cap gold stocks. It's official; we now have experienced the longest small-cap mining correction in 30 years.

Upside Opportunities Seen After Corrections in S&P/TSX Venture Composite Index



[click to enlarge](#)

- The study also showed the best three months to gain exposure to gold have historically been December, January and February. With the authors believing the end of the correction could be nearing, the next couple of months could provide an attractive entry point into gold equities. Coming out of the previous four corrections, returns of 144 percent, 196 percent, 347 percent, and 252 percent were experienced.
- The National Bank of Belgium is the latest central bank to show interest in repatriating its gold reserves. According to International Monetary Fund (IMF) data, Belgium holds 227.4 metric tons of gold, representing 34.2 percent of its official foreign reserves. Most of the gold is held with the Bank of England, the Bank of Canada, and the Bank for International Settlements. The topic of gold repatriation has heated up in recent weeks after Switzerland voted down a referendum on November 30 that would have seen the central bank increase its gold reserves by 20 percent and the Dutch central bank announced in mid-November it had repatriated 122.5 metric tons of gold. Additionally, French political leader Marine Le Pen wrote an open letter to the governor of the Bank of France on November 25 requesting that the country's gold holdings be repatriated.
- Clarus analyst Jamie Spratt named Klondex Mines, Richmond Mines, Semafo, Kirkland Lake Gold, Agnico Eagle, AuRico and Detour Gold as the companies with the best opportunities to generate alpha in 2015 among gold miners.

Threats

- Mining operators in Burkina Faso fear losing tax cuts after the government announced a plan to review the mining industry.
- TD Securities published a report saying that the first few Fed monetary-tightening steps should take gold and silver to new cyclical lows. However, it sees the metals moving higher after that and forecast gold at \$1,175 in the first quarter of 2015 and \$1,275 by year end.
- The Fed will meet next week as policymakers debate the timing of the first interest-rate increase in eight years. A rise in borrowing costs would put downward pressure on gold prices.



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Energy and Natural Resources Market

Strengths

- Utilities stocks were the only positive performers this week as investors continued their risk-off behavior. The S&P 500 Utilities Index rose 0.02 percent.
- Gold mining stocks had a relative comeback in outperformance this week. The GDM Index fell slightly, down 0.88 percent for the year.
- Packaged food stocks outperformed on a relative basis this week given the weakness in the rest of the commodity space. The S&P Supercomposite Packaged Foods Index fell 2.11 percent this week.

Weaknesses

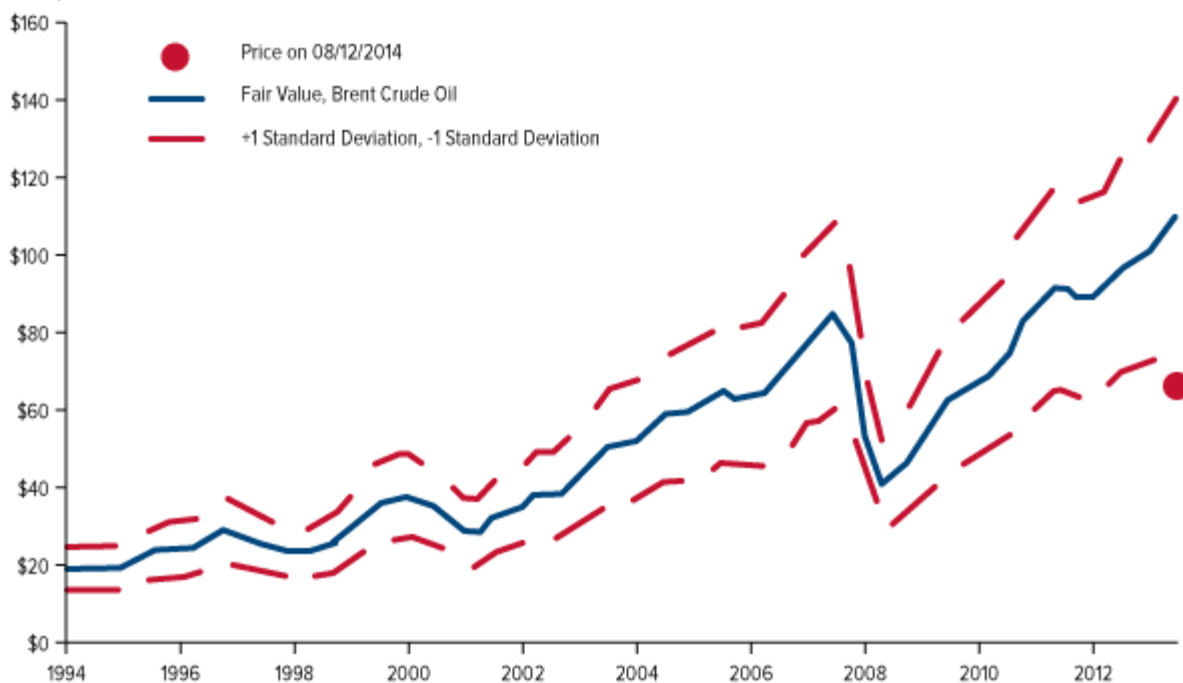
- High dividend-paying mining stocks suffered this week, as the current environment is causing many to assume dividend cuts.
- Oil and gas stocks fell alongside Brent and WTI crude prices this week. The S&P Supercomposite Oil & Gas Drilling Index fell 10.54 percent this week.
- Metals and mining stocks fell sharply this week amid fears of a global growth slowdown due to weaker economic data out of China and the eurozone. The S&P/TSX Capped Diversified Metals and Mining Index fell 8.95 percent this week.

Opportunities

- The energy selloff is getting long in the tooth and is clearly oversold according to some Wall Street analysts. This may present a buying opportunity for tactical traders as well as long-term investors.

Oil Prices Now Appear Undervalued According to Credit Suisse

Price per Barrel



Source: Credit Suisse, IDC, U.S. Global Investors

[click to enlarge](#)

- Algeria's oil minister said that OPEC still may hold an emergency meeting before its June session. Any revived discussion on the current environment provides an opportunity for a production cut.
- The International Energy Agency (IEA) estimates growth of 1.3 million barrels in non-OPEC supply for 2015, down from 1.9 million barrels in 2014. A reduction in supply growth provides an opportunity for a rise in oil prices.

Threats

- OPEC cut its 2015 oil demand forecast this week, citing weaker growth in consumption as well as the U.S. shale boom as the main culprits. A further decrease in demand without any adjustment on the supply side could prove negative for oil prices.
- Junk bonds continue to make fresh lows as BB spreads widen against BBB-rated (investment grade) bonds. This could signal more stress within the energy sector, especially since oil and gas companies were large issuers during the shale boom.

China Region Fund - USCOX • Emerging Europe Fund - EUROX

Frank Talk Insight for Investors

 <p>December 8, 2014 Don't Let Market Motion Sickness Keep You from Missing the Boat</p>	 <p>December 4, 2014 Are Oil Prices Ready to Break out of the Trough?</p>	 <p>December 1, 2014 Giving Thanks to the Innovators and Creators of Capital</p>
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A blog by Frank Holmes, CEO and Chief Investment Officer

Emerging Markets

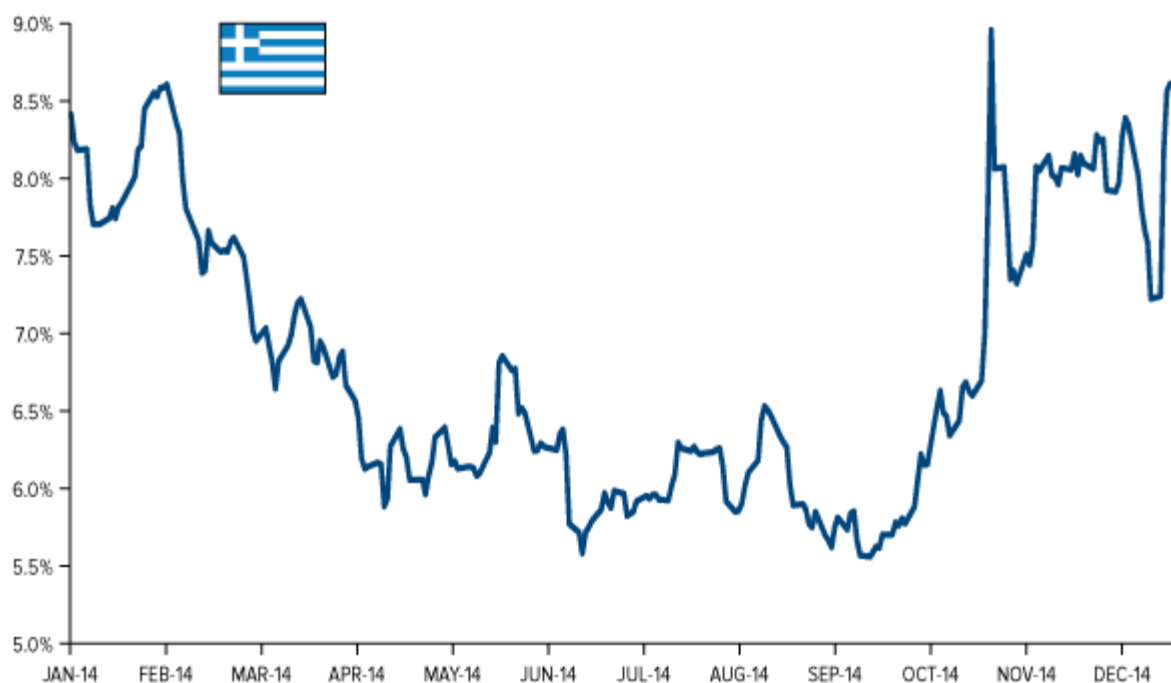
Strengths

- The big news this week continues to center around declining oil prices. With crude taking a dive, global consumers are in store for a discount. Global GDP should be boosted by roughly 0.5 percent for every \$20 decline in the price of oil. Cheap energy prices could be particularly beneficial to the U.S., North Asia and India.
- China A-shares continued to be one of the strongest relative outperformers this week. The easing-induced bull market in China A-shares stalled on Tuesday, but appears to remain intact. The Shanghai Stock Exchange Composite Index closed up 2 basis points this week and has risen over 20 percent since the beginning of November.
- The U.S. economy continues to look strong. Furthermore, the stronger American consumer aided by declining oil prices should be a boost to global demand.

Weaknesses

- Greek markets sold off heavily this week as a result of the recent rise in political uncertainty. Greek Prime Minister Samaras unexpectedly called an early election after eurozone finance ministers extended the Greek bailout to the end of February. Samaras will need 180 votes by the third round on December 29, and is looking to obtain these from the Democratic Left and Independent Greek Party. A significant risk surrounding the snap elections is the very real possibility that the anti-austerity Syriza party will come into power. Aware of this fact, the markets punished Greece, with the Athens Stock Exchange tumbling 20.18 percent this week. Yields on Greek 10-year government bonds spiked this week, rising from 7.23 to 9.15 percent, a staggering 192 basis points.

Greek 10-Year Government Bond Yield Surges



Source: Bloomberg, CLSA, U.S. Global Investors

[click to enlarge](#)

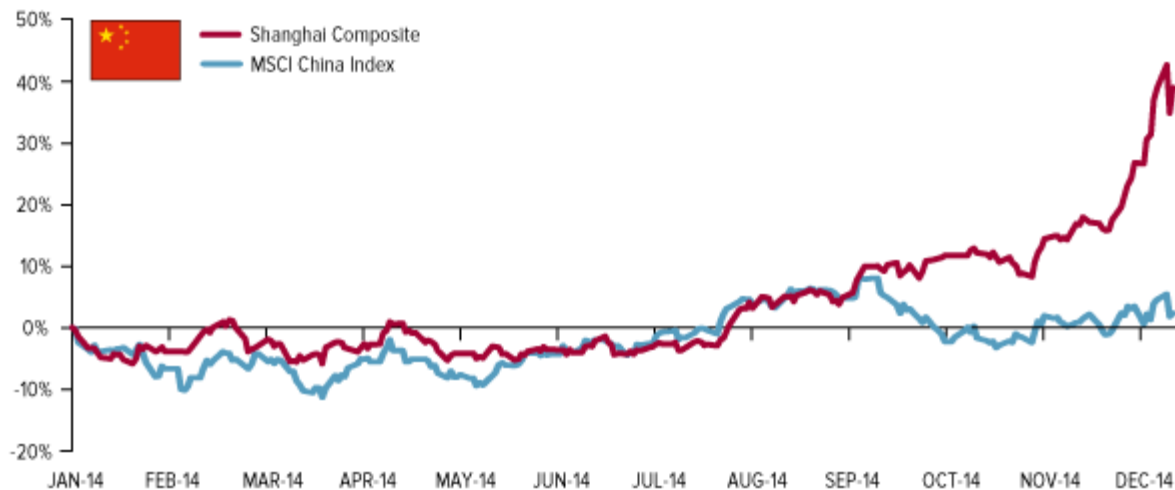
- On the other side of falling oil prices is the effect it has had on producers and exporters. Highly oil-leveraged countries took a dive this week, with Russia, Colombia, Qatar and the United Arab Emirates (UAE) falling particularly hard.
- Weaker global data, particularly out of China, negatively affected Brazilian equities this week. Fears of a global slowdown, combined with a downward revision of the 2015 GDP forecast this week, led to a decline in the Brazilian real as well. The Ibovespa Brasil Sao Paulo Stock Exchange Index fell 7.68 percent this week.

Opportunities

- A recent rally in the Chinese A-share market sent its valuation from “extremely undervalued” to simply “undervalued” based on 18 years of history, according to BCA Research. Government policy should remain accommodative (given the slight improvement of macro activity in November) and could help sustain the ongoing mean reversion of valuation multiples for the Chinese A-shares. In this environment, Chinese H-share equities appear to offer the best risk-reward profile thanks to the sizable cushion of a 14-percent valuation discount on average, versus their dual-listed A-share brethren.

Hong Kong-Listed Chinese Stocks Yet to Catch Up with Shanghai-Listed Brethren

2014 Year-to-Date Performance



Past performance does not guarantee future results.

Source: CLSA, Datastream, U.S. Global Investors

[click to enlarge](#)

- The recent and rapid rise in Greek bond yields are a troubling warning sign, one far too familiar just a few years back during the height of the eurozone crisis. As such, Mario Draghi, president of the European Central Bank (ECB), who has been adamantly pushing for outright quantitative easing (QE) in the eurozone, may have new persuasive evidence for its need in Greece. Furthermore, weaker data continues to come out of Europe as France’s consumer price index (CPI) data came in unexpectedly negative this week, while Germany cut its 2015 growth outlook. The much needed stimulus provides an opportunity for emerging markets in Europe.
- The decline in oil prices over the past few months has been particularly beneficial to India, as inflation is easing and the country’s current account deficit is narrowing. Put simply, the relief caused by falling energy prices frees up room for additional government reforms.

Threats

- Unexpected shrinkage of Malaysia’s trade surplus in October should remind investors that the country remains particularly vulnerable among its Asian peers when it comes to falling oil prices. This is due to Malaysia’s status as a net oil exporter.
- Russia failed to calm investors after initiating its fifth rate hike this year. The ruble, along with Russian equities, continued to decline this week. These moves signal that the government is extremely limited in what it can do to prop up the country’s struggling economy. Russian 5-year credit default swap rates have skyrocketed as high borrowing costs and an unstable currency strangle the fragile economy. Russia is forecasting minimal to zero growth in 2015 and we believe the country remains a wise place to avoid.
- Despite other significant macro events coming into the spotlight, the dollar’s retained strength requires continued attention. The drawbacks of the U.S. currency strength have clearly been seen in emerging markets, with most currencies falling significantly relative to the dollar since the middle of this year. Without a clear catalyst in sight to cause a reversal, the dollar’s strength remains a clear threat to the global economy.

Emerging Markets: Currencies vs. U.S. Dollar



Note – Equity market-cap weighted, shows as a natural logarithm.
Source: BCA Research, MSCI Inc., U.S. Global Investors

[click to enlarge](#)

Where Does the Gold Come From?

Learn more about the top-ten gold-producing countries >>>>

Leaders and Laggards

The tables show the weekly, monthly and quarterly performance statistics of major equity and commodity market benchmarks of our family of funds.

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Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Gold Futures	1222.00	31.60	2.65%
S&P/TSX Canadian Gold Index	146.69	0.14	0.10%
Natural Gas Futures	3.78	-0.02	-0.55%
XAU	68.68	-1.47	-2.10%
Russell 2000	1152.45	-29.99	-2.54%
Hang Seng Composite Index	3215.71	-86.19	-2.61%
Nasdaq	4653.60	-127.16	-2.66%
Korean KOSPI Index	1921.71	-64.91	-3.27%
S&P 500	2002.33	-73.04	-3.52%
DJIA	17280.83	-677.96	-3.78%

S&P Basic Materials	292.30	-19.37	-6.21%
S&P Energy	543.90	-47.63	-8.05%
10-Yr Treasury Bond	2.08	-0.22	-9.71%
Oil Futures	54.45	-8.39	-12.74%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Gold Futures	1222.00	62.10	5.35%
S&P/TSX Canadian Gold Index	146.39	4.67	3.30%
XAU	68.68	0.97	1.43%
Nasdaq	4653.60	-21.54	-0.46
S&P 500	2002.33	-35.92	-1.76
DJIA	17280.83	-331.37	-1.88
Korean KOSPI Index	1921.71	-45.56	-2.32
Russell 2000	1152.45	-34.02	-2.87
S&P Basic Materials	292.30	-16.28	-5.28
Natural Gas Futures	3.78	-0.40	-9.65
10-Yr Treasury Bond	2.08	-0.29	-12.18
S&P Energy	543.90	-89.31	-14.10%
Hang Seng Composite Index	3215.71	-332.01	-14.83
Oil Futures	57.45	-19.73	-25.56

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Nasdaq	4653.60	86.00	1.88%
DJIA	17280.83	293.32	1.73%
S&P 500	2002.33	16.79	0.85%
Russell 2000	1152.45	-8.16	-0.70%
Gold Futures	1222.00	-10.40	-0.84
Natural Gas Futures	3.78	-0.08	-1.97%
Hang Seng Composite Index	3215.71	-153.47	-4.56%
Korean KOSPI Index	1921.71	-120.15	-5.88%
S&P Basic Materials	292.30	-20.30	-6.49
S&P Energy	543.90	-134.43	-19.82%
10-Year Treasury Bond	2.08	-0.53	-20.22%
S&P/TSX Canadian Gold Index	146.39	-37.81	-20.53%
XAU	68.68	-22.98	-25.07
Oil Futures	57.45	-34.82	-37.74%

Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a fund prospectus by visiting www.usfunds.com or by calling 1-800-US-FUNDS (1-800-873-8637). Read it carefully before investing. Distributed by U.S. Global Brokerage, Inc.

All opinions expressed and data provided are subject to change without notice. Some of these opinions may not be appropriate to every investor.

Foreign and emerging market investing involves special risks such as currency fluctuation and less public disclosure, as well as economic and political risk. By investing in a specific geographic region, a regional fund's returns and share price may be more volatile than those of a less concentrated portfolio.

The Emerging Europe Fund invests more than 25 percent of its investments in companies principally engaged in the oil & gas or banking industries. The risk of concentrating investments in this group of industries will make the fund more susceptible to risk in these industries than funds which do not concentrate their investments in an industry and may make the fund's performance more volatile.

Because the Global Resources Fund concentrates its investments in a specific industry, the fund may be subject to greater risks and fluctuations than a portfolio representing a broader range of industries.

Gold, precious metals, and precious minerals funds may be susceptible to adverse economic, political or regulatory developments due to concentrating in a single theme. The prices of gold, precious metals, and precious minerals are subject to substantial price fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. We suggest investing no more than 5 percent to 10 percent of your portfolio in these sectors.

Bond funds are subject to interest-rate risk; their value declines as interest rates rise. Tax-exempt income is federal income tax free. A portion of this income may be subject to state and local income taxes, and if applicable, may subject certain investors to the Alternative Minimum Tax as well. The Near-Term Tax Free Fund may invest up to 20% of its assets in securities that pay taxable interest. Income or fund distributions attributable to capital gains are usually subject to both state and federal income taxes. The Near-Term Tax Free Fund may be exposed to risks related to a concentration of investments in a particular state or geographic area. These investments present risks resulting from changes in economic conditions of the region or issuer.

Investing in real estate securities involves risks including the potential loss of principal resulting from changes in property value, interest rates, taxes and changes in regulatory requirements.

Past performance does not guarantee future results.

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These market comments were compiled using Bloomberg and Reuters financial news.

Fund portfolios are actively managed, and holdings may change daily. Holdings are reported as of the most recent quarter-end.

Holdings as a percentage of net assets as of 9/30/2014:

China Railway Construction Corp. Ltd: China Region Fund, 1.05%

CNR Dalian Locomotive and Rolling Stock Co.: 0.0%

CSR Corporation Ltd: 0.0%

China CNR Corp. Ltd: 0.0%

McDonald's Corp.: 0.0%

Starbucks Corp.: 0.0%

Intercontinental Hotels Group: 0.0%

Wyndham Worldwide Corp.: 0.0%

Accor S.A.: 0.0%

Starwood Hotels & Resorts Worldwide, Inc.: 0.0%

Marriott International, Inc.: 0.0%

Shangri-La Hotels: 0.0%

Hyatt Hotels Corp.: 0.0%

Hilton Worldwide Holdings, Inc.: 0.0%

China Railway Group Ltd: 0.0%

Entergy Corp.: 0.0%

Duke Energy Corp.: 0.0%

PG&E Corp.: 0.0%

Walgreen Co.: 0.0%

CVS Caremark Corp.: 0.0%

Staples, Inc.: 0.0%

Office Depot, Inc.: 0.0%

Nabors Industries Ltd: 0.0%

ONEOK, Inc.: 0.0%

The Williams Companies, Inc.: 0.0%

Freeport-McMoRan Copper & Gold, Inc.: 0.0%

The Dow Chemical Co.: 0.0%

C&J Energy Services, Inc.: 0.0%

SPDR Gold Shares: Gold and Precious Metals Fund, 0.32%

Allied Nevada Gold Corp.: 0.0%

Platinum Group Metals Ltd: World Precious Minerals Fund, 1.55%; Global Resources Fund, 0.59%

Firestone Ventures, Inc.: 0.0%

Tahoe Resources, Inc.: 0.0%

Klondex Mines Ltd: Gold and Precious Metals Fund, 7.76%; World Precious Minerals Fund, 7.51%; Global Resources Fund, 1.22%

Richmont Mines, Inc.: 0.0%
Semafo, Inc.: 0.0%
Kirkland Lake Gold, Inc.: Gold and Precious Metals Fund, 5.05%; World Precious Minerals Fund, 2.11%
Agnico Eagle Mines Ltd: Gold and Precious Metals Fund, 1.53%; World Precious Minerals Fund, 0.53%
AuRico Gold: Gold and Precious Metals Fund, 1.85%; World Precious Minerals Fund, 0.41%
Detour Gold: 0.0%

*The above-mentioned indices are not total returns. These returns reflect simple appreciation only and do not reflect dividend reinvestment.

The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.

The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.

The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.

The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.

The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.

The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.

The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.

The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.

The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.

The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.

The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.

The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.

The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.

The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.

The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.

The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.

The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.

The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.

The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The Investor's Business Daily (IBD) TechnoMetrica Institute of Policy and Politics (TIPO) Economic Optimism Index measures the mood of consumers in regard to economic conditions. The reading is derived from a monthly survey where 900 nationwide adults evaluate their "six-month economic outlook," "personal financial outlook," and their "confidence in federal economic policies." Index readings above 50 indicate optimism; below 50 indicates pessimism. When consumers are optimistic they tend to purchase more goods and services, which stimulates the economy.

The Bloomberg Consumer Comfort Index is a weekly, random-sample survey tracking Americans' views on the condition of the U.S. economy, their personal finances and the buying climate.

The National Federation of Independent Business's (NFIB) Index of business optimism is based on responses from 1221 member firms.

The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

The Amex Gold Miners Index (GDM) is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

The S&P Supercomposite Packaged Foods Index is a capitalization-weighted index.

The S&P 500 Oil & Gas Drilling Index is a capitalization-weighted index. The index is comprised of four stocks whose primary activity is drilling for oil on land or at sea.

The S&P/TSX Capped Diversified Metals and Mining Index is an index of companies engaged in diversified production or extraction of metals and minerals.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The Athens Stock Exchange General Index is a capitalization-weighted index of Greek stocks listed on the Athens Stock Exchange.

The Ibovespa Index (IBOV) is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

The MSCI China Free Index is a capitalization weighted index that monitors the performance of stocks from the country of China.