The Permanent Portfolio® Family of Funds

MARKET REFLECTIONS

OCTOBER 2022

The extraordinary times in the global markets of 2022 have continued as we start the fourth quarter. Markets continue to be headline driven. Strong correlations among stocks, bonds, and precious metals – negative since Jackson Hole and through the late summer – have sharply reversed in early October. Negative correlations to the U.S. dollar have followed suit. Bear market rally or the start of something sustainable? We still do not have enough data to determine. What we do know is that the impact of the combination of higher short-term interest rates, the current consensus terminable rate of about 5% and Fed's balance sheet tightening (QT) plans should be measured against the latest inflation data which despite everyone's best hopes and dreams, are still solidly in the annual 8-9% range. Additionally, further Fed actions should be weighed in light of elevated recession risks the higher rates go and the global impact of the surging U.S. dollar and other countries' responses thereto. How do you play this? Here are some thoughts:

- The recent market move is a loose repeat of the summer rally and another bear market rally; UNLESS, the Fed follows the Bank of England and pivots. The underlying market belief that provides a continuous upward bias to equities is that while the Fed and central bankers talk tough, when push comes to shove and they are staring at a recession, they'll cave. There is at least a 20+ year history of this going back to the 1990s. Given recent Fed actions and rhetoric, they've so far resisted the urge; however, the higher rates go, the more likely we see a recession, or a deeper one than we are currently in, which makes the stakes higher for future rate decisions and QT actions. The Bank of England's actions supported this underlying belief last week.

- As such, while in the near-term stocks and bonds have recovered from oversold conditions, these moves are not supported by improving fundamentals. In fact, evidence continues to build toward an economic slowdown with declining earnings estimates. We believe that equities may re-test the September 2022 lows. Like we have seen, news regarding Russia, China, inflation, the Fed, the economy, supply chains, etc. could drive the markets in any direction on any given day. In equities, we like companies that can control cost structure, possess pricing power, and have reasonable and/or likely growing dividends – think materials, commodities, energy, real estate with favorable balance sheets, financials, and growth at a reasonable price (GARP) stocks.

- In bonds, we like investment grade, short duration securities, with high-asset quality balance sheets, able to ride rising interest rates and reinvest at higher yields until rates stop going up. As yields rise, bonds provide healthy competition to equity yields with less risk. The yield curve is inverted to a degree we have not seen in some time. While indicative of nothing on its own, historically, this has correlated strongly to future recessions. Additionally, in such a scenario, bonds of this nature would likely provide more downside protection than equities.

- We also like gold and silver to anchor a portfolio given the decline in the unit value of money caused by continued excess liquidity creation and global uncertainty. Inflation is a monetary phenomenon, and over the long term, gold has correlated strongly with the level of money creation. Gold always trades based on a number of factors that ebb and flow in their importance relative to each other. Past examples would include monetary or fiscal policy, world events, inflation, deflation, other currencies, and commodities such as oil. It's usually in tune with what's current in investors' minds at that time and can shift depending on changing circumstances. In this way, it's much like a chameleon.

- Lately, many investors have been concerned that despite its inflation hedging properties, gold has recently underperformed expectations being down about 7% year-to-date. Our take is that recent dollar strength evidenced by dollar parity with the euro, all-time highs against the pound, and significant moves against the yen, have been a near term headwind for gold, as the dollar's rise has correlated with gold's decline over the last couple of months. This results primarily from a desire to own U.S. assets overall given current global macro uncertainties, plus the discrepancy in higher U.S. interest rates verses the EU, as the Fed's hawkish commentary and actions to fight inflation have been more aggressive than their European counterparts who, fearing a broader and deeper recession than may occur in the U.S., have been hesitant to raise rates at the same pace. This run on the U.S. dollar has outweighed the more traditional reasons to own gold as a hedged asset to stocks and bonds.

- We believe gold has been oversold and that the dollar's move is a short-term condition. Gold is a long duration asset and will likely trend higher longer term due to one or more of the following: (i) the U.S. dollar likely weakening as the European Central Bank (and others) begins to raise interest rates more in line with the Fed; (ii) foreign government or central bank intervention, with or without

help from the Fed, thereby allowing investors to again focus on gold's alternative currency and capital preservation properties verses just an interest rate story; or (iii) a commitment by foreign central banks to easier monetary policy due to recessionary risks or negative economic contagion.

- In terms of future pricing, gold has been consolidating all year, commensurate with the rise in interest rates and tightening of financial conditions. As this process nears completion and the Fed reaches its terminal rate, the markets will recalibrate gold's value in light of that result and expected real interest rates and financial conditions going forward. Given the political penchant for deficit spending and the bias towards creating liquidity, we would expect gold to increase over time consistent with those biases, including any real or expected central bank action in this direction going forward. In sum, gold has had a short-term correction and the current price presents a reasonable entry point for long term investors who desire its benefits, despite no change in long term fundamental reasons for owning it, which are substantial.

Times like these call for a balanced and diversified approach, one that combines U.S. and non-U.S. equities and bonds, precious metals, real estate, and commodities, in an overall low volatility and correlated portfolio. Investors looking for this kind of a "fund for all seasons" strategy should consider our Permanent Portfolio®. Investors who favor income strategies may want to consider our flexibly managed Versatile Bond Portfolio.

Permanent Portfolio's and Versatile Bond Portfolio's investment objectives, risks, charges and expenses must be considered carefully before investing . The statutory and summary Prospectuses contain this and other important information. They may be obtained by calling (800) 531-5142 or by visiting permanentportfoliofunds.com. Read carefully before investing.

As of September 30, 2022, Permanent Portfolio held 14.48% in gold bullion and 6.28% in gold coins, as a percentage of net assets. Versatile Bond Portfolio held 0% in gold bullion and 0% in gold coins. Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security.

Opinions expressed are those of Pacific Heights. They are subject to change at any time, are not guaranteed, and should not be considered investment advice. Any forward-looking statements speak only as of the date they are made and the Fund assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements. Gold generates no interest or dividends, and the return from investments in gold will be derived solely from the gains and losses realized by the Portfolio upon sale. Prices of gold may fluctuate, sharply or gradually, and over short or long periods of time. The prices of gold and silver have fluctuated widely over the past several years. Stocks are generally perceived to have more financial risk than bonds in that bond holders have a claim on firm operations or assets that is senior to that of equity holders. In addition, stock prices are generally more volatile than bond prices. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Depending on the entity issuing the bond, it may or may or may not afford additional protections to the investor, such as a guarantee of return of principal by a government or bond insurance company. There is typically no guarantee of any kind associated with the purchase of an individual stock. Bonds are often owned by individuals interested in current income while stocks are generally owned by individuals seeking price appreciation with income a secondary concern. Terminal rate is defined as the peak spot where the benchmark interest rate — the federal funds rate — will come to rest before the central bank begins trimming it back.

Mutual fund investing involves risk; loss of principal is possible.

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