

# Global Analyst

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Issue No. 1,000, 4 pages

7<sup>th</sup> March, 2026

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*In today's Bulletin, our 1,000<sup>th</sup>, we look at gold's action in response to the bombing of Iran in light of its history reacting to geopolitical events. It's not always as clear-cut as one might expect for a safe-haven asset. We also look at a few developments at four royalty companies on our list.*

## **GOLD AND WAR: IS THAT ALL THERE IS?**

Gold famously IS a safe-haven asset, and as such might be expected to move up whenever there is geopolitical chaos or a military eruption somewhere in the world. But in practice it does not always work out that way. If one plotted the price of gold against (negative) geopolitical events over the past 50 years, as I have done, one would be hard-pressed to see any particular correlation.

In fact, more often than not, gold *declines* in the weeks following a geopolitical event. There are three explanations for this.

- Often, gold moves up in advance of the “event”, buying on the rumour and selling on the news.
- The dollar, another safe-haven asset, often rises sharply on any geopolitical event, and since gold is measured in dollars, other things being equal, the dollar-price of gold declines.
- Often a serious geopolitical event sees a liquidity crisis, and gold, being instantly liquid 24-hours a day, around the globe, often sees the brunt of selling.

A recent classic example involves the Russian invasion of Ukraine in February 2022. For weeks, as rumours swirled and tanks massed on the border, the gold price moved up, \$260 in one month. The day the tanks crossed the border, on February 24<sup>th</sup>, 2022, was just a week from the high, and the gold price slid for the next seven months. For those seven months, the dollar rose, while there was some gold selling among the combatant nations to raise funds for the war.

### Whether gold is in a bull market is important

Whether or not gold advances following a geopolitical event depends not only on the factors above, but also on the extent to which it rose ahead of the event, as well as the other factors surrounding the gold market. If gold is already in a bull market, then a geopolitical event can have a longer-lasting effect, whereas if it is in a bear market, a geopolitical event, however serious, may produce only a short-lived spike.

Lastly, and importantly, if the event is viewed as likely contained, the impact on the gold price will be short lived, while if there is a wide view that the conflict may expand, then the effect on the gold price may be longer.

Looking again at the Russian invasion of Ukraine, after a week of worry, it became a widely held view that the conflict would not expand. And gold had been soft for most of 2020 and 2021, so the slide after the invasion was simply a continuation of that trend.

### In 1979, gold was already strong

On the contrary, in 1979 the hostage taking of the U.S. Embassy in Tehran was quickly followed by the Russian invasion of Afghanistan and then the failed U.S. rescue mission. Russian power was expanding while U.S. power was undercut. The U.S. dollar actually declined in the face of this crisis (the loss of U.S. power and prestige). Gold, of course, was already in a sharp up move, more than doubling in the year leading up to the hostage taking.

So, it is not surprising, that gold moved up sharply for a couple of months after this and remained above the price on the day the Embassy was overrun, for another two years (until Ronald Reagan was elected promising a new dawn in America, and the hostages returned home). Note also that the monetary policy that had propelled gold all the way from 1971 was reversed by Fed Chairman Paul Volker.

### Where do we stand today?

So what of the current Iran crisis and gold? In classic buy-the-rumour, sell-the-news style, gold appreciated almost \$500 in the eight days before the weekend bombing of Iran on the last day of February as tension built in anticipation. Gold (in white on graph below) gave back almost \$200 of that in the first 34 hours of trading after the first bombs dropped. The dollar (in blue), which had been flat for the two weeks prior, suddenly shot



up. Initially, with the death of the Supreme Leader and a large part of the leadership of Iran, and as Arab countries turned on Iran, there was optimism that the campaign would be short lived and successful. Lastly, the price of gold in the region moved to wide discounts as people rushed to liquidate gold held there.

After a full week, that optimism is more subdued, while the dollar's rally has halted. We expect, if not this week or the week after, to see the monetary factors that drove gold for the last three years to come to the fore again and see gold move higher, on balance, for the rest of the year. The Iran situation, if it lingers on, will simply add to the pressure.

## ROYALTY COMPANIES MAKE SOLID ACQUISITIONS

**OR Royalties** (OR.NY, 43.10) has agreed to buy Terraco Gold for \$168 million, giving it several royalties (at various rates) over the private Spring Valley Gold Project, effectively doubling OR's existing royalty on the large, heap-leach property in Nevada. It has a projected 300,000 ounce annual production over its 10-year mine life, with production expected to begin in 2028. The total royalty represents about 6% of OR's NAV. We view this as a good acquisition, at a good price, on a project with lots of exploration upside; the 3.88 million ounce resource estimate was conducted at \$1,800/oz gold price.

OR has a good balance sheet, solid management, and a strong pipeline of future projects. We are holding; but if you are underweight gold in your portfolios, this is one we would buy now.

### Franco adds to an Australian royalty

**Franco-Nevada** (FNV.NY, 259.75) announced a A\$220 million financing package for the Bullabulling project near Kalgoorlie, Western Australia, including US\$120 million for a gross revenue royalty, adding to the company's existing 1% GRR over some of the property. The new royalty covers a broader area, giving Franco exposure to more possible brownfields ore. The effective 2.45% total royalty reduces to 1.63% after 4 million ounces has been produced. Franco is also subscribing to about US\$35 million of shares. Again, as with OR, this is a project Franco already knows and the price looks reasonable.

With strong management and a rock-solid balance sheet, huge diversification in both revenue-generating and development assets, Franco is a core holding for us. If you do not own it, you can take a starter position now.

### Altius closes lithium transaction, adding to long-term revenue growth

**Altius Minerals** (ALS, To., 45.02) has completed the acquisition of Lithium Royalty Corp. for cash (\$140 million) and shares (9.6 million). The transaction broadens Altius' royalty base, with LRC representing about 22% of the combined company's NAV. Following a ramp up, the LRC royalties, starting in 2030, are expected to be generating around C\$60 million a year for Altius. Following the transaction, a major holder of LRC (Waratah) now owns 7.8 million shares of Altius, or 14% of shares outstanding, making them Altius' largest shareholder, ahead of Fairfax with 6.7 million shares.

Altius is a core holding for us, one that belongs in every portfolio, with the best management, a solid balance sheet and diversified asset base. Projects coming on over the next five years should see revenue triple, while two massive royalties, on the Arthur gold deposit and the Kami iron ore project, come on in the early 2030s. If you do not own any, take advantage of the minor pullback and buy.

### Orogen continues royalty generation with two more transactions

**Orogen Royalties** (OGN, To., 3.58) has optioned two more properties in the last week, including the early stage but prospective Table Mountain project in Nevada, a property generated in its alliance with Altius. The companies will receive a meaningful share position in the acquirer, Toogood Gold, as well as a 3% royalty. Separately, Orogen

optioned the Ecrú project, also in Nevada, and announced that Prospect Ridge had completed its earn-in on the Camelot copper-gold porphyry, also for shares and a royalty.

Orogen remains one of our favorite resource companies, with a solid balance sheet, cash flow, and an estimated 55,000 metres of drilling planned for this year across 14 properties (excluding the cash-flowing Ermitaño property of First Majestic). Although these projects are mostly early stage, the activity guarantees steady news flow throughout the year. We had hoped to buy it at a lower price, but if you do not own, buy at least a starter position now.

**TOP BUYS this week**, in addition to above, include **Ares Capital** (ARCC, Nasdaq, 18.74); **Gladstone Investment** (GAIN, Nasdaq, 13.50); **Midland Exploration** (MD, To., 0.52); **Lara Exploration** (LRA, To., 3.08); and **Fox River** (FOX, To., 075).

**NEXT ISSUE** I aim to address your questions. We have a few pending, but please send your questions now.

**UPCOMING EVENTS** Next month, 15<sup>th</sup> and 16<sup>th</sup>, SMI will host its inaugural mining conference in Panama. The conference features a score of companies along with a dozen speakers, including Frank Holmes and Willem Middlekoop. [Register here.](#)

June 2<sup>nd</sup> to 4<sup>th</sup>, I'll be heading to Quebec City, one of my favorite cities in North America, indeed in the world, for "The Mining Event". Over 100 companies will be available for meetings. Speakers are still to be announced (but I'll be there!). [Information and registration is here.](#)

Next in July. 6<sup>th</sup> to 10<sup>th</sup>, to Boca for Rick Rule's annual Mining Investment Symposium, the can't-miss resource investment event of the year. Speakers have not been announced yet, but will include Nomi Prins, Brien Lundin, and Grant Williams. This is filling rapidly, so I recommend [registering now.](#)

**NEIL SEDAKA, RIP** One of my earliest introductions to pop music was to Neil Sedaka, a favorite of my elder brother. In the late 1950s and early 1960s, before the Beatles and Rolling Stones revolutionized popular music, Sedaka churned out a string of sunny, bouncing pop songs some called "candy floss". Despite this, however, his bouncy melodies often betrayed his classical training (he toured Russia playing Chopin in an effort to warm relations between Washington and the Kremlin). He suggested that the bridge in "Breaking Up is Hard to do" marked "the first time in rock'n'roll that a minor seventh chord was used". He remained popular in Britain as his fortunes lagged in the States, and in a chance meeting in 1971, Elton John asked if he could play Sedaka's latest, "That's Where the Music Takes Me", which became a staple for Elton John's concerts. My favorite: his first solo song, ["Oh Carol"](#). That song—and that video—is from a different era!

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