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The Dawning of a Golden Decade

incrementum

Ronald-Peter Stöferle
& Mark J. Valek

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We would like to express our profound gratitude to our Premium Partners for supporting the *In Gold We Trust* report 2020

Details about our Premium Partners can be found on page 91 and page 92.

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Introduction

“All roads lead to gold.”

Kiril Sokoloff

Key Takeaways

- **Monetary policy normalization has failed**
  We had formulated the failure of monetary policy normalization as the most likely scenario in our four-year forecast in the *In Gold We Trust* report 2017. Our gold price target of > USD 1,800 for January 2021 for this scenario is within reach.

- **The coronavirus is the accelerant of the overdue recession**
  The debt-driven expansion in the US has been cooling off since the end of 2018. Measured in gold, the US equity market reached its peak more than 18 months ago. The coronavirus and the reactions to it act as a massive accelerant.

- **Debt-bearing capacity is reaching its limits**
  The interventions resulting from the pandemic risk are overstretching the debt sustainability of many countries. Government bonds will increasingly be called into question as a safe haven. Gold could take on this role.

- **Central banks are in a quandary when it comes to combating inflation in the future**
  Due to overindebtedness, it will not be possible to combat nascent inflation risks with substantial interest rate increases. In the medium-term inflationary environment, silver and mining stocks will also be successful alongside gold.

- **Dawn of a new monetary world order**
  In the decade that has just begun, trend-setting monetary and geopolitical upheavals are to be expected. Gold will once again play an important role in the new monetary world order as a stateless reserve currency.

- **New gold all-time highs are only a matter of time**
  The question is not whether the gold price will reach new all-time highs, but how high these will be. We are convinced that gold will prove to be a profitable investment over the course of this decade and will provide stability and security in any portfolio.

Gold is not a story until it's a story.
Guy Adami

This year's 14th edition of our *In Gold We Trust* report, titled "The Dawning of a Golden Decade", is being published at the opening of a new decade.[1] As the last decade draws to a close, gold has once again demonstrated its sensitive seventh sense and alerted the keen observer that the general situation in the financial markets is about to change fundamentally.[2] Last year economic activity cooled off noticeably, and it was only a matter of time before the long overdue recessionary storm broke. In anticipation of the storm, the development in calendar year 2019 was superb on a US dollar basis, with a plus of 18.9%, and even more remarkable on a euro basis with 22.7%.

Like the weather, markets are turbulent.
Benoit Mandelbrot

But even before the storm clouds could thunder and a "conventional recession" could occur, the world was confronted with the novel coronavirus and the dramatic reactions to it. The economic storm that we are now experiencing is indeed unprecedented. **The pandemic became the trigger and accelerator of the following fundamental dynamics:**

- **Economic emergency braking**
  After a prolonged period of economic expansion, the global economy is experiencing the most severe recession in over 80 years. The IMF is forecasting a contraction in global GDP of 3% for the current year, and this figure is likely to have to be revised downwards.[3] The real-time indicator of the Federal Reserve Bank of New York shows an unprecedented annualized contraction of US GDP of over 31% for the second quarter.[4]

- **Collapse on the financial markets**
  The economic slump led to a spectacular collapse in financial assets, which had already been valued ambitiously. March 2020 will go down as one of the worst months in stock market history. In the first quarter of this year, the market capitalization of the US stock markets, measured by the Wilshire 5000 Total Market Index, fell by USD 7trn. The "everything bubble", which we have been pointing out for years,[5] is now in acute danger of bursting. Central banks have since been trying to prevent further collapse with seemingly desperate stimulus measures

We're only down 15% from the all-time high of February 19, and it seems to me that the world is more than 15% screwed up.
Howard Marks, April 20, 2020

- **Monetary U-turn**
  The normalization of monetary policy is off the table long before it could be completed. Quantitative easing is now (again) the norm because of the prevailing zero interest rate level. The dimensions of the new QE programs beggar the imagination. At the height of the financial market panic, the Federal Reserve dished out USD 1mn every single second, day and night, for two weeks.[6] It should be noted that monetary policy had already turned

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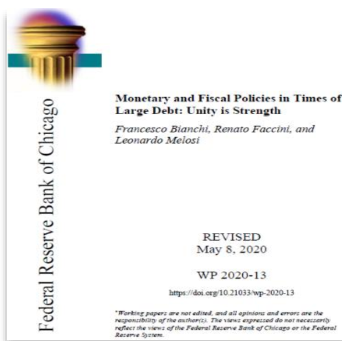
[1] All 13 previous issues of the *In Gold We Trust* report can be found in our archive at https://ingoldwetrust.report/archive/?lang=en.
[2] *See* Stoeferle, Ronald: "Gold - The 7th Sense Of Financial Markets", Presentation: Precious Metals Summit, November 11, 2019
[3] *See* IMF: *World Economic Outlook, April 2020: The Great Lockdown*, April 2020
[4] Nowcasting Report, Federal Reserve Bank of New York, as of May 15, 2020
[5] *See* "Introduction" and "White, Gray and Black Swans", *In Gold We Trust* report 2017; "Introduction", *In Gold We Trust* report 2018; "Introduction" and "The Status Quo of Gold", *In Gold We Trust* report 2019
[6] It took the Federal Reserve 2 weeks to create USD 1trn. It would take over 31,000 years to count up to this number, assuming you count one US dollar per second.

around in the second half of 2019 in order to combat the looming recession early on.

Suckers think that you cure greed with money, addiction with substances, expert problems with experts, banking with bankers, economics with economists, and debt crises with debt spending.
Nassim Taleb

- **Fiscal policy crescendo**
  The renewed QE programs in the trillions are now being joined by a highly expansive fiscal policy. In 2020 the US is likely to triple last year's already excessive budget deficit of 4.6%. Record debt growth is also expected in the eurozone. Italy, Greece, Spain and France, already economically depressed countries, will be hit particularly hard.

- **The limits of debt sustainability**
  Many households, companies, emerging markets, and even industrial nations could reach the limits of their debt sustainability as a result of the devastating economic slump and the numerous government interventions. According to the latest estimate of the International Monetary Fund (IMF), the debt of the industrial nations will soar from 105% of GDP in the last year to over 122% in this calendar year alone.[7]


Federal Reserve Bank of Chicago
Monetary and Fiscal Policies in Times of Large Debt: Unity is Strength
Francesco Bianchi, Renato Faccini, and Leonardo Melosi
REVISED
May 8, 2020
WP 2020-13
https://doi.org/10.21033/wp-2020-13

Source: Federal Reserve Bank of Chicago

- **The end of central bank independence:** The dramatic debt developments are increasingly undermining the independence of central banks. The intertwining of fiscal and monetary policy is progressing steadily. For example, in April the very traditional Bank of England broke a fundamental taboo and is now financing the government deficit through direct government bond purchases.[8] In the US, too, central bank circles are now openly considering the official interlinking of fiscal and monetary policy.[9] All of these are steps that point further in the direction of implementing the controversial Modern Monetary Theory (MMT).

These developments have in some cases already built up over years and decades, but in the current crisis the situation is becoming exorbitantly worse. As unpleasant as the dynamics in general are, the conditions for gold could not be better, given massively overindebted economies, which as a last resort use the devaluation of their currencies to finance their deficits. **For these and a number of other reasons, we take a broad view and foresee "The Dawning of a Golden Decade".**

But before we begin our analysis of this year's topics, we would first like to take a step back to reflect on our past theses.

Gold is a constant. It's like the North Star.
Steve Forbes

Looking back on the recent past of the *In Gold We Trust* report, we find that we became optimistic too soon after the gold price slump in 2013. By the time the US economy began to slow down in 2015, a recession was already in the air. Interest rates were still at a low level, even in the USA, and monetary policy normalization seemed light years away. Our expectation at the time was that, due to the prevailing low interest rate level, gold would experience a strong

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7 IMF DataMapper: Gross debt position in % of GDP
8 "Bank of England to directly finance UK government's extra spending", Financial Times, April 9, 2020
9 Bianchi, Francesco, Faccini, Renato und Melosi, Leonardo: "Monetary and Fiscal Policies in Times of Large Debt: Unity is Strength", Federal Reserve Bank of Chicago, Working Paper No. 2020-13, revised May 11, 2020

appreciation when the coming recession hit. The gold bulls were just beginning to trot when they were abruptly slowed down again at the end of 2016.

What had happened? Donald Trump was elected President of the United States, and with him a Republican majority in both houses of Congress. It was obvious to us that Trump would be a determining factor in the price of gold. This required a reevaluation of the situation. **We therefore made a forecast for the gold price in the *In Gold We Trust* report 2017, which was timed to coincide with Donald Trump's four-year term.**[10]

Source: https://de.wikipedia.org/wiki/Donald_Trump[3]

"There are two ways to be fooled. One is to believe what isn't true; the other is to refuse to believe what is true."
Søren Kierkegaard

Ironically, it was Donald J. Trump. The election of the presidential candidate originally unloved by Wall Street fuelled hopes of a renaissance of America on the basis of a nationalistic growth policy. President Trump brought about a change in sentiment, especially among a class of society that had lost its trust in the economic system and political institutions. Stocks received another boost, and the increase in the gold price was (temporarily) halted.

Source: *In Gold We Trust* report 2017, p. 7

Our thesis was that the combination of deficit spending and the change of mood among previously disappointed sections of the US population would (finally) allow monetary policy to begin to normalize. The litmus test for us was whether a "normal" interest rate level could be reached or whether the reduction of the Federal Reserve's balance sheet could be implemented without choking off the debt-induced upswing.

We worked out the following four scenarios for the gold price at that time, with a time horizon of January 2021:

Term of office is characterized by	Growth	Monetary policy normalization	Gold price in USD
Scenario A: Genuine Boom	Real growth > 3% p.a.	Successful; Real interest rate level >1.5	**700-1,000**
Scenario B: Muddling Through	Growth & Inflation 1.5-3% p.a.	not completed	**1,000-1,400**
Scenario C: Inflationary Boom	Growth & Inflation > 3% p.a.	not completed	**1,400-2,300**
Scenario D: Adverse Scenario	Growth / Contraction <1.5%	Normalization paused or renewed easing	**1,800-5,000**

Source: Incrementum AG

With regard to the likelihood of a successful monetary policy normalization, we formulated the following position in the *In Gold We Trust* report 2017 and also advocated this position in the following two issues,[11,12] despite strong headwinds:

> *"From our perspective, one can essentially rule out that this [monetary policy normalization, note] can be done without triggering a recession."*[13]

Truth hurts. Maybe not as much as jumping on a bicycle with the seat missing, but it hurts.
Inspector Frank Drebin

This year's *In Gold We Trust* report marks the end of our nearly four-year observation period. Today we know this: Monetary policy normalization has failed spectacularly, and the U-turn towards a loose monetary policy is finished. With regard to the scenarios we formulated, we can state that during Trump's term of office the economy has largely been in *muddling-through* mode

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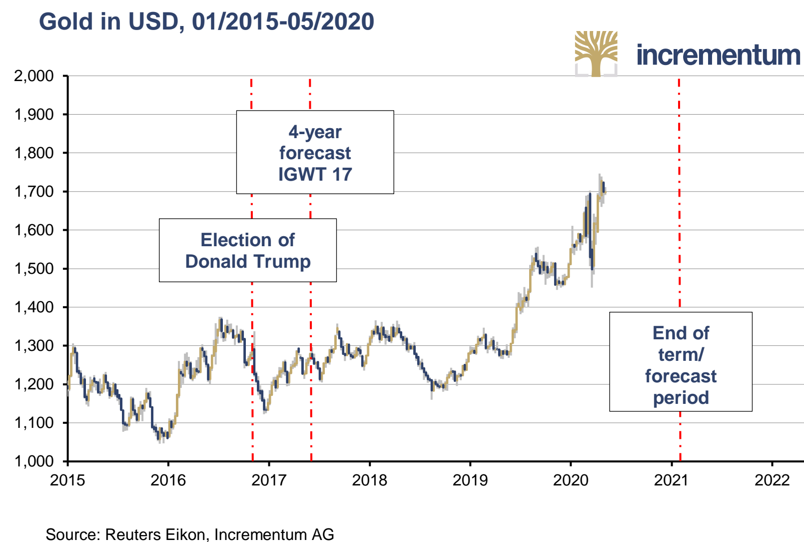
[10] *See* "Conclusion", *In Gold We Trust* report 2017
[11] *See* "Conclusion", *In Gold We Trust* report 2018
[12] *See* "Quo Vadis, Aurum?", *In Gold We Trust* report 2019
[13] *See* "Conclusion", *In Gold We Trust* report 2017, p. 163

(scenario B). This term of office will probably end under the conditions of an *adverse scenario* (scenario D), which we have repeatedly classified since 2017 as the most probable scenario.

In order to succeed, you must first survive.
Nassim Taleb

The gold price also behaved as we expected in the respective scenarios. In the event of a reversal of monetary policy, in 2017 we predicted gold prices of over USD 1,800 by the end of January 2021. This is still likely to be the case.



Source: Reuters Eikon, Incrementum AG

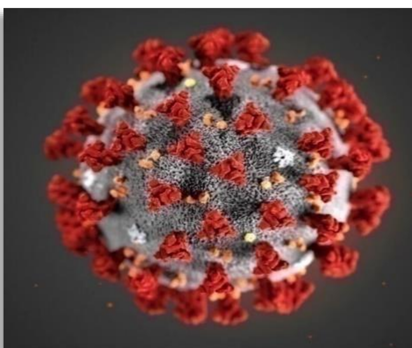
In retrospect, we are quite satisfied with our assessments of the past few years, because the central theses of our past *In Gold We Trust* reports have proved to be true.

If we winter this one out, we can summer anywhere.
Seamus Heaney

Even more exciting than the review is the outlook. In line with this year's leitmotif, "The Dawning of a Golden Decade", we venture to offer a 10-year outlook for the gold price.[14] First, however, we want to deal with the most burning issue at present.

Covid-19 and the prospect of recession

The international reaction to Covid-19 is largely responsible for the extraordinarily severe recession we are facing. **But would a recession have occurred even without the pandemic?** An answer to this counterfactual question is very important for the assessment of future developments. **We are convinced that even without a coronavirus pandemic in 2020, major economies would have slid into recession. What leads us to this view? Germany, Italy and Japan, for example, were already in recessions or quasi-recessions.**


Source: Center for Disease Control and Prevention (CDC) via AP

Most telling for us was the fact that world trade volume, which normally grows about 5% per annum or double the rate of the increase in GDP, last year declined by about 0.5%. This marked only the third decline since 1980. The other two declines happened during the deep recessions of 1982 and 2009.[15] **So it seems that we had already entered 2020 in a very weak**

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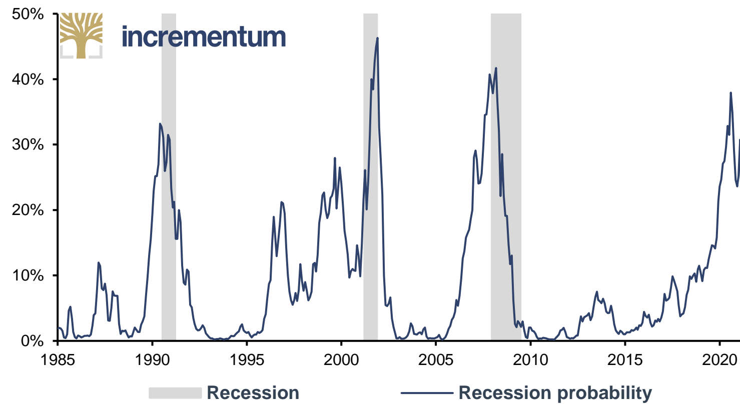
[14] This can be found as usual in the final chapter "Quo vadis, aurum?".
[15] See Lacy Hunt: "The Road Through Deflation Toward Eventual Hyperinflation", *Macrovoices*, April, 30 2020

condition, which leads us to think that the US would have entered a recession even without Covid-19. We would like to underpin this thesis at this point with some charts on the US economy.

The Fed can change how things look, but not how things are.
Jim Grant

An inversion of the yield curve has always been considered one of the most reliable leading indicators for recessions. As early as 2019, the proportion of yield curve inversions was already considerable, massively indicating an approaching recession. According to this indicator, a recession would not have been unlikely by mid-2020.

Recession probability within the next 12 months, 01/1985-04/2021

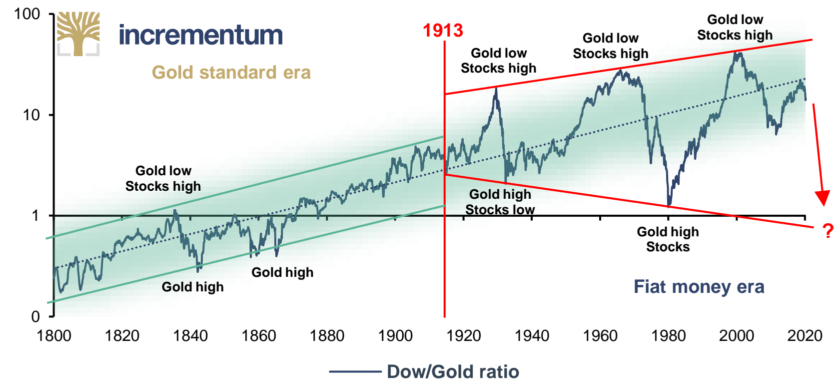


Source: Federal Reserve NY, Incrementum AG

Courtesy of Hedgeye

The Dow/gold ratio is also of great interest to us, as an unsustainable equity rally is sometimes sniffed out by a strongly rising gold price. According to the Dow/gold ratio, share prices had already peaked at the end of 2018. Since then, shares measured in gold have been on a clear downward trend. The long-term chart clearly shows the potential fall in share prices expressed in gold.

Dow/Gold ratio (log), 01/1800-04/2020



Source: Nick Laird, goldchartsrus.com, Reuters Eikon, Incrementum AG

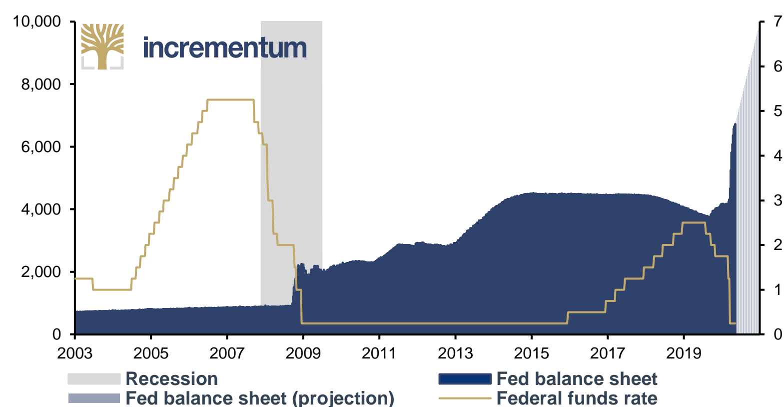
However, the most convincing evidence for the approaching recession is the U-turn in US monetary policy. In 2017/2018 the Federal Reserve continuously communicated its intention that monetary policy normalization would be carried out, come what may. As recently as December 2018, Jerome

Powell said that the reduction in the Federal Reserve's balance sheet was still "*on autopilot*".[16] Only a few days later, he rowed back this statement, in view of the massive correction in stock markets. For the first time since 2008, the Federal Reserve finally cut the key interest rate on July 31, 2019, with two further interest rate cuts to follow in 2019.

My friends keep telling me the Fed shot its gun and is out of bullets. Are you kidding me? They own the bullet factory.
Harris Kupperman

In autumn 2019, the quantitative tightening of the balance sheet was stopped. The Federal Reserve began to expand its balance sheet again, initially with the aim of keeping the rise in short-term interest rates in check. These measures were taken long before the outbreak of the coronavirus and testify to the fact that economic momentum had already weakened significantly by 2019.

Federal Reserve balance sheet (lhs), in USD bn, and Federal funds rate (rhs), in %, 01/2003-05/2020



Source: Reuters Eikon, Incrementum AG

This scheme essentially merges the Fed and Treasury into one organization.
Jim Bianco

Why is the question of whether the recession would have occurred even without the coronavirus so relevant? Ben Bernanke had always argued that the Federal Reserve's bond purchases were not government financing through the printing press, as the increased bond holdings were to be held only *temporarily* by the Federal Reserve:

> *"The (FOMC) has often stated its intention to return the Fed balance sheet to normal, pre-crisis levels over time. Once that occurs, the Treasury will be left with just as much debt held by the public as before the Fed took any of these actions.' When that happens, it will be clear that the Fed has not been using money creation as a permanent source for financing government spending."*[17]

The highly abnormal is becoming uncomfortably normal. … There is something vaguely troubling when the unthinkable becomes routine.
Claudio Borio, BIS

Between 2008 and 2015 the Federal Reserve's balance sheet total increased from USD 0.9trn to 4.5trn. Only a fraction of this increase was repaid in the course of the economic cycle. After the first round of Federal Reserve measures to combat the catastrophic economic effects of Covid-19, the balance sheet total currently stands at a breathtaking USD 7trn. In reality, the exact opposite of Ben Bernanke's statement is true: The balance sheet inflation is permanent and is therefore government financing through the printing press.

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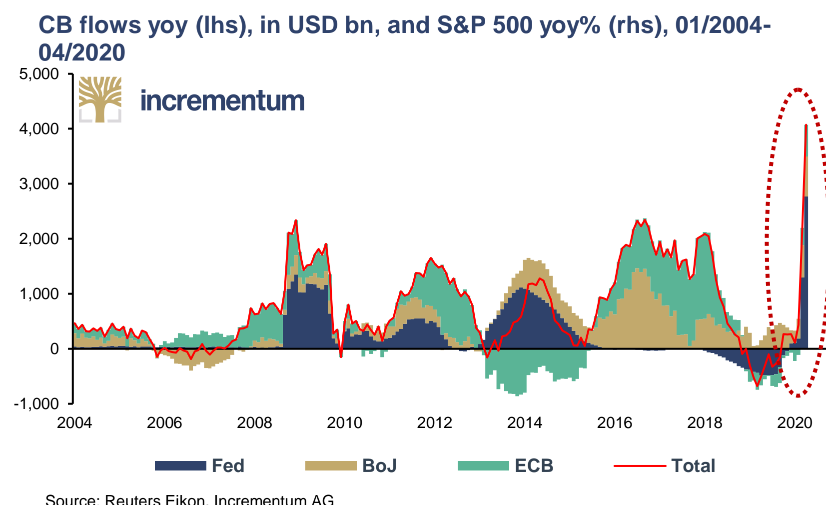
[16] *See* "Treasury Yields fall as Fed's Powell says balance sheet reduction on auto pilot", Reuters, December 19, 2018
[17] "In-Depth: Is the Fed Monetizing Government Debt?", Federal Reserve Bank of St. Louis, April 1, 2013

CB flows yoy (lhs), in USD bn, and S&P 500 yoy% (rhs), 01/2004-04/2020



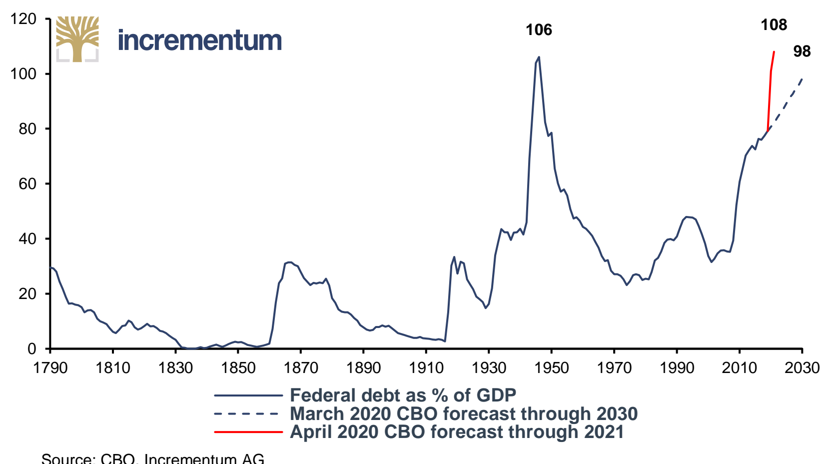
Source: Reuters Eikon, Incrementum AG

Have the industrial nations fallen prey to QE addiction?

If my answers frighten you, Vincent, then you should cease asking scary questions.
Pulp Fiction

In our view, the occurrence of another recession even before monetary policy normalization confirms that the "medicine" of unconventional monetary policy is at best paused but can no longer be stopped. **QE is now conventional monetary policy, part of the new normal, and the (indirect) financing of the state budget via the electronic printing press is the new permanent state of affairs.**

Federal debt as % of GDP, 1790-2030



Source: CBO, Incrementum AG

Gold has stood the test of time, providing a stable store of wealth to mankind for millennia. And as we look to an increasingly uncertain future, with fiat currencies across the globe under siege from rising debt levels, it remains the only money guaranteed to survive.
Grant Williams

There is unanimity among governments and central banks on how to combat the economic consequences of the Covid-19 crisis: As many people as possible should be saved, whatever the cost. *Après nous le déluge* – the level of debt no longer matters. The combination of an unprecedented economic collapse and soaring debt levels is explosive. The debt is now threatening to get out of hand for good. **After the Covid-19 crisis, a worsening debt crisis looms.** It will probably no longer be possible to finance the debt, as global savings volumes are no longer sufficient to cover the financing requirements necessary to keep the electronic printing press up and running.

Credit: Wikipedia

The central banks are not only playing along with the governments' debt game, they are actively encouraging it. In the case of the eurozone, Madame Lagarde calls for a *"common European fiscal response"*, which should be *"swift, sizeable and symmetrical"*.[18] Yet through their actions, central banks are putting the last remnants of their independence at risk. Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, recently answered the question of whether the Federal Reserve would simply print money on the TV show *60 Minutes:*

> *"That's literally what Congress has told us to do. That's the authority that they have given us, to print money and provide liquidity into the financial system. And that's how we do it. We create it electronically. And then we can also print it with the Treasury Department, print it so that you can get money outta your ATM."*[19]

Money printer go Brrr

The realization that the central bank money supply will only know one direction will also affect the highest good of an uncovered fiat currency: confidence. In addition to system-critical gold bugs, an increasing number of fiat-money critics can also be found within the younger generation, most of whom reach this insight by studying cryptocurrencies. As the new QE programs are rolled out, these youthful citizens of the world are taking to social media to hold the overseers of monetary policy responsible. With the implementation of the new QE programs, memes,[20] fun homepages,[21] and YouTube videos have appeared online in the USA around the slogan "Money Printer Go Brrr". Critics of the current monetary system are still in the minority. However, a world dominated by permanent money printing should increase the popularity of this critical view in the coming years. **In addition, even more radical measures such as the implementation of MMT, helicopter money, increased financial repression measures such as cash restrictions, and low negative interest rates can be expected in the course of the next few years.**

Source: Money Printer Go Brrr (the original!), YouTube

The Great Monetary Inflation

The extent of the central bank measures is not only of concern to a critical minority of consumers. Assorted investment legends have also been unable to hide their concerns about the ginormous QE programs. For example, hedge fund luminary Paul Tudor Jones has drawn attention in his latest report, entitled "The Great Monetary Inflation". He states that he is extremely critical of monetary policy and therefore bullish on gold:

Courtesy of Hedgeye

> *"The depth and magnitude of the economic drop-off took modern monetary theory – or the direct monetization of massive fiscal spending – from the*

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[18] "Lagarde urges eurozone to launch joint fiscal stimulus", Financial Times, May 8, 2020
[19] "Coronavirus and the economy: Best and worst-case scenarios from Minneapolis Fed president", CBS News, March 22, 2020
[20] Know Your Meme: Money Printer Go Brrr
[21] brrr.money

theoretical to practice without any debate. It has happened globally with such speed that even a market veteran like myself was left speechless."[22]

I think Gold will go substantially higher.
Paul Tudor Jones

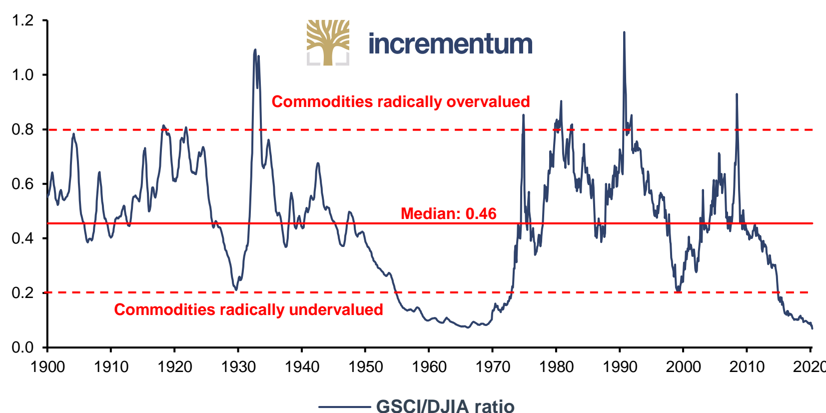
In addition, Jones has a positive view of Bitcoin as a hedge against the incoming monetary tsunami because of the high convexity. The topic of Bitcoin is also close to our hearts, which is why we regularly cover it in our *In Gold We Trust* reports, also this year. **Recently, we also started offering a fund strategy for professional investors that invests in both physical gold and Bitcoin.**[23]

Where does the money flow to?

It's important to highlight that both periods of extremely depressed commodities prices (1970 and 2000), were accompanied by overvalued equity markets and related investment bubbles – a situation that exists once again today.
Leigh Goehring & Adam Rozencwajg

It is very possible that experimental monetary policy will trigger a renaissance of *hard assets*. If that thesis is correct, the battered commodity sector should also offer opportunities to courageous contrarian investors. Relative to the Dow Jones index, commodities are currently trading at the lowest valuation level since the mid-1960s. Compared to equities, commodities were undervalued to a similar extent only before Black Thursday on October 24, 1929 and during the exaggerations of the dotcom bubble.

GSCI/DJIA ratio, 01/1900-04/2020



Source: Goehring & Rozencwajg, Reuters Eikon, Incrementum AG

Let us take a closer look at the two phases in which commodities were so favorably valued compared to equities, at the onset of commodity bull markets. What both phases have in common is that they were preceded by massive monetary inflation.

The parallels of the decade changes around 1970 and 2000 to the current situation are astonishing. Each time before, an expansive monetary policy had fed a period of bullish stock markets. What the Nifty Fifty were in the 1960s, the dotcoms were in the 1990s and the FAANG stocks are now. Could history now repeat itself? After 1970 and 2000, a decade of commodities began in each case. In the past 10 years we have experienced the most expansive and experimental monetary policy in history, but it has only peripherally reached the commodity markets.

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[22] Jones, Paul T. and Giorgianni, Lorenzo: "The Great Monetary Inflation", *Market Outlook – Macro Perspective*, May 2020
[23] Further information can be found at www.noninflatable.com.

Fiat system goes critical

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.
Warren Buffett

With the dawn of the new decade, the world will become increasingly interventionist. In keeping with the motto "Once your worldly reputation is in tatters, the opinion of others hardly matters", all the barriers to new debt are now being breached. Debt no longer plays a role, and zero interest rates and money supply expansion remain the order of the day as far as the eye can see.

The mixed situation at the beginning of this decade holds the possibility that the world monetary order that has existed for almost half a century may be fundamentally unhinged. This is the conclusion reached by an increasing number of analysts working for traditional banks. Deutsche Bank, for example, writes in its outlook for the year 2030 that our monetary system could start to totter before the end of the decade:

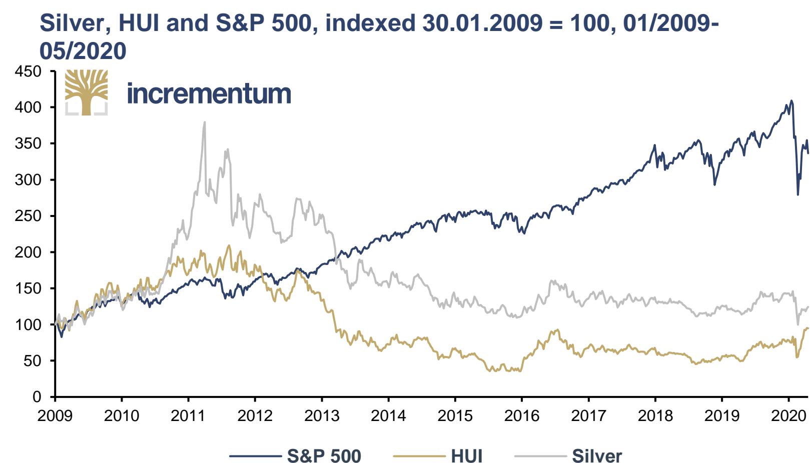
> *"The forces that have held the current fiat system together now look fragile, and they could unravel in the 2020s. If so, that will start to lead to a backlash against fiat money, and demand for alternative currencies such as gold or crypto could soar."*[24]

Gold is the anchor of trust for the financial system. If the whole system collapses, the gold stock can serve as a basis to build it up again.
De Nederlandsche Bank

Savers and investors will find it increasingly difficult to navigate their assets safely through the coming times. While the world is threatened by a flood of fiat currencies, safe havens are scarce. Gold could also increasingly compete with bonds in an era of negative interest rates. The conditions for investing in gold could not be better. While we do not know what the level of debt or the money supply will be at the end of the decade, in the case of gold or even Bitcoin, it is quite likely that there will be a relative shortage.

Historically, permanent central bank-financed debt has always led to rising inflation rates. In addition, silver and mining stocks are good investments for inflationary scenarios. Both assets have been rather shunned by traditional investors in recent years and are still relatively cheap. Therefore, we are devoting a chapter to silver and silver mining stocks in this year's *In Gold We Trust* report.

Silver, HUI and S&P 500, indexed 30.01.2009 = 100, 01/2009-05/2020



Source: Reuters Eikon, Incrementum AG

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[24] Reid, Jim: "The end of fiat money?", in: "Imagine 2030 - The decade ahead", *db research*, December 4, 2019, p.10

Our claim has always been to provide a holistic analysis of the financial markets. Ultimately, our approach differs from that of other gold analysts in that we aim to capture the longer-term *big picture* as comprehensively as possible.

Year after year, the *In Gold We Trust* report strives to be the most recognized, widely read, and comprehensive analysis of gold in the world. This would not be possible without the fantastic help of our entire team of more than 20 people and especially without the support of our Premium Partners[25], to whom we would like to express our gratitude and sincere thanks.

Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning.
Albert Einstein

True to Prof. Einstein's words (on the left), we will continue to do our best to provide you, dear readers, with a comprehensive, informative, and entertaining guide to gold investments and the factors influencing it.

Now we invite you to our annual tour de force and hope that you enjoy reading our 14th *In Gold We Trust* report, "The Dawning of a Golden Decade", as much as we enjoyed writing it.

Cordially,

Ronald-Peter Stöferle and Mark J. Valek

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[25] At the end of the *In Gold We Trust* report you will find an overview of our *Premium Partners*, including a brief description of the companies.

The Status Quo of Gold

"Realize that everything is connected to everything else."

Leonardo Da Vinci

Key Takeaways

- Gold has recently reached new all-time highs in almost all currencies. With regard to the US dollar, the question is not whether an all-time high will be reached, but rather when.
- While liquidity worries and the fear that too little money would be printed still dominated in 2008, the Covid-19 recession/depression is likely to lead to a contrary market assessment.
- We are convinced that we are now close to a fork in the road: Disinflationary pressures will (have to) be broken. Inflationary forces will prevail. We assume that inflation will be the dominant investment theme in the coming years.
- Central banks and institutional investors in particular will generate greater demand for gold.
- Rising price inflation coupled with a fading post-coronavirus economy is the "perfect storm" for gold.
- The expansion of the money supply, the negative real interest environment, and the disproportionate growth of debt have further increased the fragility of the global system.

When the traveler goes alone he gets acquainted with himself.
Liberty Hyde Bailey

As in previous years, we begin our long journey through the gold universe in this year's *In Gold We Trust* report with a detailed analysis of the most important influencing factors. Especially in times of upheaval, a comprehensive assessment of the situation is important. This applies to everyone personally, as well as to the macroeconomic overall picture. At least three reference points are needed to determine a position; and with each additional reference point, the position can be determined with increasing accuracy. Therefore, on the following pages we want to analyze the status quo of gold from as many perspectives as possible.

It requires a very unusual mind to make an analysis of the obvious.
Alfred North Whitehead

In contrast to the majority of gold analysts, we do not consider the exclusive analysis of supply/demand statistics to be very helpful for assessing gold price development. Gold is a stock commodity and a monetary metal.[26] As such, the decisive short and medium-term factors that ultimately affect price developments are closely related to the current situation of the monetary system and financial markets. **In our analysis we therefore focus primarily on the following factors:**

- Trend of the US dollar and other Fiat currencies
- Opportunity costs (shares, bonds, ...)
- Trend in commodity prices
- Inflation trend and inflation expectations
- Level and trend of real interest rates
- Credit spreads (as an indicator of economic confidence and credit growth)
- Dynamics of the debt situation
- Trends and momentum of monetary growth
- Confidence in central bank policy and the stability of the financial system and economic development
- Confidence in politics and fiscal stability
- Geopolitical environment
- Technical setup (positioning, sentiment, ...)

[26] *See* "Stock-to-Flow Ratio as the Most Important Reason for Gold's Monetary Importance", *In Gold We Trust* report 2013, "The Stock-to-Flow Ratio as the Most Significant Reason for Gold's Monetary Importance", *In Gold We Trust* report 2014, "Gold and Inflation", *In Gold We Trust* report 2015

Status Quo of Gold in the Currency Context

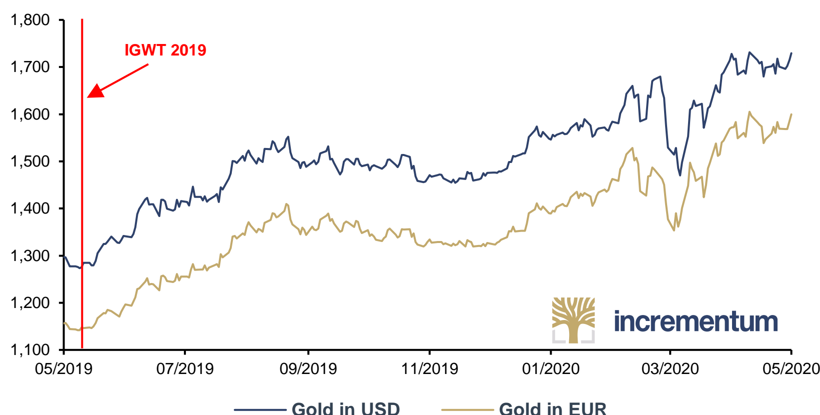
> *"Scarcity is the fundamental starting point of all economics, and its most important implication is the notion that everything has an opportunity cost."*
>
> Saifedean Ammous

Traditionally, we start our assessment by looking at the most important performance data. Over the past 12 months, gold has reached new all-time highs in almost all currencies, including EUR, JPY, CHF, CNY, AUD, CAD, GBP, etc. **The "market breadth" of the uptrend was therefore excellent.**

What's past is prologue.
William Shakespeare

The development in calendar year 2019 was superb on a US dollar basis, with a plus of 18.9%, and even more remarkable on a euro basis with 22.7%. Let us now look at the gold price development since the last *In Gold We Trust* report in USD and in EUR. We see that three weeks after the publication of the last *In Gold We Trust* report on May 28, 2019, the gold price successfully jumped above the resistance zone at USD 1,360-1,380.[27] Subsequently, the impulsive move we had expected to see to just under USD 1,600 set in before the price consolidated in the autumn.

Gold in USD & EUR, 1 year performance



Source: Reuters Eikon, Incrementum AG

Since the outbreak of the coronavirus crisis and the epochal monetary and fiscal stimuli associated with it, even hard-boiled gold bulls have been surprised by the vehemence of the rally, even though gold also had a good run during the March stock market sell-off.

If we look at recent developments, it seems that many investors have been disappointed and unsettled by gold's performance during the

[27] However, it would be too much to attribute this breakthrough to our prediction alone.

initial Covid-19 crash phase. In our opinion, the following factors were the main reasons for the weaker performance in the short term:[28]

- **Stress liquidity:** Gold is a highly liquid asset, with an average of USD 260 billion in gold contracts traded each day. During situations of stress in financial markets, gold can be liquidated quickly and at low cost. When volatility rises to extreme levels, selling pressure sets in, as can be seen from the following chart. In such exceptional situations, one of gold's great strengths – its ability to liquidate quickly into fiat currencies almost anywhere in the world – translates into temporary losses.

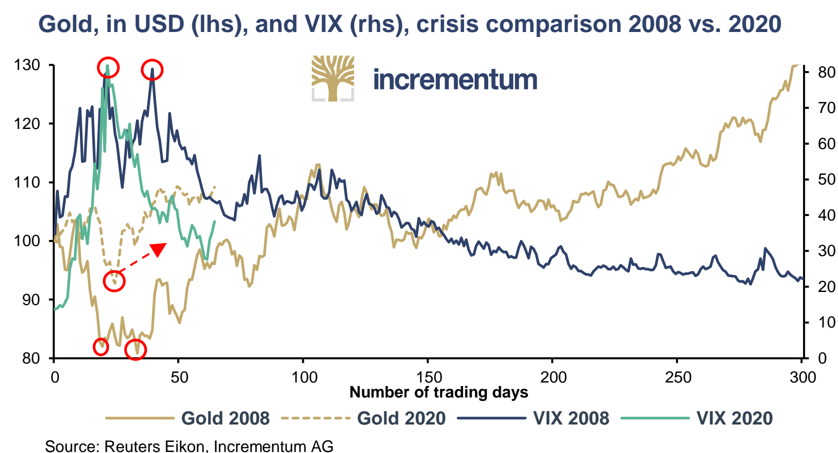
- **Profit-taking:** Gold rallied in the first trading weeks of 2020 and on March 9 – just before the sell-off – was already up 7% on the year. Profit-taking then occurred.

- **The selling pressure came primarily from the derivatives market**: The net long position on the COMEX was at a record high before the sell-off. Between 9 March and 19 March, trading volumes amounted to almost 5 million futures contracts. On the other hand, there were massive inflows on the physical demand side and also in ETFs.

- **Real interest rate development:** Crash phases are always deflationary, i.e. real interest rates rise due to imploding inflation expectations, which naturally means headwinds for the gold price.

In 2008 the high in the VIX (CBOE Volatility Index) at 80 points corresponded to the lows in gold. A similar situation occurred in 2020, when the VIX reached a high of 82.7 on 16 March and gold saw its intraday low at USD 1,455.

Gold, in USD (lhs), and VIX (rhs), crisis comparison 2008 vs. 2020



Source: Reuters Eikon, Incrementum AG

After that, gold and mining stocks recovered more quickly than stocks and other risk assets in general. By the time the S&P 500 hit its low of 2,237 on March 23, 2020, gold had already risen USD 100 from its lows. As we have formulated in previous years, gold usually trades weaker at the beginning of a crash, for the

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[28] *See* also "Investment Update: Gold prices swing as markets sell off", World Gold Council, March 19, 2020

reasons mentioned above. **It is fiscal and monetary measures that boost the gold price again only a short time later.**

Bear markets have three stages – sharp down, reflexive rebound and a drawn-out fundamental downtrend.
Bob Farrell, Rule #8

Now the question arises: Has the danger in markets already been averted? Have central bankers and politicians once again bailed us out? Will the financial and real economy soon return to "business as usual"? The loyal reader probably already suspects that a healthy dose of skepticism is in order, because historically market crashes occur in three phases:

1. Initial panic selling ✓
2. Relief rally from the low point, aka "dead cat bounce"[29] ✓
3. Demoralizing retest of the panic low as disastrous corporate and economic news is released. But the market no longer falls below the initial panic lows. ☒

After these three crash phases, it seems not completely implausible that the markets will test their lows again and the VIX will snap up once more. This was the case in 2008/2009, when the VIX reached almost 90 during trading on 24 October 2008. Then, on the 20th November, after a sharp interim fall, the VIX rose above 80 again, **which, if the pattern repeats in 2020, could mean some headwind for the gold price.**

The biggest misconception about gold is that it's no longer money. The idea that a bureaucrat, a president, could say in 1971 that gold's not money and therefore it isn't. After 4,000 years, that the bureaucrats control money, is an absurdity to anyone who studied history and understands economics.
Daniel Oliver

But let us now turn to the "market breadth" of gold, i.e. the development in different currencies. This analysis helps us to understand how solid the upward trend is. The world gold price, which represents the gold price in the trade-weighted external value of the US dollar, has successively marked new all-time highs and is currently quoted at 2,500. The divergence between the gold price in US dollars and the world gold price is a good indication of the strength of the US dollar, which has been dominant since the end of 2012. **In view of the extremely strong rise in the world gold price recently, it seems that a consolidation is now likely.**

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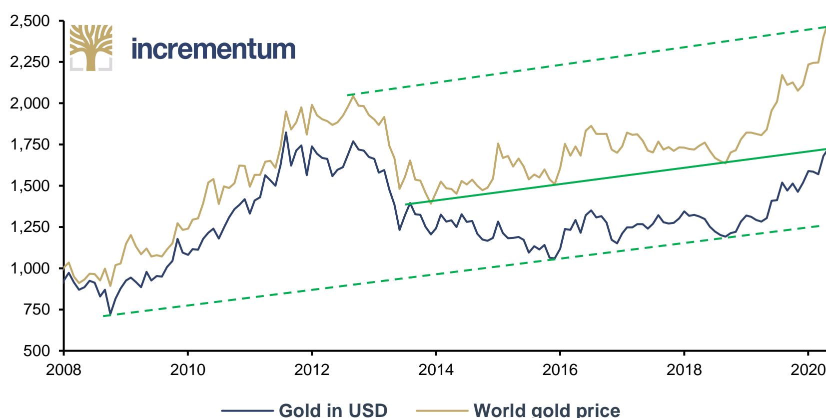
[29] *See* Wikipedia entry: "Dead Cat Bounce": "The term is a metaphor in the financial markets. It describes the unsustainable recovery after a strong, usually prolonged, slump. The term is derived from the cynical saying: 'Even a dead cat will bounce if it is dropped from high enough!' So after a short ascent the course continues to collapse."

Gold in USD, and world gold price, 01/2008-05/2020



Source: Reuters Eikon, Incrementum AG

Now we want to break down the currency spectrum even further and look at the gold price in the major currencies. **The full year 2019 was clearly positive for gold in all currencies, with an average of 18.3%.** The performance in this secular bull market remains impressive. The average annual performance from 2001 to 2020 is 10.30%. **During this period, gold was able – despite significant corrections – to clearly outperform practically every other asset class and, above all, every other currency.** Since the beginning of 2020, the performance has been stellar.

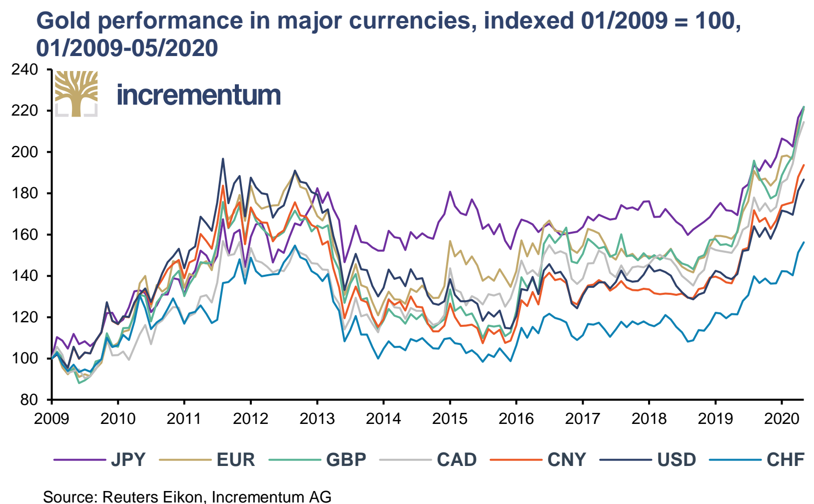
Gold performance since 2001 in various currencies (%)

	EUR	USD	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2001	8.1%	2.5%	5.4%	11.3%	8.8%	2.5%	17.4%	5.0%	5.8%	**7.4%**
2002	5.9%	24.7%	12.7%	13.5%	23.7%	24.8%	13.0%	3.9%	24.0%	**16.2%**
2003	-0.5%	19.6%	7.9%	-10.5%	-2.2%	19.5%	7.9%	7.0%	13.5%	**6.9%**
2004	-2.7%	5.3%	-2.3%	1.8%	-1.9%	5.3%	0.7%	-3.4%	0.6%	**0.5%**
2005	36.8%	20.0%	33.0%	28.9%	15.4%	17.0%	37.6%	37.8%	24.2%	**26.1%**
2006	10.6%	23.0%	8.1%	13.7%	23.0%	19.1%	24.3%	14.1%	20.9%	**17.2%**
2007	18.4%	30.9%	29.2%	18.3%	12.1%	22.3%	22.9%	21.7%	16.5%	**21.7%**
2008	10.5%	5.6%	43.2%	31.3%	30.1%	-2.4%	-14.4%	-0.1%	28.8%	**15.5%**
2009	20.7%	23.4%	12.7%	-3.0%	5.9%	23.6%	26.8%	20.1%	19.3%	**16.5%**
2010	38.8%	29.5%	34.3%	13.5%	22.3%	24.9%	13.0%	16.7%	23.7%	**25.2%**
2011	14.2%	10.1%	10.5%	10.2%	13.5%	5.9%	4.5%	11.2%	31.1%	**11.2%**
2012	4.9%	7.0%	2.2%	5.4%	4.3%	6.2%	20.7%	4.2%	10.3%	**7.5%**
2013	-31.2%	-28.3%	-29.4%	-16.2%	-23.0%	-30.2%	-12.8%	-30.1%	-18.7%	**-24.1%**
2014	12.1%	-1.5%	5.0%	7.7%	7.9%	1.2%	12.3%	9.9%	0.8%	**6.2%**
2015	-0.3%	-10.4%	-5.2%	0.4%	7.5%	-6.2%	-10.1%	-9.9%	-5.9%	**-3.8%**
2016	12.4%	9.1%	30.2%	10.5%	5.9%	16.8%	5.8%	10.8%	11.9%	**12.3%**
2017	-1.0%	13.6%	3.2%	4.6%	6.0%	6.4%	8.9%	8.1%	6.4%	**6.3%**
2018	2.7%	-2.1%	3.8%	8.5%	6.3%	3.5%	-4.7%	-1.2%	6.6%	**2.6%**
2019	22.7%	18.9%	14.2%	19.3%	13.0%	20.3%	17.7%	17.1%	21.6%	**18.3%**
2020 ytd	17.6%	14.3%	24.4%	22.7%	23.0%	17.0%	13.2%	14.8%	22.0%	**18.7%**
Average	9.7%	10.7%	12.0%	9.5%	10.0%	9.7%	10.1%	7.8%	13.0%	**10.3%**

Source: Goldprice.org, Incrementum AG, figures as of May 22, 2020

If we now look at the gold price development in the 7 most important currencies, we can observe that only on the basis of the US dollar the highs from 2011-2013 have so far not been exceeded.

Gold performance in major currencies, indexed 01/2009 = 100, 01/2009-05/2020

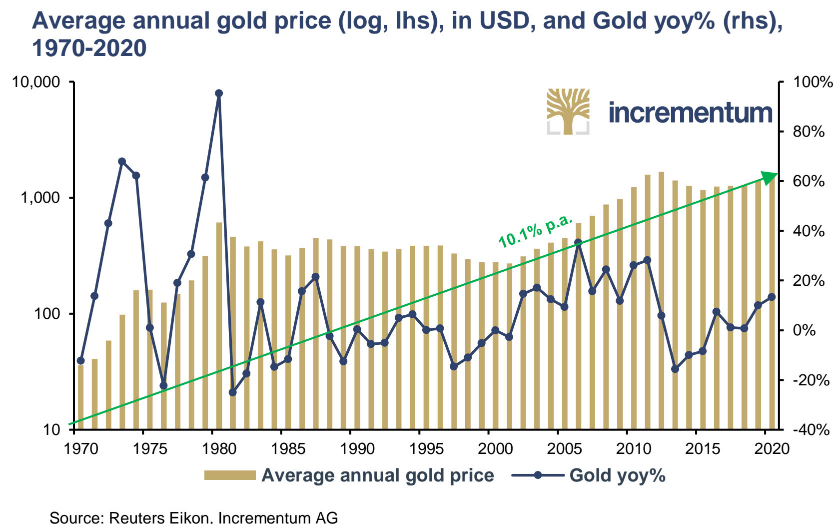


Source: Reuters Eikon, Incrementum AG

Gold has worked down from Alexander's time... When something holds good for two thousand years, I do not believe it can be so because of prejudice or mistaken theory.
Bernard Baruch

But let us now turn back even further in the history books. Since 15 August 1971 – the beginning of this new monetary era – the average annual increase in the price of gold in US dollars has been 10.1%. The inflation-adjusted appreciation of gold against the US dollar is 6.1% per year on average. The chart below impressively demonstrates that the regular accumulation of gold ("gold saving"), taking advantage of the cost-average effect, is advisable.

Average annual gold price (log, lhs), in USD, and Gold yoy% (rhs), 1970-2020



Source: Reuters Eikon, Incrementum AG

If we look at the gold price development in different currencies and over decades, we see that the performance diverges significantly. The 1970s in particular, and to a lesser extent the 2000s, can be described as golden decades. If you look at the development of real interest rates in the US dollar, this performance makes perfect sense. The 1970s were characterised by negative real interest rates as a result of high inflation. The dynamics changed dramatically in the early 1980s. While zero interest rates were reached for the first time at the end of the 2000s, the relatively low rate of inflation in the 2010s did not cause real interest rates to fall further, although nominal interest rates remained at their lowest levels.

Gold Yields	1971-1980	1980-1990	1990-2000	2000-2010	2010-today
USD	1,268%	-22%	-28%	281%	39%
EUR	1,256%	-3%	-15%	168%	80%
GBP	1,275%	9%	-28%	281%	84%
CHF	1,098%	-24%	-26%	148%	32%
JPY	1,219%	-53%	-49%	246%	59%
AUD	1,269%	7%	-18%	179%	85%
CAD	1,282%	-23%	-10%	177%	75%
INR	1,274%	30%	33%	313%	114%
RUB	1,296%	-17%	30%	306%	209%
ZAR	1,251%	142%	73%	357%	189%
CNY	1,204%	155%	26%	214%	46%
TRY	1,358%	74%	71%	939%	442%
BRL	1,360%	-24%	72%	278%	232%
ARS	1,356%	68%	-29%	1,370%	1,930%

Source: Bloomberg, Michael Nicoletos, Incrementum AG

Conclusion

Last year we drew the following interim conclusion:

> *"Whether viewed in EUR or USD, it seems that the price of gold is slowly creeping up, on the quiet and far from any attention from the media or the wider investment community. The fact that gold is already trading at new all-time highs in some currencies confirms this theory."*[30]

Currencies don't float, they just sink at different rates.
Clyde Harrison

Our forecast, or rather our conclusion from last year, that gold was in a new bull market, has come true. The strength of the trend was accentuated even further last year, which is why we assume that new all-time highs will soon be reached in US dollar terms. For us it is obvious that the gold price – against any currency – is about to enter a golden decade, i.e. the purchasing power of EUR, USD, etc. measured in gold will continue to fall.

Milligram gold per USD & EUR, 01/1999-05/2020

Source: Reuters Eikon, Incrementum AG

[30] See "The Status Quo of Gold", *In Gold We Trust report* 2019

Status Quo of the US Dollar and the US Economy

> *"The cycle of manias and panics results from procyclical changes in the supply of credit … Money always seems free in manias."*
>
> Charles Kindleberger

When we recall the recessions of recent years, the Anna Karenina principle comes to mind.[31] Leo Tolstoy noted in his epoch-making novel:

> *"All happy families are alike; each unhappy family is unhappy in its own way."*

While many factors, such as sexual attraction, finances, child rearing, religion, and relationships with in-laws and friends must all go well to make possible a happy family life, it is enough for *one* of these factors *not* to be positive for unhappiness to prevail.

In general terms:

- Success requires many positive factors, all of which must be interlinked.
- For failure, only one negative factor is needed.[32]

A recession is when you have to tighten your belt; depression is when you have no belt to tighten. When you've lost your trousers – you're in the airline business.
Adam Thomson

The situation is similar with recessions. While upswings are usually similar, every economic downturn has its own characteristics. In the 1930s it was deflation, which in turn had its origins in the inflationary *Roaring Twenties*; in the oil crises it was the politically motivated supply shock combined with double-digit inflation and interest rates in the USA; in 1999/2000 it was the dotcom mania; in 2008/2009 the subprime crisis with its devastating consequences for the banking sector; and now finally the coronavirus recession. **But all crises had their origins in too-expansive monetary policy in the run-up to them, which fired up too wild a party. Just as a lack of alcohol brings the party to an abrupt end, so the withdrawal of liquidity and rising interest rates will mark the end of the stock market party.**

Black Swan or Gray Rhino?

In recent weeks, countless experts have described the Covid-19 pandemic as a *black swan*. But it seems that the wrong animal metaphor is being applied here.[33]

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31 "Wie Privatanleger eine drohende Rezession erkennen" ("How private investors recognize an impending recession"), NZZ, August 14, 2019
32 *See* Wikipedia entry: "Anna Karenina principle"
33 World Gold Forum: "Keynote Speech – Ronald-Peter Stoeferle: 'Gold in 2019: A New Bull Market Forming?'", YouTube, May 1, 2019

We issued our warning that, effectively, you should kill it in the egg. ... Governments did not want to spend pennies in January; now they are going to spend trillions.
Nassim Taleb

The term *black swan* was coined by Nassim Taleb. With it he describes an event that comes completely unexpectedly and exerts a great influence. The events of 11 September 2001, for example, were a typical black swan.[34] The current pandemic is not a black swan, in Taleb's eyes. After all, governments have had sufficient warning and enough time to prepare for the outbreak of a pandemic.[35] Countries such as Taiwan, South Korea, and Hongkong had taken the necessary precautions and adopted early containment measures, in large measure thanks to the experience gained from the 2002/2003 SARS pandemic. So far, success has proved them right.

There is no vaccine against stupidity.
Albert Einstein

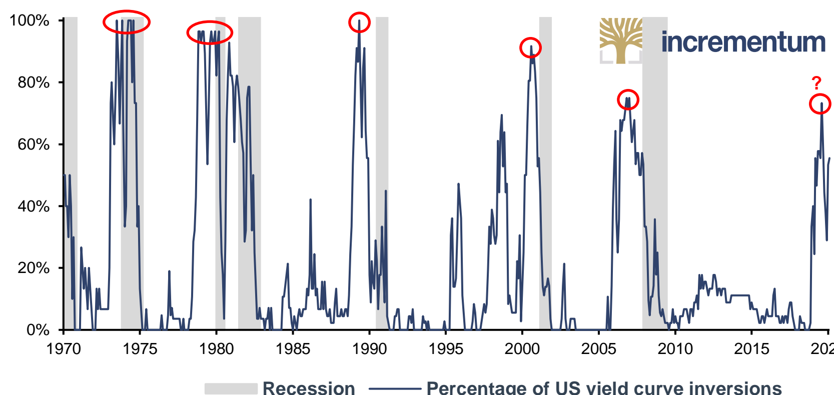
If we stick to Taleb's original concept, the correct metaphor for the coronavirus crisis is that of a "gray rhino". A gray rhino event is very likely and has enormous consequences, but the responsible actors have systematically underestimated the threat. The term was coined by policy analyst Michele Wucker, who published the book *The Gray Rhino: How to Recognize and Act on the Obvious Dangers We Ignore* after the Greek financial crisis of 2012.[36]

So the Covid-19 pandemic is not the black swan. The reaction of politicians and central banks and the downstream consequences for the real economy, companies, prosperity, society, and financial markets; that is the black swan.

Historically the inversion of the yield curve has been a good sign of economic downturns, but this time it may not.
Ben Bernanke

The prediction of the final drop that causes the barrel to overflow is known to be complex. However, it was evident that the barrel was filled to the brim. In previous years, we have often referred to the increasing fragility of the global economy and to specific risk factors.

Percentage of US yield curve inversions, 01/1970-02/2020



Source: Tavi Costa, Crescat Capital LLC, Incrementum AG

Our economic pessimism was based primarily on the interest rate structure, which, as is well known, has the best track record in terms of recession forecasts. The yield curve has once again impressively demonstrated this forecasting ability, even though in the course of the inversion numerous reasons were given as to why "*this*

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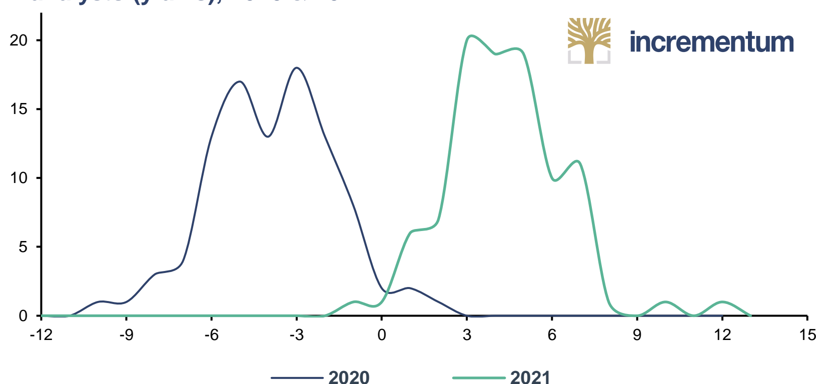
34 A detailed explanation of Taleb's concept of the black swan can be found in "Gold in the Context of Portfolio Diversification", *In Gold We Trust report* 2016
35 *See* "Systemic Risk of Pandemic via Novel Pathogens – Coronavirus: A Note", Joseph Norman, Yaneer Bar-Yam, Nassim Nicholas Taleb, January 26, 2020
36 Wucker, Michele: "*The Gray Rhino: How to Recognize and Act on the Obvious Dangers We Ignore*", 2016

time is different". **History is known to be the best teacher for the most inattentive students.**

The only function of economic forecasting is to make astrology look respectable.
John Kenneth Galbraith

Last year we also pointed out that of the 87 analysts surveyed by Bloomberg, not a single one (!) expected GDP to contract in 2019, 2020, or 2021. The expected growth in these three years averaged between 1.8% and 2.4%. This may be ascribed to herd mentality but also to structural problems (career risk). For 2020, the 96 analysts surveyed forecast an average economic downturn of 4.2% for the USA. According to the analysts, US GDP will recover again in 2021 and increase by 3.9% on average. However, the unusually wide range of estimates shows that there is still a great deal of uncertainty in the market and that the current economic situation is difficult to assess, with the result that the forecast growth figures have to be revised almost weekly – usually downwards.

Smoothed distribution of annual US GDP growth projections made by 96 analysts, GDP growth (x-axis), in %, and number of analysts (y-axis), 2020 & 2021



Source: Bloomberg, Incrementum AG

Mises's solution follows logically from his warnings. You can't fix what's broken by breaking it again. Stop the credit gavage. Stop inflation. Don't encourage consumption, but rather encourage saving and the repayment of debt.
Mark Spitznagel

But let us now take a closer look at the phenomenon of recession. Where does the recession phobia actually come from? Actually, the evil "R-word" should be allowed to take place. We see recessions as something healthy and necessary. The downturn corrects the mistakes and excesses of the upswing. In the process, encrusted structures in the labour market break down, labour costs fall, and productivity and competitiveness generally increase. Misallocations are corrected; unprofitable investments are stopped, written off, or liquidated; and mismanaged governments are voted out of office. Investors and entrepreneurs who act too riskily and are overleveraged suffer losses, and goods prices are adjusted to actual consumer preferences. According to our analogy of monetary tectonics,[37] one could also say that smaller quakes prevent larger quakes because they reduce tensions. Similarly, recessions reduce imbalances.

[37] *See* "Incrementum Chartbook# 2: Monetary Tectonics 50 Slides Illustrating The Tug Of War Between Inflation And Deflation", Incrementum, January 2016; "Gold and Inflation", *In Gold We Trust* report 2014; "Gold and Inflation", *In Gold We Trust* report 2015

Fighting depression through forced credit expansion is like trying to heal an evil by its own causes.
Friedrich August von Hayek

This also means, however, that these adjustment processes become all the more unpleasant the longer you delay them and the more you try to stem them through fiscal and monetary policy interventions. In a democratic system there is a real political danger that a painful adjustment process cannot be allowed to take place because the interventions have previously been too extreme and the adjustment processes will therefore take too long to bear fruit. No democratic government which, at the next election, gets the receipt for the obvious successes and failures during its term of office, will voluntarily allow a deep, cleansing recession, even if it believes that the adjustment processes are necessary.

The performance of gold in recessions

In view of the current horrific economic news, the question arises whether we are facing even worse or whether the worst is already behind us. In the *In Gold We Trust* report 2019, we examined the performance of gold in recessions in detail and explained why gold is an excellent equity diversifier and recession hedge.[38] An important reason for gold's good performance in recessions is that gold discounts the typically implemented fiscal and monetary policy measures early on.

So let's now take a closer look at gold and equity performance during recessions.[39,40] Readers of the *In Gold We Trust* report know that gold, as an event hedge or safe haven, should perform well during recessions. **In the table below we look at all recessions in the US since 1970, breaking each one down into four phases:**

- **Phase 1:** Pre-recession phase (one quarter before the recession)
- **Phase 2:** Unofficial recession (entry into recession until the official announcement of GDP growth figures by the statistical authorities; assumption: one quarter)
- **Phase 3:** Official recession
- **Phase 4:** Final phase of the recession (last quarter of the recession)

Performance: S&P 500 and gold, in USD and EUR, in %, 1970-2020

		S&P 500				Gold in USD				Gold in EUR			
	Duration of the recession	Phase 1	Phase 2	Phase 3	Phase 4	Phase 1	Phase 2	Phase 3	Phase 4	Phase 1	Phase 2	Phase 3	Phase 4
1st recession	Q1/1970 – Q4/1970	-1.8%	-4.6%	-7.0%	7.0%	-8.9%	-6.6%	0.0%	5.9%	N/A	4.6%	11.1%	3.0%
2nd recession	Q1/1974 – Q1/1975	-8.0%	0.3%	-15.0%	16.6%	-10.9%	58.5%	89.7%	-1.1%	7.2%	51.8%	51.0%	-6.2%
3rd recession	Q2/1980 – Q3/1980	7.1%	-2.1%	7.7%	10.0%	70.1%	-22.8%	-5.9%	21.8%	27.5%	0.5%	20.2%	-1.6%
4th recession	Q4/1981 – Q4/1982	-7.4%	2.9%	12.8%	15.9%	-14.6%	0.8%	1.2%	14.2%	2.6%	-4.8%	21.0%	10.4%
5th recession	Q4/1990 – Q1/1991	-10.7%	-0.1%	13.8%	13.9%	7.1%	-3.3%	-7.9%	-4.7%	4.6%	-9.3%	-12.2%	-3.6%
6th recession	Q2/2001 – Q4/2001	-5.7%	1.3%	-8.1%	0.5%	-1.5%	3.8%	5.4%	1.3%	-0.8%	8.3%	5.5%	-4.4%
7th recession	Q1/2008 – Q2/2009	0.5%	-10.2%	-50.4%	-18.0%	21.6%	14.3%	16.3%	24.0%	2.2%	12.2%	31.4%	19.8%
8th recession	Q2/2020-	1.2%	8.5%	-9.3%		4.5%	3.1%	12.1%		9.0%	0.2%	16.0%	
	Average:	-3.1%	-0.5%	-6.9%	6.6%	8.4%	6.0%	13.9%	8.8%	7.5%	7.9%	18.0%	2.5%

Source: Federal Reserve St. Louis, Investing.com, World Gold Council, Incrementum AG

[38] *See* "Portfolio Characteristics: Gold as Equity Diversifier in Recessions", *In Gold We Trust* report 2019
[39] The data are based on the recessions for the USA, determined by the NBER.
[40] *See* "Gold in a Context of Portfolio Diversification", *In Gold We Trust* report 2015; "Gold in a Context of Portfolio Diversification", *In Gold We Trust* report 2016; "The Portfolio Characteristics of Gold", *In Gold We Trust* report 2017

If we look at performance over the entire recession cycle, it is striking that gold has seen significant price increases on average in both USD and EUR at every stage. By contrast, equities (S&P 500) were only able to make significant gains in the final phase of the recession. **Thus, gold was able to compensate very well for the stock losses in phases 1, 2 and 3.** Furthermore, it is noticeable that on average gold performed the stronger the higher the price losses of the S&P 500. This has once again proven to be true in the course of the current crisis.

Nothing beats a little cash in a bear market, of course, and the oldest form of cash is gold.
Jim Grant

So all in all the data shows that gold was very good at compensating for stock price losses during recessions. **We expect that gold should continue to be used as a corrective in equity bear markets in the future, even in the looming sharp recession. We are about to enter Phase 3, the official declaration of recession, and massive monetary and fiscal rescue packages have already been thrown together to combat the downturn**. And we are certain that a vast amount of further stimulus will be injected over the course of the coming quarters.

If we now look at the performance of gold in all the years in which the S&P has closed out the year with a loss, our theory that gold cushions equity market risk is confirmed – although we can also see that negative performance of the S&P does not necessarily lead to positive performance of gold.

	S&P 500	Gold	Out-/Underperformed
1973	-17%	72%	Outperformed
1974	-30%	73%	Outperformed
1977	-12%	25%	Outperformed
1981	-10%	-32%	Underperformed
1990	-7%	-2%	Outperformed
1994	-2%	-2%	Flat
2000	-10%	-6%	Outperformed
2001	-13%	1%	Outperformed
2002	-25%	24%	Outperformed
2008	-38%	3%	Outperformed
2011	0%	11%	Outperformed
2015	-1%	-10%	Underperformed
2018	-6%	-2%	Outperformed
2020	-14%	14%	Outperformed
Average	-13%	12%	Outperformed

Source: Blackrock, Reuters Eikon, Incrementum AG

How did other asset classes such as US Treasuries, commodities, or currencies perform during the last recessions?[41] Contrary to intuition, commodities tend to be stronger on average at the beginning of a recession, which is surprising given the fact that other risk assets tend to perform poorly. Looking at the last 12 months, commodities have generally performed more weakly than they typically have when emerging from a recession, although the strength of gold is reminiscent of the experience of the last three recessions.

[41] *See* "Recession Playbook", Morgan Stanley Research, July 23, 2019

	Xm returns going into a recession				Xm returns after recession starts			
Asset	12m	6m	3m	1m	1m	3m	6m	12m
UST 10Y	3.3%	2.5%	3.1%	-1.0%	-2.2%	2.9%	6.6%	10.9%
US investment grade	-1.6%	-1.7%	-0.3%	0.0%	-0.3%	-1.7%	-2.0%	-5.0%
DXY	3.8%	1.5%	1.5%	1.1%	-0.7%	-2.4%	-3.6%	6.3%
EUR/USD	-0.6%	0.5%	-1.2%	-0.9%	0.5%	2.4%	3.8%	-7.8%
Bloomberg Commodity Index	15.0%	11.7%	6.0%	4.6%	1.6%	-2.0%	-0.3%	-16.8%
Brent oil	24.4%	4.2%	13.4%	8.1%	13.8%	27.7%	19.0%	-20.1%
Gold	34.0%	28.3%	20.4%	11.1%	2.6%	-5.2%	0.8%	-7.7%

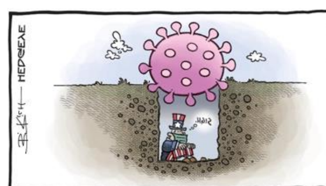
Source: Morgan Stanley, Reuters Eikon, Incrementum AG

Recession or depression, that is the question here!

A recession is like a cut and heals quickly. A depression is a deep wound that heals slowly; a wound that ushers in a secular change in consumer attitudes towards debt, savings and expenditure.
Dave Rosenberg

The question of whether we are "only" sliding into a global recession or whether we are heading for a severe depression was originally the subject of widely divergent forecasts. This is mainly due to the high level of uncertainty about the coronavirus pandemic. Nobody knows how long economic and social life will remain impaired.

The assumption originally made by many economists that normality would quickly return from Q3/2020 onwards – a V-shaped-recovery – was probably far too optimistic from the outset. Christine Lagarde, President of the ECB, was right to make a realistic forecast of a year-on-year decline in economic output of between 5 percent and 10 percent.

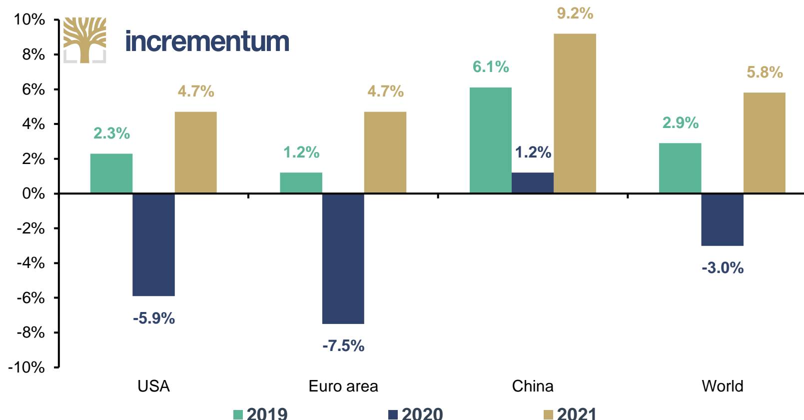

Courtesy of Hedgeye

Goldman Sachs' forecast of -24% for the second quarter of 2020 was the first to foresee a slump of more than 20% for one quarter, and thus in our view, entered realistic territory. Goldman has then revised this estimate downwards. A minus 34% for Q2/2020 for the US does not seem impossible, according to the forecast, made in early April. Per May 15, the *Nowcasting Report* calculated by the *Federal Reserve Bank of New York* is posting a dramatic collapse of -31,1%.[42]

The IMF, in its spring forecast, also expects a substantial slump in the global economy over the entire year 2020.[43] However, the predicted global minus of 3.0% could prove too optimistic, as could a strong recovery in 2021. At present, for example, it is completely in the stars as to when air traffic and tourism will return to pre-crisis levels, if this can be achieved at all in the foreseeable future. **Likewise, it cannot be ruled out that infection rates will rise sharply again in late autumn.**

[42] Nowcasting Report, Federal Reserve Bank of New York,
[43] "World Economic Outlook, April 2020: The Great Lockdown", IMF, April 2020

Real GDP growth, 2019-2021



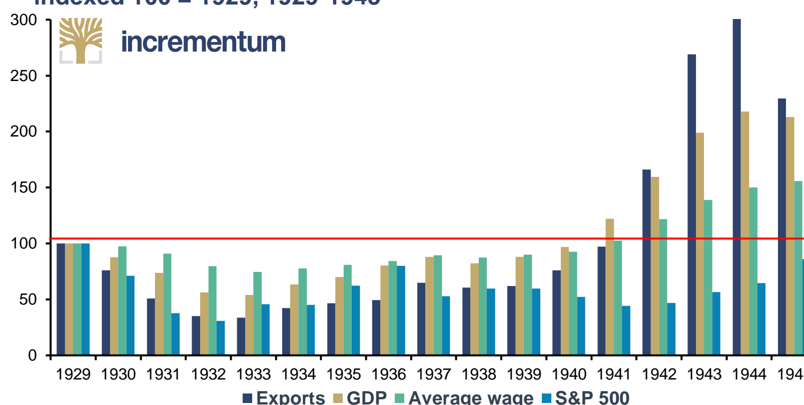
Source: IMF, Incrementum AG

In our view, it is worth comparing the current crisis with the 1930s. A depression leads to secular, i.e. long-term, changes in behaviour. There is a complete rethink, a paradigm shift among individuals, households, companies, and states.[44] A recession, on the other hand, is only an intermittent slowing down of the engine, which is shifted back into a higher gear after the end of the recession without being fundamentally changed.

What makes a depression different than a recession is that a depression ushers in many years of secular change in behavior. Recessions do not.
Dave Rosenberg

In particular, attitudes towards debt, spending, and savings are undergoing a radical shift. During the Great Depression the savings rate rose from a de facto 0% to 28%, even long after GDP had bottomed out. It is often forgotten that the Depression did not end until 8 years after GDP had reached its lowest point (1933). The stock market did not exceed the highs of 1929 until 1958. The economic, political, and social after-effects were felt for generations.

Changes of selected macro variables during The Great Depression, indexed 100 = 1929, 1929-1945



Source: Federal Reserve St. Louis, Nick Laird, goldchartsrus.com, Incrementum AG

Other noteworthy figures from the Great Depression:

- Real GDP fell by 28% between 1929 and 1933. It was not until 1938 that the level of 1929 was reached again.

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44 *See* "Breakfast with Dave", *Rosenberg Research*, April 13, 2020

- Industry shrank by 50% from 1929 to 1932 and did not reach the level of 1929 until 1939.
- The unemployment rate exploded from 3% to 25% within three years and was still above 10% in 1940.
- The employment rate fell by 20% and only returned to pre-crisis levels after a decade.
- The S&P 500 lost 85% from its high in October 1929 to its low in June 1932.[45]

Nothing moves in a straight line is the point. But picking bottoms is best left to the proctologists.
Dave Rosenberg

It is difficult to imagine that this looming economic slump of historic proportions will not trigger a profound change of mentality in a society increasingly hollowed out by narcissistic demonstrative consumption and in which status symbols often seem to be taken for vital goods.

The US dollar before the breakout?

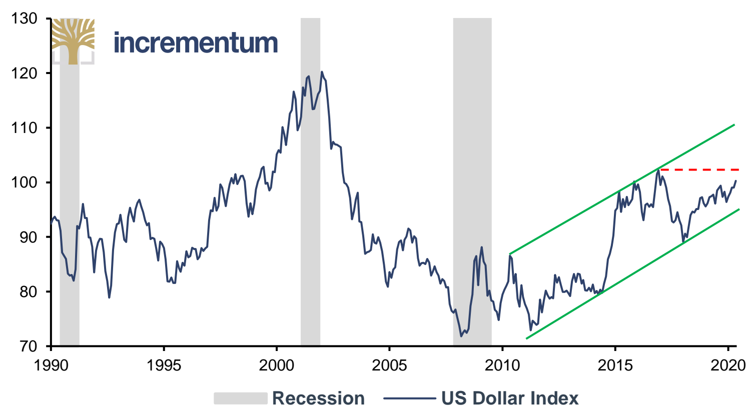
Now we'll turn to the US dollar and its recent development. Last year we asked the central question: *What will happen to the US dollar if the current Goldilocks scenario is called into question, recession concerns arise, and the Federal Reserve is forced to reverse its monetary policy?*

If we reach the point where the U.S. dollar stages a significant uncontrolled breakout higher, gold will spike as the market begins to price in the possibility of a reset of asset prices. At that point, gold would become the ultimate convexity trade for U.S. dollar debasement. Dollar debasement is a key tail risk in the end game.
Paul Wong, Sprott

As is well known, a monetary U-turn has taken place and the interest rate differential between the US dollar and the euro has melted faster than ice in the Caribbean sun. This should be a weighty reason for a weaker US dollar, one would think, and until the beginning of March it looked like it would be. But from March onwards, the US dollar showed its muscle and benefited from its safe-haven function as the coronavirus crisis deepened. **Within a few trading days, the US Dollar Index rallied from just under 95 to 103.6.**

Apart from a pronounced weakness in 2017, the DXY has had only one way to go since the end of 2011, namely up. Looking at the monthly chart of the DXY Index, a breakout above the 102 mark could be followed by an impulsive move with a target in the 120 range. The chart also shows that the dollar tends to be firmer in the run-up to or during recessions, which would argue for a firmer trend.

US Dollar Index, 01/1971-05/2020



Source: Reuters Eikon, Incrementum AG

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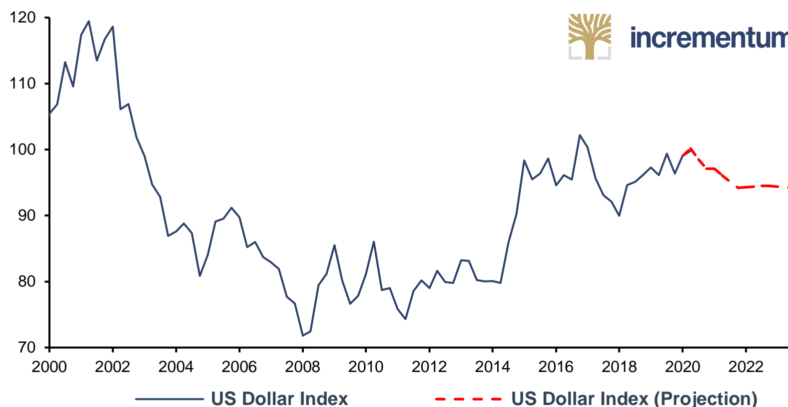
45 *See* Rosenberg, David: "Stagflation is coming but not yet", *MacroVoices #216*, April 23, 2020

When all the experts and forecasts agree – something else is going to happen.
Bob Farrell, Rule #9

Looking at current estimates for the US dollar, we are stunned by the fact that the analysts' consensus sees the DXY tending towards a slight but persistent weakness after a brief rise. The median of analyst forecasts has the greenback slowly falling this year and then sharply lowering to 93 in 2021. **Not a single analyst expects a sharply higher DXY in the next 3 years.**

US Dollar Index, Q1/2000-Q4/2023e



Source: Bloomberg, Reuters Eikon, Incrementum AG

Gold should be the bedrock of all portfolios.
Brent Johnson

From an anticyclical point of view, we are leaning towards a stronger US dollar, at least tactically. This may seem surprising, as it often seems that as a chrysophile, i.e. as a friend of gold, one must necessarily also be a US dollar bear. In our opinion, this is a fallacy, because among the gold bulls there are numerous proponents of a strong US dollar thesis. One of these is our esteemed colleague Brent Johnson, who puts forward the following arguments (among others) for a significantly firmer greenback:

- *"As the Global Reserve Currency, there is global demand for the US Dollar (there is not global demand for Euro, Yen, Ruble, Lira, Real, Peso, etc.)*
- *There is currently no clear alternative to the US-Dollar Payment System. In the year of its existence, the INSTEX European non-dollar system has done one transaction of less than $500,000 and was largely political in nature.*
- *While bilateral trade agreements between non-US countries continue to rise, they pale in comparison to the clear dominance of global trade taking place in US Dollars.*
- *Despite the massive stimulus provide by the FED, the central banks of the rest of the world will also be forced to dramatically increase money supply. Without global demand to backstop their stimulus, we believe these efforts will help to weaken their currencies.*
- *The US has the deepest and most liquid Capital Markets. Due to global demand for US Dollars, we believe the US capital markets will outperform the capital markets of the rest of the world*
- *This outperformance will create a vicious cycle leading to further upward pressure on the US Dollar and downward pressure on other fiat currencies.*

- *After the 2008 Global Financial Crisis, the US recapitalized the US Banking system. Much of the rest of the world did not. As foreign banking systems come under increasing pressure, this will be another factor making the US an attractive alternative.*
- *Much of the non-US Global Economy transacts on Eurodollars (dollars outside the US Banking system) but they do not have the ability to print them. This makes the Fed the de-facto Central Bank to the rest of the world.*
- *The US will use US Dollar liquidity (Repo & Swap Lines) as a weapon to shore up and enact new US Foreign Policy. Friends will be rewarded with access to liquidity, while competitors will be punished by the withdrawal of liquidity.*
- *The US Military will continue to enforce the US Dollar's use as the Global Reserve Currency."*

Conclusion

We broadly agree with Brent Johnson's reasoning.[46] **However, we also see considerable forces at work for a significantly weaker US dollar.** One of them is currently sitting in the White House. **Once again, it seems that an in-fight "Donald Trump vs. the market" is about to take place.** The fact that Donald Trump is no friend of a strong US dollar has recently been confirmed again (eloquently, as usual): "*… it's 6.2 trillion dollars, and we can handle that easily, because of who we are, what we are. It's our money, it's our… we are the ones. It's our currency.*"[47]

In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could.
Rüdiger Dornbusch

The statement strikingly reminds us of Treasury Secretary John Connally, who in 1971 responded to a group of European finance ministers concerned about exporting US inflation with the famous bon mot "*The Dollar is our currency, but your problem*". Between 1971 and 1980, the US dollar then lost almost 50% of its value against the German mark. **So it seems that the fate of the dollar will depend on the outcome of the heavyweight bout between market forces and political will.** The long-term headwind that is blowing in the face of the US dollar is traditionally dealt with in the chapter "De-Dollarization 2020 – The Endgame Has Begun"[48].

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[46] Johnson, Brent: "Update on the Coming Currency Crisis: Re-Visiting the Dollar Milkshake Theory", YouTube, December 7, 2019
[47] "Remarks by President Trump at Signing of H.R.748, The CARES Act", Whitehouse Oval Office, March 27, 2020
[48] This chapter is part of the "Extended Version" which you can download for free at https://ingoldwetrust.report/igwten/?lang=en.

Status Quo of Gold Relative to Stocks and Commodities

"It's clear that the future will not look like the past and today's conventional investment wisdom will be tomorrow's folly: liquid will be the new illiquid; rapid turnover the new patience; niche strategies the new index trackers. What rose furthest in duration's golden age – government and corporate bonds, public equities, private equity, venture, real estate – will fall furthest with its passing."

Dylan Grice

Not only absolute development but also relative development – in particular with regard to shares, bonds, and commodities – is important for a comprehensive location analysis of gold price development. Thus, on the following pages we would like to examine the relative valuation and trend strength of gold compared to other asset classes in order to better understand the opportunity costs of an investment in gold.

Gold vs. Stocks and Bonds

Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one.
Charles MacKay

On January 16, 2020, champagne corks may have been popping in Mountain View, the headquarters of Google. For the first time, the company was valued at USD 1 trillion on the stock exchange, joining Amazon, Apple, and Microsoft.[49] At times, the market capitalization of the FAANG companies exceeded the capitalization of all listed companies in Germany, Switzerland, and France combined. Numerous other indicators were also flashing warnings. The Shiller P/E (CAPE) was quoted at 31 on January 31, 2020, while only twice in history had the CAPE been at a higher level: in 1929 and 2000, both times just before the onset of a historic bear market.

Talking about ETFs is like talking about people. There are good ones, and there are bad ones.
Jack Bogle

But the momentum of the market, especially the tech sector, seemed unstoppable – driven as it was by passive-index investors – although the fundamental and market data were already gradually clouding over. Fund manager Peter Frech aptly described the situation as follows in January 2020: "*The Tech-Express is rolling towards the cliff at full speed, the cars full of passive passengers.*"[50] The cliff was finally reached in March, with the expected consequences.

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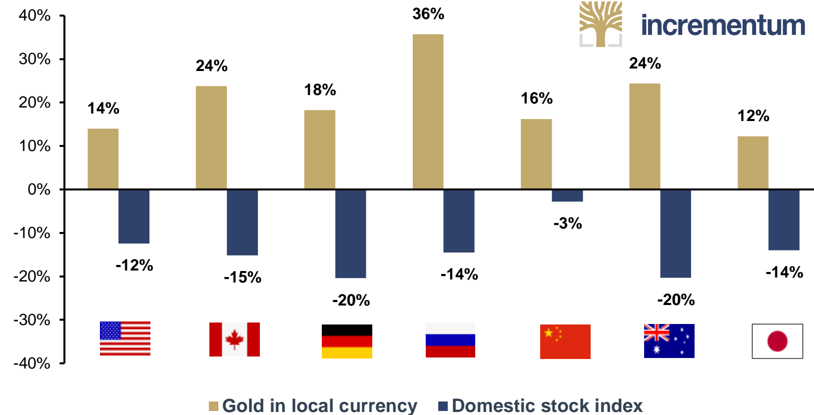
[49] "Alphabet, Google's parent company, hits trillion-dollar market cap for first time", CNBC, January 16, 2020
[50] *See* "Wer gute Prognosen macht" ("Who makes good forecasts"), Peter Frech, *Quantex Werte*, January 2020

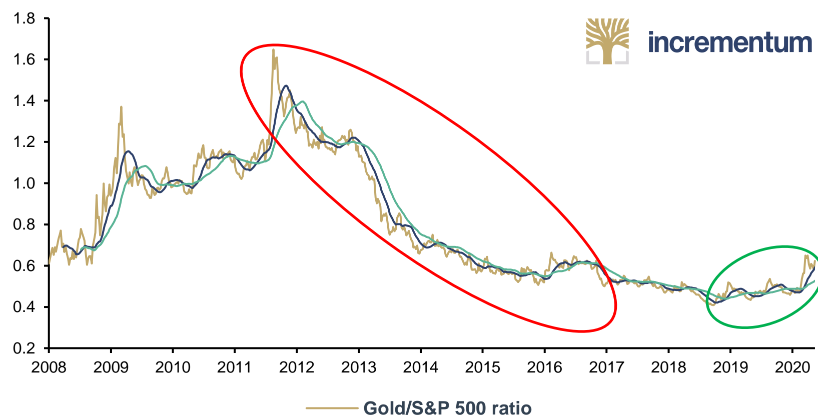
Gold acted like the "Robert Pecl"[51] of your portfolio, as it impressively demonstrated its defensive and stabilizing properties from a portfolio perspective during the Covid-19 crash. In all important markets gold outperformed the respective domestic stock market.



Source: Reuters Eikon (as of May 14, 2020), Incrementum AG

History shows that equities are at their most vulnerable when being outperformed by the yellow metal.
Martin Pring

Loyal readers know: We consider the stock market trend to be a major opportunity for gold. The following chart shows the Gold/S&P 500 ratio. The trend whereby an ounce of gold buys less and less of the S&P 500 has been broken, and gold's purchasing power measured against the S&P 500 is clearly trending upwards again. For us, this relative valuation is an extremely valuable long-term signal for assessing opportunity costs and investment flows.



Source: Reuters Eikon, Incrementum AG

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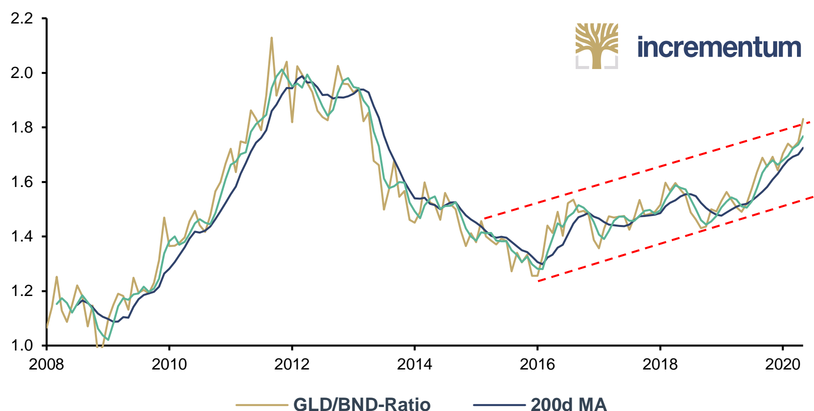
51 Note: Robert Pecl was an Austrian football player. The defender, playing his entire career for Rapid Wien, was nicknamed "Eisenfuß" ("Iron Foot") and "Roter Robert" ("Red Robert") because of his relentless playing style.

But gold also shows clear trend strength against bonds. Already since 2016, gold has successively marked higher lows and higher highs, and is thus in an upward trend.

Gold/Bonds ratio (GLD/BND), 01/2008-05/2020



Source: Reuters Eikon, Incrementum AG

Isn't there likely to be far more pent-up demand for precious metals than for bonds?
Louis-Vincent Gave

Now let's take a closer look at the development of gold relative to Treasuries. During the Covid-19 crisis, the biggest economic shock since World War II, both asset classes were among the few reliable havens. Both gold and US bonds reached their interim highs for the year on March 9, were then sold off at short notice in the course of the general panic, and rallied soon afterwards. Both have thus fulfilled their anti-fragile role in an exemplary manner.

Gold (lhs), and 10-year US treasuries (inverted, rhs), in %, 01/2008-05/2020

Source: Reuters Eikon, Incrementum AG

But looking to the future is much more important than the past because it is in the future that we intend to live and reap the fruits of our investment decisions. **So the question arises whether gold will not increasingly take on the role of Treasuries as the most liquid safe-haven asset. The following reasons speak in favor of this:**[52]

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[52] *See* Gave, Louis-Vincent: "An Anti-Fragile Beauty Contest", *GavekalResearch*, April 14, 2020

- **Anyone who assumes that currency devaluation will be used to try to solve current and structural problems will prefer gold to bonds.**
- **Renaissance of hoarding: One of the key lessons from the coronavirus crisis will be that stockpiling makes sense.** The time of maximally optimized supply chains and just-in-time production is behind us for the time being. The securing of supply chains through storage capacity would represent a radical psychological change.
- **Shift in supply and relative scarcity:** The budget deficits and thus the financing needs of states will explode, while gold stocks will continue to grow only by a constant 1.6% per year.
- **Limited upside for bonds:** Investors hold bonds primarily to cover long-term liabilities, to participate in price gains, and to earn coupons. In view of record high price levels, upside seems very limited, and risk/reward appear clearly asymmetrical. In our opinion this also explains the growing correlation between gold and bonds.

If gold is a pet rock, then aren't bonds without yields just pet paper?
Louis-Vincent Gave

Because of gold's liquidity, it could easily succeed to the throne. The LBMA has shown in a paper that gold sometimes has higher liquidity than government bonds. Based on the method used by the European Banking Authority (EBA), gold has an index value of 0.000018. The closer the value is to 0, the more liquid an asset is. Gold thus clearly beats HQLA (high-quality liquid assets) such as government bonds (0.058) and corporate bonds (0.188).[53]

Gold vs. Commodities

For the commodity sector, the last few months have been as turbulent and unsuccessful as Justin Bieber's latest attempt at a comeback. The CRB commodity index lost 33% this year and is now 72% below its all-time high, while the Bloomberg Commodities Index (BCOM) lost 25% over the same period and is now 65% below its high. It looks like the whole world is upside down and we have gone to "Opposite Land"[54], after purchasers of oil have been paid to take it and debtors are paid interest for taking on more debt, thanks to negative interest rates.

A comparison of the development of commodities (the CRB Index) vs. the US Dollar Index (DXY) shows that commodity prices and the US dollar continue to be strongly inversely correlated. To put it crudely, the well-being of commodities is closely linked to the US dollar. **Commodity prices will only receive strong support if the US dollar begins to weaken.**

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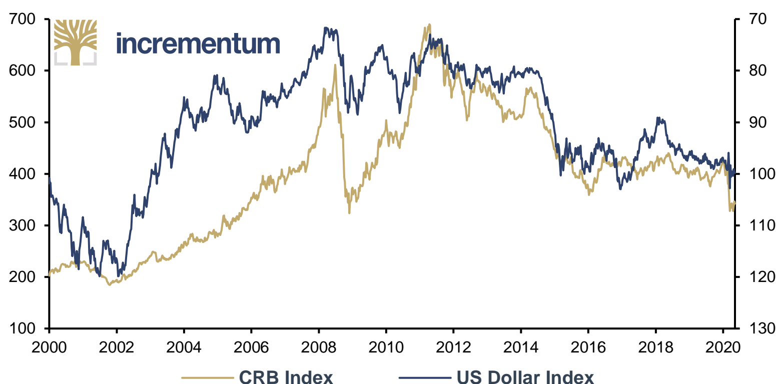
[53] The reason for the study was to convince the EBA to exempt gold from the draconian Basel III capital requirements for illiquid assets. *See* "London's gold market is more liquid than bonds – LBMA", Reuters, July 11, 2019
[54] *See* Hamlyn, Charlotte Rose: "*Opposite Land*"

CRB Index (lhs), and US Dollar Index (inverted, rhs), 01/2000-05/2020



Source: Reuters Eikon, Incrementum AG

The goal shouldn't be to achieve a strong dollar or a weak dollar, but a dependable dollar.
Judy Shelton

The analyses of *Wellenreiter Invest* show that the DXY has clear relative strength compared to its historical average in election years. The decoupling of the DXY from its overall average typically begins at the opening of the second quarter and ends with the US presidential election in early November. Thereafter, the index tends to weaken and thus trades inversely to the pattern of the previous 10 years at the end of the year. **Donald Trump will not like this statistical side of the US dollar's strength at all; after all, he has often sharply denounced the strength of the US dollar.**[55]

Courtesy of Hedgeye

Let's look now at the development of commodities relative to the equity market. The following chart was by far the most quoted chart in the *In Gold We Trust* reports of recent years.[56] It shows impressively that the present relative valuation of commodities compared to equities is historically extremely favourable. Compared to the S&P 500, the GSCI Commodity Index (TR) is at its lowest level in 50 years. The ratio is currently at 0.48, well below the long-term median of 4.10 and miles below the highs. In terms of a mean reversion, attractive opportunities should arise for investors with strong nerves, a long string of patience, and a penchant for countercyclical investments.

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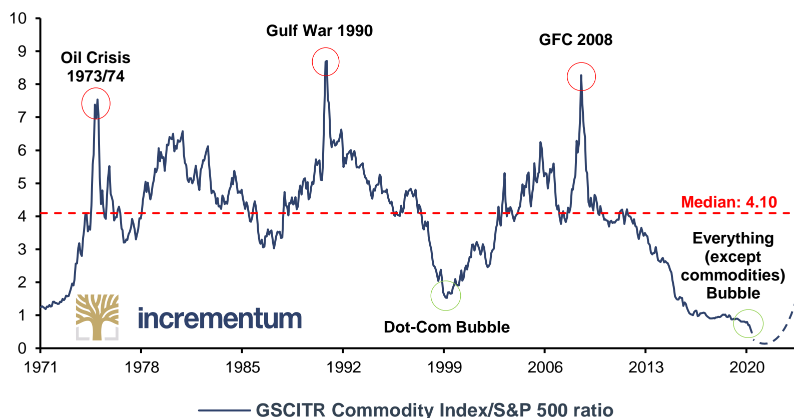
55 *See* Rethfeld, Robert and Hirsekorn, Alexander: "Wellenreiter Ausblick 2020"
56 We would like to take this opportunity to once again thank Prof. Dr. Torsten Dennin, who had the idea for this magnificent chart.

GSCITR Commodity Index/S&P 500 ratio, 01/1971-05/2020



Source: Lynkeus Capital LLC, Dr. Torsten Dennin, Reuters Eikon, Incrementum AG

Conclusion

The upward trend on the stock markets, which had seemed invulnerable for a long time, came to a brutal end in mid-February 2020. This led to gold – contrary to the general reporting – gaining significantly relative to stock indices everywhere, but now also relative to bonds. Nevertheless, the clear undervaluation of commodities compared to stocks is now even more pronounced than last year. **From our point of view, gold always leads, while silver and commodities then follow in the market cycle.**

Status Quo of Inflation Dynamics

> *"No one is ready for inflation, but I believe it's coming. Maybe not today or next week, but there is a powder keg of monetary supply just waiting to be unleashed by governments who think that inflation can never happen again.*
>
> *At first, markets will cheer a bit of inflation – then they'll panic. The markets often do whatever the fewest people are positioned for.*
>
> *Who's positioned for inflation? That's about as contrarian as buying Argentine sovereign debt."*
>
> Harris Kupperman

Now we want to address one of the central themes of our investment strategies[57] and also one of the most important factors influencing the gold price: inflation.

Last year, it seemed that predicting rising inflation rates was the most extreme and abstruse contrarian position one could take, akin to Denmark's becoming European football champions in 1992.[58] In its April 2019 issue, Bloomberg Business Week asked "*Is Inflation Dead*?" and in October 2019 the Economist asked "*The end of inflation?*" **In our view, these eulogies on inflation seemed more than premature.**

The coronavirus crash in February and March 2020 was – like every stock market collapse – a deflationary event. The central banks' measures, some of which appeared panicky, attempted to combat this deflationary pressure with brute force. Reason enough for us to take another close look at inflation trends.

But let's first take a step back and ask ourselves why the fear of deflation – i.e. the real appreciation of purchasing power – is actually so deeply rooted in the psyche of central bankers, economists and politicians, just as other people are afraid of a root canal treatment without anesthesia or of stepping on the scale after a couple months of lockdown.

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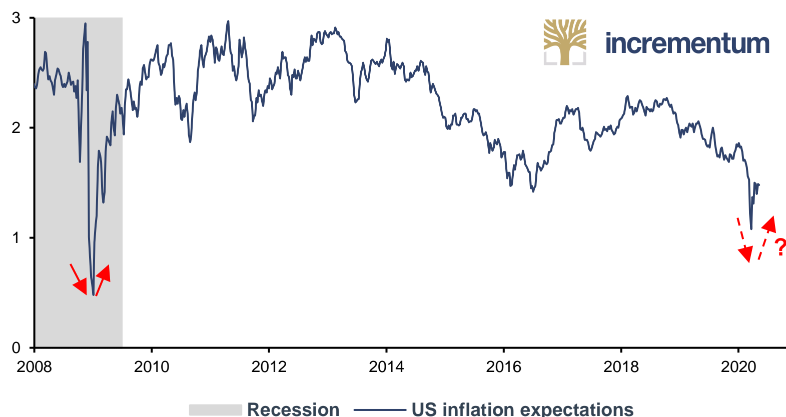
57 You can find more information about our investment solutions at www.incrementum.li
58 Yugoslavia were withdrawn from the tournament due to the Balkan conflict, despite having previously qualified successfully, and were replaced only ten days before the start of the tournament by the runner-up in the qualifying group, Denmark. Denmark sensationally won the final against reigning world champions Germany. https://www.youtube.com/watch?v=pDe2N9ykR6A

US inflation expectations, in %, 01/2008-05/2020



Source: Federal Reserve St. Louis, Incrementum AG

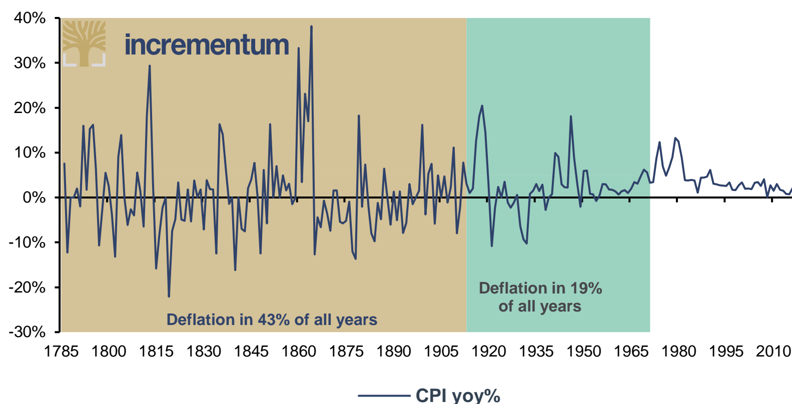
The idea that when people see prices falling they will stop buying those cheaper goods or cheaper food does not make much sense. And aiming for 2 percent inflation every year means that after a decade prices are more than 25 percent higher and the price level doubles every generation. That is not price stability, yet they call it price stability. I just do not understand central banks wanting a little inflation.
Paul Volcker

The fear of deflation seems unfounded. That there is no empirical connection between periods of deflation and depression, with the exception of the Great Depression, was confirmed by a comprehensive historical study by the Federal Reserve, the central finding of which is the following:

> *"Our main finding is that the only episode in which we find evidence of a link between deflation and depression is the Great Depression (1929-34). We find virtually no evidence of such a link in any other period. … What is striking is that nearly 90% of the episodes with deflation did not have depression. In a broad historical context, beyond the Great Depression, the notion that deflation and depression are linked virtually disappears."*[59]

The next chart shows that deflationary and inflationary phases alternated until the establishment of the Federal Reserve. Between 1785 and 1913, 43% of all years saw falling prices. Since 1913, however, and especially since the end of the Bretton Woods Agreement, this picture has changed radically. Between 1913 and 1971, only 19% of all years saw price deflation on an annual comparison basis. Since the disengagement from gold in 1971, there have been only brief *monthly* phases of a general decline in the price level. Those were experienced particularly in the wake of the 2008 financial crisis.

[59] Atkeson, Andrew and Kehoe, Patrick: "Deflation and Depression: Is There an Empirical Link?", *NBER Working Paper 10268*, January 2004. The paper analyzes data from 17 nations over 100 years.



Source: Nick Laird, goldchartsrus.com, Incrementum AG

I see deflation in the things you own and inflation in the things you need.
Kyle Bass

What is the reason for this paradigm shift? As we have shown in the previous chapter on global debt development, debt levels have been rising faster than ever since 2008. Since the beginning of the Covid-19 crisis, the already high pace of debt growth has increased even further. In today's highly leveraged fractional reserve debt system, severe credit deflation would have shocking political and real economic consequences. From a systemic perspective, deflation must therefore be avoided, *whatever it takes,* for the following reasons:

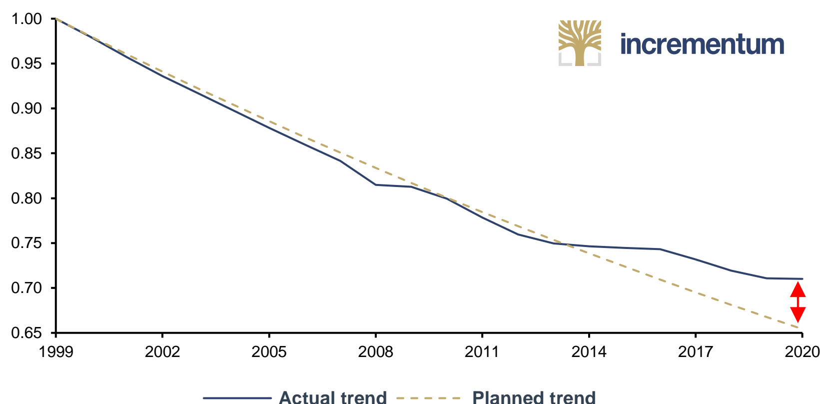
- **Deleveraging leads to consumer price and asset price deflation.** While low inflation systematically increases the tax burden through effects such as bracket creep, this process is reversed in the case of deflation and leads to falling tax revenues. Falling asset prices also mean dwindling revenues for the finance minister.
- **Falling prices lead to a real appreciation of nominal debt**. This makes it more difficult to service current debts and leads to more bankruptcies among companies and private individuals.
- In an overindebted world, **debt reduction and price deflation have fatal consequences for large parts of the banking system, because the low equity base of commercial banks rapidly diminishes through write-offs of defaulted receivables.**

In addition to maintaining price stability, which is usually defined as positive annual inflation of around 2%, central banks also have the mandate to guarantee "financial stability" and to ensure that "*it*"[60] does not happen.

That is the real reason why deflation is the nemesis of every central banker today. The goal of every organism, every person, and every bureaucracy is to maximize its chances of survival. In this respect, deflation is an existential threat to the current monetary system that must be fought with all means. In order to conceal the inherent instability of the credit system, any sign of credit deflation will therefore continue to be compensated, or rather overcompensated, by

[60] *See* "Ben S Bernanke: Deflation – making sure 'it' doesn't happen here", bis.org, November 21, 2002

extremely expansive central bank policies. If we look at the CPI, we see that the fear of deflation is exclusively a function of the dominant monetary system.



Source: Reuters Eikon, Degussa, Dr. Thorsten Polleit, Incrementum AG

Monetary policy does not work like a scalpel but more like a sledgehammer.
Liaquat Ahamed

Faithful readers know that our definition of inflation differs from the mainstream view.[61] Contrary to the popular opinion that industrialized economies are characterized by too-low inflation, enormous monetary inflation has in fact already taken place. In the last cycle, however, this was reflected especially in skyrocketing asset prices. It is incomprehensible why rising food prices are seen as critical, while soaring real estate prices are often seen as a blessing. In both cases there is a reduction in purchasing power.

Having a little inflation is like being a little pregnant.
Leon Henderson

Let's examine the primary objective of the ECB – and of many other central banks – that is, "price stability". By price stability, the ECB understands an increase in a basket of goods "*in the medium term of close to but below 2%*". This is an idiosyncratic interpretation of "stability", because if goods prices rise by 2% a year, this corresponds to a loss of purchasing power of 18% in 10 years and 33% after 20 years. The next chart shows that the ECB has missed this target in recent years, i.e. the inflation rate was too low.

Even before the crisis, the Federal Reserve was considering introducing a rule that would allow the inflation rate to overshoot its 2 percent target. This would be a significant change to the definition of the monetary policy target. This adjustment is intended to prevent latent low inflation in the USA from becoming entrenched. This new policy presupposes "*that it is acceptable that for an average of 2 percent, one cannot have observations that are below 2 percent*",[62] said Eric Rosengren, President of the Federal Reserve Bank of Boston, in an interview with the Financial Times.

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[61] See "Inflation ≠ rising prices: confusing terminology with grave consequences", *In Gold We Trust* report 2012; "Excursion: Monetary Tectonics – Inflation versus Deflation", *In Gold We Trust* report 2013; "Gold and Inflation", *In Gold We Trust* report 2014; "Gold and Inflation", *In Gold We Trust* report 2015; "Inflation and the Investment", *In Gold We Trust* report 2016; "Where Things Stand", *In Gold We Trust* report 2017; "Quo Vadis, Aurum?: Systemic Overindebtedness and Inflation" and "Inflation vs. Deflation – The Big Showdown?", *In Gold We Trust* report 2018; "Hyperinflation: Much Talked About, Little Understood", *In Gold We Trust* report 2019

[62] "US Federal Reserve considers letting inflation run above target", Financial Times, December 1, 2019

A one-year review of the Federal Reserve's monetary policy instruments is expected to be completed before the end of 2020 and could lead to the implementation of this concept of "makeup inflation". **In our opinion, this turnaround in monetary policy would have considerable consequences for capital markets, especially the bond market.**

US 30-year treasury yield, in %, 01/1980-04/2020

Source: Reuters Eikon, Incrementum AG

The ECB has also started a strategy review. With its own portal – "ECB Listens Portal"[63] – it is trying to involve a broader cross-section of the population in this process. As a result of the coronavirus crisis, the strategy review has already been extended to 2021. The change in the definition of price stability is formally relatively easy to implement. A simple majority in the Governing Council is sufficient for this purpose, provided that at least two-thirds of the members entitled to vote under the rotation system participate in the vote.

Current inflation trend

After these theoretical and historical thoughts on inflation, we now want to turn our attention to current developments and, above all, to future inflationary trends.

Anyone who thinks there will be deflation does not understand twenty-first century banking. There may well be a deflationary collapse later, but before that happens the government will print money until the world runs out of trees.
Jim Rogers

Where are we currently located on the inflation map? The present development corresponds exactly to the textbook description of the ABCT.[64] In the course of the inflationary process, asset prices rise first (= asset price inflation) and only then does consumer price inflation (= inflation) set in. The enormous asset price inflation of the last cycle can be seen in many examples. In addition to the substantial increases in the value of bonds, real estate and shares, the prices of antiques, luxury goods, expensive wines, vintage cars, football player transfers, etc. have risen into the stratosphere. **We would accordingly not be surprised if the next phase – rising consumer price inflation – were to begin.**

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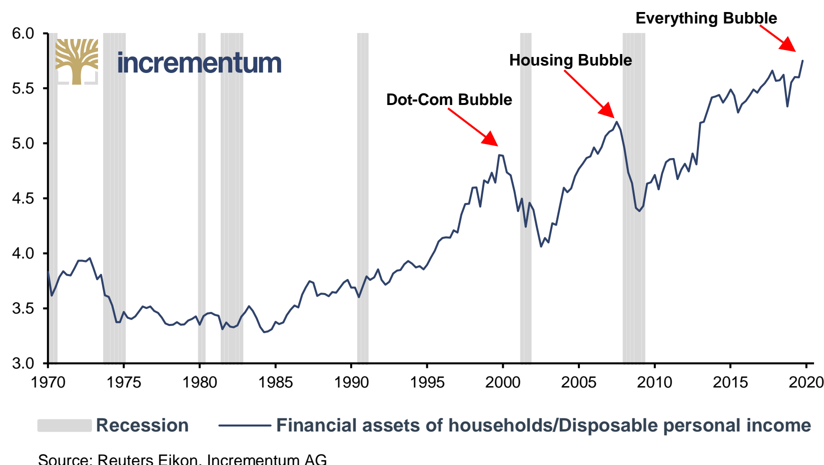
63 ECB: ECB Listens Portal
64 *See* Wikipedia entry: "Austrian Business Cycle Theory"

Everything bubble, Q1/1970-Q4/2019

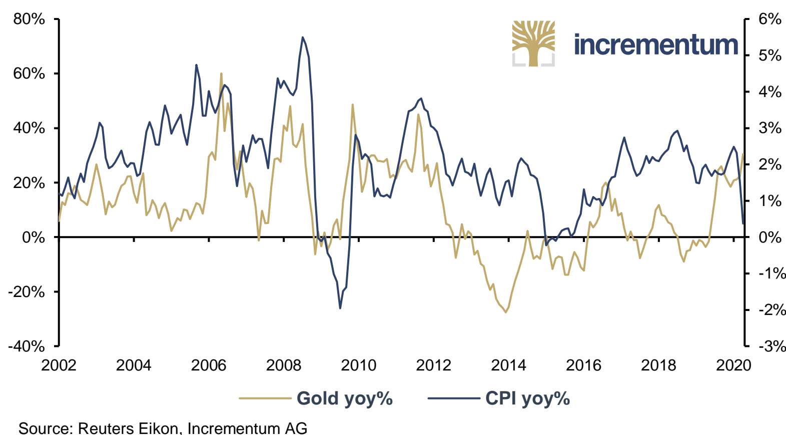


Source: Reuters Eikon, Incrementum AG

Now we face another deflation shock. However, it is a deflation shock in which we should stop focusing on deflation.
Russell Napier

From the end of 2011 to the beginning of 2015, the inflationary trend in the USA was clearly downward. One can see that this disinflationary environment also created headwinds for the gold price. The CPI then rose to an interim high in July 2018 and has been falling ever since. The gold price was able to emancipate itself from the inflationary trend, which is primarily due to falling real interest rates.

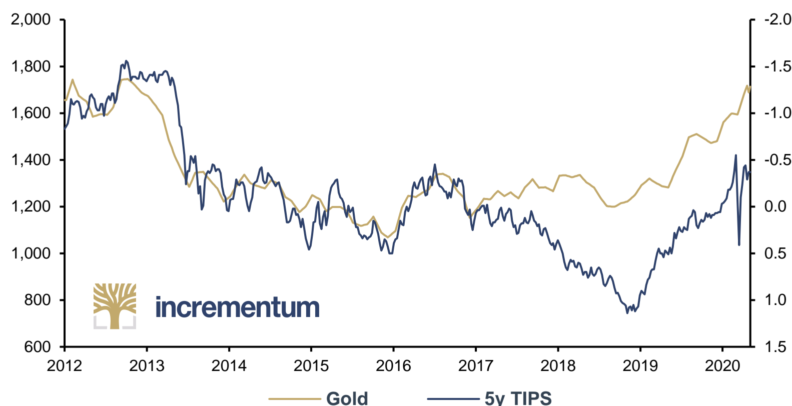
Gold yoy% (lhs), and CPI yoy% (rhs), 01/2002-04/2020



Source: Reuters Eikon, Incrementum AG

Yields on inflation-linked bonds show an extremely high correlation with the gold price. If we compare the gold price with the real yield of 5-year inflation-linked US government bonds (TIPS), we can see that the outbreak of the gold price at the beginning of 2016 was accompanied by the pricing in of rising inflation expectations. Since the beginning of 2019, TIPS have been on a downward path again, although the spike in March could also mean a trend reversal. Volatility was enormous, with the real yield falling to -0.61% on 5 March and rising again to 0.63% within two weeks. Such a rapid rebound of 124 basis points had never been seen before.

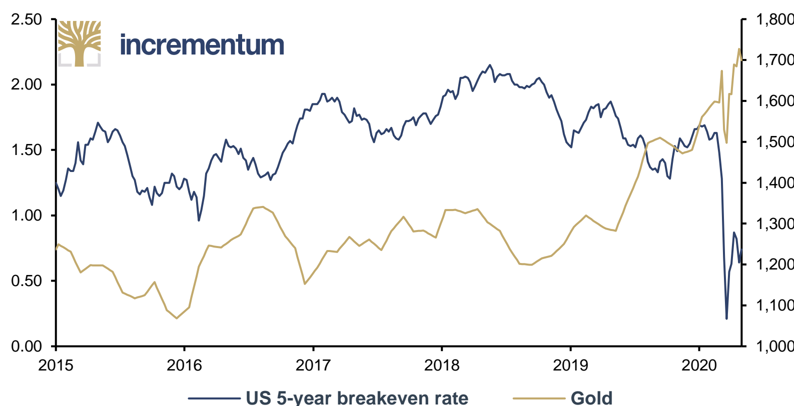
Gold (lhs), in USD, and 5y TIPS (inverted, rhs), in %, 01/2012-05/2020



Source: Reuters Eikon, Incrementum AG

Since the low in TIPS of 0.14% on 19 March, inflation concerns have risen slightly again, according to the break-even rates.[65] Currently, the 5-year break-even inflation rate is at 0.76%. This means that investors expect the inflation rate to average 0.76% over the next five years. **A deflationary development as in 2008/09 is not expected so far.** In November 2008, the break-even inflation rate recorded a negative value of -2.23%.

US 5-year breakeven rate (lhs), in %, and Gold (rhs), in USD, 01/2015-05/2020



Source: Reuters Eikon, Incrementum AG

The 5Y5Y inflation swaps[66] plunged nearly to their all-time low in March (they were at 0.43% in December 2008 at) but recovered rapidly in recent weeks. The last cycle had already showed how extremely sensitive inflation swaps are to oil prices and especially to the equity market. It is also interesting to see how inflation swaps are correlated with the G/S ratio.

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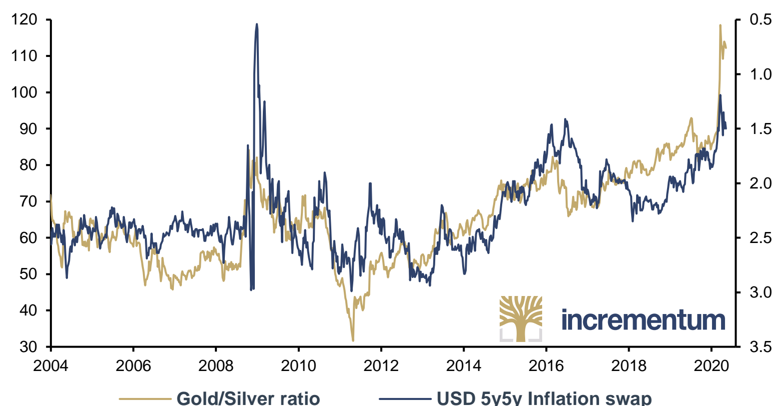
[65] The break-even inflation rate describes the yield differential between 5-year US government bonds and 5-year inflation-linked government bonds (TIPS). It is a very reliable leading indicator of the US inflation rate.

[66] This is the market expectation of the average inflation level in 5 years over a 5-year period. It is very important for central bankers, as it tells them how the market views the long-term impact of their policies on inflation.

Gold/Silver ratio (lhs), and USD 5y5y Inflation swap (inverted, rhs), 01/2004-05/2020



Source: Reuters Eikon, Incrementum AG

... there exists a distinct possibility that the recovery that follows will be much more inflationary than the last.
Dave Rosenberg

According to our statistical evaluation, a sustained rise in the price of gold is unlikely if the gold/silver ratio rises at the same time.[67] A falling G/S ratio significantly increases the probability of a bull market in gold. We are observing the current situation of the ratio particularly closely because the price has reached an historic extreme and might be on the verge of a reversal. A new downward trend in the ratio would signal a positive outlook for gold on the one hand and a rising inflation dynamic on the other. **Most recently a reversal from 125 to 100 took place, which confirms our bullish outlook for gold, silver and also inflation.**

Will inflation make the biggest comeback since Niki Lauda in Monza?[68]
What could be fundamental forces that structurally fuel the inflationary dynamic?

- The enormous fiscal and monetary stimulus that has been and will be provided worldwide.
- The growing importance of ESG, which will make it increasingly difficult for commodity producers to access capital. There are many indications that alternative sources of energy, which are considered more environmentally friendly, will make the energy mix significantly more expensive.
- A shortage of labor in certain sectors, rising minimum wages, and globally rising unit labor costs.[69]
- The numerous coronavirus-related effects on the supply of goods and services, which lead to a shortage of supply and a decline in productivity. The economy, even after it ramps up, will probably be operating at lower level of capacity than before.

A noteworthy study on the role of various inflation drivers had as a central finding that inflation *expectations* have a huge impact on actual inflation.[70] For example, positive shocks to inflation expectations led to higher *realized* inflation, with retail food prices having a major impact. Because

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67 *See* "Technical Analysis", *In Gold We Trust* report 2018; "The gold-silver ratio as an indicator measuring inflation momentum", *In Gold We Trust* report 2015
68 42 days after his terrible accident at the Nürburgring, Lauda mounted his Ferrari on the Ferrari home track in Monza and finished fourth despite bleeding wounds.
69 *See* "How Sturdy Are the Zeitgeist's Five Pillars", Gavekal, January 22, 2020, especially the part on inflation
70 *See* "Breakfast with Dave", Rosenberg Research, May 1, 2020

consumption accounts for more than two-thirds of US GDP, which is above average by global standards, consumers' inflation expectations are central. **But how does the consumer shape his inflation expectations?**

Consumers base their inflation expectations on their own memory of prices paid, especially for supermarket products.[71] Rising (supermarket) prices thus lead to higher inflation expectations, which in turn threaten to become a self-fulfilling prophecy, accelerating inflation. It is therefore crucial for central banks to anchor low and stable inflation expectations and to fulfill these expectations in order to strengthen their own credibility. A central bank that loses credibility is opening the door to higher inflation expectations. The news that grocery store prices saw the sharpest increase in nearly 50 years in April, will therefore cause some headaches for central bankers in the US, even though the general price level was down.[72]

If globalism was deflationary, isn't the reverse inflationary?
Harris Kupperman

The return of protectionism and an increase in trade barriers, export bans, punitive tariffs, etc. Supply chains are becoming shorter and more robust, but also more expensive. Such a relapse into protectionism would have considerable negative consequences for global prosperity. The introduction of customs duties or other trade barriers makes products more expensive and leads to lower purchasing power. As a result, citizens can consume less and save less in real terms. Protectionist measures are also often harbingers of cultural and ultimately political alienation, which makes military conflicts more likely. **Our friend, the economist and philosopher Rahim Taghizadegan, makes the following comments:**

> *"Frédéric Bastiat remarked: 'If goods cannot cross borders, armies will. Protectionism is often the precursor to war.' Trade makes strangers familiar with each other, and more and more people have incentives not to put their livelihoods at risk by hostile attitudes."*[73]

In order to see clearly, it is often sufficient to change the direction of vision.
Antoine de Saint-Exupéry

In any case, there is much to suggest that the Covid-19 crisis has brought many inflationary problems and conflicts that were already smouldering to the boil. It is a trigger that has a reinforcing effect, but almost all the problems and conflicts that kept the economy, nation states, and the world on edge even before the virus struck are still in play. In addition to the political upheavals, the social unrest of the previous year, from Hong Kong to Cairo to Beirut, Paris, and Santiago de Chile, must also be mentioned. There have been many strong signals that resentment is rising as the financial well-being of the global population clearly deteriorates.

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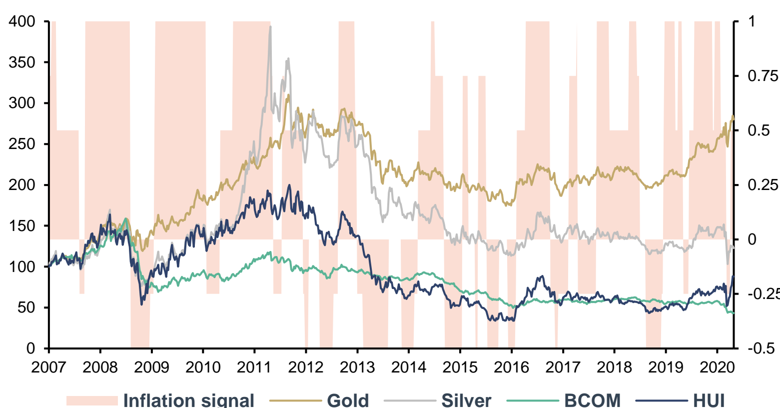
[71] Cavallo, Alberto, Cruces, Guillermo, and Perez-Truglia, Ricardo: "Inflation Expectations, Learning, and Supermarket Prices: Evidence from Survey Experiments", *American Economic Association Journal*, Vol. 9, 3. Juli 2017
[72] *See* "US grocery costs jump the most in 46 years, led by rising prices for meat and eggs", cnbc, May 12, 2020
[73] *See* Taghizadegan, Rahim: *Alles, was Sie über die Österreichische Schule der Nationalökonomie wissen müssen: Eine Einführung* (*"All you need to know about the Austrian School of Economics: An Introduction"*), 2016

The Incrementum Inflation Signal

Whether initially deflationary or ultimately inflationary, this profound shift ends the long period of disinflation, but it also creates the necessity for much more aggressive financial repression in the developed world.
Russell Napier

If you want to obtain a picture of global inflation trends, it is helpful to look at the price development of inflation-sensitive asset classes such as gold, silver, other commodities (BCOM), or gold mining stocks. These provide forward-looking statements on the inflation trend in the short and medium term, while conventional inflation statistics only ever show past inflation trends, i.e. they look in the "inflation rear-view mirror". Such statistics are largely insignificant for the investor, who always tries to anticipate future price development. **We have therefore developed a proprietary inflation signal with which we analyse the current inflation trend. The inflation signal thus obtained is a basis for our asset allocation decisions.**

Inflation sensitive assets (lhs), indexed 01/2007 = 100, and Incrementum Inflation signal (rhs), 01/2007-05/2020



Source: Reuters Eikon, Incrementum AG

As can be seen on the chart above, the following periods of inflation have been observed over the past 13 years:

- Inflationary phase until August 2008
- Disinflationary/deflationary shock in the wake of the major financial crisis, 2007/2008 until March 2009
- Reflation until 2011/2012
- Disinflationary trend until the end of 2015
- Lateral phase since the beginning of 2016
- Short deflationary shock, Q1 2020
- Slightly rising inflation since April 2020

Before the Covid-19 crisis, our inflation signal, in connection with the "risk-off" movement in the fourth quarter of 2018, indicated the last pronounced deflationary market movement. The stock market correction at that time proved to be a harbinger of the increasing economic slowdown, which gradually became more pronounced in 2019.

The decisive factor, however, was that this market movement was the reason for the turnaround in US interest rate policy, as the Federal Reserve had to abandon its much-invoked monetary policy normalization. The turnaround in interest rates not only led to a recovery on the stock markets, it also boosted inflation-sensitive investments. **As already mentioned elsewhere, Q4/2018 ultimately also**

marked the last high in the Dow/gold ratio, which has been falling ever since.

Inflation-sensitive investments such as gold, silver, commodities, and gold mining stocks had a strong 2019 and outperformed the broad equity indices for the first time in a long time. **Our inflation signal indicated the strength early on and prompted us to clearly overweight inflation-sensitive investments in our *Incrementum Inflation Diversifier*.**

In the course of the Covid-19 crisis the inflation signal has weakened dramatically. The renewed "risk-off" initially also affected the crisis-resistant commodity, gold. As we have also discussed in detail, the massive deflationary tendencies were countered with extreme monetary and fiscal measures.

For investors today, with long-term bond yields at historic lows, it is a reminder that real assets, including stocks, real estate and precious metals can serve an important, although long-redundant role, in protecting a portfolio against the risk of inflation.
David Kelly, JPMorgan Funds

However, it is remarkable that the broad commodity market has clearly underperformed within the inflation-sensitive investments, both before and since the Covid-19 crisis. This is also consistent with our assessment of a weakening global economy. We interpret the outperformance of gold and gold mining stocks as harbingers of significantly higher inflation in the medium term. Silver has been a relative underperformer until recently. With the onset of stronger inflationary tendencies, we would also expect silver to outperform and the broad commodity indices to turn around.

The inflation signal currently indicates a slight upward trend. **The currently falling gold/silver ratio and stabilizing commodity prices might give the inflation signal its full signal strength in due course.**

Stagflation ante portas?

One may say that, apart from wars and revolutions, there is nothing in our modern civilizations which compares in importance to inflation.
Elias Canetti

Since we believe that the probability of a stagflationary scenario has increased, we want to take up the topic again this year.[74] The reasons for this are obvious. It cannot be stressed often enough that the global economy had already cooled down noticeably before the outbreak of the coronavirus. The Federal Reserve had already lowered interest rates three times by 0.25% each in the second half of 2019, and the ECB resumed its QE program in autumn. **This unpleasant fundamental state of the global economy is now meeting with a unique flood of new money that the central banks have put into circulation in recent weeks.**

Courtesy of Hedgeye

The term *stagflation* describes the economic situation in which economic stagnation, i.e. low, below-potential growth and noticeable inflation coincide. This term was coined by the British MP and later Chancellor of the Exchequer Iain Macleod, who first employed it as early as 1965. He revisited the term in the summer of 1970, and since then ist use has slowly become commonplace.

The stagflation of the 1970s

The great stagflation of the 1970s may well serve as a lesson for the situation today. At that time, the Western industrialized countries, above all the USA, suffered

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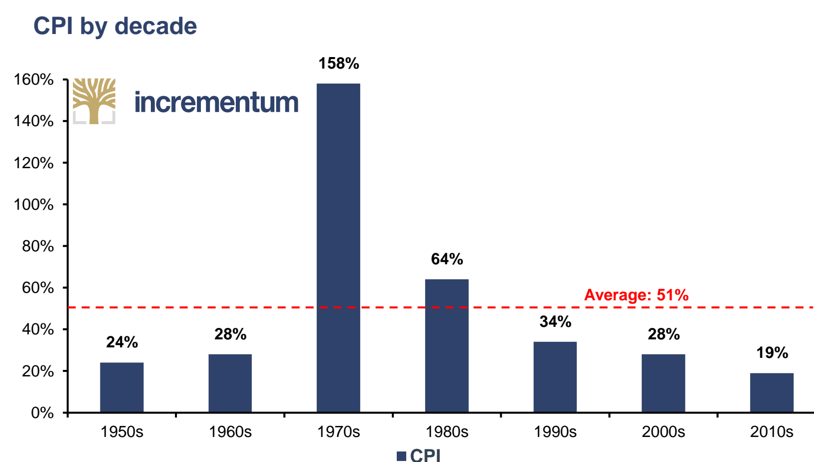
74 *See* "The Status Quo of Gold", *In Gold We Trust* report 2019

from chronically high inflation rates, with unemployment doubling at the same time. According to mainstream economists, this was triggered by the two oil price shocks of 1973/74 and 1979/80, and thus exclusively by exogenous factors.

However, this overlooks the fact that the global inflation wave had been triggered by the depreciation of the US dollar as the global reserve currency against gold and commodities. In September 1971, OPEC announced a new price determination for oil in a communiqué that followed the termination of the Bretton Woods Agreement:

> *"Our member countries will take all necessary steps and/or conduct negotiations with the oil companies to find ways and means to counteract adverse effects on the real income of member countries resulting from international monetary developments as of August 15, 1971."*[75]

In previous years, representatives of the Austrian School of Economics had warned of the devaluation of the US dollar and the inflationary tendencies that would follow. Among them was, for example, the then-young Harry Browne, who in various media appearances and in his books very impressively anticipated the developments of the 1970s.[76]



Source: Bloomberg, Incrementum AG

Of course, the framework conditions today are not exactly the same as in the 1970s, when the Western world was confronted with pronounced stagflation. **Nevertheless, considerable currency devaluations and, as a consequence, stagflationary tendencies are currently to be expected again.**

The MMT people aren't really Keynesians. They're a blend of Keynesian and Marxist.
Cullen Roche

We are firmly convinced that we are at a fork in the road. If it is difficult to stimulate economic activity through increased lending, central banks and governments will have to improvise and resort to a

75 "August 1971: Der Beginn des weltweiten Papiergeldsystems" ("August 1971: The Beginning of the Global Paper Money System"), Austria Economics Analytics, 1971
76 *See* "Harry Browne – The Coming Devaluation", YouTube, December 5, 2011

bag of tricks, such as putting academic mind games like MMT and helicopter money to the test.

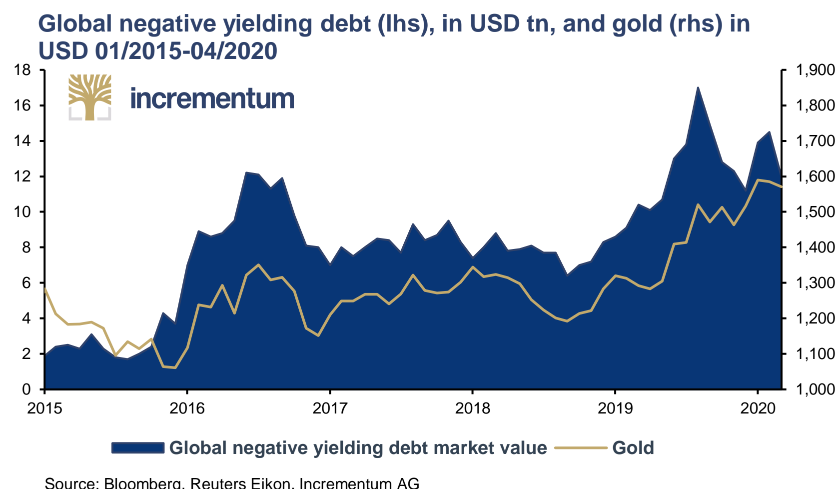
In our opinion, a paradigm shift in the markets – towards rising inflationary tendencies – will take place in the coming years. It seems that we have come a significant step closer to this scenario. **We are currently in the midst of the biggest economic crisis since the 1930s, and the inflation trend will turn in the medium term. We believe it is quite possible that we at some point be facing a pronounced phase of stagflation in the decade ahead.**

Conclusion

We are concerned witnesses of one of the biggest money experiments in human history. It seems that we have reached the end of the monetary banner and that we must now resort to unconventional and even more brutal measures to push through rising price inflation and economic growth.

Fears of rising price inflation continue to appear as folly or the constant siren-like warnings of doomsday prophets. Currently, however, government bonds in the amount of USD 12 trn are trading with negative interest rates, an amount almost equivalent to the GDP of the entire EU excluding Germany. Inflation could thus become the *pain trade* of the decade.

Global negative yielding debt (lhs), in USD tn, and gold (rhs) in USD 01/2015-04/2020



Source: Bloomberg, Reuters Eikon, Incrementum AG

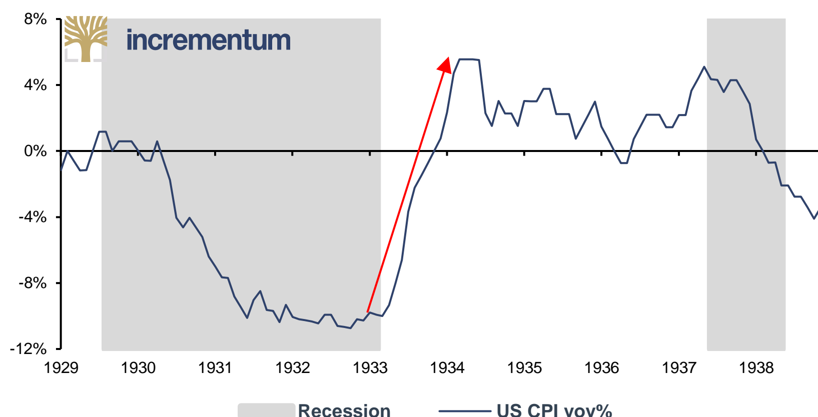
It gradually led to a widespread (crazy) belief that inflation is an historical artifact, not a modern possibility.
Paul Singer

The signs for a turnaround in the inflation trend have changed fundamentally, partly because commodities – especially oil – are now at a much lower price level, and the base effect will be reflected in inflation rates even if commodity prices stagnate.

A humble look at our monetary past teaches us that neither the mainstream economy nor central bankers can control the specifics of inflation dynamics. The pitifully failed attempts to regulate the level of inflation like one does a thermostat bear witness to our hubris and ignorance in the course of (monetary) history. **Waves of inflation occur unexpectedly and within relatively quickly. In our opinion, however, many of the factors**

mentioned in this chapter will only really take effect in the next upswing phase of the cycle, similarly to the Great Depression.

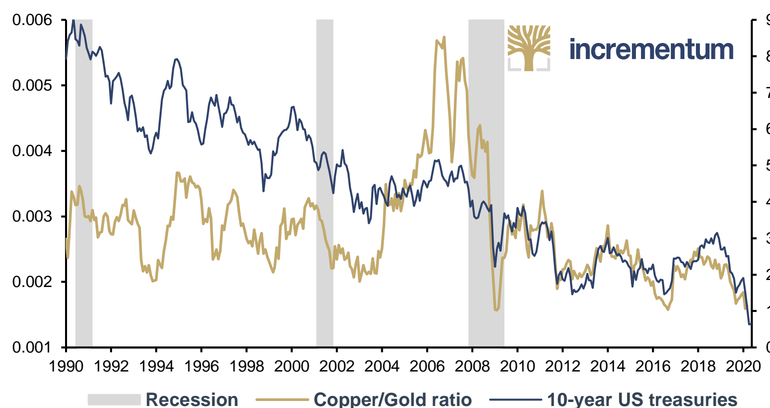
US CPI yoy%, 01/1929-12/1938



Source: Nick Laird, goldchartsrus.com, Incrementum AG

What signals should one look for in order to detect a reversal of the inflation trend at an early stage? In addition to our inflation signal and the gold/silver ratio, we consider the copper/gold ratio, which shows an astonishing correlation with US Treasuries, to be an exciting inflation indicator.[77] **Should the copper/gold ratio reverse its trend, a reversal of the inflation trend may be imminent.**

Copper/Gold ratio (lhs), and US T10Y (rhs), in %, 01/1990-05/2020



Source: Reuters Eikon, Incrementum AG

While liquidity worries and the fear that *too little* money would be printed still dominated in 2008, the coronavirus recession/depression is likely to lead to a contrary market assessment. This would particularly be the case if confidence in the Federal Reserve's ability to stimulate the economy with further impetus measures were to be lost – the so-called "*The Emperor has no clothes*"-moment.

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[77] See Mayberry, Jeffrey M.: "The Power of Copper-Gold: A Leading Indicator for the 10-Year Treasury Yield", DoubleLine Funds

A firefighter has never been criticized for using too much water.
Stephen Poloz, Bank of Canada, Governor

As soon as rising price inflation is seriously considered by market participants, the general market sentiment could change fundamentally. **The current, still omnipresent expectation that, in case of doubt, there will be further stimulus measures by the central banks until they finally take effect, will be increasingly questioned in the event of rising inflation expectations.**

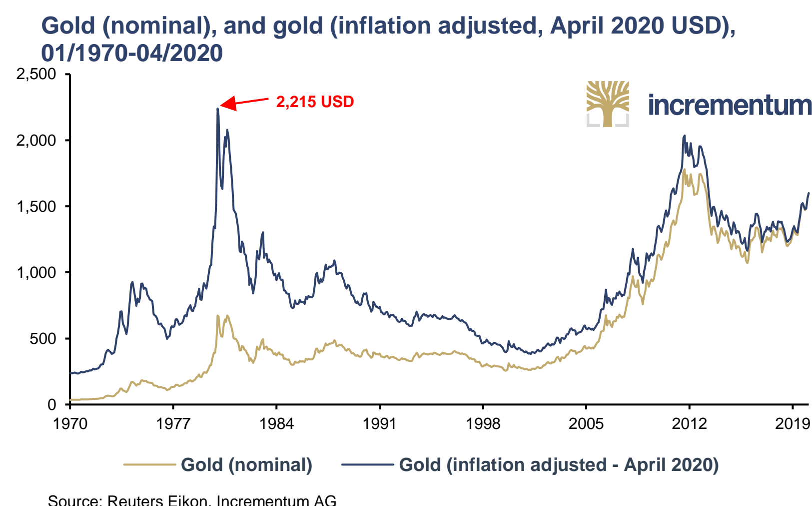
In the last couple of years, consumer prices have shown only a cautious upward trend, by which the central banks justify the continuation of their zero interest rate policy and all additional unconventional measures. Rising price inflation coupled with a fading post-coronavirus economy is the "perfect storm" for gold. However, the majority of market participants do not have this scenario on their books at the moment. **But as Wilhelm Busch once put it so aptly: "First of all, things will turn out differently, secondly, faster than one thinks."**

The Status Quo: Conclusion

"Gold is not a drug that cures the disease but merely a symbol of the flight from dishonesty – a symbol of independence, honest money and permanence."

Anthony Deden

Last year we took a clear position and concluded that we were in the early stages of a new gold bull market. This thesis was confirmed with the breakout above the resistance zone at 1,360-1,380 and the subsequent start of the rally. However, this significant price rise should be taken with a grain of salt. **To reach the inflation adjusted all-time high of 1980, gold would still have to rise to 2,215 USD.**



There are more questions than answers.
And the more I find out the less I know.
Johnny Nash

The background to our hypothesis of last year, that we are at the beginning of a new bull market, was that the economy was already in an increasingly favorable state for gold (even before the outbreak of the coronavirus pandemic): falling real interest rates, (the prospect of) a further easing of monetary and fiscal policy, growing political uncertainty, and clouds of recession looming.

Courtesy of Hedgeye

The Covid-19 outbreak was then *only* the straw that broke the camel's back. A very big straw, which dropped onto the markets with a vehemence that probably no one could have imagined in his wildest dreams. **As at the beginning of every crisis, the situation is still very murky.** Deflationary dynamics such as the loss of demand due to revenue shortfalls, a surge in unemployment and looming bankruptcies stand cheek by jowl with inflationary dynamics such as the loss of supply due to official closures and border closures, as well as the incipient rupture of supply chains, not to mention the massive expansion of budget deficits and central bank balance sheets. **In our view, a V-shaped recovery, as initially expected by many economists, can be ruled out.**

One of the central premises of our investment philosophy is the expectation that the interaction between inflation and deflation will become increasingly relevant for investors. We are convinced that we are now close to a fork in the road: Disinflationary pressures will (have to) be broken.

Inflationary forces will prevail. We therefore assume that inflation will be *the* dominant investment theme in the coming years. This is good news for inflation-sensitive investments such as gold, commodities, and mining stocks. Leaving the current low inflation phase could prove to be a pain trade for the mass of investors, especially if the 40-year party on the bond markets comes to an end. **If we compare different macro and market indicators at the last all-time highs of gold in 1980 and 2011 with today, it is evident that the current valuation of gold is still very appealing.**

Various market and macro numbers at the all-time-high of gold in 1980 and 2011 and currently:

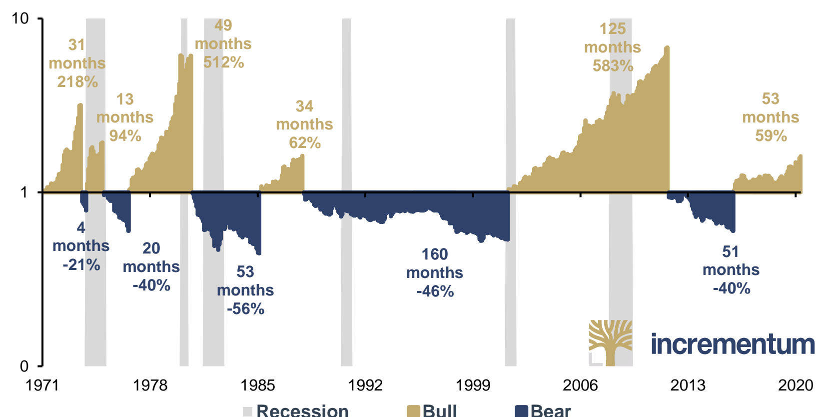
	1980	2011	Current
Gold Price in USD	850	1,900	1,750
Monetary Base (bn. USD)	155	2,637	4,844
M3 (bn. USD)	1,480	9,539	16,103
US Debt Outstanding (bn. USD)	863	14,790	23,201
GDP/capita	30,154	50,660	57,621
S&P 500	110	1,165	2,953
Unemployment rate	6%	9%	15%
US Dollar Index	86	78	99.80

Source: Federal Reserve St. Louis, Incrementum AG, as of May 22, 2020

None of us has the luxury of choosing our challenges; fate and history provide them for us.... Our job is to meet the tests we are presented.
Jerome Powell

Generally speaking, we see considerable upside potential, especially in commodity markets. They are attractively valued in both absolute and relative terms, especially in comparison with the stock markets. If we look at the bull markets of the last 50 years, it is striking that gold has gained 62% even in its weakest upward period. This allows us to look to the future with optimism.

Gold bull and bear markets, 01/1971-05/2020



Source: Reuters Eikon, Incrementum AG

The good news is that we know what is coming next. The bad news is that we know what is coming next.
Russell Napier

In this detailed assessment of the status quo, we have highlighted various factors that are relevant to the gold price development. One thing is certain: The expansion of the money supply, the negative real interest environment, and the disproportionate growth of debt have further increased the fragility of the global system.

The anti-fragile nature of gold was discussed in detail in the *In Gold We Trust* report 2016.[78] **We had the following thoughts about the degree to which gold is anti-fragile:**

- **The value of gold is based on its trust capital.**
- **Gold has historically been the most stable form of payment in the world.**
- **Gold is liquid, especially in stress situations.**
- **Gold is reciprocally related to the monetary system.**

A crisis is a productive state. You just have to take away the taste of catastrophe.
Max Frisch

We are therefore more convinced than ever that gold is a multidimensional portfolio component with antifragile properties that will show its full strength in the coming golden decade. The most important characteristic of gold is that it behaves reciprocally to the monetary system and is an effective protection against inflation and crisis. This is especially true for unexpected market distortions whose dynamics cannot be predicted in detail.[79]

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[78] *See* "Gold in the Context of Portfolio Diversification", *In Gold We Trust* report 2016
[79] *See* "Gold in the Context of Portfolio Diversification", *In Gold We Trust* report 2016

In Gold We Trust Extra: The Gold/Oktoberfest beer Ratio[80]

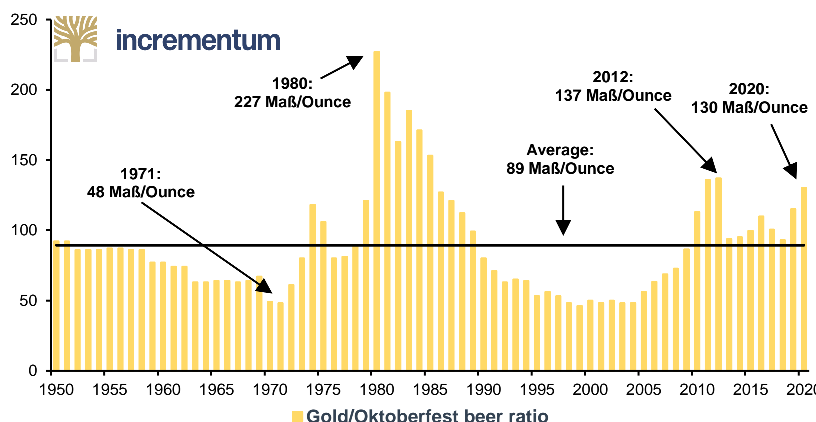
Alcohol is like Photoshop for real life.
Will Ferrell

"My worthy friend, gray are all theories, / And green alone Life's golden tree."[81]
Hard as it may be, in some years one must be content with theory. 2020 is such a year, because the 187th Munich Oktoberfest has fallen victim to the coronavirus pandemic.[82] But this should not prevent us from continuing one of the most beloved traditions of the *In Gold We Trust* report: the gold/Oktoberfest beer ratio. It is hard to imagine Munich without Oktoberfest, but an *In Gold We Trust* report without an update of the gold/ Oktoberfest beer ratio is unthinkable.

Beer makes you feel the way you ought to feel without beer.
Henry Lawson

At the last Oktoberfest, the *Maß* already cost up to 11.80 EUR. In 1950 a visitor to the Oktoberfest had to pay only 0.82 EUR. Since 1950 the annual *Oktoberfest beer inflation rate* equals, on average, 3.8%. And how many *Maß* does an ounce of gold currently buy? It will buy you 130 *Maß!* Measured against the historical average of 89 Maß, the *beer purchasing power* of gold is now above the average.

Gold/Oktoberfest beer ratio, 1950-2020



Source: Statista, Incrementum AG

I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts, and beer.
Abraham Lincoln

Thanks to the recent sharp rise in the gold/ Oktoberfest beer ratio, gold investors who love the Oktoberfest will certainly not sit at home with dry throats at the improvised Oktoberfest. After the strong increase by 22 Maß from 93 to 115 Maß last year, 2020 will also see a further increase to 130 Maß.[83] But we are still a long way from the historic high of 227 Maß per ounce of gold in 1980. Whether the consumption of such large quantities of alcohol is salubrious, however, is something that every reader must decide for himself.

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[80] We take a closer look at the gold/Wiesnbier ratio every autumn in an *In Gold We Trust* special, when the Theresienwiese is the scene of the hustle and bustle. We will keep it that way this year as well, even though the Oktoberfest will only take place virtually. *See* "O'zapft is! – The gold/Oktoberfest beer ratio 2019", *In Gold We Trust* special 09/2019
[81] Goethe, Johann Wolfgang von: *Faust, Part 1*
[82] Since its premiere in 1810, the Wiesn has been cancelled a total of 24 times, always because of serious emergencies: wars such as the Napoleonic Wars in 1813, the Prussian-Austrian War in 1866, and during World War I and World War II. Cholera prevented the Oktoberfest in 1854 and 1873, and in 1923 hyperinflation forced the cancellation. In 2020, the Wiesn will not take place for the first time since its resumption in 1949.
[83] However, we assumed that the price of beer would not have increased. With an increase of 2.6% as in the previous year, beer consumption falls by just over 3 Maß.

Mining Stocks: The Party Has Begun

"Never be the first to arrive at a party or the last to go home and never, never be both."

David Brown

Key Takeaways

- We remain firmly convinced that the cruel four-year bear market has resulted in the majority of mining companies now being on a more solid foundation. Producers are now leaner; they have reduced their indebtedness and will benefit more from rising gold prices in the future.
- Weak energy prices and strong USD vs. weak local currencies provide further tailwind.
- Major gold miners have broken out on high volume. Generalist investors are slowly entering the sector again.
- We believe that M&A will continue to be an important driver. Of the entire mining sector, gold is perhaps the most fragmented, and we believe that the gold industry and its investors would reap significant benefits from consolidation.
- Throughout history, the gold-to-silver ratio has traded at much lower levels. A decrease in the GSR, down to 40 or 50 over the next several years, will juice the cash-flow generation of silver producers.
- There are still few sectors that are more underweighted by the investment community than the mining sector.

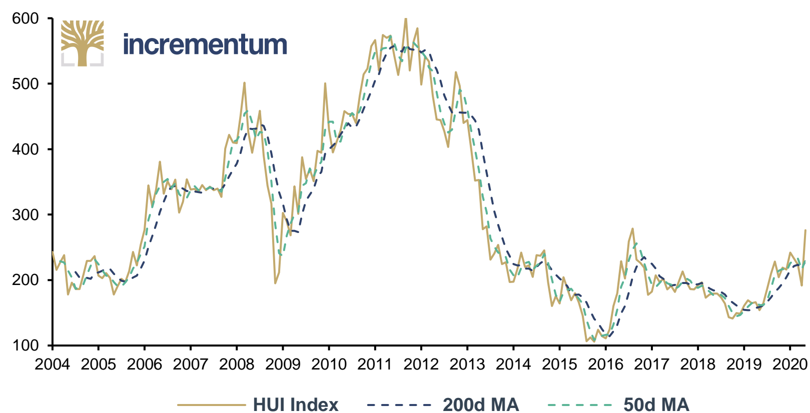
Opportunity is missed by most because it is dressed in overalls and looks like work.
Thomas A. Edison

This year we have again devoted considerably more space to the mining sector than in previous years.[84,85] This is due to the value proposition of the miners and the incredibly bullish macroeconomic backdrop for gold. Before delving into some of the notable talking points in the mining sector, it is worth quickly reviewing key developments in the mining industry since the end of the last bear market (2015) over a long-term horizon and over the course of 2019, along with key economic considerations.

All we need is just a little patience.
Guns N' Roses

Following a humbling bear market, investing in the sector felt akin to attempting to catching a falling knife – or maybe a falling chainsaw – with what was essentially a continuous drawdown beginning in the second half of 2011, to the bottom in late 2015. This period has caused interested investors to avoid this sector to this day. Investors, generally speaking, are not especially patient and want immediate gratification. Unfortunately for them, extreme patience and strong nerves are vital in the mining industry.

HUI Index, 01/2004-05/2020



Source: Reuters Eikon, Incrementum AG

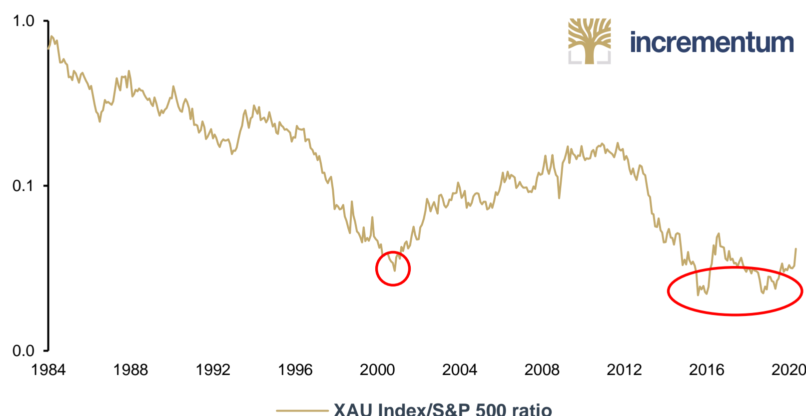
Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.
Warren Buffett

Like most bull markets, gold started off very slowly in 2016 and did not really gain steam until mid-2019. However, the first 8 months of 2016 were truly spectacular for gold and silver stocks alike. The HUI Gold BUGS Index peaked at roughly 284 in early August of that year (a 153% increase in just over 8 months). At the time, the gold price was below the USD 1,350/oz. level, while silver was pushing USD 20-21/oz., with both metals failing to breach key resistance levels. From mid-2016 to mid-2019, the gold price moved like molasses, taking 3 years to break the 2016 peak, despite vastly improved fundamentals.

Prior to looking further at the performance in recent years, it is worth briefly taking a look from a longer-term perspective. The next chart depicts the performance of the mining stocks (XAU Index) in relation to equity markets (S&P 500) and clearly illustrates how low the gold stocks are trading relative to the broader equity market.

[84] This is a shortened version of this chapter. You can find the long version in the *Extended Version* of the *In Gold We Trust* report 2020, which you can download at https://ingoldwetrust.report/igwt/?lang=en.
[85] *See* "Precious Metals Shares – More Than a Silver Lining?", *In Gold We Trust report* 2018, "Gold Mining Stocks – After the Creative Destruction, a Bull Market?", *In Gold We Trust* report 2019

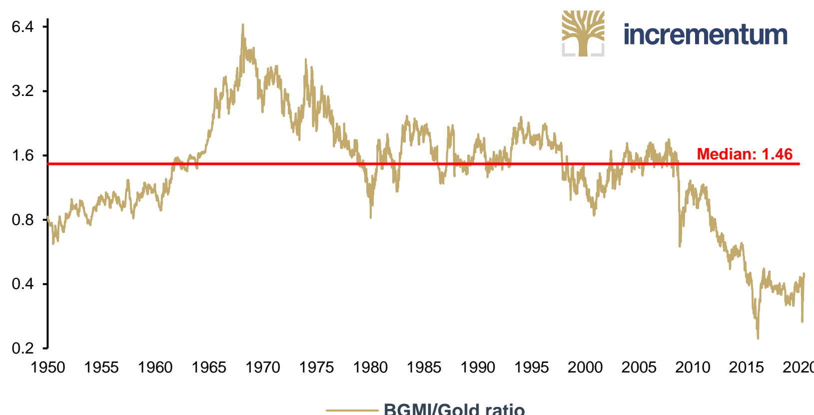
XAU Index/S&P 500 ratio (log), 01/1984-05/2020



Source: Reuters Eikon, Incrementum AG

This underperformance of mining stocks is particularly apparent if we make an even longer-term comparison. The oldest available gold mining index, the Barron's Gold Mining Index (BGMI), is currently de facto the lowest in 78 years relative to gold. In addition, the current value is miles below the long-term median of 1.46x.

BGMI/Gold ratio (log), 01/1950-05/2020



Source: Nick Laird, goldchartsrus.com, Reuters Eikon, Incrementum AG

Gains are overrated. Avoiding loss is underrated.
D. Muthukrishnan

Despite fantastic performance in the past weeks, the 2016 peak in the HUI at 284 points has yet to be defended on a sustained basis. The HUI initially peaked in late August/early September 2019 slightly above the 235 level, as the gold price was trading at roughly USD 1,550/oz. This is worth noting because, if today the market traded similarly to 2016, the HUI should have, at the very least, breached the 325 level. The additional USD 200/oz. translated into significant margin and cash flow expansion (as the number of oz. produced x USD 200/oz = additional pre-tax income), meaning the equivalent level is closer to 350–400.

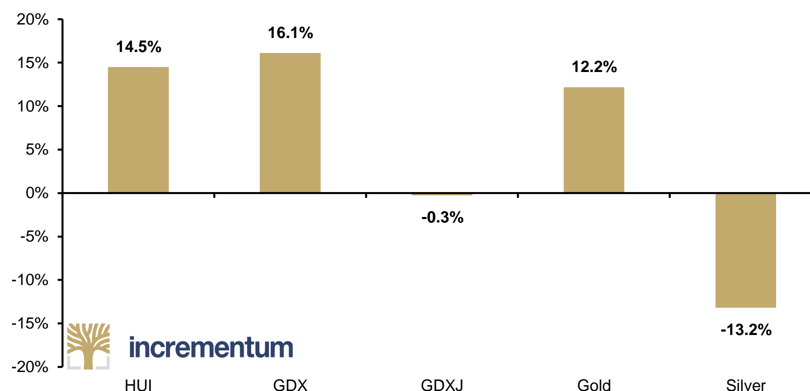
I love it when people always say I´m always 'too early'. You can be late to a bull market – it`s an escalator on the way up. You can´t be late to a bear market – because it´s an elevator going straight down.
Dave Rosenberg

The relative performance of the HUI should not be compared to that of 2016 (as mining stocks were starting from absolute bargain basement prices), but the absolute levels reached are worth comparison and indicate how truly underpriced the gold complex remained at year end 2019 into early 2020. One would think that a USD 200-350/oz. increase in the gold price would translate to much higher prices in the gold stocks due to considerably higher profits, but through 2019 and through the first quarter of 2020, this has yet to be the case. As this report is published well into the year, it is also worth taking a brief look at the performance YTD.

I guess what I'm trying to say is that if I can change and you can change, everybody can change!
Rocky Balboa

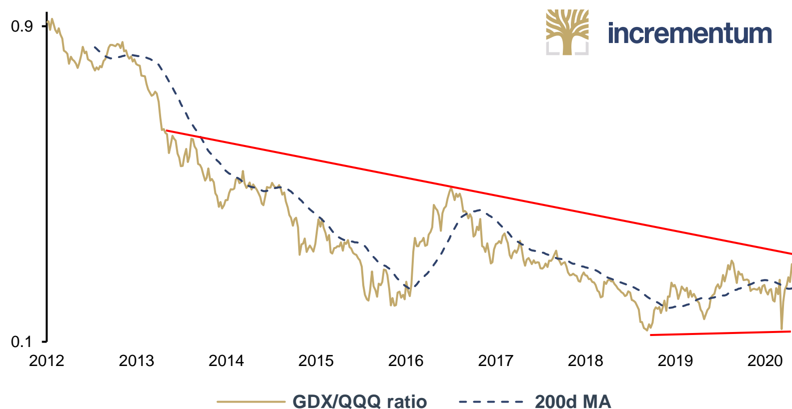
In 2020, gold stocks rose, sold off due to liquidity issues resulting in margin calls, then started to rally, a trend that will continue in the second half of 2020, once mining operations are no longer suspended. **Cash flow generation from many companies will be remarkable in the next quarters, which might cause a rerating of many gold and silver stocks**.

HUI, GDX, GDXJ, Gold & Silver, ytd performance



Source: Reuters Eikon (as of May 14, 2020), Incrementum AG

Most importantly for us is the fact that a sector rotation is currently proceeding, slowly but surely. If we have a look at the relative strength of mining stocks (GDX) versus the leading sector in the stock market – technology stocks (QQQ) – we see that miners have gradually increased relative strength. This illustrates that the value proposition of the mining sector is recognized and that the technical situation of the sector has greatly improved recently.



Source: Reuters Eikon, Incrementum AG

2019: Year in Review

While the general sentiment for gold and silver remained bleak through the first half of 2019, this was not the case in the second half, as the cracks in the financial system became very apparent. Gold did its job in 2019, breaking through the USD 1,350/oz. resistance level as it became obvious that the Federal Reserve and other major central banks would have to become more dovish again.

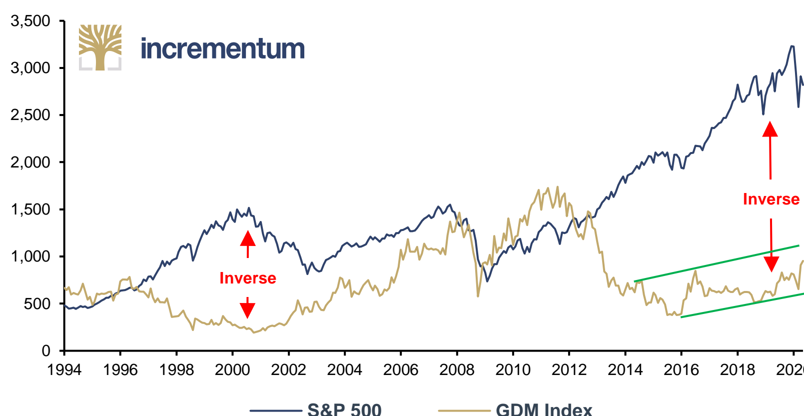
This time around will be better. The printing – and it will be printing this time, not QE – will cause gold to rise both in real and nominal terms. There is no better environment for gold miners.
Dan Oliver

Those who knew just a fair amount about the banking system also knew the problems that surfaced in 2008 were never resolved, they had only grown more severe. We were not surprised when the repo market seized up in September 2019, when banks with excess reserves would not lend to one another even on an overnight basis. The fact that banks did not trust each other overnight meant big trouble ahead due to liquidity and solvency issues. This continued until March 2020, when Covid-19 pricked the everything bubble and QE Infinity and record fiscal stimulus flooded the entire system with liquidity.

For gold stock investors, if it was not already clear that the bull market had started in early 2016, it now became obvious. The NYSE Arca Gold Miners Index (GDM)[86] has established a long base that can also be regarded as a colossal cup-and-handle pattern.

[86] The Gold Miners ETF (GDX) is designed to track the GDM.

GDM Index & S&P 500, 01/1994-05/2020



Source: Reuters Eikon, Incrementum AG

In the past, we often experienced rallies in gold stocks that were marked by low volume. When the price of a security appreciates with low volume, it does not usually have staying power. "Volume must confirm the trend" is one of the pillars of Dow Theory. Prior to the breakout in the gold price in 2019, volume started to pick up in many of the largest producers and royalty companies. Now we can see that the mining sector is back in the limelight, with recent volumes picking up significantly.

GDX closing price (lhs), and GDX volume (rhs), in bn, 01/2015-04/2020

Source: Reuters Eikon, Incrementum AG

The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.
Albert Einstein

As the bull market in precious metals progresses, the gold-to-silver ratio (GSR) contracts. This is especially the case when the GSR gets extremely elevated. At the end of 2019, the GSR stood at 85:1. Through early 2020, it continued to rise and do so substantially, due to margin calls and forced liquidation, hitting a peak of 125:1. This presents not only an even better buying opportunity in silver relative to gold, but also bargains in mining companies that derive or will derive a healthy proportion of revenue from silver relative to total revenue. **It seems that the market is already anticipating a reversal of the GS-ratio, as the silver mining stocks (shown as SIL[87]) have already made higher lows.**

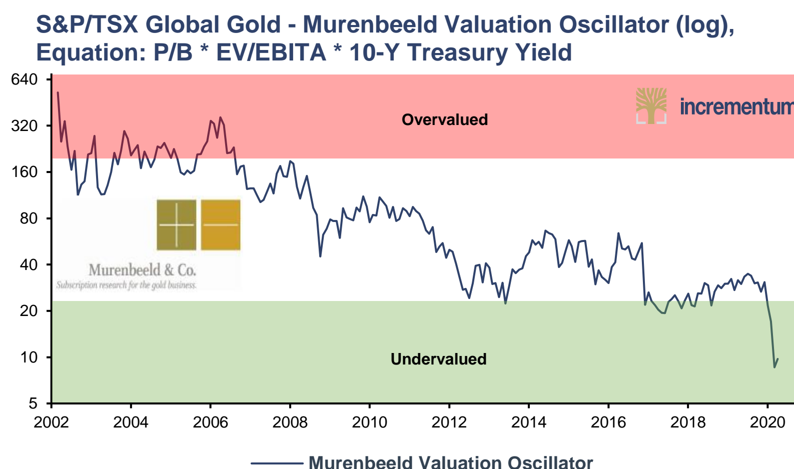
—
87 Global X Silver Miners ETF (SIL)

Conclusion

The great financial success stories are people who had cash to buy at the bottom.
Russell Napier

We remain firmly convinced that the cruel four-year bear market has resulted in the majority of mining companies now being on a more solid foundation. Producers are now leaner; they have reduced their immense indebtedness and will benefit more from rising gold prices in the future.

As an added bonus, and unlike in the previous bull market from 2001-2011, companies have started to return capital to their shareholders if they are unable to reinvest the capital at a higher rate of return. This was almost unheard of just 10 years ago, with the exception of the largest producers paying small dividends. Today we are seeing companies of all sizes paying dividends or buying back stock. There are more and more companies that peg their payout ratio to a percentage of operating cash flow. **From a valuation perspective the industry has never been better regarding what you get versus what you pay.**[88]



Source: Bloomberg, Murenbeeld & Co., Incrementum AG

We believe that M&A will continue to be an important driver. Of the entire mining sector, gold is perhaps the most fragmented, and we believe that the gold industry and its investors would reap significant benefits from consolidation. Our friends at Pollitt & Co. estimate that 25 companies are responsible for only 45% of total gold production, while 50% of the world's iron ore and copper production comes from four and 10 companies, respectively.[89] Technical talents also appear to be thin on the ground but we do see a lot of positive signs recently. However, an internal study by "Resource Capital Fund" states that of 107 mining projects that made it from feasibility study to commissioning, not one came in under budget. **On average they were 38% over budget and the median was 28% over budget.**[90]

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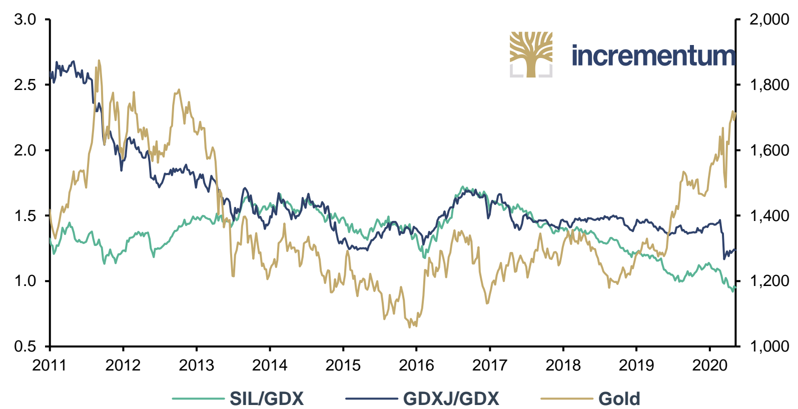
[88] This great chart was provided by our friends at Murenbeeld & Co. Readers of the In Gold We Trust report can subscribe for an exclusive free trial under the following link: https://bit.ly/Murenbeeld-Incrementum
[89] Pollitt, Douglas. "Gold companies = gold bullion? What everyone seems to want…" Pollitt & Co. October 2018
[90] Harris, Paul. "Want investors? Do a better job!", *Mining Journal*, April 29, 2019

For CEOs and management teams ready to take on the challenge, this new era could truly be a golden age.
McKinsey

The hypothesis we have put forward in previous years is that gold bull markets must always be confirmed by mining stocks. If we analyse the dynamics within the mining sector, it seems that risk appetite has not really picked up yet. The GDXJ Index has shown strength relative to the GDX in 2016, but since 2017, juniors underperform again.[91] If we compare silver mining stocks, as represented by „Silver Miners ETF“ (SIL)[92], with the GDX, we see that there is still less momentum. We consider a strong outperformance of the silver miners against the broad gold mining index to be a reliable trend confirmation indicator.

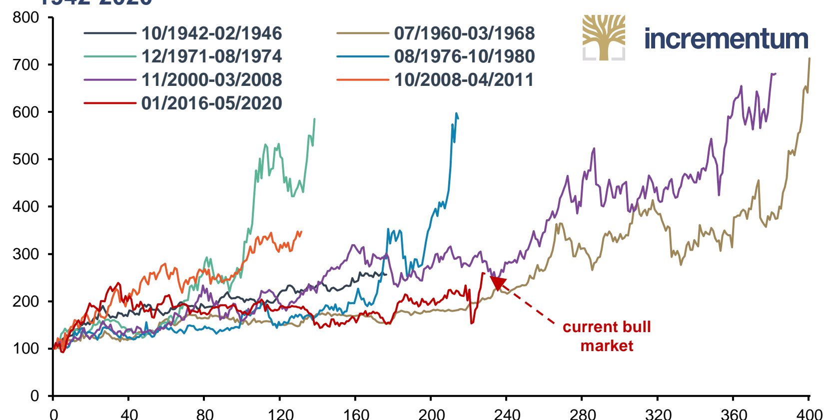
SIL/GDX ratio & GDXJ/GDX ratio (lhs), and Gold (rhs), in USD, 01/2011-05/2020



Source: Reuters Eikon, Incrementum AG

Now let's take a look at one of last year's In Gold We Trust report's most popular charts. The chart shows all bull markets of the Barron's Gold Mining Index (BGMI) since 1942. The current upward trend is still relatively weak compared to previous bull markets. If we are really at the beginning of a pronounced trend phase at the mines – as we assume – there should still be sufficient upside potential. In addition, one can see that every bull market always

BGMI bull markets, indexed 100 = start of bull market cycle, 1942-2020



Source: TheDailyGold.com, Nick Laird, goldchartsrus.com, Incrementum AG

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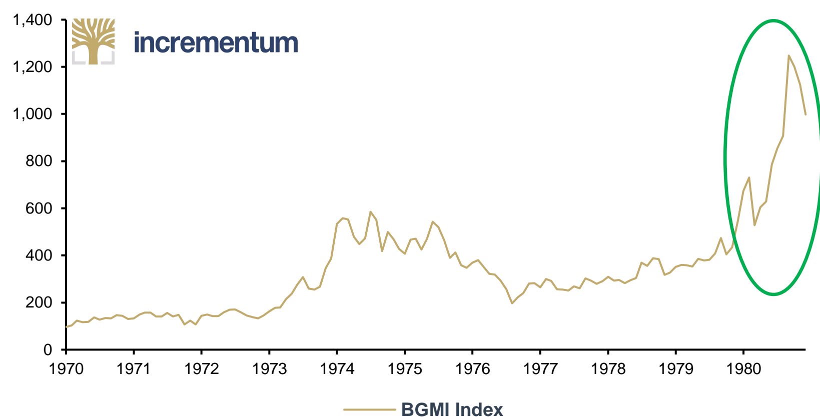
[91] The GDX primarily represents large-cap gold producers, while the GDXJ includes the riskier junior and small-cap stocks and has a significantly higher beta. A rise in the ratio indicates that the smaller junior stocks are showing relative strength, which in turn signals an increasing risk appetite on the part of investors.
[92] Global X Silver Miners ETF (SIL)

ended with a parabolic upward trend that lasted 9 months on average and at least doubled the price.

Patterns repeat because human nature hasn't changed for thousand of years.
Jesse Livermore

The current environment presents us with a potential once in a lifetime investment opportunity. If we look back to the 1970s, the BGMI gold index did extremely well, but it was really the junior exploration companies and the smaller producers that produced incredible returns, especially in the latter part of the cycle. That is why, in the current bull market, adding a bit of additional risk can really provide significant torque to a portfolio.

BGMI Index, 01/1970-12/1980



Source: Nick Laird, goldchartsrus.com, Incrementum AG

Big movements take time to develop.
Jesse Livermore

As we have explained in our special chapter about silver, silver should begin to outperform gold; Of course, the only question is when.[93] But when the time comes, this could add a significant amount of torque to a precious metals portfolio. Throughout history, the gold-to-silver ratio has traded at much lower levels. A decrease in the GSR, down to 40 or 50 over the next several years, will juice the cash-flow generation of silver producers.

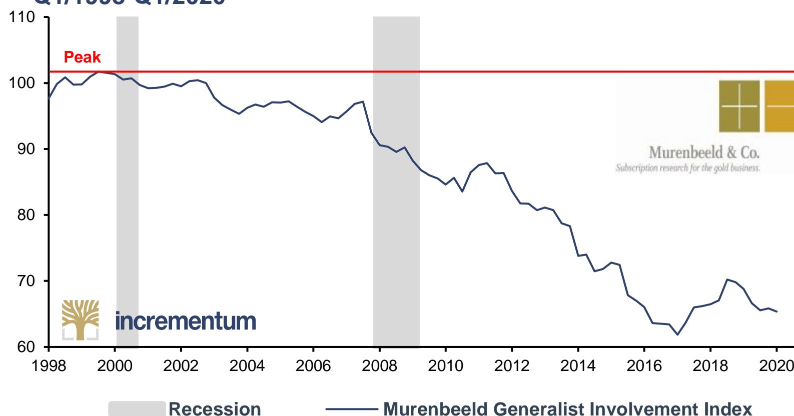
The value proposition of the mining sector in a nutshell:

- The profitability of producers has gradually increased in recent quarters, while debt has been reduced. Capital discipline and cost control remain rigorous.
- The focus of the sector remains to grow margins and harvest cash flows for shareholders and attract a broader universe of investors.
- Weak energy prices and strong USD vs. weak local currencies provide further tailwind.
- Gold stocks are clearly undervalued compared to historical valuations, relative to gold and relative to other sectors.
- Constructive mergers and acquisitions in the precious metals sector should continue.

[93] The chapter "Silver's Silver Lining" is part of the *Extended Version* of the *In Gold We Trust* report 2020, which you can download at https://ingoldwetrust.report/igwt/?lang=en.

- Major gold miners have broken out on high volume. Generalist investors are slowly entering the sector again, as can be seen on the following chart.[94]

Murenbeeld Generalist Involvement Index, indexed Q4/2002 = 100, Q1/1998-Q1/2020

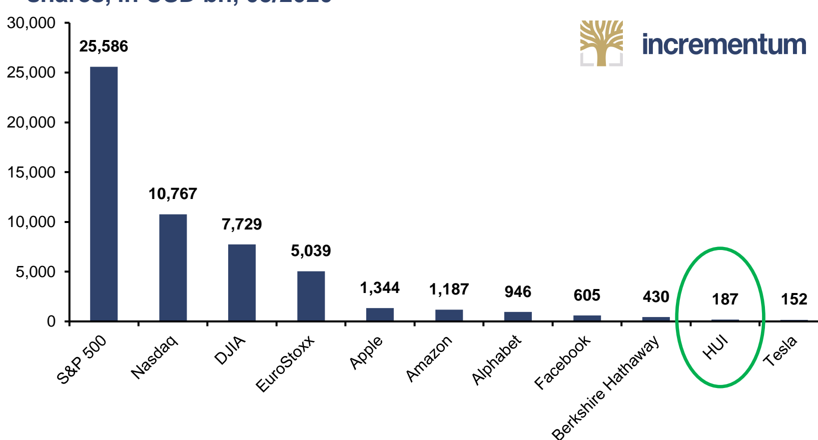


Source: Reuters Eikon, Bloomberg, Murenbeeld & Co., Incrementum AG

The party has begun.
The Great Gatsby

There are still few sectors that are more underweighted by the investment community than the mining sector. This is demonstrated by the almost dwarfish market capitalisation of mining stocks. In this respect, we expect that the mining companies – and their shareholders – will reap a rich harvest in the next few years after a gruelling dry spell. **But now it is up to the industry to deliver on the promises it has made in recent years, to build new investor confidence and attract generalist investors.**

Market capitalization of major indices, global players and gold shares, in USD bn, 05/2020



Source: Reuters Eikon, Incrementum AG

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94 This great chart was provided by our friends at Murenbeeld & Co. Readers of the In Gold We Trust report can subscribe for an exclusive free trial under the following link: https://bit.ly/Murenbeeld-Incrementum

Technical Analysis

“There is no fever like gold fever.”

Richard Russell

Key Takeaways

- After the resistance zone at USD 1,360–1,380 was finally crossed in June of 2019, an impulsive move began, which heralded the next phase of the bull market.
- The Coppock curve and the KST-indicator confirm the upward trend in the monthly chart.
- From the point of view of current market sentiment, seasonality, and the CoT report, we would not be surprised to see a several-week consolidation phase.
- Midas Touch Gold Model: Gold and silver are targeting significantly higher price regions in the medium and long term. Over the short term, however, the potential on the upside should be largely exhausted.
- Gold is in the first third of the “participation phase”, which could last several years.

"The secret to being successful from a trading perspective is to have an indefatigable and an undying and unquenchable thirst for information and knowledge."

Paul Tudor Jones

After our comprehensive macroeconomic and fundamental analysis, we now turn to the technical analysis of the gold price.[95] Last year we wrote at this point:

"In our opinion, the gold price is at the transition from the accumulation phase to the participation phase. Investor demand is the key driver. The crossing of the technical rubicon level at 1,360 will trigger increased interest on the part of institutional investors."[96]

This assessment has proved to be correct. After the resistance zone was finally crossed in June 2019, an impulsive move set in, heralding the next phase of the bull market.

Life is just a series of peaks and troughs. And you don't know whether you're in a trough until you're climbing out, or on a peak until you're coming down.
Ricky Gervais

What is our current technical assessment of the gold price? For the long term, we are again using the Coppock curve as a reliable momentum indicator.[97] A buy signal is given when the indicator turns upward, i.e. when it assumes a positive slope. The advantage of this indicator is that large trend changes can be reliably detected. Since the end of 2015, the indicator has been on a "buy" and has moved up successively since then. The KST[98] also confirms the positive long-term setup and shows no signs of divergence.

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95 This is a shortened version of this chapter. You can find the long version in the *Extended Version* of the *In Gold We Trust* report 2020, which you can download at https://ingoldwetrust.report/igwt/?lang=en.
96 *See* "Technical Analysis", *In Gold We Trust report* 2019, p. 314
97 Specifically, these are two time-weighted momentum curves that are added together and whose long-term moving average is the Coppock line. We use a slightly modified Coppock with slightly longer periodicities.
98 "Known Sure Thing" indicator by Martin Pring. The KST measures the price momentum of four different price cycles.

Gold, KST and Coppock Indicator, monthly, 2005-2020

Source: investing.com, Incrementum AG

The impulsive rise from USD 280 to USD 1,920 since 2011 was in a corrective phase until the break out in June 2019. This phase has now come to an end and we are in a new trend phase. We consider the development of a cup and handle formation to be realistic. This is a continuation pattern with a price target of USD 2,500. For the time being, however, it appears that it will take some more time to take out the resistance zone at USD 1,800.

In order to be an immaculate member of a flock of sheep, one must above all be a sheep oneself.
Albert Einstein

Let us now take a look at market sentiment. Naturally, analysts become increasingly optimistic if a bull market persists, and vice versa. **In the course of the price upswing of recent months, price targets have been raised in the usual procyclical manner.** Looking at the forecasts for the end of 2020, a median price of USD 1,624.50 is expected. The price targets for the end of the following years are USD 1,625 (2021), USD 1,586 (2022), USD 1,545 (2023) and USD 1,589 (2024), i.e. a sustained sideways movement. This is a development that – if one considers market cycles – seems extremely unlikely. **Not one of the analysts surveyed by Bloomberg expects a price above USD 2,000 over the next few years.**

Bloomberg: Analyst consensus for gold: 2020-2024

Gold $/t oz | Browse | As Of 05/11/20 | Ticker Type Actual
Quarterly Forecast | Yearly Forecast
Overview | Curve Analysis | Ranking
Firms: Standard / Custom | Rank: All | Updated: Last 6 Months

Consensus	Spot	As Of	2020	2021	2022	2023	2024
Median		05/06/20	1624.50	1625.00	1586.00	1545.00	1589.00
Mean		05/06/20	1476.84	1524.04	1421.13	1187.50	1589.00
High		05/06/20	1725.00	1925.00	1900.00	1659.00	1698.00

Source: Bloomberg

A similar picture emerges for silver. By the end of the year, a median price of USD 15.80 is expected, followed by a rise to USD 17.00 in 2021 and USD 18.00 in

2022. However, the consensus is no longer really meaningful, because the number of active coverages by banks has been significantly reduced in recent years. **This confirms our hypothesis that silver is as popular with the financial sector as the beginning of spring is with pollen allergy sufferers.**

Bloomberg: Analyst consensus for silver: 2020-2024

Silver $/t oz | Browse | As Of 05/11/20 | Ticker Type Actual
Quarterly Forecast | Yearly Forecast
Overview | Curve Analysis | Ranking
Firms Standard Custom | Rank All | Updated Last 6 Months

Consensus	Spot	As Of	2020	2021	2022	2023	2024
Median		05/06/20	15.81	17.00	18.00	18.00	17.40
Mean		05/06/20	16.08	17.19	19.42	18.00	17.40
High		05/06/20	18.58	20.00	30.00	19.00	17.40
Low		05/06/20	14.68	15.00	14.00	17.00	17.40

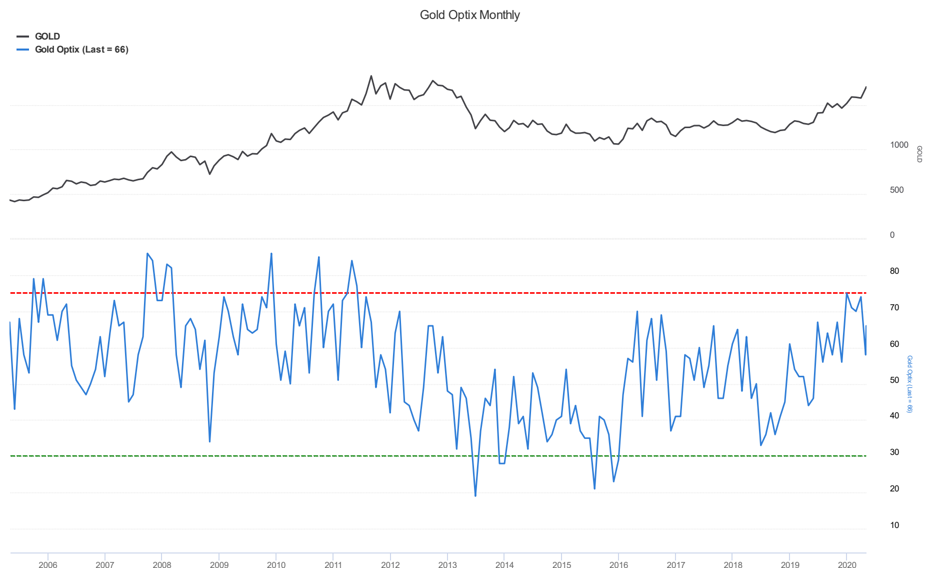
Source: Bloomberg

The combination of still relatively low interest in gold and silver on the part of investors and the lack of price fantasy on the part of analysts is in our opinion an excellent foundation for a continuation of the rally.

One of our favorite sentiment indicators is the SentimenTrader Optix Index. This index shows the most common sentiment indicators as well as data from the futures and options markets. The logic underlying this sentiment barometer is very simple. If public opinion forms a strong consensus, this broad agreement is a good counter-indicator. The market is usually too bullish if prices have already risen (strongly) and too bearish if they have already fallen (strongly).

If the Optix Index rises above the red dotted line at 75 points, it is time to be more cautious. If it is at 30 points or below, however, pessimism is pronounced and the downside risk is limited. Currently, the Optix is trading at 60 and thus in optimistic territory. However, one can also see that in the course of the rally of recent weeks, levels of 75 points have been reached for the first time since 2012. **This confirms our assessment that sentiment towards gold has clearly brightened. *For the short term* it nevertheless looks as if optimism is already quite high and short-term upside potential is limited. In this respect, a temporary correction would not surprise us.**

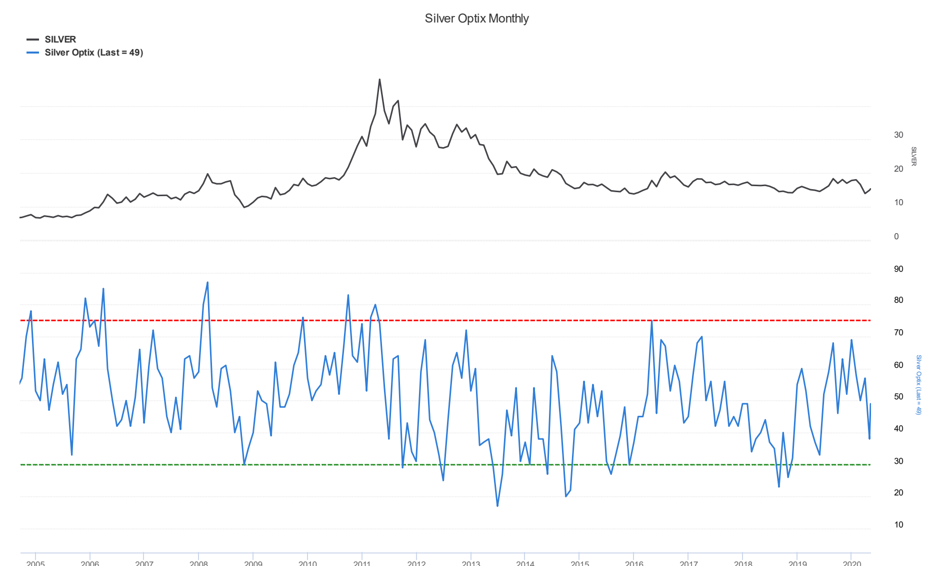
Optix indicator and gold price, 2005-2020



Source: SentimenTrader.com

At Silver, the party doesn't seem to have really started yet, although the guests are slowly arriving. The Optix Index currently stands at 49 and thus shows disinterest. It is interesting to note that the panic low at USD 11.80 in March 2020 did not mark a new sentiment low and thus formed a small positive divergence.

Optix indicator and silver price, 2005-2020



Source: Sentimentrader.com

After having analysed the seasonality of gold and silver in detail in previous years with the help of our colleagues from Seasonax, this year we would like to take [99]just a brief look at the seasonal patterns. The following chart shows the annual development of gold in the years of US presidential elections. It is clearly visible that seasonal tailwinds set in from mid-May but are

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99 *See* "Technical Analysis", *In Gold We Trust* report 2018

reversed at the beginning of July. After that, another seasonally strong phase begins in mid-September, but in election years this ends abruptly at the beginning of October.

Seasonality of gold in election years

Source: Seasonax.com[100]

If we look at the performance of the gold price during Donald Trump's presidency to date, he is only just behind his Democratic predecessor, Barack Obama (a circumstance that probably does not please him very much). One can also see that the ruling party has had no significant influence on gold price development.

President	Party	Entry into office	Price on assumption of office	End of office	Price at end of office	Performance
Richard Nixon	Republican Party	20.01.1969	42.30 USD	09.08.1974	152 USD	260%
Gerald Ford	Republican Party	09.08.1974	152 USD	20.01.1977	132 USD	-13%
Jimmy Carter	Democratic Party	20.01.1977	132 USD	20.01.1981	563 USD	324%
Ronald Reagan	Republican Party	20.01.1981	563 USD	20.01.1989	404 USD	-28%
George Bush	Republican Party	20.01.1989	404 USD	20.01.1993	328 USD	-18%
Bill Clinton	Democratic Party	20.01.1993	328 USD	20.01.2001	265 USD	-19%
George W. Bush	Republican Party	20.01.2001	265 USD	20.01.2009	835 USD	214%
Barack Obama	Democratic Party	20.01.2009	835 USD	30.11.2016	1,189 USD	42%
Donald Trump	Republican Party	20.01.2017	1,210 USD	???	???	40%

Source: Federal Reserve St. Louis, Incrementum AG

[100] The seasonal charts were kindly provided by Dimitri Speck, founder and chief analyst of Seasonax. Use the insights of www.seasonax.com to investigate recurring patterns of different financial instruments (stocks, commodities, (crypto)currencies) and identify investment opportunities even more efficiently.

Conclusion

"A bubble is a bull market in which the user of the word 'bubble' has not fully participated."

Jim Grant

The public, as a whole, buys at the wrong time and sells at the wrong time.
Charles Dow

Despite some weaknesses, technical analysis is a useful tool for determining the structure and timing of investments. It is always important to understand the "big picture", not only from fundamental but also from technical perspectives. In our opinion, we have seen a paradigm shift in recent months that heralds a new phase in the bull market for gold.[101] Bob Farrell, whom we hold in high esteem, described the changed rules of the game as follows:

> *"Change of a long-term or secular nature is usually gradual enough that it is obscured by the noise caused by short-term volatility… Moreover, in a shift of secular or long-term significance, the markets will be adapting to a new set of rules while most market participants will be playing by the old rules."*

Last year we presented the three trend phases that were formulated by Charles Dow theory, and we concluded that gold's crossing the resistance zone would mark its entry into a new phase.[102] **Here again are Dow's three phases:**

1) Accumulation phase: In this first phase, the most informed, astute, and contrarian investors buy. If the previous trend was downwards, then clever investors can see at this point that the market has already discounted the "bad news". For gold, this phase lasted from 2013 to June 2019.

2) Participation phase: Prices are starting to rise slowly. Trend followers are showing interest; news is improving; and commentators, the media, etc. are increasingly optimistic. Speculative interest and volume are rising, new products are being launched, and analysts' price targets are being raised. This phase began after gold crossed the resistance zone in June 2019 and could now last for several years.

3) Distribution phase: During this final, mania phase, the group of informed investors who have accumulated from near the low point begins to reduce their positions. Media and analysts outperform each other in raising their price targets, and the environment is characterized by "this time is different" sentiment.

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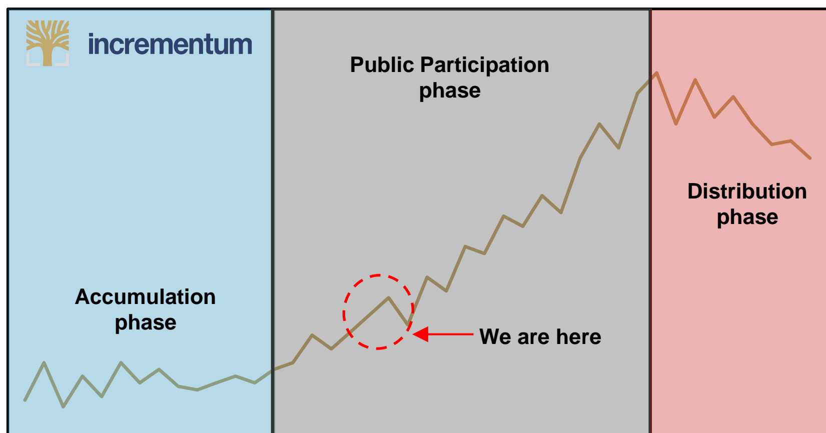
[101] StockCharts: Bob Farrell's 10 Rules
[102] See "Technical Analysis", *In Gold We Trust* report 2019

The three trend phases according to Dow theory



Source: Incrementum AG

I have no real price objective for gold or silver, other than "higher". Which is to say, the bet is that we're witnessing a structural change taking place for the first time in years, in which precious metals outperform (general) equities.
Carter Worth

In our opinion the gold price is currently in the first third of the participation phase. Investor demand will be the dominant factor driving the price, because gold is apparently a "Giffen good", especially in Western markets.[103] As we expected last year, the break above the resistance level at USD 1,360–1,380 has triggered increased interest from institutional investors.

From the point of view of current market sentiment, seasonality, and the CoT report, we would not be surprised to see a several-week "chill-out" phase at the moment. However, we do not expect a deep correction, as great buying interest appears to be waiting on the sidelines to "buy the dips". The recent rise in the relative strength of silver and mining stocks also gives us clear confidence. Thus, the conditions for the continuation of the new gold bull market seem excellent from a technical point of view.

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103 *See* Wikipedia entry: Giffen good

Quo vadis, aurum?

"We need to think outside the paradigm of the last forty years if we wish to thrive over the next two decades."

Chris Cole, Artemis Capital Management

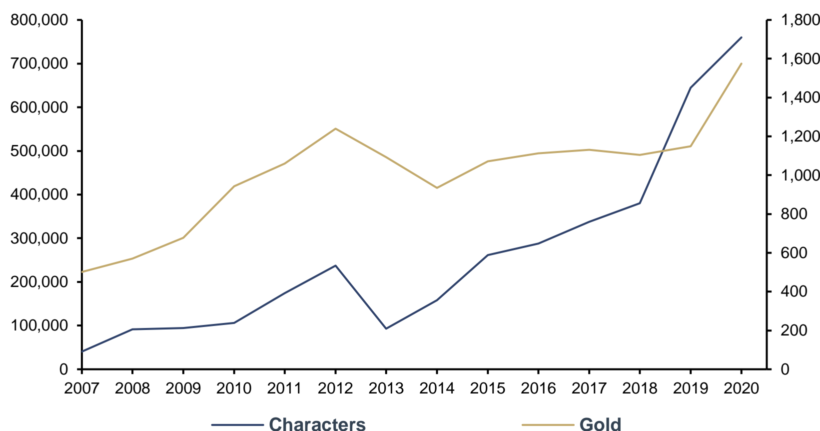
Key Takeaways

- We are currently experiencing the most pronounced economic contraction in 90 years. As a result of the current crisis, the debt situation threatens to escalate in the course of this decade.
- Portfolios are far less vulnerable to shocks if anti-fragile assets are added. Historically, "crisis-proof" portfolios in challenging investment terrain have in some cases even been able to significantly increase in value.
- Deflationary pressure is now higher than ever before. Central banks are resorting to ever more extreme means to force up the price level. These efforts are threatening to get out of hand and could result in significant monetary devaluation.
- By a conservative calibration, our proprietary valuation model shows a gold price of USD 4,800 at the end of this decade.
- If money supply growth develops in a similar inflationary manner to that of the 1970s, a gold price around USD 8,900 is realistic by 2030.
- Given the unique combination of circumstances, we are convinced that the 2020s will go down in investment history as a golden decade.

One of the first things taught in introductory statistics textbooks is that correlation is not causation. It is also one of the first things forgotten.
Thomas Sowell

We would like to start the summary of some pearls of this year's *In Gold We Trust* report and our outlook on the gold price development with a wink. The following chart compares the gold price in euros since our 1st edition in 2007 and the length of the *In Gold We Trust* report (in characters, without spaces). You can see that the correlation is clearly positive: a longer report obviously goes hand in hand with a rising gold price. Of course, this correlation says nothing about any causality. However, if a rising gold price were to causally determine the length of our report, then we would probably have to put in a few extra shifts in the dawning golden decade ahead.

Length of the *In Gold We Trust* reports in characters (lhs), and gold price (rhs), in EUR, 2007-2020



Source: Reuters Eikon, Incrementum AG

Time for investments with substance

Without a doubt, we are currently experiencing one of the most profound economic crises in many decades. However, in the public debate, a crisis is all too often mistakenly equated with a catastrophe. Above all, however, crises are a symptom, a magnifying glass on what already exists:

> *"They [i.e. crises] enlarge what already exists. Strengths and weaknesses appear strikingly. We discover abilities that lay dormant somewhere, or bounce off barriers that were invisible. Families are affected, as are other social groups, from cities to nations."*[104]

A financial crisis is a great time for professional investors and a horrible time for average ones.
Robert Kiyosaki

Crises are neither desirable nor pleasant states. Nevertheless, historically they have occurred with regularity, albeit in different forms. And because a crisis is not a catastrophe, it can be a productive state, provided, as Max Frisch once remarked, that it obviates the smack of catastrophe.

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[104] See "Was uns die Coronakrise über Italien offenbart" ("What the corona crisis reveals to us about Italy"), editorial by Susanna Bastaroli, Die Presse, May 13, 2020

Robust systems are better prepared for crises than fragile ones. Individuals with substantial savings, companies with high equity reserves, and nations with low national debt are generally not only better able to survive a crisis, they even have the opportunity to emerge stronger.

Stocks and bonds have spent more time correlated to one another than anti-correlated.
Artemis Capital Management

The situation is similar with investments. Portfolios can be made crisis-proof by adding positions that are robust and substantial. Historically, such portfolios have been disrupted far less by shocks. In some cases, they have even been able to increase in value significantly in challenging investment terrain. The investment boutique Artemis Capital has investigated this for the past 100 years and summarized its findings in a report based on the allegory of "the hawk and serpent".[105] One of the core views is:

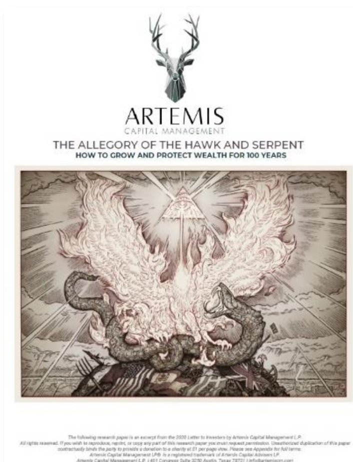

Photo credit: Artemis Capital: The Allegory of the Hawk and Serpent

> *"What we learned from our in-depth study of financial history is that investors should prioritize secular noncorrelation over excess returns. The key to superior portfolio returns is to make surprisingly large allocations to alternative assets that perform when stocks and bonds do not!"*[106]

I believe it would be both risk-reducing and return-enhancing to consider adding gold to one's portfolio.
Ray Dalio

Now, what are substantial positions? In this context *substantial* does not only mean *having a significant volume*, but even more so *tangible, actually present*. Such positions are therefore those investments with a direct real-value reference. Specifically, Artemis advocates to add 19% physical gold and 21% commodity-based strategies to the portfolio.

A series of monetary tricks on the way

When did the future switch from being a promise to being a threat?
Chuck Palahniuk

Due to the Covid-19 crisis, monetary and fiscal policy-makers around the world are feverishly seeking new ways to stimulate the economy. Conventional *quantitative easing* is still part of the standard repertoire of central banks. Deflationary tendencies are once again hitting the economy with full force in the current recession. In the past, deflation could be only partially warded off by central bank purchases of securities. Spurred by the zero interest rate policy that is now widespread throughout the world, discussions have been ongoing for years as to what the next stage of stimulus will look like. Leading the race are proposals such as deeply negative interest rates, yield curve control, or the implementation of Modern Monetary Theory (MMT).

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105 "The Allegory of the Hawk and Serpent: How to build a portfolio that lasts 100 years", Artemis Capital Management, January 2020
106 "The Allegory of the Hawk and Serpent: How to build a portfolio that lasts 100 years", Artemis Capital Management, January 2020, p.11

As long as other countries are receiving the benefits of Negative rates, the USA should also accept the 'GIFT'. Big numbers!
Donald Trump, Twitter, May 12, 2020

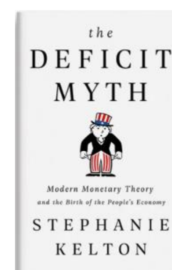
- **For the global reserve currency, the US dollar, the introduction of negative interest rates would be a sacrilege.** But even this breach of taboo can no longer be ruled out. Most recently, the federal funds futures have been pricing in negative interest rates for the first time. Yet, Jerome Powell has spoken out against such a move. However, many market participants have not forgotten his 2019 monetary policy U-turn. The rapid change of course at that time towards a further expansion of the Federal Reserve's balance sheet now makes it much more difficult for him to convince the market that the next taboo could not be broken. Ultimately, the expectations of market participants could also contribute to the implementation of such a decision, because in the current fragile market environment the Federal Reserve is afraid of disappointing participants and thus triggering further financial market distortions.

Under Yield Curve Control, the central bank commits to buy whatever amount of bonds the market wants to supply at its target price.
Brookings Institution

- **In the case of longer-term yields, a so-called *yield curve control* based on the Japanese model would be one of the options**. This is nothing more than a planned-economy price setting in the bond market in order to fix a slightly rising yield curve. This is intended to promote the creation of credit through maturity transactions and to stimulate investment through low long-term interest rates. The increasing sclerotization of the economy would be the inevitable consequence.

MMT has all the markings of being a gold-bug's dream come true – and a true nightmare for people living on fixed incomes.
Grant Williams

- **For more and more decision-makers the ideas of Modern Monetary Theory (MMT), aka *Mugabe Maduro Theory*, are becoming as enticing as the apple in the Garden of Eden.** We have already subjected this theory to an extensive and critical examination in several issues of our *In Gold We Trust* report,[107] as well as this year. The recently published book by one of the MMT's main representatives, Stephanie Kelton, summarizes in its title the great temptation to incur debt without atonement: *The Deficit Myth*.



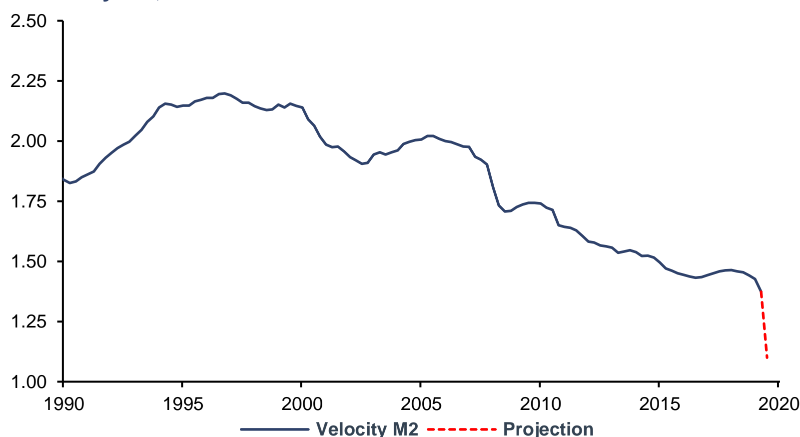
Picture credits: www.amazon.com
the Deficit Myth, Stephanie Kelton

Whether the new monetary and fiscal policy measures are implemented in the form of negative interest rates, yield curve control, or MMT, the bottom line is that they are all old wine in new skins. **As so often in history, the financing of an excessive deficit is inevitably be financed by devaluing the currency.**

[107] *See* "Inflation and Investment", *In Gold We Trust* report 2016, "Positioning - The Status Quo of Gold", *"The Status Quo of Gold", In Gold We Trust report 2019*, p. 37 ff.

Worried about money printing causing inflation? Don't. (Sorry, Milton). Inflation is caused by velocity, which is psychological.
Jim Rickards

But when will inflation (re)appear? Within what we call *monetary tectonics*, the tensions between the two forces of inflation and deflation are currently higher than ever before. In the course of the lockdown caused by Covid-19, the velocity of monetary' circulation has fallen significantly. Closed shops, but especially the uncertainty caused by the pandemic, have led to a great decline in consumption and increased savings behavior among a large part of the population. **All this has had a strong deflationary effect – at least temporarily**.



Source: Federal Reserve St. Louis, Incrementum AG

Courtesy of Hedgeye

The central banks are countering with their gigantic injections of liquidity. **We are therefore firmly convinced that we will soon face a decisive fork in the road: Disinflationary pressures will (have to) be broken.**[108] Forty years ago, it was essential in the US to kill inflation at all costs. Today we are at the other extreme: Falling consumer prices must be prevented – *whatever it takes*. The disinflationary side still seems to have the upper hand. **If all the monetary tricks described above do not have the desired effect, the last resort for central bankers is still helicopter money.**

The time is coming [when] global financial markets stop focusing on how much more medicine they will get (QEs) and instead focus on the fact that it does not work.
Russell Napier

In any case, inflation will be a key issue for investment decisions during this decade. A rising inflation dynamic would be good news for inflation-sensitive investments such as gold, commodities, and mining stocks. On the other hand, leaving the current *low-flation* phase could prove to be a bitter pain-trade for the mass of investors, especially when the 40-year party on the bond markets comes to an end and the traditionally negative correlation between equities and bonds suddenly turns positive.

But already in the current investment environment gold is more than just an insider tip. This is shown by a number of recent publications by traditional investment houses. What they have in common is that they name the increasing intertwining of monetary and fiscal policy, be it through MMT, helicopter money, or the countless QE programs as dangerous inflation drivers. In a recent research report, titled "The Fed Can't Print Gold", Bank of America raised

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[108] On the complex topic of the transition from a deflationary phase to a (hyper-) inflationary one, we do recommend a video particularly worth watching, by our friend Mike Maloney. In an almost prophetic way it describes the monetary situation of today: Mike Maloney: "Velocity & The Money Illusion - Hidden Secrets Of Money Episode 7"

its 18-month price target to USD 3,000.[109] Deutsche Bank, too, has come to a similarly critical conclusion as we have in a highly readable study.[110]

So higher debt, higher inflation, higher nominal GDP, higher yields, and higher central bank balance sheets. Bondholders beware!
Jim Reid, Deutsche Bank

Our central conclusion in this year's *In Gold We Trust* report is that the 2020s will go down in investment history as a golden decade. Not because the Golden Twenties, as the Roaring Twenties are called in Germany, happen to be having their 100th anniversary, but because gold will be the big beneficiary of the current economic, political, and general systemic challenges.

Best of In Gold We Trust report 2020

Other key findings of this year's *In Gold We Trust* report, "The Dawning of a Golden Decade", are the following:

- **De-dollarization:** The US dollar may continue to be the undisputed number one on a structural level and on the bottom line, globally. But in addition to the big steps away from the US dollar, such as the introduction of a common European currency or a yuan gold and oil price, there have been a lot of other small steps. The gold reserves of the central banks, which have been considerably increased in some countries in recent years, indicate how many tokens a state has to offer at the negotiating table of a new world monetary order.

- **Gold-covered cryptocurrencies:** The tokenization of gold, which we view positively, continues unabated. There are currently over 70 gold-backed tokens, yet it will take some time before the market leaders emerge. The tokenization of gold, comparable to the securitization of gold, offers a new legal title to the precious metal and should thus further facilitate access to gold in the medium term and create even more demand. The coming year will be decisive in determining which projects will take the lead in this endeavor. In spite of all the excitement in this space, it needs to be mentioned that – analogous to the situation with securitized gold – physical gold in one's own possession ultimately offers the highest level of sovereignty.

Until inflation and real interest rates rise from the grave, only a policy of effective deep negative interest rates can do the job.
Kenneth Rogoff

- **Financial repression:** After years of agitation against cash for the – pretended – reason of the fight against terrorism and against criminals in general, economic reasons for justifying significant negative interest rates have again come to the fore, even before the outbreak of the coronavirus. The significant increase in public debt caused by the lockdowns and the deep economic slump will further intensify the call for negative rates.

- **Mining stocks:** The four-year bear market has resulted in a large number of mining companies now standing on a more solid foundation. The producers are now leaner, have reduced their debt, and will benefit more from rising gold prices in the future. Mining stocks have historically been highly attractively valued compared to gold and other sectors, and

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[109] *Vgl.* "Gold Forecasts 2020: Bank of America Sees $3,000/Ounce", Bloomberg, 21.April 2020
[110] *Vgl.* "Long-Term Asset Return Study: The History and Future of Debt", *db research*, 23. September 2019

appear to be increasingly in the focus of generalists, as few sectors have similarly clear visibility on future cash flows and profits. From a relative perspective, dividend policy could become increasingly important. More companies in the broader market have suspended or cancelled their dividends so far this year than in the previous 10 years combined,[111] while Yamana Gold (+25%), Newmont Mining (+79%), B2Gold (+100%), and Kirkland Lake (+100%), for example, have recently increased their dividend payments significantly. This is a clear indication of the mining companies' increasing earnings power.

- **Silver:** There has rarely been a better time for the prudent and clever contrarian investor to invest in silver than now. There is some evidence that silver will see stronger price gains than gold, which would push the gold-to-silver ratio down significantly from its historic highs.

- **Technical Analysis:** After the resistance zone at USD 1,360–1,380 was finally breached in June 2019, an impulsive move began that heralded the next phase of the bull market. Our long-term trend and momentum indicators confirm that gold prices are in an intact uptrend. In the short term, however, it looks as if optimism is already quite high and the short-term upside potential is limited. Thus, a temporary correction would not surprise us.[112]

Courtesy of Hedgeye

[111] *See* "Companies Are Suspending Dividends At Fastest Pace in Years", Wall Street Journal, April 28, 2020
[112] These chapters are part of the *Extended Version* of the *In Gold We Trust* report 2020, which you can download at https://ingoldwetrust.report/igwt/?lang=en.

Quo vadis, aurum?

As gold investors, we are naturally very interested in the question of how the gold price might develop over the course of the coming golden decade. In this year's *In Gold We Trust* report, we have already looked at this question from various perspectives. Finally, we now want to use a proprietary valuation model.

Adapt or perish, now as ever, is Nature's inexorable imperative.
H.G. Wells

The valuation of gold is fundamentally different from the valuation of cash flow-generating assets. The discounted cash flow models commonly used in finance are not applicable to gold. After all, in a fiat money system the price of gold rises in the long term to the same extent as the money supply, because the existing gold supply is almost constant while the money supply is permanently inflated.

We use two parameters to calculate the price target, namely money supply developments and the implicit gold coverage ratio. Since the US dollar is still the world's reserve currency and has the strongest influence on the price of gold, we analyze the data for the US dollar area and obtain a price target in US dollars.

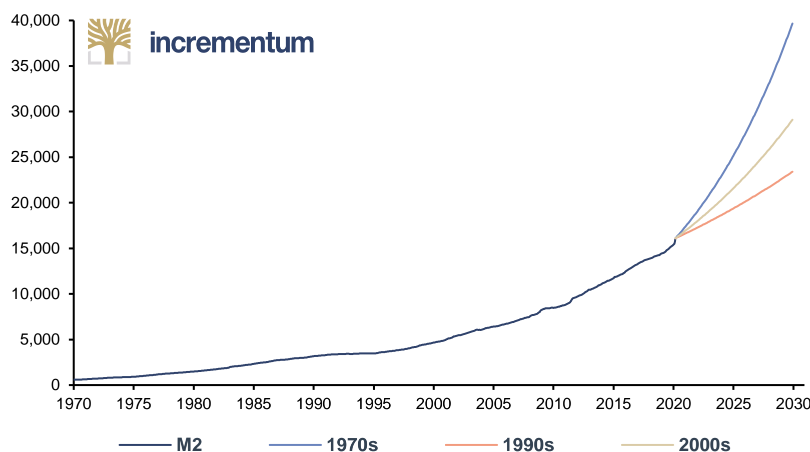
The future development of the money supply

The NEED to own gold, as opposed to the DESIRE to own gold will likely be a feature of the coming decade.
Raoul Pal

We have drawn up three scenarios for the growth rate of the money supply in the coming decade. We use the money aggregate M2 because it is less volatile than the narrower monetary aggregates such as the monetary base, MZM, and M1. We have used historical M2 growth rates from different decades as potential growth rates and have provided these scenarios with an estimate of their probability of occurrence.

- **M2 growth rate** in a decade with high growth (1970s): **9.7% p. a.**; probability of occurrence: 15%
- **M2 growth rate** in a decade with low growth (1990s): **3.9% p. a.**; probability of occurrence 5%
- **M2 growth rate** in a decade with average growth (2000s): **6.3% p. a.**; probability of occurrence 80%

M2 scenarios, in USD bn, 01/1970-12/2029



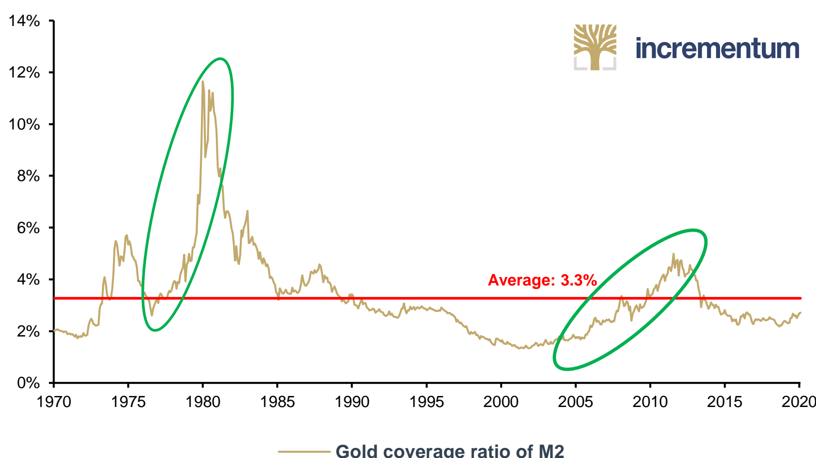
Source: Reuters Eikon, Incrementum AG

The implicit gold coverage ratio

As the supply of gold/silver is relatively fixed, however, higher insurance demand implies higher prices. The bull market in gold and silver is primarily a bull market in financial insurance.
John Butler

The implicit gold coverage of a currency is calculated by valuing the central bank's gold reserves at the current gold price and relating them to the money supply. Over the long term, the gold coverage of the money stock M2 moves around 3.3%. **It is noticeable that in times of declining confidence in the monetary system, the gold coverage ratio increases significantly.** This was the case in the stagflationary 1970s and in 2007–2009 during the Great Financial Crisis and the subsequent sharp recession.

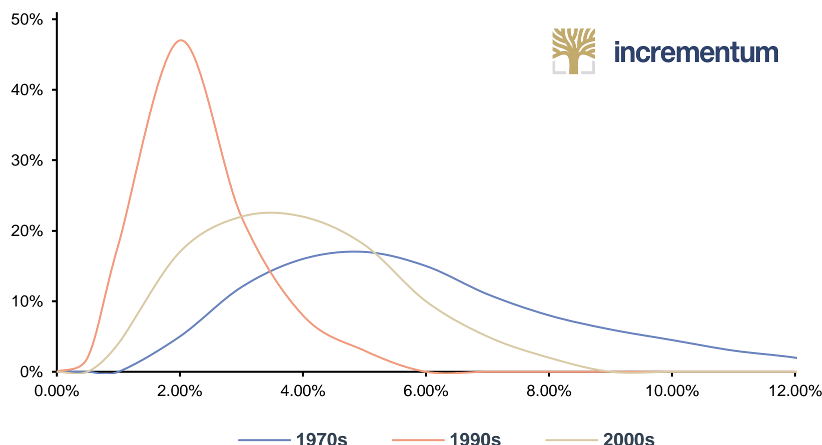
Gold coverage ratio of M2, 01/1970-02/2020



Source: Reuters Eikon, Incrementum AG

For the three growth scenarios for the money stock M2 presented above, we have modelled a distribution function based on historical data.

Smoothed probability function of the scenarios, gold coverage ratio of M2 (x axis), probability of occurrence (y axis)

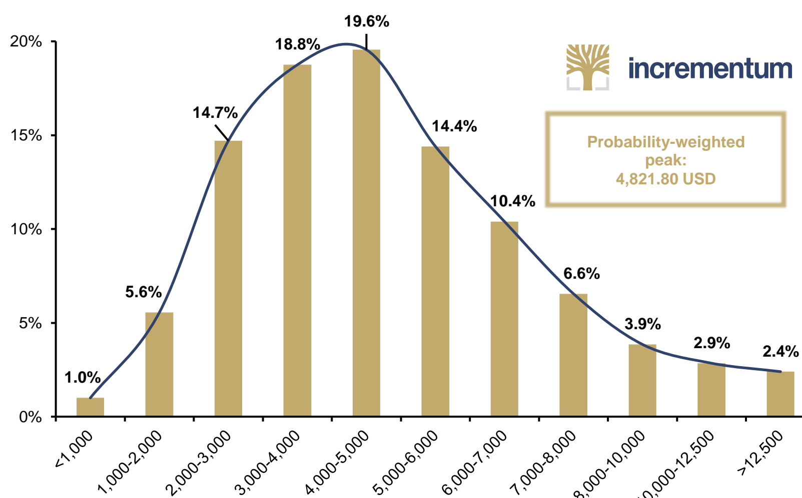


Source: Incrementum AG

If we now calculate a cumulative distribution function across all scenarios, the following picture emerges:

- **Our expectation for the gold price at the end of the decade is around USD 4,800.**
- **The distribution is clearly skewed to the right.** This means that significantly higher prices are far more likely than lower ones.

Approximated gold price in 2030 by distribution probability, in USD



Source: Incrementum AG

Of course, quantitative models of this kind always have a certain degree of fuzziness. However, we believe that we have taken a conservative approach to calibrating the scenarios. Not least because of the unique global debt situation described in detail in this year's *In Gold We Trust* report, growth figures for M2 in the decade that has just begun are not implausible at the same level as in the 1970s. **In this case the model suggests a gold price of USD 8,900 by 2030.**

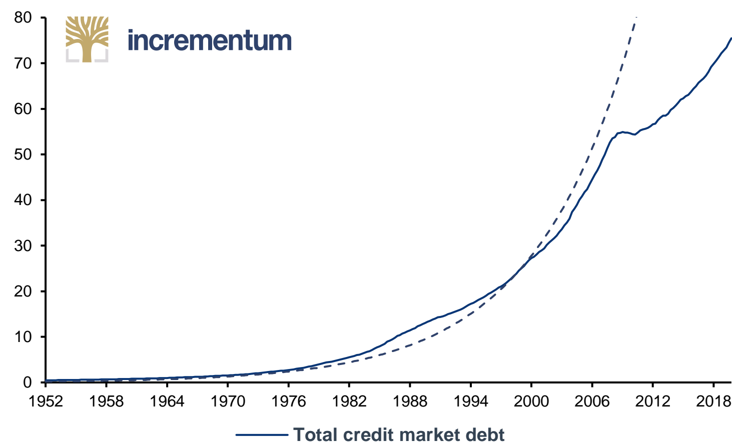
Let's Trust in Gold

The next bull market is in…SIMPLICITY.
Dave Rosenberg

As you have gathered from our comprehensive report, we expect significant upheavals in the new decade with positive effects on the gold price. What is the reason for our unbroken trust in gold? First and foremost, our fondness for gold is based on our understanding of monetary history. Milton Friedman put it aptly when he said that there is nothing more permanent than a temporary government program. Richard Nixon's announcement in 1971 that gold convertibility would be *temporarily* suspended turned out to be a seemingly permanent provisional solution. This temporary solution has now lasted for almost half a century.

We never tire of pointing out and documenting the systemic problems which the step ultimately caused.[113] Perhaps the unsustainability of the system can best be summarized in the following chart.

Total credit market debt, in USD tn, and exponential function, Q1/1952-Q4/2019



Source: Reuters Eikon, Incrementum AG

If something cannot go on forever, it won't.
Herbert Stein

Total debt is clearly following an exponential growth path. Particularly in times of a pandemic, there should be a heightened sensitivity to exponential functions. Nevertheless, the sustainability of the debt-based monetary system is not questioned by the conventional media. In our view, the uncovered monetary system in its current form has an expiry date.

Prepare for the worst; expect the best; and take what comes.
Oscar Wilde

Due to the expected economic and monetary turbulences, the coming years will hold many challenges for investors. We look forward to continuing to analyse the circumstances for you and to sharing our thoughts on further developments with you. Together we will be able to master these challenges. **At "The Dawning of a Golden Decade" we still say:**

IN GOLD WE TRUST

—
113 See more infos on the conesequences of 1971 at WTF Happened In 1971?

About Us

Ronald-Peter Stöferle, CMT

Ronnie is managing partner of Incrementum AG and responsible for Research and Portfolio Management.

He studied business administration and finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation he joined the research department of *Erste Group*, where in 2007 he published his first *In Gold We Trust* report. Over the years, the *In Gold We Trust* report has become one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at *scholarium* in Vienna, and he also speaks at *Wiener Börse Akademie* (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the international bestseller *Austrian School for Investors*, and in 2019 *The Zero Interest Trap*. Moreover, he is an advisor *for Tudor Gold Corp*. (TUD), a significant explorer in British Columbia's Golden Triangle, and a member of the advisory board of *Affinity Metals* (AFF).

Mark J. Valek, CAIA

Mark is a partner of Incrementum AG and responsible for Portfolio Management and Research.

While working full-time, Mark studied business administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of *philoro Edelmetalle GmbH*.

Since 2013 he has held the position as reader at *scholarium* in Vienna, and he also speaks at *Wiener Börse Akademie* (the Vienna Stock Exchange Academy). In 2014, he co-authored the book *Austrian School for Investors*.

Incrementum AG

Incrementum AG is a boutique investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the five partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years, especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system. Our clients appreciate the unbiased illustration and communication of our publications. **Our goal is to offer solid and innovative investment solutions that do justice to the opportunities and risks of today's prevalent complex and fragile environment.**

We would like to thank the following people for their outstanding support in creating the *In Gold We Trust* report 2020:

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Company Descriptions

Agnico Eagle

Agnico Eagle is a senior Canadian gold mining company that has produced precious metals since 1957.
www.agnicoeagle.com

EMX Royalty Corp

EMX Royalty has a 17 year track record of success in royalty generation, royalty acquisition, and strategic investments. With USD 50mn in the bank and 60 royalties, EMX is on the cusp for a revaluation.
www.emxroyalty.com

Endeavour Silver

Endeavour Silver is a mid-tier precious metals mining company listed on the NYSE (EXK) and TSX (EDR). We own three high-grade, underground, silver-gold mines in Mexico that produced 7.1mn oz. of Ag Eq in 2019.
www.edrsilver.com

Hecla Mining Company

Hecla Mining Company (NYSE:HL) is the largest primary silver producer in the U.S. and the 5th largest gold producer in Quebec. Hecla is also the third largest U.S. producer of both zinc and lead.
www.hecla-mining.com

Matterhorn Asset Management AG

MAM is a global leader in the acquisition and storage of gold, providing investors direct personal access to the biggest and safest private gold vault in the world, located in the Swiss Alps.
www.goldswitzerland.com

McEwen Mining

McEwen Mining's goal is to create a profitable gold and silver producer focused in the Americas.
www.mcewenmining.com

Münze Österreich

Internationally renowned for its precious metal processing, Münze Österreich AG produces Austria's circulation coins, Vienna Philharmonic bullion coins in gold, platinum and silver, and gold bars.
www.muenzeoesterreich.com

New Zealand Bullion Depository

Our mission is to provide the best in gold bullion storage with unparalleled service and discretion. Your gold is allocated, segregated and secured in our New Zealand facility giving you peace of mind.
www.nzbd.com

Novo Resources Corp

Novo's Resources focus is to explore and develop gold projects in the Pilbara region of Western Australia. Novo has amassed a significant land package covering approximately 13,000 sq. km.
www.novoresources.com

philoro Edelmetalle

Philoro is one of Europe's market leaders in precious metals trading and your reliable partner for investments in gold and silver, platinum, and palladium.
www.philoro.com

SolGold

SolGold (LSE/TSX:SOLG) is a leading exploration company focussed on the discovery and definition of world-class copper-gold deposits along the under explored section of the Andean Copper Belt in Ecuador.
www.solgold.com.au

Solit

As a leading precious metal trading company, the SOLIT Group offers precious metal savings plans, safe storage concepts and asset-based investment funds focusing on gold and silver.
www.solit-kapital.de

Sprott

Sprott Inc. is a global asset manager providing investors with access to highly-differentiated precious metals and real assets investment strategies.
www.sprott.com

Tudor Gold

Tudor Gold Corp. is a Junior Exploration company in the prolific Golden Triangle in B.C., Canada. Tudor's Treaty Creek Project borders to Seabridge Gold's KSM property and Pretium Resources's VOK-project.
www.tudor-gold.com

Victoria Gold Corp

Victoria Gold's Eagle Mine is in operation and in full production will produce +210,000 oz Au/yr @ AISC<US$800/oz Au. Reserve: 3.3Moz Au. LOM: 11 yrs. Priority exploration targets: Nugget-Raven & Lynx.
www.vitgoldcorp.com

Ximen Mining Corp

Ximen Mining Corp. is a Canadian publicly traded gold and exploration company focused on being the next significant high-grade gold producer in southern British Columbia.
www.ximenminingcorp.com

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