in gold we trust .report

“Gold Shining Through the Darkening Recession Clouds”

Chartbook of the
In Gold We Trust report 2019

Ronald-Peter Stoeferle
Mark J. Valek
October 2019

In Our Partners We Trust

AGNICO EAGLE

bakersteel capital managers

BARSELE

GOLDSPOT DISCOVERIES INC.

IAMGOLD CORPORATION

McEWEN MINING NYSE MUX TSX

MENĒ INVEST IN PURE 24K

MÜNZE ÖSTERREICH

NOVO RESOURCES CORP

philoro EDELMETALLE

Silver Bullion

Sprott Contrarian. Innovative. Aligned.™

TUDOR GOLD

Victoria GOLD CORP

Ximen MINING CORP

Media Partner:

GOLD SILVER™

Executive Summary of the *In Gold We Trust* Chartbook

1. Eroding Trust in Monetary Policy and the International Monetary System

- As we have forecasted, due to growing recession risks, **central banks are about to conduct a big "monetary U-turn"**: Expect **more QE, lower rates and MMT-style policies like "QE for the people".**
- **The erosion of trust in many areas plays into gold's hands**. An end to these crises of trust is not in sight.
- The steady buying of gold and the repatriation of central bank gold indicates rising mutual distrust among central banks.

2. Status Quo of Gold

- 2019 ytd, gold is up in every major currency.
- **In many currencies (EUR, AUD, CAD) gold trades at or close to new all-time highs!**

3. Gold Mining Stocks

- **Mining stocks are in the beginning of a new bull market.** Creative destruction has taken place, and leverage on a rising gold price is higher than ever.
- Gold & silver mining stocks are still one of the most hated asset classes these days. The capitulation selling of the last couple of years now offers investors **a very skewed risk/reward-profile.**

4. Quo Vadis, Aurum?

- Gold has entered a new bull market cycle and might become a *core asset* for generalists again!

1. The Eroding Trust in Monetary Policy and the International Monetary System

“Put not your trust in money, but put your money in trust.”

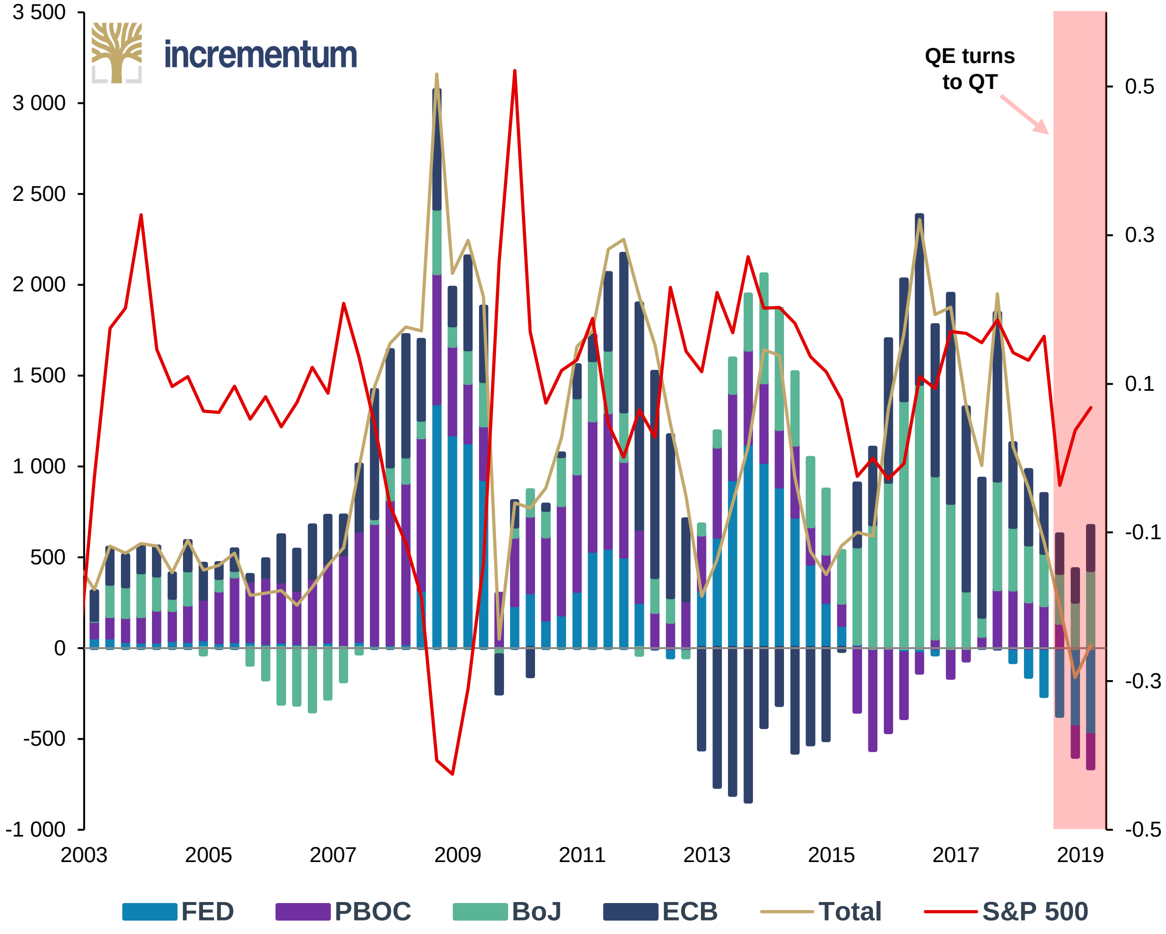
Oliver Wendell Holmes

Monetary Policy Tide Turn: From QE to QT and back? Quarterly CB Flows in USD bn. (lhs) & S&P 500 (YoY%, rhs)

- **<u>Last year</u> we pointed out that moving from QE to QT poses severe risks.** The normalization of monetary policy was abruptly halted by the stock market slump in Q4/2018.
- Gold reaffirmed its portfolio position as a diversifier, as trust in the **"Everything Bubble" was tested in Q4/2018**. While equity markets suffered double-digit percentage losses, gold gained 8.1% and gold mining stocks 13.7%.
- Monetary policy was massively asymmetric: While in previous years the Fed had expanded its balance sheet by USD 3.7trn, the Fed has reduced its balance sheet by only 0.7trn in total. Starting in September the Fed has increased its balance sheet by a staggering 200 bn again.

"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



Sources: Bloomberg, Incrementum AG

The Everything Bubble

- In the years following the financial crisis, global central banks flooded the economy with exorbitant monetary stimulus. **Nearly USD 20 trn. of central bank money was created ex nihilo.**

- Global stock markets were deliberately driven up in order to accelerate the so-called “wealth effect”. However, this did not seem to be having any effect in 2015, and stock markets began to stagger in the wake of fears of low growth.

- Alas, commodities remain the exception to the rule and still do not participate in the Everything Bubble.

Sources: Federal Reserve St. Louis, Incrementum AG

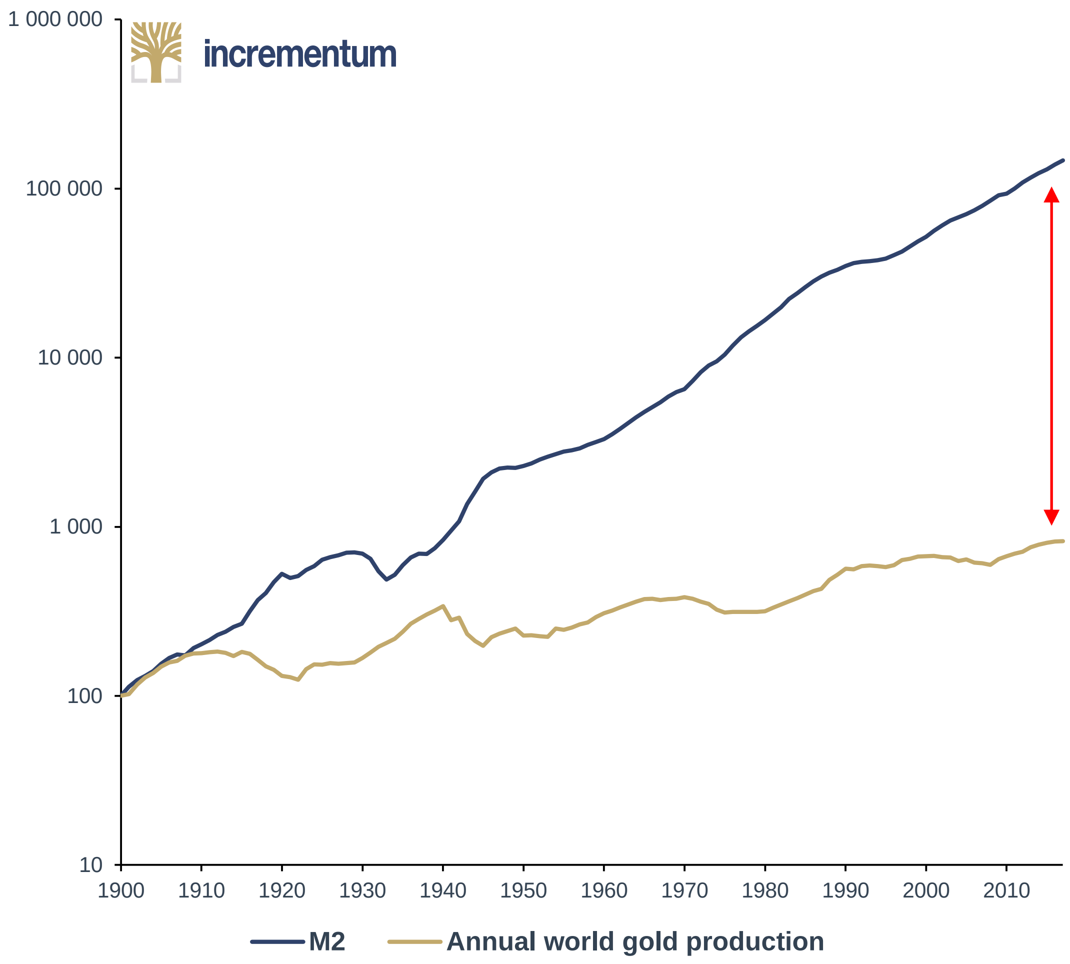
Monetary Expansion Decouples from Annual World Gold Production, 1900=100

- The gap between monetary expansion and annual world gold production increased further in recent years.

- **Since 1900, the monetary aggregate M2 has risen almost 180x faster than annual world gold production!**

"It's all about relative supply curves – the supply curve for bullion is far more inelastic than is the case for paper money. It really is that simple."

Dave Rosenberg



Sources: US Geological Survey, Bloomberg, Incrementum AG

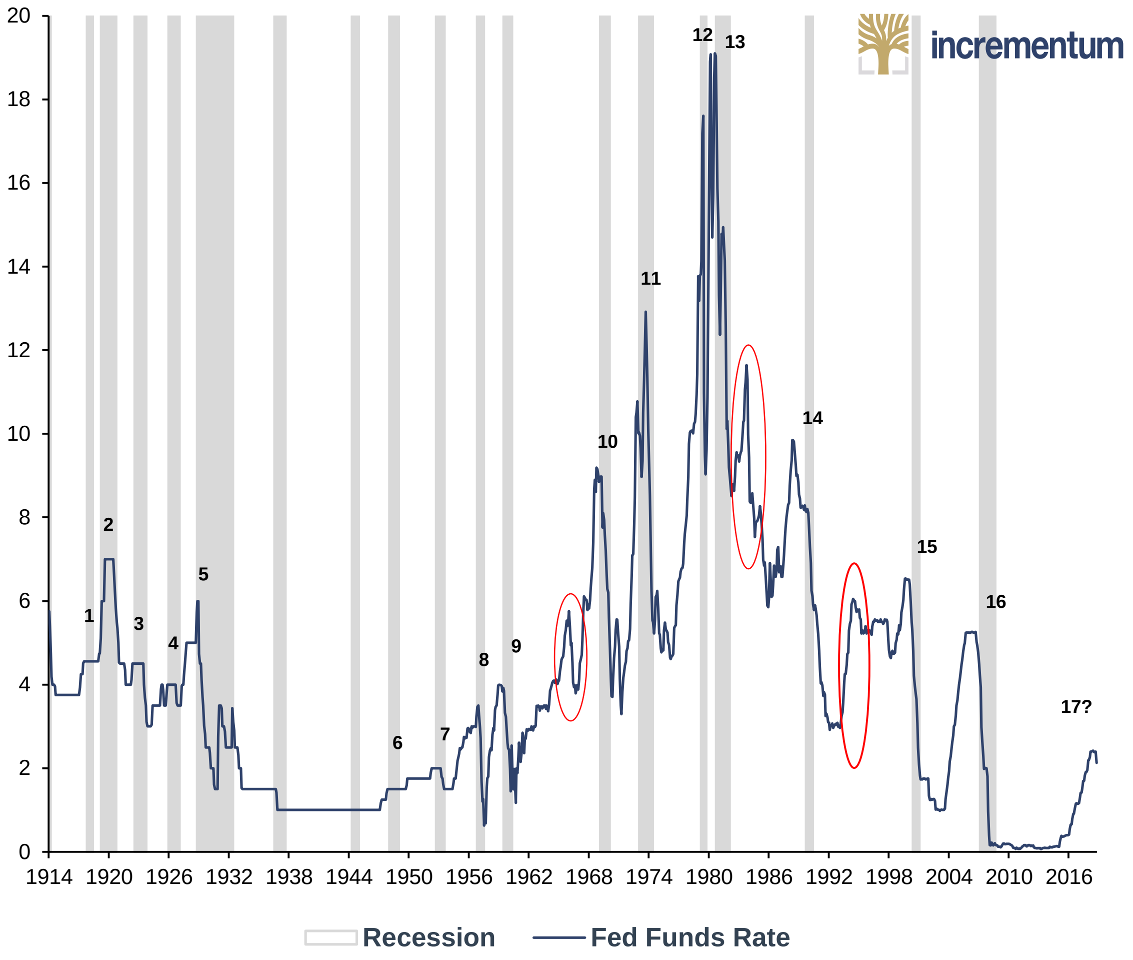
Effective Federal Funds Rate, in % and Recessions in the US

- As a long-term chart of the fed funds rate reveals, **the vast majority of rate-hike cycles have led to a recession**. Moreover, every financial crisis was preceded by rate hikes.

- The historical evidence is overwhelming: **In the past 100 years, 16 out of 19 rate-hike cycles were followed by recessions**. Only three cases turned out to be exceptions to the rule.

„The next recession by definition will happen with income and wealth disparities as their highest levels ever, and the unrest will likely be a tad more forceful than the well-behaved Occupy Wall Street movement was nine years ago.“

Dave Rosenberg



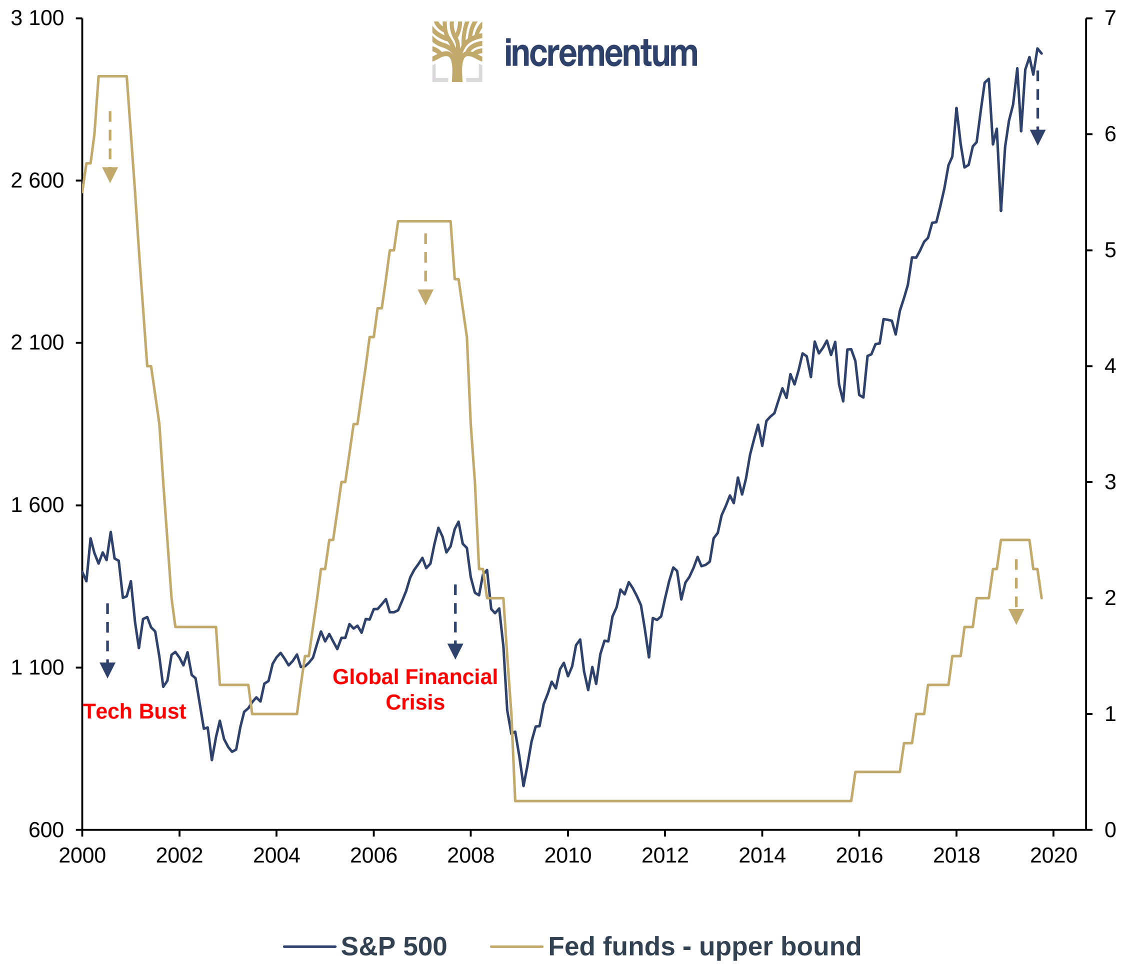
Sources: Federal Reserve St. Louis, Incrementum AG

S&P 500 (left scale) and Fed Funds – Upper Bound (in %, right scale)

- The following chart indicates that the **Federal Reserve's first interest rate cuts have previously had a negative effect on the American stock market** (S&P 500 as proxy).

- History shows that when the Federal Reserve starts cutting rates, stocks decline. When rates stay flat or rise, stocks surge. That is contrary to the fables you hear from many analysts, because declining rates are indicative of economic deterioration.

- If this pattern continues, one should analyze and act with special care on the US stock market in quarters to come.



Sources: Crescat Capital LLC, Federal Reserve St. Louis, Investing.com, Incrementum AG

Recession Forecasts Are Not Among the Strengths of Central Bankers

“The Fed has through the course of the year seen fit to lower the expected path of interest rates. That has supported the economy. That is one of the reasons why the outlook is still a favorable one.”

Jerome Powell, September 9, 2019

“It is not in the baseline to have a recession.”

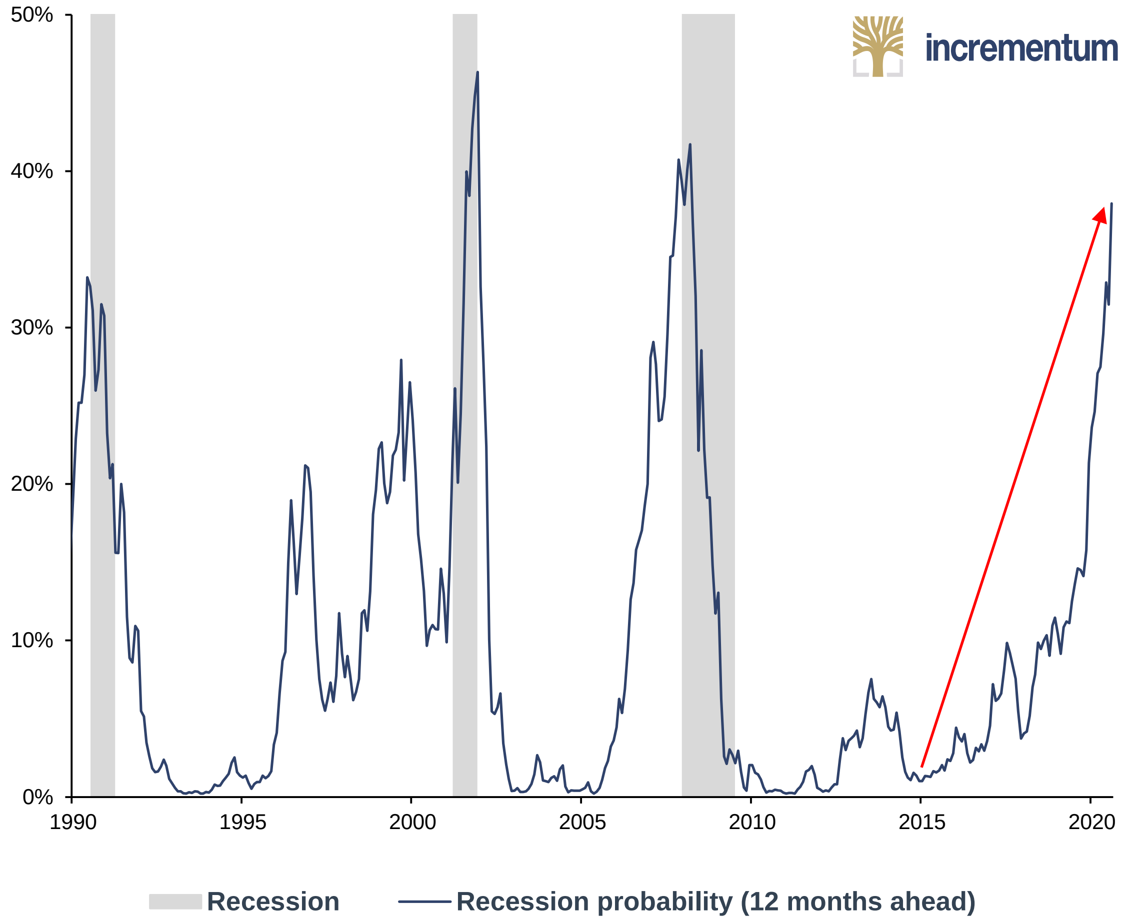
Christine Lagarde, September 24, 2019

Sources: Bloomberg, CNBC

Rising US Recession Probability

- Based on the probability of a US recession predicted by treasuries spreads (twelve months ahead), we are currently confronted with a **38% chance of a recession within the next 12 months.**

- Since this level has been reached only two times in the last 30 years (both times in a recession), **we assume that we might already be in a prerecession phase. Consequently, crisis-proof assets will again be in greater demand in the coming months.**



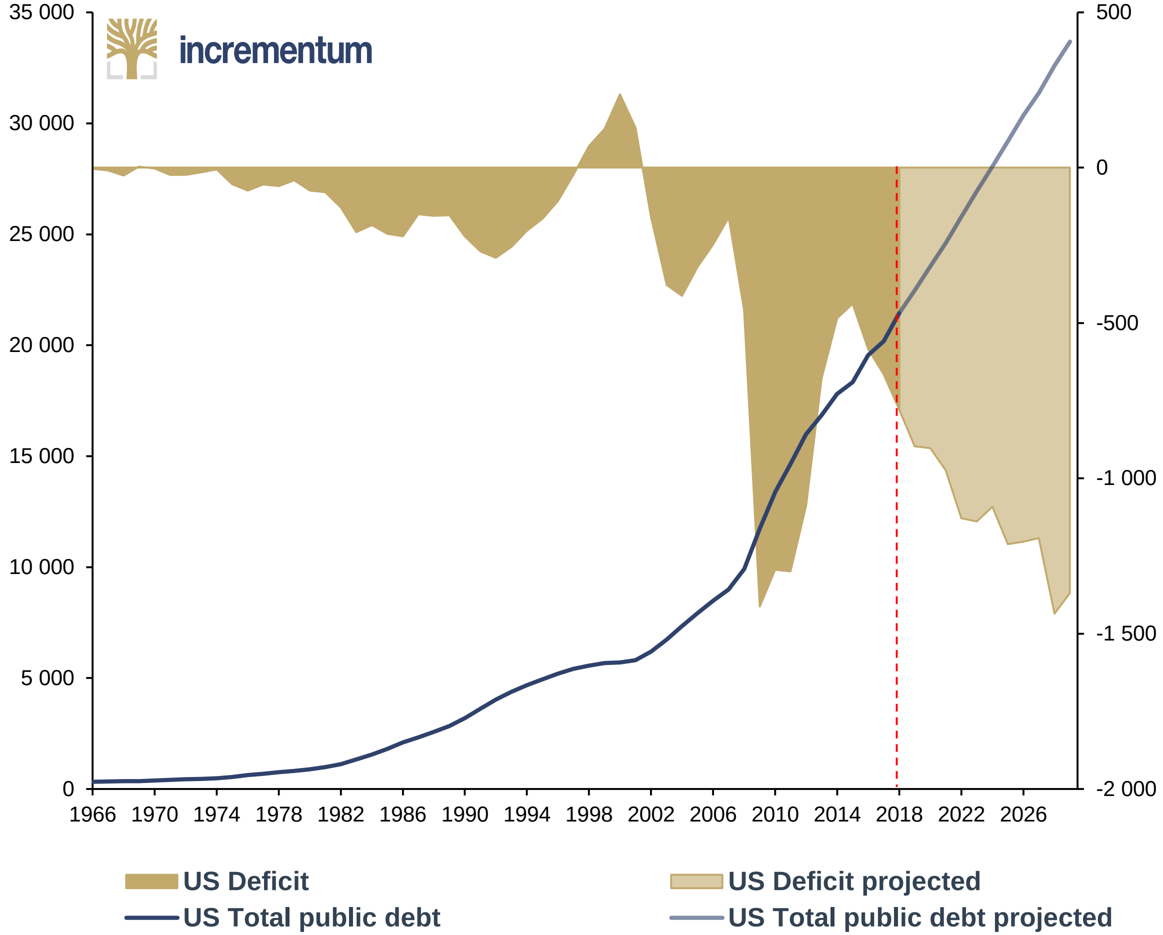
Sources: Federal Reserve NY, Incrementum AG

Projected US Debt & Deficit, in USD bn

- According to CBO forecasts, **the deficit of USD 1,370bn in 2029 will be only slightly lower than in the crisis year 2009 (USD 1,413bn).** Budget deficits of comparable size were recorded only in the period 2009-2012.

- It should also be noted that the CBO forecasts are based on very optimistic, almost naive premises. For example, the CBO assumes that the USA will not slide into recession in the next ten years (!) and that the economy will grow by 3% annually.

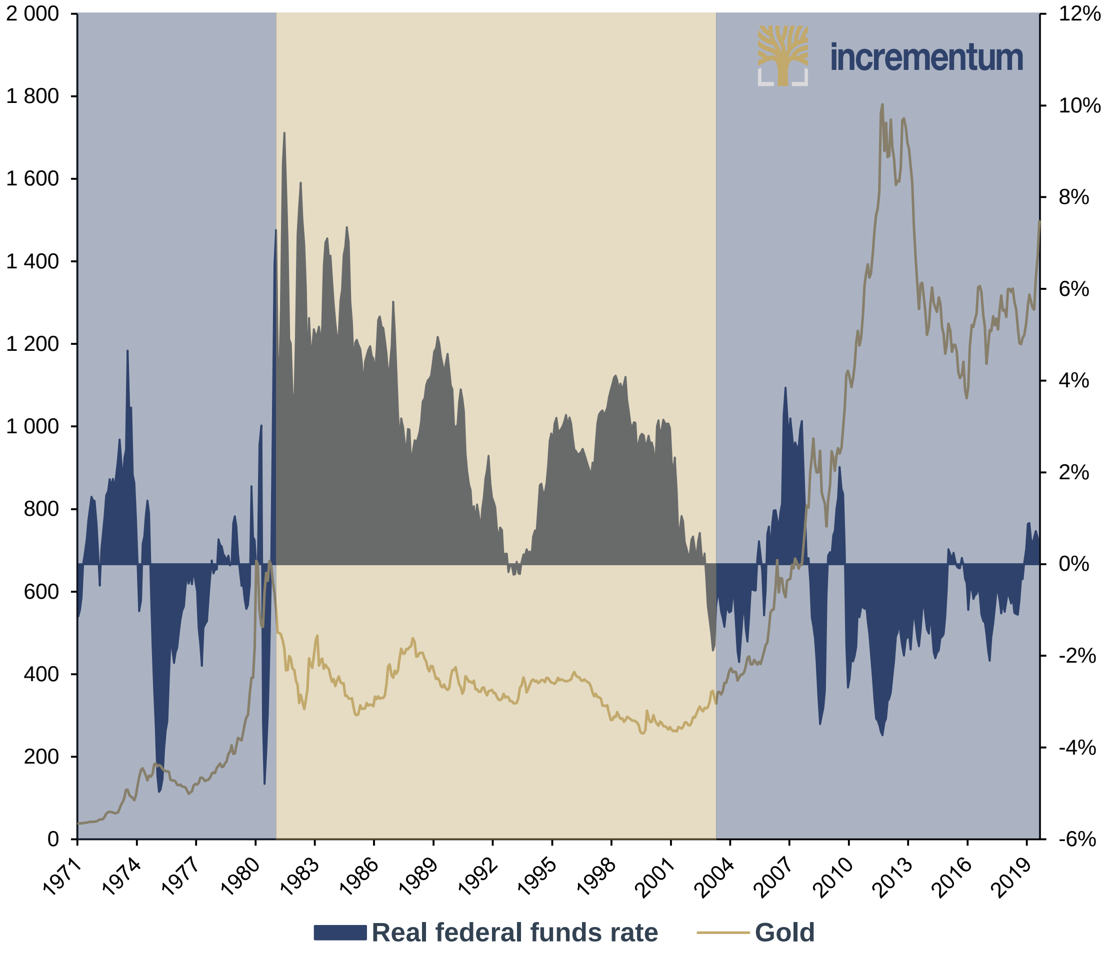
- From 2020, US government debt will exceed the combined debt of Japan and the eurozone, despite the fact that absolute US and Japanese debt were at similar levels until 2011, rising almost in step.



Sources: CBO, Federal Reserve St. Louis, Incrementum AG

Due to the Enormous Debt Pile, High Positive Real Rates Seem Implausible. Negative and Falling Interest Rates Boost the Gold Price.

- Real interest rates – their direction and momentum – are one of the most important drivers for gold!
- There are two time periods that were shaped by predominantly negative real interest rates (blue shading at right): the 1970s and the period since 2001. Both phases clearly represented a positive environment for the gold price.
- One can also discern that **the *trend of real interest rates* is extremely important for the gold price.**



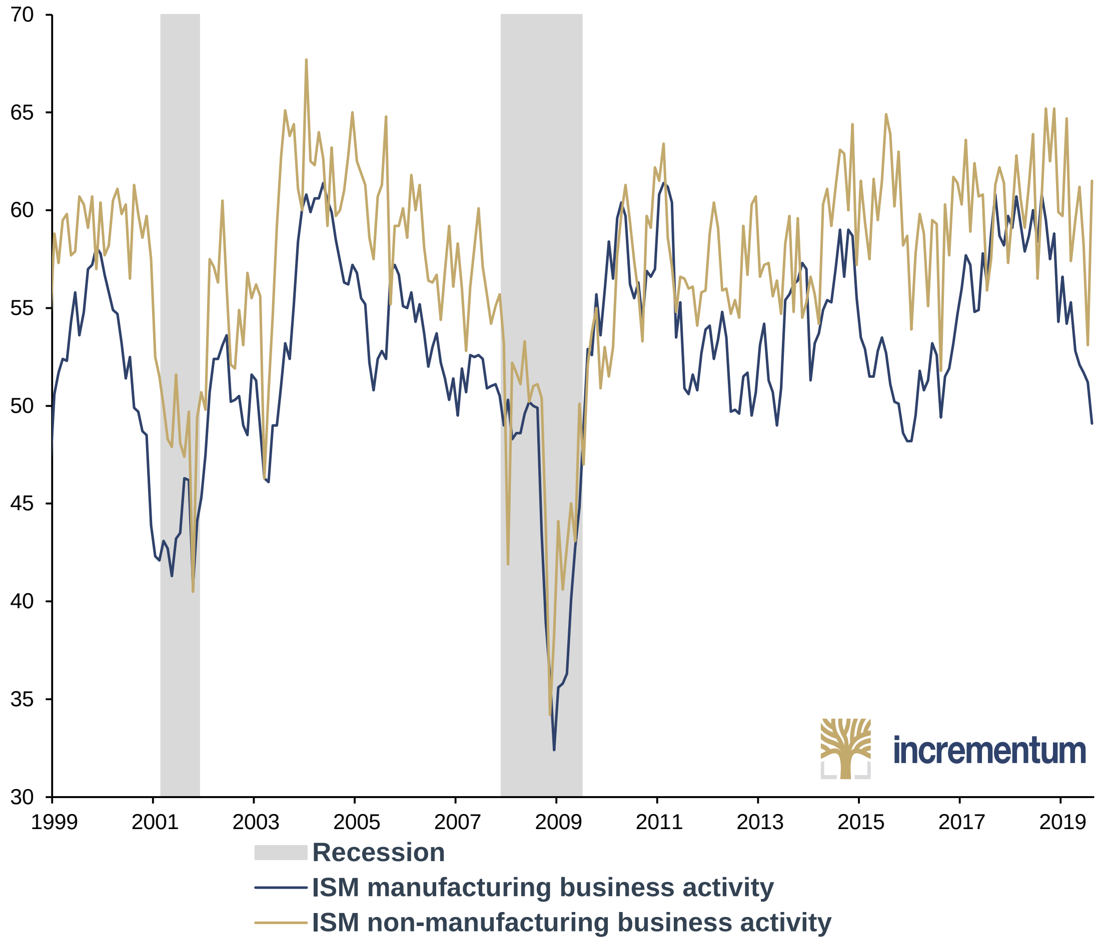
Sources: Federal Reserve St. Louis, Incrementum AG

ISM Manufacturing Index vs. ISM Non-Manufacturing Index

- The recent development shows that the less-volatile ISM Manufacturing Business Activity Index has declined for a year already.

- For the ISM Non-Manufacturing Business Index we see a similar picture. It seems noteworthy that nowadays the service sector reacts very sensitively to declines in asset prices.

- As suggested by the ISM and several indicators, **recession clouds are getting darker and darker.**

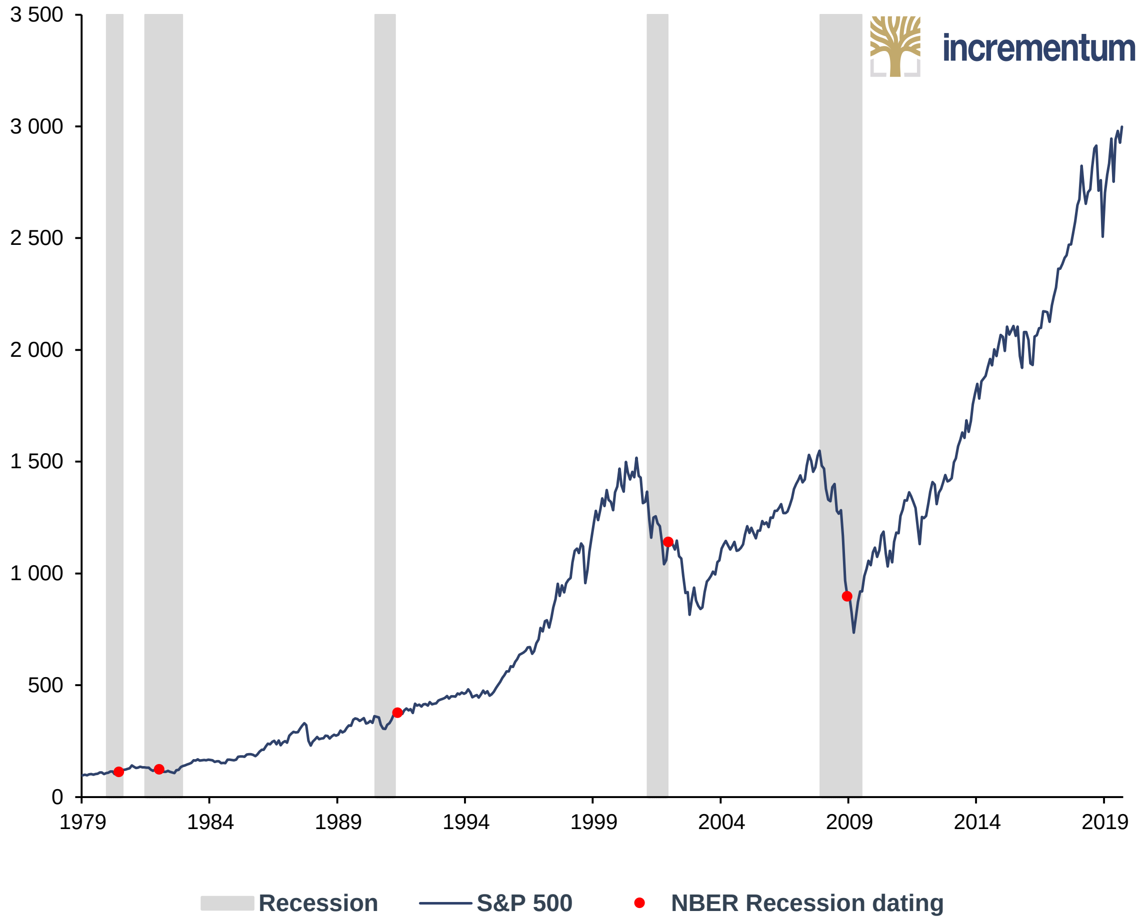


Sources: Investing.com, Incrementum AG

S&P 500 and NBER Recession Dating

- It takes 5-12 months before economic data is collected and evaluated in order to officially attest a recession (e.g. in 2007 it took 1 year until NBER made its official call).

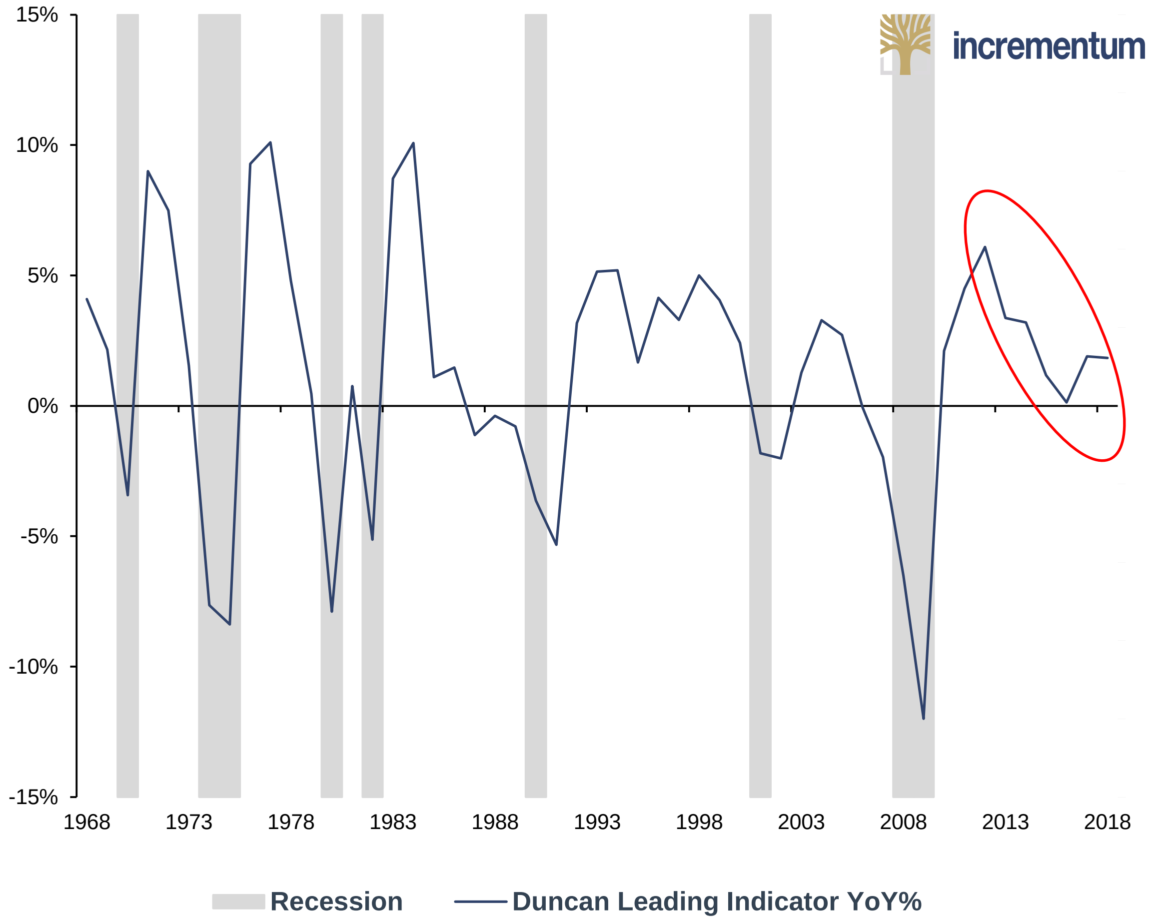
Economic Peak	NBER Recession Dating	Monthly Lag	Market Decline Peak-To-Through Pre-Dating
01/1980	06/1980	5	-7%
07/1981	01/1982	6	-11%
07/1990	04/1991	9	-16%
03/2001	11/2001	8	-19%
12/2007	12/2008	12	-43%



Sources: Investing.com, NBER , Incrementum AG

Duncan Leading Indicator (YoY%)

- The Duncan Leading Indicator is known as a reliable recession indicator. **Since the late 1960s, this recession indicator had only one false positive reading, which was in the mid-1980s.**
- It is calculated as the ratio of consumer durables spending plus residential and business fixed investment to final sales.
- Every time the YoY% turns negative, the risk of a recession rises dramatically.

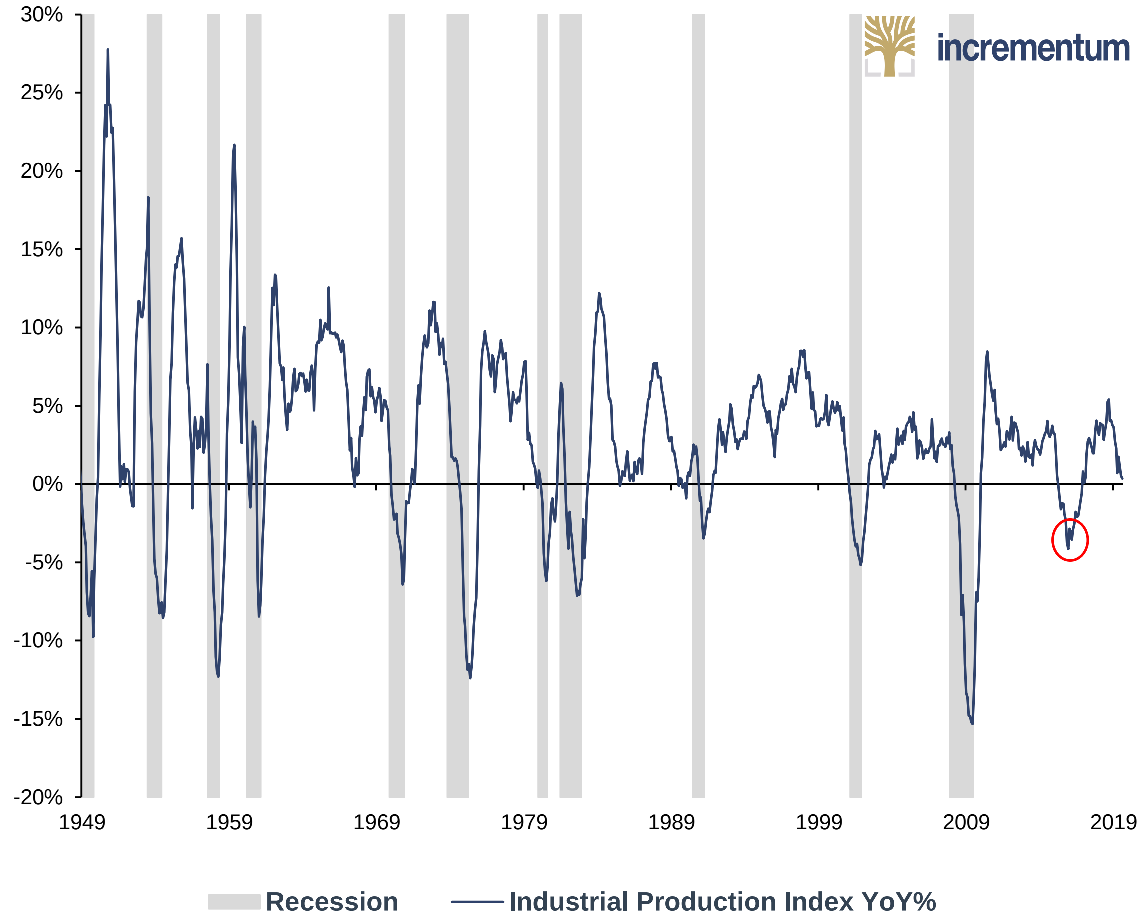


Sources: Federal Reserve St. Louis, Incrementum AG

Industrial Production Index

- Another proven recession indicator is the Industrial Production Index (IPI), measuring the real production output of manufacturing, mining, and utilities. It is published by the Federal Reserve Board.

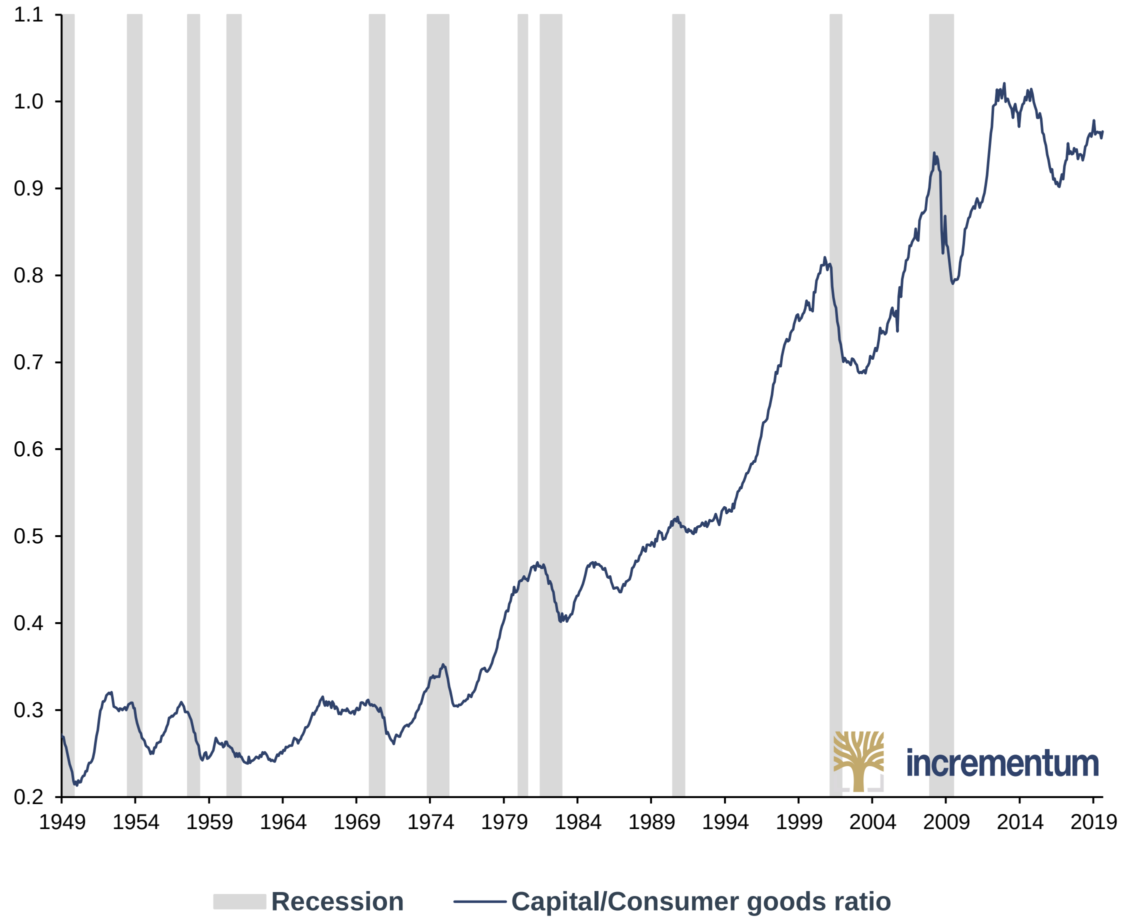
- Except for the decline in 2015, which did not lead to a recession, a relatively strong decline always ended up in a recession.



Sources: Federal Reserve St. Louis, Incrementum AG

Capital/Consumer Goods Ratio

- The chart depicts the ratio between spending on capital and consumer goods production over time. A rising ratio indicates that relatively more capital than consumer goods are produced.
- If interest rates are distorted, market participants receive misleading price signals and invest too much into capital goods relative to consumer goods.
- A reallocation of capital (i.e. bankruptcies, liquidation of debt) becomes inevitable, which usually coincides with a recession. At present the illusion of a ***monetary perpetuum mobile*** still prevails in the markets.



Sources: Federal Reserve St. Louis, Incrementum AG

What Can They Come Up With Now? Five Ways for the Fed to Further Ease

QE4

- Each QE program so far has been less effective in terms of raising consumer prices (falling marginal utility).
- An enormous asset price inflation has been caused instead.
- If markets are confronted with another round of QE, this might trigger a loss of confidence in the USD and more inflation than is welcome…

Zero/Negative Interest Rates

- Flawed models led the Fed to hike rates in December 2018 (“tightening into weakness”).
- In the coming months, the FOMC might finally have to admit that they do not see only a “mid-cycle adjustment”.
- Negative interest rates are increasingly being discussed.

Currency Wars

- Cheapening the US dollar could provide some superficial ease.
- However, others are trying the same (i.e. China, Japan, Eurozone).
- If everyone wants to devalue, the only things left to devalue against are gold and commodities!

Forward Guidance

- Possibly the first policy tool: the Fed assures that it won't raise rates in the foreseeable future.
- People will reenter carry trades: Short the US dollar, invest in emerging markets for the longer term.
- This tends to weaken the US dollar and to import inflation.

QE for the People (“Helicopter Money”)

- Running larger fiscal deficits and monetizing the debt through central bank action could “likely be the way forward”.
- Contrary to “traditional” QE, QE for the People implemented with tax deductions, would likely be more effective in raising inflation: Money is definitely being spent.

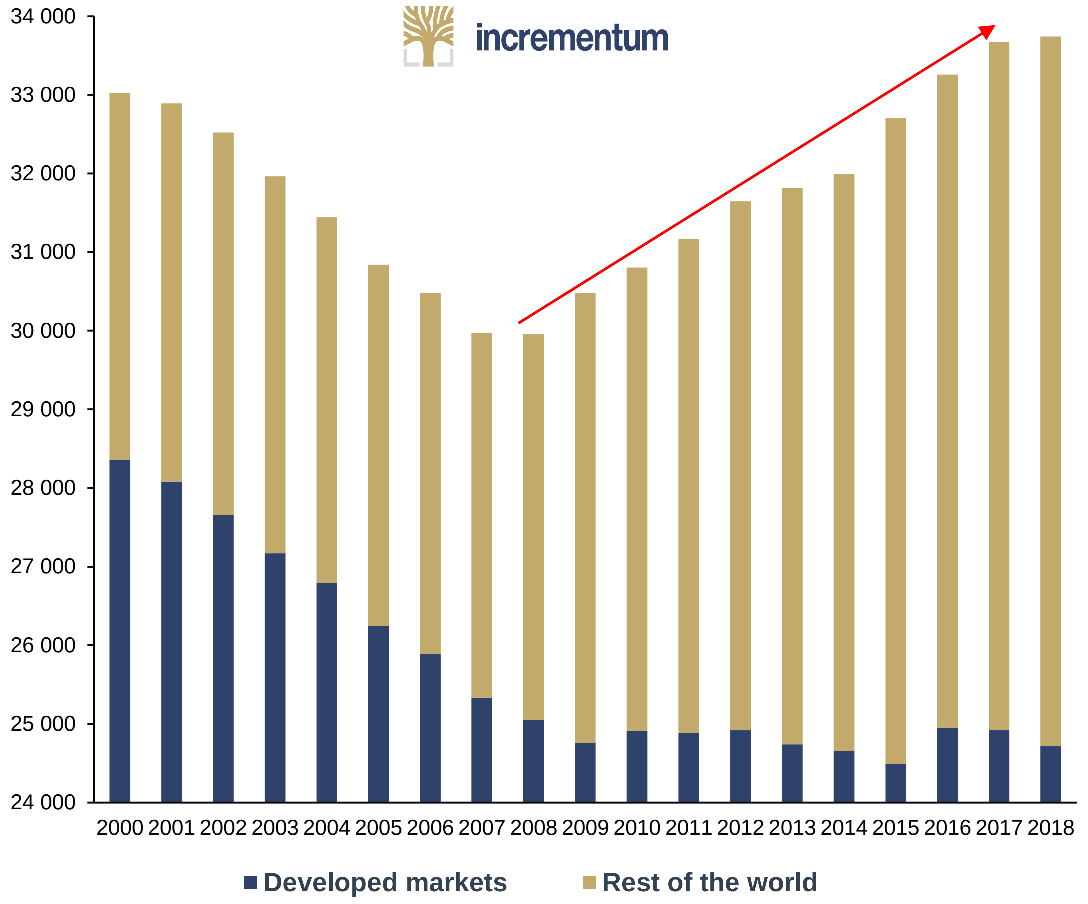
Rising Gold Reserves, in tonnes

- After seeing 650 tonnes purchased by central banks in the previous year, the analysts of the World Gold Council expect purchases of around 700 tonnes again this year.

- While the gold reserves of developed countries are stagnating, those of emerging economies have steadily risen since 2009.

"Well, it's interesting, gold is still significant. I ask myself, if gold is a relic of a long history, why is $1 trillion worth of gold held by central banks worldwide plus the IMF and other financial institutions? If it's worthless and meaningless, why does everyone still own it?"

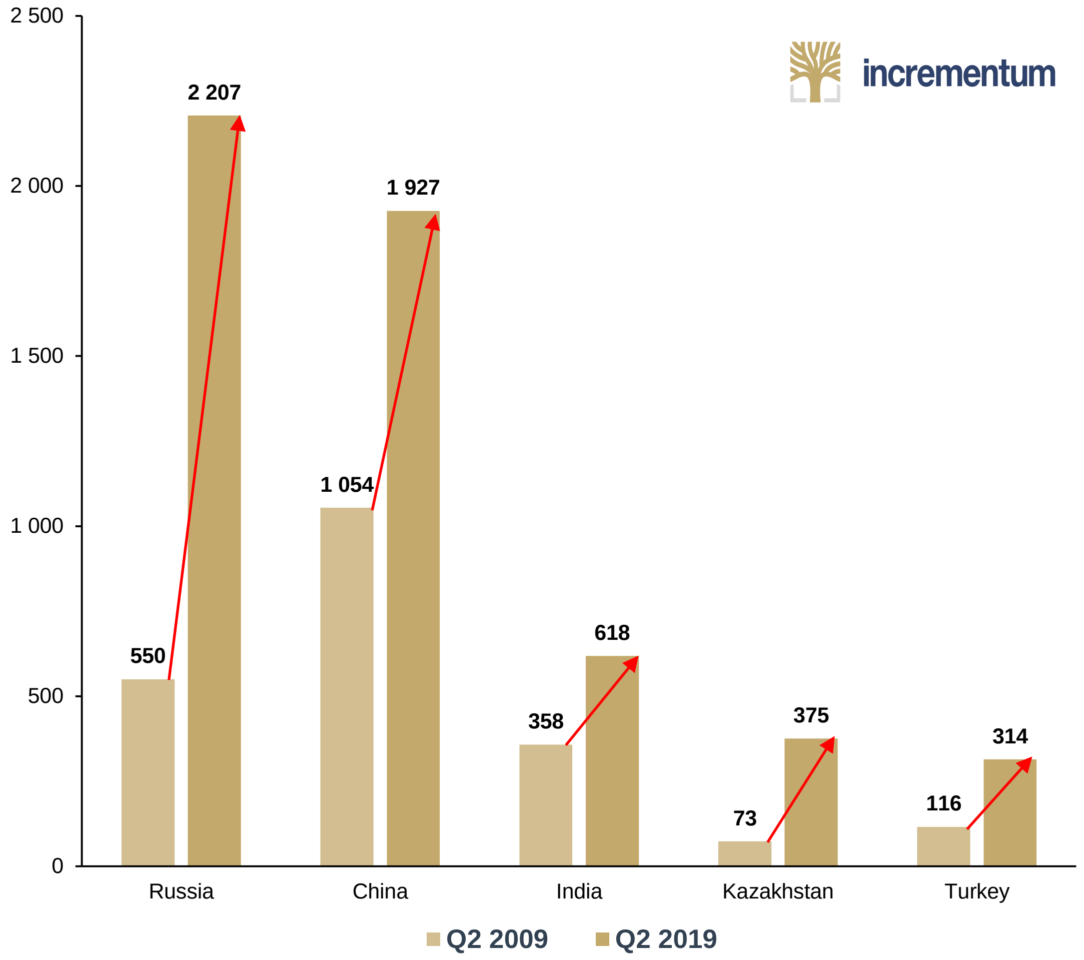
Alan Greenspan



Sources: World Gold Council, Incrementum AG

Change in Gold Reserves Held by Emerging Countries, in tonnes

- In recent years, the *"axis of gold"** countries have questioned the US-dominated global economic order. Their distrust is reflected in the steady expansion of their gold reserves.
- Since Q2/2009 Kazakhstan has boosted its central bank holdings by 415%, followed by Russia (301%), Turkey (171%), China (83%), and India (73%).
- The increase in gold reserves should be seen as strong evidence of growing distrust in the dominance of the US dollar and the global monetary and credit system associated with it.



* A term famously coined by Jim Rickards

Sources: World Gold Council, Incrementum AG

Chinese and Russian US Treasuries Holdings, in USD bn

- Russia and China, the largest foreign holders of US debt, continue dumping US treasuries.

- Both countries have sold off US treasuries worth about USD 100bn each in the last two years.

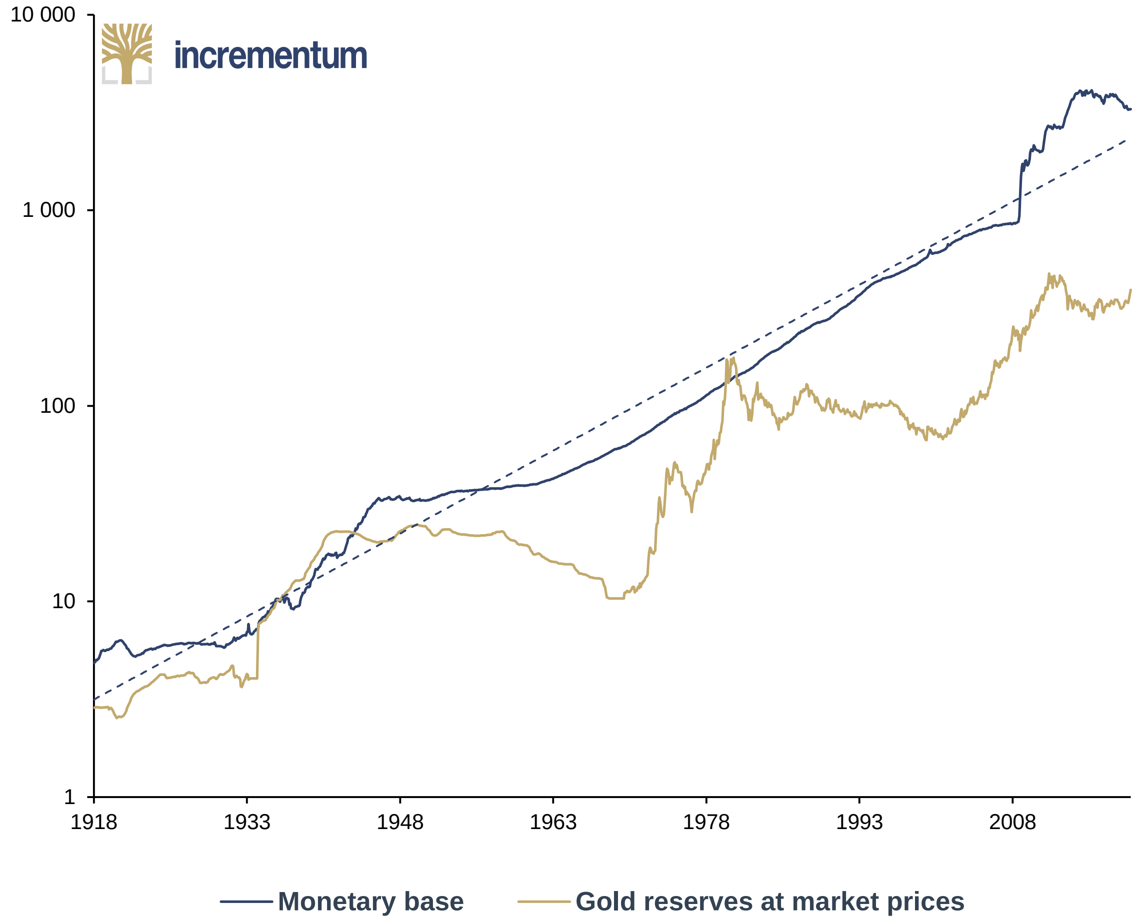
“It seems to me that our American partners are making a colossal strategic mistake [as they] undermine the credibility of the dollar as a universal and the only reserve currency today. They are undermining faith in it…. They really are taking a saw to the branch they are sitting on.”

Vladimir Putin

Sources: Bloomberg, US Treasury Department, Incrementum AG

Monetary Base vs. Gold Reserves at Market Prices, in USD bn (log)

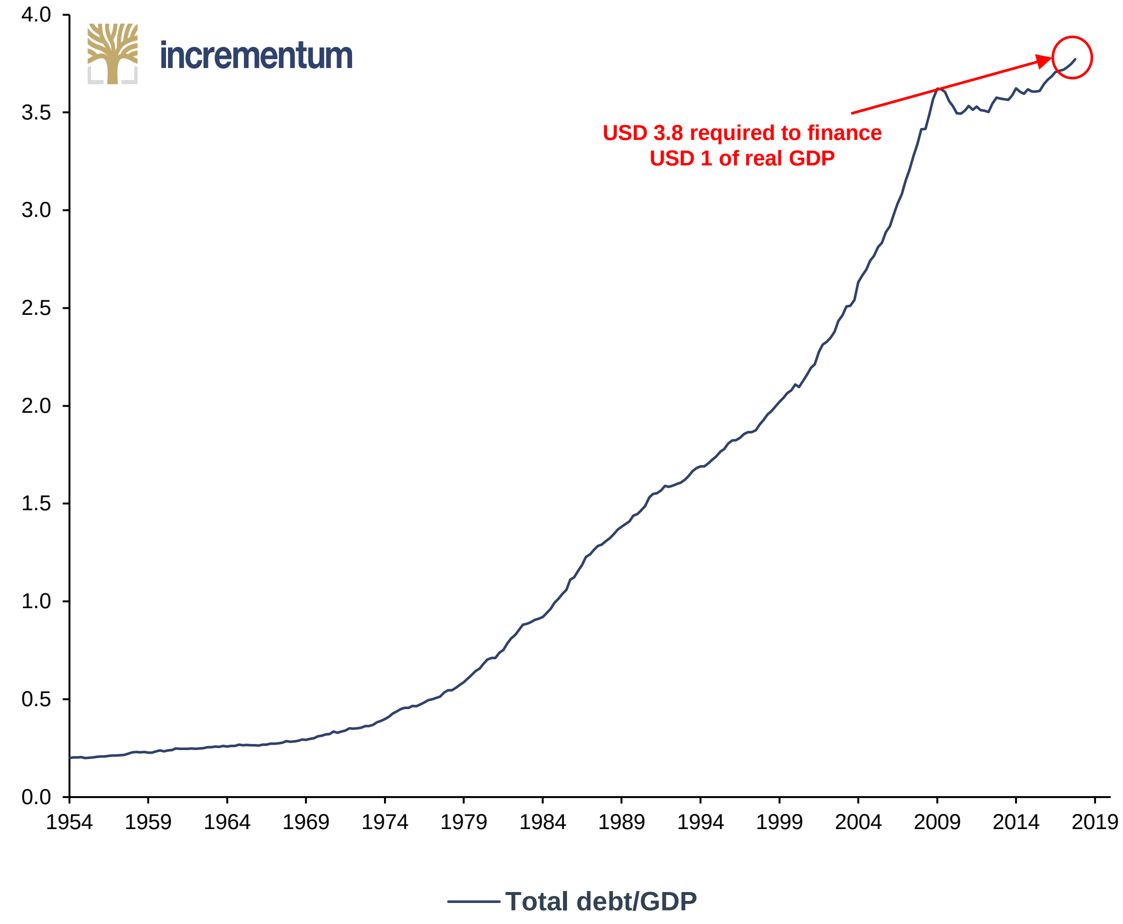
- Since the end of the classical gold standard, parity between the US monetary base and US gold reserves has been restored on two occasions by an upward revaluation of gold (in the mid 1930s and in the late 1970s).
- Whether a potential US dollar devaluation will happen in the framework of an international agreement or in an uncoordinated manner remains to be seen.
- **To cover the current monetary base of the US with gold, the gold price would have to stand at 12,600 USD!**



Sources: Federal Reserve St. Louis, World Gold Council, Incrementum AG

Dollars of Debt Required to Finance 1 USD Real GDP

- Expanding the money supply in a fiat money system is tantamount to piling up debt – and every borrower obligated to service his debt surrenders part of his future autonomy.
- In the case of government debt, younger generations are burdened with the debt accumulated by older ones. **Decreasing marginal utility of additional debt units** can clearly be seen in this chart.
- But that is not all: Beyond the servicing of government debt, rising rents and property prices driven by money-supply expansion represent costs that wage earners have to handle with more or less static real incomes.



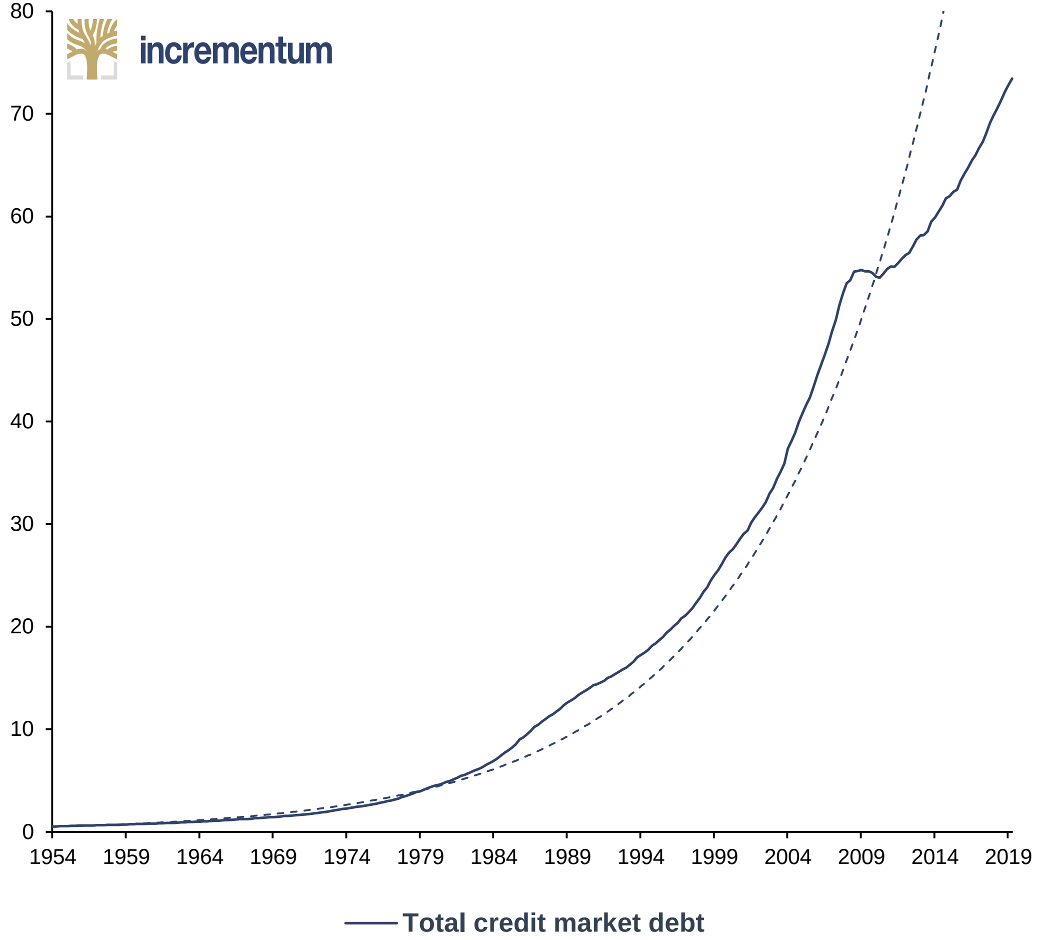
Sources: Federal Reserve St. Louis, Incrementum AG

Total Credit Market Debt, in USD tn

- Total credit-market debt has expanded exponentially since the US dollar's tie to gold was cut in 1971. This chart impressively illustrates the instability of growth induced by credit expansion.

- Since 1954, "total credit market debt" (which is the broadest debt aggregate in the US) has increased **from USD 529bn in Q1/1954 to USD 73,433bn in Q2/2019, or 127 times.** In every decade, outstanding debt has at least doubled.

- There is no reverse gear in the monetary system – if money supply and credit don't continually rise, the system's situation grows critical.



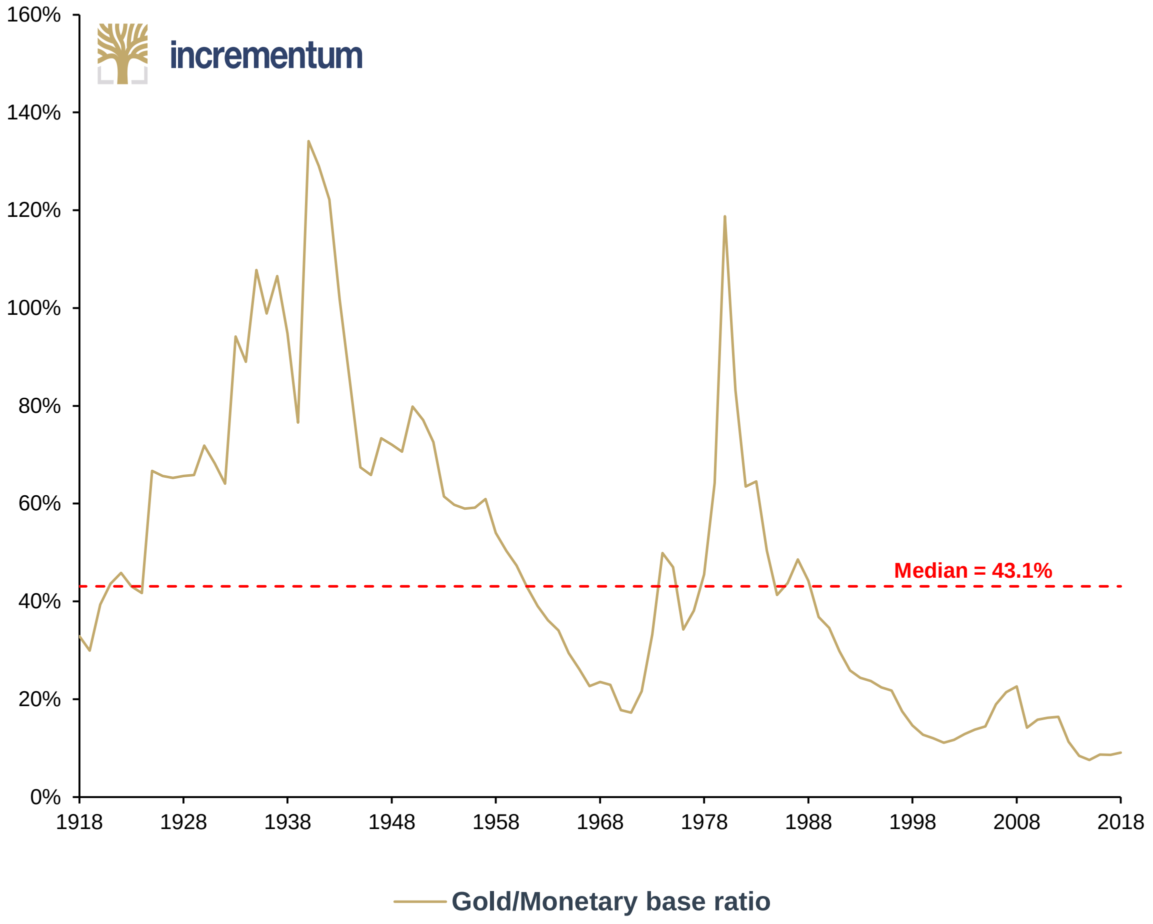
Sources: Federal Reserve St. Louis, Incrementum AG

Gold/Monetary Base Ratio

- Over the past decades, the gold backing of the US monetary base has trended down.

- **The monetary base (M0), has seen its gold backing dwindle to levels below 10%.**

- One could conclude that gold became significantly cheaper because of this unrestrained monetary inflation.



Sources: Federal Reserve St. Louis, World Gold Council, Incrementum AG

2. The Status Quo of Gold

"Gold's Perfect Storm investment thesis argues that gold is at the beginning of a multiyear bull market with 'a few hundred dollars of downside, and a few thousand dollars of upside'.
The framework is based on three phases: testing the limits of monetary policy, testing the limits of credit markets, and testing the limits of fiat currencies."

Diego Parilla

Gold Performance in Various Currencies

- **In many currencies, such as EUR, AUD and CAD, gold is trading at or close to all-time highs!**
- The average annual performance from 2001 to 2019 has been +10.0%. During this period gold has outperformed practically every other asset class, and in particular every currency, despite intermittent, sometimes substantial corrections.

	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 ytd	21.7%	16.4%	15.4%	21.4%	12.5%	20.0%	15.4%	18.0%	19.3%	**17.8%**
Average	9.6%	10.4%	11.6%	9.0%	9.4%	9.5%	10.0%	7.6%	12.6%	**10.0%**

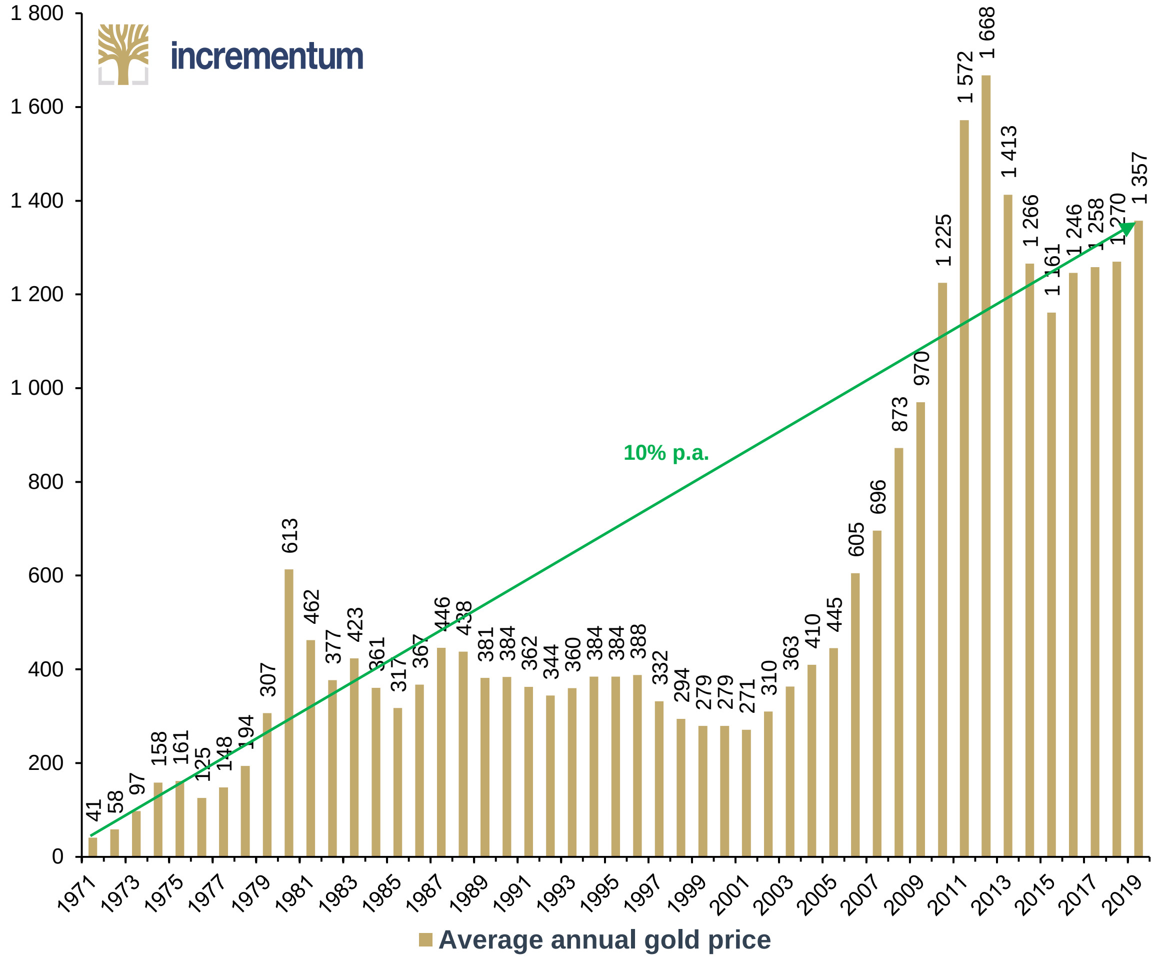
Sources: www.goldprice.org, Incrementum AG. Data as of Oct 23rd

Average Annual Gold Price, in USD

- Since August 15, 1971 – the beginning of the new monetary era – **the annual rate of increase of the gold price in US dollars has been 10%.**

- The inflation-adjusted appreciation of the currency gold against the US dollar averages 4.5% per year.

- This long-term context puts the correction of the years 2013-2015 into perspective, as this chart of average annual prices shows. The chart also provides impressive evidence that it is advisable to regularly accumulate gold ("gold saving") by harnessing the cost-average effect.

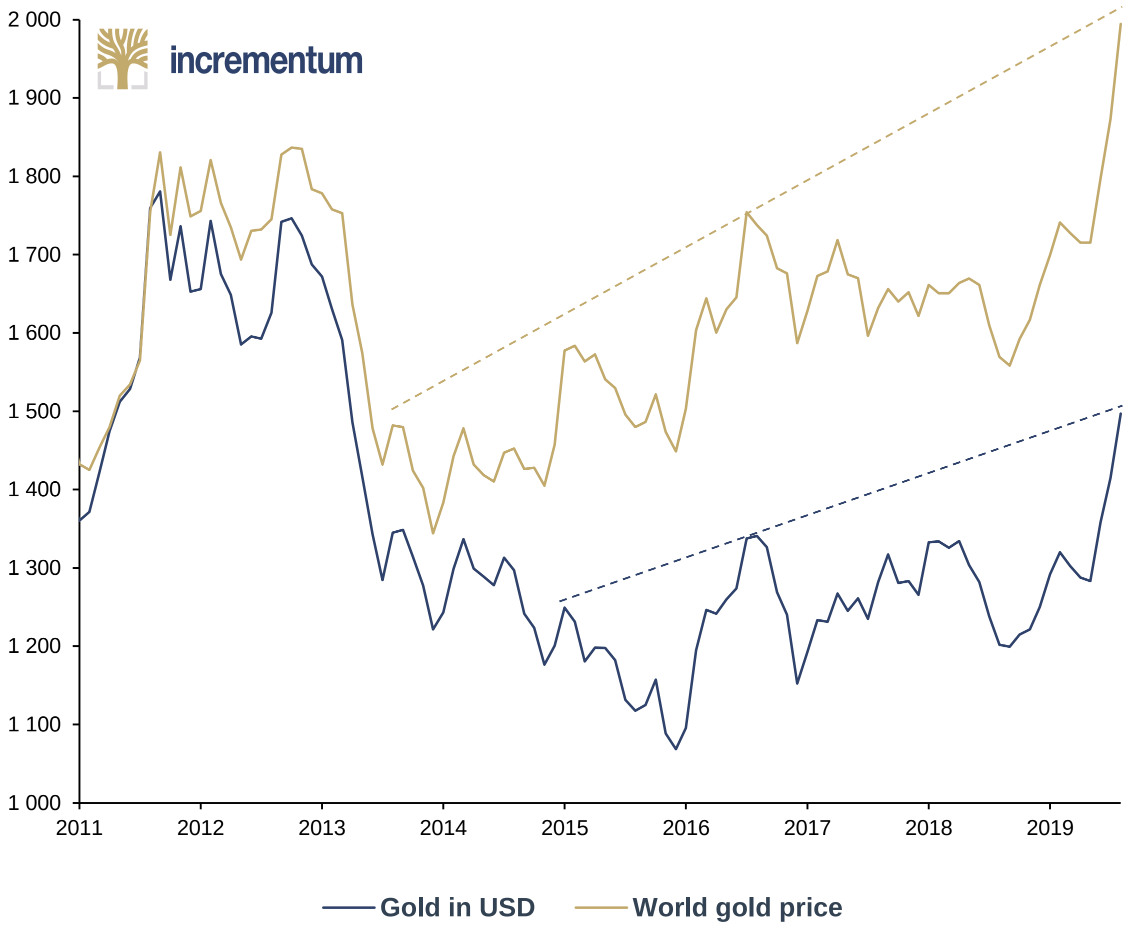


Sources: Federal Reserve St. Louis, Incrementum AG

World Gold Price and Gold, in USD

- This chart is one of the classics of every *In Gold We Trust* report. It shows the so-called world gold price, which represents the gold price not in US dollars or euros but in trade-weighted US dollars.

- **The chart shows that the world gold price is currently trading at USD 1,995 (monthly average).**



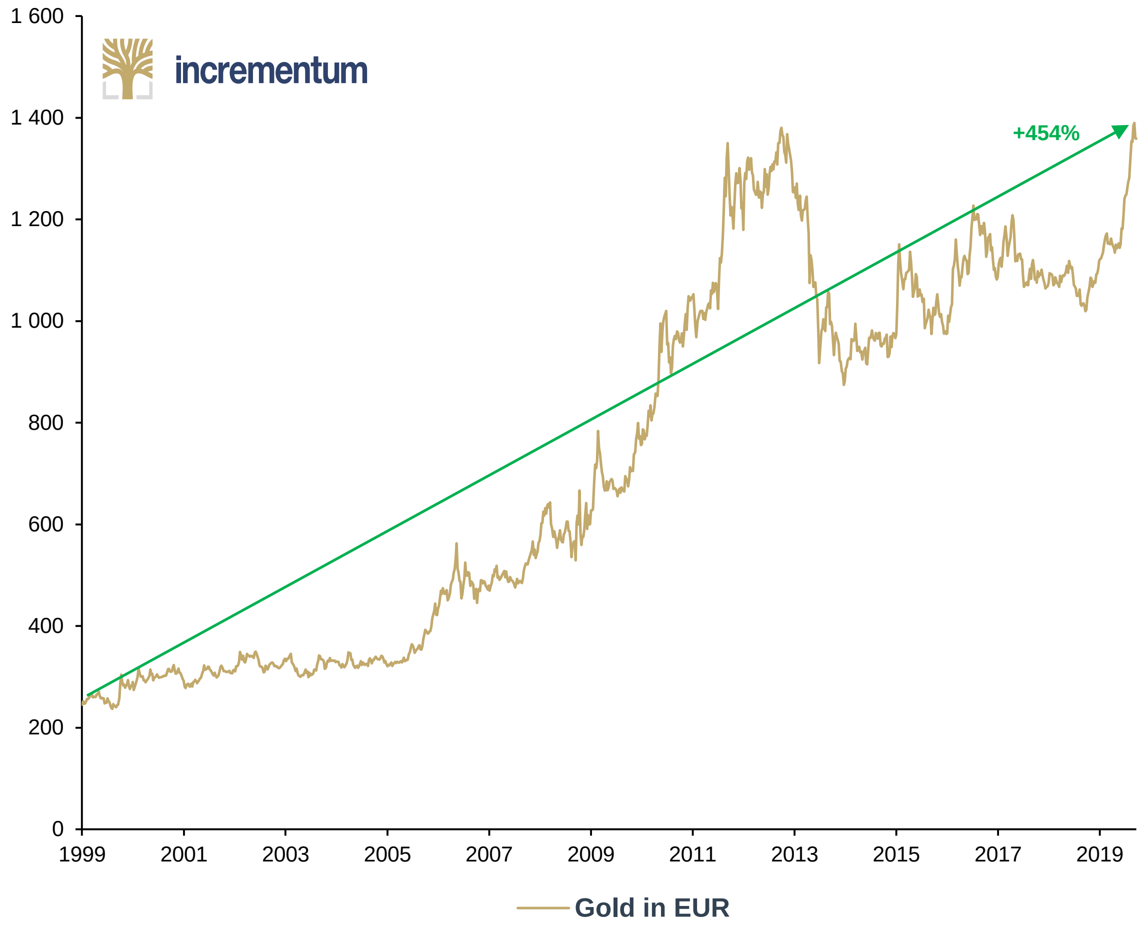
Sources: Federal Reserve St. Louis, Incrementum AG

Gold, in EUR

- The 20th anniversary of the introduction of the euro as book money gives us an opportunity to take a closer look at performance over this period.

- **Since the euro was introduced as book money on January 1, 1999, the price of gold in euros has risen by 454%.**

- The annualized performance from January 1999 to September 2019 is 9%!



Sources: Federal Reserve St. Louis, Incrementum AG

Milligrams of Gold per Euro

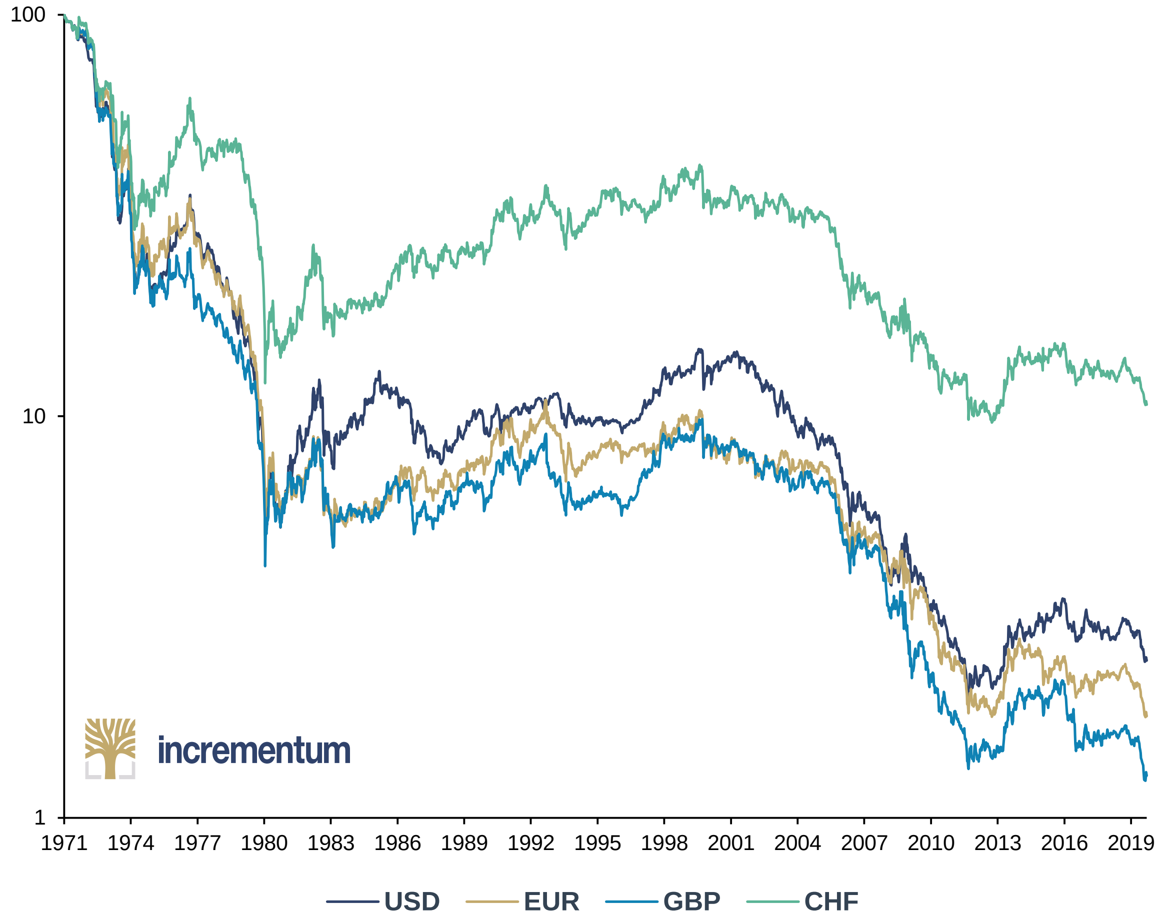
- The dramatic loss of purchasing power of the euro against gold is even more impressive if depicted as an inverse. This chart shows how many milligrams of gold correspond to one euro.
- Whereas on January 1, 1999 one euro "contained" 124.8 mg of gold, 20 years later the figure was only 28.3 mg. **This corresponds to a loss of 82% in the value of the euro against gold.**

Sources: Federal Reserve St. Louis, Incrementum AG

Purchasing Power of Main Currencies Valued in Gold (log)

- This chart clearly demonstrates the fact why gold is often considered as a hedge against inflation. Since 1971 – the end of the gold standard era – all four stated major currencies have lost drastically in purchasing power relative to gold.

- Among the currencies USD, EUR, GBP and CHF, the Swiss franc has lost the least in valuation, by far.

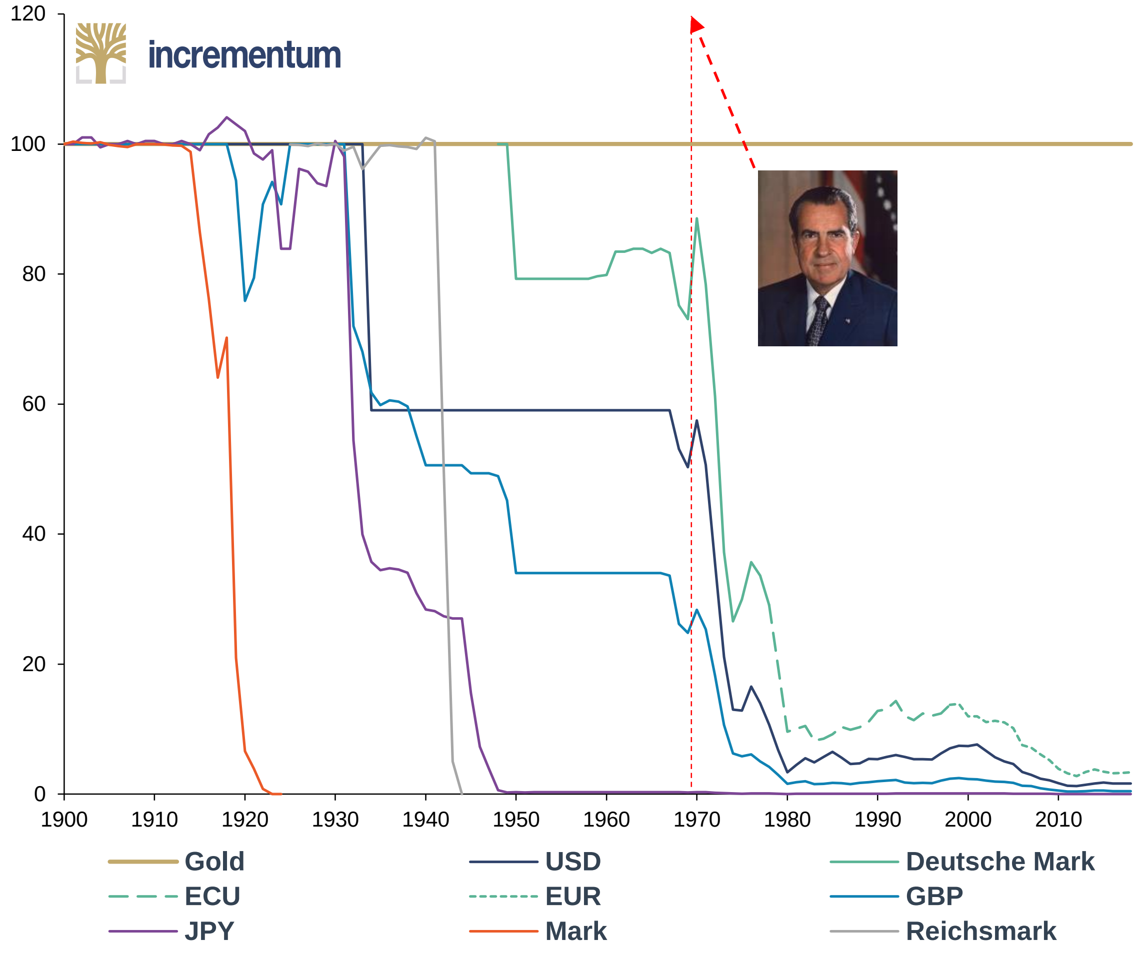


Sources: Federal Reserve St. Louis, Investing.com, Incrementum AG

Currency Value Relative to Gold

- This chart basically tells us the same story as the previous one, but just with a longer time horizon.

- It shows where the erosion of trust in paper money leads in extreme cases. When paper currencies were not trustworthy in the eyes of the population anymore, they reverted to their intrinsic value, and that is zero!



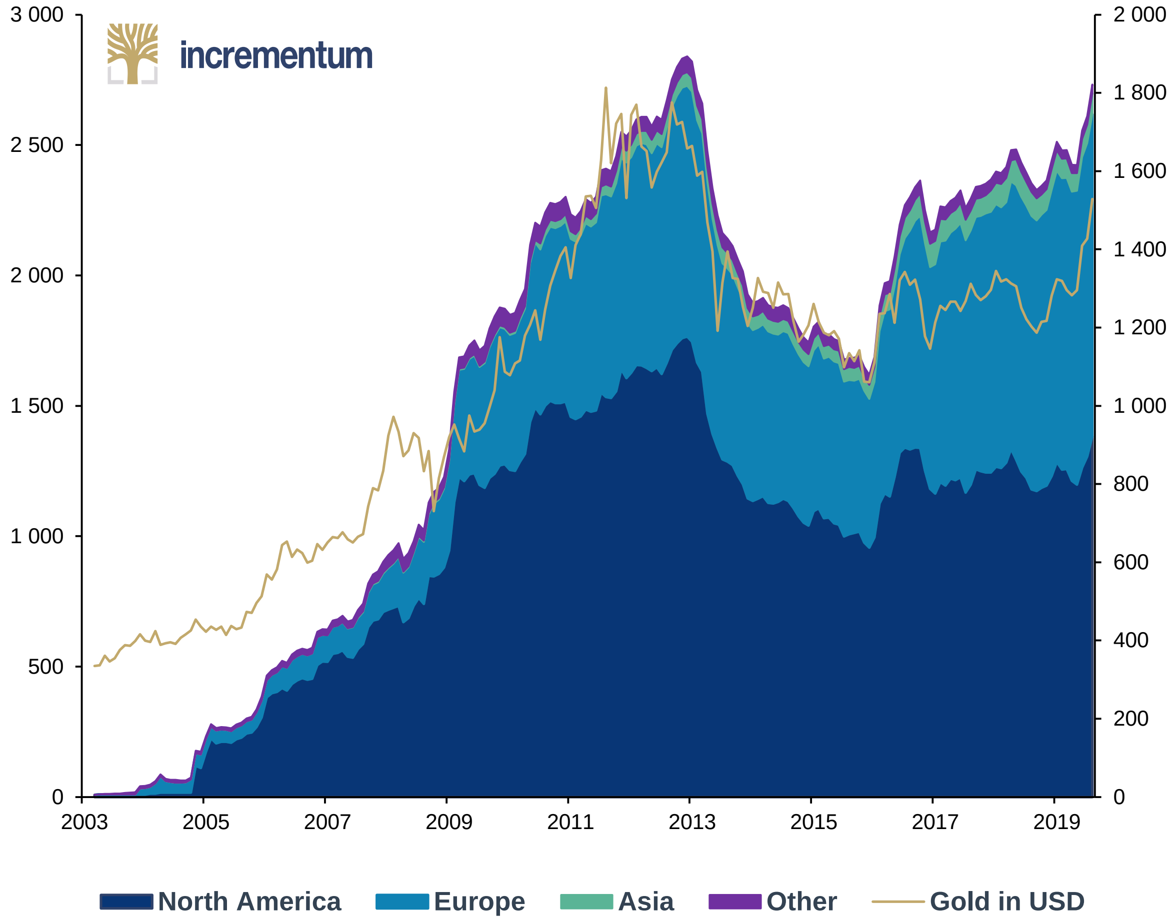
Sources: World Gold Council, Harold Marcuse – UC Santa Barbara, Incrementum AG

Gold ETF Holdings, in USD bn (left scale) and Gold, in USD (right scale)

- **The interest of financial investors in gold is rising again.** This is confirmed by the inflows into gold ETFs, which have been on the rise since the end of 2015.

- For us, this indicator is representative of Western financial investors, who choose ETFs as the primary instrument for managing their gold exposure. This is also reflected in the fact that gold ETF inflows follow an extremely procyclical pattern.

- Geographical segmentation shows that in recent years European investors have weighted gold ETFs more strongly than their North American peers have done.



Sources: World Gold Council, Incrementum AG

Gold/S&P Ratio Bottoming

- We consider the bull market in equities as the biggest opportunity cost for gold.

- Comparing the gold price to S&P 500 development, we can see that **the relative performance of gold vs. the S&P 500 is bottoming and making higher lows.**

- After seven years of gold's underperformance vis-à-vis the broad equity market, the tables may soon be turning in favour of gold.

Sources: Federal Reserve St. Louis, Incrementum AG

Gold, in USD (left scale) and Silver, in USD (right scale)

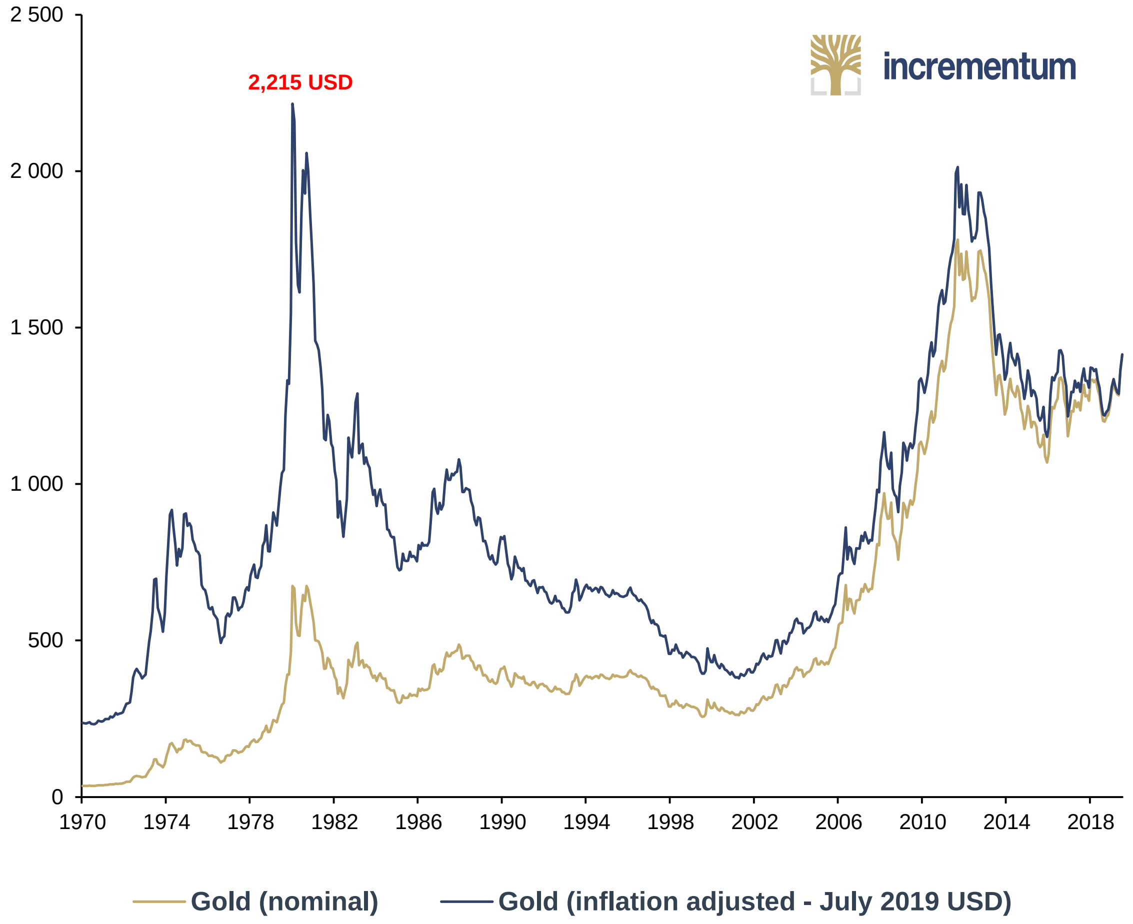
- This chart demonstrates the nominal gold and silver price moves since 2000.
- The silver price could also be interpreted as a sentiment indicator for gold. Strong bull markets for silver usually only happen in the course of rising gold prices, because investors seek higher leverage and end up with mining stocks or silver.
- Silver has lagged gold so far but tends to catch up late in cycle.

Sources: Federal Reserve St. Louis, Investing.com, Incrementum AG

Gold in Nominal and Real Terms, in USD

- The comparison of gold in nominal and real (inflation-adjusted – July 2019 USD) prices are demonstrated in this chart.

- Inflation began rising tremendously in the mid-1970s and reached about 14% in 1980. The reason for the Great Inflation was mainly monetary policy that allowed for excessive growth in the money supply. Gold peaked at USD 2,215 at that time.

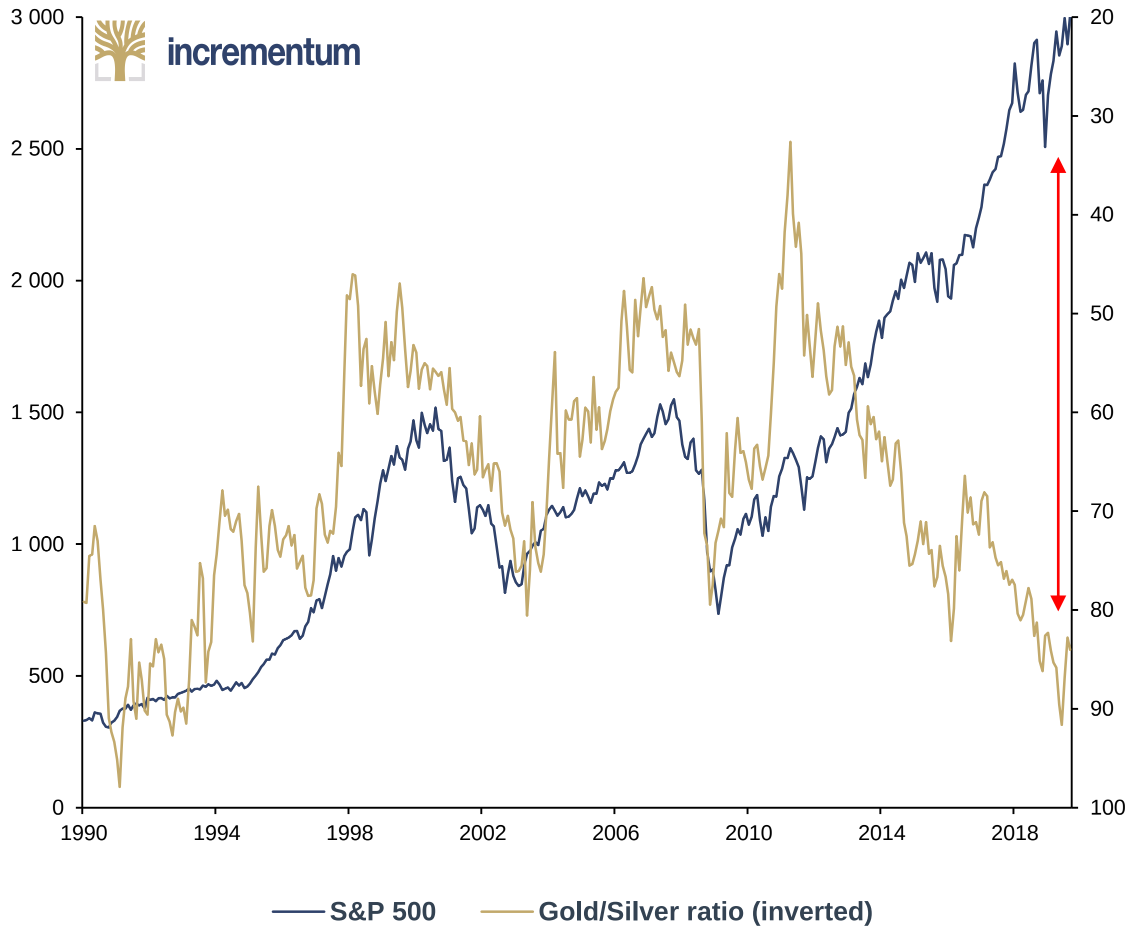


Sources: Federal Reserve St. Louis, Incrementum AG

S&P 500 (left scale) and Gold/Silver Ratio, inverted (right scale)

- Since 2011, disinflationary forces have provided a tremendous tailwind to financial assets. Since the early 1990s there has been an astonishing synchronization between financial assets and the gold/silver ratio: **A rising stock market usually goes hand in hand with a falling gold/silver ratio, i.e. an outperformance of silver compared to gold. However, in 2012 this correlation broke down.**

- Our interpretation for this phenomenon is that **in previous economic cycles reflation was conventionally achieved by expanding credit.** This time, reflation was achieved by buying securities, which made monetary assets more expensive but did not sustainably fuel consumer price inflation.



Sources: Federal Reserve St. Louis, Incrementum AG

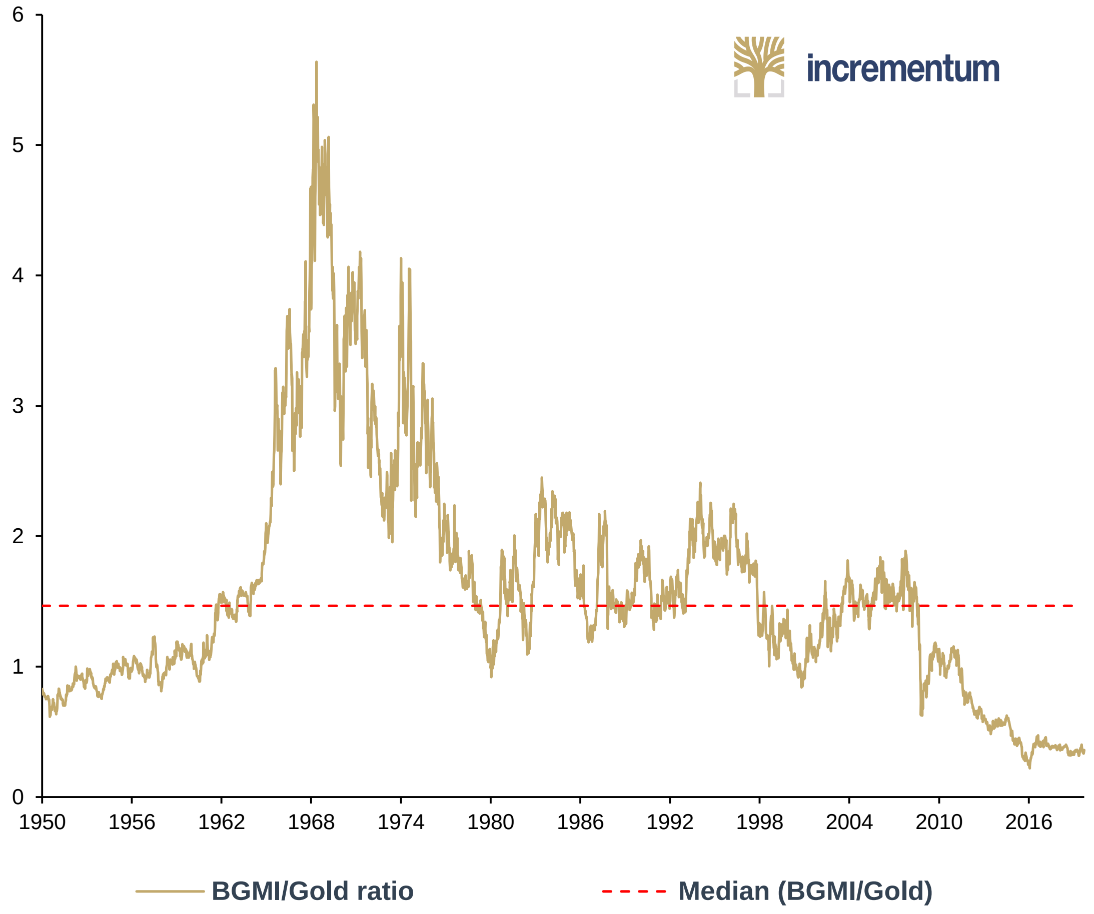
3. Gold Mining Stocks

"For the first time in my lifetime the gold mining industry has actually decided to become an industry rather than a floating abstraction. This focus on productivity, this ability to deliver economic results in 2018, combined with the expectation of performance in the mining industry, which is nil, is going to yield surprise after surprise after surprise in 2018, with damn near all of those surprises being good."

Rick Rule

BGMI/Gold Ratio

- The extent of underperformance of gold mining stocks compared to bullion gold becomes particularly clear when we make a longer-term comparison.
- The oldest available gold mining index, the Barron's Gold Mining Index (BGMI), is currently at its lowest level relative to gold in 78 years.
- In addition, **the current value is miles below the long-term median of 1.5.**



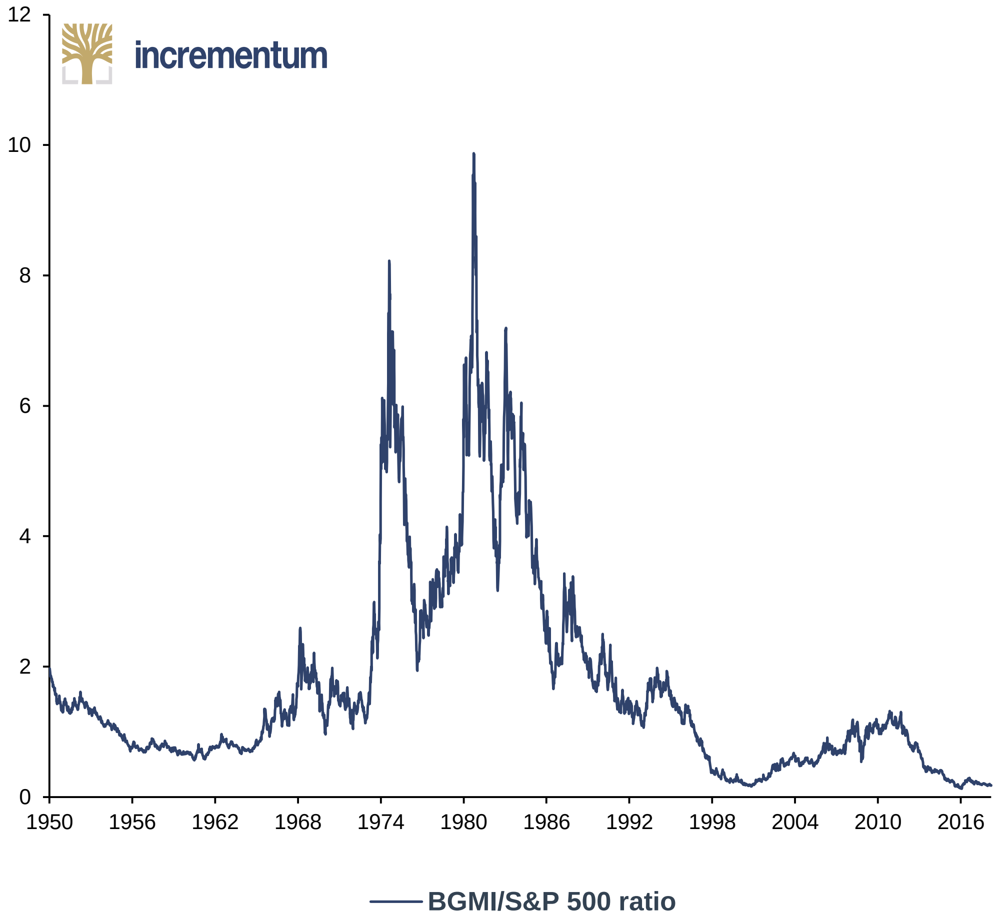
Sources: Bloomberg, Incrementum AG

BGMI/S&P 500 Ratio

- The BGMI/SPX ratio currently stands **at a similar level as in 2001 and 12/2015, when the last bull markets in gold stocks started.**
- The recent M&A deal flow might have marked the bottom of the bear market.

"It's unpriced optionality, then, because there's going to be an M&A wave at some point. There has to be, because the largest companies have been spritzing reserves hand over fist and will have to come to the market."

Ned Naylor-Leyland

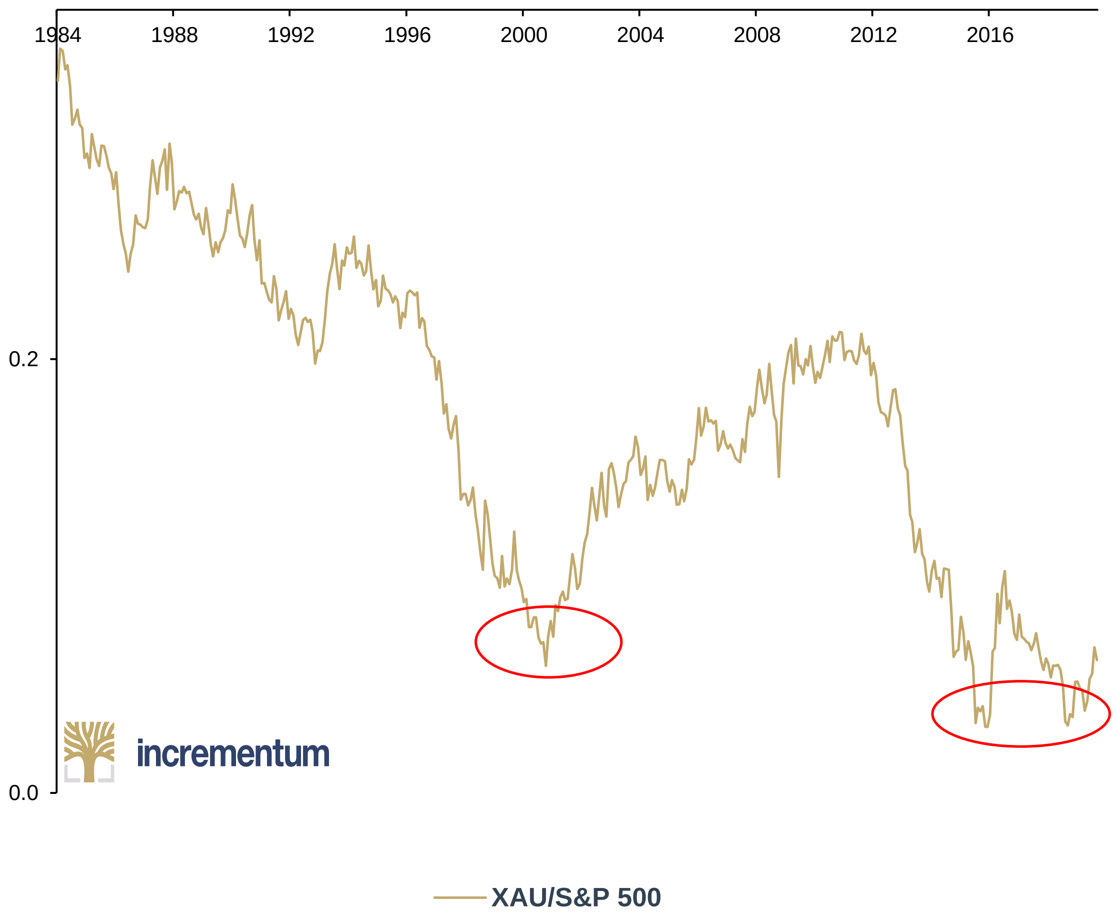


Sources: Bloomberg, Robert Shiller Online Data, Incrementum AG

XAU/S&P 500 Ratio

- If we look at mining stocks in relation to the broad equity market, we clearly see that the gold sector has been met with enormous skepticism since 2011.

- The **XAU/S&P 500 ratio is currently at a lower level than it was in 2000, when the last big boom began,** and at the same level as in 2016, when a 170% rally began.



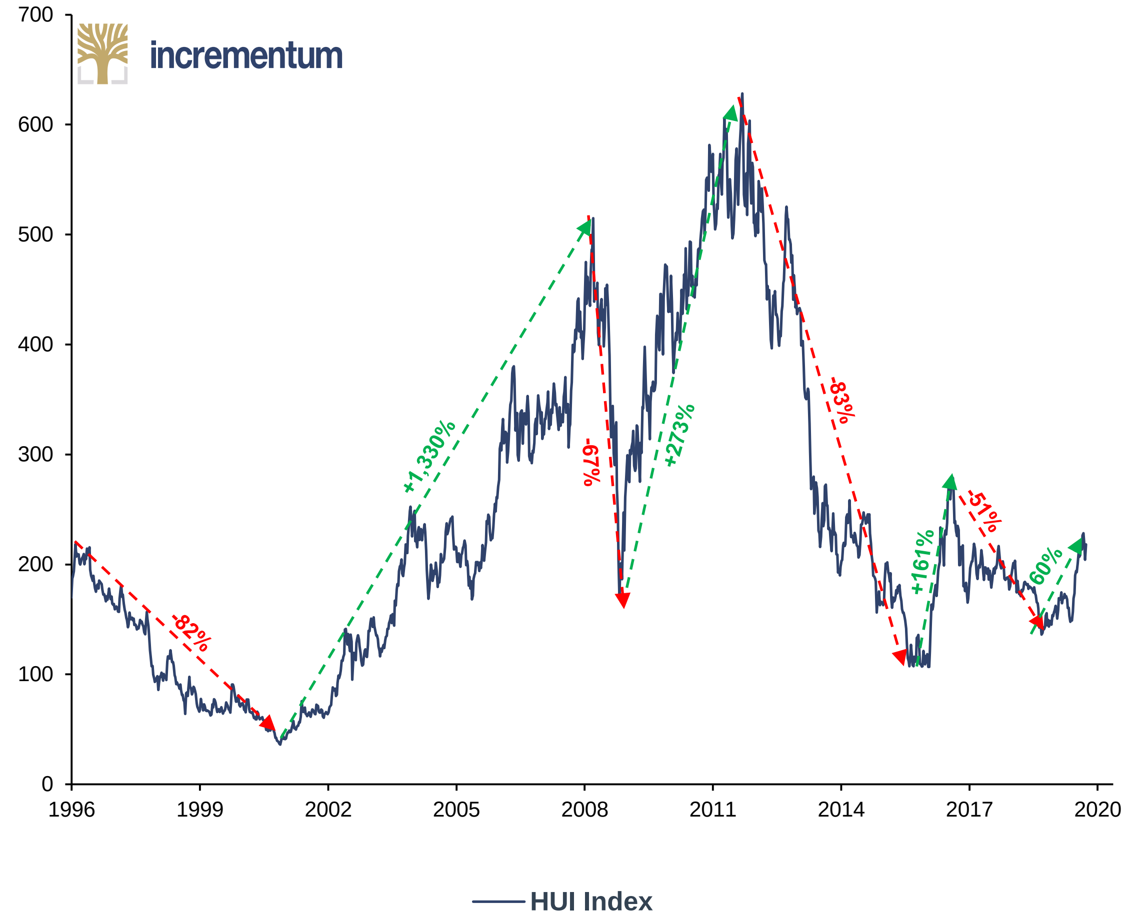
Sources: Investing.com, Incrementum AG

HUI Index: Bull and Bear Market Cycles

- We want to highlight the enormous volatility and inflation sensitivity of the mining sector. As the chart illustrates, gold stocks are anything but “buy and hold” investments and should be actively managed. The following quote confirms this as well:

“Market and sector forces together typically cause 80% of the price movement in a stock. That means the company fundamentals usually account for less than 20% of a stock’s price movement. This is the reason a company’s stock price sometimes seems to move independently of the fundamentals.”

Benjamin F. King

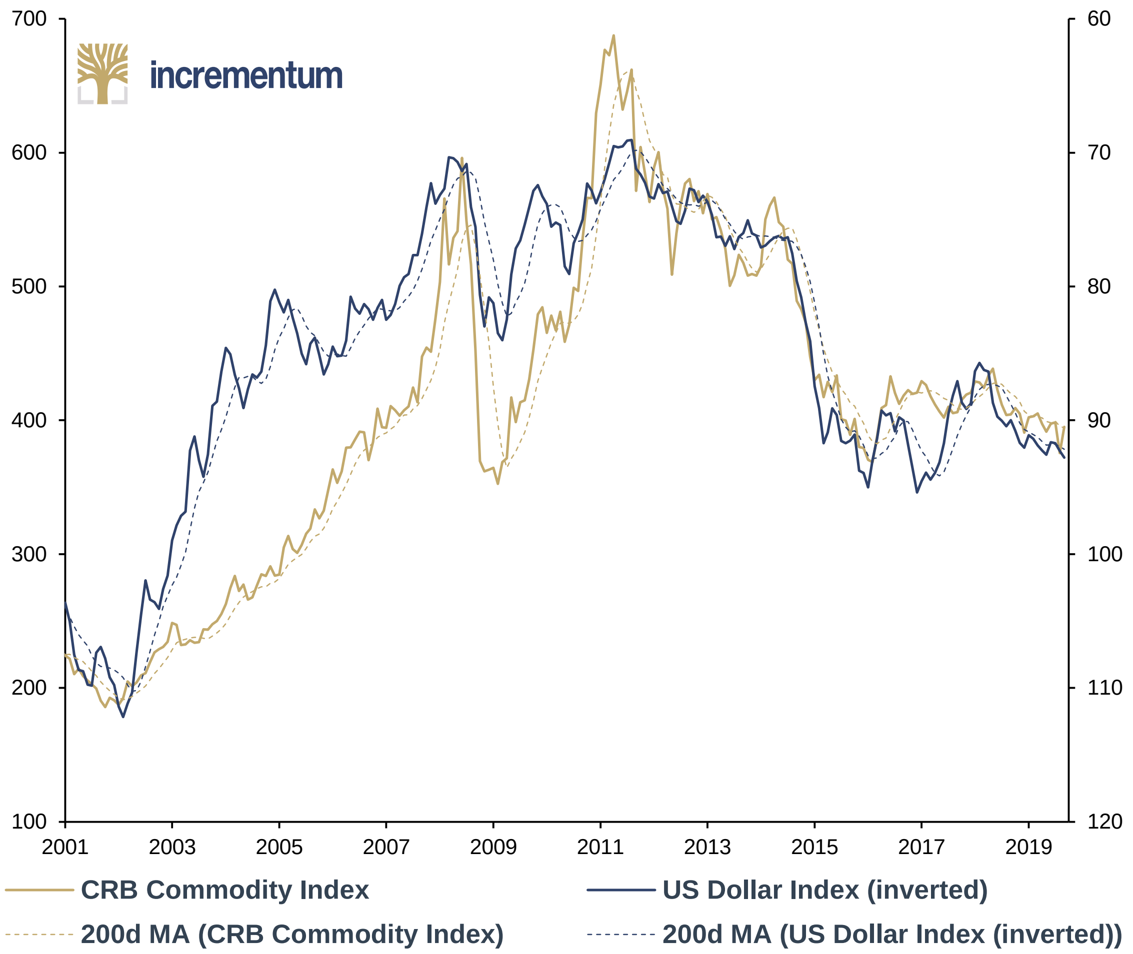


Sources: Investing.com, Incrementum AG

CRB Commodity Index vs. US Dollar Index

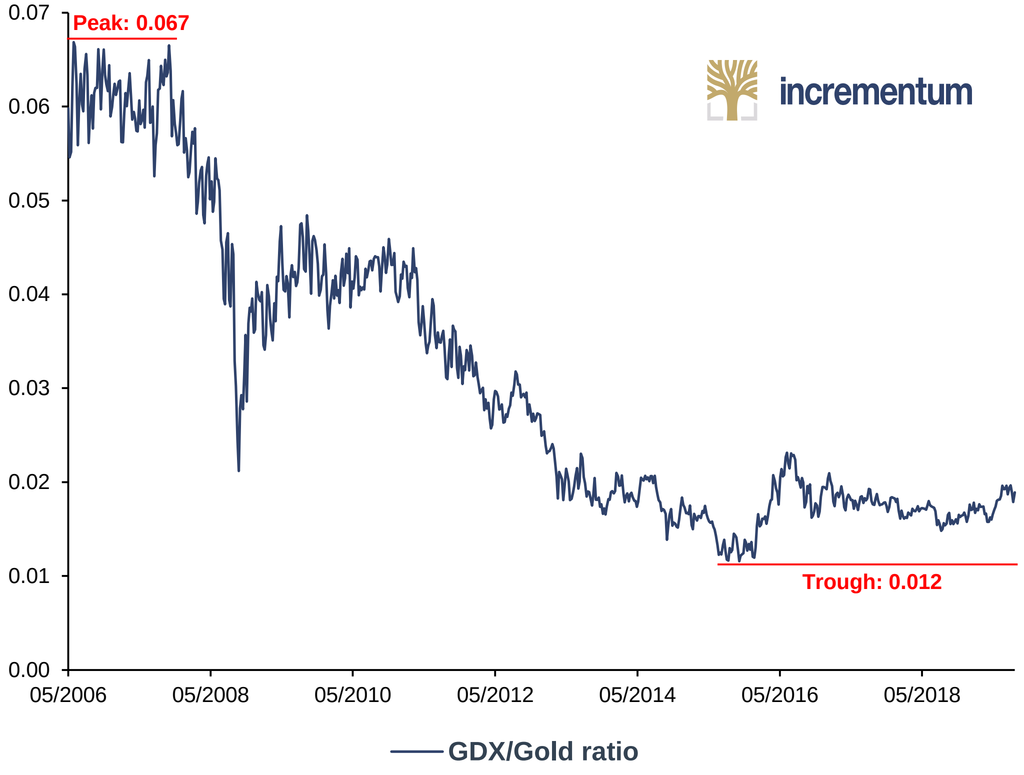
- Systemic instability in recent years: All industrial commodities and practically all fiat currencies have massively lost against the US dollar; crude oil declined by more than 50% within a mere seven months. There has been a **disinflationary earthquake in the US dollar-centric monetary system.**

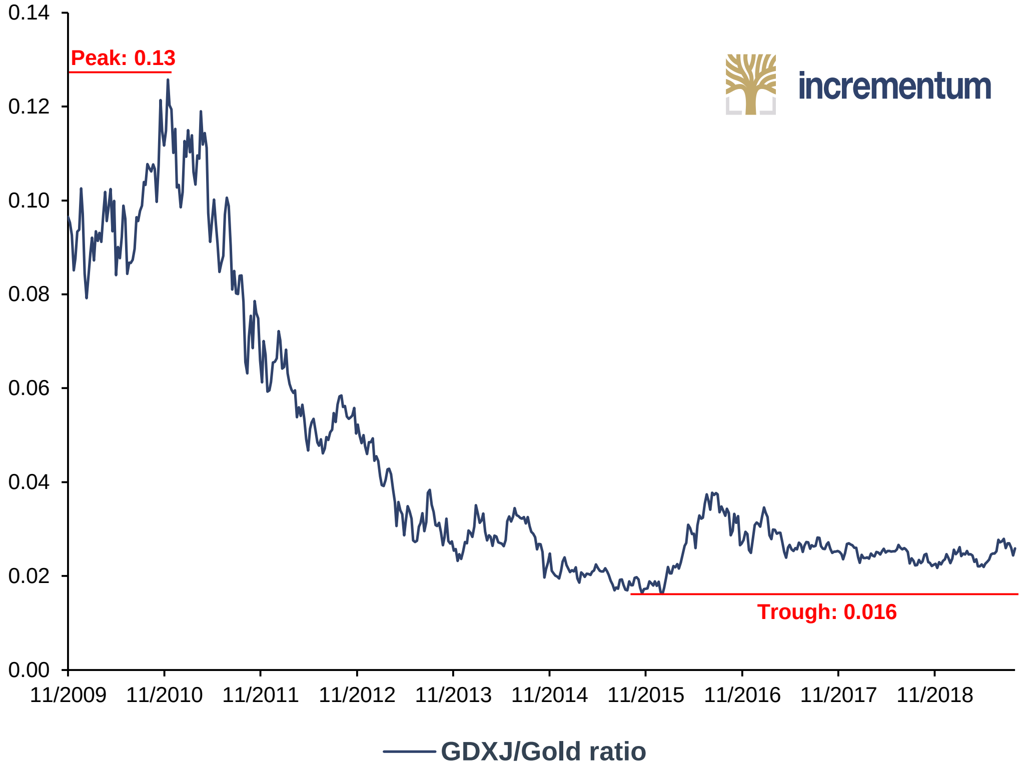
- Commodities, as an asset class, are an antidote to the US dollar: Price movements are reciprocal, with causality running from the US dollar to commodities attributable to the US dollar to a greater extent than is generally assumed.



Sources: Federal Reserve St. Louis, Thomson Reuters, Incrementum AG

GDX/Gold Ratio & GDXJ/Gold Ratio Confirm Rising Strength of Gold Miners





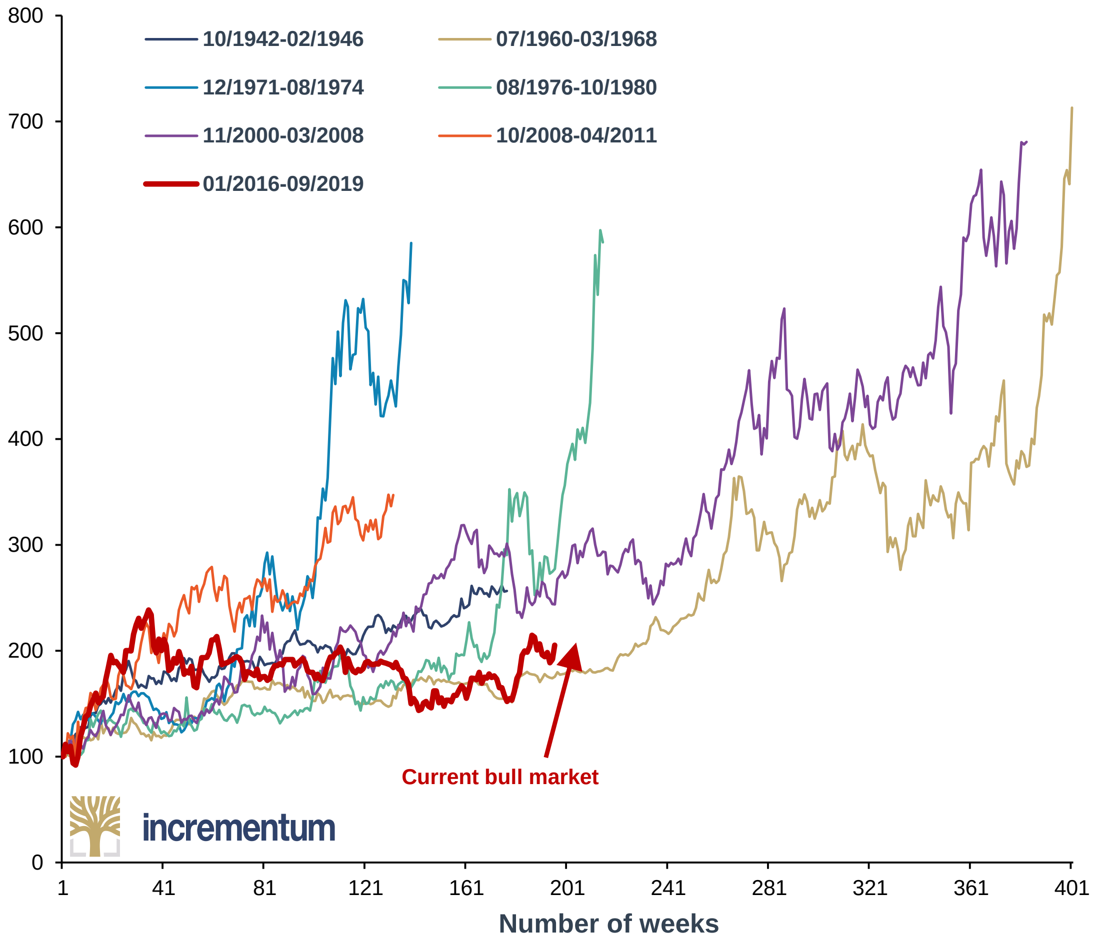
Sources: Federal Reserve St. Louis, Investing.com, Incrementum AG

Bull Markets in Mining Shares: Performance Is Way Below Average

- The chart shows all bull markets in the Barron's Gold Mining Index (BGMI) since 1942.

- One can see that the current uptrend is still relatively weak compared to its predecessors. Should we actually be at the beginning of a pronounced uptrend in precious metals stocks – which we assume to be the case – then there remains plenty of upside potential.

- Moreover, the chart shows that every bull market in the sector ended in a parabolic upward spike, which lasted nine months on average and resulted in prices doubling at a minimum.



Sources: Nowandfutures, TheDailyGold.com, Barrons, Incrementum AG

4. Quo Vadis, Aurum?

“The record of fiat currencies through history, 100%, is eventual failure. The record of gold for 5,000 years, 100%, is lack of failure.”

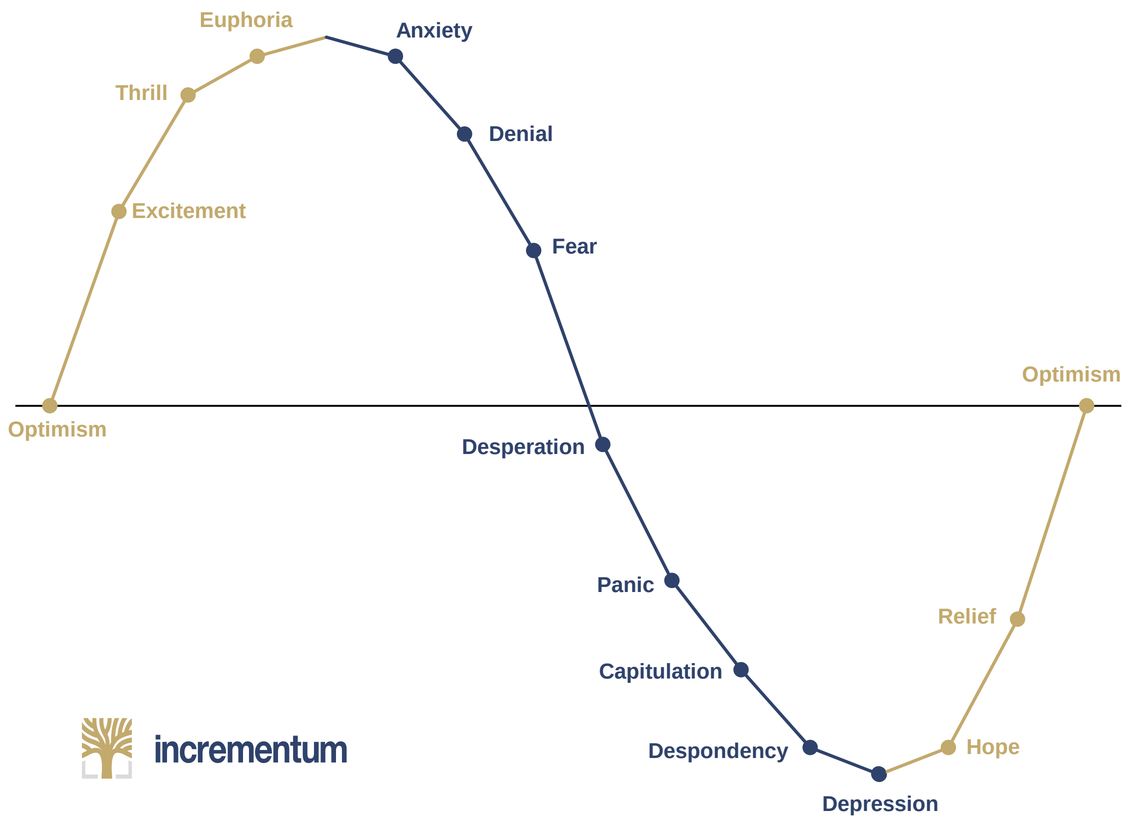
Simon Mikhailovich

Cycle of Market Emotions

- In the early stages of a bull market the enthusiasm of investors is usually very subdued; skepticism and disinterest tend to predominate. This changes gradually as the cycle progresses, until euphoria and buying panics predominate near the end of the cycle.

"The mind is a fascinating instrument that can make or break you."

Yvan Byeajee

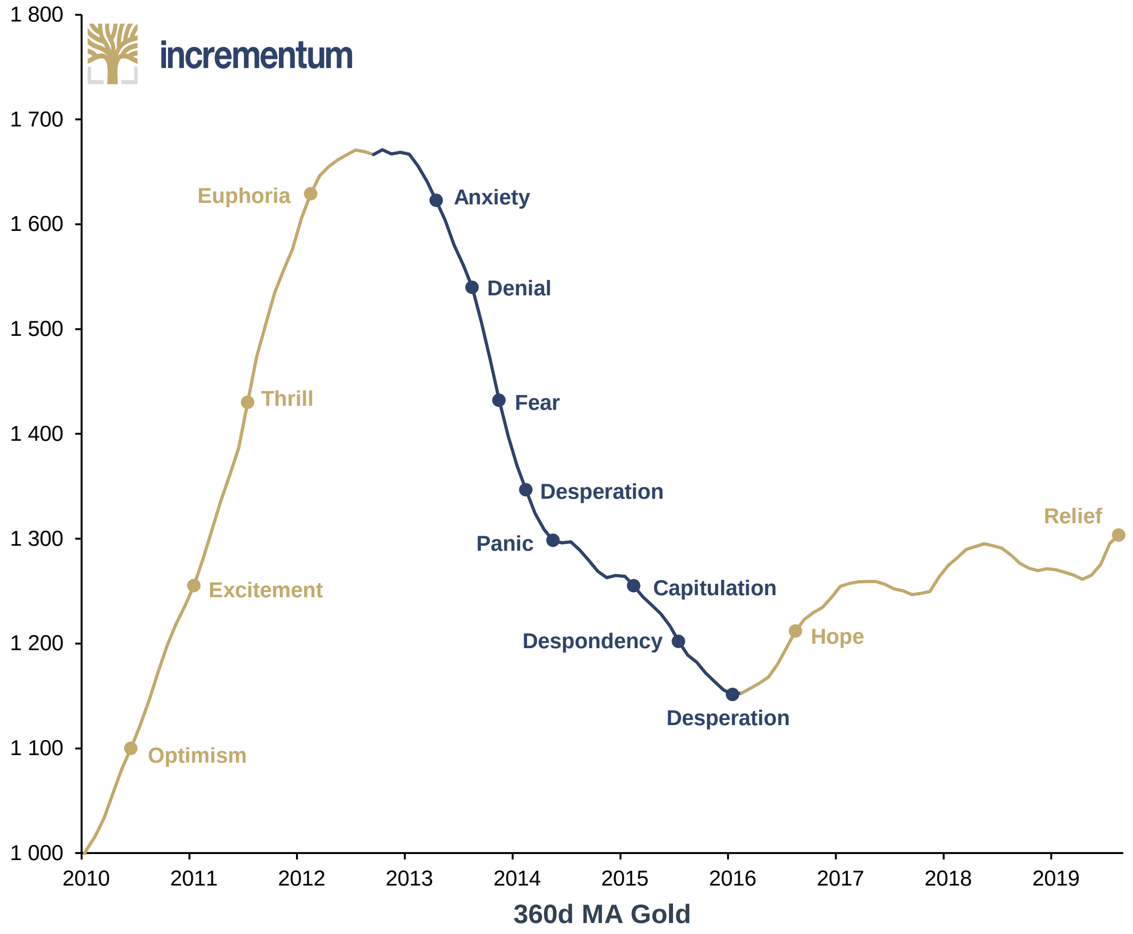


Sources: Incrementum AG

The Emotional Rollercoaster Is Turning Upwards

- Comparing the idealized sentiment cycle to the gold price (360-day moving average), the point of maximum frustration appears to have been reached at the beginning of 2016.

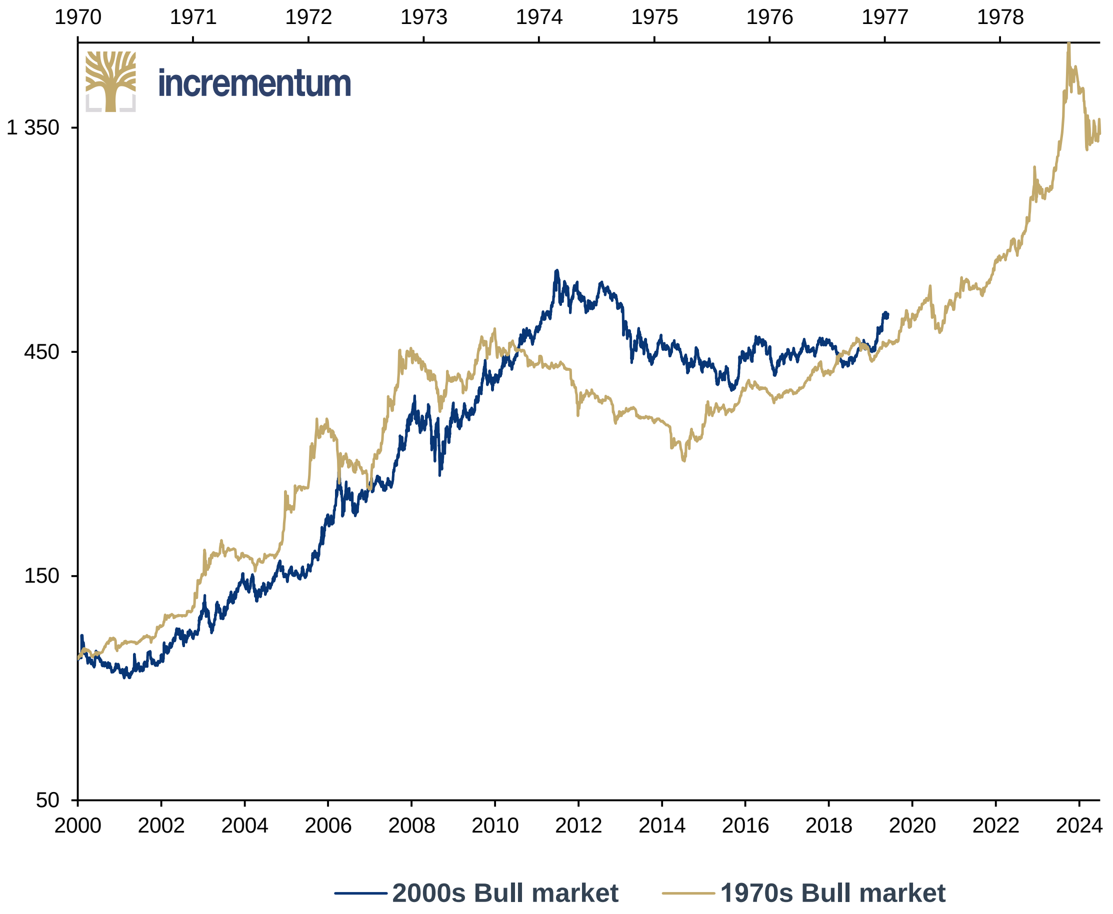
- We are currently in the stage of relief, which means that the gold bull market we are observing right now has just entered the market-emotions cycle.



Sources: Federal Reserve St. Louis, Incrementum AG

Gold Bull Markets Comparison, log scale (indexed 10/26/1970 & 01/04/2000 = 100)

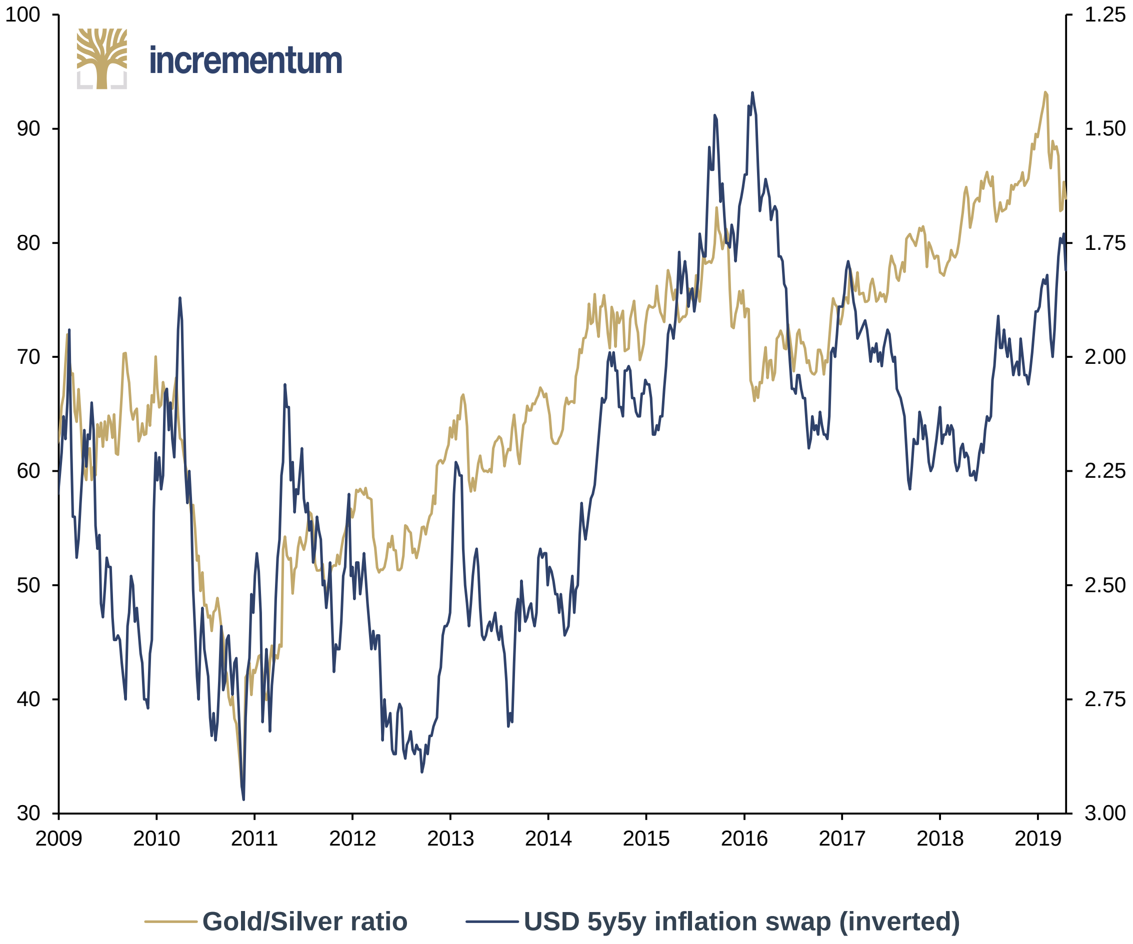
- The following chart illustrates the similarities between the 1970s bull market and the current bull market.
- The analysis reveals the fact that the bear market since 2011 has been following largely the same structure and depth as the mid-cycle correction from 1974 to 1976.
- Supposing that the similarities persist for the next couple of years, gold should continue its upward movement for quite a while.



Sources: Federal Reserve St. Louis, Incrementum AG

Gold/Silver Ratio (left scale) and USD 5y5y Inflation Swap, in %, inv. (right scale)

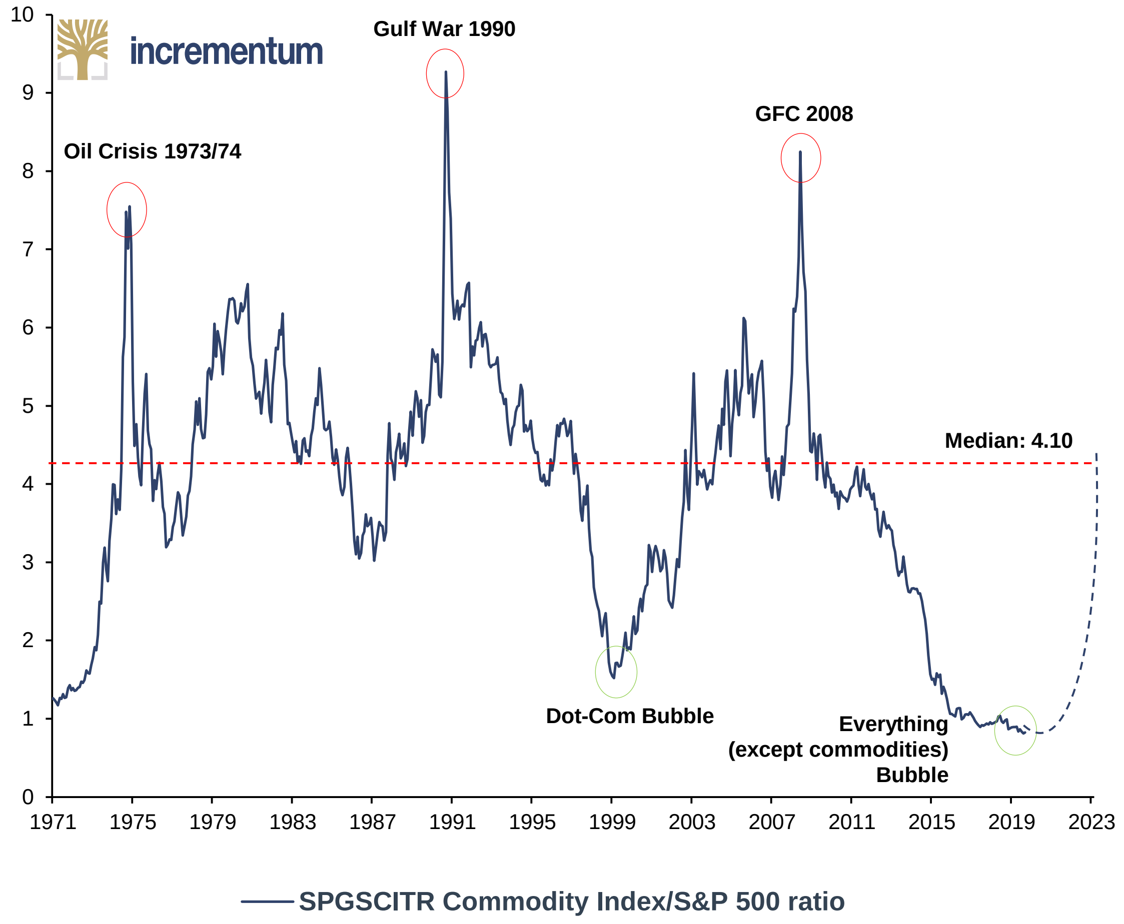
- The gold/silver ratio clearly correlates with inflation expectations.
- Strong bull markets for silver usually happen only in the course of rising gold prices, because investors seek higher leverage and end up with mining stocks or silver.
- Consumer prices continue to show only a restrained upward trend, a trend that central banks use to justify the continuation of their zero- or low-interest-rate policies. **Rising price inflation coupled with mounting economic risks would probably mean the perfect storm for gold: stagflation. At the moment, however, the consensus view is that this seems an almost impossible scenario.**
- **Our proprietary <u>"Incrementum Inflation Signal"</u> has just switched to a full-blown signal!**



Sources: Federal Reserve St. Louis, Investing.com, Incrementum AG

Commodities vs. Stocks: Lowest Valuation Since 1971

- This chart was by far the most-quoted one in last year's *In Gold We Trust* report.
- It clearly illustrates that the relative valuation of commodities in comparison with equities is extremely low by historical standards. Compared to the S&P 500, the GSCI Commodity Index (TR) is trading at its lowest level since 1971.
- Moreover, the ratio trades significantly below its long-term median of 4.10.
- If we postulate the general tendency of reversion to the mean, we see attractive commodities investment opportunities.

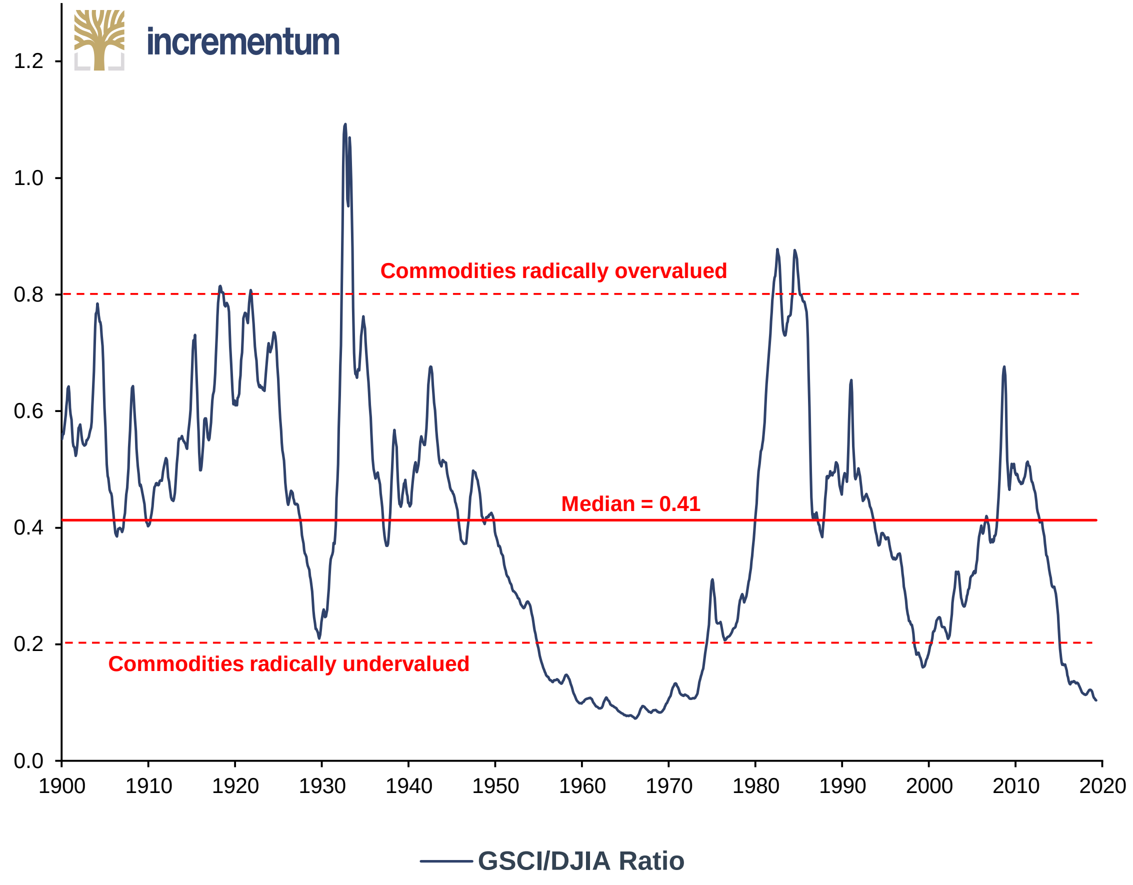


Sources: Professor Dr. Torsten Dennin, Lynkeus Capital, Bloomberg, Incrementum AG

GSCI Commodity Index/Dow Jones Industrial Average Ratio Since 1900

- Now we want to take a view of the commodities sector over an even longer time span. This chart shows that commodities are currently trading at their lowest level relative to US equities since the 1960s.

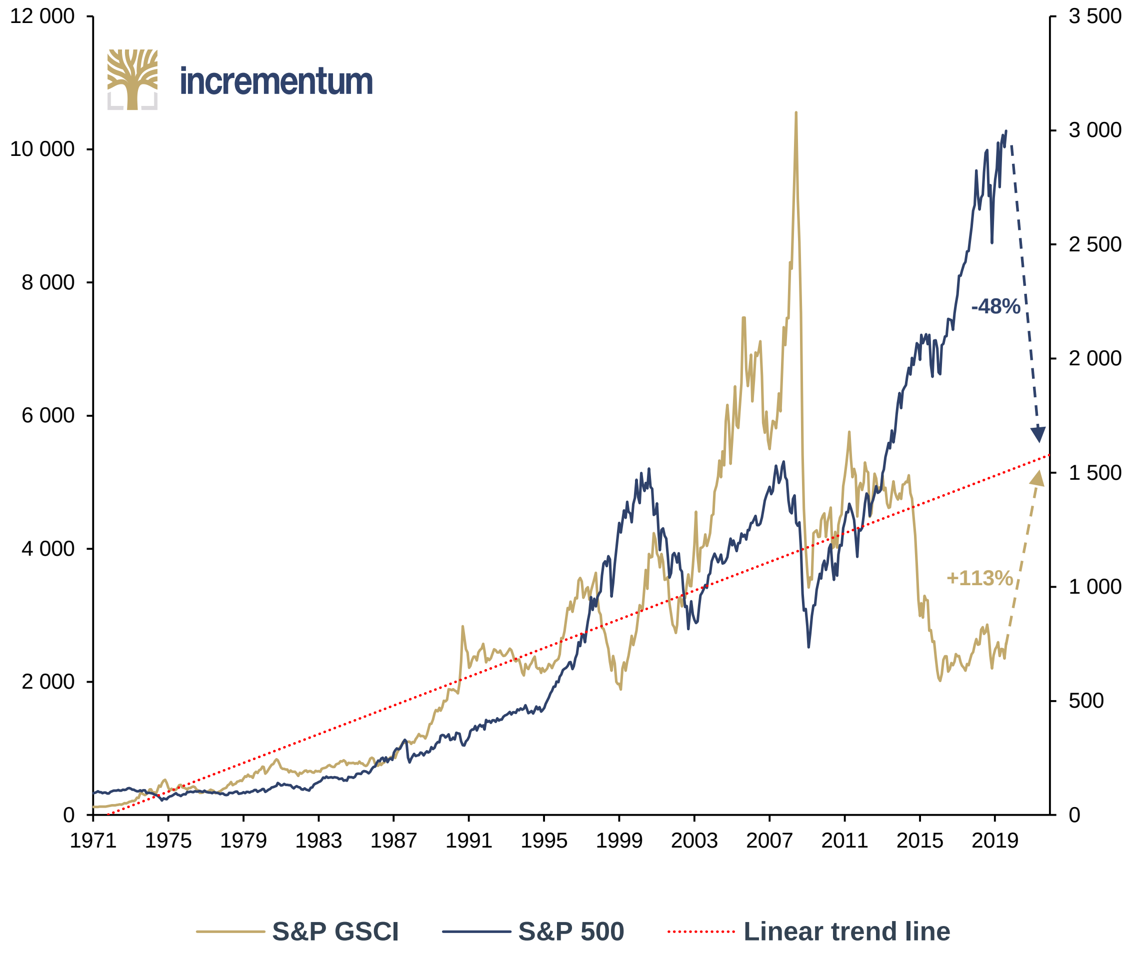
- Moreover, there were only two other occasions when commodities were similarly undervalued relative to equities: just ahead of Black Thursday on October 24, 1929, and during the excesses of the dotcom bubble.



Sources: Goldman Sachs Commodity Index until 1970, Goehring & Rozencwajg Commodity Index pre-1970, Bloomberg, Incrementum AG

GSCI Commodity Index (left scale) and S&P 500 (right scale)

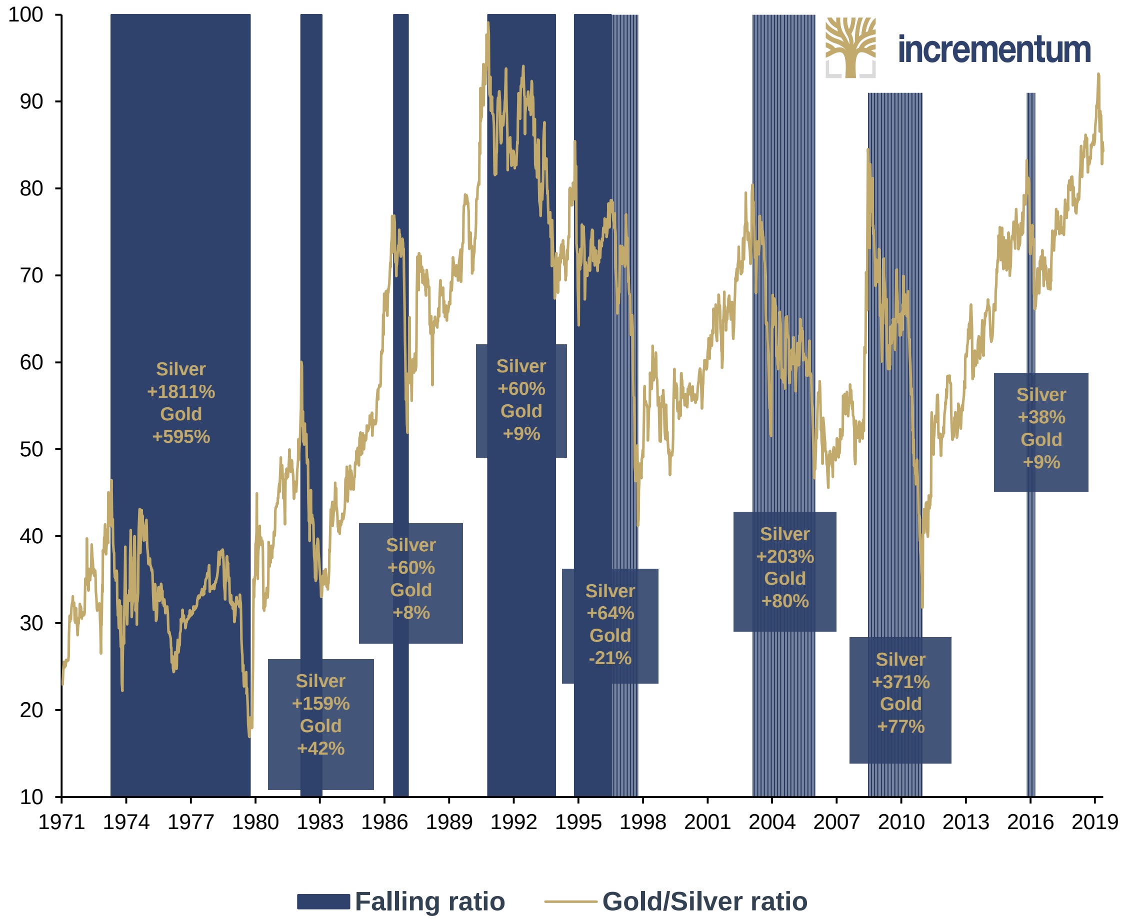
- The extreme relative undervaluation of commodities compared to the stock market becomes evident in this chart. It shows the development of the S&P GSCI and of the S&P 500, as well as their combined long-term trend line.
- To return to this trend line – which happens on average every 6 to 8 years – the S&P would have to fall by 48% and the GSCI to rise by 113%.
- This is a scenario that seems highly unlikely, if not impossible, at the moment. However, a glance at this chart or into history books puts this alleged impossibility into perspective.



Sources: Professor Dr. Torsten Dennin, Lynkeus Capital, Bloomberg, Investing.com, Incrementum AG

Gold/Silver Ratio: Bullish on Gold? Then Consider Silver!

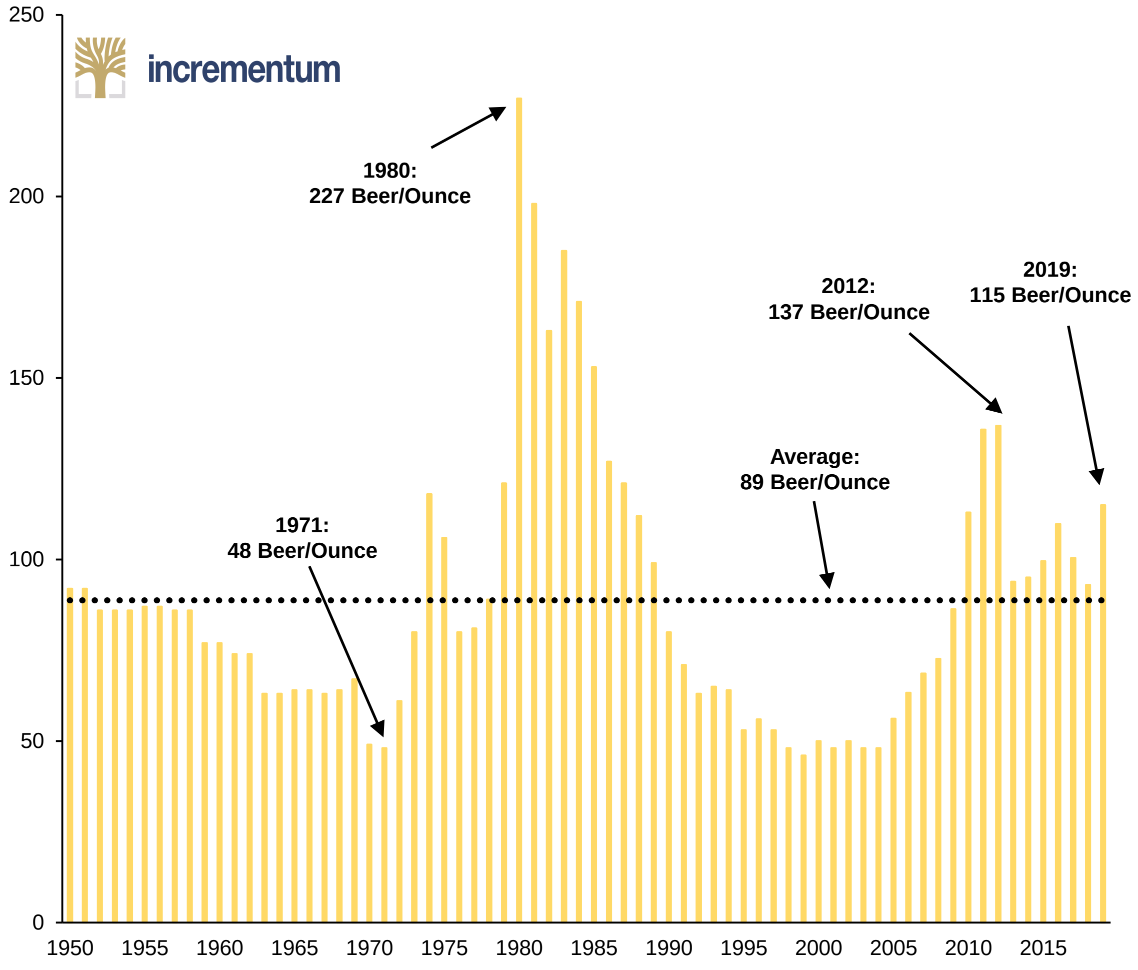
- **Recently the gold/silver ratio traded at the highest level since 1991!**
- At the moment, it seems as if the ratio has hit a potential reversal point again after an upward trend of more than three years. The ratio has peaked at over 90 and is currently trading at 84.
- According to the results of our statistical analysis, a sustainable increase in the gold price is unlikely to happen in tandem with an increase in the gold/silver ratio. A falling gold/silver ratio significantly increases the probability of a bull market in gold and silver.



Sources: Bloomberg, Investing.com, Incrementum AG

Gold/Oktoberfestbier Ratio – Litres of Beer per Ounce of Gold

- At the Oktoberfest 2019 a *Maß* of beer (1 liter) costs up to 11.80 EUR.
- In 1950 the beer-loving visitor had to put only 0.82 EUR on the counter. Since 1950, the annual average inflation rate of *Oktoberfestbier* has therefore been 3.9%.
- How many *Maß* of *Oktoberfestbier* do you get this year for an ounce of gold? Currently one ounce buys you 115 *Maß* of beer. Measured by the historical average of 89 *Maß*, the "beer purchasing power" of gold is above its long-term average.
- **Link to our "O'Zapft Is - *In Gold We Trust* Oktoberfest Special"**



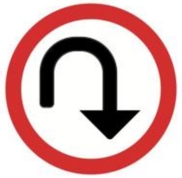
Sources: Statista.de, http://www.wbrnet.info/vbhtm/9999-Entwicklung-Bierpreise.html, Incrementum AG

The *In Gold We Trust* Report in 8 Bullet Points

1. The breakdown of trust in the international monetary order is manifesting itself in the highest gold purchases by central banks since 1971 and the ongoing trend to repatriate gold reserves.

2. Gold reaffirmed its portfolio position as a good diversifier as trust in the "Everything Bubble" was tested in Q4/2018. While equity markets suffered double-digit percentage losses, gold gained 8.1% in USD and gold mining stocks 13.7% in USD.

3. The normalization of monetary policy was abruptly halted by the stock market slump in Q4/2018. The "monetary U-turn" that we had already forecasted last year has begun.



4. Recession risks are significantly higher than discounted by the market. In the event of a downturn, negative nominal interest rates, a new round of QE, and the implementation of even more extreme monetary policy ideas (e.g. MMT) are to be expected.

The *In Gold We Trust* Report in 8 Bullet Points

5. The Belt and Road Initiative (BRI), a.k.a. One Belt, One Road (OBOR) or New Silk Road, is going to cement China's position as the world's top-ranked gold consumer as well as producer and will keep boosting physical gold trading at the Shanghai Gold Exchange (SGE).

6. Regarding the process of de-dollarization, more and more countries are looking for alternatives to the US dollar, be it trading in other currencies, accumulating reserves of non-US-dollar currencies, or buying gold.

7. After several years of creative destruction in the mining sector, most companies are now on a much healthier footing. The recent M&A wave reinforces our positive basic assessment.

8. The political and economic tensions between the USA and China are increasing. These and other uncertainties, such as the worsening situation in Iran, should support the gold price.

Subscribe and download the
***In Gold We Trust* report 2019**
by following the link!

https://ingoldwetrust.report/igwt/

Addendum

Because we care…

About our Clients.
About the Society.
About the Future.

About the *In Gold We Trust* Report

- *The gold standard of gold research*: Extensive annual study of gold and gold-related capital market developments
- Reference work for everybody interested in gold and mining stocks
- International recognition – newspaper articles in more than 60 countries; almost 2 million readers
- Published for the 13th time in English and German and for the first time in Chinese.
- **Further information and all editions can be found at: https://ingoldwetrust.report/?lang=en**

About the Authors

Ronald-Peter Stoeferle, CMT

- Ronni is managing partner of Incrementum AG and responsible for research and portfolio management.
- In 2007 he published his first *In Gold We Trust* report. Over the years, the study has become one of the benchmark publications on gold, money, and inflation.
- Advisor for Tudor Gold Corp. (TUD), a significant explorer in British Columbia's Golden Triangle.
- 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.
- Prior to Incrementum, he was with Merrill Lynch and then for 10 years with Raiffeisen Capital Management, most recently as fund manager in the area of inflation protection.
- He gained entrepreneurial experience as co-founder of philoro Edelmetalle GmbH.

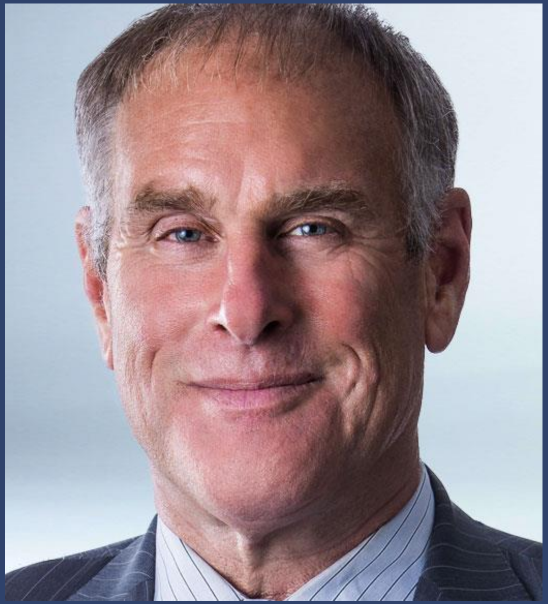
Selected Testimonials

John Reade

Chief Market Strategist
World Gold Council

"Arguably, the In Gold We Trust *report is the most comprehensive analysis of the global political economy through the lens of the Austrian School of economic thought. A unique perspective on gold, with some fantastic charts and always an enjoyable read."*

Selected Testimonials



Rick Rule

President & CEO
Sprott U.S. Holdings, Inc.

"A must-read for people who invest in precious metals and precious metals equities. A pleasant read, too – well-researched and well-written."

Selected Testimonials

Brien Lundin

Editor of Gold Newsletter and CEO of the New Orleans Investment Conference

"The annual In Gold We Trust *report has become today's most widely read and perhaps most influential piece of research on gold, along with the major economic and market trends affecting it."*

Selected Testimonials

Simon Mikhailovich

Founder
Tocqueville Bullion Reserve

"When it comes to finding the most insightful and comprehensive annual gold report, in Incrementum I trust."

About Incrementum AG

Incrementum AG is an owner-managed and fully licensed asset manager & wealth manager based in the Principality of Liechtenstein.

more information on
www.incrementum.li

- Independence is the cornerstone of our philosophy. The partners own 100% of the company.
- Our goal is to offer solid and innovative investment solutions that do justice to the opportunities and risks of today’s complex and fragile environment.
- **Our core competencies are in the areas of:**
  - Wealth management
  - Precious metal and commodity investments
  - Active inflation protection
  - Crypto and alternative currency exposure
  - Special mandates

Contact Us

Incrementum AG
Im alten Riet 102
9494 – Schaan/Liechtenstein
www.incrementum.li
www.ingoldwetrust.li
Email: ingoldwetrust@incrementum.li

Disclaimer

This publication is for information purposes only. It represents neither investment advice nor an investment analysis or an invitation to buy or sell financial instruments. Specifically, the document does not serve as a substitute for individual-investment or other advice. The statements contained in this publication are based on knowledge as of the time of preparation and are subject to change at any time without further notice.

The authors have exercised the greatest possible care in the selection of the information sources employed. However, they do not accept any responsibility (and neither does Incrementum AG) for the correctness, completeness, or timeliness of the information as well as any liabilities or damages, irrespective of their nature, that may result therefrom (including consequential or indirect damages, loss of prospective profits, or the accuracy of prepared forecasts).