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In Gold We Trust® Report

May 24, 2023

incrementum

Ronald-Peter Stöferle
& Mark J. Valek

We would like to express our profound gratitude to our Premium Partners for supporting the *In Gold We Trust* report 2023

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Introduction

The balancing act of fighting inflation without triggering distortions on the markets is doomed to failure. The vehemence of the tightening cycle that has begun threatens to end the Everything Bubble in an Everything Crash.

***In Gold We Trust* report 2022**

We live in a time when events unfold at an ever-accelerating pace. The quote erroneously attributed to Lenin, "*There are decades in which nothing happens, and weeks in which decades happen*," now seems to be our reality. Certainties of decades past are being made obsolete overnight. As we follow the news, many of us experience uncertainty, trepidation, and overwhelm. The global pandemic, the inflation crisis, increasing political polarization, technological breakthroughs such as artificial intelligence – which, by the way, we used to create the cover of this *In Gold We Trust* report – but also the impending geopolitical realignment are changing our lives in ways that were unimaginable to many of us just a few years ago.

We have referred to these looming epochal changes many times in past *In Gold We Trust* reports. We chose titles such as "Gold in the Age of Eroding Trust" (2019) and "Monetary Climate Change" (2021) for good reason. And this year, too, calls for a pointed title that captures the complexity of the current situation. We're going with ***Showdown.***

If you search the dictionary for the meaning of *showdown*, you will get the following definition:

1. "the laying down of one's cards, face upward, in a card game, especially poker.
2. a conclusive settlement of an issue, difference, etc., in which all resources, power, or the like, are used; decisive confrontation."

In our opinion, the term *showdown* is **an apt description of the current situation, in which economic, political and social developments are on the brink of a fundamental change of course**.

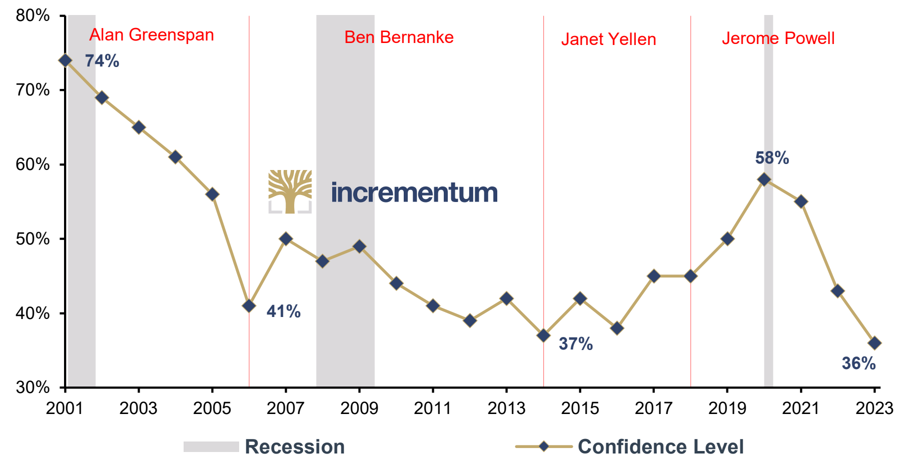
The current situation is also unique because we are not dealing with a singular showdown. Multiple escalations are occurring simultaneously and have the potential to further inflame each other. These showdowns are all related to issues we have already analyzed in detail in previous years in our *In Gold We Trust* report:

- **the monetary policy showdown**
- **the geopolitical showdown and the associated de-dollarization**
- **the showdown in the gold price**

The Monetary Policy Showdown

It's a showdown foregone. For as we predicted in the two *In Gold We Trust* reports "Monetary Climate Change" and "Stagflation 2.0", it was only a matter of time before the consequences of years of zero and low, sometimes even negative, interest rates, come to light. Actions have consequences – expected consequences, that is.

Confidence Level in the Fed Chair*, 2001-2023



Source: Gallup, Incrementum AG
*Percentage of people who have a "great deal" or "fair amount" of confidence in the Federal Reserve chairman.

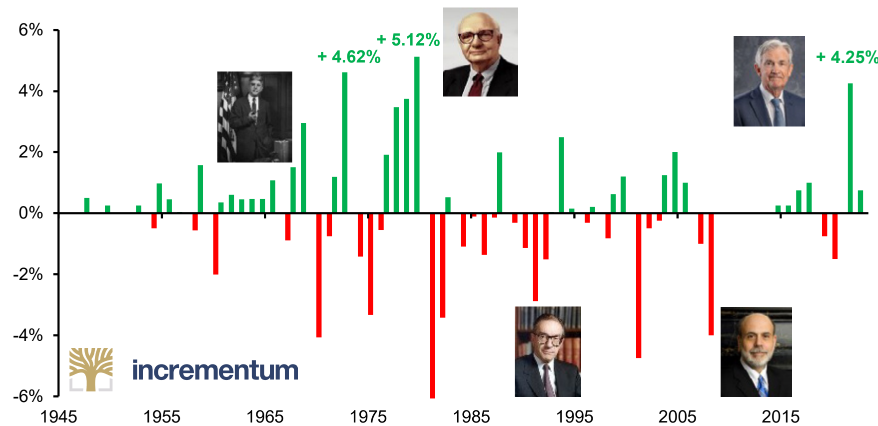
However, central bankers had trotted out appeasement rhetoric even at inflation rates well beyond their 2% inflation target. Jerome Powell's insistence that inflation was merely *transitory* is now as legendary as Christine Lagarde's belittling description of the inflation surge as a *hump*. **Not surprisingly, confidence in central banking is in a steep decline.**

This negligence resulted in an emergency monetary policy brake. **With the economic slowdown now underway and inflation rates still clearly too high, the monetary policy trilemma – price stability vs. financial market stability vs. economic support – that we warned about is now a reality.**

When central bankers finally recognized the severity of the situation, however, they acted with unexpected rigor. Jerome Powell raised interest rates twice as much in less than a third the time that Janet Yellen took in the last hiking cycle. **His vehemence surprised us, as it probably did every other analyst, market strategist, fund manager – and astrologer. But it's true: If you hit the brakes too late, you have to hit harder!**

Despite the radical tightening of monetary policy, inflation is proving to be extremely stubborn. Until recently, the Federal Reserve had signaled that it was prepared to do everything in its power to get inflation back under control. After a decade and a half of a flood of liquidity and ultra-low interest rates, withdrawal symptoms are now increasingly appearing after the abrupt removal of the punchbowl. It is becoming apparent which business models have been supported only by low interest rates in recent years and which are fundamentally standing on their own two feet.

Annual Change in Federal Funds Rate, 1945-2023



Source: Reuters Eikon, Incrementum AG

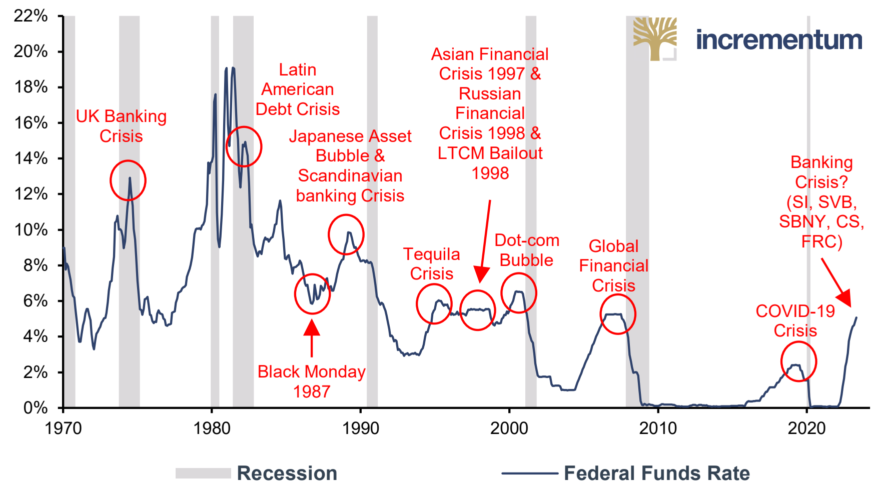
The strongest and fastest interest rate hikes in the industrialized nations in over 40 years have already claimed their first victims. The pension fund debacle in the UK, the closure of the Blackstone Real Estate Income Trust, various calamities in the crypto sector, – above all the spectacular FTX bankruptcy – are just a few examples of the consequences of the abrupt interest rate turnaround.

In March, another economic problem front opened up when Silicon Valley Bank (SVB) collapsed without warning, followed shortly by Signature Bank. In early May, another regional bank, First Republic, followed suit. We believe it would be too simplistic to blame the regional bank collapse solely on poor management or on their exposure to the stumbling technology sector, which is known to be highly interest rate sensitive.

Three of the four largest US bank failures in history took place in the past few weeks; only the collapse of Washington Mutual in September 2008 caused significantly higher losses, both in nominal and real terms. All in all, more than USD 500bn has already had to be written off since the beginning of March. This is

Image Credit: The Economist

Federal Funds Rate, 01/1970-05/2023



Source: Reuters Eikon, Incrementum AG

a clear warning signal that the financial system is much more fragile than generally assumed. **And on this side of the Atlantic, too, a major bank has already had to pull up stakes, and with the venerable Credit Suisse, it is not just any bank that has been hit.** In mid-March, the bank was sold off to UBS in a smoke-and-mirrors operation.

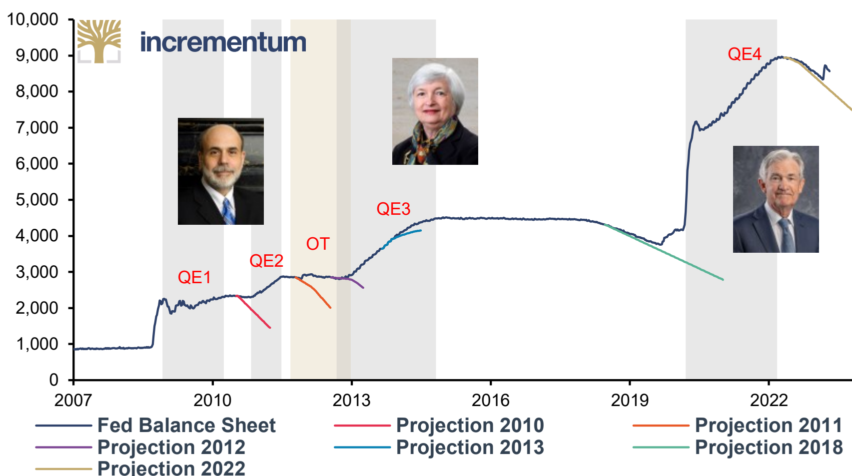
Undeterred, **the mainstream continues to hail** the resilience of the US economy and downplay the problems. However, for those familiar with Austrian Business Cycle Theory, it is no surprise that the radical turnaround in interest rates is causing acute pain. **Financial history is full of precedents where flooding the markets with liquidity triggers an artificial boom.** **When the artificial stimuli are withdrawn, the misallocations are ruthlessly exposed and then cleaned up by painful price collapses, insolvencies, and recessions**. *"Only when the tide goes out do you discover who's been swimming naked,"* is how Warren Buffett so aptly described this phenomenon. And there is much to suggest that many more swimmers will turn out to be nudists. In this context, we particularly recommend our chapter on the crack-up boom in this *In Gold We Trust* report to interested readers.

In addition to interest rate hikes, a key component of current policy is quantitative tightening, i.e. the reduction of the central bank's balance sheet. According to schedule, the Federal Reserve's balance sheet is currently being reduced by USD 95bn per month, which corresponds to a reduction of 12% p.a. in total assets. However, this schedule already had to be deviated from at short notice in connection with the bank failures in March, and the balance sheet total had to be inflated again by USD 400bn.

Subsequently, there was heated debate in financial market circles as to whether this rescue measure should be classified as a reversion to quantitative easing. In our opinion, this terminological hair-splitting distracts from the much more important point: When systemic problems arise, central banks ultimately have only one remedy, and that is to provide additional liquidity. Every attempt over the past 15 years to reduce the central bank balance sheet has usually failed miserably after only a few quarters.

Against this backdrop, the monetary policy showdown between price stability, economic activity, and financial market stability is now looming. The all-important question is: Can the Federal Reserve continue its restrictive monetary policy and push inflation back down to 2% without triggering a severe recession or a new financial crisis, or will it have to rescue the system once more with expansive stimulative measures and thus risk another wave of inflation? **The cards must be laid**

Fed Balance Sheet Path, in USD bn, 01/2007-01/2024e



Source: Reuters Eikon, Federal Reserve St. Louis, Incrementum AG

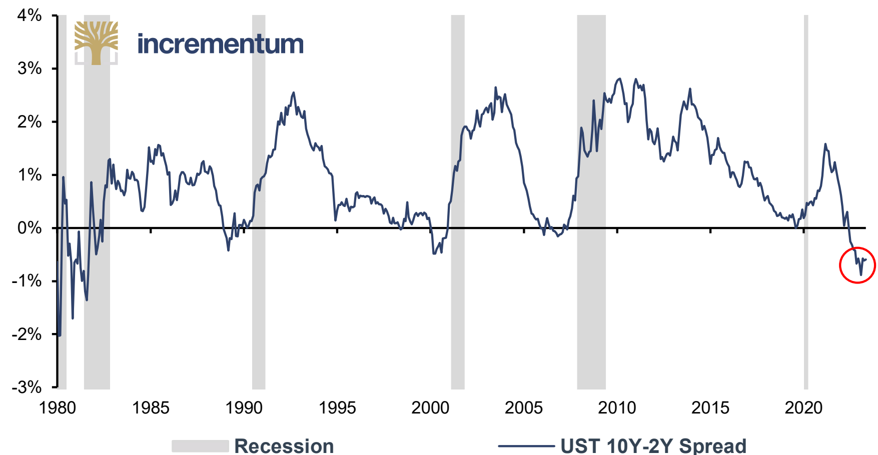
on the table, at the latest, when the pain at the banks, on the capital markets, or in the real economy becomes too great.

Negative money supply growth is unchartered territory

And the signs of an imminent recession in the USA are growing stronger. The strongly inverted yield curve, a slowly weakening labor market, the Conference Board Leading Economic Index (LEI) – all these leave little room for economic optimism. **For a more in-depth analysis of the state of the US economy, see chapter 3, "The Showdown in Monetary Policy".**

Moreover, money supply growth in the US, calculated on a monthly basis, is negative for the first time since the 1950s, and on an annual basis for the first time since the Great Depression. As the proponents of the Austrian Business Cycle Theory point out, the flattening of money supply growth is already enough to end the artificially created boom and the accompanying bubbles on the markets. A declining money and credit supply is a sure sign of profound economic dislocation. Based on their empirical research, our friends at *Longview Economics* outline the consequences of such a contraction in the money supply:

UST 10Y-2Y Spread, 01/1980-05/2023



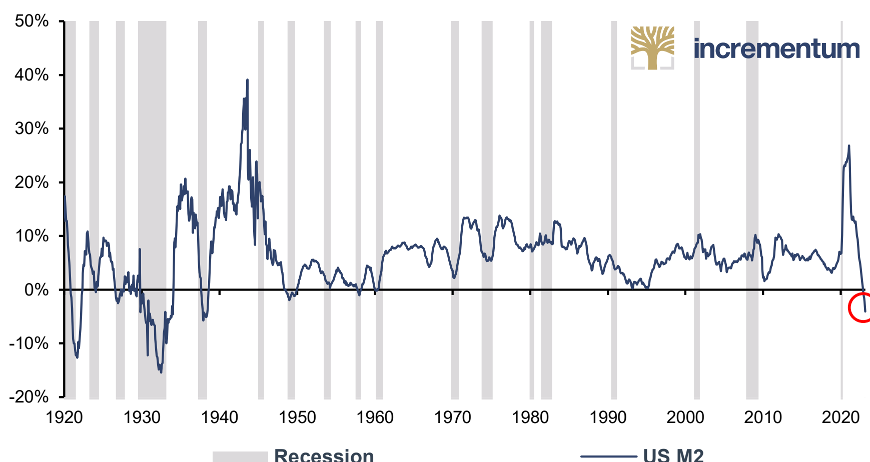
Source: Reuters Eikon, Incrementum AG

"Historically, whenever US M2 money supply has contracted on an annual basis, there's been a banking crisis, a depression and/or deflation. Whilst all those prior occurrences happened prior to WWII, and since then 'deposit insurance' has been introduced (1933) and the Fed has become an active 'lender of last resort,' it's also the case that M2 money supply hasn't been contracted since the Great Depression. In that sense the current framework is untested."[1]

Although recessions but also capital market slumps have a disinflationary and sometimes even deflationary effect, the response will be highly inflationary: QE, YCC, and interest rate cuts. **What is certain in these uncertain times is that the longer and deeper the financial markets fall, the more stimulative, aggressive and desperate the monetary and fiscal policy responses will be, ultimately laying the foundation for another, higher wave of inflation.**

For us, one thing is certain: The *soft landing* much invoked by the Federal Reserve seems to become less likely by the day. **The coming showdown will reveal whether the Federal Reserve is actually holding the strong hand it claims to be holding, or whether it will be *called* by the market and its strategy exposed as a bluff.**

US M2, yoy, 01/1920-03/2023



Source: Federal Reserve St. Louis, Reuters Eikon, Incrementum AG

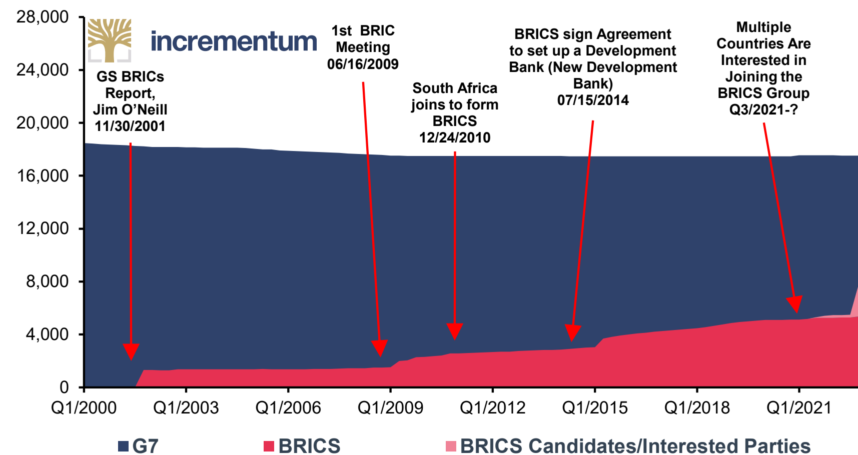
When velocity turns down, monetary policy will have very little capability to stimulate economic activity. The well-known "pushing on a string" predicament will be totally insufficient to describe the situation that lies ahead.

Lacy Hunt

We are witnessing the birth of Bretton Woods III – a new world (monetary) order centered around commodity-based currencies in the East that will likely weaken the Eurodollar system and also contribute to inflationary forces in the West.

Zoltan Pozsar

Global Gold Reserves, G7, and BRICS + BRICS Candidates/Interested Parties, in Tonnes, Q1/2000-Q4/2022



Source: World Gold Council, Incrementum AG

The Geopolitical Showdown

In geopolitics, we are also approaching a gripping showdown. Relations between the world's political power centers are increasingly strained, and there is a showdown between the saturated *establishment* and the hungry *upstarts*.

At the forefront are the *collective West* under the leadership of the US, on the one side, and China, Russia and the bloc forming around these two heavyweights on the other. A considerable number of emerging economies associate themselves with the latter, some formally through organizations that challenge the US-centric world order. A central example of such an association is the BRICS states, which 19 other states from Asia, Africa and South America want to join. **And it is precisely these states that have been increasingly building up gold reserves and reducing US dollar reserves since 2008**.

This trend has accelerated again as a result of the sanctions against Russia, as we expected last year. The emerging-market countries have taken careful note of the *militarization of money* and are now trying to reduce their dependence on the US dollar. One of the few neutral and liquid reserve currencies in this political environment remains gold. The accumulation of the precious metal as an alternative is now being discussed by highly official circles. Christine Lagarde recently noted, "*We are also seeing increased accumulation of gold as an alternative reserve asset, possibly driven by countries with closer geopolitical ties to China and Russia*."

Similarly, efforts to reduce the role of the US dollar as a trading currency are increasing. China, for example, made virtually no use of the yuan for foreign trade transactions in 2010. By contrast, at the end of March, for the first time, China conducted more sales in the yuan than in the US dollar, which was still responsible for 83% of China's foreign trade in 2010. **There are also increasing efforts to develop alternative trade currencies and payment systems.** As early as March 2022, Zoltan Pozsar had initiated this debate in a stimulating way with his article *Bretton Woods III*. He concluded his remarks with the following forecast: "*From the Bretton Woods era backed by gold bullion, to Bretton Woods II backed by inside money (Treasuries with unhedgeable confiscation risks), to Bretton Woods III backed by outside money (gold bullion and other commodities)*". Where exactly this journey will lead us, nobody knows at the moment. However, there is no question that we are irrevocably on the journey to a new global (monetary) order.

The historic rapprochement between Iran and Saudi Arabia, which China played a leading role in mediating, should also be mentioned in this context. In the course of this diplomatic masterstroke, new trade agreements were concluded for oil and gas deliveries, which are settled in yuan. These and other developments significantly undermine the *petrodollar system* institutionalized between the US and Saudi Arabia half a century ago. **This year, we again take an in-depth look at this issue, both in our traditional de-dollarization chapter and in an interview with star analyst Zoltan Pozsar.**[2]

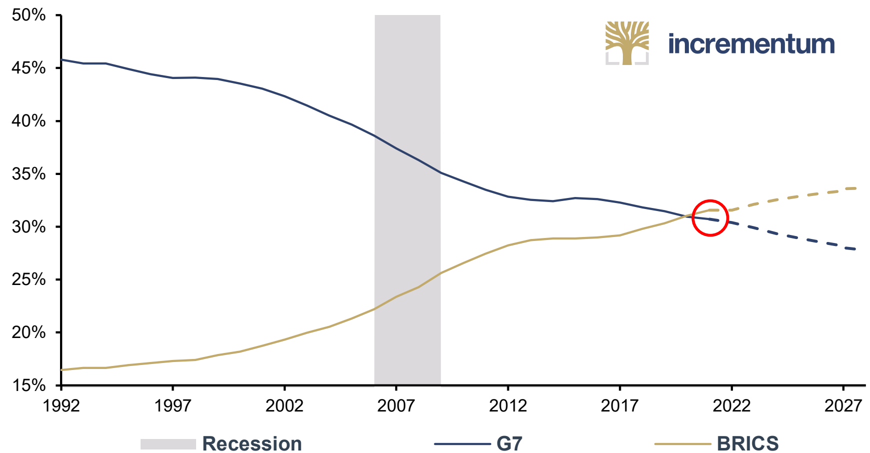
The growing political self-confidence of the BRICS countries is a logical consequence of their increasing economic importance. Measured in purchasing power parity, these countries have had a higher aggregate GDP than the G7 countries since 2021. With the exception of China, the demographic situation also argues for significantly higher long-term growth potential in the BRICS countries than in the West.

Given these dynamics, it is fair to ask to what extent we are in the Thucydides Trap today. This theory states that the rise of an emerging power leads to conflicts with the established world power. The term goes back to the Greek historian Thucydides. He noted that the rise of Athens in the 5th century B.C. would inevitably lead to

The world is breaking into two distinct economic zones: the "empire of the sea", or the "Western block" of nations; and the "empire of the land", or "Eastern block". The former's currency is based on fiat money, and the latter's on the emerging tandem of commodities, gold and oil.

Charles Gave

Share of Global GDP (PPP), G7 and BRICS, 1992-2027e



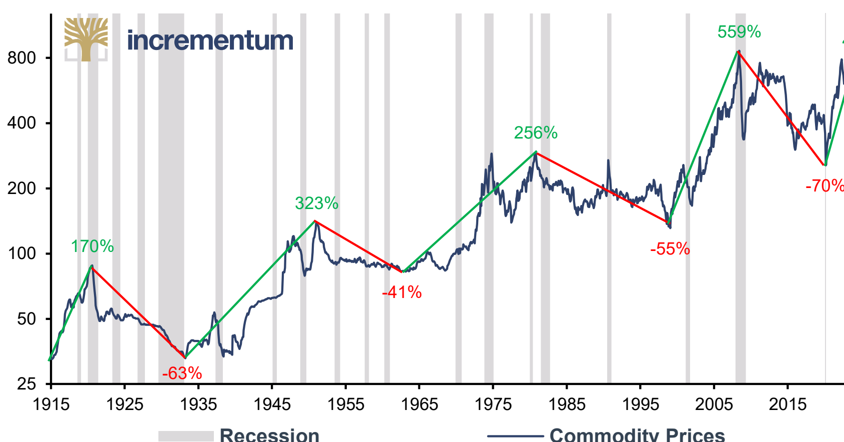
Source: Acorn MC Ltd, World Economic Outlook, Reuters Eikon, Incrementum AG

tensions with Sparta and ultimately to war between the two powers for supremacy, for the position of hegemon. At worst, China's growing strength and the resulting shift in the global power structure could lead to a warlike confrontation between the US and China-and their respective allies – as it did back then between the Attic Sea League led by Athens and the Peloponnesian League led by Sparta. **The Thucydides Trap should be a warning to political elites to try everything possible to avoid war and keep the peace.**

A showdown is also looming in the area of raw materials. Resource nationalism is gaining momentum. Chile, which has the world's largest lithium reserves, announced it would nationalize SQM and Albemarle, two companies involved in lithium production. Indonesia has imposed export bans on nickel and tin so as not to jeopardize the development of domestic production of batteries. Our dear friend Alexander Stahel aptly noted recently,[3] that the prevailing view among policymakers that supply curves are elastic has been disproved by the pandemic, the energy transition and geopolitics. This represents a massive shift in the global investment environment. **Global commodity supply curves may now be nearly vertical – a recipe for medium-term stagflation**.

The consequences? Both *fossilflation*, after the supplies of natural gas, oil, and coal decrease in succession, and *greenflation*, meaning higher metal and mineral prices due to increased demand for green commodities. Energy innovations will eventually help make energy cleaner, cheaper, and more abundant worldwide. But such breakthroughs will require many trillions in investment or an *energy miracle* such as fusion technology. The commodity supercycle, which we have regularly highlighted in recent years, is clearly intact in our view and could gain significant momentum once the current correction phase is over.

Commodity Prices*, 01/1915-04/2023



Source: Alpine Macro, Federal Reserve St. Louis, Reuters Eikon, Incrementum AG
*1913-1934 US PPI Industrial Commodities, 1935-1949 Spot Price 28 Commodities, 1950-1969 Spot Price 22 Commodities, since 1970 S&P GSCI

The Showdown in the Gold Price

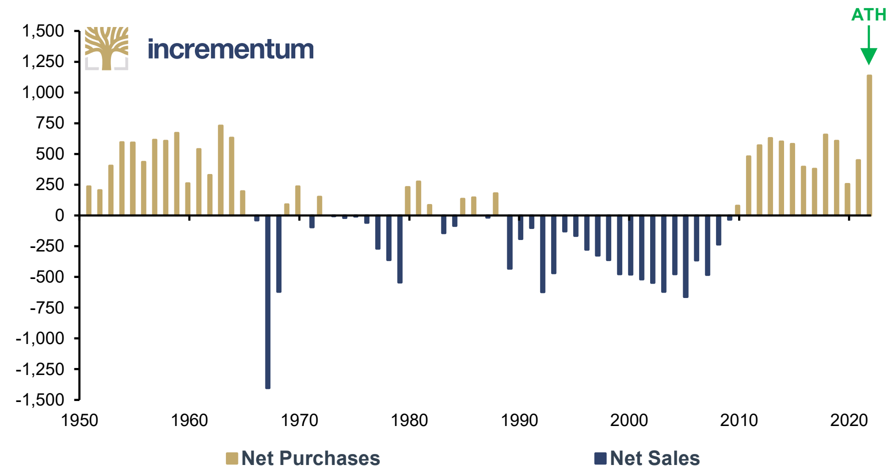
This leads us to the central topic of our *In Gold We Trust* report, the showdown in the gold price. We are convinced that the monetary and geopolitical situation as well as the chart development of the gold price suggest that a showdown in gold is imminent.

Central banks have been net buyers of gold since 2009. This momentum has accelerated significantly again in the past year. **In 2022, central banks increased their purchases by 152%, to over 1,136 tons.** Foreign exchange reserves, on the other hand, fell by a record USD 950bn. Asian central banks again made the bulk of gold purchases. For the first time in many years, China also made an official appear-

Dr. Copper has a PhD in economics, and is an expert on the business cycle, then gold is a professor with a Nobel Prize in monetary debasement.

Charlie Morris

Global Central Bank Gold Purchases, in Tonnes, 1950-2022



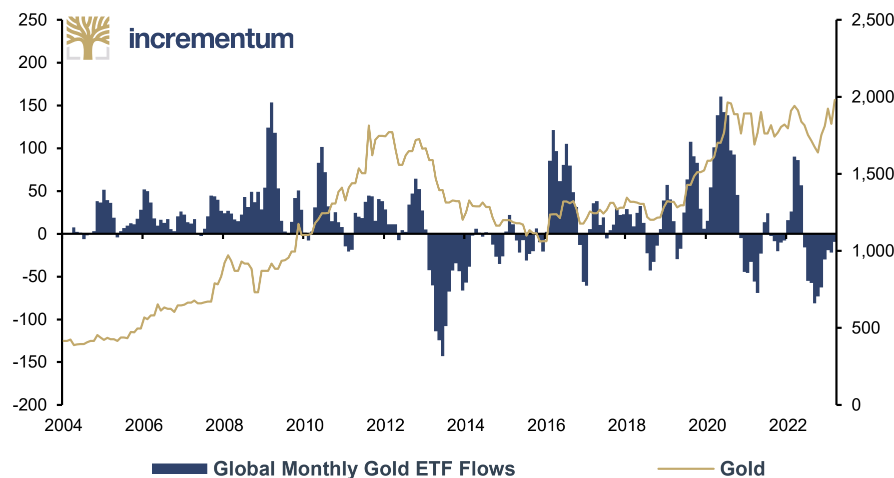
Source: World Gold Council, Incrementum AG

ance as a buyer. It is noteworthy that with Qatar, Iraq, and the United Arab Emirates, three major energy exporters are now among the top ten gold buyers. **We expect that central bank demand will become a key driver of this gold bull market.**

Not only central banks but also investors will be looking to protect themselves from stubborn inflation, a possible recession, and increasing default risks in the financial system. Currently, however, investor demand remains subdued. Although gold ETFs saw inflows again in March as a result of the banking crisis, this was after 10 straight months of outflows. In our view, the bulk of Western financial investors, for whose behavior ETF flows are a good indicator, remain on the sidelines. We expect that at new all-time highs, *FOMO* will kick in and new players will then enter the field in a flash. **Investment demand from gold ETFs could tip the gold price scales.**

The gold price already seems to anticipate that the restrictive US monetary policy will turn out to be a bluff. Even if the gold price in US dollars has not yet marked a new all-time high, the all-time highs in various other currencies are a harbinger of the breakout in US dollars.

Global Monthly Gold ETF Flows (3 Month Average) (lhs), in Tonnes, and Gold (rhs), in USD, 01/2004-03/2023



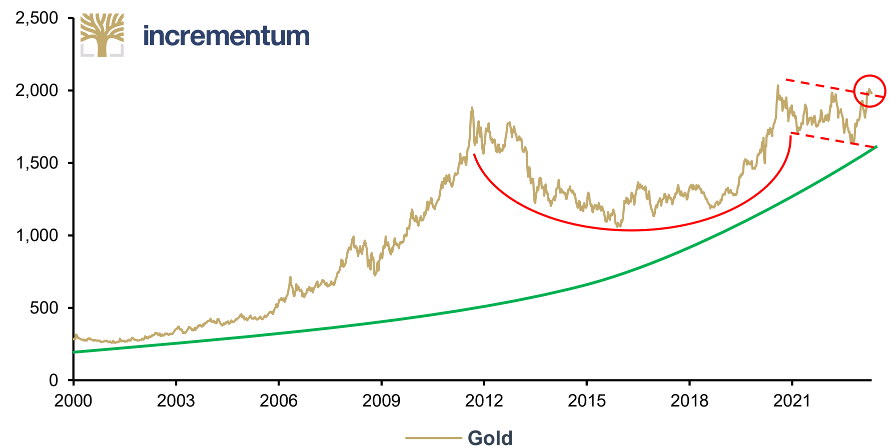
Source: World Gold Council, Incrementum AG

Other Highlights from this Year's *In Gold We Trust* report:

- An in-depth analysis of the state of the US economy, including the presentation of our Incrementum Recession Phase Model. This model is designed to guide investors in their investment decisions during the five different recession phases.
- An exclusive interview with star analyst Zoltan Pozsar on the opportunities and risks of a reorganization of the monetary world order (*Bretton Woods III*).
- A detailed discussion of the process of de-dollarization and the specific initiatives to reduce dependence on the US dollar.
- An exclusive interview with Russell Napier on inflation, financial repression, and the capex cycle.
- An in-depth look at the flow of gold from West to East and the Chinese gold market in particular.
- Guest author Jan Nieuwenhuijs presents his thesis that Chinese gold reserves could be twice as high as officially stated.
- A suggestion for goodwill to end the squabbles in the sound money camp between supporters of gold and those who favor Bitcoin.

- Background articles on various topics such as the crack-up boom phenomenon, the Chinese silver standard, and a proprietary bull market indicator.
- A detailed chapter on silver and its portfolio characteristics.
- A look at the capex issues in the mining sector and the technical analysis of the gold price.
- In the last chapter, as every year, we ask ourselves the question "Quo vadis, aurum?" and present an update of our gold price forecast.

Gold Cup-and-Handle Formation, in USD, 01/2000–05/2022



Source: Reuters Eikon, Incrementum AG

Thank you very much!

Year after year, the *In Gold We Trust* report strives to be the world's most recognized, widely read, and most comprehensive analysis on gold.

Every year we retire to our bower for a few weeks to do research; sort thoughts, data and facts; reflect; and finally write the *In Gold We Trust* report. After all, we want to offer you not only a comprehensive analysis of current developments but also historical, philosophical, and economic-theoretical insights around the topic of gold. In doing so, you, dear readers, are our greatest incentive. It is our pleasure to bring you closer to the always fascinating world of gold in an informative, entertaining, and understandable way. **We thank you for your interest and the trust you place in our analyses.**

This is the 11th time that this annual publication is being published under the umbrella of Incrementum AG. We would like to take this opportunity to thank our Incrementum AG partners, who regularly assist us as experienced and well-read sparring mates in matters of market analysis, company valuation, and fund management. We would also like to take this opportunity to thank Erste Group, the publisher of the first editions of the report. Without the support of Erste Group, the *In Gold We Trust* report would probably not have come into being in its current form.

We would also like to thank our more than 20 fantastic colleagues on four continents and in countless time zones[4] for their energetic and tireless efforts over more than 20,000 hours.

Last but not least, special thanks go to our Premium Partners.[5] Without their support, it would not be possible to make the *In Gold We Trust* report available free of charge and to expand our range of services year after year. In addition to the annual publication of the *In Gold We Trust* report in four languages, we publish our Monthly Gold Compass, as well as ongoing information on our *In Gold We Trust* homepage at ingoldwetrust.report.

We consider the examination of the past as indispensable for a successful preparation of the future. As a guide to the topic of gold, we would therefore like to once again offer you, our valued readers, a comprehensive, informative and concise compilation.

Now, we invite you on our annual tour de force and hope that you enjoy reading our 17th *In Gold We Trust* report as much as we enjoyed writing it.

With warm regards from Liechtenstein,
Ronald-Peter Stöferle and Mark J. Valek

There can be few fields of human endeavor in which history counts for so little as in the world of finance.

John Kenneth Galbraith

Endnotes

1. Longview Economics, "A Year of Shrinking Deposits - Now What? a.k.a. Banking Crisis Round Two," March 22, 2023.
2. See "Exclusive Interview with Zoltan Pozsar: Adapting to the New World Order", which you can find in the *In Gold We Trust* report 2023 here. The The long version of this interview is available here.
3. Burggraben Investment Letter, February 2023
4. All colleagues are pictured in the gallery at the end of the *In Gold We Trust* report.
5. At the end of the *In Gold We Trust* report you will find an overview of our Premium Partners, including brief descriptions of the companies.

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The Gold Standard of Gold Research

ingoldwetrust.report

Quo Vadis, Aurum?

Bad dreamer, what's your name?
Looks like we're ridin' on the same train
Looks as through there'll be more pain
There's gonna be a showdown.

Electric Light Orchestra, "Showdown"

The Era of Multiple Showdowns

Stubbornly high inflation numbers, rising interest rates, recession warnings, a banking crisis with war going on simultaneously in Europe, tectonic shifts in geopolitical alliances, and intensified de-dollarization efforts. We are not only in a time of multiple crises, but also multiple showdowns. The Chinese saying "*May you live in interesting times*" has an uneasy connotation and is quite possibly seen as a curse in China.

However, we do not want to see the circumstance of interesting times as a curse but rather as a challenge, as a task that now needs to be mastered. To this end, we should realize that while times of uncertainty and instability are challenging, they also represent an opportunity to sharpen our historical awareness and prepare for future developments. **So what factors are particularly important for investors to consider in the current period of uncertainty and instability?**

The Credibility of Central Banks Is Eroding

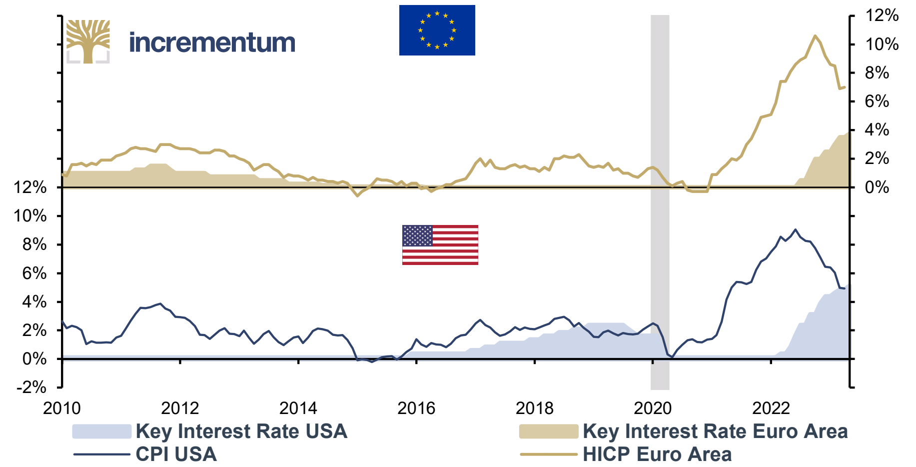
Confidence in central banks has undoubtedly taken a hit following their colossal misjudgment of inflation trends. Last year, we took a trip into the world of ornithology. We wrote:

"While central bankers in the US, the UK, and other countries have been late in getting the cycle of interest rate hikes underway, ECB President Christine Lagarde and many other representatives of the Governing Council seem to have no idea at all what a monetary policy hawk is. An ornithological-economic tutorial seems in order, because there are now fewer hawks in the ECB than chamois in the Netherlands. With the supposed gentleness of the dove, i.e. the greatest possible monetary policy passivity, the ECB hopes the inflation problem will disappear of its own accord. However, this view is not gentle or naïve, but rather incendiary."[1]

The hope of a soft landing or mild recession is a consensus delusion sucking investors into the over-crowded investments of a past era.

Tavi Costa

Key Interest Rate, and CPI/HICP, USA (lhs), and Euro Area (rhs), 01/2010-05/2023



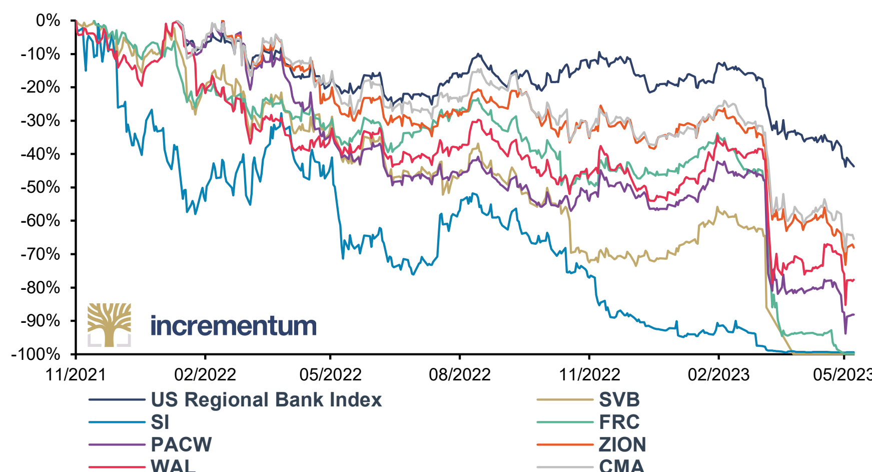
Source: Reuters Eikon, Incrementum AG

One year later, it can be said that the ornithological-economic tutorial we recommended was obviously urgently needed. While the Federal Reserve tackled the interest rate hike cycle late but ultimately consistently, the ECB reacted even later and far less spiritedly. In the US, the last wave of inflation peaked at 9.1% in June 2022, while in the euro zone it peaked at 10.6% in October 2022. The cycle of interest rate hikes has continued since then, rising to 5.25% in the US and 3.75% in the euro zone.

Are central banks now really in the process of turning their dove's nest into a hawk's aerie? We will only get the answer in the coming months, when the monetary policy showdown takes place. The Federal Reserve in particular has already been under pressure to act in the wake of the turmoil surrounding the three major bank failures and has reacted quickly. The recent expansion of the central bank's balance sheet by USD 400bn is probably a tangible indication that, in case of doubt, it attaches higher priority to the stability of the banking sector and thus of the financial markets than to price stability. The bank failures that have occurred so far have not yet led to a system-threatening cataclysm. **However, we firmly believe that a worsening of the crisis will also lead to an official reversal of the restrictive monetary policy.**

Recent events suggest that the hitherto tentative recovery in the reputation of central banks is already threatening to collapse again. On May 4, for example, Jerome Powell was still affirming that the US banking system was *"stable and resilient".* But already on May 5, the share prices of some regional US banks collapsed again, in some cases even by half. Should further serious problems arise in the banking sector in the coming weeks, this could quickly lead to a calamitous loss of credibility, despite the central bank's assurances to the contrary.

US Regional Bank Index and Various Banks from 2021 Highs, 11/2021-05/2023



Source: Reuters Eikon, Incrementum AG

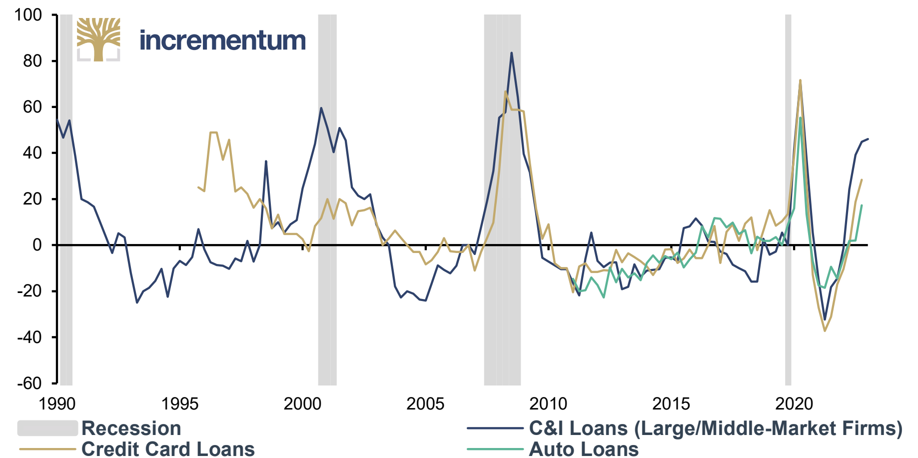
The banking system is sound and resilient.

Jerome Powell

The Underestimated Factor of Time

As we detailed in last year's *In Gold We Trust* report, the originally stated monetary policy goal of managing monetary tightening and pushing inflation below 2% without triggering a recession is unrealistic. **We believe that an abundance of economic malaise is being revealed before us as a result of the full-throttle monetary policy stance.** Monetarily induced booms always mask a multitude of financial sins and encourage herd behavior, false risk awareness, recklessness, and a *this time is different* mentality.

Net Percentage of US Banks Tightening Standards (Various Categories), Q2/1990-Q1/2023



Source: Federal Reserve St. Louis, Reuters Eikon, Incrementum AG

Warren Buffett compared interest rates to gravity: Just as the Earth's gravitational pull affects mass, interest rates affect valuations. The more interest rates fall, the more valuations rise due to the discounting effect, to astronomical heights in the case of low and zero interest rates. When interest rates start to rise again, valuations come back down to earth. In view of the years-long boom in valuations during the many, many years of zero and low interest rates, this return to "normal" interest rate levels is tantamount to landing with a brutal thud on the hard ground of reality for many asset classes.

In our opinion, the time factor is completely underestimated. First, it takes some time for the expansion of the money supply to unfold in the real economy and drive up inflation rates. **We once jokingly called this time lag the "Tequila Theory of Money".** A few shots of tequila in the evening undoubtedly help to lift the spirits at a party. It's not until the next day that the inevitable consequences make themselves felt in the form of nausea, a stinging headache, and potential amorous missteps.

In 2022, the price dams began to burst, and after a few months of appeasement rhetoric about the supposedly *temporary* nature of inflation, panic broke out among central banks. In the US in particular, the emergency monetary policy brake was pulled. However, pulling hard on this brake – unlike applying a mechanical emergency brake – does not trigger any immediate consequences. **Now we have come full circle, and once again we have to warn about the lag effects, but this time in the opposite direction.** The effects of QT and higher interest rates will be felt more clearly, day by day.

To illustrate the time lag of monetary policy actions, it is advisable for investors, especially the *pessimistic bulls*, to look at the recent past. In September 2007, then-Federal Reserve Chairman Ben Bernanke felt compelled to cut interest rates for the first time since June 2003, despite inflation exceeding 2%. By that time, the US housing market had already declined sharply. Although Wall Street initially went into a frenzy of joy, in 2008/2009 the US and with it the global economy slid into the biggest crisis since the Great Depression. The initial interest rate cuts completely fizzled out. **The US CPI fell from 5.6% in July 2008 to -2% a year later.** Stock markets hit their lows on March 9, 2009, only 19 months after the first rate cut and five months after the launch of QE1. **So despite numerous headache pills, tequila continued to play havoc for a long time**.

This example illustrates the considerable lag effects of monetary policy. It will take several more quarters before the consequences of the interest rate hikes of the past 14 months are fully apparent. The tighter lending conditions for businesses and consumers lead us to suspect that a disinflationary recession is becoming more likely by the day.

The crucial questions now are: Will the monetary tightening process reduce inflation far enough for central banks to save face and then loosen the reins again? And can the monetary policy withdrawal course be completed without causing too much damage to the economy and the financial markets? This will probably require iron discipline and political independence at the level of central bank leadership. Even if Jerome Powell wants to regain credibility and

Debt by Sector, USA, as % of GDP

Date	Government	Non-Financial Corporations	Private Households
1970	35.7%	47.0%	44.0%
1982	35.2%	53.1%	47.9%
Q3/2022	120.2%	78.8%	75.2%

Source: BIS, Incrementum AG

trust by alluding to Paul Volcker, we think the Volcker vs. Powell comparison is inappropriate. **The main reason? The significantly worsened debt situation.**

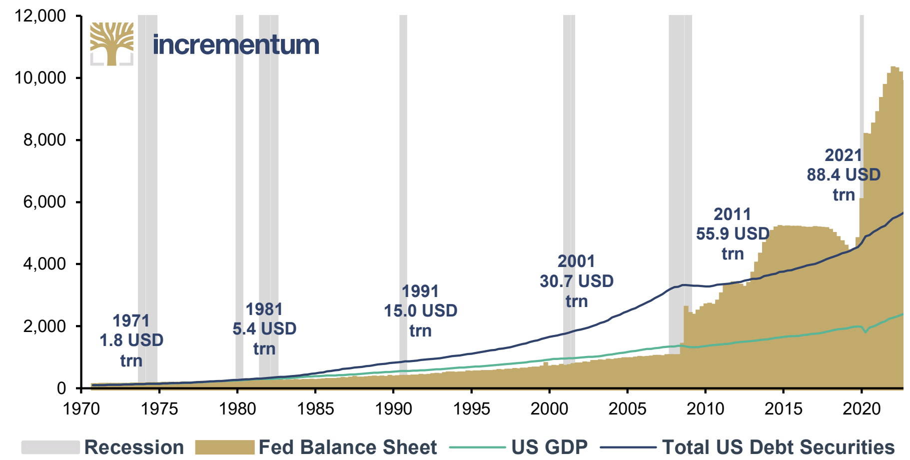
The Systemic Debt Problem

Both at the government and at the household and corporate level, debt is close to its peaks and many times higher than during Paul Volcker's time. Accordingly, systemic interest rate sensitivity is also high today. The debt ratios by sector show the striking difference between today's picture and the situation when Volcker was fighting inflation.

While the commitment to *sustainability* is omnipresent in all areas of our lives, the *sustainability of today's monetary order* is de facto not questioned at all. Banks and asset managers like to adorn themselves and the names of their investment products with fashionable terms such as *ESG* or *sustainability*, but seem to be completely ignorant of the ecological and social implications of the current debt money system.

The unsustainability of debt-induced growth is impressively demonstrated by the following chart. Since 1971, total credit market debt – the broadest aggregate of debt in the US – has increased by a factor of 60, total assets of the Federal Reserve by a factor of 100, and GDP by a factor of only 24. In each decade, the volume of credit has roughly doubled over the past 50 years. A watershed occurred in 2009. For the first time, a decline in total debt was recorded in the course of the financial crisis, which was countered by the Federal Reserve with a massive inflation of the base money supply in the form of QE.

Fed Balance Sheet, US GDP, and Total US Debt Securities, 100 = Q4/1970, Q4/1970-Q4/2022



Source: Federal Reserve St. Louis, Reuters Eikon, Incrementum AG

This impressive illustration of the exponential growth of debt and money supply shows two things: on the one hand, the systemic unsustainability of the monetary system and, on the other hand, the impossibility of not leaving economic skid marks by a cold withdrawal of the drug credit.

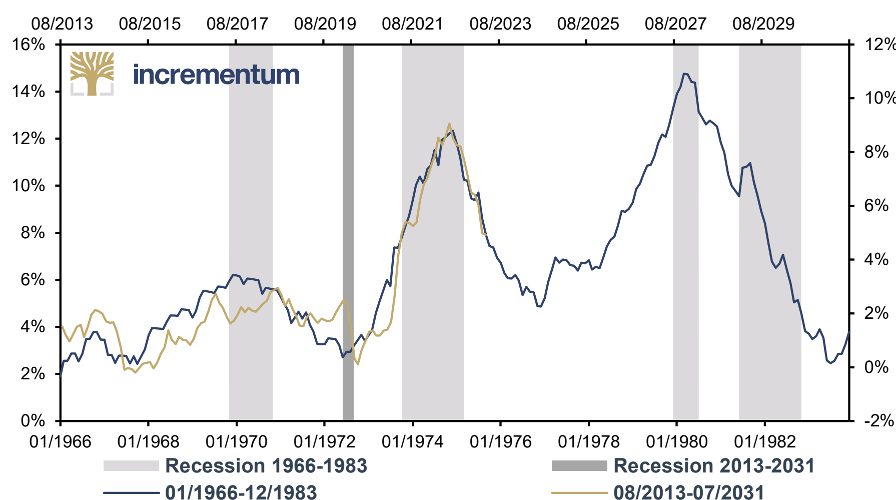
The exorbitant level of debt is ultimately the main reason why the pressure on central banks not to raise interest rates further, or even to lower them again soon, is increasing with each passing day. **It can be assumed that in the real economy, in society, and ultimately also politically,** the calls for looser credit and QE are getting louder and louder. Whether the trigger for the next measures will be the stumbling real estate market, the troubled banking system, or rising unemployment is ultimately secondary.

Further Inflation Wave(s) Ahead?!

As we already explained in detail last year, we expect inflation to occur in waves. As the past has shown, the volatility of inflation also increases in an environment of elevated inflation rates. Comparing the current wave of inflation with those of the 1970s is interesting in this context, although the scaling is not the same. What is remarkable is that this comparison, which we already made in exactly this form last year, is still surprisingly apt 12 months later.

We think the course of inflation in the 1970s provides a good indication of the future. Against the background of the problems described above, we still see predominantly disinflationary trends in the months ahead. However, this does not mean that

US CPI, yoy, 01/1966–12/1983 (lhs), and 08/2013–07/2031 (rhs)

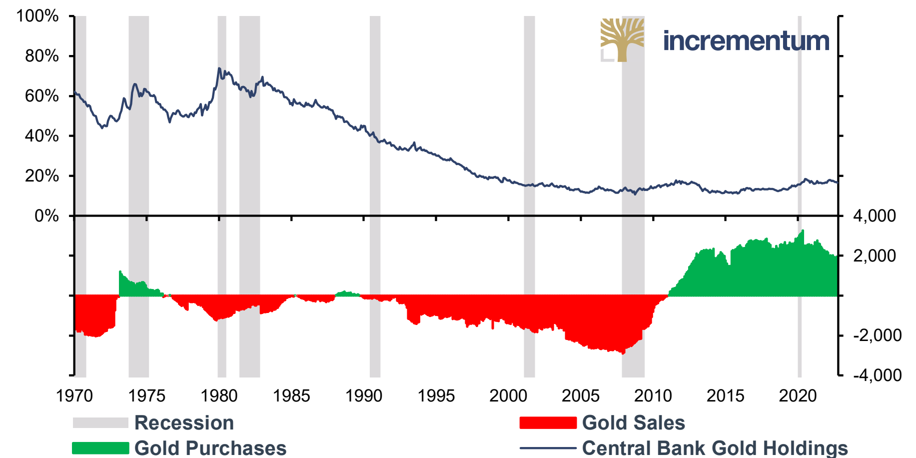


Source: Andreas Steno, Reuters Eikon, Incrementum AG

Over the coming decade, the market will continually underprice inflation risk. Those willing to own it will be rewarded.

Kevin Muir

Central Bank Gold Holdings (lhs), as a % of Foreign Reserves, and 5 Year Rolling Gold Purchases (rhs), in moz, 01/1970-10/2022



Source: Crescat Capital, Reuters Eikon, Incrementum AG

the danger of inflation has been banished. On the contrary, **a second wave of inflation will become all the more likely the sooner the restrictive monetary policy has to be abandoned.** Moreover, there are a number of structural reasons for high inflation rates and high inflation volatility in the medium to long term. **So what are the reasons for high inflationary pressure in the longer term**?

On the demand side, the following reasons can be cited:

- Chronic budget deficits and increasing fiscal dominance
- Energy price mitigation programs
- Energy transition, decarbonization
- Rearmament and war economy

On the supply side, the following inflationary trends can be identified:

- Rising trade barriers, environmentally as well as (geo-)politically motivated
- Sanctions from unpleasant trading partners
- The trend toward nationalization of commodity producers
- Nearshoring of supply chains at the expense of efficiency
- Change of strategy in China: reduced dependence on exports
- Demographic change: working population (baby boomers) declining throughout the OECD as well as in China.

Monetary History Is World History

The current phase of the monetary policy showdown is accompanied by many uncertainties. However, the general degree of complexity is further increased by geopolitical dynamics and uncertainties. One intersection of (geo)economics and (geo)politics is particularly evident in the de-dollarization we have been analyzing for years. In recent months, the BRICS countries have further intensified their efforts to reduce their dependence on the US dollar.

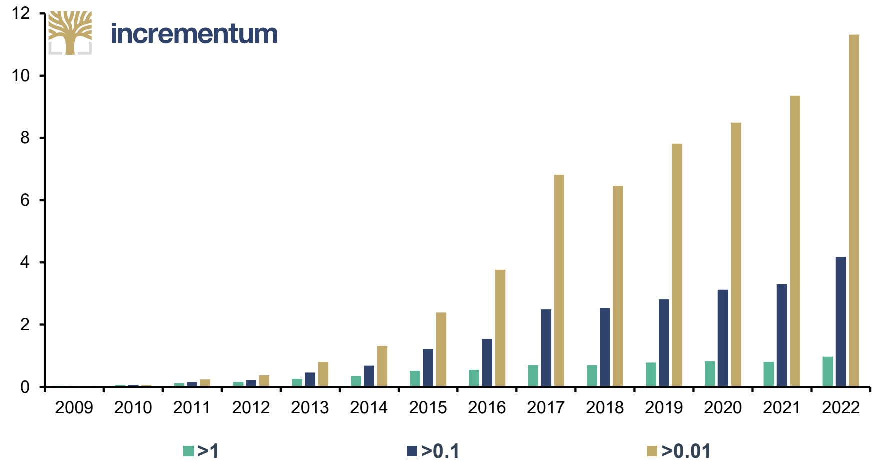
Paraphrasing Mark Twain, however, the obituaries for the US dollar are still premature, because currencies are network assets, and the US dollar, as the No. 1 global currency, enjoys all the advantages of a network asset. Louis-Vincent Gave compares the US dollar to Microsoft Windows. Even though Windows crashes from time to time and has numerous flaws, it is by far the most widely used operating system. A new operating system would not only have to be better but would also have to overcome the disadvantage of not being a network good to begin with. While many similar products can coexist in normal consumer goods, network goods tend to be a natural monopoly. Sometimes there are other competing products such as Mac OS or Linux, but these tend to have a shadowy existence in the overall picture and their use only brings advantages in certain networks. In these sub-segments, however, they are the undisputed top dog. A currency is a classic network good; but law, language, messaging services such as WhatsApp, social media platforms, and ultimately cryptocurrencies are also network goods.

Gold is also a network good, perhaps even the ultimate monetary network good. In a fragmenting world, gold could be the monetary intermediary that prevents even greater economic disintegration. After all, gold is supranational, neutral, and without counterparty risk. Gold itself could be used in international trade, or in currencies (partially) backed by gold, with tokenized solutions playing a role here. This idea has already been floated by the BRICS. The high demand for gold by central banks suggests that gold is regaining importance in this time of multiple crises.

Future Prospects: Money, Gold, and Bitcoin

Knowledge of monetary history is essential when considering the role of money in times of change. In addition to awareness of the past, however, we also want to attentively examine recent technological evolutions. In 2015, we first looked at Bitcoin as part of the *In Gold We Trust* report.[2] Digital stores of value, especially Bitcoin, may change the way we think about money and store of value.

Number of Bitcoin Addresses Holding at Least X Amount, in mn, 2009-2022



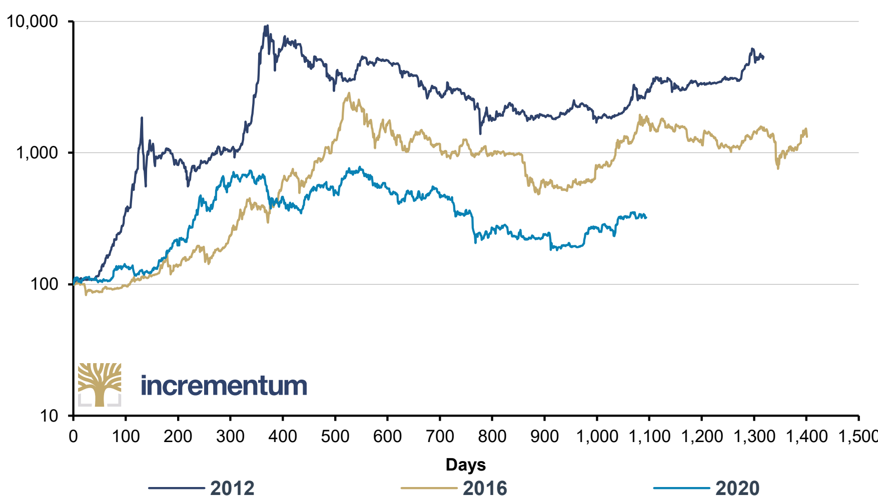
Source: Bitcoin Magazine Pro, Glassnode, Incrementum AG

Bitcoin's network effect is clearly visible through the increasing number of users and wallets. As Bitcoin becomes more widespread and adopted, it becomes more attractive and increases its utility. Each new active user and wallet strengthens the network by increasing liquidity. This positive feedback effect strengthens Bitcoin's position as the leading cryptocurrency and supports its potential as a money of the future.

An essential prerequisite for the increasing attractiveness of Bitcoin is its absolute scarcity due to the mathematically fixed upper limit of the supply to 21 million units. Currently, the number of Bitcoins mined is still increasing at about 1.6% p.a. – similarly slowly as the amount of gold mined annually. However, Bitcoin's "inflation rate" halves at four-year intervals. Thus, after the next halving in April 2024, Bitcoin's inflation rate will be lower than that of gold. In past cycles, the price of Bitcoin has invariably risen particularly strongly in the months before and after halving.

An intriguing question arises in the context of the geopolitical showdown: Can Bitcoin emerge as a winner from the current re-sorting of the world (dis)order? Despite the current de-globalization trends, it is inconceivable that trade between the *rival blocks* will completely collapse. Against the backdrop of growing geopolitical tensions, certain advantages of a decentralized cryptocurrency like Bitcoin seem obvious. Through its independence from government control and its cross-border transaction capability, Bitcoin would indeed offer an alternative to traditional currencies. We do not see such widespread adoption – aka "*Hyperbitcoinization*" – at the nation-state level immediately. In the long term, however, such a breakthrough in the acceptance of Bitcoin cannot be ruled out and would probably cause an enormous stir – also with regard to the price.

Bitcoin Performance after Halvings, 100 = Halving (log), 11/2012-05/2023



Source: Reuters Eikon, Incrementum AG

The Renaissance of Commodities?

The sufficient availability of commodities was long taken for granted. Price increases and supply bottlenecks have brought a possible shortage of resources back into the public consciousness. On the one hand, the topic is relevant in connection with the energy transition, whose political prioritization raises the question of the availability of needed raw materials. On the other hand, there is burgeoning resource nationalism. A good example of the paradigm shift in the importance of raw materials is the automotive manufacturers. They are increasingly making direct investments in mine operators or strategic supply agreements in order to ensure secure access to raw materials.

As we stated in the capex chapter,[3] the lack of investment in the past is an obstacle on the way towards better availability, greater independence and, above all, lower prices of raw materials. Copper

The shift to net zero will require more mining, not less.

PwC

There's no way we can supply the amount of copper in the next 10 years to drive the energy transition and carbon zero. It's not going to happen. There's just not enough copper deposits being found or developed.

Doug Kirwin

Aggregate supply curves may now be near vertical – a recipe for stagflation over the medium term. This also suggests that the world will switch from one of cooperation and collusion to one of competition.

Alexander Stahel

is an excellent example. The size of the gap between supply and demand is illustrated by some of the discussion papers at the April 2023 "World Copper Conference", presented in the *Wall Street Journal* under the title "Copper Shortage Threatens Green Transition".

According to a study by McKinsey, copper demand will rise to 36mn tons by 2031. Under extremely optimistic assumptions, production could be expanded from today's 21.8mn to 30mn tons. Even under the most favorable conditions, however, the deficit would be substantial, at 6.5mn tons. **To achieve the net-zero emissions goal, the world would need 54% additional copper by 2030, according to Goldman Sachs.** "Green" applications of copper still accounted for only 4% of copper consumption in 2020, but this is expected to rise to 17% by 2030.

According to Guy Wolf, the price of copper would have to nearly double to USD 15,000 to provide an incentive to develop new copper deposits. This shows that the budgeted funds for the energy turnaround are clearly set too low. Moreover, in our opinion, the situation with copper is not an exception but the rule. In some cases even more extreme supply deficits are to be expected, for instance for lithium, but also for nickel and silver.

The calculations of the "World Energy Transitions Outlook 2023" by the International Renewable Energy Agency (IRENA) also show that political will is likely to fail in the face of reality. According to this study, the cumulative investment volume required to achieve the 1.5°C target by 2050 amounts to USD 150 trn. Even if we consider these amounts to be exaggerated and unaffordable, it confirms a statement made by our friend Marko Papic. He speaks in this context of an "*absolute orgy of industrial metal capex*". **We thus expect a – state-financed – capex renaissance to force the energy turnaround**.

A recently published study by Cornell University shows that not only does the world have a structural shortage of the raw materials needed for the energy transition, but also that many significant deposits are located in geopolitically unstable countries such as Chile, South Africa, Russia, the Congo, or China, which represents a further risk factor with the potential to increase prices. The West's attempt to become more independent of countries that do not share its values through the energy transition is therefore unlikely to be crowned with success.

In addition, the processing and refining of green metals is also far more concentrated in China. This means that the geopolitical risks for the supply of industrial metals may be even greater than for the supply of fossil fuels. The West would therefore still need to invest in processing outside China if the current geopolitical rivalry between Washington – and the West more broadly – and Beijing continues. **For all the justified fears of a less peaceful future**, rivalry between states and blocs has historically often led to leaps in technological innovation. **Thus, one result of the current polarization could be technological breakthroughs that make raw materials cheaper in the long term and open up more resource-efficient growth opportunities.**

Best of *In Gold We Trust Report* 2023

Other key findings from this year's *In Gold We Trust report*, "Showdown," include the following:

- **Inflation:** Central bankers fear a repeat of history as happened under Arthur Burns in the 1970s. Our baseline scenario points to structurally higher inflation with higher volatility in inflation rates. The chapter includes extensive analysis that looks in depth at fundamentals as well as historical and potential future waves of inflation.

- **Debt:** Behind the veil of sustainability discourse lies an underestimated danger: growing government debt. In this chapter, we uncover the alarming implications of the Covid-19 pandemic, analyze the underestimated implications of low interest rates, and shed light on the underestimated link to sustainable economic development. In particular, we question the solvency situation with regard to the zero interest rate trap we have highlighted many times in recent years.

- **De-dollarization:** Already last year, we emphatically pointed out that the freezing of Russian currency reserves in 2022 will probably go down in international monetary history as a historic moment. Europe has clearly sided with the US on this. Meanwhile, Saudi Arabia is flirting intensively with the BRICS countries, which are seeking a multipolar currency system with increasing intensity. The question remains: How will the US respond to these challenges and how will the US dollar fare in this evolving geopolitical context?

- **Gold flows:** China, like India, has imported a huge amount of gold since the early 2000s; and in China's case this has been despite China also being the world's largest gold mining producer. Together, India and China have officially imported somewhere in the region of 34,000–36,000 tonnes of gold over the last 20 years. And if Jan Nieuwenhuijs' thesis is correct, China's official gold reserves could be up to twice as high as reported. Together, China and India have gone from representing a combined 28.7% of consumer gold demand in 2000, to now driving nearly half (48.4%) of global consumer demand in 2022, with a combined 1,600 tonnes of demand last year.

- **Bitcoin vs. Gold:** Bitcoin has been the catalyst for a new wave of interest in sound money, giving the movement a new generation of motivated advocates of a denationalized monetary system. Nevertheless, there is often harsh intellectual trench warfare between the *goldbugs* and the *bitcoiners*. In the chapter, we elaborate on how the respective views differ and which theoretical concepts, if any, are misunderstood by both sides.

- **Silver:** The combination of a shrinking silver supply and strong industrial demand provides a solid foundation for rising silver prices. The energy transition is driving innovation in the solar industry, increasing the use of silver in technologies such as TOPCON and HJT. Price trends show that when gold rises, silver tends to follow, so gold prices will be critical to silver's fate in 2023. Our analysis shows that silver can benefit from reflationary dynamics that typically occur at the end of a recession.

- **Mining stocks:** The value proposition of mining stocks continues to improve, while the market still largely ignores their profitability. With a stable gold price in 2023, miners can continue to generate high margins despite rising costs. Producer cash flows are expected to lead to increased M&A activity, benefiting especially junior producers, developers and explorers in stable regions.

- **Capex cycle:** Although commodity prices have increased significantly in 2021 and 2022, this has not yet led to a significant increase in capital expenditure (capex). The commodity sector has been struggling with various barriers to investment for over a decade. The return of investment is initially expected in the oil and gas sector. Given tight supply and historically low commodity valuations, the expected return of investment will mark the beginning of a new commodity supercycle.

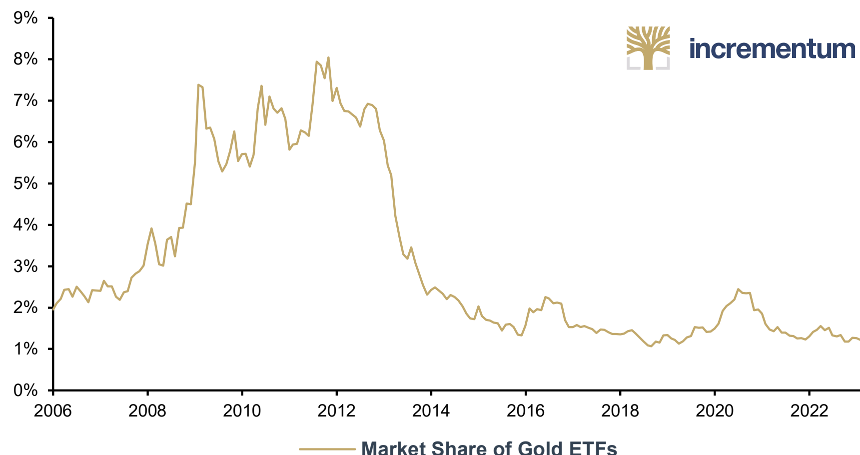
- **ESG:** As a result of the politically desired implementation of *net zero*, the environmental component has dominated ESG activities in recent years. To redress the balance, we are focusing our analysis this year mainly on the social aspect of ESG. New Responsible Gold certifications are helping to accelerate sustainability efforts. The ability to turn these challenges into opportunities to strengthen social engagement will be critical to companies' ESG success.

- **Technical analysis:** Gold prices have been *flirting* with a new all-time USD high for a while now. While long-term indicators such as the Coppock indicator remain clearly bullish, shorter-term models such as the Midas Touch Gold Model™ or even the seasonal patterns currently tend to argue for a more cautious outlook.

A mania first carries out those that bet against it and then those that bet with it.

Jim Rogers

Market Share of Gold ETFs, as % of Total ETF Market Measured by AUM, 01/2006-04/2023



Source: Topdown Charts, Incrementum AG

Quo Vadis, Aurum?

Has the gold price already reached its ceiling? The last great inflation-induced bull market found the media touting the bubble myth of gold. The German weekly magazine *Der Spiegel* wrote at the peak of the bull market in 1980, "*This is no longer a bull market in the usual sense, but hysteria, panic, a frenzy*". *Le Monde Diplomatique* spoke of "*gold fever and the disease of capitalism*," while the *Financial Times* thought it saw the revival of the "*myth*" of gold.

But now back to the present: A comparison of gold demand from institutional as well as private investors shows that gold is still a guest at a discreet private party and is by far not yet dancing at the big summer festivals like *Burning Man* in the Nevada desert, the *Donauinselfest* in Vienna, or the *Montreal Jazz Festival*.

Based on the situation we have described in detail, we expect an increasing flight into real assets, in particular gold and commodities, especially with the expected uncovering of the central bank bluff. Looking at the next chart, we can see that yields on two-year US bonds exploded from 0.111% in mid-2021 to almost 5% at their peak. Most recently, yields at the short end came under significant pressure again. The bond market is increasingly confirming that the tightening cycle is nearing its end and that the Federal Reserve will have to cut rates sooner rather than later. **Each time yields fell from highs, the gold price began an impulsive bull market phase.**

Inflation-indexed bonds (TIPS) and gold are currently showing the biggest divergence since 2005. Are we heading for a showdown between real interest-rate expectations priced by TIPS and the gold price? In this context, it is interesting to compare the price movements of the two corresponding assets. *Grosso modo,* a synchronization is discernible, but at phases the gold price has decoupled significantly from the performance of TIPS. **In particular, the phase in the mid-2000s stands out, when the gold price entered a pronounced bull market in an environment of a weak US dollar**. TIPS consolidated first on the back of slightly rising nominal yields and unspectacular inflation data. A repeat of this scenario would be possible in the near future, especially if the current US dollar weakness gains momentum.

As already emphasized, we see gold as a structural beneficiary of the geopolitical showdown. On the central bank side, gold demand is currently driven by emerging markets. **From a game-theoretical perspective, however, it is quite likely that Western central banks will also experience a renaissance in gold demand in the coming years.** After all, gold reserves are a guarantee of having a strong hand in the geopolitical showdown.

UST 2Y (lhs), and Gold (rhs), 01/1996-05/2023

Source: 13D Research & Strategy, Reuters Eikon, Incrementum AG

An extremely interesting indicator in this context is the degree of coverage of the money supply by the gold reserves held by central banks. It shows what percentage of legal tender and commercial banks' deposits with the central bank are covered by central bank gold reserves.

Rip Current – after the wave break comes the current

The next few months will show us whether the US economy can withstand the recessionary current. We are putting in our bid against it, because the breaking of the biggest inflation wave of the last four decades is now manifesting itself in an ever stronger current that can hardly be withstood.

After focusing primarily on stagflation in the *In Gold We Trust* report 2022, we have turned our focus this year to how investors can best navigate recessionary flows. In this context, we developed the *Incrementum Recession Phase Model* (IRPM), which is presented in detail in the chapter "The Showdown in Monetary Policy". This model aims to analyze asset performances during the different phases of a recession and offers insightful insights into which assets can be used profitably and at what times during a recession to mitigate risk. The model is divided into the following 5 recession phases: a pre-recession phase (phase 1), the actual recession broken down into three phases, and the recovery (phase 5).

The evaluation for gold, silver, equities, commodities, and mining stocks shows that, overall, gold is best suited as a recession hedge, with an average performance of 10.6% throughout the recession. However, there are significant differences in gold's performance during the different recession phases. While in phase 1 and phase 2 gold's performance is still very pos-

GLD (lhs), in USD, and TIP (rhs), in USD, 01/2005–05/2023

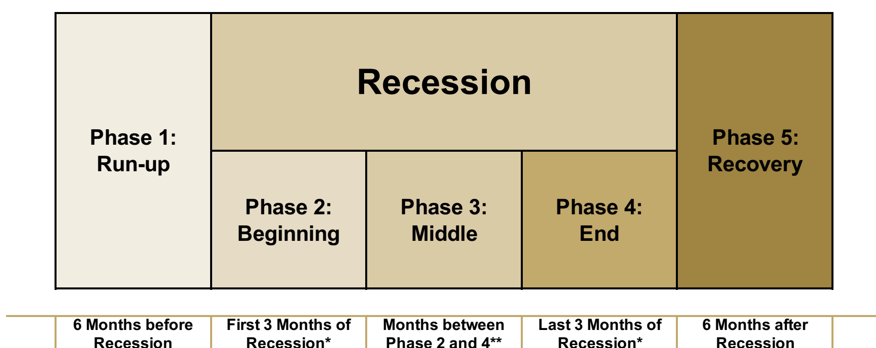
Source: Reuters Eikon, Incrementum AG

Required gold price to cover monetary aggregates, in USD, 2023

Country	Gold holdings (in ounces)	M0	M1	M2
Canada	0	n/a	n/a	n/a
China	65,824,882	23,188	148,901	618,046
France	78,233,464	n/a	n/a	n/a
Germany	107,709,065	n/a	n/a	n/a
Italy	78,715,039	n/a	n/a	n/a
G8 Eurozone	280,918,750	22,905	43,643	59,702
Japan	27,160,830	31,228	283,337	327,232
Russia	74,791,808	2,644	7,580	14,177
Switzerland	33,389,200	19,886	23,629	34,017
UK	9,962,182	11,684	300,141	388,193
USA	261,498,000	21,304	79,611	87,767
Total	**1,018,203,219**	**15,317**	**55,040**	**95,408**

Source: Brent Johnson, Santiago Capital, Bloomberg, World Gold Council, tradingeconomics.com, Incrementum AG

Incrementum Recession Phase Model



Source: Incrementum AG

*For short recession periods less than 3 months
** For recession periods with 6 or less months no Phase 3 is identified

In times of recession it's not wise to argue about the price of gold.

Robin Sacredfire

Average Asset Performance – *Incrementum Recession Phase Model*

Asset	Recession*	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Gold	10.6%	10.9%	5.7%	2.9%	2.7%	2.6%
Silver	-9.0%	31.5%	0.8%	-10.9%	3.5%	17.4%
Stocks	-5.3%	-2.8%	-6.0%	-13.2%	12.6%	8.6%
Commodities	-6.3%	6.4%	0.2%	-6.5%	-0.2%	5.0%
Mining Stocks	5.4%	8.9%	8.5%	-11.7%	8.3%	24.3%

Source: Reuters Eikon, Incrementum AG

itive at 10.9% and 5.7%, respectively, especially compared to the performance of the other assets, it is much weaker in the later phases (3-5) at only 2.9%, 2.7% and 2.6%.

Silver is not a reliable recession hedge, with an average performance of -9.0% throughout the recession. This is probably because silver is perceived much more as a cyclically sensitive industrial metal than as a monetary metal in the midst of the downturn. **In the months before and after the recession (phases 1 and 5), however, silver performs above average in comparison.**

On average, equities and commodities have a negative performance during a recession, with equities performing best in phase 5, with 12.6%, and commodities in phase 1, with 6.4%. However, mining stocks show that not all stocks post losses during a recession. **Except for phase 3, mining stocks show a positive performance on average.** It is remarkable that all assets except for commodities can gain in phases 4 and 5. Once again, mining stocks stand out, with an average performance in phase 4 of 8.3% and 24.3% in phase 5.

Overall, our analysis shows that there are **significant differences in the performance of different assets during a recession** and that investors need to proceed cautiously and strategically to be successful in each phase of the recession cycle.

The Gold Price Forecast in Times of Recessionary Flow

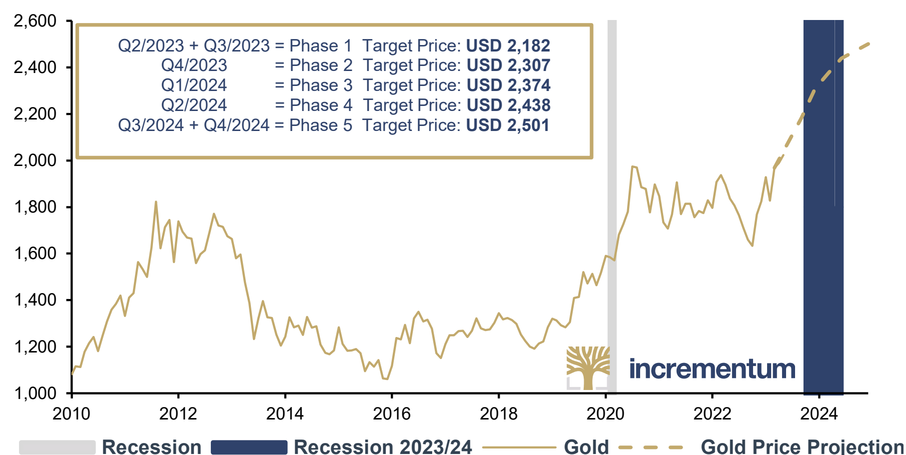
As every year, we want to conclude with the short-term development of the gold price. This year, due to the high probability of a recession, we draw on the economic trend for our gold price forecast. We think that recessionary tendencies, which are becoming more and more pronounced, as we detailed in the chapter "The Showdown in Monetary Policy", will be the main driver for gold in the near future. **Our Incrementum Recession Phase Model is ideally suited to anticipate gold price developments in this environment.**

As with any forecast, numerous assumptions have to be made. **Our gold price forecast was calculated based on the average gold performance in each phase, assuming the onset of a recession in the US as of Q4/2023,** implying that we have already been in phase 1 of our proprietary recession phase model since the beginning of Q2/2023. The forecast extends to year-end 2024, the point at which all recession phases will have been completed under the assumptions we have made.

As a short-term price target, we have set the closing price of gold in US dollars at the end of the current year, which also marks the end of the second phase (initial phase of the recession itself). **According to our projection, the gold price would be trading at around USD 2,300 at this time.**

If the forecast is allowed to continue until the end of the last phase of the *Incrementum Recession Phase Model*, the final result is a **gold price of just under USD 2,500 at the end of 2024. However, it is important to emphasize that the fulfillment of the recession prerequisite is crucial to achieve this price development.** In the absence of a recession, there is a possibility of significant deviation from the projected price.

Gold, and Gold Price Projection Based on the *Incrementum Recession Phase Model**, in USD, 01/2000-12/2024e



Source: Reuters Eikon, Incrementum AG
*based on the assumption of a recession start in the USA in Q4/2023

Invest in things that have never happened before, hedge for regression to the mean, and plan for the unimaginable.

John Burbank

Intermediate Status of the Gold Price Projection until 2030: Gold, and Projected Gold Price, in USD, 01/1970-12/2030

Source: Reuters Eikon, Incrementum AG

Update on gold price forecast until the end of the decade

Loyal readers will also remember the gold price forecast model we published in our *In Gold We Trust* report 2020,[4] with a price target at the end of the decade. **At that time we calculated – with the gold coverage ratio as the central input factor – a price target of just under USD 4,800 by the end of 2030.**

As last year, we do not want to deprive you of the interim status of our long-term forecast. **In order to remain exactly on track, the gold price would have to rise to just above USD 2,400 by the end of this year.** That is just under 4.6% or around USD 100 higher than the price target of our recession phase model of USD 2,307. **Based on the April 2023 closing price of USD 1,990, this would correspond to a 21.3% increase in the gold price by the end of 2023.**

We acknowledge the ambitious nature of the projected price increase until the year's end. Such a rapid price increase within a period of 8 months requires an exceptionally bullish environment for gold in the short term, which we do not consider as the base scenario but also do not want to dismiss. Nonetheless, we firmly believe it **is realistic for gold to at least reach new all-time highs in USD this year.**

We continue to adhere to our decade price target of approximately 4,800 USD, as monetary policy dynamics, the economic outlook and, in particular, the geopolitical situation should provide considerable support for the gold price in the medium to long term. **After all, should uncertainty increase further in the coming months and a recession be priced in by the market in the course of the year, gold will play out its full potential.**

There are undoubtedly challenging times ahead for investors in the coming years as we find ourselves in the midst of monetary and geopolitical showdowns. As in a poker game where the stakes are high, it is important to have a strong hand. Analogous to an ace in poker, gold is an expression of a strong hand for investors. Gold acts not only as a safe investment in uncertain times but also as a reliable protection against the volatile fluctuations in financial markets.

Even if it is not always easy, we would like to look to the future with optimism. The disappointments ahead will probably not be painless, but they could ultimately set in motion exciting economic and social dynamics. In these exciting times, we assert, as ever:

IN GOLD WE TRUST

The waiting is the hardest part
Every day you see one more card
You take it on faith,
you take it to the heart
The waiting is the hardest part.

Tom Petty and the Heartbreakers

Endnotes

1 "Stagflation 2.0," In Gold We Trust report 2022, p. 372
2 See "Past, Present, and Future of the Monetary Order," In Gold We Trust report 2015
3 See chapter "Capex Come Back: A Raging Bull Market for Commodities Beckons" in this In Gold We Trust report.
4 "Quo vadis, aurum?," In Gold We Trust report 2020

About Us

Ronald-Peter Stöferle, CMT

Ronald-Peter Stöferle 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* (the Vienna Stock Exchange Academy). In 2014, he co-authored the international bestseller *Austrian School for Investors*, and in 2019 *The Zero Interest Trap*. He is a member of the board of directors at *Tudor Gold Corp*. (TUD), and *Goldstorm Metals Corp.* (GSTM). Moreover, he is an advisor to *Matterhorn Asset Management*, a global leader in wealth preservation in the form of physical gold stored outside the banking system.

Mark J. Valek, CAIA

Mark J. Valek 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. 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.

www.incrementum.li

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Agnico Eagle is a senior Canadian gold mining company, and third-largest gold producer in the world, with operating mines located in Canada, Australia, Finland and Mexico, as well as exploration and development activities in these countries and the United States.

www.agnicoeagle.com

Endeavour Mining

As a leading global gold producer and largest in West Africa, Endeavour is committed to the principles of responsible mining and delivering sustainable value to all stakeholders. Endeavour is listed on the LSE and TSE under the symbol EDV.

www.endeavourmining.com

Asante Gold

Asante Gold has developed its 400,000 oz per year production profile through organic growth and focused acquisitions. We believe in responsible development and strive to be Ghana's foremost gold producer and employer of choice.

www.asantegold.com

Endeavour Silver

Endeavour Silver is a mid-tier precious metals mining that owns two underground, silver-gold mines in Mexico, and has a compelling pipeline of exploration and development projects to facilitate its goal to become a senior silver producer.

www.edrsilver.com

Aurion Resources

Aurion is a well-funded, Canadian explorer operating in an emerging major gold camp in Finland's Central Lapland. The Company is making new discoveries on its Flagship Risti and Launi projects, and JVs with B2Gold and Kinross.

www.aurionresources.com

Hecla Mining Company

Hecla Mining Company (NYSE: HL) is the largest primary silver producer in the United States and the sixth largest gold producer in Quebec. Hecla is also the third largest US producer of both zinc and lead.

www.hecla-mining.com

Caledonia Mining

Caledonia Mining is a profitable, dividend-paying gold miner, with a strong growth profile; since November 2021 has acquired Maligreen, Motapa and Bilboes. Its vision is to become a Zimbabwe focused multi-asset gold producer.

www.caledoniamining.com

Karora Resources

Karora is TSX-listed gold miner (TSX: KRR) with operations in the tier 1 jurisdiction of Western Australia. Karora has a proven management team and is growing production to 170-195 koz by 2024.

www.karoraresources.com

Dakota Gold

Dakota Gold (NYSE American: DC) is a South Dakota-based responsible gold exploration and development company with a specific focus on revitalizing the Homestake District of South Dakota.

www.dakotagoldcorp.com

Matterhorn Asset Management AG

The global authority in Wealth Preservation through precious metal acquisition and storage. A world-renown team offers personal service to investors with direct access to the world's largest and safest private vaults.

www.goldswitzerland.com

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EMX has a 20-year track record of smart deals. With more than 300 royalties and investments, EMX looks forward to a bright future with diversification into gold, copper, battery metals, strong partners like Franco Nevada, and rapidly increasing cash flow.

www.emxroyalty.com

Minera Alamos

Minera Alamos is a new gold producer going through the ramp up of its Santana mine and fast tracking permitting for its second flagship mine: Cerro de Oro. Specializing in low capex builds the Minera model remains insulated from inflationary pressures.

www.mineraalamos.com

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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

Tudor Gold

TUDOR GOLD Corp. is an Exploration company in the Golden Triangle region in B.C., Canada, which is advancing the Treaty Creek project that hosts a mineral resource of 23.4 Moz AuEQ (Indicated) plus 7.4 Moz AuEQ (Inferred).

www.tudor-gold.com

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www.nzbd.com

Victoria Gold

Victoria Gold ("VGCX") is Leading Yukon's New Gold Rush. As at 31Dec22 the Eagle Gold mine Reserve is 2.6 m oz Au (124 m tonnes grading 0.65 g/t), and is open at depth and along strike. Exploration priority targets include Raven and Lynx.

www.vgcx.com

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Ximen Mining

Ximen Mining (TSX.V XIM) is focused on responsible development, sustainable mining and exploration of its precious metals properties in southern BC, Canada, as it advances its Kenville Gold mine.

www.ximenminingcorp.com

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www.reynagold.com

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