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In Gold We Trust Report

May 24, 2022

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Stagflation 2.0

incrementum

Ronald-Peter Stöferle
& Mark J. Valek

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This is the abridged version of the *In Gold We Trust* report 2022. The full report comprises the following 25 chapters and can be downloaded free of charge at ingoldwetrust.report.

Introduction: of Wolves and Bears

“To ignore the warning signs and continue with the strategies of the past is to ignore the third, crucial cry of wolf.”

“The Boy Who Cried Wolf: Inflationary Decade Ahead?”
Incrementum Inflation Special

In the fall of 2020, in the midst of the second Covid-19 wave, we were prompted to publish a special edition of the *In Gold We Trust* report. In our publication entitled “The Boy Who Cried Wolf: Inflationary Decade Ahead?”, we used Aesop’s parable to issue an urgent warning about the danger of inflation creeping up on us. The majority of market participants were no longer familiar with this predator, which was thought to be extinct, since the last period of high inflation was many decades ago.

Now the wolf is here – and it dominates the headlines. But many investors are still unaware of the threats it poses to their portfolios. In many cases, people hide behind the naïve illusion that the wolf will disappear again after a short time – just like that, and without having feasted on any prey.

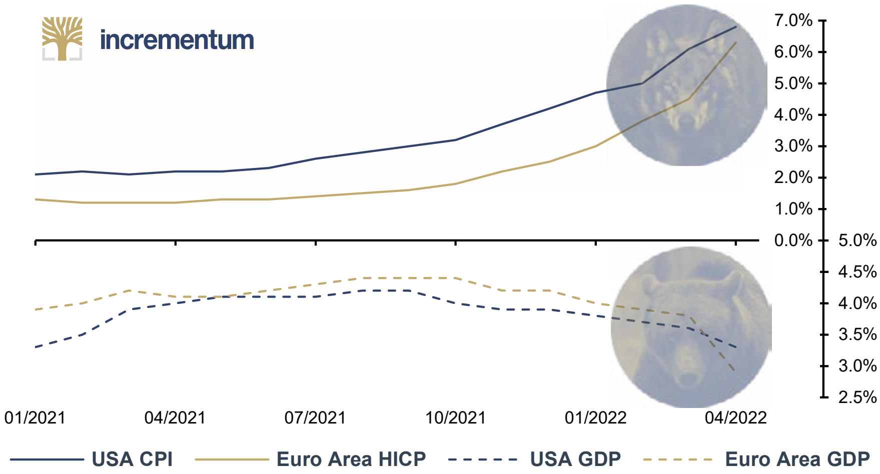
Now the next danger is already lurking: sneaking up behind the wolf is a bear. This bear symbolizes a striking economic downturn, pushing prices down with its paw. Once again, the majority of economists and investors will be caught on the wrong foot.

After the devastation of the Covid-19 pandemic, everyone hoped for years of recovery. Last year’s record-high growth figures fueled this fire of hope. But these figures were mainly due to a return to a certain economic normality dependent on the base effect.

But what was the real tinder that caused this *growth fire* to burn? In the wake of the global lockdowns and the equity market crash, the US economy contracted by an annualized 9.1% in Q2/2020, while global GDP slumped by 3.1%. An unprecedented flurry of monetary and fiscal policies were implemented in an attempt to limit the economic damage caused by the lockdowns and prevent the looming debt-deflation.

The stock markets reacted with delight, deflation was averted, and just a few months later the financial markets were once again in high spirits. The S&P 500 rallied from its Covid-19 low to a new all-time high in just 5 months, and the Nasdaq soared 134% from low to high in just 3 months.

Monthly Inflation and GDP Polls for 2022, USA and Euro Area, 01/2021-04/2022



Source: Reuters Eikon, Incrementum AG

But the inflationary side effects of the brute monetary and fiscal revival measures manifested themselves quietly over the course of the past year. The price paid for rescuing the markets was steadily rising inflation, which broke through the central banks' 2% target in both the US and the euro area in mid-2021.

But central bankers appeased us. Don't be afraid of the wolf; the howl you think you hear is just your imagination; the surge in inflation is merely *transitory*. Consequently, this appeasement was also to be found in institutions' inflation forecasts. The ECB's inflation forecast is exemplary for its dramatic misjudgment of the situation. In September 2021, an inflation rate of 1.7% was projected for 2022; in December 2021, the forecast was raised to 3.2%; and in March it had climbed to 5.1%. **Even *before* the outbreak of the Ukraine war, the ECB almost had to double its inflation forecast within the span of three months.**

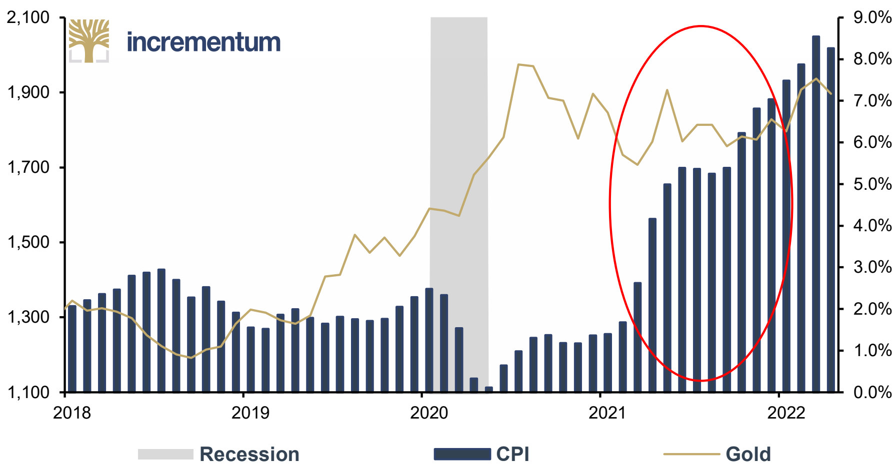
Initially, the gold price reacted disappointingly to the inflation increase of the previous year. Over the course of 2021, gold holders had to settle for a modest return of +3.6% in EUR or -3.5% in USD.

The reasons why gold temporarily lost its mojo were**:**

- A strong prior performance: 2019: +18.3% (USD), +21% (EUR); 2020: +24.6% (USD), +14.3% (EUR)
- The extremely firm US dollar
- High opportunity costs because of soaring stock markets
- Crypto assets that stole the show from gold
- **Most importantly, market participants believed the *transitory* narrative and did not fear that inflation would remain high in the longer term.**

The longer inflation stayed elevated, the more market participants thought that this must affect the price of gold. **It was not until the beginning of 2022 that the price gradually began to react to the increased inflation and the growing turbulence on the stock and bond markets.**

Gold (lhs), in USD, and CPI (rhs), 01/1970-04/2022

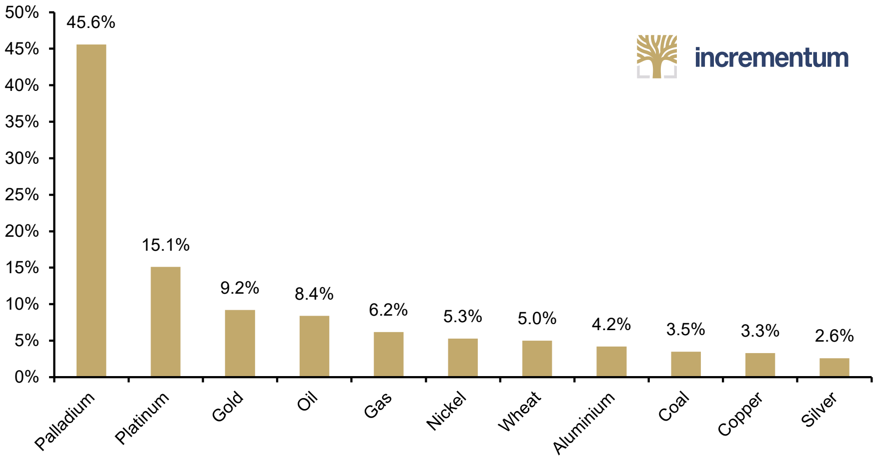


Source: Reuters Eikon, Incrementum AG

The Russian Bear

It is obvious that Russia's attack on Ukraine will have a further exacerbating effect on the inflation situation. Russia is one of the major exporters of raw materials, not only in the energy sector. However, what we believe is severely underestimated is the disastrous cost to national economies faced with the substitution of Russian resources. German Minister for Economic Affairs Robert Habeck put it succinctly in a discussion on a possible EU oil embargo against Russia: "*This cannot be had without any pain!*" JP Morgan estimated in mid-April that an oil embargo would send the price of oil soaring to USD 185. That would be a jump of another 70-80% or so. One does not need to be a great prophet to predict the impact of such a price jump on the economy and inflation rates. **The sanctions spiral will certainly cause not only the wolf but also the bear to run rampant**.

Russia's Exports, as % of Global Production, 2021

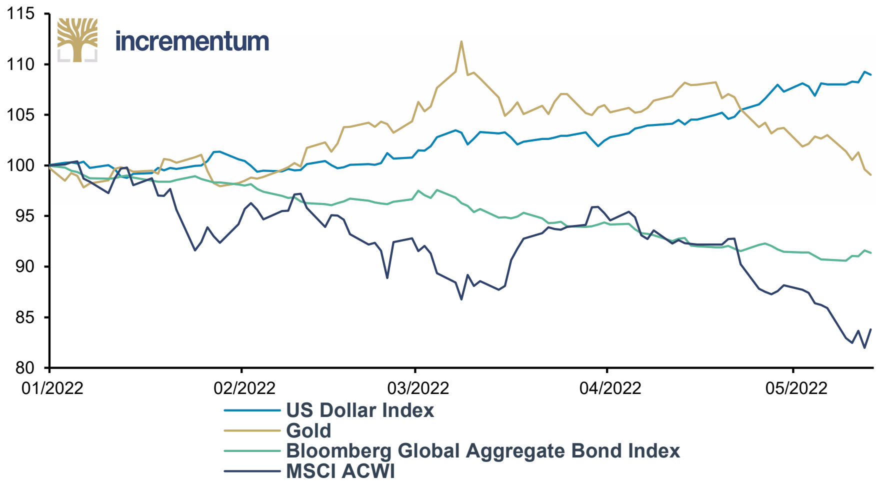


Source: Bloomberg, JPMorgan, Incrementum AG

And that bear can already be seen prowling the capital markets. The S&P 500 dropped more than 15% since the beginning of the year, while the Nasdaq is down 25%. The bears have reached the former epicenter of the US bull market: the vaunted technology stocks. **But the ursine brute is also loose in the bond markets.** In Q1/2022, US Treasury bonds posted their worst performance since records began in 1973, according to the Bloomberg US Treasury Total Return Index. And also in the currency markets the bear has appeared, the US Dollar Index climbed to its highest level since 2002. **Gold held up well in this adverse environment, but lost its strength from mid-April onwards.**

The bear is also slowly making its presence felt in economic terms. In Q1/2022, the USA probably already recorded a decline in economic output. After annualized quarterly growth of 6.9% in Q4/2021, the economy contracted by 1.4% in Q1/2022 according to the latest GDP estimate of the Bureau of Economic Analysis (BEA), even though the initial estimate was for over 3% growth. Even if growth in the current quarter is again slightly positive and a (technical) recession can still be avoided for the time being, a recession in the next 12-18 months is much more likely than currently assumed by economists and the market.

US Dollar Index, Gold, Bloomberg Global Aggregate Bond Index, and MSCI-ACWI, in USD, 100 = 31.12.2021, 01/2022-05/2022



Source: Reuters Eikon, Incrementum AG

The Momentous Freeze of Russian Foreign Exchange Reserves

The status of the US dollar as the global reserve and trade currency is showing unmistakably widening cracks. For many years now, we have been documenting the process of de-dollarization. We are now eyewitnesses to a momentous breach of confidence that is preparing the ground for a move away from the US dollar as the world's reserve currency and, in the medium term, accelerating the path to a new global monetary order.

The decision of the G7 and the EU on February 26 to freeze the US dollar and euro currency reserves of the Russian Central Bank, which account for about 60% of its total international reserves, will go down in monetary history. Although there have been sanctions against pariah states such as Venezuela, Iran, or the Taliban's Afghanistan before, they have never before been applied against a state with veto power in the UN Security

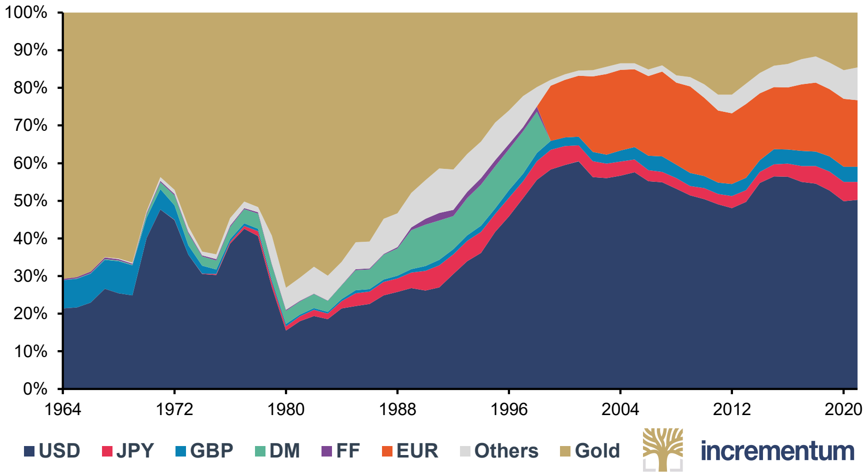
Council, a former member of the leading economic nations (G8), a nuclear power, and one of the world's most important exporters of raw materials.

With the weaponization of money, however, the US and the EU are unlikely to have done themselves any favors in the medium to long term. **The decision clearly demonstrates to many US-critical nations how quickly US dollar reserves can transform from a highly liquid asset to useless pieces of printed paper. De facto, the US and the euro area have told the world that they no longer want to pay their economic quid pro quo from previous trade deals.**

The volume we are talking about is enormous: The global foreign exchange reserves of central banks amount to around 12trn USD, of which the US dollar accounts for about 60% and the euro for 20%. China, in particular, will have been watching Russia's reserve freeze with a wary eye and will be stepping up its efforts toward monetary sovereignty. In addition, the freezing of currency reserves has a potentially strong deflationary effect.

Remarkable countermeasures were taken to support the collapsing ruble. For example, the Russian Central Bank – after doubling its key interest rate to 20% – announced that it would pay a fixed price of

Composition of Global FX Reserves incl. Gold, 1964-2021



Source: IMF, World Gold Council, Incrementum AG

5,000 rubles per gram of gold from March 28 until June 30. This is equivalent to about USD 1,940 per ounce. This establishes a floor for the gold price in rubles, and since gold is traded in US dollars, it also implicitly establishes a floor for the ruble in US dollars.

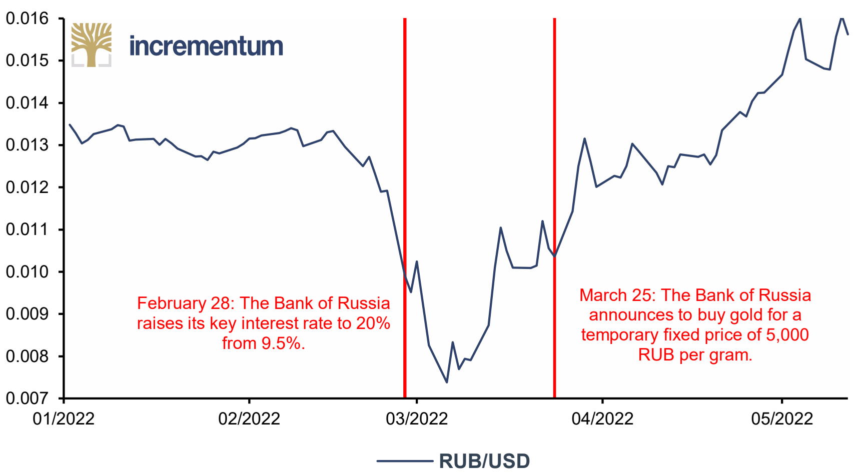
Some analysts have mistakenly referred to this mechanism as the new gold standard. However, this is not the case, as the central bank has not committed itself to redeeming rubles for gold, but only issues rubles and accepts gold. **Nevertheless, this example illustrates most vividly that gold can be used at any time not only as a proverbial but as an actual anchor for a fiat currency.**

What is extremely impressive is how the external value of the ruble has developed against the US dollar, which is itself extremely strong. For example, the ruble is trading firmer against the US dollar than at the beginning of the year, despite six waves of tough sanctions already in place.

In addition to the gold price floor, the decision that Russia will no longer accept euros as a means of payment for its exports is likely to have played a significant role in the unexpected strength of the ruble. The chairman of the energy committee in the Russian Duma, Pavel Zavalny, commented on the Russian decision to no longer accept the euro as a means of payment: "*Let them pay either in hard currency, **and this is gold for us,** or pay as it is convenient for us, this is the national currency.*" (Our emphasis.) From the states classified as Russia will in future only accept payment in rubles or in gold, and from all others in a freely negotiable currency and possibly even in Bitcoin.

We are concerned that the West may be overestimating its position with regard to its de facto monopoly on international currency reserves. The economic importance of the East – especially Asia – has increased massively over the past 20 years. This power has been highlighted by Sergey Glazyev. He is considered one of Russia's most influential economists

RUB/USD, 01/2022-05/2022



Source: Reuters Eikon, Incrementum AG

and is a member of the National Finance Council and former Minister of Foreign Economic Relations. He was also an economic advisor to President Putin from 2012-2019. Glazyev explained the role that commodities will play in the emerging multipolar monetary order:

> *"The third and the final stage on the new economic order transition will involve a creation of a new digital payment currency... A currency like this can be issued by a pool of currency reserves of BRICS countries... the basket could contain an index of prices of main exchange-traded commodities: gold and other precious metals, key industrial metals, hydrocarbons, grains, sugar, as well as water and other natural resources..."*

We think it is plausible that gold, as a neutral monetary reserve, will emerge as one of the beneficiaries of the troubling conflict between East and West. In an increasingly polarized world that is dividing into two blocs, gold can act as a neutral, nonstate monetary intermediary. Meanwhile, the trend of gold enjoying increasing popularity among central banks has continued unabated since 2008. **Thus, while the BRICS countries have significantly increased their gold reserves in recent years, the West, especially the euro area and the US, is still well ahead in this ranking.**

In addition to the unique feature that gold has no risk of default or confiscation – provided it is held securely in the country that owns it – central banks now have another argument in favor of holding reserves in gold. Inflation rates, which are markedly beyond their respective inflation targets, are likely to further undermine confidence in government reserve currencies in the coming years. **Gold will probably gain further acceptance as a reserve currency in many countries and increasingly establish itself as an anchor of confidence and purchasing power.**

Even though Bitcoin was mentioned in passing by Russia in this context **– which is remarkable – it does not play a role in the concert of reserve currencies at present.** However, in the oldest of all cryptocurrencies adaptation continues to progress steadily. Worth mentioning, in addition to the integration of Bitcoin as an asset into traditional financial markets, is the increasing use of the protocol for processing payments via the Lightning Network.

Bitcoin is being discovered by a growing part of the population in developing countries and is also being actively used as a means of payment. Thus, a bottom-up dynamic can be seen here. Central banks, on the other hand, still want nothing to do with the decentralized digital currency. But even so, there are always interesting initiatives. For example, at the April 2022 general meeting of the SNB, a request was made by some of the bank's shareholders that it should shift 1 billion francs of its assets per month from Eurobonds into Bitcoin. As expected, the request was not favored by the central bank. Consequently, the initiators will probably confront the SNB with the issue every year from now on.

But there are also newsworthy developments at the state level with **regard to Bitcoin:** Last year, El Salvador introduced Bitcoin as an official means of payment alongside the US dollar. The Central African Republic has recently followed suit. In both cases, the IMF opposed the moves vociferously and warned of considerable risk. That institution, which forbids its member states from pegging their currencies to gold, is obviously strongly opposed to Bitcoin becoming official money. **One cannot escape the impression that the IMF is, at its core, the supreme guardian of the global debt-based monetary system.**

Country	FX reserves, in USD mn.	Total reserves, in USD mn.	Gold reserves, in tonnes	Gold reserves, in USD mn.	Gold reserves/ total reserves	Gold reserves/ GDP
Euro area	499,850	1,141,117	10,270	641,267	56.20%	4.41%
USA	237,182	745,053	8,133	507,871	68.17%	2.00%
Russia	497,946	641,665	2,302	143,719	22.40%	7.86%
China	3,251,626	3,373,282	1,948	121,656	3.61%	0.61%
Switzerland	1,036,009	1,100,949	1,040	64,940	5.90%	7.71%
Japan	1,303,245	1,356,070	846	52,824	3.90%	1.08%
India	563,471	610,952	760	47,481	7.77%	1.44%
Taiwan	549,994	576,446	424	26,452	4.59%	3.14%
Saudi Arabia	441,067	461,240	323	20,173	4.37%	1.94%
Singapore	424,839	434,439	154	9,600	2.21%	2.26%
South Korea	455,833	462,355	105	6,522	1.41%	0.36%
Hong Kong	490,956	491,086	2	130	0.03%	0.04%

Source: IMF, World Gold Council, Incrementum AG (data as of Q1/2022).

From Monetary Climate Change to Stagflation 2.0

Before we turn to our core topic this year, stagflation, allow us to take a quick look in the rearview mirror. In the *In Gold We Trust* report 2021 we talked about what we called *monetary climate change*. With this term, we alluded to a multilayered paradigm shift triggered by the pandemic and the political reactions to it, and shaped by the following five developments:

- Budgetary nonchalance
- Merging of monetary and fiscal policy
- New tasks for monetary policy
- Digital central bank currencies vs. decentralized cryptocurrencies
- The new ice age between East and West

These trends are still present and are further reinforced by the Russian crisis. The budgetary nonchalance continues seamlessly after the Covid-19crisis has abated. No expense is being spared to develop alternative energy sources, to massively rearm and to finance the costs of sanctions, but also to cushion the wave of inflation through transfer payments. Monetary policy will have no choice but to finance the additional government budget gaps by monetizing public debt. Relations between East and West have cooled down so much that one can already speak of a Cold War 2.0. These are all structurally inflationary dynamics, which have a braking effect on growth on top of everything else.

Wolf and bear, inflation and economic downturn equals stagflation. This is precisely the insight that is slowly but surely taking hold. No less a person than the president of the renowned German ifo Institute, Clemens Fuest, already surprised us at the end of April (!) with the following statement: *"We are in the midst of stagflation, at least in Europe."* In view of the tense geopolitical situation and the dark clouds in the economic sky, we consider stagflation to be very likely in many parts of the world, especially in the USA and the EU.

Just as we predicted the current wave of inflation in 2020 without going far out on a limb, we are also not going out on a limb with our announcement of persistent stagflation. **We will certainly not have to endure a repeat of the stagflation of the 1970s; rather, we'll see *stagflation 2.0*, with its numerous peculiarities.** We will compare some of the important characteristics here with a focus on the US.

Stagflations and their consequences for the economy, society and financial markets are probably only known to most people from history books, if at all. **Adequate preparation for the simultaneous appearance of wolf and bear, which is even rarer to observe than a German victory in the song contest, will occupy us in all its details in this year's *In Gold We Trust* report.**

Factor	Stagflation Phases 1970–1983	Stagflation 2.0
Trigger	- 1973: Oil embargo Yom Kippur War - 1979: Iranian Revolution	- Covid-19 pandemic & lockdowns/ massive stimulus measures - Supply chain issues - War in Ukraine
Duration	Several phases between 1970 and 1983	?
Money overhang	Up to 4.9% (1982)	Up to 21.3% (2020)
Real interest	- Partly positive, partly negative, mostly within a range of +5%/-5% - Strong increase in early 1980s to just under +10%.	Currently strongly negative Positive real interest rates b.a.w. not conceivable
Budget deficit	Up to 5.7% (1983)	Up to 15.0% (2020)
Debt	Low (data for 1970 and 1982) - State: 35.7%; 35.2% - Company: 47.0%; 53.1% - Private households: 44.0%;47.9%	High (data for 2021) - State: 123.4% - Company: 77.2% - Private households: 76.4
Labor market	- High degree of organization; - Growing workforce potential	- Low organizational level - Declining workforce potential as a result of demographic change
International division of labor / geopolitics	- Division of Labor Largely Stable - Geopolitics: Cold War	- After decades of globalization now de-globalization - Slipping into Cold War 2.0
Oil price development (WTI)	- Jun 1973–Feb 1974: +184% - Dec 1978–May 1980: +166%	- Dec 2020–Apr 2022: +116%
Currency regime	Exchange of gold currency standard on system of flexible exchange rates	Increasing departure from the unipolar monetary system with the US dollar as the anchor currency
End	Interest rate hikes, Volcker shock, recessions	- Potential debt crises due to high debt levels - Reorganization of the international monetary order

Source: Incrementum AG

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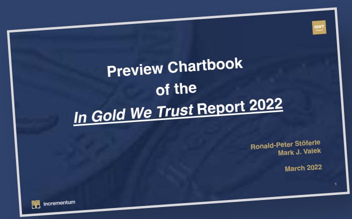

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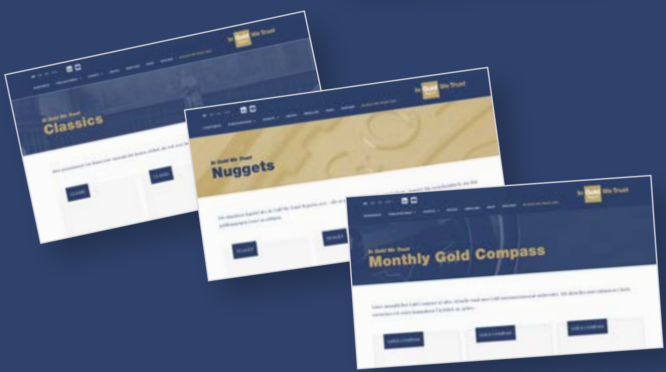

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Quo Vadis, Aurum?

“Our New World Disorder will be characterized by greater volatility, higher inflation and deeper financial repression.”

Alexander Chartres

Everything Bubble, Stagflation, Everything Crash…

For years, the news has been dominated by reports of global crises. One disaster seems to follow the next: financial crisis, euro crisis, climate crisis, pandemic, and now, since February, a war in the middle of Europe. The seemingly chaotic and fragile times in which we live are causing increasing uncertainty and disenchantment with the news among large sections of the population. Remarkably, however, this uncertainty has so far manifested itself on the capital markets only in the short term. If you look at the long-term development of global stock and bond markets, you might think that all these crises had never happened.

A major reason for the spectacular returns for stock investors, but also for real estate and bond investors, especially in the past 25 years, is that every crisis was answered with ever more extreme monetary policy measures in line with the prevailing interventionist zeitgeist. Market participants have been conditioned like Pavlovian dogs to the “Fed put”. **The true costs of this policy of monetary largesse remained hidden for a long time.**

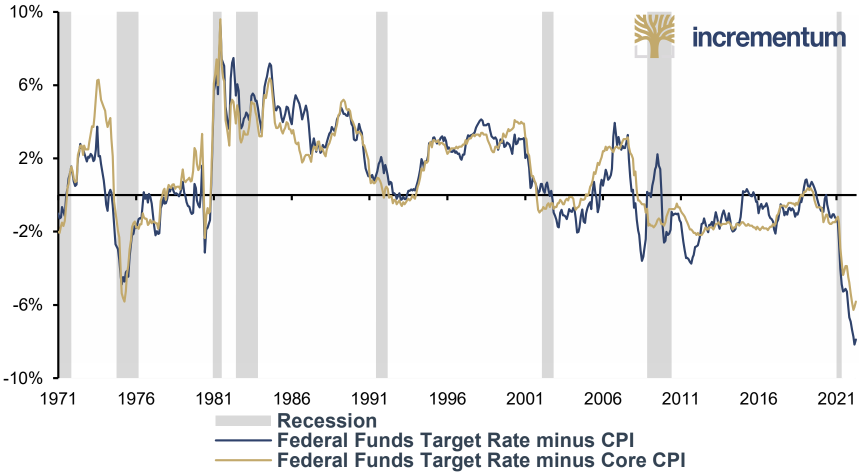
The prerequisite for maintaining this deception was, first and foremost, the strong, structurally disinflationary forces. The flood of liquidity created out of nothing initially spilled into the capital markets and increasingly inflated asset prices. This *everything bubble* gave the impression that growth could continue unabated, that deficits and monetary expansion were not a problem, and that even global lockdowns and production stoppages could harm the economy only in the short term. However, the interventions in response to the Covid-19 crisis ushered in a change. **What we call monetary climate change was the beginning of a paradigm shift toward an inflationary environment. The war in Ukraine and the accompanying sanctions and export restrictions are just another accelerant.**

Now we are at the beginning of a major *disappointment*. While at least a small part of the population was able to enjoy rising asset values in times of disinflation, consumers as well as investors are finding life increasingly difficult in a time of increased inflation rates.

The omnipresent inflation means a noticeable reduction in the standard of living of the majority of people. When the *real pie* becomes smaller – whether in the form of higher prices, smaller package sizes, or thinner soups – this has far-reaching consequences for consumer behavior and investment activity. Distributional issues will be fought even harder socially, contributing to national and international tensions and further exacerbating the polarization that already exists. **The return of the wolf and all the calamities associated with it are increasing the pressure on monetary guardians to actually guard the purchasing power of the currency.**

Monetary policymakers therefore have their backs to the wall. They are forced to at least pretend to face the wolf. However, tentative attempts to stem the tide of liquidity are beginning to expose problems that have been masked for years, if not decades, by emergency measures. Just as in 2018, when we warned of the inevitable consequences of the attempted turning of the monetary tides, we are now issuing another explicit warning. **In addition to wolfish inflation, a bearish recession now looms.**

Fed Funds Target Rate minus CPI, and Fed Funds Target Rate minus Core CPI, 01/1971-04/2022



Source: Reuters Eikon, Incrementum AG

The Doomed Balancing Act

In view of the decade highs in various inflation indicators – consumer prices, core inflation, producer prices, import prices – many a monetary policy dove has mutated into a hawk in recent months. In the US, there is currently the impression that the Federal Reserve cannot raise interest rates fast enough. This is hardly surprising in view of an inflation rate of 8.3%.

The real key interest rate has never been as low as it currently is. The first interest rate hikes have done nothing to change this. If the calculation of the real interest rate is based on the core inflation rate, the real key interest rate is at its lowest level since 1971.

According to official unemployment and inflation statistics, the Federal Reserve, which pursues a dual mandate regarding employment and price stability, should have acted long ago. The spread between the CPI and the unemployment rate in the US is currently higher than it has been for four decades. Back then, however, the key interest rate was 15 percentage points (!) higher than today.

Remarkably, even Jerome Powell has recently admitted that the Federal Reserve is now too late: *"If you had perfect hindsight you'd go back and it probably would have been better for us to have raised rates a little sooner."* Therefore, to preserve what was left of its credibility, the Federal Reserve had no choice but to announce aggressive interest rate moves and start implementing them. The pace and vehemence of the expected tightening cycle that has already begun – a fed funds rate of nearly 3.50% by the summer of 2023 and an annualized QT pace of USD 1.14trn – would be the most aggressive monetary tightening since Paul Volcker.

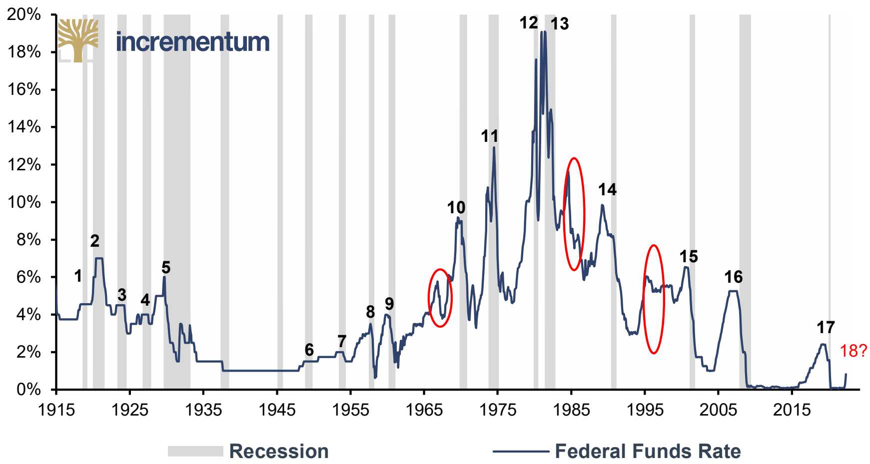
In addition to curbing inflation, the declared further goal is to manage the turnaround in monetary policy without triggering a recession. However, in our view, this balancing act of a *soft landing* is doomed to failure from the outset. A look at history and the latest *In Gold We Trust* reports[1] confirms our doubts .

As a reminder, since the early 1980s, every interest rate hike cycle has ended *below the peak* of the previous cycle. This would mean that, according to the old pattern, rate hikes would stall at the very latest at an interest rate spread of 2.25–2.50%. Thus, in Q4/2018 the Federal Reserve was forced by markets to make a monetary policy U-turn towards a looser policy. The S&P 500 gave up more than 20% in the meantime; and already by January 2019

Powell abandoned the "autopilot" mode, which he had only announced at the beginning of December 2018, to the financial markets' consternation.

But this time everything is supposed to be different – at least that is what the Federal Reserve and large parts of the economists' guild want us to believe. **However, the following chart tells a different tale, as only 3 out of 20 interest rate hike cycles did *not* end in a recession.**

Federal Funds Rate, 01/1915-05/2022



Source: Reuters Eikon, Incrementum AG

Quantitative tightening: very, very frightening

The tightening of US monetary policy does not only consist of aggressive interest rate hikes. At the same time, quantiative tightening (QT), i.e. a reduction of the Federal Reserve's balance sheet, is also planned. In our opinion, the QT plans are ambitious, not to say illusory. The Fed's balance sheet is to be shortened by USD 522.5bn in 2022 alone and by USD 1,140bn in 2023. That would be a reduction of nearly 6% in the current year and another 13% or so next year. This process is set to continue until the Federal Reserve decides that the balance sheet has "normalized" or until the next crisis forces a turnaround. The latter is definitely more likely to occur.

Let's take a look at the past. The Federal Reserve's QE programs to date have had the following effects on capital markets:

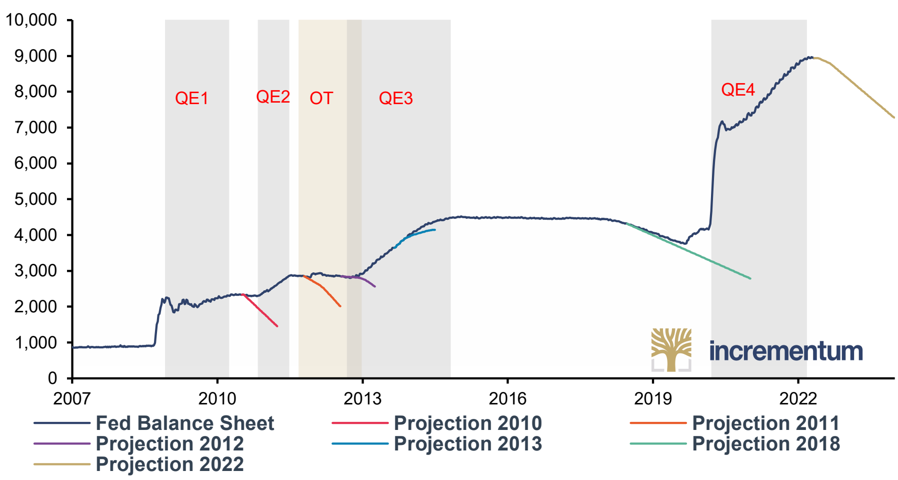
- Rising stock markets
- Increasing risk appetite
- Falling yield spreads (corporate bonds, junk)
- Falling interest rates
- Subdued price inflation
- Record low volatility

It seems obvious that QT has exactly the opposite consequences as QE. As a reminder, the last tightening process was gradual and cautious. The Federal Reserve began QT in October 2017, almost two years after the first rate hike. QT volume was increased only slowly, from USD 10bn per month to USD 50bn per month in Q4/2018. The sharp equity market correction in December 2018 forced the Fed to suspend rate hikes and announce a quick end to QT. Just a few quarters later, the Fed's balance sheet grew again.

Can the reduction of the central bank balance sheet succeed this time without causing a recession and/or a replay of a financial crisis? Considerable doubt is warranted. In its 109-year history, the Federal Reserve has attempted to reduce its balance sheet exactly seven times (1921-22, 1928-1930, 1937, 1941, 1948-1950, 2000, and 2017-2019).[2] The 2017-2019 episode can be virtually disregarded, because the Fed had to quickly abandon its tightening policy. Prior to this experience, five of the Fed's six historical QT efforts were followed by a recession, with 1941, the year of US entry into World War 2, being the only exception.

The Federal Reserve runs the risk of overestimating the impact of rate hikes and balance sheet reductions on containing inflation, just as it has underestimated the impact of rate cuts on boosting inflation. This is because the US consumer's dependence on high and rising asset prices is greater than ever. As of Q4/2021, household equity holdings were at a new all-time high of USD 50trn. This amount is equivalent to twice the an-

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



Source: Reuters Eikon, Federal Reserve, Incrementum AG nual US economic output, well above the historical average of 77%. A decade ago, households owned only USD 12.8trn worth of stocks or about 80% of GDP. For this reason, a 20% correction today feels like a 60% plunge 10 years ago.

While the Federal Reserve is attempting to pull back on monetary policy, *monetary surrealism* is being blithely practiced elsewhere. The QE programs of the other major central banks, such as the ECB and the BoJ, are still ongoing, although here, too, there are increasing voices in favor of a cautious exit. The next chart clearly shows that the balance sheets of the BoJ and the SNB are significantly larger relative to GDP than those of their counterparts. It can also be seen that – with the exception of the Chinese central bank – central bank balance sheets have expanded massively in relation to GDP.

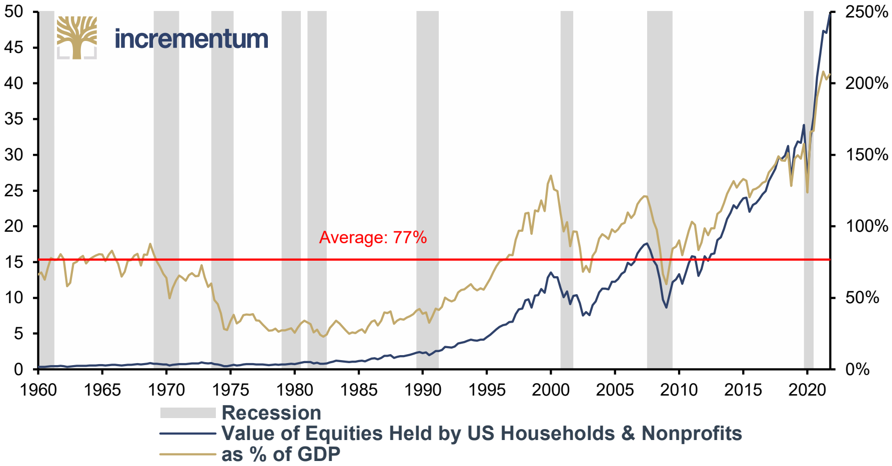
While central bankers in the US, the UK, and other countries have been late in getting the cycle of interest rate hikes underway, ECB President Christine Lagarde and many other representatives of the Governing Council seem to have no idea at all what a monetary policy hawk is. An **ornithological-economic 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. **In the euro area, for example, producer prices are now rising at a rate of 5.3% per month, which is stronger growth than there used to be for the whole year.**

The hope that this wait-and-see approach will prevent another euro crisis will prove to be false. **The bitter losses of the euro against the US dollar – which only further increase inflationary pressure in the euro area – and the resulting performance of the gold price on a euro basis show this impressively.**

Among the industrialized countries, monetary loosening seems to have progressed furthest in the Land of the Rising Sun. One should therefore pay particular attention to monetary policy developments in Japan, as they could serve as a blueprint for the Western world. The escalating yield curve control in Japan is already having an effect. **The gold price recently marked numerous all-time highs in JPY.**

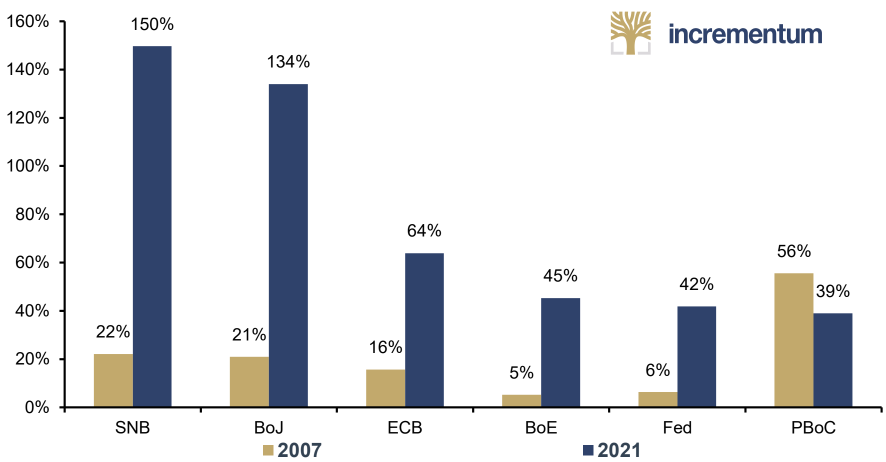
The central banks thus face an insoluble dilemma, a dilemma they themselves caused by their ultra-lax monetary policy and aggravated for months by their denial of the inflation surge. They are now sitting in that pit they dug for themselves.[3] The big question is: What happens if central banks have to hit the monetary policy pause button and then punch rewind? In our view, this would usher in the next wave of devaluation and inflation and further fragilize the currencies of the Western world. **In this case, nothing less than the credibility of central banks would ultimately be at stake. And with it, confidence in fiat money itself.**

Value of Equities Held by Households and Nonprofits (lhs), in USD trn, and as % of GDP (rhs), Q1/1960-Q4/2021



Source: Federal Reserve St. Louis, Incrementum AG

Central Bank Balance Sheets, as % of GDP, 2007 and 2021



Source: Central Bank Statistics, World Bank, Incrementum AG

Stagflation 2.0 – the Nightmare for Balanced Portfolios?

For a long time, the topic of inflation was as important to the capital markets as studying the snow report in the Sahara; so long that many investors forgot or never had to think about how certain asset classes behave in a highly inflationary environment.

For a large proportion of mixed portfolios, simultaneously falling stocks and bonds are the absolute worst-case scenario. **In the last 90 years, there have been only four years in which both US stocks and bonds had negative performance in the same year. Currently, all indications are that 2022 could be the fifth year**.

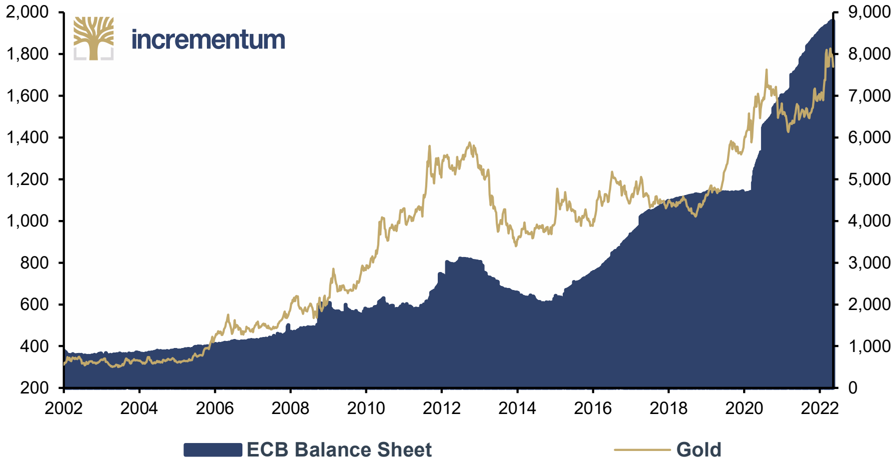
But what were actually the reasons for this *double whammy* back then?[4]

- In 1931, in the midst of the Great Depression, the British pound, then the world's reserve currency, was devalued and taken off the gold standard. This had an inflationary effect.
- In 1941, the US was attacked by Japan and drawn into World War 2. Shortly thereafter, explicit yield curve control (YCC) was introduced, which was also inflationary.[5]
- 1969 marked the beginning of a highly inflationary era, with the US devaluing the US dollar only 18 months later and Nixon releasing the US – initially temporarily – from the gold redemption obligation. This again had an inflationary effect.
- In 2018, the Federal Reserve was forced to end its interest rate hike program after heavy losses on the stock markets. Seven months later, the next rate-cutting cycle began. In response to the rise in repo rates, the Fed again began to expand its balance sheet. The effect was again inflationary.

It can be seen that inflation played a central role in all the cases mentioned. But it is not only assets that are devalued by inflation but also the business models of many companies. **This is why we have repeatedly pointed out in previous years that selecting the right equity sector or the right company becomes significantly more important when inflation is above the "feelgood zone" of around 4%**. The fact that high inflation rates initially represent a headwind for equities is also confirmed by the next chart, which shows the monthly valuations of the S&P 500 based on the Shiller P/E ratio and the associated inflation rate.

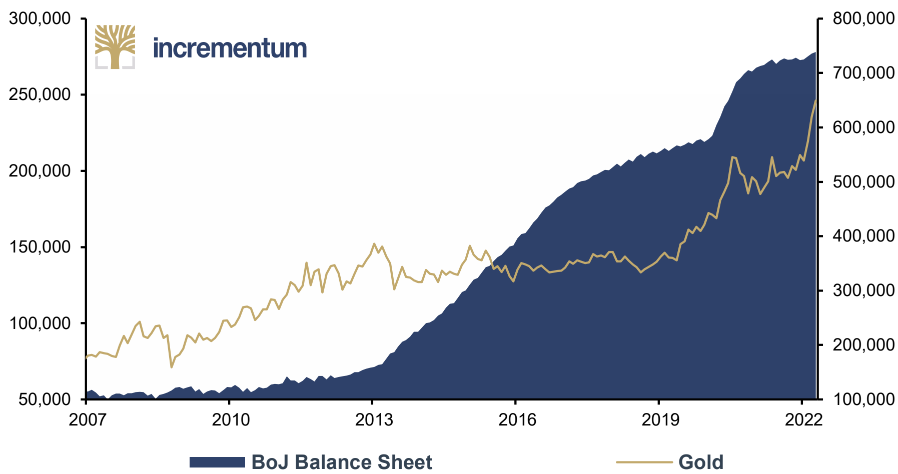
It turns out that equities usually perform poorly in strongly deflationary and highly inflationary environments. This is mainly because companies' sales and margins come under pressure. Because of the

Gold (lhs), in EUR, and ECB Balance Sheet (rhs), in EUR bn, 01/2002-05/2022



Source: Reuters Eikon, Incrementum AG

Gold (lhs), in JPY, and BoJ Balance Sheet (rhs), in JPY bn, 01/2007-04/2022



Source: Reuters Eikon, Incrementum AG

Year	S&P 500	UST10Y
1931	-43.84%	-2.56%
1941	-12.77%	-2.02%
1969	-8.24%	-5.01%
2018	-4.23%	-0.02%
2022 YTD	-15.57%	-9.04%

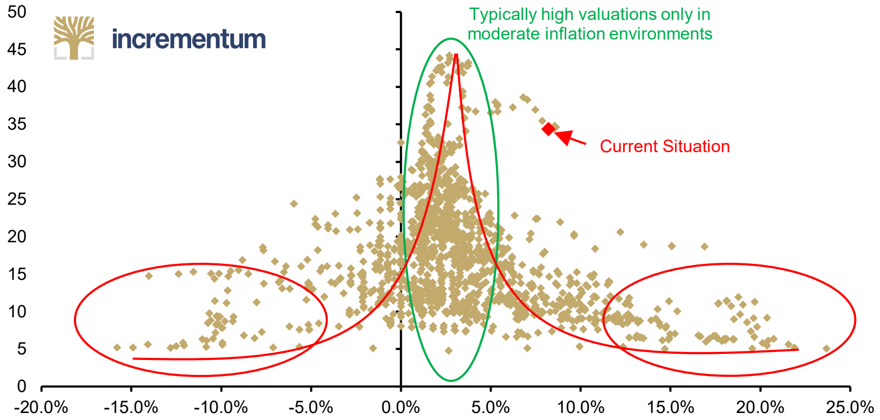
Source: NYU, Reuters Eikon (as of May 13, 2022), Incrementum AG.

current high inflation rates, the S&P 500 is still too highly valued, with a Shiller P/E of just under 34. **In order to remain true to the previous empirical pattern, the Shiller P/E ratio would have to be roughly halved if the inflation rate remained constant.**

To return to a value within the general statistical pattern, therefore, either prices, the inflation rate, or both would have to fall. We expect inflation in the USA to reach its *interim* high in the course of this year. Driven by weakening demand, increasingly recessionary tendencies, and fading base effects, inflation will slow down but is expected to remain above 5% yoy this year. **In this case, a continuation of the correction on the US equity market would be entirely appropriate from a valuation perspective.**

The chart below shows the course of 10-year annualized real returns of stocks (S&P 500 TR) and bonds (10-year US Treasuries) over the past 140 years. It is noteworthy that the returns are mostly symmetrical, suggesting a positive correlation between the two asset classes over the longer term. But while equities are still yielding high returns, the annualized real return on bonds is in negative territory for the first time in almost 40 years.

CPI Inflation Rate (x-axis), and Shiller P/E Ratio (y-axis), 01/1900-04/2022

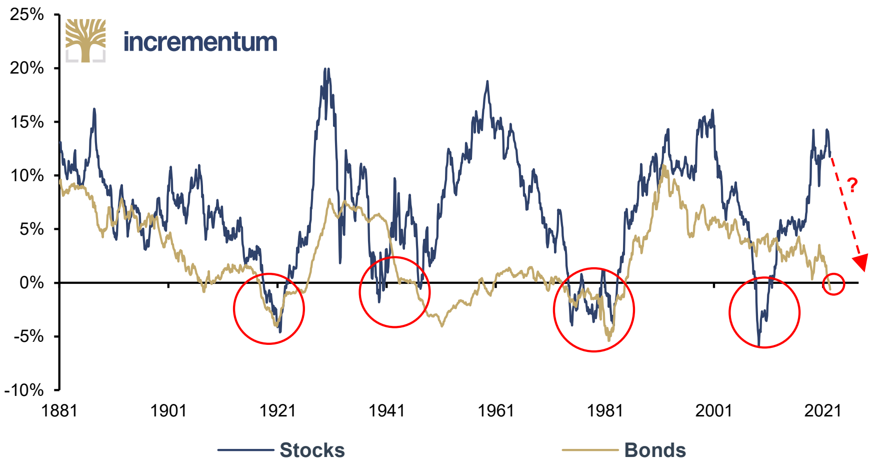


Source: Robert J. Shiller, Incrementum AG

In the past 140 years, stock returns have slipped into negative territory only four times. The triggers were the two world wars, stagflation in the 1970s and the financial crisis of 2007/08. And each time before the long-term return collapsed, the stock market had previously been in a phase of euphoria, characterized by annualized returns of well over 10% in some cases.

The high of the current cycle dates from September 2021 with a return of 14.3%. Since then, the return has gone slightly downhill. The question now is, what is the alternative or ideal portfolio companion to the broad equity market when bonds, with a high positive correlation to equities, have a negative long-term real return in the stagflationary environment? **Our quantitative evaluations show that gold, silver and mining stocks have historically outperformed in stagflationary times.**

10-Year Annualized Real Returns of Stocks and Bonds*, 01/1881-04/2022



Source: Robert J. Shiller, Incrementum AG
*Stocks = S&P 500 TR/Bonds = 10-Year US Treasuries

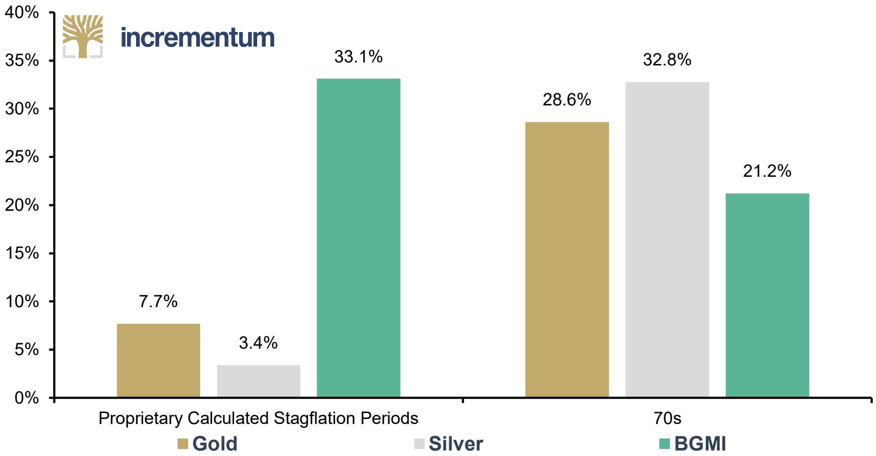
One thing is certain: You will not be able to defeat a wolf and a bear in combination with a classic 60/40 portfolio. The historical performance of gold, silver and commodities in past periods of stagflation argue for a correspondingly higher weighting of these assets than under normal circumstances. But also, the relative valuation of technology companies to commodity producers is an argument for a countercyclical investment in the latter. BoA's market strategists are already talking about FAANG 2.0:

- Fuels
- Aerospace
- Agriculture
- Nuclear and renewables
- Gold and metals/minerals

For gold, recessions are typically a positive environment. As our analysis in the 2019 *In Gold We Trust* report[6] has shown, times when the bear dominates in markets and the real economy are good times for gold. If we look at performance over the entire recession cycle, it is notable that in each of the four recessionary periods[7] gold saw significant price gains on average in both US dollar and euro terms. In contrast, equities as measured by the S&P 500 were only able to make significant gains in the final phase of the recession. **Thus, gold was able to superbly compensate for equity losses in the early phases of the recession.** Moreover, it is striking that, on average, the higher the price losses of the S&P 500, the stronger gold performed. **Once again, this worked well during the most recent recession in 2020.**

Overall, it can be seen that gold has largely been able to cushion share price losses during recessions. For bonds, the classic equity diversifier, on the other hand, things look less good. The high level of debt, the zombification of the economy, and the still very loose monetary policy reduce the potential of bonds as an equity hedge. **Gold will therefore remain an indispensable portfolio component in the future, allowing investors to sleep soundly in stressful situations in financial markets.**

Average Annualized Real Returns of Gold, Silver, and BGMI During Proprietary Calculated Stagflation Periods and 70s



Source: Reuters Eikon, goldchartsrus.com, Incrementum AG

Cold War 2.0 as a Structural Inflation Driver?

In his bestseller *The Great Illusion*, published in 1911, Norman Angell, who was later to be awarded the Nobel Peace Prize, made the game-theoretical argument that wars between industrialized nations, in view of international economic interdependence, would entail such high economic and social costs that it would henceforth be irrational to start one. Accordingly, the *great illusion* was suffered by the state leader who expected a positive payoff for his country from a war.

It is distressing how, after more than a hundred years, a large part of the public and the political elite could once again have fallen under exactly the same delusion. Until February 23 of this year, the belief in a world order persisted, in view of which, according to Peter Sloterdijk, people in large parts of Europe convinced themselves that "we had left the epoch in which wars take place", while Putin mobilized his forces before everyone's eyes but in the blind spot of this world view.

We hope and believe that an escalation to the extreme between NATO and Russia will be avoided. But entering into a protracted, expensive and grueling second Cold War seems increasingly likely. *Turning point, paradigm shift,* and *caesura* are among the terms that have recently been used in an almost hyperinflationary manner. The fact is that numerous asset classes have already priced in a geopolitical (war) premium and that the heyday of globalization and its disinflationary effect have come to an end.

Russia will be a pariah state for the Western community for many years to come. In reaction, Russia will turn more and more to Asia economically and politically. The planned 2,600km long gas pipeline Power of Siberia 2, for example, will

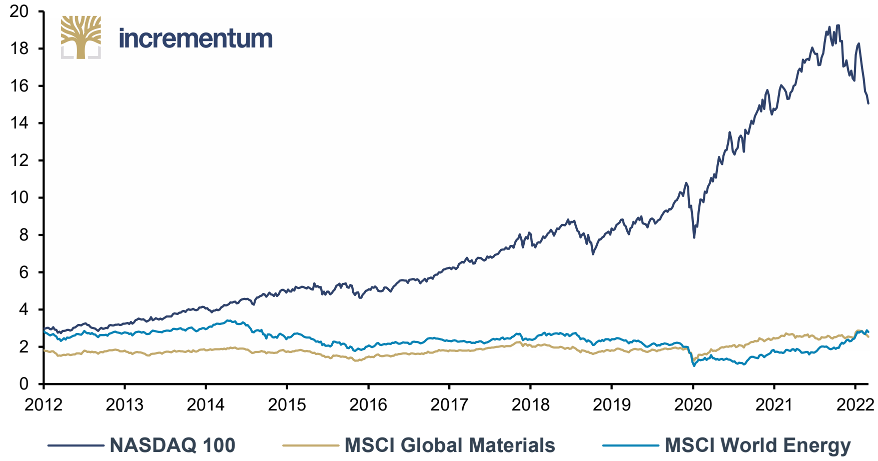
		S&P 500				Gold in USD				Gold in EUR			
	Recession duration	Phase 1	Phase 2	Phase 3	Phase 4	Phase 1	Phase 2	Phase 3	Phase 4	Phase 1	Phase 2	Phase 3	Phase 4
1st Recession	Q1/1970 - Q4/1970	-1.8%	-4.6%	-7.0%	7.0%	-8.9%	-6.6%	0.0%	5.9%		4.6%	11.1%	3.0%
2nd Recession	Q1/1974 - Q1/1975	-8.0%	0.3%	-15.0%	16.6%	-10.9%	58.5%	89.7%	-1.1%	7.2%	51.8%	51.0%	-6.2%
3rd Recession	Q2/1980 - Q3/1980	7.1%	-2.1%	7.7%	10.0%	70.1%	-22.8%	-5.9%	21.8%	27.5%	0.5%	20.2%	-1.6%
4th Recession	Q4/1981 - Q4/1982	-7.4%	2.9%	12.8%	15.9%	-14.6%	0.8%	1.2%	14.2%	2.6%	-4.8%	21.0%	10.4%
5th Recession	Q4/1990 - Q1/1991	-10.7%	-0.1%	13.8%	13.9%	7.1%	-3.3%	-7.9%	-4.7%	4.6%	-9.3%	-12.2%	-3.6%
6th Recession	Q2/2001 - Q4/2001	-5.7%	1.3%	-8.1%	0.5%	-1.5%	3.8%	5.4%	1.3%	-0.8%	8.3%	5.5%	-4.4%
7th Recession	Q1/2008 - Q2/2009	0.5%	-10.2%	-50.4%	-18.0%	21.6%	14.3%	16.3%	24.0%	2.2%	12.2%	31.4%	19.8%
8th Recession	Q1/2020 - Q2/2020	8.5%	-20.0%	-4.0%	20.0%	3.1%	3.6%	17.4%	13.3%	0.2%	5.3%	17.1%	11.2%
	Average:	**-2.2%**	**-4.1%**	**-6.3%**	**8.2%**	**8.2%**	**6.0%**	**14.5%**	**9.3%**	**6.2%**	**8.6%**	**18.1%**	**3.6%**

Source: Federal Reserve St. Louis, World Gold Council, Incrementum AG enable Russia to supply Western Siberian gas from the Yamal Peninsula to China in the future. Currently, only exports to Europe are feasible via the existing pipeline network.

Thus, it seems likely that a Western *community of shared values* and a pan-Asian *community of convenience* dominated by China and Russia will contest world affairs in the future. Regions that traditionally have not hewn to either of the two blocs (Latin America, the Gulf states, Southeast Asia, Africa) will presumably **enter into temporary alliances on a situational basis and opportunistically, or will decide for or against strategic integration into one of the two spheres after weighing up their economic, political and cultural interests.**

The striving for block self-sufficiency will prove to be almost impossible, especially for Europe, and in any case very expensive. The *commodity leverage* that Russia, but also China, have vis-à-vis Europe is underestimated.[8] Zoltan Pozsar highlights the case of Germany, where commodity imports – mainly energy imports from Russia – worth USD 27bn support economic activity worth USD 2trn. **However, the leverage effect of commodities has a striking impact not only on economic development but also on inflation.**

Market Capitalization of NASDAQ 100, MSCI Global Materials, and MSCI World Energy, in USD trn, 03/2012-05/2022



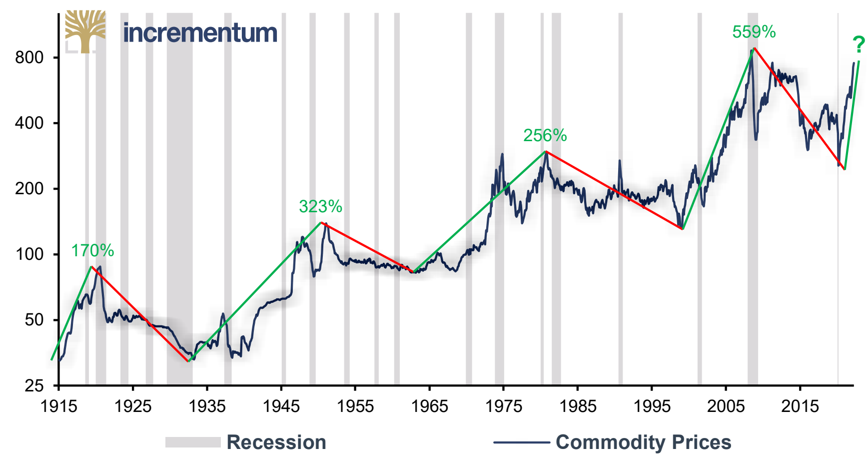
Source: Bloomberg, Incrementum AG

For the EU, for example, Russia is a major supplier of palladium, an important element for chemical and automotive catalysts, fuel cells and electronic applications. According to the US Geological Survey, the EU imports 98% of its rare earth elements (REEs) from China. Rare earths are indispensable components of many high-tech products, including military equipment and renewable-energy equipment. **However, the shift from carbon-based forms of energy to so-called renewable energies, which are now also referred to as *"the energy of freedom"*, only exchanges one dependency (Russia) for another (China).**

From energy to base and battery metals to precious metals and agricultural commodities, the Ukraine war is now further disrupting supply chains and long-established supply/demand patterns. **This will cause commodity prices to settle at a new, higher level.**

In the short term, the situation on the commodity markets looks overbought. As long as the Federal Reserve makes no move to leave the path of interest rate hikes, the general environment for risk assets will remain difficult. **A reversal of monetary policy or the Federal Reserve's pushing the monetary policy pause button will give the starting signal for the next upward cycle.** This will probably be accompanied by a weaker US dollar. The upward momentum in recent months despite the firm US dollar has been surprising to us and at the same time a sign of the inherent strength of the commodity bull market. An increasingly expansionary China – after all, a new president will be elected by the National People's Congress in the fall – should also provide further support for the sector.

Commodity Prices*, 01/1915-04/2022



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

Gold and the weaponization of money

The emerging bloc formation will fundamentally reshape the existing global monetary order. The weaponization of money through the freezing of Russian foreign exchange reserves has further accelerated the process of de-dollarization. Certainly, new multinational institutions and arrangements do not emerge overnight. **But confidence in the existing US dollar-centric monetary order is likely to become passé in many strategically important countries.**

Given the multipolarity that can be expected, the new world monetary order will need an internationally recognized anchor of trust, and gold seems predestined for this purpose for several reasons.

Gold is neutral

The US dollar, hitherto the global reserve and trading currency, has, with the freezing of Russia's currency reserves, given up the appearance of political neutrality that is necessary for this status. Gold, on the other hand, belongs to no state, no political party, no dictator. In a new world monetary order, gold can thus represent the unifying element in a multi-polar world that has become much more fragile.

Gold has no counterparty risk

Financial assets have a counterparty risk. If the debtor does not want to pay or cannot pay, the creditor's claim is worth nothing. Gold, on the other hand, has no counterparty risk. And the risk of the owner being prohibited from accessing his gold is easily solved for states by storing their gold within the state's borders or with a friendly state.

Gold is liquid

Gold is one of the most liquid assets worldwide. In 2021, gold was traded daily to the tune of almost EUR 150 billion. In a study, the LBMA showed that gold has higher liquidity than government bonds in some cases.

Best of *In Gold We Trust* Report 2022

Other key findings from this year's *In Gold We Trust* report, Stagflation 2.0, include the following:

- **Debt:** Appearances are deceptive - this is how the development of the debt situation in 2021 can be summarized. The decline in (government) debt ratios is primarily attributable to the fact that economic growth in 2021 was well above average due to the pronounced economic slump in 2020. The decline in debt ratios due to this base effect is by no means an indication that the trend toward ever higher debt (ratios) has been broken. Nominal debt, on the other hand, exceeded USD 300trn for the first time.

- **Inflation:** Even though we think it likely that inflation rates will slowly pull back in H2 2022, we expect successive waves of inflation – analogous to the Covid-19 waves. And it seems that the next inflation virus variant is already being announced. One thing is certain: The era of the "Great Moderation" is definitely over.

- **De-dollarization:** The freezing of Russian currency reserves is comparable in its impact on the global monetary order to Richard Nixon's closing of the gold window in 1971. And while the Ukraine war preoccupies the West, Moscow and Beijing are massively expanding their cooperation. The long-unchallenged (petro) dollar is battered, as evidenced by the fact that the relationship between Saudi Arabia and the US has rarely been worse than it is right now. What the world's monetary architecture will look like when the dust settles is unclear. What seems certain is that gold and commodities will gain considerably in importance.

- **Bitcoin:** The stock-to-flow model (S2F model) has been able to explain the price development of Bitcoin remarkably well historically. In the current cycle, however, Bitcoin's price is significantly below the range assumed by the model. Although Bitcoin is currently back in a veritable bear market, its adoption continues to grow, particularly among institutional investors but also among governments.

- **Silver:** The price of silver has disappointed many investors in view of the explosion of inflation. Is silver no longer a monetary precious metal that hedges against inflation? There were two weighty reasons for this disappointment. First, real interest rates stopped falling in August 2020. The inverse correlation of silver and real rates stopped the price rise. Second, consumer price inflation does not necessarily equate to monetary inflation. The good news – at least for silver investors – is that the probability of an inflationary decade is high.

- **Mining stocks:** The main reasons for the weak performance of the gold mining sector are capital expenditure (CAPEX) overruns, rising production costs, problems with permitting new mines, political instability, and declining reserves and new discoveries. Due to rising energy and construction material prices, increasing wage demands, and general inflation, all-in sustaining costs (AISC) are expected to increase further in the foreseeable future.

- **Royalty and streaming companies:** The market capitalization of this segment of the mining sector has increased from USD 2bn to more than USD 60bn in 15 years. An index of royalty and streaming companies in the precious metals sector outperformed gold and silver mining companies.

- **ESG:** In the new low-emissions economy, a new economic metric needs to be created for the mining sector: the all-in emissions cost (AIEC). This metric will transform nonfinancial costs into financial costs for investors and stake-holders. In principle, an increase in the proportion of gold in an investor's portfolio will translate to a significant positive impact on the CO_2 footprint and emissions intensity of the overall portfolio.

- **Technical analysis:** The analysis of market structure, sentiment and price patterns leads us to a rather mixed technical assessment in the short term. Although sentiment has clouded recently, an extreme bearish wash-out has not (yet) taken place. From a seasonal perspective, the next few weeks could still bring headwinds.

Quo Vadis, Aurum?

For gold investors, 2021 was disappointing due to the sharp rise in inflation. Perhaps expectations were also too high, as 2019 and 2020 were fantastic years for chrysophiles. But in the last couple of months, gold fulfilled its role quite well, in our opinion, even if its 2021 performance lagged general expectations. It has provided stability and calm to portfolios in the wake of recent volatility. The gold price has stood up to collapsing equities, bonds, and crypto markets, as well as the rallying US dollar.

However, real upward momentum in the gold price can only be expected again when a turnaround to ultra-loose monetary policy is once more heralded. When that will happen is the crucial question.

So how seriously can the Federal Reserve's hard line be taken? During his semi-annual questioning before the Senate Banking Committee, Jerome Powell was asked by Senator Richard Shelby (Rep):

> *"Volcker put the economy in a recession to get inflation under control. Are you prepared to do what it takes to get inflation under control?", to which Powell replied, "I hope history will record that the answer to your question is yes."*

The Federal Reserve seems to be serious. However, if the communicated tightening is implemented consistently, the *Everything Bubble* threatens to end in the *Everything Crash*. Stocks, bonds and cryptocurrencies have already fallen victim to the tighter monetary policy. Real estate would be next on the list.

Internationally, too, distortions are to be expected as a consequence of monetary policy tightening in the US. The euro area, but also Japan, could be threatened with trouble due to rising yields. **In the short term, gold holders should therefore probably still expect headwinds,** especially if further price declines trigger a panicky situation in markets. However, the bigger the storm on the financial markets, the more likely it is that there will be a renewed abandonment of tight monetary policy.

As soon as the Federal Reserve is forced to deviate from its planned course, we expect the gold rally to continue and new all-time highs to be reached. We believe it is illusory that the Federal Reserve can deprive the market of the proverbial "punchbowl" for any length of time, and we seriously doubt that the transformation of doves into hawks will last. Most hawks will merely turn out to be doves in hawk's clothing and will shed their hawkish garb sooner rather than later as a result of the inevitable consequences of monetary tightening: recession, rising yields, stock market corrections, bankruptcies, unemployment.

If the downward trend on the stock and bond markets that has persisted since the beginning of the year continues, a brash counter-reaction by the Federal Reserve seems to be only a matter of time. What might a new U-turn look like? What novel rabbit can central bankers pull out of their capacious hat? The following instruments are still in the toolbox of monetary and fiscal policymakers:

- Yield curve control
- Renewed QE or QQE
- Financial repression
- Other fiscal stimuli
- MMT or helicopter money
- CBDCs
- In the euro area: further communitization of debt via issuance of additional eurobonds

The use of one or more of these instruments is a foregone conclusion, with the further merging of monetary and fiscal policy proceeding inexorably. One thing is certain: The coming rescue measures will take on increasingly larger, more aggressive, and more abstruse features.

A successively higher share of deficits will be financed via the digital printing press. The longer and closer this liaison between monetary and fiscal policy continues, the greater the stagflationary forces and the higher the probability of a complete loss of confidence.

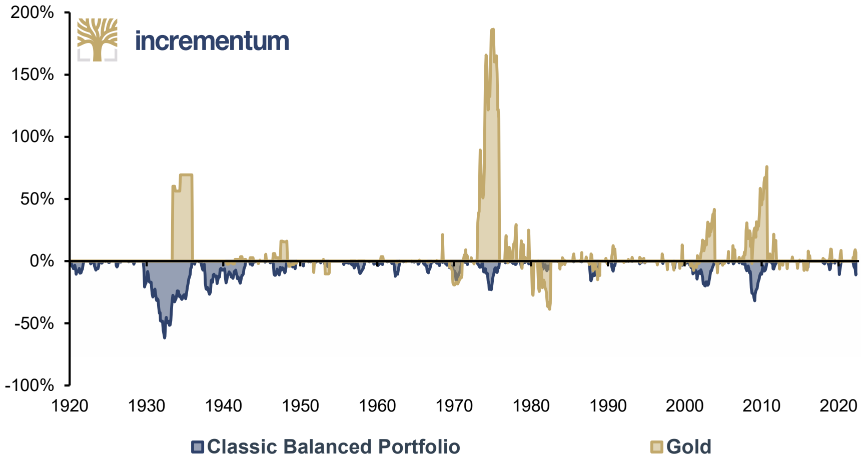
Many portfolios still seem inadequately prepared for Stagflation 2.0. This is probably due in part to the fact that there are almost no fund managers in service today who have experienced an inflationary, much less a stagflationary environment during their investment careers. In addition, most portfolio approaches are based on backtesting strategies that go back 10, 20, or at most 30 years. However, very few portfolio strategies take into account the stagflationary environment of the 1970s.

In the current phase, which is characterized by the resurgence of stagflation, the positive correlation between equities and bonds means that a portfolio diversifier is needed that works. History suggests that gold has fulfilled this role admirably. Whenever the traditional portfolio experienced a drawdown, gold proved its capabilities as a reliable portfolio hedge.

Two years ago, on the occasion of the transition into a new decade, we presented our gold price forecast until 2030 in the *In Gold We Trust* report 2020.[9] The central input factor of this estimate was the gold coverage ratio of the money supply. In our base case scenario at that time, we assumed an annual M2 money supply expansion of 6.3%. The resulting price target was around USD 4,800.

So far, gold has aligned itself quite well with our predicted price trend. For gold to remain on track through the end of the year, it would need to rise to USD 2,187. Taking into account the developments discussed in this year's *In Gold We Trust* report, we firmly believe that this is a realistic target, provided that monetary policy moves away from the announced hawkish path. **Likewise, we maintain our long-term price target of around USD 4,800 by 2030.**

Gold Performance During Classic Balanced Portfolio* Drawdowns, 01/1920-04/2022



Source: Bridgewater, Reuters Eikon, goldchartsrus.com, Incrementum AG
*60% Stocks (S&P 500 TR)/ 40% IG Bonds

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

The coming years will undoubtedly be challenging for investors. Wolf and bear are fascinating predators, but in the economy they are a *duo infernale* that will demand everything from investors during Stagflation 2.0. Volatility in capital markets, in global politics, in the economy, in interest rates, and especially the volatility of inflation will be with us for some time. We are firmly convinced that gold increases the resilience of a broad portfolio, especially in this environment, and should be an indispensable portfolio component in the context of Stagflation 2.0 .

We look forward to continuing to analyze gold-related developments for you and to sharing our thoughts with you. Together we will master these challenges. Because, even more so in the maw of Stagflation 2.0:

IN GOLD WE TRUST

Key Takeaways

- **Monetary policy has its back to the wall. It is forced to at least pretend to stand up to wolfish inflation without causing a recessionary bear.**
- **The Federal Reserve is acting late but (for now) decisively. Internationally, this is increasingly putting central banks under pressure to follow suit.**
- **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.**
- **The current wave of inflation could peak this year in the wake of rising asset price deflation. However, a reversal of monetary policy could already usher in the next wave of inflation.**
- **The price of gold has also been affected by the Federal Reserve's tightening. Even though gold is doing well relative to all other asset classes this year, further headwinds are to be expected for gold in the short term.**
- **We are sticking to our long-term price target of USD 4,800 by 2030. For the gold price to remain on track until the end of the year, it would have to rise to around USD 2,200. Provided that monetary policy departs from the announced hawkish path, we consider this to be realistic.**

Endnotes

1 All previous In Gold We Trust reports can be found in our archive.
2 See Reik, Trey: "Broad Equity Valuation and Market Internals," Bristol Gold Group, March 31, 2022
3 See Stöferle, Ronald, Taghizadegan, Rahim and Hochreiter, Gregor: The Zero Interest Trap, 2019
4 Gromen, Luke: FFTT, February 18, 2022
5 See "The Status Quo of Gold," In Gold We Trust report 2021, pp. 43–45
6 See "Portfolio characteristics: gold as an equity diversifier in recessions," In Gold We Trust report 2019.
7 Phase 1: Entry phase; Phase 2: Unofficial recession; Phase 3: Official recession; Phase 4: Last quarter of recession.
8 See 13D Research: What I learned this week, April 21, 2022
9 See "Quo vadis, aurum?", In Gold We Trust report 2020

About Us

Ronald-Peter Stöferle, CMT

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

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

Since 2013 he has held the position as reader at scholarium in Vienna, and he also speaks at *Wiener Börse Akademie* (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), a significant explorer in British Columbia's Golden Triangle. 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 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*.

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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.
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We would like to thank the following people for their outstanding support in creating the In Gold We Trust *report 2022:*

Gregor Hochreiter, Richard Knirschnig, Jeannine Grassinger, Lois Hasenauer, Stefan Thume, Florian Hulan, Theresa Kammel, Handre van Heerden, Katrin Hatzl-Dürnberger, Philip Mastny, Peter Young, Andreas Merkle, Thomas Vesely, Fabian Grummes, Niko Jilch, Florian Grummes, Heinz Blasnik, Hans Fredrik Hansen, Julien Desrosiers, Dietmar Knoll, Emil Kalinowski, Elizabeth and Charley Sweet, Marc Waldhausen, Max Urbitsch, Trey Reik, Alexander Ineichen, Herwig Zöttl, Tom Pohnert, Keith Weiner, Brent Johnson, Grant Williams, Markus Hofstädter, Jochen Staiger, Ilse Bauer, Paul Wong, Fabian Wintersberger, Leopold Quell, Hans Engel, Match-Maker Ventures, Harald Steinbichler, Richard Schodde, David Schrottenbaum, Offroad Communications, our friends at the World Gold Council, the whole wonderful team at Incrementum and of course our families!

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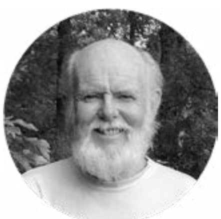
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