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In Gold We Trust report 2019
Gold in the Age of Eroding Trust

This year's *In Gold We Trust* report was presented at an international press conference on May 28, 2019. The authors of the report are the two fund managers Ronald-Peter Stoeferle and Mark Valek from Liechtenstein-based Incrementum AG.

The more than 300-page *In Gold We Trust* report is world-renowned and has been named the "**gold standard of all gold studies**" by the *Wall Street Journal.* Last year's edition was downloaded more than 1.8 million times. This makes *In Gold We Trust,* which will be published for the 13th time this year, one of the most widely read gold studies internationally. For the first time ever, the study will also be published in Chinese on June 15.

The following topics are covered in the *In Gold We Trust* report 2019, among others:

- Review of the most important events in the gold market over the past 12 months
- Is gold the last monetary anchor of trust in a world suffering a general loss of confidence?
- "The Monetary U-Turn": The reversal of monetary tightening and its impact on gold
- The increasing importance of gold in a time of de-dollarization
- Gold and cryptocurrencies – a solidifying friendship
- Gold stocks: reasons for our confidence (ESG, technology, valuation)
- Outlook for gold price development

Further highlights of this issue are:

Exclusive interviews with

- Jim Rogers, the world-renowned investor: "Whenever you see problems, remember *weiji!"*
- Freegold/FOFOA: *In Gold We Trust* 2019 contains the highlights of an interview with the legendary blogger.[1]

Guest contributions by

- Prof. Steve Hanke: "Hyperinflation: Much Talked About, Little Understood."
- Keith Weiner on "Gold Bonds"
- Mark Burridge (Baker Steel Capital Managers LLP): "Reforms, Returns and Responsibility - How can gold mining equities become more important during the next gold cycle?"

This year's *In Gold We Trust* report
can be downloaded free of charge under the following links:

Extended Version (340 pages)
Compact Version (100 pages)

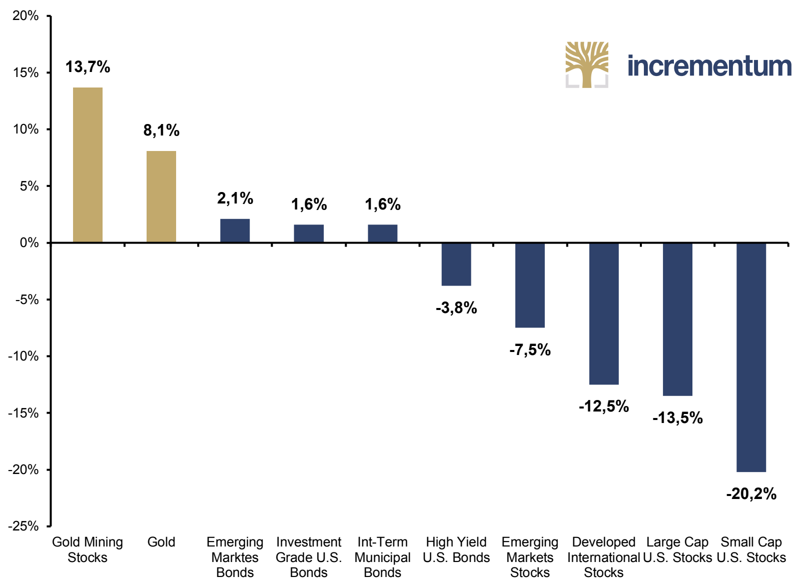
[1] The entire interview can be downloaded from our website at www.ingoldwetrust.report/freegold.

Key Takeaways:

1. Gold and mining stocks are excellent diversifiers in the event of stock market slumps. This was again confirmed in Q4/2018

Last year we warned under the title “A turning of the tide in monetary policy” that the planned reduction of liquidity as a consequence of “quantitative tightening” (QT) would cause damage to the stock markets. **The development in the 4th quarter of 2018, when almost every asset class sold off, seems particularly remarkable to us.** The S&P 500 was still up a comfortable 9% in the first three quarters, before the sell-off set in in October and culminated in December in the weakest performance since the Great Depression. On a sector basis, only 7 of 121 industry sectors in the S&P 500 reported a positive performance. **Gold, in contrast, recorded a plus of 8.1%. At the top: mining stocks, with a plus of 13.7%. Gold has once again proven its quality as an excellent diversifier.**

Performance by asset class, in %, Q4/2018

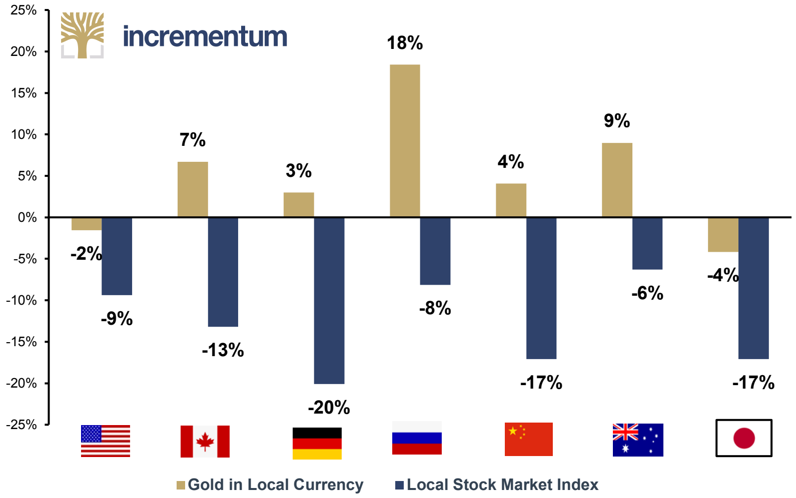


Source: Federal Reserve St. Louis, Investing.com, Incrementum AG

2. In 2018 gold clearly beat the stock markets

The public has hardly noticed that gold outperformed all important domestic stock markets in 2018. The gold price also showed relative strength in the USA and Japan, even if it fell slightly in US dollars and yen. However, share owners recorded higher losses of 7% and 13%, respectively. **In Germany, gold investors achieved a return of plus 3%, while the DAX recorded a remarkable minus 20%.**

Gold in local currencies vs. domestic stock indexes, annual performance in %, 2018



Source: Bloomberg, Incrementum AG

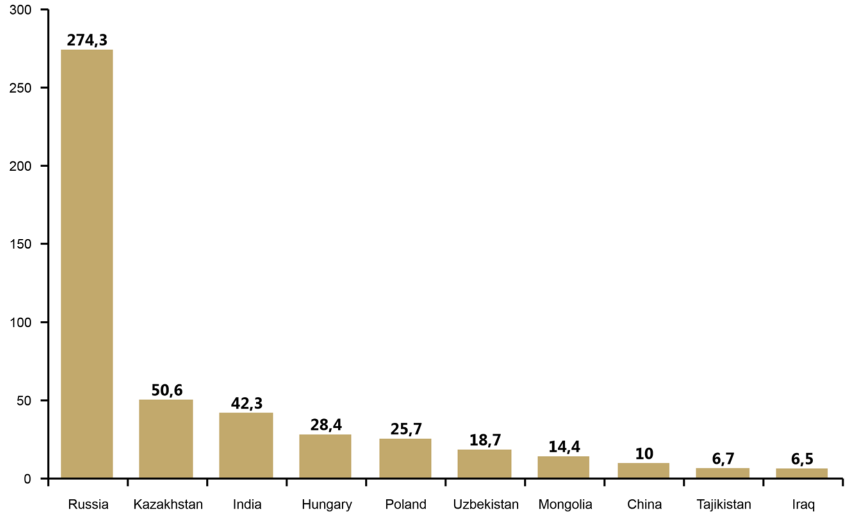
This comparison confirms our thesis that gold (and mining stocks) are excellent portfolio stabilizers. This insight is all the more important because trust in the US as the global economic steam engine is on the decline.

"Whether in EUR or USD, it seems that the price of gold is slowly sneaking up, secretly and far from any media or investor attention," says Mark Valek. **The fact that gold is already trading at new all-time highs in some currencies confirms this thesis. "We are *therefore sticking to our statement from last year that gold is in the early stages of a new bull market – a bull market that could soon pick up momentum on a US-dollar basis," says Valek.***

3. De-dollarization: Gold purchases by central banks as a sign of mistrust of the US dollar-centric global monetary architecture

For years we have been addressing the creeping process of alienation from the US dollar as a global reserve currency. An expression of this erosion of trust in the political and economic potential of the US is the continuation of significant gold purchases by central banks. **In 2018 central banks made the largest purchases of gold since the end of Bretton Woods in 1971, with 657 tonnes.**

Central bank gold purchases, in tonnes, 2018



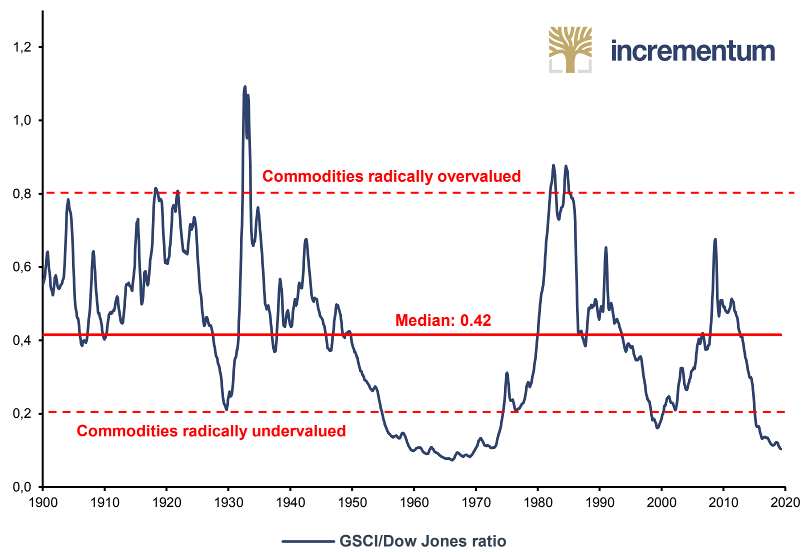
Source: World Gold Council, Incrementum AG

The largest buyers worldwide were Russia (274,3 tonnes), Kazakhstan (50,6 tonnes), and India (42,3 tonnes). **But the central banks of some EU states also acted as net buyers in 2018.** Hungary has increased its gold reserves tenfold. Poland, also a non-euro country, is one of the top five buyers and has made its largest purchase since 1998. **The high demand by central banks for gold continued in Q1/2019**. The purchase of a further 145 tonnes of gold is the largest increase since 2013.

4. <u>Commodities with lowest valuation in 50 years</u>

The next chart shows that commodities are currently trading at their lowest valuation level since the mid-1960s relative to US equities, as measured by the Dow Jones Index. **Compared to equities, commodities were only undervalued to the same magnitude before Black Thursday (24 October 1929) and during the "irrational exuberance" of the dotcom bubble.**

GSCI/Dow Jones Industrial Average ratio, 1900-2019



Source: Goldman Sachs Commodity Index bis 1970, Goehring & Rozencwajg Commodity Index pre-1970, Bloomberg, Incrementum AG

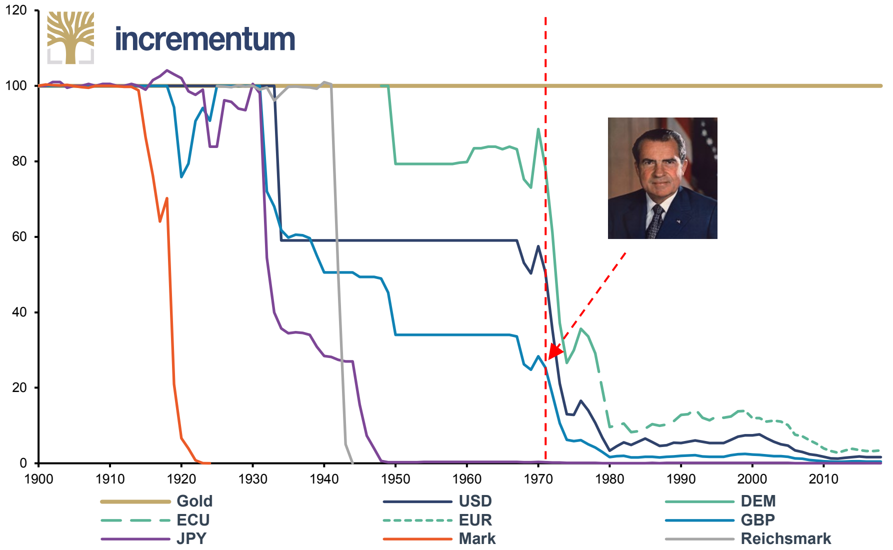
What can trigger a new bull market in gold? We see two main factors:

- Weakness of the US dollar
- Reallocation of financial assets into real assets as a result of increasing inflation concerns

5. Gold in times of an extreme crisis of trust in paper money

There were a number of instances in history when paper currencies completely lost the population's trust and returned to their intrinsic value, which is zero.

Currency values relative to gold, indexed, 1900=100, 1900-2018



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

From a historical perspective, trust in paper currencies is always of limited duration and in extreme situations even goes towards zero, while a pronounced loss of trust in gold, which would result in a price collapse of gold, is not only unheard of but unthinkable.

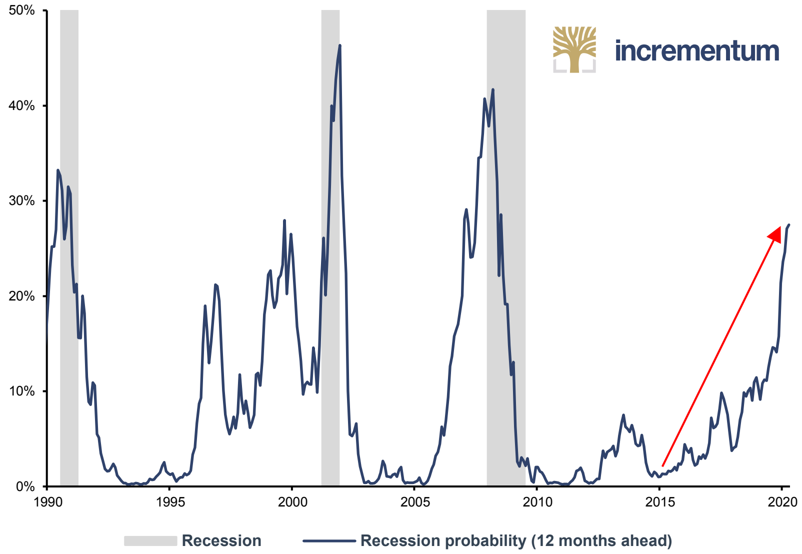
Further key messages of the *In Gold We Trust* report 2019:

- **Macroeconomic situation:** Continuing strong increases in global debt levels, particularly in the USA, mean that further interest rate hikes (USA) or first hikes (euro zone) are highly unlikely. On the contrary, in view of the deteriorating economic data, interest rate cuts and further rounds of "quantitative easing" are to be expected whenever necessary. The increasing popularity of Modern Monetary Theory (MMT) will reduce already lax budget discipline even further. Longer-term macroeconomic factors, increasing political pressure on central banks, and increasingly challenging geopolitical factors add up to positive general sentiment for gold.

Meanwhile, the signals of an emerging US recession are also slowly but surely gaining strength. For **example, the Federal Reserve's recession indicator currently indicates a**

recession probability of 27.5% for April 2020. In the past 30 years, this figure has never been so high without a recession in the following two months.

US recession probability, in %, 01/1990–04/2020e



Source: Federal Reserve New York, Incrementum AG

***"The past 12 months have shown that the seemingly invulnerable boom in the US has begun to crack,"* said Ronald-Peter Stoeferle at the presentation of the study.** *"The boom led by the US, driven by low interest rates and the incessant expansion of debt volumes, stands on feet of clay. The probability that the boom will turn into a bust is high, at least significantly higher than the consensus currently suspects."*

Further insights of the report:

- **Gold and blockchain technology:** This liaison is not a brief summer flirt. As in any relationship, there will still be some problems to solve until the partnership is consolidated, but we are convinced of its viability.

- **Gold mining stocks:** After several years of creative destruction in the sector, most companies are now on a much healthier footing. The recent M&A wave reinforces our positive basic assessment. Nevertheless, the oldest available gold mine index, the Barron's Gold Mining Index (BGMI), is at its lowest level in 78 years relative to gold.

- **Technological innovations:** As in many other areas of life, technological innovations such as AI, drones, and digitalization have not bypassed the gold sector; they are revolutionizing it fundamentally. The gold sector has proven so far that it can meet the technological challenges.

- **Technical analysis:** The technical assessment of the gold price looks predominantly positive. It will be decisive whether gold is able to break through the resistance zone at USD 1,360-1,380, the technical Rubicon of the present.

Finally, as we do every year, we ask ourselves the question: Quo Vadis, Aurum?

Two years ago, we developed several scenarios for gold price developments that were aligned with the dynamics of GDP growth and the further course of US monetary policy. The time horizon we used was the term of office of the current US administration (2017-2020). The implementation of monetary policy normalization was also inspected for this period.

The term of office is characterized by	growth	Monetary policy normalisation	Gold price in USD
Scenario A: Upswing	Real growth > 3% p.a.	A success – real interest rate >1.5%	700-1,000
Scenario B: Muddling Through	Growth & inflation1.5-3% p.a.	Not entirely successful	1,000-1,400
Scenario C: Growth with inflation	Growth & inflation > 3% p.a.	Not entirely successful	1,400-2,300
Scenario D: Adverse scenario	Stagnated / contracted, <1.5% p.a.	Stopped or reversal of monetary policy	1,800-5,000

Source: Incrementum AG

Scenario B is still the one in which we find ourselves. Trust in the US as a global economic steam engine is currently *still* there, even though it was clearly tested in Q4/2018. This slump reminded us once again how quickly the mood of the markets can change.

On the basis of a multifaceted analysis, Stoeferle's assessment of gold price developments over the next 12 months is as follows: *"The macroeconomic and political environment has become more favorable for gold. The headwind in the form of high opportunity costs for gold investments from the rallying stock markets still exists, but has declined noticeably.* ***The sharp slump in Q4/2018 has shaken the seemingly unbreachable trust in the stock markets and there is lots of institutional interest waiting on the sidelines. If gold can break through the resistance zone at USD 1,360-1,380, a gold price of USD 1,500 is conceivable before the publication of the next*** **In Gold We Trust** ***report in May 2020."***

About the *In Gold We Trust* report

The annual gold study has been written for 13 years by Ronald-Peter Stoeferle, and for five years together with Mark Valek. It provides a holistic assessment of the gold sector and its most important influencing factors, such as real interest rates, opportunity costs, debt, central bank policies, etc. In the previous year, the report was downloaded more than 1.8 million times. It is now regarded as the international standard work for gold, silver, and mining stocks. In addition to the German and English versions, the report will also be published in China for the first time this year.

The following internationally renowned companies have joined us as Premium Partners of the *In Gold We Trust* report 2019: **Agnico Eagle, Baker Steel Capital Managers, Barsele Minerals, GoldSpot Discoveries, IAMGOLD, MENĒ, McEwen Mining, Austrian Mint, NOVO Resources, philoro Edelmetalle, Silver Bullion, Sprott Asset Management, Tudor Gold, Victoria Gold and Ximen Mining.**

The *In Gold We Trust* report 2019 will be published in the following editions:

German: Extended Version, Compact Version
English: Extended Version, Compact Version
Chinese: Enhanced Compact Version (to be released June 16, 2019)

All editions of this year's *In Gold We Trust* report as well as all reports from previous years can be downloaded at ingoldwetrust.report.

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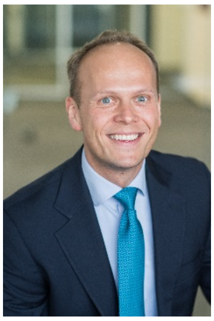
Ronald-Peter Stoeferle is Managing Partner & Fund Manager of Incrementum AG.



Previously, he spent seven years in the research team of Erste Group in Vienna. In 2007 he published his first annual *In Gold We Trust* report, and it has gained international renown over the years.

Stoeferle is a lecturer at the Scholarium in Vienna and at the Vienna Stock Exchange Academy. In 2014, together with Rahim Taghizadegan and Mark Valek, he published the book *Austrian School for Investors: Austrian Investing Between Inflation and Deflation.* Recently he co-authored the book *The Zero Interest Trap.* He is also a well-known keynote speaker and consultant for Tudor Gold, a promising Canadian exploration company.

Mark Valek is Partner & Fund Manager of Incrementum AG.

Previously, he worked for Raiffeisen Capital Management for more than ten years, most recently as a fund manager in the Multi Asset Strategies Department. In this role he was responsible for inflation-hedging strategies and alternative investments and managed portfolios worth several hundred million euros.

Valek is a lecturer at the Scholarium in Vienna and at the Vienna Stock Exchange Academy. Together with Rahim Taghizadegan and Ronald Stoeferle, he published the book *Austrian School for Investors: Austrian Investing Between Inflation and Deflation.*

Incrementum AG

Incrementum AG is an independent investment and asset management company based in the Principality of Liechtenstein. The company was founded in 2013. Independence and autonomy are the cornerstones of our philosophy, which is why the company is 100 percent owned by us. Before we founded Incrementum, all partners were active for many years in the investment and finance sector in Frankfurt, Madrid, Toronto, Zurich, and Vienna.

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