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In Gold We Trust Report 2021
Monetary Climate Change

On May 27, 2021, this year's *In Gold We Trust* report was presented at an international press conference, broadcast live on the Internet. The authors of the report are fund managers Ronald-Peter Stoeferle and Mark Valek from the Liechtenstein-based asset management firm Incrementum AG.

The 340-page *In Gold We Trust* report is world-renowned and has been dubbed the "**gold standard of gold studies**" by the *Wall Street Journal.* Last year's edition was downloaded and shared more than 2 million times. This makes the *In Gold We Trust* report, published for the 15th time this year, one of the most widely read gold studies internationally. In addition to the German and English versions, the report has also been published in Chinese since 2019.

In Gold We Trust report 2021

***In Gold We Trust* report 2021 – Compact Version**

Video with the key messages
Live streaming or recording of the press conference
Presentation, Infographics and Press Pictures

The *In Gold We Trust* report 2021 focuses on these topics:

- Status quo of gold: price development over the last 12 months, important influencing factors, and trends in the gold market.
- Facets of "monetary climate change"
    - Why the current surge in inflation is not temporary
    - Inflation as a risk to equity and bond markets
    - Government debt reduction through "yield curve control"
- Are commodities at the start of a new supercycle?
- De-dollarization 2021: Europe buys gold, China opens a digital front
- Analysis of a combined gold/Bitcoin investment strategy
- The silver decade
- A deep dive into the undervaluation of the mining sector

Additional chapters on the following topics:

- An interview with economic historian Russell Napier on why he has switched from the deflation camp to the inflation camp.
- On the occasion of the 50th anniversary of the "temporary" closing of the gold window, blogger "FOFOA" presents his views on the Nixon shock.
- US analyst Lyn Alden contributes a guest editorial on the long-term debt cycle.
- Robert Breedlove, one of the most respected philosophers in the Bitcoin sphere, lays out his views on gold through an exploration of the question "What is money?".

Key Messages of the *In Gold We Trust* report 2021

- **A *monetary climate change* is emerging.**
  The term describes the multi-layered paradigm shift triggered by the pandemic and the policy responses to it. Profound changes in fiscal and monetary policy will have tangible consequences for the monetary system and ultimately for the population.

- **Increased inflation rates will not pass anytime soon**
  At the center of Western central bank narratives on inflation dynamics is one term: that it is *temporary.* In our view, the current pickup in inflation rates heralds a *fundamental* trend reversal and we will see the introduction of "yield curve control" by central banks.

- **Real interest rates will remain negative for years to come.**
  The market environment favors real assets. In particular, equities from selected sectors, commodities, and precious metals should have a correspondingly high weighting in a portfolio.

- **Silver: main winner of both monetary and meteorological climate change?**
  The fundamental supply and demand situation presents itself as very solid. Many of the currently massively promoted "green" technologies require silver. A longer-term inflationary period – that we expect as a consequence of monetary climate change – could additionally provide a massive boost to the price of silver.

- **Gold and silver mining stocks remain highly exciting portfolio additions.**
  In 2020, the gold mining industry posted its most profitable year ever. While the gold price marked new all-time highs last year, the valuation of gold mining companies does not yet reflect their sharp increase in profitability. We expect gold mining companies to generate record high cash flows in 2021 and beyond.

- **Cryptocurrencies will not replace physical gold as an investment.**
  Due to its unique properties, physical gold will continue to play an elementary role in asset investment in the future. Nevertheless, the importance of cryptocurrencies and digital assets will increase, not least due to the monetary climate change. Portfolios with precious metals and crypto exposure can improve risk/return potential for investors.

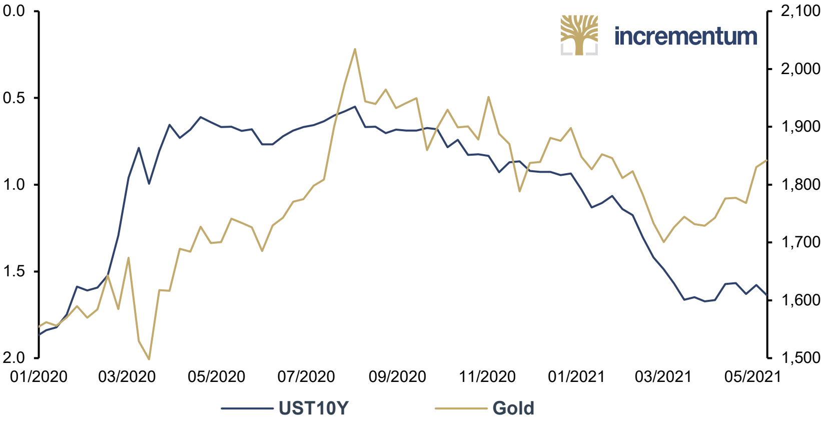
- **Technical analysis**
  The Coppock indicator generated a long-term buy signal for gold at the end of 2015. The long-term cup-handle formation, which could now resolve soon, appears particularly interesting. The price target of this formation is USD 2,700.

- **Gold price 2030: USD 4,800; 2021 new all-time high**
  We are sticking to last year's forecast for the USD price of gold at the end of the decade. For our conservative base scenario, we have issued a price target of USD 4,800; in an inflationary scenario, even USD 8,900 is within the realm of possibility. Based on implied expectations in the gold options market, we see a 45% probability of gold reaching a new USD all-time high as early as December 2021.

Gold's new all-time high in summer 2020 and subsequent consolidation

"It's not a question of if, but when we will see a new all-time high." This was one of the key statements made by Ronald Stoeferle and Mark Valek during last year's *In Gold We Trust* report 2020 press conference. "*In the months following the stock market collapse in March 2020, we saw a very dynamic rise in the gold price, culminating in new all-time highs in August 2020. This was followed by a consolidation phase, which now seems to be completed"*, says Stoeferle in recapping the gold price development of the past 12 months. "*In addition to profit-taking, a firmer US dollar, and opportunity costs in the wake of the Bitcoin bull market, rising bond yields were a key trigger for the emerging headwinds,"* adds Valek.

UST10Y (lhs, inverted), in %, and Gold (rhs), in USD, 01/2020-05/2021



Source: Reuters Eikon, Incrementum AG

Despite price declines in the second half of the year, the gold price gained 14.3% in euro terms and 24.6% in US dollar terms in 2020. Since the beginning of 2021, price declines of under 1% have been recorded in both currencies.

Monetary climate change

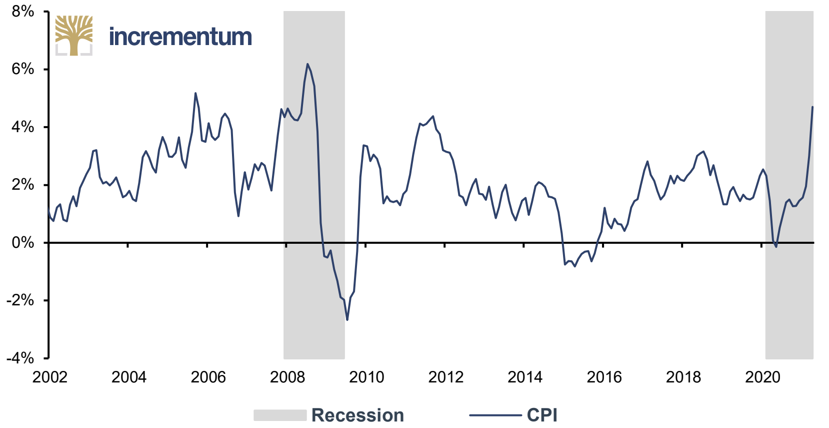
This year's *In Gold We Trust* report is entitled "Monetary Climate Change". With this, the two authors want to draw attention to a multi-layered paradigm shift triggered by the pandemic and the political reactions to it.

The following developments, among others, are an expression of monetary climate change:

- Budgetary nonchalance
- The merging of monetary and fiscal policy
- New tasks for monetary policy

Just as meteorological climate change poses the risk of rising sea levels, "*A side effect of monetary climate change is the almost unlimited liquidity that has flooded the markets since the beginning of the Covid-19 pandemic and has already caused a noticeable increase in asset price levels and now also consumer price levels"*, explains Stoeferle. One of the most dramatic consequences that monetary climate could bring is a renaissance of consumer price inflation. "*In our opinion, we are currently only in the early stages of an inflationary trend"*, states Valek.

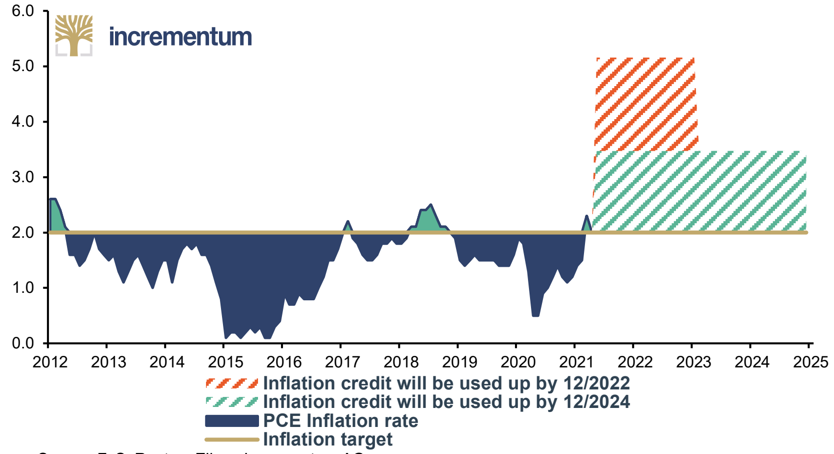
CPI, yoy%, 01/1960-04/2021



Source: Reuters Eikon, Incrementum AG

The strongly inflated money supply and, in particular, a future increase in the velocity of money in circulation point to a higher level of inflation in the future. In addition, central banks are increasingly changing their monetary policy strategy. "*In the case of the ECB, we expect an announcement of a new, more lenient inflation target in a few months. It is likely that the current inflation target will be watered down to an average inflation target, like the one the Federal Reserve has already implemented*", say Stoeferle and Valek.

Inflation Balance of the Fed, in %, 01/2012-01/2025



Source: FvS, Reuters Eikon, Incrementum AG

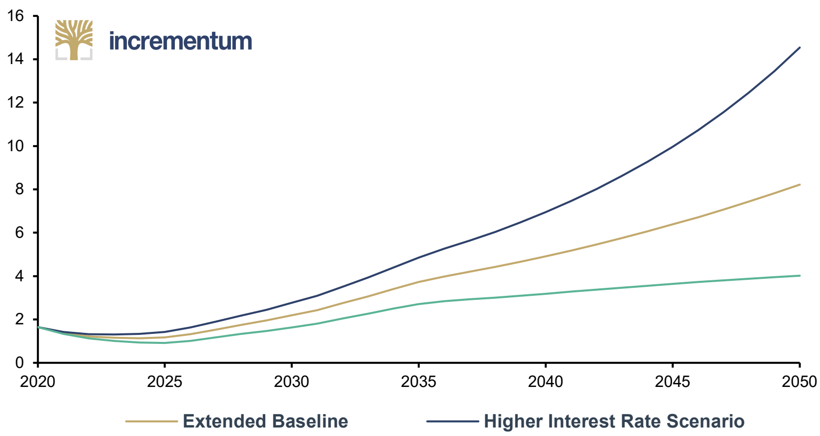
Although nominal interest rates have risen in recent months, they remain historically low and mostly negative in real terms. According to an analysis by the World Gold Council that is worth reading, real interest rates in the US would have to rise to over 2.5% to have a significant long-term negative impact on the gold price. This is also confirmed by our quantitative evaluations.[1] In an environment of negative real interest rates, gold's average annualized performance is 19.3% in nominal terms and 11.4% in real terms. This is good news for gold, as we are more convinced than ever that negative real interest rates are the "new normal".

[1] *See* "Portfolio Characteristics: Gold as Equity Diversifier in Recessions", *In Gold We Trust* report 2019

The high level of government debt makes significant interest rate increases impossible

The Covid pandemic has caused national debt to rise massively. In particular, the USA posted a record deficit for peacetime of 18.7% of GDP in 2020, and the deficit is likely to be only marginally lower in 2021. In the medium term, this will present the US – but not only the US – with considerable problems, as interest service will increase significantly.

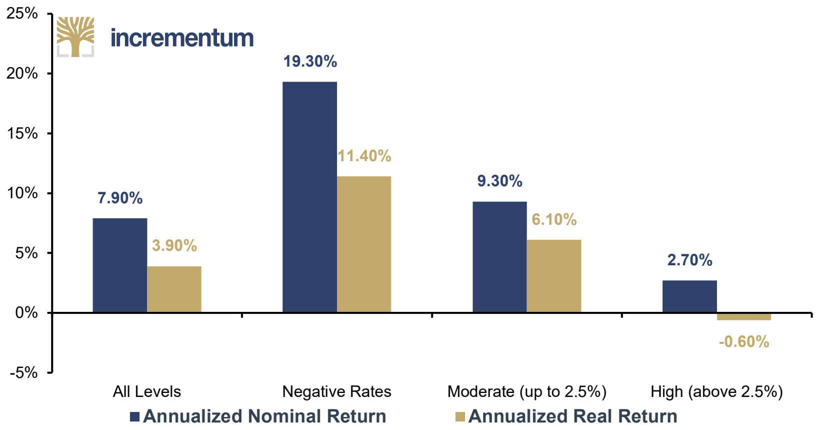
Net Outlays of Interest, in % of GDP, 2020-2050E



Source: CBO, Incrementum AG

Even in our base scenario, an interest rate increase to 8.6% corresponds to a *six-fold* increase in debt-service cost, compared with today. It is inconceivable that this expenditure can be borne. It is more likely that the central banks will cap interest rates at a low level through a monetary policy of yield curve control. If inflation were to rise (sharply) at the same time, (significantly) negative real interest rates could considerably reduce government debt. After the Second World War, the US, but also the UK and France, succeeded in reducing government debt in this way.

Annualized Returns of Gold in Various Interest Rate Environments, in %, 1971-2021



Source: World Gold Council, Incrementum AG

A fundamental change in investment strategy is taking place

Monetary climate change is turning traditional portfolio allocations on their head, as every change in the inflation regime also changes the dynamics of returns and correlations in the portfolio.

Inflation Beta and Average Annualized Real Returns of Different Asset Classes (1970-2020)

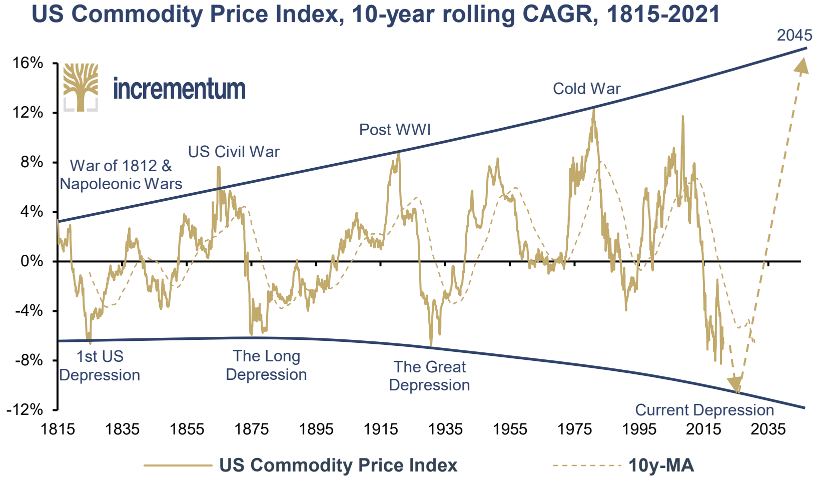
		Average annualized real return		
Asset class	**Inflation Beta**	**Performance over the entire period**	**Performance in phases of rising inflation**	**Difference**
Commodities	4	4.2%	14.6%	10.3%
Gold	2.1	6.1%	15.7%	9.7%
REIT's*	0.7	9.8%	1.1%	-8.8%
1-5Y TIPS**	0.5	0.9%	0.1%	-0.8%
High yield bonds	-0.4	5.0%	-0.9%	-5.9%
10Y TIPS***	-0.5	6.3%	2.1%	-4.2%
S&P 500	-0.7	7.9%	-0.4%	-8.2%
Corporate Bonds (BAA)	-0.8	4.5%	-1.2%	-5.7%
10Y US Treasuries	-1.1	3.3%	-3.7%	-7%

Source: Bloomberg, Federal Reserve St. Louis, Verdad, Incrementum AG
*REIT: Data available as of 1990 (Dow Jones REIT Total Return Index),
** Short duration TIPS as of 2005 (Barclays 1-5Y TIPS Total Return Index),
*** Long duration TIPS as of 2000 (Barclays 10Y+ TIPS Total Return Index)

Winners and losers

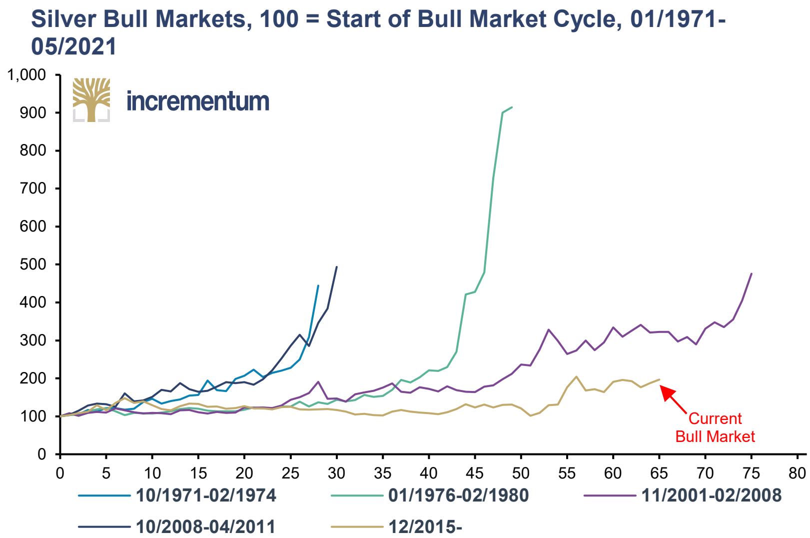
Monetary climate change offers considerable risks for investors, but also enormous opportunities. Stoeferle points out, "*After hibernating for years, commodity prices have now awakened. It is quite possible that the 2010s will turn out to be a repeat of the 1960s and the 2020s of the 1970s. In any case, from our perspective, the signs are clearly mounting that the entire field of inflation-sensitive assets could be at the beginning of a pronounced bull market similar to that of the 1970s".*

US Commodity Price Index, 10-year rolling CAGR, 1815-2021



Source: Stifel Report, Incrementum AG

Especially with rising inflation rates, it is foreseeable that the silver price will also post significant gains. "*In addition to its property as a protection against inflation, its use as an industrial metal also speaks in favor of a silver investment. For example, the massively pushed 'green' technologies such as photovoltaics cannot be implemented without silver*", Valek explains. A comparison with past silver bull markets shows that typically there was an acceleration at the end of the trend. That phase is likely still to come.



Source: Nick Laird, goldcharts.com, Reuters Eikon, Visual Capitalist, Katusa Research, Incrementum AG

Further arguments for sustainably higher inflation rates

- The extreme monetary growth of 2020 is expected to weaken in the current year but will nevertheless remain high. This is because an end to accommodative monetary policy is not in sight, let alone a tightening of monetary policy.
- Globalization, which has a dampening effect on prices, has come under considerable pressure as a result of the Covid pandemic.
- The growing importance of ESG means that access to capital is becoming increasingly difficult for commodity producers. There are many indications that alternative energies, which are considered to be more environmentally friendly, will significantly increase the price of energy across the board.
- A shortage of labor in certain industries, rising minimum wages, and globally rising unit labor costs are increasing inflationary pressures.
- In the long term, the massive demographic change facing Europe, but even more China, will have an inflationary effect. The report devotes a separate, detailed chapter to this topic.

Conclusion

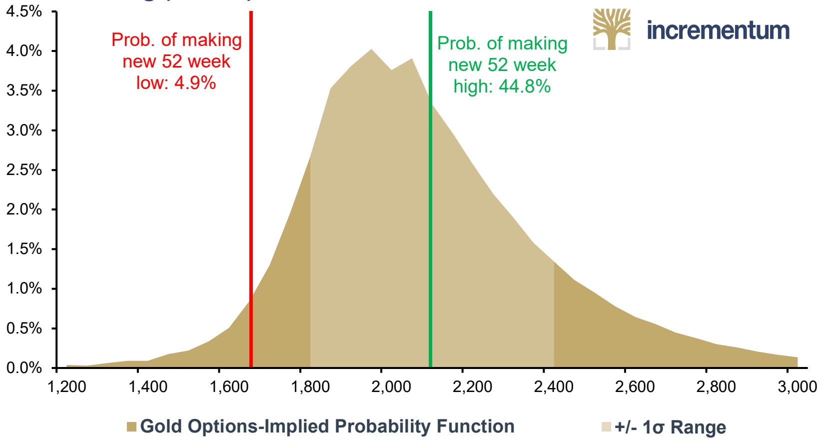
Many market participants do not yet understand the far-reaching consequences of monetary climate change. In recent months, the market has consistently reacted to higher-than-expected inflation figures with rising yields and falling gold prices in the short term. This reflects the expectation that inflation will be effectively fought by central banks and is only a temporary phenomenon. As we explain in detail in the *In Gold We Trust* report, we completely disagree.

Conversely, it is therefore difficult to imagine that we are at the end of a gold bull market. This assessment emerges when we compare various macro and market indicators at the time of the last two secular all-time highs in 1980 and 2011 with the current situation. From this perspective, it becomes clear that the gold price still has a lot of room to move up.

Outlook

Stoeferle and Valek also venture a gold price forecast this year. Based on a pricing model that uses prices in the gold options market, we estimate there is a probability of 45% that a new 52-week high – USD 2,100 or higher – and thus also a new all-time high, will be marked in December 2021. "*In addition, we confirm our long-term gold price target, which we calculated in the 2020* In Gold We Trust *report using our proprietary gold price model. This is USD 4,800 in the base scenario at the end of the decade*", Valek said.

Gold Options-Implied Probability Function, Exponential Smoothing (α = 0.2), December 2021



Source: Reuters Eikon, Incrementum AG

About the *In Gold We Trust Report*

The annual gold study has been written by Ronald-Peter Stoeferle for 15 years, and jointly with Mark Valek for nine years. It provides a holistic assessment of the gold sector and the most important influencing factors, such as real interest rate developments, opportunity costs, debt, central bank actions, etc. Last year, the report was downloaded more than 2 million times. It is now regarded as the international standard work for gold, silver, and mining stocks. In addition to German and English versions, the *In Gold We Trust Report* will also be published in Mandarin for the third time this year.

The following internationally renowned companies signed on as Premium Partners for the *In Gold We Trust* report 2021: **Agnico Eagle, EMX Royalty, Endeavour Silver, Gatos Silver, Gold Switzerland, Hecla Mining, McEwen Mining, Austrian Mint, New Zealand Bullion, Novagold, Osisko Gold Royalties, philoro Edelmetalle, SolGold, Solit Management, Sprott, Sunshine Silver, Tudor Gold, Victoria Gold, and Ximen Mining.**

The *In Gold We Trust* report 2021 will be published in the following editions:

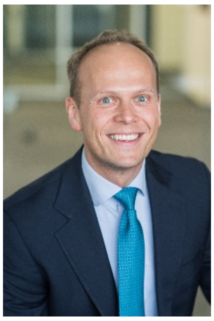
English
German
Chinese (To be published for the third time in the fall of 2021.)

Compact version – English
Compact version – German
Video presentation of the *In Gold We Trust* report 2021 – English
Video presentation of the *In Gold We Trust* report 2021 – German

All previous *In Gold We Trust* reports can be downloaded from our archive.

The Authors

Ronald-Peter Stoeferle is managing partner of Incrementum AG and responsible for Research and Portfolio Management.



Prior to that, he spent seven years in the research team of Erste Group in Vienna. In 2007 he began publishing his annual *In Gold We Trust report,* which has since gained international renown.

Since 2013 he has held the position of reader at *Scholarium* in Vienna, and 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, as well as a member of the advisory board of *Affinity Metals* (AFF). 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 Valek is a partner at Incrementum AG and responsible for Portfolio Management and Research.

Mark previously spent over ten years working for Raiffeisen Capital Management, most recently as a fund manager in the Multi-Asset Strategies Department. In this position he was responsible for inflation-hedging strategies and alternative investments and managed portfolios with a volume of several hundred million euros.

Since 2013 he has held the position of 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*. Mark has also been active as an entrepreneur; for example, he was co-founder of philoro Edelmetalle GmbH.

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 its 5 partners.

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