

In Gold We Trust Report 2022 **“Stagflation 2.0”**

On May 24, 2022, this year’s, now 16th, *In Gold We Trust* report was presented at an international press conference broadcast live on the Internet. The authors of the report are the two fund managers Ronald-Peter Stöferle and Mark J. Valek from the Liechtenstein asset manager [Incrementum AG](#).

The nearly 400-page *In Gold We Trust* report is world-renowned and has been dubbed the **“gold standard of all gold studies”** by the *Wall Street Journal*. Last year’s edition was downloaded and shared more than 2 million times in total. This makes the *In Gold We Trust report*, which is being published for the 16th time this year, one of the most widely read gold studies internationally. In addition to the German and English versions, the annual publication has also been published in Chinese since 2019. The short version will be published in Spanish for the first time this year, in addition to the German and English short versions.

[In Gold We Trust Report 2022](#)

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[Video with the key messages](#)

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The *In Gold We Trust* report 2022 covers topics including:

- ▶ Status quo of gold: price development in the last 12 months, most important influencing factors and trends on the gold market
- ▶ Stagflation 2.0
 - Definition and analysis of historical stagflation phases
 - Structural reasons arguing for a long-term inflationary environment
 - Parallels and differences from previous stagflationary phases
 - The challenges that “Stagflation 2.0” poses for investors
 - Which asset classes are likely to perform well in stagflation?
- ▶ After the *Everything Bubble*, is the *Everything Crash* now looming?
- ▶ Central banks: from pigeons to hawks and back gain
- ▶ De-dollarization, including a timeline of world monetary history since 1944.
- ▶ Gold’s contribution to a low-CO₂ portfolio
- ▶ Royalty and streaming companies as an interesting investment option
- ▶ Updated gold price forecast

The report also includes interviews on the following topics:

- ▶ Conversation with Alasdair Macleod on “Stagflation and a New Gold Standard”
- ▶ Interview with star analyst Luke Gromen on “Energy, War & Inflation”

The Key Messages of the *In Gold We Trust* report 2022

- **The inflation wolf is joined by the recession bear: Stagflation 2.0**

In our special analysis in the fall of 2020, “The Boy Who Cried Wolf,” we warned forcefully of the underestimated danger of high inflation. The wolf is now here to stay. The war in Ukraine is further fueling the inflation dynamics that already existed. Monetary policy now has its back to the wall. It is forced to at least pretend to stand up to wolfish inflation without creating a recessionary bear. This balancing act will probably not succeed.

- **From the “Everything Bubble” to the “Everything Crash”?**

The vehemence of the tightening cycle that has begun in the US threatens to turn asset price inflation into an asset price crash. Just the start of monetary tightening has already clearly shaken the markets. Central banks will not be able to implement the announced tightening without major collateral damage.

- **Structural reasons for a long-term inflationary environment**

In addition to the new Cold War and the accompanying deglobalization trends, there are several other structural reasons for a long-term inflationary environment. The immense costs of decarbonization and the threat of a price-wage spiral are likely to help trigger several waves of inflation.

- **Conventional investment strategies sometimes no longer suitable**

Mixed portfolios are particularly vulnerable to stagflation and have already suffered heavy losses this year. In addition to the performance of gold, silver and commodities in past periods of stagflation, the relative valuation of commodity producers compared to technology companies also argues for a higher weighting of these assets than under normal circumstances.

- **ESG: Gold investments reduce an investor's CO₂ footprint.**

Increasing the gold allocation in a portfolio has a significant impact on the CO₂ footprint and emissions intensity of the overall portfolio. An increase in gold allocation reduces the CO₂ footprint of a portfolio more than an allocation to the S&P 500 does.

- **Technical analysis**

The Coppock indicator generated a long-term buy signal at the end of 2015. However, the resolution of the long-term cup-handle formation turns out to be much tougher and more protracted than expected. Although the sentiment has clouded recently, a bearish “wash-out” has not (yet) taken place.

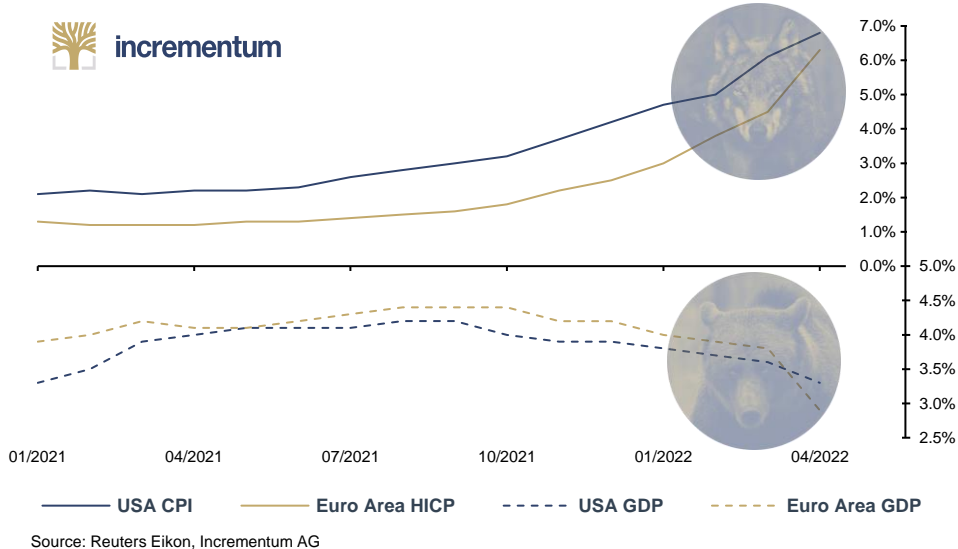
- **Long-term target (2030) of USD 4,800 for the gold price confirmed**

The gold price has also been affected by the Federal Reserve's tightening policy. Even though gold has performed valiantly relative to all other asset classes this year, **further headwinds are to be expected for gold in the short term**. If the Federal Reserve signals a pause in tightening in 2022, new all-time highs are possible. The long-term **price target of around USD 4,800 by 2030** has been confirmed. The interim target for the **end of 2022** is a **gold price of around USD 2,190**, and thus a new all-time high.

Stagflation 2.0 ante portas

“Back in the fall of 2020, we warned of elevated inflation rates and renewed that warning in the In Gold We Trust 2021 report. This year we are now facing a marked cooling of the economy with high inflation. Stagflation seems inevitable in the euro area and at least likely in the US,” said Ronald-Peter Stöferle, one of the two authors of the In Gold We Trust report. “That’s why this year’s In Gold We Trust report is titled ‘Stagflation 2.0,’ the consequences of which for the markets we analyze in detail”, Stöferle continued.

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



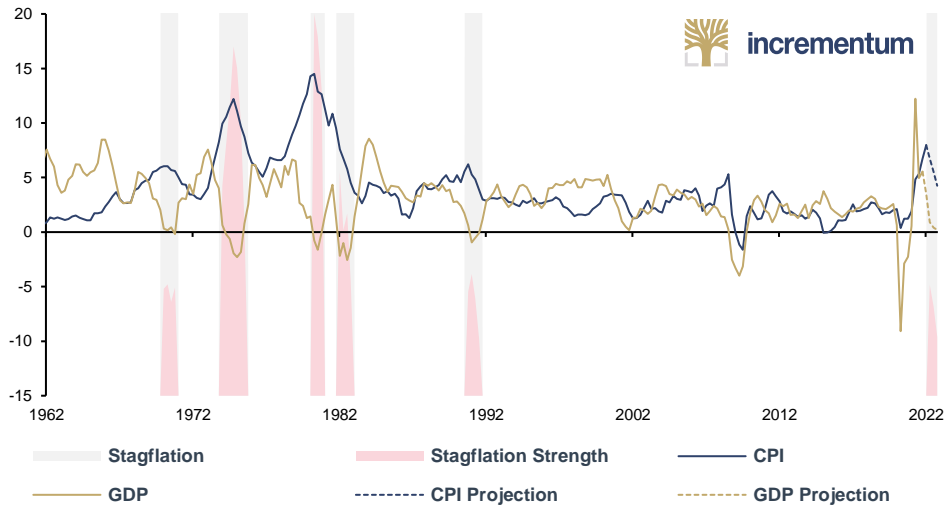
“The wolf of inflation, which has crept up almost unnoticed by many, is now joined by the bear of recession. Together, the two form a ‘duo infernale’, equally for investors, central bankers and politicians,” says Mark Valek, co-author of the In Gold We Trust report.

The In Gold We Trust report not only deals intensively with historical stagflation phases. The two authors present their own definition of stagflation. **The proprietary definition of Stagflation 2.0 includes the following criteria:**

- ▶ An inflation rate of over 3% year-on-year
- ▶ Real economic growth of less than 1%
- ▶ Both conditions must be met simultaneously over two quarters

Based on this definition, the following phases of stagflation have occurred in the US over the past 60 years:

US GDP, US CPI, and Projections, yoy%, and Stagflation Periods, Q1/1962-Q4/2022e



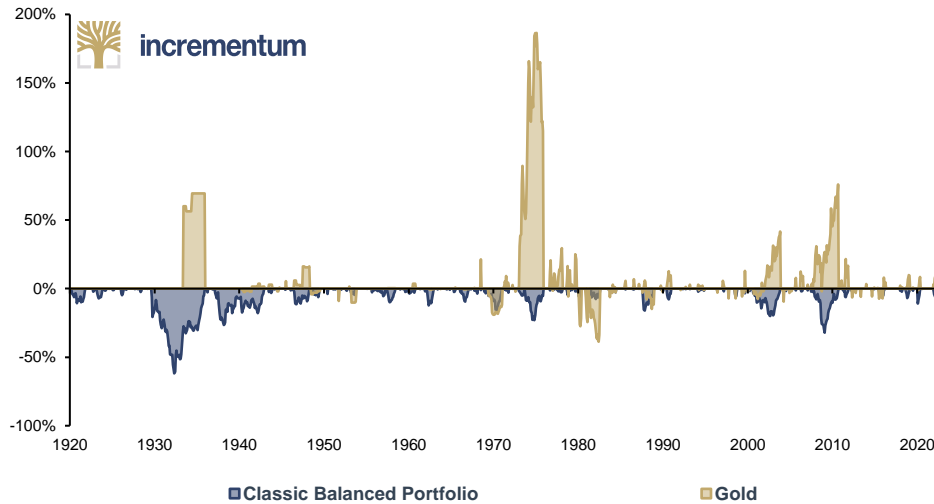
Source: Reuters Eikon, Incrementum AG

“History doesn’t repeat itself, but it rhymes.” Alluding to this well-known quote by Mark Twain, the two authors show similarities, but also differences, to the stagflation phases in the 1970s and 1980s, with a focus on the US.

Factor	Stagflation Phases 1970–1983	Stagflation 2.0
Trigger	- 1973: Oil embargo Yom Kippur War - 1979: Iranian Revolution	- Corona pandemic & lockdowns/massive stimulus measures. - Supply chain issues - War in Ukraine
Duration	4 phases between 1970 and 1983	?
Annual Cash Surplus	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 not conceivable for the time being
Budget deficit	max. 5.7% (1983)	max. 15.0% (2020)
Debt	Low (1970;1982) - State: 35.7%; 35.2% - Company: 47.0%; 53.1% - Private households: 44,0%;47,9%	High (2021) - State: 123.4% - Company: 77.2% - Private households: 76.4
Labor market	- High degree of organization; - Growing workforce potential	- Low level of organization- 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	Change from gold-forex standard to 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

“Stagflationary phases are a particular challenge for investors. The classic mixed portfolio consisting of 60% stocks and 40% bonds has a diversification problem in times of falling stock prices and simultaneously rising bond yields due to the positive correlation between stocks and bonds. Therefore, it needs a diversifier for the portfolio”, Stöferle elaborates. “And that portfolio hedge is gold, because gold has usually risen strongly in these phases.”

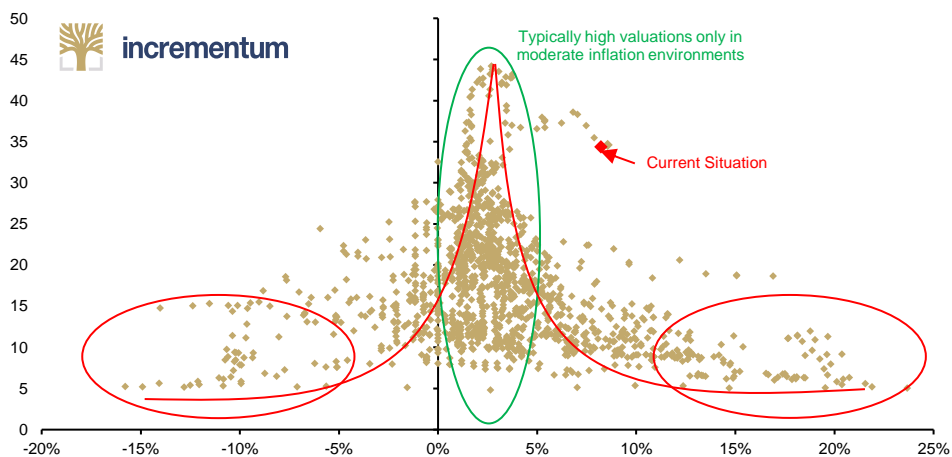
Gold Performance During Classic Balanced Portfolio* Drawdowns, 01/1920-04/2022



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

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.

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



Source: Robert J. Shiller, Incrementum AG

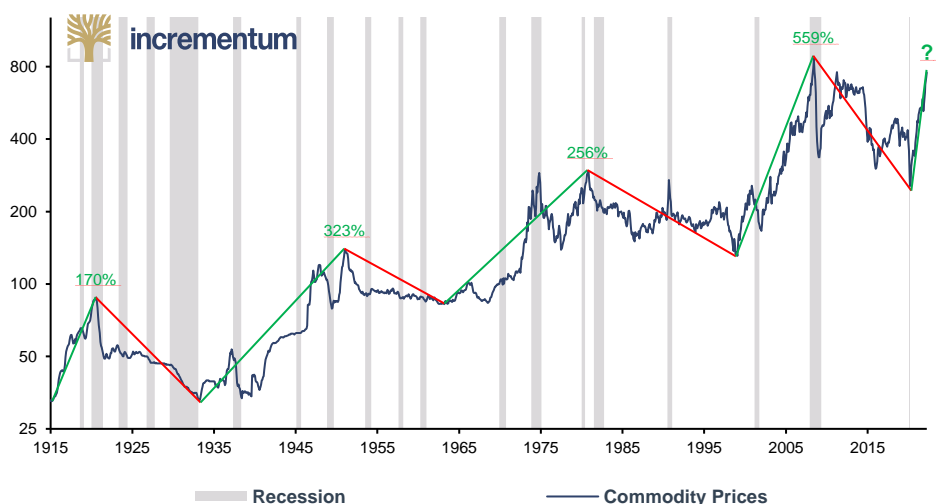
It can be seen that equities usually perform poorly in a strongly deflationary or highly inflationary environment. Despite the current high inflation rates, the S&P 500 is still highly valued, with a Shiller P/E ratio of just under 34. To remain true to the previous empirical pattern, either prices, the inflation rate, or both would have to fall.

“While we expect the US inflation rate to reach its preliminary high later this year, it will remain at a significantly elevated level in 2022,” Valek notes, continuing, “In that case, a continuation of the US equity market correction would be entirely appropriate from a valuation perspective.”

Further arguments for stagflationary environment in the coming period

- ▶ The enormous cash overhang of recent years is far from being reduced.
- ▶ Globalization, which has a dampening effect on prices, has come under considerable pressure, first from the Covid-19 pandemic and, since Russia’s attack on Ukraine, from the emerging bloc.
- ▶ Supply chains remain extremely tight.
- ▶ The war in one of the world’s primary granaries will keep food prices at a high to very high level for some time to come. The sharp rise in fertilizer prices is also driving up prices.
- ▶ The global economy was already on a steady downward trend before the pandemic.
- ▶ While a bursting of the real estate bubble would have a dampening effect on inflation, it would also have a dampening effect on economic growth, both directly and indirectly.
- ▶ The first signs of a price-wage spiral can already be seen. The structural shortage of labor, in particular due to demographic change, is giving employees more and more bargaining power.
- ▶ The energy transformation pursued in the West will greatly increase demand for “green” commodities, which are already in short supply.

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

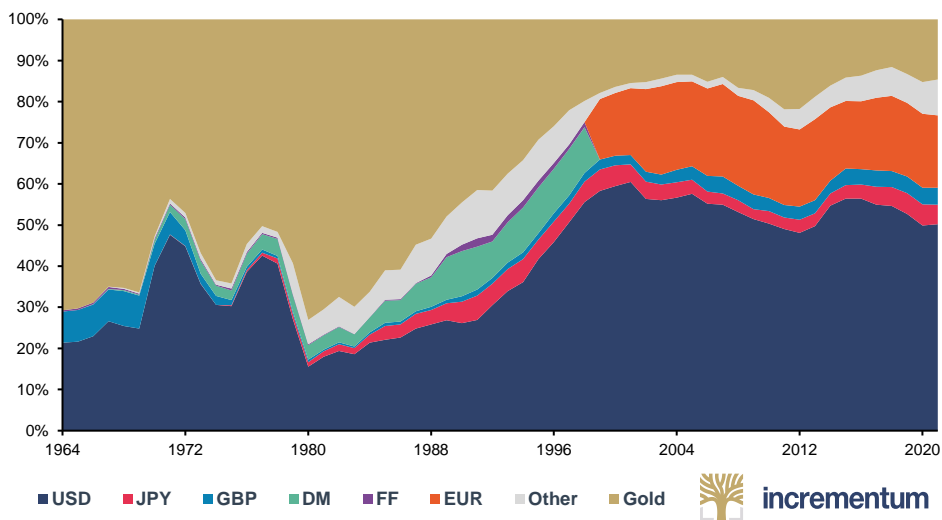
In the short term, the situation on the commodity markets looks overbought. As long as the Federal Reserve makes no move to leave the path of interest rate hikes, the general environment for risk assets will remain difficult. A turnaround in monetary policy or the pressing of the monetary policy pause button by the Federal Reserve will give the starting signal for the next upward cycle.

Gold as a winner of the Western sanctions policy?

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 will go down in monetary history. De facto, the US and the euro zone have demonstrated to the world how quickly they can cancel their economic liabilities in the event of a geopolitical confrontation. However, with the further “weaponization of money,” the US and the EU are unlikely to have done themselves any favors in the medium to long term.

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

Composition of Global Reserve Currencies Including Gold, 1964-2021



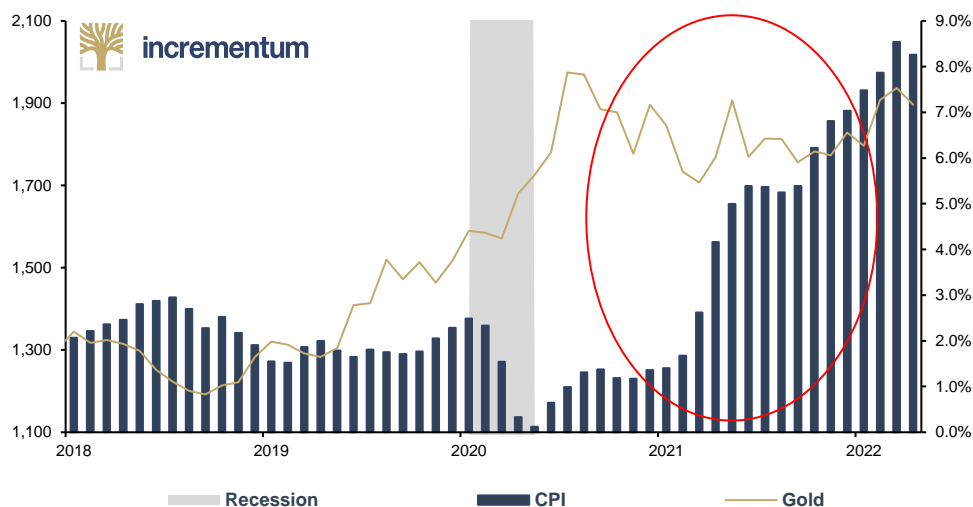
“A medium- to long-term winner of this sanctions policy could be gold, of all things. For in an increasingly politicized world that may split into two blocs, gold could be the unifying element. After all, gold is (politically) neutral, has no counterparty risk and is very liquid,” says Stöferle about the tectonic shifts in the global monetary system.

Central banks have been gradually building up their gold reserves since 2009, especially in the emerging markets but also in European countries such as Poland and Hungary and, most recently, euro zone member Ireland. The largest currency reserves are still held by the central banks of the Western world, with the USA and Germany in the lead.

Has gold lost its mojo in 2022?

“With inflation rates soaring, gold’s performance in 2021 was disappointing, especially in US dollar terms, down 3.5%. Investors in the euro area saw a gain of 3.6% due to the glaring weakness of the euro,” analyze the two authors. *“It should not be forgotten that in 2020 gold in US dollars quickly increased by 24.6%, and in euros by 14.3%. A breather was therefore quite expected,”* Stöferle recapitulates the gold price development of the past 12 months. The gold price increase in the past three years in the euro area was so strong that a gold investor at this year’s Oktoberfest will receive the same number of Maß Bier for his ounce of gold as he did in 2019, and this despite the fact that the price for a Maß has risen by 25%.

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



Source: Reuters Eikon, Incrementum AG

“Partly responsible for the pause in the gold price rally in 2021 was probably also the prevailing narrative that inflation was only temporary. It was not until the beginning of 2022 that this thesis was increasingly doubted,” Valek added.

While the gold price was able to gain in both currencies at the beginning of the year, the start of the Federal Reserve's tightening policy had a negative impact on the price. In US dollars, gold has been slightly down, by 0.5%, since the beginning of the year, while in euros it has been up by almost 6.9% due to the strong depreciation of the euro against the US dollar (as of 5/17/2022). For euro investors, the fact that the euro-gold price reached a new all-time high of EUR 1,880/ounce in March is particularly encouraging.

Conclusion

The monetary climate change outlined by the authors in the previous year 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. Tentative attempts to stem the tide of liquidity are beginning to expose the problems that have been masked for years, if not decades, by emergency inflationary measures. Interest rate hikes and central bank balance sheet contractions carry the great risk of triggering various dislocations in the financial markets. Since the beginning of the year alone, the NASDAQ Index has lost over 25% of its value. The yield differential between German and Italian government bonds, at around 2% points, indicates renewed nervousness about a possible euro crisis.

However, in addition to curbing inflation, the central banks' declared goal is to manage the turnaround in monetary policy without triggering a recession. In the authors' view, however, this balancing act of a “soft landing” is doomed to failure from the outset. The big question is: What happens if the central banks press the monetary policy pause button and then have to hit rewind? This would probably usher in the next wave of devaluation and inflation and further fragilize the currencies of the Western world.

It is hard to imagine that the onset of stagflation should be the end of a gold bull market. Also, various macro and market metrics at the time of the last two secular all-time highs in the gold price in 1980 and 2011 are not comparable to the current situation. From this perspective, it is clear that gold still has a lot of room to move up.

The last few months have shown that inflation is the Achilles heel of many portfolios. *“For a long time, the topic of inflation was as important to the capital markets as studying the snow report in the Sahara,”* says Stöferle. But for a majority 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 when both US stocks and bonds posted negative annual performance. Currently, all indications are that 2022 could be the fifth year.

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 (per May 13, 2022), Incrementum AG

“We believe it is illusory that the Federal Reserve can take the proverbial ‘punchbowl’ out of the market for any length of time, and doubt that the transformation of doves into hawks will last. Most hawks will merely turn out to be doves in hawk’s clothing when the financial markets experience more serious upheavals,” says Valek.

Outlook

The two fund managers also venture a gold price forecast this year. *“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 case scenario at the end of the decade. To be on track here, we should see prices of around USD 2,200 by the end of the year,”* Stöferle said. *“A prerequisite for this, however, is a softening of the announced tightening of monetary policy. In the wake of the ongoing turmoil in the capital market, this will become increasingly likely in the coming months. After all, the Federal Reserve very quickly abandoned its tightening policy at the time following the sharp slump in December 2018,”* Valek added.

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

About the *In Gold We Trust* Report

The annual gold study has been written by Ronald-Peter Stöferle for 16 years, and jointly with Mark Valek for ten 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, monetary policy, etc. It is regarded as the international standard work for gold, silver and mining stocks. In addition to a German and English version, the abridged version of the *In Gold We Trust* report will be published in Spanish for the first time this year. The Chinese version will be published in the fall for the fourth time.

The following internationally renowned companies have been secured as Premium Partners for the *In Gold We Trust Report 2022*: **Agnico Eagle, Asante Gold, Aurion Resources, Caledonia Mining, Dakota Gold, EMX Royalty, Endeavour Mining, Endeavour Silver, Hecla Mining, Matterhorn Asset Management - Gold Switzerland, Minera Alamos, Austrian Mint, New Zealand Bullion Depository, philoro EDELMETALLE, Reyna Gold, Solit Management, Sprott Asset Management, Tudor Gold, Victoria Gold and Ximen Mining.**

The *In Gold We Trust* report 2022 will be published in the following editions:

[English](#)

[German](#)

[Chinese](#) (To be published for the fourth time in the fall of 2022.)

[Short version – English](#)

[Short version – German](#)

[Short version – Spanish](#)

[Video presentation of the *In Gold We Trust Report 2022* – English](#)

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All previous issues of the *In Gold We Trust Report* can be found in our [archive](#).

The authors

Ronald-Peter Stöferle is Managing Partner & Fund Manager at Incrementum AG.



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 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 Partner & Fund Manager at Incrementum AG.



Prior to that, he worked for Raiffeisen Capital Management for over ten years, most recently as a fund manager in the Multi Asset Strategies department. As part of 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 *philorio Edelmetalle GmbH*.

Incrementum AG

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