in gold we trust .report

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In Gold We Trust Report 2023 "Showdown"

On May 24, 2023, this year's – now 17th – *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-based asset manager Incrementum AG.

The 400+ page *In Gold We Trust* report is renowned worldwide 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 the world's most widely read gold study. In addition to the German and English versions, the annual publication has also been published in Chinese and Spanish for several years.

In Gold We Trust Report 2023
In Gold We Trust Report 2023 – ***Short Version***
Video with the key messages
Live streaming or recording of the press conference
Presentation, press photos and infographics

The *In Gold We* Trust *Report* 2023 covers topics including:

- Status quo of gold: price development in the last 12 months, most important influencing factors and trends on the gold market, including
  - Status quo of debt dynamics
  - Status Quo of the Inflation Trend
- Showdown leitmotif
  - The monetary policy showdown
  - De-Dollarization: the final showdown?
  - Showdown in the sound money camp
  - The rising importance of gold markets in the East: the looming showdown with the West
- Silver's golden era?
- Mining stocks - fundamental and technical situation
  - The social component of ESG
- Updated gold price forecast

The report also includes interviews on the following topics:

- Interview with star analyst Zoltan Pozsar on "Multipolarization of the International Monetary System, Reserve Currency Status and Inflation."
- Conversation with market strategist and historian Russell Napier on sovereign debt, the politicization of commercial banks, and financial repression.

The key messages of the *In Gold We Trust Report* 2023

- **The effects of monetary tightening are yet to hit home**

The time factor is significantly underestimated in terms of the impact of interest rate hikes. In view of the precarious debt situation in many industrialized countries and the rapid tightening of monetary policy, especially in the US, the authors expect a recession and a monetary policy showdown in the next 12 months.

- **The monetary policy showdown approaches**

Due to the increasing fragility of banks, the real economy and financial markets, a monetary policy showdown will ensue in view of the weakening economy and the fact that core inflation rates remain significantly too high. A departure from restrictive monetary policy would have far-reaching consequences for inflation, central bank confidence, which is already under attack, and the gold price.

- **Inflation rates falling in the short term, rising again in the medium term**

Even though inflation rates in the US and the euro zone have fallen recently, the authors assume that another wave of inflation will follow and that the environment of "Stagflation 2.0" – the title and leitmotif of the *In Gold We Trust* report 2022 – will accompany us. Arguments such as demographics, the increased focus on fiscal policy, greenflation, de-globalization and global rearmament speak for a structurally - and not merely temporarily - inflationary environment with high volatility of inflation rates and possibly several waves of inflation.

- **De-Dollarization: Monetary manifestation of the geopolitical showdown**

As early as last year's *In Gold We Trust* report, it was strongly suggested that the freezing of Russia's foreign reserves in February 2022 would go down as a historic moment in international monetary history. Record central bank demand for gold in 2022 was one of the responses. Structurally higher central bank gold demand will act as a key driver of the gold bull market.

- **Shifts in gold demand:**

Together, India and China have officially imported between 34,000 and 36,000 tons of gold over the past 20 years. China and India are also becoming increasingly important in terms of consumer demand. The two countries now account for 48% of consumer demand.

- **ESG: The social component of ESG**

For the fourth time, the report specifically examines ESG issues in the mining equities sector. This year, the focus is on the social aspect of ESG.

- **Technical Analysis**

The gold price "flirted" with a new all-time USD high again in the first half of the year, but failed to do so in the short term. While long-term indicators such as the Coppock indicator are still clearly bullish, shorter-term models such as the Midas Touch Gold Model™ and the seasonal patterns currently suggest a temporarily more cautious outlook, which could result in attractive buying opportunities.

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

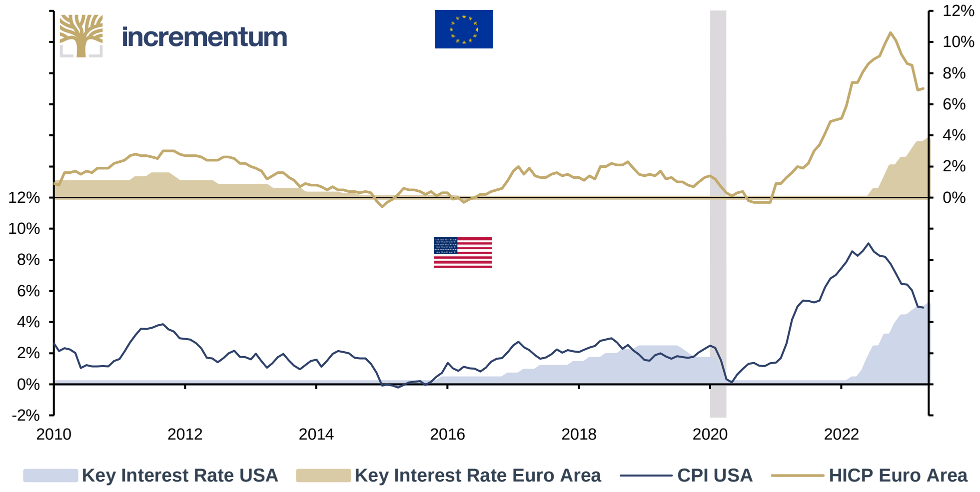
Based on the assumption that a recession will occur, the authors consider new all-time highs of the gold price in U.S. dollars and prices of USD 2,300-2,400 within 12 months to be probable. They continue to adhere to the decade price target of USD 4,800 against the backdrop of the monetary, geopolitical and fiscal situation.

<u>The Emergency Monetary Policy Brake and its Consequences</u>

The much belated realization on the part **of central bankers that inflation is not temporary led to an emergency monetary policy brake, particularly in the USA.** "*With the economic slowdown now underway and inflation rates still too high, the monetary policy trilemma - price stability vs. economic support vs. financial market stability - that we warned about is now becoming immanent,"* explains Stöferle.

Despite the radical tightening of monetary policy, inflation is proving to be extremely stubborn. Until recently, the Federal Reserve had signaled that it was prepared to do everything in its power to get inflation back under control.

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

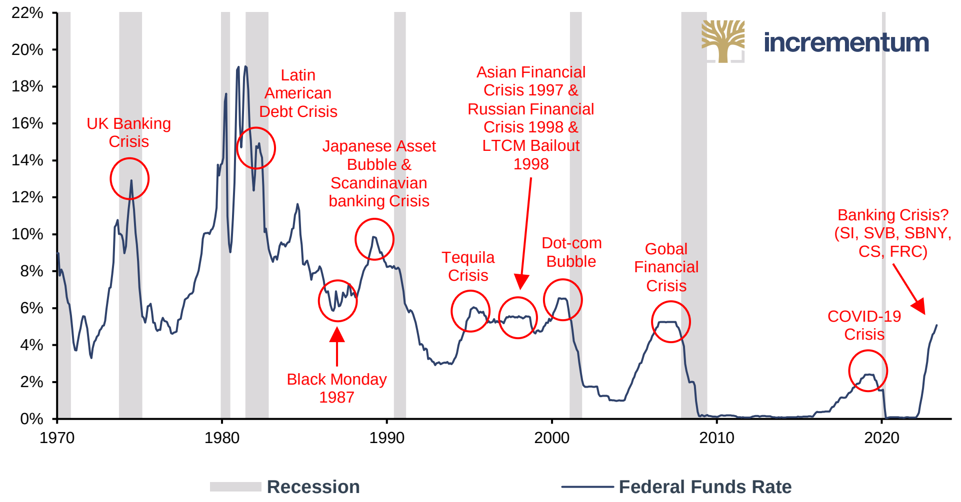


Source: Reuters Eikon, Incrementum AG

In the euro zone, the monetary brakes are being applied much more slowly. Accordingly, the high inflation rates are proving to be more persistent, although they are currently declining on both sides of the Atlantic. It should be noted that consumer prices continue to rise, but at a somewhat slower pace, most recently at 7.0% as measured by the HICP in the euro zone.

After a decade and a half of a flood of liquidity and low interest rates, economic withdrawal symptoms are now increasingly appearing following the abrupt withdrawal of the zero interest rate era. Ronald Stöferle is convinced that "*the strongest and fastest interest rate hikes in the industrialized nations for more than 40 years have already claimed their first victims".* The pension fund debacle in Great Britain, the closure of the Blackstone Real Estate Income Trust, various calamities in the crypto sector – above all the spectacular FTX bankruptcy – are just a few examples of the consequences of the abrupt interest rate turnaround.

Federal Funds Rate, 01/1970-05/2023



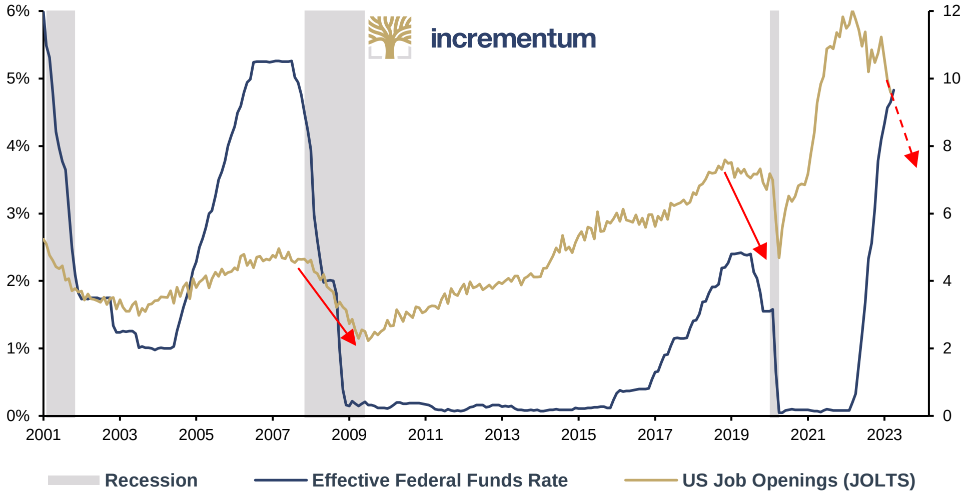
Source: Reuters Eikon, Incrementum AG

The dramatic interest rate hikes were probably also largely responsible for the U.S. bank failures. **All told, more than USD 500bn has already had to be written off since the beginning of March.** This is a clear warning signal that the financial system is much more fragile than generally assumed. For those familiar with the Austrian Business Cycle Theory, founded by Ludwig von Mises and Friedrich A. von Hayek, it was predictable that the radical turnaround in interest rates would trigger severe dislocations. Mark Valek notes, "*Financial history provides impressive empirical confirmation of this theory. Artificial booms are regularly the result of low interest rates and liquidity floods, and the subsequent rate hikes lead to bankruptcies, recessions, and often corresponding price declines".*

<u>The monetary policy showdown approaches</u>

According to Valek, the all-important question is as follows: "*Can the Federal Reserve continue its restrictive monetary policy and push inflation back to 2% without triggering a severe recession or another financial crisis?"* For Valek, a plausible scenario is the following: "*Central banks will have to rescue the system again with expansive, stimulative measures, but in doing so they will risk another wave of inflation. The cards will have to be laid on the table at the latest when the pain at the banks, on the capital markets or in the real economy becomes too great."* Stöferle adds, "*Signs of an impending recession in the U.S. are already mounting".* He continues, "*The strongly inverted yield curve, a slowly weakening labor market, the Leading Economic Indicator (LEI) - all these indicators leave little room for economic optimism".*

Effective Federal Funds Rate (lhs), and US Job Openings (JOLTS), in mn (rhs), 01/2001-04/2023



Source: BofA Global Investment Strategy, Reuters Eikon, Incrementum AG

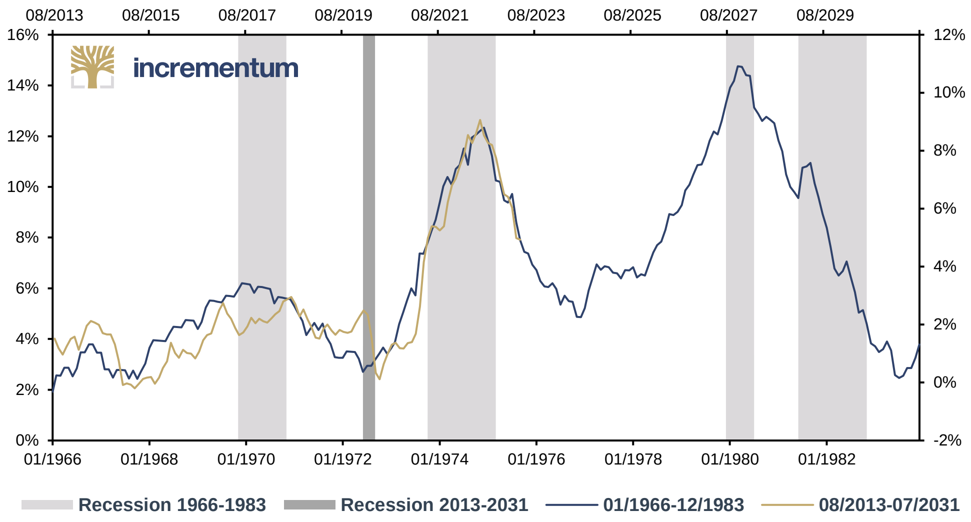
<u>Further arguments for structurally elevated inflation environment with inflation waves</u>

Central bankers fear a repeat of history as under Arthur Burns in the 1970s. *"Our baseline scenario points to structurally higher inflation with higher volatility in inflation rates,"* Valek notes. Some of the developments that argue for longer-term inflation include:

- De-globalization and nearshoring
- Chronic Budget Deficits and Increasing Fiscal Dominance
- De-Dollarization
- Energy Price Mitigation Programs
- Energy transition, decarbonization
- Rearmament and war economy
- Rising trade barriers, environmentally as well as (geo-)politically motivated
- Sanctions from unpleasant trading partners
- The trend toward nationalization of commodity producers

As the past has also shown, during an environment of elevated inflation rates, the volatility of inflation rates also increases. The comparison of the current inflation wave with those from the 1970s is an interesting one in this context. It is worth noting that this comparison, which we already made in exactly this form last year, is still surprisingly apt 12 months later, although it should be pointed out that the scaling is not exactly the same.

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

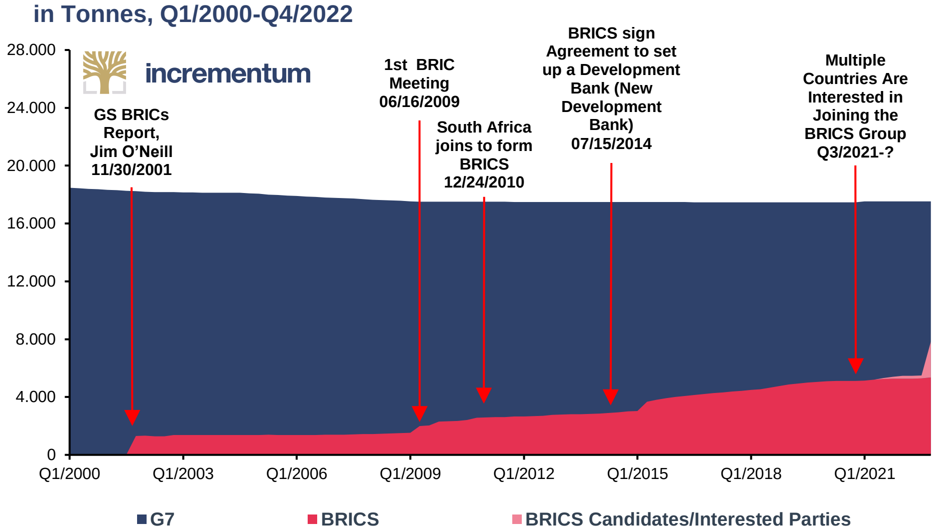


Source: Andreas Steno, Reuters Eikon, Incrementum AG

The geopolitical showdown

At the forefront of the geopolitical showdown are the **Collective West with the US as the undisputed leading power on the one side and China, Russia and the bloc forming around these two heavyweights on the other**. A considerable number of other emerging economies associate themselves with the latter, including formally through organizations that directly or indirectly challenge the US-centric world order. "*A key example of such an association is the BRICS countries, which 19 other states from Asia, Africa and South America are seeking to join,"* Valek explains. "*And it is precisely these states that have been increasing their gold holdings and reducing their US dollar reserves since 2008,"* adds Stöferle.

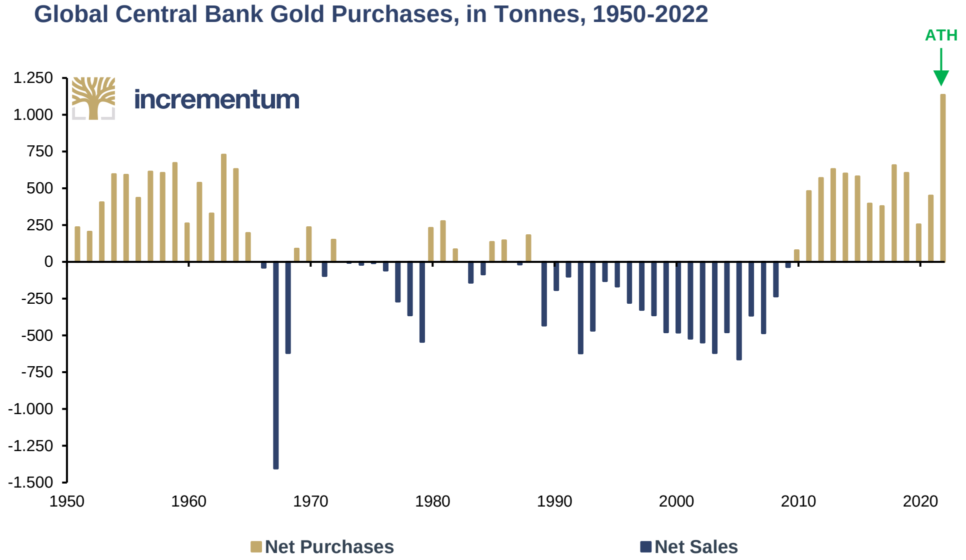
Global Gold Reserves, G7, and BRICS + BRICS Candidates/Interested Parties, in Tonnes, Q1/2000-Q4/2022



Source: World Gold Council, Incrementum AG

This trend has accelerated once again as a result of the sanctions against Russia, as already forecast in the *In Gold We Trust* report 2022. Emerging economies have taken careful note of the *weaponization of money* and are now seeking to further reduce their dependence on the US dollar. "*One of the few neutral and liquid reserve currencies in this political environment remains gold,"* Stöferle explains. Central bank purchases were higher in 2022 than they have been for many decades, with much of these purchases registered in the second half of the year, after Russia's foreign reserves freeze.

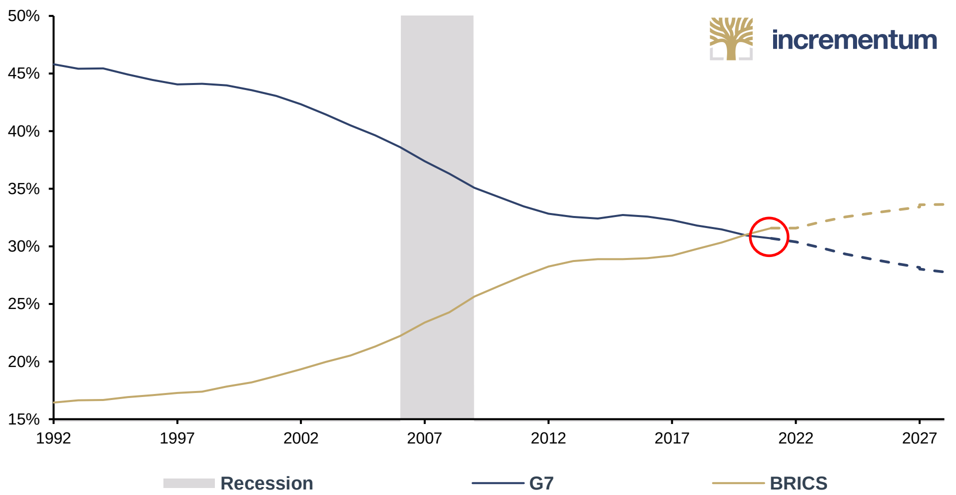
Global Central Bank Gold Purchases, in Tonnes, 1950-2022



Source: World Gold Council, Incrementum AG

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

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



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

Investment consequences of a recession

"Since we are assuming a significant economic slowdown, this year we have taken a particularly close look at the performance of different asset classes during a recession. For this purpose, we have divided recessions into 5 phases including a run-up phase and a recovery phase and analyzed them accordingly," explains Stöferle, and continues, ***"The evaluation for gold, silver, equities, commodities and mining stocks shows that gold is best suited as a recession hedge overall,*** *with an average performance of 10.6% throughout the recession."* However, there are significant differences in gold's performance during different recession phases.

Average Asset Performance in the *Incrementum Recession Phase Model*

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

While in phase 1 and phase 2 gold's performance is still very positive at 10.9% and 5.7% respectively, especially compared to the performance of the other assets, it is much weaker in the later phases (3-5) at only 2.9%, 2.7% and 2.6%. Silver is not a reliable recession hedge, with an average performance of -9.0% throughout the recession. This is likely because silver is perceived much more as a cyclically sensitive industrial metal than a monetary metal in the midst of the downturn. In the months before and after the recession (phase 1 and 5), however, silver performs above average in comparison.

Outlook

The two fund managers also venture a gold price forecast this year. "*We confirm our long-term gold price target calculated in the* In Gold We Trust report 2020 *based on our proprietary gold price model. This is USD 4,800 in the base case scenario at the end of the decade. To put this in context, this equates to an annualized return of just over 12% p.a. through December 2030. By comparison, in the 2000s, the annualized return was just under 14.5%, and in the comparatively low-return 2010s for gold, the figure was 3.3%,"* Valek explains.

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 fact that we are currently behind the statistical path of the forecast appreciation for the decade can be well explained fundamentally by the sharp interest rate hikes. Provided that the upcoming showdown in monetary and geopolitical policy we have described manifests itself accordingly and the all-time high is also surpassed in US dollars, we expect an accelerated appreciation of the gold price in the coming years," adds Stöferle.

About the *In Gold We* Trust *Report*

The annual gold study has been written by Ronald-Peter Stöferle for 17 years, ten of them together with Mark Valek. 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. The study is regarded as an 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 second time this year. The Chinese version will be published for the fifth time in the fall.

The following internationally renowned companies have been secured as Premium Partners for the *In Gold We Trust* report 2023: **Agnico Eagle, Asante Gold, Aurion Resources, Caledonia Mining, Dakota Gold, EMX Royalty, Endeavour Mining, Endeavour Silver, Hecla Mining, Karora Resources, Matterhorn Asset Management, 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 2023 will be published in the following editions:

English
German
Chinese (To be published for the fifth time in the fall of 2023)

Short version – English
Short version – German
Short version – Spanish

Video presentation of the *In Gold We Trust* report 2023 – English
Video presentation of the *In Gold We* Trust report 2023 – German

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 of Incrementum AG.

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

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 member of the board of directors at *Tudor Gold Corp*. (TUD)as well as Goldstorm Metals and since 2020 Advisor for Matterhorn Asset Management.

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 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, reliability and autonomy are the cornerstones of the company's philosophy. The company is 100 percent owned by the five partners.

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