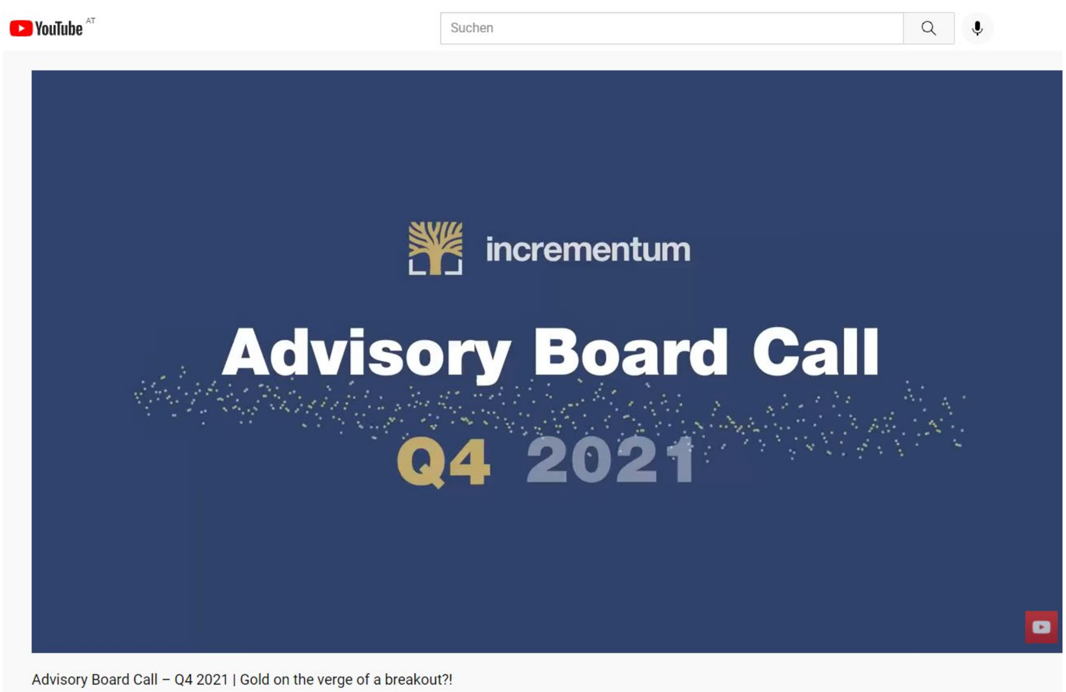
Minutes of the Advisory Board Meeting

October 7th, 2021

GOLD ON THE VERGE OF A BREAKOUT?



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Highlights of the conversation:

Kevin Muir:

- We have shifted from an environment of monetary dominance to fiscal dominance, which will mean that inflation is going higher. Gold will be one of the few things to save investors.
- Gold has had a disappointing year, mainly due to bitcoin taking market share and central banks selling. But it is a good idea to buy when market sentiment is low.
- I've been bullish on risk assets for some time, but am now bearish. The primary reason for this is "fiscal fatigue". Governments are no longer willing to spend and have moved to taxing.
- I'm bearish on bonds, I think yields are heading higher. Yields at the short end will stay fixed, but yields at the long end will rise.
- There are more risks in the bond market than the equity market.
- I'm looking to invest gold mining stocks during the upcoming tax loss selling season.

Jim Rickards:

- Gold has been trading within a range for roughly 18 months. It has been tending towards USD 1800, moving between USD 1700 and USD 1900.
- Russia's central bank has been buying a lot of gold, but they stopped in January 2020 when they reached 20% of their reserves. Russia, like a smart portfolio manager, wants to have a strong gold allocation, but will remain diversified.
- The shock that sends gold sustainably above the USD 1700-1900 range may come in 2022 or 2023. But it may not be the shock that any of us predict (as was the case with Covid 19).
- The US has increased its national debt by almost 50% in two years: an incredible amount.
- I expect high inflation in the long term, but predict that this will not come for at least a couple of years.

Ronald Stöferle:

- Our advisory board member Heinz Blasnik has sadly passed away. He will be sorely missed. Our thoughts are with his family.
- Our *In Gold We Trust* Oktoberfest special has been released.
- Gold ETFs – which are important when it comes to gauging interest from institutional investors – saw outflows during the last quarter.
- The recent German election results show that Germany's reputation as a haven of austerity is a thing of the past.
- The strength of the US dollar has put pressure on the gold price.

Biography of our special guest:

Kevin Muir

Long passionate about markets, Kevin grew up in a household where his father was an equity research director. Being exposed to market talk as long as he can remember, Kevin's true love was always macro. In fact, his first trade was in the US dollar index which promptly went limit-locked against him.

Not deterred, Kevin persevered and got a job on institutional equity desk for a big Canadian bank in the 1990s. Kevin moved into a proprietary group where he was in a charge of the equity derivatives book. Kevin had a ringside seat for the madness of the DotCom bubble, but in 2000, with a new young family, and the desire to no longer work for a bank, Kevin set off on his own. For the next 17 years, Kevin would trade his own account with another former co-worker, and a full-time computer programmer student they hired. Since then, Kevin has joined a well-establish prop group.

Transcript of the conversation:

Ronnie:

Gentlemen, it's a great pleasure to see you here for the Q4 2021 advisory board meeting. We have Jim Rickards here, our regular member of the advisory board.

Jim:

Jim, good to see you Ronnie.

Ronnie:

So you're currently in Montreal?

Jim:

Montreal, a little more international, yep!

Ronnie:

Then we've got our special guest Kevin Muir.

Kevin:

Thanks for having me. I'm looking forward to this.

Ronnie:

And you are based in Toronto now?

Kevin:

Yeah, we have got two Canadians. Half the call is Canadian today!

Ronnie:

So somebody on Twitter said we should talk about beer… and they wanted us to talk about *Labatt Blue Vintage*.

Kevin:

That's blue! That's a Canadian beer. And it's kind of the trashy beer. It's not that great a beer!

Jim:

You know what beer I drink in Canada?

Kevin:

What's that?

Jim:

Rickards!

Kevin:

Oh, yes, that's right!

Jim:

It's one of those popular brands and they do not export to the United States. So I can only get it when I'm up here, but there's Rickards Red, Rickards Dark, Rickards Pale… and you can get it all over. And it's good beer!

Ronnie:

So Kevin, thanks for taking the time. And Mark, my dear colleague, is currently in Liechtenstein in our office. Mark, Good to see you!

Mark:

Grüezi – from Liechtenstein, as they would say here!

Ronnie:

So let's start with our special star guest Kevin Muir. Kevin, again, thanks for taking the time.

We are very, very happy subscribers to your *Macro Tourist* newsletter. We actually missed you in in August, because you took a month off (which was pretty hard for us!) And since then, you've been extremely productive again. So just to quote the last couple of posts that you've made: "Changing the equation: the Tourist examines the debt ceiling debate through a market lens, then actions of Fed Chair Jerome Powell and what these might mean for markets". Then you wrote about "the option whale that changes shape". You wrote about the "hawkish shift" and the latest FOMC meeting that represented a dramatic change in attitude at the Fed. You also wrote about the Evergrande hyperbole, why it's not as bad as it seems, and recommended some names to consider buying.

So there are so many topics to discuss today. And we all truly look forward to our conversation.

But first of all, I have to say something pretty sad. **Heinz Blasnik, who was a regular member of our advisory board, he was a very, very good old friend and also a mentor of ours. He co-authored a book with us and he helped us tremendously with the *In Gold We Trust* report. He passed away, unfortunately, a few days ago after long and very painful illness.** The funeral is going to be in two weeks. So that's some a very sad news I've got to share. Rest in peace, my friend.

Kevin:
Sorry for your loss.

Ronnie:
Thanks. Um, yeah, I mean, after such news, many things seem quite pointless and irrelevant… but still, I want to say what Mark and I have done over the last quarter.

While I was on the road again, **I did my first big keynote in person after almost two years**, I did a presentation at the precious metal summit in Beaver Creek, talking about the monetary tipping points. I also attended the Denver Gold Forum and met with more than 80 companies from the mining space. And it was good to see so many good old friends in person again and talk to mining companies. We've got some very interesting new companies. We talked to all the big guys in the industry, and it seems that the gold mining industry is really in its best shape, while sentiment in the industry is probably at its worst.

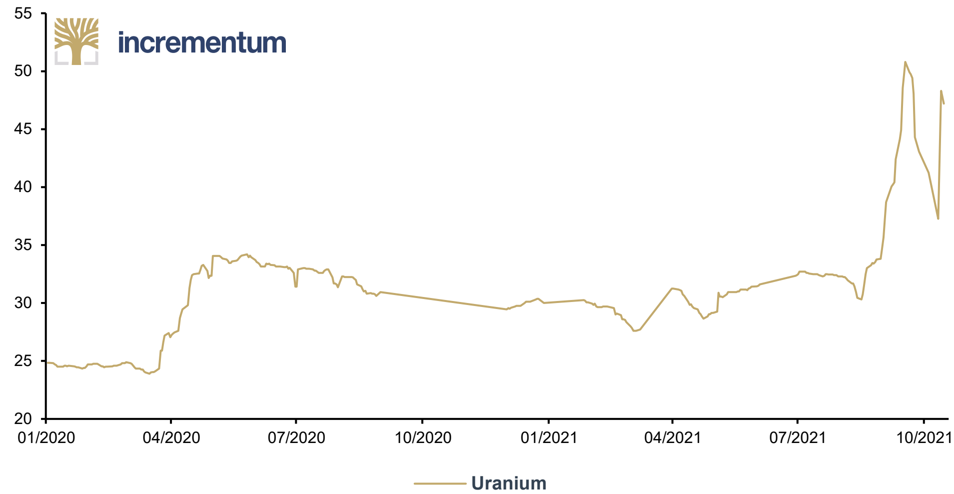
We have also just published our *In Gold We Trust* chartbook. We will also do the Oktoberfest special for all lovers of beer, gold and the preservation of purchasing power. So this will be published very soon. (Now available here.)

At Incrementum, we did a redesign of our webpage. Have a look at it. I think it's pretty neat!

The last advisory board call was with our dear friend and partner Dr. Christian Schärer, who manages our uranium fund. Since then, I think when we had to call uranium spot price was around

USD 30 and we're now about USD 40 per pound! And it seems that, at least to us, uranium is still very much undervalued. So I think the timing of that call couldn't have been better!

Uranium, in USD, 01/2020-10-2021



Source: Reuters Eikon, Incrementum AG

We have also already started work on the Chinese edition of our 2021 *In Gold We Trust* report. So this is what's going on our side.

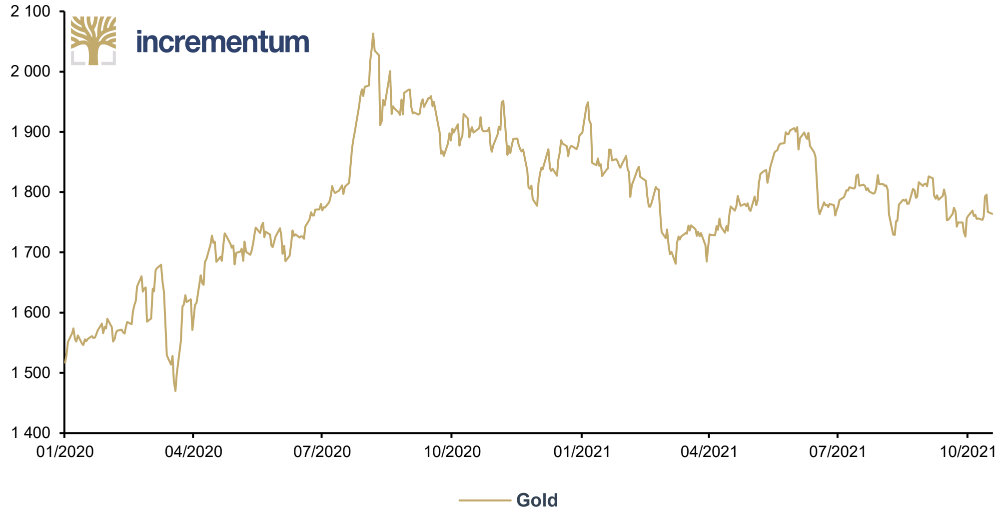
As mentioned, we're still very sad about our loss. I think everybody who knows us knows how much we enjoyed reading the Acting Man blog that Heinz Blasnik wrote for many years, so all the best to his family and again. Rest in peace Heinz.

Mark, do you want to start?

Mark:
Yeah, I'd love to start. Thanks, Ronnie, for the introduction.

Okay, let's just dive in. We have "The Macro Tourist" here. And then Jim Rickards who is also very astute in macro topics. So I'd like to kick this off by starting to talk about perhaps gold, and perhaps in the broader sense, the inflation debate. So I think to some degree, we can recap. In late 2020 we debated "*inflation or deflation*" and I think in 2021 the debate is "*will inflation be transitory or persistent?*" And together with this debate I think very relevant, obviously also for us, is the question of what is happening to the gold price. We have a few thoughts on that.

Gold, in USD, 01/2020-10/2021



Source: Reuters Eikon, Incrementum AG

The gold price has disappointed to some extent and probably the main factor driving that is that real interest rates have become more negative. One would probably assume that this is a good environment for gold, but the price hasn't really taken off.

It's stagnating, perhaps even falling a little bit during recent months. So I'd love to pick your brains on that one. If I may add a few thoughts in advance. I think one of the potential explanations is that the card narrative and inflation debate – namely that inflation will be transitory seems still – to be the prevailing one or the one which the market (the main market participants) still adhere to.

We saw a few indications in this regard. For instance, I recently retweeted a tweet from the IMF, which posted their inflation expectations. Basically, they predict that in 2022 inflation will already come back down neatly to 2%. So that would be an indication for me that this transitory narrative is still prevailing.

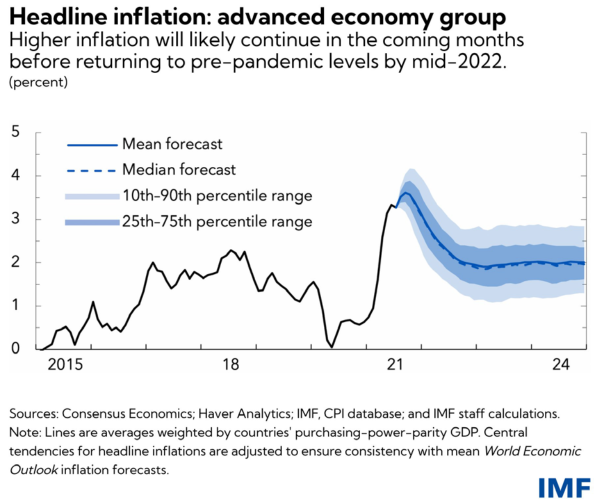


Image source: https://twitter.com/IMFNews/status/1445743531759267846/photo/1

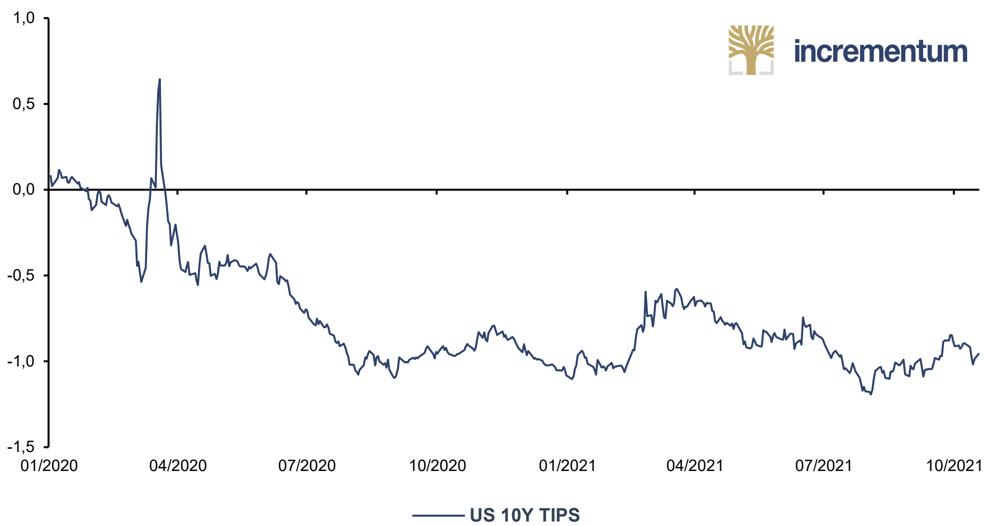
So let's start with our special guest. Kevin, could you share your thoughts?

Kevin:

Sure. So, I think that a lot of people have been confused about why gold has not performed better, it seems like the perfect environment, we're running big deficits, we're having low negative, or negative real interest rates. I think that it can come down to a few factors. **One of them, no doubt, is the fact that Bitcoin has pulled in a lot of the people that would have traditionally gone to gold as a safe haven.** So I think you just have to admit that, understand that and accept it. And you can decide about Bitcoin over the long run, whether it's going to work, and whether it's going to be a true competitor to gold. There's no doubt that some of the money was pulled in that would have traditionally gone into gold. But if we look back and examine the gold rally of the past two years, and think about what happened. We had COVID, and COVID initially caused a dramatic rise in real rates, because bonds went "no bid" and there were all sorts of worries about deflation. And then very quickly, the Fed stepped in, with all sorts of liquidity measures. And not only that, the fiscal pumps were opened up wide, and we had a dramatic lowering of real rates.

If you go look at the 10-year real TIPS, meaning the real yield before COVID, it would be trading at zero. It spiked to 50 basis points, at which point the Fed panicked and said, "Whoa, whoa, we can't have that!". We then had an immediate kind of decline back to zero, a walk down to minus 50 basis points.

US 10Y TIPS, in %, 01/2020-10/2021



Source: Reuters Eikon, Incrementum AG

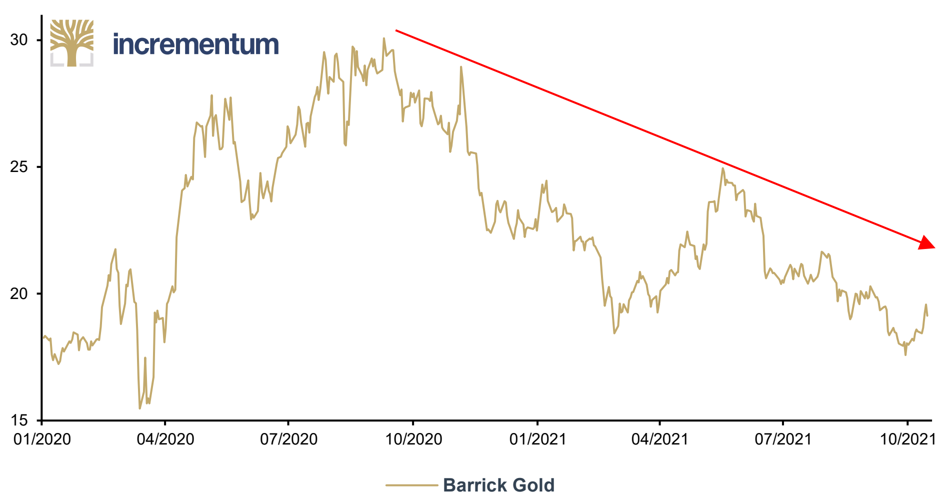
(This is the 10-year level.) And then from March to August, we had a move all the way down to minus 100 basis points in the 10-year TIP yield. So we're at minus 100 basis points. And I remember that August very well, because at that point, that was when there were all sorts of excitement in the gold market. People were just storming in, you couldn't be bullish enough.

We had Warren Buffett announce that, for the first time ever, he had bought some Barrick (whether that was him or one of his lieutenants… who knows!) But we had Warren Buffett doing that, and we had Ross Gerber, who is an important technology investor from Silicon Valley, or from LA or something, He's a guy who never trades gold, and he came out and proclaiming that it was the easiest trade he'd found in a long time. And when I saw that I ended up writing a piece saying "This is crazy!" When you get somebody telling you that there's something so easy, I know that this means that the sentiment is so lopsided against it, and that you should go the other way. And I actually – even though I had been a big gold bull – I wrote this piece saying it's time to take some chips off the table. And I likened it to – you know, being a Canadian, we compare everything to hockey – and one of the greatest hockey players that's ever lived as Bobby Orr. Bobby used to skate around everyone, and everyone was kind of in awe of him and didn't want to do anything. And then one of the opposing coaches screamed out, "He's not God, hit him!"

Image source: NHL.com

And I remember thinking that when Warren Buffett announced that he was buying Barrick, I said "He's not God, take him on!" And since, that proved to be the high within a month, or maybe even a couple of weeks, we've been straight down since then.

Barrick Gold Stock Price, in USD, 01/2020-10/2021



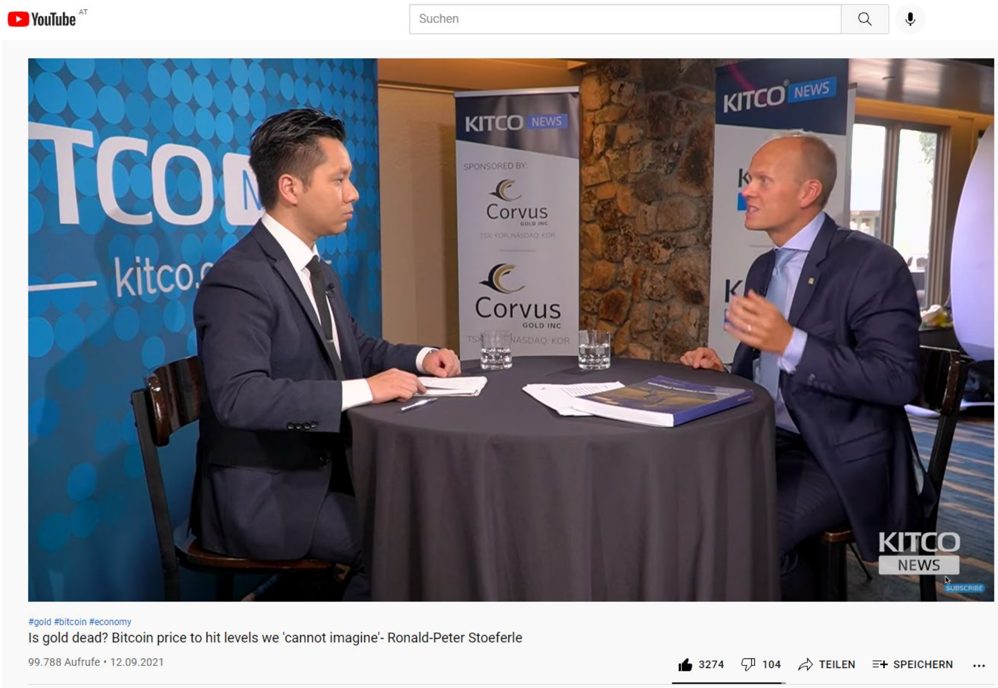
Source: Reuters Eikon, Incrementum AG

And interestingly enough, that was at the point that you saw Bitcoin really take over the narrative. And you saw Bitcoin actually get a bid, and it's outperformed since then. Now one of the things that we have to realize is the 10-year TIPS yields are still minus 90 basis points, so we haven't actually gotten that much more negative. And then the other thing that they think that people are missing on the gold story is the central bank purchases. And if you look at going into the COVID point, there were all sorts of central bank purchases, they were buying 200 metric tons a quarter. It was one after another and they were driving a lot of this bull market in gold. **Then what happened was COVID hit and in the first quarter after COVID I think we went down to 20 metric tons and then for the first time in decade, the central banks turned into sellers.** It was actually in the second and third quarters of 2020 that they became sellers. And so when I look at this, you know, if we get the central banks that used to be buying, and then turning into sellers, then that's a big move. So to me, I look at gold, and I look at the kind of disappointing year that we've had. And it doesn't bother me that much, because I this view this is we got way ahead of our skis. Everyone got pulled up on it, there's too many longs in the market, central banks walked away, and now everyone hates it everyone. Ronnie was telling me a story about being at the Denver Gold Forum and how there's empty presentation rooms, like literally 10 people there. Well, to me, I look at that.

And I say, you know, do I want to buy the asset that's cheap, and that nobody cares about? Or do I want to go chase the thing that everyone else is chasing? And to me, it's very clear, I think that you should be buying gold down here. I think that over the long run, **we have shifted from an environment of monetary dominance to an environment of fiscal dominance, which will mean that inflation is going higher. Gold will be one of the few things to save you.** Yes, there are transitory elements of this inflation story. But make no mistake, underneath the kind of the wiggles of inflation is a change in mood from something where… 2% used to be a ceiling… and I think it's going to become a floor on the inflation front. And when I look at it, gold just has to have a place in your portfolio.

Ronnie:

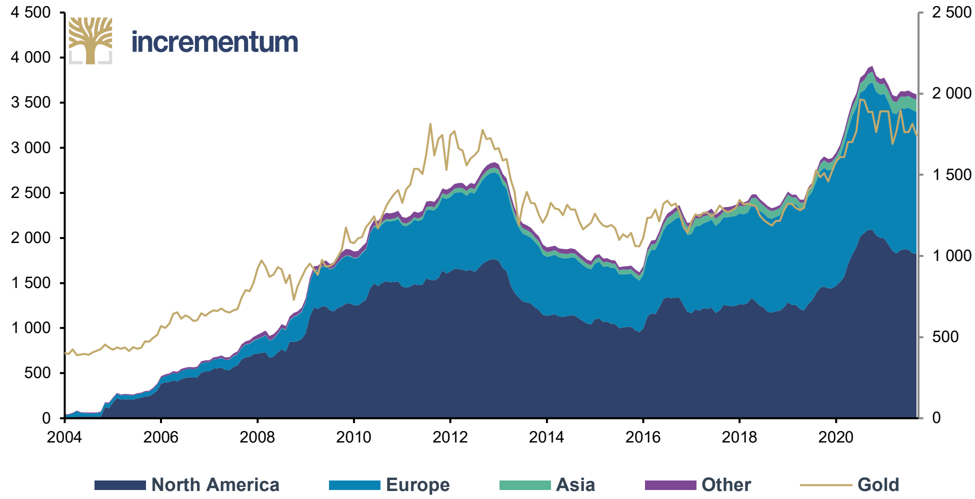
Thanks, Kevin. Actually, for me, a very interesting moment was at this conference, and I talked about it in a KITCO interview, was when I was talking to a die-hard goldbug at the precious metal summit in Beaver Creek. And I said, "Well, I could imagine gold going to new all-time high in a couple of months, because now we're trading at 1760. Actually, gold's all-time highs are not that far away!" And he said, "No, that's impossible. Gold is dead!" And if somebody who's really into it, you know, has lost all the confidence and all the optimism and just throws in the towel... I think that says quite a lot.



Kevin:
One second, Ronnie, can I interrupt with just a famous saying that Don Coxe, a famous strategist for Bank of Montreal used to say? “Those who love it least hate it the most because they’ve been burned the worst.” And that’s when you want to be buying in.

Ronnie:
Absolutely. Now Jim, I think that’s one of the most important drivers for gold… I just had a look at ETF demand. I think ETFs are quite important to gauge interest from institutional investors. And actually, there were outflows in the last quarter. And we all know that they are very, very procyclical. So ETF demand goes up as soon as the price of gold goes up, and vice versa. So Jim, from your point of view, what should happen to give gold its mojo back and actually trade higher again? From your point of view, what has to happen?

Accumulated ETF Holdings by Region (lhs), in Tonnes, and Gold (rhs), in USD, 01/2004-09/2021



Source: World Gold Council, Incrementum AG

Jim:

Well, I'm always fascinated when astute and attentive analysts look at a subject and come out in the same place through completely different paths! So when Kevin did his summation said, "I think it's a good buying opportunity". I agree completely. I agree with Kevin, I would say the same thing. But I disagree a little bit with some of his descriptions. So if I just drop a few footnotes… Kevin said that you talked about the peak on August 6, 2020. That was the all-time high for gold: about 2069 US dollars per ounce, and he said "It has been straight down since then".

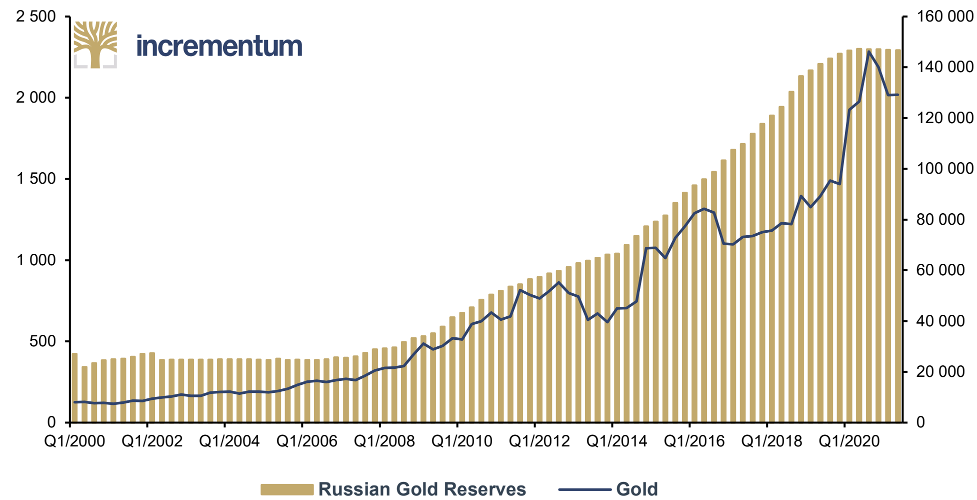
Well, if you take August 6, 2020 and October 7, 2021, well… down is down, no question about it. But it's not straight down. This has been one of the most fascinating rollercoasters. We had three smashes, we had a 4% smash – and when I say smash, I mean an "air pocket" – it goes down like in 24 hours… 48 hours at the most. We had a 4% smash on June 16, 2021 when the Fed first said, "Hey, we're going to taper". They've been dialing up the messaging since then. But that was the first time that any Fed release referred to a taper happening sooner or later.

We had a 9% smash on August 8, 2021 on a Sunday night when Shanghai, London and New York physical markets were all closed. This was executed and clearly a manipulation of some sort, we don't know the culprit (I suspect the Russians… but who knows) down 9% high to low… I can't even say "intraday" because it was eight o'clock on Sunday night. They executed trades through the futures markets and the physical equivalent of the futures sold was 50 metric tons and everyone on this call, and I assume most of our listeners, knows that 50 metric tons is a lot of gold for anybody. If you try and call JP Morgan and say “he offered me 50 metric tons of gold”, they’ll hang up the phone. But you can do it in the futures market, and that’s what happened. And then another smash of about 4% began a couple of weeks ago, it was around September 23. So what gold has actually been doing is not going straight down – not even close – it has been trading in a range. It’s a broad range, with a central tendency around USD 1800 an ounce. The high end of the range is about USD 1900 an ounce, and the low end is USD 1700 an ounce. It’s a big range. It’s 11% or 5.5% on either side of the central tendency. If you look at a chart there are a couple peaks of just over USD 1900. Yeah, a couple lows at USD 1678 when we went below USD 1700. But they were all there only for a day or two, and then the gold price kind of got back in that range. And so that’s important because gold is actually going sideways. It’s going sideways around the central tendency rate of USD 1800 an ounce, with a lot of volatility, but it’s staying in that range. So gold is kind of going nowhere which is really, really interesting to me because I, by the way, I don’t consider myself a technician I consider myself a fundamental analyst and a global macro analyst but I look at charts. I think charts are information rich. I don’t pull out the whole technical analysis bag of tricks (I’m familiar with it, it just doesn’t have that much value for me) but a chart does have value, it’s very information rich. When you look at the chart, what’s fascinating is not that gold is down over that entire period from the peak. It’s that since the drawdown was mostly between August 8, 2020 and the end of September 2020. That happened pretty quickly. And then it just got in this range. It’s a paradox you know, on the one hand, you are kind of going sideways but on the other hand there’s a lot of volatility.

I’m not a day trader. I recommend “go for portfolios” and I recommend a 10% allocation, but boy if you were a day trader and you just bought the dips you would have made a fortune in this because that pattern has persisted for 14 months at this point. I just want to drop a footnote on Kevin’s point. He said central banks have walked away. That’s not true. There might have been one quarter where central banks were not sellers again, I don’t question the data at all… he said you’re entitled to your opinion,not your own data. So Kevin’s right about that. But there are far more interesting things going on in central bank gold accumulation.

I go to the World Gold Council, I don’t agree with all their analysis, but they get their numbers right. They’re a pretty good source of information. And I was looking at Russia because Russia had been just like clockwork. They were buying between 10 and 30 times a month for almost 10 years. So obviously they have standing orders with the dealers. They don’t want to disrupt the market. They were highly transparent. My friend, Elvira Nabiullina (I call her the only central banker who actually knows what she’s doing) was just like accumulate, accumulate, accumulate. And then China is the opposite. They've been accumulating but in a completely non-transparent way. They know who their agents are. I know how they do it. But you know that every five years they say "we got 1000 tones." Oh, really do that overnight, or have you been accumulating for five years? Now you decided to tell us? Well, obviously it's the latter… But the Russians are more interesting because you have a lot more information.

Russian Gold Reserves (lhs), in Tonnes, and Gold (rhs), in RUB, Q1/2000-Q2/2021



Source: Reuters Eikon, World Gold Council, Incrementum AG

What the Russians did after 10 years of accumulation… they just stopped cold around January 2021. They didn't sell but they just stopped buying, which is interesting. So I looked at their reserve position. And I can see why because **they got gold to almost exactly 20% of their total reserves.** For a round number, about 500bn of reserves, of which 100bn was in physical gold, so that's 20%. About 2400 or 2500 tons. And they said, "That's enough". In other words, it's the same reason I say for individual portfolio that 10% is enough. And then people say, "Well, Jim, if you think gold is going higher, which I do, why not 50% or 100%?" I say because that never makes sense, you never want to be over-allocated and you can be wrong. I'll say you always have to factor that in. But they got to 20% and they just levelled off and said "Okay, we're there".

And if you think about that, from a sovereign point of view, this is how Putin thinks. His two favorite sports are chess and jiu-jitsu, which tells you where he's coming from. So what they did, and they did it brilliantly, they created the perfect hedge. They were selling treasuries reducing their exposure to US dollar instruments. That has more to do with sanctions and possible freezes than it does with asset allocation, but that's a factor, but they still have a large chunk of treasuries, so what do they do? They export oil. How is oil priced? In dollars. So they've got a big dollar exposure, dollar revenues and dollar inflows whether they like it or not, because oil is a dollar-denominated market, but now they've got a big amount of gold. So one of two things is going to happen, either the US is going to maintain the value of the dollar, in which case gold will probably continue to go sideways. You won't regret the gold, but you won't be burned on the dollar. And that would be a nicely balanced position.

But if the United States manages to get to inflation, gold's going to go up and the dollar price of oil is going up as well. So they've got a beautiful hedge. This is like a masterpiece of hedging and wealth preservation, which is what reserve positions or sovereign wealth funds are supposed to do. So the Russians have handled this in a masterful way.

But while I'm looking at all this Russian data, something just jumped off the page. Japan has been running at about 600 metric tons for forever, I looked back 30 years and it hadn't gone up. I suppose you could go back 40 but it was just like the 600 tons and all of a sudden Japan's position goes up 80 tons almost to 700. The market is liquid, but it's not that liquid, you can't buy 80 tons. And then I looked into it what they did. It was an accounting entry where they had the gold in another account and they did the accounting and moved it over to the reserve position in the Bank of Japan. And by the way, China does the same thing. They have a sovereign wealth fund. Then they had the People's Bank of China (PBOC). Everyone looks at the PBOC which has a website but is non-transparent. So when you see these big jumps in Chinese gold, it's an accounting entry moving it from the safe to the PBOC, but it's been in the safe literally all along.

Well, Japan did the same thing. Now I don't know where the gold came from what side account or ledger or whatever inside the Ministry of Finance, but they had it and the 80 tons shows up. So then you have to ask yourself, Okay, got it. Why now? Well, look at Afghanistan, look at the US humiliation, look at China on the march flying 86 of their equivalent of an F-35 over Taiwanese airspace. If you're Japan, suddenly you might have to become a nuclear power, you might have to go it on your own. And if you're China, and you're going to invade Taiwan, why stop there? I mean if you are going to start World War Three you might as well invade Japan. So Japan felt they had to make a statement and they did it in gold. So was Kevin right about one quarter? Sure, but the central banks have not walked away. In fact, if anything, Russia is still in the game, **China is in the game in a non-transparent way, Japan has decided to hoist their gold flag, Turkey is buying gold and the other one who is buying in a non-transparent way is Iran. So the central bank acquisition of gold is still going very strongly.**

I also disagree a little bit with the Bitcoin thing. I am now going back on the conference circuit...

Ronnie:

You are going to New Orleans, right?

Jim:

Yes, I'm going to New Orleans. And then I was invited to give a presentation on the cashless society, basically the future money, at Hillsdale College and everyone was thinking what's Hillsdale College? I said, well, it's the new Harvard. As places like Harvard and Yale have grossly lowered their academic standards, Hillsdale is where all the big brains are going. I call it the new Harvard and that's where the really smart people are, so I was actually honored to receive the guest lecture invitation there. But yeah, it's kind of hard to avoid Bitcoin. **Bitcoin is interesting in ways that most people don't understand, but the idea that somehow Bitcoin allocations are detracting from what would otherwise be gold allocations, yeah maybe a little bit around the edges, but that's not a big factor relative to what central banks are doing.**

The truth is, even though I am in Canada, I'm talking about Americans. Americans don't get gold, they don't understand gold. We've had 40 years of, I wouldn't even call it miseducation, we just stopped teaching it in the 70s. If you're younger than I am and you know anything about gold, you're either self-taught, or you went to mining college, because we just stopped teaching it as a monetary asset. Of course it is, but Americans don't get too excited about gold. Americans will buy gold when the price goes from USD 5,000 an ounce to USD 7,000 an ounce in, like, six weeks, they'll be "Oh, I gotta get some". But Kevin is right, the time to get it is right now. Kind of while you still can in some ways.

Getting back to your question after that very lengthy digression. So when you see something that's range-bound, which it is. An essential tendency, which is USD 1800 an ounce, then the analytic question is what's going to change that? Because it will change and it will break, but it will either break up or down and we don't know exactly when.

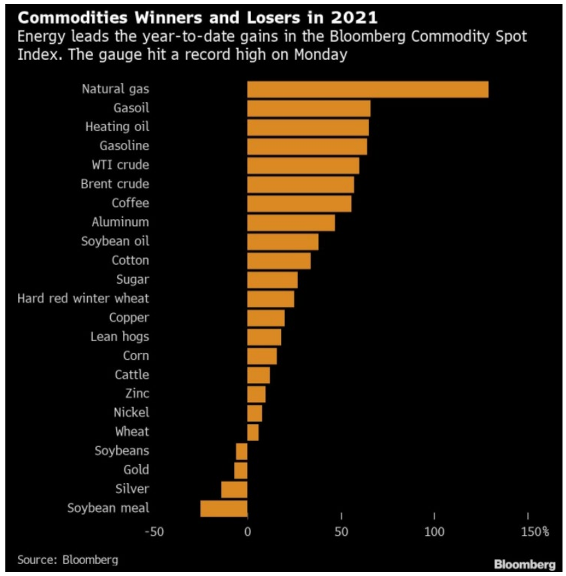
I guess what impressed me is the floor. Kevin talked about 2% for inflation, but I see it as a ceiling. But the USD 1700 per ounce floor in the range is very significant, because to me, it sets up what I call an asymmetric trade. An asymmetric trade is one where it might continue to go sideways. But you're probably not going to lose a lot of money, and you could make a ton. No pun intended, since we are talking about gold. But the point is, if you've got a floor at USD 1700, and you've got upside up here, you don't know exactly when you're going to realize the upside. But if you can just stay with it and not get too upset about these periodic crashes, you're in a position where you've got what looks like a solid floor and lots of upside potential. That's a good trade.

Again, I'm not a day trader, but you know, timing matters and trends matter, and that's a good one. So then the question is what's going to cause gold to break out the high end of that band and get back to say USD 2070 an ounce and go further than make its way to USD 3000, USD 4000? The answer is, it will be a shock. But it will probably be a shock that none of us have on our shock list. And what I mean is, we have muddled through a pandemic for the last six months, the worst, at least to the US point of view, the worst in history, because we now have more fatalities in the Spanish flu. Globally, that's not true, the Spanish flu is still number one. **But we're talking about the third worst pandemic in the last 650 years, the other two being the Black Death of the mid-14th century. Then, of course, the Spanish Flu in the early 20th century.** So that's a pretty big shock. And we've had some others, we saw major developed economies basically shut down, that's what happened in April 2020, we basically shut down the store and then reopened during the third quarter. Most countries have not made it back to December 2019 levels of output. A year and a half, to get back to where you were, that's extraordinary. I mean, usually you bounce back in three, six months after a recession. And a lot of the world has not yet recovered. We are still at least 5 million in terms of lost jobs that have not been recovered. I know the unemployment rate is down but that's because people are moving out of the labor force. So there's nothing normal about where we are, it's not the end of the world, we muddle through, we carry on, but we're never going to get back to where we were really behaviorally, psychologically, this will be a multi-decade, intergenerational adaptation. So the pandemic shock, economic shock, political shock, and a change in leadership in Germany. Quite a bit is going on. But none of these things have moved the gold price other than in a very transient way. So what is it going to be?

I guess, if you use a sort of Bernoulli process, you would say, it'll be something, meaning, if you had five events, each of which had a 10% probability. But you had a three-year timeframe, you'd say "10%? That's pretty low." Yeah, but if you got five of them, that's 50. If it's three years, the odds of one of them happening in three years is 100%. So that's just the math, but my point being, I don't know what it will be, and I don't know exactly when but I feel that we can, using a Bernoulli process, say with high confidence that there'll be something of that magnitude sooner rather than later meaning, probably in 2022 or 2023 that will shake gold out of this central tendency and shoot it significantly higher. So I agree, even with different analysis, I agree with Kevin's conclusion that this is a good time to buy.

Kevin:

Can I just jump in there Ronnie? First of all, I completely agree with a lot of what you were saying, I wasn't trying to say that central banks aren't buying. In fact, all I was trying to do was explain why gold has disappointed over the last year. And the one push back to your point about gold's going sideways… Yes, gold has gone sideways. But if you look at the Bloomberg Commodity Index, it's rifling to new highs, so if you were a gold holder, looking to hedge "inflation", then you've been deeply disappointed. So that would just be my kind of quick push back.



Jim:

Well Kevin, you're exactly right. Except gold is not a commodity, it's money!

Kevin:

Okay, and I don't disagree with you that there are times when it's the two… or even always, but I'm just saying that a lot of people bought it, expecting it to protect them against this coming inflation that we've seen. And if you go back to August when everyone was reaching for it, the bullish enthusiasm was awfully thick. I did use a little hyperbole when I said it went straight down, I didn't mean that, but on a relative basis it's been very disappointing since then. And I think that central banks walking away was part of it, and I agree they're back now and I think that we end up at the same place. I think that it's back now, it's one of the under-loved assets, and nobody is picking away at, and to me it's a buy.

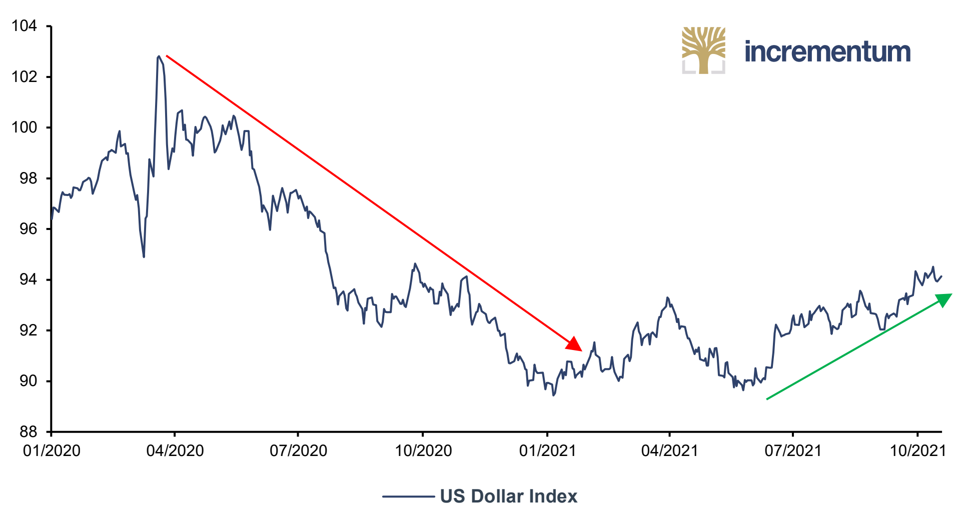
Jim:

Yeah, we all agree we're in the same place. I would disagree, however. I don't see any prospect of significant inflation. Now your energy prices are skyrocketing. Canada may do okay, but the US, Europe and China are going to freeze in the dark and I know that's a cliche. I hate to use cliches… but this one might actually be true! Seriously, there are going to be fatalities in the UK and elsewhere with what's coming this winter, because of all the misguided so called "green" policies, such as turning off all your nuclear reactors, turning off all your coal plants… you actually need a little more CO2 to keep the plants alive. But Germany did what they did, and Putin is dialing down the tap, and we'll see what happens. So natural gas prices are skyrocketing, oil is not far behind, absolutely correct. But that's not the same as inflation for a couple of reasons.

Number one, it's not broad-based and persistent. Number two, if you know Sunzi's idea. If you want to understand the enemy, you have to think the way they do, not the way you prefer. So if you're trying to think like the Fed (which can be painful!) the Fed excludes that. They look at non-core, and I know most analysts laugh and go, "Well, yeah, you got to get groceries and gasoline". So why not look at non-core? Okay… but the Fed doesn't. When you take energy and food out, things are actually coming down very quickly. So I don't see the inflation, although, of course, you're right about commodity prices, and there's also a recursive function there. If you take oil that high, you actually put the economy into a recession.

Ronnie:
Just a few minor things to add to this discussion. I think it's also what has put some pressure on the price of gold and intolerances is obviously the strength of the dollar (or we could also say the weakness of the euro) if you have a look at the DXY, for example.

US Dollar Index, 01/2020-10/2021



Source: Reuters Eikon, Incrementum AG

So gold in euro terms actually looks pretty interesting from my point of view. I think another point that might be on the negative side is the whole tapering discussion. When we see the first rate hike, this often comes at a time when gold has actually found a bottom. Moving on now to the commodity space. I mean, our view has always been that that gold is very, very early to discount fiscal and monetary stimulus, and we once did a presentation called "The Seventh Sense of Financial Markets". So gold probably first discounted the developments very early on. In spring of last year it made its bottom way earlier than in the equity markets. And then for commodities, it took much, much longer to make the bottom out. Now at the moment agricultural commodities are doing well, base metals have done tremendously well.

By the way, congratulations, Kevin, I know that you've been in the natural gas trade since very early on. And obviously also the oil market, which is going crazy. I would love to pick your brains on that.

But perhaps gold is already discounting the fact that the whole inflation debate has gone too far. I think there's another disinflation guy out there, it's not only Jim Rickards but also Dave Rosenberg, a strategist that I highly respect and that I read every day. But I would like to lead over to a discussion regarding the Federal Reserve. We saw an interesting article written about the resignation of Fed officials Eric Rosengren and Robert Kaplan. They were definitely in the more hawkish camp.

So do you think that the whole scandal or trading controversy diminishes Jay Powell's prospects for being reappointed for another four-year term? And did you also recognize this this U-turn that Powell just recently made? He made some comments recently that QE will be fully wound up by the mid part of next year, which took me quite by surprise. And the other big surprise, from my point of view, was the extent of the move up in the dot plots, which we know are basically useless. But still the move is telling us what the Federal Reserve is seeing. The introduction of the 1.75% Fed funds rate as the median forecast for 2024, that's showing quite a hawkish turn. Do you think that the Federal Reserve now is really getting concerned about inflation and that perhaps they see that it's not really transitory, but that it might last for quite a while longer? What do you make of that?

Kevin:
Thanks Ronnie. Yeah, I guess when you know me for a while you know that I have been quite bullish on risk assets for the past year and a half ever since COVID. I have been hammering home that the Fed and more importantly, the fiscal authorities, will do whatever it takes, and that this will be a tailwind for risk assets. And the economy will be shocked at how well, both will do coming out of it. And that's been my theme ever since the March COVID lows. I've recently gotten very concerned and outright bearish on risk assets. And it's for two reasons. I look at, first of all, on the

fiscal side, I call it “fiscal fatigue”. We’ve gotten into a point where we no longer are willing to run the big deficits, the governments aren’t willing to spend. We’re sitting around arguing about this latest bill and whether it’s one and a half, two and a half trillion… it’s actually over a long period. And whether it’s completely paid for or not through higher taxes, it doesn’t really matter. The point is that six months ago or nine months ago, the Democrats shoved through a bill that was around USD 2trn. That was just money spent, out the door. And so now we’re sitting around in arguing about this. And I look at it and I say, “Okay, we shove USD 2trn out just into people’s jeans”, and now we’re arguing about whether it’s USD 1.5 or 2.5trn over five or 10 years of investment.

So the reality is that on the fiscal side, we have fiscal fatigue. There’s less money going out, the governments are spending less. Then you combine it with the fact that nine months ago, the message from the Fed was that we’re going to have flexible average inflation targeting, we’re going to put up with inflation being higher for longer, we’re going to fix the problems of many years of certain minorities not having as much employment, it really seemed to be there with a whole narrative where the Fed had made this shift to a new Fed. There was a there was a new Fed that came along. And one of the things that worries me is that I look at this most recent FOMC meeting, and it seems that Powell went and almost abandoned flexible average inflation targeting. And the thing about it is, I guess you could argue that the whole focus was always flexible, they never defined how much was “too much” inflation. And it seems to me that they’ve hit their uncle point and they’ve done the taper. The taper they announced was quicker than anyone expected. And I completely agree with you, Ronnie, that this is bad for risk assets in terms of what you’ll see.

And one of the reasons I’m bullish on gold, is that I think that gold will start to see through this next move, and this next move to me is lower for risk assets. We’re going to see problems in the stock market, we’re going to see problems in the economy. You can’t simply go from putting this much stimulus in on both the monetary and fiscal side, and just withdraw it and then not expect there to be changes. And so ultimately, one of the reasons that I’m bullish on gold is I think that they’re going to look through this and they’re going to start to anticipate the next cycle. They’re going to see that we are going to get a backup. And I don’t know when that is and that’s really the question, how much hawkishness from the Fed, how much withdrawal on the fiscal before things break again. But I definitely think that the way we’re headed is towards something breaking again because of the macro environment souring. It used to be these were two great tailwinds. You’d have the Fed being on your back doing flexible average inflation targeting, you’d have the fiscal spending, spending, spending— both of those are headed the wrong way. And we all know that asset prices are priced, not as an absolute number but as a the rate of change. And to me the rate of change on both sides is headed the wrong way. So I'm, I'm kind of expecting that we're going to see a situation where the risk assets revolt, and then eventually, the Fed will have to return to their dovish ways. I'm actually wondering if we even get to the point where we have a rate hike. Everyone's talking about this pricing and the rate hikes. I'm not sure that we even get to the taper. If we taper, by the time we finish tapering next summer, I'm not sure that we're even going to have a strong economy still. And that will be doing rate hikes.

Mark:
May I just interject on this question. So in this scenario what's your view on yields? Because I think probably the classic trajectory of yields would be going higher at first until this tipping moment kicks in, and then you will have this countermove already, Fed getting dovish, and then yields falling again. I mean some of us have been waiting for a long time, and we've been thinking about a moment, what happens if that doesn't happen? And what happens if in this incidence yields actually continue to rise. Do you expect this? Would you see this as a probability?

Kevin:
I am very bearish on bonds, I think yields are headed higher. And I know that seems like a contradiction, because I'm telling you that the Feds aren't going to raise rates, yet I think that bonds are headed higher. First of all, just in terms of absolute levels. If we look before COVID, inflation was running well north of 2% and the 10-year was 1.80. Right now we have inflation running 5% and you can say what you want, it's still transitory, it's still 5%. And the 10-year is 1.5%. And if we think back to Powell's moment where he said that we're a long way from neutral when he was actually hawkish, when he had first come in to take over the job.

Inflation was running high. Although you shouldn't use CPI as the Fed uses the Personal Consumption Expenditure (PCE), but regardless, CPI was almost 3%. And we had a situation where the 10-year went up to 3.5%. It was a long way. So I expect yield on the long end, to rise. And I expect yield at the short end to stay pinned. And so I will agree with the disinflationists, that the chances of the government ever getting, or the Federal Reserve ever getting, hawkish enough to invert the yield curve, or to be hawkish to the point where they're changing things… I agree, I don't think that's going to happen. **I think that we're going to keep interest rates at real negative levels for a long, long time.** I think it's essential, it's the way you get out of this, you need to inflate, and we can argue about whether that's going to be effective and what makes inflation.

But I definitely think on the monetary side, that what we're going to see is the central banks pushing back against long-term rises in yields. And they're going to be slow to raise even though right now we're having a slight moment where we have the central banks getting a little more hawkish. The reality is as if they do that, asset prices come down, and then they revert back to the mantra "we have to be dovish". And ultimately the toughest thing as a strategist is mixing timeframes. I could sit here and talk to you about what I think about the next three months or six months. I think there are a lot of risks in the market. Having said that, over the longer run, I actually think there are more risks in the bond market than the stock market. And the reason I believe that is because I think inflation is going higher. And I think that is the ultimate end result of all of this change, and we probably should just get into it. Jim is a disinflationist, and I understand the argument. **But I think that what changed during COVID was that we had a willingness of governments to run deficits.**

And so we've had 40 years of the government trying to influence the economy solely through monetary means. If you think back to the year 2000 when they raised rates, they didn't go and try to change the economy and slow it down by raising taxes. They did it all through monetary means. So ever since Volcker, we've had four decades of governments tuning the economy through monetary means. And what happened was in the great financial crisis, we hit this point where all of a sudden, we couldn't stimulate anymore. The reality is that we'd hit the zero bound, they tried to implement extraordinary measures. We all know, the quantitative easing, doesn't actually cause inflation, it doesn't actually do anything to the real economy. We didn't realize it then. But most people will admit that now.

And what changed was in 2020, when COVID hit, we all of a sudden got a willingness to run deficits. So now, all of a sudden, there's two ways that money is created. One is private sector, lent into existence. The other way is that the government spends it. And the government spent it, and a lot of people were shocked at how they filled the hole in the COVID crisis, and how quickly the economy bounced.

But the reality was they were running huge, huge deficits. Now, if they don't run those deficits, I completely agree with the disinflationists that the tendency is for us to go and sink back, that we need to run those deficits for them to continue to make inflation. And I guess where I disagree with the long-term disinflation, like Rosenberg, like Jim, and like Shilling, is that I think there's been a change in attitude. I think that we are going to see more and more willingness to elect governments that are willing to do this and to run huge deficits. And I think that eventually, we're actually going to get to the point where they don't even count it as deficits, they're going to figure out a way to just spend the money into existence, whether it be through some Special Drawing Rights (SDR) or we're talking about the trillion-dollar coin. There has been a change in attitude, the younger generation has come and they no longer feel that this is something that needs to be the case. The budgets don't need to be balanced, they've adopted Modern Monetary Theory (MMT). And you can see what you want, whether you think it's going to end badly or not, I don't bother arguing about whether it makes sense. I just argue about where are we going, what is going to be instituted? And to me I see a wholehearted change in attitudes about government attitudes about deficits and that is ultimately why I think we're actually going to get the inflation that that nobody thinks is going to come.

Ronnie:
I think that was also pretty clearly confirmed by the election results in in Germany recently and I think the country's reputation as a "haven of austerity" and as a country of the "frugal Swabian housewife", are things of the past. And I would agree, I think that's what we're seeing. It might be anecdotal evidence… but it seems that this wage-price spiral is now really, really starting to spin. A friend of mine just emailed me and said, "Well, I actually am looking for an assistant and all she has to do is to *pretend* she was working, she has to be there at 09:30 at the latest but it's really hard to find to find people."

And this is also something that I experienced in the United States. People have a hard time finding good people that really want to work. But anyway, I agreed with many things that you said, Kevin. And I like the fact that you always reference MMT, whereas Jim says that it's not really a theory and it's not really modern! But you say that it is basically coming and you're fairly agnostic when it comes to it, you don't want to have philosophical discussions, you just want to talk about what's going to happen.

From my point of view, this would also imply that *Lael Brainard* would get nominated. And then the second thing I wanted to ask you and also Jim, is in your scenario, doesn't this imply also that as soon as yields continue to rise to some point (I don't know perhaps its 2% for the 10-year?), that the yield curve control – which is basically unlimited quantitative easing – will be introduced. And I mean, we had it already. And do you also think that this might go hand in hand with the Federal Reserve actually starting to buy equities? Wouldn't that be the next logical step, the next logical reaction in the next crisis?

Kevin:

Okay, so I'll go first. First of all, I think everyone focuses on the Fed. And they, it's because of these past four decades when the Fed has been the policy setter, and the setting that rate too low has encouraged commercial banks to go out and create money. **I don't think the Fed is as important as everyone thinks anymore.** I think that the Fed, although it's important that they facilitate the fiscal policies that we're going to see the expansionary fiscal policies, I don't think that they're going to be the driving force. So yes, I hear what you're saying that who they put in there might seem important, but I actually don't think that that's as important as what the fiscal deficit looks like, what governments are choosing to spend. Their stances become more important. To me, all the Federal Reserve can do is mess it up, meaning pushing against it, is going to cause pain. And I don't think they're going to be able to do it. **I just think that the Fed cannot create inflation, I think that if we've learned anything it's that inflation is created through fiscal means mostly.**

Now, in terms of your question about the yield curve control, I get this one a lot. And I always think it's funny, because a year ago, I think the 10-year had gone from 75 basis to like, 110 or something. And everyone's screaming "The Fed needs to step in and do yield curve control". I'm like, "Are you guys insane?" Think about what you're saying. You're saying that they need to go in and peg the 10-year yield? Because it's gone from 75 basis points to 110. Like, this is the most ridiculous thing in the world. And I just gave you an example in 2018. The 10-year was 3.25%. So yes, maybe eventually, they're going to think about doing yield curve control. But it's not going to be right now. There's going to be way, way more pain. Like if you go look at a real return of a treasury account over the last you know, couple of decades, it looks like a dot com stock. Your return has been huge. And the things that we're going to have them peg it at this level. I think it's ridiculous. I don't think it's going to happen. I think that all you have to do is look at how many people are employed on Wall Street trading bonds. And think about the lobbying that will be done from all the JP Morgans and all those people in the world. I think that in America if there's one thing they believe in its free markets, I just think that they will be the last ones to do it. Because, let's face it, look at the Japanese bond market. It has ended. There is no Japanese bond market. It doesn't trade. So I don't worry about them pegging the yield curve, and especially at these low levels.

Jim:

On the Powell point, I agree. I think at this point it is going to be a no brainer. And the resignations of the two regional Reserve Bank presidents just pulled the rug out from under Powell politically. The economic effect won't be that great, but politically, it's a very big deal. It gives the Biden Administration the cover, they need to put Lael Brainard in there. To me the biggest single factor was not those resignations. It was when Elizabeth Warren coming out and saying we can't have Powell. She said "He's a dangerous man." Yeah… dangerous to Elizabeth Warren!

With his reappointment on the line, Elizabeth Warren calls Jerome Powell 'a dangerous man.'

I think that was the last nail in the coffin.

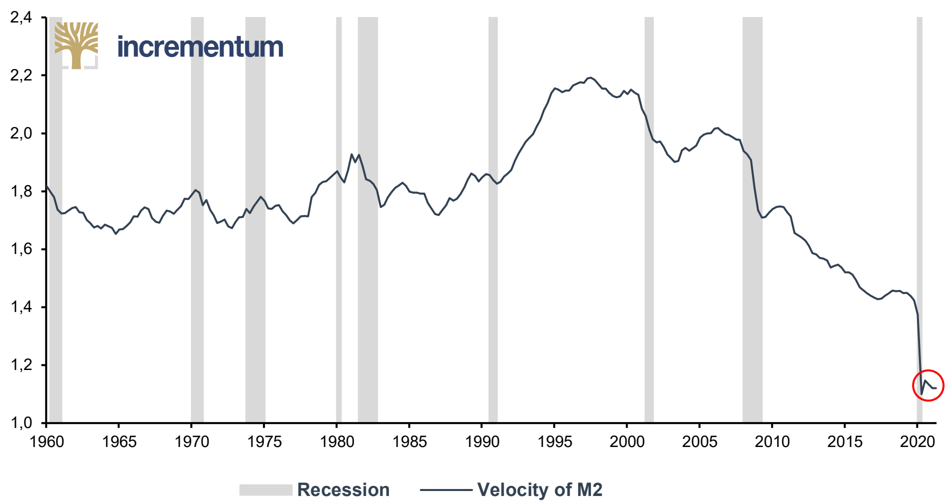
Having said that, I don't think it matters. Lael, the only one who understands international economics. It's a real void in the Fed. The board really needs someone who understands foreign exchange markets or national economics or the extent to which inflation or other phenomena move through international markets… exchange rates and currency wars and all that. She's the only one who kind of gets that. Yellen is clueless, she has no idea. So that's probably a good thing in terms of the intellectual caliber, but it really doesn't matter.

And the Biden administration has shown that they'll bow to the left. This whole idea, you know, of "Joe Sixpack from Scranton, Pennsylvania" was a good campaign meme, but it's nonsense. We saw that when a small mob of activists chased a United States Senator into a woman's room and filmed her while she was in the store closing the door flushing the toilet and coming out of the store berating her. It turns out that the Democrats have 50 votes in the Senate. They need all 50 plus a tiebreaker which is Kamala Harris, she's the vice president and president of the senate. The way we have it, you need all 50 votes, you can't lose one. Well, that Senator they chased down Kyrsten Sinema is one of the votes they need. So you need her vote to do anything you want. You need her desperately. And your idea of persuading her is to is to have a mob chase or into a lady's room and embarrass her publicly. That's not such a good idea, that's just stupid, but that's what's going on. So this is the kind of this silliness bordering on stupidity that is going on in the US political arena. But having said that, Biden's reaction was "Well that's part of the process". Actually, it's not part of the process. You know, vigorous debate a little bit of sharp elbows, that is part of the process but not what's going on. What this tells you is that the White House is in thrall to the progressives.

Having said that, Kevin said the Fed's not as important as most people think, and I agree completely… but if you're a trader and you want to make money in the eurodollar futures curve then pay attention, and the kinds of things Kevin was saying I think are exactly right. And you can make money as a day trader in euro dollar futures. But if you're thinking in terms of macroeconomics, if you think in terms of growth, if you think in terms of what's driving the economy, then the Fed is again irrelevant and impotent.

The answer is, is velocity. In other words, I try to keep the math simple. USD 7trn times zero, is zero. You don't have velocity, you don't have an economy and that's the problem. They can print all the money they want. How do they print money? Well, we know how they print money. They call up Goldman Sachs and say "we want to buy your Treasury bills". And they say "done", and Goldman or Morgan Stanley ships the bills to the Fed and the Fed pays them with money that comes out of thin air. That's how they create money.

Velocity of M2, Q1/1960-Q2/2021

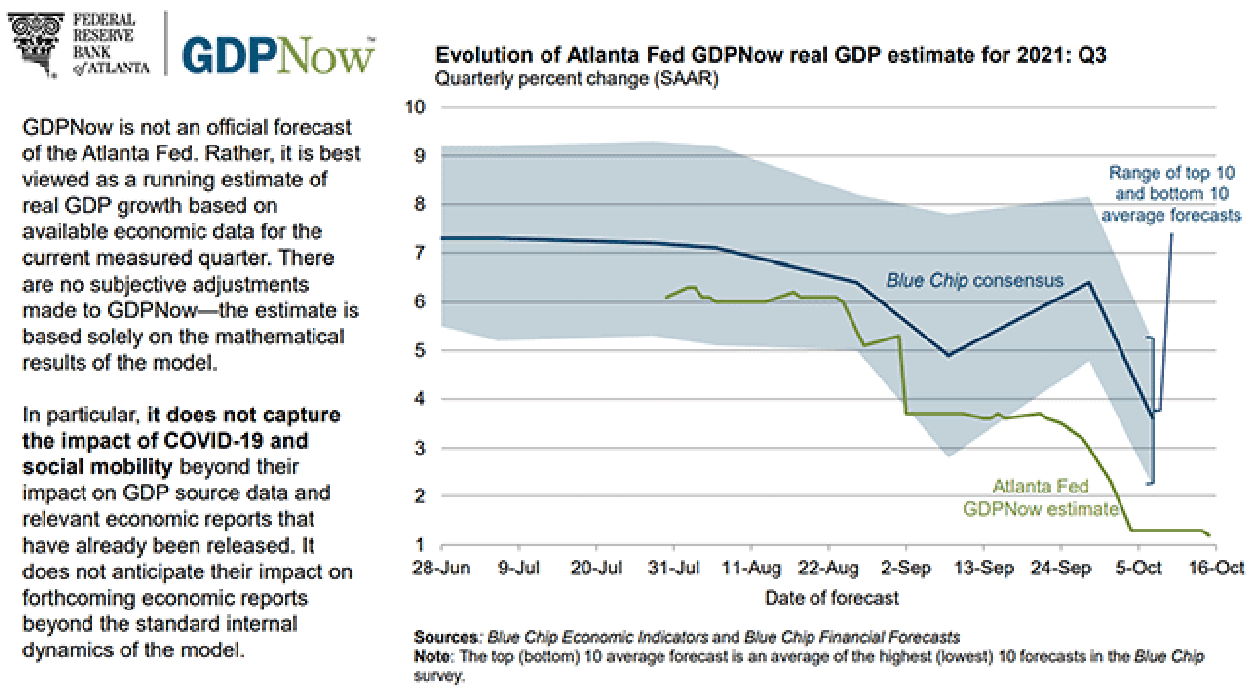


Source: Reuters Eikon, Incrementum AG

Okay. But what do the banks do with the money? They give it back to the Fed as excess reserves. That money is sterilized, it is not being lent. It is not being spent. People are not borrowing. Savings rates are at you know, decade-long highs. So when we hand out checks, do they spend some of it? Yeah. Do retail sales go up for about a month? Yeah. But actually, most of it is being saved. People are saying these are "precautionary savings". They're not spending money. About three quarters of it is being saved. So the Fed can print all the money they want, you can understand money printing as a desperate effort to keep up with the decline of velocity.

We look at the first quarter of 2020. And yeah, that was the worst part of the pandemic's economic impact. It was a cliff-dive. It went straight down. So in the last 10 years, it's gone from about 2.8 to 1.2. That's scary. I mean, you get, when you get below one. Now you're in a world where 1 dollar of printing doesn't even produce the dollar GDP, let alone any kind of multiplier, you're actually causing GDP to go down once that number gets below one. So that's why there's no inflation.

Some of the inflation was real, but some is due to supply chains. The best leading indicator of GDP growth is the Atlanta Fed GDP Nowcast, which is not perfect, but pretty good. It's better than anything else I've seen.



What the Atlanta Fed does is take the data they've got which they said would be the best estimate of GDP. Now, based on what we have now, without guessing or filling in the blanks and then that that gets more and more accurate as you get further into the quarter because they fill in more of the blanks, but they don't make it up the way Wall Street does. So what that means is that the latest data is possibly negative. Where are we right now? We're bordering on recession (although I'm not predicting one).

Now, Kevin gave a really good summary on fiscal policy. But let's talk about that for a second. So before COVID, at the end of 2019, the baseline budget deficit forecast for the fiscal year 2020-21 was USD 1trn per year. Which was high. I mean, Obama was around the USD 1trn level in 2009 2010. By the end of his term 2016 they got that down to around USD 500bn. So, okay, nice job.

Trump kind of started increasing it again, not quite the fiscal conservative people imagined, but the forecast for 2020 and 2021. Then Biden comes in in 2021 and does another USD 2trn.

Now, since then, the Senate has voted on a USD 1trn infrastructure bill. That's more deficit spending. But that'll probably get done as bipartisan. And there's a USD 3.5trn welfare bill on the table. And that's not going to be USD 3.5trn, but it's probably going to two. Even though the bill was 3.5, that will get down somehow. In short, all the recent spending adds up to around USD 10trn in deficit spending.

What was the accumulated deficit from George Washington to Donald Trump on December 31, 2019? The answer is USD 22trn. So you've increased the national debt by almost 50% in two years, versus USD 22trn in 270 years. That's what we've done. And that's going to take the total deficits to USD 32trn. It's going to take the debt to GDP ratio to 135%. You know, who's at that lunch table with you? Lebanon, Greece and Italy. And yeah, Japan, but they're an outlier in a world of their own. The Americans like to make fun of like Spain and France saying they're socialists and spend too much money. Now France is like 90%. Spain is like 100%. That's high, but not 135%, which is where the US is heading. So I agree with everything Kevin said but I'll just raise it a little because it's actually worse.

Now here's where I disagree with Kevin. None of this is stimulus. The Wall Street Journal and CNBC call it stimulus, but it has no stimulative effect. It is deficit spending. It does increase the debt to GDP ratio. It is real money. And it is modern monetary theory!

Here's why it won't work. The research shows that when you go above a 90% debt to GDP ratio, for every dollar spent you get diminishing returns of GDP. But once you go past 90, you borrow 1 dollar, spend 1 dollar, and you get right 90 cents of GDP. In other words, you're increasing the debt, you're increasing the debt to GDP ratio, you're decreasing the Keynesian multiplier, which is already below one. The one thing you're not getting is growth. Not only is that not stimulus, what you're going to get is people saving more, at least in the short term.

There are only a couple of ways for this to end. One is default, and the US is not going to do that. The second is that you print money in the same currency as your debt. There's no reason to default, you just print the money. And MMT actually says that.

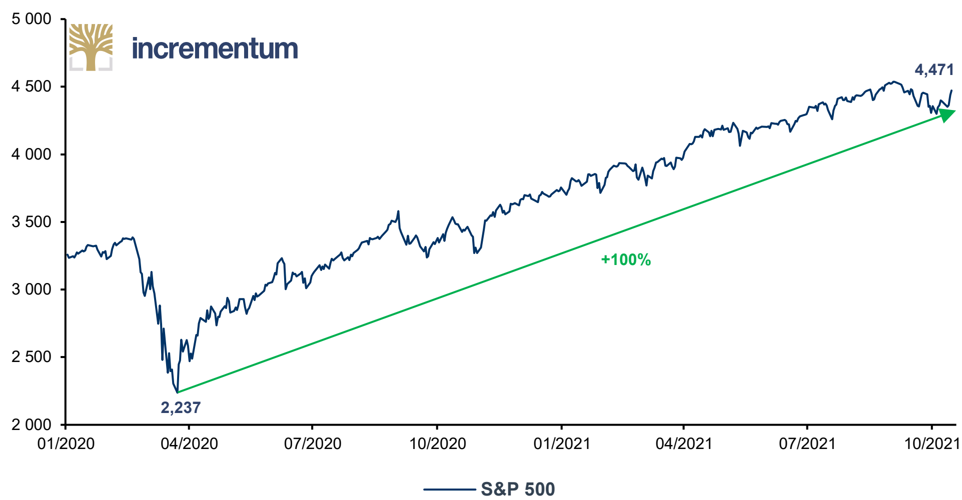
Ronnie:

Just a quick last question: what opportunities do you see in the fourth quarter? Kevin perhaps starting with you from a risk-reward perspective? Where do you see the nicest or the most attractive setup in markets at the moment?

Kevin:

Well, you know, I'm a hedge fund trader, and I can trade from the short side. So to me, I look at how top-heavy the US stock market is, if you go look at the top eight stocks, you'll see that they're 25% of the capitalization of the S&P500. We have not been at this level of concentration since the 1950s. Since the nifty 50, or the 1960s. And I look at this, and it just screams to me, "danger, danger, danger". Ever since the COVID lows, the S&P500 is up almost 100%.

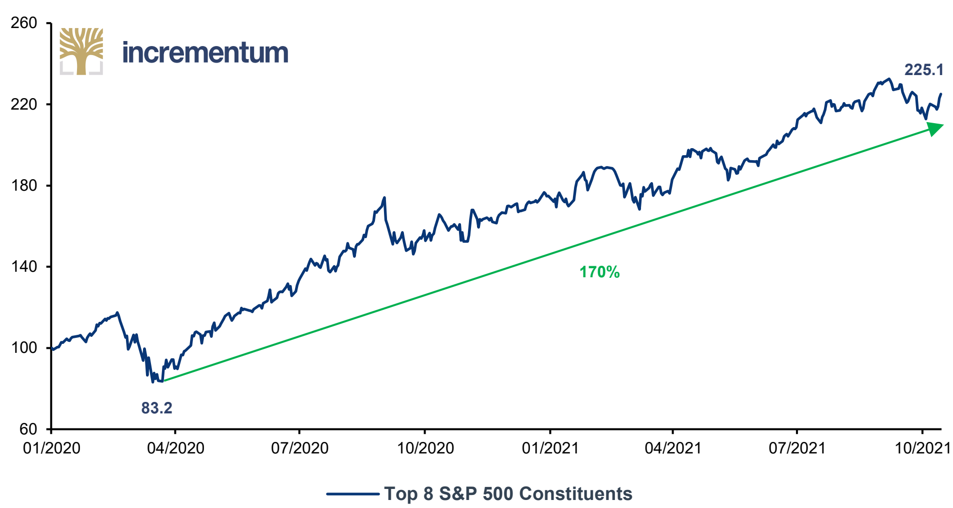
S&P 500, 01/2020-10/2021



Source: Reuters Eikon, Incrementum AG

The top eight stocks are up 150%.

Top 8 S&P 500 Constituents (Constant Weighted Index*, 100 = 01/2020), 01/2020-10/2021



Source: Reuters Eikon, Incrementum AG
*Constituent weightings as of 09/2021

Even more scary is the fact that if you look at the Goldman Sachs, non-profitable tech index, it's up 250%.

Since those lows, so I see this, and to me, what's happened is we've had a huge concentration, a huge amount of betting, just institutional investors, crowding into this trade. It was an easy trade to do with the "stay at home", the change in technology, the fact that rates went lower, which is let's face it, tech stocks are the longest duration asset out there. They're the most sensitive to interest rates. And it's setting up to me to the point where – there's a famous speech by Sun Microsystems – where he looks back at the dot com bubble, and talks about the fact that Sun Microsystems at the time was trading at 10 times sales. And he says, "What were you guys thinking?" For me to make money, I would have to have no cost of capital, I'd have to have no employees, I'd have to have nothing. And then I give you all the revenue for the next 10 years. I was just kind of astounded.

Well, I did a little bit of work. And I pulled up the top eight stocks and looked at their time. They're, like how much they're trading versus sales. **They're trading at 12 times sales right now.** And I understand completely that those top eight stocks are juggernauts that make lots of money, and it's much different than the dot com. I'm not disputing that one bit. I am disputing how crowded that trade is. And not only that, when I think about a long-term investor or pension fund or endowment over the past decade or two decades. If you didn't overweight US stocks, you lost your job, because the reality is that most world stock markets over a long period have been very marginal, like three of two percent. Even in, you know, when in local terms, and in US dollar terms. So if you were a European pension fund manager, the reality is you've been buying US stocks, because they've been the only game in town, I happen to believe it's because the US has been more willing to run fiscal deficits. But that's a story for another day.

Finally, another way to protect yourself is gold. One thing to think about is that in this environment, gold miners will be one of the few things that investors have a tax loss on. Almost everything else is up. So I'm getting out my shopping list and I'm looking to buy some gold miners into the tax loss selling season.

Mark:
Kevin, I think you'd like our current portfolio, because we've implemented exactly these three trades: long gold miners and some short spreads. Ronnie, I think we've had a great call, I think we should wrap up. Jim, already basically told us his conviction trades. And so if I understood that correctly, long bonds you're sticking to your guns for the time being, right?

I agree with Kevin on the stock market. You know, shorting an index is always dangerous. So be careful shorting the index. But this stock market is way overvalued. If you were looking for a sector where maybe you could make some money on the long side, even though the whole market is overpriced. I would look at the defense sector. That was like, you know, Biden's anti-defense and you know, humiliating withdraw from Afghanistan.

I also like the 10-year Treasury note, Kevin, I err on short term, but in the long term I see a lot of inflation, but not for another year or two. And yeah, keep your allocation of gold. And what I tell people about gold is, you know, it may take a huge price jump to get people to buy it, but don't underestimate the scarcity factor. You actually may not be able to get it from dealers when you most want to.

Kevin:
I think that's a great point. **I'd like to say what I've been saying for a while: we are going to have a USD 1,000 "up week" in gold at some point.** And I've talked about that before, how you get a situation where investors all crowd into one thing very quickly, you know, uranium, natural gas, meme stocks, bitcoin. We see these *rolling bubbles*, and I still think that gold will have its day. It will have a time in the limelight with the rolling bubble and it will have a USD 1,000 up week.

Jim:
Yep, I agree completely.

Ronnie:
Thanks, gentlemen. Also some shameless advertisement for your services. Have a look and buy Jim's books. I've got them on my bookshelf, of course. Have a look at his newsletter. I told Kevin off the record that actually the Macro Tourist newsletter is way too cheap, because you're super productive. It's really fantastic. It's great value. It's always fun to read. You've got great pictures. You've got very thought-provoking ideas. So thank you very much for putting that out.

And thank you for taking the time. I wish you two gentlemen and Mark, of course, a great day.

Thanks for taking the time and all the best in the fourth quarter and I look forward to seeing you in person, hopefully, at some point later on. Thank you very much.

Appendix: Permanent Members of our Advisory Board

James G. Rickards

Jim is the author of the international bestsellers *Currency Wars* and *The Death of Money: The coming collapse of the international monetary system*. He is portfolio manager at the *West Shore Fund*. During his career, Jim has held senior positions at *Citibank*, *Long Term Capital Management*, and *Caxton Associates*.

Dr. Frank Shostak

Frank is chief economist at *AAS Economics*. He has over 35 years of experience as a market economist and central bank analyst. He holds a PhD, MA and BA honours from South African universities. He was professor of economics at the *Witwatersrand University* in Johannesburg. He is one of the world leaders in applied Austrian School of Economics and an adjunct scholar at the *Mises Institute* in the US.

Rahim Taghizadegan

Rahim is the founder and director of the *Scholarium*, an independent research institute in economical and philosophical issues in Vienna. He is a bestselling author and a popular speaker internationally. Rahim studied Physics, Economics and Sociology in Vienna and Lausanne. He has worked in the fields of economics, space research and journalism. He has also taught at the *University of Liechtenstein*, the *Vienna University of Economics and Business Administration* and the *Universität Halle an der Saale*.

Ronald-Peter Stoeferle, CMT

Ronni is 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 he published his first *In Gold We Trust* report in 2007. Over the years, the *In Gold We Trust* report became 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* (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book *Austrian School for Investors* and in 2019 *The Zero Interest Trap*. Moreover, he is a member of the board at *Tudor Gold Corp*. (TUD), a significant explorer in British Columbia's Golden Triangle and a member of the advisory board at *Affinity Metals* (AFF). He is also 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 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*.

Since 2013 he has held the position as reader at *scholarium* in Vienna, and he also speaks at *Wiener Börse Akademie* (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book *Austrian School for Investors*.

About Incrementum AG

Incrementum AG is an independent investment and asset management company based in Liechtenstein. Independence and self-reliance are the cornerstones of our philosophy, which is why the four managing partners own 100% of the company. Prior to setting up Incrementum, we all worked in the investment and finance industry for years in places like Hongkong, Frankfurt, Madrid, Toronto, Geneva, Zurich, and Vienna.

We are very concerned about the economic developments in recent years, especially with respect to the global rise in debt and extreme monetary measures taken by central banks. We are reluctant to believe that the basis of today's economy, i.e. the uncovered credit money system, is sustainable. This means that particularly when it comes to investments, acting parties should look beyond the horizon of the current monetary system.

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