Incrementum All Seasons Fund

– in pursuit of real returns –

2024 / 04

Seasonal Reflections

A sluggish year

Dear Readers,

For many people, autumn seems to be a rather hated time of year. The temperatures drop, the days get shorter, and the memory of the blooming life and apparent light-heartedness of summer is replaced by the falling leaves and increasingly grey, harsh and wet days.

Welschnofen, South Tyrol, 16 & 18OKT2024, HGS' photos

Personally, I don't like this view very much, because in our latitudes in particular, autumn also stands for greater variety and less predictability. One day the world seems grey and depressing, and the next day (or perhaps the day after that), it appears in such a spectacular light and colourful dress that it makes you forget all the gloom.

Above all, autumn always reminds me that everything is in a constant state of flux. And it is obvious that not only the course of the year is characterised by cycles that ensure clouds are followed by sunshine, but life itself is full of cyclical patterns and subject to ongoing change.

Cycles characterise our lives, and the fact that this also applies to financial markets is implied not least by the name of our fund. Nevertheless, in recent years it has been difficult to avoid the impression that the financial markets are also affected by climate change, as the prosperous summer phases seem to last longer and longer, while the winter periods are becoming shorter and milder.

A fitting example of this can be seen today (October 28) in the global oil market, where the price of oil fell by around 6% following Israel's missile attacks on Iran last weekend, in which no oil infrastructure or nuclear facilities were apparently targeted.

It seems that we are living in a time when the markets have fallen into a bizarre *bad-news-is-good* mode, in which missile attacks lead to a reduction in risk premiums. A similarly bizarre development can also be seen with regard to the upcoming US presidential elections, where the prospect of Donald Trump's re-election is driving the stock markets to new historic highs, while at the same time the long-term interest rate level and thus the discount factor for equity valuations is rising.

This inevitably leads to the question of what *risk* actually means. My own favoured definition stems from Oaktree's Howard Marks, who stipulates that *"Risk is the possibility that from the range of uncertain outcomes, an unfavourable one will materialize."* - How to Think About Risk with Howard Marks, Oaktree Capital, 12SEP2024)

In this respect, everything I am currently reading about the stock market from experienced observers, commentators and experts sounds consistently positive and optimistic. It goes without saying that shares will continue to rise. The only question is how quickly and how strongly they will rise, regardless of how the wars in the Middle East and Ukraine develop or who becomes US president. In other words, apart from a few fools and madmen, there are no more bears in the stock markets...

Has the stock market cycle finally been abolished?

I have repeatedly asked myself this question in recent years, especially in 2019 and 2021. However, even in the aftermath of these years, the MSCI World experienced significant price corrections, which, in contrast to the global financial crisis (-60%), were more moderate and were recovered more quickly, which only reinforced the "*buy the* dip" trend.

MSCI World, investing.com, 28OKT2024

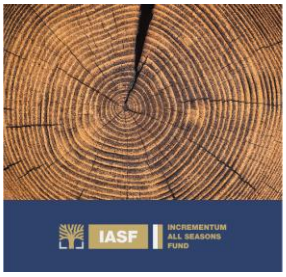
Personally, I am firmly convinced that the current generation of investors will have to relearn the cyclicality of stock market performance. And since the market tends to torment the largest number of investors at any one time, I would not be surprised if we experienced another significant stock market correction this year, or by 2025 at the latest.

This will require investors to take off their rose-tinted glasses once again and take a critical or at least realistic look at the investment environment and stop chasing the same old favourites…

Cartoon of the Day, Hedgeye , 14OCT2020

Cartoon of the Day, Hedgeye , 26AUG2020

Table of contents (underlined passages in red are active weblinks and all translations by HGS):



IASF Investment Strategy: Critical Review

In view of the current sluggish investment year, which is proving to be surprisingly tough and difficult to manage, I would like to take this opportunity to continue with a critical review of IASF's investment strategy. My critical view here is also guided by my role as a co-investor in the fund.

But before we go any further, please note the following:

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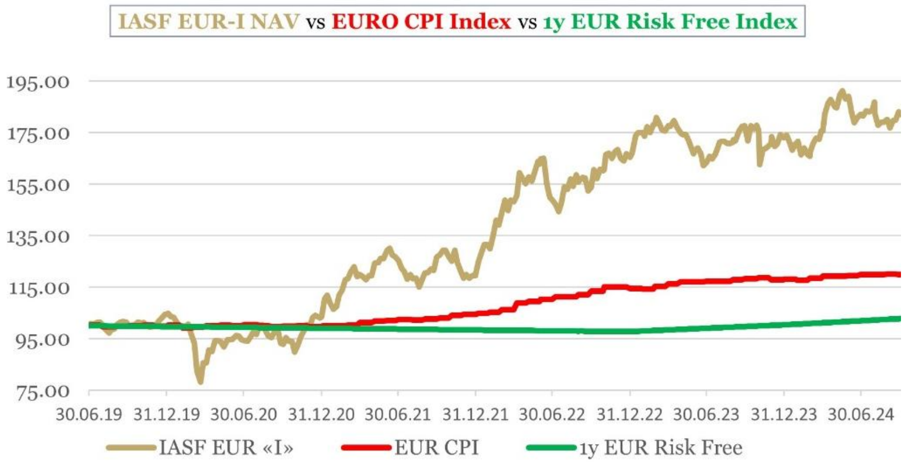
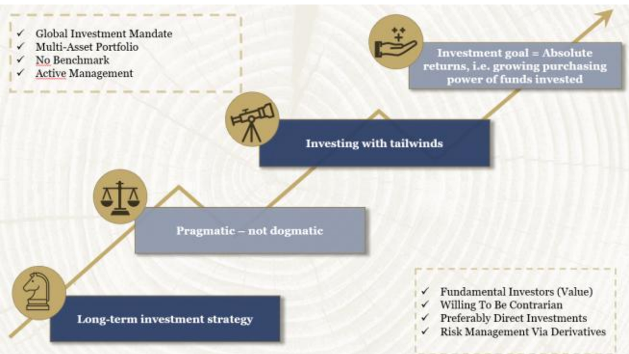
Starting with the mandate description below, I believe we have delivered what we promised, namely a global and comprehensive investment strategy that has clearly achieved the investment objective of increasing the purchasing power of the invested funds over the market cycle.

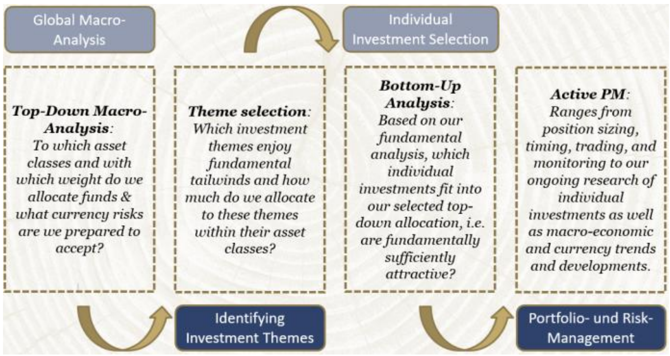




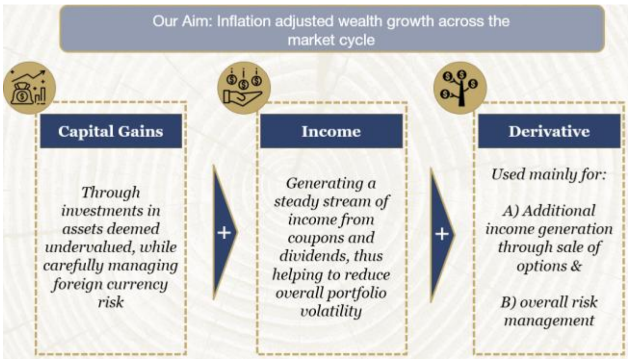
The confirmation that we are pursuing a long-term investment strategy rather than speculating is demonstrated by the fact that almost half of all positions (20 out of 44) that we held in the portfolio at the end of 2019 are still there. In addition, more than a third of all current positions have a holding period of more than three years.

Our active management is reflected in the more than 1,000 individual transactions that we have carried out on average each year in recent years. Our preference for direct investments is also determined by IASF's "target fund eligibility" under UCITS rules, which only allows a maximum investment quota of 10% in other investment funds.

In my opinion, the IASF investment process described below on the left has generally proved its worth. Our overall investment result (see bottom right) is made up of the price gains realised, the investment income and the result of our derivative transactions. The latter are mainly entered into to manage and, in particular, reduce risk and have accounted for a not inconsiderable proportion of our gross performance over the years.



IASF - Investment process



IASF - 3 pillars of value creation

A review of past issues of my *Seasonal Reflections* provides the following result contributions from our short positions (all figures since end of 1Q20, i.e. in the aftermath of the Covid crash, and up to the end of 3Q24):

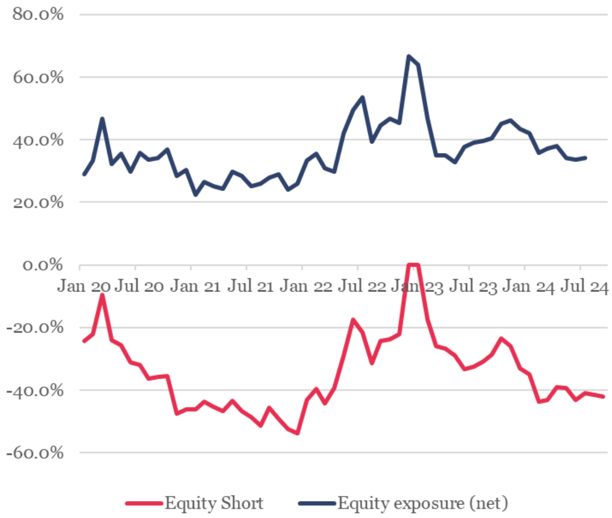
2020:	**-10%**	(*+30% vs effective* +21%)
2021:	**-14%**	(*+30% vs effective* +16%)
2022:	+15%	(*+25% vs effective* +40%)
2023:	**-8%**	(*+13% vs. effective* +5%)
2024:	**-7%**	(*+12% vs. effective* +5%)

Over these 4.5 years (we have only tracked and regularly reported on the impact of the short positions on the overall result from the end of 1Q20), risk hedging has therefore cost us a significant accumulated performance contribution. This is shown by the percentages above after the respective year numbers in bold. For further clarification, the numbers in brackets show first the gross performance (without the influence of our short positions), while the number behind shows the actual effective net performance of the EUR I fund share class in the period under review. In other words, without our hedging positions and thanks to the effect of compound interest, IASF's EUR-I shares would have achieved a performance of around 167% over the period mentioned, instead of the 112% actually reported (USD-I share performance was generally better amid the positive interest rate difference).

As a shareholder, would I rather have earned the gross result (before hedging)? – Of course! But since we as investors make all decisions under uncertainty, and as fundamentally orientated investors cannot ignore the prevailing stock market valuations, we also cannot ignore the third of our investment lessons listed in the appendix to this report. After all, *"capital preservation is the conditio sine qua non",* and an increased *risk*, i.e. in our opinion an increased probability that an unfavourable outcome from the spectrum of uncertain outcomes will occur, must therefore be counteracted accordingly, even if this potentially costs *performance*.

However, this does not mean that we will not endeavour to make these hedges more flexible in the future.

Investors and regular readers will be familiar with the chart opposite, which registers our historical equity market hedging (as a percentage of AuM) in the lower half and the resulting net equity allocation of IASF in the upper half. The lower half illustrates once again that, apart from two very short phases, we have held equity index short positions almost continuously since the fund was launched.



IASF – Equity index shorts vs net allocation (in % of AuM)

We are of course aware of the fact that equity markets are nominally priced, and our strategic investment premise remains unchanged that the long-term global debt cycle will find its resolution in a phase of sustained higher inflation. This suggests that we will use the next bear market in equities to reduce our short positions and subsequently only rebuild them again with much greater restraint and after a new upward cycle has unfolded. However, now is not the time to change our *"better safe than sorry"* stance.

Back to the actual investment process, which we try to condense with the question *"Which investment themes enjoy fundamental tailwinds and how much do we allocate to these themes within their asset classes?".* In this respect, and in view of the late stage of the secular debt cycle and the associated "stagflationary" macro environment and increasing financial repression, we have been focussing on equities rather than bonds and among the former on themes that are strong on substance (**SHIPPING**, **INFRASTRUCTURE** / **REAL ESTATE**) or commodities (**ENERGY**, **OTHER COMMODITY PRODUCERS**) and value-oriented (**EMERGING MARKET & JAPAN VALUE**), or that benefit from the accelerating "*fiat money*" devaluation (**GOLD AND PM MINING**). And by and large, these tailwind themes have also worked well, as our above-mentioned gross results before hedging costs show.

Recently, however, we have experienced headwinds in some areas, particularly in the **ENERGY** sector, but also in **OTHER COMMODITY PRODUCERS** and, in October, **SHIPPING** in particular. I will discuss the latest developments in more detail later in this report.

Individual stock selection is also a demanding part of this process, even for experienced investors, and we believe that the particular challenge here is to find good and reliable research sources and analyses. This is not unexpected, because the challenge in stock selection has always been not only to compare quantitative figures, but also to identify the (qualitatively) best-managed companies whose shares do not already fully price in this qualitative advantage. And, of course, we do not always succeed in mastering this challenge.

For example, the purchase of Norwegian Belships (**SHIPPING**), which we bought for the first time in December 2019 at a price of NOK 6.1, proved to be a stroke of luck for the portfolio.

53 transactions later, Belship's holding in IASF's portfolio carries a cost price of NOK 13, but has already rewarded us for our patience with (gross) dividend income of NOK 10.85 since August 2021. In other words, on this holding 83% of our acquisition costs have already been returned via dividends.

Belships, investing.com, 8NOV2024

At the other end of the scale, however, are Sibanye Stillwater (**GOLD AND PM MINING**) and Bayer (**MISCELLANEOUS**), two equity positions that also remain in the IASF portfolio and in which we have been invested since March (initial purchase price: USD 10) and April 2023 (initial purchase price: EUR 61). Dividend income has only marginally improved the result for both stocks (SBSW: USD 0.3775, BAY: EUR 2.51), and we have also been able to generate smaller option premium income. But overall, we have had to accept significant losses on our average purchase prices (USD 7.02 for SBSW, EUR 45.66 for BAY).

Sibanye Gold ADR, investing.com, 8NOV2024

Bayer AG, investing.com, 8NOV2024

If any proof was needed, this shows that we can also be wrong with our assessments, as we are always wrestling with an uncertain future, about which we make judgements with our investment selection. In the end, the goal can only be to be right in the majority of decisions and to correct those that turn out to be fundamentally wrong, which we have also done in many cases. However, when we enter into or hold positions, it is because we are convinced of the longer-term prospects and valuations. And all in all, we consider our stock selection to be quite successful. It goes without saying that we constantly review and optimise our investment process and input in this regard.

Another special feature of our approach is the active use of options. These are mainly used to harvest risk premiums (by selling options), but occasionally also speculatively (by buying options). We once analysed the net results of recent years and came to the following conclusions: In 2020, the net option result was 5.7% of AuM at the end of the year, 4% in 2021, 4.1% in 2022 and only 1.5% in 2023. And in 2024, the option result will presumably be similar to the previous year.

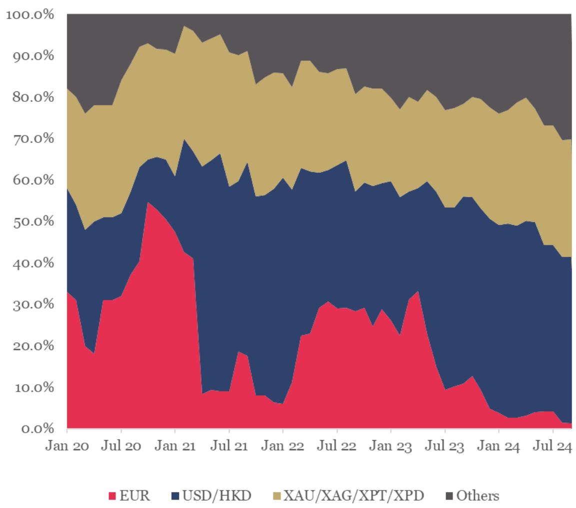
In addition to different volatility levels, the different yields are due to the fact that we were able to generate significant premium income from the sale of index puts (S&P 500 and Nasdaq 100) in 2020 and 2022, which were covered by our existing short futures positions in these indices. In other words, we were able to liquidate the short futures positions by delivering them via the exercise of the puts we sold, which gave us the opportunity to write index puts and was responsible for approx. 1.5% and 1% of the premium income in 2020 and 2022. Unfortunately, this potential does not materialise in a rising market, as under UCITS rules we must not deal in naked options. In 2021, there were also attractive opportunities in the **GROWTH** / **TECH** bucket, as volatility in this sector was very elevated during that year.

Overall, we have generated almost a third of our option premiums in the **ENERGY** sector since 2020. For example, we have generated around USD 450k in premium income on our holdings in Valaris (VAL) through 23 individual option transactions. In the case of Cameco, which has since been sold, this totalled USD 760k. However, as **ENERGY** is already our biggest investment theme in 2024 and the sector has been relatively weak this year, we were less active than average in this sector as we do not want to take the risk of increasing our allocation even further by the potential exercise of put options sold. The **SHIPPING** sector has also made a significant contribution (around one sixth of all option premiums since 2020). Here we generated an additional USD 330k with the sale of options on Teekay Tankers (TNK) in 28 individual transactions. However, this theme offers less liquidity on the derivatives markets and a larger proportion of companies without listed options overall, which is why more was not possible here either.

These few examples merely serve to illustrate that even volatility harvesting cannot simply be automated and deliver fixed earnings contributions.

Source: Hedgeye

Nevertheless, I am generally satisfied with the earnings contribution we have achieved. Ultimately, however, the options area is just a derivative of the underlying portfolio and the monetisation opportunities in this area depend on our desired overall allocation and the volatilities prevailing in the market. And these do have a tendency to explode from time to time... 😉



Currency allocation also is an important contributor to overall investment results, although its influence is not easy to quantify precisely. The main risk is certainly the USD, which we have managed profitably overall. However, we also held smaller NOK allocations (as an alternative to the EUR), which proved to be a source of losses overall despite the positive carry. The same applies to the larger JPY allocation we have built up since last year, which is also still a source of net losses.

At the time of writing this on 8 November, IASF is going through a renewed fund price consolidation (8.4% below the all-time high of EUR 192.08 for the EUR I class, registered on May 12 this year). The election of Donald Trump as the new US president has triggered a renewed rally in US equity markets and his "*drill, baby, drill*" promise has put oil and gas prices / **ENERGY** under renewed pressure. **SHIPPING** has also priced in a significantly lower (transport) rate environment as well as a reduction in company NAVs (amid a consolidation in second-hand vessel prices) in recent weeks. **GOLD AND PM MINING** are also consolidating. In addition, we were also hit by a sharp fall in John Wood Group shares yesterday, which in its trading update announced an independent audit within its Projects Division, which the market responded to with a "*sell first & ask questions later*" reaction.

Having said all that, we do not find a fundamental problem with our investment approach. But as former Bundesliga striker Jürgen Wegmann already knew: 'Sometimes you just don't have any luck – and then bad luck is heaped on top'. As this is not the first time that we have experienced such a phase, we are simply working on getting our good luck back.

Long Live The King

I began writing this chapter on the afternoon of November 6, the day on which Donald J Trump's re-election as US President and thus the most powerful politician in the world was confirmed. By the time you see this article, the election result will of course have been scrutinised and commented on in all its facets, and I am unlikely to have much new and enlightening to contribute.

Weekly Comics, Investing.com, 29OCT2024

What occupied my thoughts mostly today was the question of what Donald J Trump's election actually means? After all, he has once again and surprisingly clearly prevailed against the political establishment, which in view of the apparent weaknesses of his personality profile (and his criminal record) reveals how much the American electorate distrusts the ruling political class and the associated bureaucratic apparatus. Furthermore, his election is also evidence of the failure of the Democrats in power to present a candidate who has a modicum of credibility with the electorate. To start with a decrepit and obviously no longer suitable incumbent as a candidate, only to replace him just a few months before the election (and although he continues to "govern") with his pale and uninspiring deputy, who shone above all with her **"carry on"** attitude and empty promises, proves in my eyes how much modern professional politicians are now stuck in the ivory tower of their own utopias.

The parties in the liberal-democratic West are obviously so far removed from the concerns and needs of their electorate that they are no longer able to put forward political leaders who can be trusted to understand the problems of the nation and the electorate and to tackle them courageously in accordance with the expectations and priorities of the latter. Ultimately, there is a lack of genuine representation (On that issue I recommend reading the following commentary by Epsilon Theory's Dr Ben Hunt: I Think Representative Democracy Is A Good Idea And We Should Give It A Try).

Instead of representing the opinions and interests of their voters, today's generation of democratic politicians is primarily concerned with telling people how they should think and act, without taking any responsibility for the ever-increasing means and resources used in this process. No wonder, then, that the established parties are losing ground everywhere in favour of more radical and autocratic alternatives. I think this is an understandable but also highly worrying development.

The USA have now chosen their new king amid hopes that he will honour his election slogan *"Make America Great Again".* However, amid the prevailing optimism, many seem to be overlooking the fact that he will be increasingly replacing an already dwindling international cooperation with confrontation. Experience shows that such a shift does not create synergies, but instead wastes a lot of energy in the process of confrontation. Donald J Trump believes that he can pass the costs of an increasingly multipolar world on to others, which I personally do not consider to be realistic.

The stock markets have honoured Trump's election with a fireworks display, as investors believe they know who they are dealing with. But do they really? – President Trump has a volatile personality and is more reminiscent of Silvio Berlusconi than Ronald Reagan. He sees himself as being bound neither by history nor by his previous statements and his scope of action seems to be very broad. In addition, he is now 78 years old and during the election campaign did not always give the impression that he was up to the demands of the office. His government team is still uncertain but could provide some positive surprises. Overall, in my opinion, this favours higher risk premiums in the longer term, although this has not yet been reflected in (equity) markets.

US 10yr Treasury bond yield, investing.com, 7OCT2024

Hedgeye Cartoon of the Day, 30OCT2024

The US bond market, on the other hand, has had a fine nose for the future of a new DJT presidency, as 10-year US government bond yields rose by 80bp in the three weeks before the election. US government debt levels appear to be on a sustained record course and the hole that has been dug is getting deeper and deeper...

So, could the "*bond vigilantes*" make a comeback and ensure more budgetary discipline by further increasing long-term interest rates, and / or will the new administration merely accelerate the use of financial repression, including ultimately yield curve management? – How will the planned harsh import tariffs or immigration measures affect domestic inflation levels? – And how will this affect the US dollar, which was surprisingly firm the day after the election? – These all seem to be questions for later, when the markets realise that a cocktail of continued high government spending, lower taxes, interest rates and inflation as well as a weak dollar is unlikely to be mixed. Until then, hope reigns supreme.

One question that certainly arises here is what can Europe learn from this situation? Here, too, the growing annoyance of voters is reflected in massive gains in votes for new and sometimes extreme parties. Both the AfD and the BSW are scoring points with the promise to put an end to Germany's welcoming culture once propagated under Angela Merkel and the associated open borders. They also benefit from a two-tier society characterised by growing inequality, which NZZ editor-in-chief Eric Gujer recently commented on as follows (my translation):

"Trendsetter Trump. He sensed early on how resistance to uncontrolled immigration and any form of utopian policy was building up in Western societies. The centrist and left-liberal parties rejoiced at the "enrichment" provided by asylum seekers. Voters, however, saw the welfare state and cultural identity under threat.

The turning point is also manifested in the way the citizens of industrialised countries think about the economy. Globalisation has increased prosperity, but it has also accelerated deindustrialisation. The American Rust Belt has long been everywhere. Even a robust economy like the one in the USA does nothing to change this, because its fruits are unevenly distributed. Lower- and middle-class Americans are suffering from inflation, not the rich.

Inequality is not only a key issue in America. The economic gap between southern and northern England is now greater than that between western and eastern Germany. Left behind and second-class citizens: this applies more to Sheffield than to the former GDR.

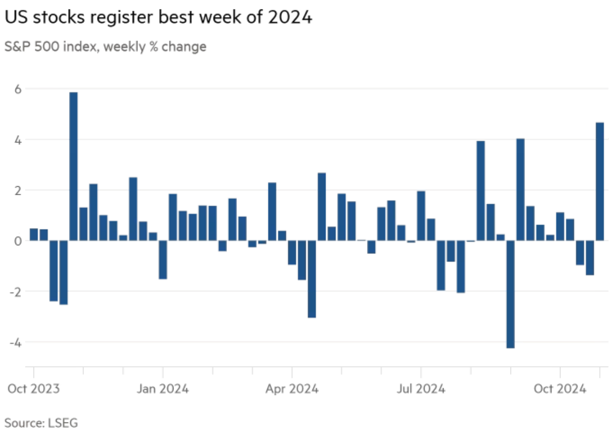
Fear is spreading even in the prosperous regions of Europe. It still doesn't look like Detroit at VW's German sites. Nevertheless, employees at the plants threatened with closure are wondering whether Chinese competition is driving the European car industry to ruin." (translated from NZZ, Der Andere Blick, 8NOV2024)

In my humble view, a rethink is also needed in Europe. Instead of redlining the "protest parties" and putting them in the right / extreme corner, they should be included in the responsibility for government and thus for shaping policy. After all, democracy is not a system in which only the opinion of the ruling political class counts and the view of broad swathes of the population are dismissed. Otherwise, they will express their protest at the ballot box, as they have done in the USA and against all the efforts of the system.

Democracy refers to the rule of the people, whose will is realised through the service of elected representatives (politicians). I can only hope that this basic idea will be taken into account again. After all, serving the people means respecting the wishes, expectations, values, but also the worries and fears of the electorate and standing up for them and taking them seriously.

Welcome To The Casino

Last week (of November 4) with the US presidential elections proved to be a case of *"buy the rumour, buy the fact"*. First, the anticipation of a Trump victory spurred investors on, followed by the declared victory, which led to the best weekly performance of the S&P 500 (+4.7%) in a year. Tesla shares stood out, rewarding their majority shareholder Elon Musk for his election campaign support to Donald J Trump with a 29% TSLA share price rise (+$291bn market capitalisation).



Financial Times, 8NOV2024

@NorthmanTrader, X, 11NOV2024

Today, Monday, November 11, just in time for the start of the Carnival season here in Europe, TSLA rose by a further 8% in pre-market trading and was able to maintain this level throughout the day. In the past 13 days, the stock has risen by an incredible 63%, and JP Morgan promptly followed up with the assessment that investors should view TSLA *as a "must-own"* stock amid the Trump victory.

TSLA ended the day up 9%. They are now trading at more than 10 x annual revenue, a P/E and EV/EBITDA of over 80 x, and more than 16 x book value, leading the price to within less than 10% of its historic high at the end of 2021.

Why are investors buying TSLA? – Because they expect the company to become the world's leading car manufacturer in the coming years, with the highest margins, the highest profitability in the sector and gushing cash flows that can be used to reward shareholders through attractive dividends and share buybacks? – Hardly! They are buying TSLA because they assume that President Trump is now in debt to Elon Musk, and this can only improve the outlook for the TSLA business. In other words, they are buying in the expectation that the stock will rise, and they can then sell it again at a higher price, without considering the company's actual fundamental business situation and outlook. It's like betting in a casino that after 10 times black at the roulette table, only black can follow...

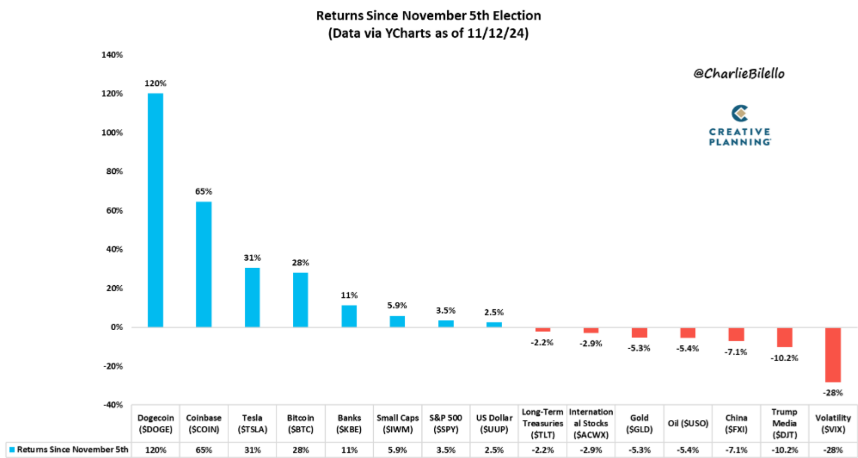
Investors probably see Elon Musk as someone, who with his Midas touch turns everything into gold. At the same time, they do not seem to find any risk in the fact that he is now further diluting his capacities as (co-)head of the Department Of Government Efficiency (DOGE) in addition to the various companies in his group.

@jessefelder, X, 12NOV2024

The extent of the speculative element in today's (US equity) markets is illustrated in the adjacent X (formerly Twitter) post:

"The notional trading value of Tesla options has averaged $145bn ***a day*** *since the election.* (This is about **15%** of TSLA market capitalisation.) *That compares to $55bn a day for Nvidia, the second most active single-stock option market* (about 1.5% of NVDA market capitalisation), *and $310bn a day for the rest of the US single- stock options market combined."*

This is truly mind-boggling.



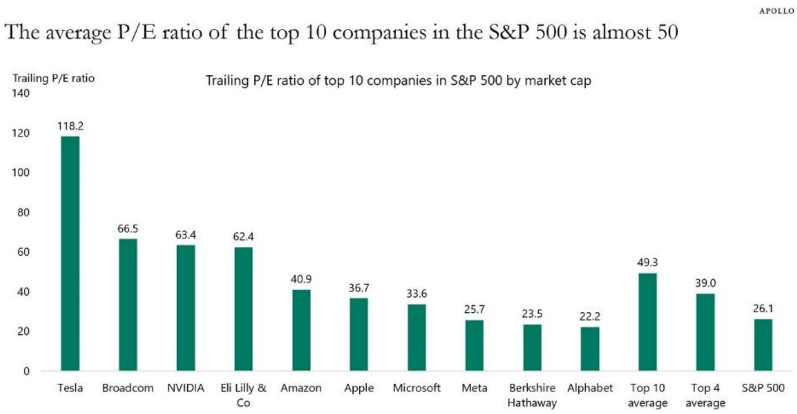
@charliebilello, X, 12NOV2024

I hope these numbers make it comprehensible why I have often referred to financial markets as a casino in recent years and do so again here. The Trump election victory was enough to boost various crypto assets, TSLA and the S&P500, while gold, oil and volatility plunged.

The bubble in the US stock market goes far beyond TSLA. I'm not overly active on X (@SchiefenHg), but the platform is full of evidence of current extremely out-of-control valuations, as well as the extraordinarily euphoric and speculative investor sentiment.

For example, Palantir shares (PLTR), with a market capitalisation of USD 136 billion, are trading at 56 times annual sales and 330 times earnings, which is larger than all DAX constituents, except the three leading stocks SAP, Siemens and Deutsche Telekom.

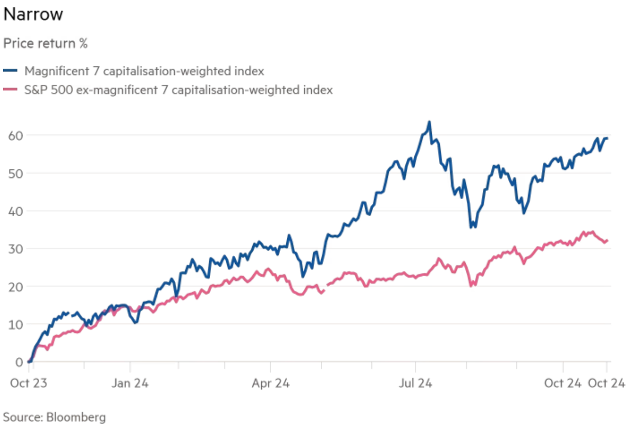
@KobeissiLetter, X, 11NOV2024



Would You Buy Stock in a Firm with a P/E Ratio of 50?, Apollo Academy, T. Sløk, 5NOV2024

The concentration of overpriced stocks among the most highly capitalised S&P 500 companies is also evident if you look at the chart above on the right, which shows the P/E ratios (PEs) of the 10 largest stocks in the S&P 500 individually and on average. One of the consequences of this overpricing is that the index is susceptible to disappointing fundamental news flow in these mega-cap stocks.

The impact of the Mag 7 stocks on investor portfolios (and even more so on those that were short in this area) is illustrated in the chart below:



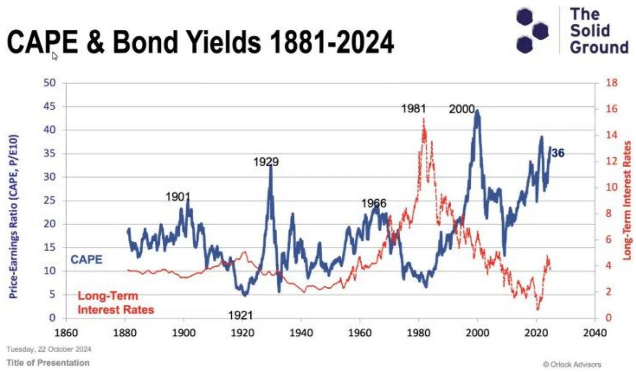
The Magnificent 7: place your bets, FT Unhedged, 29OCT2024

The Financial Time's Robert Armstrong writes in his "Unhedged" column: *"There were moments this year and last when it looked as if the market might be broadening and the dependence on the Mag 7 was declining. They didn't last. The Mag 7 still makes up a third of the market capitalisation of the S&P 500 and accounts for half of the index's capital appreciation in 2024 (a quarter of the capital appreciation comes from Nvidia alone).*

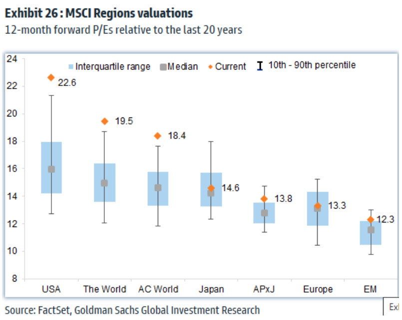
A bet on the S&P 500 remains a bet on the Mag 7 continuing to perform, a proposition that should make everyone nervous. So having a close look at the stocks and the expectations their prices encode is worthwhile." (The Magnificent 7: place your bets, FT Unhedged, 29OCT2024)

How much of that has already been priced in?

The chart opposite shows the historical development of the cyclically adjusted PE (CAPE) ratio (or Shiller PE) of US equities in conjunction with the development of long-term government bond yields. The US CAPE ratio is the third highest ever recorded, with yields significantly higher than they were in 2021. Valuations at this level have always resulted in bear markets.



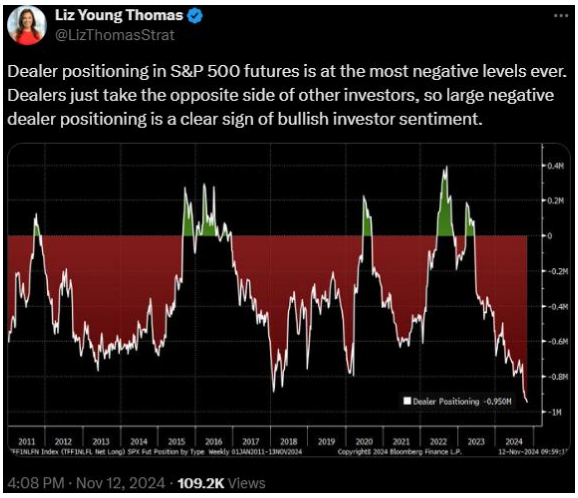
M'tourist Private Feed Recap, Kevin Muir, 28OCT2024



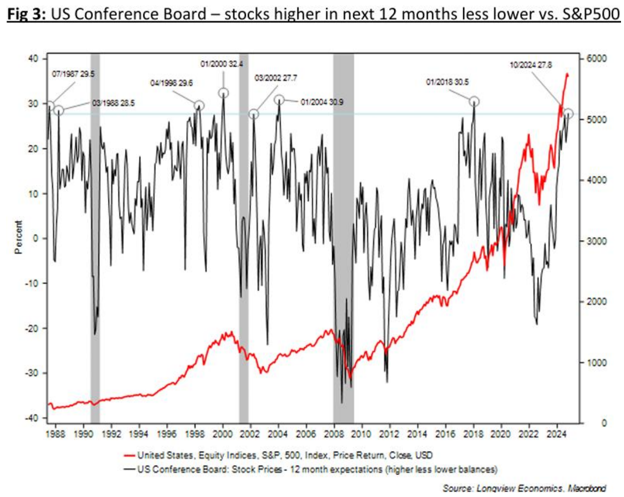
@MikeZaccardi, X, 11NOV2024

A comparison with other international equity markets is also striking and the result of the long-lasting *overweight recommendation* from which US equities have benefited worldwide. As the chart on the left shows, the MSCI USA is now trading at a PE of 22.6 times, which is not only far out of the historic range, but also more than 50% higher than the MSCI Japan at 14.6 times or the MSCI Europe at 13.3 times, where lower risk-free interest rates would actually suggest a higher valuation.

At the same time, derivatives traders' positions in S&P 500 futures has reached the lowest level since 2011 (or even ever), as reported in the tweet below on the left. Why is this relevant? – *"Dealers just take the opposite side of other investors, so large negative dealer positioning is a clear sign of bullish investor sentiment."*



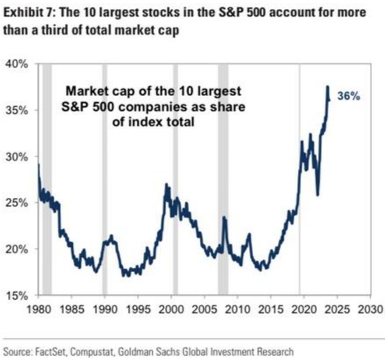
@LizThomasStrat, X, 12NOV2024



Longview Economics, via Pareto Securities, 8NOV2024

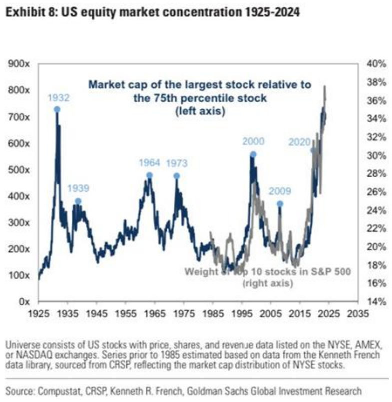
Meanwhile, the US Conference Board is also registering optimistic consumer sentiment with regard to the stock market. Most recently, the percentage of households expecting stocks to be higher in 12 months was 27.8 percentage points higher than the number expecting lower prices. As the chart on the bottom of the prior page on the right shows, this is not only one of the 8 highest levels since 1987, but is also at a level from which significant stock market declines have been recorded in the past.

At the same time, US equity allocations are at record levels, while the liquidity ratios of fund managers (according to BAML) recently stood at just 3.9%, which is below the critical "danger level" of 4% for subsequent market corrections. Meanwhile, equity allocations of US households in their pension funds are also at a record high of 80%, while the cash holdings of retail investors are close to record lows.



@jam_croissant, X, 28OCT2024

"Market concentration has recently surged to a multi-decade high (Exhibit 7). Previously, we identified seven other episodes when concentration rose sharply and peaked. These episodes include 1932, 1939, 1964, 1973, 2000, 2009 and 2020. (Exhibit 8)"



@jam_croissant, X, 28OCT2024

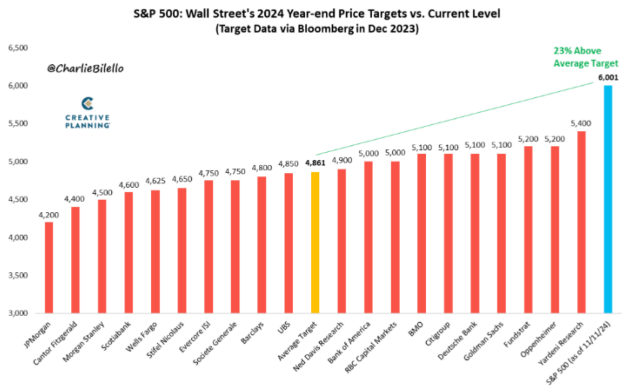
In my opinion, all of this is being completely ignored by the market and therefore by investors - just like at the end of 2021. All that matters right now is momentum and the narrative of the dominant US economy (i.e. mainly Mag 7 and related tech stocks, but also other extremely expensive stocks) and the even more business-friendly policies under a Trump presidency (lower taxes, less bureaucracy).

Your IASF fund manager 😉
found at Hedgeye Cartoon Of The Day, 15NOV2024

@donnelly_brent, X, 11NOV2024

However, the comparison with the Reagan years, which is currently often cited, should be taken with a grain of salt. As the adjacent tweet states: This may serve as *"A friendly reminder that the obvious trade doesn't always work. Reaganomics was great for stocks, eventually. But it took years to get back to flat if you bought post-election."* – This time must be different…

It seems to me that we are once again in the euphoric phase of the market cycle. The S&P 500 (+28% in 2024 and as such 23.4% above the level on average expected in December 2023) and Nasdaq 100 (+29%) are rushing from record to record and the consensus among experts assumes that the rally will continue (certainly and at least) until the end of the year. Under these circumstances, who would bet that they won't rise even further?



The Week in Charts (11/13/24), Charlie Bilello, 13NOV2024


BTC/USD, investing.com, 13NOV2024

Bitcoin (+72% since its September low) has also reached a historic high – fuelled by DJT's collaboration with crypto-bro Elon Musk, but without any other fundamental news. At the same time, neither gold nor bonds have participated in the rally, imv emphasising the speculative nature of the recent market euphoria.

Personally, I have no doubt that we are once again experiencing a heated bubble in the US equity markets… – And all this, while we are not even in the announcement phase of Trump's economic policy. We're in the "*guess what he's actually going to do*" phase, and given the prevailing sentiment that only leaves room for a positive outlook. – But does that reflect reality?

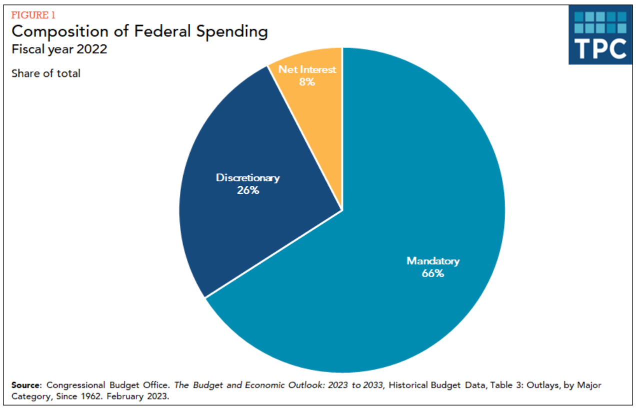
Macro Observations

Most observers of the US economy continue to see it on a smooth approach to a soft landing, with unemployment figures indicating almost full employment. At the same time, the inflation rate has recently been falling (from 9.1% in mid-2022 to 2.4% in September 2024), which served as justification for the Federal Reserve's interest rate turnaround, even though the annual rate rose again to 2.6% in October and the core rate remains stubbornly above 3% (3.3% in each, September and October).

Meanwhile, President Trump is promising tax cuts as well as aggressive deregulation and a reduction in government employment. The former includes a continuation of the (temporary) income tax cuts originally implemented under his administration, the lack of revenue from which is to be compensated by the introduction/increase of import duties (10-20% on average, 60% and more on imports from China). A corporate tax cut (to 15% from the previous 21%) and further tax cuts for the middle class (amounting to 10%) are also on the cards. In addition, taxes on social security payments are to be cancelled. - These are at least the announced plans; how this would be financed remains vague at this stage.

Part of the financing could come from cost savings in the state budget. The newly created "Department Of Government Efficiency" (DOGE), headed by Elon Musk and Vivek Ramaswamy, is responsible for aggressive deregulation and the associated reduction in bureaucracy and government employment. This new White House advisory body is to *"provide advice and guidance from outside the government"* and look for ways to "*reduce bureaucracy*", "*eliminate regulations*", "*cut spending*" and "*reorganise agencies*", as Trump explained. The aim is to achieve huge productivity gains by cutting government spending by USD 2 trillion.

This all sounds almost revolutionary, but the question arises as to how realistic it is, especially when President Trump wants to reduce the national debt at the same time. In his victory speech, he not only promised a *"truly golden age",* but also: *"We are gonna be paying down debt. We are gonna be reducing taxes. We have, we can do things that nobody else can do. Nobody else is gonna be able to do it. China doesn't have what we have. Nobody has what we have."* (at 20:25 of the recording)



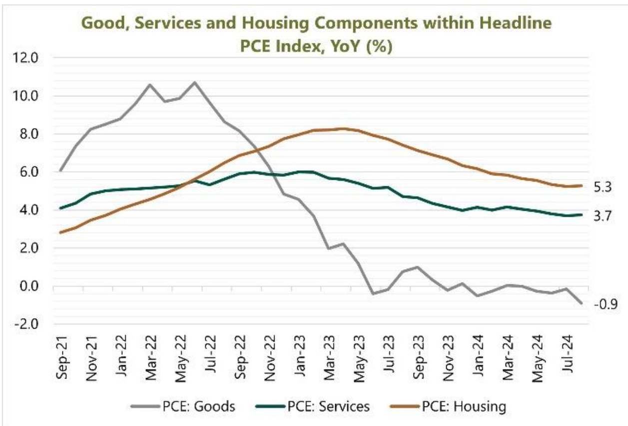
Composition of US federal spending (2022); source: unknown

Those are great words. But the discretionary share of US government spending currently amounts to around USD 1.7 trillion, which is only a quarter of total spending. And how much of this is likely to be saved? The idea that two consultants put in charge of a new non-governmental organisation will find savings that reduce discretionary spending by 117% seems rather far-fetched to me. And what effect will this have on the labour market and growth? Could it even trigger a recession? - And hasn't the myth that tax cuts are self-financing regularly proved to be a fallacy in previous political promises of this kind?

In my opinion, these are questions that the new administration will have to face. Personally, and with my admittedly highly superficial knowledge of the personalities of Trump and Musk, I see it as more likely at this stage that the future president will fire his advisor by mid-2025, or that Elon will resign of his own accord in order to concentrate primarily on his other tasks again. (What would this mean for the TSLA share price?)

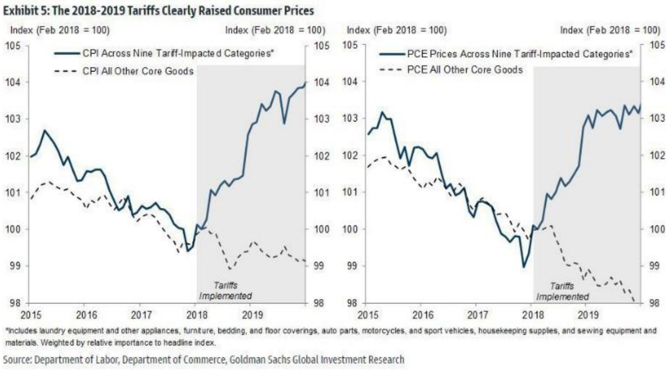
But let's get back to the topic of inflation, which will continue to play a significant role in US policy in the coming years under Donald Trump.

On this matter, I found the opposite chart instructive. It separately shows the contribution of goods, services and housing inflation on the PCE index (personal consumption expenditure index), which is the Fed's preferred measure of inflation. It illustrates that the global, non-supply-constrained component of goods is now having a deflationary effect after the COVID peak, which is partly due to the strong USD.



@jam_croissant, X, 10NOV2024

Meanwhile, the remaining two domestic and supply-constrained components remain stubbornly positive and are well above the target of 2%. On the one hand, this shows how difficult it is likely to be to reduce the general inflation rate even further (without a recession) and, on the other, that a renewed price increase in the (global) goods component could easily push overall inflation up again.



@jam_croissant, X, 10NOV2024

Of course, the general expectation is that this will not happen, as China (in particular) will try to maintain its US export share by lowering export prices (including a possible devaluation of the CNY). But what is the impact of the introduction / increase of import tariffs? Well, as the chart on the right shows, import tariffs drive up prices (left for US CPI, right for the PCE index).

And since a central component of Trump's foreign trade policy is the increased use of import tariffs, if implemented accordingly, this is likely to put renewed pressure on prices from the inflation component, which has recently been the only one to exert a deflationary effect.

Another part of Trump's programme is a desired weakening of the USD with the aim of promoting US re-industrialisation. A lower USD could be achieved through lower interest rates but would also have an unfavourable impact on the inflation rate. This shows that the relationship between deficits, inflation, interest rates and the dollar will ultimately play a central role, as the interdependencies between these variables are complex.

Let's assume, for example, that Donald Trump were to replace Jerome Powell as Fed Chairman with a candidate who would follow his lead and realise his desire for lower interest rates, despite continued high government spending, tax cuts and increased import tariffs, with the aim of promoting growth (and lowering the interest rate burden). How would the bond market react? – Long-term US interest rates had already risen significantly in the run-up to the election, and it would be understandable if such a move really fuelled the *bond vigilantes*. – How would US equities behave if long-term interest rates were to rise again?

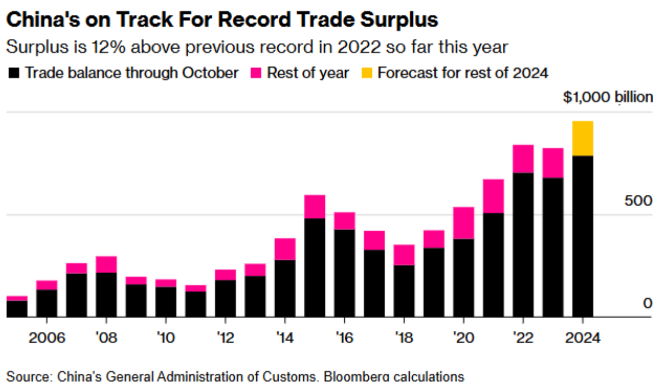
And how would President Trump react to a major correction in financial markets, especially knowing that he likes to see the markets as a barometer for evaluating his work? From 2016 to 2020, both the bond and equity markets flattered his ego. Equities only experienced a difficult phase in the fourth quarter of 2018 and fell in the first month of the Covid-19 crisis. Otherwise, they rose. Interest rates were either low or very low. The situation now is completely different, and we don't know how it will behave in the face of major market turbulence. In addition, Trump has just won an election in which he blamed the Democrats for the past surge in inflation. Given this, how will he react to a renewed rise in inflation caused by his tax, trade and immigration policies? – With a return to a more conventional policy or a turn to even riskier manoeuvres?

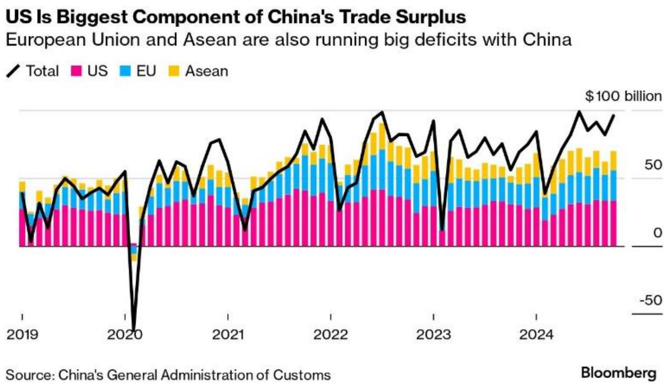
This all suggests that the market's *"all news is good news"* attitude is perhaps a little too optimistic after all...

If we look at the big picture, we can see that the US imports cheap goods from China and other Asian countries, leading to a chronic trade deficit, which it finances with USD, respectively US government bonds, for which it has a monopoly. The price of this policy has been the erosion of the industrial base and the loss of industrial jobs, which in turn has led to the hollowing out of the country's middle class.

The free trade of recent decades and the associated outsourcing of domestic goods production was clearly disinflationary. This all happened at the expense of the workers who lost their jobs in the process and to the benefit of the multi-national companies that profited from the outsourcing of their production facilities and processes through higher margins. President Trump now wants to reverse this, but this will lead to higher domestic inflation due to the associated cost increases and also put pressure on corporate margins. Another consequence is a steeper US yield curve as reduced trade deficits leave less USD in foreign hands that could be recycled into US government bonds and equities. Reduced foreign demand for USD assets also risks weakening the USD, which in turn would drive (imported) inflation.

But let's take a look at the other side of the world, where China has clearly positioned itself as the "*workshop of the world*". Chinese trade surpluses totalled USD 785 bn (+16%) in the year to October, more than 5% of GDP, and are on course to reach just under USD 1 trillion on an annualised basis (see chart below left).

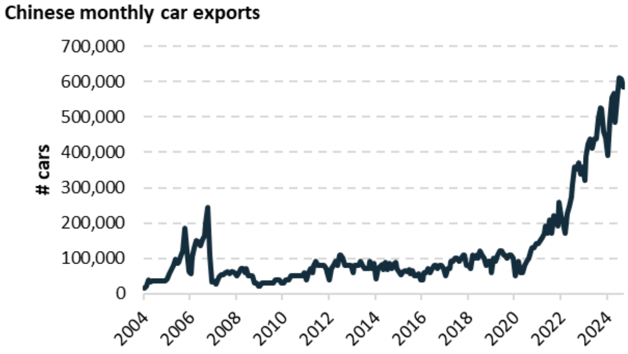




Bloomberg News, 11NOV2024

The trade surplus with the USA rose by 4.4% this year, with the EU by 9.6% and with the ten Southeast Asian ASEAN nations by almost 36%.

This is not only evidence of the country's increasing competitiveness, which is also reflected in its position as the world's leading exporter of automobiles, but also of its preparation for expected trade restrictions and tariff increases. After all, the ASEAN nations are certainly not just end customers here, but also serve as a transit point for Chinese trade flows.



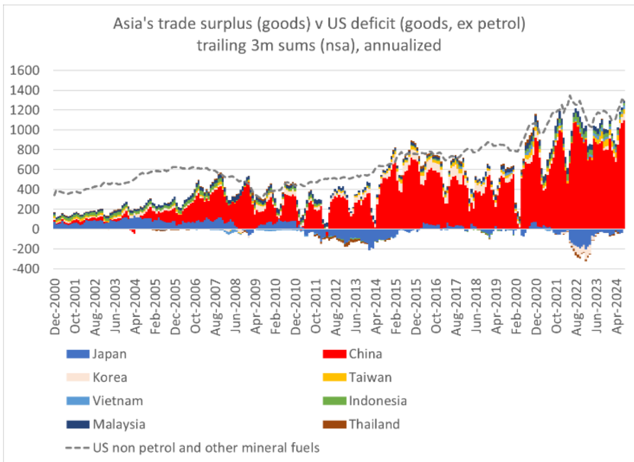
China's Automobile Exports (monthly), Fearnley Sec., 11NOV2024

EUR/CNY, USD/CNY, investing.com, 21NOV2024

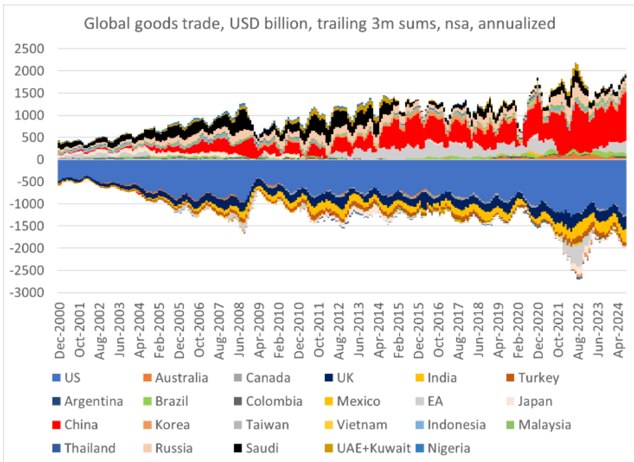
Thus, if one considers the development of the Chinese trade surplus, a CNY appreciation appears to be the more likely scenario, rather than the devaluation that many analysts repeatedly invoke and expect. In any case, the CNY has proven to be stable against the currencies of its most important trading partners in recent years.

Of course, this is also in the best interests of the Chinese government, which is endeavouring to position the CNY as an alternative trading (and reserve) currency to the USD in the long term. After all, the fact that the US enjoys the "*exorbitant privilege*" of issuing the world's reserve currency, in which a large proportion of international trade is conducted, has been an oft-lamented injustice since the 1960s at the latest. As a result, the USA is the only country that does not have to fear a balance of payments crisis, as it pays for all its imports in (self-produced) USD. The fact that China is quite successful in its endeavours to establish the CNY as a trade currency is shown by the fact that a growing proportion of Chinese foreign trade is no longer conducted in USD but in CNY. This in turn lowers global demand for USD, which the US needs to finance its twin deficit.

The extent to which China and Asia have now become the workshop of the (developed) world is reflected in the China-driven rise in combined Asian trade surpluses over the last four years, which are mirrored in the corresponding US deficits (see grey dashed line in the chart on the left on the next page).

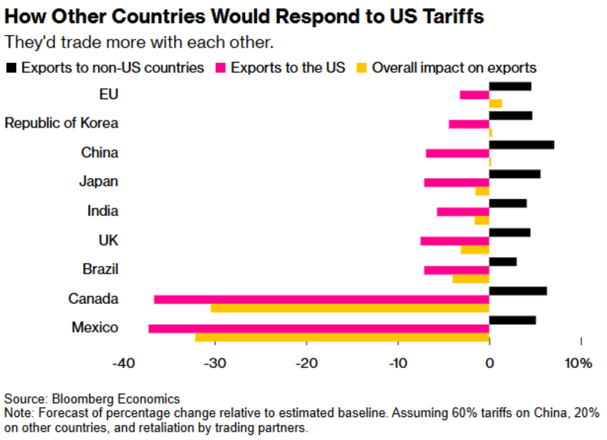


Asia's trade surpluses vs US deficits (goods, EX-OIL)



Global goods trade volume in bn USD, both @Brad_Setser, X, 9OCT2024

It is also striking, as the graph at the top right shows, that the trade surpluses are produced in the autocracies of this world, while the deficits exist in the major Western democracies. This has created dependencies that make decoupling and thus effective deglobalisation extremely difficult and painful. I therefore believe that the desired re-industrialization of the USA and the West will take a very long time, to say the least. I would rather expect a slowdown in the process of deepening international trade links and a shift in focus as far as trade relations are concerned (keyword: *near- and friend-shoring*).



Bloomberg, 15NOV2024

Bloomberg recently modelled the potential impact of the announced US import tariffs. Under their models, the analysts assume that the USA's share of global trade will fall from 20% to 9%. At the same time, however, the US trading partners will replace the reduced exports and imports with the US with increased trade with other nations, which is why Bloomberg assumes that total global trade will only decrease by 7.5%.

As the chart above shows, one result of the expected isolationist US stance would be closer trade cooperation in the rest of the world, while the biggest victims of this policy could not unexpectedly be the USA's most important trading partners, namely Canada and Mexico.

Whether this is in the US interest remains to be seen and is at least doubtful in my opinion. Conversely, this means that concerns regarding the restriction of global trade are probably exaggerated. So far, we have only seen the threat of increased import tariffs, which, unsurprisingly, could just be a negotiating tool for the incoming Trump administration.

Overall, the macro environment remains characterised by the growing dictates of fiscal policy and the declining importance of monetary policy. In view of the high and growing national debt, the latter will probably be increasingly focussed on ensuring the sustainability of the debt burden.

This has recently become evident through the turnaround in interest rates, which was initiated long before effective monetary stability was achieved (even if this state is wrongly equated with 2% inflation). This took place under the (political) pressure to strengthen growth impulses in the private sector and at the same time to contain the growing interest burden. It means that a stagflationary environment and financial repression remain the core scenario for the coming years, to which we have aligned our portfolio allocation.

Eurozone Industrial Production, Chartbook, Substack,21NOV2024

Russell Napier, YouTube, 16OKT2024

The broader case and general argument about these developments has been succinctly outlined by Russell Napier in a presentation titled *"How To Make Money In A New Investment Landscape"* that was recently published on YouTube. As he emphasised in it, the allocation he (also) prefers does not necessarily require intelligence, but courage, coupled with a dash of madness.

I can only agree with this, as it is an allocation that does not reflect the zeitgeist and whose popularity has yet to develop. Nevertheless, it has certainly proved its worth for IASF over the past five years and is in accordance with our beliefs that investing must be based on fundamentals and that contrarian positions promise the greatest returns in the long run.

The latest portfolio developments

The fact that the path we have chosen is not always easy is demonstrated by the sluggish performance of the current year, including recent developments, which I would like to go into in more detail below. But first, allow me to open this chapter with a quote from Tony Deden, Chairman of Edelweiss Holdings, from the October issue of Grant Williams' TTMYGF (Things That Make You Go Hmmm...) entitled "The principled investor":

"Capital preservation is not an investment style. It is a way of thinking; an acknowledgement and respect for savings earned by prior effort—first and foremost to avoid the loss of purchasing power, and second, to appreciate the compounding and accumulation of earnings."

As an investment manager, this determines the bulk of my responsibilities and therefore shapes my work immensely, which is why I have put this here up first. And before I continue, please note the following once again:

As a reminder, the views, analyses and forecasts contained in this document are based on current market conditions and reflect the opinion of the author. All information has been compiled from sources believed to be reliable. However, no representation or warranty is made as to its accuracy or completeness. *Seasonal Reflections* are issued to registered subscribers for information and entertainment purposes and do not constitute a recommendation or solicitation to buy any security or the Incrementum All Seasons Fund. Historical performance is no guarantee of future results, and the value of the Fund may go down as well as up. If you would like investment advice, please contact an authorised investment adviser.

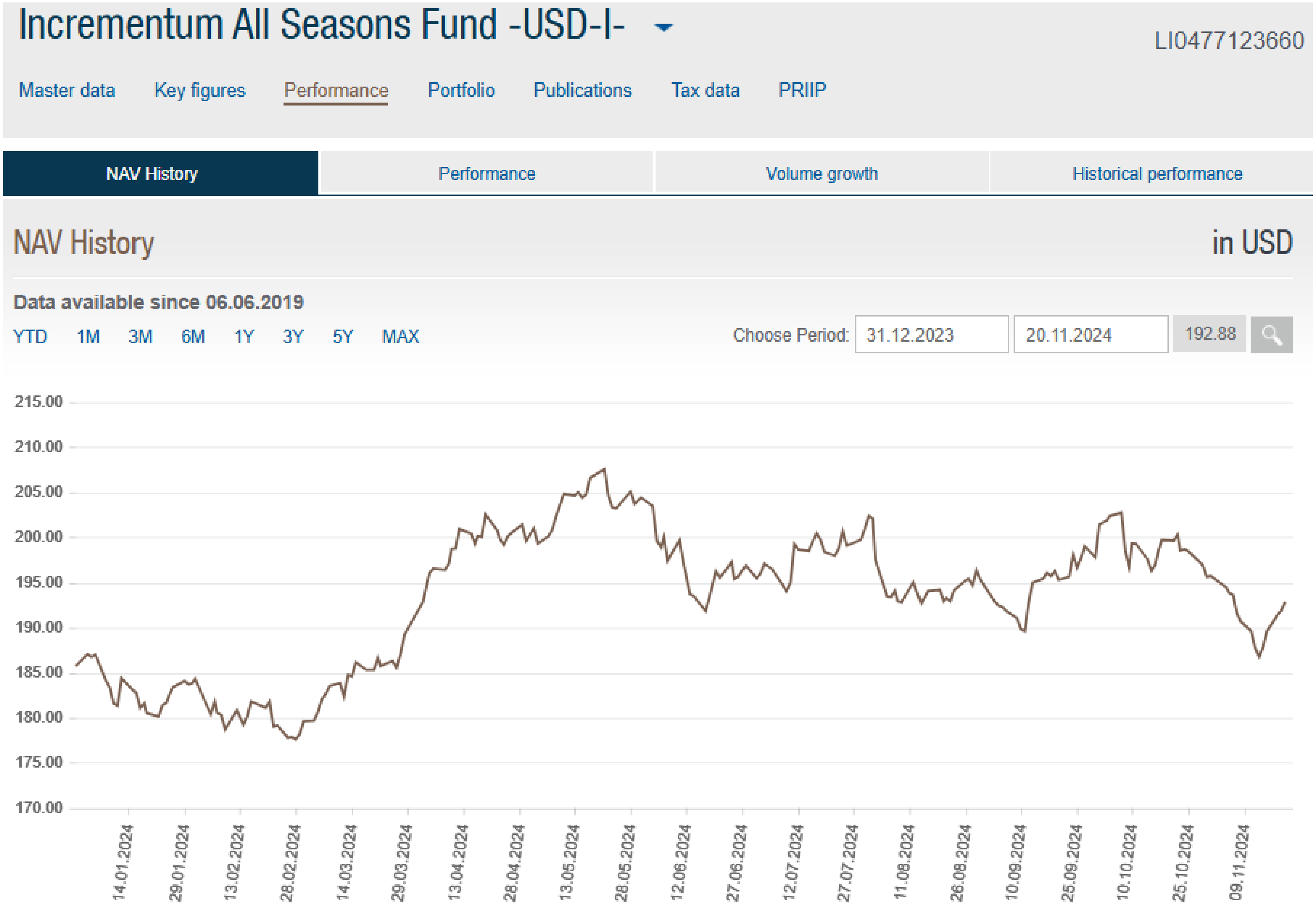
Time has flashed by, and it is November 21, as I write these lines. Nvidia published its results yesterday, which of course exceeded consensus expectations. However, investors had obviously expected even more, as NVDA fell in after-hours trading, but is already up again today in pre-market trading. On a day when Russia deployed intercontinental ballistic missiles, Alyosha aptly described the current mood with a Substack post:

"What is going on?

Imo, here in our bubble, stocks are the best hedge against all our toils and troubles. Trump, no problem, buy stocks. Kamala Harris, easy peasy, buy stocks. According to Bloomberg this morning, stocks are the best hedge against a weak dollar and a strong one. Yes, NVDA didn't quite make enough last quarter despite making more than its estimates per share, but don't worry. The street will buy the indexes and they will carry the cross for Jensen.

However, elsewhere in the world curated news is of another ilk. Missiles with a range of accuracy to easily land in London or Paris might be pointed at Piccadilly and the Place Pigalle. No worries, people! If we're going to hell, let's bring some champagne and buy some stocks." (Market Vibes, Alyosha, Substack, 21NOV2024) – Well said…

As already reported in the first chapter, 2024 has proven a rather sluggish and difficult investment year for IASF until the end of Q3, a situation that has persisted in Q4. The following chart shows the NAV performance over the course of the year using the USD-I share class as an example:

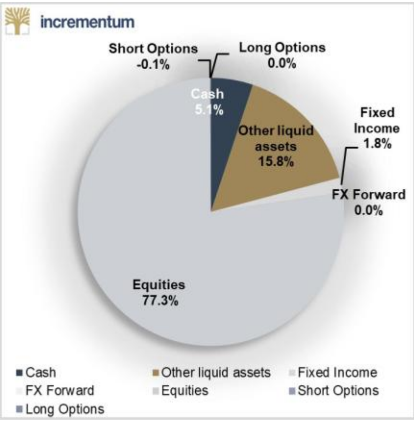


IASF-EUR-I, NAV History, 2024, IFM

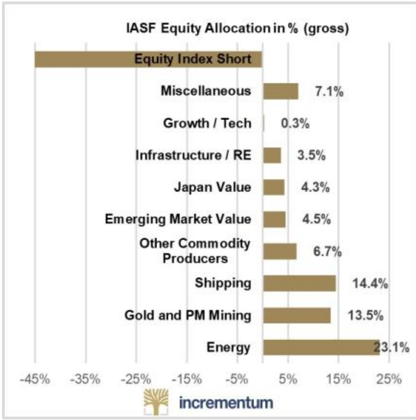
Since the record highs of mid-May, IASF's USD-I NAV has been in a downward trend, though a fall into negative territory could just be avoided, and it has recently been recovering again. After a minus of 1.02% in October, November delivered a further minus of 1% as of November 20, leaving us with only a modest plus of 5.41% for the current year.

The dissatisfaction of some shareholders is reflected in renewed net outflows, although these have been moderate. After all, it is so easy to make money these days, e.g., in Nvidia (+200% in 2024), Bitcoin (+130%), Tesla (+40%), Nasdaq 100 (+23%), preferably with leverage, as prices only ever go up... – And our competitors are likely doing the same, or at least are not so stupid as to go short – or one can use ETFs, where the costs are also lower...

Well, I guess it is obvious that I find the current financial market environment extremely frustrating. And this is precisely why I have been pleased to receive a number of encouraging and positive investor feedback, and some have even used the recent correction to add to their holdings. In my view, this is the right way to go. – But of course every investor has to make this decision for themselves. I can only say that I will stick to our investment principles and approach, as I am convinced that it will continue to deliver good (and for me as an investor, satisfactory) results in the long term.



Q4 has so far been a bit of a mirror image of the first 3 quarters of 2024. Our allocation has not changed much over the course of the year, and our shorts (51.7% of AuM, corresponding to a 25.6% net equity allocation) have cost us another 0.75% in performance.



When comparing IASF with other investment funds of its peer group, it is important to realise that we have achieved this year's result with an average net equity allocation of around 30% (see also the chart on p. 6). This cautious positioning will stand us in good stead when the stock market experiences its next cyclical downturn.

Personally, I have the feeling that this has already begun, but I am probably quite alone in this. After all, not only Algos and AI consultants, but anyone who has studied the seasonal cycles knows that the year-end period, including the turn of the year, is one of the most promising periods to be invested in the stock market. – But if this is the case, wouldn't one rationally try to anticipate this?

Be that as it may, with a negative performance of the IASF USD-I share class of around 2.6% during Q4 (to November 20) and taking into account the fact that our shorts only contributed a good quarter of this, it is clear that we also faced headwinds on the investment side. We experienced this above all in the **SHIPPING** theme, where we had to accept average price losses of 14%. This alone had a 2% negative effect on our overall performance. Although the theme still makes a positive contribution on an annualised basis, the average total return of our stock selection is now only around 7% for 2024.

What has led to the recent share price setbacks? – Well, the freight rate environment in the tanker and dry bulk sector continues to be positive and all our holdings are reporting profits and positive cash flows, even if expectations have recently been downgraded.

Dividend Yld	P/E Ratio	P/B Ratio	EV/Sales	EV/E
8.73%	7.82	1.17	2.32	

IASF shipping portfolio, average valuations

In addition, the balance sheets of our holdings are healthy and valuations attractive.

So why has there been such a sharp decline, into which we have recently increased our buying again, based on valuation grounds? I see several reasons here:

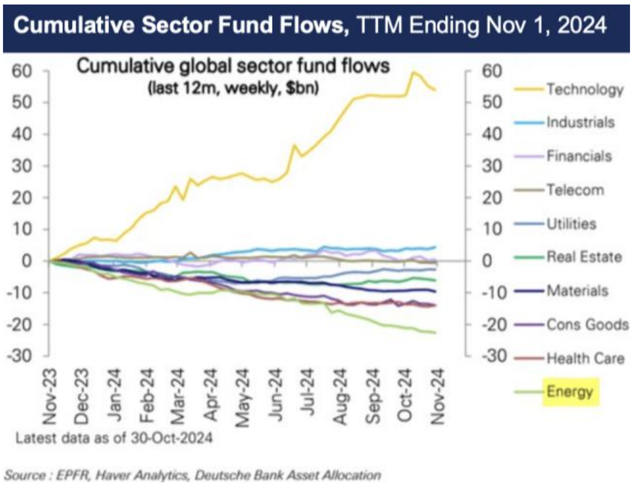
- **SHIPPING** is a highly cyclical business and shares in the sector are therefore typically priced for the expected downturn towards the end of an upturn. In other words, valuations are at their lowest when business is at its best. – This has had a particular impact on the tanker market, where the seasonal winter upturn has so far failed to materialise or has only started to gain some traction. Nevertheless, both tanker and dry bulk companies remain quite profitable by historic standards.
- The rise in prices for used ships has recently stalled and some price declines have already been recorded. This means that the tailwind provided by constantly rising NAVs has faded in the short term.
- In the eyes of the market, Donald Trump's election has increased the likelihood that the two hot wars (Russia-Ukraine and Israel-Iran (& proxies)) will come to an end. If the US succeeds in making the passage of the Suez Canal safe again, this will have a negative impact on demand for transport routes and thus on the effective demand for transport capacities and their prices. This, however, appears already more than priced in.

These are all good reasons for profit-taking, but they do not invalidate the investment case, which has regained a very attractive valuation foundation (NAV discounts average more than 20%) as a result of the price setbacks of recent months. Global maritime **SHIPPING** remains a very effective inflation protection theme, and we are therefore sticking to our fundamental allocation.

At 23%, our **ENERGY allocation** is by far the largest investment theme and our stock selection now shows an average positive total return in Q4 (+1.1%). I have repeatedly emphasised the argument for the high weighting of this theme in previous reports, so I will only briefly summarise the most important reasons below:

- Global energy demand continues to grow and is still mainly satisfied by fossil fuels and uranium, thus providing a tailwind for oil & gas and coal producers as well as the uranium sector.
- We expect potential supply gaps to develop due to insufficient replacement investments (global oil inventories at long-term lows, uranium production significantly lower than expected demand, coal = uninvestable).
- The speculative positioning of financial investors is historically very negative by comparison (net short positions have even been recorded recently).

Visual Capitalist, 11JUL2024



Cumulative sector ETF flows, source: Not known

Global oil demand estimates, for example, have recently been downgraded, while OPEC has significant supply capacity, which it is currently withheld from the market. Suddenly, the world seems to be facing an oil supply glut, which is also reflected in the negative speculative futures positioning. This narrative, combined with ongoing ESG concerns, is the main reason for continued equity market outflows from the overall energy sector. – Technology is "in", energy is "out".

Valuations in the sector are correspondingly low and companies are generally conservative and investor-friendly in their capital allocation decisions. We are therefore convinced that the topic will soon make significant contributions to IASF results again.

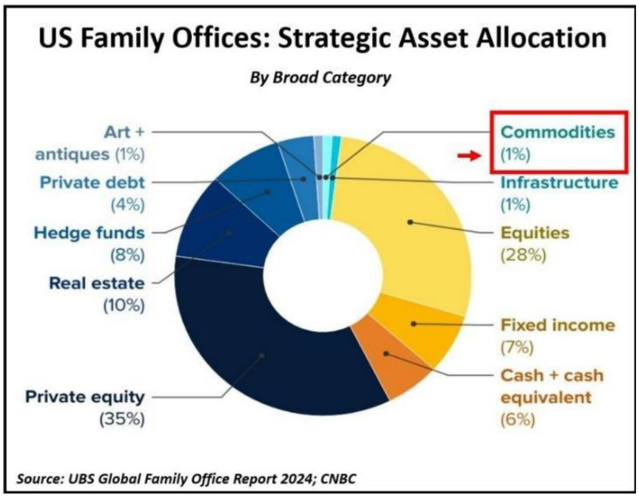
Brent oil price future, investing.com, 22NOV2024

Gas producers have already gained momentum recently, while the uranium sector is consolidating at a high level. This also applies to the oil price, where the technical chart currently indicates a possible continuation of the downward trend. Fundamentally, however, we see little reason for this and remain exposed accordingly.

Our **OTHER COMMODITY PRODUCERS** also had a fairly weak Q4, with an average price decline of 5%.

This already takes into account the million-euro dividend from OCI (the company paid out an IASF record cash dividend of EUR 1.289m, i.e. around 60% of its market capitalisation). The worst result was posted by Glencore, which fell by around 10% following a rather disappointing trading update and under pressure from a falling copper price.

Copper Future, investing.com, 22NOV2024

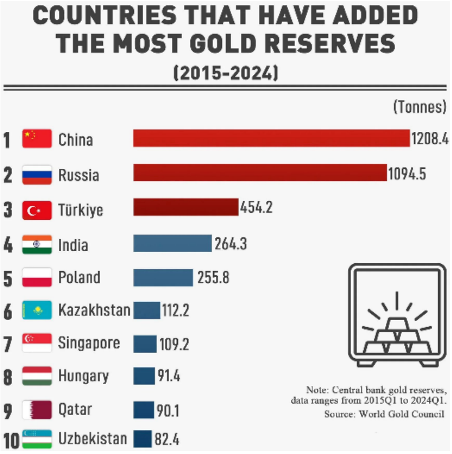


Otavio (Tavi) Costa, LinkedIn, 3JUL2024

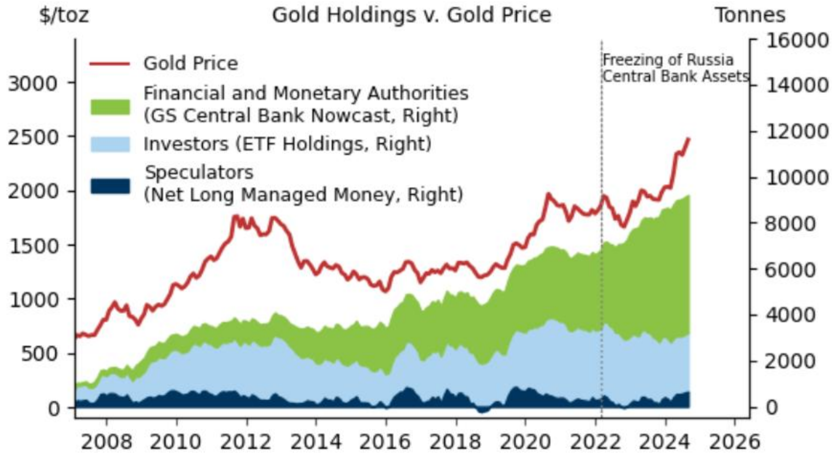
We do remain satisfied with the underlying fundamental data and outlook for this theme. With regard to commodities, it should also be remembered that they have suffered from a very strong USD. The latter has benefited not least from the positive interest rate differential and the belief in "*US exceptionalism*". The former is necessary to attract enough foreign capital to finance the US deficits. The latter is not a permanent state but must be constantly justified politically and fundamentally.

The chart above shows that commodity investments are somewhere "further down the list" in investors' favour. As we like to invest contrarian, this is another reason to look for investment opportunities in this area.

Commodities also include precious metals such as gold (9.4% IASF allocation via physically backed ETNs), silver (2.4%), platinum (2.5%) and palladium (1.5%), which rose by an average of 6.5% in Q4 and in EUR terms. However, 5.3 percentage points of this is attributable to the rise in the USD. Our precious metals allocation also includes **GOLD AND PM MINING**, a basket of stocks (13.5% of AuM), which on average (and in local currency, i.e. USD or CAD) lost 4% in Q4. The FTSE Gold Mines Index fell 7.5% over the same period. Overall, our equity allocation in this theme has still delivered an average 30% total return for the year, which we are extremely pleased with. The bulk of our allocation here is in the large producers and royalty/streaming companies, where we are also quite active in selling options, but we have also included some developers.



@Mayhem4Markets, X, 2NOV2024



The fiscal and physical drivers of our gold price forecast, Goldman Sachs, 29OKT2024

Tailwinds for the gold price are based on the ongoing gold purchases by (mainly emerging market) central banks (see chart of countries top left), which bought the most gold from 2015-24. So far, it is not based on speculative or even long-term investment purchases by private investors, as the chart above right shows very nicely (the holdings of speculators or private investors (via ETFs) have changed little in recent years).

The latter is astonishing, which is why I would like to conclude these observations with another quote from Tony Deden from an article entitled "*Gold: The Resilient Reserve*":

"What makes gold compelling are the risks we do not take by owning it. No forecasting or guesswork is required. The risks we do not take owning gold could fill volumes. With gold, there is no duration risk, credit risk, or liquidity risk. The metal is not moved by financial instability nor threatened by national insolvency or chaos in foreign exchange markets. There are no margin calls and no refinancing risks.

There is no risk of technological obsolescence, depletion, depreciation, or decay, nor does it require cheap energy, cheap credit, or cheap trade to remain viable. It does not care about your national energy policy or who you buy your gas from or how many pipelines are running. You do not have to keep the lights on or even keep it warm. There are no financial accounts to pore over, no balance sheet to blow up, no cash flows to dwindle, no stale inventory and no margin pressures in difficult times. There are no key manpower or supplier risks, no competitive risks, no management to squander its future. It does not depend on the character, skill, or enthusiasm of anyone. It does not require the faith or good will of others. It does not require you to trust anyone at all, except that you must hold it in a very safe place." (@S_Mikhailovich, X, 24OCT2024). – In other words, gold is money in its purest form.

Our less important investment themes...

- **EM VALUE**: 4.5% allocation, average total return in Q4 to date: -13%. (Here the 3Q ended with a pronounced rally in Chinese equities, which for a moment gave the impression that EM equities could break out of their lethargy and undervaluation, an outlook that has since had to be postponed again...)
- **JAPAN VALUE**: 4.3% allocation, average TR in Q4 so far: -1.9%. (Here, too, the market has entered a consolidation phase since the July highs, which is likely to continue for the rest of the year, as the JPY has become less of a one-way bet for leveraged investments.)
- **INFRASTRUCTURE / REAL ESTATE**: 3.5% allocation, average TR in Q4 to date: -2.0%. (Despite good 3Q figures, VGP shares were particularly disappointing and pushed the overall result into negative territory.)
- **GROWTH / TECH**: 0.3% allocation, average TR in Q4 to date: -21%. (This theme is so underrepresented that we have already asked ourselves whether we should discontinue it. But basically, we believe that it is worth keeping this theme and that we will find new suitable candidates in the medium term.)
- **MISCELLANEOUS**: 7.1% allocation, average TR in Q4 to date: -6.7%. (Here the result was disproportionately influenced by Bayer's weak performance (-35% after disappointing 3Q figures), which we have already discussed as an example on p.7. We believe that more negative factors have been priced in here than seems justified. There is no doubt that the management has a major task to put the company back on a stable footing and regain the trust of investors. Turnaround stories always require patience, but we believe the ingredients are there. – Overall, we see great potential in the shares of this theme, but "value" is not currently sought after in the market.)

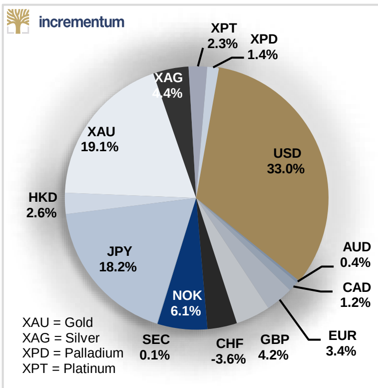
... unfortunately did not make a positive contribution either, and so we experienced a November setback, which was -4.8% by November 13, -2.2% on November 19 and was probably back to breakeven by November 22, the Friday before the weekend on which I am concluding this chapter.

What else can I say: The times we live in are characterised by speculation in a few "number go up" investment instruments, while the vast rest of the market receives little attention from the endangered species of investors and is therefore subject to great volatility and unpredictability. To paraphrase the well-known US fund manager Ben Miller:

In his 35 years in the business, it is *"...easier now to construct portfolios you have confidence will do well over the next 5 years, but more challenging to do the same for a 6-month horizon. In other words, volatility is the price you pay for returns in this market."* (Ben Miller, quoted by Samantha McLemore, Patient Capital Management, 24FEB2017) – Not much seems to have changed since.

I would add that this is actually always the case for investors, because a sound assessment of the fundamentals of an investment is more likely to be reflected in the verdict of the overall market in the longer term than in the short term. But it requires patience and confidence in the manager's ability to make an accurate assessment of their long-term investments. As we pointed out in the first chapter (p.4) with regard to a critical review of our approach, our investment selection has been quite successful overall, with a few disappointing exceptions, and I see no reason why we should not continue this track record in the coming years.

Finally, let's have a brief look at the currency allocation, which looked as shown opposite on November 20 (as always on a "look through" basis, i.e. based on a company's underlying business, not the stock market quotation). Our low EUR allocation helped us here in November, while we benefited from our USD allocation as well as our precious metal investments. We are keeping a close eye on the former, while the latter are the long-term winners against fiat currencies.



CONCLUDING REMARKS

As always, I have tried to give a transparent picture of our work in these pages so that IASF investors (and those who potentially want to become investors) understand how we invest and what explains our performance. The latter has been somewhat disappointing this year, but that is part of the business. In any case, we have not done anything differently this year than in previous years. And I know that this experience is shared by other active, benchmark-independent investors. Even Warren Buffett had "tough" years (2015: -12.5% for BRK vs +1.4% in the S&P 500, or 2020: +2.4% vs +18.4%) and is rightly considered one of the best investors of all time, as the long-term track record (see BRK Shareholder Letters, e.g. 2023, p. 17) proves.

We are by no means comparing ourselves to the Sage of Omaha, but merely emphasising that a benchmark-free "absolute return" investment approach will always deliver results that deviate from the indices normally used as benchmarks. And this results occasionally in sluggish, but also (positively) explosive years. It is important to us that we deliver what we promise, namely an active, "absolute return"-orientated and benchmark-free, global investment strategy that delivers an increase in the purchasing power of the invested funds over the market cycle. That this is not a linear process, or one that can regularly beat the broad equity markets should be obvious, and not just from the mandate description.

If investors lack patience or trust, then of course we must accept that. In any case, I am glad that we have a strong long-term investor base in IASF and wish all tourists a more successful new investment and good luck and success with the new managers and vehicles. And I would like to thank our residents for their trust and patience.

And with that, I would like to close this edition of my Seasonal Reflections. As always, I look forward to receiving your feedback by email and would like to thank all my readers for their interest. And with the end of the year approaching, allow me to already take this opportunity to wish you all a great December, a merry Christmas / happy holidays, and a fantastic new year 2025.

Greetings from Schaan, Liechtenstein!

Your sincerely

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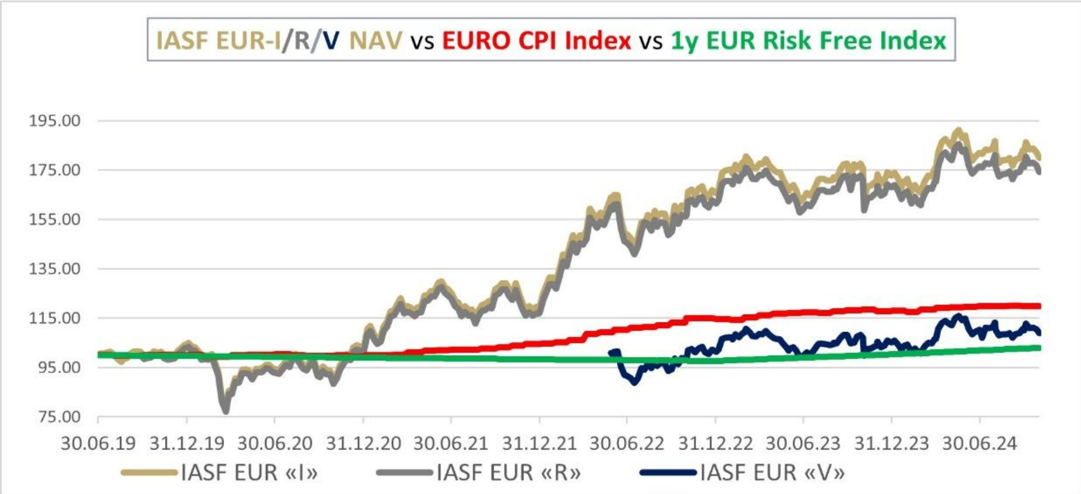
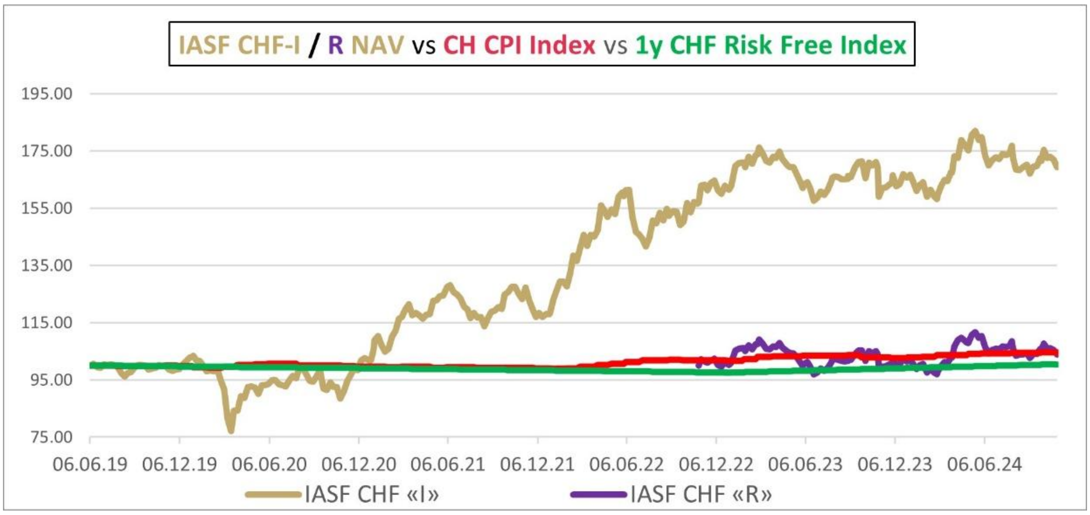
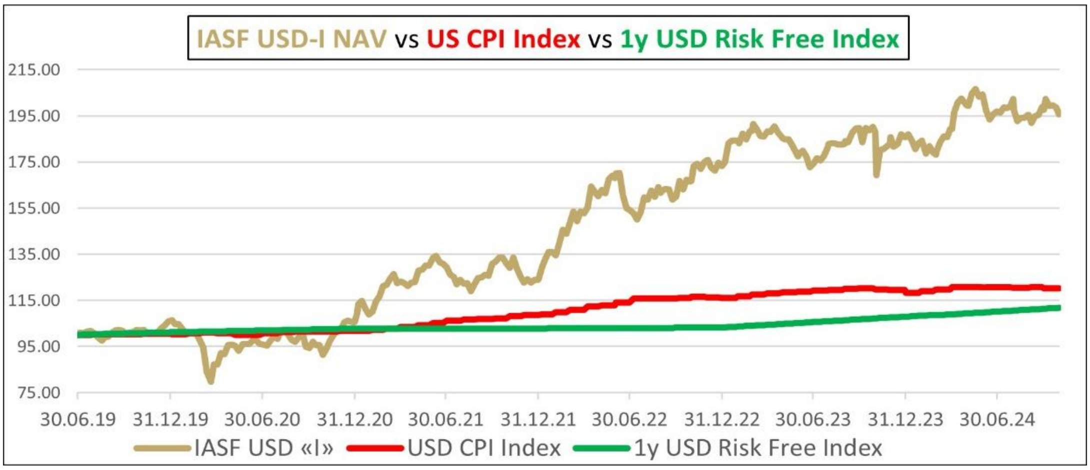
Appendix *







Graphs display NAV (I- and R-shares) of IASF performance until last valuation date (**31 OKT 2024**), compared to the respective risk-free 1y-government yield, as well as the relevant CPI Index in respective currency as a proxy for the loss of purchasing power from the start of the investment period (6Jun2019 for 'I' shares; 26Sep2019 for EUR-R shares; 20MAY2022 for EUR-V shares; 2NOV2022 for CHF-R shares) on an indexed basis.

IASF PM Shaped By 8 Investment Lessons

1. Capital markets, like the economy, are inherently cyclical in nature, and you must always know where you are in the cycle, while not hesitating to “Be fearful when others are greedy and greedy when others are fearful." (Warren Buffett)
2. Prices paid determine future returns, i.e., the higher valuations are, the lower future return expectations must c.p. be (and vice versa), which is the essence of value investing.
3. Capital preservation is the conditio sine qua non, and a consistent and long-term investment strategy is usually more rewarding than short-term momentum chasing.
4. As a result, you must always know when you trade, or when you invest.
5. The most basic and effective risk management tools are proper diversification and the ability to hold cash.
6. Hard assets are preferable to intangibles, distributions to accruals.
7. Look for the incentives: True alignment of interest works in investors' favor.
8. There is no magic formula for perfect investing. Hence, consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.

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