Incrementum All Seasons Fund

– in pursuit of real returns –




2023 / 02

Seasonal Reflections

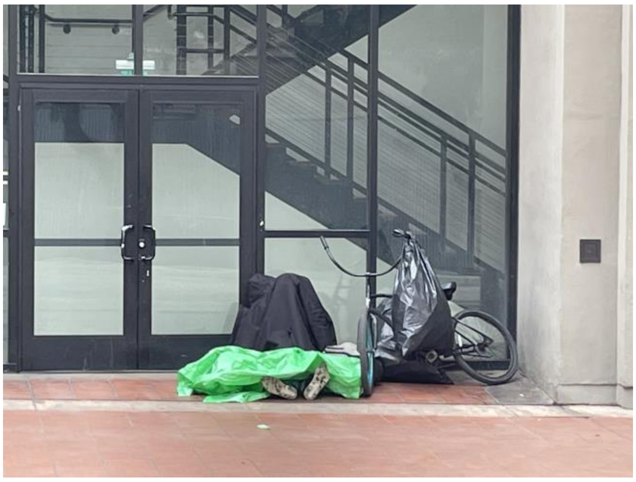
Quo Vadis?

Dear Reader / Investor,

the first quarter of the year (and some) has rushed by and long disappeared in the rear-view mirror of time by now. For my wife Alexandra and I, it was particularly memorable as we celebrated our 25th wedding anniversary. Having married in Hong Kong joined by a small crowd of friends and a minimum of family in February of 1998, we decided to go to Las Vegas this February, accompanied by our daughters and some close friends – and not only to renew our vows. In light of the long journey, we decided to stay for 3 weeks, which we spent travelling in Nevada, Arizona and Southern California.

Now, there is a lot to say about our trip, but this is not the place to do it. But I am bringing this up, because it was my first visit to the United States of America in five years, and it left quite an impression, namely that this is a country in decline.

Leaving Vegas aside, which is all about (superficial) entertainment, which one may like or not, for a visiting European the crumbling infrastructure, poor housing conditions (incl. trailer parks) and increasingly obvious wealth gap were shocking. Walking through San Diego I (hesitatingly) made the accompanying photo, which evidences the level of homelessness and drug addiction that was on display everywhere. Perhaps the particularly cold stretch we had chosen for our visit made this more evident, but conversations with locals suggest that this is an ongoing problem.



Somewhere (or Anywhere) in San Diego, 24FEB2023, HGS pic

However, observing and following US politics and how the country grandstandingly displays itself to the world, one might conclude that it is the pinnacle of civilization. – But is it?

Perhaps, it is just another sign of what is wrong with our system of governance. Democracy is meant to be about fair and equitable representation of voters' interests, but politics increasingly seem to have degenerated to the preferred career path for bureaucrats and opportunists, whose main focus is on keeping the competition at bay in order to secure re-election rather than what is best for the long-term fate of the electorate. In business and particularly the financial sector we apply the concept of fiduciary duty, but politicians still get away with baseless promises and empty claims of having the best interest of their electorate at heart. There is no need to objectively prove this, and no real accountability. And with no skin in the game, the taxpayer's money is usually squandered on short-term measures designed to increase (re-)election chances, while all Western democracies are put ever deeper into debt. Where is the sustainability in that?

Admittedly, this is not really something new, but things seem to gradually get worse. The French say "Plus ça change, plus c'est la même chose". As I reflect on this matter, and the whole world betterment movement we are faced with these days, I am reminded of one of the 80's great pop icons, Joe Jackson, who with his "Obvious song" from 1991 lamented about the then similarly prevailing hubris and double standards! – For those, who decide to travel back in time, please enjoy both music & lyrics!

Meanwhile, this is not meant to spread gloom and doom. Instead, I share these thoughts in order to help raising awareness and causing some reflection on the subject, as well as about what each of us can do to counteract these trends or at least to be prepared for how they might affect our lives. After all, our liberties and freedom may be at stake, something we all have learnt to take for granted, even if it isn't.

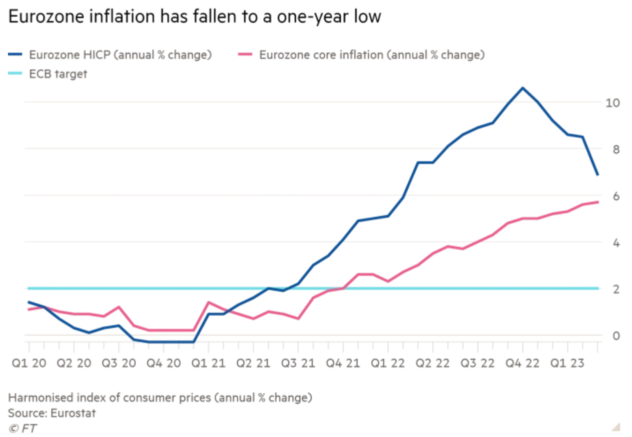
Table of Content:

(All underlined passages in red are active weblinks!)

The Macro-Backdrop For Investors

When one looks at the world through the political lens, we are transitioning to what many label a multi-polar world and others describe as growing political (and thus economic) fragmentation. The Russian war in Ukraine, China brokering a deal between Iran and Saudi Arabia, growing tension in the Taiwan Strait, and many other flash points provide evidence of that. Consequently, we expect a period of growing international confrontation (which is inherently inflationary) rather than cooperation (deflationary).

Meanwhile, the global economy is in a moderate slowdown, which arguably begun already in 2022 as a result of Russia's war in Ukraine, China's harsh lockdown measures and the simultaneous rise in global inflation rates. The latter are commonly attributed to Russia's war and the resulting disruption of commodity flows and prices. But we believe that it is mainly due to massive government fiscal stimulus during the Covid years. The resulting demand impulse was so strong that it did not only stimulate growth but also caused a widespread increase in savings, which have gradually been released since 2022. Add in growing supply and logistic bottlenecks and last year's (partly speculatively boosted) spike in commodity prices, and the erosion of purchasing power has by now become blatantly evident to all economic actors. Particularly private households, despite of the recent easing of energy and food prices, which have temporarily boosted purchasing power, are gradually unlearning their decades long focus on nominal rather than real (i.e., inflation-adjusted) income. The result is growing industrial action by unionized workers, which can be seen across Europe, but also in the USA.



Financial Times, 31MAR2023

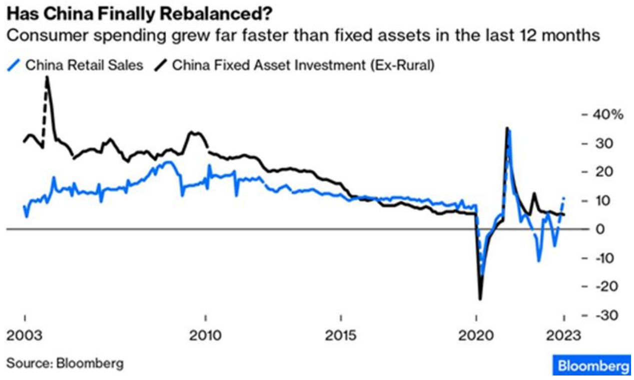
But what now?

Though headline inflation has turned and is falling, energy prices seem to have bottomed, food prices are still increasing, and core inflation rates remain stubbornly elevated. Meanwhile, overall demand is holding up better than feared, and is further boosted by the reopening of the Chinese economy, which is having a positive effect on global economic activity.

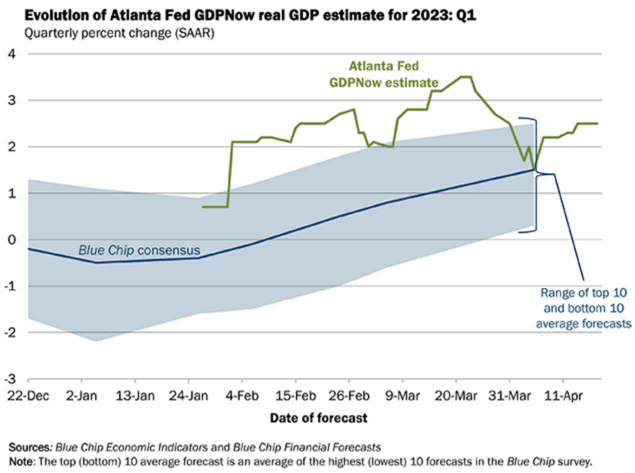
Against this backdrop, central banks have continued to raise policy interest rates, as their battle against inflation continues, with services inflation proving to be more persistent than goods inflation.

Being perennially optimistic (perhaps contrary to your humble scribe), the OECD is projecting that global economic growth, as measured by real GDP, will still come in at 2.6% this year, compared with 3.2% in 2022. Regionally, the Eurozone area is expected to slow to a mere 0.8% growth, and UK growth to tumble to -0.2%, thus clearly moving towards recessionary territory.

In contrast, Japan's economy, benefiting from China's reopening, is expected to maintain a moderate growth rate of 1.4% in 2023. China, the globe's second largest economy, is expected to enjoy 5% growth this year after 3% in 2022, led by post-Covid consumer spending. This will provide a needed boost to many economies, with the effects anticipated to be strongest in the Asia-Pacific region.



Bloomberg, Points of Return, 19APR2023



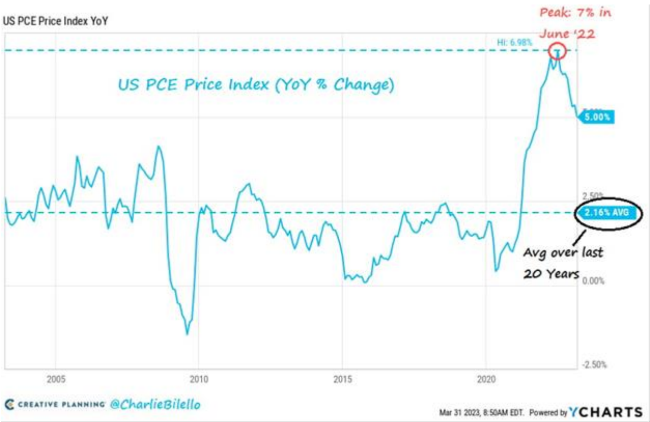
Atlanta Fed GDPNow, 18APR2023

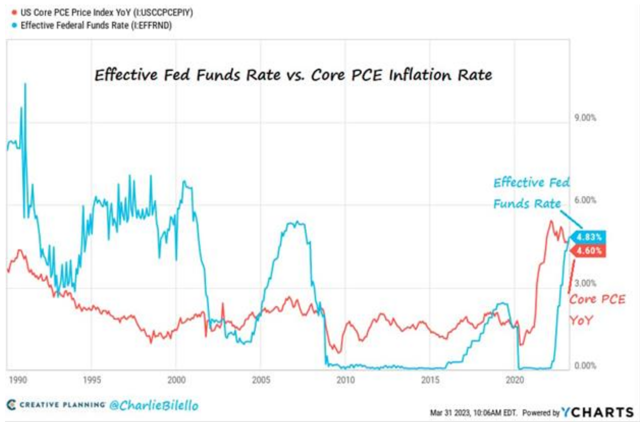
And in the US, GDPNow estimates of the Federal Reserve Bank of Atlanta point to 2.5% real GDP growth. The chart also suggests that these estimates have been running consistently above the level forecasted by the (private sector) blue chip consensus.

A third of the way into 2023, all this suggests that although economic growth momentum may be slowing, we are still some ways from recessionary territory, which is causing a dilemma for monetary policy.

After all, central banks seem to believe that only a sharp slowdown in overall demand (aka recession) will bring inflation rates back to familiar territory. This is important for investors, who apparently expect central banks to soon pivot from their current hiking path and slash interest rates again soon.

But is that realistic?

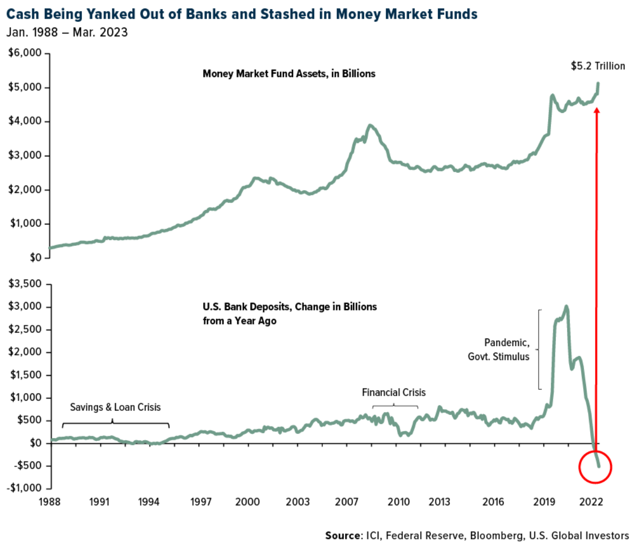




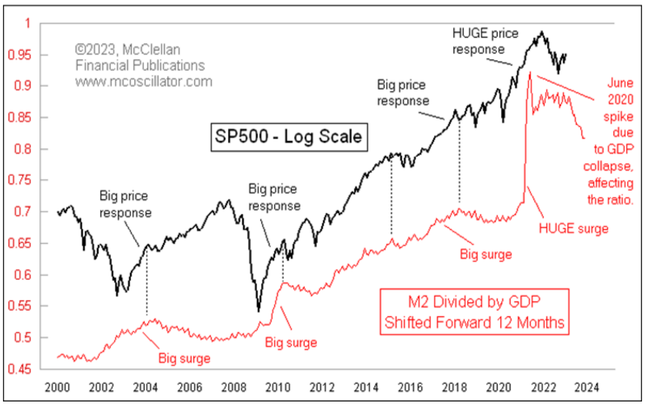
The Week in Charts (4/7/23), Bilello.Blog, 7APR2023

Looking at the question through a US lens, PCE Inflation in the current cycle has blown past all prior cyclical highs and remains far too high for the holy grail of the central bank sanctioned 2% inflation target. The Fed Funds Rate has been lifted to a record degree over the past 14 months but is only now catching up with core Consumer Price Inflation (CPI). The rapid rise in funding cost has already been causing first cracks in the financial system. Pressured under an estimated USD 620 billion in unrealized losses, the U.S. authorities in March had to deal with the failure of two large banks, Silicon Valley Bank (SVB) and Signature Bank, which has caused a significant erosion in depositors' confidence.

As a result, funds have flown from perceived weaker (mostly smaller and regional) banks to larger and deemed safer institutions. In addition, and perhaps more importantly, it has also led to the withdrawal of funds from the overall banking system. In March of this year this resulted in the first year-over-year decline in bank deposits since the savings and loan crisis in the 90s, amounting to USD 500bn. The money exiting the banking system has been directed into government bonds and money market funds, which have been offering more safety plus higher yields as well.



U.S. Global Investors, Investor Alert, 31MAR2023



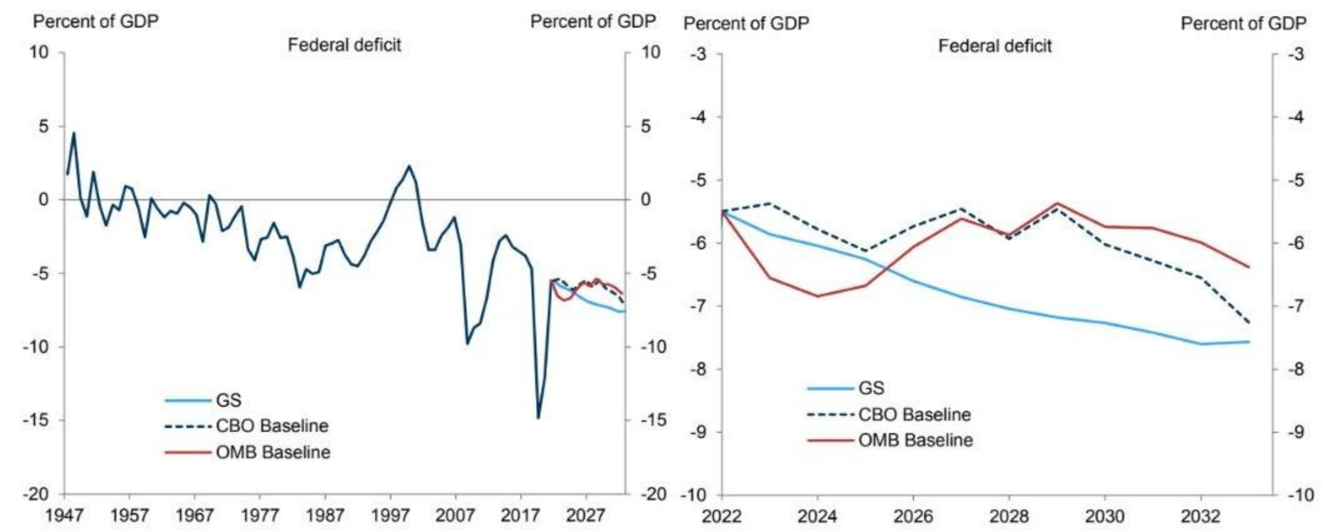
McClellan Chart In Focus, 23DEC2022

Consequently, for smaller banks who were already facing a liquidity crunch due to massive unrealized bond and credit losses, these sudden withdrawals will only amplify their problems. This alone will cause banks to become less and less willing to lend to the private sector, slowing the economy even further. And it will only accelerate the recent drop in monetary aggregates, where M2 has sharply pulled back, particularly in relation to a still rising GDP.

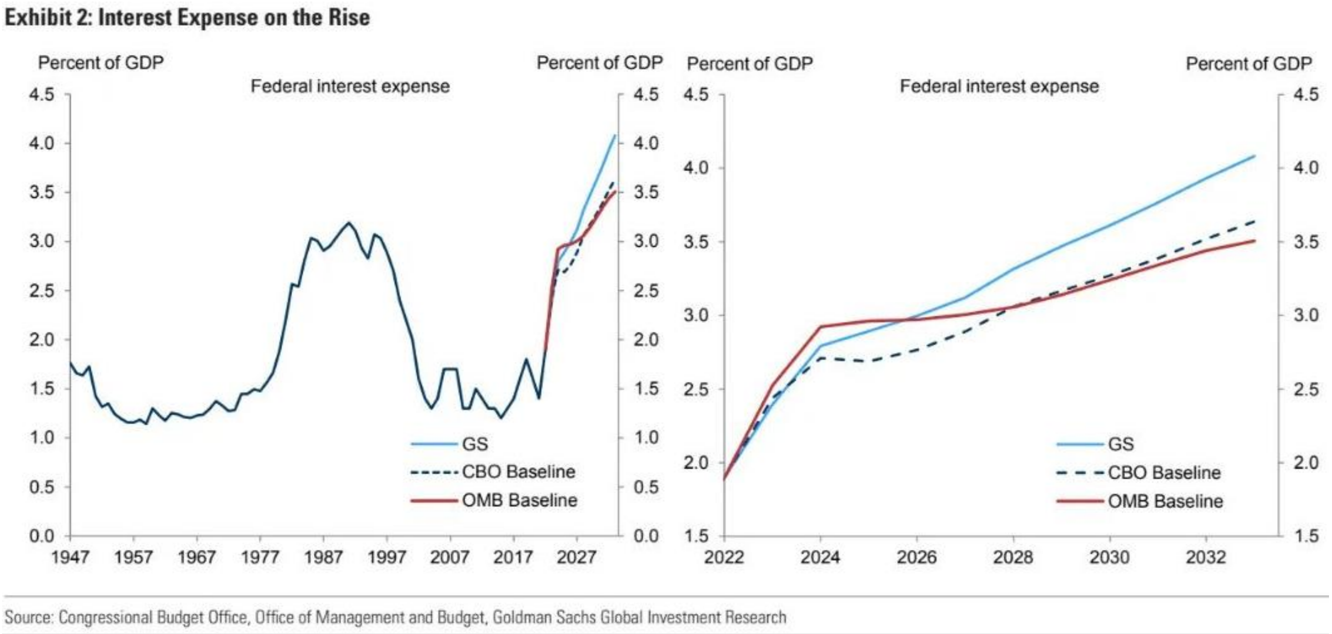
And this is, as mentioned, why investors are betting that global central banks and the Fed in particular, will soon pivot their monetary policy in order to avoid a full-blown recession. And here, I believe it is important to understand that it is exactly a recession the Fed believes is needed to bring inflation under control, namely via reduced demand and higher unemployment, even if this is not something they would ever be willing to say out loud. And just to clarify, our argument is not that they will keep interest rates elevated until inflation is back below 2%, regardless of what happens in the economy or financial system. But they will test the limits of endurance, and only lower interest rates again significantly when they feel compelled to do so in order to preserve the integrity and stability of the entire system.

What elevated interest rates mean (not only) for the (US) economy, but all highly leveraged countries, is shown neatly on the graphs below:

Exhibit 1: The Federal Deficit Will Continue to Expand



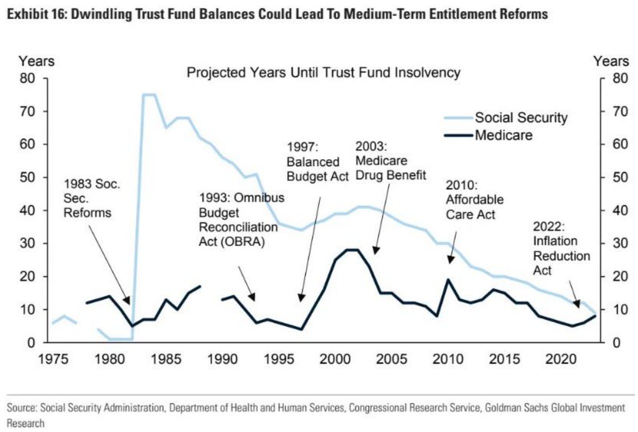
Source: Congressional Budget Office, Office of Management and Budget, Goldman Sachs Global Investment Research



M'tourist Private Feed Recap, 21APR2023

Debt will continue to rise, as interest expenses soar and are not offset by budgeted, let alone actual savings. In fact, most Western governments still engage in fiscal stimulus like the ridiculously mislabelled US Inflation Reduction Act or Europe's spending on its green energy transition. That is essentially money created out of thin air, that funds rising public sector demand. At the same time, higher interest rates on government debt also means more money is flowing from the government to the private sector, (at least partly) helping to offset private sector credit contraction.

And this is what makes this cycle different from previous ones, namely the new reign of fiscal policy. Governments promise to spend (borrowed) money on climate change and building a better society, and this spending actually creates additional demand in the real economy rather than in financial markets. Whether the funds are borrowed from the private sector / banks or taken from future generations via the depletion of the Social Security Trust fund, the effect is the same.



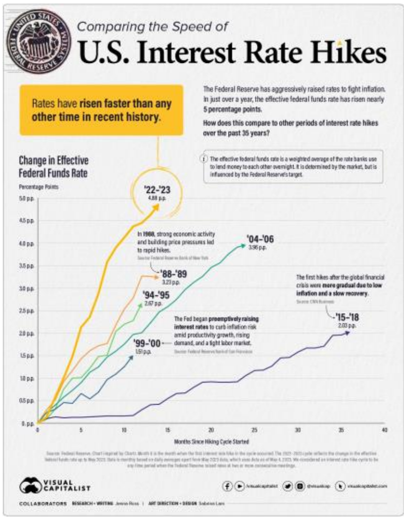
M'tourist Private Feed Recap, 21APR2023

In this context it fits also that according to the Stockholm International Peace Research Institute, worldwide military spending this year is expected to reach a new record of USD 2.24tr, as cited by the WSJ. *"As per usual, Uncle Sam contributed more than his fair share to that sum, as the U.S. military shelled out $877 billion to represent 39% of the global tally. However, that outlay rose only 0.7% year-over-year. Unsurprisingly, considering the war in Ukraine, European military spending jumped 13% to $345 billion, marking the fastest growth rate on the Old Continent since the end of the Cold War. For its part, China ratcheted up its armament expenditures to $292 billion, a 4.2% uptick from 2021."* (ADG, 24APR2023)

And while we have truly entered the age of fiscal profligacy, the other key aspect that is easily missed from the equation is that the era of cheap labour has ended. In fact, given aging populations and overall demographic trends, this influence will be felt ever stronger. That suggests a different inflationary outlook then what we have seen over the past goldilocks' decade.

In addition, the macroeconomic picture today is loaded with other risks that I have previously mentioned in these pages. First and foremost, we are approaching the end of a long-term debt accumulation cycle. During a generational decline in nominal interest rates, debt levels (plus unfunded liabilities) have become massive and are growing at an accelerated pace and they are a headwind to growth and a tailwind to rising interest rates. How are we going to deal with those debts?

There are two ways to attempt this, which I expect will be used in this order. First, inflating the debt away by allowing elevated nominal growth and inflation that exceeds nominal interest rates. And when that does not work or gets out of hand, a sovereign debt restructuring is likely to ensue, not only in Europe, but also the US, and almost everywhere else (Japan, China, etc.). This is why at Incrementum we expect this to be an inflationary decade, with significant ebbs and flows in the rate of change.



Visual Capitalist, 7MAY2023

David Rosenberg, @EconguyRosie, Twitter, 16MAR23

Near-term, however, higher interest rates and elevated inflation are slowing the economy, as no one had a serious chance to prepare for the interest rate shock delivered over the past 15 months… - and the consequences will reverberate throughout the economy and financial sector.

The good news is this will bring inflation growth rates down. The bad news is, that this will once again expose the fragility of the entire system.

Personally, I don't find this an appropriate setup for a renewed bull market in financial asset prices.

What About Financial Markets?

When I consider the situation in financial markets, there has rarely been a time of greater confusion among professional market watchers and investors. The economic outlook alone seems challenging enough, but there is also a very diverse view of where markets are heading. When will central banks stop their hiking cycle, and when will they pivot? – How are long-term yields going to respond to that? – Will we experience a recession and thus widening credit spreads, or a soft landing? – Is the USD going to weaken further or will we see another safe-haven induced rally? – The views are as diverse (and as usual well argued) as I ever saw them.

Personally, I am convinced that financial markets are experiencing the echo of the prior bull market. The past has taught investors that central banks will always pivot at times of financial market stress, and in anticipation of that bond markets have been surprisingly strong recently, especially US Treasuries, where the 10-year yield has fallen almost 1% from its October high.

This is in stark contrast with the recent spike in US Credit Default Swaps (CDS), which indicate trouble brewing amid the approaching US debt ceiling negotiations. CDS prices are a measure of the likelihood of a debt default of the underlying securities (here US Treasury bonds), and the levels have recently revisited the highs of the EU sovereign debt crisis, though they remain still some way off the GFC highs.

US Credit Default Swaps, Bloomberg

But US yields levels have been falling recently, i.e., bond prices have been bid up. Ordinarily, this suggests that investors are heading for the hills respectively the safety of government debt, and it is the expectation of a(n inflation-killing) recession that is driving them. At the same time, equity markets have been rising again, which to the contrary suggests anticipation of a strengthening economy.

But is it?

Sure, equity markets have been rising again since October, and this is nowhere more starkly evident than in technology stocks, which as a consequence have been soaring this year in an echo of the great 2020/21 bubble.

As an example, the NYSE FANG+ index rose from a level just above 2000 at the end of 2018 to 8000 in early 2022, only to pull back to 4100 again by October last year. The subsequent rebound has caused the index to reach 6200 again last week, up a full 50% from the October lows.

How is that possible?

Bloomberg, 18APR2023

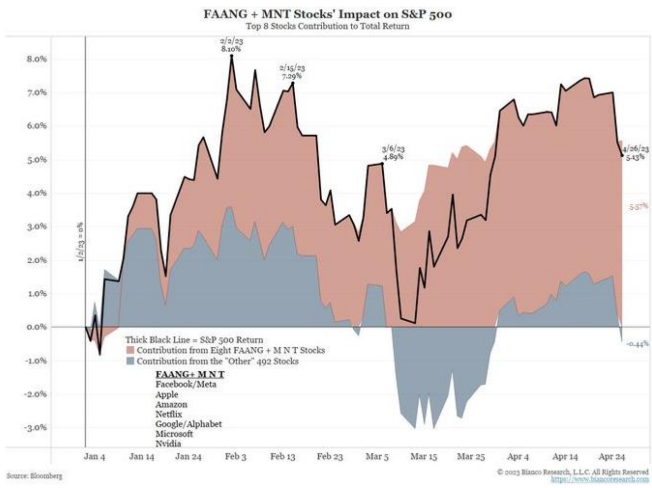
Another way to highlight current investor sentiment is to zoom in on the performance contribution to the S&P 500 of the original FAANG (Facebook/Meta, Apple, Amazon, Netflix, Google/Alphabet) plus MNT (Microsoft, Nvidia, Tesla) stocks versus the remaining 492 stocks. *"So, what is the message from the stock market?*

** The economy is good as the stock market is up more than 5% after four months.*

** The economy is suspect as collectively, "other 492" stocks are dragging the S&P 500 lower again this year like last year."* (Jim Bianco)

investing.com (26APR2023)

In fact, it is not unusual in a developing bear market to see investors in its early stages cling to what they know. And too few investors today seem to be able to remember a time when mega tech stocks were not working, which is why they continue to dominate the world top 10 equity list and are considered safe havens amid growing uncertainty about the overall market outlook. It speaks volumes about the past investment regime that they have done so almost irrespective of valuations…



@biancoresearch, Twitter, 27APR2023

No doubt, Jim meant this as a rhetorical question. – Investors are seeking safe havens, whether these are government bonds or the US tech behemoths. However, they do this without regard to valuations. This is most obvious in the equity safe havens, where Apple and Microsoft alone sport a market cap of $5tr and trade at 7x resp. 11x sales. That's very expensive, even for quasi-monopolistic companies. No one put this better in perspective as Sun Microsystems' Scott McNealy.

So, is it possible that the mega-cap tech stocks rally will resume and lead to new highs? – Sure, everything is possible. After more than 30 years of professional investing, I know that to be true. And I have learnt that the notion that markets as much as economic actors always act rationale, is a fairy tale they tell you at university. It reflects a theoretical concept of life that upon a first glimpse makes so much sense – and yet has little grounding in reality.

Source: Hedgeye

And when I witness Meta's (fka Facebook) stock soar 170% in 6 months and spike 15% on the day it reports a 3% (NOMINAL!) revenue growth and the rolling out of AI across it's apps and businesses in its 1Q earnings call, I cannot help but feel investors have not learnt anything.

This is why I personally am convinced that this is merely an echo bubble which will eventually fizzle out, and that tech / growth / long duration stocks will experience an extended period of consolidation and price corrections that ultimately will bring them back in line with overall stock market valuations. I am equally convinced that value and tangible assets have entered a new secular bull market, which will take many years to fully unfold. But here again, there are no guarantees, and hence I am constantly questioning my own assumptions, and wondering where I might be wrong. But I have yet to find convincing arguments to change my views.

Allow me to quote here from TIS Group's Larry Jeddeloh's excellent Market Intelligence Report, published on 26APR2023: *"A data point surfaced on twitter today where Tommy Thornton reported that according to GS, their hedge fund clients are gross long by 188% and net long by 51%. The gross position is in the 98th percentile of the indicator's history.*

It is hard to believe that US equities have priced a recession with equity exposure that high. It is also hard to believe there are bears running around when there remains about $15 trillion market cap in NASDAQ stocks. The traffic jam in tech mega-caps is something we have seen before, the last episode was early 2000, just prior to the dot com bubble bursting when the Fed pulled liquidity from the discount window. High tech valuations, massive market caps and a Fed pulling in liquidity - sound familiar?"

Why is this so relevant for European investors, you may ask? – What do they care about US and Nasdaq stocks? – Because, and let's face it, global equity markets are the tail, and the oversized US equity market is the dog, as it accounts for two thirds of global equity market value. And amid the dominance of passive investing, it is still the dog that wags the tail…

Source: Hedgeye

At the end of the day, this is exactly what makes investing so challenging and difficult. Because you have to carefully develop your own views of what is worth holding and you must not be deterred by short-term fluctuations. Financial markets as well as the economy can be rather bewildering, and with no crystal ball to foresee the future, there is actually nobody who knows what it will bring. All we as investors can do is stick to our processes, be tactical, observant, and most of all very patient, in order to deal with the inevitable periods of frustration, as well as to take advantage of opportunities as and when they present themselves.

Let's Talk About Fund Management

None of the above is exhaustive of what I might have to say about the subject, but I think it is time to move on. After all, I have been penning this piece on and off, the last two weeks during my business trip to Asia, which had me meet many of **IASF's** seed investors in the region. The trip was my first in three and a half years, and I truly enjoyed meeting quite a few of my readers in person.

But let us now open this chapter with a few thoughts inspired by recent questions about **IASF** and our management of investors' funds: As a banker in my past career, I principally adhered to a co-investment approach as far as recommendations to my clients were concerned. The resulting skin in the game provided the required focus and sense of responsibility for the funds that were entrusted to my care. When I launched **IASF**, I hesitated for a moment whether I should become a seed investor, too. After all, that would represent a serious concentration for my personal financial risk, tying my retirement nest egg to the success of my new path as fund manager and entrepreneur. But in the end, it was only a moment of doubt, as I knew that I could only ever run the fund as it if was my own money. After all, that way I make all my decision as an investor and not marred by business considerations. That does not necessarily make me a better fund manager, but it optimally aligns my own interest with those of outside investors.

Does that require me to write lengthy missives like this? – For a while, I doubted that it is indeed worth the time and effort I put into this. But following recent feedback and the growing number of queries about when the next issue will be published, gathered not only during my trip but also this year's Fonds Professionell exhibition in Mannheim, I know it is. After all, **Seasonal Reflections** are my way to frankly share my views as **IASF** fund manager on the economy, markets as well as our actual portfolio management process, for the benefit of existing as much as new and potential investors. And having written similar reports for more than two decades, I can hardly deny that I do enjoy the process of writing as a way to focus my thoughts, even if these days I wish it was not such a disjointed process.

With all that as intro, allow me to provide you with a portfolio management review and outlook on the following pages. But before I begin, please do note that…

Incrementum All Seasons Fund

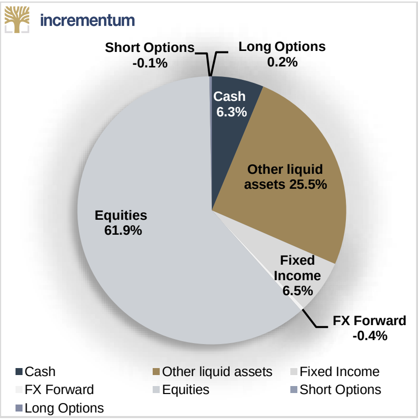
– in pursuit of real returns –

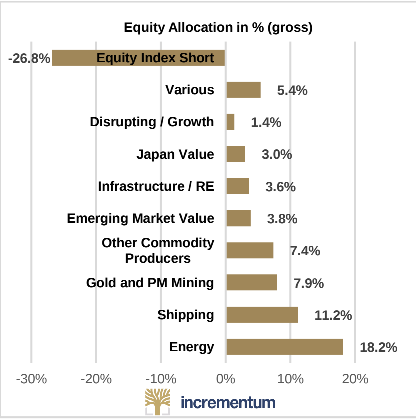
Any investment analysis, views, and outlook included in this document are based upon current market conditions and reflect the opinion of the author. All information was compiled from sources believed to be reliable, but no representation or warranty is made as to their accuracy or completeness. Seasonal Reflections are issued to registered subscribers for information and entertainment purposes only and must neither be seen as an attempt to solicit an investment in individual securities nor in the Incrementum All Seasons Fund. Past performance is no guarantee for future results, and the value of the fund may go up as well as down. If you seek investment advice, please consult a licensed investment advisor, or do your own due diligence.

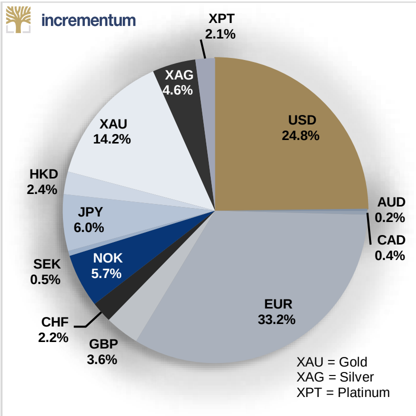
As the table below shows, the first four months of the year 2023 delivered results for **Incrementum All Seasons Fund (IASF)** that were overall quite satisfactory, though hardly outstanding, with the majority gathered in January alone. (Please note that this is not unusual, as performance can be lumpy, which is why we emphasize the long-term nature of this investment vehicle.)

	USD-I	EUR-I	EUR-R	EUR-V	CHF-I	CHF-R
Latest NAV:	**185.32**	**174.67**	**172.98**	**108.66**	**169.90**	**104.91**
April Performance:	-1.53%	-1.63%	-1.66%	-1.69%	-1.72%	-1.72%
2023 Performance:	**6.93%**	**5.59%**	**5.46%**	**5.34%**	**5.26%**	**4.73%**
Since Launch p.a.:	17.16%	15.39%	15.95%	N.A.	14.57%	N.A.

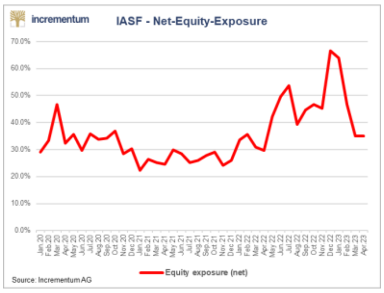
Having commented on the macro picture above already, readers may not be overly surprised that our overall allocation and favourite investment themes have not changed a great deal.





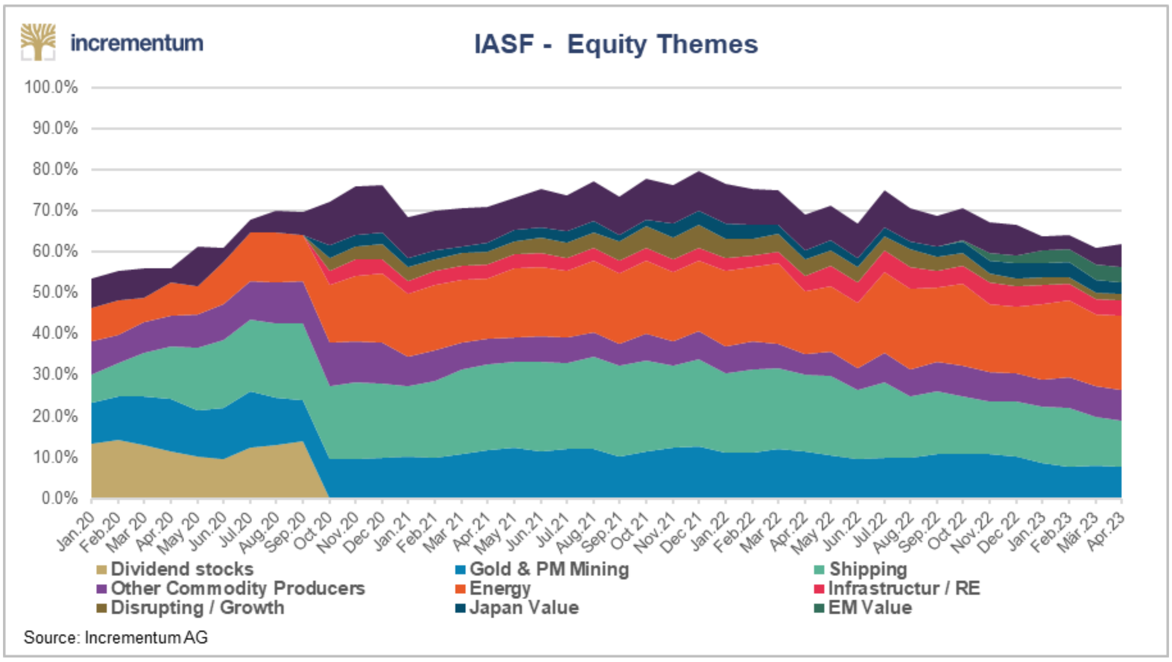


But let's talk about what has changed:

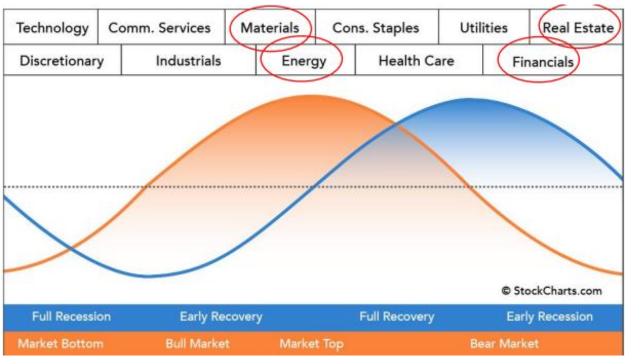


Compared to year-end 2022, gross equity allocation has fallen by 5% to 62%, and net allocation from 67% to 35%, as we have rebuilt our equity index shorts during the January and 1Q rally, reflecting the deteriorating macro picture described above.

As far as our investment themes are concerned, we have seen a 2%pts rise in our **ENERGY** and 2%pts fall in our **SHIPPING** and **GOLD AND PM MINING** allocation each. The latter is attributable to our unwillingness to chase the recent rally, as our overall exposure to precious metals remains significant. **OTHER COMMODITY PRODUCERS, JAPAN VALUE** as well as **DISRUPTING / GROWTH** are more or less unchanged from end of 2022, **EMERGING MARKET VALUE** has been increased by 2%pts, and **INFRASTRUCTURE / RE** by 1%pt. The **VARIOUS** bucket has been reduced by 2%pts.



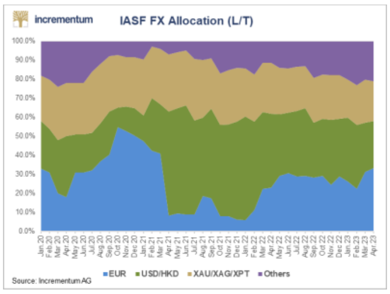
I believe the chart displayed above is significant, as it shows that our favourite investment themes evolve rather gradually and thus don't change all the time. Here it is important to understand that our investment style is pragmatic rather than dogmatic, which is why we are not following an idealized sector allocation across the cycle as is shown in the graph on the right.



Der Wellenreiter, 10MAY2023

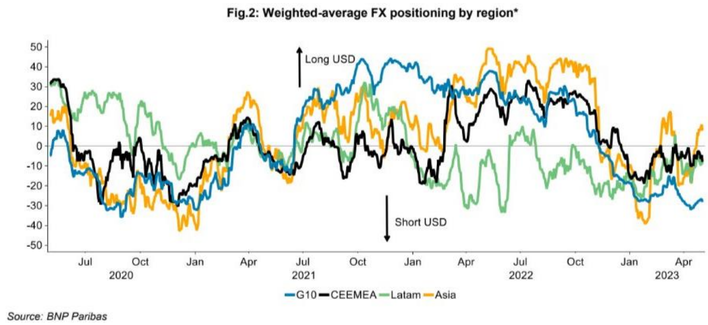
I am not saying that this may not be a suitable investment approach, though I do believe if it worked it would have spawned successful investment strategies based upon it already. Having said that, where we find the cycle useful is in guiding our overall exposure to major asset classes, though even there it is always the bottom-up, value-based assessment that will determine our individual calls.

On that more granular individual investment level, we have eliminated 7 and initiated 13 new equity positions. We have also been more cautious in our volatility harvesting, earning close to 1% of average AuM via the sale of options over the first four months, and as of the end of April collected well over 0.7% in net dividends. At the same time, we have nearly doubled our bond exposure in absolute terms, with a mixture of short-dated EUR and longer-dated USD corporate bonds. Our index hedges are still predominantly focused on US markets, mainly consisting of Nasdaq E-Minis (approx. 42% of overall shorts), S&P500 and Russel2000 E-Minis, with a small DAX short futures position to provide cover for our European equity exposure. In addition, we have been building up a long VIX Index future position (up to approx. 5%), which we have been actively trading since March.



On the FX side, our effective EUR allocation as of the end of April has dropped by 4%pts and our USD/HKD exposure by 1%pt, while both NOK and JPY exposure were lifted by approx. 2%pts.

Since then, we have increased USD exposure by 8% vs EUR, as the USD has fallen quite a bit since last summer and appears rather oversold in the short-term.



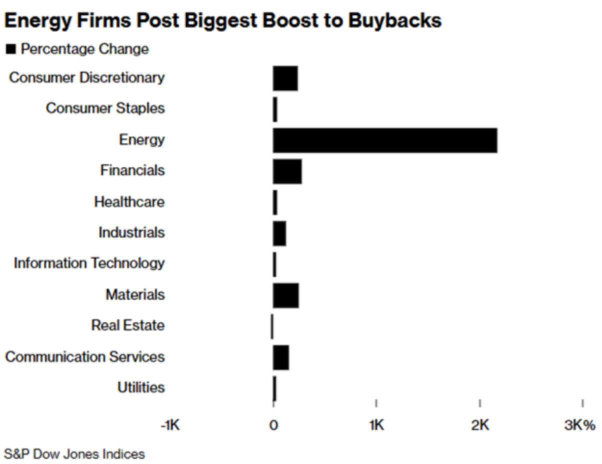
M'tourist Private Feed Recap, 5MAY2023

Overall precious metals price exposure over the course of this year has remained steady at just above 20%.

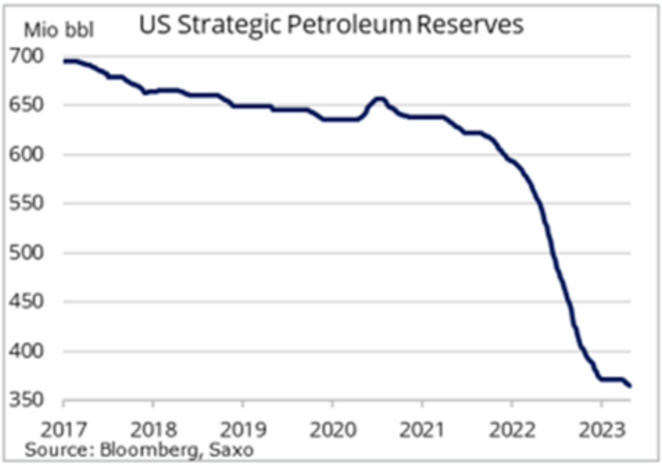
So, why has there been only a gradual shift in overall portfolio allocation? – Well, as alluded to above already, we are considering ourselves investors, and any investing is always long-term in nature. Hence, investors – und normal circumstances – should not expect us to shift frequently or rapidly between sectors or favourite investment themes.

At the end of April our largest equity theme was **ENERGY** (18% of AuM), which is represented in a basket of about 20 individual investments, spanning the oil and gas (7%), uranium (4%) and energy services sector (7%). Weighted average ytd performance was 11% (before dividends), PB (Price-to-Book) ratio 1.5, PE ratio 19 and dividend yield 2.4%.

These average numbers are elevated by the late cycle energy services and the not yet even taken-off uranium names. Perhaps a better gauge for the attractiveness of the sector is given by the level of buyback activity, which underscores our thesis that the sector is not following the cyclical playbook to invest in new production, but rather uses its elevated free cashflows to reduce debt and distribute excess cash to shareholders. At the same time, the US Strategic Petroleum Reserve has seen a massive draw in a political attempt to reduce prices (and inflation pressures), creating temporary supply that is going to come to an end soon and might even reverse, if the SPR is refilled as intended.

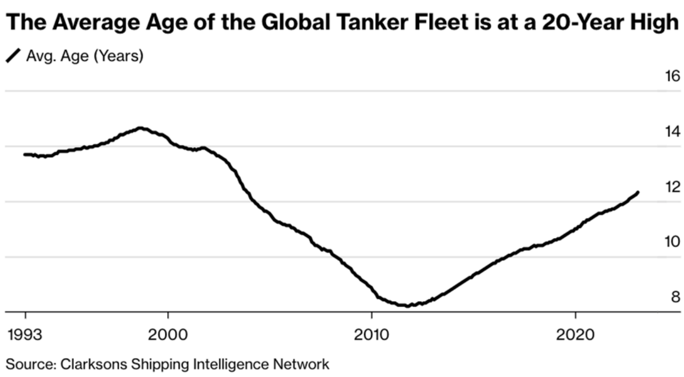


Bloomberg, 15MAR2023

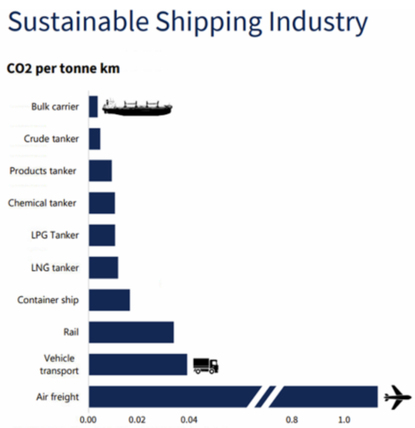


Saxo Market Call, Slide Deck, 10MAY2023

The valuation case is much starker in the **SHIPPING** sector (11%), which consists of approx. 15 (predominantly tanker and dry bulk) stocks that have returned 24% ytd, trade at 1.2 times book (and less than 0.8 times NAV), with a PE ratio of 5.6 and a dividend yield of 13%.

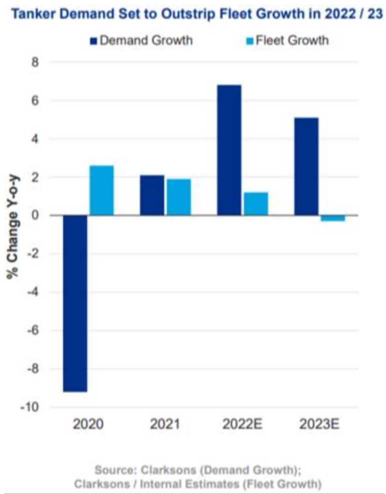


Chartbook by Adam Tooze, 31MAR2023



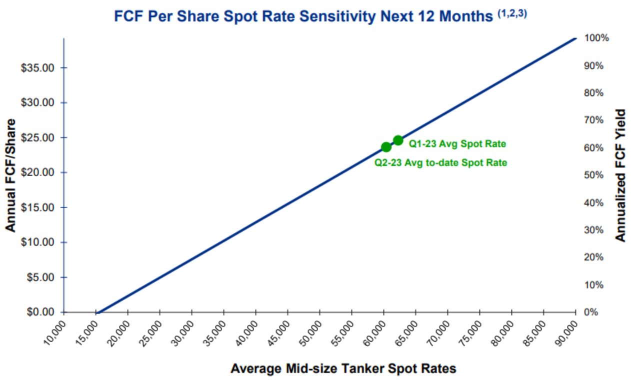
Belships ASA, 3Q2021 Results Presentation

The long-term argument in shipping remains also one of a typically cyclical sector, which is constrained in its reinvestments amid uncertainty about the treatment of emissions (even though shipping is rather less polluting than airfreight or trucking) as well as politically acceptable new green propulsion technologies that justify an investment in a long-lasting capital good like an ocean-going vessel. The result is shown in the graph on the right, plotting e.g., anticipated tanker demand versus fleet growth, which is fairly predictable as the shipyard order book is filled into late 2025 already. The resulting tightening supply has led to elevated shipping rates last year as well as into 2023, which have been highly profitable for tanker owners and stocks.



Teekay Tanker, 2Q 2022 Presentation

A great chart to highlight the ridiculous valuations, e.g., tanker stocks are trading at, is shown below. This was taken from the Teekay Tanker, 1Q 2023 results presentation on May 11. The company (market cap USD 1.31bn, which is less than 75% of estimated NAV, with minimal debt) reported quarterly earnings of USD 4.97 per share (last traded at USD 39), with 2Q expected to come in not far from these levels and initiated a dividend and share buyback to deal with the torrent of free cash flow (FCF). The chart shows the annualized FCF (per share and yield) based on Q1 and 2 shipping rate levels.

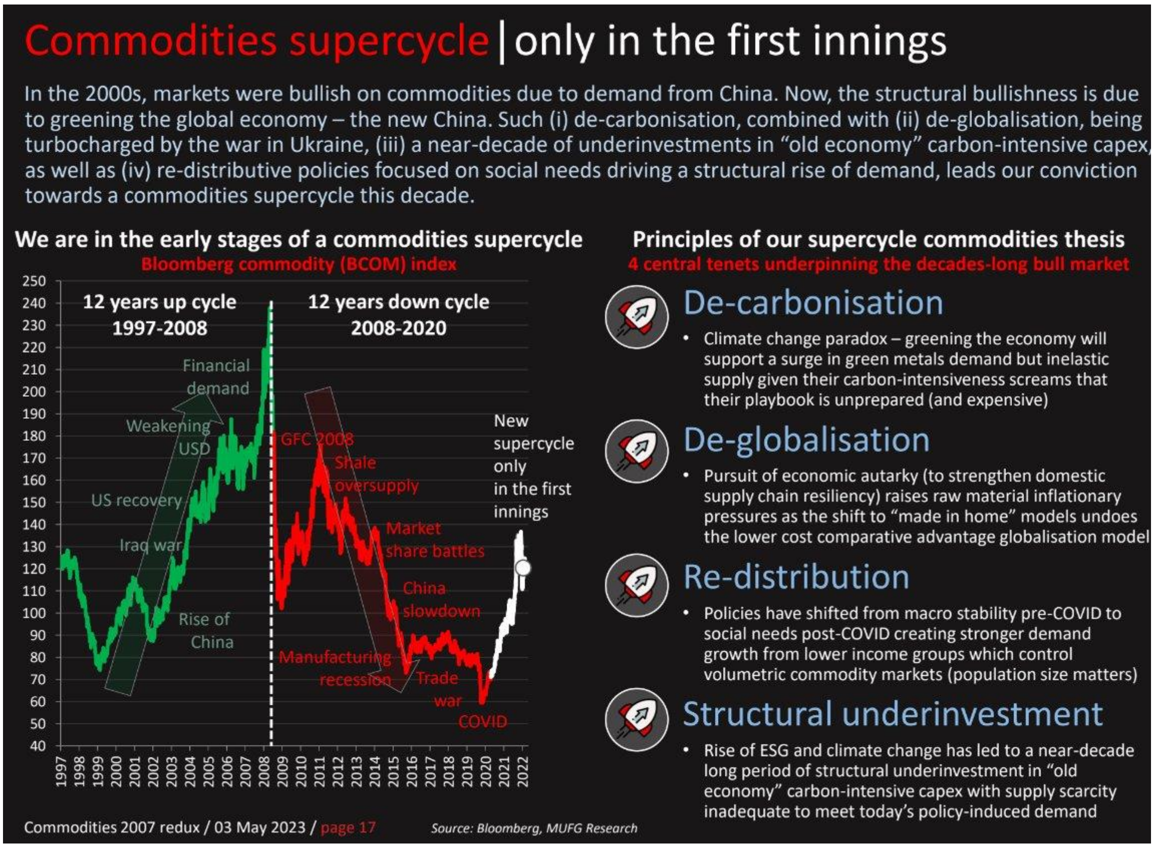


Teekay Tanker, 1Q 2023 earnings presentation

Teekay Tanker share price; our average purchase price is USD 13.67

Yes, you are looking at annualized free cash flow yields in the 50-60% range, which we are happy to collect for **IASF**, even though the stock has already had a nice run.

Our **OTHER COMMODITY PRODUCER** names (approx. 10 companies; 7% allocation) have fallen 3% this year, and trade at 1.5x book, less than 8x earnings and offer a 7% dividend yield.



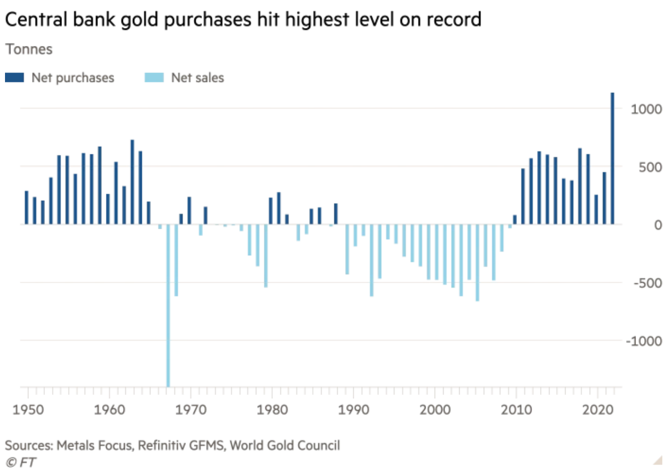
M'tourist Private Feed Recap, 5MAY2023

The argument for a new commodity supercycle is neatly summarized in the chart above and forms the fundamental tailwind we expect for commodity producers. And since higher commodity prices are also typical during inflationary periods, this remains an interesting theme. However, we are cognizant of the fact that this does not automatically benefit producers who will not only have to deal with rising cost pressures but also with all sorts of unpleasant circumstances like tighter regulation and thus more expensive project approval processes and higher taxes. For now, the good news for investors though is that there is little positive but plenty of negative news priced in so far.

A quick word about our gold and PM exposure. Gold has been quite strong recently and has approached its all-time highs (in USD). One reason has been the move in the bond market. Gold has no yield, and thus higher bond yields make it less attractive, and vice versa. With bond yields falling, precious metals tend to perform well, which is what has happened over the past few months.

Gold (XAU) in USD, investing.com

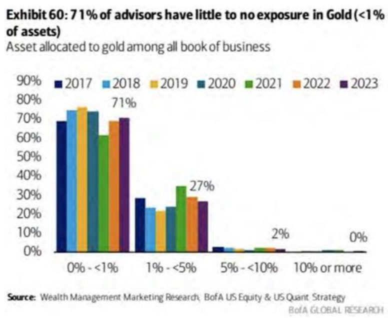
We may not see a near-term break-out to the top as the latest inflation numbers have been on the weaker side and the economic growth outlook continues to deteriorate. But longer-term we remain convinced that gold prices will move significantly higher. And we are obviously not alone in this assessment, as central banks are active buyers. And what is more important to note in this regard is that despite of increased purchases, central bank allocations to gold remain near all-time lows.



Financial Times, 23APR2023

@jessefelder, Twitter, 9MAY2023

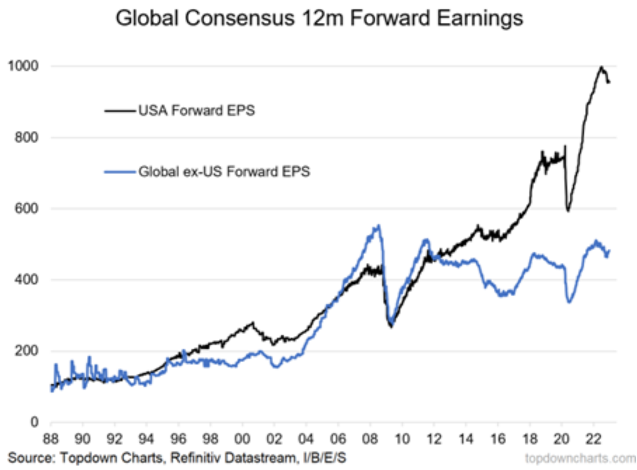
Who is obviously still showing little interest in gold is the wealth managers, as the chart on the right indicates. This reminds me of my early years as portfolio manager in the early 90s, when a 10% allocation to physical gold was a standard part of a diversified asset allocation. And given the de-dollarization theme and lack of any fundamentally sound fiat currency alternative, I am convinced that gold allocations will move back towards such levels over time. Amid limited supply this is bound to result in higher prices.



Source of this graph is missing…

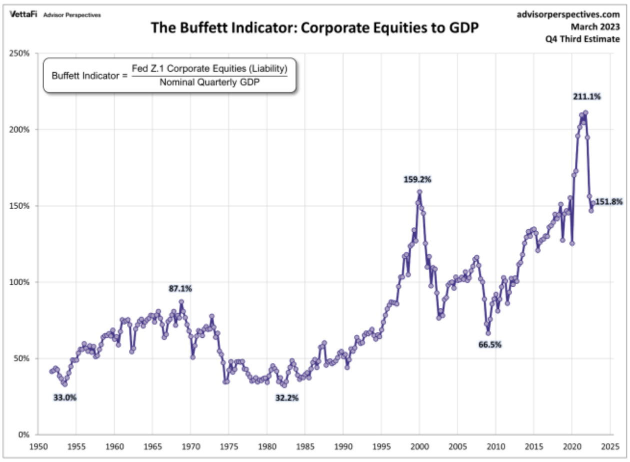
There is always more to say and write in these pages, but I have to wrap this up eventually.

However, a further chart that I would like to highlight here plots the incredibly diverging paths in corporate profitability between US and global companies. This is the main reason why we predominantly base our short equity market positions on US equity indices, as we see no credible scenario under which this trend can continue indefinitely.



Weekly S&P500 ChartStorm, Callum Thomas, 1JAN2023

This is all the more important if one considers US equity market valuations overall.



Factor	Start Date of Data	End Date of Data	Most Recent Value	Most Recent Tile
Median Price to Earnings	03/31/1964	03/31/2023	24.2	Extremely Overvalued
Price to GAAP Earnings	03/31/1926	03/31/2023	23.9	Extremely Overvalued
Price to Shiller Earnings	12/31/1925	12/31/2022	27.9	Extremely Overvalued
Price to Shiller Operating Earnings	01/31/1995	03/31/2023	26.0	Moderately Overvalued
Price to Shiller Operating Earnings (GAAP Earnings Prior to 1994)	02/29/1936	03/31/2023	26.0	Extremely Overvalued
Total Market Value to Shiller Total NIPA Earnings	02/28/1957	03/31/2023	28.0	Extremely Overvalued
Total Market Value to Total NIPA Earnings	03/31/1952	03/31/2023	26.1	Extremely Overvalued
Price to Cash-Adjusted Earnings	12/31/1973	03/31/2023	18.9	Moderately Overvalued
Price to Operating Earnings	12/31/1984	03/31/2023	20.8	Moderately Overvalued
Price to Forward Earnings	02/28/1983	03/31/2023	18.0	Moderately Overvalued
Price to 4Y Trailing & 1Y Forward Earnings	02/29/1988	11/30/2022	20.7	Moderately Overvalued
Price to 1Y Trailing & 1Y Forward Earnings	02/28/1987	11/30/2022	17.8	Moderately Overvalued
Price to Sales	01/31/1972	03/31/2023	2.3	Extremely Overvalued
Price to Book	12/31/1925	03/31/2023	3.8	Extremely Overvalued
Price to Cash Flow	01/31/1967	03/31/2023	13.5	Extremely Overvalued
Dividend Yield	12/31/1925	03/31/2023	1.7	Extremely Overvalued

S&P 500 INDEX TOTAL RETURN BY DECILE
10 Year Periods Ending 1909 - 2022 (114 periods)

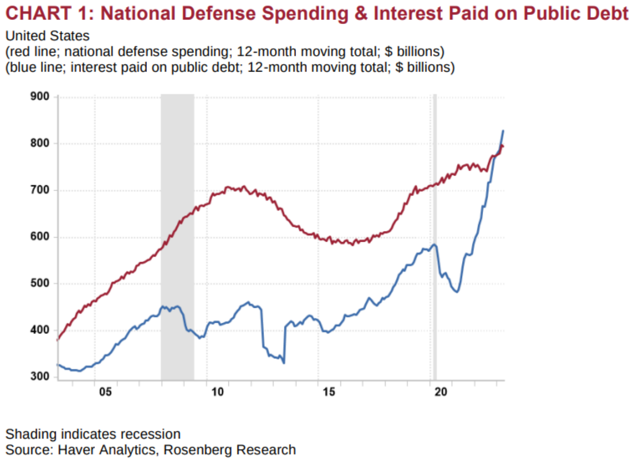
	DECILE	TOTAL RETURN BY DECILE RANGE FROM	TO	RETURN DECILE AVG	AVG BEGIN P/E	AVG END P/E
We are here	1	-1.8%	3.6%	1.3%	27.0	14.8
	2	3.7%	5.4%	4.7%	16.3	9.5
	3	5.4%	6.5%	6.0%	17.3	12.2
	4	6.5%	7.6%	7.2%	20.6	19.6
	5	7.6%	8.9%	8.2%	16.4	14.2
We'd be better off here	6	9.0%	10.9%	9.6%	17.4	18.3
	7	11.0%	13.4%	12.0%	15.0	20.2
	8	13.7%	14.7%	14.2%	12.6	20.9
	9	14.7%	16.2%	15.5%	11.2	20.7
	10	16.3%	19.2%	17.2%	11.4	23.4

Notes: Total Return Includes Dividend Yield; P/E is CAPE P/E10

On My Radar, by Steve Blumenthal, CMG, 7APR2023

Sure, I have seen this movie before, where overvaluation fed into even more overvaluation, but we all know – not only intuitively but from experience - that *"If something cannot go on forever, it will stop."*

Stein's Law was formulated in 1986 with regard to the inability of economic trends to go on forever, and its validity as far as the secular debt cycle of the Western world is concerned is still facing its final test. But all evidence before me suggests that it will prove irrefutable.



Haymaker, Friday Highlight Reel – Edition #12, 12MAY2023

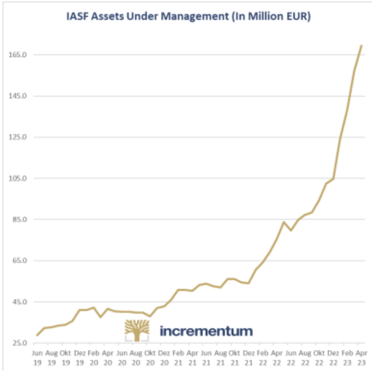
Stan Druckenmiller's comments on the Sohn 2023 conference went viral on Twitter recently, and I think it is worth listening to his comments on asset bubbles (courtesy of @Stephen_Geiger, here) or the problem of entitlement obligations (here). No doubt this are extremely convincing arguments, but how they eventually play out remains to be seen. What is obvious to me is that we have entered a new paradigm for global financial markets: Following more than 30 years of falling inflation and increasingly accommodative monetary policies that eventually ended up in ZIRP (Zero Interest Rate Policy) and even NIRP (Negative Interest Rate Policy), with central bank debt monetization thrown in for good measure, we have now entered a period of secular inflation, which goes hand in hand with rising nominal interest rates and tighter monetary policies. And since nominal rates, or more specifically the risk-free rate, is at the heart of how we value securities, this is bound to reverse the extreme valuations in long duration securities (whether it is bonds or equities), a process that in my view has only just got started.

This calls for a far more tactical approach to investing, than the buy-(the dip-)and-hold strategies that worked so well over the past few decades.

FINAL WORDS: THIS IS NOT INVESTMENT ADVICE!

As author of this newsletter and responsible fund manager of the Incrementum All Seasons Fund, I must remind readers that all views expressed in this report, especially those concerning the fund's individual investments or investment strategy, are biased, and not tailored to their individual needs. And although I write this commentary with care, I cannot vouch for the accuracy of each statement made herein. Seasonal Reflections are issued to registered subscribers for information and entertainment purposes only and must neither be seen as an attempt to solicit an investment in individual securities nor in the Incrementum All Seasons Fund. Hence, if you are looking for investment ideas or advice, always consult a licensed investment professional! And remember that past performance is no guarantee for future returns and that all investments involve risk, including loss of principal.

As usual I would like to conclude these pages with an updated chart on **IASF's** AuM, which have risen more than 60% this year to EUR 170m. In meetings this year, I have been frequently asked whether the level of fund inflows has any impact on the implementation of our investment approach. So far, this is clearly not the case, and I doubt that this will represent a near-term problem, but we will of course monitor closely whether or how our investment process is affected by the overall size of the fund, and we will keep investors informed about our findings.



Fields of Schaan, HGS pic, 13MAY2023

And with the accompanying seasonal pic, which was made last Saturday on a stroll through the fields surrounding Schaan, and which is marked by a relatively cold and wet spring, I would like to close this issue of my Seasonal Reflections. As always, I welcome readers' feedback by e-mail, and sincerely thank you all for your interest and our investors for their trust and support.

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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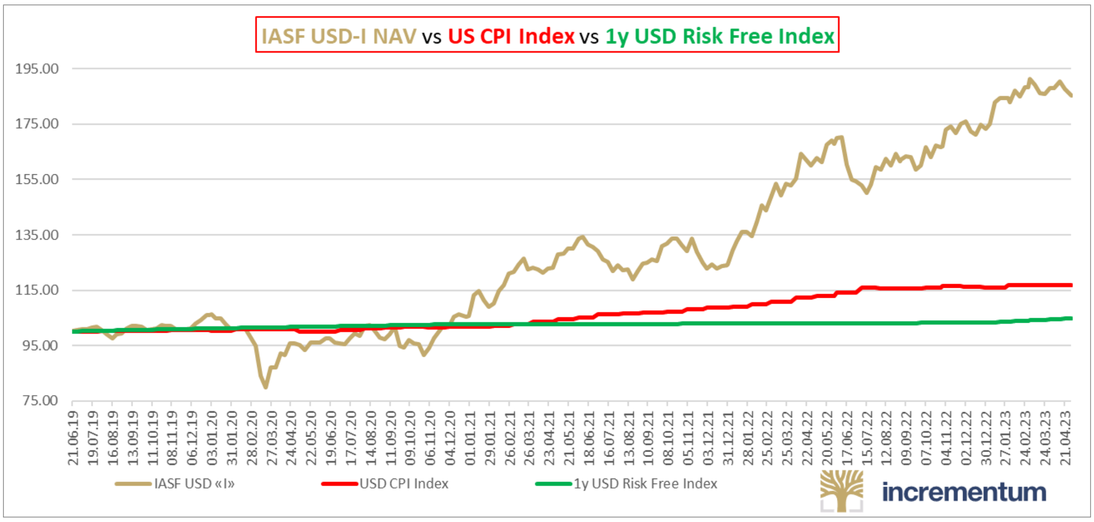
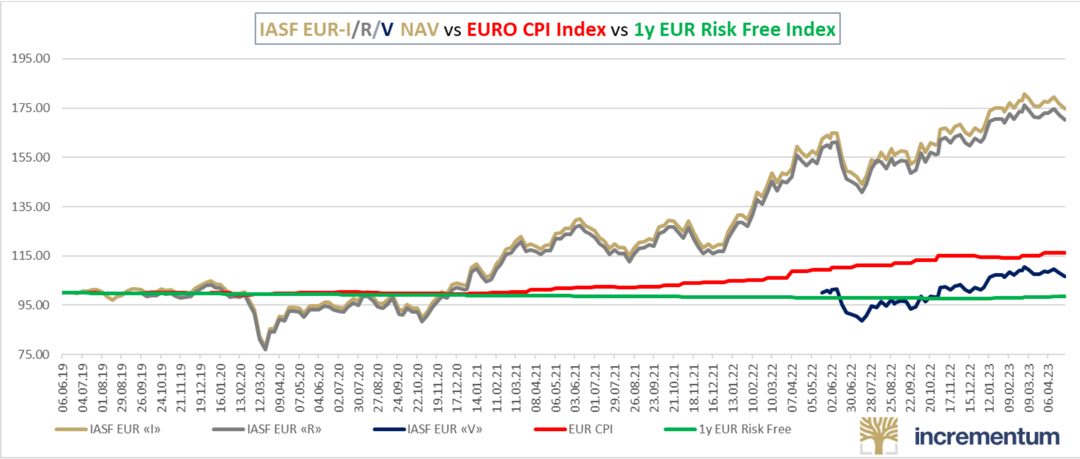
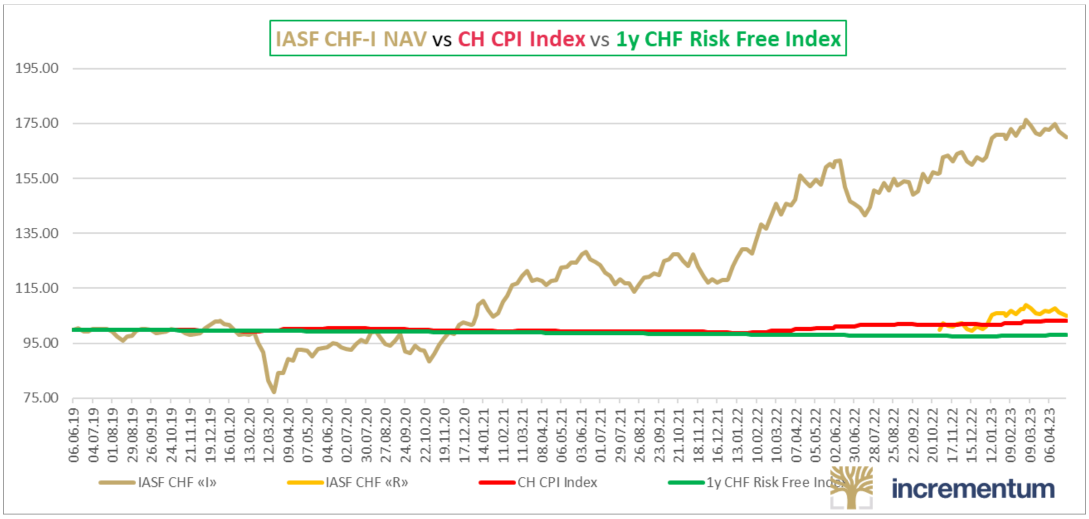
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**30APR2023**), 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) 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." (Quote: Warren Buffett)
2. Prices paid determine future returns, i.e. the higher valuations are, the lower future return expectations must 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 more important 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 successful investing: 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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