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"Sell Economic Ignorance, Buy Gold"

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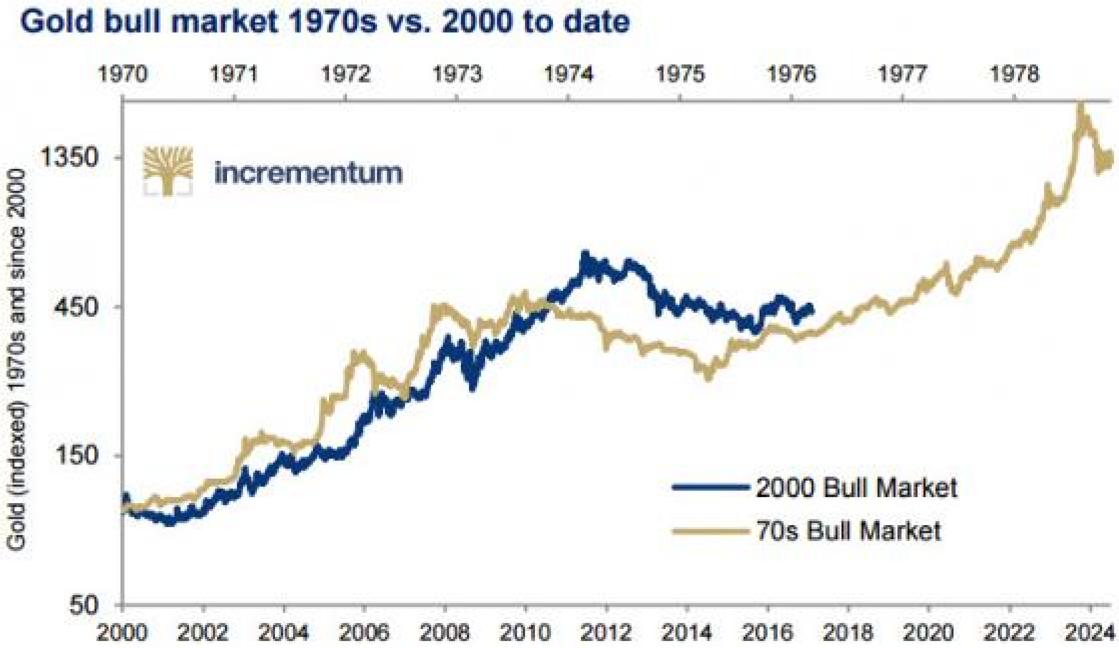
"We live in an age of ***advanced monetary surrealism****...."* is how Incrementum's Ronald-Peter Stoeferle and Mark J. Valek begin their latest epic tome on the precious metals market ***"In Gold We Trust."***

In Q1 2017 alone, the largest central banks created the equivalent of almost USD 1,000 bn. worth of central bank money ex nihilo. Naturally the fresh currency was not used to fund philanthropic projects but to purchase financial securities1. Although this ongoing liquidity supernova has temporarily created an uneasy calm in financial markets, we are strongly convinced that the real costs of this monetary madness will reveal themselves down the line.

We believe that the monetary tsunami created in the past years, consisting of a flood of central bank money and new debt, has created a dangerous illusion: the illusion of a carefree present at the expense of a fragile future. The frivolity displayed by many investors is for example reflected by record-low volatility in equities, which have acquired the nimbus of being without alternative, and is also highlighted by the minimal spreads on corporate and government bonds. Almost a decade of zero and negative interest rates has atomised any form of risk aversion.

In the past years, rate cuts and other monetary stimuli have affected mainly asset price inflation. Last year, we wrote: “Sooner or later, the reflation measures will take hold, and asset price inflation will spill over into consumer prices. Given that consumer price inflation cannot be fine-tuned by the central banks at their discretion, a prolonged cycle of price inflation may now be looming ahead.” 2016 might have been the year when price inflation turned the corner. However, the hopes of an economic upswing due to Trumponomics and the strong US dollar have caused inflation pressure to decrease for the time being. **Upcoming recession fears resulting in a U-turn by the Fed, and the consequential depreciation of the US dollar would probably finalise the entry into a new age of inflation. This will be the moment in which gold will begin to shine again.**

The following chart shows the similarities between the 1970s and the status quo. The analysis reveals the fact that the bear market since 2011 has been following largely the same structure and depth as the mid-cycle correction from 1974 to 1976. However, we can see that the duration of both corrections diverges significantly.



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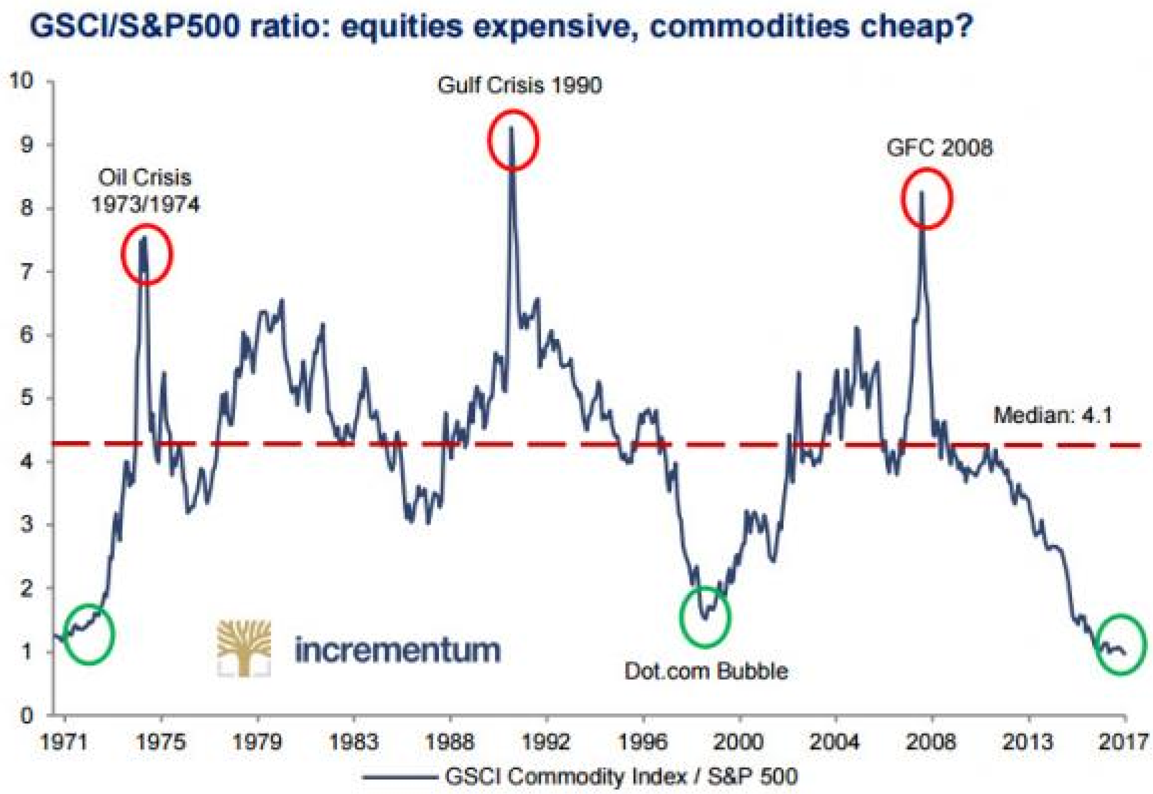
Not only the absolute, but also the relative development is important for a comprehensive assessment of the status quo of the gold market. Along with gold, silver, and mining shares, industrial metals such as zinc, nickel, copper and energy commodities (especially coal and oil) marked stellar performances last year. All of this happened in an environment where the US dollar climbed to a 14-year high. We regard this as a remarkable development and as a prime example of a bull market, whose starting gun has not been heard yet by the majority of investors.

"Sell economic ignorance; buy gold." - Tim Price



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We consider a bullish stock market currently as the most significant opportunity cost for gold. Therefore, a clear break-out of the gold price should only be occurring amid a stagnating or weaker equity market. If we now compare the gold price performance with the development of equity prices, we can see that the relative weakness of gold seems to be slowly coming to an end. Last year we had already noticed that the intensity of the upward trend had declined significantly. **After almost five years of underperformance relative to the broad equity market, the tables might slowly be turning now in favour of gold.**

In a historical context, the relative valuation of commodities to equities seems extremely low. In relation to the S&P500, the GSCI commodity index is currently trading at the lowest level in 50 years. Also, the ratio sits significantly below the long-term median of 4.1. Following the notion of mean reversion, we should be seeing attractive investment opportunities.

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Key topics and takeaways of the full report include:

- High expectations of Trump's growth policy dampened the gold price increase in 2016 – Still up 8.5% in 2016 and 10.2% since Jan. 2017
- The further development of the normalization of monetary policy in the US will be the litmus test for the US economy.
- **Bitcoin: Digital gold or fool's gold?**
- White, Gray and Black Swans and their consequences for the gold price
- Exclusive Interview with Dr. Judy Shelton (Economic advisor to Donald Trump) about a possible remonetisation of gold
- **5 Reasons why the gold bull market will continue**

Full Incrementum report below (*note the complete 170-page version is available here* [6])

June 1st, 2017 | C

Extended Version (170 pages) availa