

INCOMET RESEARCH

Current Macroenvironment – Our Approach to generate Value

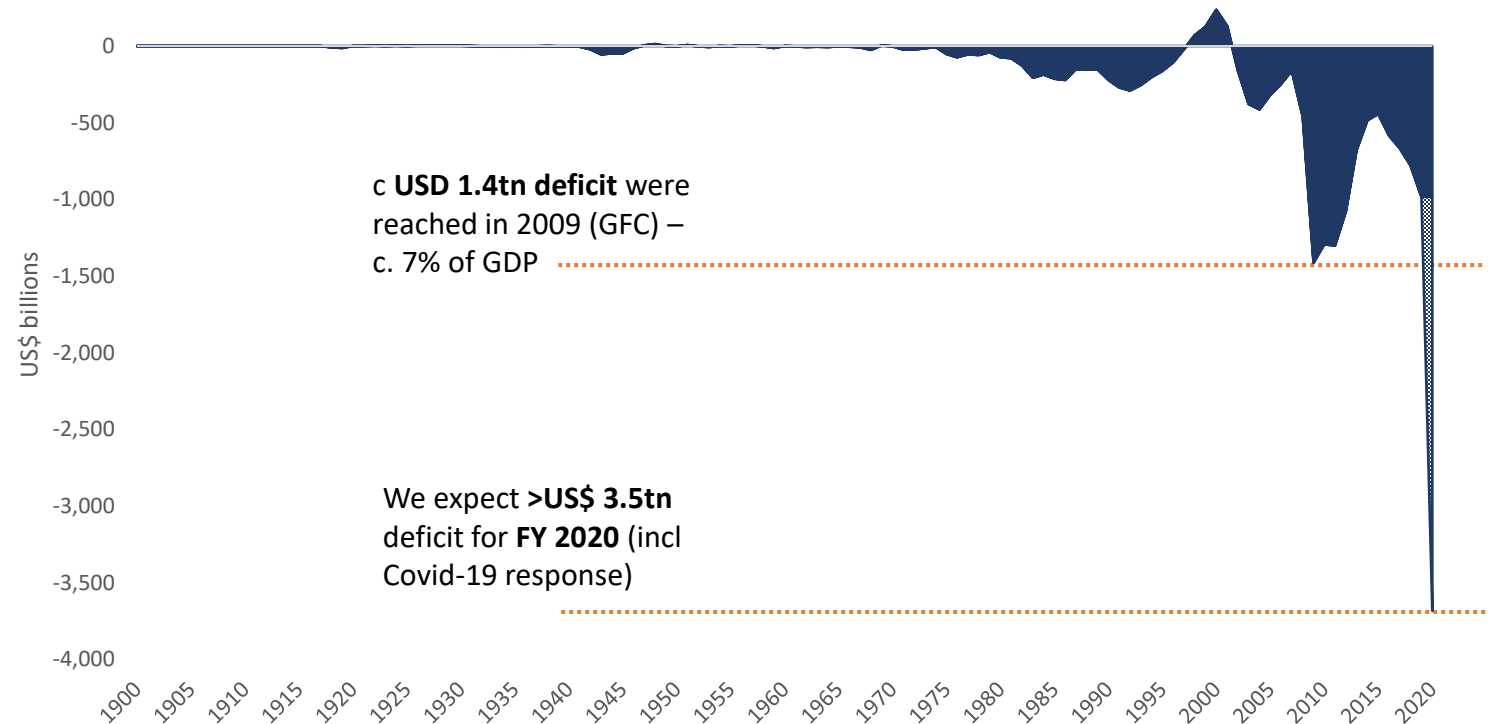
- We are of the view that all **preconditions** for either a **(i) Financial Repression Scenario** or **(ii) a Hyperinflation Scenario** are met – latest since March 2020. These preconditions are the following:
 - 1 Deficit Spending exceeding Critical Threshold
 - 2 Quantitative Easing - expanding Balance Sheets of Central Banks and low Interest Rates
 - 3 Development of M2 Money Stock versus M2 Velocity
 - 4 Debt Crisis
 - 5 Asset Price Inflation
- Whether we will “only” experience a further increase of Financial Repression Measures or whether we will witness a Hyperinflation Scenario is merely depending on the further development of some very few variables in the list above
- However, independently from the scenario Incomet continues to view the current macro-environment **extremely favorable for precious metals** and sees a high alertness for wealth protection going forward
- Incomet is going to **share its views** on each of the **highlighted preconditions** over the coming weeks as well as details on our offer to **generate Value**

1 Deficit Spending exceeding Critical Threshold

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Inflation - Hyperinflation

- Based on research of Prof. Peter Bernholz a **budget deficit of 40%** of government spending has in all researched cases **led to a hyperinflation**; and in **two thirds of researched cases a budget deficit of only 20%** of government spending **was sufficient**.
- In the US, Governmental Spending is c 35% of GDP. Hence, for the US the decisive thresholds for **deficit spending in % of GDP** as per the research of Bernholz are c. 14% (40% threshold) or c. 7% (20% threshold)
- Based on the US GDP of c US\$ 21 trillion:
 - 7% of GDP relates to c US\$ 1.5 trillion
 - 14% of GDP relates to c US\$ 3 trillion
- The adjacent Chart shows Federal Deficit in the US – from 1900 up to 1999 and FY 2020 (Incomet Estimate)



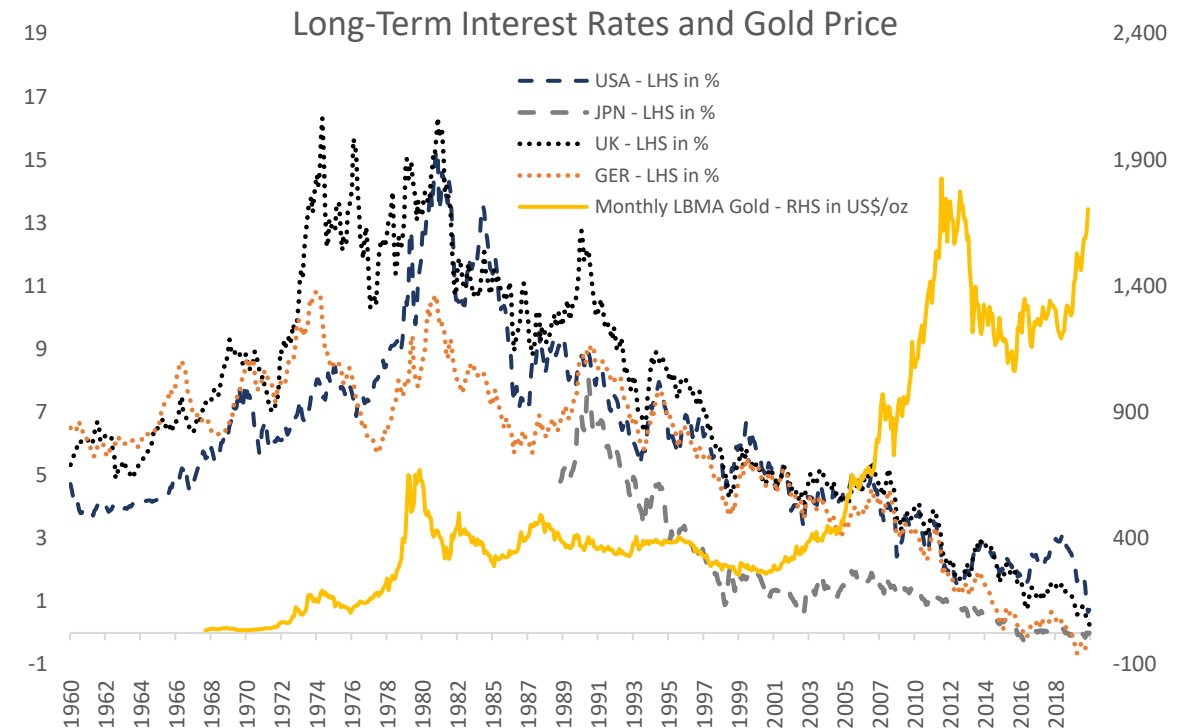
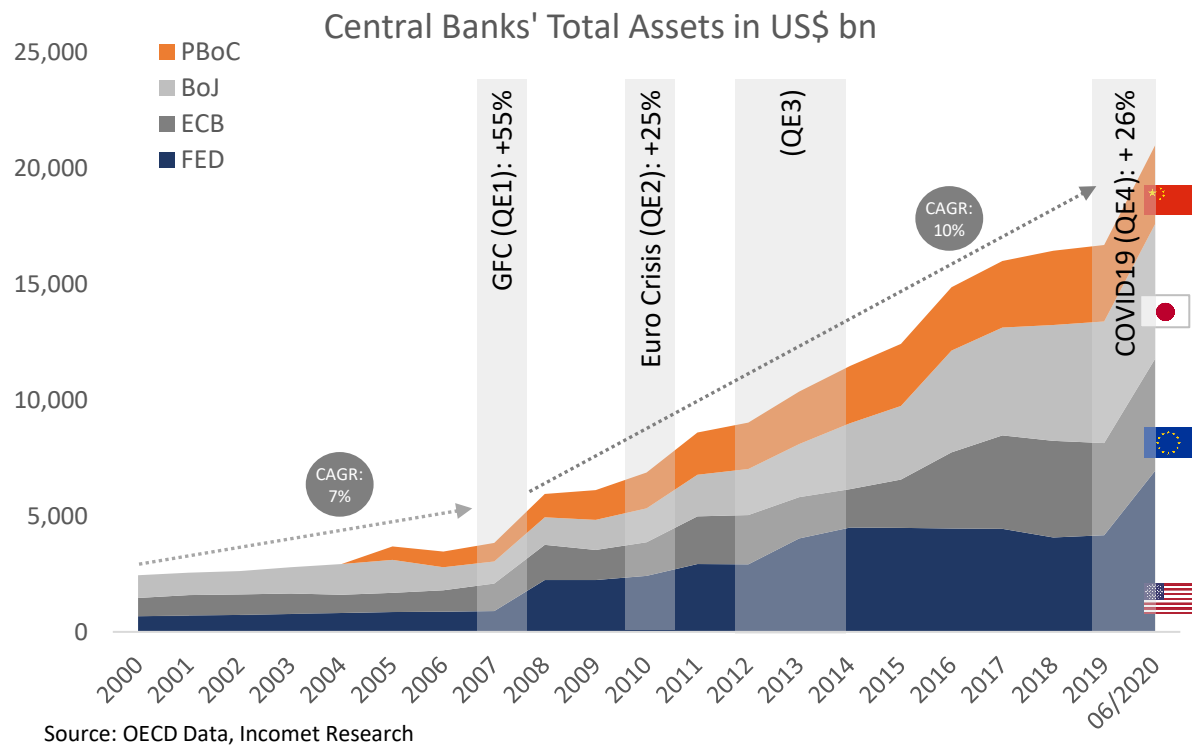
Source: Federal Reserve Bank of St. Louis, Peter Bernholz: Monetary Regimes and Inflation, Incomet Research,

2 Quantitative Easing - Balance Sheets of CBs and Low Interest Rates

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Gold versus Interest Rates - Massive and Steady Expansion of Central Bank's Balance Sheets

- Interest rates at current level (negative real interest rates) are highly favourable for Gold
- After balance sheets of major central banks have grown 10% p.a. since GFC, this increase has now significantly accelerated (+25% in H1 2020) due to the Global Economic Crisis in 2020 – we expect this to continue with onboarding of rather doubtful assets



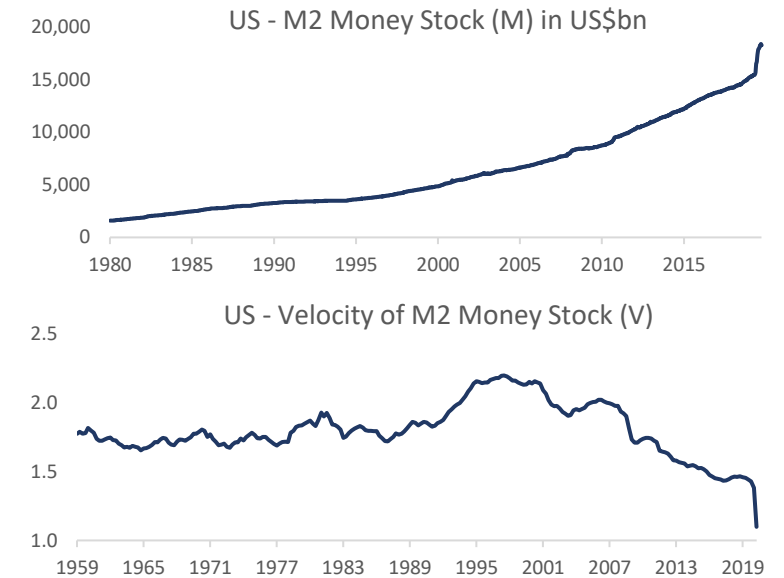
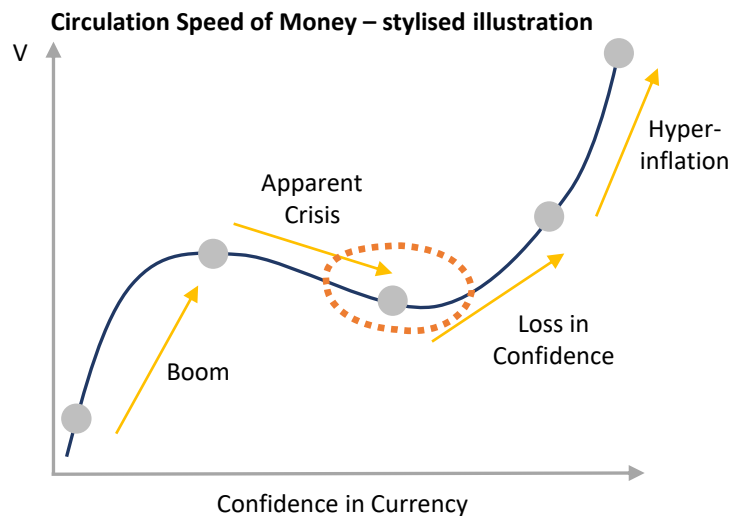
3 Development of M2 Money Stock versus M2 Velocity

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“Worried about money printing?
Don't. Inflation is caused by
velocity which is psychological”
- Jim Rickards -

M2 Money Stock (M) and Velocity of M2 (V) in the USA

- Key for the Effectiveness of Money is its velocity; however, the use of money needs to be differentiated between unproductive (acquisition of already existing assets, e.g. real estate, equities) and productive use (production of new industrial goods)
- $Y * P (=GDP) \downarrow = M \uparrow * V \downarrow$ - as long as $\downarrow V \geq M \uparrow$, inflation for consumer goods (CPI) should be “under control”. CBs can steer M, but the key variable is V – influenced greatly through trust of people in their currency (extreme valuation of stock and real estate markets are a first level/sign of mistrust towards the Fiat-Money-System)



Source: Federal Reserve Bank of St. Louis, Incomet Research

Current Situation: (i) Interest rates are at zero/partially negative, (ii) CB's balance sheets are steadily increasing, (iii) banking system is fragile leading to the key question:

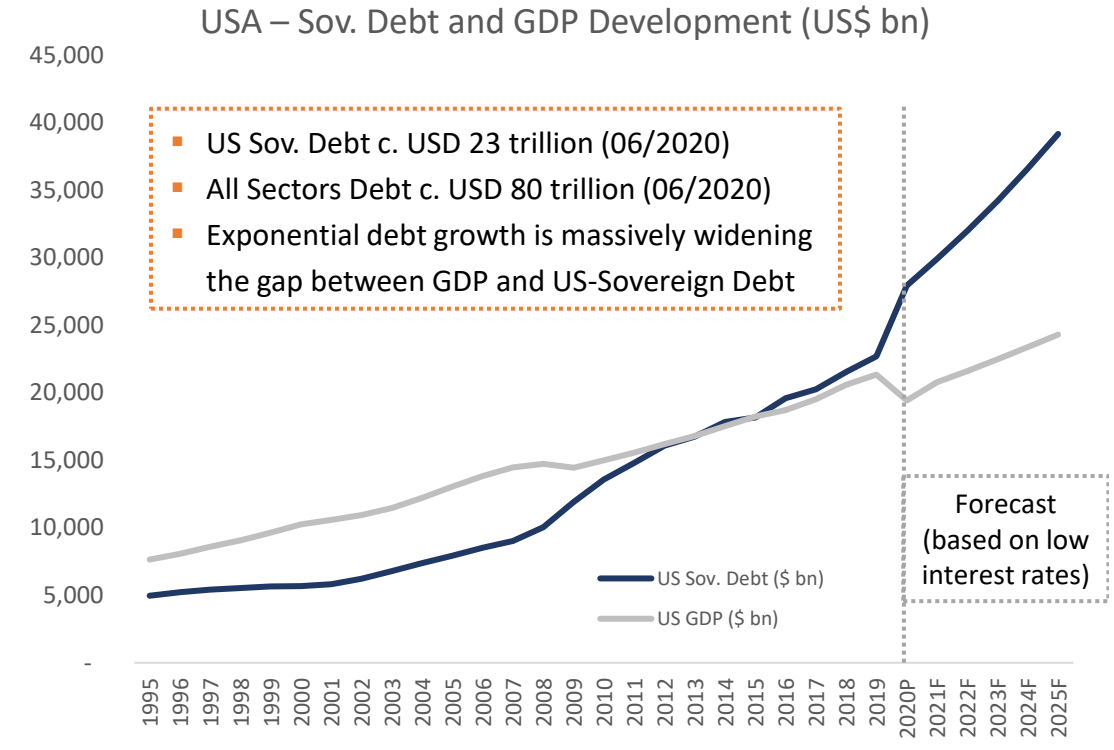
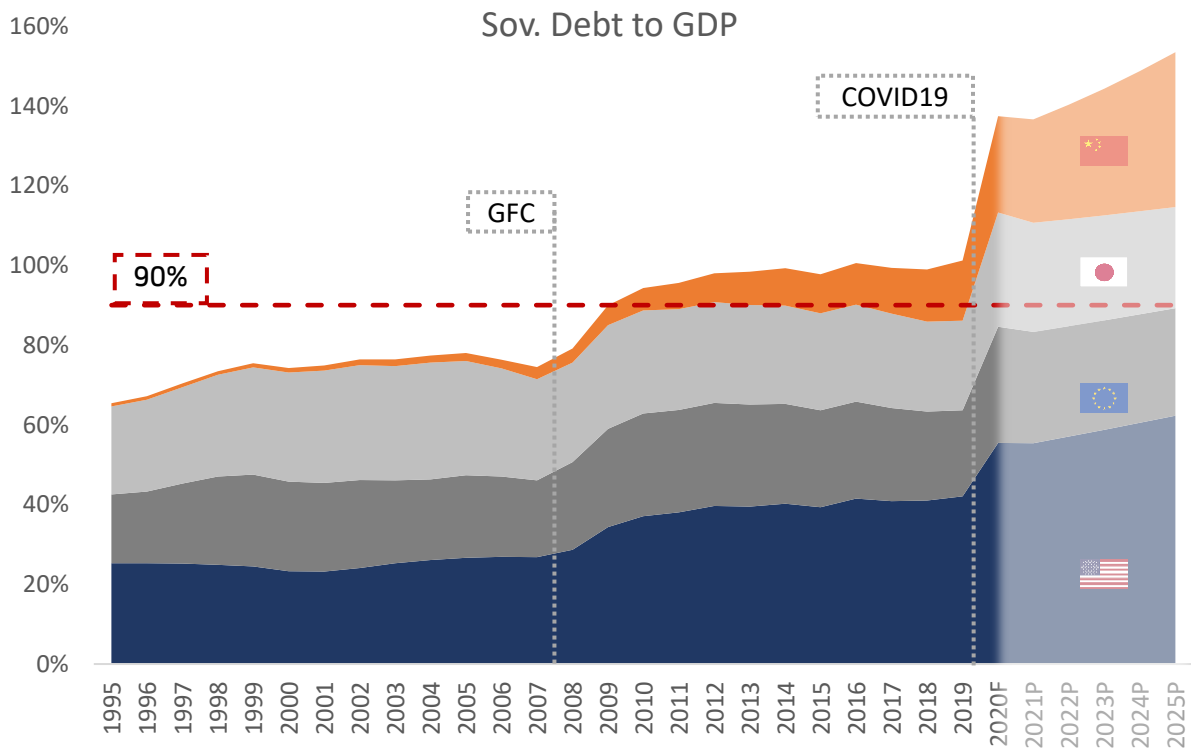
How long will people trust their currency to be a stable “value storage”?

4 Debt Crisis

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Sovereign Debt Levels of Main GDP Contributors – USA + China + EU19 + Japan key contributors to global GDP (>60%)

- Sovereign debt of these 4 economic zones show a steady increase in debt to GDP since the 90s with two outstanding events (GFC and COVID19 reactions). A ratio of >90% is commonly viewed as irreversible which has been reached in 2009 (2020P: ~140%)
- Effectiveness of debt increase is declining steadily for all major GDP-Contributors (1US\$ of add. debt creates less GDP increase)



Source: Incomet Research and Projections, Federal Reserve Bank of St. Louis

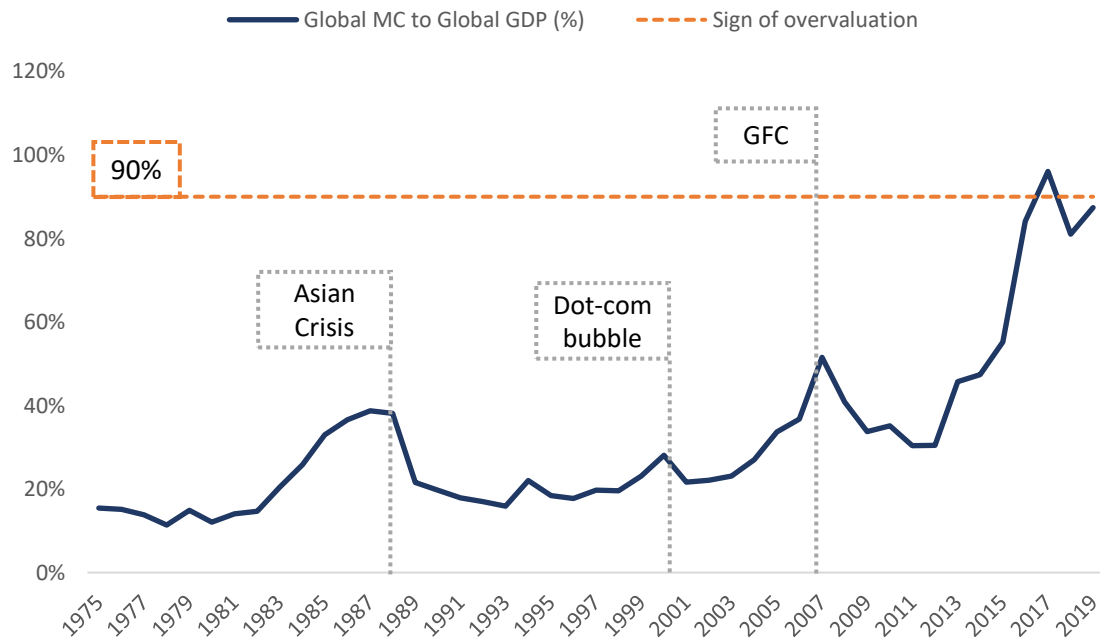


5 Asset Price Inflation

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Asset Price Inflation

- Stock Markets at all time high shown through Global Market Cap to Global GDP; 90% is commonly viewed as overvalued



Source: Incomet Research; S&P Global Market Intelligence

- Market Cap of FAANG is >15x the combined Market Cap of all 69 listed primary Gold Producers with production of >100koz Au pa

