Degussa

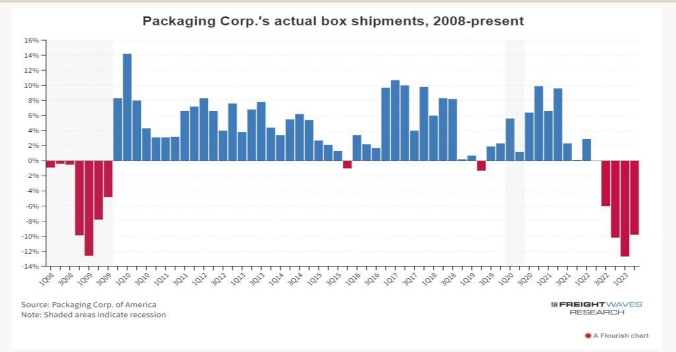
GOLD AND SILVER.

## Market Report

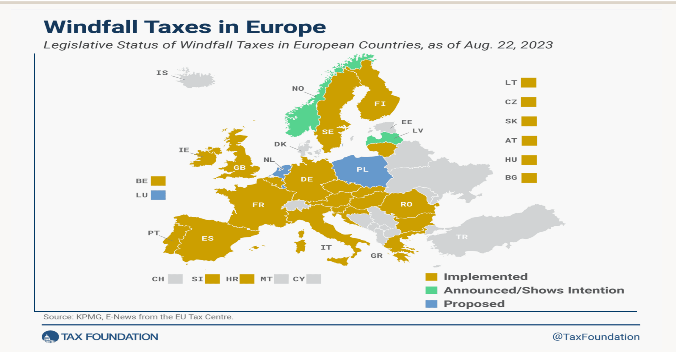
September, 2023

Markets nearing all-time highs despite recessionary signaling from economic indicators is prompting some analysts to call for caution, as equities remain dangerously bubbled. An initiative by Open AI, has raised alarm bells around privacy and security risks amongst human rights watchdogs. A political conflict sparked in Niger is raising concerns over the region's stability, and threatens further energy woes in France and throughout Europe. The continued overemphasis on renewables is adding to Europe's energy worries, sparking an increase in support for populist politics.

## Highlights




While some see strong GDP reports and optimistic financial markets as signs the US may avoid recession, others argue cardboard box sales—an unbiased metric reflective of real economic activity like production and consumption—suggest a downturn is already underway. Box sales data seems more aligned with reality than rosier official reports that may overlook near-term economic challenges. If infrastructure is not what's driving growth numbers, the question is, what is?




Late 2022, the EU imposed a windfall tax on fossil fuel companies, announcing the anticipated €140 billion would help to partially offset high household energy bills. 25 EU nations have or intend to implement the initiative in some manner. However, flaws in the design have lead to risk of project bankruptcy and investor uncertainty, causing some nations to delay implementation. Additionally, the taxes are unlikely to achieve their revenue goal and risk distorting markets.

## Precious Metals & Commodities

Oil and copper are expected to remain flat in the short and mid-term, but remain in a bullish long-term trend. Precious metals and agriculture are expected to gain momemtum for a next upward trajectory in both the long and short term.

| Indicator | Gold | Silver | Copper | Oil | Agriculture |
|---|---|---|---|---|---|
| Current | ↗ | ↗ | → | → | ↗ |
| Outlook | ↗ | ↗ | → | → | ↗ |
| Trend | ↗ | ↗ | ↗ | ↗ | ↗ |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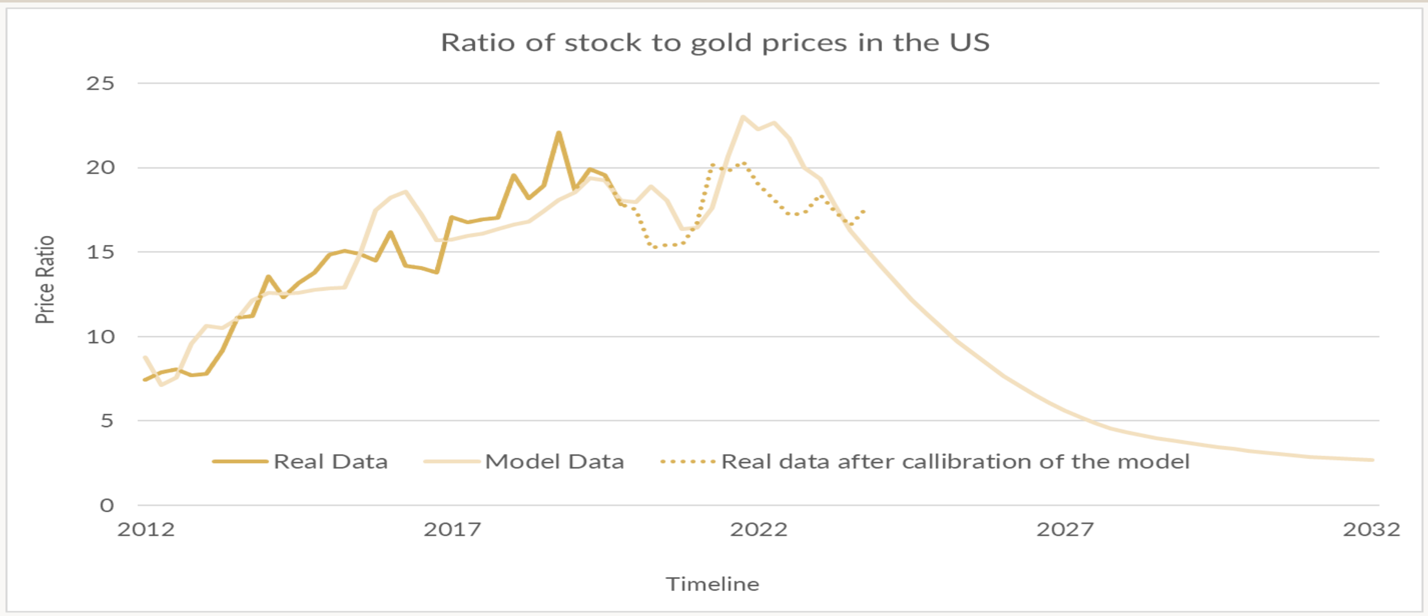
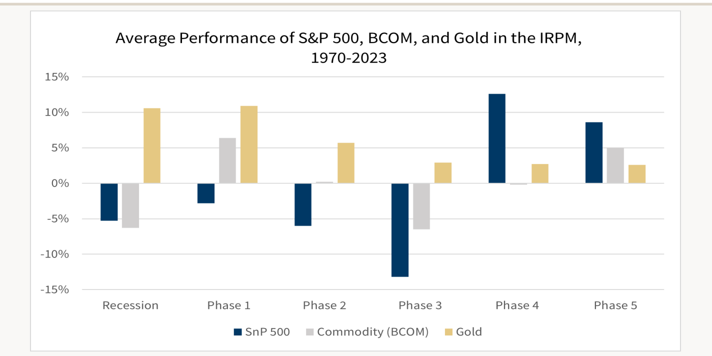
## Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.




## Gold Feature




While a US recession has been predicted for some time, the economy has yet to fully enter contraction due to continued momentum from fiscal stimulus. However, increased reliance by governments on fiscal policies aimed at stimulating growth only serves to temporarily offset an economic slowdown while carrying risks such as persistent inflation and eventual stagflation. Current forecasting models analyzing numerous leading indicators conclude that the chance of contraction remains very likely, given most metrics continue signaling a pullback.

A Recession Phase Model divides a recession into five distinct phases based on economic and market characteristics. The run-up, or Phase 1, sees rising volatility as a recession is priced in. Phase 2 marks the transition from uncertainty to slowing growth. Phase 3 constitutes the economic low point, while Phase 4 brings stabilization and returning optimism, and Phase 5 involves the recovery period. By examining asset performance in each, the model aims to help investors optimize strategies for different recession stages.

An analysis of the past 8 recession shows equities lost an average of 5.3% in value, with Phase 3 seeing the sharpest decline. However, equities rebounded and outperformed gold and commodities during the 4th and 5th Phases. Commodities averaged a 6.3% loss, overall performing worse than equities, despite some gains in the 1st and 5th Phases. Gold, on the other hand gained on average 10.6%, remaining positive in all phases. Although returns waned in the latter stages, overall, gold demonstrated its excellent diversification and stabilization potential during economic instability.