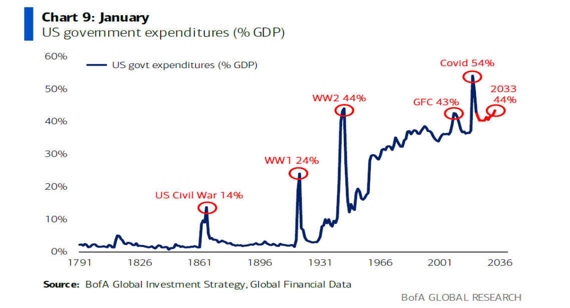
GOLD AND SILVER.

Market Report

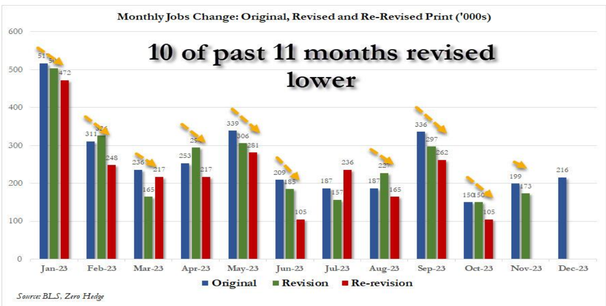
February, 2024

An overview of several major banks' 2024 assessments indicate a fairly positive outlook with investment potential in EMs, EU equities, high-quality bonds, AI, and China, however ongoing conflict along the Suez Canal continues to threaten regional stability while potentially exacerbating inflationary pressures. Meanwhile, China's economic growth has hit its 2023 target and is projected to show renewed stability in its equity markets as policy makers add stimulus while supporting the real economy.

Highlights



US government direct expenditures are currently approaching 40% of GDP. If we consider that the real budget deficit to GDP is roughly 7.5%—the reported 5% with the US's estimated 1.5 fiscal multiplier added—we quickly arrive at the conclusion that nearly 50% of real GDP is government expenses. If this number is then corrected further for second-round effects, one can estimate that about 2/3 of the US economy is directly or indirectly controlled by the government.



Job data from the Biden administration has quietly yet consistently been revised lower, calling into question the accuracy of initial reports. As a healthy, growing economy typically brings with it increased job opportunities, consistently over-reporting of data may skew one's perception of the US' actual growth over 2023.

Precious Metals & Commodities

Geopolitical conditions indicate precious metals will continue on an upward trajectory. Copper, agriculture, and oil are expected to remain flat mid-term but signal bullish over the long-term, while oil and agriculture are likely to see a rise in the short-term due to supply uncertainties.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	→	↗	↗
Outlook	↗	↗	→	→	→
Trend	↗	↗	↗	↗	↗

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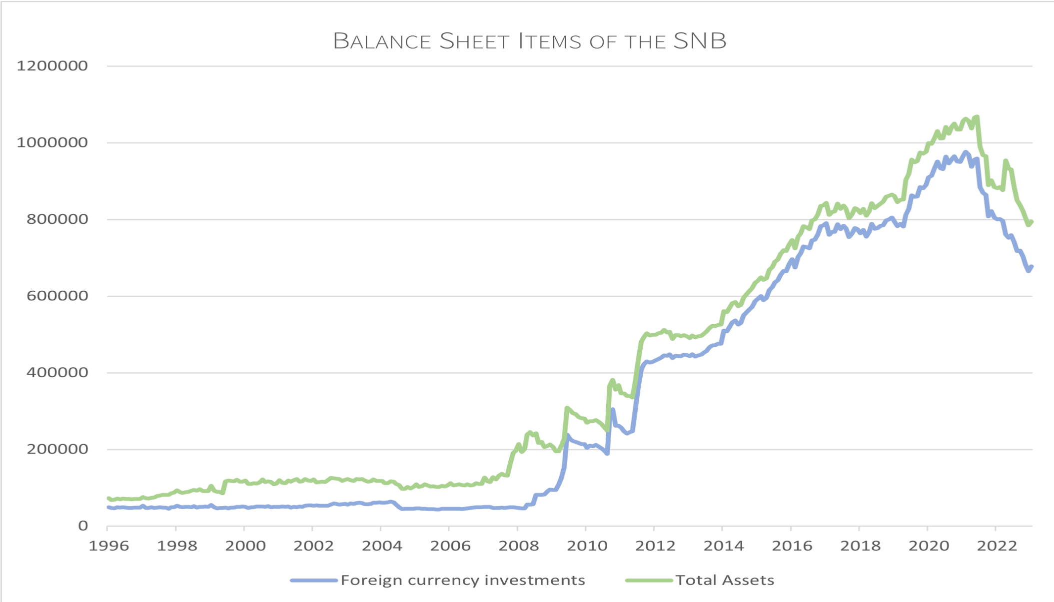
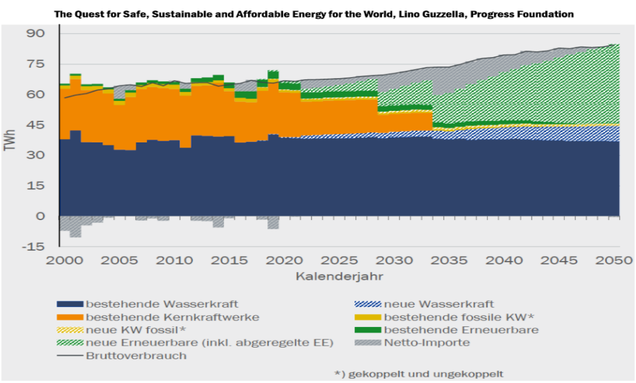
Spot on Switzerland

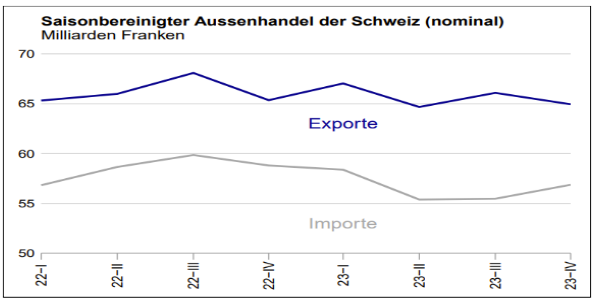
The Swiss economy is dependent on the decision-makers at the Swiss National Bank (SNB). On the one hand, monetary policy determines export competitiveness and the development of purchase prices to a certain extent, while on the other hand, interest rate policy influences the cost of capital. Apart from purchasing and capital costs, the only other relevant factor for Swiss companies is de facto wage costs, which in turn are indirectly linked to inflation. All in all, the Swiss economy must rely on the SNB's prudent policy. In the current situation with persistently high inflation and rising exchange rates, despite a relatively high interest rate differential to other countries, the SNB's scope for action is limited, especially if the balance sheet reduction is to be taken further. If the SNB wants to support Swiss entrepreneurship, a combination of interest rate cuts and foreign exchange market intervention would make sense if these were then accompanied by inflation-reducing measures by the government, such as a reduction in regulations and taxes, in particular VAT rates. The next few months will show in which interest the SNB will act. Continued excess interest in favor of the banks at persistently high interest rates and a strengthening exchange rate will support the financial system, whereby the measures discussed above will primarily benefit SMEs and the general public.



Swiss Highlights



The Swiss government's Climate Strategy 2050 has suffered a severe setback with the rejection of various solar parks and massive resistance to wind turbines. Considering that over 25 terawatt hours of energy should be generated from renewable sources by 2050, the question arises as to whether the Energy Strategy 2050 is not wishful thinking on the part of the political class, which is not supported by the population. According to the federal government's specifications, photovoltaic systems would have to be installed on an area of around 330 million square meters at an estimated cost of CHF 140 billion.



The appreciation of the Swiss franc against practically all trading partners could be one of the reasons for the decline in nominal exports. The economy is demanding appropriate trade measures from politicians, although the decline in exports could also be explained by the global economic dynamics, especially with the most important trading partners Germany and the USA. Overall, export statistics are an important leading indicator for overall economic development.

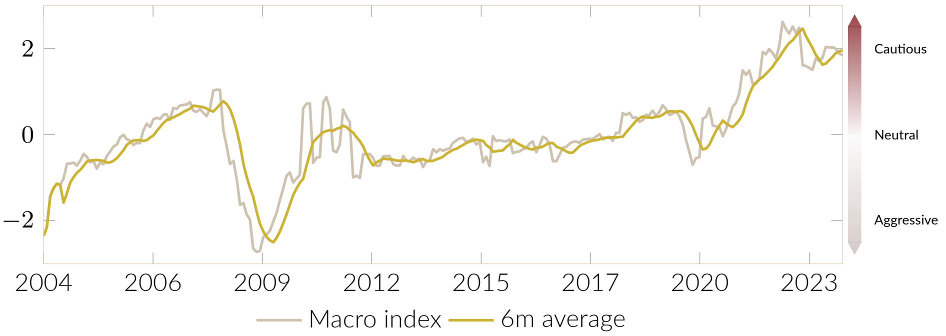
Switzerland

Switzerland's inflation rates have increased slightly while unemployment rates have continued to increase in the last quarter, however profit margins remain steady at 12-month highs. Government bond yields have seen a slight uptick, while dividend yields remain fairly stable amidst lower volatility.

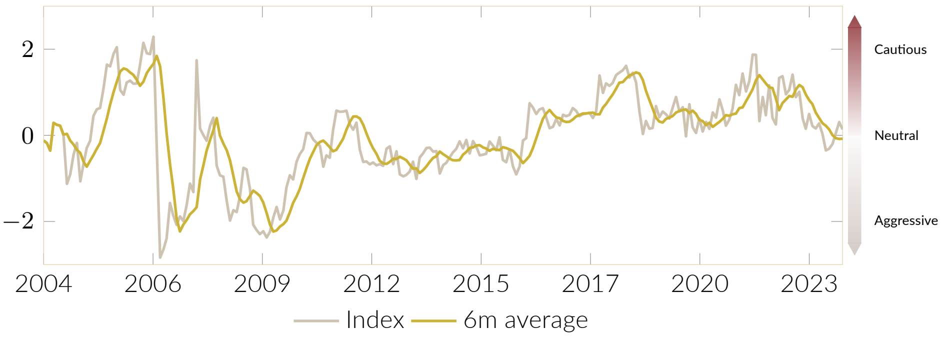
Switzerland

RISK: HIGH

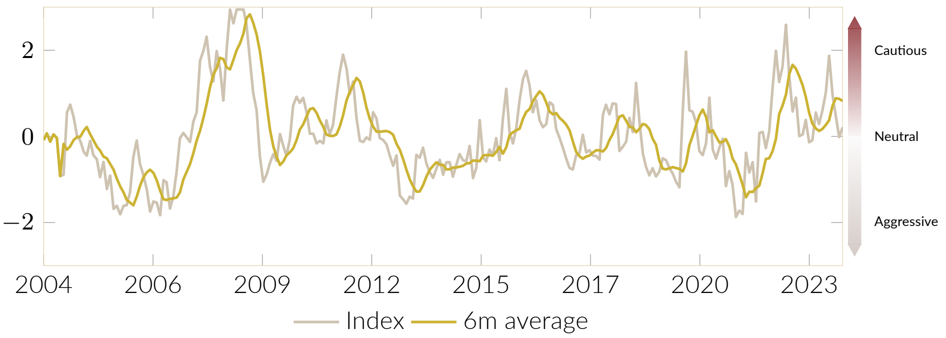
Business Cycle



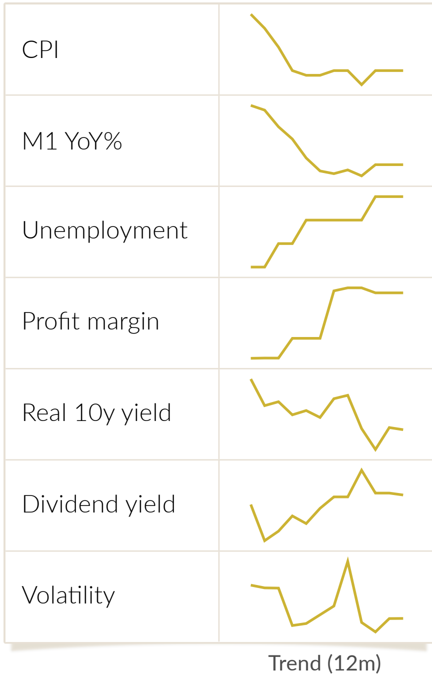
Investment Environment



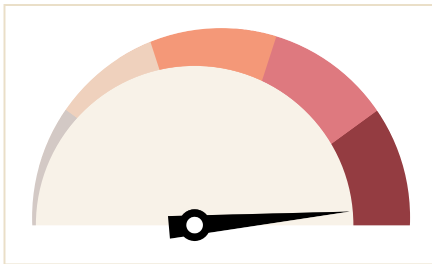
Market Behaviour



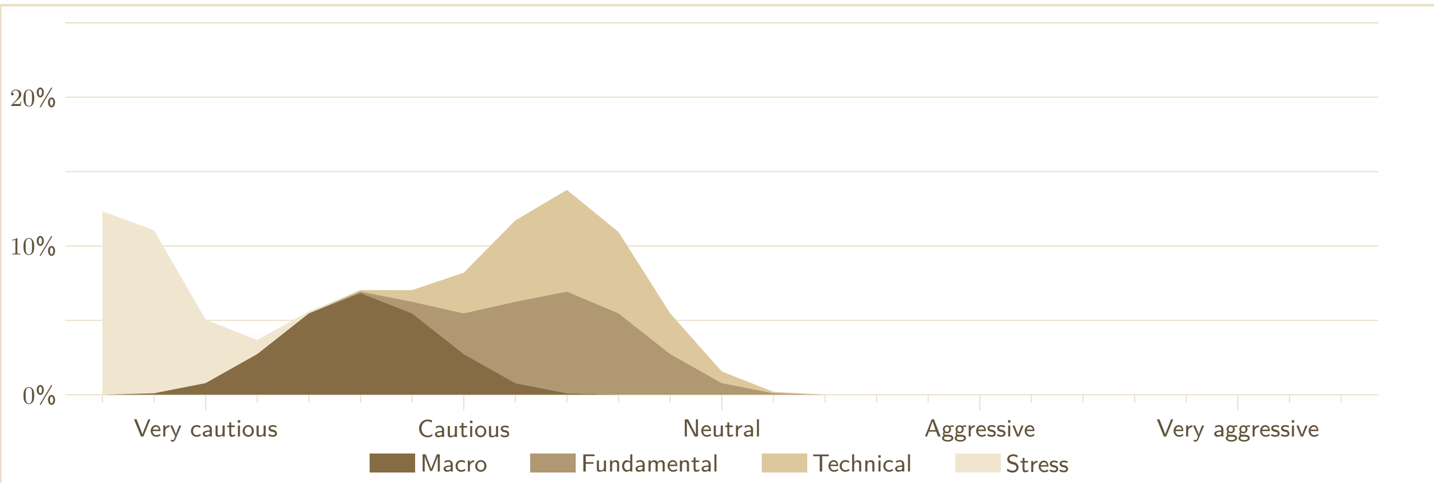
Key Macro Statistics



Monetary Stability



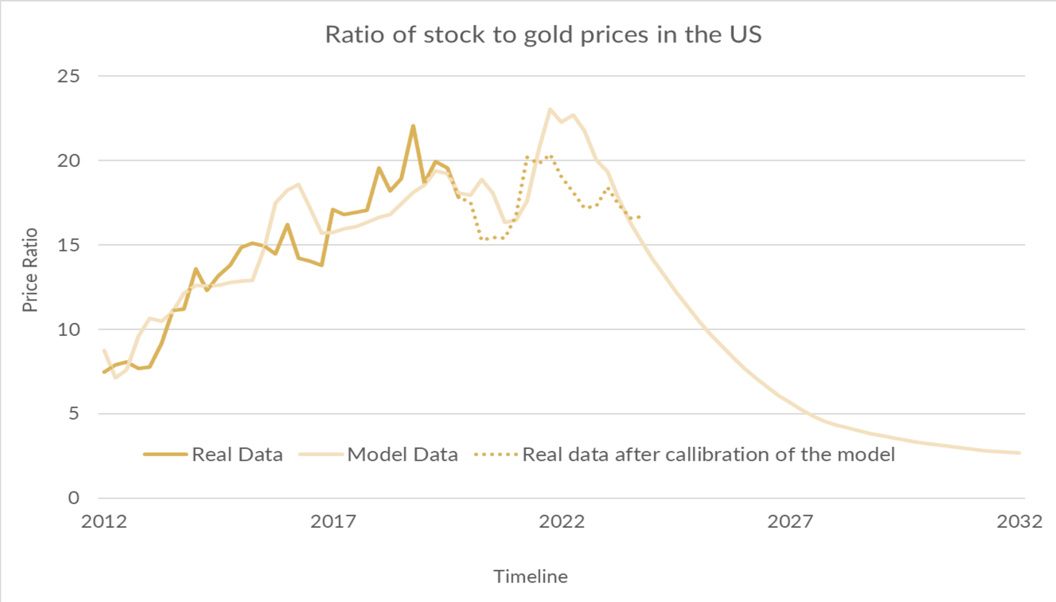
CH Market Risk Signal



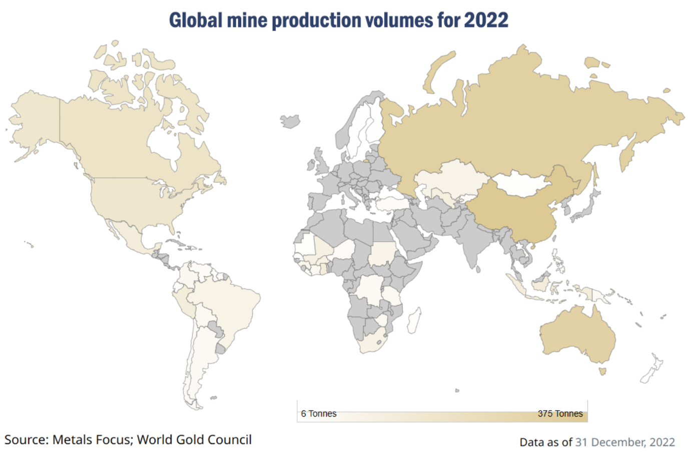
Prediction Model Gold or Stocks?

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



A large gold deposit estimated to contain 38 metric tons of gold, worth$2.38 billion, was recently discovered in southwest Mongolia. Exploratory drilling at the Tugurige Gold Mine identified the deposit spread over 2.52 square kilometers underground. The area is known to contain numerous mineral resources, including proven gold reserves of 143 tons in the region. Mongolia hosts some of the world's largest gold deposits and is a major gold producer, accounting for 80% of the country's exports. It mines around 24-28 tons annually from three key regions, making it the 13th largest gold producer globally.

There has already been some interest by western mining companies, who aim to pour first gold by 2025. Although China is currently its primary trade partner, the US had begun courting Mongolia last year in hopes of developing trade relations which would ease US dependence on China for copper, gold, coal, and rare earths. Given Mongolia's geographical location, nestled between Russia, China, and Kazakhstan, it will be interesting to see whether this will create any trade or political "cat fights" between BRICS and the West over who gets first dibs.

While this new finding is unlikely to affect gold markets in a major way, a survey conducted by the World Gold Council in 2023 showed that 24% of central banks intend to continue increasing reserves into 2024, due to geopolitical uncertainty, a weaker dollar, and economic uncertainty. This confluence of factors is sustaining the ongoing rush among investors for gold as a safe haven asset, and indicates that gold prices are likely to remain bullish.