Q1 General Update

APRIL 2023

We build and maintain portfolios for clients which address their specific needs

Baggot is a Central bank regulated investment manager. We specialize in designing and monitoring investment strategies that are built using global investment products and assets. Where almost all financial advisors and brokers would simply refer your business to a large external manager, in return for a commission, we use in-house expertise to actively manage your assets.

We offer Investment strategies across various risk profiles. In many cases, we build portfolios in-line with our client's specific needs (CGT focus, Income focus, etc.).

As a principle at Baggot, we do not charge upfront fees or expose our clients to lock-up periods. You can add or withdraw funds at any time and switch between strategies at no extra cost.

If you would like a review of your current investment strategy or to discuss future investment opportunities please contact us.

Call 01-699 1590

Peter Brown
Managing Director

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01.

Portfolio Performance

BMA 4, our medium risk multi-asset portfolio posted a return of 0.4% inclusive of all charges, in Q1. The benchmark Irish Life MAPS 4 posted a gain of 1.9% in Q1. Benchmark returns rarely include all charges. BMA 4 underperformed the benchmark by - 1.5% in Q1. We are never happy with an underperforming Qtr vs our benchmark but for perspective, BMA 4 beat the benchmark by about 10% between January 2020 and the end of 2022. A three year period. Taking account of all charges and costs in the way we do at Baggot, BMA 4 would likely be somewhere in the ballpark of 15% outperformance during the prior three year period.

BMA 5, our multi-asset portfolio with a medium-high risk profile has outperformed the benchmark Irish Life MAPS 5 by 0.5% in Q1 to follow 3.7% outperformance of the benchmark in 2022. Irish Life MAPS 5 gained 2.3% in Q1. BMA 5 gained 2.8% for the same period. BMA 5 has started Q2 well. As of today it has gained 4.7% YTD.

After outperforming the benchmark by 11.4% in 2022, BMA 6, our multi-asset portfolio with a high-risk profile underperformed the benchmark Irish Life MAPS 6 by - 0.8% in Q1. Irish Life MAPS 6 gained 3% in Q1. BMA 6 gained 2.2% in Q1. BMA 6 has started Q2 well, up nearly 4% YTD.

After outperforming the benchmark by 7.75% in 2022, BEI, our global equity income focused portfolio (medium-high risk profile) underperformed the benchmark Setanta Equity Dividend Fund by - 1.2% in Q1. BEI lost - 0.16% in Q1. The benchmark gained 1.4% in Q1. BEI generated 4.5% income and posted a total return of 5.23% in 2022.

After outperforming the benchmark by 13.65% in 2022, BME, our higher risk profile equity focused portfolio underperformed the benchmark MSCI World Index by - 6.77% in Q1. BME lost – 2.89% in Q1. The benchmark MSCI World index posted a gain of 3.88% in Q1. From a manager's perspective, if you want to beat your benchmark on an annualised basis, you have to be willing to deviate strongly from it when you have conviction in your view.

Before I move on, I'd just say that the five portfolios mentioned would be our more popular investment portfolios, but we do have other investment portfolios that have been tailored more to the specific needs of some clients which have all posted very competitive returns over the years. For any further information contact pbrown@baggot.ie.

02.

Q1 Asset Class Returns

Asset class return numbers noted below are all based in Euro denominated terms. Data taken from unhedged (currency) European UCITs ETFs, which include costs as well as dividend payments. For perspective when comparing returns, the EURUSD gained 1.3% in value in Q1.

Equity Returns (Euro denominated returns)

Q1 Leaders

the Nasdaq 100, the Euro Stoxx 50 and the German Dax.

Q1 Laggards

the MSCI India, the Vanguard FTSE EM and the MSCI Latin America.

Q1 Equities Performance

S&P 500

5.3%

NASDAQ 100

18.3%

Euro Stoxx 50

14.2%

German DAX

12.2%

Stoxx Europe 600

8.4%

FTSE 100

4.4%

MSCI EM Asia

2.7%

Vanguard FTSE EM

1.1%

MSCI China A Shares

2.6%

MSCI Japan

4.1%

MSCI Word

5.7%

MSCI Latin America

2.0%

MSCI India

-8.3%

MSCI Asia Pacific ex-Japan

2.1%

Bond Returns (Euro denominated returns):

Q1 Leaders

US 10+ Year Treasury Bonds, Europe Inflation Linked Bonds and German 10+ Year Bunds.

Q1 Laggards

EM Bonds, Europe Investment Grade Ultrashort dated Bonds and Global Aggregate Bonds.

Q1 Bonds Performance

Europe Investment Grade Ultrashort dated Bond ETF

0.6%

German 10+ Year Bund ETF

2.6%

US 10+ Treasury Bond ETF

5.8%

Europe Aggregate Bond ETF

2.1%

EM Bond ETF

-0.2%

Global Aggregate Bond ETF

0.9%

US Inflation Protected Bonds

1.4%

Europe Inflation Linked Bonds

3.2%

Q1 Precious Metals (Euro denominated returns):

Gold was a bright spot for commodities in Q1.

Q1/YTD

Gold

6.8%

Silver

-1.9%

03.

What is a bailout?

We're going to start this update a little differently than usual. I want to talk about the banking crisis that has emerged in Q1 because I believe it is the most important factor facing investors today and how it all ties into our longer term positioning. Regardless of asset class, it is all connected. Let's dig in.

When you place money on deposit at a bank, the bank takes that money and invests it in assets that are perceived safe havens, typically US Treasury Bonds and mortgage backed securities. If the bank can earn more on the investment than they have to pay deposit holders, they generate a profit. It's as simple as that. Take Bank of Ireland for example. If you put €100,000 on deposit for 1 year they'll pay you 0.5%.

Deposit Interest Rates Table

These rates are effective from the start of business on **27th January 2023**

Please see the relevant product pages on bankofireland.com or the individual product terms and conditions for full details as the rates quoted may be subject to certain restrictions and only payable if these restrictions are complied with.

Regular Savers

Name	Notice	Min	Max	Variable Return (per annum)	AER Variable
GoalSaver					
Regular savings balance	N/a	€1	€14,999	0.75%	0.75%
Lump sum balance		€15,000+	N/a	0.01%	0.01%
MortgageSaver					
Regular savings balance	N/a	€1	€14,999	0.75%	0.75%
Lump sum balance		€15,000+	N/a	0.01%	0.01%

Name	Notice	Min	Max	Variable Return (per annum)	AER Variable
Childsave					
	N/a	€1	€10,000	0.75%	0.75%

Notice

Name	Notice	Min	Max	Variable Return (per annum)	AER Variable
Notice					
365 31 Day Notice	31 Days	€5,000	€100,000	0.03%	0.03%
31 Day Notice	31 Days	€5,000	€100,000	0.03%	0.03%

Term Deposits - Fixed Rates

Name	Term	Min	Max	Fixed Term Return (Interest paid at maturity)	AER Fixed
365 Fixed Term					
365 12 Month Fixed Term	12 Months	€5,000	€100,000	0.49%	0.50%
Advantage					
12 Month Fixed Term	12 Months	€5,000	€100,000	0.49%	0.50%

Yet they can deposit that money at the ECB and earn 3.5%.

Central Banks Rates »

Central Banks	Interest Rates	Next Meeting
FED	5.00%	May 03, 2023
ECB	3.50%	May 04, 2023
BOE	4.25%	May 11, 2023
SNB	1.50%	Jun 22, 2023
RBA	3.60%	May 02, 2023
BOC	4.50%	Jun 07, 2023
RBNZ	5.25%	May 24, 2023
BOJ	-0.10%	Apr 28, 2023
CBR	7.50%	Apr 28, 2023
RBI	6.50%	Jun 08, 2023
PBOC	3.65%	
BCB	13.75%	May 03, 2023

They earn a 3% spread on the transaction and in this case they know they'll get their money back plus 3.5%. This is a no-brainer trade for the Irish banks. The ECB will pay them 3.5% on your money in one month duration. If the rate goes up to 3.75% the next month BOI can roll it over the next month at 3.75%. Unless and until there is more banking competition in the Irish market, where competitors are offering higher deposit rates to entice you to take your deposit elsewhere, this is a gravy train for the Irish banks.

The risk is in the duration of the bond that the bank is holding against your deposit. If you, the deposit holder decides to take your deposit to another bank or liquidate the account to make a purchase, the bank then must sell that bond to pay you back your money. If the bank has those funds invested in short, dated bonds, there is no problem because the bond will come to the end of its term soon and the bank will get the interest plus the principal back.

The problem is that we went through a decade post 2008 where interest rates were historically very low and, in some cases, even negative, meaning you pay the government to lend to them. In that environment the only yield that banks could get on your deposit was if they bought longer duration bonds. So, let's say interest rates are at zero but 10 Year Government Bonds are yielding 1.5%. So, you deposit €100,000 in the bank, the bank pays you 0.0% and then buys a 10 Year bond with a 1.5% yield. Over a 10-year period the bank will get €15,000 plus the €100,000 back.

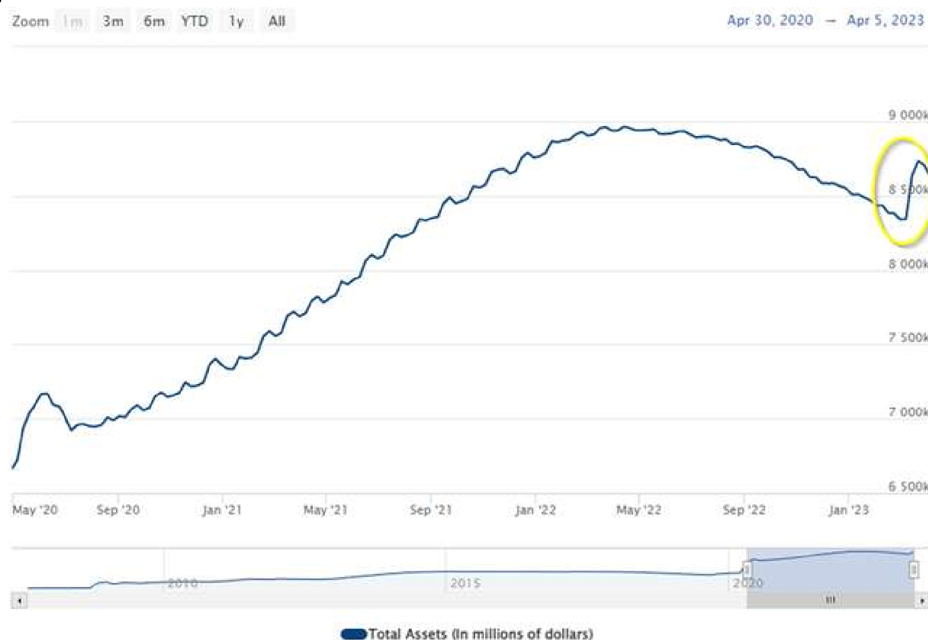
Now let's say 4 years has gone by and 10 Year bonds are now yielding 5% and you decide you want your money back. Now the bank has to sell the 10 Year Treasury bond in order to raise the funds to pay you back. But nobody wants to buy a bond with a 1.5% yield when they can get 5% on newly issued bonds. In order to find a buyer, the banks are forced to sell that bond at a 5% yield. The difference is 3.5% per year loss for the life of the bond. It is a gigantic hit! Keep in mind that banks take on leverage as well in order to juice returns.

This is what happened at Silicon Valley Bank. Peter Schiff sums it up well;

"It's because of the government that Silicon Valley Bank (SVB) was in the position that it was. The reason it owned so many long-term, low-yielding US Treasuries and mortgage-backed securities was because the Fed kept interest rates at zero for so long. And the reason that it chose those assets was because bank regulators kind of pushed banks into Treasuries and mortgage-backed securities because they give them favourable accounting treatment. They don't have to take any haircuts. They don't have to mark them to market. So, the government created the problem."

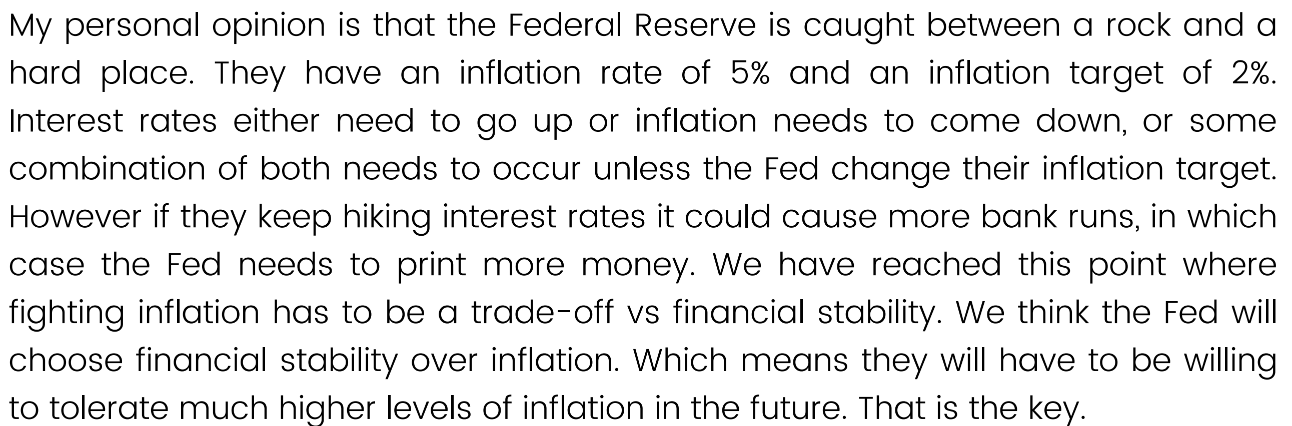
Source: https://schiffgold.com/interviews/peter-schiff-investors-will-bid-up-gold-when-they-realize-inflation-is-winning/

So the Federal Reserve, the Treasury Department and the FDIC (Federal Deposit Insurance Corporation) all get together and decide to create a lending facility to protect deposit holders. So is this a bailout? We don't believe so because they aren't bailing out the bank equity or bond holders. The bank can still go bust, but the precedent being set here is that the deposit holders will get their money back. Is it inflationary or deflationary? That's the big question. On one hand it is most definitely a form of stimulus. One need only look at the FED balance sheet to see that;



Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

One of the most important things you learn in this business, is don't fight the Fed (Central Bank). If the central bank balance is declining they are effectively removing liquidity from markets and if it is rising they are adding liquidity to markets. The recent expansion in the Fed balance sheet is inflationary, if only because it debases the purchasing power of money. The Fed effectively print the liability. But on the other hand, the knock on effect is to cause banks to hoard cash as opposed to lending that cash out which is the lifeblood of the real economy. Remember, stockholder and bondholder capital can be wiped out. Only the depositor is protected. This causes them to become much more risk averse in their practices. That should be deflationary.



My personal opinion is that the Federal Reserve is caught between a rock and a hard place. They have an inflation rate of 5% and an inflation target of 2%. Interest rates either need to go up or inflation needs to come down, or some combination of both needs to occur unless the Fed change their inflation target. However if they keep hiking interest rates it could cause more bank runs, in which case the Fed needs to print more money. We have reached this point where fighting inflation has to be a trade-off vs financial stability. We think the Fed will choose financial stability over inflation. Which means they will have to be willing to tolerate much higher levels of inflation in the future. That is the key.

In that environment we see Dollar weakness and given that the Dollar is the reserve currency of the world, we see a flight to anti-Dollar positions, such as precious metals, energy, commodities, EM equities and certain value-oriented proxies in the West such as European Value, FTSE 100 (remember FTSE 100 is an international index more so than a UK index) and Japan. but generally we see US indices lagging as capital leaves the US for other areas of the world. That is not to say that we do not like certain US sectors. We are speaking of broad US exposure.

One major and we think underappreciated factor, is that you can look around the world and see this de-dollarization trend. The US sanctions Russian assets in the SWIFT banking system and the knock on effect is it sends a message out to the world - these countries who do a lot of trade in Dollars see that if they do something the US politicians do not like, they can freeze your assets. This is not a political statement, just reality. What is the effect of that? Saudi Arabia, Russia, China, India, etc, they start trading Oil and Natural Gas for other currencies and in some cases for Gold. This is a big deal for US assets over the long term. In the past these countries would all buy Dollars and then use those Dollars to buy Oil (and other goods).

Those Dollars that the Saudis, Chinese and Russians received for their Oil and other things, were recycled back into US assets. Why? Because they never feared that their assets could be confiscated. This relationship has completely changed in the last year. If there are less Dollars from global trade being recycled back into the US, then who is going to buy all the bonds that the US has to issue to finance their absolutely gigantic deficit? I'll tell you who….The Fed will be the lender of last resort, they'll do yield curve control or some form of Quantitative Easing again because it is the most convenient way out. We've seen it before. They can't default on the debt because that causes a deflationary bust so they debase the purchasing power of money to fill the gap, and we inflate out of it but the cost is a loss of purchasing power.

04.
Bonds

This gives a portfolio manager like me zero incentive to want to own long duration bonds because I know that real interest rates (the difference between the rate of inflation and the yield you get on bonds) will be negative. In that environment, where I (as a portfolio manager) have to hold bonds due to risk constraints in some of our lower risk rated products, I would much prefer to keep bond exposure invested in ultra-short dated bonds that can benefit from higher interest rates or to potentially own inflation protected bonds or even floating rate bonds because those are the types of bonds that don't blow torch your account in an environment where real yields are negative (the difference between the yield you get and the inflation rate) like long duration bonds did to investors that had investment exposure to them in 2022.

There are two camps in the investing world. Long duration and Short duration assets. Long duration assets are assets that benefit in low inflation environments with yields going down.

Long duration bonds become more valuable when interest rates fall because they generate higher yields now, than they will in the future. Long duration equities are companies that could borrow cheaply to fund growth really far into the future because for such a long time there was no alternative. Interest rates were near zero. In many cases they did not really fund growth, they borrowed cheaply to buy back higher yielding stock and drove earnings per share synthetically higher by decreasing the share count, but the liability is still there in the form of debt that will have to be rolled over at much higher rates now that there is an alternative, in the form of US T Bills yielding 5%. This will be a major problem for highly geared companies in the coming years. It will dramatically impact profit margins.

Short duration bonds become more valuable when interest rates rise because interest rates are going higher every time the bonds roll over, therefore they track inflation better. Short duration equities are companies that have little or no debt and assets that produce free cash flows. In many cases they are commodity companies that are naturally geared to higher commodity prices. They have a fixed cost of the asset in the ground so as the price of the commodity rises, so too does their profit margin. Where there is little to no debt to be serviced and you have rising free cash flows, the company can fund buybacks organically without increasing debt levels, it can buy distressed assets which are earnings accretive and they can increase dividends to shareholders. And let's not forget that they can get 5% yields in one month T-Bills on any cash they have on the balance sheet. Short duration equities tend to do be more value oriented companies.

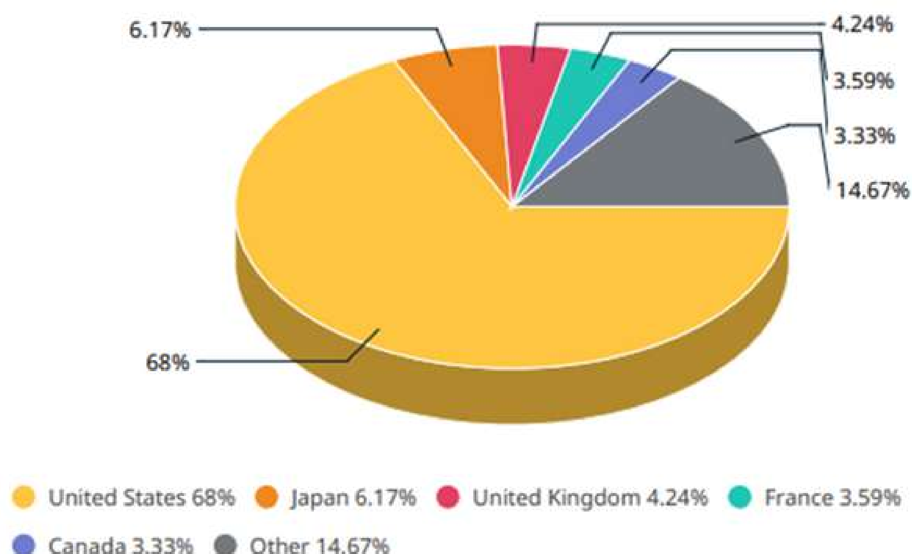
We are in the Short duration assets camp, interested in assets that can benefit from the current macroeconomic regime.

05.

Equities

Most of the world is still heavily exposed to long duration assets. One need only look at the major indices which most bog standard pensions and investments have huge exposure to. Take a look at the MSCI World Index for example. The US represents 68% of the index! So basically 68% of the index is the S&P 500 index.

COUNTRY WEIGHTS



Source: https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-e1fc565ededb

The "Other" part of the index is where emerging market exposure is in this index and it certainly won't be all of it.

All of the top 10 constituents in the MSCI World are US companies.

TOP 10 CONSTITUENTS

	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)	Sector
APPLE	2,623.25	4.91	Info Tech
MICROSOFT CORP	2,041.67	3.82	Info Tech
AMAZON.COM	948.36	1.77	Cons Discr
NVIDIA	683.31	1.28	Info Tech
ALPHABET A	619.58	1.16	Comm Srvcs
ALPHABET C	569.65	1.07	Comm Srvcs
TESLA	556.84	1.04	Cons Discr
META PLATFORMS A	476.58	0.89	Comm Srvcs
EXXON MOBIL CORP	451.61	0.85	Energy
UNITEDHEALTH GROUP	441.56	0.83	Health Care
Total	9,412.42	17.62	

Source: https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-e1fc565ededb

So you have this situation where the entitled, heavily indebted, rapidly ageing western world meets the energy, commodity rich countries in emerging markets which have high savings rates and exploding populations and then look at how heavily weighted global equity indices are to the west and how little exposure those indices have to areas that actually have the potential to grow in the future. Over the next decade we see it as a near certainty that the US and much of the west will represent much lower weightings in the major global equity indices and that the rest of the world, particularly emerging markets, will benefit via significantly higher weightings. This will be a very supportive tailwind for emerging markets and a major headwind for the US in particular. It will very likely be the largest factor in determining whether you benefit financially from this gigantic macroeconomic shift or not over the coming years.

Within equities we are very focused on dividend paying investments, particularly where there debt levels are relatively low, free cash flow is solid and balance sheets are in decent shape. One of our favourite assets is a Large Cap Latin America focused ETF which ticks all those boxes and pays an annualised yield of over 10%. That dividend has been rising in recent quarters as well, which tells you that the price is too low relative to the level of income that it is throwing off.

I can't for the life of me understand why anyone would want to own the S&P 500 ETF which is paying a 1.6% dividend yield when they could own this instead. This ETF gained over 16% in euro-terms in 2022, it has acted relatively strong over the last 15 months, it is extraordinarily cheap in valuation terms, it is definitely a Commodity/Agriculture play and exporters benefit from the turmoil in the Ukraine (Ukraine is a very important agricultural exporter). These companies are geared to real assets which is exactly what you want when real rates in the West are as negative as they are. So how cheap is it? The current P/E is 6.5 (forward P/E is 7.9), with a dividend yield of double digits. Compare that the US with a current P/E of 21 (forward P/E of 19) and pays a dividend of 1.6%.

We find the high dividend particularly valuable inside a pension wrapper because you don't pay tax on income inside the pension, so the investment growth compounds much more quickly. It's also quite comforting to get such fat dividend checks in a very uncertain world.

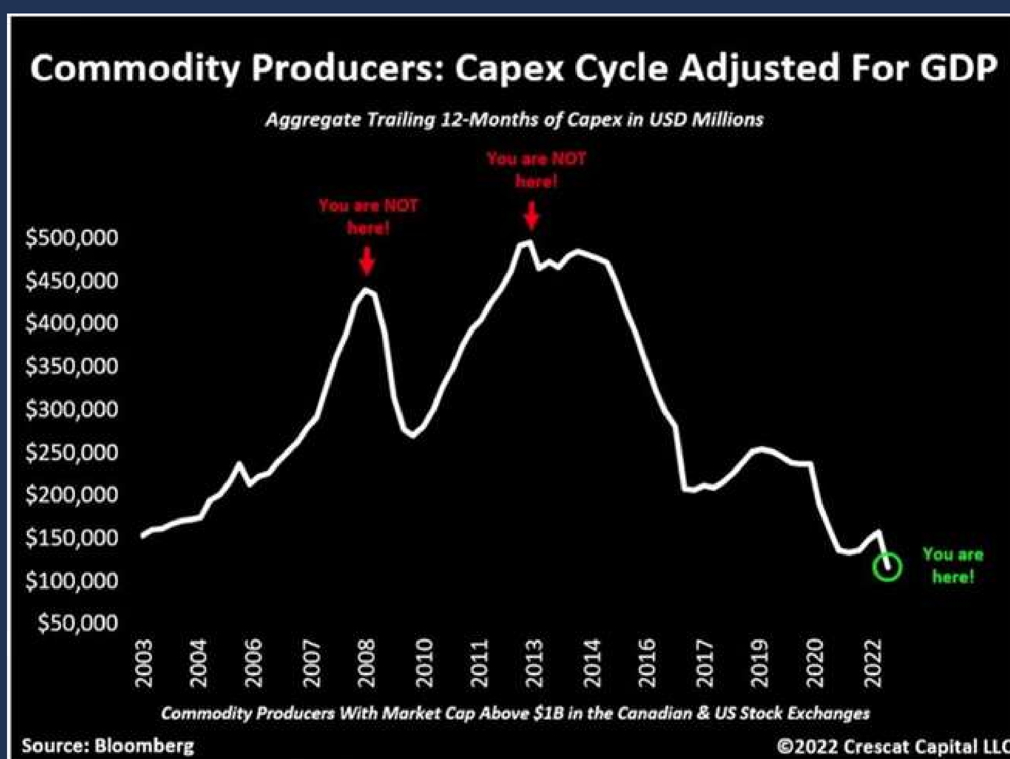
There are a lot of places within emerging markets and natural resource companies where we are finding value at this time but our favourite is Latin America.

6.

Commodities

Regarding commodities we remain broadly very bullish from a longer term perspective for a few reasons. Firstly, almost all commodities are exceptionally cheap relative to Equities and Bonds. The image below plots the price of commodities as measured against the US stock market going back to 1900. When it is rising, commodities are outperforming equities and when it is falling equities are outperforming commodities.

Just because something is cheap does not mean it will rise in price but it does mean that you get a higher margin of safety built into the price. Secondly, the supply of a broad majority of commodities is constrained relative to longer term demand. Why? Because getting the stuff out of the ground is very capital intensive. Capital goes where it is treated best and before this interest rate hiking cycle began, nobody wanted to invest in capital intensive businesses when they could invest money in mega cap companies that could borrow money for nothing and use that money to buy back stock.



"When adjusted for GDP, the aggregate capex for commodity producers is at record lows, the exact opposite of the setup in 2008 and 2014 when oil peaked."
Source: https://www.crescat.net/wp-content/uploads/Crescat-Firmwide-Presentation_March30-2.pdf

Before interest rates went up dramatically this phenomenon left many commodity companies out in the cold starved for capital. It takes years to turn a Copper, Cobalt, Nickel, Lithium, Uranium, Oil etc, deposit into a producing mine. You can't just press a button, there is a serious time lag. We are looking at serious structural supply deficits across many commodities that are vital to the functioning of the real global economy. This virtually guarantees that there will be a shortage of supply of many commodities relative to demand in the coming years. Third, Dollar weakness is broadly supportive of commodities.

So what do we like in the commodity space? With commodities generally being as cheap as they are relative to other assets, we think it's a good time to have broad based exposure. Within the investment products we manage where commodity exposure is appropriate (risk rating), we've expressed our views via diversified commodity equity investment trusts and ETFs that benefit from CGT tax treatment. That said, we also have more targeted exposure in our multi-asset products to precious metals, uranium and carbon credits.

7.

Precious Metals

Precious metals are a different animal to other commodities, particularly Gold as it is a reserve asset and doesn't have many industrial uses. As a portfolio manager I have always liked having a portion of assets invested in Gold because it is not correlated to equities or bonds and almost always holds its purchasing power when everything else fails.

I'm quoting here from page 18 of Incrementum's excellent once a year 'In Gold We Trust' report and forgive me for posting it again but I think it is very insightful.

"The average annual performance from 2000 to 2022 is 9.2%. During this period, gold has outperformed virtually every other asset class and, above all, every other currency – despite significant corrections in the meantime."

Gold performance since 2000 in various currencies (%)

Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.4%	11.2%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	0.6%
2001	2.4%	8.4%	5.3%	12.0%	8.8%	2.4%	18.0%	5.5%	5.8%	7.6%
2002	24.4%	5.5%	12.3%	13.2%	22.9%	24.4%	12.2%	3.5%	23.7%	15.8%
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	7.2%
2004	5.6%	-2.0%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	0.5%
2005	18.1%	35.2%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.8%	26.1%
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	17.5%
2007	30.9%	18.4%	29.2%	18.0%	12.0%	22.5%	22.5%	21.8%	16.9%	21.4%
2008	5.4%	10.0%	43.0%	30.5%	28.7%	-1.5%	-14.2%	-0.8%	30.0%	14.6%
2009	24.8%	21.8%	13.0%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	17.6%
2010	29.5%	38.6%	34.2%	13.9%	22.8%	25.1%	13.2%	16.8%	24.8%	24.3%
2011	10.2%	13.8%	10.6%	9.9%	12.7%	5.2%	4.5%	10.7%	30.7%	12.0%
2012	7.1%	5.0%	2.4%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	7.4%
2013	-28.0%	-30.9%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	-24.3%
2014	-1.8%	11.6%	4.4%	7.2%	7.5%	0.7%	11.6%	9.4%	0.2%	5.6%
2015	-10.4%	-0.2%	-5.3%	0.6%	6.8%	-6.2%	-9.9%	-9.7%	-5.9%	-4.4%
2016	8.5%	12.1%	29.7%	9.4%	5.3%	16.1%	5.4%	10.3%	11.4%	12.0%
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	6.2%
2018	-1.5%	3.0%	4.3%	9.0%	6.8%	4.1%	-4.2%	-0.8%	7.3%	3.1%
2019	18.3%	21.0%	13.8%	18.7%	12.6%	19.7%	17.2%	16.6%	21.3%	17.7%
2020	25.0%	14.7%	21.2%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	19.5%
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	-0.6%
2022 YTD	-0.7%	7.9%	8.9%	3.7%	1.3%	5.6%	10.6%	7.5%	3.7%	5.4%
Average	9.3%	9.1%	10.7%	8.6%	8.4%	8.3%	10.1%	6.9%	11.9%	9.2%

Source: Reuters Eikon, Incrementum AG, figures as of 05/18/2022

Source: https://ingoldwetrust.report//wp-content/uploads/2022/05/In-Gold-We-Trust-report-2022-english.pdf

In our last Quarterly updated I stated that Gold's breakout above $1800 an ounce looked very bullish to us, particularly combined with our Dollar view and that if it could sustain above $1800, that we have a target of $2500 an ounce at some point in 2023. Our view has not really changed. Gold is now trading around $2000 an ounce, up about 8% YTD in Euro terms and about 10% in Dollar terms. Can it pullback? Yes of course it can. It has risen quite dramatically since early March and nothing ever goes up in a straight line. We continue to see Gold exposure as an important holding in any multi-asset portfolio and believe it is in a bull market.

In this next paragraph I am going to quote Kevin Muir of The MacroTourist, from his excellent piece "The Rational Gold Bull" which was published Apr 8. I highly recommend his newsletter. It is worth every penny.
"As Einhorn so eloquently highlights; we have hit the point where the Fed must choose between fighting inflation and financial stability. If the Fed chooses the tight road, the financial markets will likely revolt, and eventually, gold will be the beneficiary. On the other hand, if Fed chooses financial stability over fighting inflation, then gold wins too as monetary conditions loosen."
Source: https://posts.themacrotourist.com/p/the-rational-gold-bull?utm_source=substack&utm_medium=email

With precious metals we think it's sort of a unique situation right now in the big picture. Heads – precious metals win. Tails – precious metals win.
As for Silver, we continue to believe it put in an important bottom around $17.50 an ounce last summer. It needs to rise above $25.00 in sustained trade in order to really get going on the upside. It may take a few attempts, but we believe sustained trade above that $25 area would represent a changing of the guard in the Silver market from more sideways type trade to a resumption of the bull market which began in early summer 2020, in which case we would be targeting $35 an ounce and possible $50 an ounce.

8.

Uranium

Uranium has been our best performing asset since we originally added it to investment portfolios 3 years ago. We choose to express our view via an investment trust that holds physical Uranium. The long term investment case hasn't changed. Nuclear is the only scale-able zero emissions bridge to a carbon free world. It is also an easy way to remove energy dependence on countries that do not have our best interests at heart. Because of Fukushima it went through a long period of underinvestment. Consequently there's nowhere near enough supply relative to demand and nuclear power generation continues to grow.

There is roughly 185 million pounds consumed per year, plus an additional 50 million pounds is being taken off market by investors, yet there is only 125 million pounds produced per year. That's a 110 million pound supply deficit per year. We see dramatic upside potential over the coming years.

The Sprott Uranium Report goes into greater detail if you wish to explore further;

Source: https://sprott.com/insights/sprott-uranium-report-uranium-proves-resilient-in-march/.

URANIUM

A KEY ELEMENT TO ACHIEVE A NET-ZERO CARBON FUTURE

The world is moving towards net-zero carbon energy. As populations and energy needs rise, energy sources of the future need to be both clean and sustainable.

Which energy source is the cleanest?

CO_2-Equivalent Emissions Per Gigawatt-Hour of Electricity Over the Lifetime of a Power Plant *Tonnes*

While it's a cleaner alternative to fossil fuels, **biomass** combustion releases CO_2, particulate matter and other harmful gases.

Hydroelectric power plants use reservoirs to store water and release greenhouse gases when underwater vegetation decomposes.

Solar and wind are among the cleanest energy sources, but their large material footprint contributes to emissions.

Source	Tonnes
Coal	820
Oil	720
Natural Gas	490
Biomass	78–230
Hydro	34
Solar	5
Wind	4
Nuclear	3

Emissions from biomass vary depending on the type of material combusted.

Nuclear

Nuclear reactors use fission (the splitting of uranium atoms) to produce electricity without any combustion, making it one of the cleanest[1] energy sources.

The Power of Uranium and Nuclear Fuel

Uranium's high energy density allows nuclear power plants to generate large amounts of electricity efficiently.

1 Uranium Pellet (~0.5" wide by 0.75" tall/ size of a gummy bear) has energy equivalent to: 120 gallons of oil; 1 ton of coal; 17,000 cubic ft of natural gas

Source: Our World in Data, U.S. Department of Energy. [1]Based on CO_2-equivalent emissions per gigawatt-hour of electricity produced

As one of the cleanest and most powerful sources of energy, nuclear power could play a key role in helping countries achieve decarbonization goals in the fight against climate change.

Physical Uranium Trust

The World's Largest Physical Uranium Fund*

TSX: U.U ($US) | U.UN ($CA) sprott.com/uranium

*Based on Morningstar's universe of listed commodity funds. Data as of 6/30/2021.
Important information about the Trust, including the investment objectives and strategies, applicable management fees, and expenses, is contained in the Management Information Circular.
View the Management Information Circular: sprott.com/media/4122/uranium-management-information-circular.pdf
Please read the document carefully before investing. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

VISUAL CAPITALIST

Source: https://sprott.com/media/4161/sprott-uranium-infographic.pdf

MEASURING RADIATION EXPOSURE

Radiation stemming from nuclear energy is far less when compared to activities not commonly associated with nuclear activities, such as flying on an airplane or interacting with more traditional energy sources.

MILLIREMS OF RADIATION (MREM)

5,000	Annual U.S. regulatory radiation limit for an adult
500	One transcontinental round trip flight
360	Average person's annual exposure from all sources
20	Living one year outside a coal plant
2	Living one year outside a nuclear power plant

Source: U_3O_8 Corporation.

Source: https://sprott.com/investment-strategies/physical-commodity-funds/uranium/

We are very bullish on a longer term basis and see it as an important inflation hedge.

9.

Carbon Credits

Carbon credits have acted well this year so far and have been one of our best performing assets since we added it to our multi-asset portfolios nearly 2.5 years ago. Our position has gained about 10% in Euro terms, YTD. We have a long term view and our view hasn't changed much since our last write-up. The long term investment case grows stronger by the day. Carbon credits are in limited supply. The market is very short of supply this year and it will only become shorter of new supply in the future. Real fundamental demand exceeds supply, and that trend is only going one way as far as the eye can see.

If there had ever been a time for governments to do an about face and relax the emissions caps, the energy crisis we saw when Russia invaded the Ukraine provided every excuse, and it would have killed confidence in the Carbon credit market, but they did not! Instead they doubled down (Fit for 55) and decided to go for even tighter standards in the future. Europe is the global leader in the Carbon credit markets. European governments are very supportive of the Carbon credit markets and it is plainly obvious to see why. It is quickly becoming a large source of revenue for European countries. European governments earned roughly €150 Billion last year from the Carbon credit market. They only have to spend half the revenue earned on Green projects, so the rest goes into the tax coffers and we are only in the very early stages of this market. It is an important and growing source revenue for finance ministers of European nations, particularly at a time when other sources of tax revenue could come under pressure as a result of recession. This infographic on the Fit for 55 EU Emissions Trading System should be helpful for newer investors to understand the market;

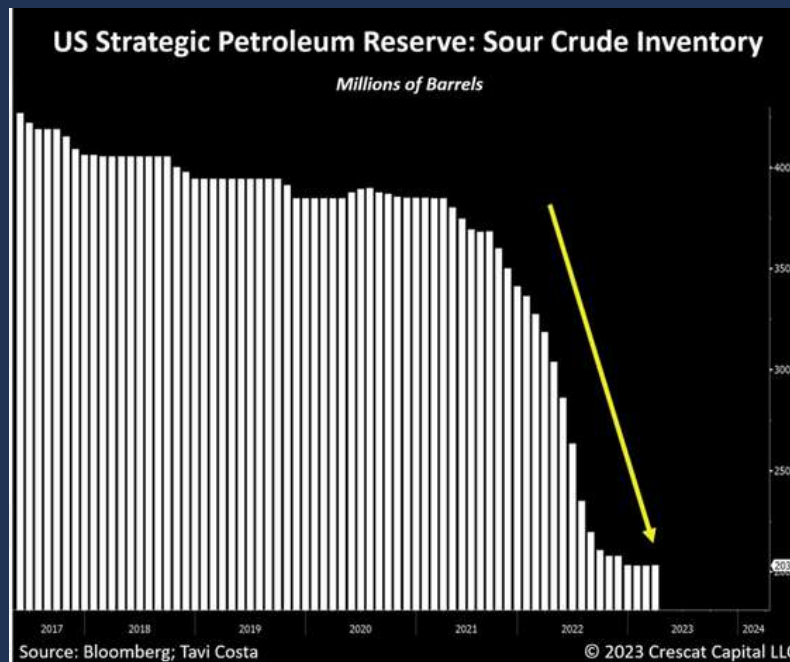
Source: https://www.consilium.europa.eu/en/infographics/fit-for-55-eu-emissions-trading-system/

10.
Inflation

At the moment inflation is still running at 5% in the US with interest rates in the US trading at 5% while in Europe inflation is running at 6.9% with interest rates at 3.5%. The gap between inflation and yields is just too wide to change our stance, particularly in Europe. The Fed and the ECB both have an inflation target of 2% so we would expect further interest rate hikes, a fall in inflation or some combination of both in the coming months before any real change in central bank policies will occur.

Real interest rates (the difference between the rate of inflation and the interest rate) are much more negative in Europe than they are in the US so we would expect the Fed to finish hiking interest rates before the ECB will do so. Make no mistake, inflation has come down in the US since mid-summer and in Europe since November, but it is still very high not just for the US and Europe but also for much of the world. Further, we see some major risks to the upside later in 2023 on the inflation front, relating to the end of Chinese lockdowns, the US Strategic Petroleum Reserve releases coming to an end at dangerously low levels, OPEC production cuts, see here;

Source: https://www.reuters.com/business/energy/sarabia-other-opec-producers-announce-voluntary-oil-output-cuts-2023-04-02/).



Source: https://www.crescat.net/wp-content/uploads/Crescat-Gets-Activist-on-Gold-Silver-117.pdf

Bring China back to normal consumption and discount an end to the SPR releases and my belief is that you have more than offset the weaker demand that has been brought about by tightening monetary policies. We see risk to the upside for Crude and Natural Gas prices. Given that energy is directly and indirectly a huge component of the inflation data, if prices do head higher over the coming months, we see a risk that central banks may have to become more aggressive with rate hikes. Now add in the fact that the Federal Reserve is effectively adding inflation risk to the markets by bailing out certain banks and it looks to me like they are fighting inflation with one hand but stoking inflation with the other.

11.
Conclusion

In our last quarterly update, I stated that we thought central banks will be forced to keep hiking interest rates until something breaks but with employment data still quite strong in the western world, we think central banks have strong reasons to continue with interest rate hikes and other forms of liquidity removal.

Well, it appears that something broke as a consequence of interest rate hikes and it would be logical to assume the possibility of that risk in Europe as well, although Europe is hiking interest rates at a slower pace which could mean less damage in the European banking system, not to mention that European banks are more highly regulated. Our thinking is that this is going to be a trade-off for the central banks. Option 1) Central banks (led by the Fed) will choose to fight inflation which will cause more things to break and probably lead to a big recession. Option 2) they will err on the side of financial stability which means inflation will stay relatively high. We believe the Fed have shown their hand with recent actions. We are firmly in the Option 2 camp. We expect real interest rates to remain negative and have aligned our portfolios based on those expectations.

Please do let us know if you wish to discuss your portfolio at any time.
We appreciate your faith and trust in us.

Kind regards,
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Central Bank Ref: C143849

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