Incrementum All Seasons Fund

– in pursuit of real returns –




2022 / 02

Seasonal Reflections

Fallen On Hard Times

Dear Reader / Investor,

Welcome to the 2022 spring edition of *Seasonal Reflections,* which I would like to open with the accompanying seasonal photo, which this time was made during a visit to the picturesque little town of Tegernsee at the identically named Bavarian lake.

My wife and I had gone to Vienna for the Easter weekend to spend some time with our daughters, meet old friends and attend a fantastic "*All You Need Is Love*"-Beatles show. On our way home we overnighted at Tegernsee, where I made this photo from the lake promenade. To me this picture still holds the chill air of a sunny spring day, where you can almost watch the leaves unfold, and the birds' song cannot be drowned out by the passing Easter holiday traffic.

Tegernsee, Bavaria, 18APR2022, HGS pic

@SchiefenHg, Twitter, 21APR2022

It is moments like this that keenly remind me of how blessed we are to live in the heart of Europe with its natural beauty, peace and prosperity, and the high degree of freedom people enjoy here. Yes, our liberties have been somewhat restricted during the Covid-19 breakout over the past two years, but that is nothing compared to what I hear from my friends in Asia. My former home, Hong Kong, has been quite bad in this regard already with its (at times up to three) week(s) long and strict quarantine regime upon (re-)entering the SAR. But nothing beats what we have recently seen from Shanghai and other mainland cities, which in my personal view does not bode well for China's future.

Meanwhile, closer to home we are faced with the actions of another autocrat… – Honestly, I find it difficult to comment on the war in Ukraine. Russia is clearly the aggressor, but its motives and the West's response is generally portrayed in the media in classic "bad guys (Putin & Co) / good guys (Biden, NATO, EU, etc)" manner. Following two years of "*war against Covid*" this allows our political class to deflect their citizens' attention once again from issues that may otherwise be more in focus.

Personally, I believe that as Europeans who have fought two world wars, we should have strived to forge closer ties with Russia in the past, rather than supporting the Eastern expansion of a US-led NATO that is threatening Russia's well documented and historically deep-rooted territorial integrity concerns, and thus driving it to ally itself only closer with China. But that is water under the bridge now.

Still, when following the news-flow on the subject, it feels as so often in this day and age that the powers that be are mainly concerned with shaping convenient narratives that justify their actions, while they appear increasingly disconnected from the real world where we are left to witness things slowly but certainly falling apart. As far as our actions against Russia are concerned, I would like to leave my readers with a short speech by EU MEP Clare Daly, which I came across on Twitter on Apr8. To me it is one of the plainest and most outspoken summaries of the West's reaction to Russia's aggression against Ukraine, and worth listening 2:34 minutes to and reflecting about….

@ClareDalyMEP, Twitter, 7APR2022

For German speaking readers, this opinion piece by Social Psychologist Harald Welzer, published in Stern magazine on March 16, provides further food for thought. One key passage translates as follows:

"Mind you, all my sympathy lies on the side of the attacked population, absolutely none on the side of the aggressor. But when it comes to preventing war from becoming unbounded, the story of good and evil provides a poor script. After all, the overarching perspective of ending the war as quickly as possible and orchestrating a new post-war order that takes the geopolitical renaissance of imperialism, not only Putin's, seriously and into account, can by no means be developed from the perspective of the attacked. Such a perspective cannot be about "winning at all costs" – which, by the way, means having one's actions imposed by the aggressor – but about creating room for action that help open up possibilities for an end to violence."

But similar to the Covid outbreak (witness Germany's health minister's recent warning against a renewed outbreak of a killer variant this coming fall), the political class has widely used the war in Ukraine to spark fear among the general population to justify all manner of emergency measures. In addition, it helps to deflect any criticism that perhaps the sudden collapse in purchasing power might have other roots than Covid-related supply chain disruptions, or Russia's war in Ukraine.

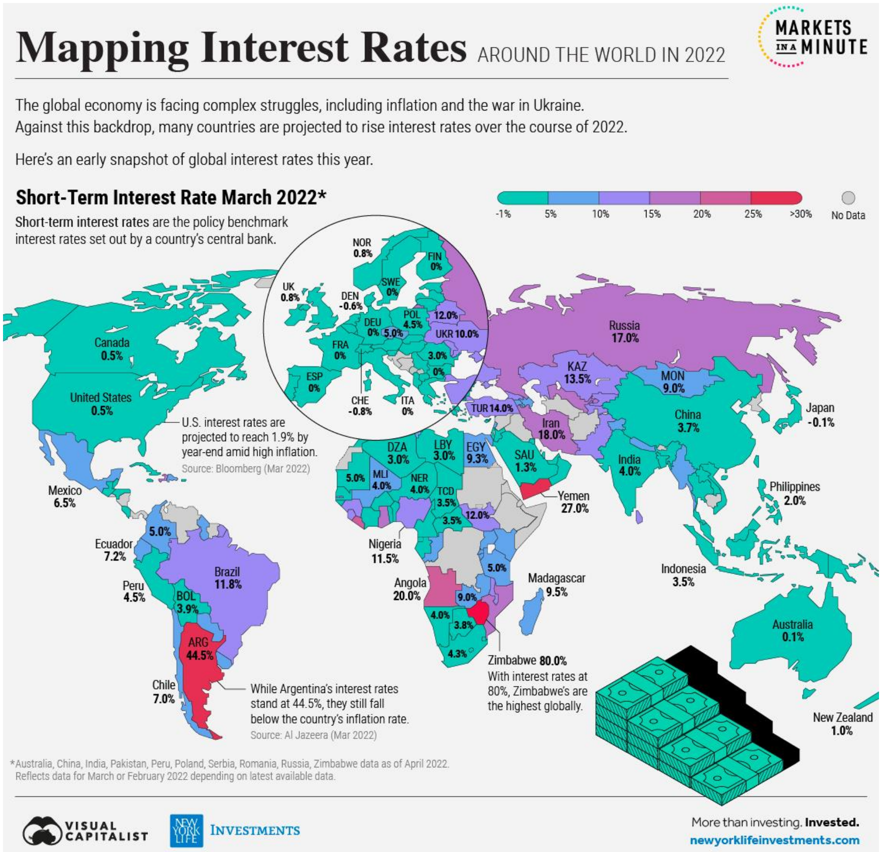
Fundamental investing backdrop: Stagflation 2.0

While observing the investing season, it is difficult to avoid noting an increasingly strained macro backdrop, which is marked by the relentless rise in inflation around the world. Regular readers know that we have been expecting this for a while and have commented extensively about it in past issues.

Global Inflation Rates	
Country	CPI Inflation (YoY %)
JAPAN	0.9%
CHINA	1.5%
SAUDI ARABIA	1.6%
SWITZERLAND	2.4%
INDONESIA	2.6%
TAIWAN	3.3%
AUSTRALIA	3.5%
PHILIPPINES	4.0%
SOUTH KOREA	4.1%
SWEDEN	4.3%
SINGAPORE	4.3%
FRANCE	4.5%
FINLAND	4.5%
PORTUGAL	5.3%
CANADA	5.7%
SOUTH AFRICA	5.7%
THAILAND	5.7%
NEW ZEALAND	5.9%
UK	6.2%
IRELAND	6.7%
ITALY	6.7%
INDIA	7.0%
GERMANY	7.3%
MEXICO	7.5%
US	8.5%
NETHERLANDS	9.7%
SPAIN	9.8%
POLAND	10.9%
BRAZIL	11.3%
RUSSIA	16.7%
ARGENTINA	52.3%
TURKEY	61.1%
VENEZUELA	284%
@CharlieBilello	

@charliebilello, Twitter, 12APR2022

And while policymakers preached the transitory gospel during last year's initial lift-off, the table on the left shows how inflationary trends have been progressing in various countries.



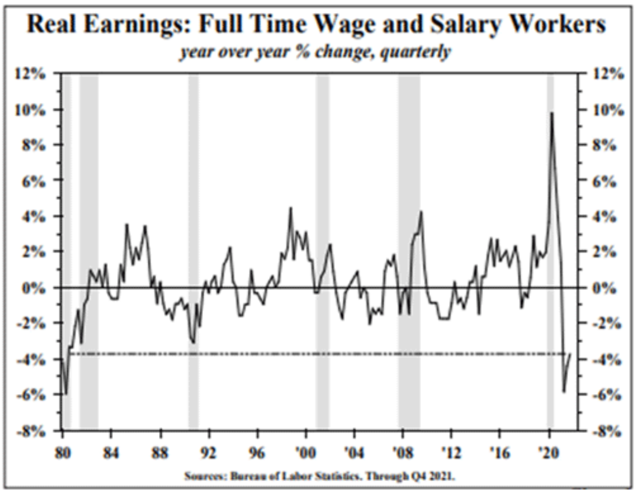
Visual Capitalist, 21APR2022

Countries like Brazil, Russia, Argentina, and Turkey are already well into double-digit inflationary territory, while Venezuela has been experiencing hyper-inflation for some time already.

Now, the cynical reader may say that these are the usual suspects, but if you have a closer look at the table, you will find Poland already in the double-digit club, while other European countries like Spain, the Netherlands, and also my native and traditionally rather inflation-averse Germany, in company with the mighty US, are well on their way to join this illustrious group.

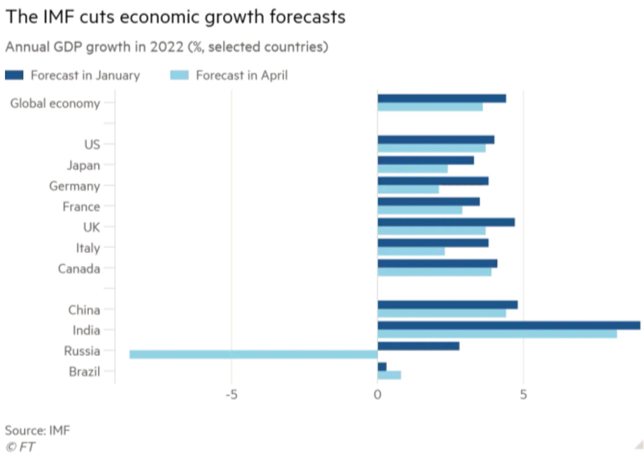
In light of this kind of dynamic coupled with bottom-of-the-barrel interest rates (see chart on the right on prior page), leading central bankers have by now dumped the "*transitory*" narrative, and in the US are even attempting to channel their inner Paul Volcker.

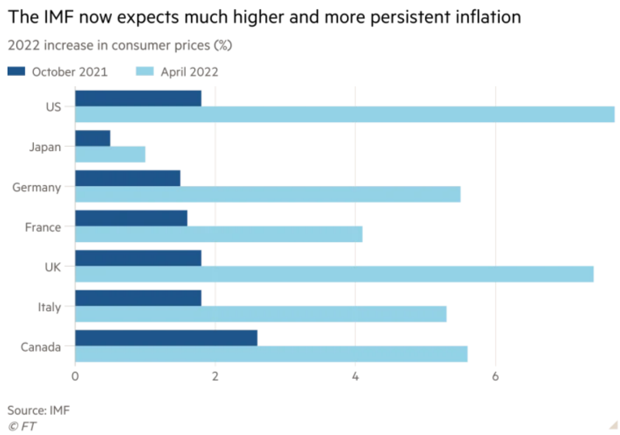
Even Japan which for decades has been marred by deflation is showing rising inflationary pressures, which will be further boosted in coming months by the rapidly declining JPY. Among the G20 nations, which by their own advertisement *"represent more than 80 percent of world GDP, 75 percent of international trade and 60 percent of the world population"*, the majority already suffer consumer price inflation (CPI) exceeding 5%, resulting in meaningful purchasing power depreciation, as evidenced by US real earnings in the graph on the right.



Thoughts from the Frontline, 23APR2022

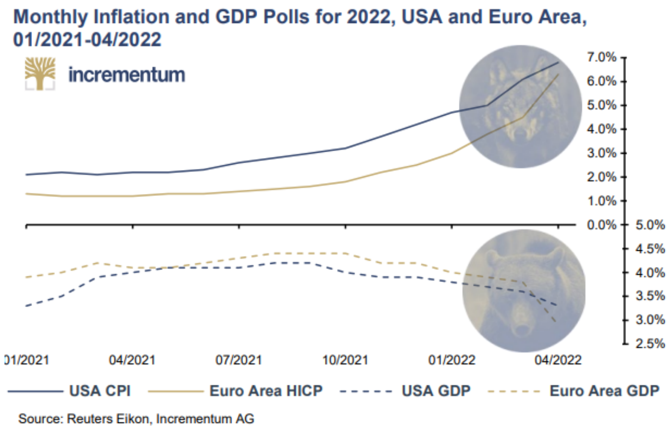
Since inflation can generally be regarded as a "tax" on all expenditures, growth rates have been cut accordingly. April IMF forecasts not only saw a wide reduction in GDP growth estimates for 2022, but also an even more pronounced hike in the 2022 consumer price inflation outlook.



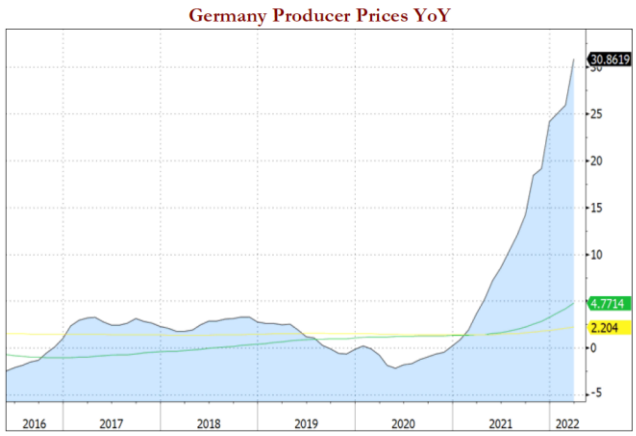


Financial Times, 19APR2022

This is the recipe for what my esteemed colleagues Ronni Stoeferle and Mark Valek have dubbed **Stagflation 2.0** in their just released In Gold We Trust Report 2022. Stagflation is known from the 60s and 70s, when this amalgamation of the words Stagnation and Inflation was first coined by British politician Iain Macleod. There was a third element to the original definition, which is high unemployment, that is currently still missing, but is not hard to imagine making an appearance in the not-too-distant future.



In Gold We Trust Report, 2022



Source: Bloomberg LP

In my view, we have thus transitioned into a new period that is marked by persistently higher inflation, which after all is a (secretly desired) feature rather than a bug of current economic policies, as it helps to lower the real (as in inflation-adjusted) burden of government debt. Just have a look at German Producer Prices and tell me you disagree... – And history has proven that when fiscal policy takes over the baton from monetary policy it leads to inflation.

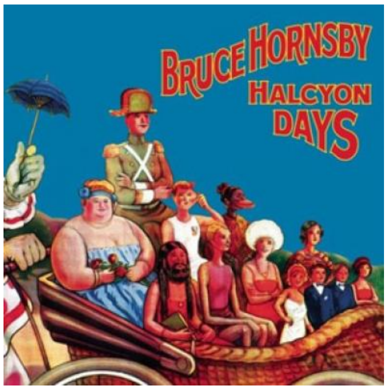
Of course, most market observers now fret over slower economic growth, which is almost inevitable given how the sudden spike in inflation has butchered the purchasing power of our currency. The speed at which this has happened means that adjustments have yet to be made, which is why I have titled this report "*Fallen on hard times*", recalling Jethro Tull's 3rd song on their 1982 album "*The Broadsword and the Beast*". – Personally, I expect that phrases like "*Heat or Eat*", which catches the gist of the budgetary constraints for lower income UK households, are showing what is at stake politically, and hence expect governments to be eager to help. But given already strained budgets, this may lead to a period of wealth redistribution. This in turn suggests that the *Everything Bubble* is in the process of deflating, leaving conventional investment mandates woefully unprepared and likely to bear the brunt of this adjustment. This is where we at Incrementum have been making a difference for our investors!

Meanwhile, for those who want to prepare and are keen to go into the details of Stagflation 2.0, as well as the resulting consequences for economy and markets, and in particular gold and precious metals, Ronni, Mark, and their team have once again created a great piece of research that is well worth perusing, not only if one's crystal ball has been failing.

Financial markets 2022 – What the hell happened?

There are so many subjects that I would like to write about, e.g., about what I call "*the revenge of the real economy*", which deals with the fact that for years we have underestimated and taken for granted the seemingly unending supply of cheap commodities, that literally form the basis of modern civilization and all our endeavours. Years of underinvestment and the perceived notion that commodity production is something inherently base and not worth of the attention of advanced economies, have led the world to a point where this is resulting in "*no shortage of shortages*" (see SR, 2022/01, p. 7)

But in light of the extraordinary financial market action so far in 2022, I will leave this for another day. After all, this report is mainly addressing (**IASF** and would-be) investors, and right now my time and resources seem better suited to illuminate What the Hell Happened. (Bruce Hornsby's lament (Song No. 6 on his Halcyon Days album) immediately came to mind, even if he deals with a different set of problems, but both tune and spirit conveyed seem rather fitting – and for the music lovers who have never come across his work, you might find it worth exploring.)



But where to start?

Nikkei 225; Source: Macrotrends

I have managed investor funds since 1989 (and my own savings since the early 80s), so I do regard myself an experienced investor. I recall the rally preceding and the subsequent 1987 Black Monday market crash, when I was a member of the "Börsen-AG" at my Alma Mater, which had the then princely sum of DEM 50k at its disposal. I remember the raging debates we had when the Nikkei 225, which had been soaring all through the 80s at an accelerating pace, scaled unprecedented highs both in price and valuations during the final days of 1989, before going into a tailspin afterwards.

I managed portfolios professionally in 1994, when I encountered my first bond market crisis (aka the Great Bond Massacre). And following my arrival in Hong Kong in 1995, I got full in on the action during the Red Chip Bubble in China, and only barely managed to come out unscathed during the subsequent Asian Financial Crisis.

This was followed by the magnificent dot-com bubble and subsequent bear market, which both lasted about three years around the March 2000 peak and saw equity markets roughly tripling before more than halving again. At the time I assumed this the pinnacle of irrational investor behaviour…

S&P 500 Chart 1997-2003; Source: investing.com

But as most of you will know, only a few years later this was followed by the next big bubble, which was the US housing bubble and subsequent subprime mortgage crisis and Great Recession, which caused the demise of Lehman Brothers and brought the whole financial system to the brink of implosion. I reckon there must be readers who remember me saying that we would probably not see anything like that again in my lifetime… (Incidentally, that period also saw the last major commodity (and shipping) boom, though the timeline was not identical.) - Then came the European Sovereign Debt Crisis, which already began in 2008 and peaked in 2012….

Well, by now you may wonder where I'm going with this. The point I want to make, apart from emphasizing the experiences gained from navigating what in retrospect seems like an unending string of bull and bear markets, is that all investable asset markets are inherently cyclical. And as sure as we see booms, they are ALWAYS followed by busts. And as night follows day investors memories prove short, because the longer the bull run takes, the more they forget about its inherent mean reversion tendency. And the deeper the bear market, the more risk averse investors become, which is why the reversion to the mean is only half of the story of a bear market following the pricking of a bubble. Timing these cycles is tricky, though, as the length of time they take and the degree of heat that can develop both in the bubble stages as well as the subsequent bust can vary greatly. Mind you, I am not saying that this is not more complex than it sounds, which is why Behavioural Finance has developed as a specific field of study on the subject, but there are some basic rules that if adhered to will ensure a satisfying outcome from the investment process.

As far as this latest cycle is concerned, I find myself once again awed by yet another record high level of excessive speculation, which in the end was again driven by retail investors recklessly gambling their funds away in meme stocks, SPACs or crypto (I'm talking about the clearly worthless stuff like Dogecoin) during the melt-up that followed the short Covid-induced risk-off period that was 1Q2021. And like never before it appeared that any kind of valuation connect between financial instruments and their underlying businesses or assets had become completely irrelevant. No wonder, that I felt markets during this period had become a casino, as everything was only about hope, promise and momentum, causing a number of high-profile fundamental (value) fund managers to throw in the towel.

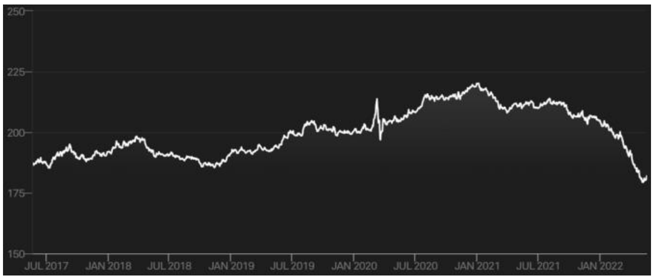
Value fund manager AJO with $10 billion assets to shut business
https://www.reuters.com/article/us-funds-ajo-partners/value-fund-manager-ajo-with-10-billion-assets-to-shut-b...
Oct 14, 2020 ... "Our decision to close is in response to market forces. We still believe there is a future for value investing; sadly, the future is unlikely to ...

Value-focused IVA Funds files to liquidate, close up shop
https://www.investmentnews.com/value-focused-iva-funds-files-liquidate-close-up-shop-203826
March 11, 2021; By Jeff Benjamin; Jeff Benjamin. IVA Funds, a 12-year-old value shop managing nearly $2.5 billion in two mutual funds, filed on Wednesday ...

As investor I shared their frustrations, but it was something that I had witnessed before. And although the madness lasted longer and became wilder and more ridiculous in its excesses than ever before, I knew that eventually Warren Buffet's popular illustration that *in the short run the stock market acts like a "voting machine" (reflecting all kinds of irrational attitudes and expectations), while functioning in the long run more like a "weighing machine" (reflecting a firm's true value)*, would be vindicated.

With the benefit of hindsight, it seems unsurprising that peak speculation more or less coincided with record low interest rates. Low interest rates cause investors to consider more speculative alternatives, i.e., it pushes them out on the risk curve, while also enabling a higher degree of leverage. We have clearly seen this in global housing markets, where the persistent fall of interest rates allowed housing investors to take on larger and larger mortgages with the same servicing budget. And for anyone who has been in the investment management industry for as long as I have, the move out on the risk curve (i.e., taking on more high-risk assets in order to compensate for diminishing risk-free returns) should be glaringly obvious. But now that rates have turned, and not only at the short end where we have only seen the first hikes (if at all) from the bottom, but at the longer-end of the yield curve, where investors have begun to price in an extended period of elevated inflation, trouble is clearly brewing, which in turn explains this year's performance.

To illustrate this, I am showing on the right a 5-year graph of the S&P Global Developed Sovereign Bond Index, which is *"a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by developed countries for their domestic markets"*.

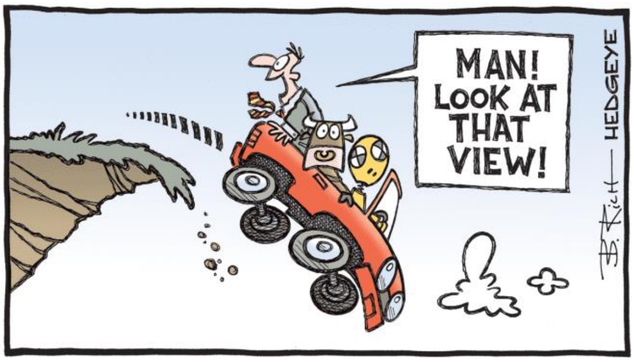


Source: S&P Global Developed Sovereign Bond Index, 20MAY2022

This total return index peaked on 4JAN2021, at 220.17, before beginning its slow but accelerating decline. In 2021, its total return was -6.8% already, which in essence means that the sum of bond coupons earned, and price declines suffered produced already a meaningful loss to bond holders. Bond prices fall when yields rise, so what over 40 years was a tailwind for bond investors, namely the direction of interest rates (here lower interest rates produced capital gains on top of coupons earned), has now turned into a severe headwind. Year-to-date (20MAY2022), this index has lost another 11.3% (i.e., roughly twice the full year loss from 2021), and annualized returns over the past 5 years have turned negative, which will have been very painful for large bond investors.

FTSE Global 100 Index (USD); Source: investing.com, 20MAY2022

Just let that sink in for a moment. A classic "*balanced*" portfolio, holding 50% stocks and bonds each, has until May 20 suffered a market blow (using the before mentioned two indices as benchmark) of 15.4% (before all cost, and absolute, not on an annualized basis). Combined with the earlier described rising inflation trend, this is quite a blow to investors' purchasing power, and I guess it helps explain the reading on CNN's Greed & Fear index.



Source: Hedgeye, 20MAY2022

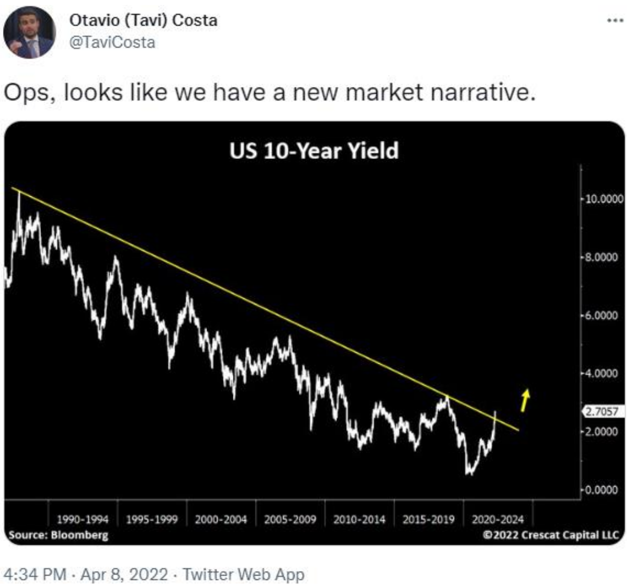
So far, so bad. – Traditional investors were initially probably not too concerned about this, as experience has taught them that bonds and equities have a negative correlation, so if one goes down, the other goes up. And that was true in 2021, when the FTSE Global 100 (equity) Index gained 25.7%. – But wait a minute, so far in 2022, the same index is also down by 19.5%. – What's going on?

Source: CNN Business, 20MAY2022

Overall, however, equity investors still remain relatively relaxed, as even following this year's correction the FTSE Global 100 Index is 68% higher than 5 years ago, representing an 11% annualized return. And I reckon private investors have not bought bonds in years, which makes this setback painful but not yet a reason to panic. – The danger is that they engage in rear-view investing.

What has happened in the stock market seems like a serious correction already, and it certainly is. Yet from a historical perspective, the correction witnessed so far is still not even half of what the typical Ursus Magnus (major bear market) has brought about.

More importantly, investors' behaviour has not yet fundamentally changed, as until recently investors have still been *Buying The Dip*, especially in the old market leaders in tech and growth stocks. Bear markets end when all the selling into any short-term rally is finally exhausted, and we are not yet seeing a *Selling The Rip* mentality.



@TaviCosta, Twitter, 4APR2022

WILL THERE BE MORE BLOOD?

The 2022+ Bear Market in Historical Perspective

Note: The series show the percentage change in the S&P500 share price index from the peak close before each bear market began; the final trading day is the bear market's trough, except for 2022+, which is updated to May 4th.

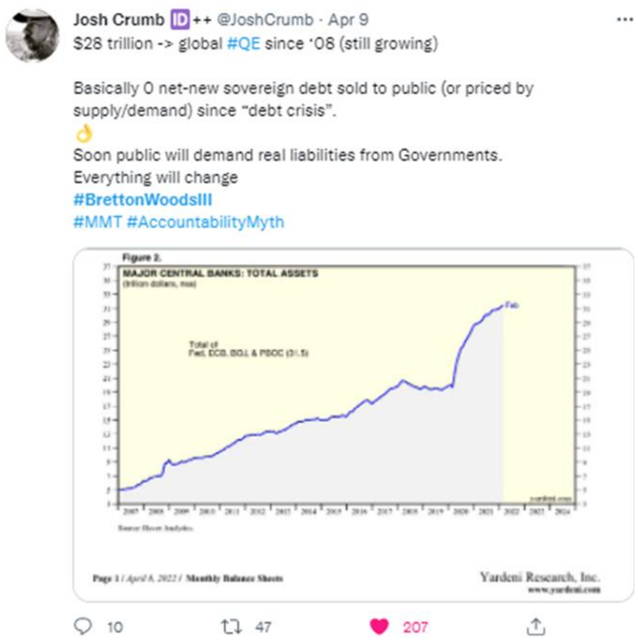
Sources: Calculated from Yahoo! Finance, online at https://finance.yahoo.com/quote/^GSPC/history.

@joefrancis505, Twitter, 12MAY2022

And the headwinds are strong. I wrote already about the importance of interest rates earlier, and the chart on the left shows the importance of the secular trend in long-term interest rates having been broken.

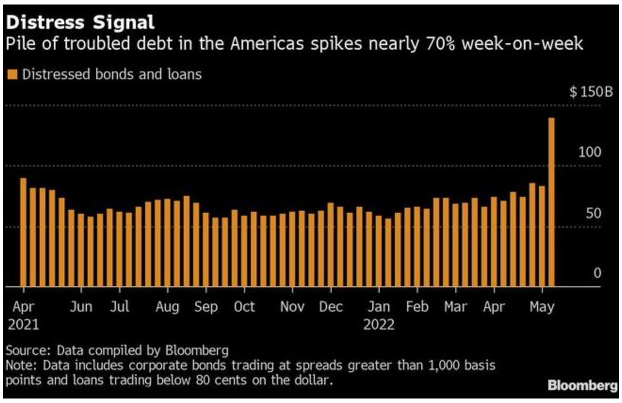
Quite frankly, at below 3% for 10-year US government bonds or 1% for German Bunds, these still qualify as "*certificates of confiscation*" in an environment where annualized inflation is running at above 8% / 7% in the US / Germany. And right now, there are few – if any – observers who expect inflation to return to its former 2% levels. Personally, I still believe the market underestimates how high interest rates will go.

And the reason for this is that we are heading for an end to Quantitative Easing and another attempt at Quantitative Tightening. In other words, global central banks will stop buying government bonds, and at least in the US seem even determined to offload previously accumulated holdings from their balance sheet. As the tweet on the right shows, USD 28 trillion were created out of thin air by central banks since 2008 and used to buy mainly sovereign bonds. Since central banks have zero cost of producing money and are not motivated by profit, they were price-, or better yield-insensitive buyers. In fact, their stated goal was to keep interest rates low(er than they would have been in a free market).



@JoshCrumb, Twitter, 9APR2022

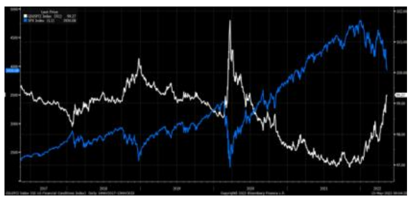
Higher nominal interest rates are a burden to overall demand in the economy, as they raise financing cost, which affects all sectors of the economy. Consumer and credit card debt becomes more expensive and for anyone with floating rate mortgages they can become a serious drain on their budget.

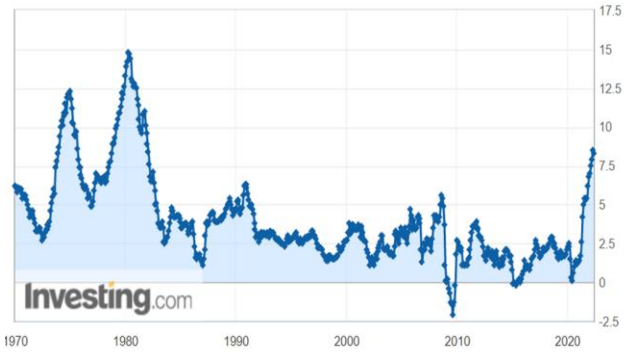


@keyeventrisk, Twitter, 14MAY2022

Similarly, companies will find it more expensive and, in some cases, difficult to refinance their debt. At a minimum this is a drag on profitability, and in the worst cases it could lead to a wave of bankruptcies with all its real economic impact. For now, I view the latter as relatively low risk, as our increasingly interventionist governments will do all they can to prevent this from happening, but profits will definitely come under pressure.

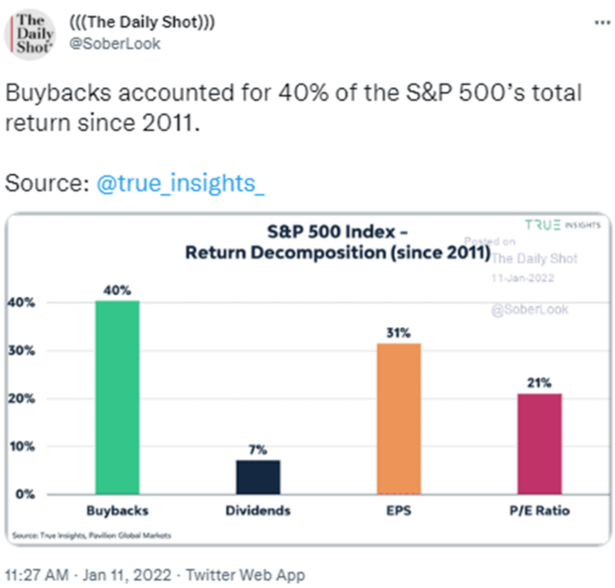
Clearly, financial conditions are rapidly and drastically tightening, especially in the US, while this is so far less the case in Europe. And tighter financial conditions (white line) are strongly negatively correlated with the stock market (S&P 500, blue line), as the chart on the right shows.


@MichaelMOTTCM, Twitter, 13MAY2022



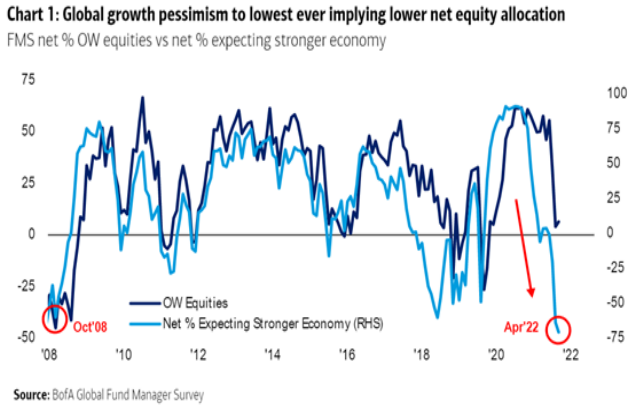
investing.com

Personally, I think we still have some way to go to reach a nominal peak in the global interest rate cycle, and that is bad news for equities, bonds, and ultimately the economy. This view is apparently shared by institutional fund managers, who according to a recent Bank of America survey are currently more pessimistic about the world economy than immediately after the Great Financial Crisis. And yet, they remain overweight stocks, as they can find few alternatives in the bond market.



@SoberLook, Twitter, 11JAN2022

The question is how much conditions will tighten. One of the main arguments in the market for a shallow bear market is that central banks will pivot away from their tightening intentions, as Fed Chairman J Powell famously did in 2019. The difference is that back in 2019 CPI inflation was still oscillating around the 2% level, while it is now above 8% and thus a serious political headache.



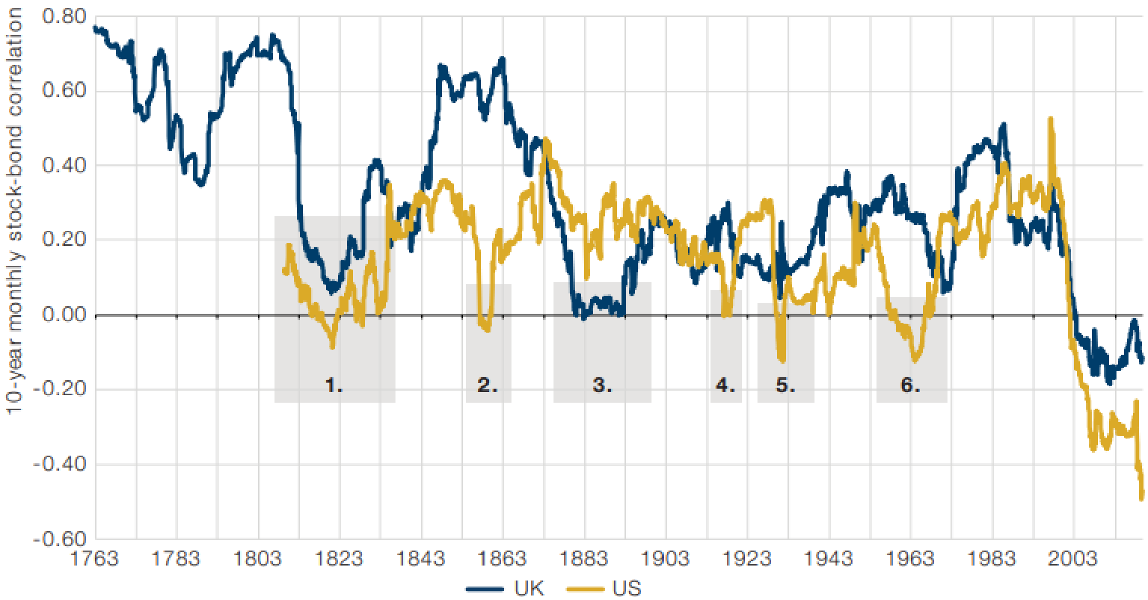
Source: Lead us not into inflation,
by Bloomberg's John Authers, 13APR2022

Many observers argue that equity markets have become cheaper amid this year's price decline. But while falling prices have lowered the nominator of the P/E (Price / Earnings) ratio, the denominator has yet to reflect declining earnings expectations due to the rising cost pressures companies are now experiencing. This will be a tale for the second half of the year, and I doubt it will be pretty.

In addition, slowing growth and falling equity prices usually bring corporate buybacks to a halt, which have been one of the main driving forces in this bull market and will be sorely missed.

So, for all these and many more reasons I expect traditional portfolios to continue to have a hard time going forward, as bond and equity markets have become positively correlated again. – And historically, and as the graph below shows, this has been the norm, while the past few decades were the aberration.

Exhibit 4. Annotated UK and US Stock-Bond Correlations (1763-2020)



1. **UK:** In the 10 years following Napoleonic Wars (1803-1815) UK inflation averages -0.9%. SB falls to 0.06 in July 1821 and stays low through to 1826.
   US: Dragged into the Napoleonic Wars through its conflict with the UK in the War of 1812 (1812-1815). US inflation in the decade following the end of the war is -3.8%. SB falls to -0.08 in October 1921.
2. **US:** 1848-58, inflation averages +0.1%, with prices suppressed by expansion of railroads, annexation of Texas (1845), urbanisation and immigration especially from Ireland in wake of the Great Famine (1845-49). SB falls to -0.04 in June 1859.
3. **UK:** The Second Industrial Revolution (beginning around 1870) suppresses inflation which averages -0.6% between 1871-1893. SB remains around zero from 1881-1893.
4. **US:** SB falls to low of just under zero in July 1917 and stays there through to 1919. Reason unclear.
5. **US:** Heading into the Great Depression US experiences average inflation of -2.3% in the 10 years to 1932, as credit contracts and the Fed refuses to expand supply. SB drops to a low of -0.12 in April 1932.
   UK: Same trend but less pronounced, inflation averages -2.0% with SB falling to 0.04 in July 1931.
6. **US:** Disinflation following considerable inflation during and in aftermath of WW2. Inflation in the 10 years to 1954 averages +4.7% as financial repression is used to inflate away the debt that has been built up through the war. As this is achieved inflation moderates to +1.4% in the following 10 years. SB falls to -0.12 in August 1964.

Data collated from Bank of England, Professor Robert Shiller, Officer & Williamson database, Man DNA team.

Source: Inflation Regime Roadmap, Man Plc, June 2020

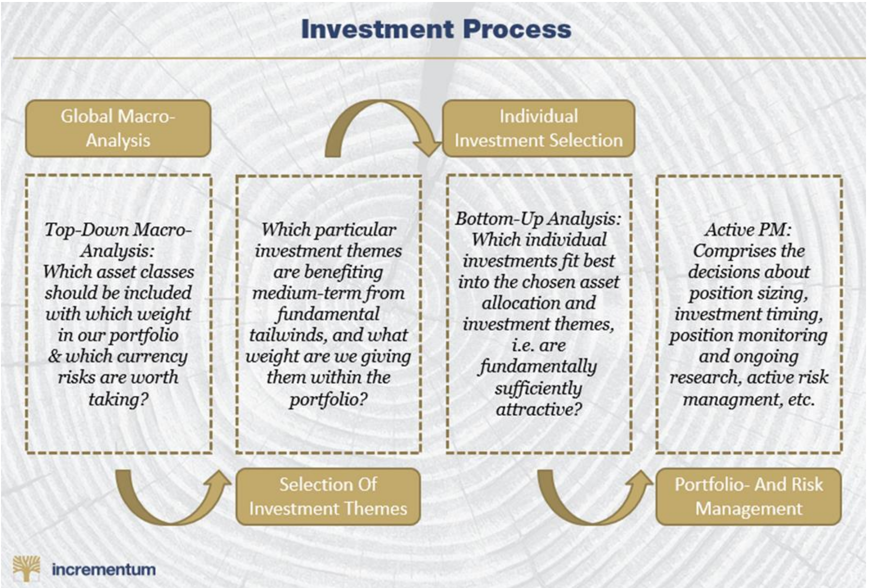
So, this will require quite some adjustment for anyone managing funds, as what worked in the past is likely going to fail going forward.

How has All Seasons Investing coped?

Any investment analysis, views, and outlook included in this document are based upon current market conditions and reflect the opinion of the author. All information was compiled from sources believed to be reliable, but no representation or warranty is made as to their accuracy or completeness. Seasonal Reflections are issued to registered subscribers for information and entertainment purposes only and must neither be seen as an attempt to solicit an investment in individual securities nor in the Incrementum All Seasons Fund. Past performance is no guarantee for future results, and the value of the fund may go up as well as down. If you seek investment advice, please consult a licensed investment advisor, or do your own due diligence.

I am not writing this to lay out a path on how markets will develop going forward. As a matter of fact, I have failed to find anyone (individual or entity) that has been able to consistently do this. And this is the reason why I closed my 8 Investment Lessons, which bring up the rear in each issue of **Seasonal Reflections**, with the following summary: "*There is no magic formula for successful investing: Consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.*"

In a recent attempt to describe our investment process, I have come up with this slide. It shows how our allocation process is guided by our macro-economic observations and outlook, which also help to identify interesting investment themes that may benefit from the observed environment. Our bottom-up investment selections are always driven by fundamentals, as we are value investors at heart.



At the same time, we also have the patience to be contrarian in our views, knowing that the more focus is directed on an individual company, sector or theme, the more efficient the market's pricing.

But most importantly, we are active investors who have chosen not to cling to a benchmark, as our aim is absolute value creation and ultimately the preservation and expansion of our investors' purchasing power, which requires first and foremost flexibility in how and where we allocate funds.

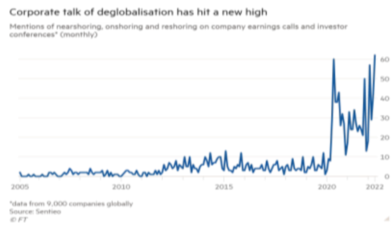
How does this work in practice? – Let's take an example:

Regular readers know that we have long argued that the secular global debt cycle with interest rates at the zero bound and below is very mature, and that the accumulated debt burden will eventually be reduced by a period of higher inflation. That kind of environment favours companies that own hard assets, which in an inflationary environment benefit from faster rising replacement cost.

Most investors think of real estate as a good inflation hedge, but this is a very popular and widely used investment class already and its return potential consequently not very attractive anymore. What attracted us instead to maritime shipping is that shipping companies have similar characteristics to real estate companies, in that they own long-lived capital-intensive assets, financed by a combination of equity and mortgages, which in an inflationary environment will benefit from rising replacement cost for these assets. But their underlying business is far more cyclical in nature, which in itself excludes these businesses from many investors' portfolios.

We, however, do not mind investing in cyclical businesses, as getting the cycle right can mean tremendous return potential over often relatively short periods of time. In addition, shipping (as well as commodity) cycles differ in duration and amplitude, and we saw the macro-environment (rising freight demand and a long period of underinvestment in the shipping industry) as favourable for a longer-term (potentially even "super") cycle.

Among the various shipping businesses, we decided to focus mainly on tanker and dry bulk carriers, while mostly staying away from container shipping. The latter sector we regarded strategically as challenged longer-term by deglobalization, i.e., the reshoring of production, which as the chart on the right shows has become the talk of the (corporate) town.



Financial Times, 23MAY2022

Tanker and dry bulk carriers, meanwhile, we expect to experience long-term growing demand amid the fact that the raw materials they transport are found and produced where they are not eventually needed. In other words, iron ore is mostly produced in Australia and Brazil, who have large deposits and hence domestic supply surpluses, which are exported via ocean-going dry bulk vessels to all those countries in the world that have an iron ore supply deficiency.

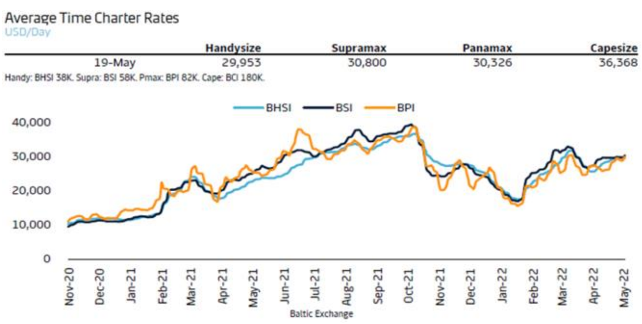
Shipping was thus one of our early investment themes at the launch of the fund, though its overall weight was merely about 5% until end of 2019 and into 1Q 2020. During the latter we increased our tanker allocation, which at the time was set to benefit from the floating storage need that developed following the Covid-related drop in oil demand, but later reduced it again when that bounty had come to an end. We also slowly built our dry bulk exposure. And at times in 2021/22 we even traded small positions in container stocks, which saw tremendous gains amid record high freight rates due to strong Covid-induced consumer demand in the West and the by now well-documented harbour / supply chain problems in China and elsewhere.

ZIM Integrated Shipping (ZIM); Source: investing.com

One example for a container shipping trade is ZIM Integrated Shipping. We established an initial position in June 2021 at USD 40 per share, and in September added to our position by buying a 6-months Call Option at the same strike. We closed our positions in March / April at approx. USD 70 for a return of 75%, while generating an additional 45% of our investment through short-term covered option trading, all within 9 months of holding ZIM.

A longer-term holding has been Belships ASA. I have reported on the background of this dry bulk shipping company with its modern fleet and excellent management before (SR 21/04, p. 19f). We established an initial position in Dec 2019 through a placement of 900k shares at NOK 6.10, and later added through various on-market purchases in 2020 another nearly 500k shares around the same level.

Belships ASA; Source: investing.com



Source: Maersk Broker

As always, we have been trading around our initial position and recently sold nearly a third of our shares as the bull run accelerated and the market has begun to price in the attractive value proposition of the stock. At this point we are retaining just over 1m shares, which by now has quadrupled in price, as freight rates for its vessels have nearly tripled.

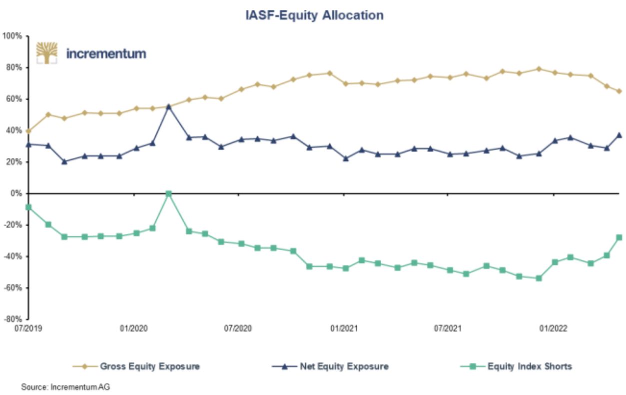
But as the company has already fixed most of its vessels for 2022 and a significant percentage even into 2023 at presently elevated rates, we deem the shares still reasonably priced at their current mid-single-digit P/E and torrents of free cashflow, which we reckon will result in total dividend payments of around 20% of the (current) share price for 2022.

These are merely two examples. Our overall shipping book currently (as of May 20) consists of 17 individual holdings, i.e., the average position size is just 1.14%. This is due to the fact that we often ease into new positions with 0.25% or 0.5% exposures, while using further price weakness or the sale of put options (depending on the size and market liquidity of the company) to further build out our position, and when we exit, we do this gradually as well. Hence our smallest position, Avance Gas, is currently only 0.25%, while Belships is currently our largest with 3.22%, despite of selling more stock last week and the week before.

I also want to emphasize that a lot of **IASF's** value is created by selling covered options. On our shipping book alone, we generated option premium income of approx. EUR 600k over the past year, while on our energy holdings, we generated well over EUR 1m. Total (net) premium income since April last year was slightly over EUR 3m. As we are only allowed to sell covered options, this not only helps us to generate additional and meaningful income from our investment portfolio, but also to sell high and buy low, which is always a value investor's delight.

I also want to comment on our risk management via derivatives. Whether it is foreign exchange forward contracts, which help us to manage our overall foreign currency risk for the **IASF's** EUR based investment portfolio, or the use of equity index futures to temporarily reduce overall equity market exposure in the portfolio, this is part of our active management approach. The former makes sense as exchange rate fluctuations can be a meaningful contributor to both return and risk. For most of last year and into 2022, **IASF** had a large unhedged USD exposure, which over the past months has been gradually lowered, as we feel that most of the Dollar's ascent in this cycle is behind us.

Our current Nasdaq 100 and S&P 500 short index futures positions held back performance last year but have added value this year. Potential investors sometimes query whether these are strategic positions, which they are clearly not. We use them as tactical positions to express our view about overall market valuations, the state and dynamic of which we have laid out earlier in this report.



As the graph above shows, we briefly closed all short positions during the 2020 equity market Covid-lows, but then quickly rebuilt them to reduce overall market exposure when equity markets rebounded in another speculative frenzy. Our main reason was to eventually benefit from the anticipated growth to value / hard asset rotation, which has materialized spectacularly this year. And as both indices have fallen over the course of 2022, this has lowered their overall portfolio weight, a process that has been helped by a combination of strong fund performance but also new fund inflows this year. We also recently closed part of our Nasdaq short position, which has helped to bring our overall short exposure from 54% at year-end 2021 to currently 28%.

We believe that broad equity markets may be due for a short-term bounce or consolidation, which is why we also have begun selling put options on our remaining short positions, in order to earn additional premium income for the fund.

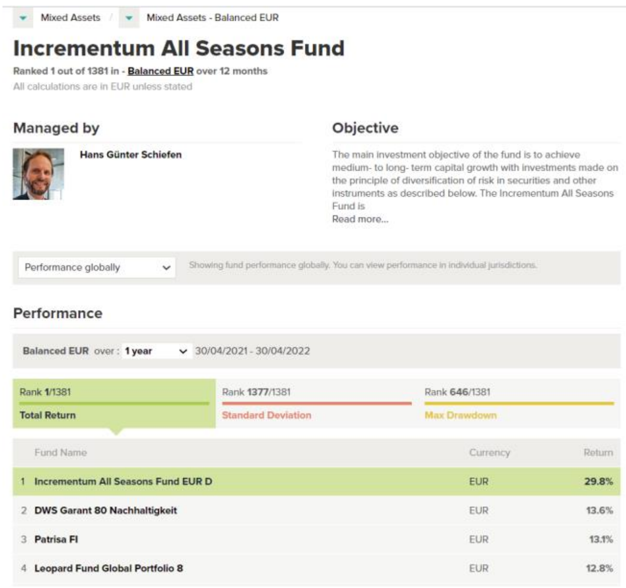
Overall, however, our allocation continues to be characterised by a sceptical and cautious attitude towards equities and bonds, which satisfies our total return approach.

IASF has been raking in a rich harvest

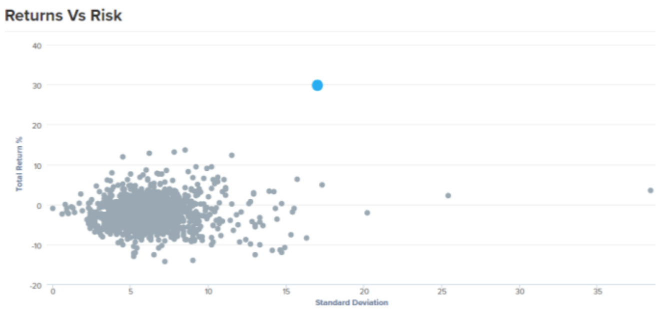
Our investment approach has worked out extremely well so far, but in particular this year, as the growth to value and hard asset rotation has been accelerating. Year-to-May20 and as the table below shows, **IASF** has delivered returns of well over 30% for investors, while annualized returns since launch in June 2019 are around 18%.

	USD-I	EUR-I	EUR-R	CHF-I
Latest NAV:	**167.56**	**162.42**	**158.72**	**159.05**
May Performance:	4.64%	4.71%	4.69%	4.64%
2022 Performance:	**34.76%**	**35.45%**	**35.24%**	**34.40%**
Since Launch p.a.:	19.08%	17.83%	19.05%	17.00%

We are very proud of this achievement, and glad that this has allowed us to amply reward our early investors, who had the faith to back me as fund manager in this new venture. Needless to say, **IASF**'s results so far are increasingly attracting attention of the financial services industry, and I am extremely delighted that **IASF** has been rated the best performer over a 1-year period out of 1381 global peers (in the *"Mixed Assets, Balanced, EUR"* category) by *Citywire Selector*. I am looking forward to finding out the 3-year results by mid-year, which I expect will confirm an overall top ranking for **IASF** versus its global peers.



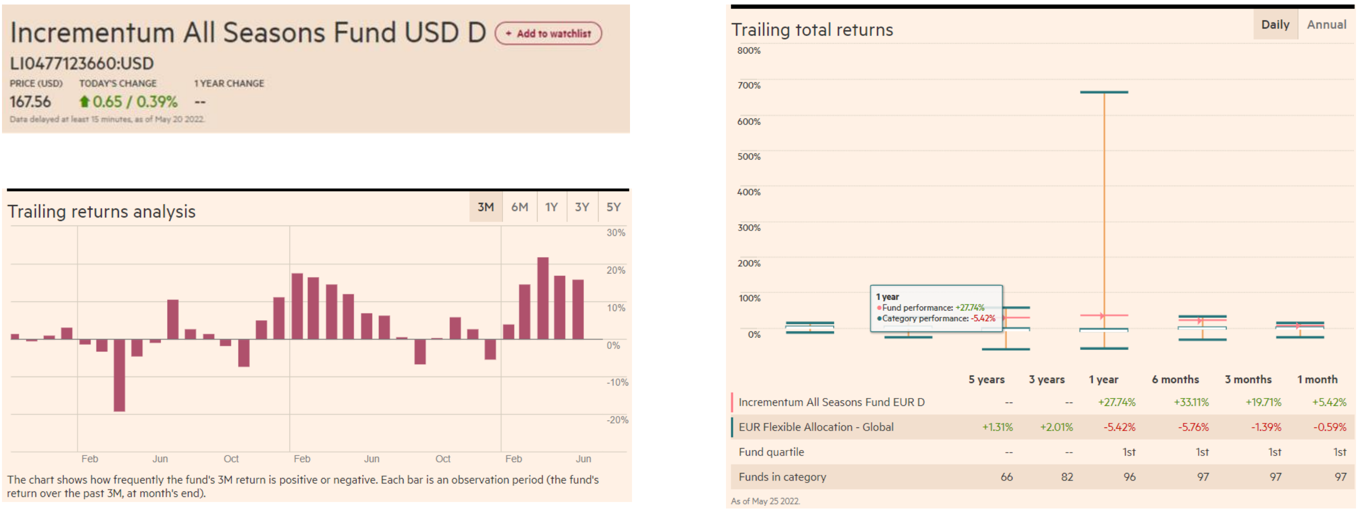
Source: citywireselector.com, results as of 30APR2022



Source: citywireselector.com, results as of 30APR2022

It is only fair to point out that the same ranking lists **IASF** at the bottom of its peers as far as standard deviation, i.e., the commonly used investment risk measure is concerned. But for long-term investors I believe this will be less of a concern, as shorter-term fluctuations are the price one pays for long-term returns. It is also far less of an outlier as the ranking suggests.

Besides, it is worth noting that in terms of maximum drawdowns, **IASF** is in the middle of the pack, so clearly the fund overall has an attractive risk-return profile. This is also confirmed by the fund's Morningstar ranking, as displayed for example in the excellent Financial Times Markets Data section.



Source: Financial Times, 25MAY2022

We are very much looking forward to three-year ratings becoming available in July, as June 2022 marks the third anniversary of the launch of **IASF**. But in the end these rankings must be taken with a grain of salt, as the majority of funds in this day and age is managed (quasi-) passively, which makes it very difficult to avoid being tagged along in overall market fluctuations.

Of course, this always works both ways, which also made it so difficult to keep up with the competition during the boom period. Personally, I guess the industry just hopes that the global asset bubble will keep expanding. This is not what I believe, and why I am convinced that our own active, flexible, and adaptive approach to managing our investors' funds will prove superior in the long run. Ultimately, I will be responsible to prove this, and I invite anyone who has questions about our investment approach and is interested to join us in the All Seasons Investing journey to approach us directly.

closing remarks

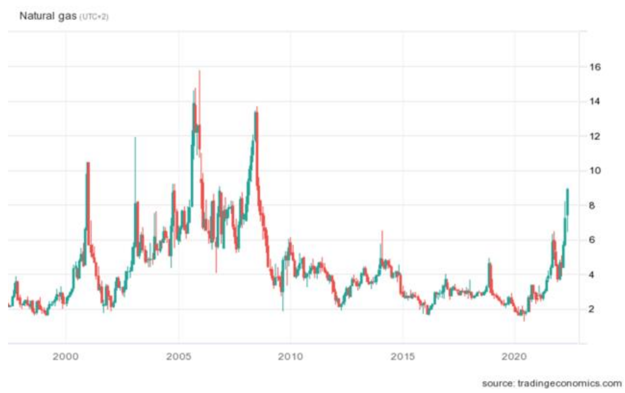
As always, writing my Seasonal Reflections has taken quite a bit more time than I anticipated, and amid my main task of fund management, and increasingly talking to (potential) investors, I hope the result has not become too fragmented and you have enjoyed reading it.

I have decided to no longer include a detailed portfolio review section, as this is what our monthly factsheets and management commentaries are for. If any investor misses a more granular discussion of **IASF**'s portfolio, please feel free to approach me directly.

The state of the investing world is still rather unsettled in late May 2022: Russia's war on Ukraine is continuing in its destructive fashion. China continues to cling to its zero-Covid policies, in the process locking away large parts of its urban population, which is not only bad for domestic sentiment, but also disrupts global trade flows further. Meanwhile, the economic growth outlook for advanced economies is rapidly deteriorating, and the prospect of a recession is looming into view.

At the same time, there is no letting up in the rise of commodity prices. Oil prices are well above USD 100 and despite of reduced speculative positions, it seems every dip is being bought.

Crude Oil WTI, tradingeconomics.com, 25MAY2022

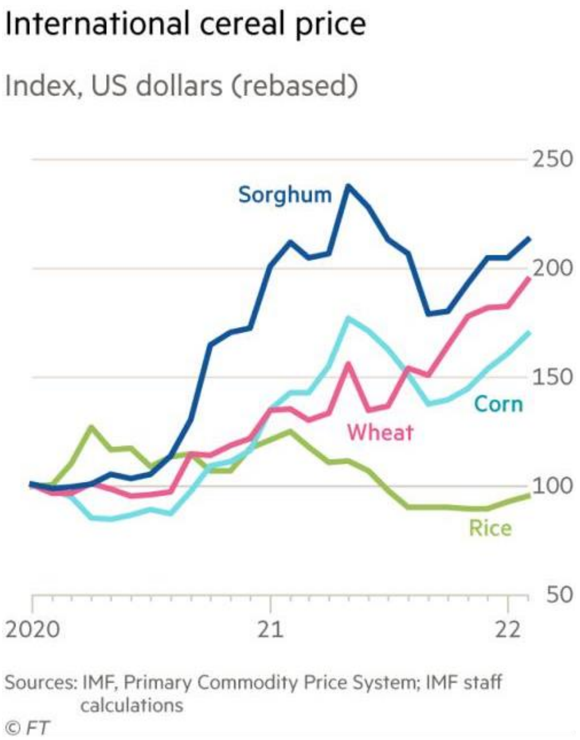


US Natural Gas, tradingeconomics.com, 25MAY2022

Natural Gas prices in the US have gone from USD 3.73 at the end of last year to more than USD 9 right now. Though this is the highest since 2008, it is still well below European or Asian prices.

And since **Energy Is Life** as a green chicken (aka Doomberg) has reminded us over the past year, global food prices are soaring as well. Growing food protectionism is a natural consequence, as I was reminded today when I read that India, the second largest sugar exporter in the world is capping its sales in order to safeguard its own supplies. This comes following a curb on wheat exports earlier this month. According to Fitch, 30 countries have now taken steps to restrict food exports since the start of the war in Ukraine. (Source: Bloomberg News, 24MAY2022)

More and more countries will find it impossible to pay up for what advanced economies can pay for basic commodities like food. So, while we may be complaining about rising prices in Europe, somewhere else on the globe there will be plenty of people with no alternative to starving.



Financial Times, 20APR2022

@ONEAftershocks, Twitter, 12APR2022

Meanwhile, after a break of two-and-a half years the world's (2500) political and economic leaders have jetted again to Davos for the World Economic Forum, where they will (wine, dine and) discuss the economy and climate change, so I reckon things will turn for the better soon…

"Folks, I continue to be of the opinion that an on-coming recession will be on the back of the energy crisis. Simply tapping into emergency stockpiles of gas and diesel doesn't solve the problem entirely. In fact, it makes it worse.

It should go without saying that I am a huge proponent of efficient, sustainable energy. But forcing policies for renewable infrastructures in expedited fashion, as we are getting, is coming at a cost. We need clear and transparent energy policies. The formation of a Climate Justice League backed by nimbyism isn't a strategy. Its more kindling to an ever-growing fire. This is what a "real" Justice League looks like."

Source: Mining Stock Daily Extra, 24MAY2022

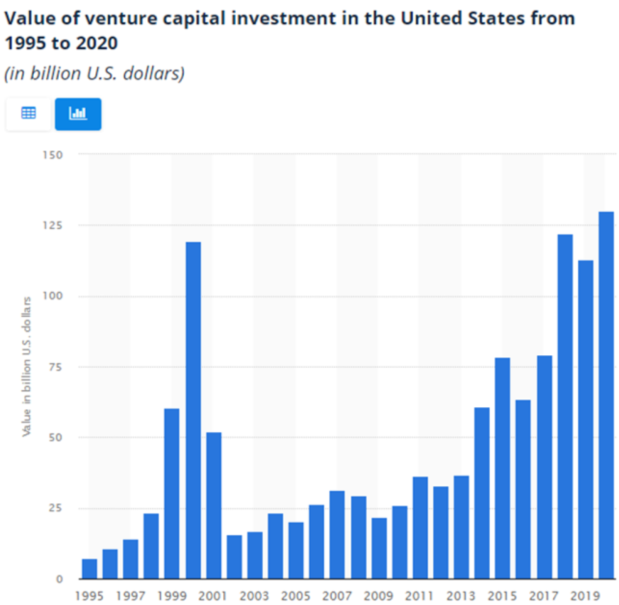
Indeed!

Global financial markets have continued to be rattled in May, and amid rising commodity prices the growth-to-value/hard asset rotation is in full swing. That we are still early on in the process is shown by an ongoing tendency to buy the dip in (mega-cap) growth stocks (accompanying chart of Snap Inc, inventor of social media app Snapchat, notwithstanding).

SNAP price chart, investing.com, 25MAY2022

And I am not surprised by this. Investors at the turn of a market cycle always cling to the familiar recipe for success, an experience I also made when the 2000 tech bubble burst. After all, when companies that were proven (stock market) winners lose 30%, this always appears such a tempting bargain. But one should bear in mind that Microsoft grew steadily for 15 years following its 2000 stock market peak, while its share price plunged two thirds and then went sideways during that whole period.

This phenomenon is also due to the enormous fund inflows the sector has attracted, which will take time to work through.



Source: Grit Capital, 25MAY2022

The sheer abundance of capital hunting desperately for the next mega-cap growth stock led to a mega bubble in share price valuations, which helped companies to attract the necessary highly qualified staff. – How? – By offering them very generous stock / option grants.

But when share prices fall, and significantly (for a recent example see above SNAP chart), this at a minimum means that companies need to issue more stock to grant employees a similar nominal compensation package, which in turn more heavily dilutes existing investors. Alternatively, they may have to substitute stock with cash compensation, which as the table on the right exemplifies, may cause a serious hit to operating cash flows.

CASH FLOW IMPACT OF CASH INSTEAD OF STOCK COMPENSATION

Stock	SBC as % 2021 Rev	2021 Reported Op CF	2021 Op CF if SBC Paid in Cash	% Change
Shopify (SHOP)	7.1%	$504M	$173	(65.6%)
Salesforce (CRM)	10.2%	$6.0B	$3.3B	(45%)
Snowflake (SNOW)	49.6%	$110.1M	($494.9)	(549.5%)
Palantir Technologies (PLTR)	50.4%	$338.8M	($439.4)	(229.6%)
Mongodb (MDB)	28.7%	$6.9M	($244)	(3,636.2%)

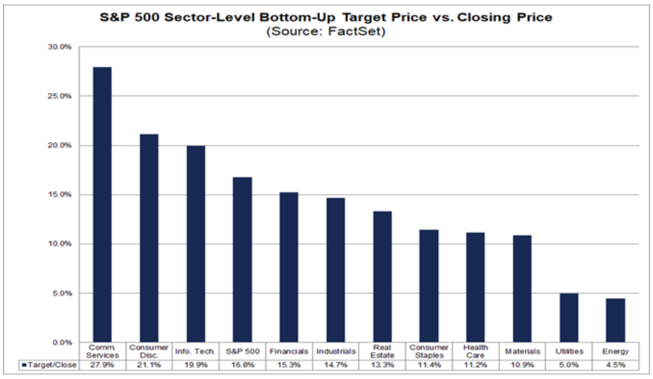
www.empirefinancialresearch.com Source: DuDil.net

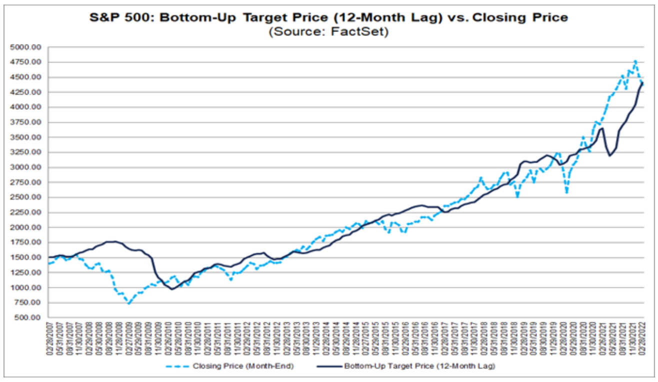
Source: Empire Financial Research, 12APR2022

@SchiefenHg, Twitter, 21APR2022

This is just one of a number of major headwinds that growth investors are now encountering. And they are not helped by the sell side, which as always in this cycle has adjusted its forecasts to suit the share price (targets) of companies under their coverage. A good example has been Netflix, which last month saw its shares tumble by a third amid weaker than expected 1Q numbers and a preannounced 2m drop in subscriber numbers for 2Q. The FT's excellent Unhedged column had a great comment, pointing among other things in its explanation to 8-year (double-digit) forward growth rates that underpin a typical analyst outlook. Well, if that is what analysis in growth stocks is based on then growth investors should be prepared for plenty of volatility.

And investors are neither helped by the extremely rosy long-term growth assumption nor by the favouritism that the analyst community extends to the most popular investment themes. Though already 2 months old, the following quote serves as example: *"At the sector level, the Communication Services (+27.9%), Consumer Discretionary (+21.1%), and Information Technology (+19.9%) sectors are expected to see the largest price increases, as these three sectors had the largest upside differences between the bottom-up target price and the closing price on March 24. On the other hand, the Energy (+4.5%) and Utilities (+5.0%) sectors are expected to see the smallest price increases, as these two sectors had the smallest upside differences between the bottom-up target price and the closing price on March 24."*





Source: Analysts still predict the S&P 500 price will close above 5000, Factset, 28MAR2022

In other words, while the share price of Communication Services, Consumer Discretionary, and Information Technology stocks have fallen sharply, the sell-side is slow in adjusting their share price targets, as these are still the market's darling sectors, and they will certainly recover soon. In the Energy sector, price targets are not adjusted because this is merely a cyclical peak in earnings. – What if it is not?

Financial markets and media are still reacting to the current geopolitical and macro-economic backdrop in the usual fashion: The Fed / Central Banks will not be able to hike interest rates much, but soon be back with more monetary largesse, i.e., it makes sense to buy long-term bonds, while equities are sold. But what if central banks hike further, while fiscal policy supports inflation-pressured demand? – Do investors really want to log-in deeply negative real yields?

Recession angst is rising fast, as signaled by a shift in the choreography between stocks and bonds.

- **What's happening:** A flurry of Wall Street research points out that when 10-year Treasury yields hit 3%, equities and fixed income stopped moving in unison—shares kept falling while bonds bounced.
- **What does it mean:** A pattern in which stocks drop and bonds hold firm often prevails when anxious investors are cashing in risky assets and seeking havens in a weakening economy. It also suggests growth is replacing inflation as the bigger fear.
- **The silver lining:** With the concerted selloff over, at least for now, Treasuries can act as a cushion for investors nursing equity losses.

Source: The Bloomberg Open, 25MAY2022

On May 26, I listened to the latest edition of the Grant Williams Podcast "*This week in Doom*", in which Grant and Doomberg interviewed Bennett Tomlin and George Noble, whose following statement on our current state of the financial economy and markets rang so true:

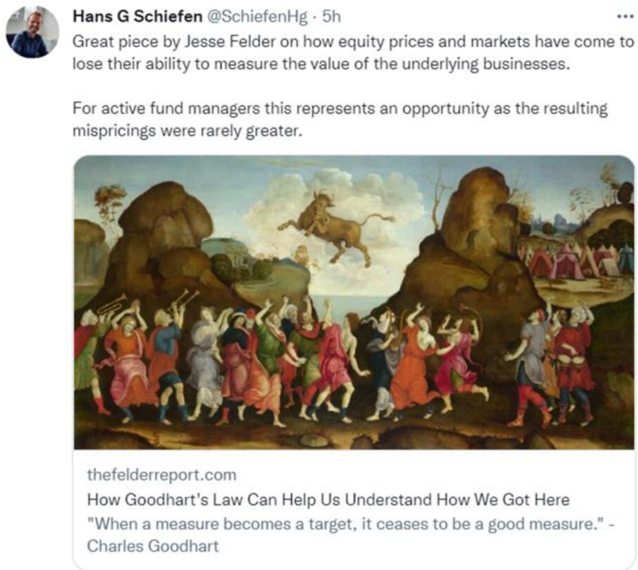
"It's part of this 'fake it til you make it' economy that we're in. I also think about Robinhood and the democratization of finance and the gamification of the stock market. .... They made it a game. It's because of the unprecedented irresponsible monetary policy that we've had. It made it a game.

So what matters is not what the truth is, not what value is, but how much liquidity is in the system. And asset prices to a degree unprecedented have become a barometer of how much liquidity is in the system, not what intrinsically it's worth. An intrinsic worth is not the price that's paid. People forget that. To say, what's an asset worth? Well, is it producing income? Is it backed by hard assets you could sell? Is it liquidation value? It's not the price.

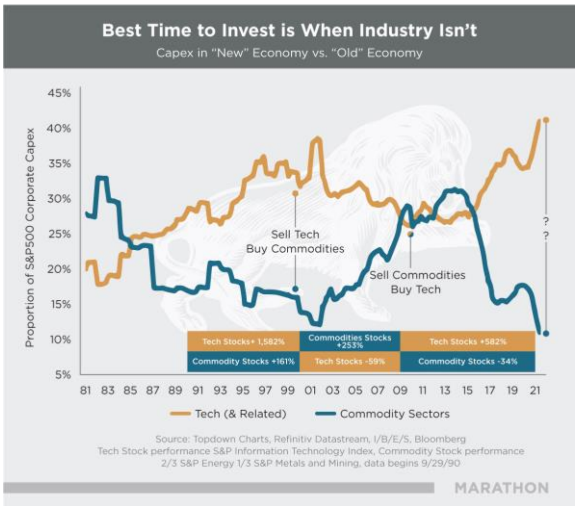
Imagine, we're on the moon, we're just floating around and numbers can be whatever they are. And the numbers go up. … And then you try to speak logic to these people and they look at you like you got three heads. And so, I think what's happening now is we're beginning to normalize, the air is coming out of the tires and all the most hyper liquidity driven assets. Be it fanciable technology stocks that are on 50 times sales or SPACs or crypto, they're all coming back to earth.

*And as Andrew Smithers once … famously said, "*the role of a bear market is to return capital to its rightful owner*". That's what we're seeing. And so, my view is, and I'll stop. That investors are going to get an education. The only question is how expensive will that education be? They can study their financial history and realize it's nothing new under the sun, Charles Kindleberger, please call your office. Or they can get the more expensive education and get their heads handed to them which unfortunately seems to be the way too many of these people are proceeding."*

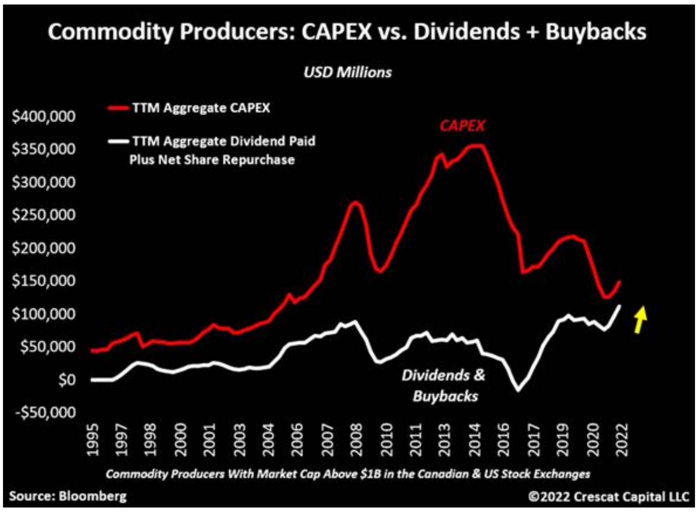
Of course, only time will tell whether the negative stock / bond correlation has turned positive as I proposed earlier. As it will tell whether this crazy *Everything Bubble*, which Jesse Felder in his blog post subject to the accompanying tweet refers to, has finally and unpatchably been pricked. For now, I am convinced it has, but I will closely follow the evidence. And until I am convinced otherwise, I will keep my investment focus on the long neglected old economy, which of course also includes the commodity sector, and which does not only make sense from a cyclical (see chart below on the left) / contrarian stance, but most importantly from a fundamental point of view.



@SchiefenHg, Twitter, 25MAY2022



Source: @MRAfunds, Twitter, 15MAY2022



Source: @TaviCosta, Twitter, 17MAY2022,

As the chart above on the right shows, resource companies, similar to shipping and other old economy companies, instead of increasing capital expenditures have opted to rather return capital to their investors, which is definitely not a sign of a cycle peak.

Hence, we remain comfortable with our current focus on value and hard assets as far as our equity picks are concerned, while we will remain nimble and flexible in adapting our overall allocation to the turbulent weather in the current market season. And despite of a fantastic year so far, I am convinced we will enjoy tailwinds for far longer than investors can currently imagine.

As always, I welcome readers' feedback by e-mail, and sincerely thank you all for your interest and our investors for their trust and support.

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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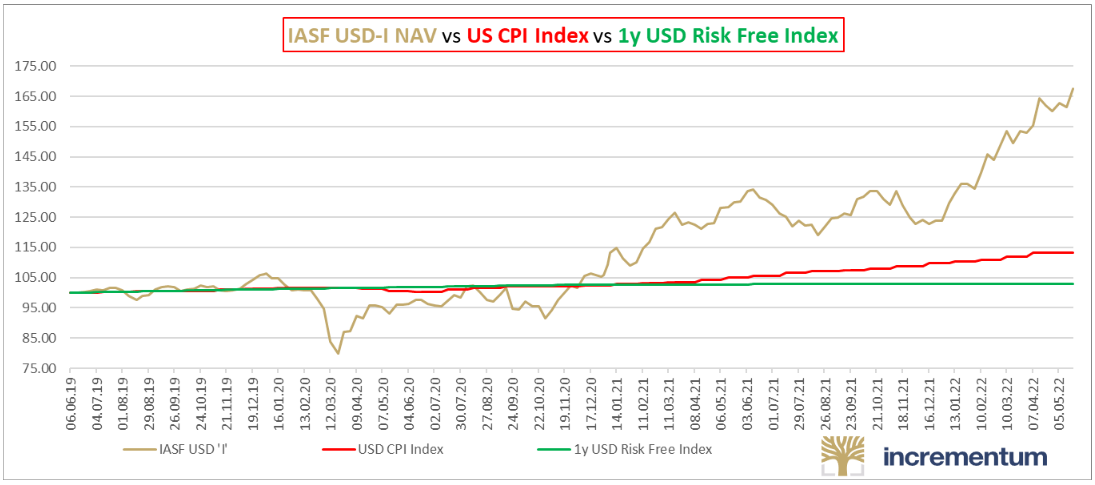
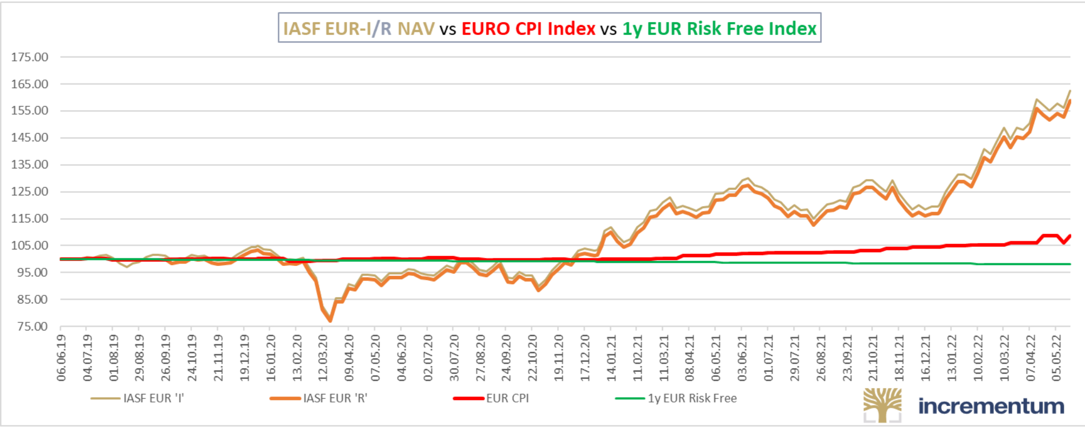
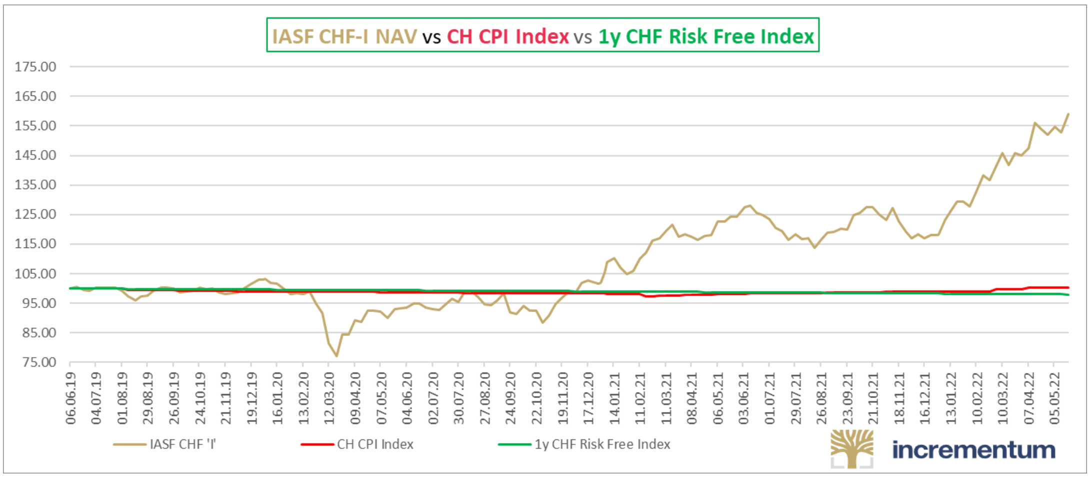
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**20MAY2022**), compared to the respective risk-free 1y-government yield, as well as the relevant CPI Index in respective currency as a proxy for the loss of purchasing power from the start of the investment period (6Jun2019 for 'I' shares; 26Sep2019 for EUR-R shares) on an indexed basis.

IASF PM Shaped By 8 Investment Lessons

1. Capital markets, like the economy, are inherently cyclical in nature, and you must always know where you are in the cycle, while not hesitating to "Be fearful when others are greedy and greedy when others are fearful." (Quote: Warren Buffett)
2. Prices paid determine future returns, i.e. the higher valuations are, the lower future return expectations must be (and vice versa), which is the essence of value investing.
3. Capital preservation is the conditio sine qua non, and a consistent and long-term investment strategy is more important than short-term momentum chasing.
4. As a result you must always know when you trade, or when you invest.
5. The most basic and effective risk management tools are proper diversification and the ability to hold cash.
6. Hard assets are preferable to intangibles, distributions to accruals.
7. Look for the incentives: True alignment of interest works in investors' favor.
8. There is no magic formula for successful investing: Consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.

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