Commentary for the third quarter of 2016

What happens when whatever it takes becomes subject of academic discussions and monetary policy is perceived more and more as insufficient?

We saw a lot of hesitation by the ECB and the Bank of Japan to extend QE and NIRP. The Fed for its part has again postponed hiking rates, despite a lot of verbal interventions.

Why?

Is it because after more than two decades of such policies in Japan, it is overdue time to draw some serious conclusions?

Is it because euro zone banks are still undercapitalized, at least in Italy and Germany?

Is it because Greece is still insolvent anno 2016?

Is it because the low growth in the euro zone has maybe more to do with the relaxation on budget deficits than with low rates? And how is that sustainable?

Is it because even in the US with reasonable growth and quasi full employment, common people are still discontent and calling for less inequality? Is the American dream over and will the American empire fall like Ancient Rome in the near future?

Is it because capital flight and yuan devaluation are real risks, for China to negatively impact on world growth?

Is it because the evil forces of terrorism and war mongering are overpowering normal economic growth forces?

Is it because so many important but uncertain political elections are freezing economic endeavor on an individual and corporate level?

Is it because the absolute level of debt (see recent alarmist IMF report 'Debt: Use It Wisely') made it evident that either debt will deflate through some combination of default, inflation and currency devaluation or that rates and growth will stay lower for longer, if not forever?

Is it because regulation and taxation are becoming a life threatening disease for world growth?

More and more market observers are denying that a form of status quo is possible in the coming years. The use of the phrase 'the Endgame is near or here' is expanding rapidly.

Do not expect central banks to admit failure of their economic models or the policies based thereon. They are mortified that such a confession would see them lose control of the debt markets. A Chaotic rate normalization would be the consequence. Currencies and valuations would experience tremendous volatility. Bubbles and economic distortions would implode rapidly. Social benefits and pensions would rapidly become worthless.

We called the Endgame a worldwide financial reset and see it as inevitable. The more we approach it, the more the markets become distorted, adrift and unpredictable. New correlations form between sectors and assets. Flash crashes and emotional ups and downs become frequent. Bonds and equities can now decline together. Hedge funds are quitting the market in mass. Collectively hedge funds are under-delivering. Active management is losing out against the returns of passive management. ETFs flourish but this creates further market instability risks.

So expect only lip-service from central bankers to "whatever it takes" in the future. The only real tools they have available now is 'verbal intervention' and the slow hiking of rates for the US and tapering for Europe and Japan. 'Nolens volens' real market focus will push the actions of central bankers reactively. The phase of proactive monetary interventions is over. We are in a transition.

Central bankers are already using a scape goat: we did what we could, now fiscal policy has to take the relief. They mean deficit spending for infrastructure, as private capital seems too insecure to invest. This is the new academic precept labeled as helicopter money.

But be aware that big government spending programs have a bad track record of under-delivering. They also have the reputation of flawed capital allocation and are an open invitation to more corruption and favoritism.

We think that slow, low productive growth rates will persist in the world economy. We see the debate slowly evolving, from a deflation to inflation debate.

Inflation because higher rates at this point will make the banking system use the surplus capital, currently deposited at the central bank, gradually towards lending it to the real economy.

Inflation because of anticipation attitudes from consumers and corporates, hurrying things up before rates become prohibitive.

Inflation because higher regulation, taxation and complying costs, coupled with climate change matters will push productions costs up structurally in the near future.

Inflation because energy prices have bottomed and risk to rise towards $60-70 per barrel in 2017-2018. Underinvestment in exploration and capacity after the downturn and crash in recent years will be on board against further inroads of electrical motorization in the transportation sector.

Past lack of investment in the metals sector will also affect commodities. If government plans to boost demand even a bit in the margin, prices should rebound as well.

If climate change is as urgent as stated, then the risk towards food inflation from current low levels is also real.

Wage inflation is beginning to show up in the US, already at 2.7% on a 12-month basis. But it will appear worldwide, even in a slow growth environment, as the discontent of the common people will have to be bought off.

Currency induced inflation is also to be expected. We can already see it in the post-Brexit-vote British economy, even before art. 50 is invoked. If the coming votes in the euro zone continue to surprise main stream, the euro could also see sharp movements.

Only if recession breaks out globally, can we still see a period of further disinflation. If that would manifest itself, wouldn't there be a bigger government stimulus in response, again inflationary in nature?

As inflation takes hold progressively, central bankers will be behind the curve, constrained by high debt levels.

Such an environment will be a positive for precious metals and the resource sector in general. Some emerging markets and some equity sectors will also profit.

Bonds are to be avoided.

What is the risk to this scenario? Mostly time, as there will pass time before 'helicopters' will receive their mission statements. The US and India seem to be the first important regions to see government in action. Think Jan-Apr 2017 with a new congress and a new president in the States. For Europe, Brexit and the banking sector will divert the attention. New elections will make a broad based euro zone program possible only towards 2018. Japan is an open question. China is more a stop and go case, as they will at the same time continue to restructure their old economy sectors and are at the same time aiming for a real estate financing bubble implosion in a controlled way.

Beside time, geopolitical turmoil could also invalidate our scenario at any moment. The Obama administration seems to provoke Russia constantly. Even cyberterrorism, like hacking, is now defined an act of war by Washington. Should a real war explode, the euro and the euro zone would clearly be collateral victims.

So we will focus intensely on inflation data in the coming quarters. The surprise can be to see the dollar and gold rise together at some moment. Indeed, as so much uncertainty and fear begins to steer the markets, we can see a prolonged period of risk-off, at least until it forces the Reset. Once the lowest risk assets, US treasuries, are no longer a safe haven, gold and the dollar can begin to rise together.

We are not in this phase yet, we are still in a transition, but early signs are already visible.

written by our analyst Marc Syx,

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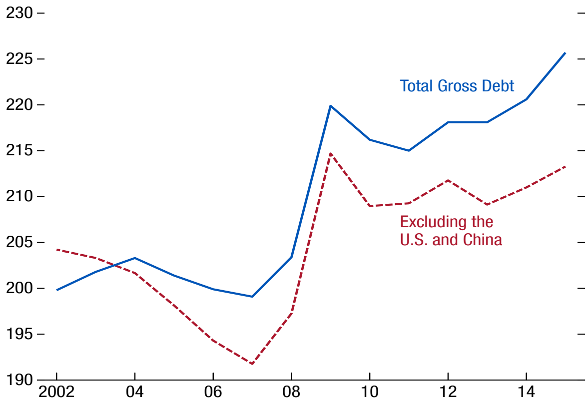
Some excerpts from the recent IMF report 'Debt: Use it Wisely, Fiscal Monitor, Oct 2016'

At 225 percent of world GDP, the global debt of the nonfinancial sector—comprising the general government, households, and nonfinancial firms—is currently at an all-time high. Two-thirds, amounting to about $100 trillion, consists of liabilities of the private sector which, as documented in an extensive literature, can carry great risks when they reach excessive levels.

Figure 1.1. Global Gross Debt
(Percent of GDP; weighted average)



Sources: Abbas and others 2010; Bank for International Settlements; Dealogic; IMF, *International Financial Statistics*; IMF, Standardized Reporting Forms; IMF, *World Economic Outlook*; Organisation for Economic Co-operation and Development; and IMF staff estimates.
Note: U.S. = United States.

New empirical evidence confirms that financial crises tend to be associated with excessive private debt levels in both advanced and emerging market economies, but high public debt is not without its risks. In particular, entering a financial crisis with a weak fiscal position exacerbates the depth and duration of the ensuing recession.

It is clear that meaningful deleveraging will be very difficult without robust growth and a return to normal inflation, but what can fiscal policy do to facilitate the deleveraging process? The path toward strong growth in those countries mired in a debt overhang may require decisive and prompt action to repair the balance sheets of banks—a clear priority in some European countries—and the private sector, notably nonfinancial corporations in China.

If bank recapitalization is necessary, it should be carried out swiftly, with the private sector taking the lead.

However, fiscal policy cannot do it alone; it has to be supported by complementary policies within credible frameworks. More specifically, monetary policy should remain accommodative in those countries where inflation is still well below target, while financial policies should provide incentives for banks to recognize losses and facilitate balance sheet repair.

Performances for September 2016

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	+1.1 %	+32.9 %	€12,183.55
iW Alternative SIF – Commodities & Gold Equities	I	LU1244155518	+4.6 %	-9.7 %	€ 902.79
	P	LU0762436201	+4.5 %	+135.5 %	€ 606.72
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	+2.4 %	+72.1 %	€ 94.46
	P	LU0762436110	+2.4 %	+71.6 %	€ 91.73
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	+1.4 %*	+21.4 %*	€ 1367.35*
	P	LU1071456054	+1.4 %*	+20.9 %*	€ 1260.35*
iW Alternative SIF – Apis Resiliens	I	LU1372145638	+0.1 %	-0.3 %	€ 996.76
	P	LU1372145802	-0.0 %	-0.7 %	€ 992.97
	Q	LU1372145984	-0.0 %	-0.4%	€ 995.84

** The offical NAVs for Apis Lucrosa are only available on the 16th of each month so the figures given are based on our best estimates and could differ from the actual official NAVs*