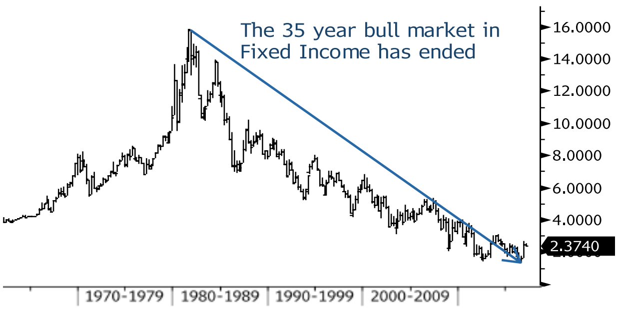
Commentary for the fourth quarter of 2016

After 2016, the T-year, will 2017 become the I-Year?

T stands for Transition Year, for Treasury Top and only in the margin for Trump, to explain what happened to financial markets in 2016.

Maybe you link the T with the Trump election. Though it was the big media event of 2016, the effects on markets were mainly post-election day. A vague of optimism that Trumponomics will push the USA to greatness again, pushed the dollar up, gold and bonds down and gave a glimpse of the big rotation from fixed income towards equities. Fed rate hikes, minimum two, maybe three, became a 'sure bet' for 2017.

In our vision the election of Trump has only accelerated a 'Transition' already in place. Slowly during 2016 it became accepted that the 35 year old bull run in treasuries is over. With full employment and a growth rate above 2%, the Fed is now believed to start hiking rates for real. Even oil prices have now become a tailwind for stopping deflation fears. Commodities and precious metals seemed to have bottomed out and a general risk for higher PPI and higher wage growth is perceived.



As our Transition Year comes to an end, we see 2017 as the year inflation (fear and real) becomes the market focus.

If the Trump presidency will have influence, it will be to possibly push the inflation theme stronger and more rapidly to the forefront. But until his inauguration and his first laws pass through Congress, we cannot take campaign promises for granted.

Without Trump, the US economy is just in its last stage of the current prolonged business cycle. (Prolonged due to the new-normal Fed policies of the last decade.) This stage is always characterized by creeping up inflationary pressures. This time we can also count on the Fed to help create more inflation. Rate hikes, especially after coming from the zero level, are inflationary. Now even more as the surplus capital created by QE experiments will now gradually leave the vaults of the Fed. This capital will now transit to the real economy where the credit multiplicator will do its normal work. Indeed, US banking shares will be leaders in the equity market as they begin to use their surpluses deposited at the Fed to lend to the real economy at ever expanding margins every time the Fed hikes. Rate hikes will benefit Main Street with risks to Wall Street. Certainly overvalued fixed income assets are at risk. At a certain level, real estate will also begin to suffer.

In the best case Trump will force the hand of the Fed by lowering taxes and deficit spending to hasten up coming rate hikes.

And even if Trump only realizes a flawed edition of cutting and spending, a change has already taken place. The mood of US Inc. and the American consumer has improved. The hope for more growth and lower taxes is already feeding the anticipation of the Animal Spirits of the US economy. Look at the US dollar. Look at the Dow flirting with the 20.000 level.

So yes, 2017 will be the year of 'Inflation'. This means risk of a further rising dollar, risk of a real bear market in bonds for years and still, the last blow up top for the Dow remains plausible. After some hesitation around Trump's first real actions, expect these forces to work through the financial market. Of course coming from zero, inflation will still need time to become stronger. First we will have the positive effects but somewhere further on, it will push things over the edge, but that is a story for 2018 in our opinion.

What are the risks to our I scenario?

Twofold, first the Fed error is already in the system. If the Fed has been too slow in normalizing rates in the past, the structural damage done can already have deteriorated the US economy on a structural basis, irrecuperable without an economic crash.

How will we know? If productivity continues low, if labor participation rates stay depressed, if capital investment stays suppressed by speculation and buy backs, if the consumer hoards instead of spends on lower taxes, if Congress continues to be dysfunctional and 'Pork Barrel Projects' win out on infrastructure plans, if bond vigilantes panic etc.

Second, if Trump overplays his hand on trade and/or immigration and retaliation wars start to freeze the world economy gradually. Or if Trump sells his program of 'American Greatness'

too well and the dollar becomes too heavy too rapidly.

We are optimistic. We believe that the Animal Spirits of the US economy are not dead, even if central bank induced monetary gangrene has created a lot of metastases in the real economy. We hope that the relapse of the patient in crisis mode is a story for 2018 and beyond, not 2017.

Effect from our analysis on precious metals.

Here as well 2016 was a Transition Year. As the bull in bonds has stopped, rates no longer decline. This has a profound effect on precious mining valuations. We believe that we have seen the low in the HUI-gold and XAU-gold ratio. We believe that there is room for years to come to see a mean reversion in the HUI-gold ratio playing out. From 0.10 this ratio is around 0.16 now, with the HUI index still under 200.

Just to sharpen your expectations, if we are correct with our 3500 and even 5000 dollars per ounce valuation in gold before the end of 2020, the hui has a target of 2170 (3500 X 0.62) and even 3100 before 2021. It means 10 baggers all over the place for constant patient precious mining investors.

We spoke about 4 years of doubling mining values before end 2020 if our basic scenario of a worldwide financial reset happens in that time span. Can we say we made the first one in 2016? With a bit of goodwill, on 29 December 2016, the return for the year of our Commodities fund was more than 98%. Still minimum 3 doubles to go in our opinion.

Mining shares love negative real interest rates with slowly growing inflation. Thanks to the leverage in the financial system and the public debts sky high, never was there a better environment as now for the years to come. Even a willing Fed will be continuously behind the curve, out of fear to push the economy into a hard recession by creating a panicking deleveraging.

On the physical front, gold prices fared well during 2016 in the face of Modi's Indian cash ban and a complete desertion by hedge funds of precious metals, concentrated in the second half of the year. Only a full-blown confiscation of gold in the western world could create a more negative short term sentiment. We survived this negativity with a strong gold price, up by an honorable 8.6% for the year in US dollar.

It must be value investors that picked up the shovel and if they are, one thing is for sure, these investors are in for the long haul.

On the other side, mining supply will decrease in the coming years, also a factor that will help.

And if inflation gets more traction in China in 2017, a revival of the Chinese demand together with a normalization of Indian demand will exert upward pressure on gold.

So we are optimistic for 2017, even if we have to wait for the summer before a real technical break out in gold is reached. Our target for end 2017 is $1400 to $1500 per ounce. Delay in Trumponomics can eventually push the move a couple of months later. Even at $1400, mining shares should double.

Happy 2017

written by our analyst Marc Syx,

for iW Partners,

the fund manager

Performances for December 2016

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	-0.3%	+23.3%	€11,306.38
iW Alternative SIF – Commodities & Gold Equities	I	LU1244155518	-1.0%	-28.4%*	€ 716.24
	P	LU0762436201	-1.0%	+86.7%	€ 481.04
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	+0.1%	+53.3%	€ 84.14
	P	LU0762436110	+0.1%	+52.8%	€ 81.67
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	+0.6%	+18.9%	€ 1339.07
	P	LU1071456054	+0.6%	+18.2%	€ 1232.09
iW Alternative SIF – Apis Resiliens	I	LU1372145638	-0.2%	-0.7%	€ 993.26
	P	LU1372145802	-0.3%	-1.3%	€ 987.49
	Q	LU1372145984	-0.3%	-1.0%	€ 996.86

** Since inception 5 July 2016*