



Noble Capital  
Management



September 2024

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# **Noble Capital Management Event**

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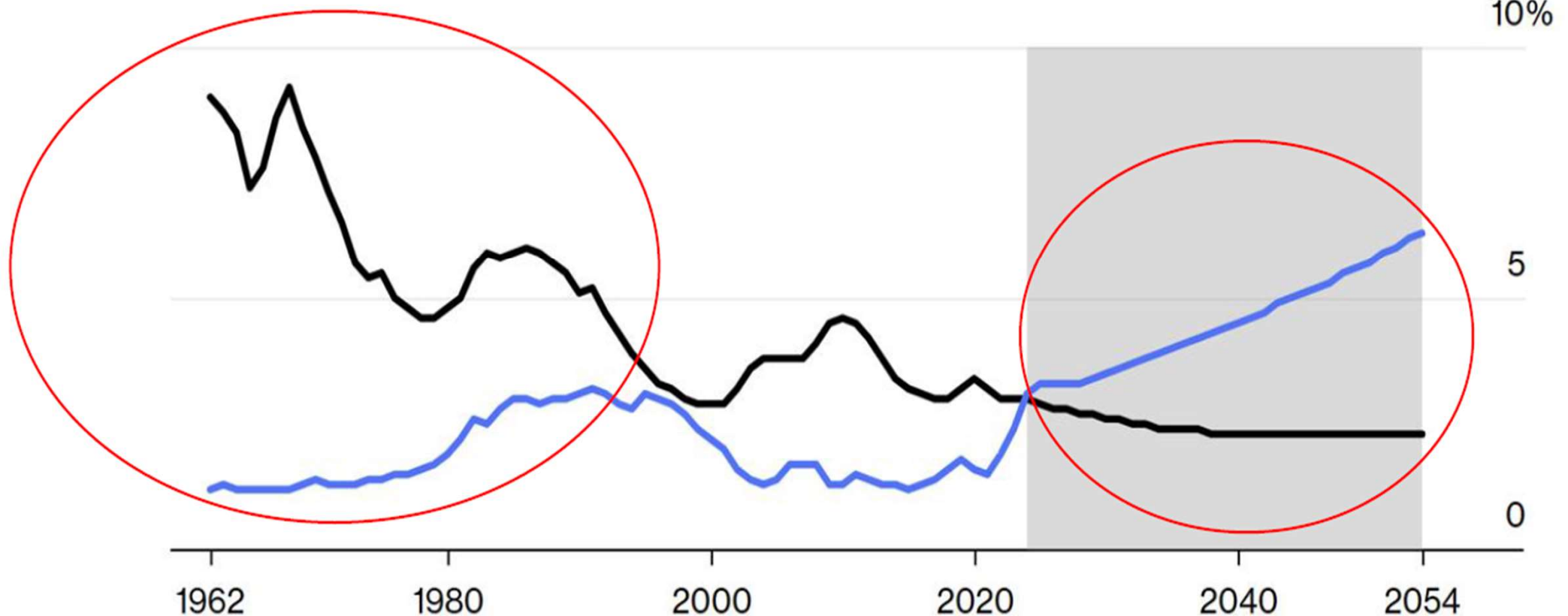
Charles Gave  
Vincent Strauss  
Didier Darcet

# Rising US debt service will swamp defense spending

## Rising US Debt Service Will Swamp Defense Spending

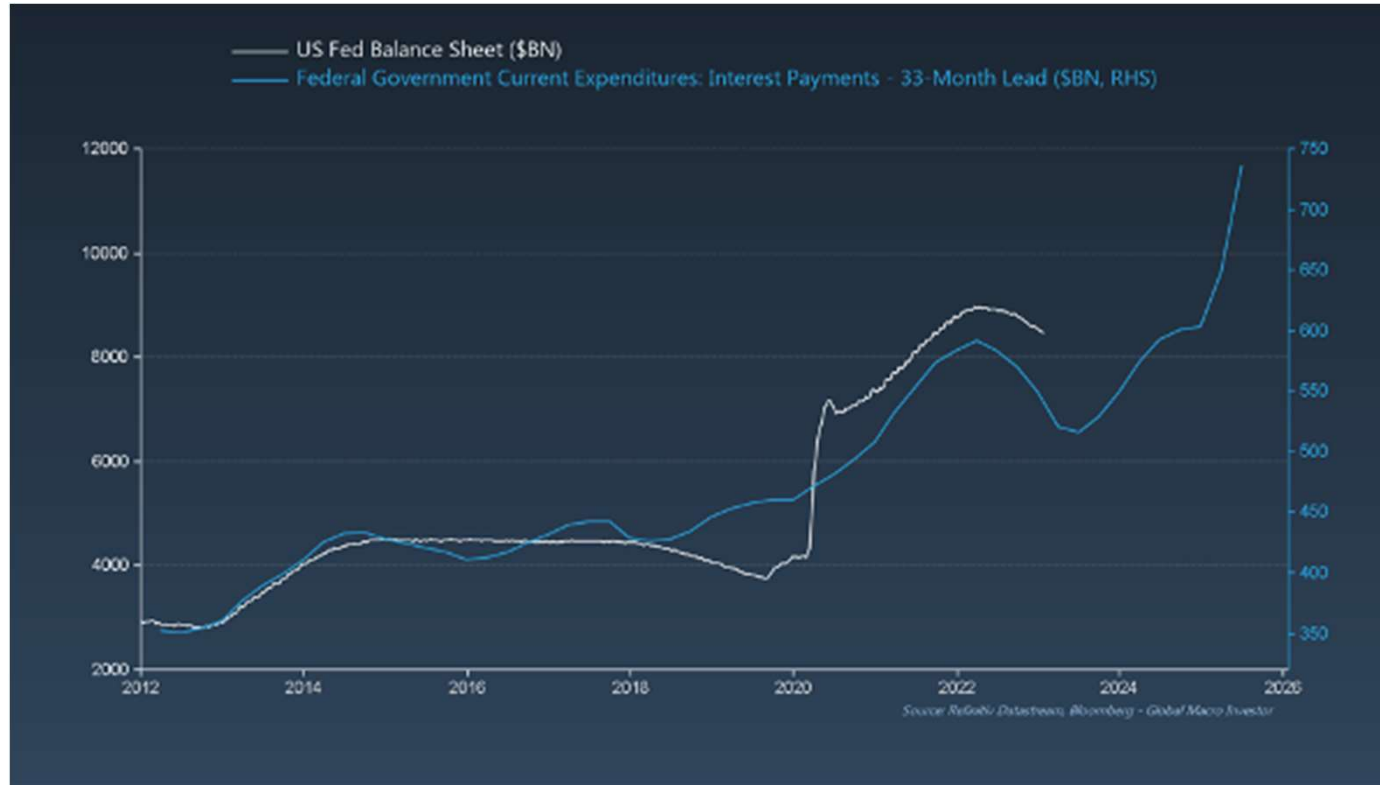
Share of GDP

Net interest outlays / Defense ■ Projected defense spending and debt interest

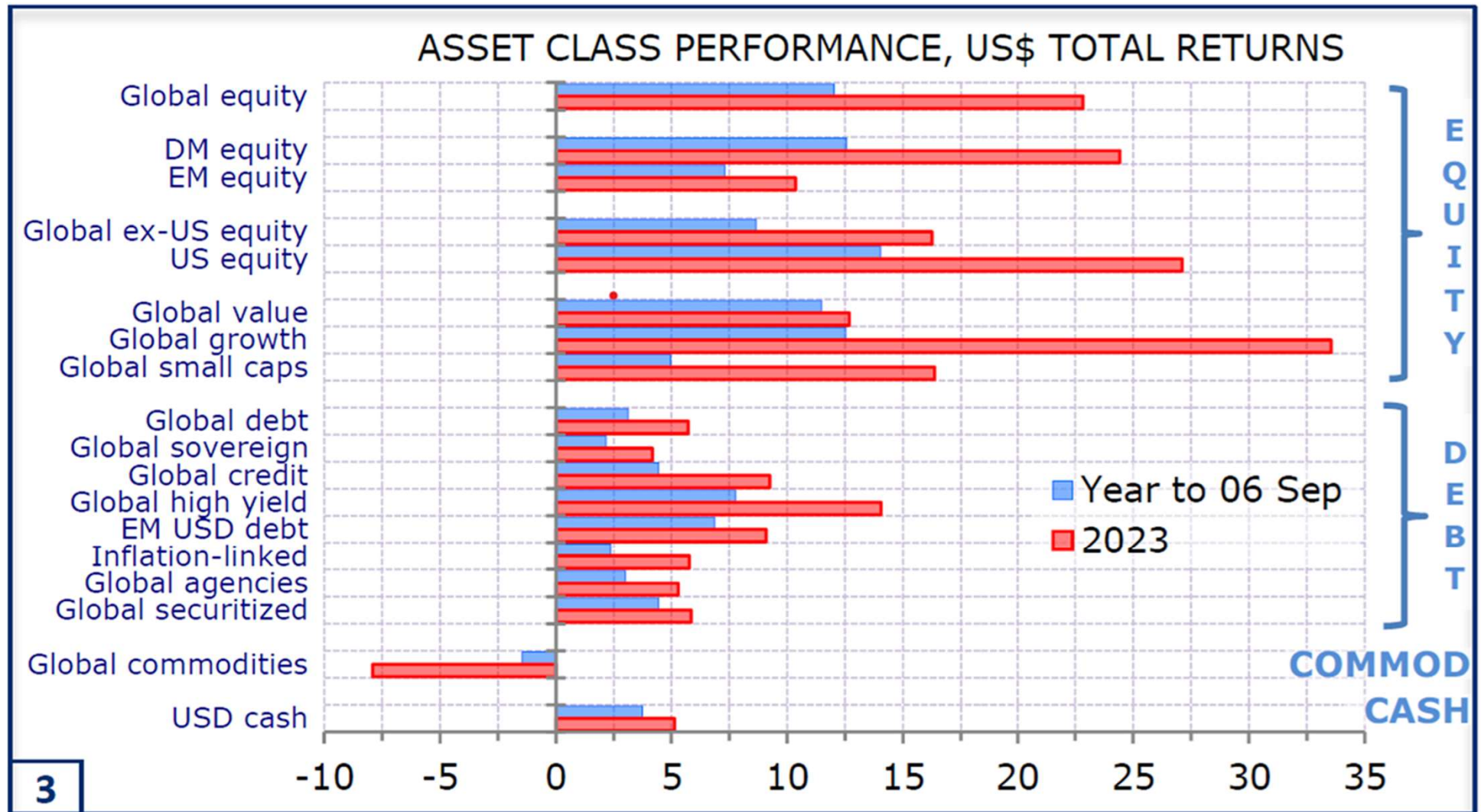


Source: Congressional Budget Office

# Fed Balance sheet & Interest spent on gov. debt- 33 MThs lag



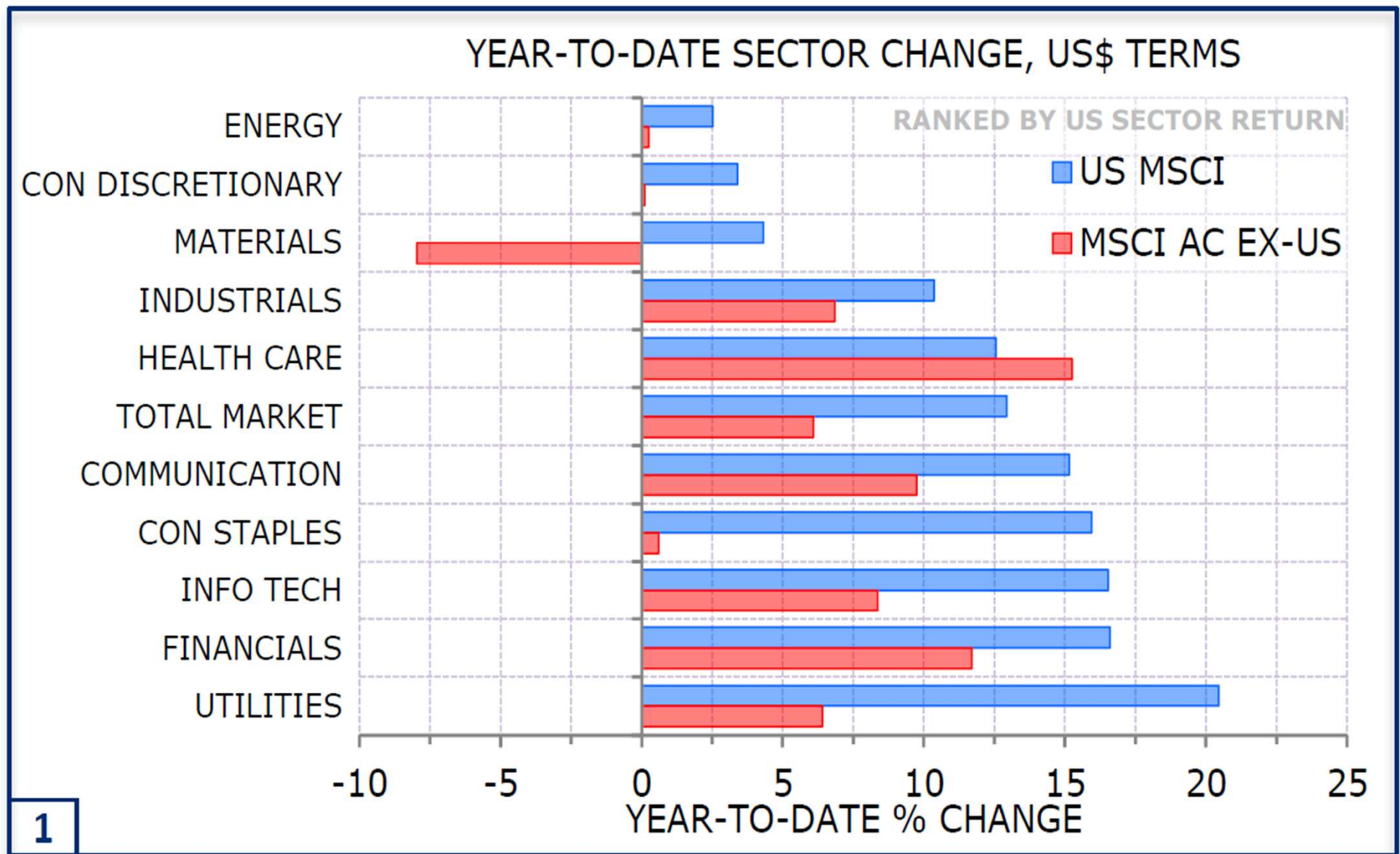
# Performances: world



Source: Minack

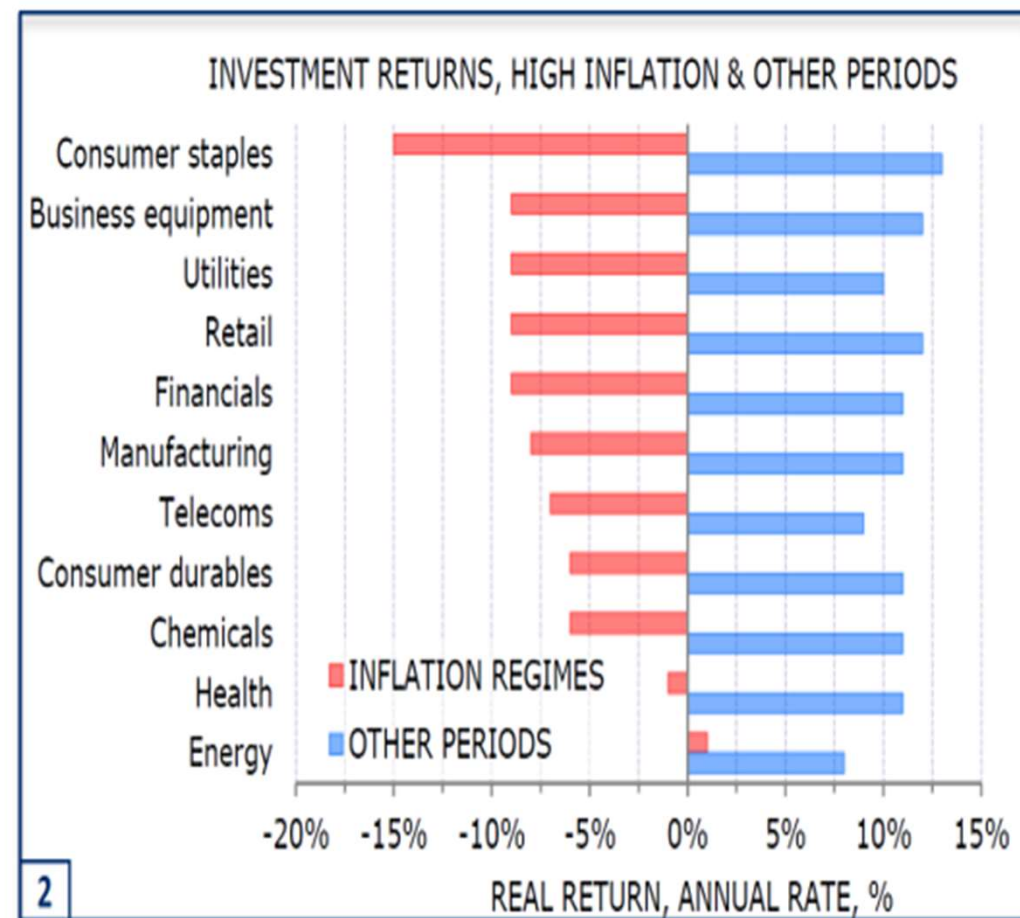
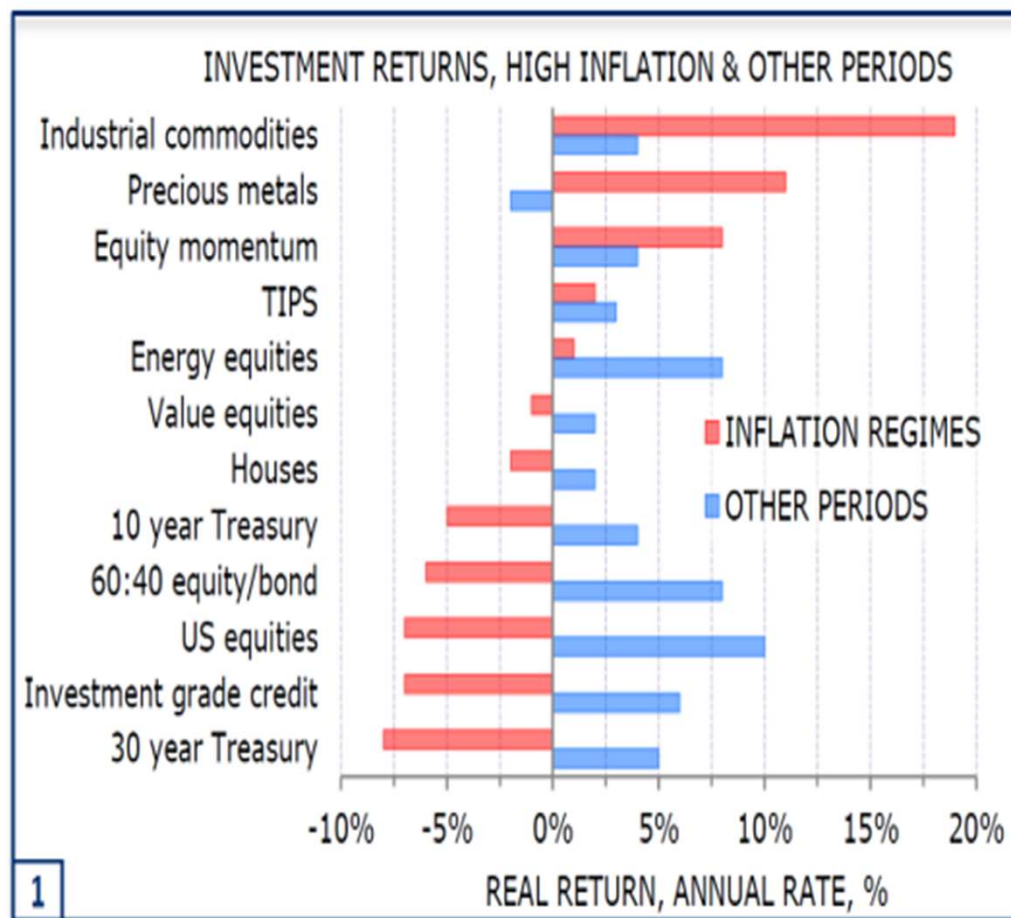


# Performances: sectors



Source: Minack

# Performances in high inflation times



Source: Minack

# EM equities vs. US equities at a 50 year low

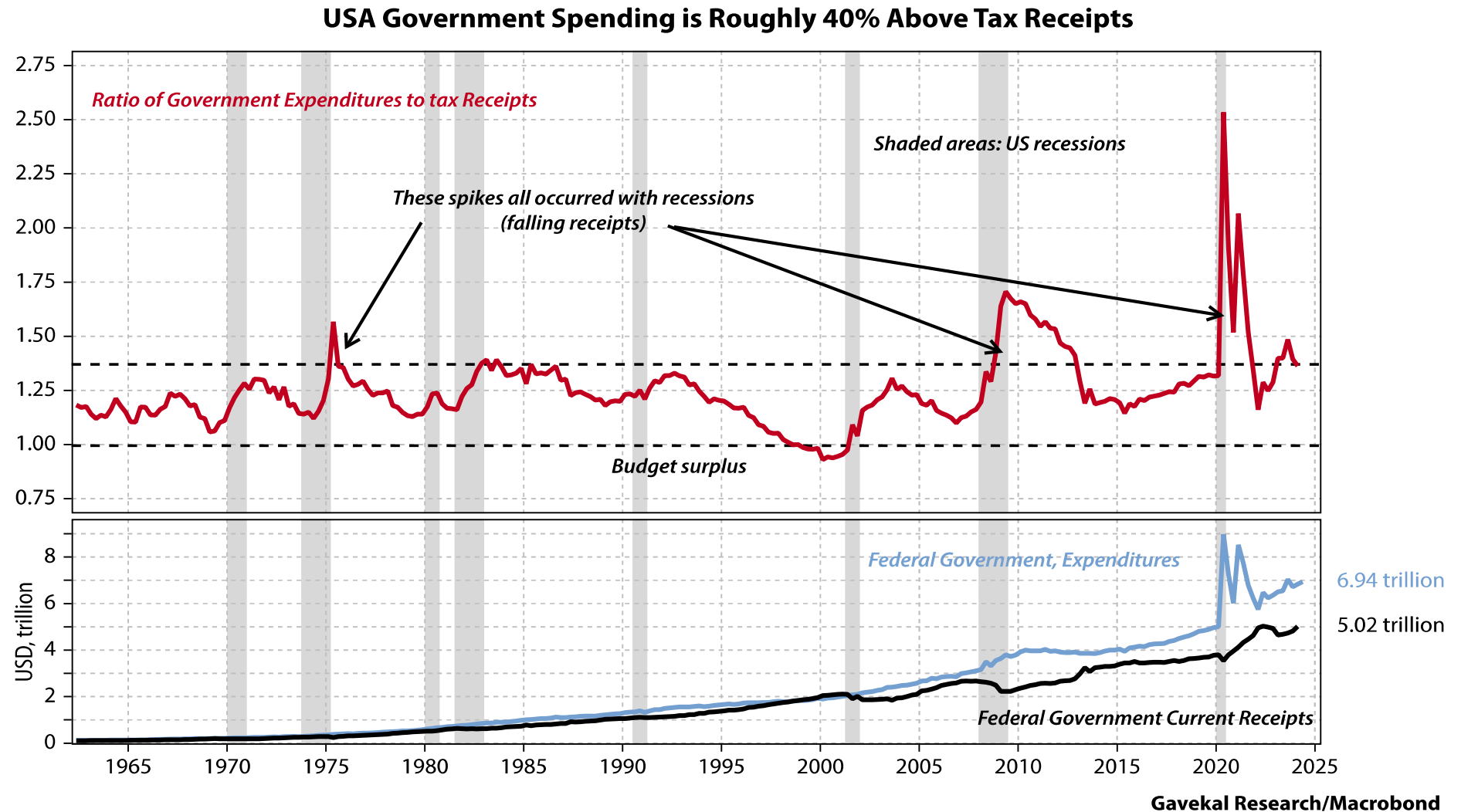


Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data

Source: Minack

# Inflation?

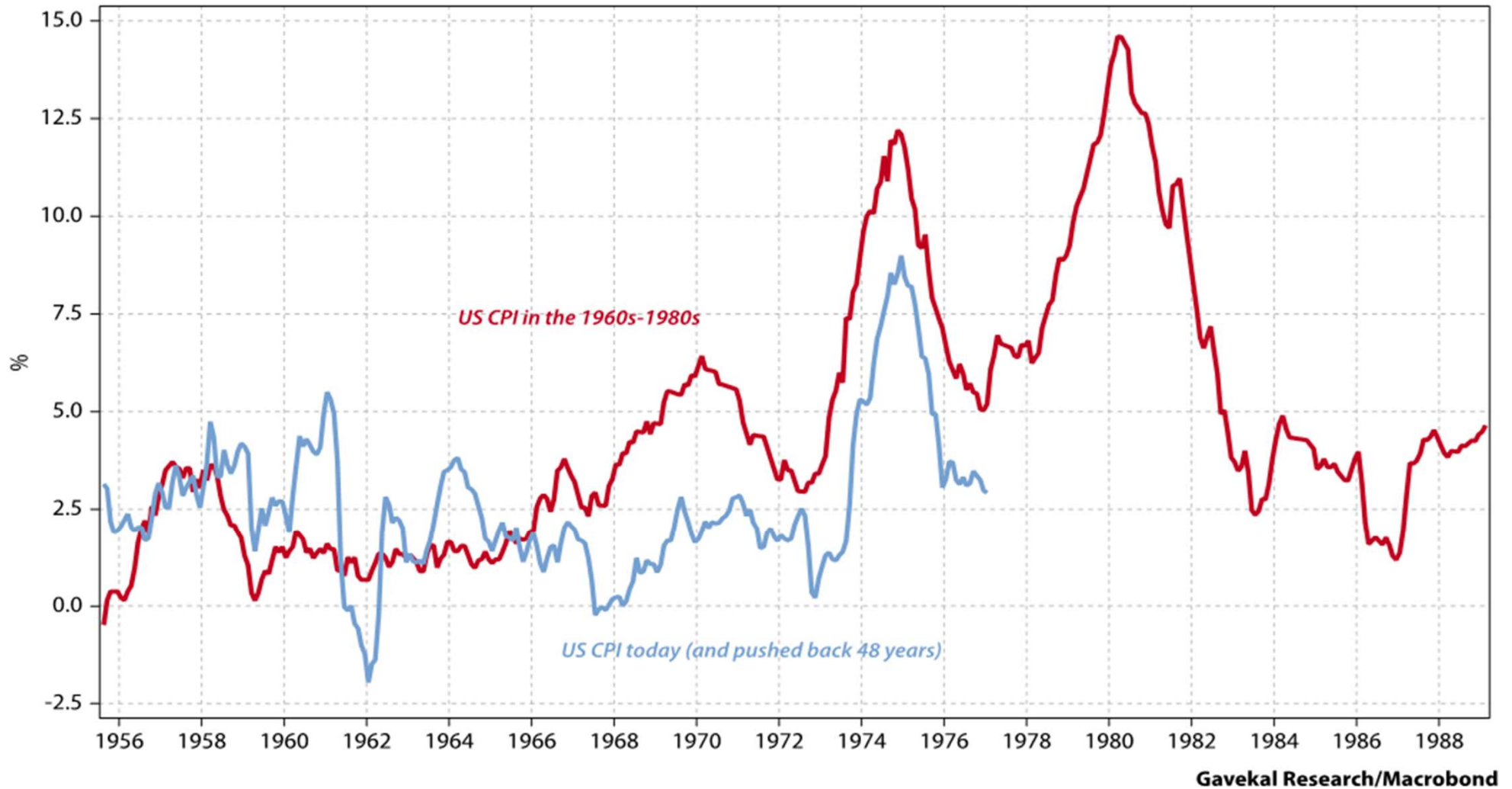
Subsidizing expenditures that give no return with dollars that do not exist





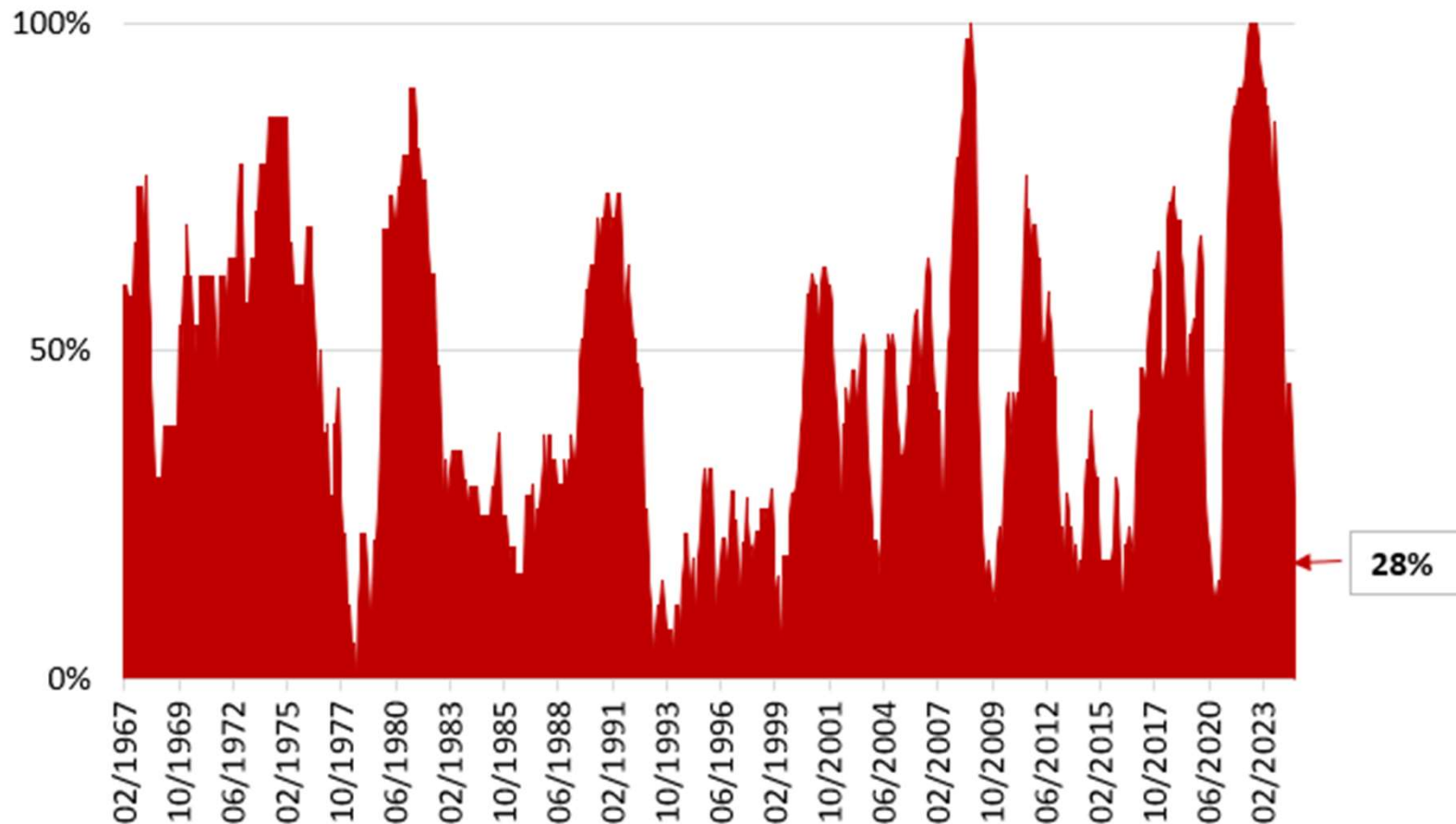
# US Inflation: now and then

Now: blue curve, 48 years ago: red curve



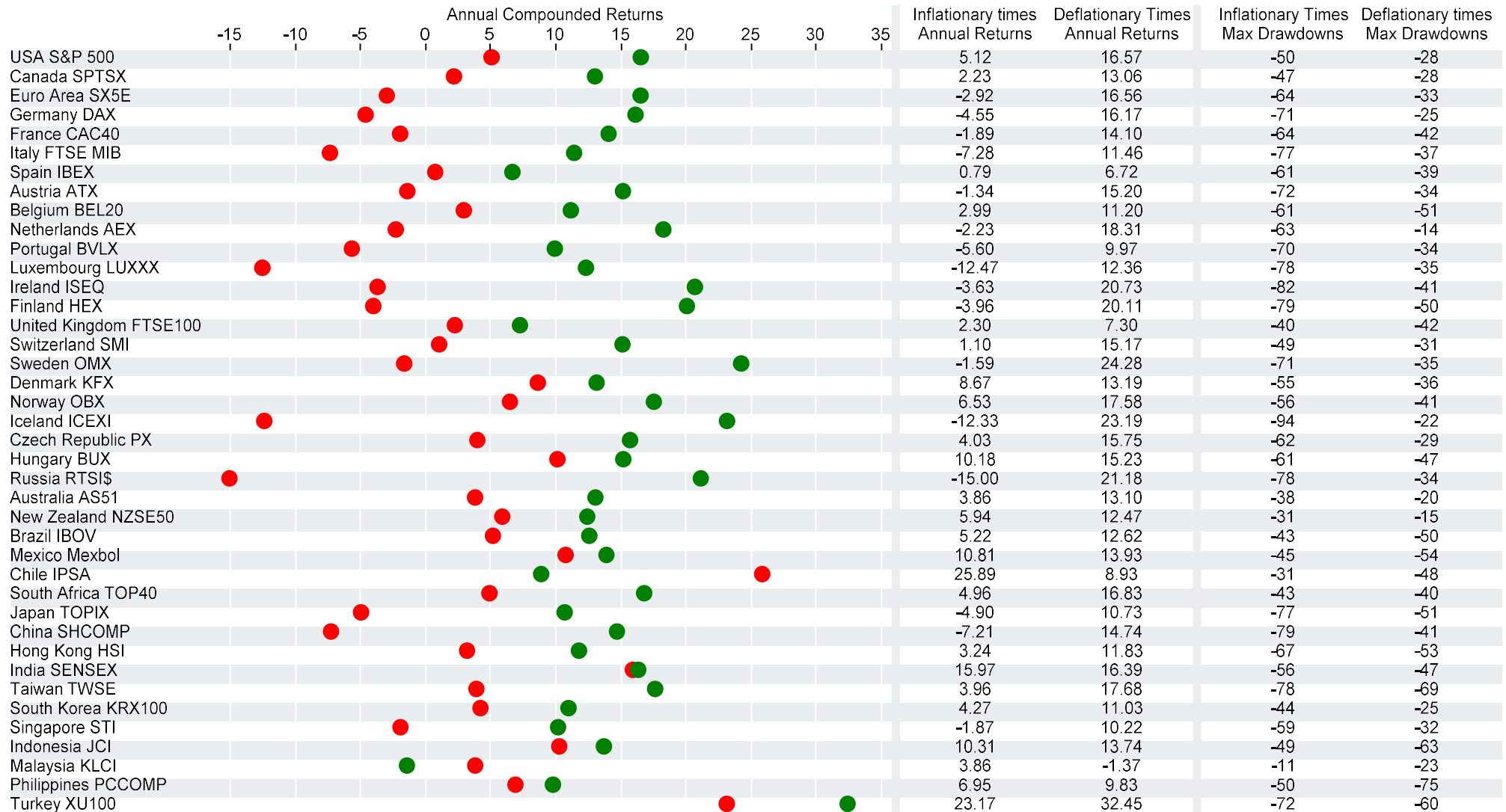
# The world today is disinflationary

% of countries in an accelerating inflation mode



Source: Gavekal-IS, Bloomberg, sample of 40 countries

# Inflation impact on equity returns

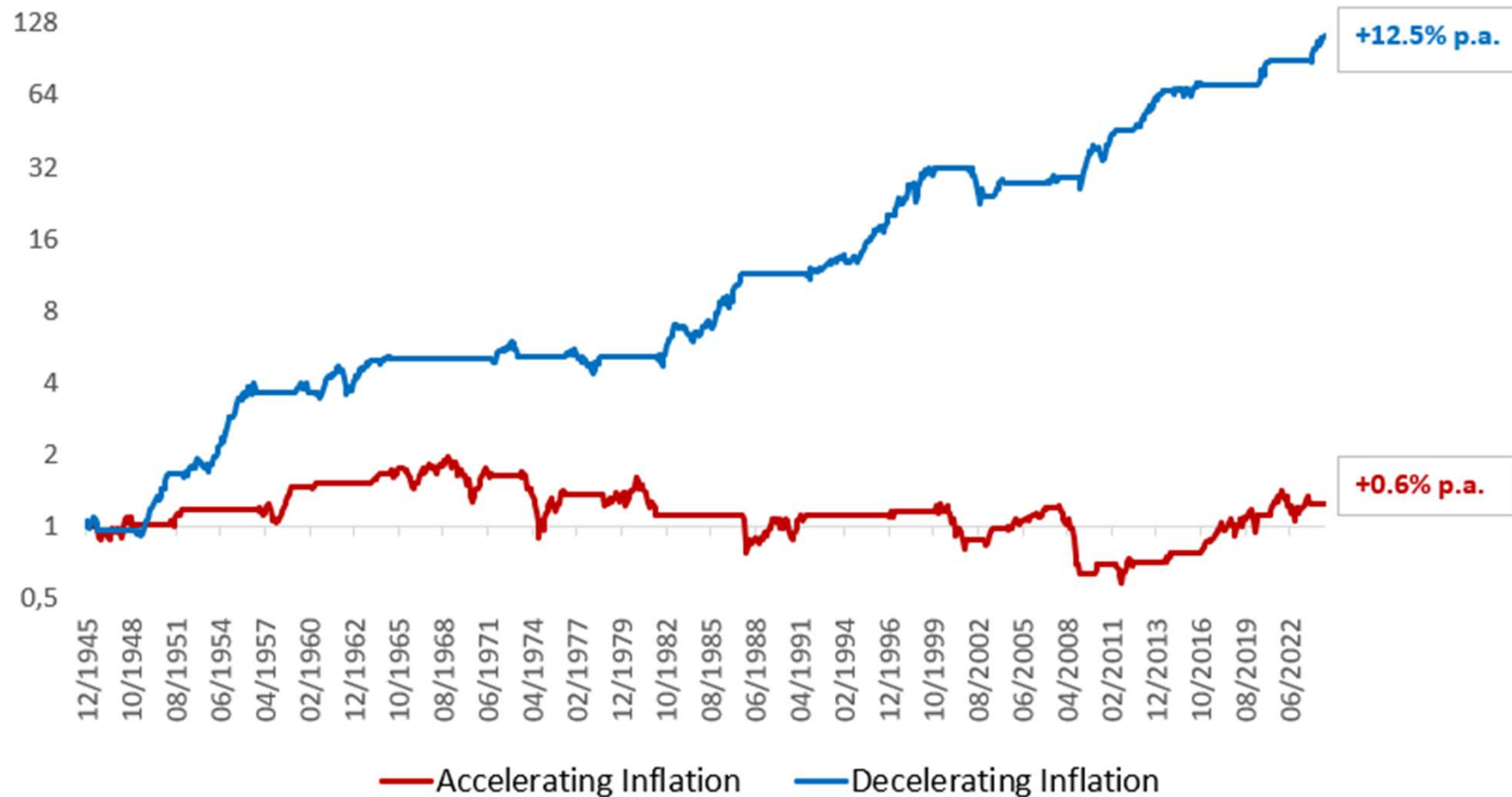


Source: Gavekal-IS, Bloomberg

● Inflationary ● Deflationary

# The US example since 1945

S&P excess return in times of accelerating and decelerating inflation



Source: Gavekal-IS, Bloomberg



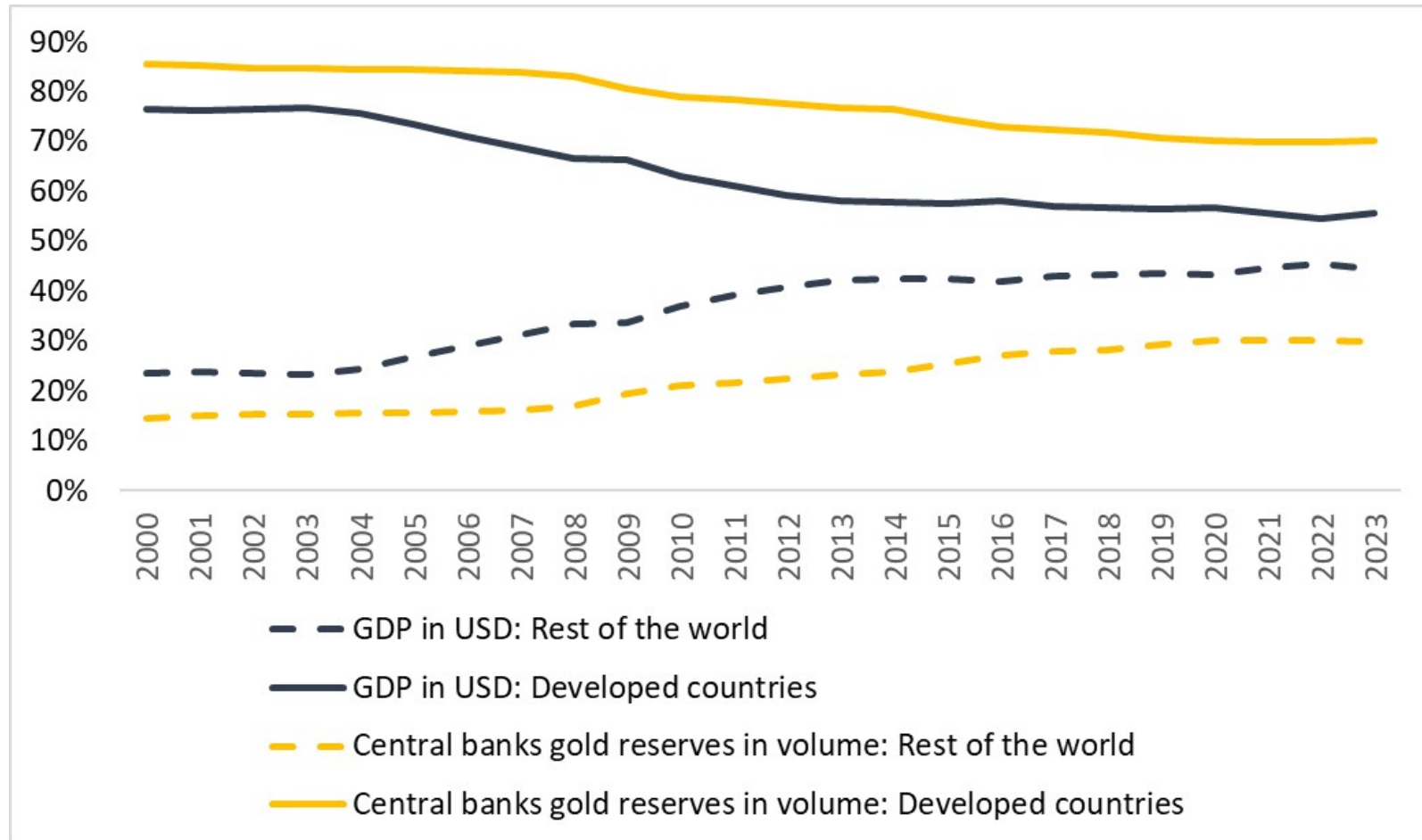
# Emergence of the Global South





# Gold reserves follow economic power

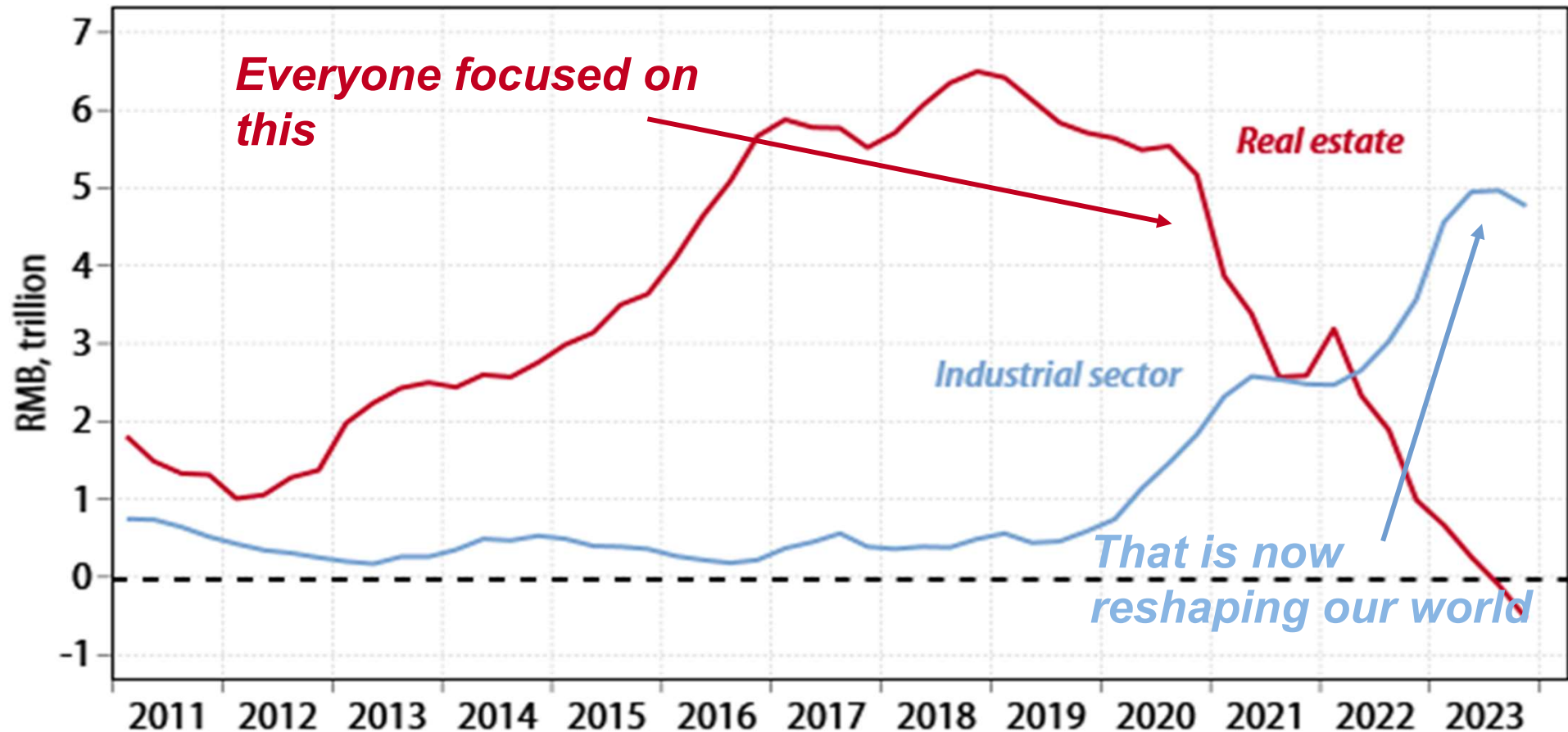
Developed countries vs. Rest of the world: GDP and gold reserves



Source: Gavekal-IS, Bloomberg

# China's bet on industrial sector

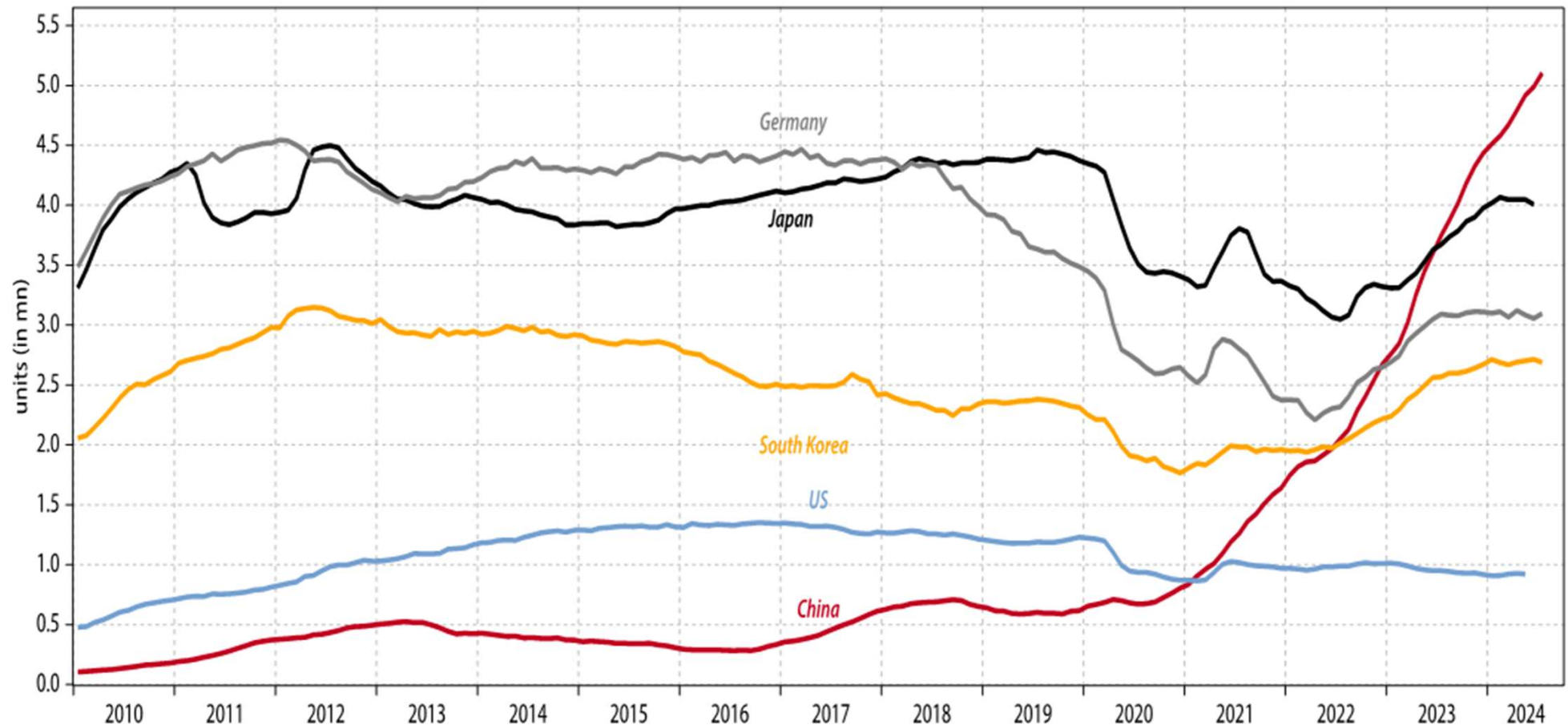
Net new bank lending, by sector



Source: Gavekal Dragonomics, Macrobond

# China has emerged as an auto export powerhouse

Exports of passenger cars, rolling 12m sum



Source: Gavekal Research, Macrobond

# Which currency needs to devalue?

The cheapest EVs in respective markets



**China**  
BYD Seagull  
US\$9,700



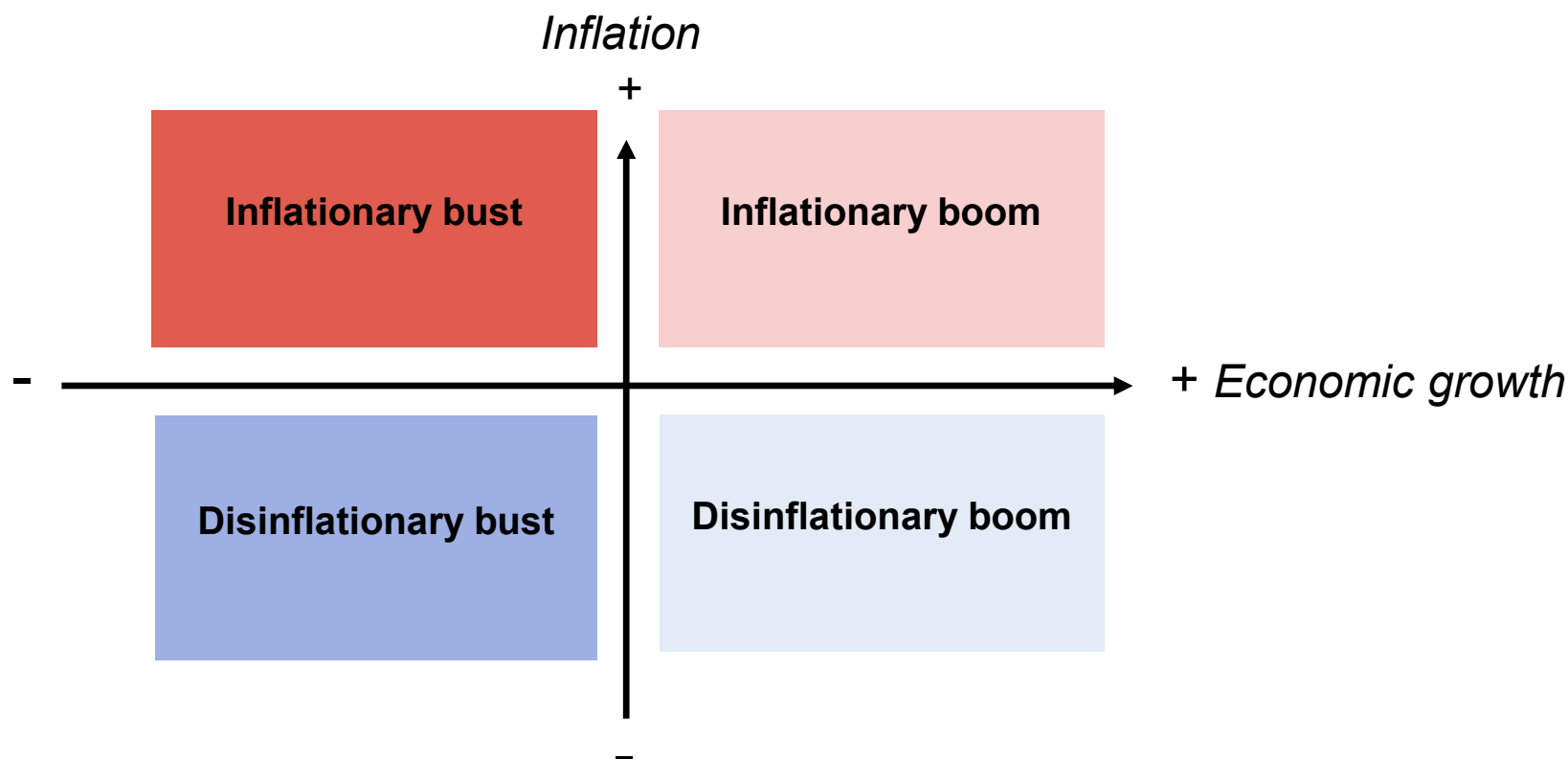
**Germany**  
Dacia Spring  
US\$24,950



**USA**  
Nissan Leaf  
US\$29,235

# Four Economic Quadrants

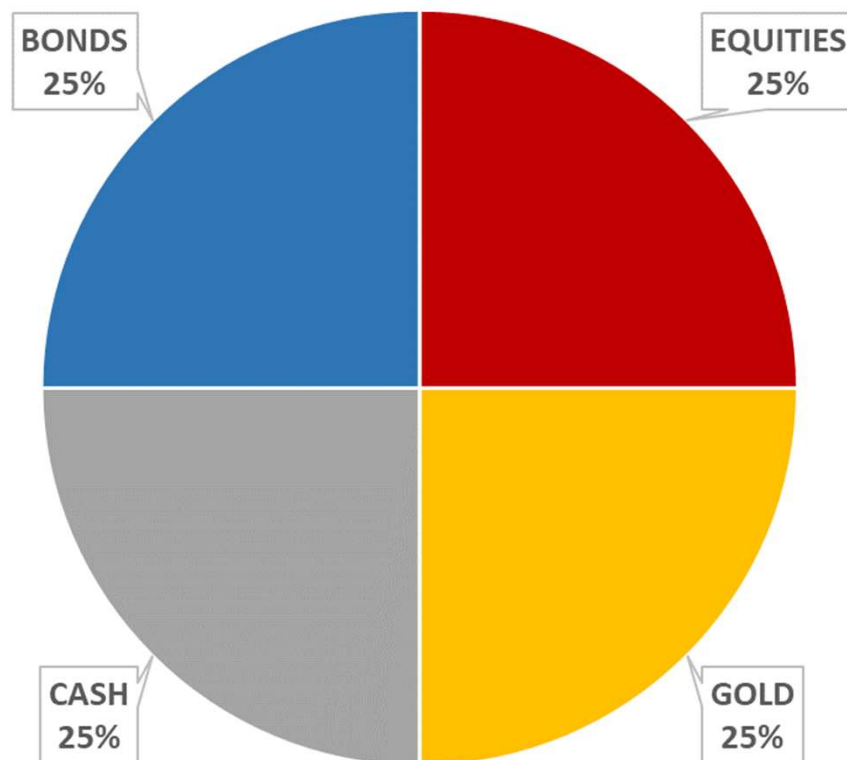
- Economic growth drives company earnings
- Inflation drives equity multiples



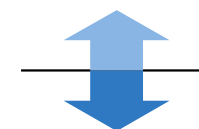


# The permanent portfolio

by Harry Browne

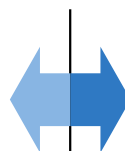


Long duration assets



Monnies

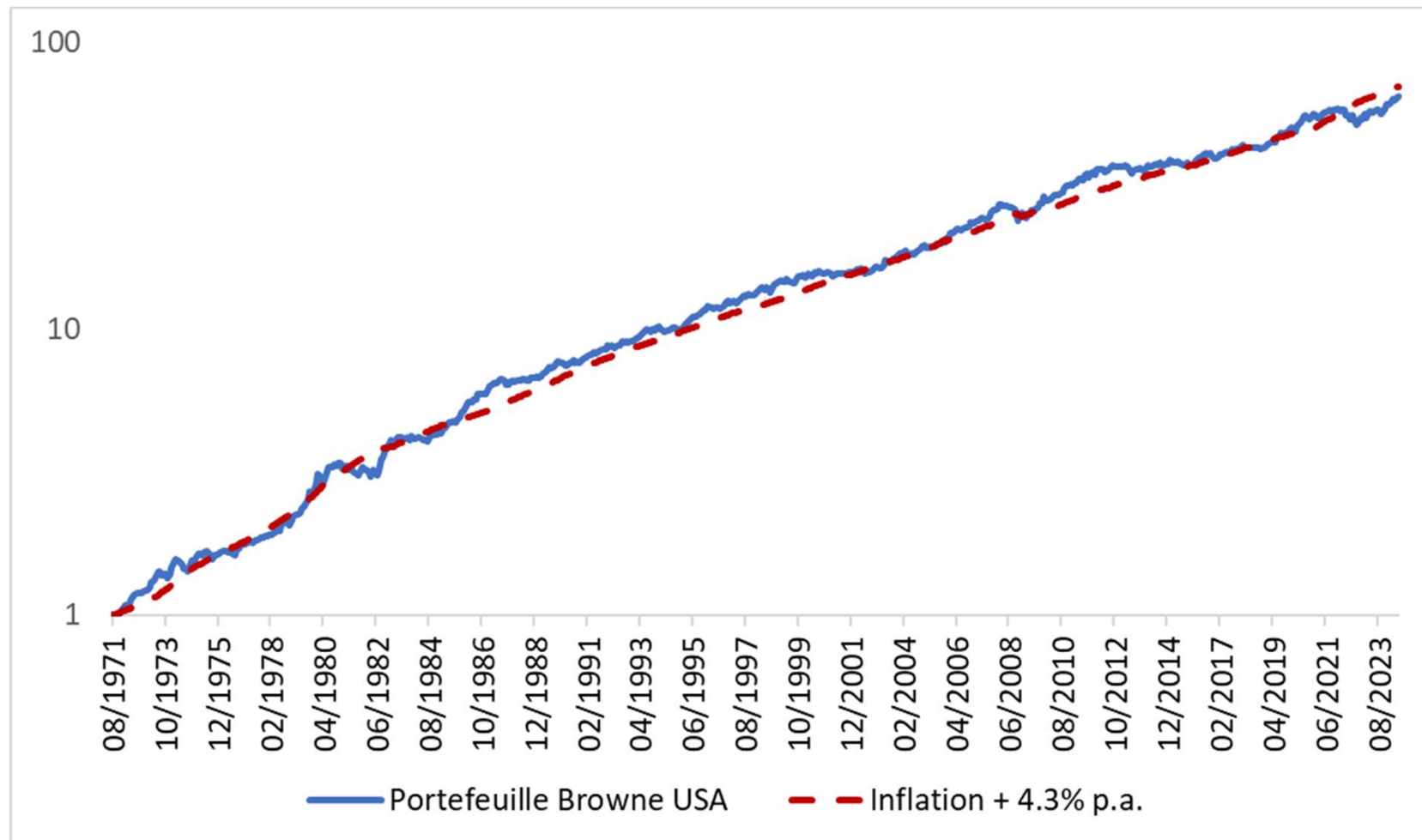
Contracts



Properties

# The US permanent portfolio

A stable inflation+4.3% return p.a. over 50 years



Source: Gavekal-IS, Bloomberg

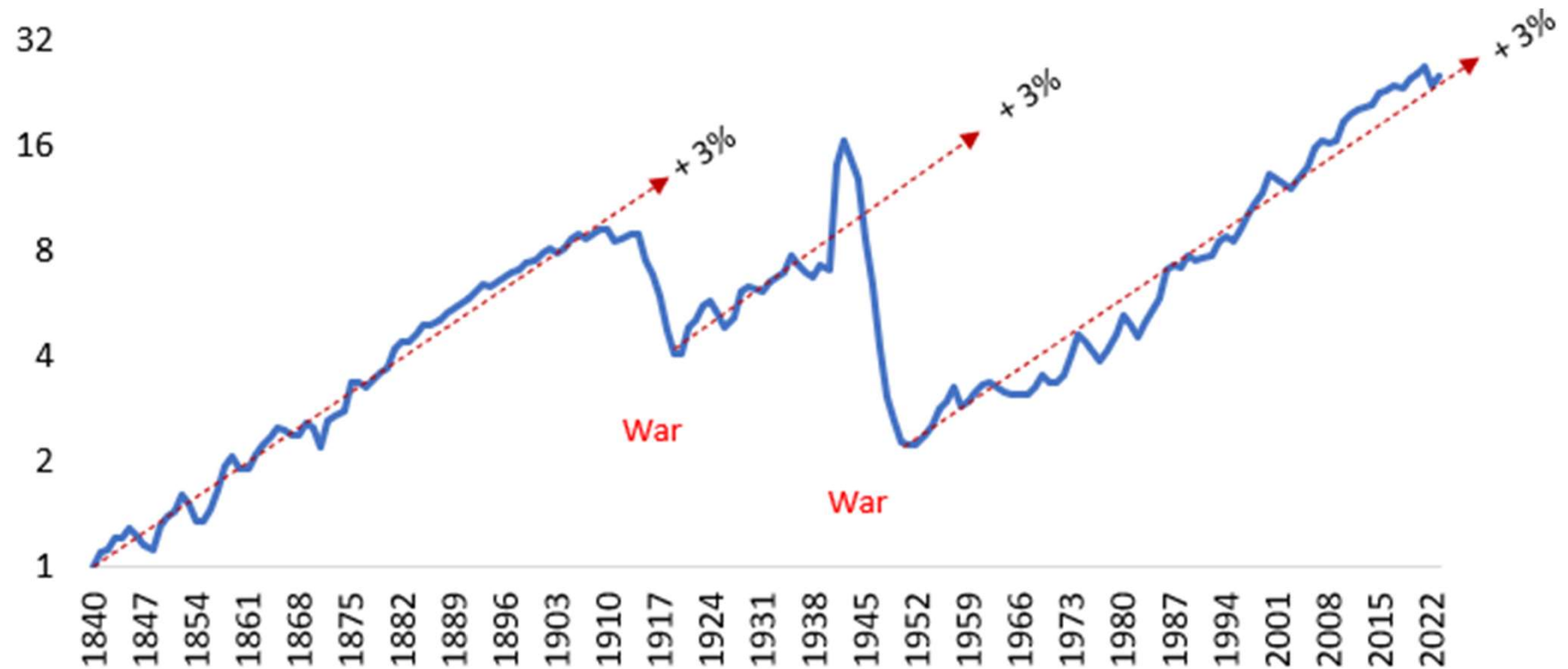
# Same result across the globe

| Browne Portfolios countries | Browne Port Real Ann. Return | 10Y Real Ann. Return | GDP Real Ann. Return | Browne Port Ann. Returns | 10Y Ann. Return | CPI Ann. Return | Browne Port Max DD | 10Y Max DD | Starting Date |
|-----------------------------|------------------------------|----------------------|----------------------|--------------------------|-----------------|-----------------|--------------------|------------|---------------|
| United States               | 4,23                         | 2,48                 | 2,74                 | 8,25                     | 6,45            | 3,95            | -12,97             | -26,39     | August 1971   |
| Canada                      | 4,01                         | 3,46                 | 2,52                 | 7,94                     | 7,40            | 3,93            | -16,28             | -22,69     | August 1971   |
| Euro Area                   | 3,70                         | 2,92                 | 1,60                 | 5,78                     | 4,97            | 2,08            | -11,30             | -27,30     | December 1986 |
| Germany                     | 4,09                         | 2,22                 | 1,16                 | 6,14                     | 4,30            | 2,05            | -15,32             | -27,30     | January 1991  |
| United Kingdom              | 3,80                         | 2,90                 | 1,91                 | 6,22                     | 5,31            | 2,41            | -8,67              | -28,70     | March 1992    |
| Switzerland                 | 3,74                         | 3,48                 | 1,77                 | 4,89                     | 4,63            | 1,15            | -10,43             | -23,35     | July 1998     |
| Sweden                      | 6,03                         | 3,62                 | 2,33                 | 7,87                     | 5,46            | 1,84            | -13,95             | -24,20     | January 1993  |
| Denmark                     | 5,45                         | 3,82                 | 1,78                 | 7,40                     | 5,77            | 1,95            | -11,41             | -28,16     | January 1991  |
| Norway                      | 5,00                         | 2,03                 | 2,47                 | 7,42                     | 4,45            | 2,42            | -11,19             | -21,28     | January 1996  |
| Czech Republic              | 2,43                         | 1,93                 | 2,82                 | 6,23                     | 5,73            | 3,80            | -15,66             | -31,37     | January 1995  |
| Hungary                     | 5,04                         | 3,48                 | 2,38                 | 12,20                    | 10,64           | 7,17            | -15,85             | -39,99     | January 1995  |
| Iceland                     | 4,62                         | 5,11                 | 2,91                 | 9,47                     | 9,96            | 4,85            | -22,76             | -29,25     | July 1988     |
| Australia                   | 4,28                         | 3,30                 | 3,06                 | 6,92                     | 5,94            | 2,64            | -15,48             | -24,47     | May 1992      |
| New Zealand                 | 5,22                         | 2,40                 | 2,76                 | 7,76                     | 4,93            | 2,53            | -16,85             | -28,87     | January 2001  |
| Mexico                      | 5,32                         | 4,62                 | 1,96                 | 13,13                    | 12,43           | 7,82            | -9,35              | -14,34     | January 1994  |
| Chile                       | 3,51                         | 1,74                 | 3,44                 | 7,48                     | 5,72            | 3,98            | -9,15              | -26,13     | January 1996  |
| South Africa                | 6,70                         | 4,72                 | 2,22                 | 12,16                    | 10,19           | 5,47            | -8,44              | -12,15     | February 1999 |
| Japan                       | 3,13                         | 3,00                 | 1,64                 | 4,10                     | 3,98            | 0,98            | -17,29             | -19,67     | January 1980  |
| China                       | 4,57                         | 3,63                 | 8,17                 | 6,36                     | 5,42            | 1,79            | -23,84             | -9,28      | January 1997  |
| Hong Kong                   | 3,34                         | 2,61                 | 3,10                 | 6,42                     | 5,69            | 3,08            | -21,52             | -26,98     | January 1990  |
| India                       | 4,98                         | 3,87                 | 6,35                 | 11,21                    | 10,10           | 6,23            | -10,58             | -10,99     | January 1997  |
| Taiwan                      | 4,94                         | 2,23                 | 3,74                 | 6,06                     | 3,35            | 1,12            | -14,07             | -12,92     | February 1999 |
| South Korea                 | 4,80                         | 2,42                 | 3,59                 | 7,33                     | 4,94            | 2,53            | -9,94              | -18,84     | January 2001  |
| Singapore                   | 2,81                         | 1,01                 | 4,60                 | 4,65                     | 2,85            | 1,84            | -16,00             | -18,52     | August 1999   |
| Indonesia                   | 5,84                         | 6,51                 | 4,77                 | 12,72                    | 13,40           | 6,89            | -22,44             | -27,90     | May 1998      |
| Malaysia                    | 3,36                         | 2,17                 | 3,62                 | 5,21                     | 4,02            | 1,85            | -4,67              | -9,32      | January 2015  |
| Philippines                 | 4,46                         | 4,87                 | 4,87                 | 8,55                     | 8,96            | 4,09            | -14,24             | -28,43     | January 2000  |
| <b>Average</b>              | <b>4,4</b>                   |                      |                      |                          |                 |                 |                    |            |               |
| <b>StD</b>                  | <b>1.0</b>                   |                      |                      |                          |                 |                 |                    |            |               |

# The permanent portfolio in France since 1840

It can withstand almost anything—except war

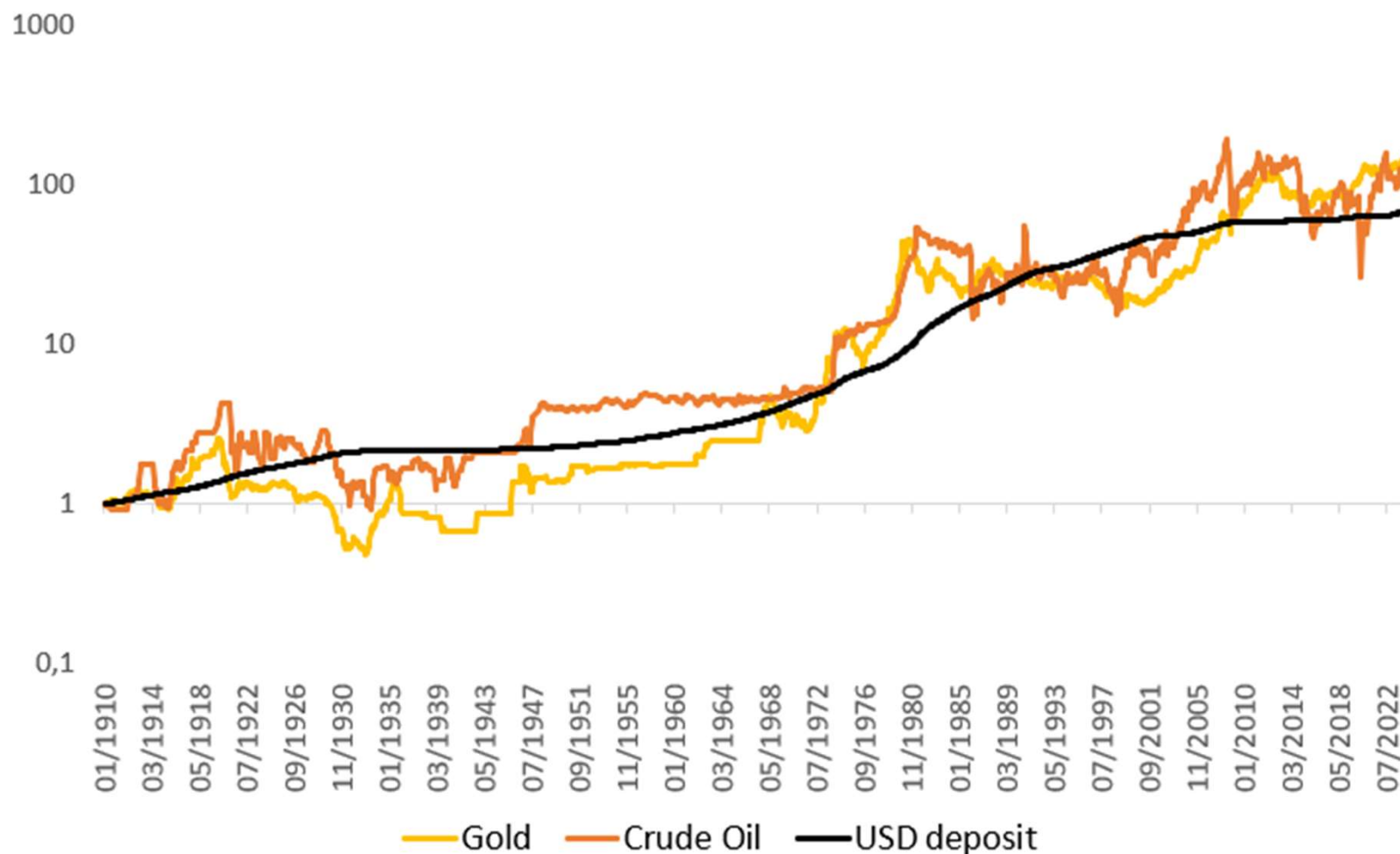
Real return



Source: Gavekal-IS, Banque de France, INSEE, Euronext, Macrobond

# Proof of work and proof of stake

Three forms of monies: fiat currency, gold and oil



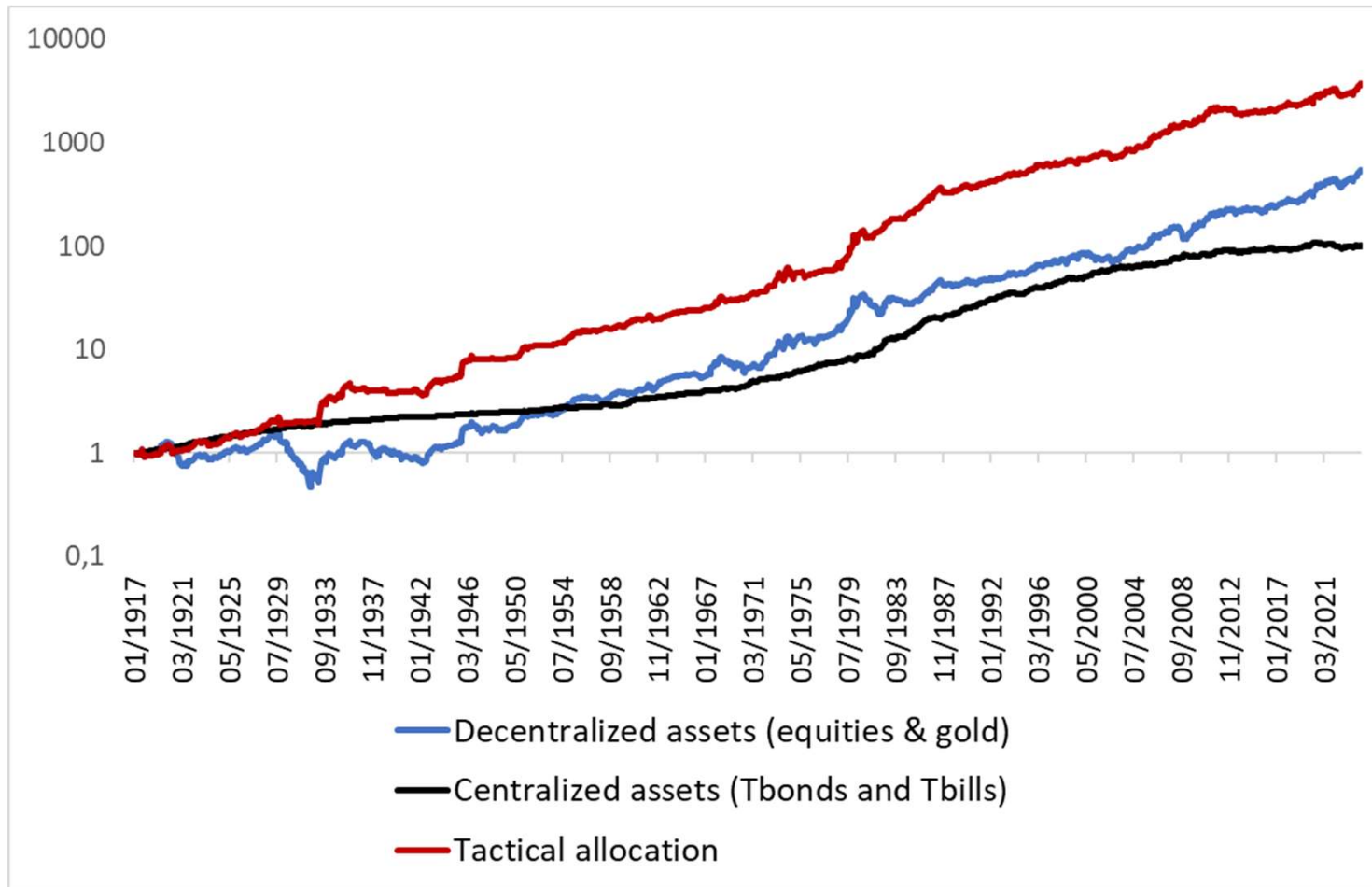
Source: Gavekal-IS, Bloomberg

Note: The price of gold is approximated by the price of silver before the end of Bretton Woods in August 1971



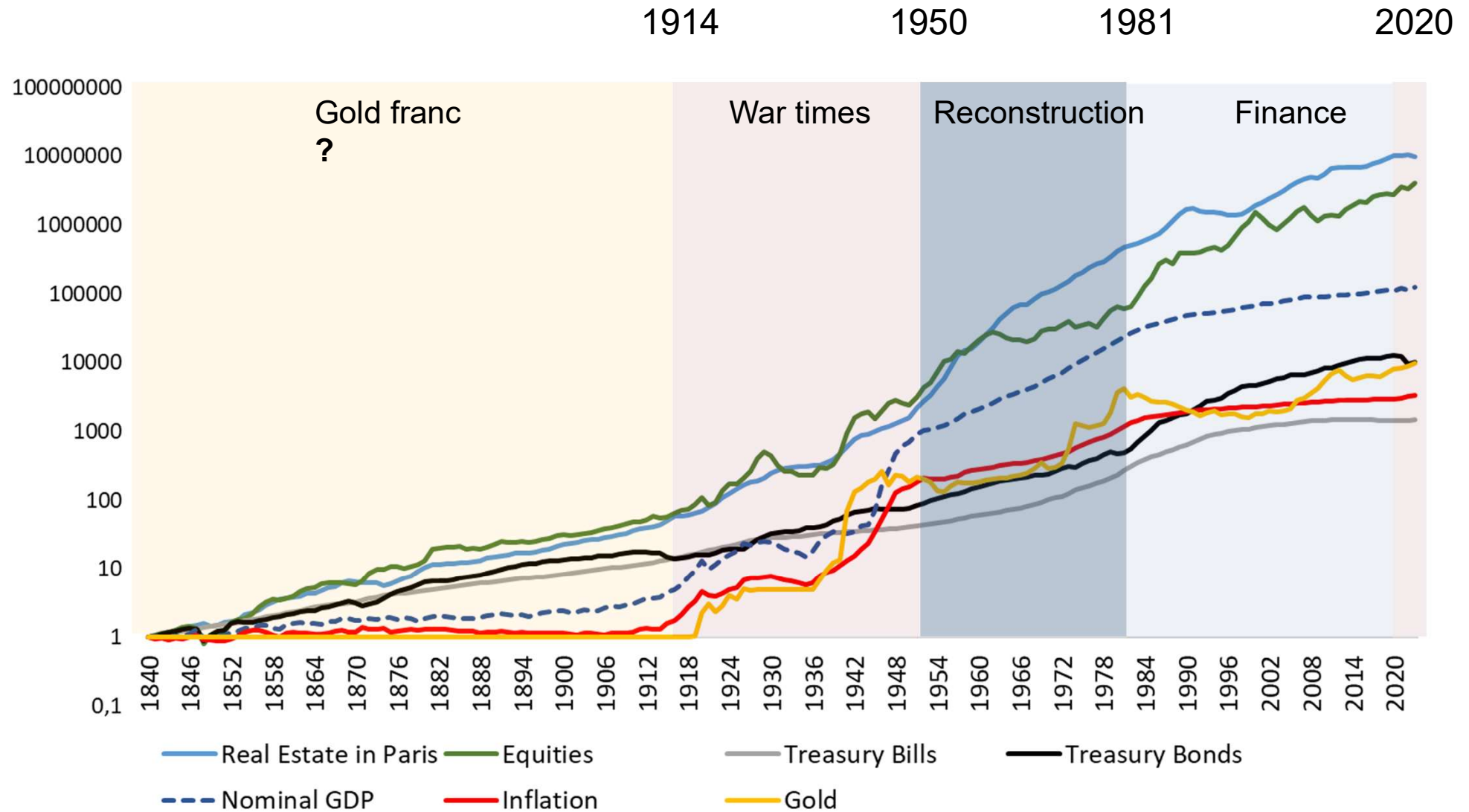
# Centralized vs. decentralized assets

Tracking trust and distrust in fiat currencies



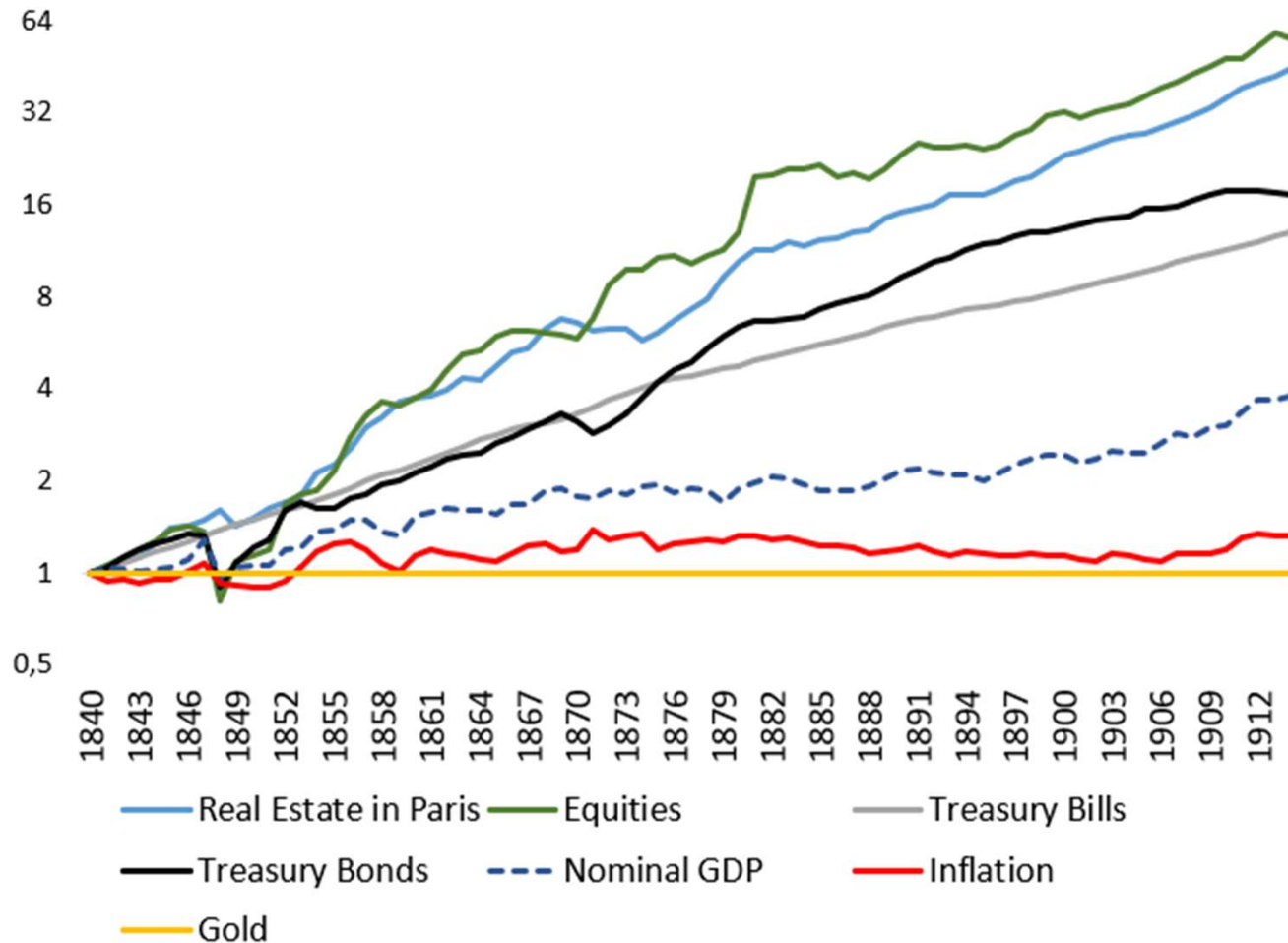
Source: Gavekal-IS, Bloomberg

# The French Case



Sources: Banque de France, Insee, Euronext

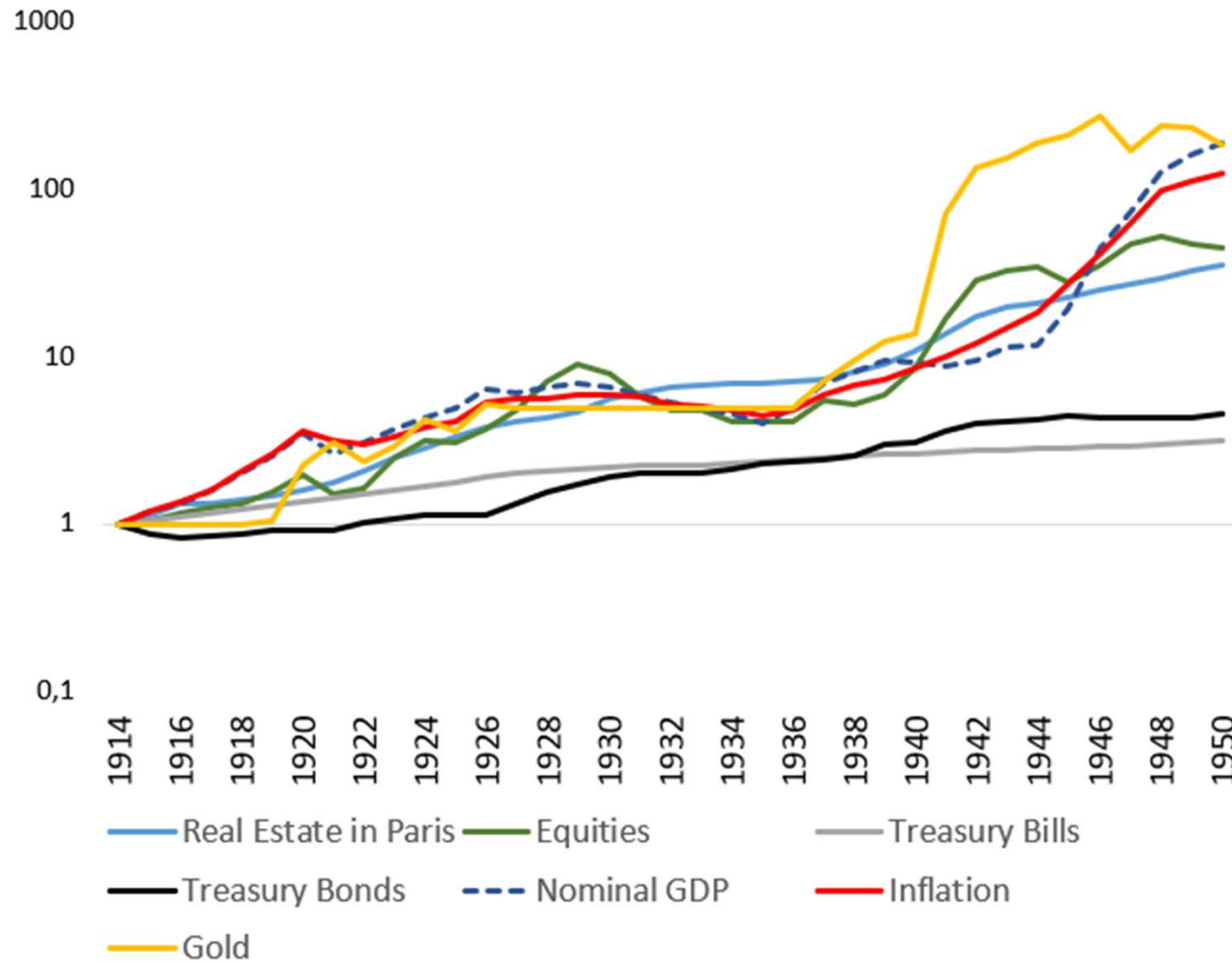
# Gold franc: “Buy everything but gold”



- In 1803, 1 franc = 4.5 grams of pure silver = 0.29 gram of gold
- No devaluation, no inflation for more than a century
- Insufficient monetary mass given nominal growth of 1.8% p.a.
- Hence, too high interest rates
- Rents pay more than work
- Wealth inequalities increase

Sources: Banque de France, Insee, Euronext

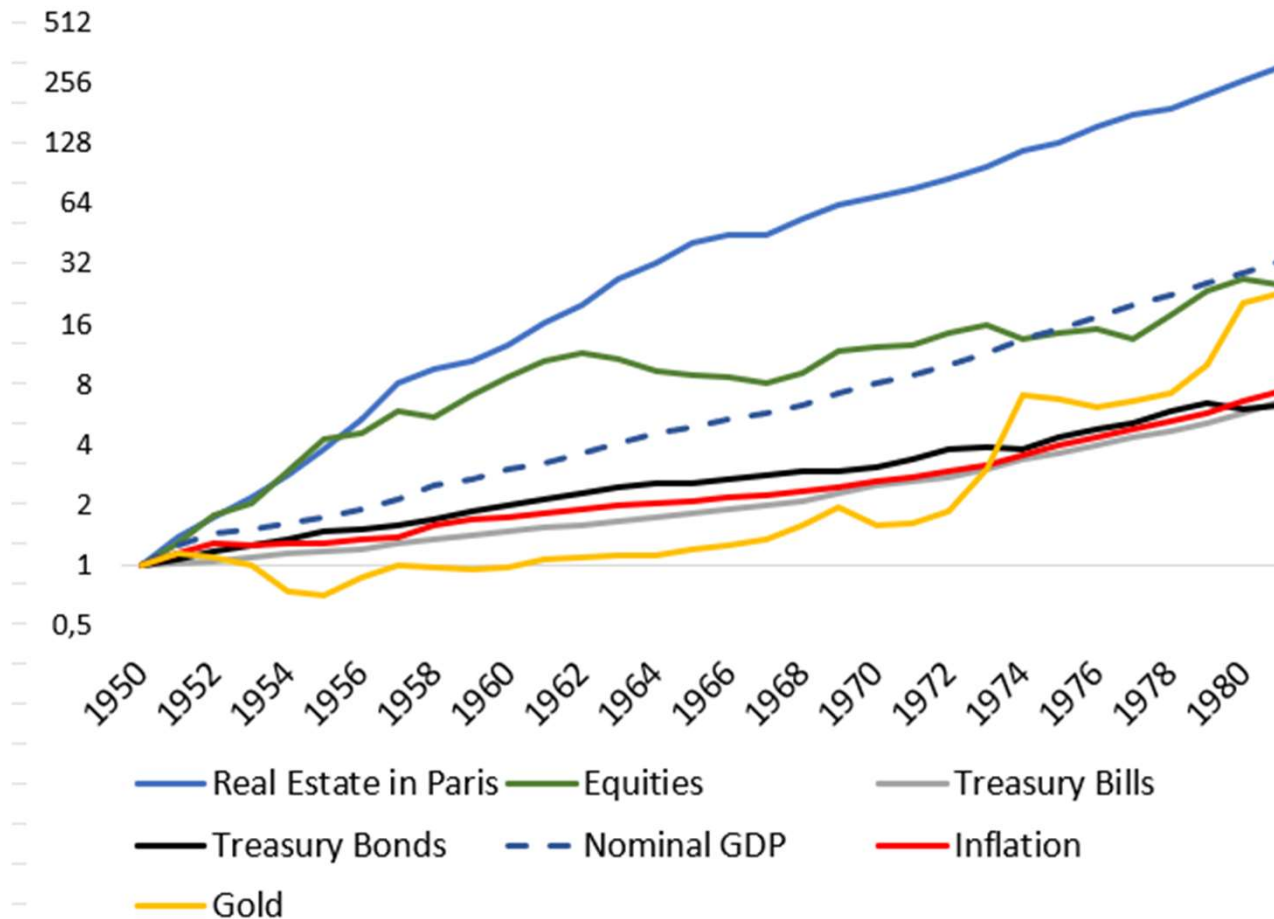
# War times: “Buy nothing except gold”



- Banque de France sacrifices the « gold franc » in 1914
- Real estate & equities lose 70% real
- Bonds lose 97% real
- Gold gains 50% real

Sources: Banque de France, Insee, Euronext

# Reconstruction: “Work and buy your apartment”

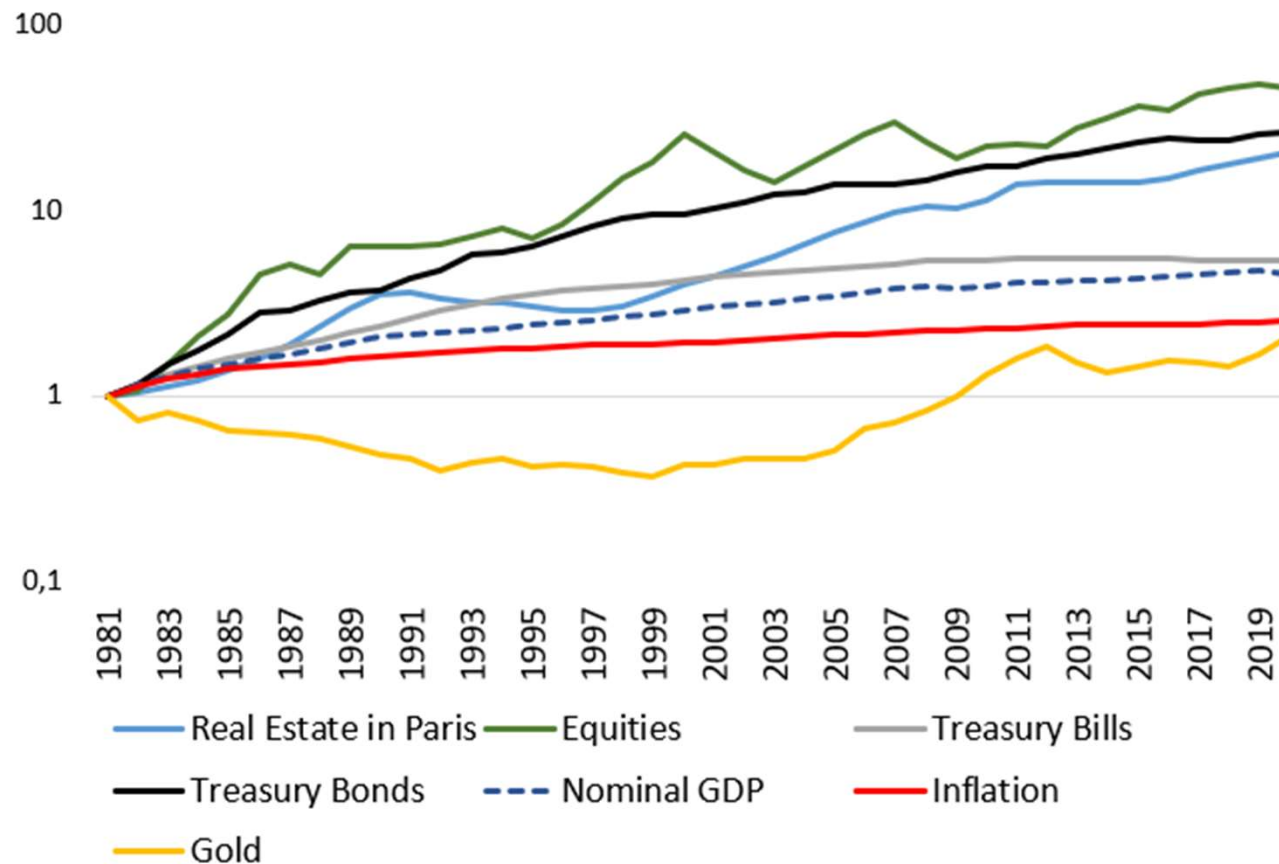


- Industrial capitalism
- Nominal GDP grows faster than all assets except real estate

Sources: Banque de France, Insee, Euronext



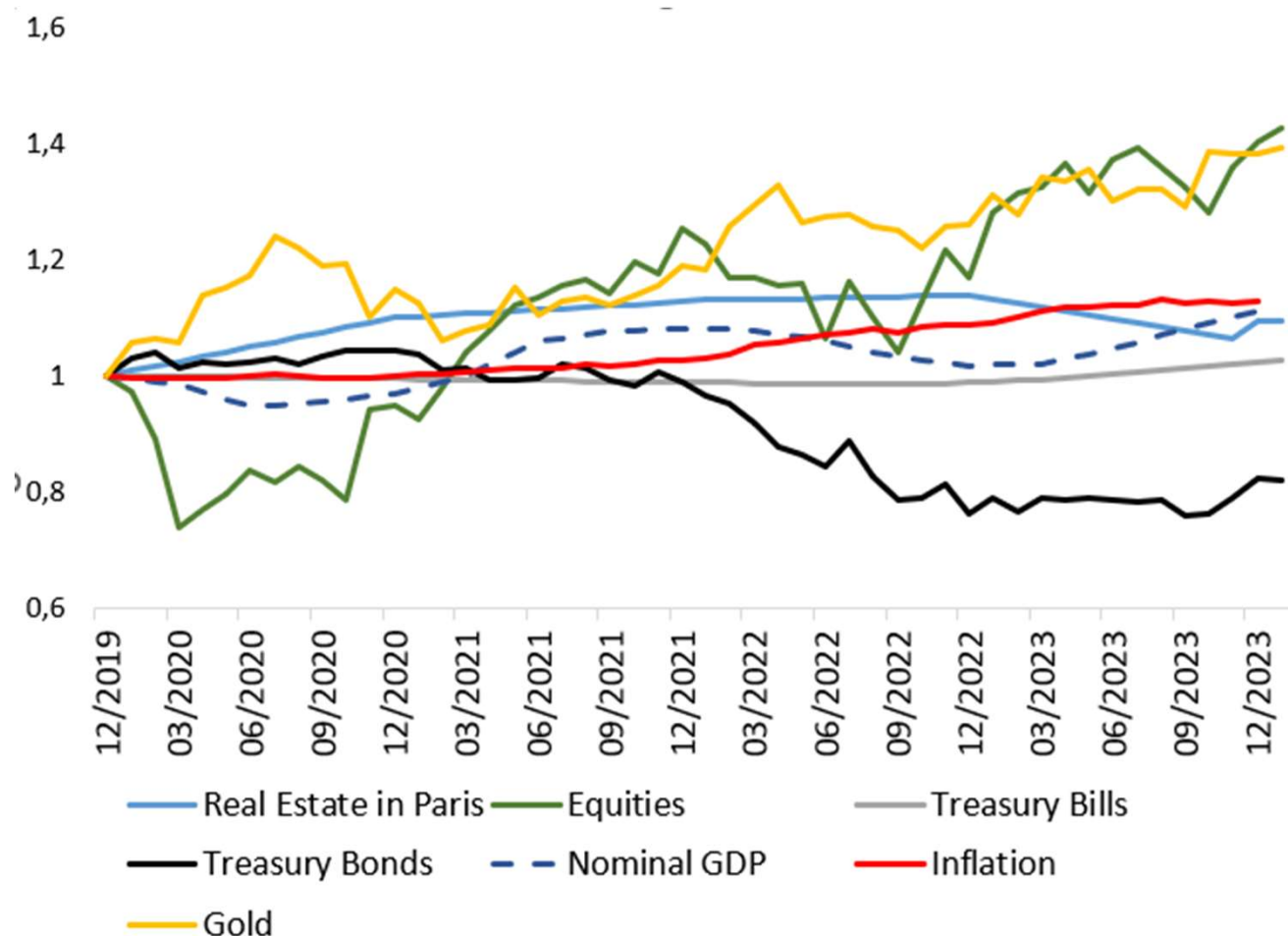
# Financial capitalism: “Buy 50/50 equity-bond”



- Financial capitalism
- Bond heaven: 10Y bond rates fall from 16.5% to zero

Sources: Banque de France, Insee, Euronext

# Today: “Buy 50/50 equity-gold”



- Bonds disaster, like in war times
- Gold becomes the anti-fragile asset of choice

Sources: Banque de France, Insee, Euronext, proxy data for real estate

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