Luxembourg, June the 6th Mai 2021

Dear Limited Investors,

Our performance in Q1 2021 was 13.5 % versus 5.8% (in USD) of the S&P 500 and 7.6% of the Stoxx Europe 600. Our net long exposure was about 60%.

Our top-performing positions were:

- Long Bed Bath & Beyond (BBBY): +1.6%
- Long Signet Jewelry (SIG): +1.5% %
- Long Express (EXPR): +1.4%
- Long Pinterest (PINS): +1.15%
- Long Volkswagen (VOW3 GR): +1.12%

Our bottom-performing positions were:

- Short Adient (ADNT): -0.88%%
- Short Fiesta Restaurant Group (FRGI): -0.36%
- Short Carvana (CVNA): -0.65%
- Short BMW (BMW GR): -0.45%
- Short SIXT AG (SIX2 GR): -0.44%%

One-fifth of the performance came from so-called WallstreetBets shares.

- **<u>WallstreetBets/GameStop</u>**

It is about a new phenomenon focused on how to invest and in what to invest.

Social media can be a powerful tool in politics (Arab Spring, Brexit, US elections…), in environmental subjects (Future for Fridays...), and social questions (Me Too Movement). Recently, it was the investment world that experienced the effects.

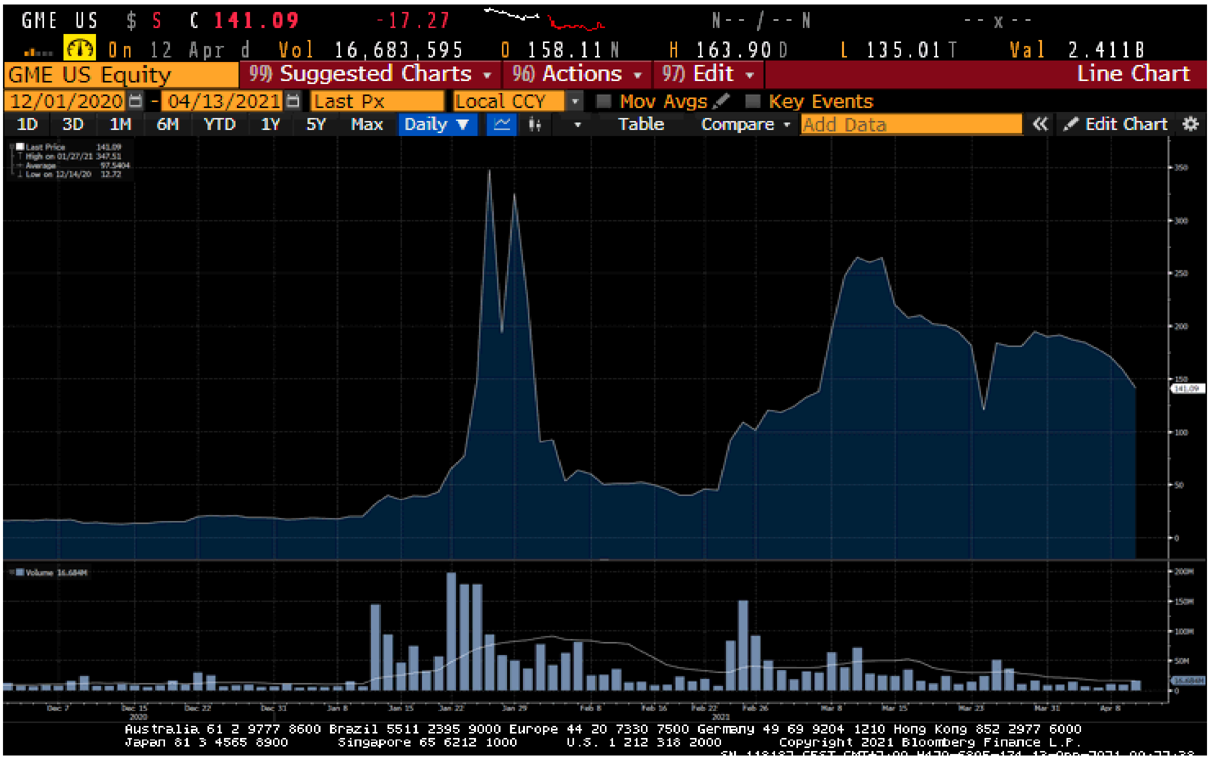
What started somehow slowly ended in a significant price disruption of several companies, with GameStop (GME) being the symbol of this new investment phenomenon.

How we trade shares changed a lot over the last decades, from the so-called bucket shops at the beginning of the previous century to the first online brokerage accounts towards the end of the previous century.

In recent years, we saw the emergence of a new kind of online brokerage company. Companies like Robinhood come with an apple-like smooth and easy interface, and opening an account takes only a few minutes. As a gift, you get a share in a company to make you a participant right from the start. The broker also reduces the number of news flows to make investing more focused and less uncertain. There are no direct transaction costs, and leverage through option buying is becoming a standard procedure.

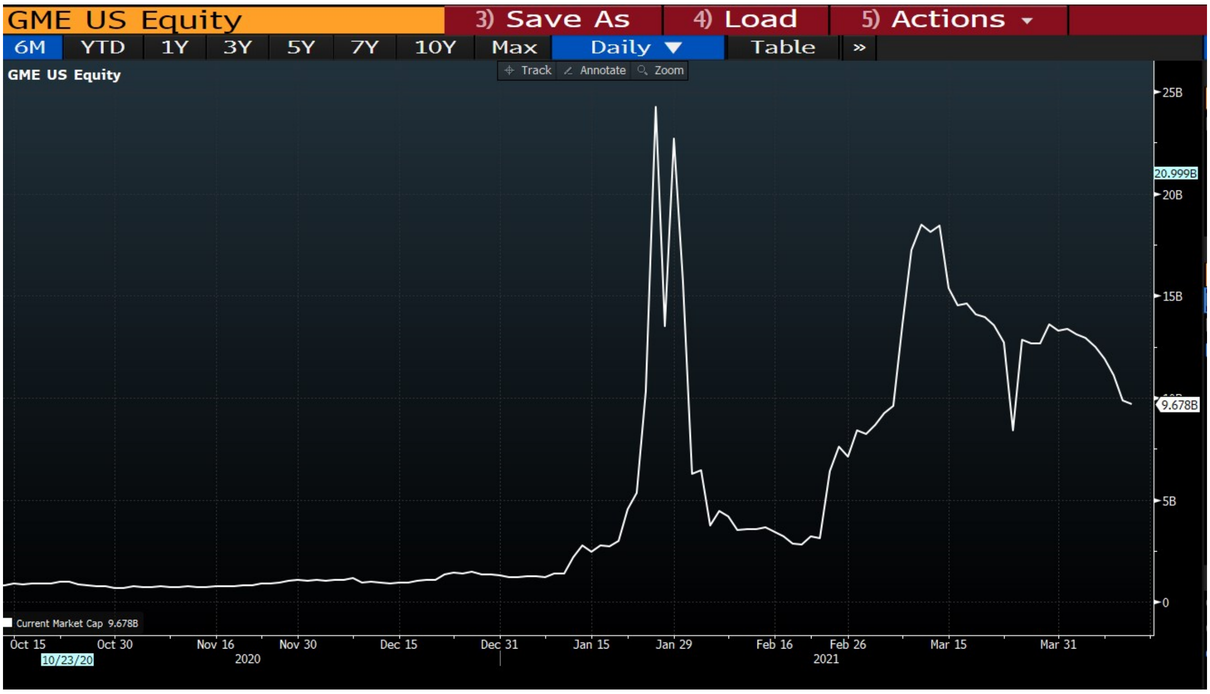
GME traded for around 5 USD, and we took a position in the company at 5.3 USD. Due to (among others) news around activist investor and Chewy co-founder Ryan Cohen and cooperation with Microsoft, the price of GME increased in a short period to around 12 USD, where we closed our position.

A couple of weeks later, the price jumped from 12 USD to around 350 USD in a matter of days (the intraday peak in late January was 483 USD).



(Source: Bloomberg Terminal)

The following chart shows the evolution of the market capitalization of GME during recent events.



(Source: Bloomberg Terminal)

On April 5th, the company managed, through an open market sale agreement with Jefferies LLC, to raise around 550 million USD of new capital (3.5 million at about 150 USD).

Also interesting is the surge of the resignation of GME C-suite. The run-up in the shares has enabled four executes to depart, with vested shares now valued at around 290 million USD. Separation agreements between executives and GME have provisions that let share awards during their tenure to vest immediately when they leave. Such contracts are not atypical; however, the resignation of several C-suite executives leaves a bitter taste.

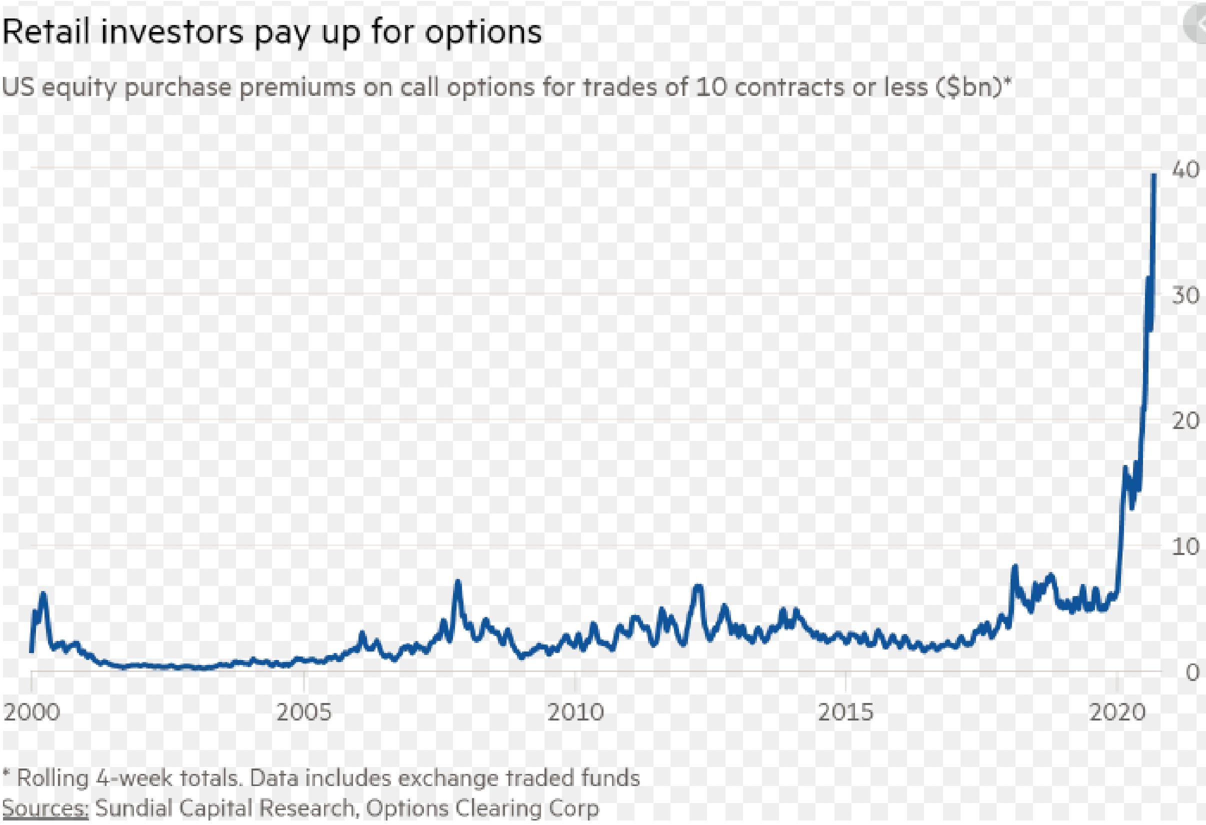
Mr. Sherman will step down end of July after holding the position as CEO for only two years. His current package is at prices worth over 150 million USD. The chief customer officer's package is worth around 35 million USD, and the merchandising chief's about 45 million USD.

The shares currently trade around 150 USD, which is more than 50% lower than it peeks.

How was that possible?

We distinguish between four variables (there are many more known and probably unknown variables).

In the following chart, you can see the increase of retail **call options** (defined as less than ten contracts of 100 underlying shares).



(Source: Financial Times)

As important as the increase in numbers are the specifics about the purchased options, many are short-term options, with strike prices far out of the money.

The buyer of such options forecasts that a given share price increases by a double-digit percentage within a week in an environment where most investors seek a single-digit yearly performance. If we consider the past volatility of the underlying asset (GME in this case), the probability of success is very low. The resulting cheapness of those options combined with the imbalance between disposable capital and desired absolute return makes this investment attractive for many retail investors.

Most of them do not forecast a significant change or new important information; they just try to predict how many buyers the trade could attract and how many forced sellers would emerge.

In other words, it is purely about the offer and demand of a share, not about the fundamentals of the underlying.

The demand analysis brings us to our second variable, **social media.**

Retail investors regroup on the social media platform to exchange information. Some members take the lead. Some of those leaders of WallstreetBets for example, a forum on Reddit, jumped on a bullish analysis on GME (based on fundamental data and forecasting a price target less than 100 % higher). Thousand of small retail investors started buying the before-mentioned call options and the underlying shares.

The initiators know that the more the success rate of the trade increases, the more participants the trade attracts. Their role is not to perform fundamental research but to make a specific narrative spread over the internet, just like a virus does.

The resulting increase in the shares price only increases the trade confidence and attracts more followers. Social media acts as a platform to recruit new traders. Influencers bait new traders with past profits and often very low probable far in the future events (mostly events in a static world, without consideration of competition).

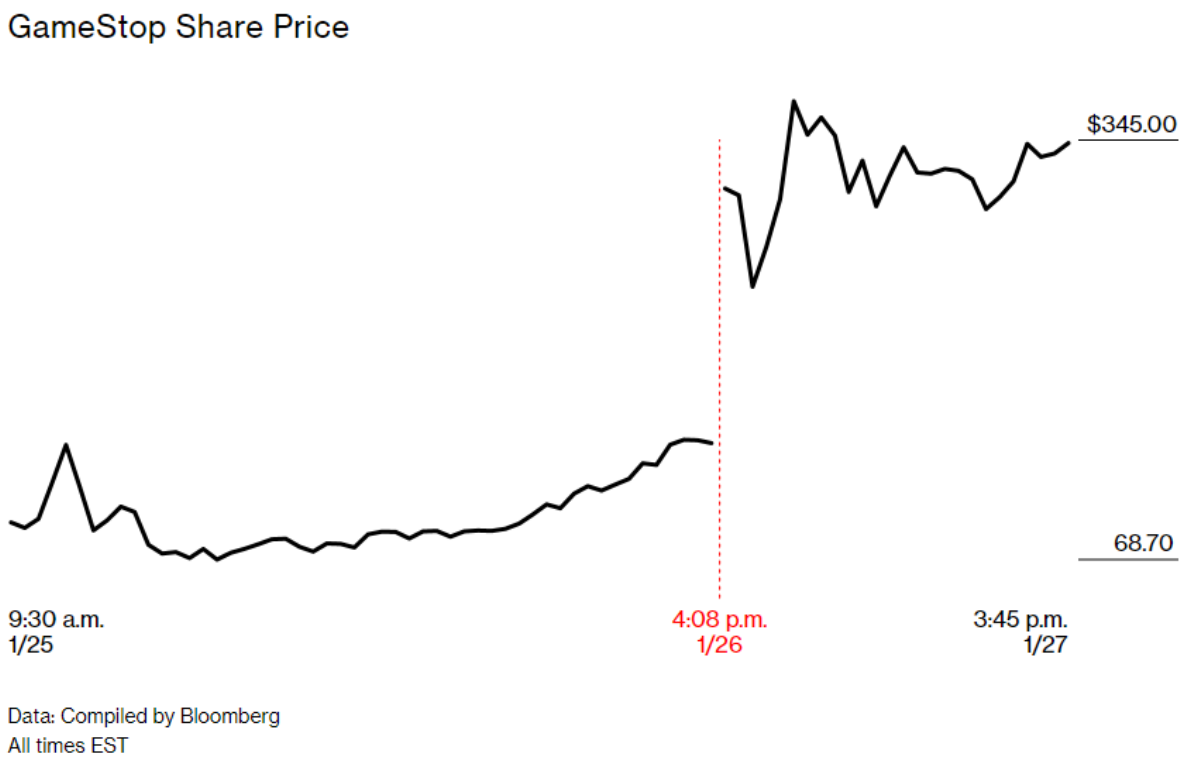
GME also attracted several super spreaders.

Over 24 million people (Australia has 25 million inhabitants) on Twitter follow Mr. Musk. (Some of them are probably boots, and many more have other reasons than admiration.)

He was very successful in promoting the Tesla share and did not flinch from doing business with other financial assets such as cryptocurrencies or shares: Etsy (ETSY) and GME.

@elonmusk/Twitter
(Source: Twitter)

Hereafter, you can see the share price reaction after the tweet.



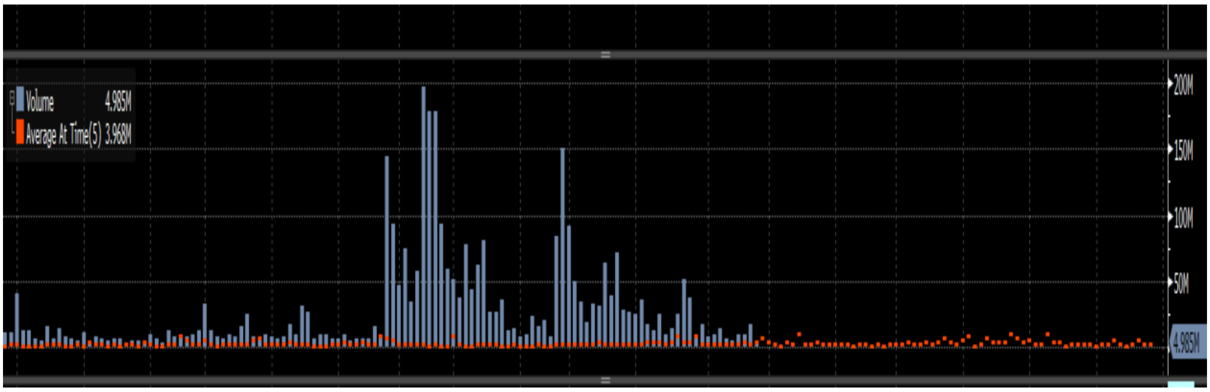
(Source: Bloomberg News)

Another famous (defined by a number of followers) ex-Facebook manager and multiple SPAC owner (one of his companies is a competitor of Robinhood, the brokerage company that got into trouble because of the GME trade) jumped on the train and tweeted to his millions of followers:

(Source: Twitter)

As long as this social media recruiting system is strong enough to outweigh (and influence) sellers, the momentum works.

In the following chart, you see how the trade got crowded. The volume went from under 5 million shares a day to up to 200 million shares a day.



(Source: Bloomberg Terminal)

Our third variable is **analysts**. Weeks before the bank announced a collaboration with GME to raise more capital, Jefferies LLC raised its price target to 175 USD per share.

(Source: Bloomberg Terminal)

The consensus is 45 USD (influenced by the new Jefferies price target).

The analyst considered probably a successful capital raise in his analyses, which was not public at that date.

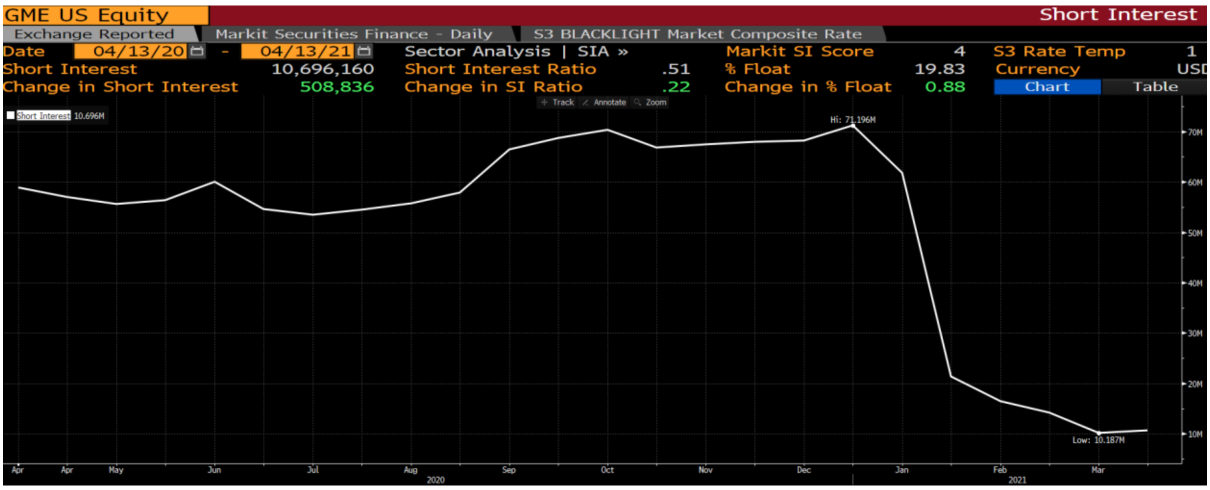
Our fourth variable is **the squeeze**.

A squeeze refers to a situation where investors are forced to pull out of a position. This could be due to concerns not directly linked with the fundamentals of the position, such as leverage, liquidity, or legal reasons.

Given the high liquidity and close to perfectly available information, it is challenging to outsmart one's counterparty. Every time you buy a share, somebody else sells it with the same information.

Therefore, it seems reasonable to find a situation where your counterparty's decision power is limited in how and when to act. Knowing about the spread of narrative on social media and the potential forced sellers on the other side of the trade, some market participants can considerably improve the probability of success. They buy the before-mentioned far out-of-the-money call options before purchasing the underlying shares. By buying the shares, they push the price closer to the strike price and increase the value of the shares.

GME was highly shorted before short sellers covered around 60 million shares in less than one month.



(Source: Bloomberg Terminal)

The price dropped over 50% from its high. Many market participants bought, voluntary or not, above the current market price.

One of the more famous ones was the Hedge Fund Melvin capital that lost over 50% in the first quarter.

Unfortunately, we sold the GME shares at aroud 12 USD, just before the upcoming mania. However, later we opened a small position in Bed Bath and Beyond (BBBY). The company was already heavily discussed on the different social platforms and also fulfilled the other mentioned conditions. As you could read earlier, it was the highest contributor to our performance during Q1.

- What happens next?

How is the market going to value the shares?

We took a small short position in GME (167 USD). We will continuously hedge the position to avoid to be forced out at an inconvenient moment for an inappropriate reason.

The risk is that the market continues to value GME more like art, as to say there is no direct link to the capacity of generating earnings. It could be a symbol for the art of betting against the suits (that's how many of these social media participants call Wallstreet's elite). GME stands for the social media provoked short squeeze, like Kleenex for tissues, Zamboni for ice resurfacer, or Jakuzzi for a bubble bath. Any important influencers can restart the currently weakened spread of the narrative. Knowing this, other market participants might bet on exactly this occurrence and by their actions, increase the probability of it.

However, I believe that time runs against them. The spread of the narrative tends to weaken over time. There will be new exciting subjects in our fast-moving world.

The whole trade is based on masses trying to destabilize the offer and demand of the shares. There is no double cushion as to say that the holder benefits at one point from an intrinsic value in the form of dividends or liquidation (the trust of being able to perform both is often sufficient). This makes the trade very fragile during stressful market conditions.

We should not forget that GME is still a retail company that faces declining revenues due to the online streaming competition, a company that has been looking for a buyer for years. Of course, the 550 million USD that the company managed to raise will influence its odds, but does this justify a 10-billion USD difference outcome? Also to be noted is that the company lost several key people.

Many market participants have been caught on the wrong side of this trade. They will anticipate that this can happen again and take precautions. So do several significant hedge funds not publish their short book on social media anymore to avoid becoming a target. Option sellers will increase the price of the concerned call options to make the trade less attractive.

Finally, the probability increases that the Security and Exchange Commission (SEC) takes some steps as it recently did in the context of Special Purpose Acquisition Companies (SPAC) (see hereafter). The most effective regulation of financial markets occurred in 1933, just a couple of years after the glorious '20s ended in the 1929 October crash. Before these regulations, companies were not forced to publish official reports, let alone being audited; insider trading was standard. The regulation resulted from an investment mania among retail investors who often invested without any information about a given company (a big difference from today where the data is available). When the music stopped playing, many noticed that their shares or debentures became worthless. (Two interesting books describing this period are *The Match King: Ivar Kreuger and the Financial Scandal of the Century* or the classic *Reminiscences of a Stock Operator*).

I believe that promoting financial assets on social media should be regulated. Important (number of followers) influencers have to publish their book and keep the position several days before and after the announcement.

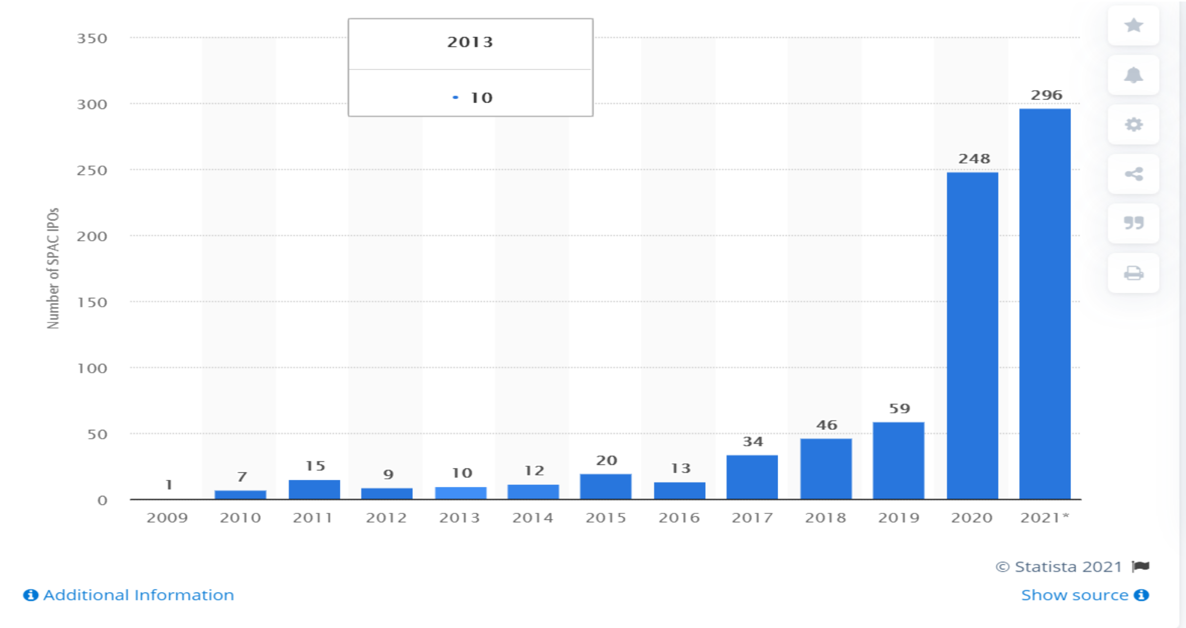
This brings us directly to our next trade.

- Special purpose acquisition company (SPAC)

The number of public companies continued to decline during the last decades, and the ones that go public are often in a later stage of development (Airbnb (ABNB), Uber(UBER)…).

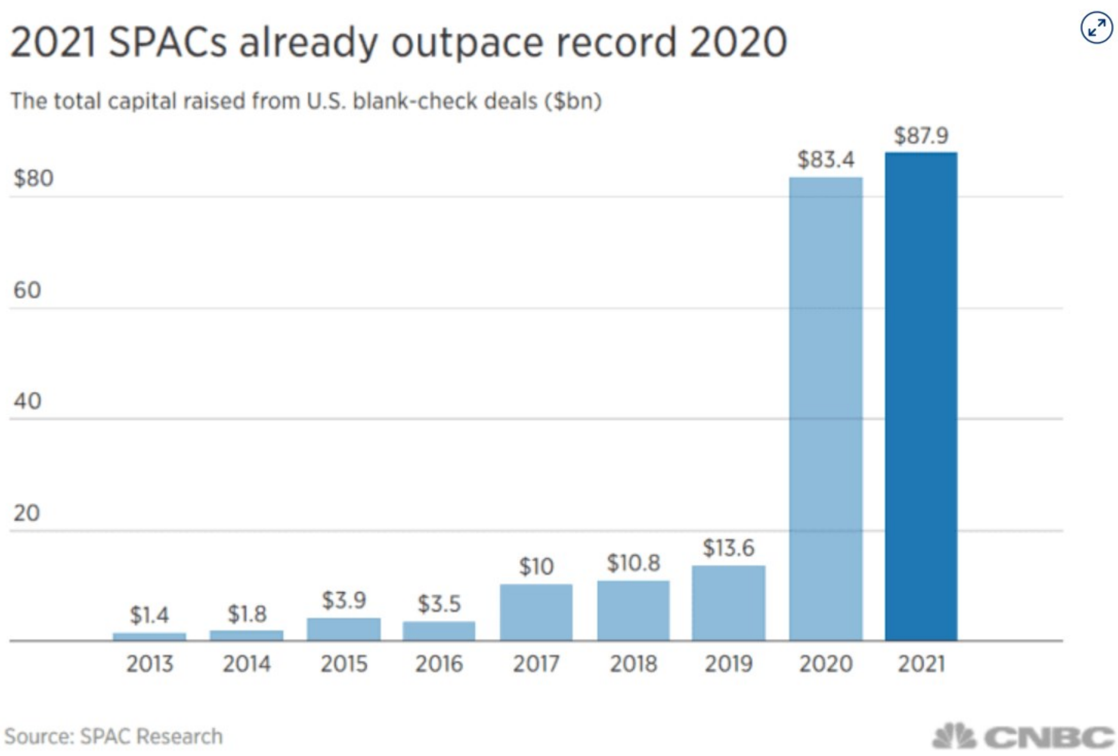
SPACs are listed as empty shelves companies that raise capital intending to merge with an operating company that wants to go public. Noteworthy is that this merger has to be realized within two years, or the shareholders can ask for their capital back. We understand that this can provoke a situation similar to the before-mentioned squeeze.

The number of SPACs jumped during the last two years.



(Source: Statista 2021)

Those types of companies already raised more capital in 2021 than in 2020, another great year.



(Source: CNBC.com)

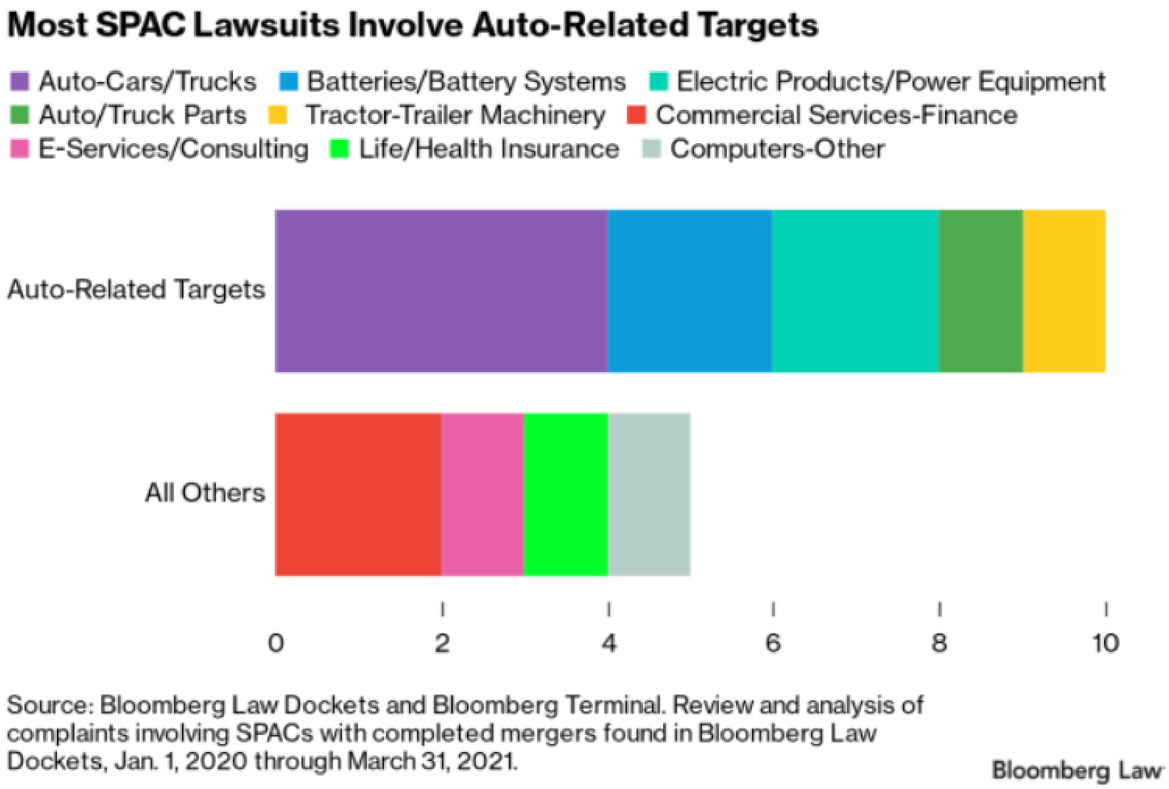
SPACs offer a faster, easier, and less expensive way to raise capital (precisely less costly for the existing shareholders, but probably not for the new ones due to the important incentives paid to the SPAC initiator). This presents many new exciting investment opportunities that were limited to the more exclusive private equity investors.

Nevertheless, there are fewer restrictions concerning forward-looking numbers.

This increases the risk of being blinded by low probable successful stories. Traditional investment banks would have declined many companies that went public by SPAC merger. (Pinksheets and other over-the-counter exchanges are much less regulated but offer less potential of capital raise.)

The SEC in April raised concerns that investors aren't fully informed of risks embedded in SPACs. The agency warned that the safe harbor provision, which allows sponsors, targets, and others to make business projections, protects participants only from private lawsuits, not SEC enforcement.

SPACs targeting electric vehicles (EVs) and autonomous driving drew lawsuits more often than those in other industries.



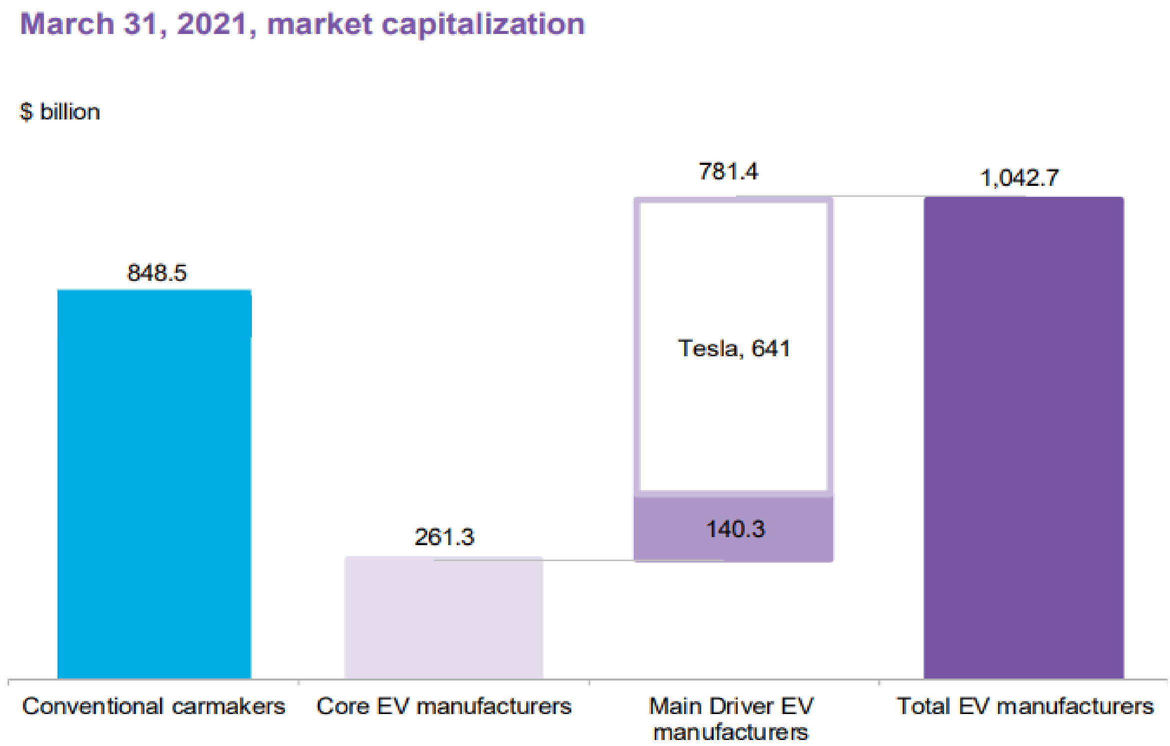
(Source BNEF.com)

Many EV manufacturers and suppliers went public by SPAC merger. It is a new technology that offers growth potential for many years to come; it is about disruption, about clean energy.

The ease of capital in this sector increases the likelihood of false claims, lies. By just reading a few EV-related business plans, you are intended to conclude that old-fashioned car manufacturers will be the new Nokias and Blackberries.

Around 2,000 car-manufacturing companies were implemented in the United States when the first cars replaced horse carriages over 100 years ago. At that time, it was wiser to short horse carriage companies than to choose a winning car manufacturing company.

Today, many new EV companies have higher market capitalization than traditional car manufacturers, without generating any revenues.



Source: BloombergNEF, Notes: conventional carmakers include VW, Toyota, Renault-Nissan-Mitsubishi Alliance, GM, Hyundai-Kia, SAIC, Ford, Stellantis and Mercedes-Benz.

(Source: BNEF.com)

However, the knowledge bridge from internal combustion engine producers (ICE) to EV is more straightforward than from horses to ICE and EV. Worth mentioning is that car manufacturing business will still be a capital-intensive, very cyclical, and low margin business.

We took a small short position in several EV manufacturers (Canoo (GOEV), Lordstown Moto (RIDE), Workhorse (WKHS)). I chose to write about Fisker (FSR, open at 17.5 USD) because it is one of the most known. Indeed, Mr. Fisker was the former chief designer of Aston Martin and president of BMW Designworks. His first experience as a car manufacturer ended in bankruptcy. It cost him and his shareholders around 1 billion USD.

The company currently has 162 million Class-A shares and 132 Million Class-B shares (10 voting rights) outstanding.

We can deduct that the market capitalization reached up to 8 billion USD beginning of March.

(Source: Bloomberg Terminal)

For a new car manufacturer, raising enough capital is the most important necessary condition of success. Mr. Fisker probably learned many lessons and used the hype around EVs to raise around 1 billion USD for his second endeavor. The company currently has about 900 billion USD cash.

He decided to build an asset-light business by outsourcing the production to Magna and Foxconn (he is also in discussion with VW to use their MEB platform). Several large-car manufacturers outsource specific low production number models to Magna. The breakeven point for a particular model is relatively high because of the critical CAPEX and high fixed costs of running a production line.

As we can read in the extract from the latest quarterly report, the company issued over 19 million warrants to Magna, with an exercise price of 0.01 USD. Magna has the right to vest in case of the following milestones:

Magna

On October 14, 2020, Legacy Fisker and Spartan entered into a cooperation agreement with Magna setting forth certain terms for the development of a full electric vehicle (the "Cooperation Agreement"). The Cooperation Agreement sets out the main terms and conditions of the upcoming operational phase agreements (the "Operational Phase Agreements") that will extend from the Cooperation Agreement and other agreements with Magna that are expected to be entered into by and between us and Magna (or its affiliates). The upcoming Operational Phase Agreements referenced in the Cooperation Agreement relate to various platform and manufacturing agreements. The Cooperation Agreement provides that we would issue to Magna warrants to purchase Class A Common Stock in an amount equal to six percent (6%) of our capital stock on a fully diluted basis (which means for these purposes, after giving effect to the deemed conversion or exercise of all of our options, warrants and other convertible securities outstanding on the issuance date; *provided, however* , that the "public warrants" sold as part of the units issued by Spartan in its initial public offering which closed on August 14, 2018 shall not be deemed to be exercised for these purposes) after giving effect to the Business Combination and issuance of the warrants to purchase such shares to Magna, with an exercise price of $0.01 per share of (the "Magna Warrants"). On October 29, 2020, we issued to Magna 19,474,454 Magna Warrants. The Magna Warrants are subject to vesting as follows:

Milestones	Percentage of Warrants that Vest Upon Achievement
(i) Achievement of the "preliminary production specification" gateway as set forth in the Development Agreement; (ii) entering into the Platform Agreement; and (iii) entering into the Initial Manufacturing Agreement	33.3%
(i) Achievement of the "target agreement" gateway as set forth in the Development Agreement and (ii) entering into the Detailed Manufacturing Agreement, which will contain terms and conditions agreed to in the Initial Manufacturing	33.3%
Start of pre-serial production	33.4%

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(Source: 10 K Annual Report 2020 Fisker)

This agreement probably decreases the probability of short-term failure. Mr. Fisker, burned by past experiences, tries to keep his capital for the tasks he thinks perform best.

We read that current shareholders are getting diluted by over 6% before the first models are shipped. In other words, they don't get diluted in case of failure, which of course, doesn't matter for most of them.

As you can read in the following distract of their 10 K, there are also considerable risks with outsourcing.

First, the production price will depend on the volume, and second, the intermediary takes margin. Magna International has a net margin of around 6%, roughly the same as German car manufacturers.

Manufacturing in collaboration with partners is subject to risks.

Our business model relies on outsourced manufacturing of our vehicles. The cost of tooling a manufacturing facility with a collaboration partner is high, but such cost will not be known until we enter into a vehicle manufacturing agreement. Collaboration with third parties to manufacture vehicles is subject to risks that are outside of our control. We could experience delays if our partners do not meet agreed upon timelines or experience capacity constraints. There is risk of potential disputes with partners, which could stop or slow vehicle production, and we could be affected by adverse publicity related to our partners, whether or not such

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(Source: 10 K Annual Report 2020 Fisker)

We have a limited operating history and faces significant challenges as a new entrant into the automotive industry. Fisker vehicles are in development and we do not expect our first vehicle to be produced until the fourth quarter of 2022, at the earliest, if at all.

Fisker was incorporated in September 2016 and we have a short operating history in the automobile industry, which is continuously evolving. We have no experience as an organization in high volume manufacturing of the planned electric vehicles. We cannot assure you that we or our partners will be able to develop efficient, automated, cost-efficient manufacturing capability and processes, and reliable sources of component supplies that will enable us to meet the quality, price, engineering, design and production standards,

(Source: 10 K Annual Report 2020 Fisker)

In other words, Fisker cars have to be more expensive than similar cars from competitors. This luxury phenomenon exists in many different sectors. Porsche and Ferrari have higher gross margins than other car manufacturers. However, Mr. Fisker still needs to create that brand, that justifies higher prices.

He tries to do this by imitating the inventor of social media-related shares promotion, Mr. Musk. He is very present and uses the currently low-regulated environment to claim the lead in development in solid-state batteries and the imminent introduction of the first model, the Ocean.

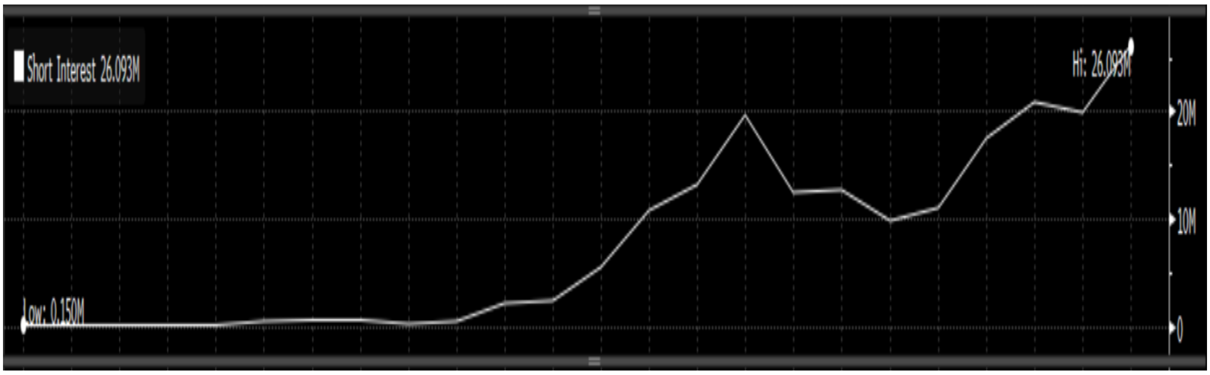
Nevertheless, just as it postponed introducing its first model, the Ocean, the company also withdraw from its claims of superior technology on solid-state batteries. (Of course, as for many other companies, the 900 MUSD have been raised based on those false claims)

A product designed by a star designer that outsources most of its production reminds many of Apple (APPL). This creates the “apple” narrative, and of course, there are rumors about a corporation between FSR and APPL (FSR also signed a contract with Foxconn, the company that assembles iPhones). I don’t understand why APPL or anybody else would invest in a company with an EV of over 3 billion USD, with no product and probably no real technology know-how.

The company might become a niche car manufacturer, but what is the probability to justify an EV of 3 billion USD? The company needs to sell many more than 150,000 cars a year, with a net margin of 5%, to justify this market capitalization.

I conclude that a price increase based on fundamental data is limited for the following years. The extreme opposite case is at least for the mid-term-limited too. Indeed, the company sits on 900 million USD of cash and plans to burn through 250 million USD in 2021.

Just as for all our strong narratives shares, we keep a constant hedge. The risk of a reemergence of the Apple story combined with the increasing short interest of currently 16% of the float pushed us to lock profits in.



(Source: Bloomberg Terminal)

- We also closed most of our reopening trades

We sold our Dufry (DUFN SW) and Hellofresh (HFG GY) positions with over 50% of profit. We still own Elior (ELIOR FP), Camping World, and Tui AG (TUI1 GY).

We also closed our long-term short on Sixt AG (SIX2 GY), incurring a 25% loss. The position (together with Europcar, a position we closed too early) was based on a disruption of the car rental market. Companies like UBER offer an excellent alternative to a short-term rental car. Furthermore, Waymo might soon offer, in several cities, Level 4 (geofenced) autonomous driving services. This will further decrease the prices per km in the mid and long term.

Sixt AG distinguishes itself from other car rental companies by renting out mostly high-end German cars. After a certain period, the company returns those cars to the car manufacturers for fixed negotiated prices. These negotiations might also be at risk. (The European market is different from the US market, where rental companies push the cars directly in the used car market, mainly through auctions.)

The suppliers of SIX2 GY, German car manufacturers, see their business model also disrupted, making them think about new business opportunities. This, combined with new technology, allows them to offer similar services to SIX2 GY.

Being squeezed from the suppliers and customer side increases the probability of adverse effects on margins.

At that time, I also had a negative opinion on SIXT's US expansion, the largest but probably also the most competitive market.

The company's progress in combining four different products in one application made me change my opinion, at least for now.

(Source: Sixt.com)

Furthermore, SIX2 GY comes financially stronger out of this current crisis than its competitors. It was also able to buy several rental stations of bankrupt Advantage Rent a Car, in the US, and Europcar, its main competitor, defaulted on its debt in January.

I am still skeptical about the company managing to grow its profit and/or revenues to justify its premium valuation.

The most important single variable in the valuation of financial assets are interest rates. Directly linked to interest rates is the increase in the prices of consumer goods and services. Most market participants have an opinion on the evolution of consumer prices, even if it is one of the most complex puzzles.

- Interest Rates

The 10-year US debt increased by over 100% this year and is currently yielding around 1.65%.

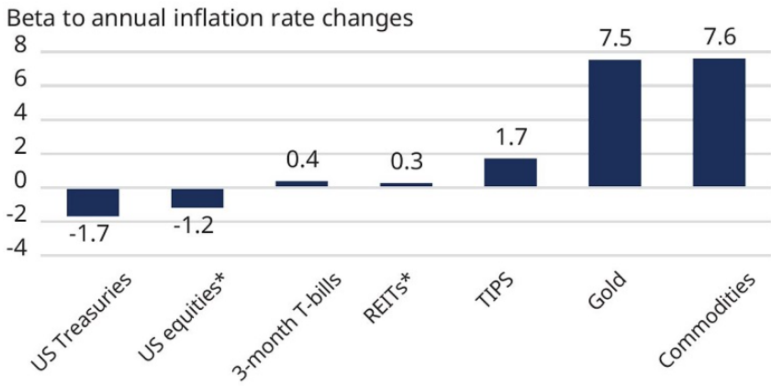
(Source: Bloomberg Terminal)

This is, in absolute terms, still a minor increase. Furthermore, inflation of consumer goods and services are favorable for economies until a certain level. Indeed, companies tend to invest more because higher inflation reduces the fear of declining prices (a much riskier self-fulfilling loop than the inflation one). Finally, consumers tend to increase their consumption because goods get more expensive over time (Let us buy that new washing machine this year).

So, why are markets starting to worry so much about increasing inflation?

The following chart shows the performance of different asset classes during higher inflation periods.

Figure 1: Inflation sensitivity varies by asset class



Source: Datastream Refinitiv and Schroders. Data from March 1973 to December 2020, except TIPS from March 1997. Notes: based on a multivariate regression of rolling annual total returns of each asset class on the change in the inflation rate over one year (inflt+0 - inflt-1) and the inflation rate at the start of the year (inflt-1). *Not statistically significant at the 5% level using robust standard errors.

(Source Schrolders.com)

What is, at first sight, surprising is that equities underperform during inflation. Indeed, higher revenues for companies are a direct consequence of higher inflation, as to say higher prices. One could assume that nothing changes on the profit side because costs, like other companies' revenues, also increase. However, this is not entirely true because the speed of price increases differs in different sectors. In other words, there will be winners and losers.

More critical for the underperformance of equity during inflation (at least during the last significant inflation during the 70ties) is the time value of money. In an environment of increasing profits (due to inflation), shares might decrease due to decreasing price-earning ratios. Do you want to own the shares of a slow-growing company paying a 2.5% dividend yield if you can earn a 5% interest on the five-year bond?

The excess yield of the major US and European Indices over the respective 10-year government debt decreased to around 2%.

(Source: Bloomberg Terminal)

Higher interest also affects leverage. The return on an asset needs to increase to reach the breakeven point. To improve its dividend yield from 2.5% to 5%, a company needs to double its profit (assuming a constant payout ratio), or the price of the shares needs to decline by 50%.

I conclude that it is less probable that buyers pay a higher multiple (or lower yield) during times of rising inflation. We may pay the "price" during the following years of the increasing multiples (or lower yield) over the past decade.

Additionally, the opportunity costs of investing in a growth company, where growth is supposed to materialize in profit only many years ahead, raise. Investors in companies like Tesla (TSLA) think in terms of decades. A 5% dividend yield increases the value of the investment by over 50% over ten years. It is essential to think in relative terms. An interest increase from 5% to 7% (as it happened in previous cycles) does not have the same effects as an increase from 1% to 3%.

I started writing about the effects of increasing inflation before analyzing the probability. The reason is that there is more certainty about the what than about the when.

Hereafter, you find an extract of the letter written by famous economists and investors, published 11 years ago in the Wall Street Journal, intending to make the Fed reconsider its asset-buying program.

Open Letter to Ben Bernanke

By WSJ Staff

Nov. 15, 2010 12:01 am ET

PRINT TEXT

The following is the text of an open letter to Federal Reserve Chairman Ben Bernanke signed by several economists, along with investors and political strategists, most of them close to Republicans:

We believe the Federal Reserve's large-scale asset purchase plan (so-called "quantitative easing") should be reconsidered and discontinued. We do not believe such a plan is necessary or advisable under current circumstances. The planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment.

We subscribe to your statement in the Washington Post on November 4 that "the Federal Reserve cannot solve all the economy's problems on its own." In this case, we think improvements in tax, spending and regulatory policies must take precedence in a national growth program, not further monetary stimulus.

We disagree with the view that inflation needs to be pushed higher, and worry that another round of asset purchases, with interest rates still near zero over a year into the recovery, will distort financial markets and greatly complicate future Fed efforts to normalize monetary policy.

(Source: Wallstreet Journal)

We can agree that their inflation worries were unnecessary till now. However, being wrong over a decade does not decrease the probability of being right in the future.

It might even be the contrary in this case. Indeed, mainly due to Sars-Cov-2, many parts of the world face current textbook-like situations, resulting in higher prices.

First, demand will increase over the following months. US private households saving rates increased due to reduced consumption (one can still argue if consumers postponed consumption or use the proceeds to pay down debts) and helicopter money. Additionally, the Biden infrastructure and green energy plan increase the public demand for goods and services.

Second, supply is limited for the short and mid-term. The restriction put in place by many countries disrupted supply changes. The risk of geopolitical tensions that could significantly affect the world economy is probably higher than it has been for many decades. The human genius is a significant reason for productivity gains. We should, however, not forget about the abundant cheaper labor around the world. How far would the prices of many goods and services increase if they have to be produced and offered locally?

Finally, the most significant risk of inflation comes from a third variable, the expectation of inflation.

The complexity in forecasting price increases depends on forecasting the investment and consumption behavior of companies and individuals. These market participants base their behavior on their forecast of price evolution.

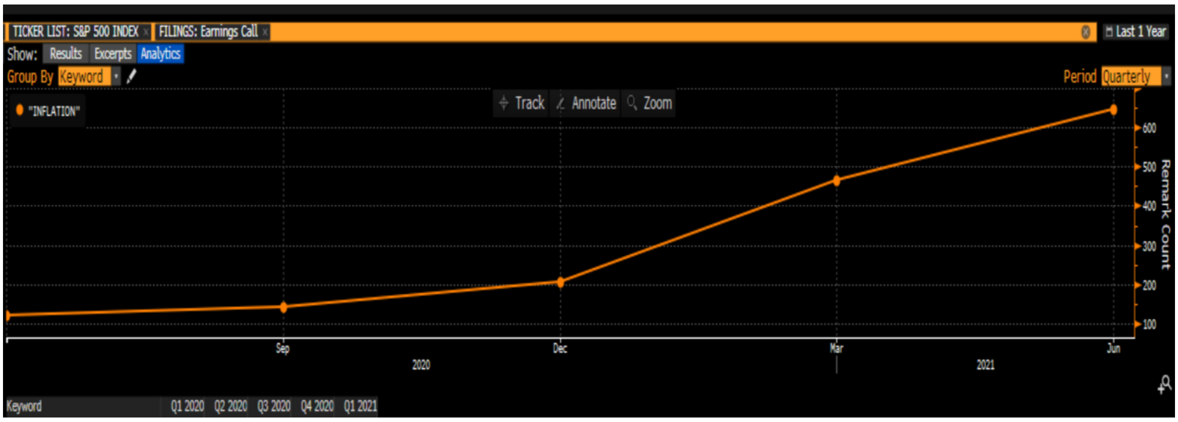
The following two charts prove the increasing importance of an inflation narrative in the private and corporate world.

Google Analytics is a valuable (maybe also dangerous) tool that helps find and understand the different narratives.

Inflation concerns are growing, Deutsche Bank finds.

(Source: Deutsche Bank)

The following chart shows that the number of times the word "inflation" has been used during the Q1 conference calls of S&P 500 companies more than doubled.



(Source: Bloomberg Terminal)

This data suggests that companies and individuals may adopt the before mentioned inflation-causing behavior.

So what is my conclusion?

First, I believe that the probability of inflation is higher than it has been for two decades, without having any information on the absolute probability. Furthermore, I pay less attention to the calming words of Central banks as to their actions. Finally, I consider in my strategy the potential of declining stock indices in a good macroeconomic environment.

I hope you enjoyed reading this letter.

Kind Regards,

Marc Daubenfeld