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Six Minute Strategy

Reining in the recovery

Guy Monson

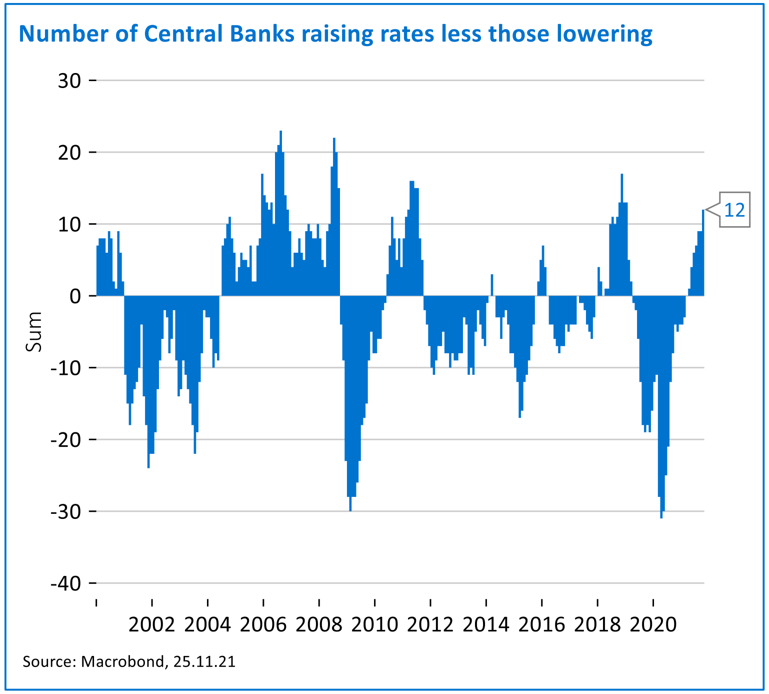
US Federal Reserve signals that it might shift its ‘transitory’ inflation narrative

Earlier end to taper and start of rate hikes on the table – rates already on the rise globally

FOMC Chair Jerome Powell & Vice Chair Lael Brainard

“Some participants suggested that reducing the pace of net asset purchases…could be warranted so that the Committee would be in a better position to make adjustments to the target range for the federal funds rate, particularly in light of inflation pressures,” *FOMC Minutes November 2021 meeting*

“The rapid improvement in the labor market and the deteriorating inflation data have pushed me towards favoring a faster pace of tapering and a more rapid removal of accommodation in 2022,"
Fed Governor, Christopher Waller, November 19, Centre for Financial Stability in New York



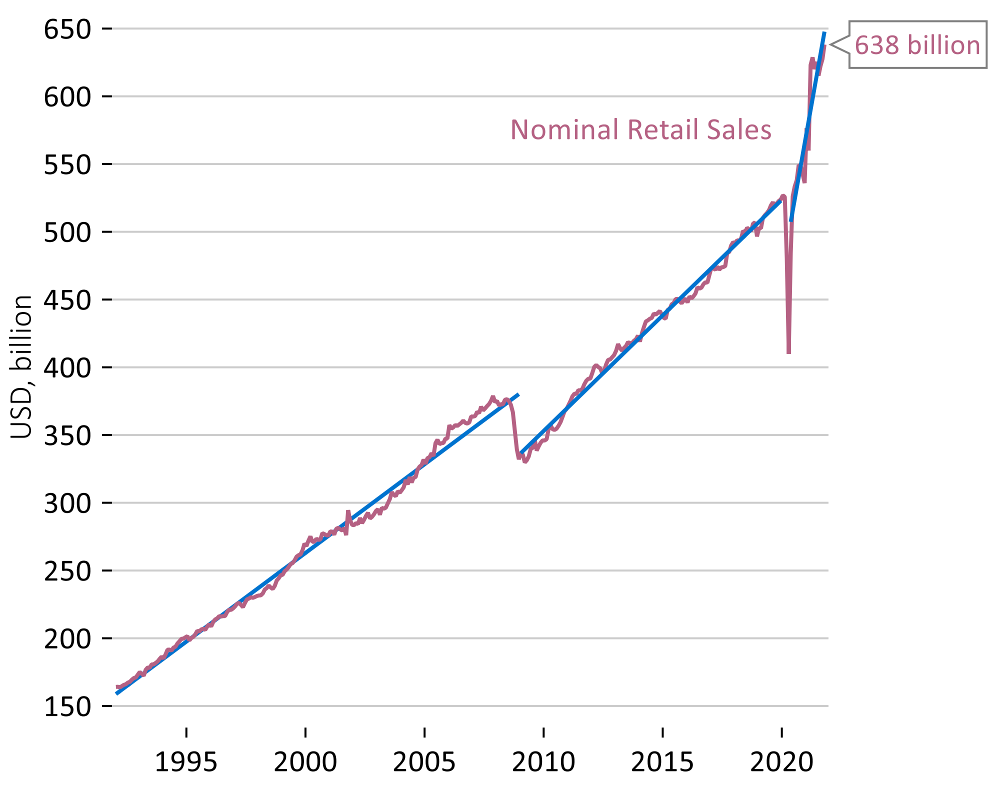
Second rate rises from New Zealand & South Korea this week

1. Its not all about supply shocks, demand is fundamentally strong

Retail sales are more weighted to goods consumption and have received a huge boost

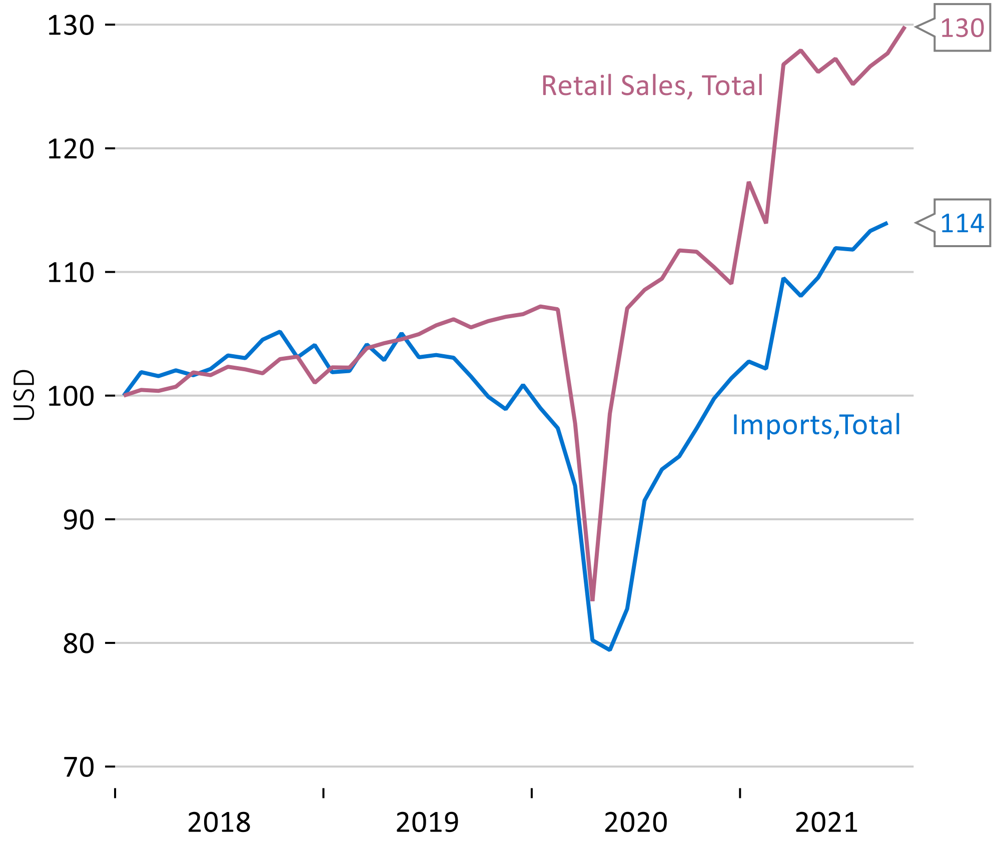
Inventory rebuild will keep demand high

Nominal Retail Sales



Source: Macrobond, 25.11.21

Imports are strong, but not keeping pace with demand

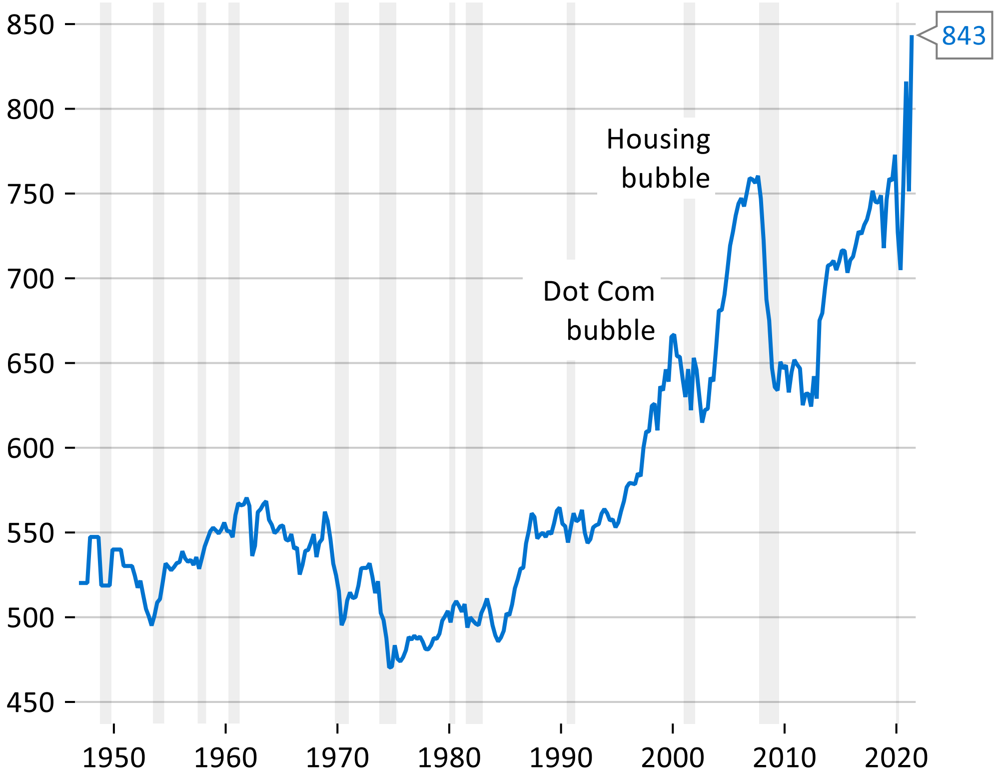


Source: Macrobond, 25.11.21

2. Rising asset prices (particularly house prices) are creating a wealth effect for asset rich households

Wealth effect is accelerating retirements, reassessments

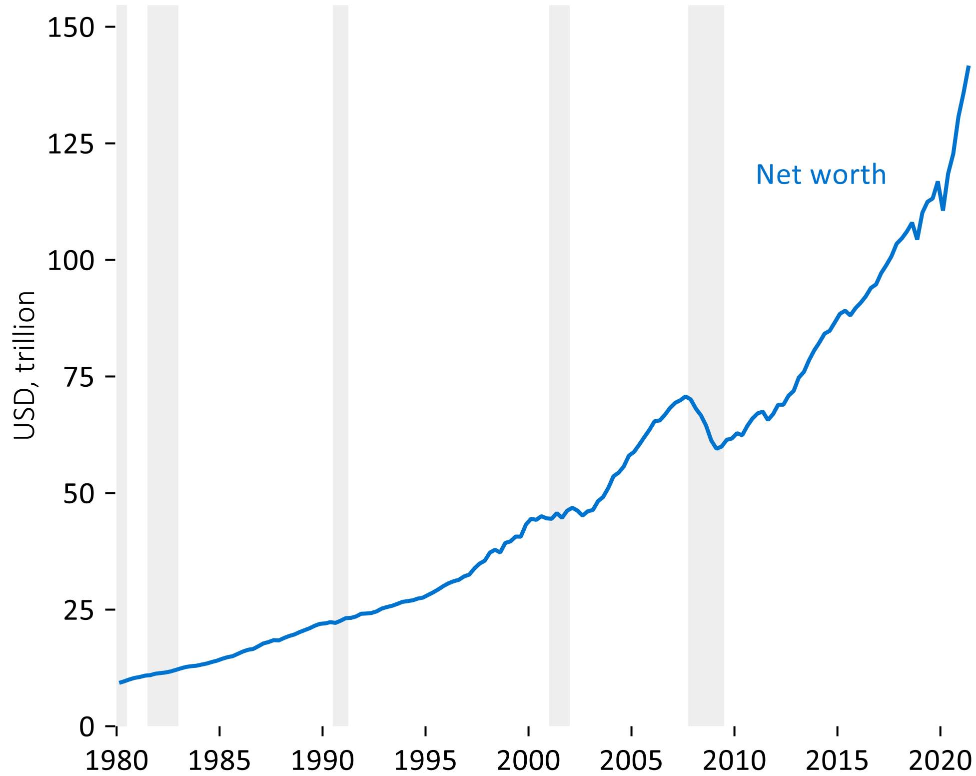
US Real Estate & Fin Assets as a % of Disposable income



Source: Macrobond, 25.11.21

Wealth effect will also boost consumer demand (mpc)

Households' Net Worth

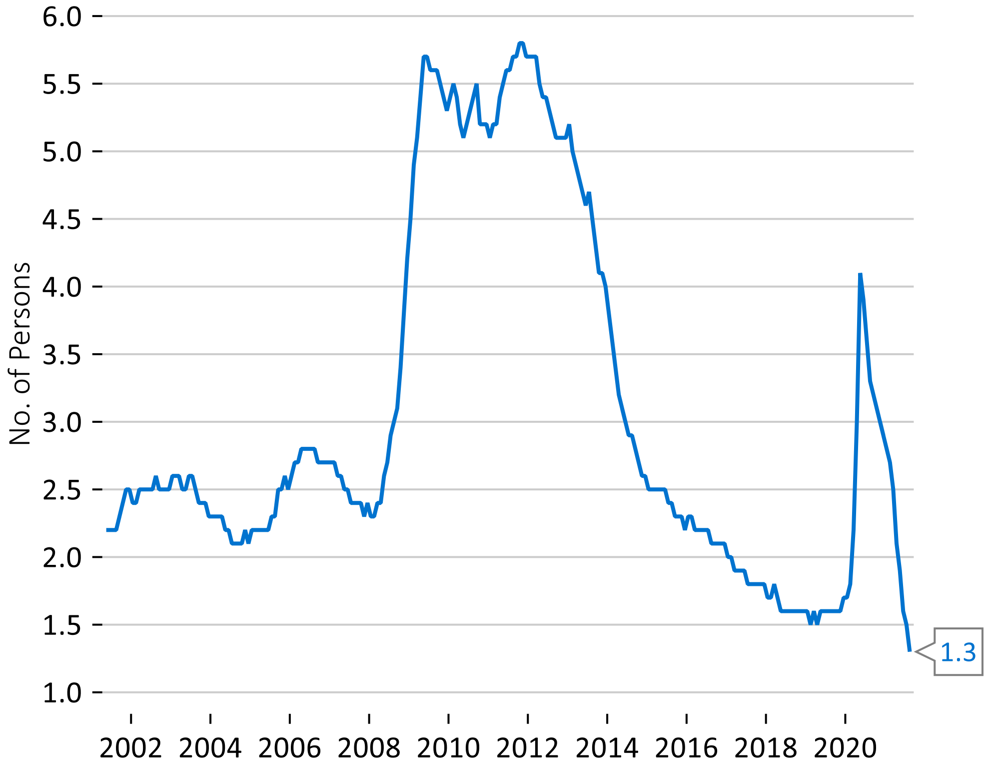


Source: Macrobond, 25.11.21

3. Where is the greatest risk? Most likely the labour market

The tightest UK labour market in recent history

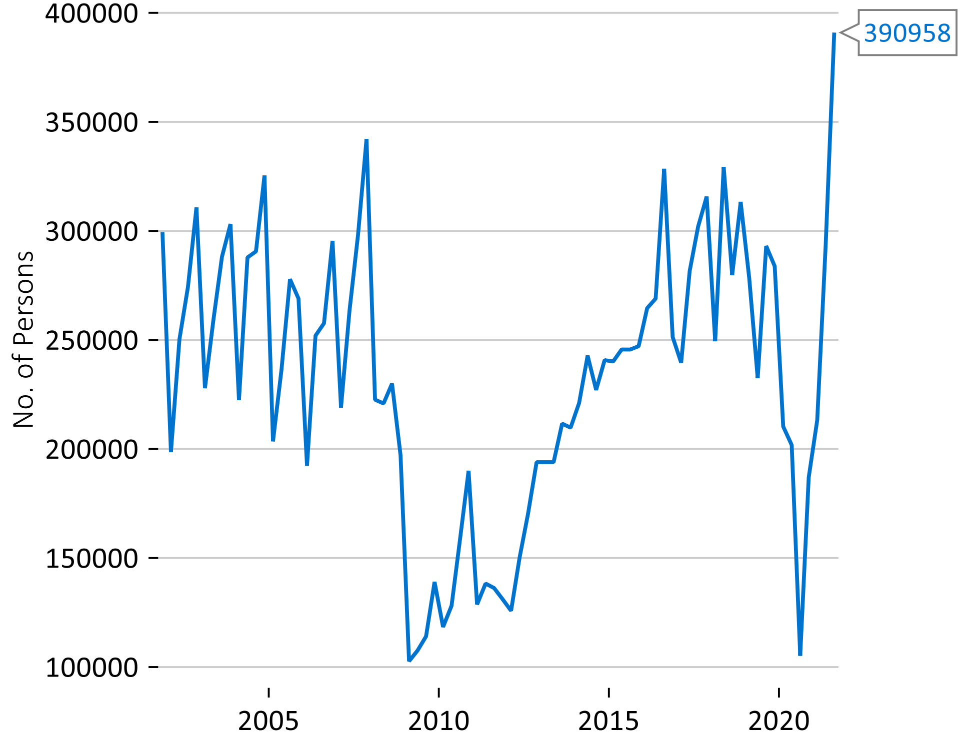
UK Number of Unemployed People Per Vacancy



Source: Macrobond, 25.11.21

The 'Great Resignation'

UK Labor Flow Statistics, Reason for Job Moves, Resignations



Source: Macrobond, 25.11.21

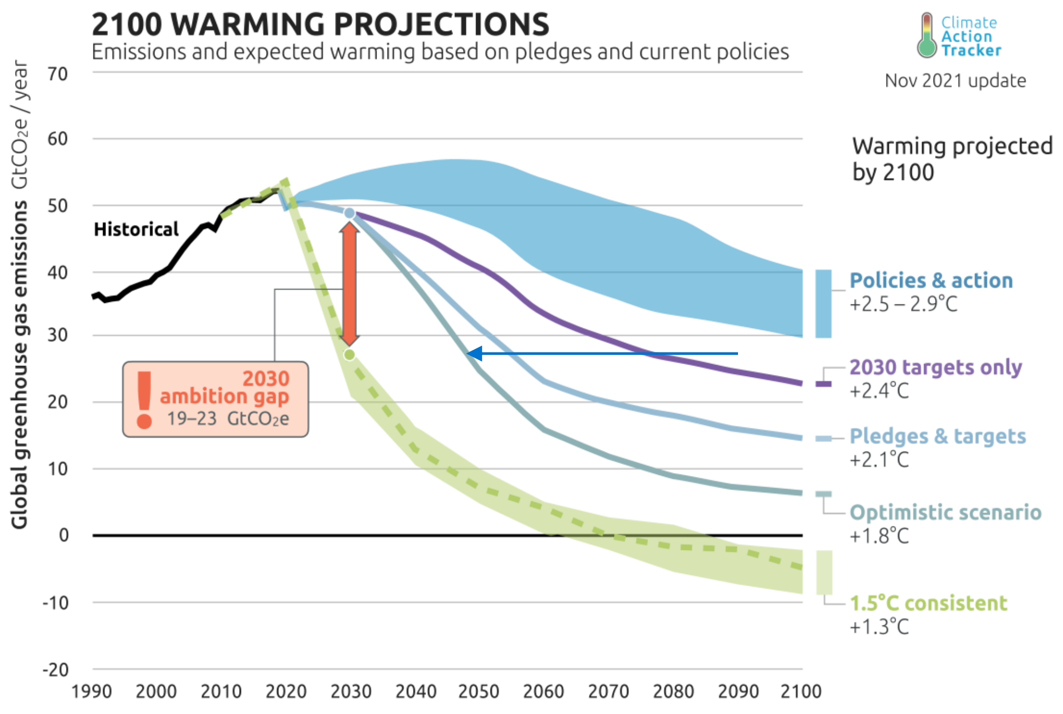
It's tightness in the labour market that concerns me most"

Andrew Bailey BOE Nov 2021

Source: BOE Monetary Policy Report Nov 2021

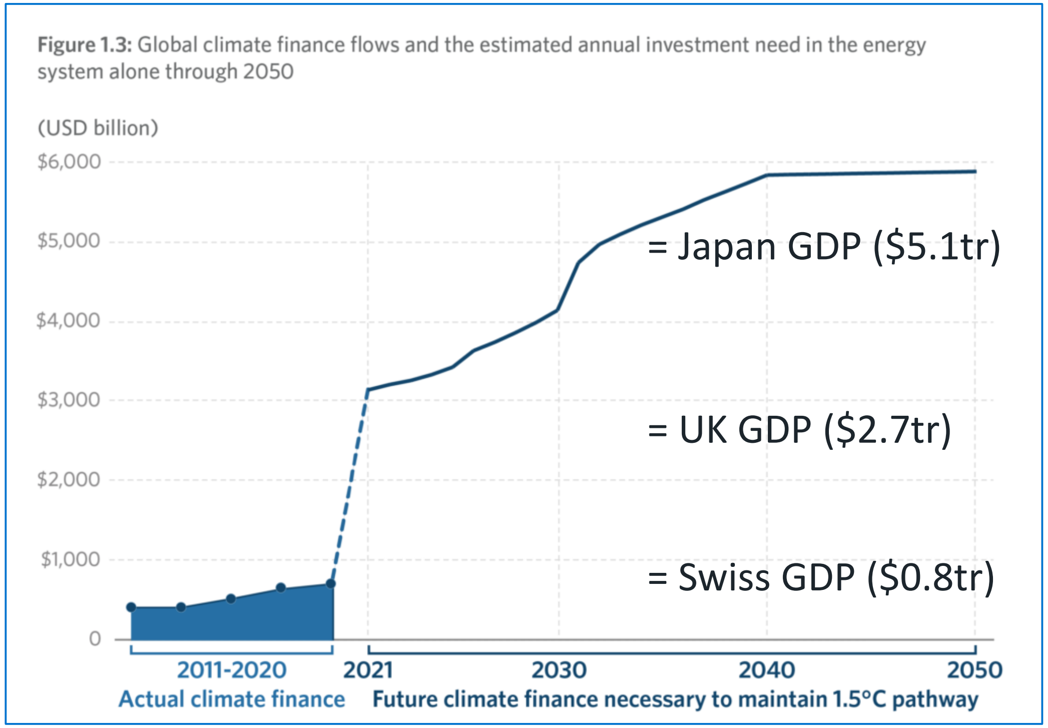
4. COP26 ushers in a new era of climate capital spend

Promises can only be met by closing ambition gap by 2030



Source: Climate Active Tracker November 2021

Climate financing needs at 7.5% of GDP by 2040



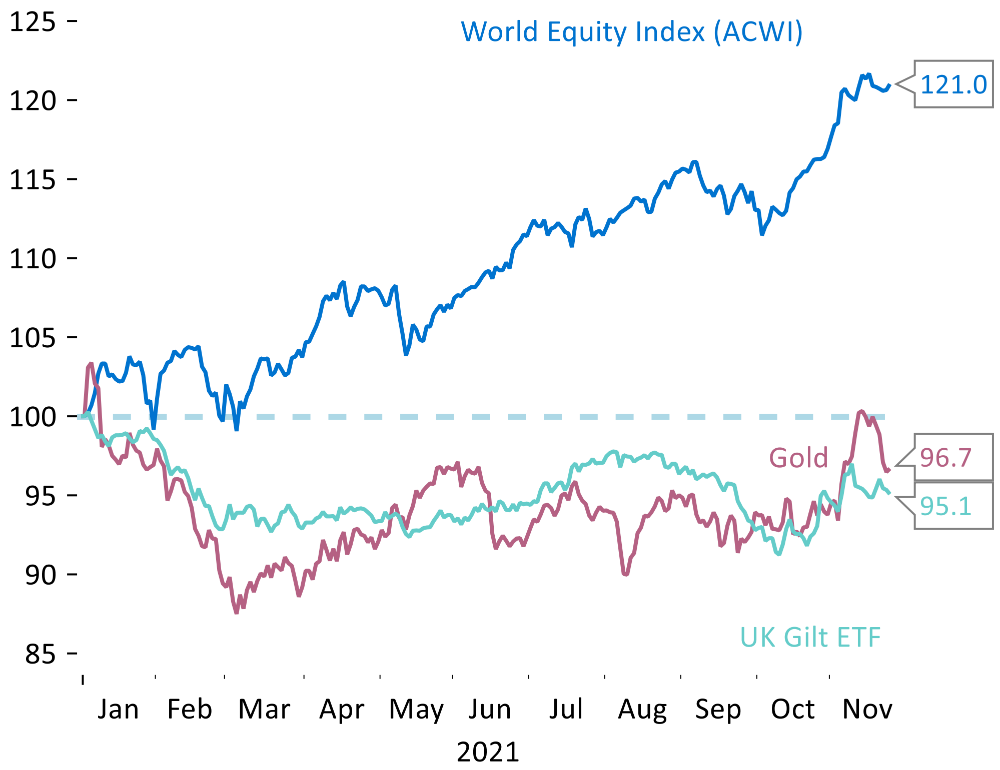
Source: Climate Policy Initiative. October 2021.

Asset class performance 2021 to date

Equities lead – Similar returns from value and growth– Volatility remains low

Equities rally, bonds & gold decline

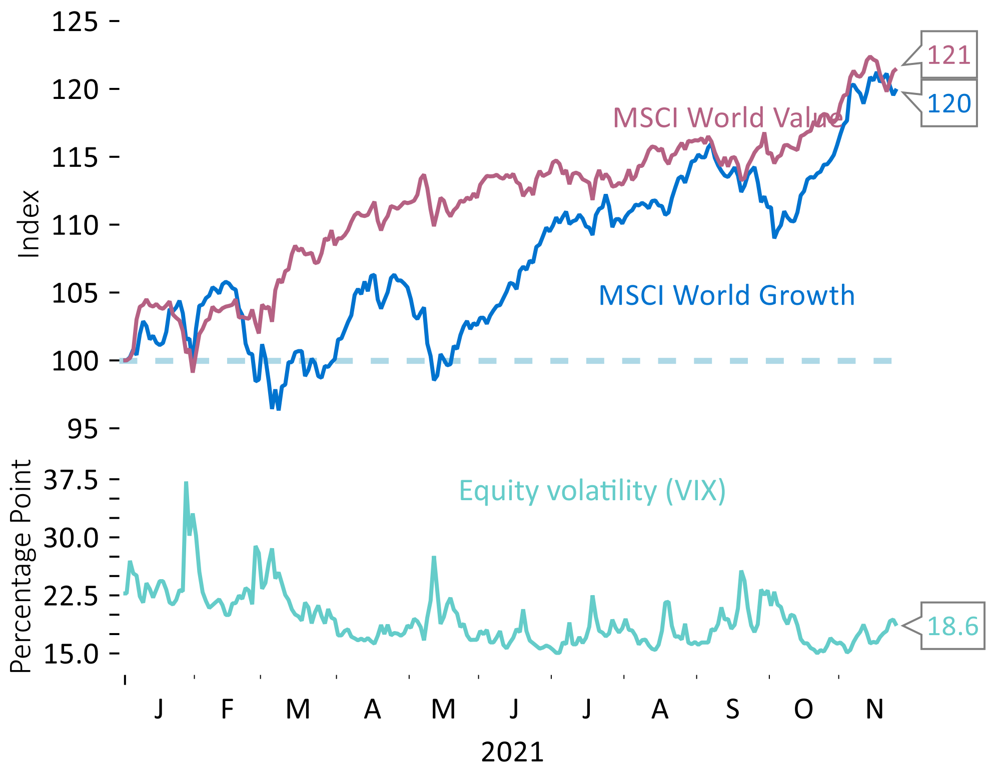
Global Asset Class Returns 2020 (GBP) to date



Source: Macrobond, 25.11.21

Growth catches up to value as volatility falls

World Equity Style 2021



Source: Macrobond, 25.11.21

Strong earnings supportive of equity markets but interest rate risks now rising

Global strategy update – November 2021

Bonds	Strong underweight • Strong UW Government Bonds – global inflationary pressures remain elevated • UW Investment Grade Credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits
Equities	Overweight • Global – earnings remain robust with central bank support still generous despite taper • UK - dividend support attractive • EM – recent underperformance offers opportunities where vaccine roll-out accelerates
Alternatives	Overweight • OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend – liquidity issues remain • OW Uncorrelated Alternatives – gold positions as hedge against policy error
Cash	Overweight • Risk of policy error high in US & China • No currency preference given still similar macroeconomic policies/rates worldwide • Consider portfolio insurance
Risks	Current: Climate transition risks, valuations stretched, inflationary pressures not transitory Longer-term: Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan

Important information

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