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Six Minute Strategy

So is the party over?

January 2022

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



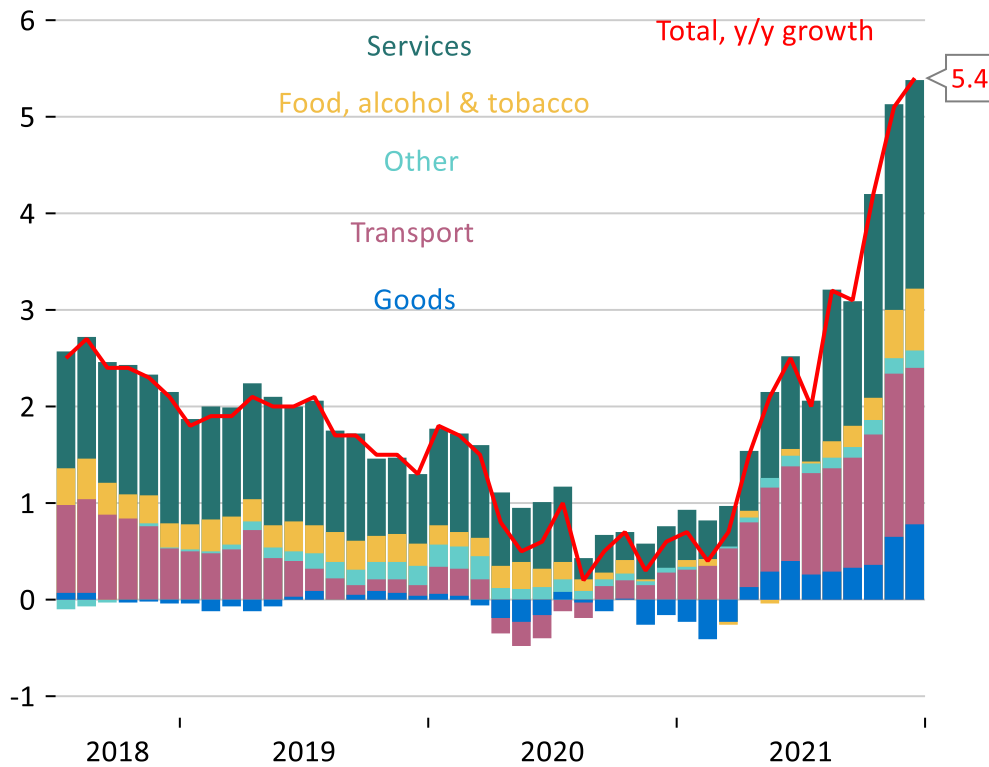
UK and Global inflation: Broad based pressures are emerging

Base effects mean pricing pressures ease over time



UK CPI - decomposition

United Kingdom, Consumer Price Index, Annual growth

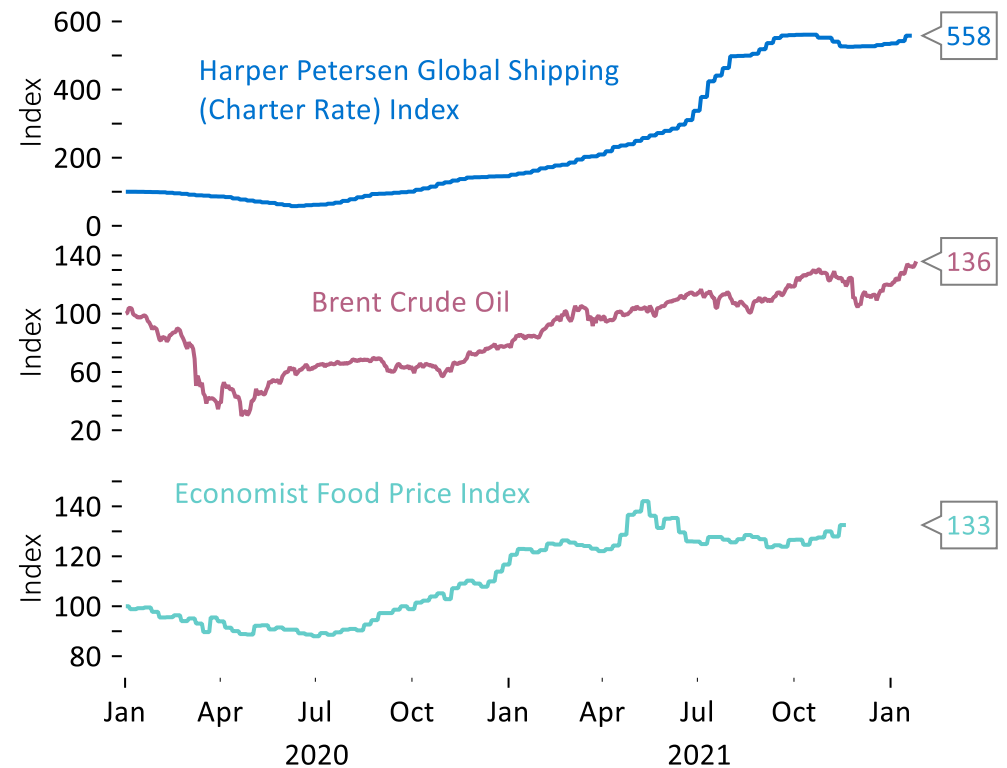


Source: Macrobond, 27.01.22



Inflation pressures persist across transport, energy & food

Shipping, Oil and Food Prices (31/12/2019=100)



Source: Macrobond, 27.01.22

Risk 1: Central banks tighten faster than expected

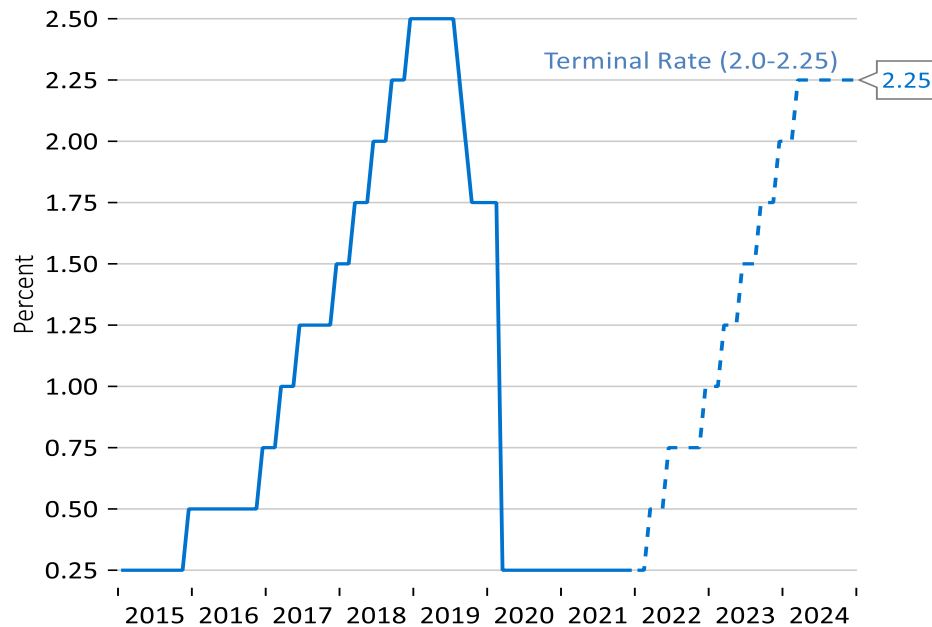


Expect 3 hikes in 2022 and terminal rates to reach 2%-2.25%



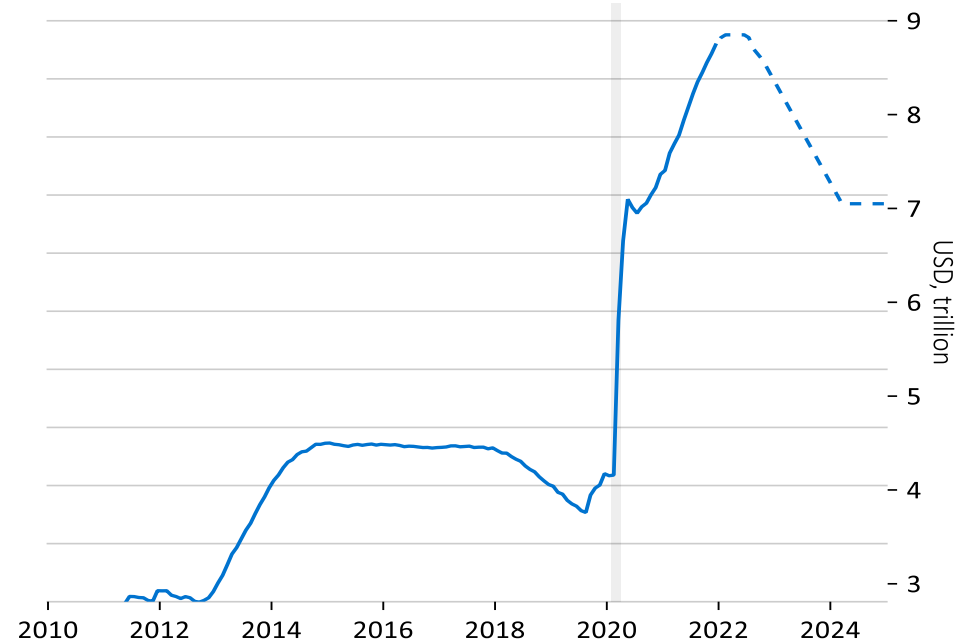
So will it be 'like watching paint dry' this time around....

Path of policy normalisation in the US



Source: Macrobond, 27.01.22

Quantitative Tightening of US Fed Reserve Balance Sheet



Source: Macrobond, 27.01.22

On the Federal Reserve trimming its bond holdings in 2017 “it will be like watching paint dry – this will be something that runs quietly in the background”

Fed Chair, Janet Yellen July 14, 2017

Risk 2: Excessive valuations

As policy rates normalise COVID-led PE multiple expansion could start to reverse

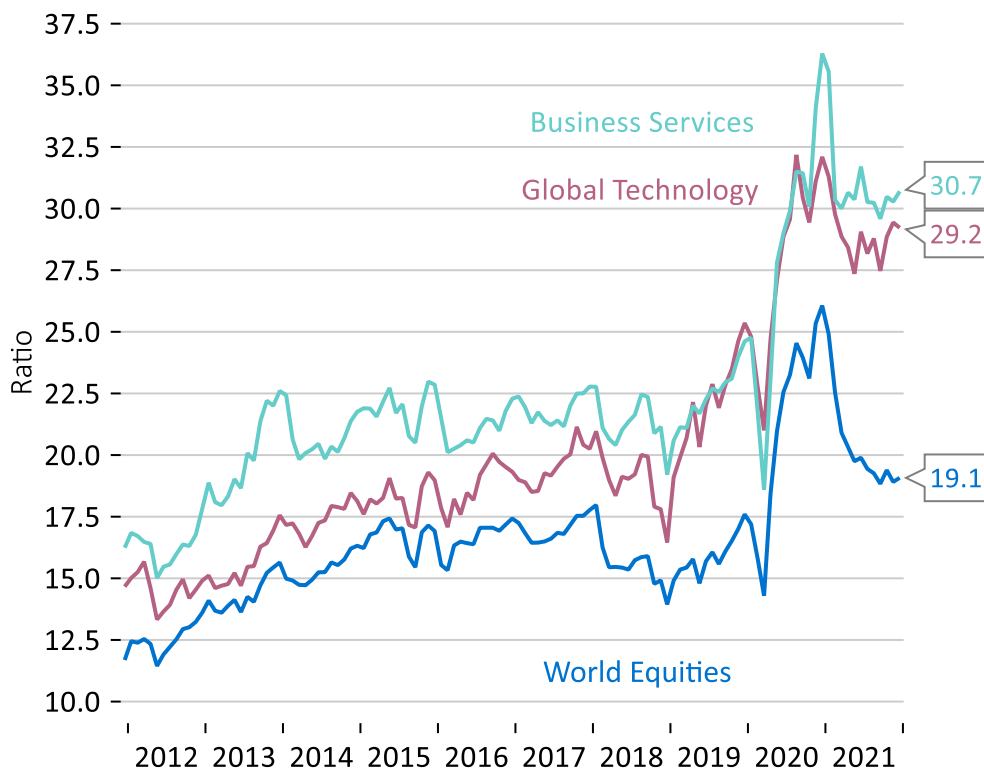


Global valuations have risen sharply since 2019



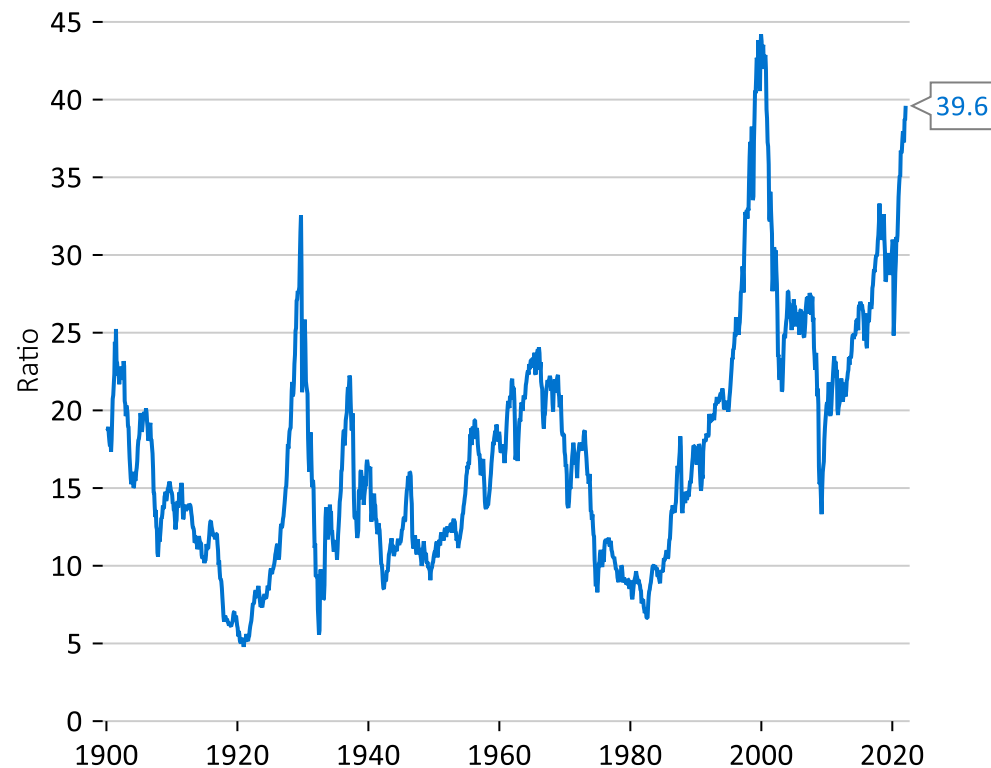
Long-term valuations have risen materially during the Crisis

Equity Indices 1 year forward PE (Factset)



Source: Macrobond, 27.01.22

Shiller Cyclically adjusted PE Ratio S&P500 (CAPE)



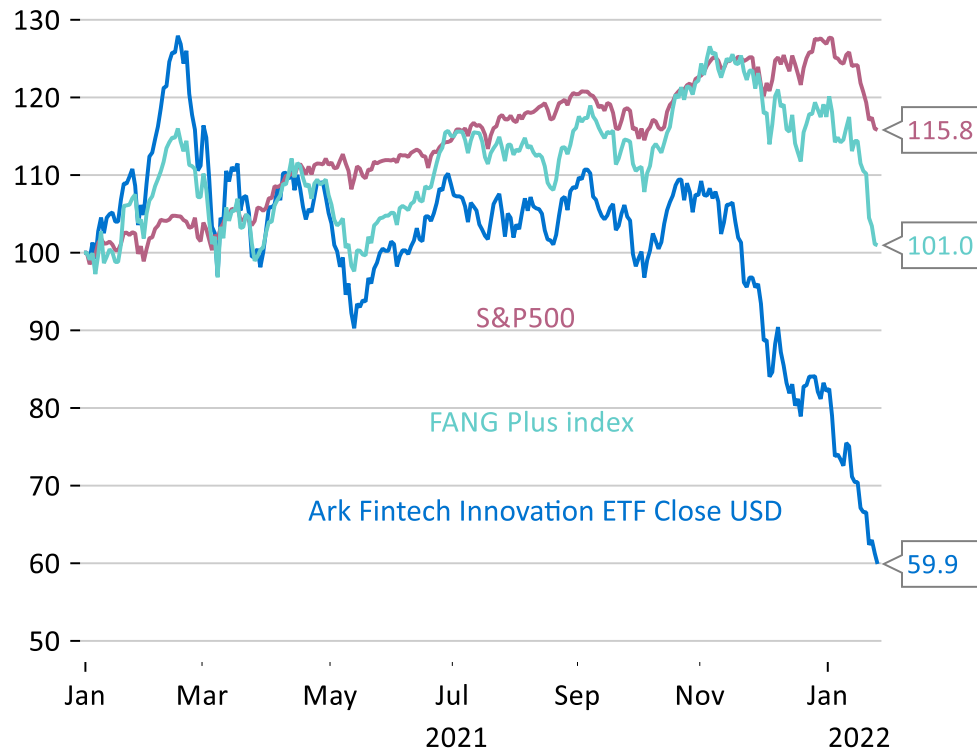
Source: Macrobond, 27.01.22

Anticipation of Fed tightening already hurting higher risk assets



Smaller technology & innovation stocks suffer

Ark Fintech Innovation ETF Vs. S&P500

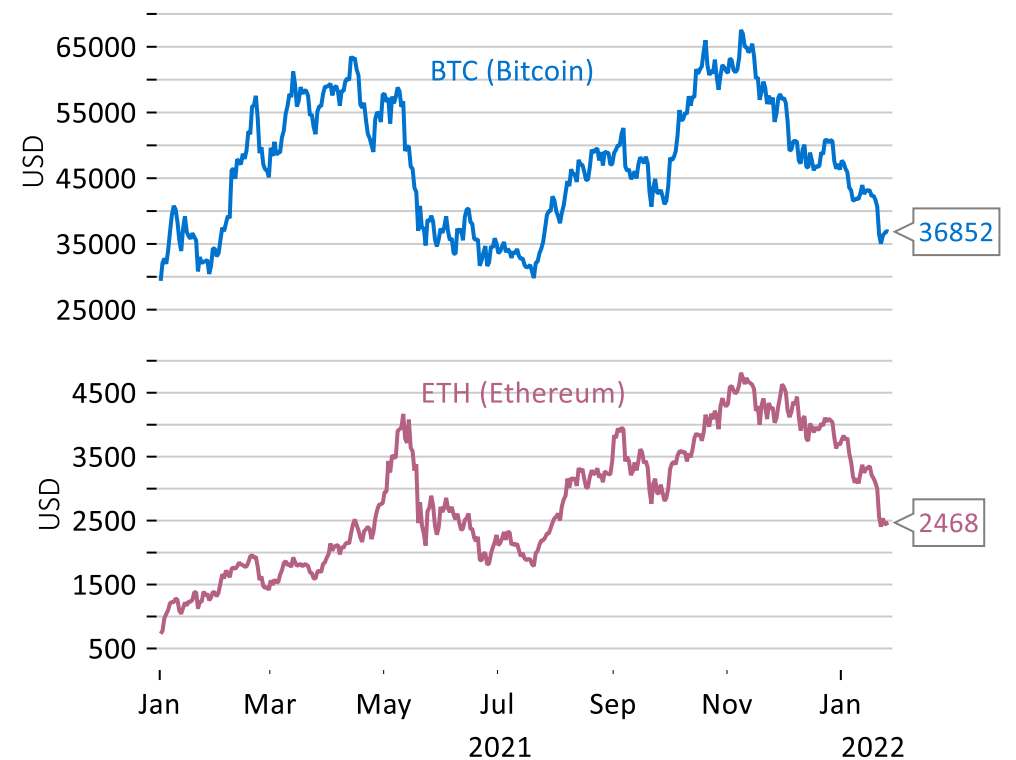


Source: Macrobond, 27.01.22



Heightened volatility across Crypto assets

Crypto Assets



Source: Macrobond, 27.01.22

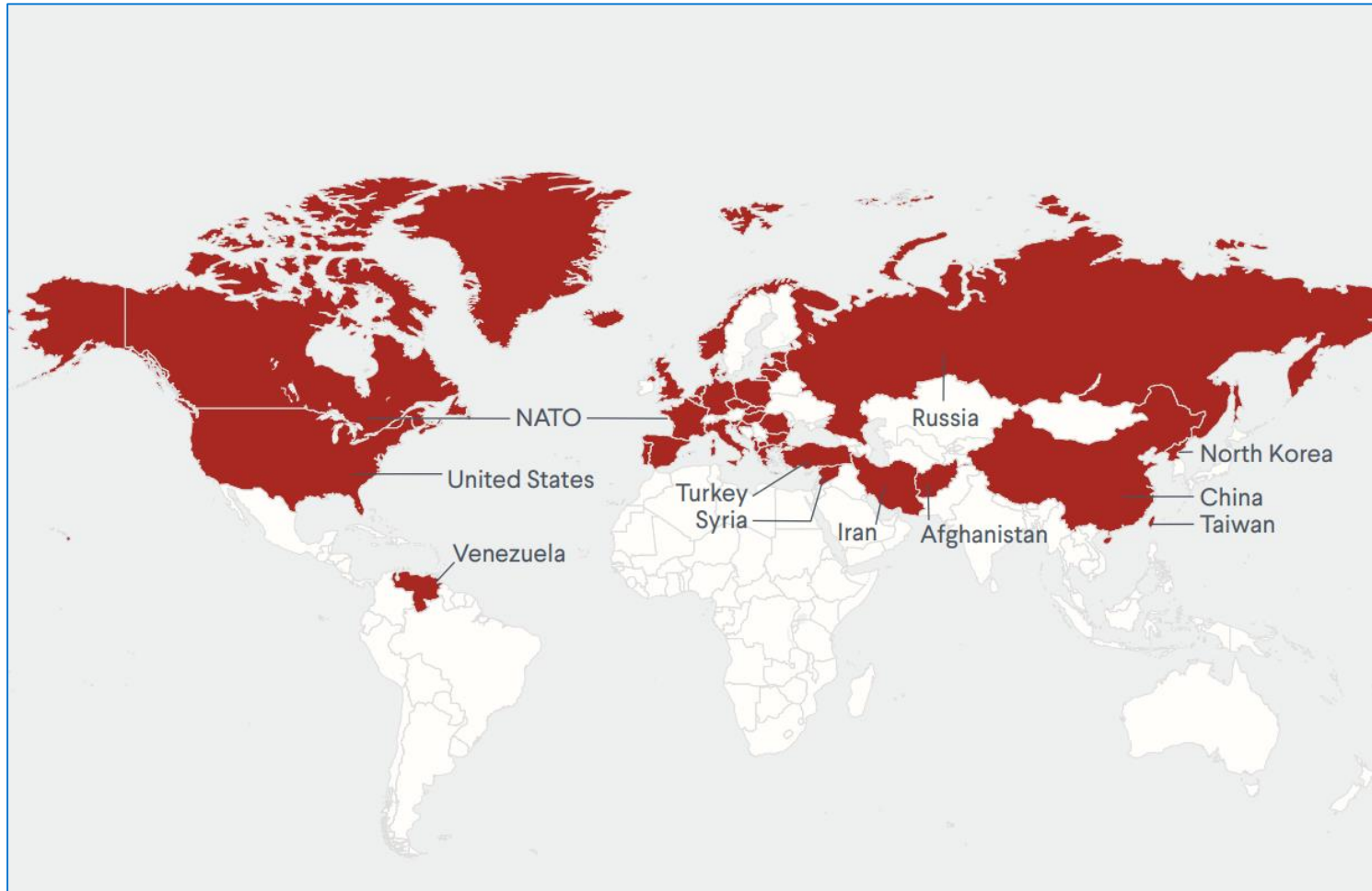
Fang Plus = Facebook, Apple, Amazon, Netflix, Google, Microsoft, Alibaba, Baidu, Nvidia, Tesla

Risk 3: Rising risks of military conflict

President Biden will be confronted with an acutely demanding set of foreign policy challenges



Tier 1 Ongoing and Potential conflicts (where likelihood or impact is high)



Source: Council on Foreign Relations Jan 2021

Outlook: As central banks pivot to fight inflation the outlook for risk assets becomes more challenging



Global strategy update – January 2022

Bonds	Strong underweight <ul style="list-style-type: none">• Strong UW Government Bonds – global inflationary pressures remain elevated• UW Investment Grade Credit – yield spreads too narrow – UK charity & infrastructure issues offer social impact benefits
Equities	Neutral <ul style="list-style-type: none">• Global Neutral – earnings remain robust but central bank liquidity support fading• UK Neutral - dividend support and valuation attractive – M&A likely• EM Neutral - policy tightening and virus risks still acute – political risk on the rise
Alternatives	Strong Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend – liquidity issues remain• OW Uncorrelated Alternatives – gold positions as hedge against central bank policy error
Cash	Strong Overweight <ul style="list-style-type: none">• No currency preference• Consider portfolio insurance
Risks	Current: Valuations stretched, bond market risk as policy tightens, inflation becomes entrenched in labour market Longer-term: Central bank policy error, China/Taiwan & Russia/Ukraine tensions, real bond yields normalise aggressively, climate transition risks

Important information

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