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Spring Seminars 2023

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GLOBAL OUTLOOK AND MARKET STRATEGY



GUY MONSON



01 ONE YEAR ON

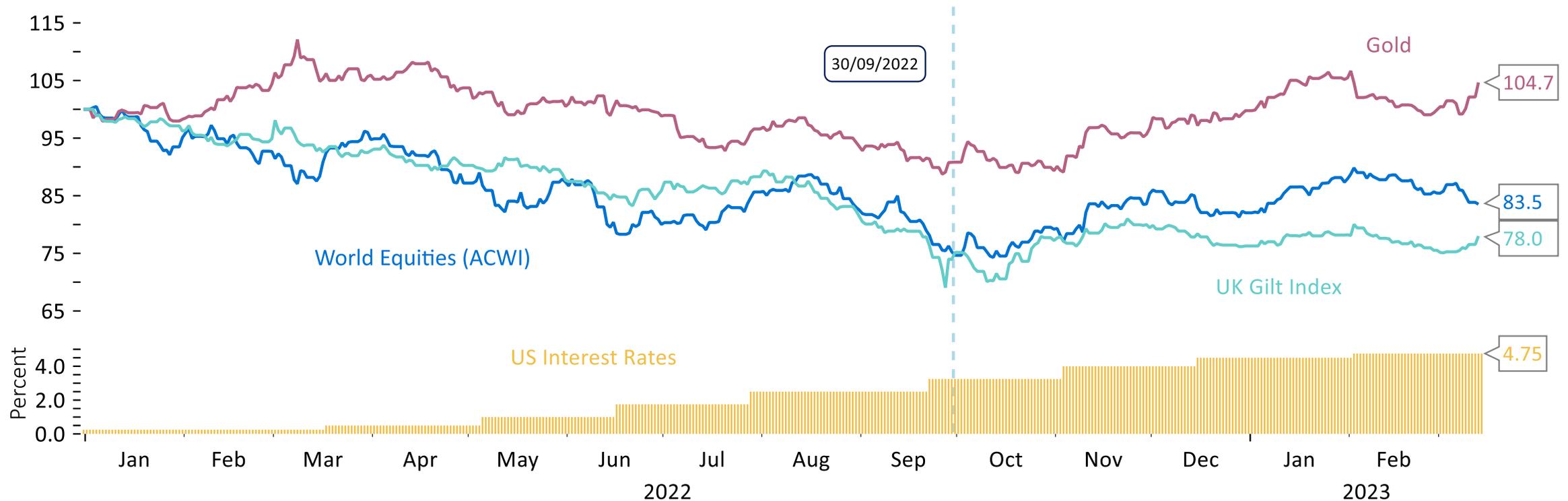
Global asset performance

Market returns in 2022 bear the scars of the fight against inflation & Russia



Asset class performance since 31/12/2021

Local Currency



Source: Macrobond, 14.03.23

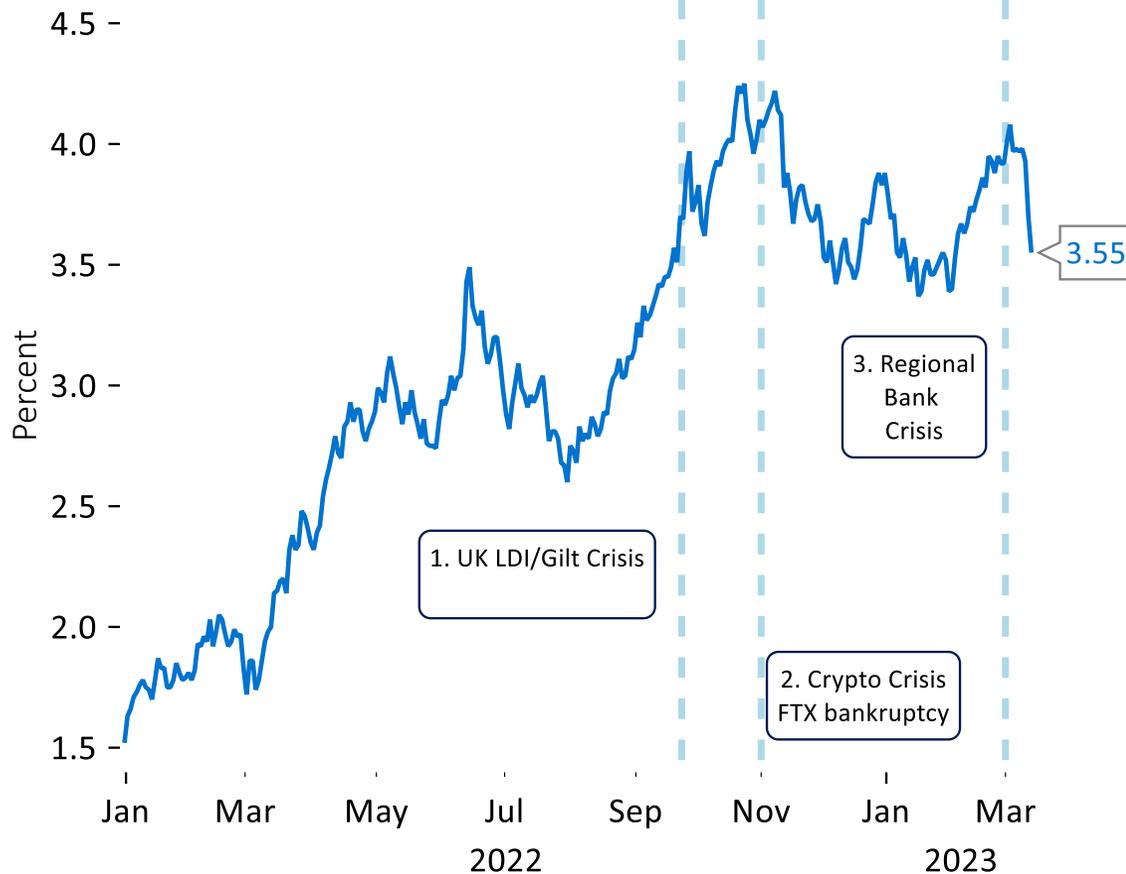
Past performance is not a guide to future returns and may not be repeated.

1. Financial shocks occur when rates rise fast



US T-Bond yields and financial shocks

US 10 year bond yield & financial events

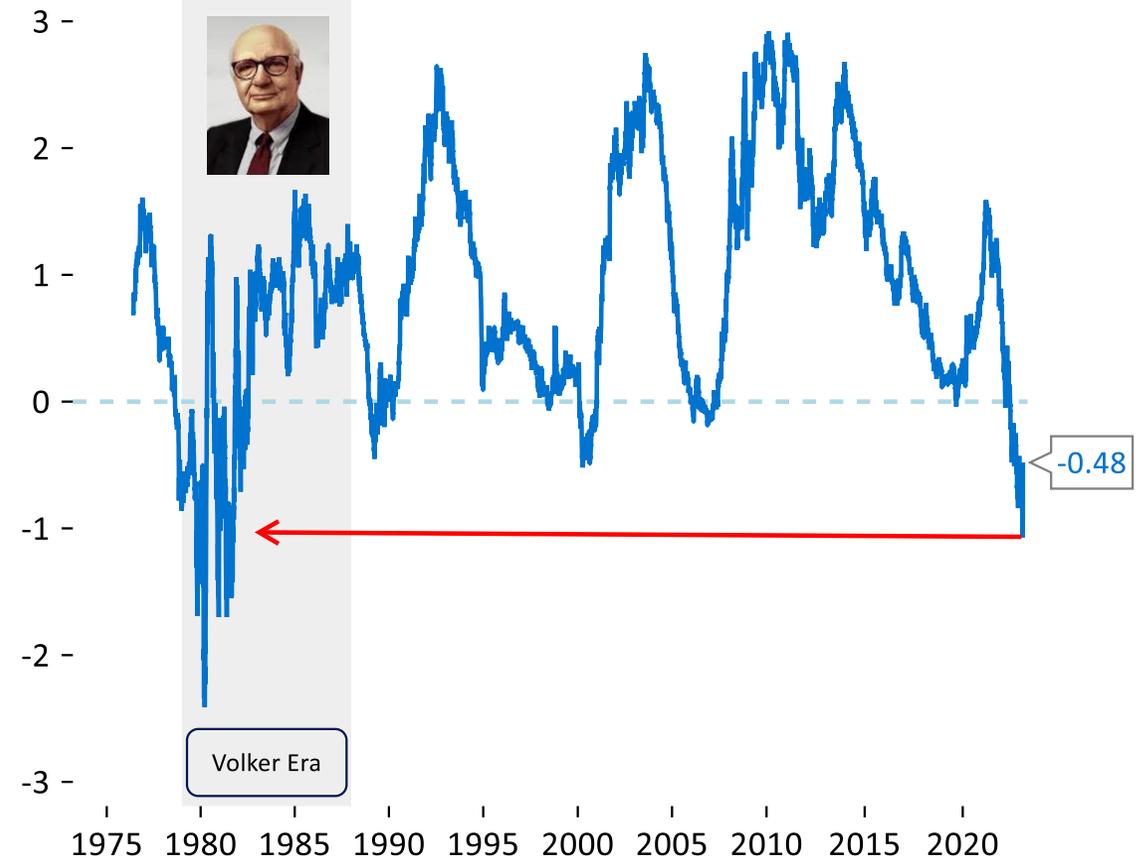


Source: Macrobond, 14.03.23



US yield curve inversion steepest in 40 years

US 10 - 2 year government bond yield



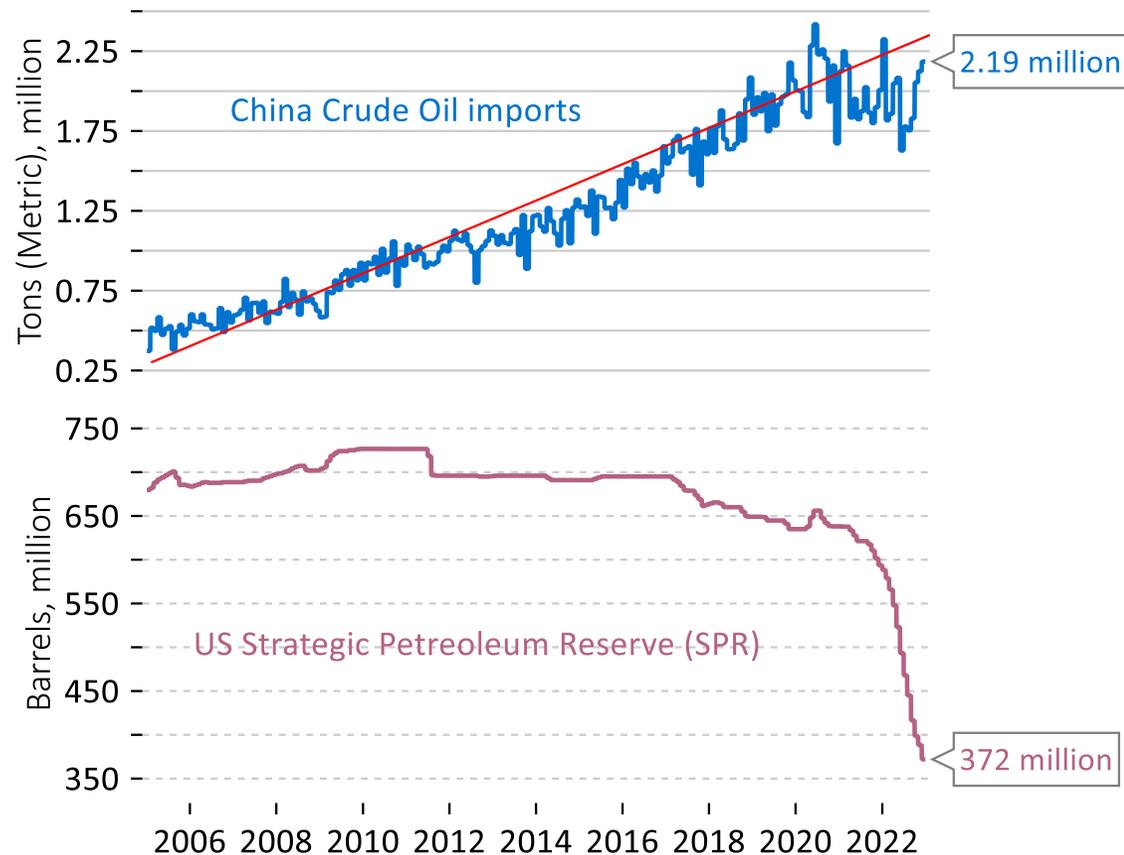
Source: Macrobond, 14.03.23

2. A global energy crisis avoided, just...



Chinese oil demand weak in 2022 while US oil reserves fall

China Oil Imports & US Oil Reserves

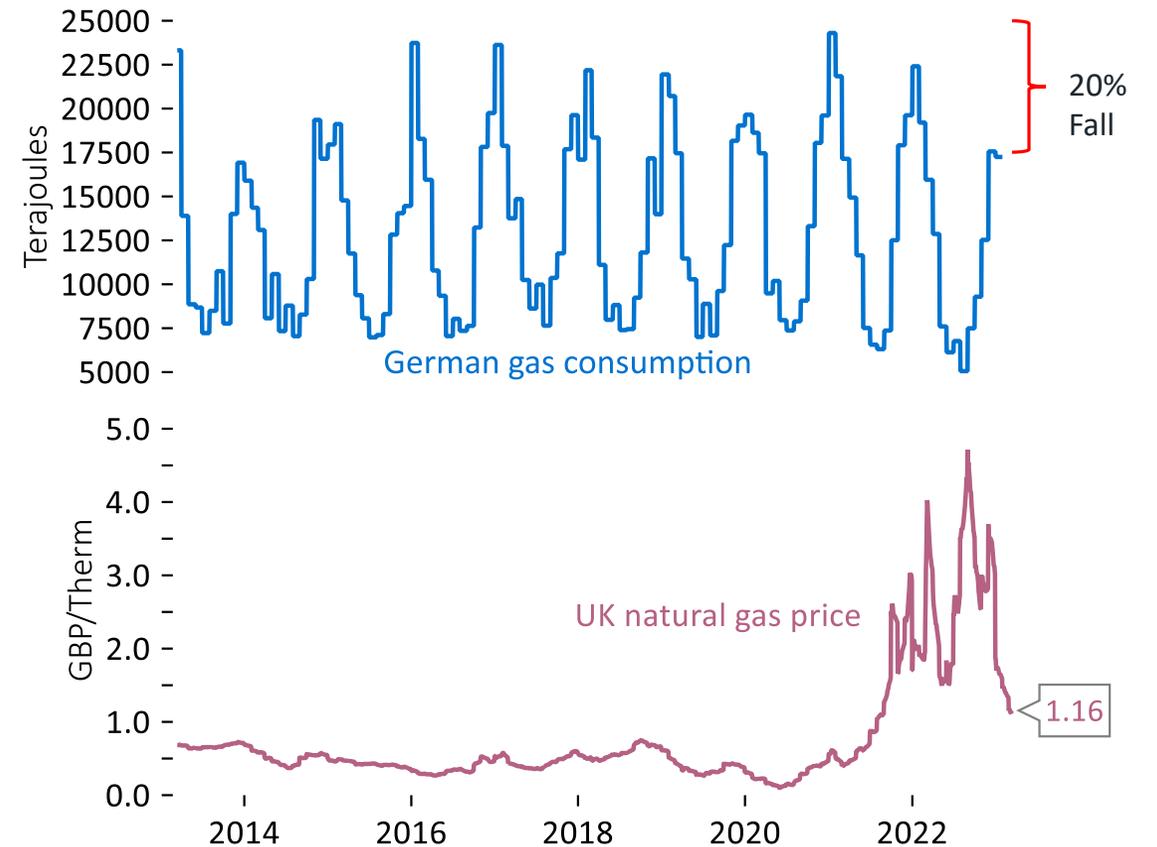


Source: Macrobond, 14.03.23



UK gas prices now below level on the eve of the Ukraine invasion

Germany total consumption of natural gas & UK prices



Source: Macrobond, 14.03.23



02 GLOBAL OUTLOOK

Global recession watch

The most anticipated recession not with us yet...



G20 Quarterly GDP reports

G20: The wait for recession continues...

Q/Q change (%)

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Argentina		1.7	1.0	1.0	2.0	3.9	-0.8	3.5
Australia	0.5	0.7	0.9	0.6	3.7	-2.0	0.8	2.1
Brazil	-0.2	0.3	0.9	1.3	1.1	0.3	-0.3	1.0
Canada	0.0	0.6	0.9	0.6	1.7	1.4	-0.6	1.3
China	8.5	6.6	7.6	-17.3	9.6	3.0	12.3	-17.7
Euro Area	0.0	0.4	0.9	0.6	0.6	2.3	2.0	0.0
France	0.1	0.2	0.5	-0.2	0.6	3.3	1.1	0.1
Germany	-0.4	0.5	0.1	0.8	0.0	0.8	1.9	-1.5
India	3.5	3.6	-8.9	6.8	5.5	10.3	-16.3	8.1
Indonesia	0.4	1.8	3.7	-0.9	1.1	1.6	3.3	-0.9
Italy	-0.1	0.4	1.0	0.1	0.9	2.9	2.4	0.5
Japan	0.0	-0.3	1.2	-0.5	1.1	-0.4	0.3	-0.2
Mexico	0.5	0.9	1.1	1.2	1.2	-1.1	0.7	0.4
Russia		0.4	-5.2	0.4	1.1	0.5	1.6	0.3
Saudi Arabia	4.6	4.7	-1.3	-2.3	7.7	7.1	-2.5	-3.8
South Africa	-1.3	1.8	-0.8	1.6	1.4	-1.8	1.4	0.8
South Korea	-0.4	0.3	0.7	0.6	1.3	0.2	0.8	1.7
Turkey	3.6	10.7	8.1	-16.5	4.1	14.7	7.9	-15.0
United Kingdom	0.0	-0.2	0.1	0.5	1.5	1.7	6.5	-1.1
United States	0.7	0.8	-0.1	-0.4	1.7	0.7	1.7	1.5

Source: National sources

Source: Macrobond, 14.03.23

US inflation indicators *gradually* easing

Weaker commodity prices and well-anchored investment expectations



US inflation tracker

United States: Inflation tracker

Color-coded based on rolling 3 year z-score



	3/2023	2/2023	1/2023	12/2022	11/2022	10/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022
Economic Measures													
PCE Y/Y %			5.4	5.3	5.6	6.1	6.3	6.3	6.4	7.0	6.5	6.4	6.8
Core PCE Y/Y %			4.7	4.6	4.8	5.1	5.2	4.9	4.7	5.0	4.9	5.0	5.4
CPI Y/Y %		6.0	6.3	6.4	7.1	7.8	8.2	8.2	8.4	8.9	8.5	8.2	8.5
Core CPI Y/Y %		5.5	5.5	5.7	6.0	6.3	6.6	6.3	5.9	5.9	6.0	6.1	6.5
PPI Y/Y %			6.0	6.5	7.3	8.2	8.5	8.7	9.7	11.1	10.9	11.1	11.6
Core PPI Y/Y %			5.4	5.8	6.2	6.9	7.2	7.2	7.6	8.3	8.6	9.0	9.7
Atlanta Fed Wage Growth			6.1	6.1	6.4	6.4	6.3	6.7	6.7	6.7	6.1	6.0	6.0
Manheim Used Vehicle Y/Y %		-7.1	-12.8	-14.9	-14.2	-10.6	-0.1	8.4	12.5	9.7	9.7	14.0	24.8
Inflation Expectations													
Expected Inflation, Fed Cleveland, 1 Year		2.6	2.7	2.9	3.2	2.9	4.2	3.4	3.3	4.2	3.6	3.4	3.1
Expected Inflation, Fed Cleveland, 2 Year		2.4	2.5	2.5	2.8	2.6	3.2	2.7	2.7	3.2	2.9	2.7	2.4
Break-Even Inflation, 5 Year	2.6	2.5	2.2	2.2	2.3	2.6	2.1	2.6	2.7	2.5	2.9	3.3	3.3
Break-Even Inflation, 10 Year	2.5	2.4	2.2	2.2	2.2	2.5	2.1	2.4	2.4	2.2	2.6	2.8	2.8
Conference Board, Inflation expectations		6.3	6.7	6.6	7.1	6.9	6.8	7.0	7.4	7.9	7.5	7.5	7.9
Commodities													
GSCI Commodities Y/Y %	-10.8	-0.3	12.8	26.0	37.4	24.7	23.6	42.2	42.7	45.0	63.8	59.8	64.6
GSCI Industrial Metals Y/Y %	-22.4	-15.7	-1.9	-7.6	-3.7	-15.9	-13.2	-10.2	-7.3	-4.7	6.6	17.9	39.9
GSCI Softs Y/Y %	-4.6	3.3	1.0	-2.0	-0.7	-9.9	-0.2	13.7	12.3	21.7	33.5	36.3	48.3
Baltic Dry Index Y/Y %	-32.7	-51.5	-52.0	-31.7	-55.1	-58.4	-65.9	-76.6	-42.4	-33.8	-1.2	-21.3	15.2
Lumber Futures Y/Y %	-63.4	-69.9	-46.5	-67.4	-47.9	-22.0	-32.7	5.4	-15.1	-7.4	-50.1	-30.7	-4.3

■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

Source: Macrobond, 14.03.23

The expected peak in global interest rates



Market expectation of peak rates rolling over in the face of banking crisis

Terminal rates: Fed, ECB BoE

The market expected peak of policy rate



Interest rates today:

US Fed Funds 4.75%

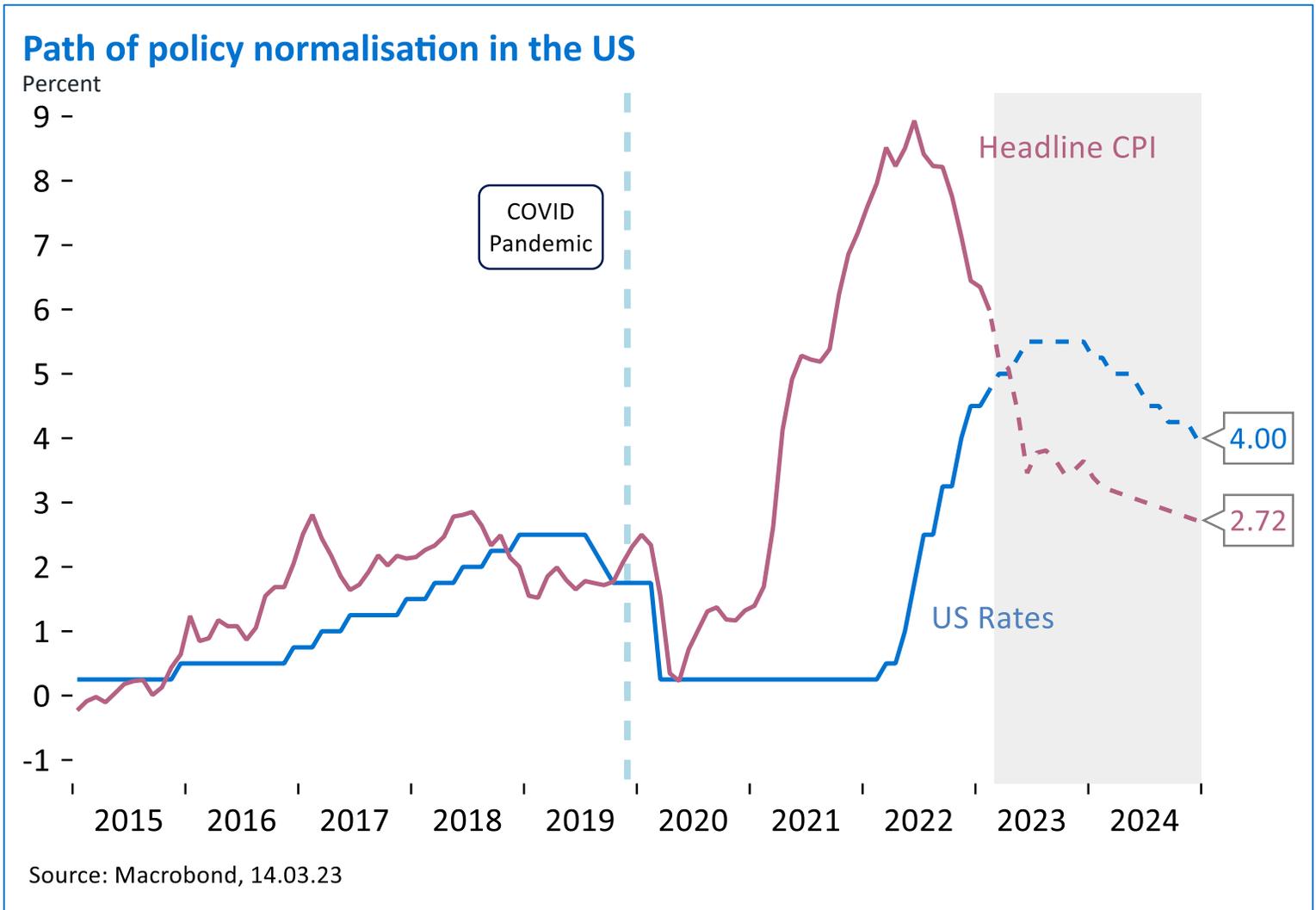
UK Base Rate 4%,

ECB Deposit 2.5%

Source: Macrobond, 14.03.23

Federal Reserve will likely cut in 2024 when real rates are positive

 Forecast trajectory of US interest rates and inflation





03

**UK - NORMAL
SERVICE RESUMES**

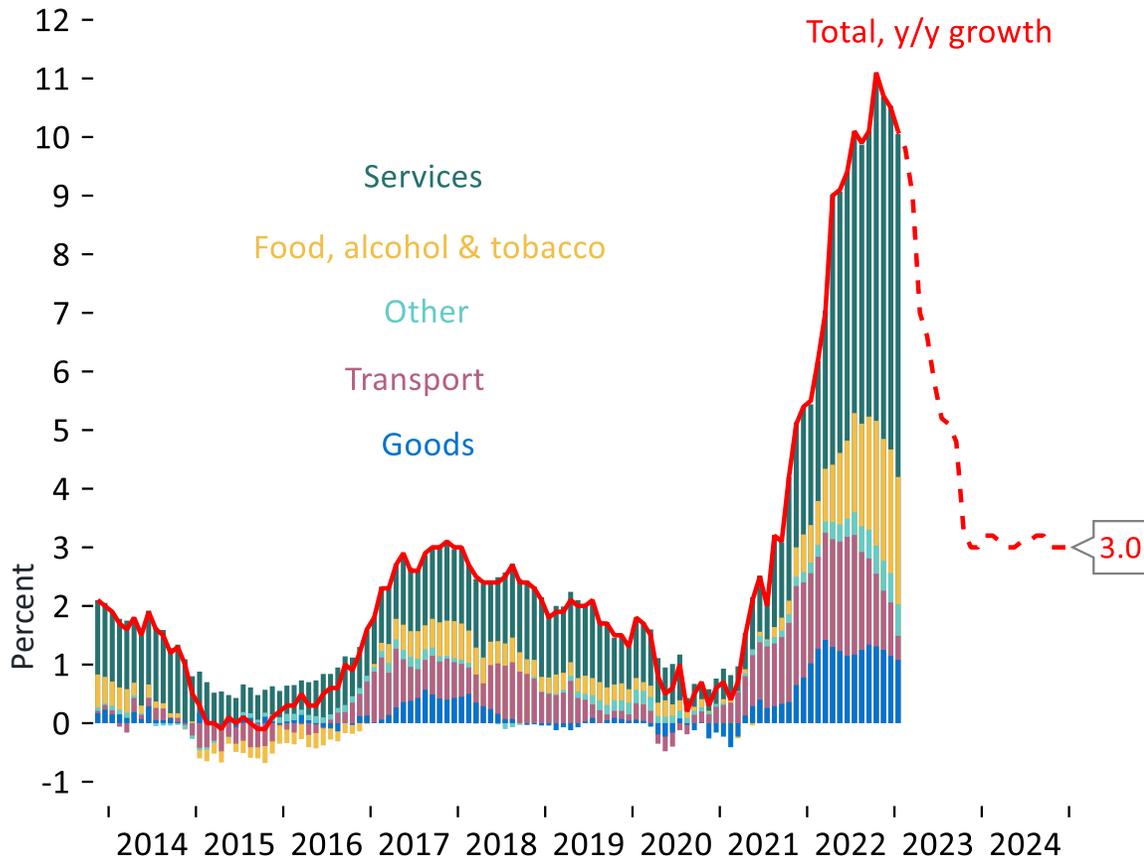
UK: Pay pressure should moderate as inflation eases in H2

Current inflation expected to be the main driver of pay settlements in 2023



UK Inflation will fall fast as surge in service costs slows

UK Consumer Price Inflation

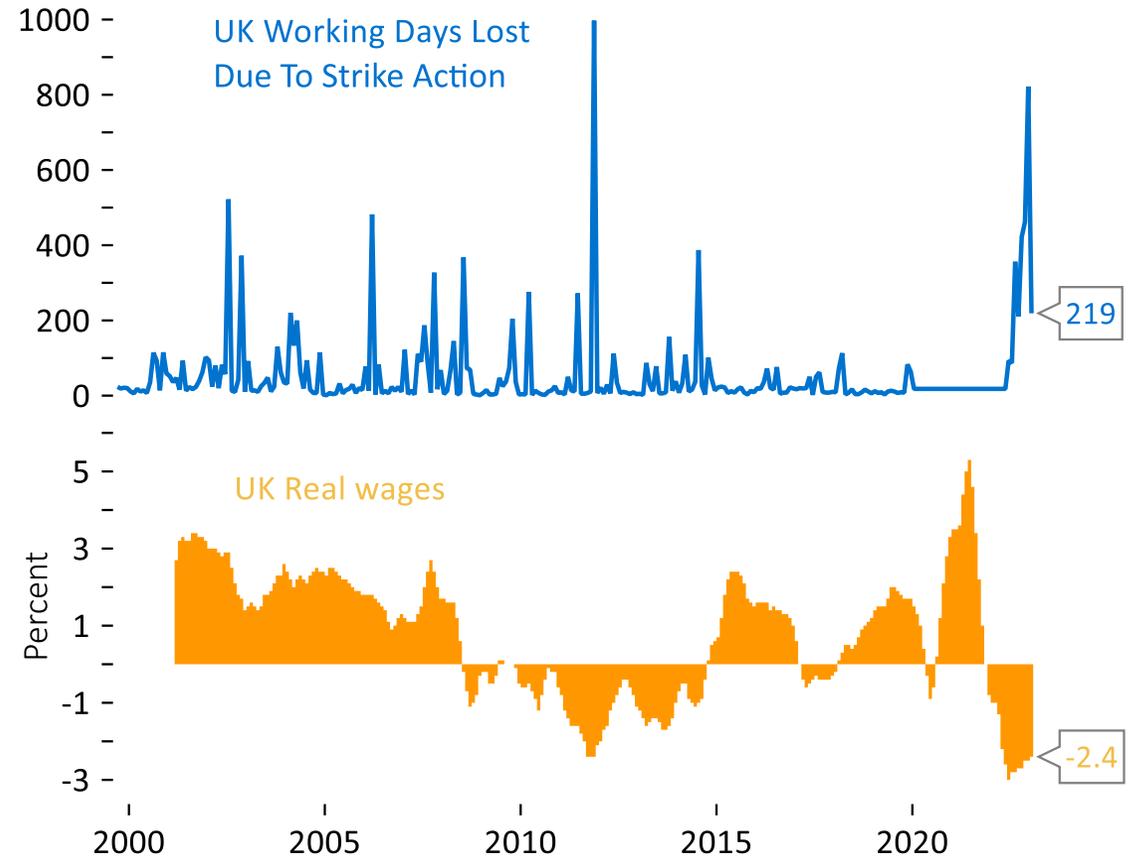


Source: Macrobond, 14.03.23



Strikes falls in Jan – cumulative total greatest since Thatcher years

UK real wages & strike action



Source: Macrobond, 14.03.23

UK: Can the 'Windsor Framework' boost investment?

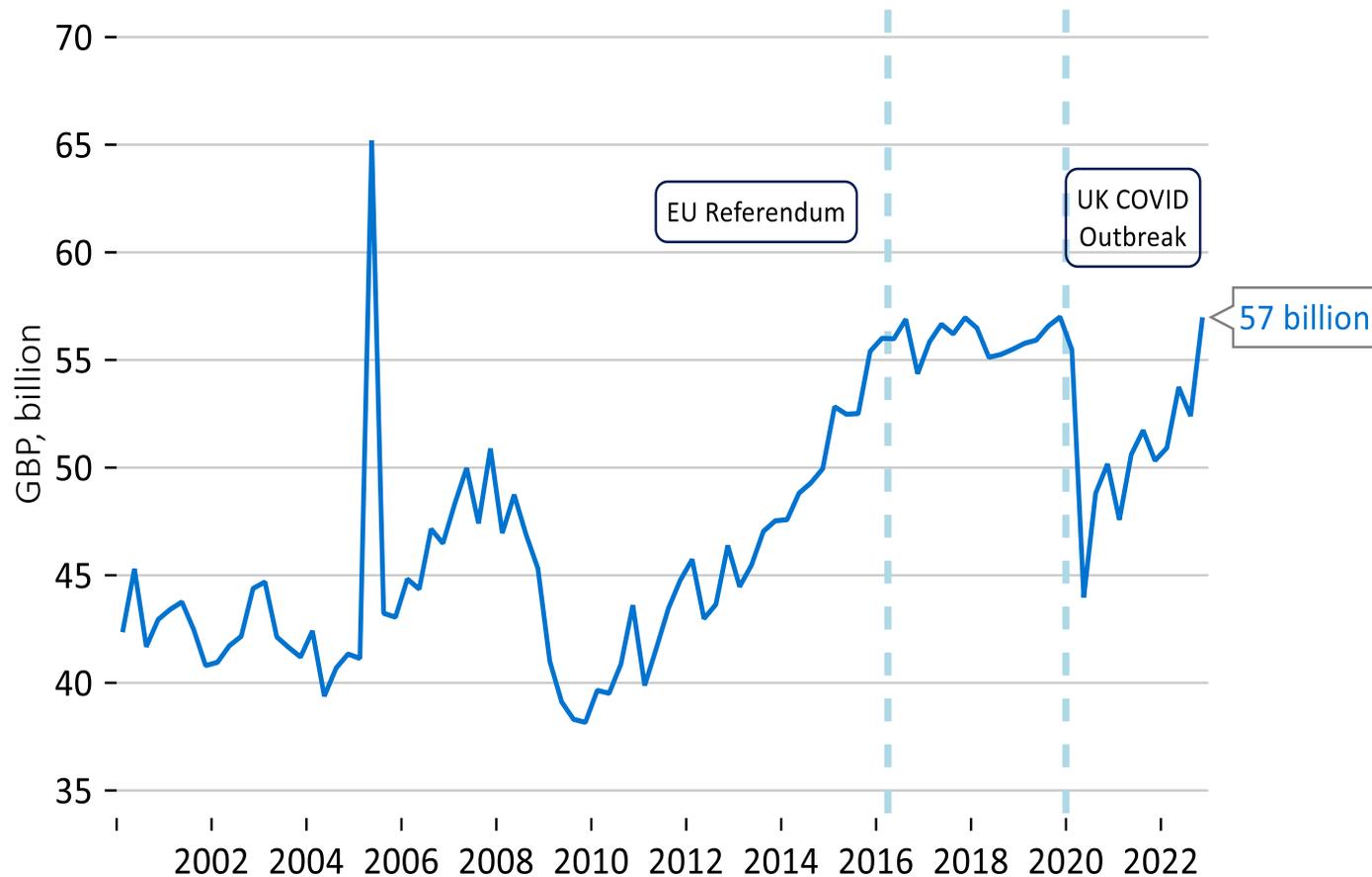


Business investment can recover as risk of EU trade war recedes



Brexit has damaged business investment – Can PM Sunak reverse this?

UK Business Investment



UK signs of recovery

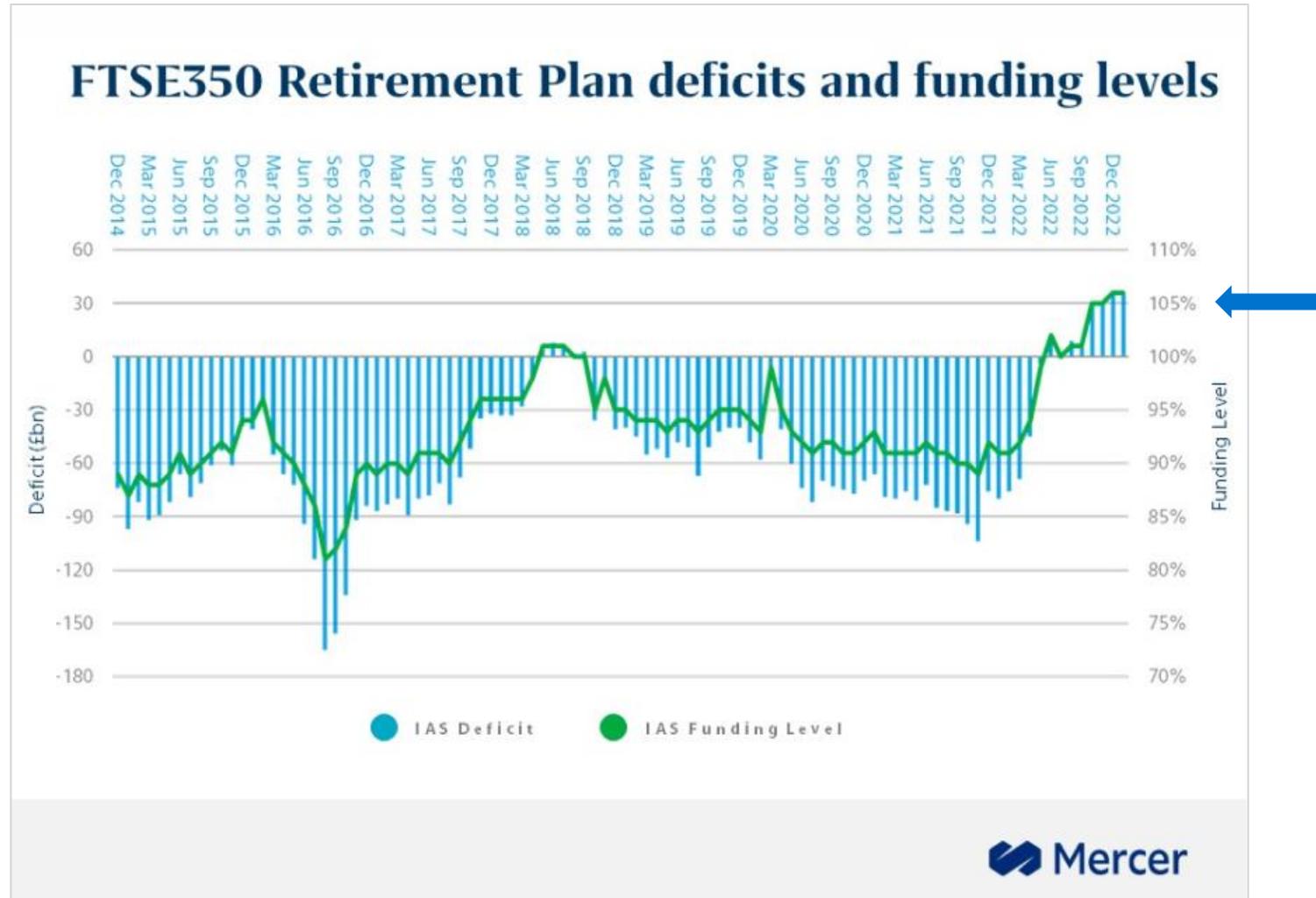
- Construction PMI +56
- UK Unemployment at 3.7% near all time low
- Personal debt service ratio low
- Energy prices now falling
- UK bank capital ratios strong
- Current government borrowing lower than expected

UK pension funding has moved into surplus...

Rising corporate bond yields and (sadly) falls in post-COVID longevity are responsible



Mercer's pension analysis of FTSE 350 shows a £35bn surplus for end 2022 - in stark contrast to a £76bn deficit Dec 2021



Source: Mercer January 2022

Past performance is not a guide to future returns and may not be repeated.

Sterling: Politically induced devaluations *followed by recovery*

Focus: Sterling can rally 8-10% to reach (PPP) fair value – our target is U\$1.32-5

 Political shocks have defined sterling weakness – but after the shock the currency tends to recover much of the loss

Sterling Trade Weighted Index (BoE)



Source: Macrobond, 14.03.23

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04 MARKET RISKS

Risk 1. Central bankers still face very tight labour markets

Focus: Higher rates for longer, high valuations vulnerable, risk of policy error high



US labour shortage still needs to be addressed

US Labour Demand & Supply



Source: Macrobond, 14.03.23

Federal Reserve Comment

‘The ultimate level of interest rates is likely to be higher than previously anticipated...restoring price stability will probably require that we maintain a restrictive policy for some time.’

Semiannual Monetary Policy Report to the Congress

Chair Jerome H. Powell March 2023

Risk 2. Profits could still fall sharply in a true global recession

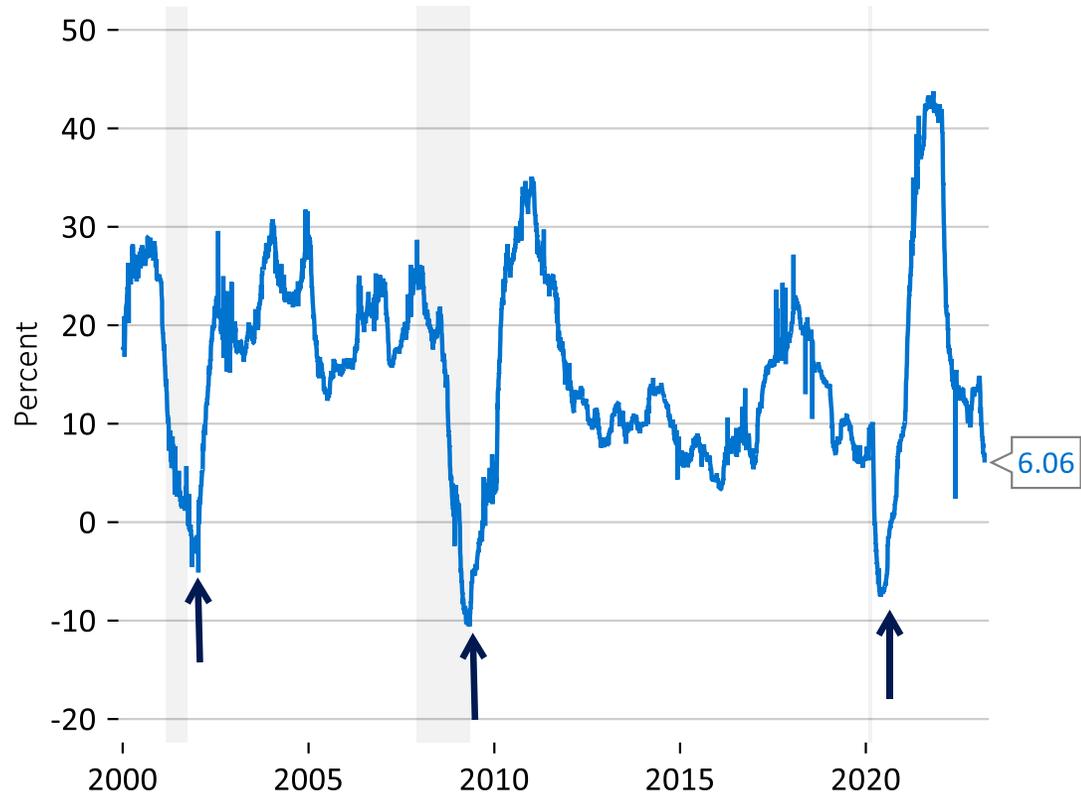
Focus: Strong global franchises & climate transition beneficiaries with robust order books



Earnings declines of 5-10% are normal in recessions

Forecast Year 1 Index, EPS Growth Rate (FactSet)

Shaded bars are US recessions

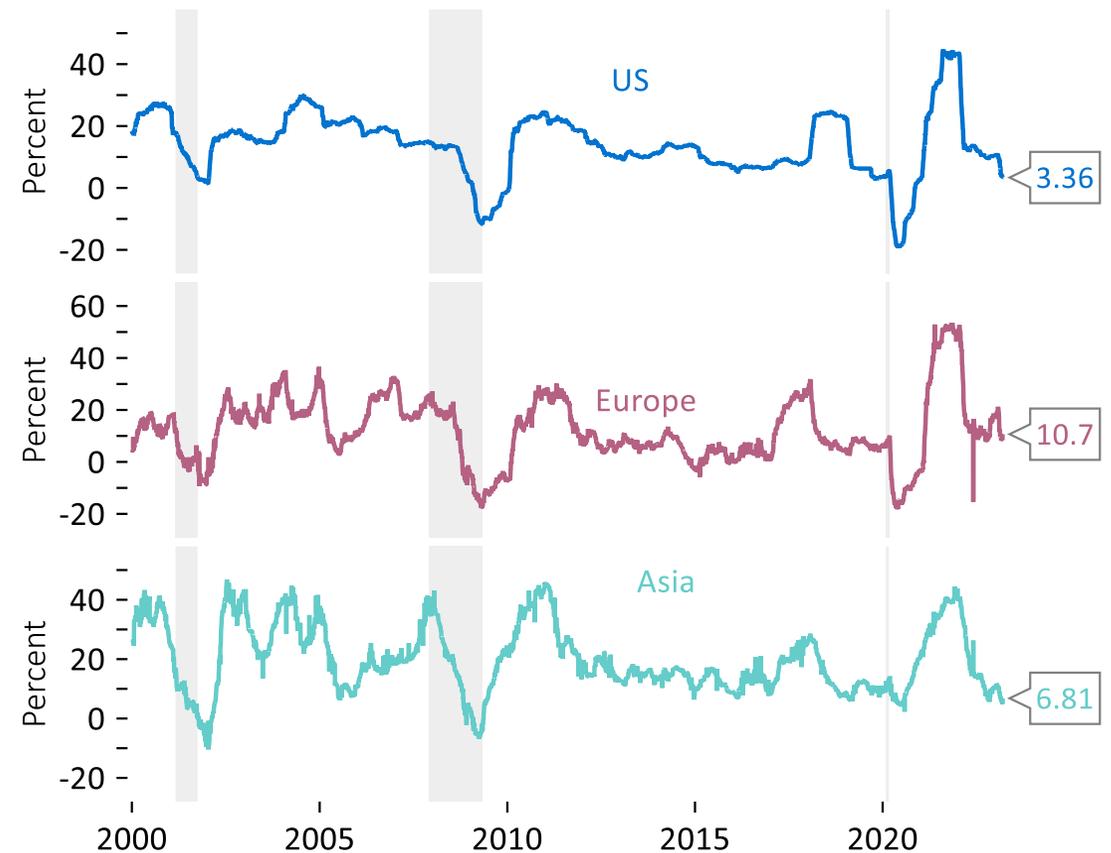


Source: Macrobond, 14.03.23



Regional earnings growth for 2023 led by Europe

Forecast Year 1 Index, EPS Growth Rate (FactSet)



Source: Macrobond, 14.03.23

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Risk 3: Is Ukraine now a global conflict?

Focus: Portfolio insurance/higher cash levels, invest in energy pivot from Russia



Countries providing military aid to Ukraine

Forty-Two Countries Have Provided Military Aid to Ukraine

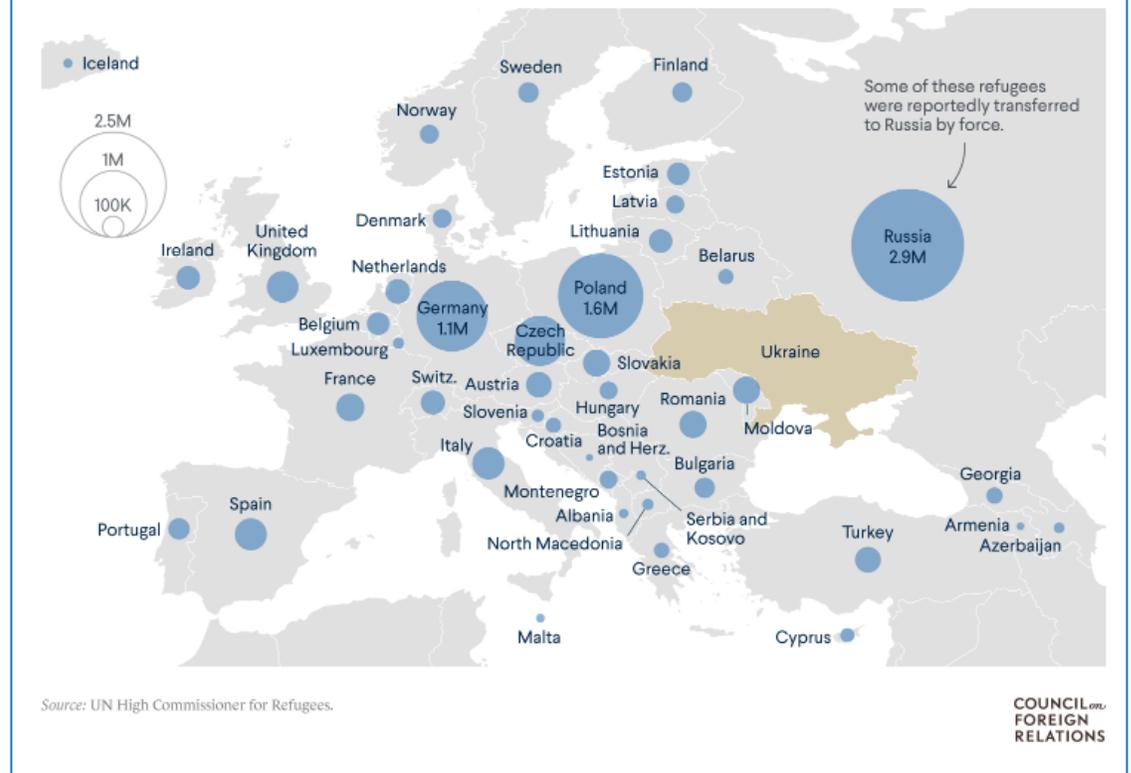
Countries providing military aid to Ukraine as of January 2023



13m Ukrainians displaced by war* (UN Refugee Agency)

The Ukrainian Exodus

Number of Ukrainian refugees reported by European countries as of February 2023



‘US alone has spent \$75bn in the last 12m supporting Ukraine’

CFR March 2023

Source US Council on Foreign relations – Jan 2023

*By comparison Europe saw 1m African/Arab refugees in 2015 & 4m during the Yugoslav wars of the 1990’s



05 LONG-TERM OPPORTUNITIES

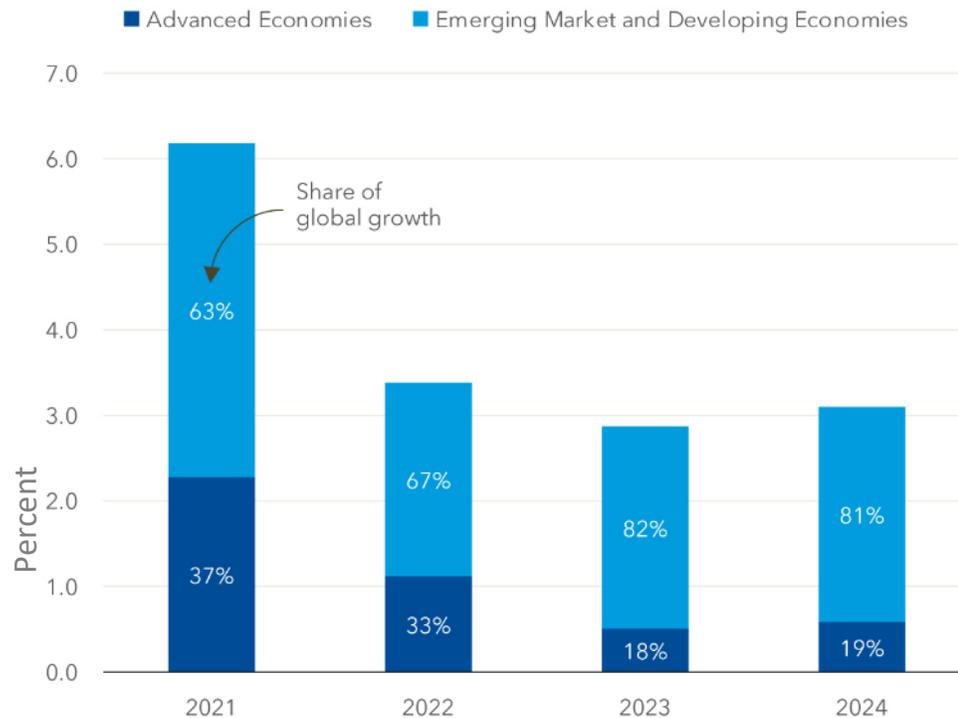
Opportunity 1. The dollar correction begins – EM is a winner

Focus: Increase EM & Asian exposure - focus on the EM consumer – carbon & commodities

Developing economies dominate global growth

Global growth

Emerging market and developing economies are expected to account for about 80% of global growth this year and next.
(real GDP, annual percent change)

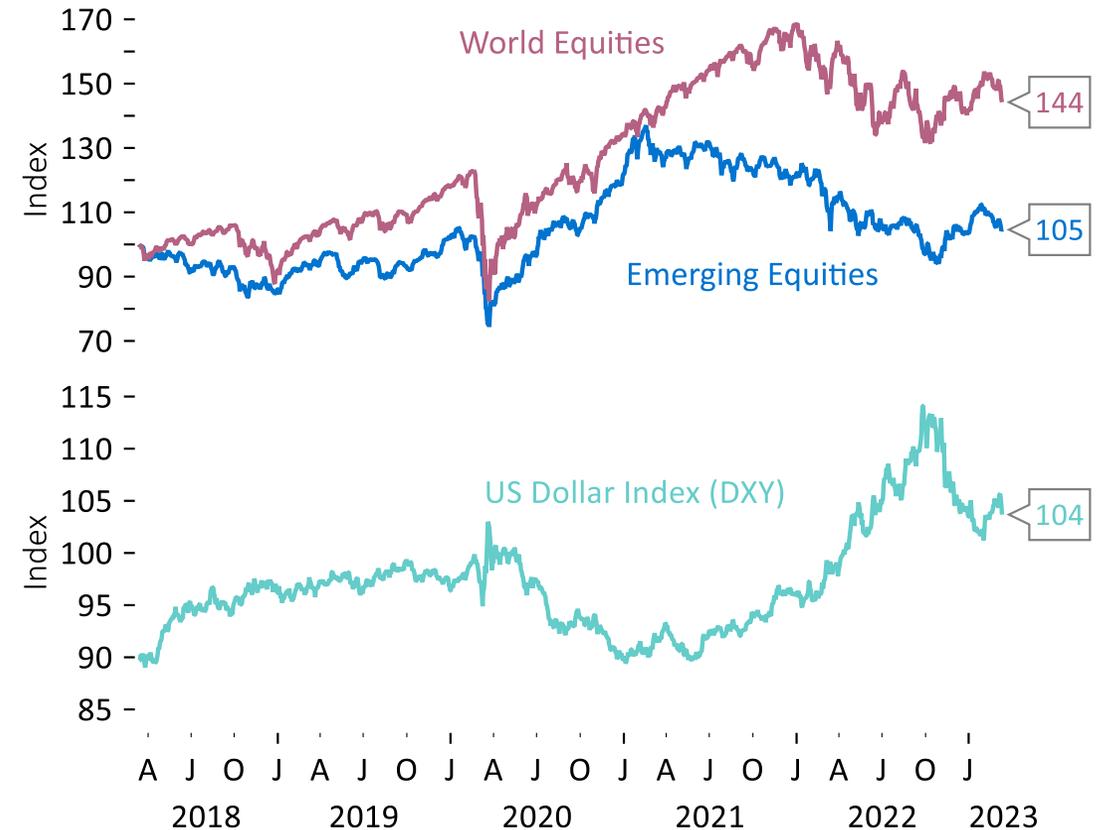


Sources: IMF, WEO January 2023 Update; and IMF staff calculations.



A weaker dollar is good for emerging world liquidity

MSCI World & EM equity index and US Dollar (DXY)



Source: Macrobond, 14.03.23

Past performance is not a guide to future returns and may not be repeated.

Opportunity 2. Corporate supply chains have largely normalised

Focus: Greater earnings visibility argues for rising dividends/buy-backs



Supply chain pressures fall to Pre-COVID levels

Asian container costs and global supply chains

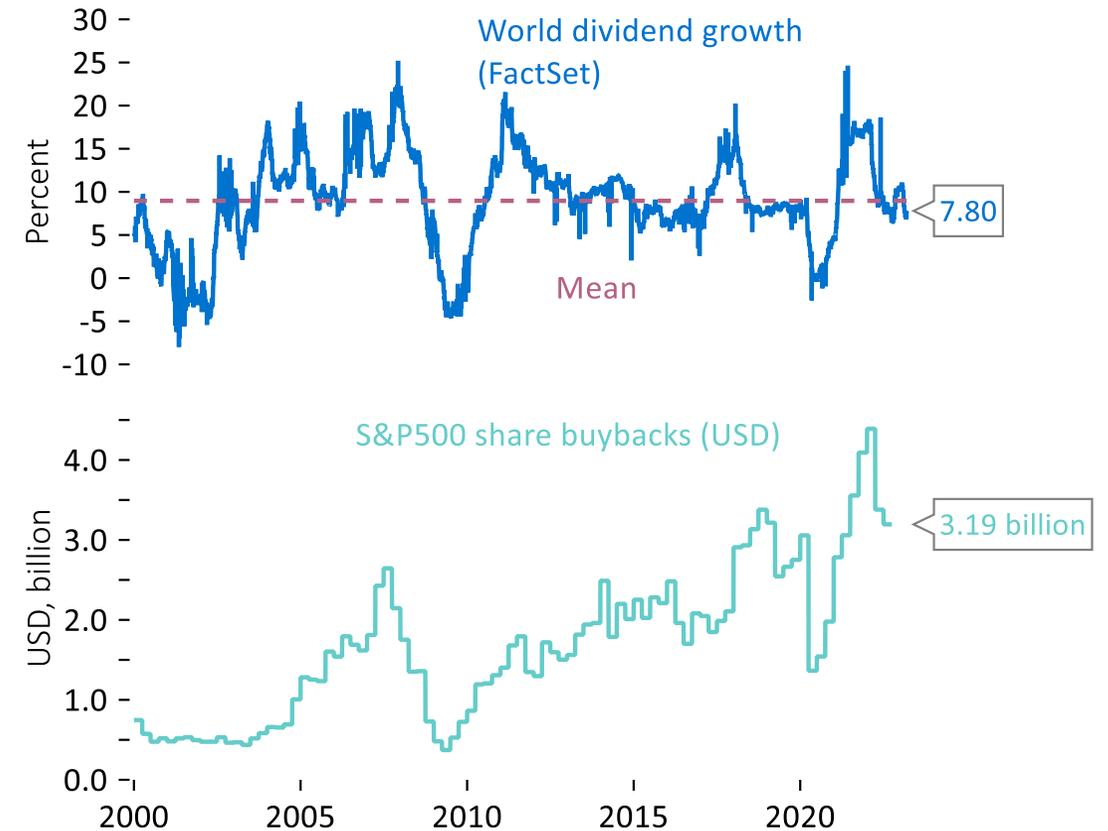


Source: Macrobond, 14.03.23



Greater earnings visibility = stronger dividends/buybacks

Global dividend growth & US stock buybacks



Source: Macrobond, 14.03.23

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Opportunity 3. The path to net zero will lead to an industrial boom

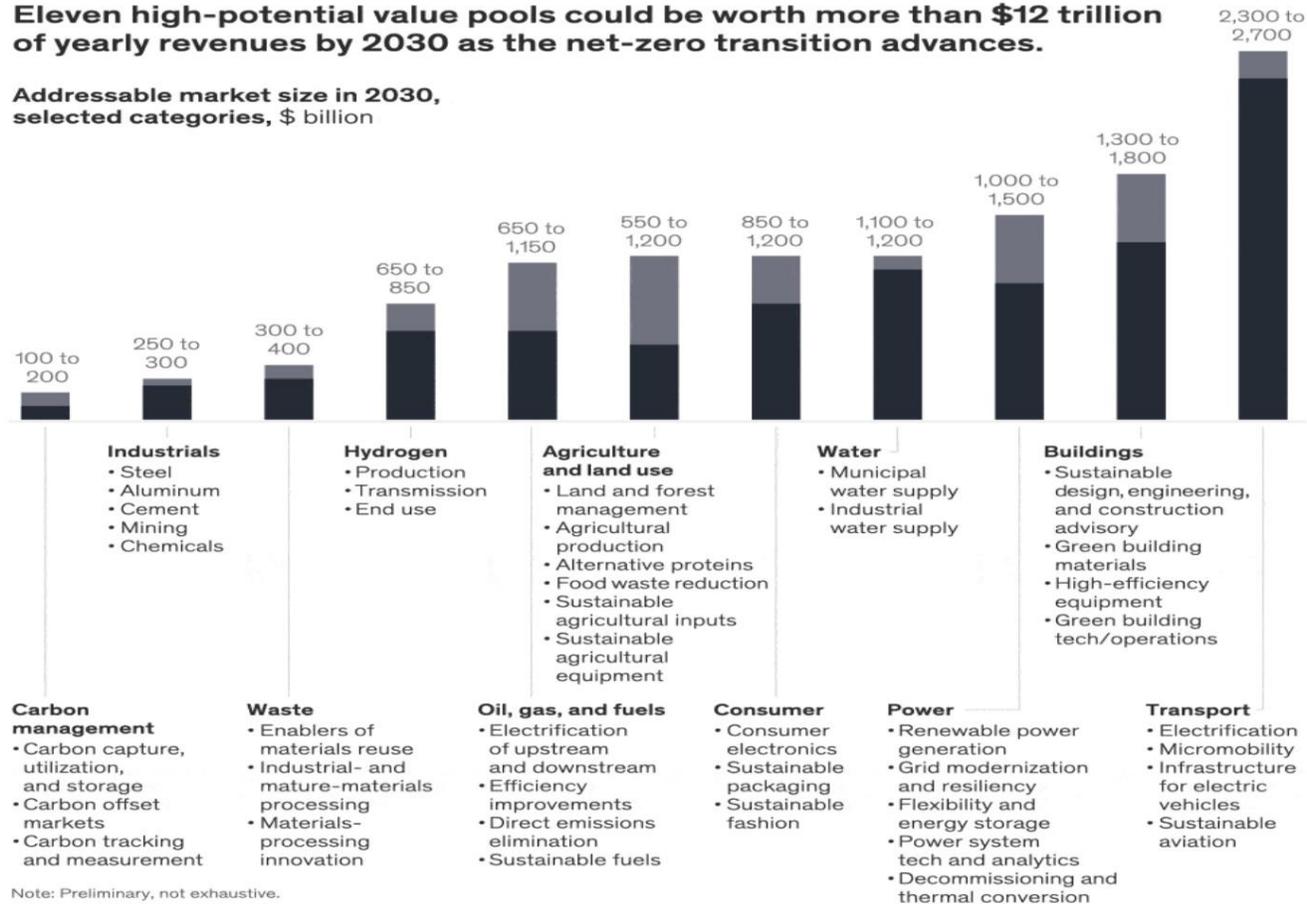
Focus: Climate transition beneficiaries – Industrial/Hydrogen/Agri/Water/Buildings



High value pools of climate transition investment accelerated by US Inflation Reduction Act (\$370bn of clean energy spend)

Eleven high-potential value pools could be worth more than \$12 trillion of yearly revenues by 2030 as the net-zero transition advances.

Addressable market size in 2030, selected categories, \$ billion



Note: Preliminary, not exhaustive.

McKinsey & Company

More than \$12 trillion in annual sales is expected in 11 value pools such as transport, hydrogen and power by 2030.

US Inflation Reduction Act
European Green Deal
China Green Powerhouse

McKinsey Dec 2022

Patience please – central banks are not quite finished

Global equity opportunities are clear but over-zealous central bankers are still a risk



Global strategy update – February 2023

Bonds	<p>Neutral</p> <ul style="list-style-type: none">• Neutral Government Bonds – global inflationary pressures remain elevated but rates are close to peaking• Neutral Investment Grade Credit – yields attractive – corporate balance sheets healthy
Equities	<p>Underweight</p> <ul style="list-style-type: none">• Near record corporate margins are exposed to global recession• Emerging markets offer opportunities in 2023 as China reopens and US Dollar weakens• Equity insurance attractive as alternative to equity reduction
Alternatives	<p>Overweight</p> <ul style="list-style-type: none">• Underweight Correlated Alternatives – higher discount rates and worries over liquidity argues for caution• Strong Overweight Uncorrelated Alternatives as effective diversification – Carbon, Industrial metals• Overweight positions in Gold as Dollar surge fades
Cash (tactical)	<p>Neutral – STG recovery to continue</p>
Risks	<ol style="list-style-type: none">1. Inflation shock not yet abating: US Core inflation continues to accelerate in 2023 meaning higher rates for longer2. Earnings risk not priced into equity valuations : Recession triggers sharp fall in global earnings & margins3. Military challenges worsen: Putin escalates nuclear risk - China-Taiwan reunification risks rise — North Korean missile tests

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