MAKING THE COMPLEX SIMPLE

THE BIGGER PICTURE

Key macro dynamics of relevance

September 2021

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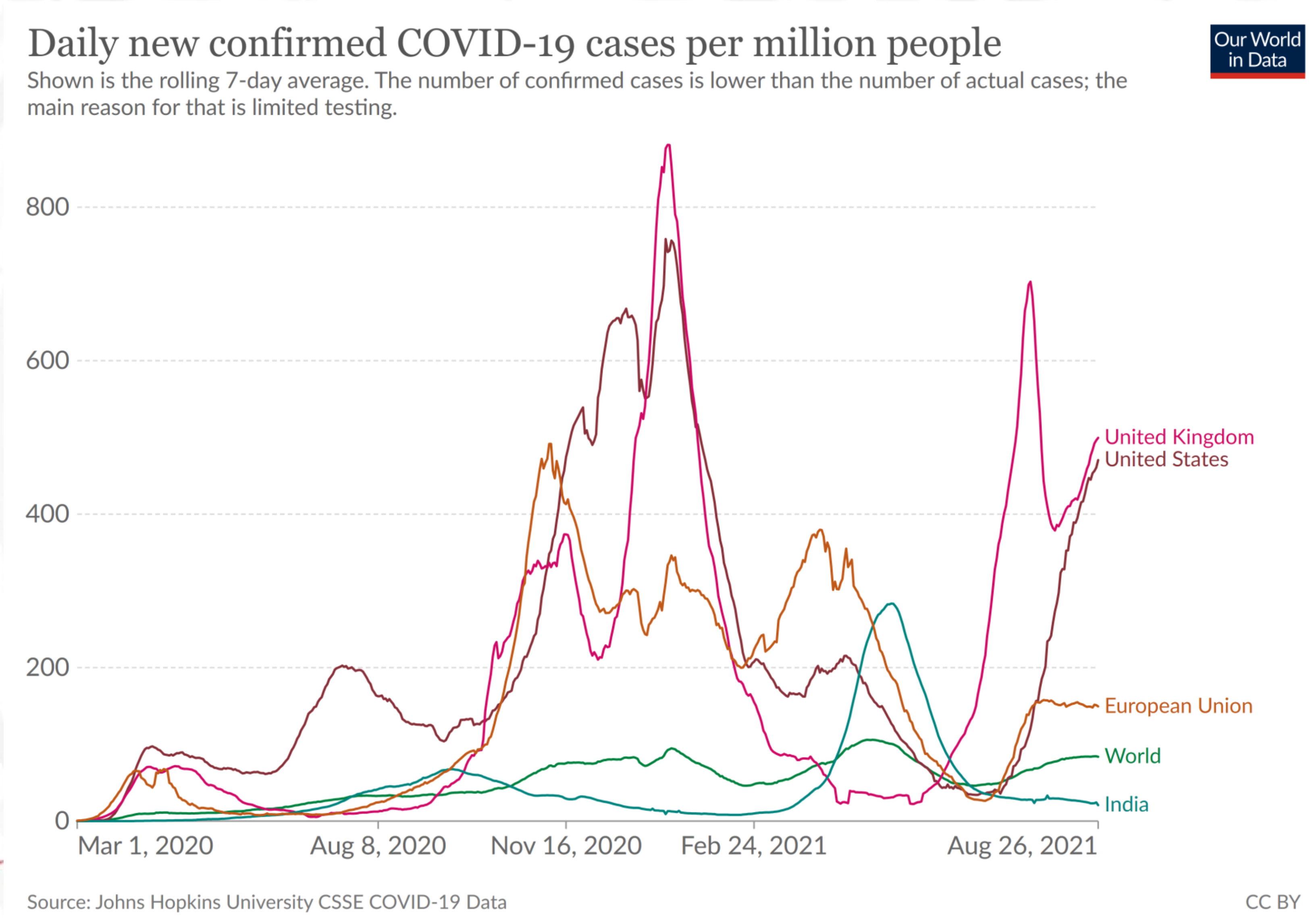
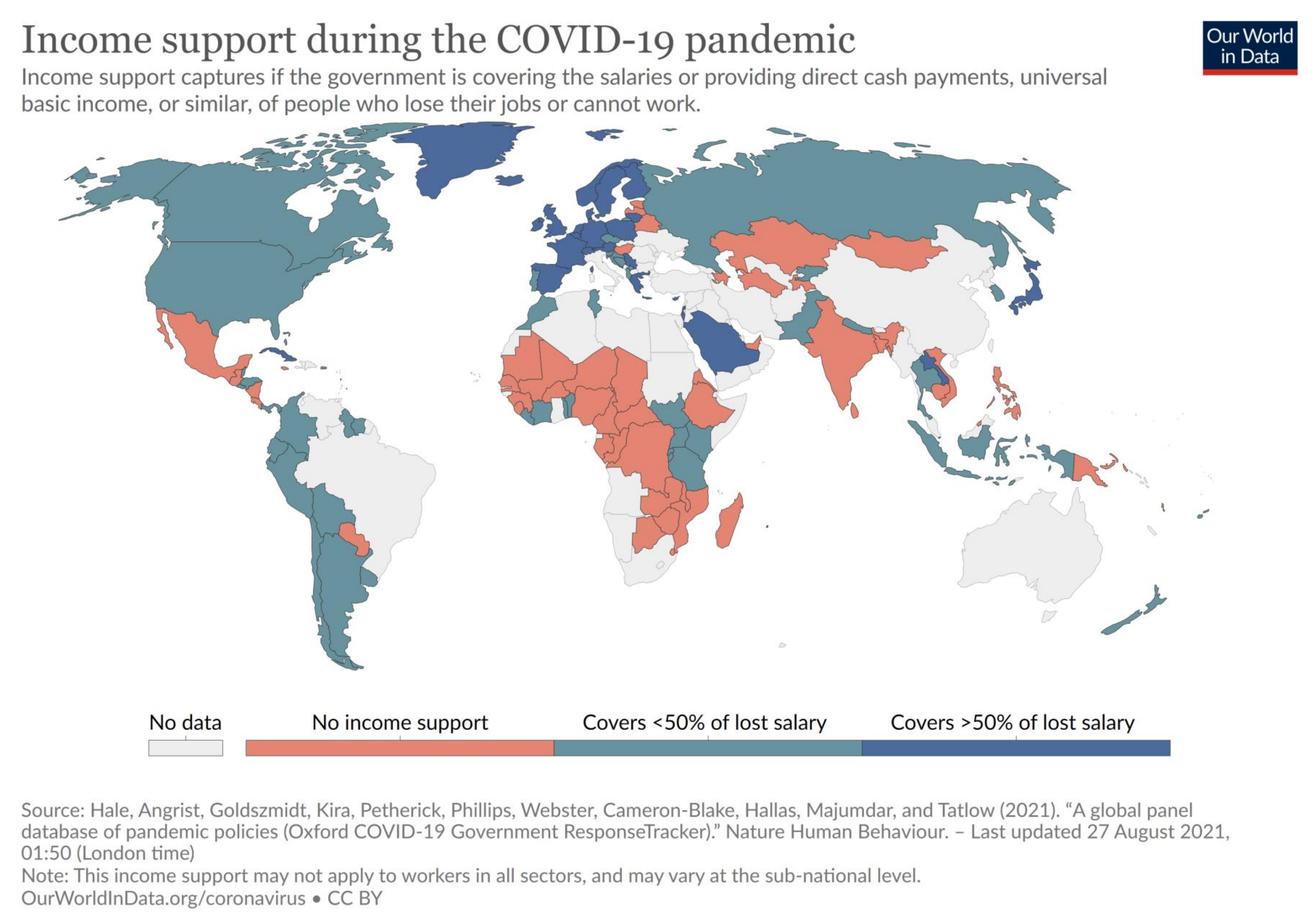
Camdor Global Advisors

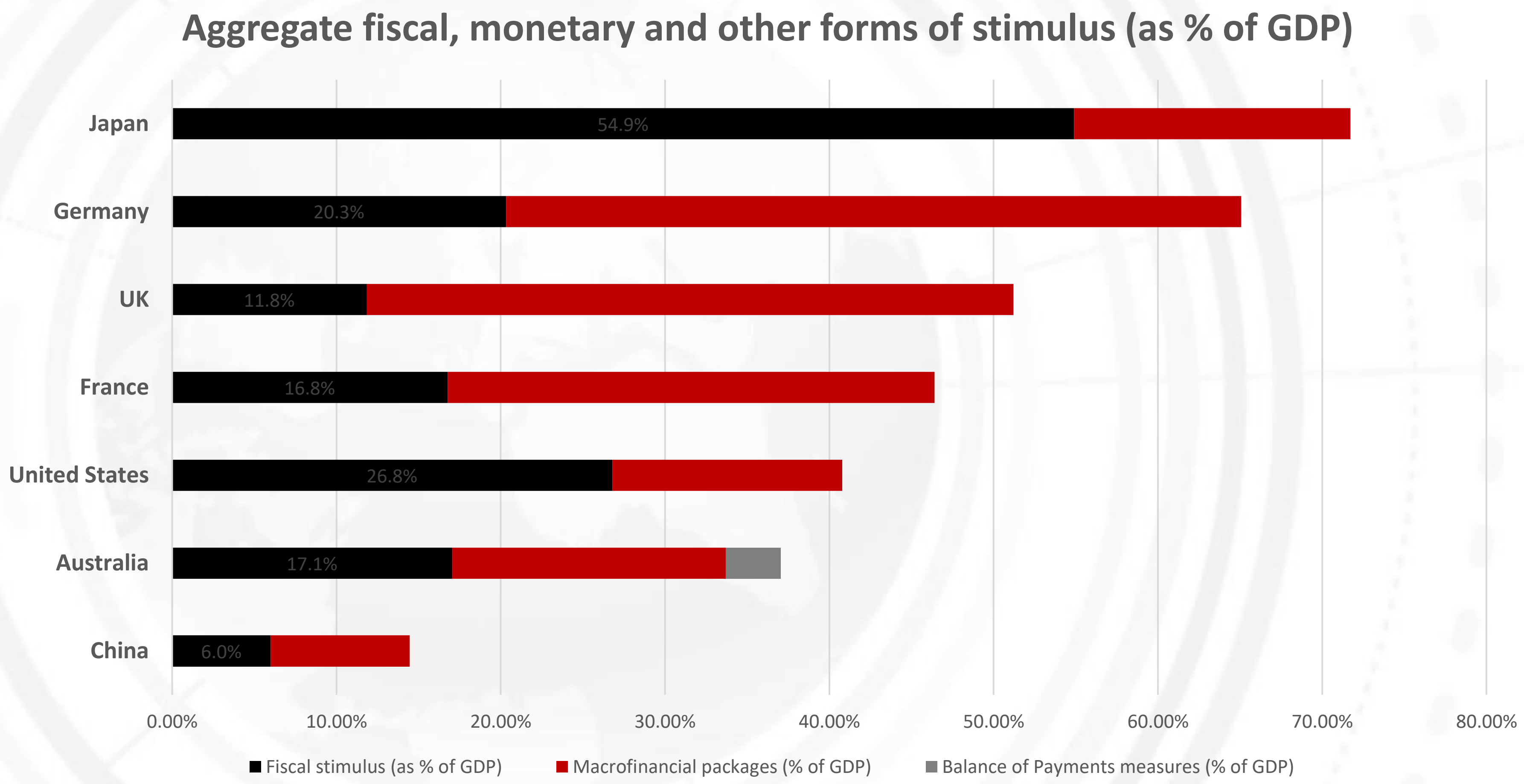
We are still far from moving past Covid-19



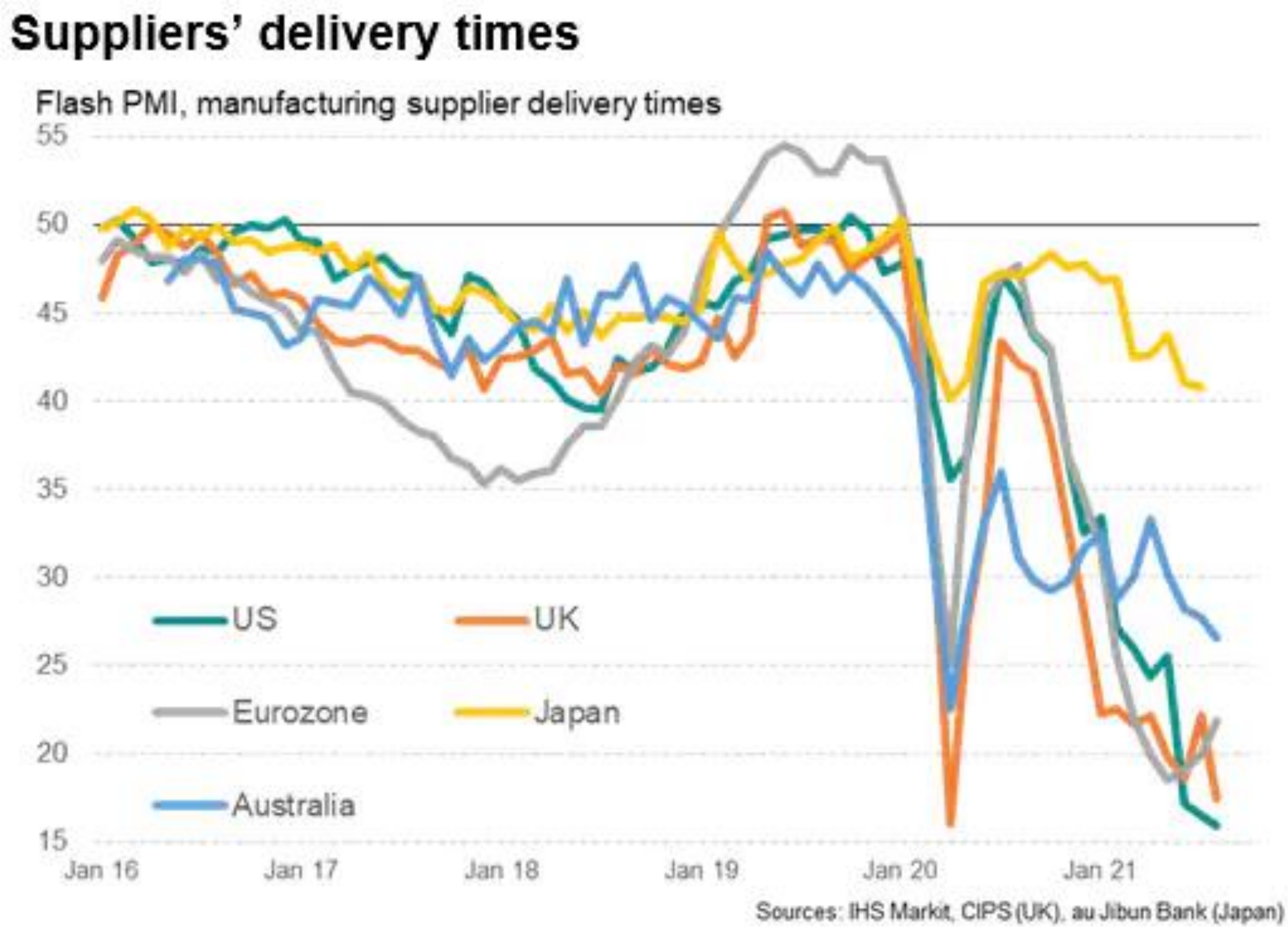
The economy is still highly reliant on govt support



Stimulus has been dramatic

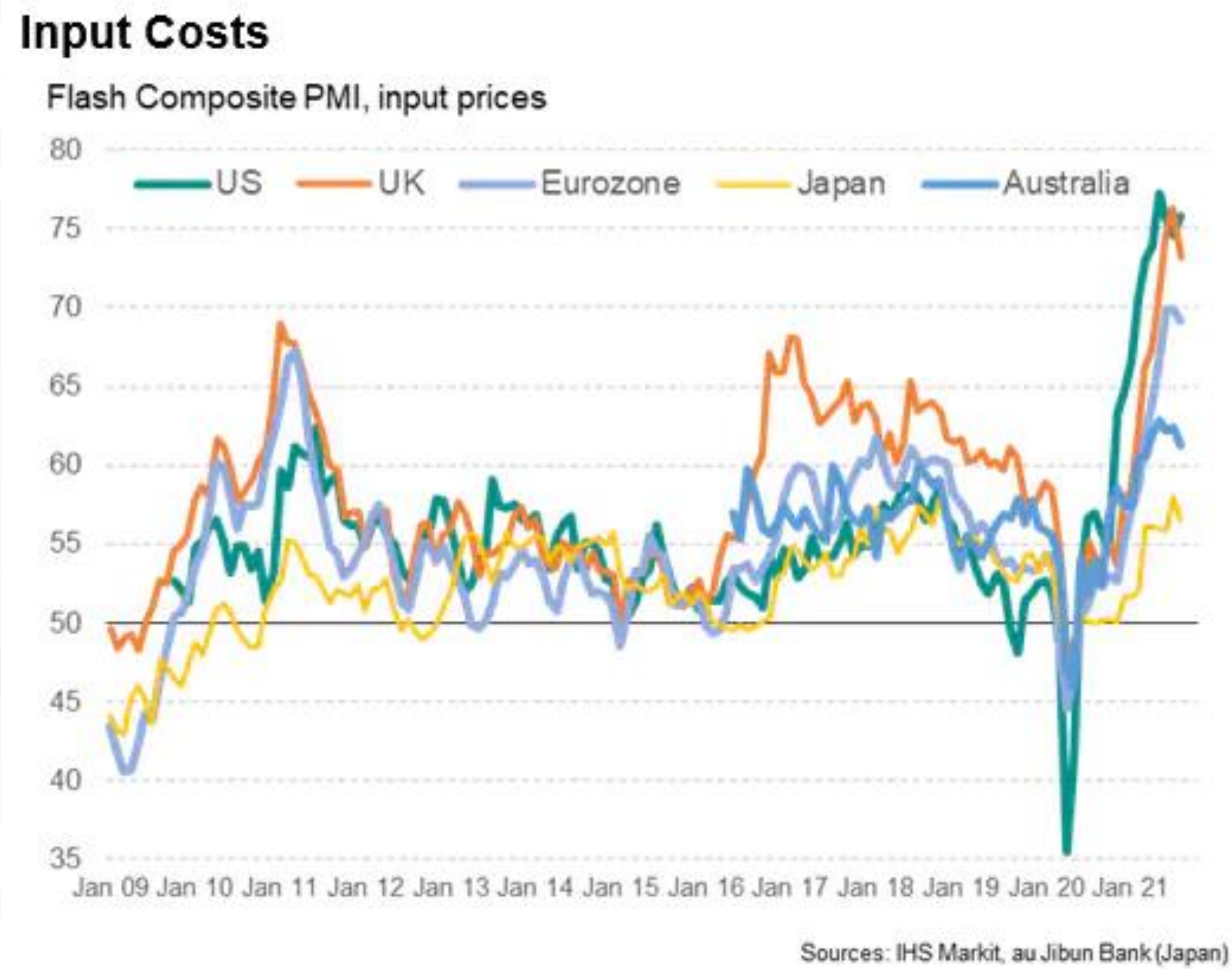


Supply chain issues are for now endemic



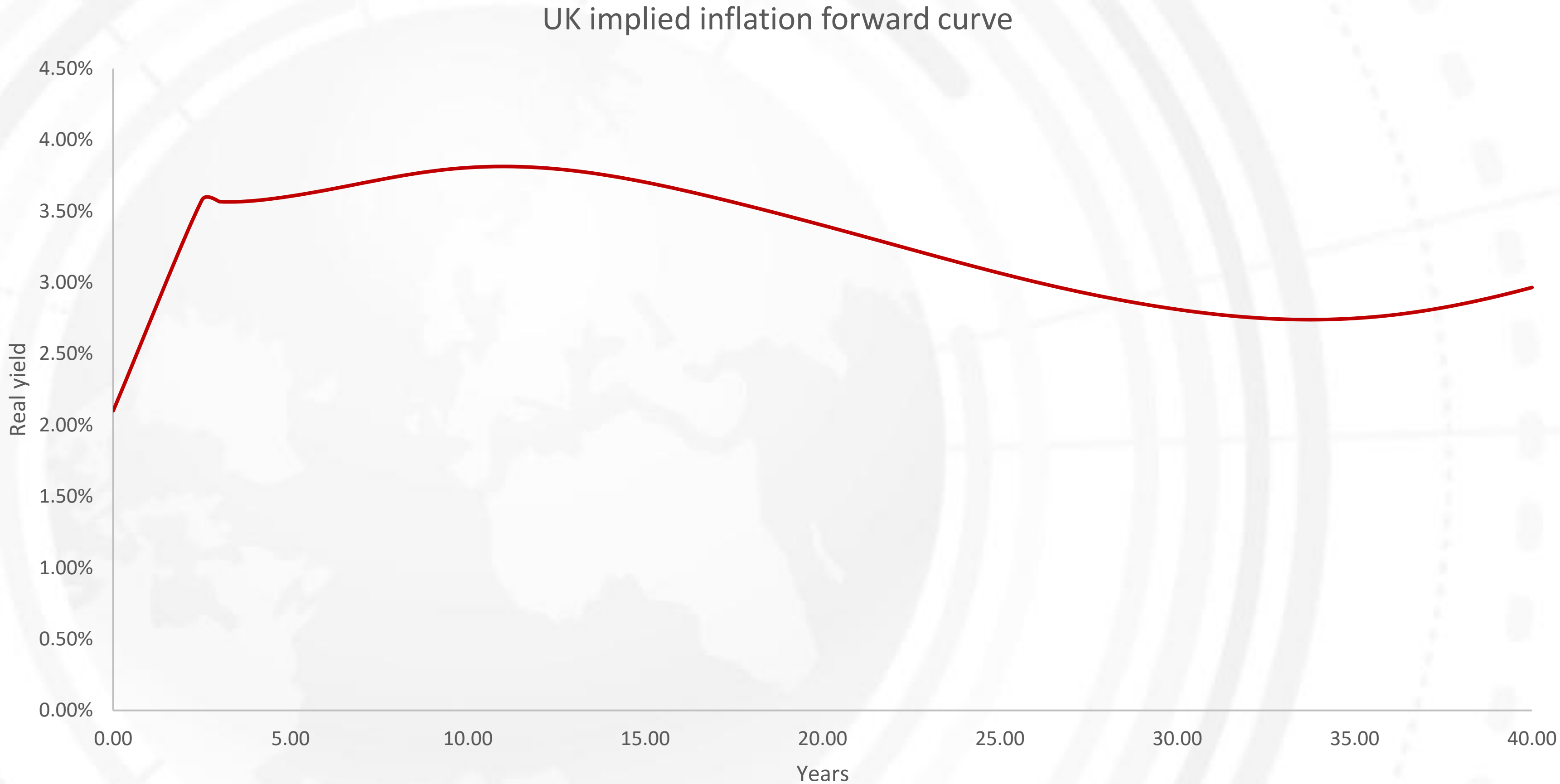
Supplier delays have worsened back towards those seen during the initial economic shock of the pandemic. The UK and US in particular are poised to break those records.

The underlying trend is one of rising inflation…



Rising costs driven by costs of materials, shortages of labour and demand running well ahead of supply. Important to note these numbers have not show up in inflation yet. Perhaps transient?

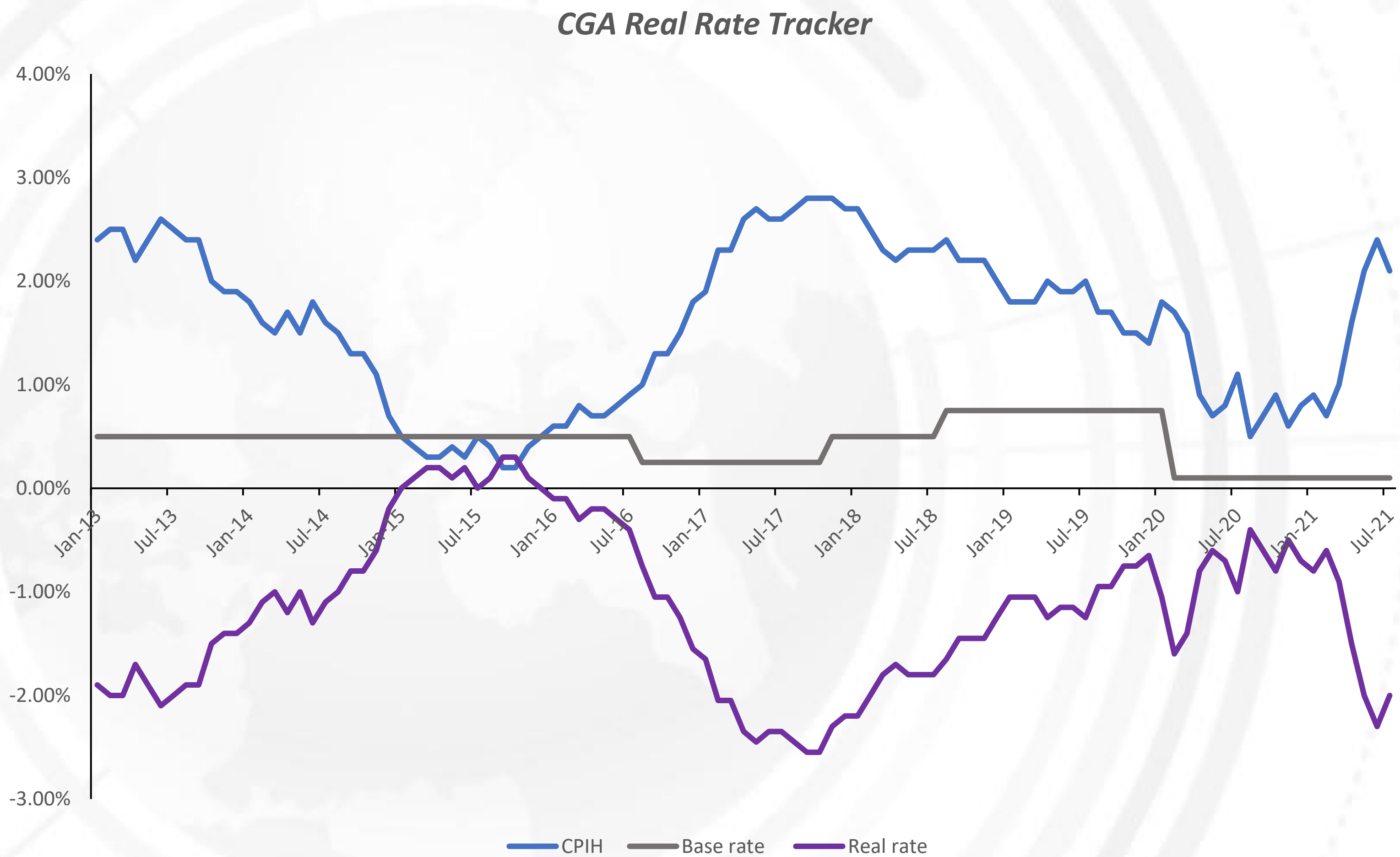
What about inflation?



Source: Bank of England

Markets are pricing in higher inflation expectations going forward.

UK real rates remain negative…



Source: Camdor Global, ONS

Real rates have worsened, but the UK appears stuck in a negative real rate rut, which is punishing for pension liabilities.

…with forward curves indicating a fragile economy

Source: Bank of England

Projections indicate an extended period of low base rates and negative real rates, implying an economy in need of long-term support. Significant frictional drag for the pension fund to overcome in the long-term.

What is the impact on portfolios?

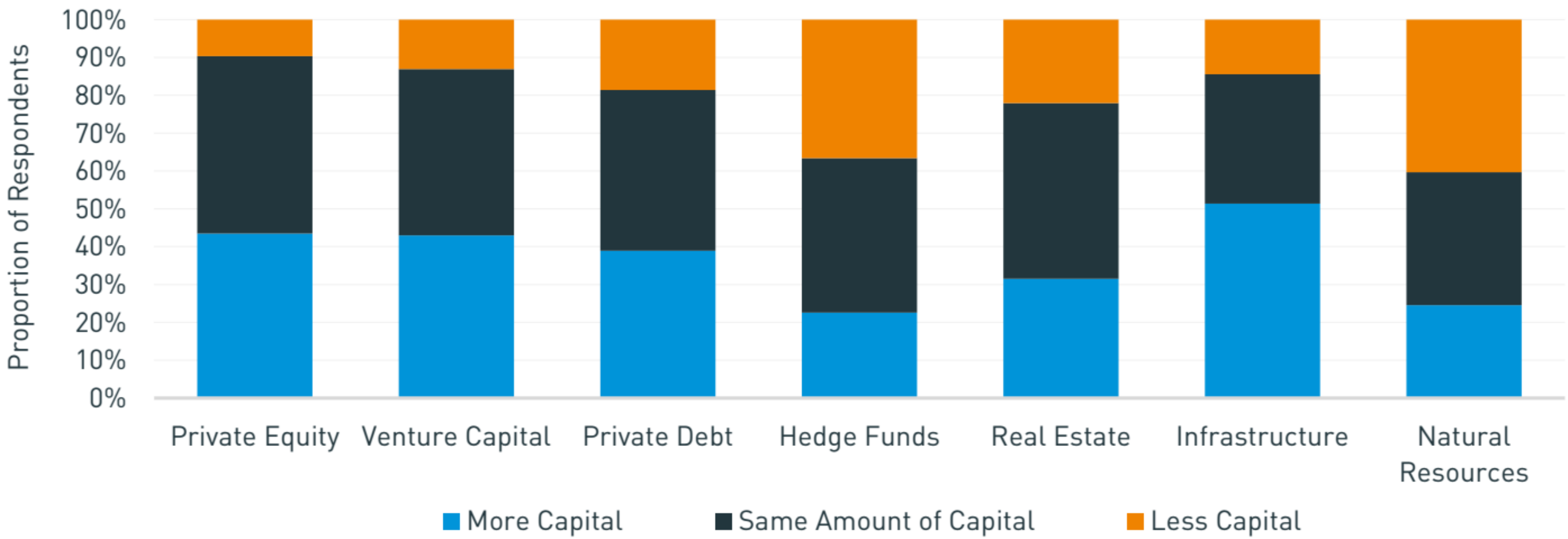
- Risks are binary today – Goldilocks or Gremlins.
- The arbiter between them will be policy and the reaction to it, but we are also flying blind
- **What do we know?**
  - Rates are much lower for much longer
  - Decrease in real interest rates will hit real returns and reduce risk-adjusted yields
  - Increases strain on impaired balance sheets and increases the demand for both financing and for income
  - Demand has returned rapidly, but risks further economic shocks waiting in the wings, making policy support a growing facet of economic life
  - The implication is that markets will continue to rally, as they in effect become proxies for sovereign risk.
  - Falling real yields increase investor appetite for absolute and indexed returns, while longer-term, negative real rates will continue the crush for yield.

What is the impact on portfolios?

- **What are the risks?**
  - Falling yields and rallying markets create a vicious spiral of growing leverage and underlying economic fragility
  - Policy is likely to continue to suppress volatility, creating a false sense of security
  - Policy is also likely to overstay, with the risk of taper tantrums if they recede or fears grow of inadequacy
  - The implication is one of statis with growing bouts of volatility storms.
  - Risks of sustained inflation if policy succeeds and inflation expectations rise – we note the Fed's talk of average inflation targets
  - Societal risks and tensions are also growing in an increasing unequal and inward looking world
    - If policy succeeds, inequality will rise.
    - We note this pandemic has been a lockdown of unequals, with rising financial distress for one part, requiring sustained government support, and forced savings for another.
    - Indicates greater political and geopolitical volatility.

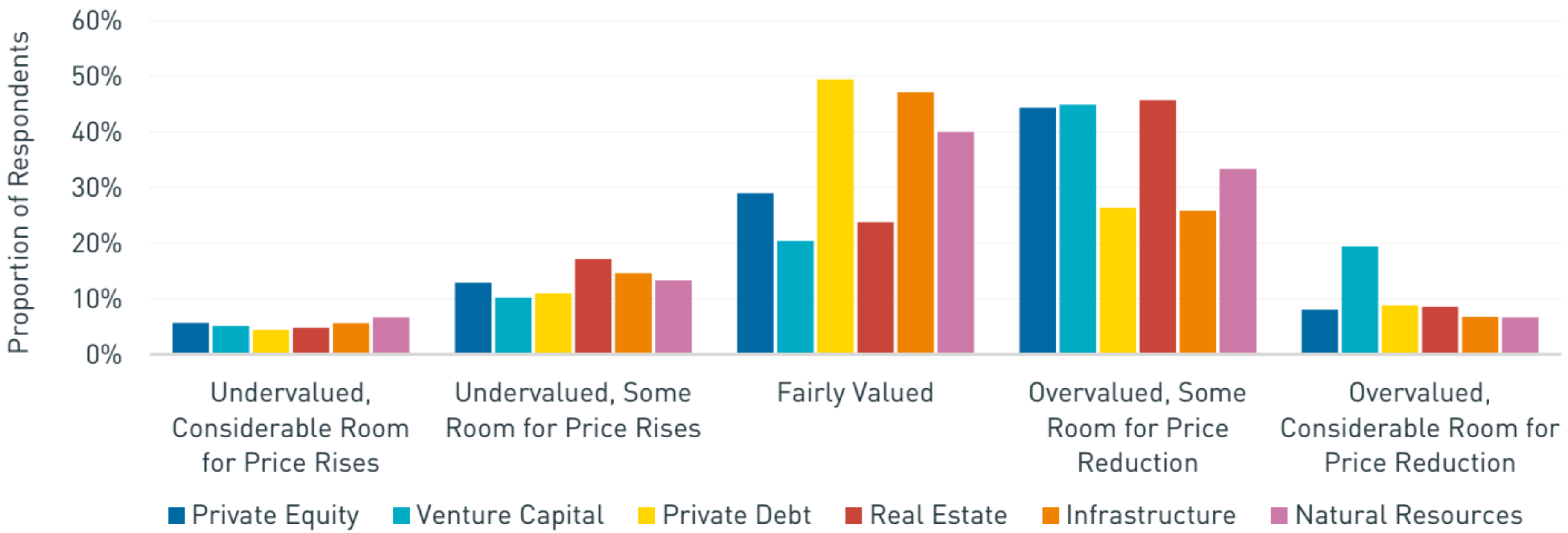
Where are investors looking to deploy capital?

Fig. 1.6: Investors' Expected Capital Commitments to Each Asset Class in the Next 12 Months Compared with the Previous 12 Months



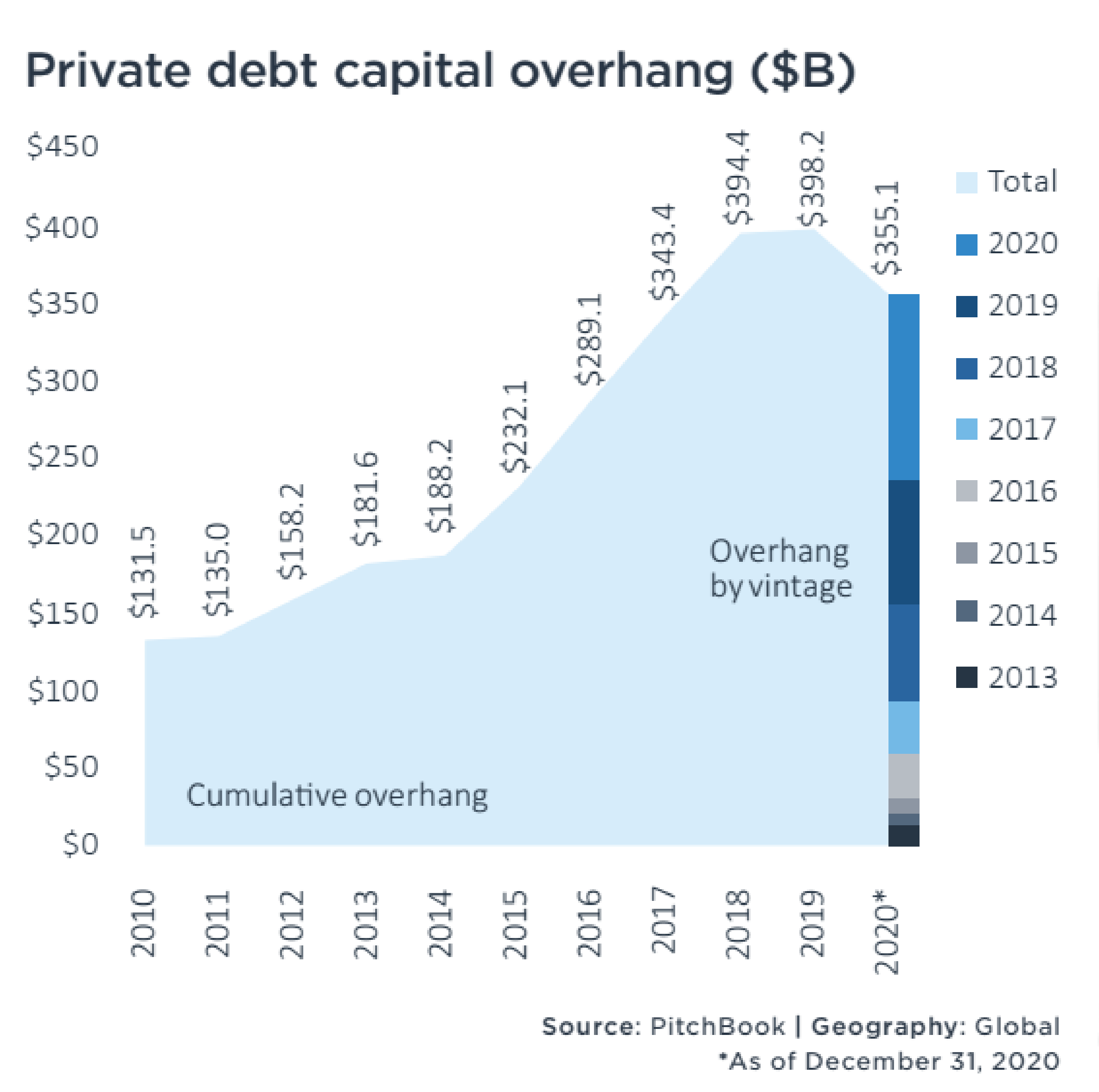
Source: Preqin Investor Survey, June 2021

But more of them see less value also…



Source: Preqin Investor Survey, June 2021

There is significant overhang in the market today



APPENDIX

About Camdor Global Advisors

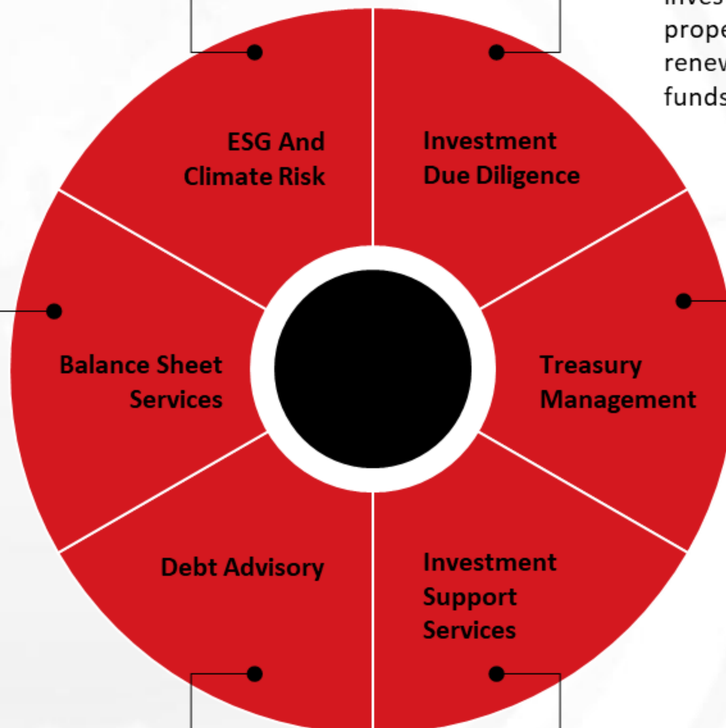
- **Camdor Global Advisors (CGA)** is an innovative and fast-growing advisor in the local authority and institutional sector, specialising in holistic macro analysis, economic scenario modelling, public and private investments, asset-level due diligence and assessing ESG exposures.
- We support clients across the whole balance sheet including treasury, non-treasury investment pools (e.g. property), pension schemes, capital programmes and housing.
- Our local authority clients include leading entities across the UK:

Our Services

Investment ratings, portfolio strategy, due diligence and stress tests

Rigorous investment and risk analysis of potential investments, including property, alternatives, renewables and pooled funds

Strategic reviews, economic scenario analysis, investment frameworks and annual investment audits



A bespoke service underpinned by CIPFA's principles and informed by both prudential and ESG considerations

Borrowing advice, debt restructuring, financial modelling and due diligence, and execution of financing transactions

Portfolio wide support on asset allocation, investment sourcing, reporting and building an optimised portfolio to prudently maximise income

Presenter Bio

Dr Bob Swarup is a respected international expert on financial markets, investment strategy, alternatives, ALM and regulation. He is Principal at Camdor Global Advisors, an advisory firm that works with institutions and investors around the world on strategic investment, risk management, ALM and business issues. He also served as Senior Investment Advisor to the Pensions Regulator, advising them on the development of the new regulatory framework for DB schemes from an investment, risk and governance perspective.

Bob was formerly a partner at Pension Corporation, a leading UK-based pension buyout firm, where he ran alternative investments, was Chief Risk Officer and oversaw Thought Leadership.

Bob is a former Senior Visiting Fellow at Cass Business School; on the Advisory Council of the Columbia Committee for Global Thought and on the Editorial Board of the *Journal of Alternative Investments*. He holds a PhD in cosmology from Imperial College London and an MA (Hons) in Natural Sciences from the University of Cambridge. Bob has written extensively on diverse topics, with his work being featured in the Financial Times, Economist, Guardian, CNBC, Bloomberg, Pensions Week and IPE amongst others. He is also the author of the internationally acclaimed bestseller *Money Mania* on two millennia of financial crises and the lessons to learn (Bloomsbury, 2014).

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