



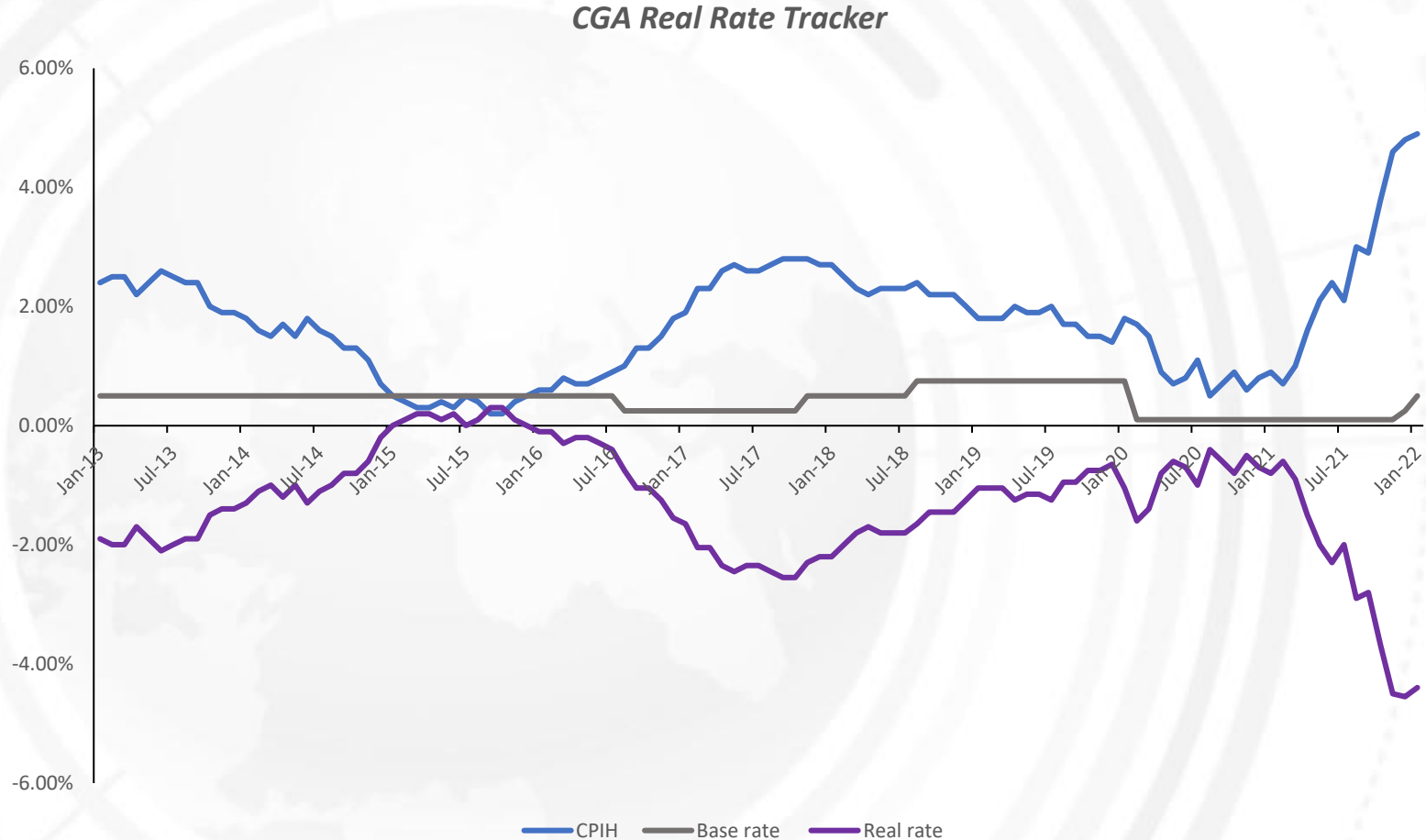
## **THE BIGGER PICTURE**

*Key macro dynamics of relevance*

*March 2022*

*Dr Bob Swarup  
Camdor Global Advisors*

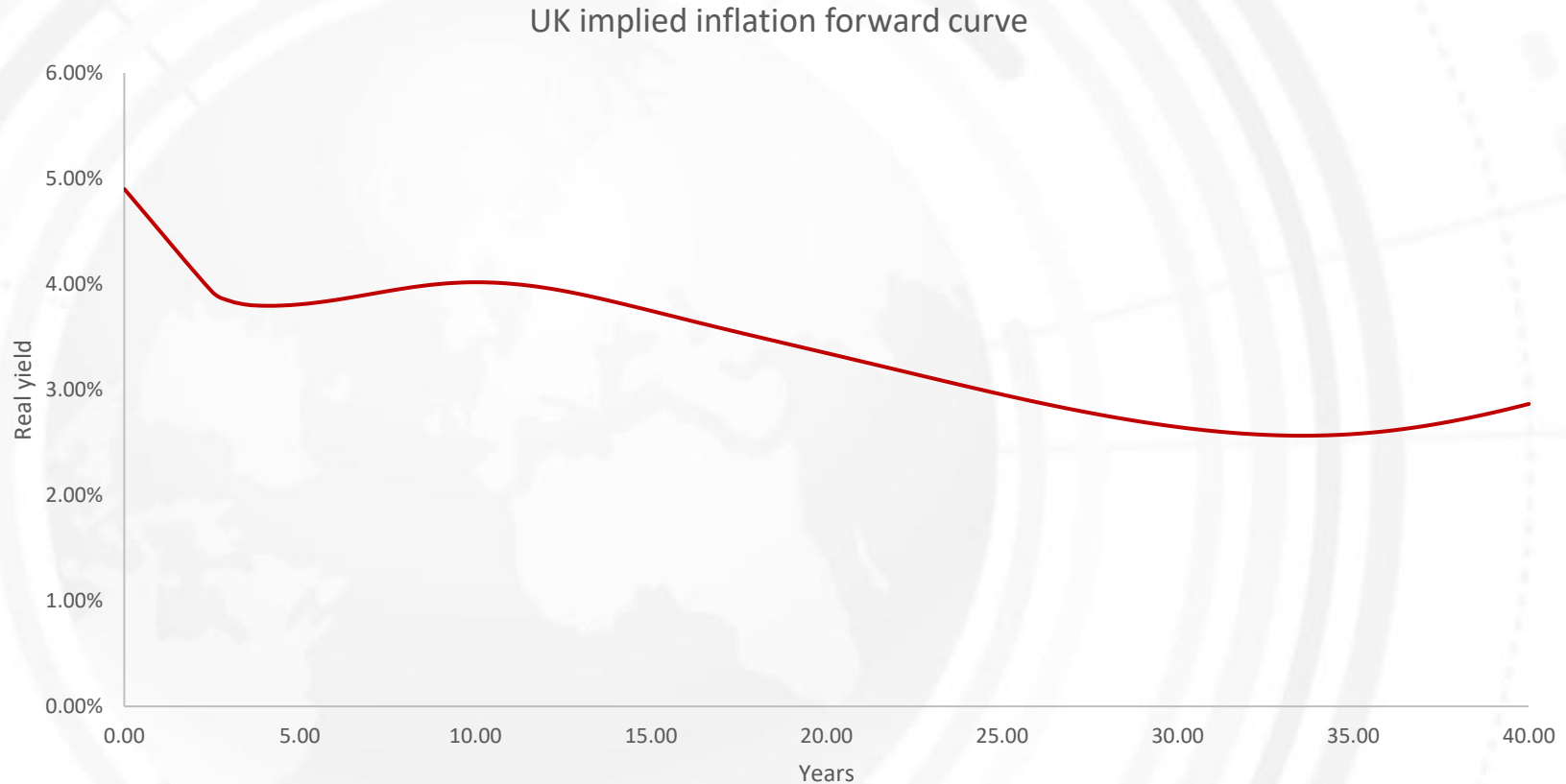
# UK real rates have become even more negative...



Source: Camdor Global, ONS

Real rates have worsened significantly, with the latest interest rate increases only staunching the bleed. This is a punishing environment for investments and for pension liabilities.

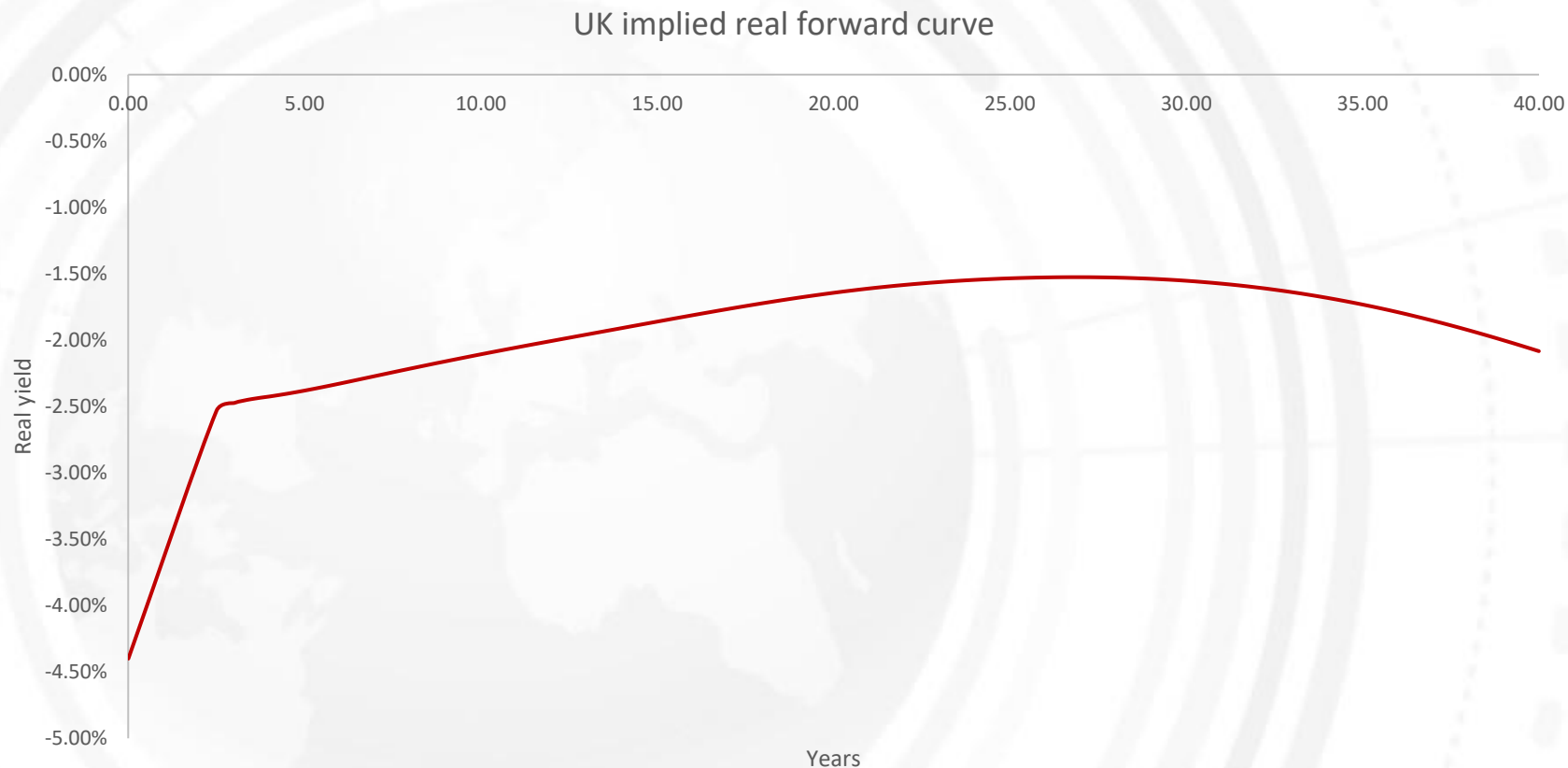
# ...while inflation is likely to take time to subside



Source: Bank of England

Inflation is expected to fall over the coming years but is also expected to be above 4% for the next decade, and generally stay above the BoE's inflation target.

# Forward curves indicate a fragile economy



Source: Bank of England

Real rate forward curves indicate an extended period of relatively lower base rates and persistent negative real rates. This implies a fragile economy in need of long-term support and continued headwinds for the Fund.

# Supply chain issues are still being worked through

## Supplier delivery and shipping delays



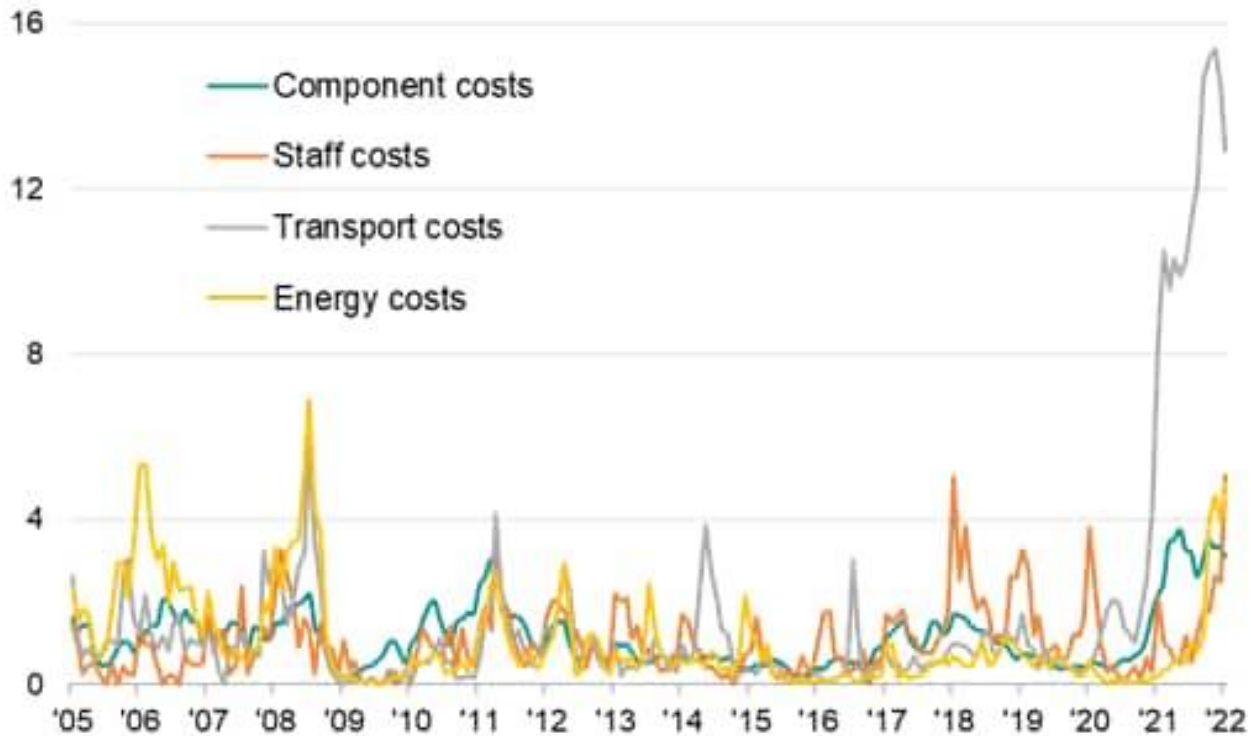
Supplier delays are easing but are still at levels seen during the initial economic shock of the pandemic.

# The underlying trend is one of inflation...

## What's driving global prices higher

Global producers reporting higher prices due to ...

Index, 1 = long run average (2005-20)

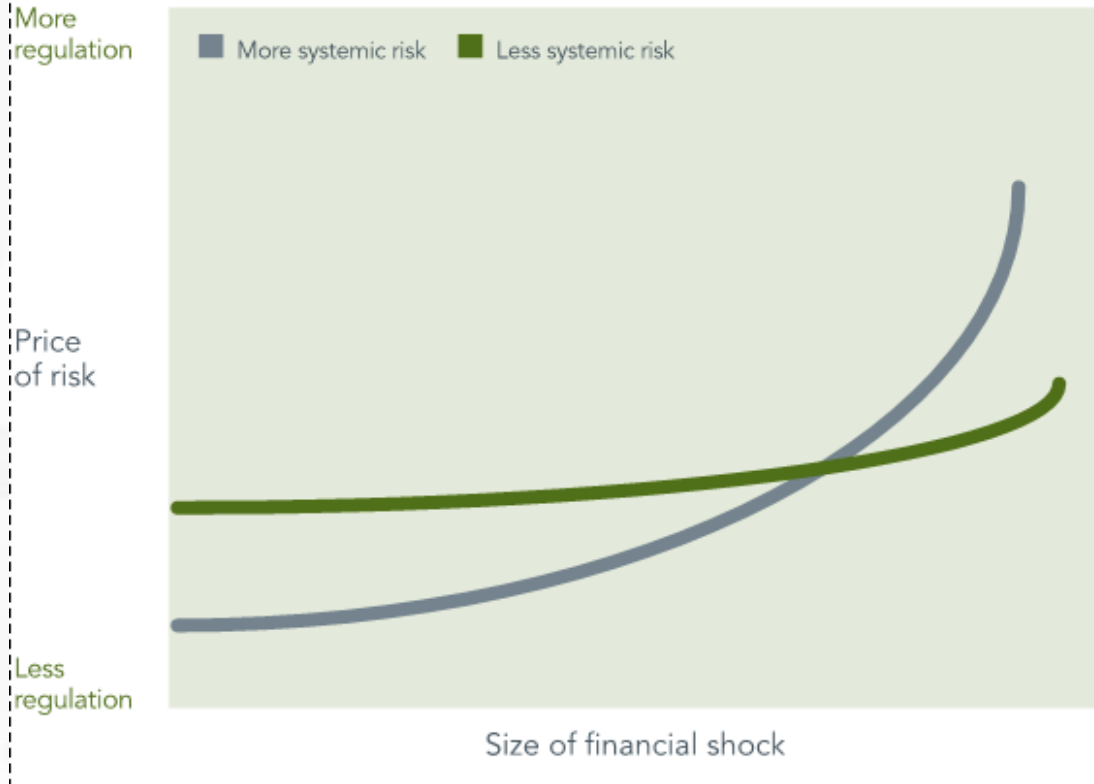


Source: IHS Markit PMI surveys

Transient factors such as transport are peaking, but others – notably energy and staff costs – are rising rapidly. The number of producers blaming staff shortages is over 5 times normal levels.

# The policymaker's conundrum

Figure 1: The Trade-off Between Financial Stability and Growth<sup>1</sup>



<sup>1</sup> Source: Camdor Global, based on T. Adrian, D. Covitz and N. Liang, Financial Stability Monitoring, Federal Reserve Finance and Economics Discussion Series (2013)



# The new geopolitics

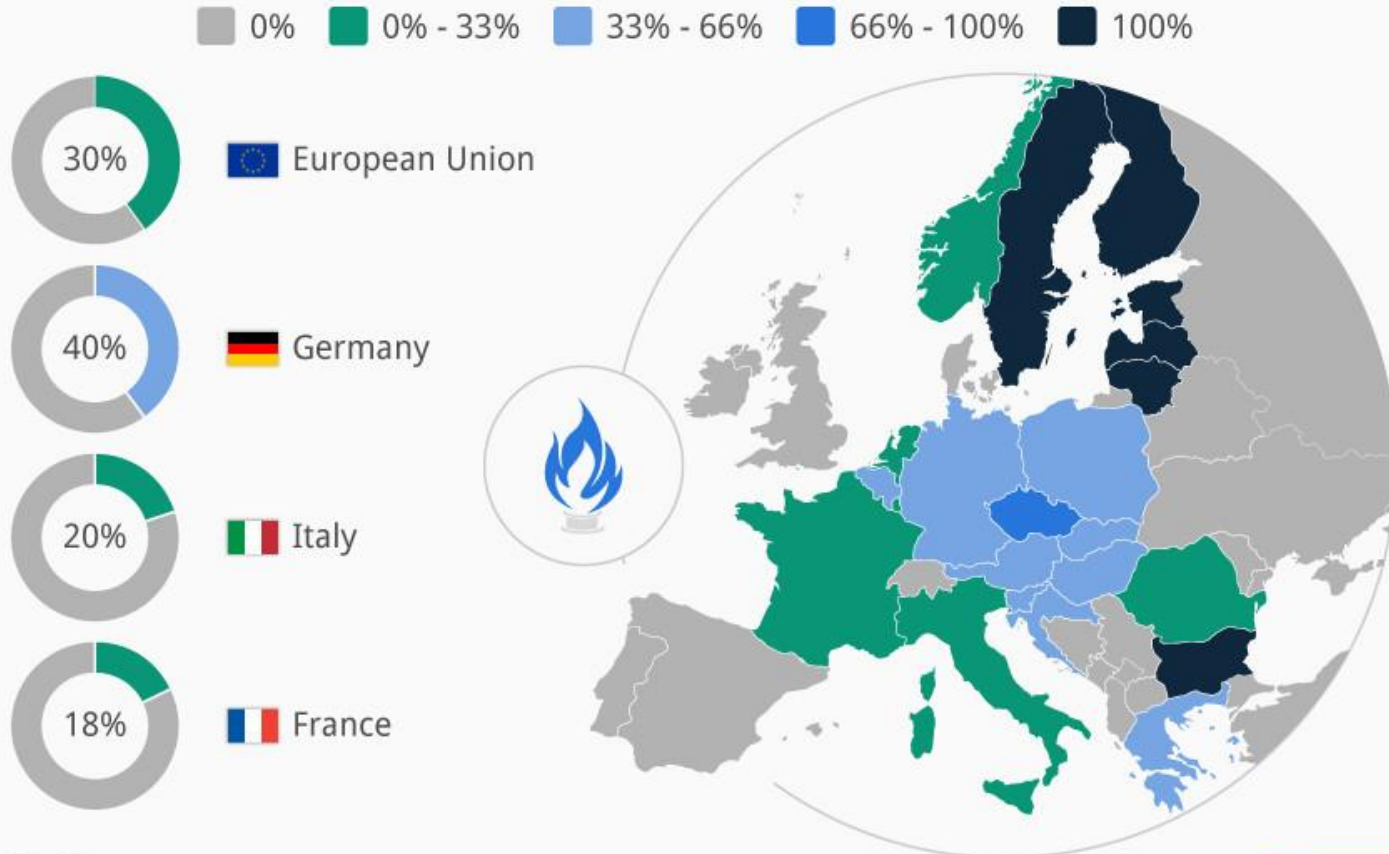
- Geopolitics is not international relations and it is not cataloguing current events
- It's not just oil, China or Russia
- It is about people, the places they inhabit and the herds they create
- It is about their:
  - Compulsions – what moves us;
  - Constraints – what limits us;
  - Choices – what we do;
  - Consequences – what follows; and
  - Complexity – the system we therefore create.
- Today, that is increasingly a critical dimension to risk management and asset allocation
- Also important to note that this is not just physical, but also spilling into the digital sphere.



# Where geopolitics meets/collides with ESG...

## Europe is Highly Dependent on Russian Gas

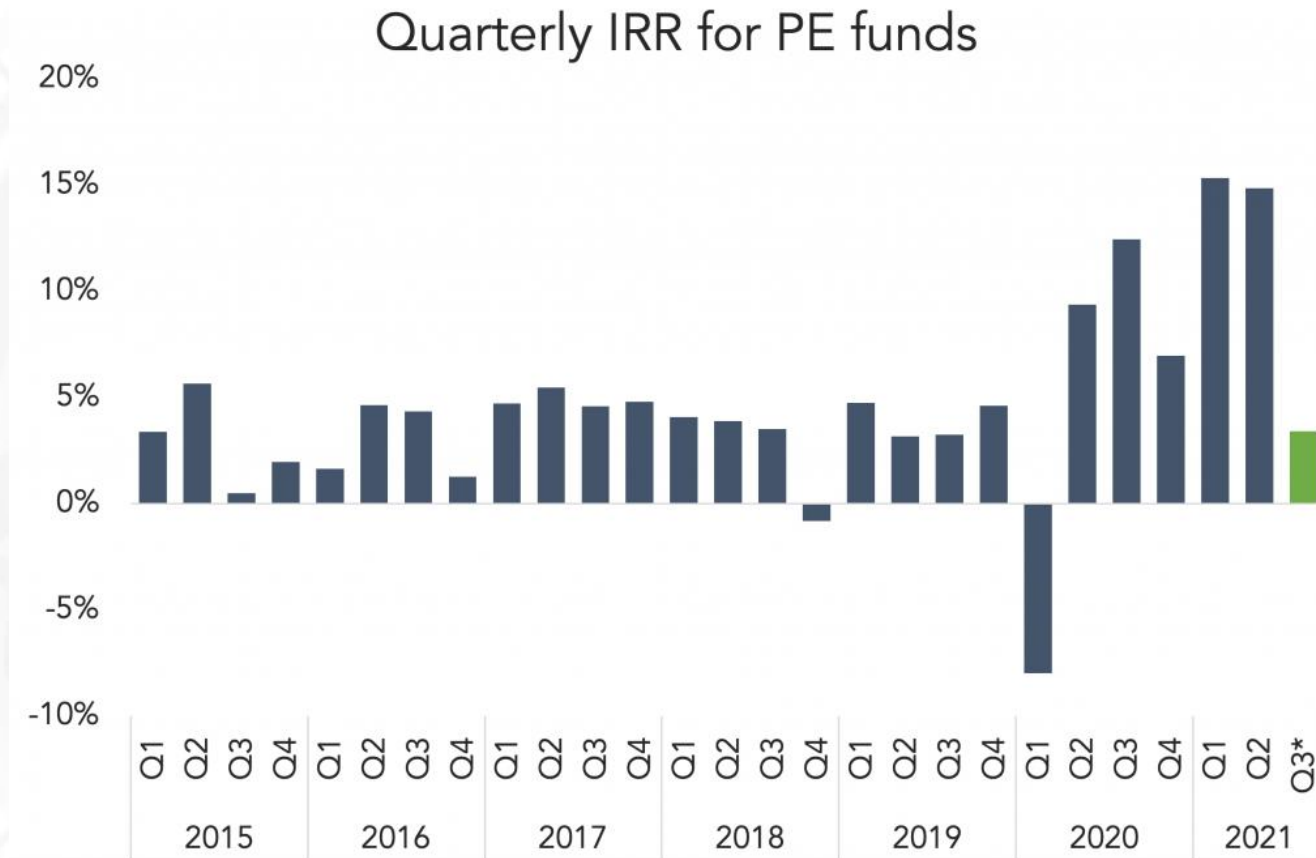
Percentage of gas supplied by Russia to European countries



@StatistaCharts Sources: CNN, WTO, U.S. Census Bureau, Eurostat

statista

# How are private returns evolving?

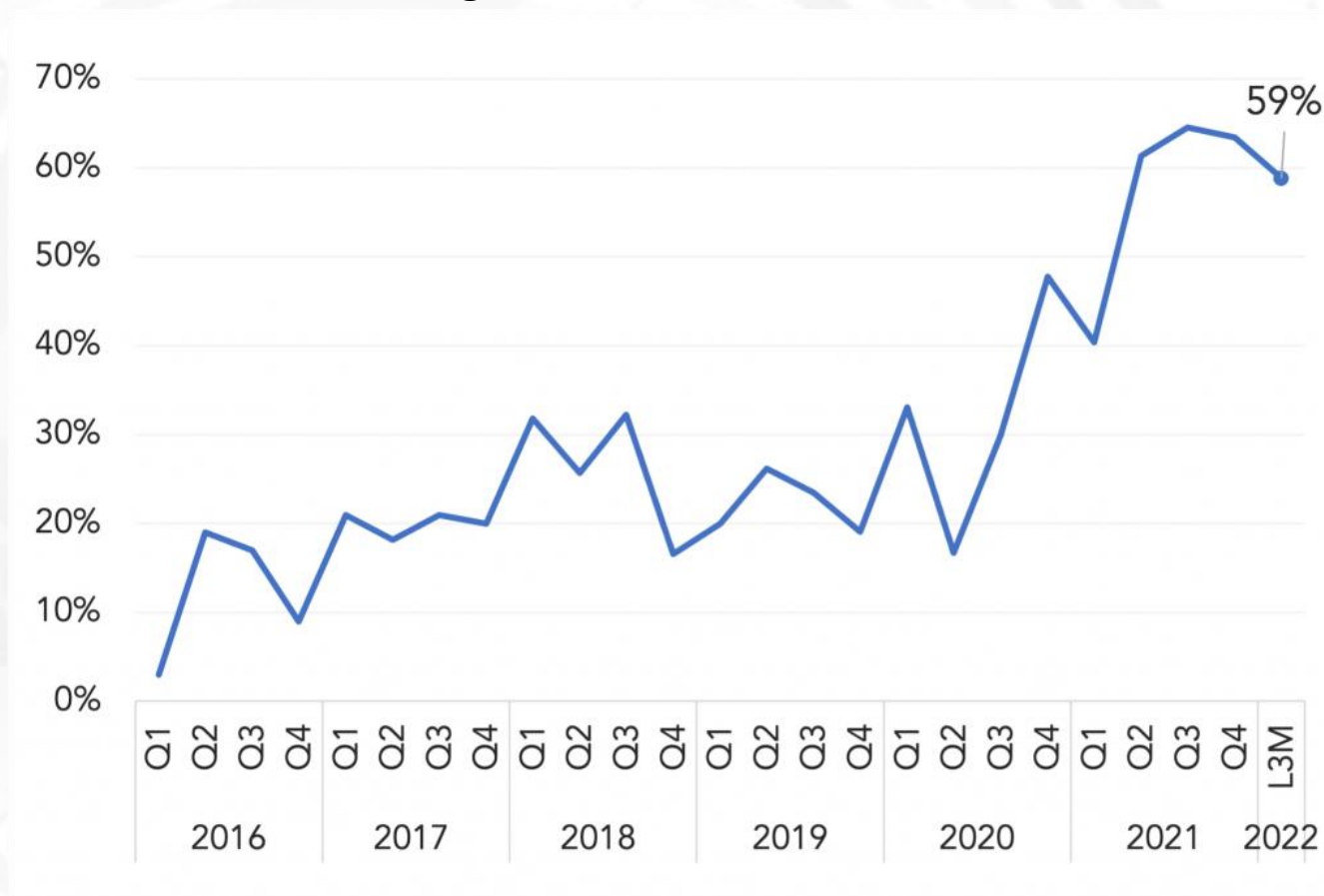


Source: Pitchbook

The past two years have been anomalous in terms of wider PE performance. The data indicates a strong bounceback post pandemic, but but also perhaps fading momentum now.

# What about underlying risks?

## Percentage of Loans with an MFN Sunset

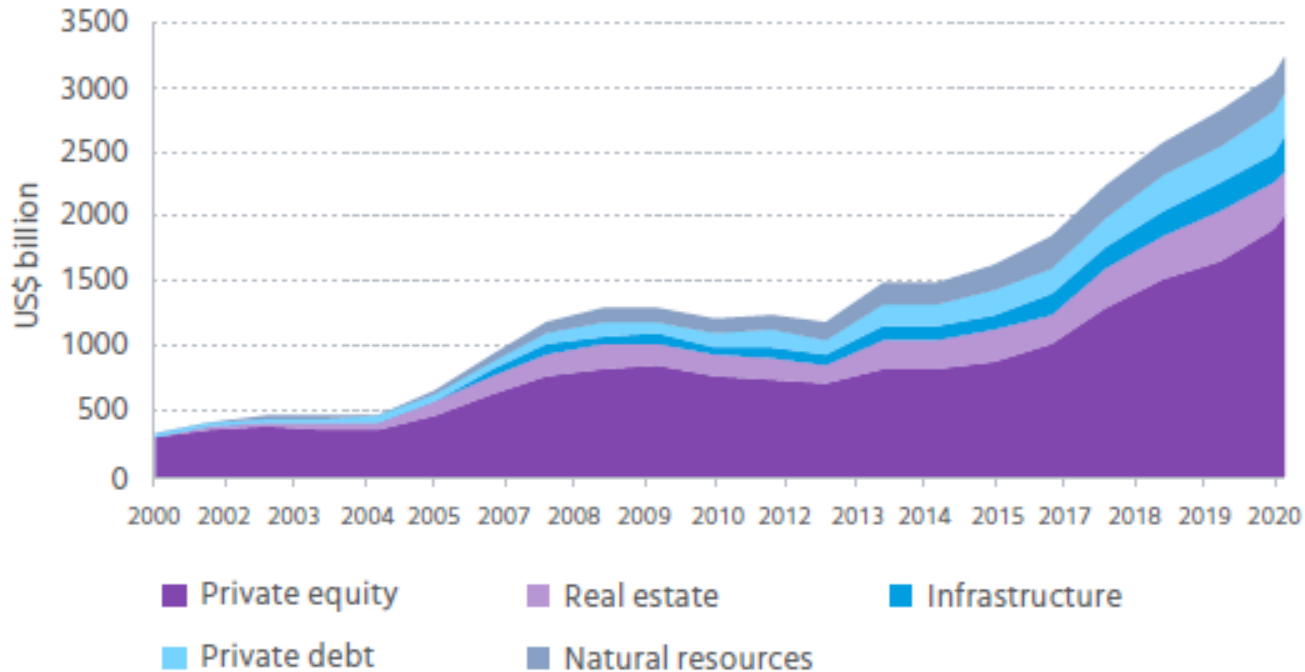


Source: The Lead Left, Stephen Miller

Covenants continue to weaken, indicating growing sensitivity to shifts in economic sentiment or market downturns.

# Aligning industry dynamics with the SAA

Unallocated capital has been rising in absolute terms



Source: Preqin as of end of 2020

Dry powder has built considerably over recent years, which will impact BCPP's ability to deploy effectively. It will also likely exert downward pressure on returns going forward.

The background of the slide is a light gray color with a complex graphic design. On the left side, there is a faint, stylized globe showing the continents. Overlaid on the globe and extending across the top and right are several concentric, semi-transparent circles. To the right of the globe, there is a network diagram consisting of a vertical dashed line with several small circles connected to it by horizontal lines. Two larger circles are also connected to this network, one above and one below the main vertical line. The overall aesthetic is clean, modern, and technical.

# APPENDIX

# 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).

# Contact Us

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