THE BIGGER PICTURE

Key macro dynamics of relevance

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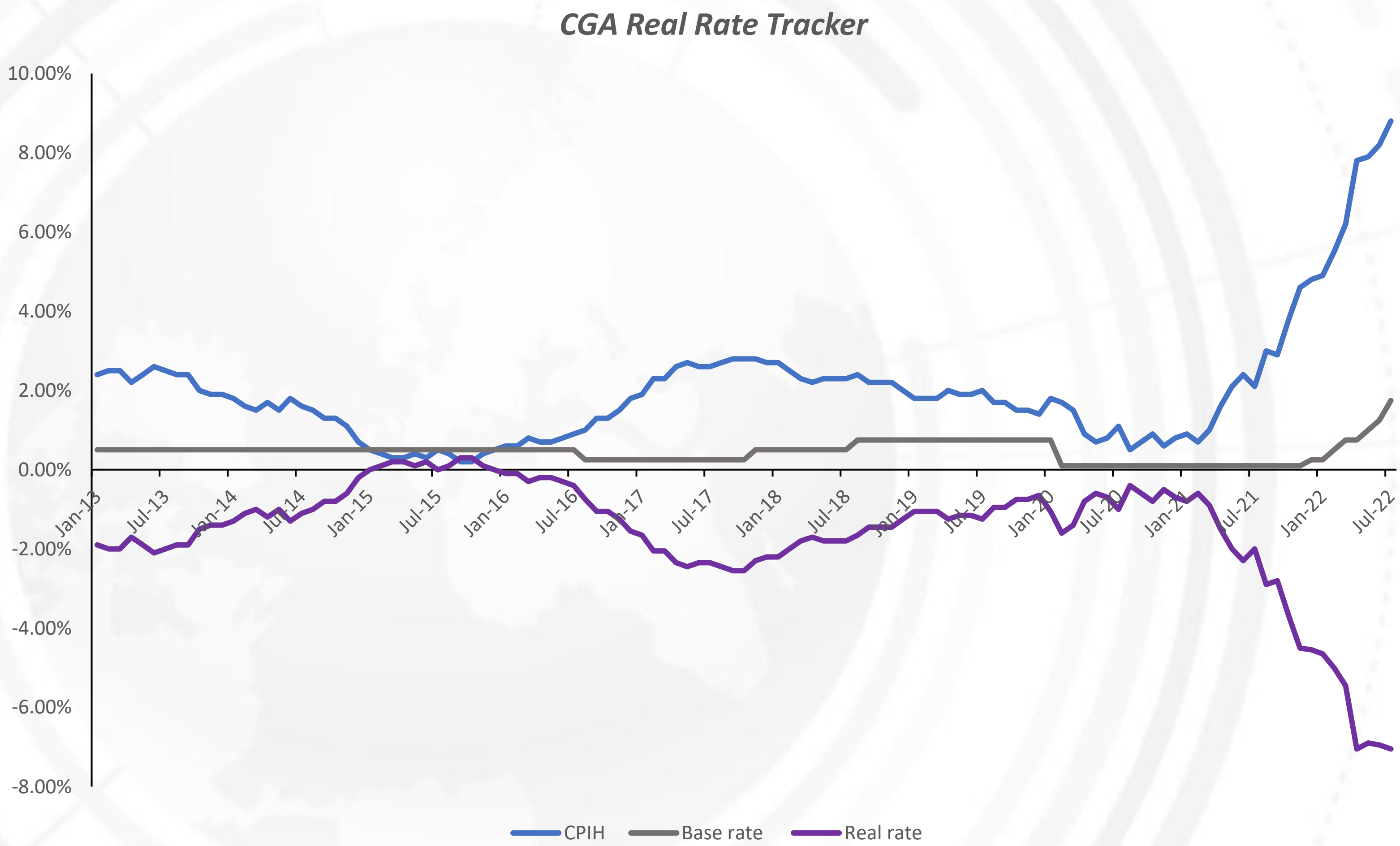
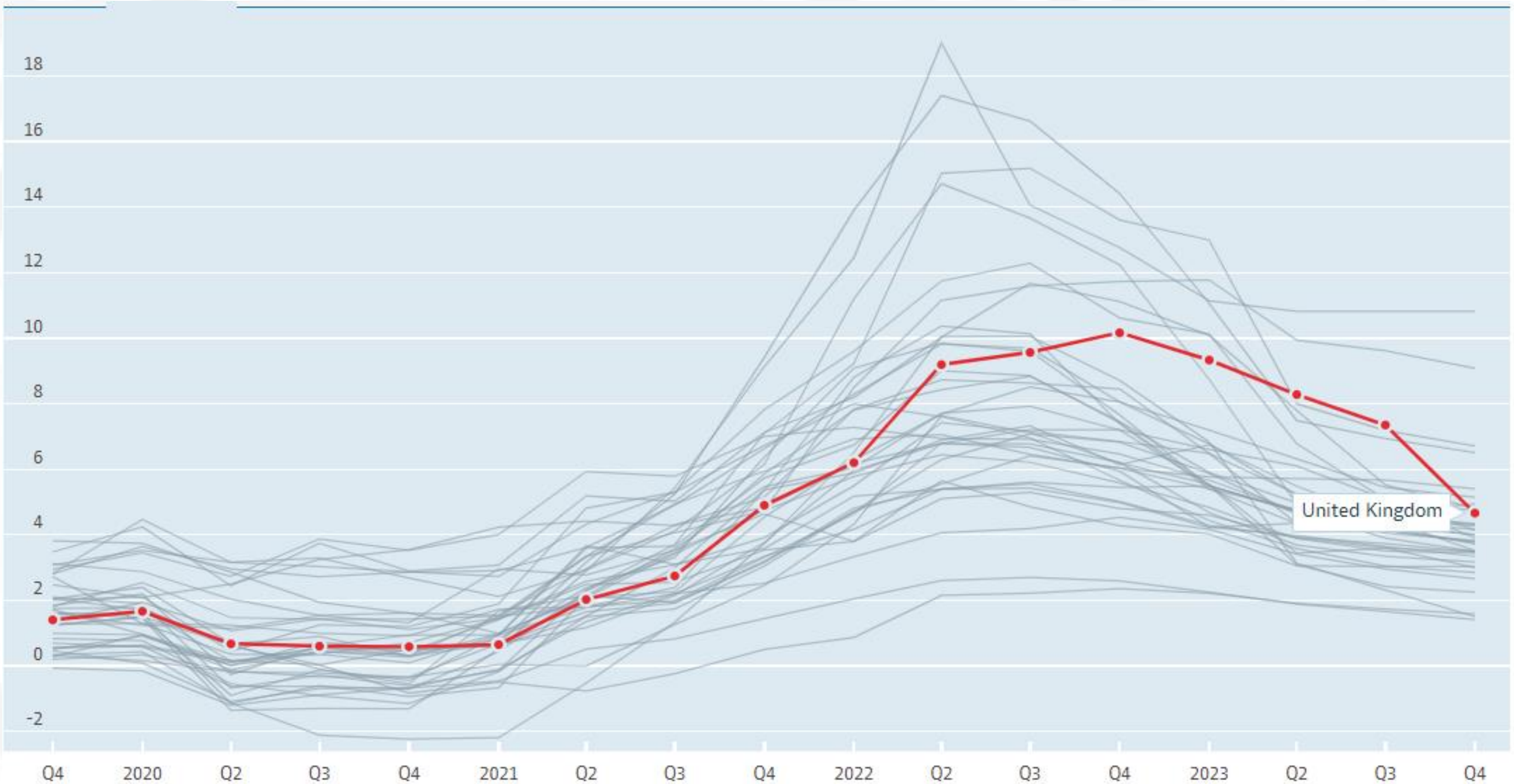
UK real rates remain strongly negative…



Source: Camdor Global, ONS

Real rates continued to worsen, with recent rate rises only now beginning to keep apace. The significant frictional drag today is punishing for investments and pension liabilities, with tail risks still in play.

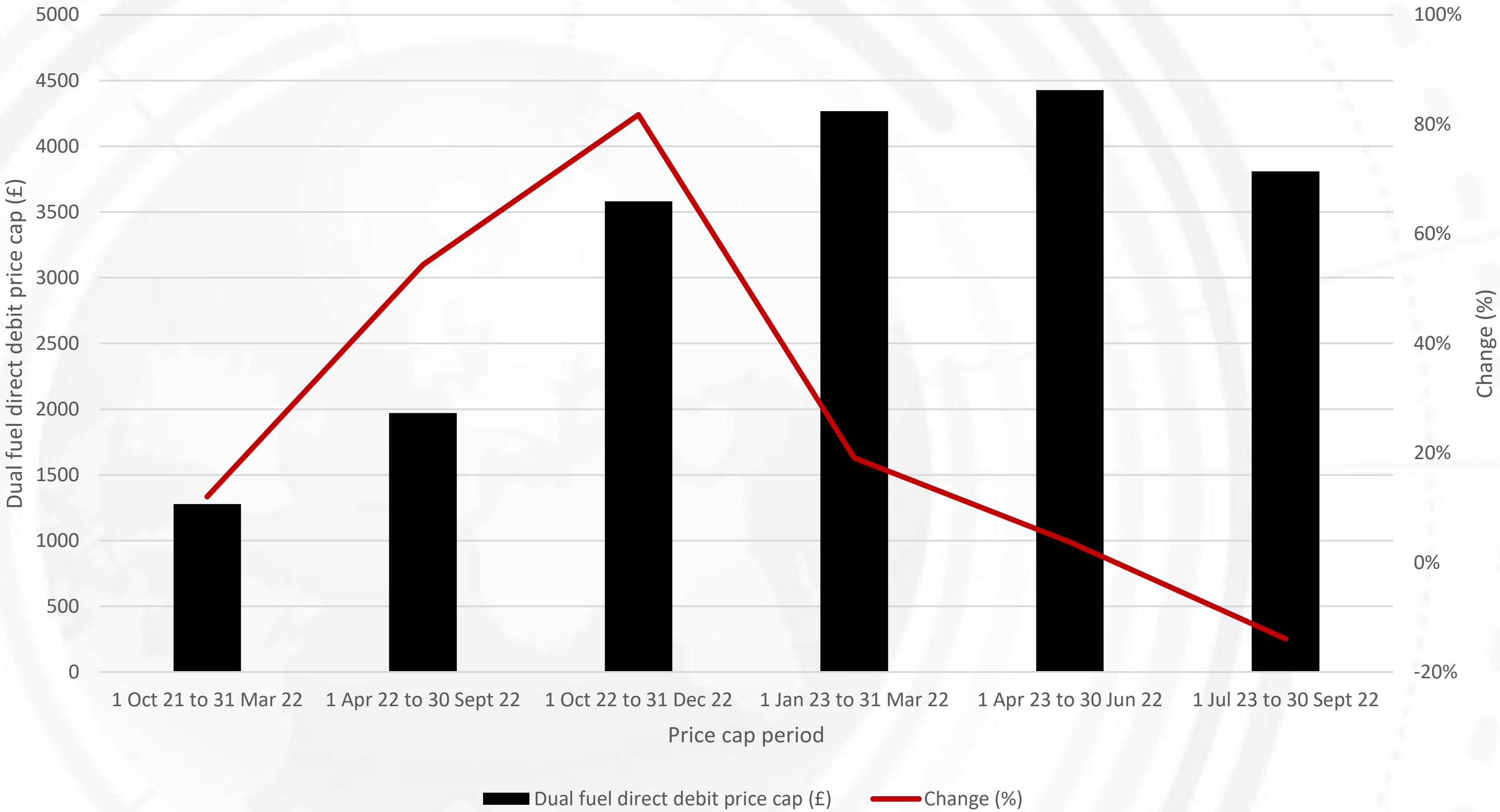
Forecasts show a peak end 2022...



Source: OECD (2022), Inflation forecast (indicator). doi: 10.1787/598f4aa4-en

Inflation is expected to fall over 2023 but the timeline keeps getting extended. The UK appears middle of the pack but most comparable economies have lower inflation trajectories.

…but supply side pressures indicate otherwise



Source: Bank of England

The price cap is expected to rise by 116% by year end and not begin to fall till July 2023. Alongside, there are significant pressures on other parts of the basket, notably food that will take longer to alleviate, given geopolitical and climate induced pressures.

Globally, wage pressures are rising…

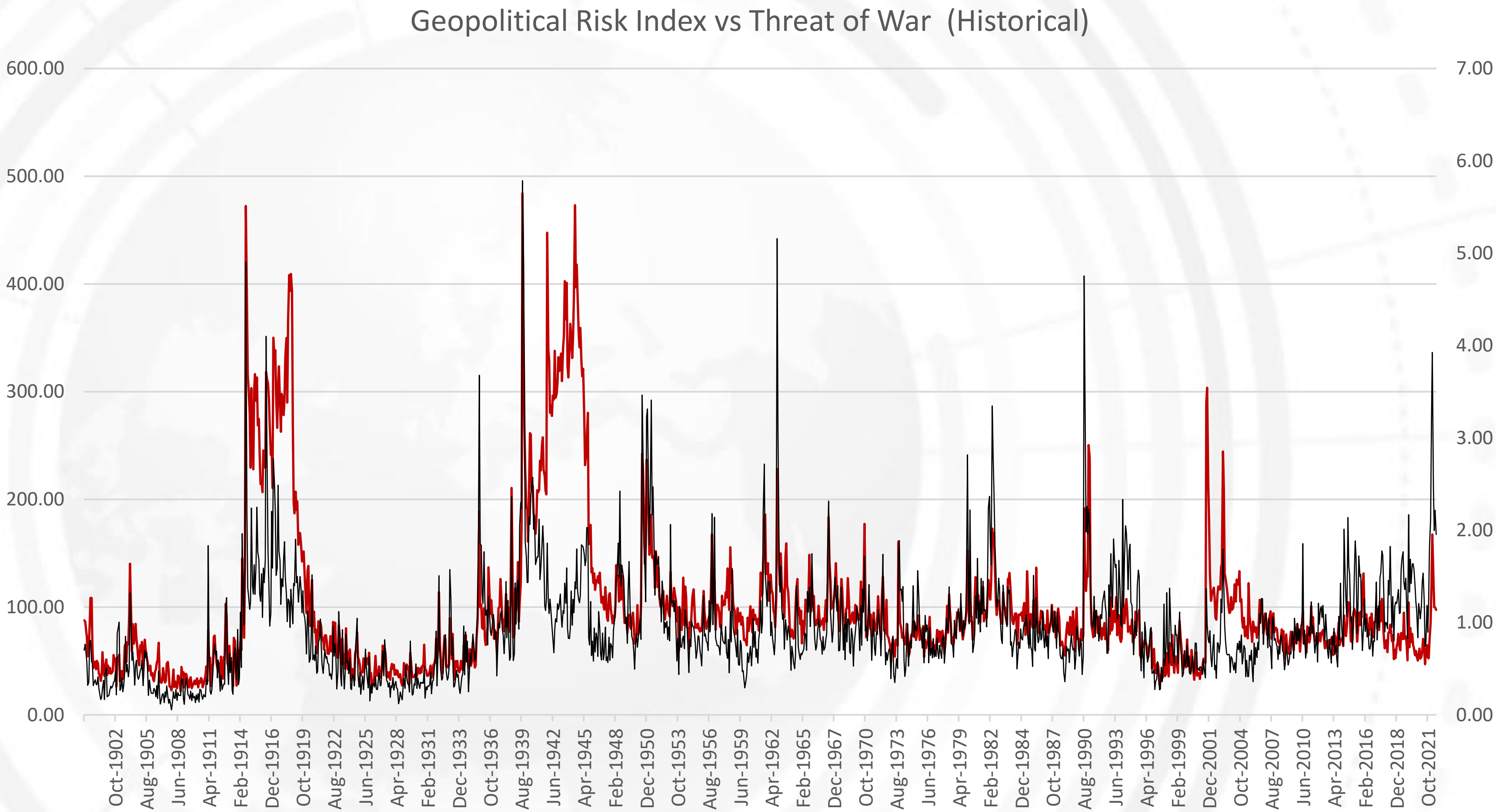
Source: S&P Global

Underlying wage pressures are reported now at the highest since PMI records began and accelerating. This may embolden policymakers to raise rates and tolerate higher employment…

…though demand is now falling

…but if wages follow demand, then they may be forced prematurely into pausing or even loosening again. Important to note that this is currently a developed world issue.

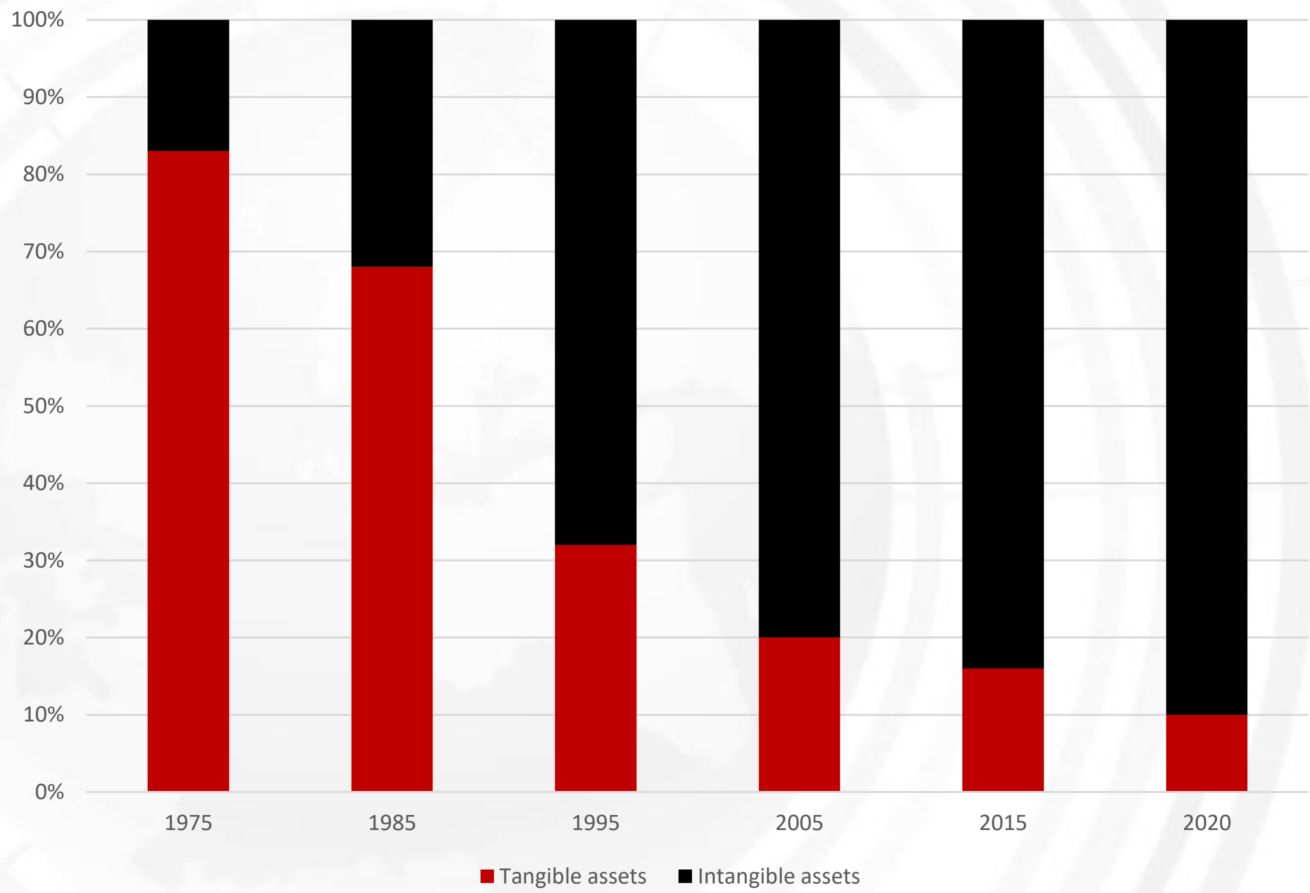
Geopolitics is part of the firmament



Source: Caldara, Dario and Matteo Iacoviello (2022)

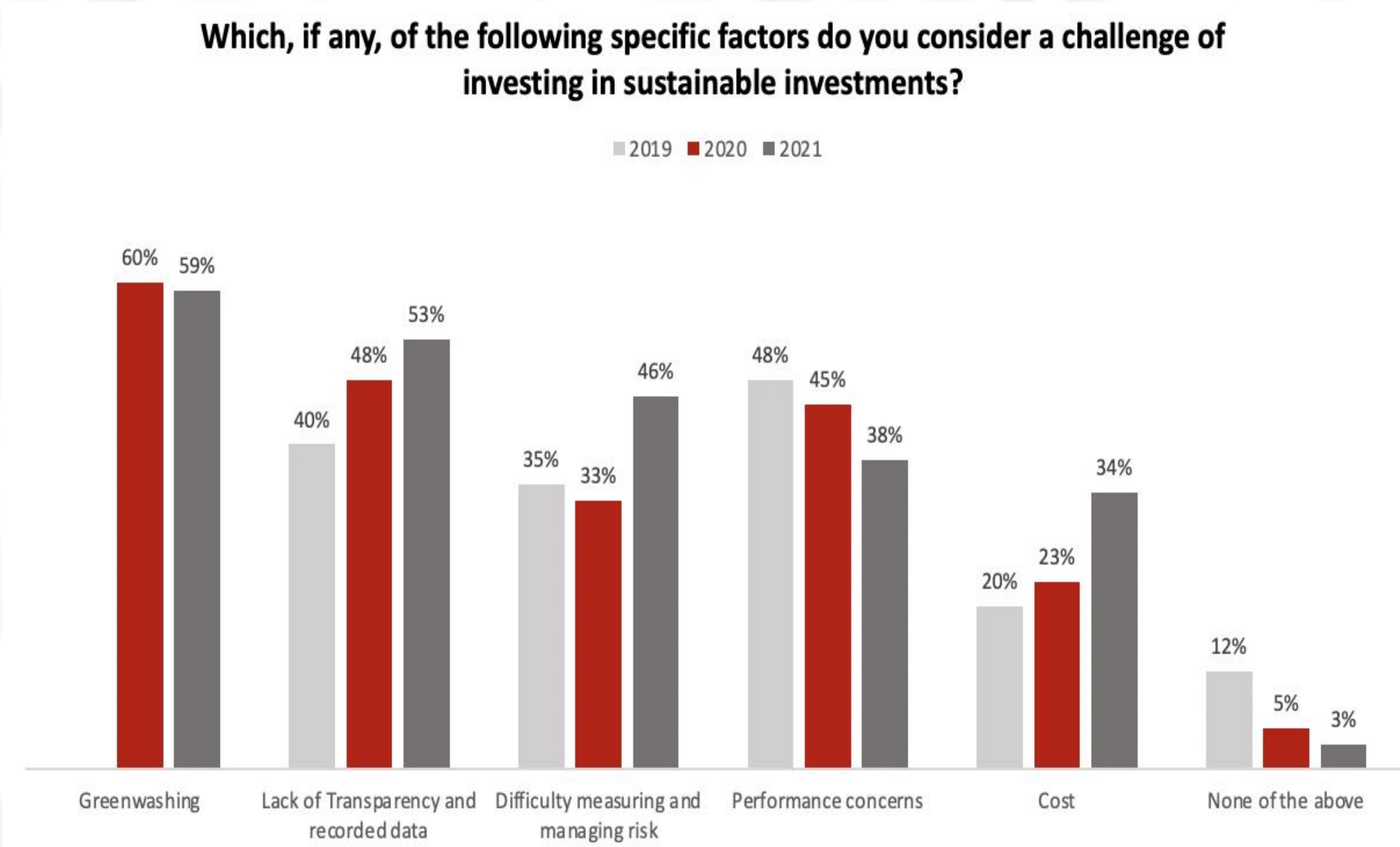
Geopolitical risk indicators are muted from a historical perspective, but leading indicators are elevated, indicating that geopolitical risk is set to rise further going forward.

An intangible asset bubble?



Intangible assets now dominate the S&P 500 balance sheet. This represents the dominance of tech, but also shows that companies are harder to value and more prone to sentiment, implying higher volatility and tail risks.

Challenges to overcome in ESG



Data source: Schroders

Looking ahead

- Central banks are facing a regime shift
- Forward guidance is proving problematic while socio-political tensions threaten to erode their independence
- The dollar continues to remain strong, impacting emerging markets, who are also facing additional pressures from rises in food and energy prices
  - An additional source of social instability is the reliance of many of these countries on state subsidies to control prices
- Many pressures are unlikely to subside quickly, given endemic issues and a Russia-Ukraine conflict that is now 6 months old.
  - Victory is likely to be pyrrhic for either side, with the more likely outcome a negotiated settlement or impasse as costs mount.
  - The geopolitical impact is more significant and long-lasting, with clear lines emerging globally between different blocs
- The implication is a lower growth world, where resilience planning is key.
- Infrastructure, ESG related investments and socio-economic stability are likely to attract increased interest but capacity is also limited, which limits returns. Cashflow will command a premium.

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).

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