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IAPF Spring Conference

Equities

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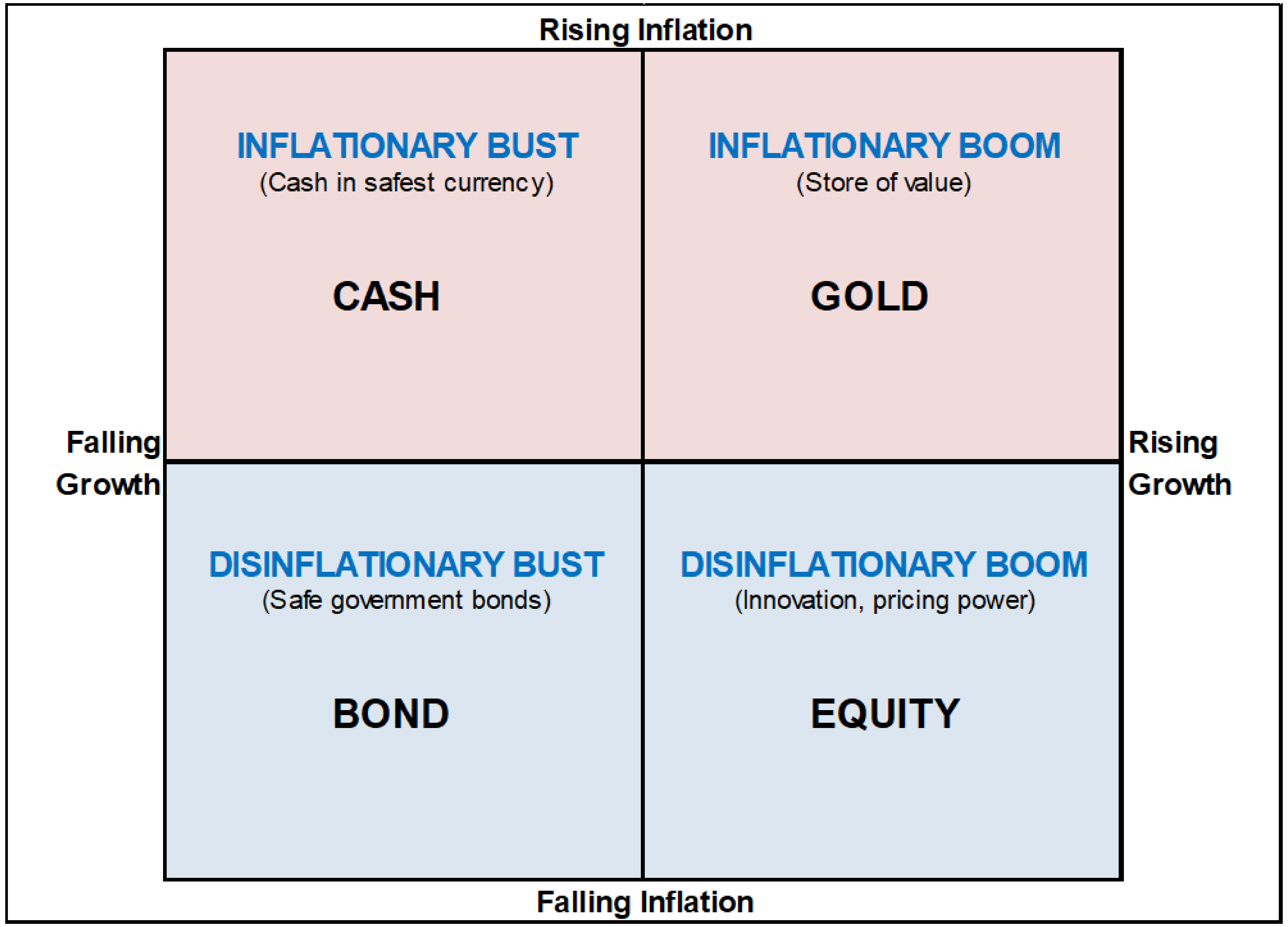
Macro Framework

The era of cheap labour, capital and goods is over. Entering an era of rising costs for labour, capital and goods

Deflationary Forces (1980 – 2020)

- Globalisation
- Technology
- Debt Accumulation
- Strong USD
- Falling Yields
- Rising Margins
- Falling Tax Rates



Inflationary Forces (2020 – 20??)

- De-globalisation
- Supply Disruption
- Debt Monetisation
- Weak USD
- Rising Yields
- Falling Margins
- Rising Tax Rates

Source: GaveKal Research.

Asset Class Performance During Stagflationary Periods

Over the analysis period from 1960 to 2022, stagflations occurred 18% of the time

Global Asset Performance by Environment

	Sharpe Ratio			Excess Return (Ann)		
	Stagflation	Other Periods	All Periods	Stagflation	Other Periods	All Periods
Frequency of Environment	18%	82%	100%	18%	82%	100%
Assets						
Inflation-Linked Bonds	1.02	0.50	0.57	4.5%	2.2%	2.6%
Gold	0.67	0.10	0.23	17.6%	1.8%	4.5%
Broad Commodities	0.58	0.17	0.28	10.5%	2.4%	4.1%
Nominal Bonds	-0.20	0.63	0.44	-1.2%	3.5%	2.5%
Corporate Spreads	-0.66	0.33	0.18	-3.1%	1.8%	1.0%
Real Estate	-0.68	0.63	0.38	-13.8%	11.8%	7.3%
Global 60/40 Portfolio	-0.70	0.82	0.49	-6.6%	6.5%	4.1%
Equities	-0.72	0.67	0.39	-10.2%	8.6%	5.1%

During past stagflations, real estate performed worst down -14% *per annum,* while equities returned -10% p.a.. Gold did best +18% p.a. and commodities also did well, +11% p.a..

Global Asset Performance During Stagflations

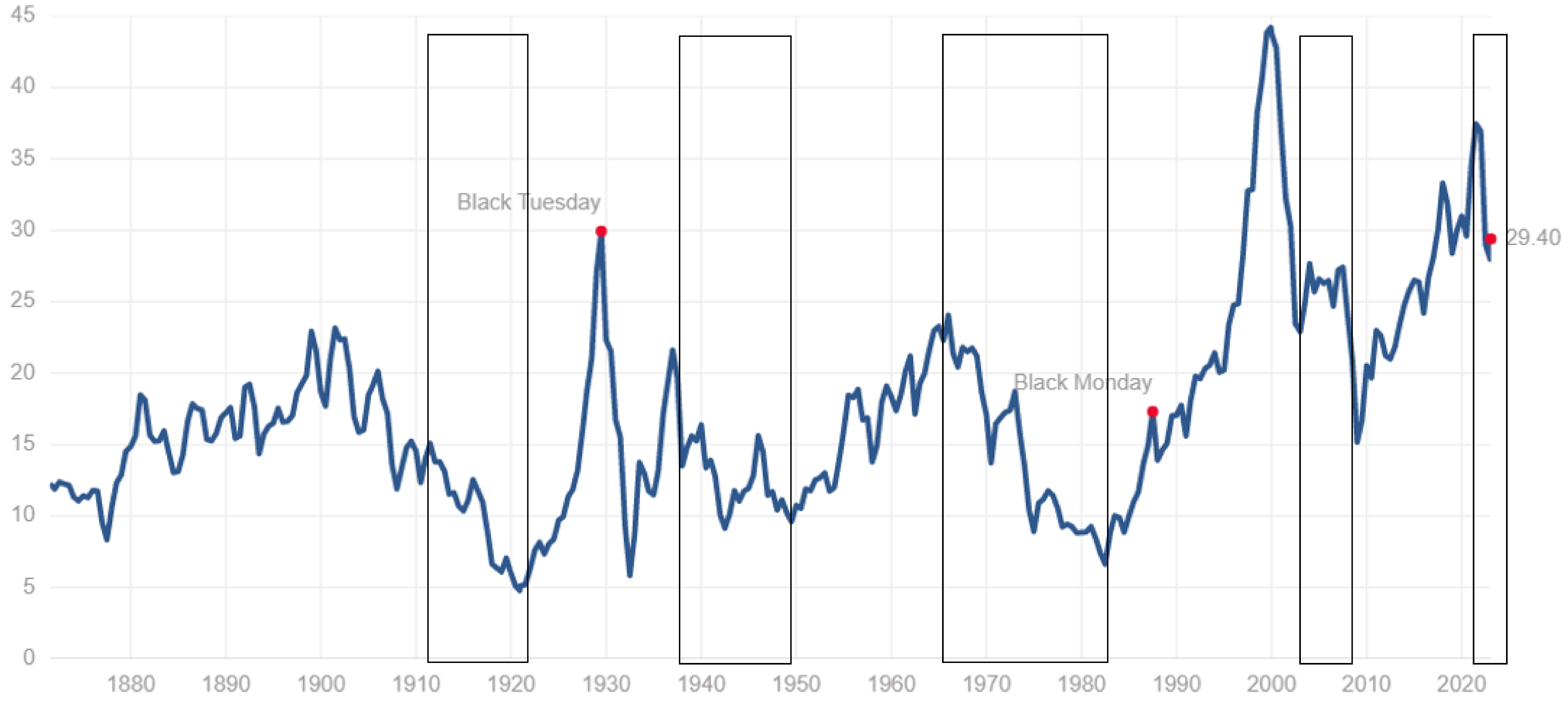
	Sharpe Ratio		Excess Return (Ann)	
	RP + DR Rising	RP + DR Falling	RP + DR Rising	RP + DR Falling
Frequency of Environment	10%	9%	10%	9%
Assets				
Inflation-Linked Bonds	-0.31	3.06	-1.4%	10.9%
Gold	-0.46	2.06	-10.9%	53.9%
Broad Commodities	-0.26	2.02	-5.2%	27.8%
Nominal Bonds	-1.96	2.04	-11.2%	9.9%
Corporate Spreads	-1.33	0.06	-6.0%	0.3%
Real Estate	-1.40	0.62	-32.2%	8.6%
Global 60/40 Portfolio	-2.83	2.35	-24.9%	13.7%
Equities	-2.42	1.65	-34.1%	16.2%

However, when stagflations were accompanied by rising discount rates, asset class performance was really rough: equities -34%, real estate -32%, US treasuries -11%, gold -11%, commodities -5%. Performance annualised and in USD terms.

Source: Bridgewater Associates.

Bear Case: US equity market still expensive

Shiller P/E measures S&P 500 versus 10-year average inflation-adjusted earnings



Boxes on the chart mark periods of rising inflation which have always lead to P/E multiple contractions in the past.

Bull Case: Outside US, equities are relatively inexpensive

MSCI World ex US P/E and P/BV estimates show compelling value

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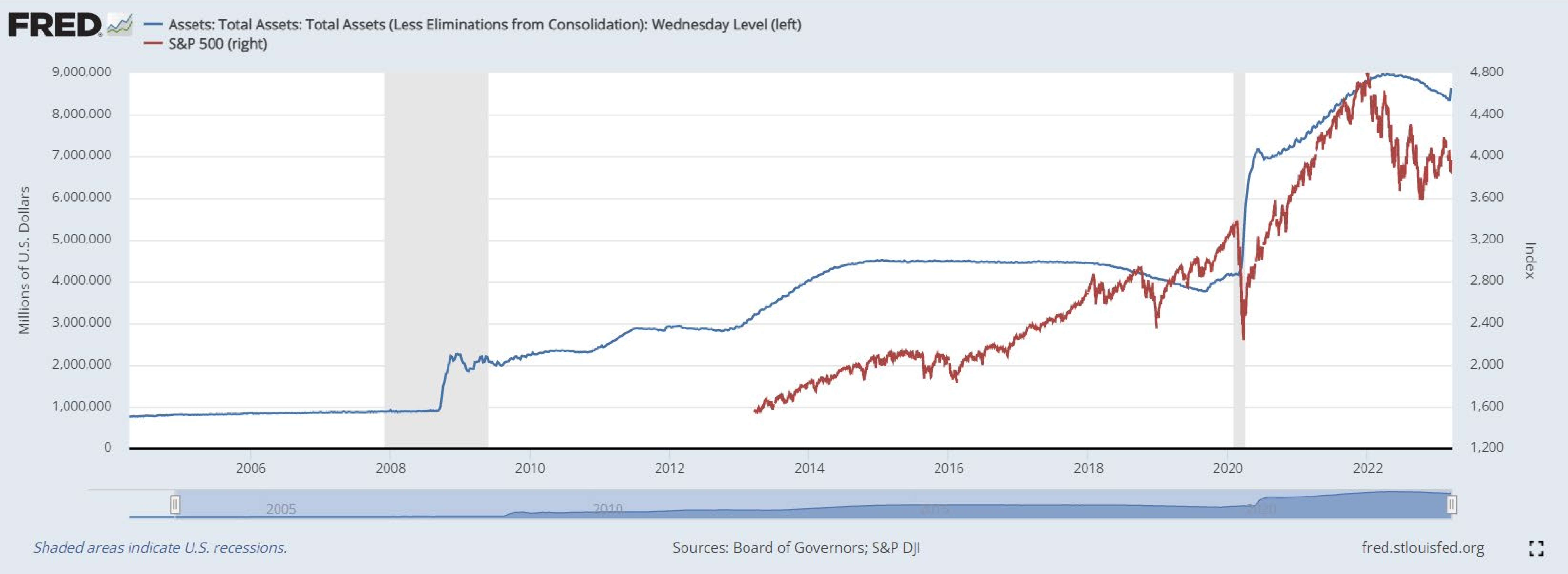
European Equities showing bull market characteristics

Financials, industrials, healthcare and consumer staples sectors comprise 58% of the DJ Europe Equity Index

- European equities fell -36% from their 2021 highs (420) to their September 2022 lows (269). The multi-decade support zone at 250-300 held and EU equities have rallied again in recent months.
- DJ Europe Index topped at 292 in 2000. 22 years later, in October 2022, Index touched 269, again a long time with no progress. Resistance is now support.
- UK, France, Switzerland and Germany comprise 70% of the index.

Federal Reserve Balance Sheet correlation to US equities

100% Debt/GDP => 5% interest cost + 3% primary deficit = 8% debt monetisation - 2% growth => 6% inflation



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Stock market’s primary trend guides my decision-making process

Technical trend indicator delivers ‘Buy’ and ‘Sell’ signals to keep investors on the right side of market trends

- I designed a technical trend indicator (TTI) that has helped me stay invested with the market’s primary trend over time.
- Red arrows mark TTI SELL signals and times when defensive positioning is recommended.
- Blue arrows mark TTI BUY signals and times when a fully invested position is preferred.
- A multi-asset portfolio of equities, bonds and gold that follows the TTI signals has outperformed a 50/50 benchmark of equities and bonds by +2.2% per annum over the last 10 years.
- Thank you for listening!

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Thank You