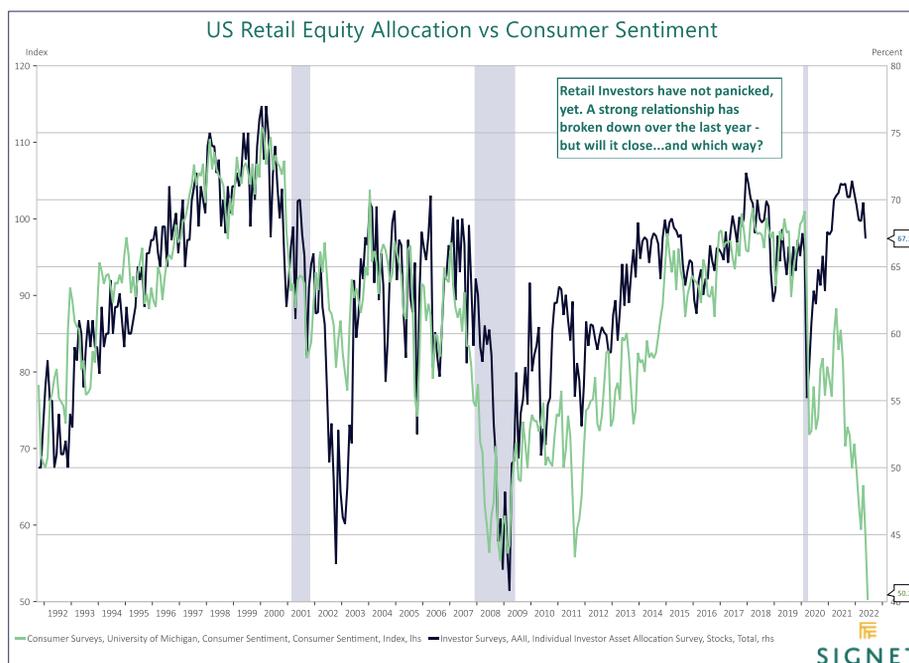


A 'snap' comment on the leading macro issues driving our investment debate:

- Our primary concern is further downside pressure on asset prices. This pressure is being driven by (a) USD liquidity and (b) interest rate expectations.
- Collectively, this is the expectation for monetary tightening in a 'dollar bill' world. The Fed are now 'front loading' their action plan – loaded into 2022 / early 2023.
- Behind this rapid monetary tightening is a political concern over realised inflation and inflation expectations. The Fed must restore credibility – asset prices (wealth effect) are not a current priority.
- We expect a US recession (Since 1970, US inflation has never hit 5% without a recession – it is now at 8.6%). Earnings will start to weaken.
- USD strength and energy prices, combined with US tightening, will further disrupt emerging markets and the rest of the world (RoW) – a 2022 / 2023 global recession is a realistic possibility.
- The chart below captures our immediate concern for asset prices. It maps a survey of the US retail allocation to equities (67%) against consumer sentiment. Ordinarily, the relationship is very strong, but it has broken down over the last year. US sentiment is at record lows – below the depths of 2008, due to inflation. Equity allocations remain near their all-time highs – investors have learned to 'buy-the-dip' / anticipate a Fed rescue.
- As the Fed are forced to tighten, there is a concern that US retail investors will panic sell the equity market. Contrary to popular perception, there has been no panic in 2022, yet.



Therefore:

- We expect further downside for risky asset classes.
- Remain underweight risk assets. Attractive valuations may tempt – but not yet.
- Investments: Prioritise Liquidity and Quality.
- Treasuries will probably be first to signal that inflation expectations are turning down.
- The equity markets should respond rapidly, and positively, to the Fed signal that it will ease / end tightening.

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