

Investment Themes May 2022 update



Summary

- The investment context is difficult: soaring inflation not seen since the 1970-80s, hurting households and companies alike.
- The result is a combination of a) higher short- and long-term interest rates, and b) slowing economic growth late in the business cycle.
- What should investors in the traditional asset classes of stocks, bonds, cash and property do at a time like this?
- A historical analysis reveals that during higher inflation and rising interest rates, commodities (e.g. gold, oil) tend to perform better, while bonds struggle.

Our 3 Investment Themes

1) Security is the new watchword

Global shocks have led to economic megatrends, and new long-term structural trends have emerged or accelerated. There is a new focus on strategic assets – the need to secure production and the supply of essential materials, goods and services (e.g. foodstuffs, energy, semiconductors and internet communications).

OUR INVESTMENT RECOMMENDATIONS

Investors should consider security sub-themes

Focus on the following sub-themes:

- **Energy security:** energy efficiency, renewable/biomass energy generation, battery metals and energy storage, etc.
- **Food security:** funds that invest in solutions to combat malnutrition, via more effective water irrigation, fertilisers/technologies to boost crop yields, etc.
- **Metals and mining companies:** companies in secure jurisdictions that produce the essential industrial and battery metals required to accelerate the low carbon/energy transition.
- **Technology security:** semiconductor and cybersecurity companies, satellite technology and networks.

2) Riding a new inflation regime

The conflict in Ukraine has fuelled greater inflation concerns. Year-on-year comparisons of consumer prices have hit multi-decade highs of late. The drivers of inflation look more broad-based than usual. Nevertheless, we expect inflation to peak in the coming months, but the speed of normalisation is quite unpredictable, mainly due to sustained high energy prices and supply-chain bottlenecks.

OUR INVESTMENT RECOMMENDATIONS

Investors should consider solutions protecting against unexpected inflation and those that benefit from it.

Focus on bonds, equities, real estate, infrastructure and commodities.

- Focus on generating income and bonds with attractive yields, such as financial credit and emerging market bonds.
- Favour companies with pricing power and capital-light business models.
- Real assets (commodities, real estate, infrastructure) provide a reasonable long-term inflation hedge.
- Commodities have traditionally performed best in a higher-inflation context.

3) Save the climate, save your pocket

Sky-high raw materials and energy prices have spurred a renewed focus on circular economy models. From now on, higher costs and tighter budgets will prevent us from being wasteful. The circular economy is all about the “reuse, repair and recycle” of goods and services, and includes a focus on energy efficiency and also on the sharing economy (rent rather than own).

OUR INVESTMENT RECOMMENDATIONS

We see an attractive entry point for investment solutions in the circular economy, energy efficiency and renewable energy themes.

Focus on equities, bonds, infrastructure, real estate and commodities.

- **Circular Economy leaders:** a focus on better and more modular design, making products more easily repairable, longer-lasting and requiring fewer raw materials to produce, with a smaller carbon footprint.
- **Energy Efficiency:** it is far easier to save energy rather than to generate it, via energy conservation solutions including insulation, etc.
- **Smart Grid Infrastructure and Renewable Energy Storage,** including battery metals, which are necessary raw materials for these storage systems.
- **Renewable/Clean Energy,** to generate more electricity via non-fossil fuel sources to ensure greater energy security and self-sufficiency.

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