

RATHBONES

Incorporating
Investec Wealth &
Investment (UK)

Investment Update The 'I's Have It: Inflation, Interest Rates &...Insurrection

Speaker: John Wyn-Evans,
Head of Investment Strategy

July 2024





The 'I's Have It:

Inflation,
Interest Rates
&...
Insurrection

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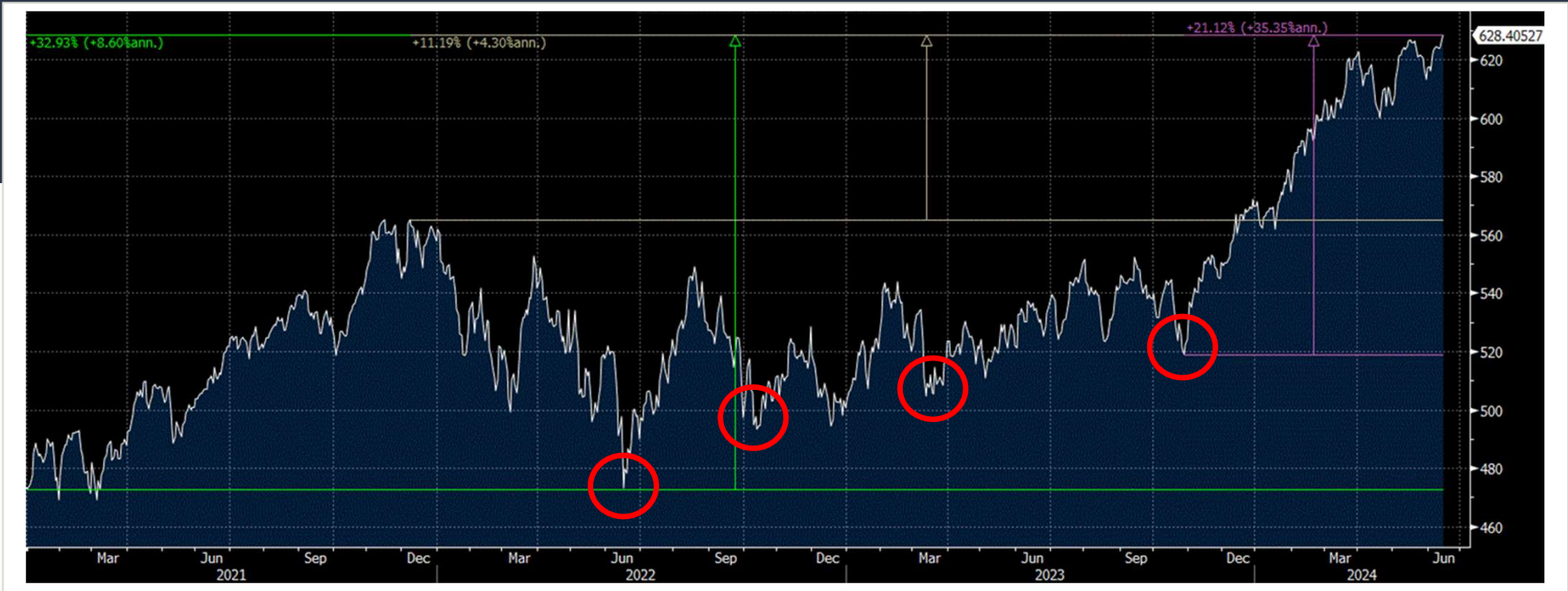
Conclusions

A Quick Look Back

All's Well That Ends Well

The Post-Covid Equity Market

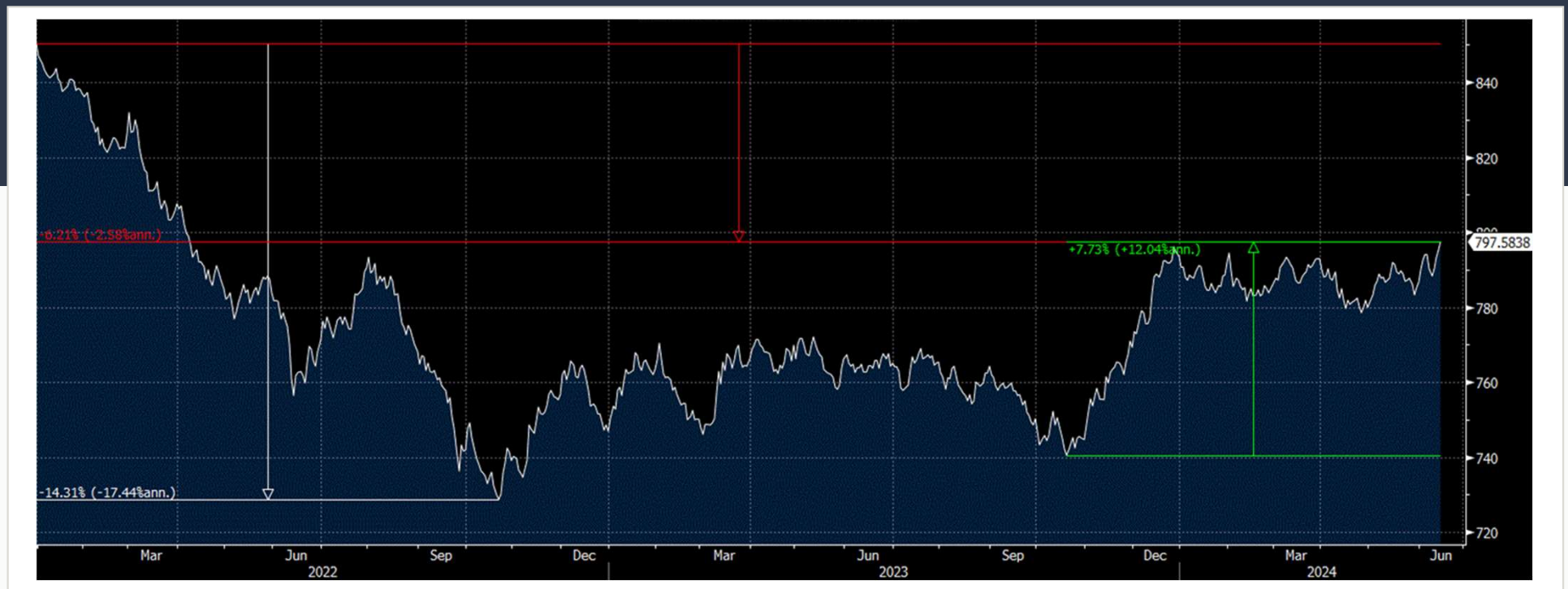
MSCI ACWI (GBP) 2021 to Present



Source – Bloomberg – 14/06/2024

The Post-Covid Bond Market – The Worst Is Over

Bloomberg Global Aggregate Bond Index (Hedged GBP) 2021 to Present



Source – Bloomberg – 14/06/2024

The Post-Covid Balanced Portfolio

FTSE Private Investor Balanced Index 2020 to Present
2022-2023 – Two Years Of Going Nowhere



Source – Bloomberg – 14/06/2024

Narrow Market Leadership

Selected Global Indices Year-to-Date



Source – Bloomberg – 14/06/2024

Although Dispersion Has Increased...

The Magnificent 7 6...? Performance YTD

Security	Currency	Price Change
NVDA US Equity	USD	166.31%
META US Equity	USD	42.43%
GOOG US Equity	USD	26.57%
AMZN US Equity	USD	20.88%
MSFT US Equity	USD	17.69%
AAPL US Equity	USD	10.37%
TSLA US Equity	USD	-28.36%

Source – Bloomberg – 14/06/2024

Theme 1: Inflation

The Difficult “Last Mile”

Headline Inflation % Change Year-on-Year

		2022						2023						2024												
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Eurozone	Eurozone	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6	2.4	2.4	2.6	
	France	6.5	6.8	6.6	6.2	7.1	7.1	6.7	7.0	7.3	6.7	6.9	6.0	5.3	5.1	5.7	5.7	4.5	3.9	4.1	3.4	3.2	2.4	2.4	2.6	
	Germany	8.2	8.5	8.8	10.9	11.6	11.3	9.6	9.2	9.3	7.8	7.6	6.3	6.8	6.5	6.4	4.3	3.0	2.3	3.8	3.1	2.7	2.3	2.4	2.8	
	Italy	8.5	8.4	9.1	9.4	12.6	12.6	12.3	10.7	9.8	8.1	8.6	8.0	6.7	6.3	5.5	5.6	1.8	0.6	0.5	0.9	0.8	1.2	0.9	0.8	
	Spain	10.0	10.7	10.5	9.0	7.3	6.7	5.5	5.9	6.0		3.1	3.8	2.9	1.6	2.1	2.4	3.3	3.5	3.3	3.3	3.5	2.9	3.3	3.4	3.8
	Greece	11.6	11.3	11.2	12.1	9.5	8.8	7.6	7.3	6.5	5.4	4.5	4.1	2.8	3.5	3.5	2.4	3.8	2.9	3.7	3.2	3.1	3.4	3.2	2.4	
	Ireland	9.6	9.6	9.0	8.6	9.4	9.0	8.2	7.5	8.1	7.0	6.3	5.4	4.8	4.6	4.9	5.0	3.6	2.5	3.2	2.7	2.3	1.7	1.6	2.0	
Developed	Sweden	8.9	8.3	9.5	10.3	9.8	10.1	10.8	9.6	9.7	8.1	7.7	6.7	6.3	6.3	4.5	3.7	4.0	3.3	1.9	3.4	2.6	2.3	2.4	2.5	
	Switzerland	3.2	3.3	3.3	3.2	2.9	2.9	2.7	3.2	3.2	2.7	2.6	2.2	1.8	2.1	1.9	2.0	2.0	1.6	2.1	1.5	1.2	1.1	1.4	1.5	
	UK	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4.0	4.0	3.4	3.2	2.3	2.0	
Emerging	US	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	
	Japan	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	2.6	2.2	2.8	2.7	2.5	2.8	
	China	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0	-0.3	0.1	0.0	-0.2	-0.5	-0.3	-0.8	0.7	0.1	0.3	0.3	
	Indonesia	4.4	4.9	4.5	5.9	5.6	5.4	5.4	5.1	5.4	5.0	4.4	4.1	3.5	3.1	3.4	2.3	2.6	3.0	2.8	2.6	2.8	3.0	3.0	2.8	
	Korea	6.0	6.3	5.7	5.5	5.6	5.0	5.0	5.0	4.7	4.2	3.7	3.4	2.7	2.4	3.4	3.7	3.8	3.3	3.2	2.8	3.1	3.1	2.9	2.7	
	Taiwan	3.6	3.4	2.7	2.8	2.7	2.4	2.7	3.1	2.4	2.4	2.3	2.0	1.8	1.9	2.5	2.9	3.0	2.9	2.7	1.8	3.1	2.1	1.9	2.2	
	India	7.0	6.7	7.0	7.4	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3	4.9	7.4	6.8	5.0	4.9	5.6	5.7	5.1	5.1	4.9	4.8	4.7	
	Brazil	11.9	10.1	8.7	7.2	6.5	5.9	5.8	5.8	5.6	4.7	4.2	3.9	3.2	4.0	4.6	5.2	4.8	4.7	4.6	4.5	4.5	3.9	3.7	3.9	
	Mexico	8.0	8.2	8.7	8.7	8.4	7.8	7.8	7.9	7.6	6.8	6.3	5.8	5.1	4.8	4.6	4.5	4.3	4.3	4.7	4.9	4.4	4.4	4.7	4.7	
	South Africa	7.4	7.8	7.6	7.5	7.6	7.4	7.2	6.9	7.0	7.1	6.8	6.3	5.4	4.7	4.8	5.4	5.9	5.5	5.1	5.3	5.6	5.3	5.2	5.2	

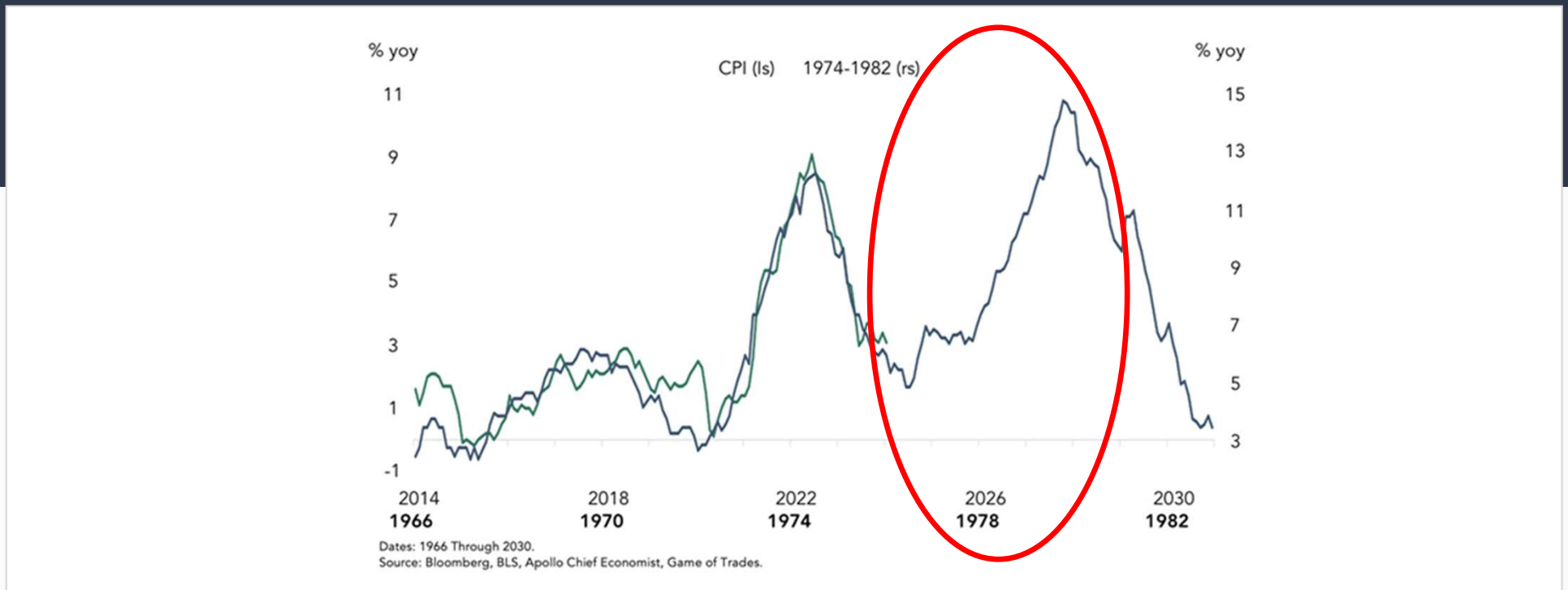
Source: Bank of Mexico, DGBAS, ECB, Federal Reserve, IBGE, India Ministry of Statistics & Programme Implementation, Japan Ministry of Internal Affairs & Communication, Korean National Statistical Office, LSEG Datastream, National Bureau of Statistics of China, ONS, Riksbank, Statistics Indonesia, Statistics South Africa, Swiss National Bank, J.P. Morgan Asset Management. Eurozone countries use HICP inflation, all other countries use CPI inflation. Heatmap colours are based on the respective central bank target inflation rates. Blue is below target, white is at target and red is above target. *Guide to the Markets - UK*. Data as of 26 June 2024.

J.P.Morgan
ASSET MANAGEMENT

Source – JP Morgan Asset Management – 26/06/2024

What Central Bankers Fear Most

A Second Wave – US CPI 1966-1982 vs the Present Cycle



Source – Apollo / Game of Trades

But Central Bank Inflation Credibility Remains Intact

Breakeven Inflation Rates Are Still Well Anchored (US 2-Year Breakeven)

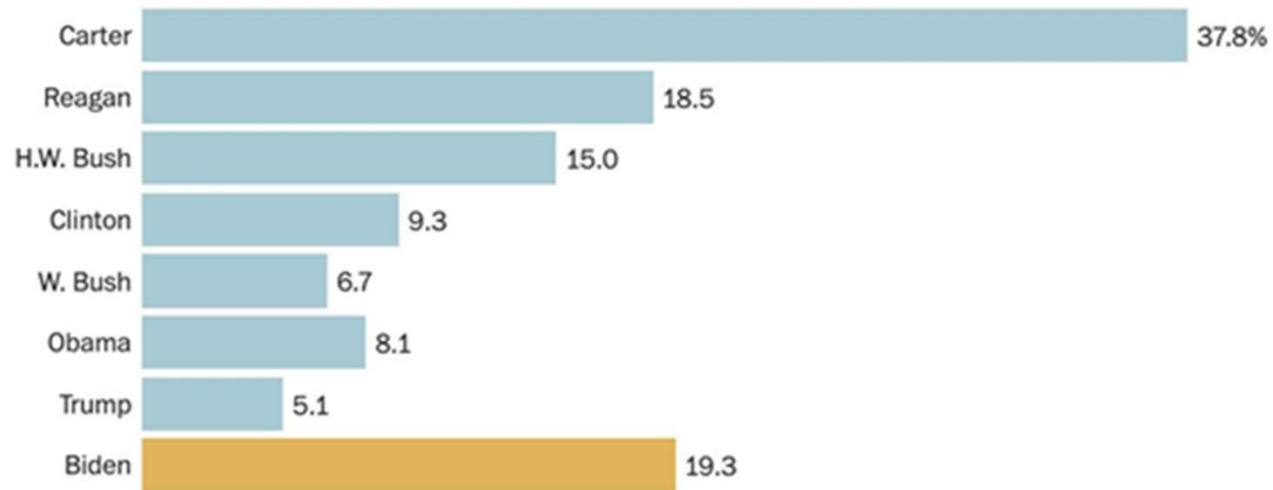


Source – Bloomberg – 14/06/2024

Joe Biden's Inflation Problem

Inflation Since Joe Biden Taking Office Is The Worst Since Jimmy Carter

Consumer Price Index change from inauguration month to the 40th month of each president's first term.



Source: [Consumer Price Index \(seasonally adjusted\)](#) via FRED

Source – Heather Long / X.com

Joe Biden's Inflation Problem

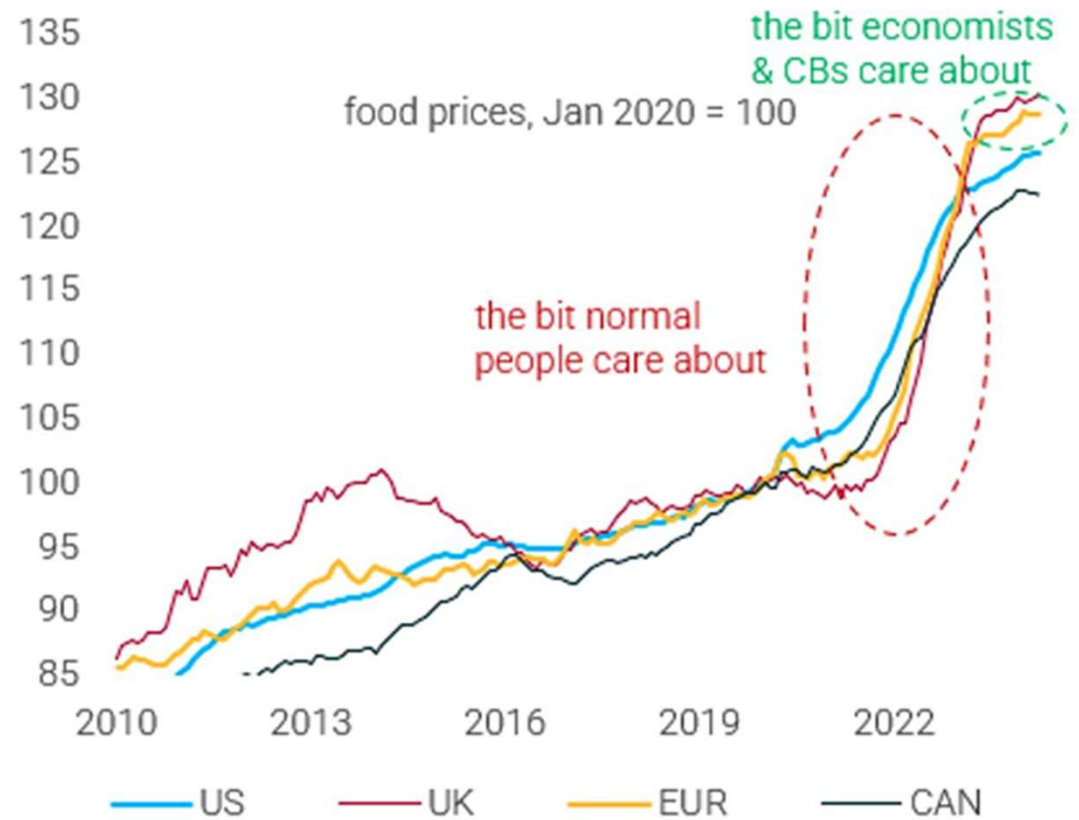
Food Price Inflation Since Joe Biden Taking Office Is The Worst Since Richard Nixon



Source – Bloomberg Opinion

Joe Biden's Inflation Problem

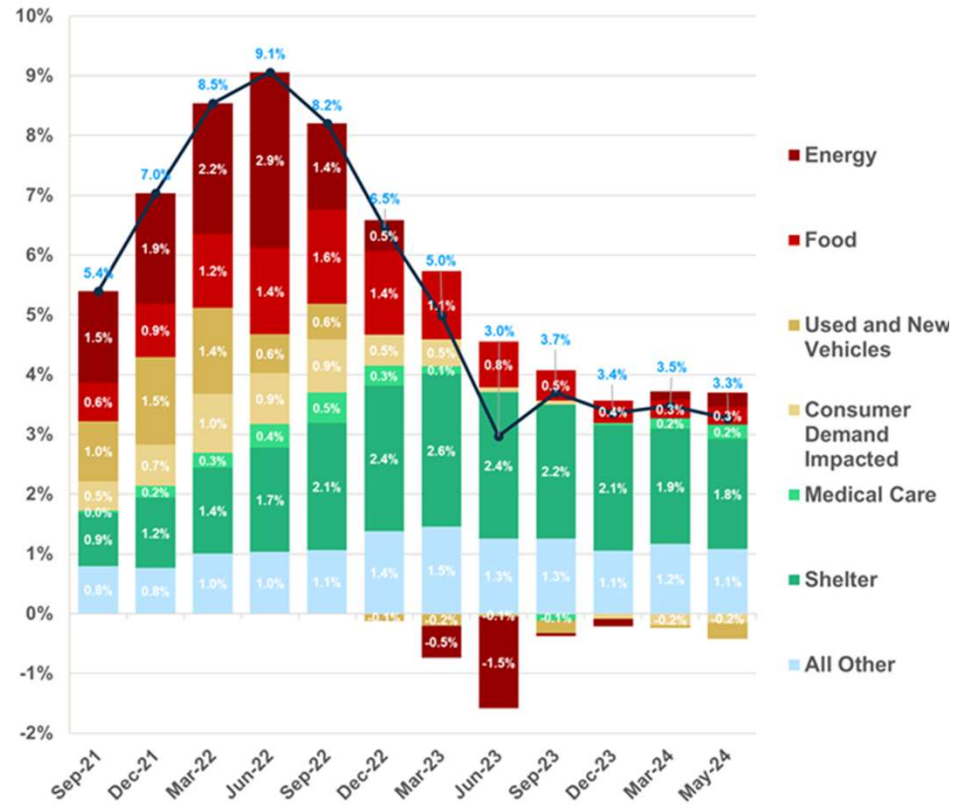
It's The Compounding of Inflation That Hurts



Source – Citigroup

The Composition of US Inflation Has Changed

Contributions to CPI inflation (Year-over-year)



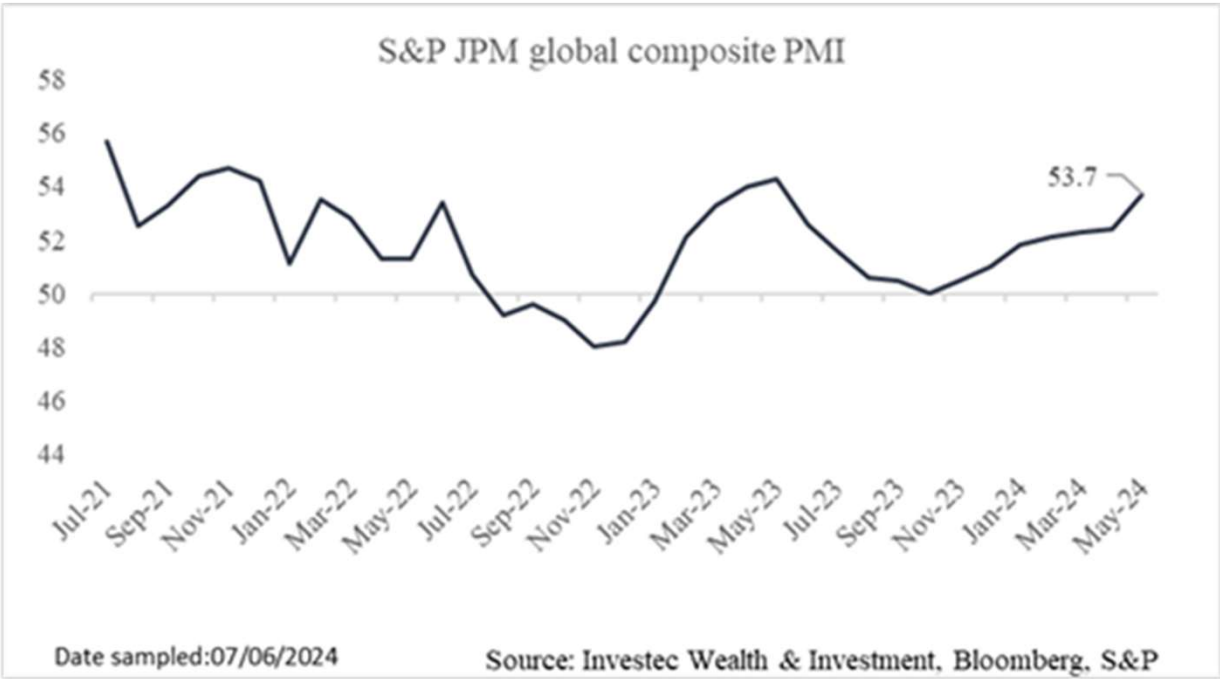
Data source: Carson Investment Research, BLS 06/12/2024

@sonusvarghese

Source – Sonus Varghese / Carson Investment Research – June 2024

Growth Outlook Looks OK

Purchasing Managers Are Upbeat



Source – Bloomberg / IW&I – 7/6/2024

“No Landing”

GDP Growth By Country 2022 – 2025 (Bloomberg Consensus)

Growth for the past two years and consensus for the next two

	22	23	24	25
USA	2.1	2.5	2.4	1.8
Japan	1.1	1.9	0.4	1.1
EU	3.45	0.5	0.7	1.4
Germany	1.9	-0.1	0.2	1.2
France	2.6	0.9	0.85	1.3
Italy	3.9	0.7	0.75	1.1
Spain	4.6	2.4	2.1	1.9
UK	4	0.3	0.6	1.2
China	3	5.2	4.9	4.5
South Africa	2.3	0.6	1.1	1.5
DM	2.73	1.68	1.66	1.73
EM	3.06	3.94	4.29	4.25
World	3.1	3	3	3

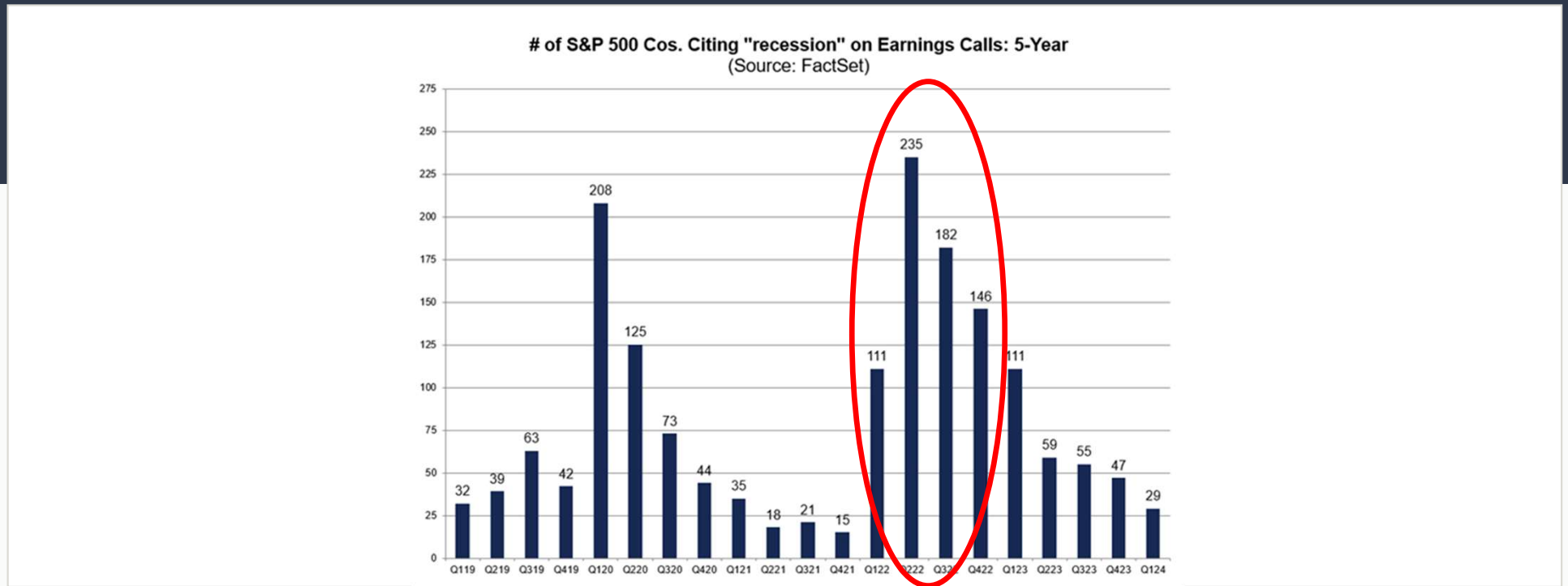
Date: 06/06/2024

Source: Bloomberg, Investec Investment Management

Source – Bloomberg / IW&I – 6/6/2024

Did Companies Pre-Empt A Recession That Never Came?

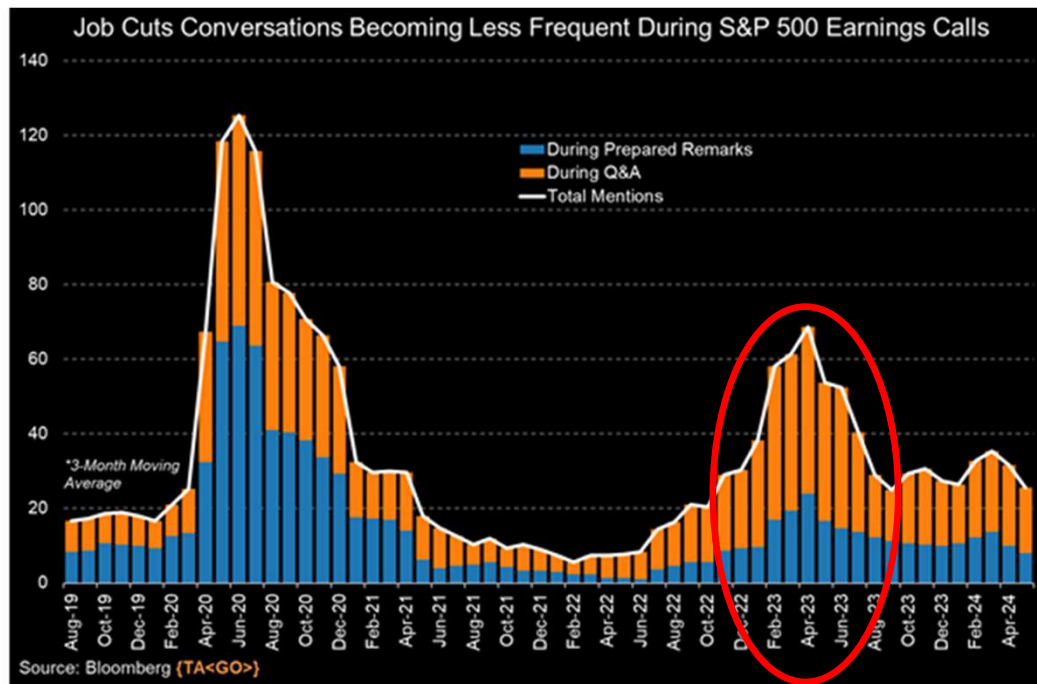
Recession Talk Recedes in Latest Results Season



Source – FactSet

Did Companies Pre-Empt A Recession That Never Came?

Fewer Job Cut Mentions in Latest Results Season



Source – Bloomberg

Theme 2: Interest Rates

Interest Rate Expectations

Market Implied Interest Rates December 2024

	Current Base Rate	Expected Base Rate	Expected Base Rate 1/1/24
US	5.5%	4.9% (-0.6%)	4.0% (-1.5%)
UK	5.25%	4.75% (-0.5%)	4.15% (-1.1%)
Europe	3.75%	3.2% (-0.55%)	2.6% (-1.4%)

Source – Bloomberg – 14/06/2024

Theme 3: Insurrection

UK General Election
France Lower House Election
US Presidential Election
All Matters Geopolitical

Spot The Difference

Major UK Parties Remain Hard To Tell Apart



Source – Universal Pictures / Sky News

Both Sides Constrained By The Ghost Of Liz Truss

Headline Manifesto Spending and Saving Plans

Conservatives

Cut Taxes (£11.2bn p.a. by 2029)
Decrease Spending (£11.5bn p.a. by 2029)

-2p NICs (-£10.3bn)
No Self-Employed NICs (-£2.6bn)
3 x Pension Lock (-£2.4bn)
Defence to 2.5% GDP (-£5.7bn)

Welfare Spending Cuts (+£12bn)
Lower Civil Service Headcount (+3.9bn)

Labour

Increase Spending (£9.5bn p.a. by 2029)
Raise Taxes (by £8.6bn p.a. by 2029)

Tax Avoidance / Non-Doms (+£5.2bn)
Private Schools (+£1.5bn)
Private Equity (+£0.6bn)
Windfall Taxes (+£1.2bn)

Great British Energy (-£1.7bn)
National Wealth Fund (-£1.5bn)

Source – Party Manifestos as of 13/6/24

Conservative Plan

Tax Measures	FY2029
2p Employee National Insurance Contributions Cut	-10.30
Abolish Self-Employed National Insurance Contributions	-2.60
Raise Pensioners' Personal Allowance with Triple Lock	-2.40
High Income Child Benefit Charge Reform	-1.32
Stamp Duty for First Time Buyers	-0.59
Suspend Capital Gains Tax on Sales to Tenants	0.00
Reducing Tax Avoidance	6.00
Total Effect on Receipts	-11.21
Spending Measures	FY2029
Lower Welfare Spending	-12.00
Raise Defence Spending	5.70
<i>Net of R&D</i>	-1.80
Reduce Civil Service Headcount	-3.90
Help to Buy	0.00
250 New/Modernised GP surgeries	0.18
50 New CDCs	0.58
Pharmacy First	0.25
Mental Health	0.73
Savings on Consultancy Spend	-0.64
5,500 Fewer NHS Managers	-0.55
100k Young Apprenticeships	0.89
Savings on Low Value Degrees	-0.91
8,000 Additional Police Officers	0.82
Visa Charges	-0.36
National Service	1.00
Farming Budget Indexation	0.41
Quango Efficiencies	-1.27
Other Spending Measures	-0.62
Total Effect on Spending	-11.50
Net (Direct) Effect on Primary Balance	0.29

Source – Party Manifestos / Goldman Sachs

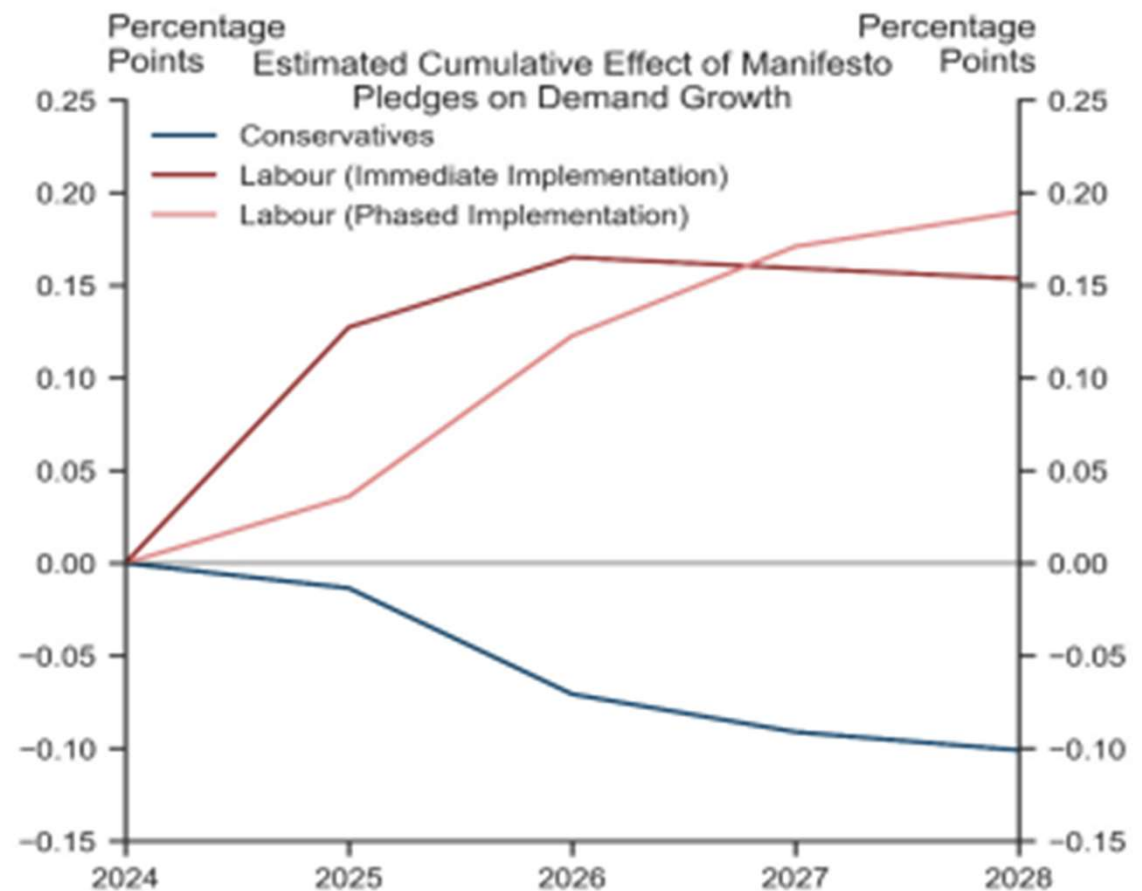
Labour Plan

Labour Party Policy Costings (£bn)	
Tax Measures	
<i>Measures Costed on FY2028 Basis</i>	<i>Revenue in FY2028</i>
Tax Avoidance and Non-Doms	5.23
VAT and Business Rates on Private Schools	1.51
Carried Interest	0.57
Non-Resident Stamp Duty Land Tax	0.04
<i>Measures Costed on Annual Average basis</i>	<i>Annual Average Revenue</i>
Windfall Tax	1.20
Approximate Total Effect on Receipts	8.55
Spending Measures	
<i>Measures Costed on FY2028 Basis</i>	<i>Cost in FY2028</i>
40000 More NHS Appointments	1.01
Double Number of CT and MRI Scanners	0.25
Dentistry Package	0.13
Free Breakfast Clubs	0.32
Investment in HMRC to Reduce Tax Avoidance	0.86
6,500 New Teachers	0.45
Increased Teacher Training	0.27
Work Experience and Careers Advice	0.09
Early Language Development	0.01
Ofsted Reform	0.05
Over 3,000 New Nurseries	0.04
Mental Health Support	0.18
Young Futures Hubs	0.10
8,500 More Mental Health Staff	0.41
Legal Aid	0.03
Visa Costs for Non-UK Veterans	0.01
300 New Planning Officers	0.02
Barnett Consequentials	0.65
<i>Measures Costed on Annual Average basis</i>	<i>Annual Average Cost</i>
Great British Energy	1.70
National Wealth Fund	1.50
British Jobs Bonus	0.30
Warm Homes Plan	1.10
Barnett Consequentials	0.20
Approximate Total Effect on Spending	9.54
Approximate Net (Direct) Effect on Primary Balance	-0.99

Source – Party Manifestos / Goldman Sachs

Net Effect On Demand Growth is Minimal

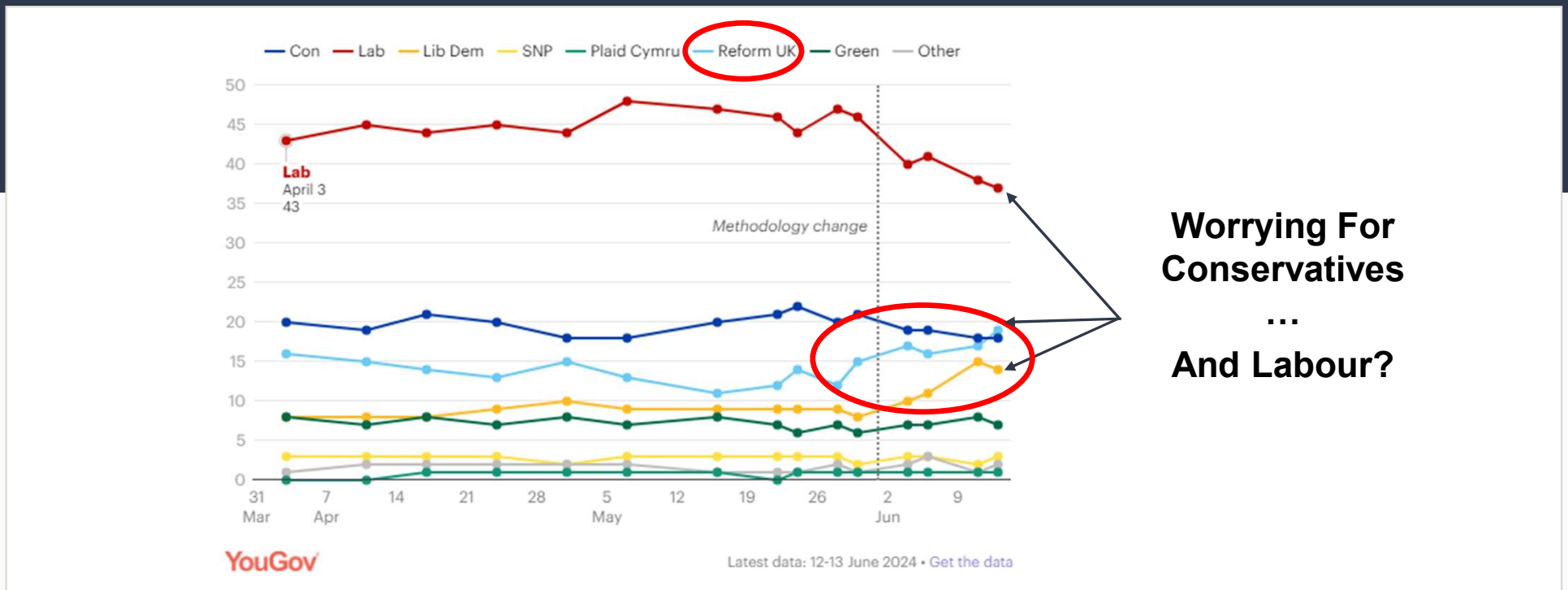
As Is The Difference Between The Parties



Source – Goldman Sachs

Except In The Opinion Polls

Latest Opinion Polls



**Worrying For
Conservatives
...
And Labour?**

Source – YouGov (12-13 June 2024)

Tories Losing The “Grey” Vote

Latest Opinion Polls

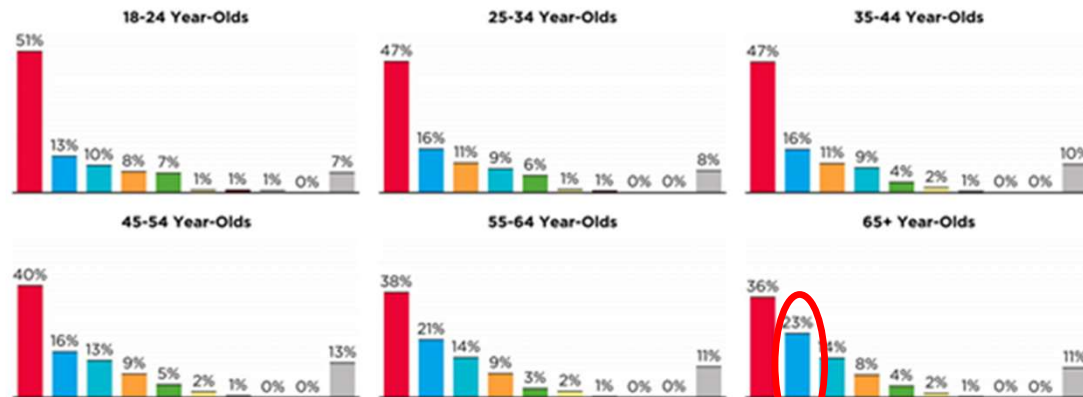
Politics – Conservative vote share in over 65s is down to 23%. It was 60%+ in the 2019 election.

<https://x.com/RedfieldWilton/status/1797633468215496939>

Westminster Voting Intention, by age

If you are to vote in the General Election on 4 July 2024, how will you vote?

- Conservative
- Labour
- Liberal Democrat
- Green
- SNP
- Reform UK
- Other
- Don't know



REDFIELD & WILTON STRATEGIES

Redfield & Wilton Strategies | GB | 10,000 | 31 May–2 June 2024

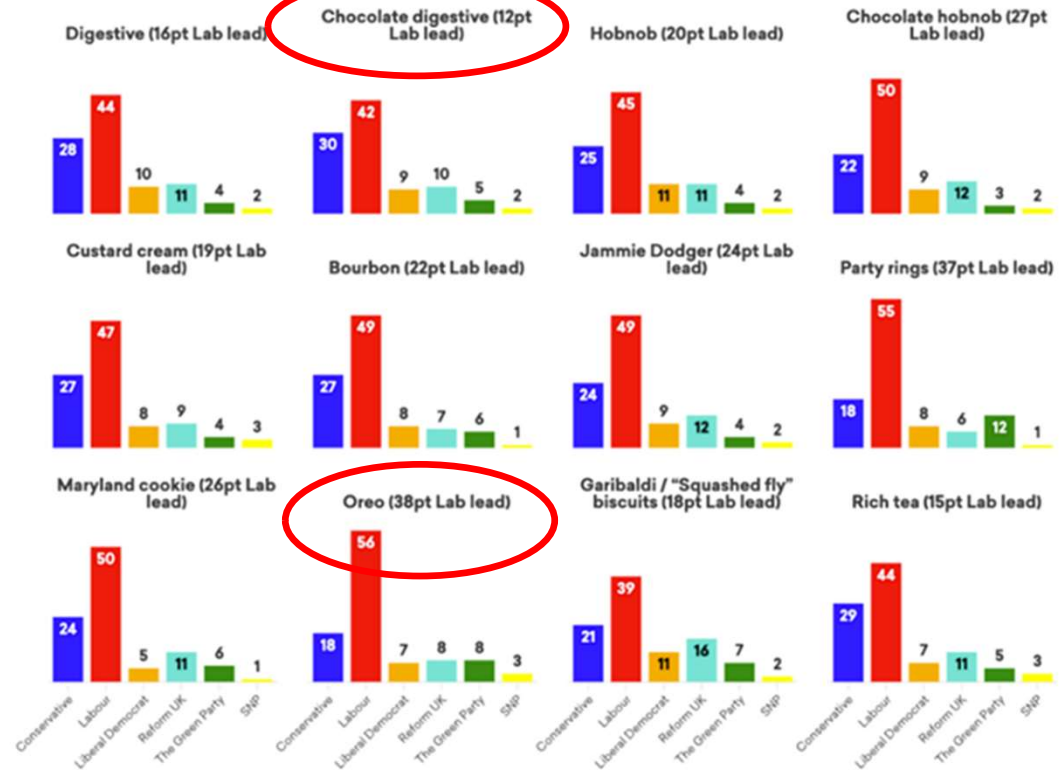
Source – Redfield & Wilton

This Takes The Biscuit

Conservatives Have A Preference For Chocolate Digestives – Oreos for Labour!

UK voting intention by biscuit preference

Fieldwork 27-29 May 2024



Source: More in Common, May 2024

Source – More In Common

Assuming a Labour Victory

Political Stability

“Centrist” Policies

Fiscal Conservatism

Supply Side Reforms

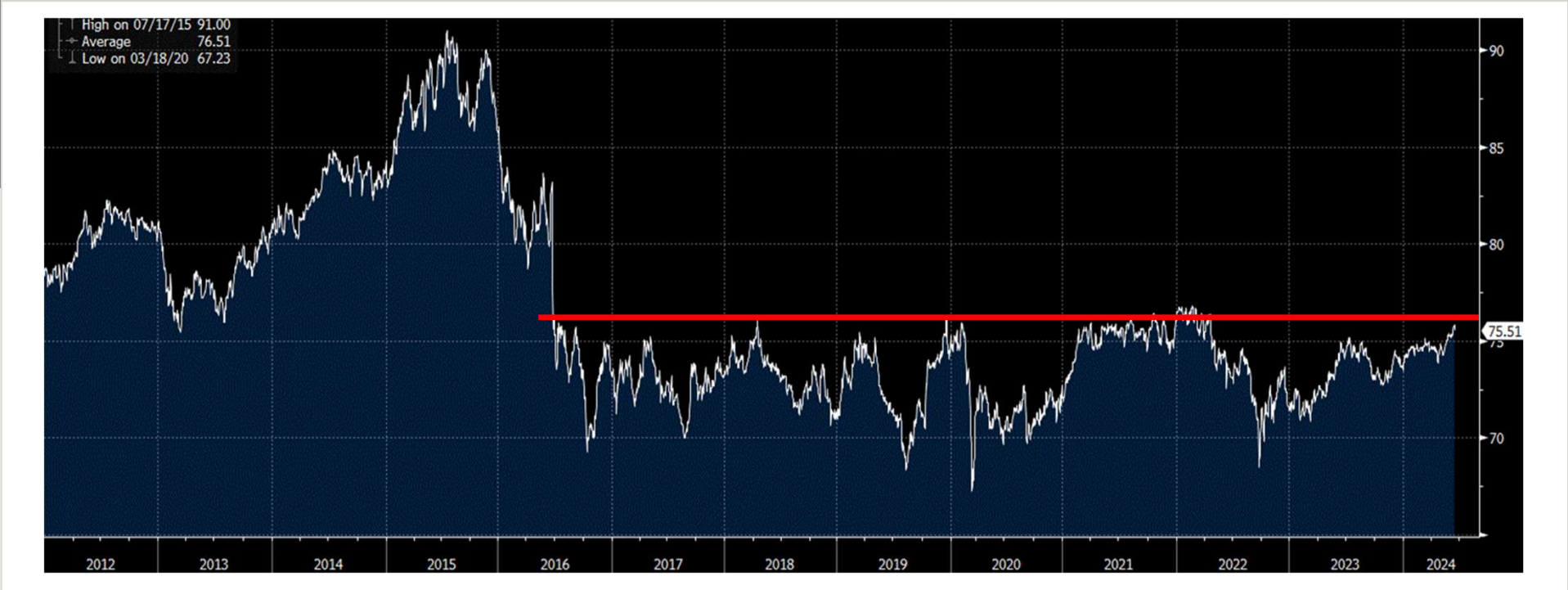
Attract Inward Investment

Favours More Domestic FTSE Mid-250
and Small Caps – M&A Already Increasing

Source – Party Manifestos as of 13/6/24

Investors Appear To Be Relaxed

Sterling Trade-Weighted Index



Source – Bloomberg – 14/6/24

2024 French Lower House Election

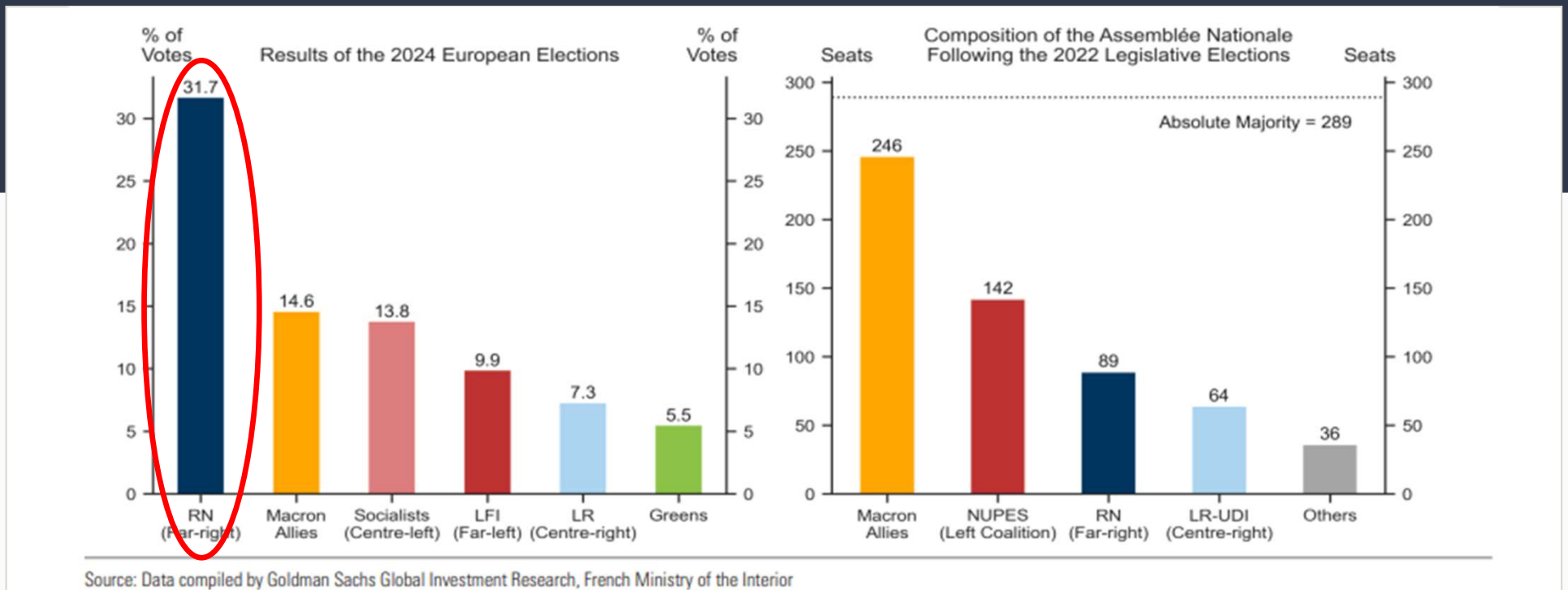
Le Pen vs Macron



Source - Bloomberg

Why The Snap Election?

European Elections – A Big Win for Le Pen



Source – Goldman Sachs

Potential Outcomes

Status Quo –
Minority
Leadership for
Macron Allies +
Support from
Centre Right

National Rally
Minority
Leadership –
“Cohabitation” –
Difficult to Pass
Legislation

National Rally
Majority –
Unfunded
Spending
Increases –
France’s “Liz
Truss” Moment?

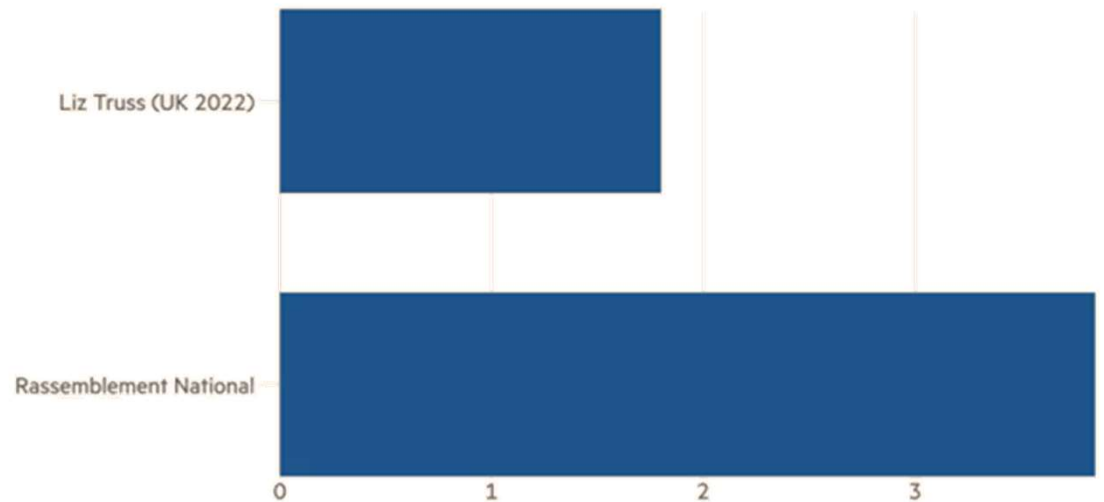
Left Wing Alliance
– The Spanner In
The Works

Source – IW&I

Can Le Pen Afford To Keep Her Promises?

RN's programme would have double the impact on the public finances that Liz Truss had in the UK

Peak annual public deficit resulting from measures (% of each country's GDP in 2022)



Source: Asteres research

Source – Financial Times

Investors Are Concerned

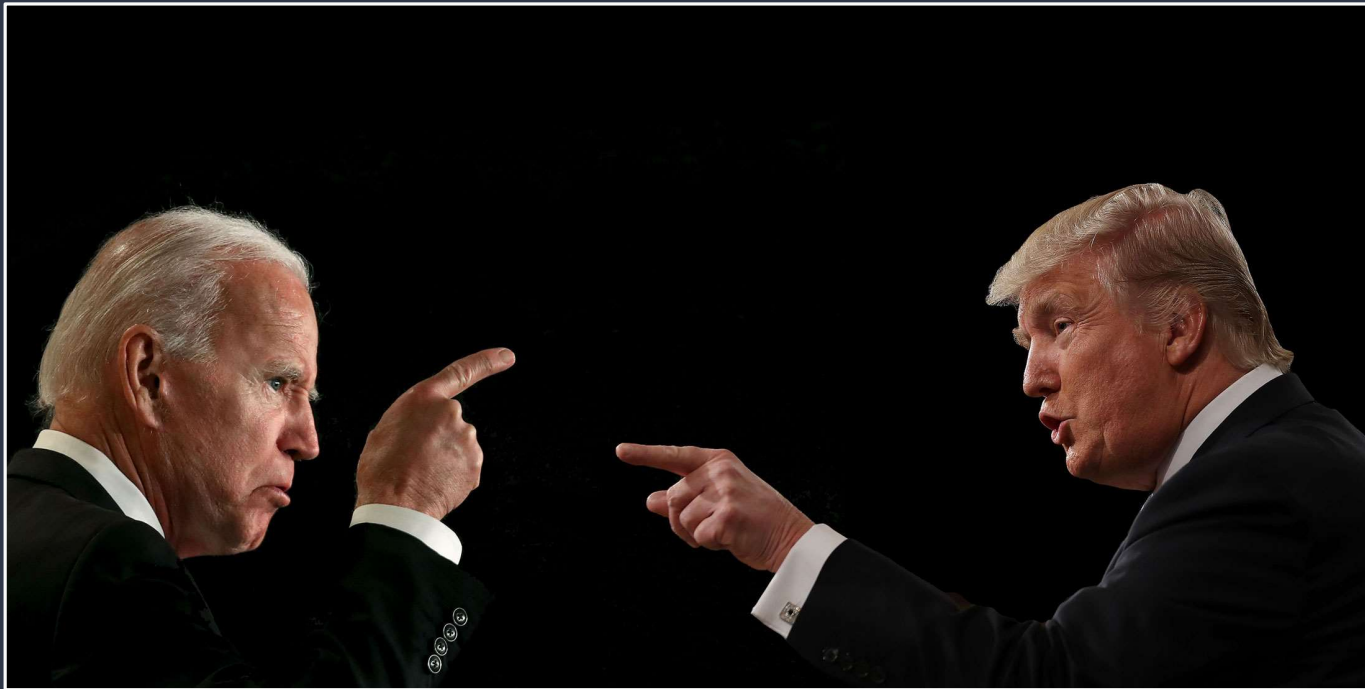
French 10-Year OAT Yield vs German 10-Year Bund Yield



Source – Bloomberg - 27/6/24

2024 Presidential Election

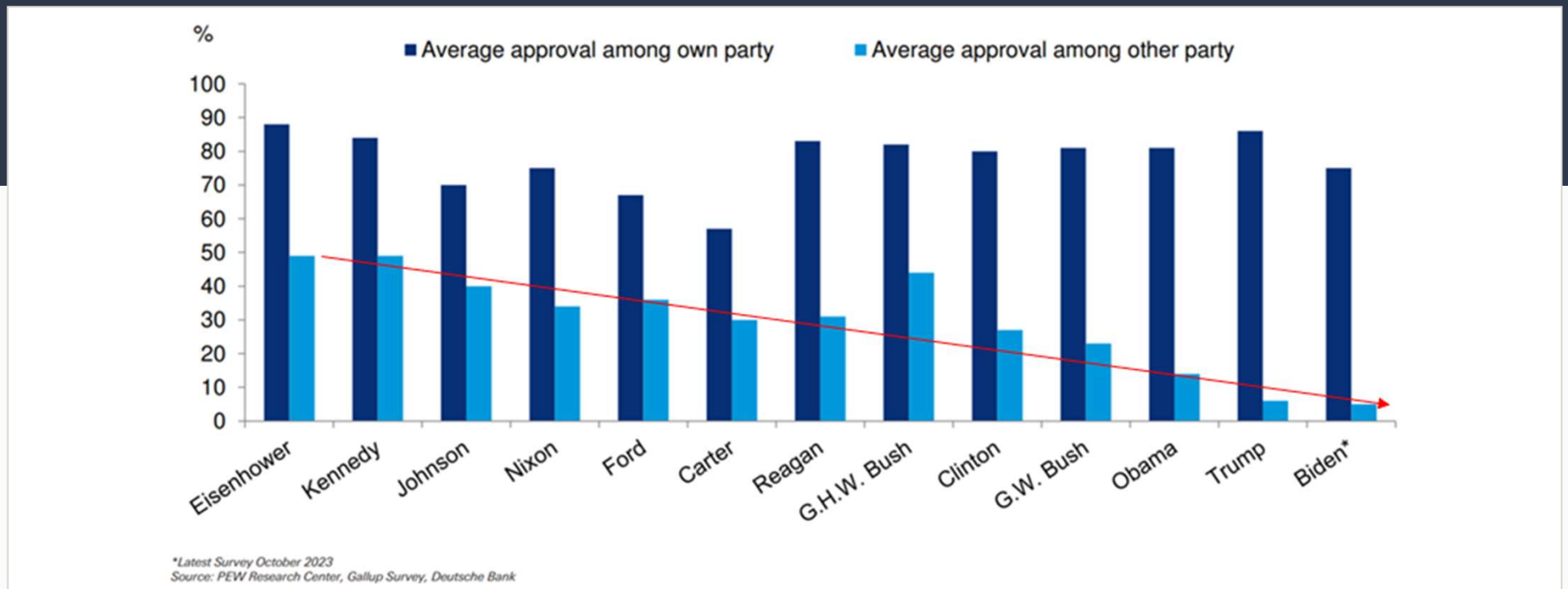
Biden vs Trump – Round 2



Source - Bloomberg

A Polarised Country

Difference in Presidential Approval Rating By Party



Source – Deutsche Bank/Gallup October 2023

Latest Betting

PredictIt

Volume  

120K

96K

72K

48K

24K

0

What happened here??



 Price

57¢

54¢

51¢

48¢

45¢

42¢

29 Mar 02 Apr 06 Apr 10 Apr 14 Apr 18 Apr 22 Apr 26 Apr 30 Apr 04 May 08 May 12 May 16 May 20 May 24 May 28 May 01 Jun 05 Jun 09 Jun 13 Jun 17 Jun 21 Jun 25 Jun

Trump

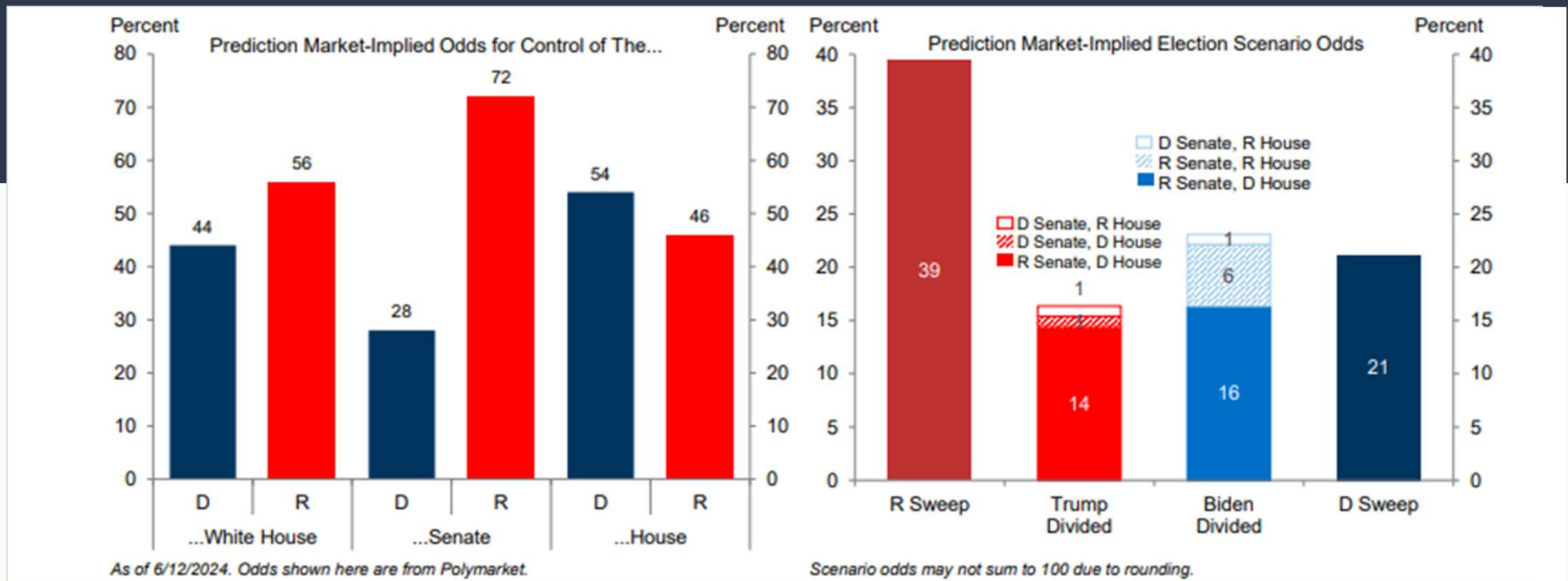
Biden

Newsom

Source – PredictIt – 14/6/2024

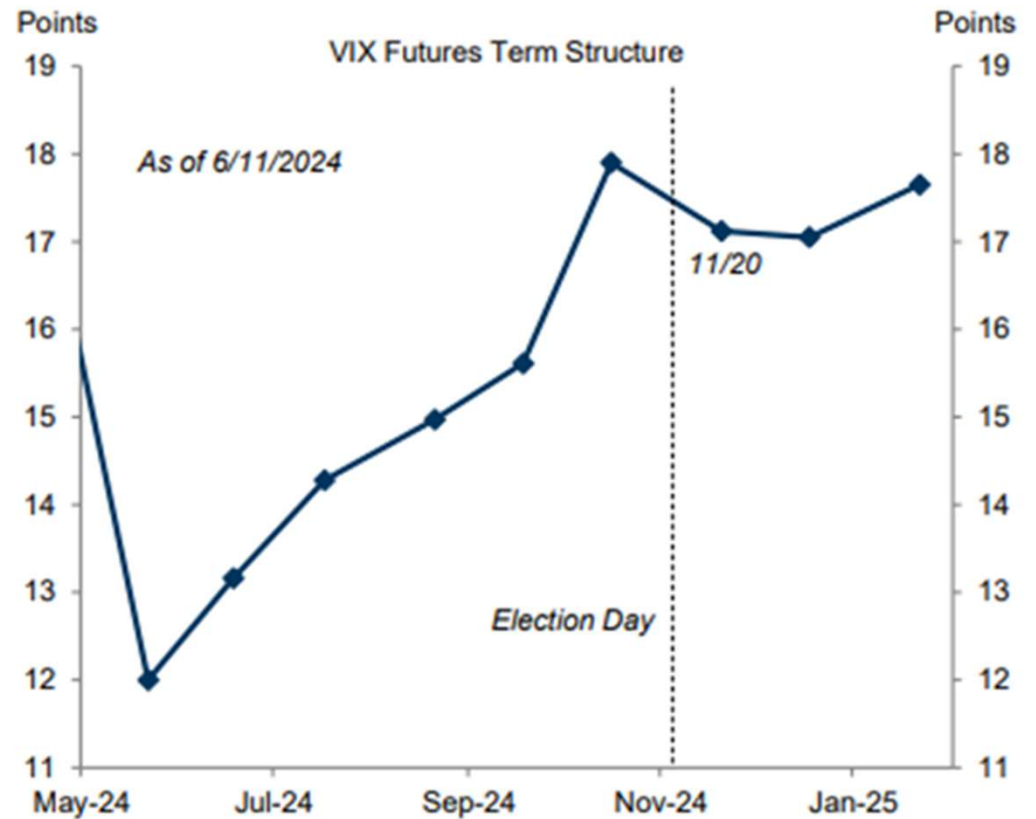
It's Not Just About The White House

Odds on Senate and House Races



Source – Polymarket, PredictIt, Goldman Sachs – 12/6/2024

Expect Increasing (and Persistent) Volatility



Source: Goldman Sachs Global Investment Research

Source – Goldman Sachs (11/6/24)

Fiscal Deficit Be Damned!

Neither Party Is Interested In Fiscal Restraint

Democrats

More Spending and Higher Taxes

Allow 2017 Tax Cuts & Jobs Act to Expire

Corporation Tax Rises to 28%

Buyback Taxes 1% up to 4%

Increase CGT Rate?

Softer on Immigration

Tough on China but Mending Fences

Republicans

Carry On Spending and Lower Taxes (!)

Extend 2017 Tax Cuts & Jobs Act (21% Corporation Tax)

Plus more tax cuts?

Rein in the Federal Reserve?

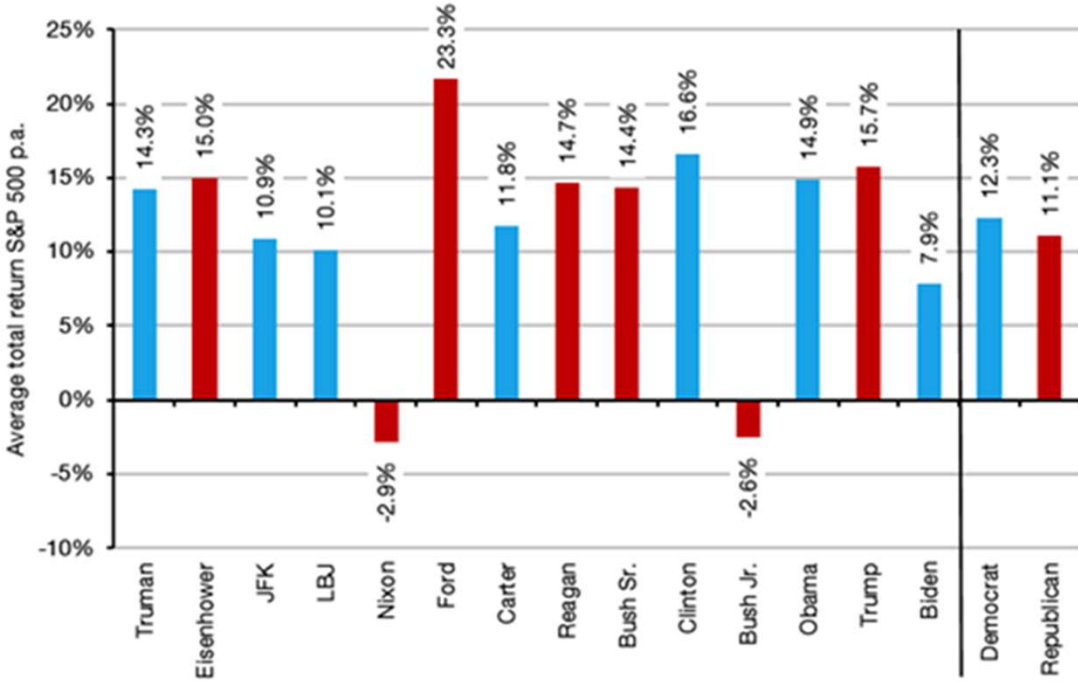
Tough on Immigration - Deportation

60% Tariffs on China

10% Tariffs on Rest of World

Source – General Public Sources

Stock Market Returns by Party



Source – Liberum (March 2024)

But Why Bet Against The US?

Long-Term Productivity Growth Projections by Capital Economics

- We expect the US to remain the world's biggest economy. And although other DMs like the UK will also experience strong productivity growth, it will fall short of that in the US. (See Chart 13.) Accordingly, GDP per capita relative to the US will actually *fall* in major DMs. (See Chart 14.)

Chart 13: Annual Average Productivity Growth (%)

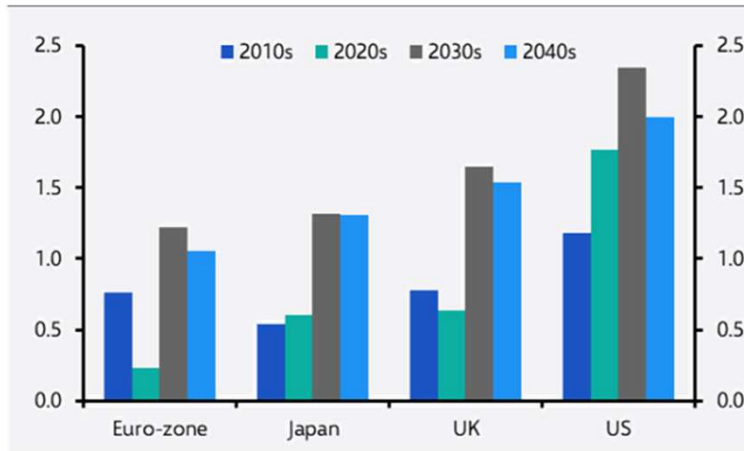
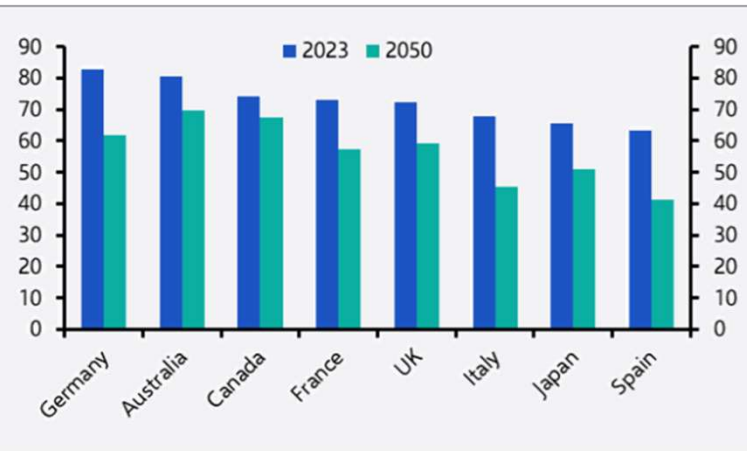


Chart 14: Real GDP per Capita (% of US, at Constant 2022 PPP Exchange Rates)



Source – Capital Economics – February 2024 CMA Document

Geopolitics & Macro – Key Events/Concerns

1

Elections

2

China / Taiwan

3

Middle East / Red Sea

4

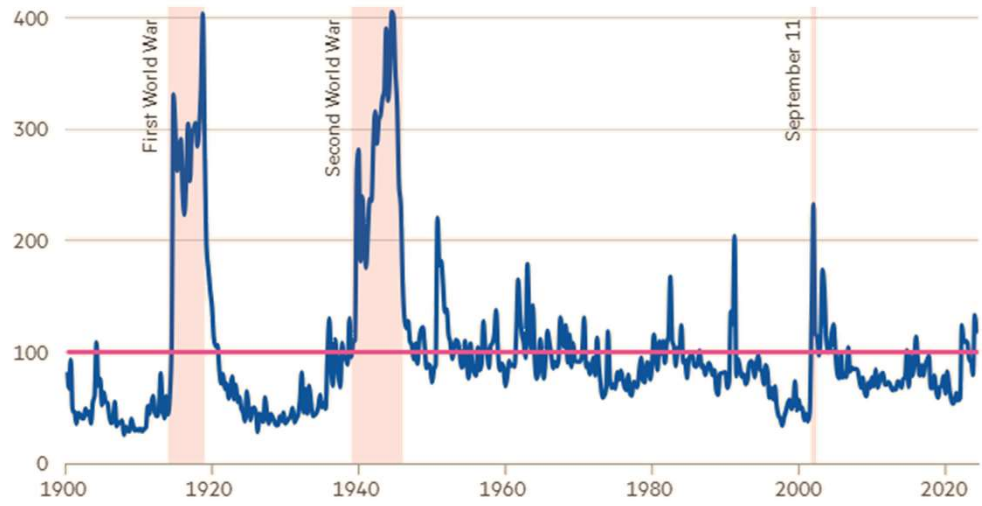
Russia / Ukraine

Source – Investec Wealth & Investment (UK)

Geopolitics – Do Markets Worry Too Much?

Geopolitical Risk index

■ Quarterly average ■ 1900-2019 average



FINANCIAL TIMES

Source: Caldara and Iacoviello (2022), 'Measuring Geopolitical Risk' • Data derived from newspaper articles and is up to date through to May, 2024

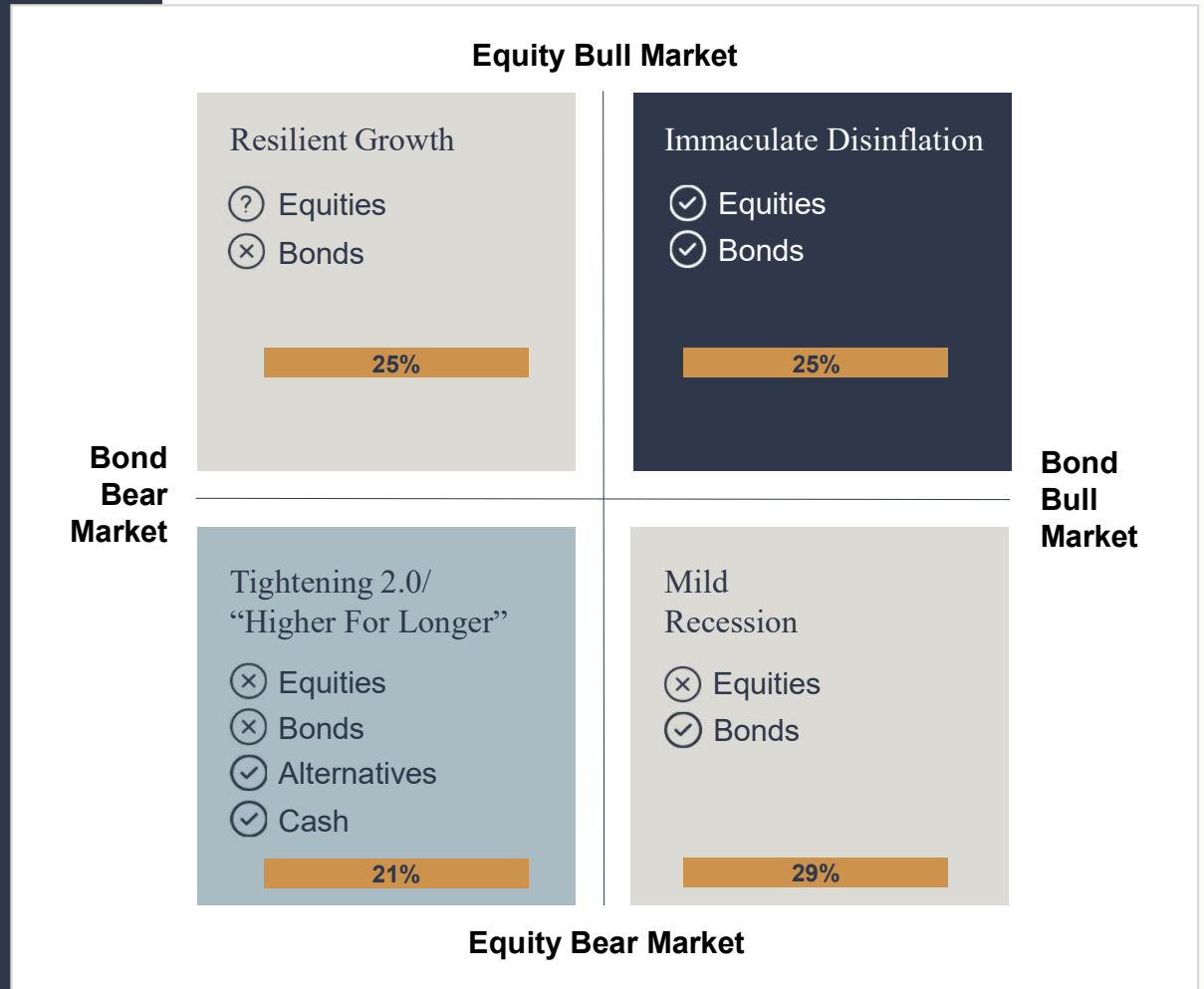
Source – Financial Times

Tactical Asset Allocation Recommendations

Applying The Themes in Portfolios

Please note that these are recommendations and will not necessarily have been implemented in all portfolios owing to various constraining factors and individual preferences

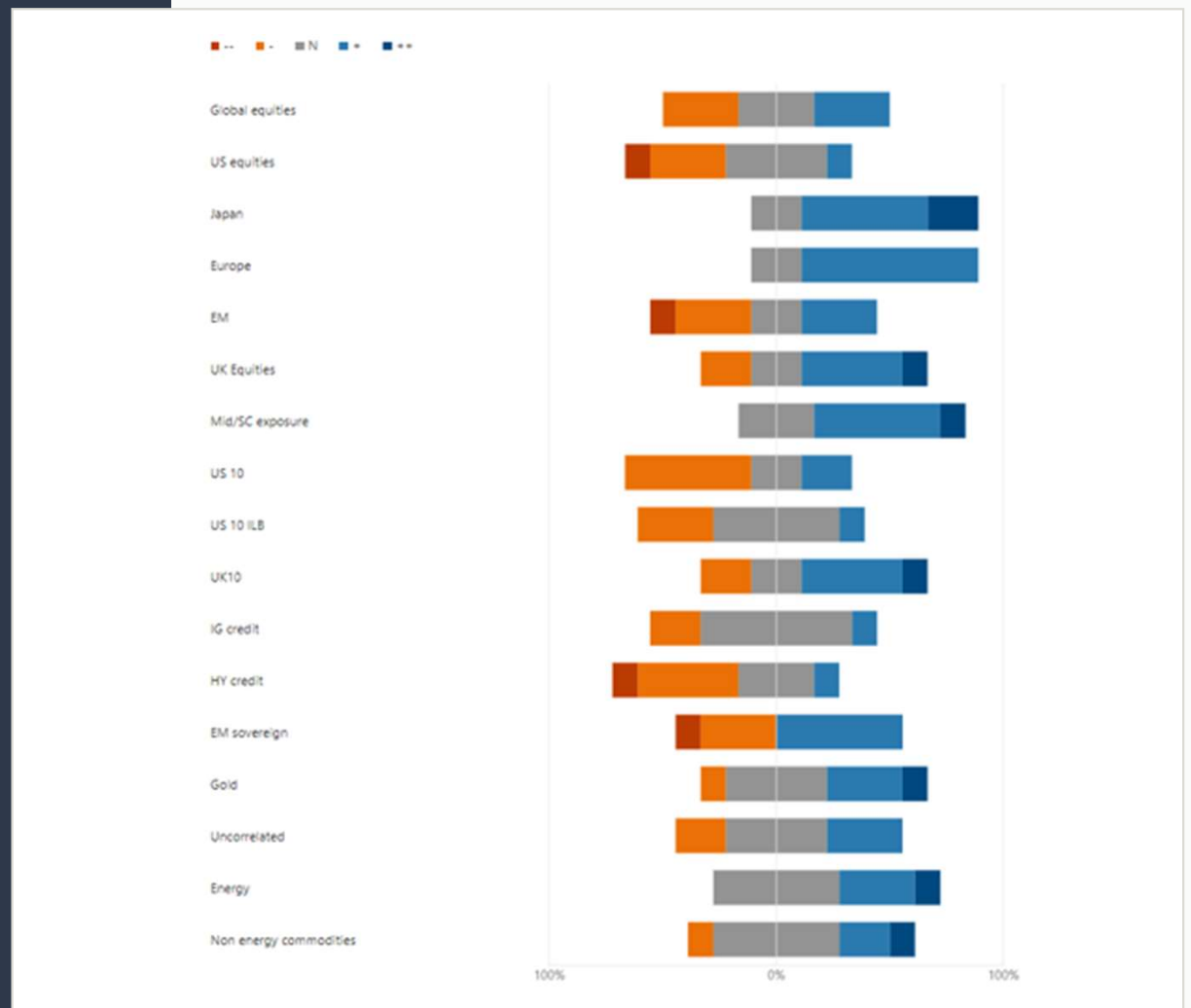
Potential Outcomes Matrix



Source – IW&I UK Asset Allocation Committee

Tactical Asset Allocation Votes

Source – IW&I UK Asset Allocation Committee



What's The Right Yield For A 10-Year Sovereign Bond?

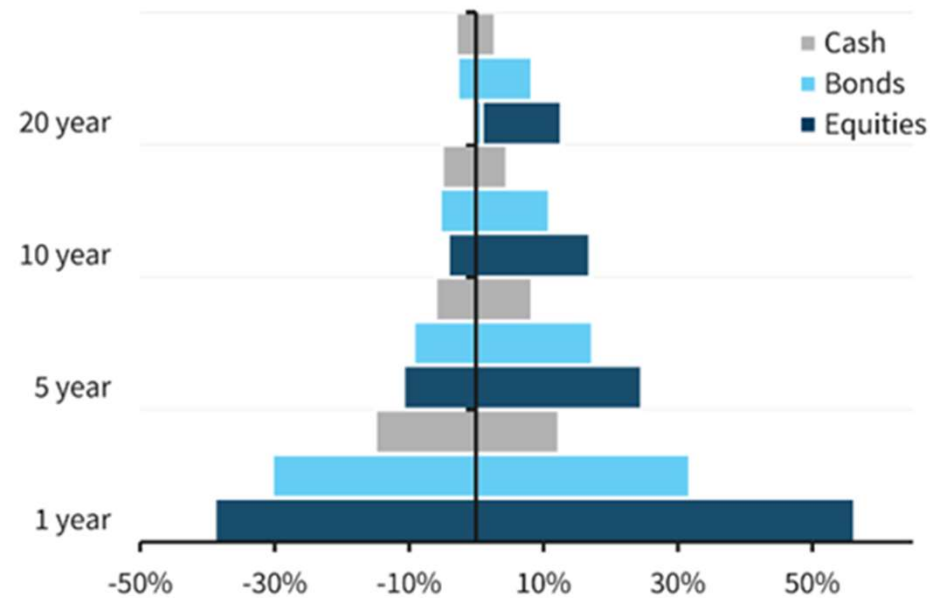
Real GDP + Inflation = Nominal GDP = 10-Year Yield

	Real GDP	Inflation	Nominal GDP	Today
US	1.5% - 2%	2% - 3%	3.5% - 5%	4.29%
UK	0.5% - 1.5%	2% - 4%	2.5% - 5.5%	4.13%
EU	0.5% - 1.5%	2% - 3%	2.5% - 4.5%	2.85%

Source – IW&I – 14/06/24

Equities For The Long Term

Figure 7. Maximum and minimum real returns over different periods



Source: CRSP, Barclays Research

Source – Barclays Annual Equity/Gilt Study 2024

Conclusions



It's Rarely “Plain Sailing”

- ✓ Inflation has peaked... but the “last mile” to 2% is proving difficult to achieve
- ✓ Interest rates have peaked... but are taking longer to fall
- ✓ We have left behind a long period of flat returns...
- ✓ But it's still difficult to make aggressive tactical asset allocation shifts today
- ✓ Elections will create some volatility – more in the US. France is the new wildcard
- ✓ Holding your nerve is the long-term key, and Equities remains the best wealth-generating asset class.

Thank You

RATHBONES

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Investec Wealth &
Investment (UK)

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