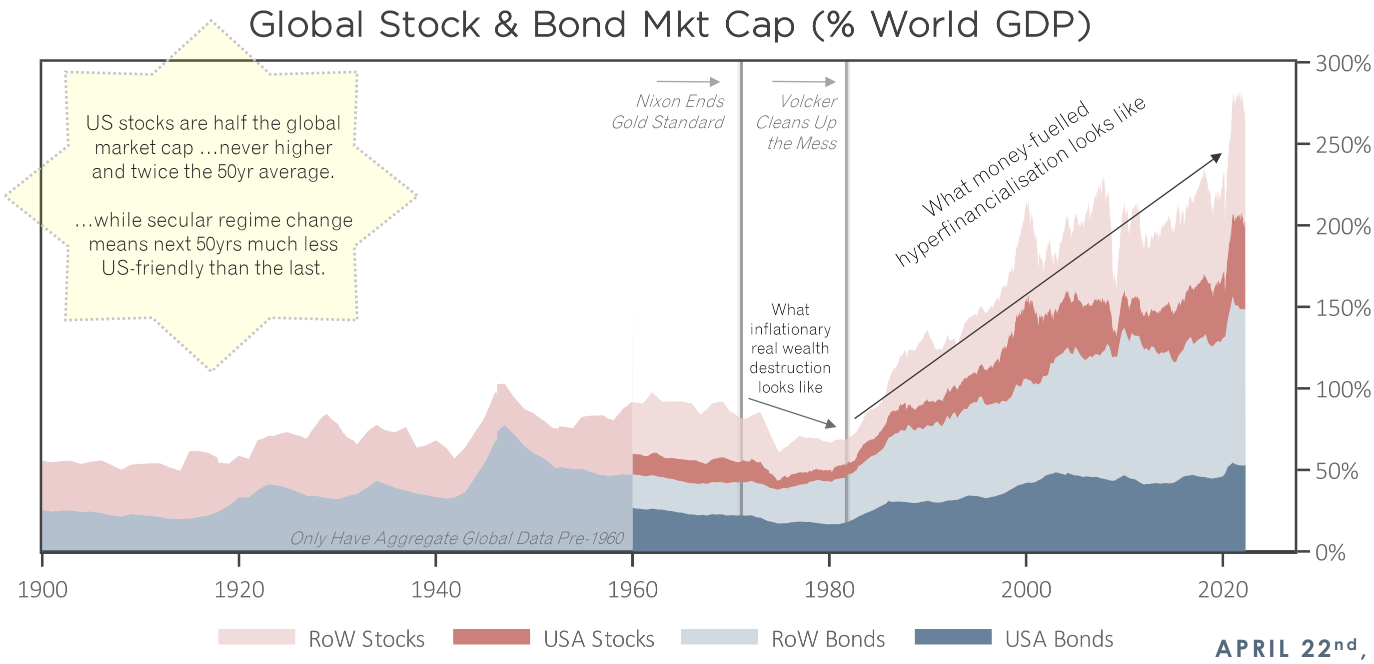
WEALTH PRESERVATION

We believe we're in a new world order that will shape the rest of our lives. We're at the beginning of financial and geopolitical regime change. These arcs of history are bigger than any one man – but Nixon's Gold and China policies set the parameters of the world we're now leaving. More money has been printed in the last fifty years than any other period in human history by far. But at the same time, globalisation gave the US access to the world's cheap labour, and a privileged ability to import the world's savings. Despite perpetual twin deficits and easy money, global integration kept inflation down, and the dollar supported, while supplying ample buyers for US paper, which of course only rose in value in that regime, just like all assets. This virtuous loop over the last half-century led to the most dramatic global welfare creation we will ever experience. What a time to be alive. Those lucky boomers.

But the new world order is one of "constraints". Constraints to liquidity, and constraints to where that liquidity will go. Needless-to-say, "constraints" are not what's priced in. Financially, we're moving away from the paradigm of "liquidity abundance" that virtually all investors grew up with. Profligacy creates inflation, which ends profligacy. Geopolitically, we're transitioning away from "global integration" (under the unified rules of one superpower), towards a multipolar world (divided into spheres of influence and cooperation). While these shifts around the inflation paradigm and the reserve currency system were decades in the making, as wars often do, events in Ukraine are accelerating them in the most violent way. We have no good historical analogs for financial and geopolitical regime change of this scale happening simultaneously…let alone after the biggest asset bubble ever relative to world GDP, topping off fifty years of hyperfinancialisation. The period of building paper claims on "real things" is over, and the period of calling in those claims has begun. We've grappled with how to fold these huge secular arcs into a practical investible framework at the trade and portfolio level. The bad news is manifold: a lot of real wealth will simply be destroyed; more of what's going on in markets is uneconomic in nature; we as investors are ill-equipped to predict and price those sorts of idiosyncratic events; we'll get structurally more vol than we're conditioned to; beta is sailing against the wind for the foreseeable future instead of with it; and, because global liquidity flows and risk-free rates are embedded to different degrees into all assets, by extension there aren't many safe ones. The good news is alpha's coming back, baby! Skill will once again differentiate. It will once again matter where capital is allocated and which investments are done, because money isn't papering over bad decisions. This appeals to us philosophically. But it also means big divergences between asset prices and fundamentals that formed over the last several years will close. We suspect we'll be iterating on and populating this framework for the rest of our investing lives. But here's where we are in that process.

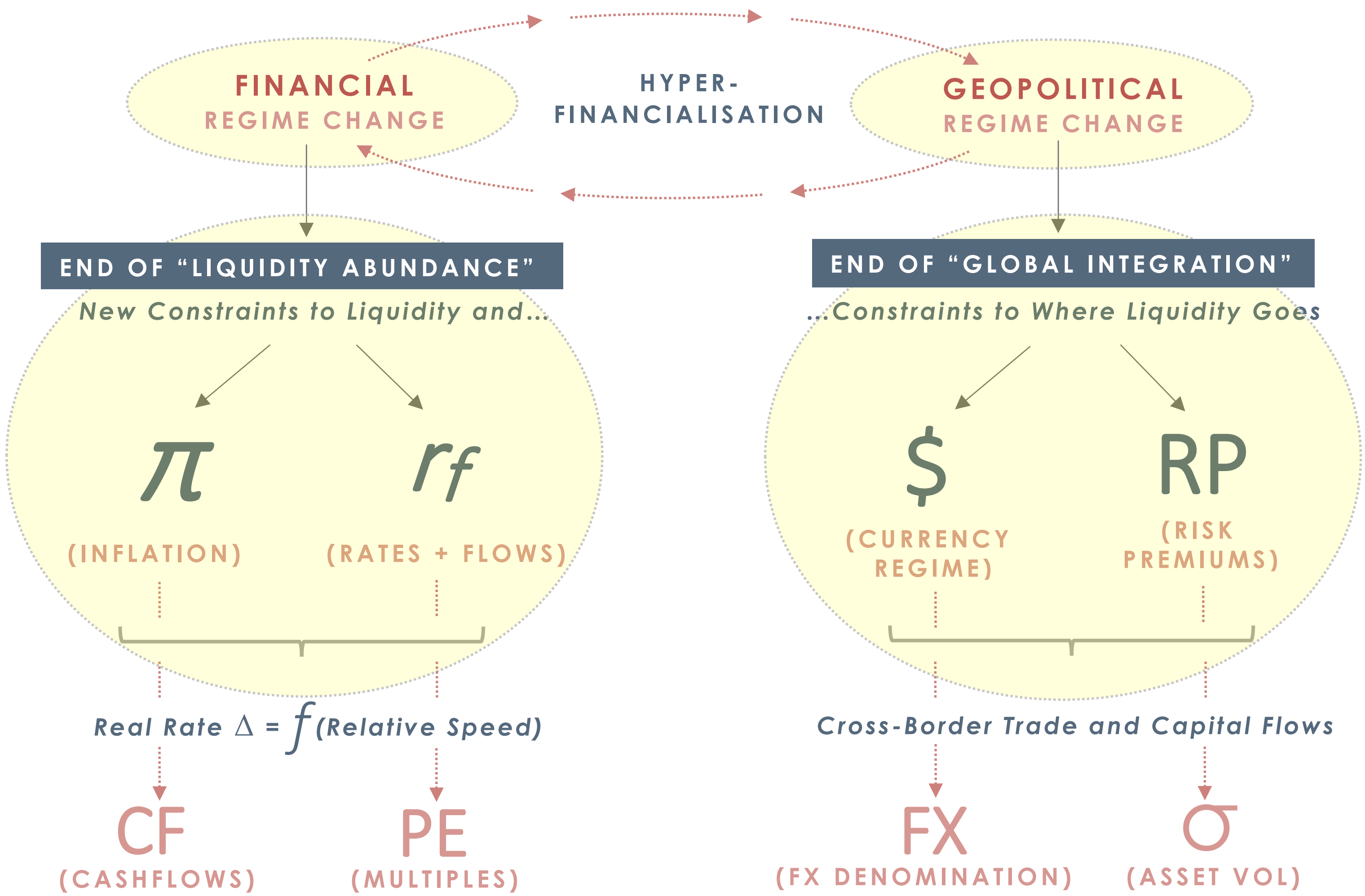


APRIL 22nd, 2022

A NEW WORLD OF CONSTRAINTS

- ***Currency regimes come and go***, but across the centuries they always followed a predictable arc. From the guilder to the pound to the dollar, the conversion to fiat comes towards the end – usually prompted by war. Excess spending prompts a depeg, monetary debasement, and ultimately inflation. At the end of this arc comes the need to choke off inflation and restore faith in the currency, with a new peg or high real rates. This cycle is inescapable.

- ***The last fifty years were a fluke*** – the unprecedented financial regime and the unprecedented geopolitical regime supported each other in a self-reinforcing way. True to form, the Nixon depeg was a response to war spending, and the liquidity creation since has been extraordinary. That liquidity got spent. But why no inflation? For one thing, the historic scale of global integration under a unipolar dollar standard merged the global labour force and made things cheaper. And secondly, a huge portion of that liquidity was spent on financial assets in a virtuous cycle of disinflation, falling rates, rising liquidity, and asset appreciation. So we got asset inflation, while "real things" remained cheap. For fifty years we've done nothing but build up paper claims on real things – we hyper-financialised. But what good is financial wealth, if not to ultimately spend it? The disconnect today between asset values and the real economy that supports them means there are way more "claims on real things" than actual "real things". This gap has only begun to close – as assets fall and "real things" inflate. The period of building paper claims is over, and the period of calling in those claims has begun. The only outcome is some real wealth destruction…musical chairs is on. The schematic below ties the world order (at the top) to the size and path of global liquidity (middle) to how you can think about these forces mapping onto the attributes of individual assets (bottom). Cashflows, multiples, currency denomination and vol are all in play. It's time to grab a chair.



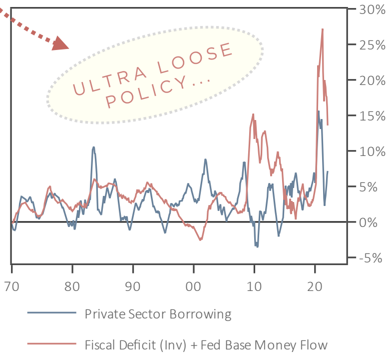
- The next page shows how ***the fifty-year virtuous cycle uniquely benefited the US***, the dollar and dollar assets:

THE NEW PARADIGM: POLICY CONSTRAINTS KILL THE POST-70s STATUS QUO

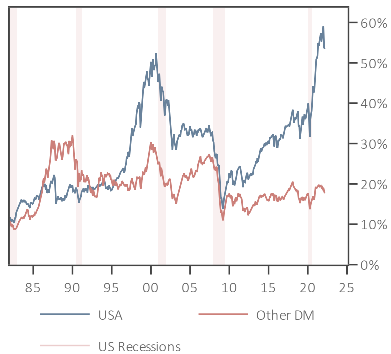
= OVERVALUATION

= EXTREME BUBBLE

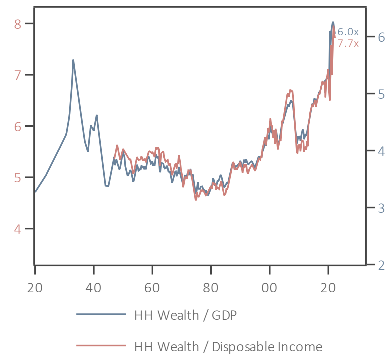
Govt vs Private Financing (%GDP 12m)



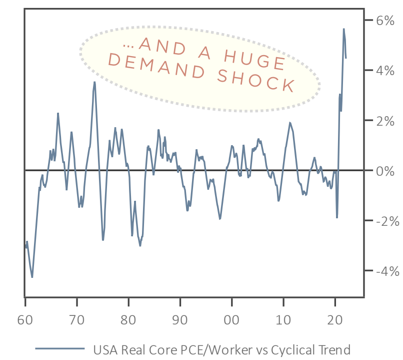
Stocks (Market Cap, % World GDP)



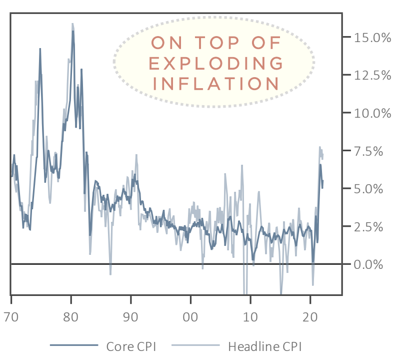
US Household Wealth



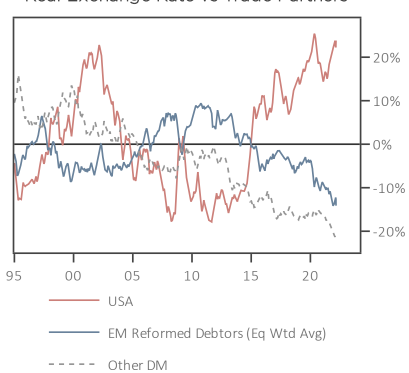
Real Spending Per Worker



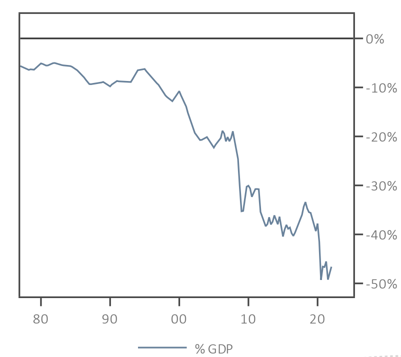
US Inflation (6m Ann sadj)



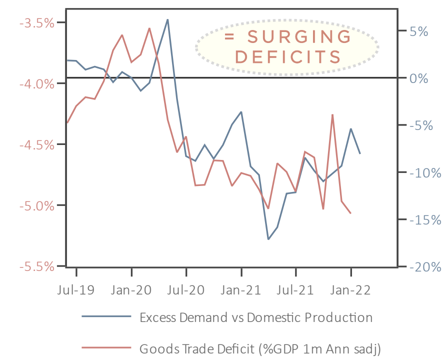
Real Exchange Rate vs Trade Partners



USA Net Portfolio IIP



US Trade Bal. vs Retail Demand/Supply Gap



OVERVALUED DOLLAR PRIMED FOR CORRECTION...

= DANGEROUS RELIANCE ON FOREIGN FLOWS INTO BUBBLE ASSETS

TOTEM MACRO

KEY PRACTICAL TAKEAWAYS

Secular forces don't often move fast enough to outweigh cyclical drivers of asset prices. But today these secular inflections are dominating because a) they're increasingly violent – literally and financially; b) they're fundamentally upending a half-century of investment assumptions, which are baked into market pricing; and c) in any event, they're moving in the same direction as cyclical drivers. Cyclical policy profligacy *is what catalysed* this structural change in the liquidity regime. This is not just another hiking cycle within the same old downtrend of lower lows and lower highs. Policymakers certainly didn't need to overdo it to this extreme, and we can't even blame the end of this currency regime on the Germans. But as history shows, its end was always inevitable because we're humans and overdoing it is what we do. We cover a lot of conceptual ground and hash out our framework in the rest of this report, interspersed with asset and market conclusions where we have them. But pulling up some of the practical takeaways first here:

- ***There is An Alternative, and It's That Financial Assets Shrink:*** "There is no alternative to risk assets" and "there is no alternative to the dollar". What these statements take for granted is that assets always go up – the perpetual growth, or at least stability, of global capital pools is taken as a given.
  - But FX reserves can and will be spent (on real things). And global asset caps can and will fall, at least in real terms – that's what the unwind of hyper-financialisation is all about.
  - The speed and the anatomy (nominal declines vs. real erosion) of that decline is tbc but there can be little doubt that it's coming. Open up any stock model and you'll see some application of CAPM that spits out a cost of equity in the 9-15% range. With nominal GDP growth in the mid-single digits on a backward-looking basis, that implied endless increases in the ratio of equity market cap to GDP. Such was the nature of the hyper-financialisation we've taken for granted that no one at the CFA Institute seems to have noticed.

- ***What Went Up Now Goes Down:*** The assets that suffer the most from structurally tighter liquidity and global balkanisation are the same ones that benefited the most from the old regime. Since the last five years was such a grotesque climax of this secular regime, they're also the assets that are cyclically priced to perfection. They're deflation beneficiaries, typically in dollar or dollar-linked currencies, that sucked in all of this easy money. Look at where the money went – which markets exploded (PE, CLOs, crypto/blockchain, global tech etc), and that's a decent guide. It's no huge stretch to say that everyone in the entire world has more US risky asset exposure than they ever have before.

- ***A Nominal vs. Real Wealth Decline?*** On the logic above, you could do a lot worse than to short all the extremes charted on the previous page. But there's some danger to that too.
  - It's plausible, even likely, that policymakers choose to keep inflation hot, and tighten but don't tighten enough. In this environment, overvalued assets (and corresponding high debt burdens) can be grown into until they're more affordable. At the extreme, as EM folk, we know that people *buy stocks* in the early stages of inflation.
  - But make no mistake – for US assets, huge recipients of frothy inflows with not much inflation-protection on the cashflow side (bear in mind, tech selling prices typically *fall outright*) – this would still be a large real loss.
  - For inflation-protection assets (CMDs, EM CMD countries, TIPs, PMs etc) – which btw are largely not where capital has gone during the last (disinflationary) decade – they'll protect you on the cashflow side and don't face the same abrupt withdrawal of liquidity. For that reason, we prefer to play the spread (own value, short froth)… so we're agnostic to whether the loss is nominal or a real erosion of wealth, with winners and losers.

- ***A Nominal vs. Real Rate Move?*** The spread strategy above brings its own risks down the road. Ultimately, we know running an economy hot with deeply negative real rates for an extended period ends with a need to restore faith in the currency and choke off inflation. We don't see us going back to a world of fixed exchange rates, which means we'll ultimately get an abrupt late surge in DM real rates. At that point inflation beneficiaries will do terribly. But that's down the road, after they've protected you from extended high inflation, and so that's at higher valuations than we have now.

- ***Not Many "Safe Assets":*** Then there's the question of how to handle geographic exposures, and geopolitical risks that come with global disintegration. You'll notice there aren't many "safe" assets in this new world.
  - If we restrict ourselves to assets in the assumed "Free World" Western bloc, we *might be* mitigating some aspects of geopolitical tail risk, but we'd be concentrating portfolios amongst the world's most inflated, debtor, liquidity-dependent assets, highly dependent on suppliers of goods and capital from the presumed Eastern bloc – no bueno in a world of scarce liquidity.

- If we instead value geographic diversification across the new blocs, we gain access to most of the world's surplus countries and inflation-hedge assets trading at or near trough valuations. But we must acknowledge the risks of uneconomic geopolitical shocks (and capital controls) that this may bring as blocs pull apart.
- Still, it's the way to go. We can't know how these blocs will look, or how their relative economic strength will evolve, or foresee unpredictable schisms along the way. So we'd rather spread our bets across geographies, not implicitly take concentrated bets on something we have no edge in (i.e. arbitrarily taking a view on geopolitical winners and losers in this new world) and know that as things unfold, occasionally there will be shocks that will impact certain (smaller) trades within the diversified basket we hold.
- We'd make the bet here that it's better to occasionally take large losses (on small positions) in a book protected from de-financialisation and inflation, than it is to geopolitically ringfence our book by holding frothy assets most geared to the (more foreseeable) withdrawal of liquidity.
- And it's not even clear that countries in the "Free World" will be ringfenced. Arbitrarily cancelling or seizing the assets of actors they don't like fundamentally undermines the concept of safe rule of law. And they're debtors to the world's surplus nations. Without question, the US has benefited more than anyone from its reserve currency status, the ability to import global savings even in recessions, margin uplift from offshoring, and global financial integration. That's reflected in huge US debts to and imports from the rest of the world.
- So in a bipolar or multipolar world, divided along the lines of spheres of influence and cooperation, and with less liquidity overall, US assets get sold the most on both fronts, because they are what everyone owns. If the world is pulling apart, we'll take the lenders over the borrowers, who have more financial cushion to deal with stress, and also happen to be the majority of the world's suppliers of "real things", including commodities.

▶ ***The New Reserve Currency is "Real Things":*** This gets to the crux of what the new currency regime looks like. It's clear to us that reserves currencies – the USD, EUR and GBP – have reneged on their promises of safety. They reneged on ties to gold but sold their suppliers paper assets underwritten by security, rule of law, and "price stability" instead. Then they debased their currencies in this inflationary way, landing us with the worst drawdown on record in supposedly "safe" DM bonds. And then they eviscerated one of the biggest global buyers of that paper at a pen stroke.

- The thing to recognise is that global surplus nations are also playing musical chairs – they're on the wrong side of the "paper vs. real things" disconnect. They sold (increasingly scarce) real things, in exchange for (increasingly abundant) paper. So global FX reserves have never been so outsized in the history of the world.
- Surplus nations bought these assets for two reasons – to maintain currency pegs, and to overcompensate for traumatic sovereign crises in the 1980s and 1990s. Today most of these countries have abandoned their pegs, and their FX assets dwarf the small amount of FX borrowing they still do. Their reserve piles are excessive.
- FX reserves have been flat over the decade, because of lower surpluses and floating exchange rates. Now that the surpluses are back, do we really think they'll plow this cash back into even more loss-making paper sold by their strategic rivals? Or will they reduce their holdings of paper altogether by spending it on real national priorities – like commodities, investments in domestic economies, military prowess, and localised supply chains? With the Belt and Road, China's implicitly been doing this in size for a decade already.
- So yes, there is an alternative to the dollar. It's definancialisation – cashing in the paper and spending it. In the process they can support growth, ringfence national security, and support their own exchange rates, providing a disinflationary tailwind to counter the inflation developed countries have exported to them. It's this race to convert abundant paper wealth to scarce real assets that forces the reconnection of financial and real prices.

▶ ***The New World is Beta-Bearish, Alpha-Bullish:*** This all sets up a pretty bad picture for risky beta, at least measured in terms of forward real returns. But on the other hand, it favours alpha strategies for the following reasons:

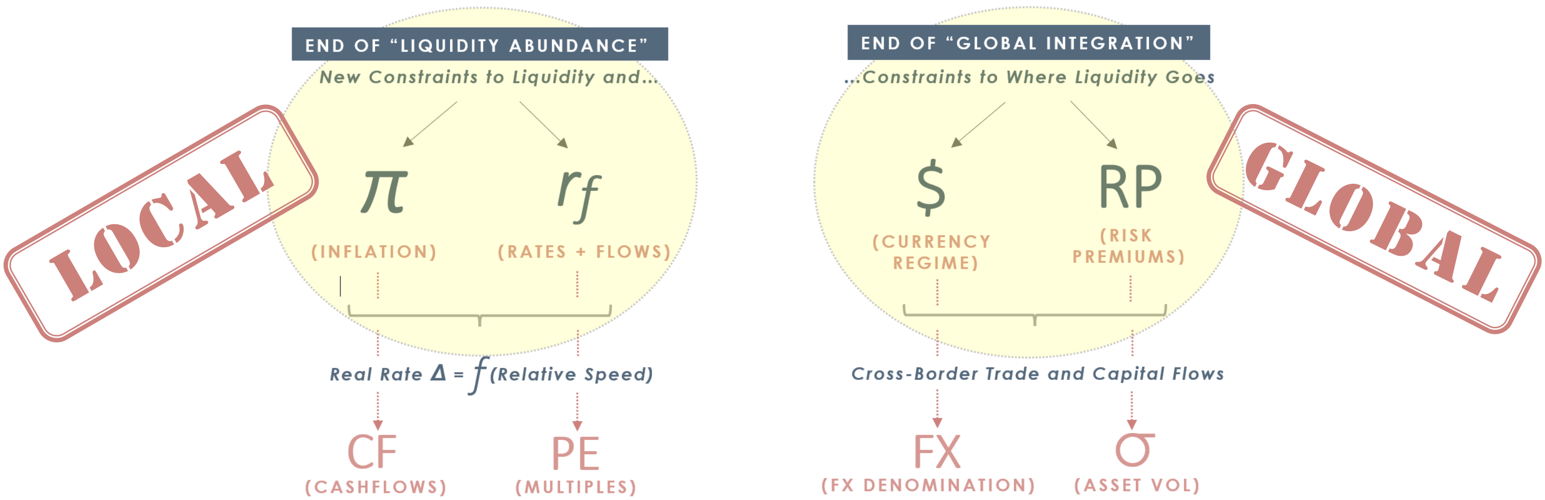
- When all assets are rising regardless of fundamentals, alpha is hard work for not much relative gain, and beta is both easy and rewarding. Diversification away from liquidity destinations (e.g. US assets) cost a lot, and since that liquidity also smoothed vol in those markets, it didn't even help your risk profile much.
- The "liquidity lottery" created all sorts of extreme disconnects between asset prices and their fundamentals, which is why we have record valuation divergences. US yields are a prime example – held down by global QE. Now that liquidity is going away, these disconnects are closing. Liquid strategies that can navigate volatility and correctly anticipate shifting fundamentals and flows will be rewarded in this new world, because prices will follow macro signals more reliably, as they did in the pre-QE world.
- Global disintegration means less synchronised global growth. Ergo, less correlated assets. Ergo more benefit from diversification, and more alpha opportunities in general. Macro is back, and optionality pays (favouring strategies that aren't siloed by geography or asset class). Momentum and leveraged strategies are harder.

APPROACHES TO INVESTING IN THE NEW WORLD

- The way we see it, there are a few different ways to think about protecting your real returns and making sure you've got a chair when the music stops…because, yeah, it's stopping. You can apply the schematic below to ***individual assets*** you might want to hold (or at least use it as a gut check for your existing alpha views). You can also seek to inform your ***asset allocation*** using historical case studies. Here the 1970s and the performance year-to-date are most instructive. And finally, you can employ ***portfolio and risk management*** approaches that hedge you to different macro environments, value diversification and prioritise alpha over beta, moving away from the fifty-year mantra that directional bets always pay. We go through those three categories sequentially below.

ASSET LEVEL: CASHFLOWS, MULTIPLES, CURRENCIES & GEO VOLATILITY

Anchoring back to our map from the second page, desirable assets will have local characteristics that are defensive to the inflecting liquidity regime, and they'll have global flow dependencies and a currency that's defensive to the inflecting geopolitical regime. This little guy right here:

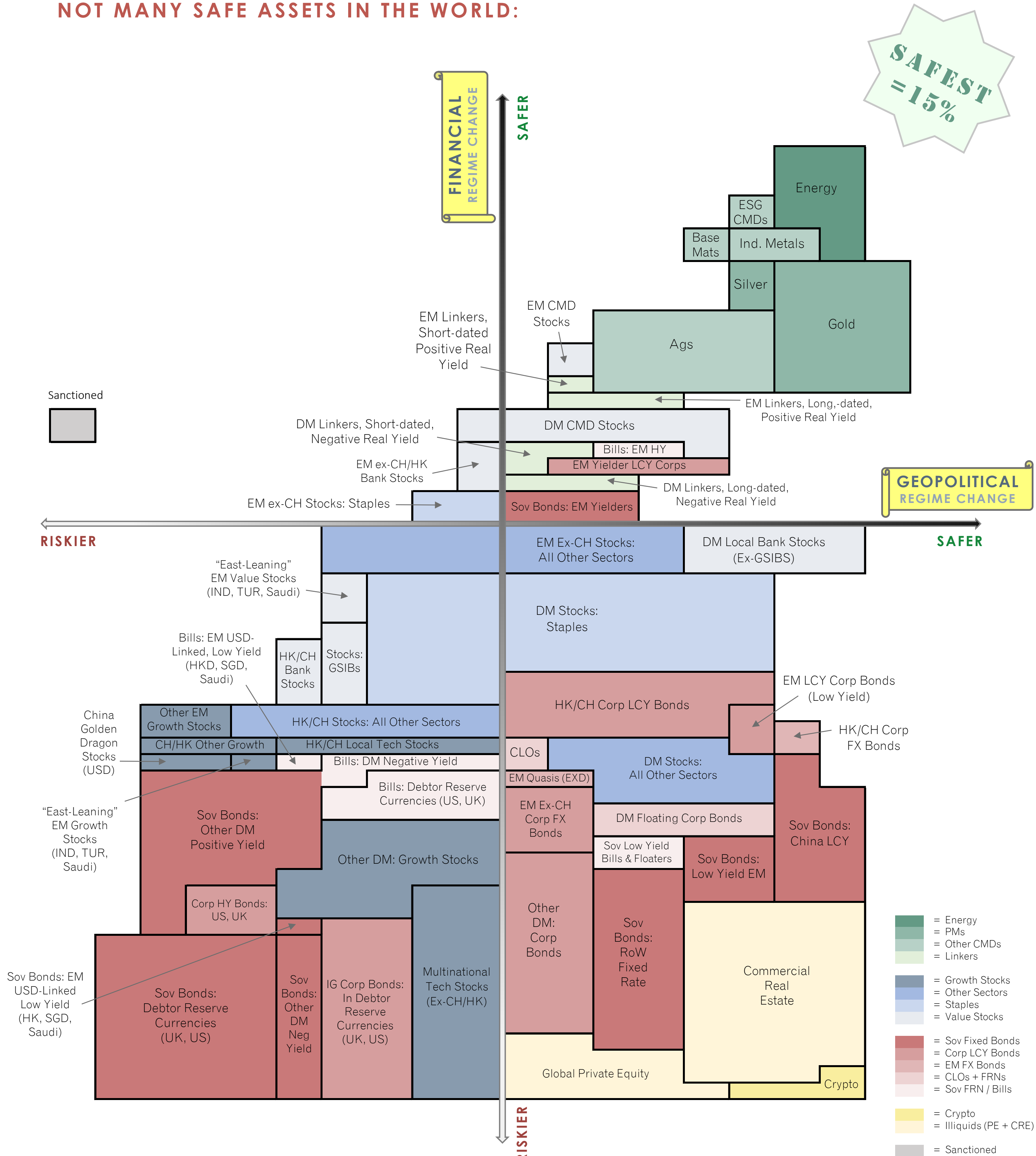


So What Does That Practically Mean?

On the local side, what we're basically saying is the powers that be, in their infinite wisdom, have created a spread that you can profit from – the spread between nominal GDP growth (i.e. available cashflows) and the cost of financing assets earning those cashflows (i.e. interest rates). When it's flipped upside down, folks like to think of this spread as "financial repression". This is true if you don't try to capture the nominal cashflows…say, if you keep your money in cash (which of course are the deposit liabilities the system at large has created). But looked at another way, it presents an opportunity to buy assets whose cashflows capture high nominal GDP growth (and implicitly, the inflation bit which currently makes up most of it), financed with borrowing on the cheap. As with any carry trade, the risk to the trade is that the price of the asset (with those nice cashflows) goes down. So you wanna avoid assets that might de-rate against those cashflows. Here's where unowned value, short duration (read: near-term) assets with balance sheet strength come into play. And it would also be extra nice if the value of your funding leg shrinks relative to your assets – that means it should either be a) fixed rate; b) long duration; or c) done in a currency that's going to lose real value vs. your assets (either because of negative real rates, or because it's overvalued in real terms vs. other currencies).

So – to sum up: 1) ***cashflows with nominal GDP gearing*** (read: inflation-hedge), 2) ***attached to an asset that's unlikely to de-rate*** against those cashflows (read: cheap and unowned), and 3) financed with ***borrowing in a currency that loses purchasing power*** either locally or vis-à-vis global currencies (read: negative real rates and/or high real exchange rate). And then if we're being really greedy, 4) we'd like our assets to be in ***jurisdictions with low tail probabilities*** that they get taken from us, or we get banned from holding them. There aren't many of these:

NOT MANY SAFE ASSETS IN THE WORLD:



THINKING ABOUT GEOPOLITICAL, COUNTRY AND CURRENCY RISKS:

- Global disintegration brings many dimensions of risk, many of which exacerbate inflation, growth and asset price headwinds. Hyperfinancialisation was only possible because globalisation kept prices down (via global trade flows) and kept “risk-free” rates low (via global capital flows). So what we’re talking about here is the vicious unwind of that symbiotic relationship. It’s not as simple as keeping all your assets in democratic countries. All the hot takes we’ve seen on this focus on two things: 1) there’s no market big enough to replace the dollar; and 2) the West dominates global GDP. Sorry, these two points are true, but irrelevant. It’s not the levels but the changes that count, and it's not GDP share, it’s access to strategically necessary real assets and production, or self-sufficiency.

- So, practically we’re considering three dimensions of resilience to geopolitics and global balkanisation:

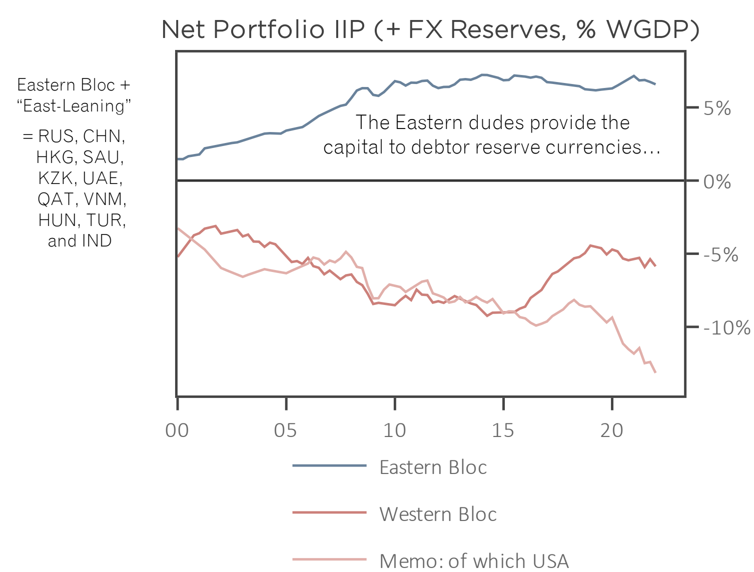
  i. ***How Safe is the Currency?*** Those that offer positive forward real returns, with low risk from barriers to global trade and capital flows (particularly, low deficits), and avoiding expensive unipolar reserve assets;

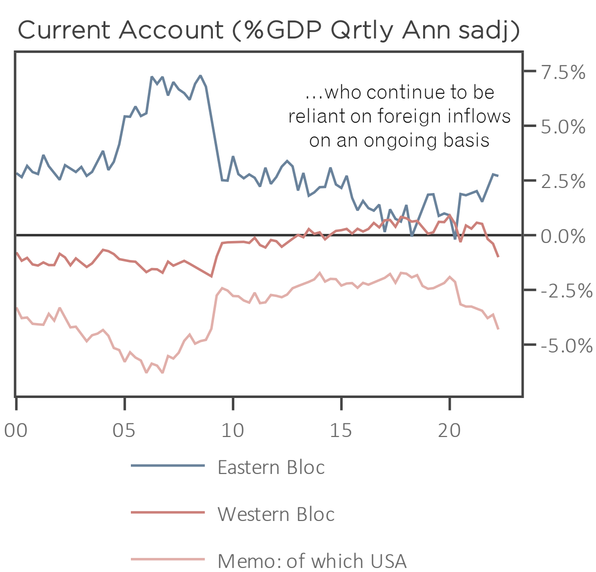
  ii. ***Reliance on Foreigners and Security of Physical Supply:*** Assets held domestically or by foreigners in the same bloc, commodity producers, ability to supply domestic consumption and investment in general;

  iii. ***Jurisdictions with Low Geopolitical Tail Risk Probabilities and Rule of Law:*** Being aware of geopolitical hot zones, assets that may attract sanctions, and high risks of expropriation, given occurrence of tail events.

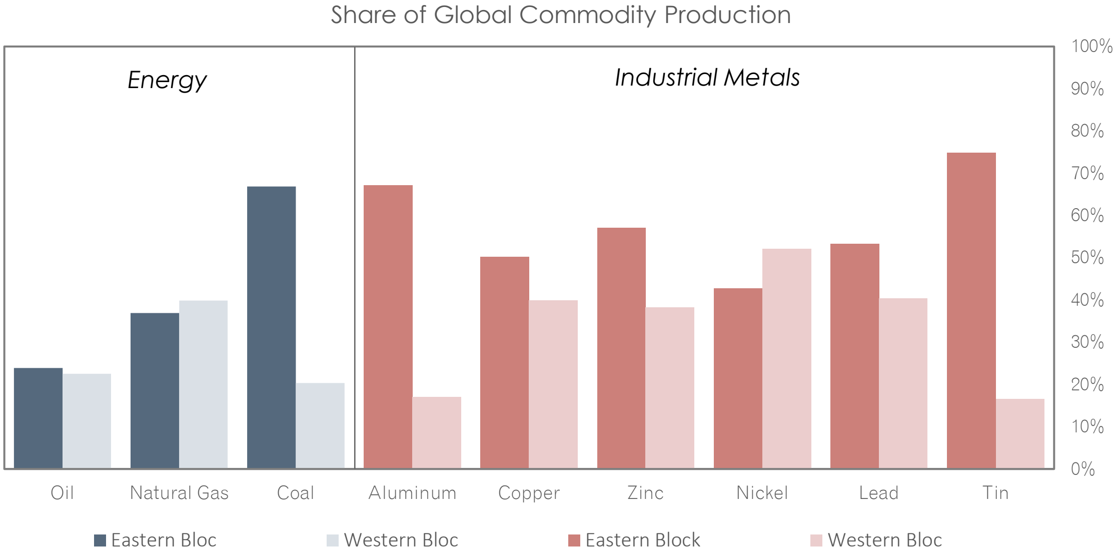
- On the first, anyone who’s studied how currency regimes form and decay knows that counterparties save in a currency *in response to the need* to transact in it. If 90% of global trade is denominated in USD, anything less is a drag on the need to hold dollars around the world. If the “Eastern” bloc transacts in local currency, that’s reason enough to hold less USD. And yet they are the dominant holders. And as we said up top, the old regime created unprecedented global imbalances and therefore unprecedented stocks of these savings in the form of FX reserves. These huge paper claims aren’t economically necessary anymore (fewer pegs, lower surpluses, net USD longs), and they aren’t desirable anymore (they’re devaluing in nominal terms, let alone real terms…and they can quite clearly be frozen or seized). What’s desirable to autocratic regimes is having enough food and energy to keep themselves in power. So there’s, like, seven more reasons for them to sell these bonds and spend the proceeds.

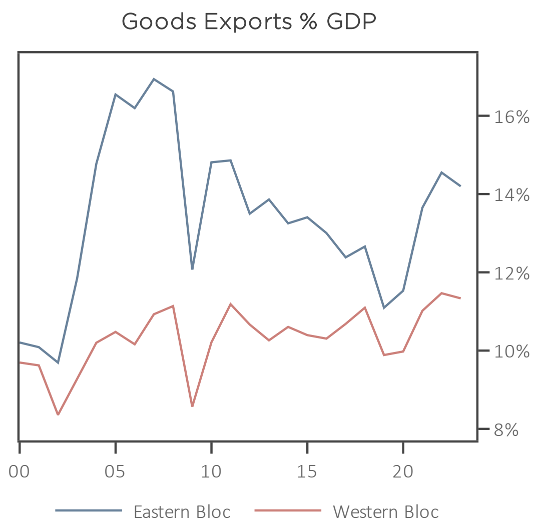
- So our premise is simple here. The currencies with the biggest dependencies on foreign capital (in a flow and stock sense) – which are the USA, the UK and to a lesser extent Europe (whose imbalances are largely internal) – are the ones that suffer from the rebalancing of trade and savings away from the old regime. That’s the biproduct of unwinding capital integration. On top of that, the dollar was this cycle’s only large recipient of *risky asset flows* from *private* foreign players. This year makes it self-evident that surging yields hit DM bonds and frothy stocks the hardest. Here’s how the “west” and “east” blocs look from the standpoint of global capital dependency:

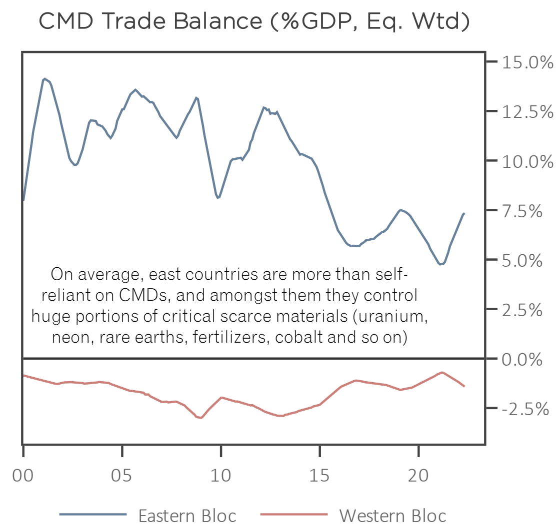




- Then there's the biproduct of unwinding trade integration. The west may be 65% of global GDP, but we don't have anything like the security of access to commodities and physical production / manufacturing that the east does. This sets up the prospect of even worse inflation and/or supply shortages (and associated growth drags) in the west, which just makes the risk to yields and asset prices under the new financial regime worse.







- So that's your trade and capital linkages. None of this is painless for anyone…obviously Eastern exporters face frictions in repivoting their trade to new partners or a loss of currency support if they use their productive and commodity resources domestically. But they also have surpluses – both today and in the form of accumulated reserves – to backstop their currencies and economies. But the east risks losing access to advanced technology, which stifles long-run growth. So it seems to us the west faces near-term risks (given the real-time trade and financial dependencies) and the east faces serious challenges to long-run development.

- Cutting across all that, there's the rising risk of geopolitical tail events that we as residents of the western bloc may face. Sanctions, capital controls, anti-western or anti-eastern policies, de-listings, asset seizures, risk of wars and geopolitical altercations. So it's tricky – and in our view the balance favours geographic diversification.

- The table below synthesizes some of these considerations at the country level, for individual economies and their currencies:

COUNTRY VULNERABILITY TO GEOPOLITICAL REGIME CHANGE

		RISK RANKINGS ACROSS DIMENSIONS			HOW SAFE IS FX?		SECURITY OF SUPPLY		GEOPOL. TAIL RISKS	
	TOTAL COUNTRY RANK	SAFETY OF CURRENCY (33%)	SECURITY OF SUPPLY (33%)	GEOPOL. TAIL RISKS (33%)	Five Year Fwd Real FX Return*	Portfolio NIIP 5yr Chg (%GDP)**	Commodity Trade Bal (% GDP)	Imports from Other Bloc (%GDP)***	Democracy Index (EIU)	Subjective Geopolitical Risk Score
Canada	1	10	5	2	4%	35%	8%	2%	8.9	1
South Africa	2	5	8	8	35%	15%	13%	6%	7.1	2
Sweden	3	10	9	3	10%	25%	2%	2%	9.3	2
Colombia	4	2	12	16	45%	6%	3%	---	6.5	3
Malaysia	5	4	14	13	37%	11%	2%	---	7.2	3
Brazil	6	7	10	14	57%	4%	9%	---	6.9	3
Chile	7	25	2	12	31%	-2%	19%	---	7.9	3
Indonesia	8	20	11	10	42%	-2%	5%	---	6.7	2
Denmark	9	23	15	4	3%	8%	0%	3%	9.1	2
Spain	10	14	18	18	14%	10%	-1%	4%	7.9	4
Greece	11	1	29	20	26%	34%	-4%	7%	7.6	4
Mexico	12	22	21	9	23%	-1%	-2%	4%	5.6	1
Australia	13	30	6	19	-8%	4%	15%	4%	8.9	5
Switzerland	14	35	20	1	5%	-7%	-3%	3%	8.9	1
Peru	15	26	7	24	41%	-12%	15%	---	6.1	4
United States	16	39	13	5	-18%	-15%	0%	3%	7.9	1
Philippines	17	8	37	15	70%	1%	-7%	16%	6.6	3
Thailand	18	27	17	17	-4%	6%	2%	---	6.0	3
Netherlands	19	33	22	6	-1%	-2%	1%	14%	8.9	2
Russia	20	19	3	39	43%	-2%	16%	5%	3.2	10
Singapore	21	3	33	26	23%	123%	-4%	9%	6.2	5
Germany	22	17	25	21	4%	17%	-3%	3%	8.7	6
France	23	34	19	11	6%	-9%	-3%	2%	8.0	3
Qatar	24	29	4	32	0%	-1%	35%	9%	3.7	7
United Kingdom	25	32	26	7	12%	-3%	-3%	4%	8.1	2
Poland	26	9	24	33	43%	4%	-1%	7%	6.8	8
Japan	27	13	31	23	59%	-2%	-5%	5%	8.2	6
Taiwan	28	5	34	30	23%	29%	-6%	9%	9.0	10
Saudi Arabia	29	31	1	38	-1%	1%	19%	6%	2.1	9
Italy	30	24	28	21	-8%	23%	-4%	4%	7.7	5
Hungary	31	12	36	29	40%	2%	-5%	22%	6.5	7
India	32	20	27	31	28%	-1%	-3%	4%	6.9	8
UAE	33	28	16	34	4%	-1%	9%	20%	2.9	7
Turkey	34	16	35	28	21%	6%	-6%	11%	4.4	6
Korea	35	15	39	27	16%	6%	-8%	9%	8.2	7
Hong Kong	36	18	38	36	-8%	186%	-8%	12%	5.6	10
Czech	37	36	32	25	2%	-3%	-4%	5%	7.7	6
China	38	38	23	37	-12%	-4%	-2%	5%	2.2	9
Vietnam	39	37	30	35	-15%	-2%	-3%	17%	2.9	8

** Calculation: Ex-post real rates (assuming 5yr trailing inflation) compounded for five yrs, plus reversion of Real FX to neutral (0) over five yrs (Illustrative, not a trade recc)*
*** When negative, means country has accumulated net portfolio debts to the rest of the world, shown as a % of country's GDP*
**** Dashes indicate mixed allegiances (Assumed East or East-Leaning Bloc: RUS, CHN, HKG, SAU, KZK, UAE, QAT, VNM, HUN, TUR, IND)*

ASSET-SPECIFIC SENSITIVITY TO INFLECTING LIQUIDITY & GEOPOLITICAL REGIMES:

- Now we go granular at the asset level. Make of these rankings what you will – they're by no means prescriptive. Reasonable people can disagree on which factors will matter more. But the table below is designed to apply some of the important concepts discussed above – as we see them – to a granular list of global stocks and bonds.

- As a reminder, we want:

1. ***Cashflows with nominal GDP gearing*** (read: inflation-hedge);
2. ***Attached to an asset that's unlikely to de-rate*** against those cashflows (read: cheap and unowned);
3. Not denominated in (or financed with) ***a currency that loses purchasing power*** either locally or vis-à-vis global currencies (read: negative real rates and/or high real exchange rate). And…
4. All else equal we favour ***jurisdictions with low geopolitical tail probabilities*** because the volatility of those assets is probably most understated, and therefore, the risk premium associated with that vol.

GLOBAL STOCKS: OVERALL VULNERABILITY TO SECULAR REGIME CHANGE:

	TOTAL MARKET RANK (1 = BEST)	OVERALL RANKINGS: GEOPOLITICAL REGIME CHG RANK (50%)*	OVERALL RANKINGS: LIQUIDITY / INFLATION REGIME CHG RANK (50%)	NOMINAL CASHFLOWS (ABILITY TO PROTECT vs. INFLATION): 5yr Corr. To World Nominal GDP Growth (USD Terms)	5yr Corr. To World Real GDP Growth (USD Terms)	Economic Sensitivity to Rising Rates Rank**	Equity Gearing (Debt / Assets)	20yr CAGR in Real Book Value (Local CPI)	Value Sectors (% Index)	LOW MULTIPLE RISK (LOW RISK OF DE-RATING vs. CASHFLOWS): Rate Hikes Already Done	"Cheap" Stock P/B Percentile (2000-Now)	"Cheap" Stock P/E Percentile (2005-Now)	"Unloved" (For. Own'ship, % of Index Market Cap)	"Frothy" 10yr Real Px Chg (LCY)	"Growthy" 1yr Corr. To Nasdaq (USD Terms)
Colombia Stocks	1	4	1	12%	9%	7	22%	6%	100%	3.25%	29	2	3%	-71%	-23%
Chile Stocks	2	7	2	3%	18%	13	30%	5%	91%	6.50%	8	1	12%	-55%	0%
S. Africa Stocks	3	2	8	16%	39%	6	15%	5%	69%	0.75%	27	9	28%	-31%	15%
Malaysia Stocks	4	5	14	11%	26%	8	15%	2%	70%	0.00%	19	49	13%	-40%	22%
Brazil Stocks	5	6	13	13%	21%	23	34%	2%	79%	9.75%	59	18	26%	-59%	13%
World Energy Stocks	6	---	10	21%	26%	---	27%	2%	100%	---	61	5	---	-29%	1%
Indonesia Stocks	7	8	12	18%	32%	4	18%	8%	78%	0.00%	39	100	12%	-25%	7%
Peru Stocks	8	15	6	3%	21%	2	24%	3%	100%	4.25%	36	20	30%	-46%	-4%
Mexico Stocks	9	12	15	13%	30%	1	33%	5%	70%	2.50%	34	27	40%	-42%	39%
Canada Stocks	10	1	30	18%	39%	36	18%	3%	72%	0.00%	72	21	24%	47%	53%
Russia Stocks	11	24	5	-17%	18%	9	24%	1%	95%	15.75%	19	0	25%	-73%	4%
Poland Stocks	12	29	3	4%	24%	5	12%	6%	79%	3.40%	26	5	24%	-7%	24%
Spain Stocks	13	10	27	19%	31%	18	30%	1%	55%	0.00%	26	58	49%	-13%	28%
Sweden Stocks	14	3	38	9%	33%	31	32%	6%	41%	0.00%	53	79	36%	40%	51%
Turkey Stocks	16	35	4	20%	13%	3	26%	6%	51%	0.00%	46	3	11%	-88%	20%
World Financials Stocks	15	---	22	14%	37%	---	18%	1%	100%	---	45	39	---	36%	44%
Thailand Stocks	17	22	19	4%	24%	16	25%	6%	57%	0.00%	31	90	17%	14%	25%
Hungary Stocks	18	33	7	-12%	3%	17	12%	8%	80%	3.80%	20	2	57%	26%	13%
Singapore Stocks	19	25	17	11%	29%	28	14%	3%	46%	0.17%	25	27	58%	-8%	30%
Philippines Stocks	20	21	23	4%	23%	10	32%	1%	32%	0.00%	1	70	18%	-35%	20%
World Materials Stocks	21	---	24	17%	42%	---	25%	2%	100%	---	85	22	---	9%	33%
Greece Stocks	22	11	37	20%	36%	25	39%	-1%	18%	0.00%	39	63	35%	28%	28%
Australia Stocks	23	13	35	20%	42%	27	24%	2%	68%	0.00%	84	71	32%	43%	49%
Hong Kong Stocks	24	37	9	-9%	15%	11	14%	3%	48%	0.25%	0	8	---	-22%	22%
UK Stocks	25	28	20	23%	40%	20	15%	1%	64%	0.15%	49	26	59%	-13%	38%
S&P "Value" Stocks	26	16	34	19%	37%	34	23%	1%	100%	0.25%	100	90	---	97%	61%
Czech Stocks	27	38	11	10%	27%	12	14%	-1%	100%	4.75%	48	9	25%	-6%	26%
Denmark Stocks	28	9	47	10%	26%	32	37%	4%	13%	0.00%	90	76	53%	183%	55%
Switzerland Stocks	29	14	42	12%	27%	26	21%	2%	44%	0.00%	87	89	69%	87%	51%
World "Value" Stocks	30	---	29	17%	38%	---	22%	1%	100%	---	75	54	---	26%	59%
US IPO Index	31	16	40	-6%	30%	34	27%	8%	27%	0.25%	77	78	---	192%	82%
India Stocks	32	34	21	1%	20%	14	17%	5%	62%	0.00%	79	90	5%	30%	39%
China Stocks (A-Shares)	33	39	16	-5%	21%	35	22%	5%	49%	0.00%	11	20	27%	6%	5%
USA Stocks	34	16	43	10%	37%	34	24%	3%	27%	0.25%	92	89	27%	157%	93%
H-Shares	35	39	18	-16%	6%	35	15%	3%	39%	0.00%	0	31	---	-48%	19%
Germany Stocks	36	26	33	8%	38%	22	20%	4%	27%	0.00%	60	45	55%	46%	47%
Nasdaq 100	37	16	45	-5%	28%	34	30%	7%	0%	0.25%	92	78	35%	316%	100%
S&P "Growth" Stocks	38	16	46	1%	33%	34	27%	5%	0%	0.25%	91	88	---	215%	99%
Taiwan Stocks	39	31	31	-4%	27%	21	16%	4%	26%	0.00%	90	19	29%	107%	42%
Korea Stocks	40	36	26	2%	26%	29	25%	4%	23%	0.75%	49	61	30%	10%	42%
Italy Stocks	41	32	32	6%	28%	15	27%	1%	62%	0.00%	54	12	46%	26%	43%
China Golden Dragon Index	42	39	25	-17%	17%	35	17%	4%	90%	0.00%	10	55	---	7%	53%
France Stocks	43	27	39	12%	38%	33	24%	3%	35%	0.00%	59	33	39%	52%	48%
Netherlands Stocks	44	23	44	6%	38%	30	19%	2%	33%	0.00%	73	48	---	54%	62%
Japan Stocks	45	30	36	-8%	31%	24	24%	5%	23%	0.00%	63	24	33%	75%	52%
CSI 300	46	39	28	-11%	23%	35	27%	6%	15%	0.00%	43	30	---	26%	7%
World Semi Stocks	47	---	41	-16%	22%	---	19%	5%	0%	---	92	59	---	251%	83%
World "Growth" Stocks	48	---	48	-1%	35%	---	22%	3%	0%	---	91	89	---	107%	95%

** Taken from "Total Country Rank" column in the "Vulnerability to Geopolitical Regime Change" table on prior page. NB: Ranking done at country level, so appears more than once in this table (e.g. Nasdaq and S&P500 both get US country-level rank)*
*** Economic Sensitivity to Rising Rates Rank: Defined with detailed subcomponent concepts and shown in recent report "INFLATION PANDEMIC" (except reversed for consistency so 1= Best). NB: Different equity indices in same country have same (country-level) ranking.*

GLOBAL SOVEREIGN LCY BONDS: OVERALL VULNERABILITY TO SECULAR REGIME CHANGE

		OVERALL RANKINGS				LIQUIDITY REGIME: BOND RISK RANK (LOCAL TERMS)									LIQUIDITY REGIME: FX RANK		
				= BOND + FX RANK													
	TOTAL MARKET RANK (1 = BEST)	GEOPOLITICAL REGIME CHG RANK (50%)*	LIQUIDITY REGIME CHG RANK (50%)	BOND RANK (50%)	FX RANK (50%)	5yr Corr. of Returns To World Nom GDP Growth	1yr Corr. of Yields to US 10yr Yields	"Risky Flows": 1yr Corr. of Returns To Nasdaq (LCY Terms)	Economic Sensitivity to Rising Rates Rank**	Govt Debt to GDP	Percentile of Real 10yr Yields	Rate Hikes Already Done	Nom 10yr Yield	Nom 10yr Yield (6m Chg)	FX REER vs TWI	Safety of FX Rank***	CMD Trade Bal (%GDP)
S. Africa	1	2	3	5	6	1%	7%	7%	6	67%	92	0.75%	10.2%	0.5%	-7%	5	13%
Colombia	2	4	2	4	3	7%	41%	22%	7	60%	82	3.25%	9.8%	1.6%	-14%	2	3%
Brazil	3	6	4	11	1	-9%	10%	33%	23	91%	68	9.75%	12.2%	0.6%	-18%	7	9%
Malaysia	4	5	7	15	1	-31%	45%	11%	8	60%	99	0.00%	4.2%	0.5%	-18%	4	2%
Chile	5	7	5	7	7	-30%	36%	1%	13	53%	69	6.50%	6.7%	0.2%	-15%	25	19%
Indonesia	6	8	9	8	10	-2%	-3%	40%	4	43%	95	0.00%	6.9%	0.9%	-13%	20	5%
Canada	7	1	16	22	13	-37%	92%	0%	36	100%	46	0.75%	2.9%	1.2%	3%	10	8%
Sweden	8	3	15	24	8	-38%	86%	0%	31	35%	26	0.00%	1.6%	1.2%	-13%	10	2%
Russia	9	20	1	1	4	1%	-20%	5%	9	16%	96	15.75%	9.9%	2.3%	-22%	19	16%
Peru	10	15	8	3	14	-25%	-1%	19%	2	36%	95	4.25%	7.6%	1.7%	-11%	26	15%
Greece	11	11	12	19	9	-11%	61%	10%	25	190%	26	0.00%	3.0%	1.9%	-13%	1	-4%
Mexico	12	12	14	6	25	-30%	53%	33%	1	50%	82	2.50%	8.8%	1.3%	-4%	22	-2%
Philippines	13	17	11	10	11	-19%	29%	4%	10	62%	57	0.00%	6.1%	1.1%	-32%	8	-7%
Poland	14	26	5	9	5	-61%	54%	14%	5	43%	47	3.40%	6.1%	3.6%	-19%	9	-1%
Australia	15	13	19	17	24	-26%	60%	10%	27	53%	42	0.00%	3.1%	1.3%	17%	30	15%
Spain	16	10	23	29	16	-33%	73%	10%	18	112%	5	0.00%	1.9%	1.4%	-11%	14	-1%
Denmark	17	9	26	28	23	-34%	78%	6%	32	38%	26	0.00%	1.2%	1.0%	1%	23	0%
Singapore	18	21	18	20	19	-36%	65%	-1%	28	145%	51	0.17%	2.6%	0.8%	-7%	3	-4%
Turkey	19	34	10	2	18	11%	10%	-12%	3	36%	13	---	22.1%	2.7%	-22%	16	-6%
Switzerland	20	14	27	23	29	-25%	65%	15%	26	27%	34	0.00%	0.9%	0.9%	-9%	35	-3%
Hungary	21	31	13	12	17	-40%	37%	32%	17	73%	85	6.66%	6.6%	2.8%	-18%	12	-5%
Taiwan	22	28	19	27	14	-64%	67%	5%	21	33%	23	0.00%	1.3%	0.8%	-17%	5	-6%
Japan	23	27	21	31	11	-13%	65%	1%	24	230%	26	0.00%	0.2%	0.2%	-38%	13	-5%
Thailand	24	18	30	26	28	-39%	64%	18%	16	53%	50	0.00%	2.8%	0.7%	12%	27	2%
Korea	25	35	17	16	22	-34%	53%	23%	29	45%	60	0.75%	3.3%	0.9%	-14%	15	-8%
USA	26	16	34	30	33	-48%	100%	0%	34	126%	10	0.25%	2.9%	1.2%	27%	39	0%
India	27	32	22	18	26	-31%	31%	23%	14	77%	68	0.00%	7.1%	0.8%	-6%	20	-3%
Netherlands	28	19	33	33	27	-36%	79%	11%	30	50%	2	0.00%	1.2%	1.1%	-1%	33	1%
UK	29	25	28	32	21	-36%	77%	25%	20	99%	21	0.15%	2.0%	0.8%	-17%	32	-3%
Germany	30	22	31	35	20	-40%	76%	12%	22	68%	6	0.00%	0.9%	1.0%	-9%	17	-3%
Hong Kong	31	36	23	14	31	-49%	66%	11%	11	11%	60	0.25%	2.8%	1.2%	12%	18	-8%
France	32	23	35	34	30	-37%	75%	10%	33	113%	16	0.00%	1.4%	1.1%	-8%	34	-3%
Czech	33	37	25	13	35	-35%	43%	25%	12	41%	24	4.75%	4.3%	1.7%	7%	36	-4%
Italy	34	30	32	25	34	-22%	70%	12%	15	151%	20	0.00%	2.6%	1.7%	20%	24	-4%
China	35	38	28	21	32	-20%	6%	5%	35	66%	37	0.00%	2.8%	-0.1%	13%	38	-2%

** Taken from "Total Country Rank" column in the "Vulnerability to Geopolitical Regime Change" table on prior page. NB: Ranking done at country level, so appears more than once in this table (for all assets in same country)*
*** Economic Sensitivity to Rising Rates Rank: Defined with detailed subcomponent concepts in recent report "INFLATION PANDEMIC" (except reversed for consistency so 1= Best).*
**** Taken from "Safety of Currency" column which factors into the "Total Currency Rank" in the "Vulnerability to Geopolitical Regime Change" table on prior page.*

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