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Executive Summary

Our baseline global macroeconomic outlook is built on a configuration not seen in decades. Healthy private sector balance sheets and pent-up pandemic demand are generating robust spending and income growth which is propelling global GDP growth to above-trend levels. The mix of above-potential growth and lingering supply constraints is pushing inflation higher.

More recently, we are most of all struck by the profound scale of human tragedy brought about by Russia's invasion of Ukraine. The range of scenarios is vast and at one extreme, potentially terrifying. While this situation remains highly fluid, our initial assessment is that it accelerates many of our core macro trends.

This backdrop points towards greater volatility in fundamental economic variables such as growth, inflation and interest rates over the next decade. We are likely to see more boom/bust cycles reminiscent of the 80s, 90s and noughties. This will make the jobs of fiscal policymakers, central bankers and investors more difficult and dynamic. In this environment, a highly disciplined investment approach embracing true multi-asset class diversification with a greater emphasis on less correlated assets will be essential. This will be most effective when combined with an active investment approach expressed through deep partnerships with talented managers.

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As we finalise our annual investment outlook *'Partners Capital Insights 2022'* we once again find ourselves in the situation of re-underwriting longer-term fundamental views developed over the last several months of research against very recent and highly fluid macro developments. Almost exactly two years ago, in late February 2020, as the natural disaster known as Covid-19 spread across the globe, we forced ourselves to study everything known at the time about epidemiology and substantially re-wrote our outlook. Today, as the manmade disaster in Ukraine unfolds, we are most of all struck by the profound scale of human tragedy brought about by these events. In this publication, we piece together the impact of this tragedy along with other important macro-economic developments to set out what we see as the most important investment implications for our client portfolios.

Before Russia attacked Ukraine on the 24th of February, our focus was very much on the intensifying volatility around classic macroeconomic drivers of growth, inflation, interest rates which lead to earnings variability. **The events around the Ukraine crisis are only likely to accelerate many of the major tenets of our macro-outlook:**

First, the inflation theme we introduced in July 2020 has gone beyond our initial expectations with many assets now discounting persistently high inflation levels. As we set out in our outlook below, our base case is not necessarily for persistently high inflation, but rather a volatile landscape of fluctuating longer-term inflation and interest rates. After 40 years of falling inflation and interest rates, safety-net and risk asset valuations are now facing the shorter-term headwinds of rising inflation and interest rates. This has us acutely focused on our portfolios' aggregate exposure to inflation and interest rate related risk drivers. This involves balancing exposures between technological winners of the futures with quality assets that have current cash flows and pricing power today.

Second, the energy sector remains a key focus area as the transition to renewables accelerates, not only to protect the environment but also to increase energy security by reducing dependencies on those oil-producing countries subject to geopolitical risk. One wrinkle in the energy outlook is that there may now be greater short-term political pressure to boost domestic energy production from any available source, including shale oil in the US, and nuclear energy in all regions.

Third, the rising cost of capital will accelerate the dispersion we have seen across sectors and geographic markets, with a widening chasm in prospective returns between quality and speculative assets.

The biggest risks we face today are not derived from direct exposures to crisis-hit assets. Our client portfolios have de-minimis holdings of Russian assets, of the order of less than 0.2%. This low allocation is a direct result of our tactical allocation decision to skew our emerging market exposure to Asia over the past eight years. In addition, Factset estimates the indirect revenue exposure of S&P500 companies to Russia and Ukraine at only about 1%.

However, there are potential severe knock-on effects from the Russia/Ukraine crisis that must be considered carefully. One of which is the knock-on effect on China's own revisionist territorial aspirations as they involve the South China Sea, the Himalayan border with India and, of course, Taiwan. Will China be emboldened by Russia's example and try to take Taiwan by force? On balance, the geopolitical experts we consult do not see China turning its back on the West or vice versa. The evidence suggests that China's leadership does not want a return to the Cold War, but rather a prominent seat at the table on the global stage, with a voice in shaping world order in the future. China has a 30-year relationship with Ukraine which is part of their Belt and Road initiative. To this day, China has not recognised the 2014 Russian annexation of Crimea. Recent official communications out of China suggest a distancing from the initial "without limit" support for Putin signalled at the Beijing Olympics. Critically, most experts believe it would be overly simplistic to assume that China would interpret Russia's actions towards Ukraine as a door opener for Chinese military action towards Taiwan. Aside from the fact that China has deeper economic and political ties with the West, including Europe which is now more than ever aligned with the US and NATO, there are practical impediments. First, the defense obligation of the US to Taiwan is much stronger than towards Ukraine - through the 1979 Taiwan Relations Act. Second, the Chinese military is not believed to be capable of a full-scale amphibious attack without incurring large-scale casualties on both sides, as well as damaging Taiwan's critical

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economic resources, including semiconductor production. Third, and perhaps most importantly, the Chinese authorities would view taking Taiwan by force as a policy failure. Their more likely goal is to assimilate Taiwan over time, ideally through less-coercive means, and have already implemented economic incentives to do so.

The other key risk we consider on the back of the Ukraine war is whether the crisis could precipitate an energy crisis which, in turn, could lead to a full-blown global recession. For 2022, some experts suggest the conflict may only shave off c. -0.2% from current global GDP forecasts. However, second-order effects by way of higher energy prices, negative business and consumer confidence could result in sharply lower GDP growth due to "reflexivity" effects. The impact of such a deeper downside scenario on global growth could be as large as a -0.6% hit in 2022 and a -1.1% hit in 2023 from current baseline levels.

Despite the panic in oil prices up to the current $120/bbl, we do not believe that this war will create an energy crisis as in the 1990 Gulf war, which contributed to a global recession. While Russia produces 12% of global crude, it only exports 5.5% of global consumption with Europe being the largest purchaser, accounting for c 2% of global oil demand. We believe this gap can be filled in a matter of months by OPEC and from the Strategic Petroleum Reserve. Longer term, any remaining gap can be offset by a re-assessment of nuclear sources in Europe as well as additional supply from both OPEC and even Iran if the JCPOA is reactivated.

All this points to a highly uncertain macroeconomic backdrop to invest against. Over the last two decades of managing client portfolios, we have witnessed several crises, not least the global pandemic. While no two crises are the same, there are some valuable lessons we have learned that we rely on during periods like these.

- **Rigorous process discipline:** There are always cycles of valuation excesses, debt bubbles, fiscal uncertainties, geopolitical and natural disaster risks. However, ascertaining precisely how markets are discounting these risks into prices at a certain point in time is difficult. Our foremost guiding principle therefore remains one of rigorous process discipline. This means not timing the risk level to overall markets and actively rebalancing into dislocated opportunities with a margin of safety. The COVID-19 experience illustrated this point perfectly. With developed market equities declining -32% from February to March 2020, before recovering by +62% into year end, our process of strictly rebalancing portfolio risk to target levels allowed client portfolios to benefit from this recovery.
- **True multi-asset class diversification to cater to a wide variety of scenarios.** As set out in our 'Macro Scenarios' chapter, we take a "probabilistic" approach with the aim of maximising expected returns across a range of scenarios. True multi-asset class diversification, where different types of asset classes perform well in different economic conditions is critical to achieving balance. Of enduring importance in the current environment will be a continued emphasis on technology disruption, increasing the allocation to less correlated asset classes, and boosting the portfolio's robustness to unexpected inflation volatility. These are discussed in more detail in our "Investment Themes" and "Tactical Asset Allocation" sections.
- **Highly selective approach to owning assets, through best-in-class asset manager partnerships.** As we enter an environment characterised by higher cost of capital and a tougher funding environment, the market will become highly discerning on which assets to reward. Partnering with truly exceptional asset managers who are nimble and relentlessly focused on generating outperformance through picking the best opportunities will be more important than ever. Our approach to how we implement this by asset class is described in more detail in our "Asset Class Investment Strategies" section.

As we increase our understanding of this crisis, we will aim to remain one step ahead of the broader consensus and keep you updated on how our thinking on both the overall landscape and investment opportunities evolves.

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Key Macroeconomic Questions for 2022

1. How is the global macro outlook evolving in the context of rising inflation and geopolitical risks?

The global macroeconomic outlook is built on a configuration not seen in decades. Healthy private sector balance sheets and pent-up pandemic demand are generating robust spending and income growth which is propelling global GDP growth to above-trend levels. At the same time, aggregate supply is already tight in both labour and commodities markets. The mix of above-potential growth and lingering supply constraints is pushing inflation higher even after discounting near-term pressures from manufacturing bottlenecks and the energy sector. In response, central banks have pivoted towards faster monetary policy normalisation and fiscal authorities are dialling back pandemic-era spending promises such as 'Build Back Better'. While a path toward monetary policy normalisation taking real interest rates closer to zero is the minimum necessary to contain building price pressures, recent developments suggest this anticipated normalisation may not come soon enough or be large enough. This implies that if supply constraints are not eased over the next 12-18 months, central banks may have to embark on a second and more restrictive round of policy tightening which would take real interest rates above zero and potentially lay the groundwork for the next economic slowdown.

More recently, Russia's invasion of Ukraine casts a whole new light on our macro outlook. The range of scenarios is vast and, at one extreme, potentially terrifying. Assuming Putin stops somewhere between Dombas and all of Ukraine, the impact on global economic growth is estimated to be between c. -0.2% to -0.6%. Due to Europe's proximity to Russia and its associated energy supply dependence, the impact will be felt more in Europe than in other regions. The invasion will also generate powerful and lasting geopolitical reverberations, with energy security likely to become a greater policy priority across the globe. Despite the panic in oil prices up to the current $120/bbl, we do not believe that this war will create an energy crisis as in the 1990 Gulf war, which contributed to a global recession. While Russia produces 12% of global crude, it only exports 5.5% of global consumption with Europe being the largest purchaser from Russia. We believe this gap can be filled in a matter of months by OPEC, from the strategic reserve, and potentially from Iran if the JCPOA is reactivated. Longer term, any remaining gap can be offset by a re-assessment of nuclear sources in Europe.

The investment implications of the above macro outlook point towards greater volatility in fundamental economic variables such as growth, inflation and interest rates over the next decade compared to the relative moderation experienced in previous (post-GFC) decade. We are likely to see more boom/bust cycles reminiscent of the 80s, 90s and noughties. This will make the jobs of fiscal policymakers, central bankers and investors more difficult and dynamic. It points toward the need for greater portfolio diversification, use of uncorrelated assets and active management, not only as a defense against volatility but also as a means to play offense to capture ongoing dislocation opportunities.

2. How will the European economy navigate through rising policy and geopolitical risks?

Rapid post-pandemic economic growth rates will gradually decline across Europe. In the absence of a protracted and expanding conflict stemming from the Russian invasion of Ukraine spreading to broader Europe, growth is expected to remain above trend in the Eurozone for the next three years (averaging c. 2.7%) as fiscal and monetary conditions will tighten more slowly than in both the US and UK. UK growth is forecast to drop below trend in 2024 due to faster monetary policy normalisation and continued labour shortages, averaging 2.2% over the next 3 years. Across Europe, energy supply disruptions pose a risk to growth and inflation. As noted above, Europe will feel a larger impact from the Ukraine crisis, both in terms of economic growth and market volatility. In the downside case, this could raise the prospect of reflexivity effects where economic growth is further stymied by persistent underperformance of financial assets. In a more severe geopolitical scenario, experts see European growth declining to 2.2% in 2022 and to 0.9% in 2023.

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3. China: Business as usual or a game-changer?

The ongoing regulatory changes in China do not fundamentally alter the long-term attractiveness of investment in the country. These regulatory changes are generally consistent with the government's stated aims of rebalancing the economy away from reliance on exports and investment, towards "higher quality" growth supported by domestic consumption and productivity.

China will remain one of the largest contributors to global GDP growth. The future medium-term growth rate is likely to average c. 5% p.a., down from the recent average of 7%. This is still materially higher than forecasts of roughly 2% for developed markets. In addition, China's GDP per capita at c. $10k is less than a fifth of that of the US at $63K, leaving a long runway for growth. Future gains will come from improvement in domestic consumption and services, rather than investment spending.

However, international relations will remain fractious. China is sensitive to the perceived efforts of the US to interfere in its internal affairs aimed at changing the country's political system. Washington is primarily motivated by preserving domestic security and retaining its status as the country most responsible for maintaining world order. The West will continue to spar with China over important matters such as Taiwan's sovereignty, alleged human rights abuses and the developing alliance between China and Russia.

The investment implications of the above mix of high per capita growth amidst a backdrop of stricter but still pragmatic regulation and ongoing geopolitical uncertainty is to focus on actively managed domestic opportunities within China. The investment opportunities are abundant. For example, the China A-share index is comprised of over 4,000 listed companies, captures 15% of global IPO deals annually and yet accounts for only 0.6% allocation in the MSCI All Country Index. Foreign ownership accounts for just 4.5% of the market. China's economy is equivalent in scale to that of the US or EU and provides investment opportunities distinct from those in the west. This provides helpful portfolio construction benefits. Over the last 5-years, the China A-share index has had a correlation of just 0.4 to the S&P 500.

4. SARS-COV-2: On the long road to endemicity?

After two long years of the SARS-COV-2 virus on the planet, we find ourselves surprised by how uncertain we remain on what the most likely path will be from here. Epidemiologists think we are on the path to endemicity, but also warn that the slow pace of vaccinations in large-populous, low-income developing countries can be fertile breeding grounds for more virulent variants than Delta or Omicron, which can then find their way back into our lives. But with each new wave of the virus, the economic cost has fallen. We seem to be living with COVID today with more manageable disease severity at a relatively low economic cost other than high inflation. Hence, even if this virus persists, the baseline assumption is that it is unlikely to impact economic growth over the coming years.

5. What is the best framework for investing in the global energy transition?

The likely path of the energy transition is one of the largest and most complicated of economic and industrial transformations history will encounter. We think of this very much as the third industrial revolution following the late 1800's industrial revolution and the digital revolution which started in the 1980's. The complexities involve environmental science, technological developments, government regulation, policy and R&D influences, changes in consumer behaviour, and changing the corporate world's purpose to include both commercial performance and environmental impact. Very few investors can see far enough down this path to invest prudently behind it. While climate impact may be the largest investment opportunity of the decade, this is dangerous territory. In this Insights edition, we provide a preview of our separate large research effort called "The Energy Transition Pathway" which seeks to put a stake in the ground at this moment in time, laying out the most likely path of the energy transition in terms of capital investment, government policy and technological development.

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In its 2021 research, the IEA has projected that, to achieve net zero emissions by 2050, we must plan for the reduction of 28B tons of excess emissions each year, on average, given the pace of energy consumption growth between now and then. The IEA believe that this goal can be achieved by 2050 with the primary driver being the growth of wind and solar power to the point of providing over 70% of the energy needs by 2050, vs approximately 4% today. Power generation accounts for just 31% of current emissions, with industry, agriculture, transport and buildings accounting for the remainder. Wind and solar are currently primarily substituting natural gas and coal used in power generation but are not materially feeding into decarbonising the other 70%. Wind and solar power can only grow to c 25% of all energy needs when transport turns to electric vehicles, buildings are retrofitted for electricity (vs gas and oil heating) and industry changes equipment and processes to electricity away from coal, oil and gas. And even once these non-power sectors are "electrified", we then have to deal with intermittency of wind and solar to use more of what they produce. At present, we only use 24% of what solar produces and 34% of the electricity produced from wind. Going above these levels, requires either storage batteries or conversion to hydrogen to achieve the 70+% sourcing of wind and solar for all types of power consumption. Battery storage is a mature industry, relying mostly on lithium-ion technology, but storage battery capacity needs to increase from its current 13GWs to approximately 2000 GW by 2040 according to McKinsey and the LDES Council. Electrolysing water from wind and solar generated electricity into green hydrogen is a proven, but high-cost process today with no real penetration into the energy sector as of yet.

Another technology expected to do a lot of heavy lifting in the carbon reduction plan from the IEA is carbon capture from industrial processes or from the air. There are several large high profile Carbon Capture Systems (CCS) in operation today in the rust belts of various countries including the Abu Dhabi steel industry and several coal-fired power plants in the US. But CCS has a very long ways to go before it accounts for 10% of all carbon emission reduction forecast by The Economist and the IEA in Exhibit 1.

Exhibit 1

Renewable energy is expected to do the initial heavy lifting in terms of carbon reduction supporting the abatement of c. 50% of global CO2 emissions

Expected % of current emissions reduced via	% by 2050
Renewable energy	50%
Carbon Capture	15%
Capture offsets (natural sinks)	15%
Hydrogen	10%
Batteries/Other	10%

***Source**: The Economist, using estimates from the IEA*

Perhaps the most striking observation from our research is how nascent many of the technologies are that are required to achieve Net Zero Emissions (NZE) by 2050 including carbon capture, hydrogen, storage batteries and small modular nuclear reactors.

The most attractive investment opportunities in support of our sustainability investment theme are those which sit in pivotal positions on the path to net zero emissions. These will include private and public company investments as well as credit and real estate investments. We expect that the highest returns will be earned where our managers, through their deep fundamental research and energy sector insights, are finding the companies who are advancing essential proven technologies that unlock the scale deployment of green energy, along with specialist product and service suppliers to the industries growing fastest on the back of the drive to net zero emissions. In particular, we are acutely focused on particular developments in hydrogen, carbon capture, grid-scale batteries and small nuclear power reactors.

6. Is it time for institutional investors to revisit crypto technologies?

We still do not believe that directional bets on cryptocurrencies are a sensible use of capital in institutional portfolios given the volatility and associated risks. However, the blockchain technology underpinning this wave of evolution does present some compelling investment opportunities. More specifically, we continue to explore venture capital investments in the equity and tokens of early-stage companies and projects –

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including both the protocol layer and, increasingly, decentralised applications (dApps). We also see compelling return prospects from market neutral and arbitrage strategies focused on exploiting the inefficiencies of retail-driven, highly speculative, and inefficient cryptocurrency markets.

Early speculators have made, and lost, large amounts of money in digital assets and in web3 businesses. While this space can still disappoint, it does have the potential to become a new asset class over the next decade and we believe that now is a good time to explore select opportunities. However, we strongly believe that most investors should rely on carefully selected, highly specialised managers focused on this space rather than trying to build capabilities themselves. While specialisation is important in many sectors relying on technical expertise (e.g., biotech, climate change), the need for deep specialisation is especially pertinent in crypto, magnified by the speculative nature of crypto markets, by the technical and operational complexities facing crypto investors and by significant externalities, including regulation.

Macroeconomic Scenarios

The macroeconomic views below help us arrive at what we consider to be the most likely "base case" over the next two to three years, with a focus on where we expect to be at the end of 2022. We also outline a plausible set of outcomes on either side of the base case which we refer to as the downside and the upside cases. This year, we felt it important to describe two downside scenarios defined by inflation with and without a recession.

Building a portfolio just for the base case is rarely optimal. Rather, the optimal portfolio will both weather the downside and benefit from the upside, but in doing so may give up some return in the base case. The tactical asset allocation and asset class strategies all seek to reflect the optimal allocation given the weighted probability of various scenarios. To that end, we lay out our four scenarios below and in Exhibit 2.

Base Case: "Gradual Normalisation" (60% probability)

Inflation gradually starts to moderate over the next 18-months as global supply issues are steadily resolved. Energy prices stabilise as a ceasefire agreement is reached between Russia and Ukraine and additional supply comes online from both the Middle East and US shale. Automotive supply chains open up as semiconductor supplies become more readily available. Labour participation steadily improves as household savings normalise from recent extraordinary highs, requiring only a moderately above-average level of wage growth to entice people back into the workforce. A subsiding of COVID-19 fears due to high levels of vaccination and herd immunity adds to the willingness of people to seek work, particularly as schools remain open which reduces the care responsibilities of parents. Outbreaks of COVID-19 continue to occur, but do not translate into a high rate of hospitalisation or lockdown and have limited bearing on social mobility. China manages a transition away from strict COVID restrictions in a way that does not threaten global supply chains.

DM fiscal spending plans are dialled back as political gridlock stymies the grand ambition of the US "building back better" fiscal spending plan. Central banks are able to gradually increase interest rates and reduce the size of their balance sheet at a rate that is commensurate with full employment and moderate inflation. The US-China geopolitical relationship continues to be one of simmering mutual distrust, but there is no further escalation by either side, and there is a marginal improvement in diplomatic engagement regarding trade.

Economic Growth: Global GDP is predicted to grow at +4.4% in 2022 and +3.8% in 2023, a moderation following growth of +5.9% in 2021. Developed markets grow at a +3.8% rate in 2022 (vs. +5.0% in 2021) and Emerging economies grow at a +4.8% rate in 2022 (vs. +6.5% in 2021).

DM Inflation: Developed market inflation is expected to be 3.9% in 2022 before reverting to just above 2.0% in 2023. It will carry on at 2.0% to 2.5% in the US and 1.5-2% in Europe through to 2025 which is largely in line with the consensus estimate.

Exhibit 2

Summary of Partners Capital macroeconomic scenarios

Scenario	Downside 1 'Recovery Falters'	Downside 2 'Stagflation'	Baseline 'Gradual Normalisation'	Upside 'Reflation 2.0'
Probability	10%	10%	60%	20%
Key characteristics	• To combat rising inflation expectations the Federal Reserve and other DM central banks increase monetary tightening by more than the market expects. Private investment spending contracts, and growth slows. • Efficacy of COVID-19 vaccines wanes over time, including booster shots. Lack of adequate vaccination in developing countries leads to occasional new variants, leading to periodic spikes in the infection rate. These waves are larger than anticipated, putting strain on healthcare systems and leading to localised lockdowns. • Governments are slow to launch new support initiatives as they remain saddled with high debt and deficits. • Corporate defaults increase, leading to higher unemployment. Private consumption falls as people save more in response to bleaker economic outlook.	• High demand for goods and labour lead to shortages, putting persistent upward pressure on prices. Legislation aimed at protecting worker purchasing power leads to a 'wage/price' spiral. • 'The Great Onshoring' adds to inflationary pressures as globalisation trends of the last four decades go into reverse. This is in response to both populist politics and corporate risk management after supply chain vulnerabilities were so exposed by the pandemic. • Geopolitical tensions result in Russia being sanctioned, and in response Russia cuts energy supplies to Europe at a time when energy inventories are low. Dramatic rise in energy prices constrains growth but feeds into higher inflation.	• Inflation gradually starts to moderate as global supply issues are steadily resolved. • Automotive supply chains open up as semiconductor supplies become more readily available. Energy prices stabilise with Russia/ Ukraine tensions easing and increased supplies coming online from both the Middle East and US shale. • DM fiscal spending plans are dialled back from original plans. • High levels of vaccination and herd immunity reduce the spread of Covid-19. Occasional outbreaks occur, but do not translate into a high rates of hospitalisation or lockdown. • Central banks are able to gradually increase interest rates and reduce the size of their balance sheet at a rate that is commensurate with full employment and moderate inflation. • The Biden administration begins to ease tariffs on China in order to ease the price burden on US consumers.	• Inflation pressures remain high for an extended period as energy supplies and other supply chains struggle to cope with demand. • DM fiscal spending remains popular in election year. • Central banks slow the pace of monetary tightening in a belief that inflationary pressures are mainly supply driven and see limited benefit in crushing demand via the interest rate channel. • The US and China re-engage in a more constructive trading relationship. • Corporate capital expenditure rises and labour markets fully recover, helping sustain global growth.
Outcome	• Weak growth, low inflation, rising unemployment, inverted yield curve with higher short rates and low bond yields, decline in equity prices.	• Low growth, high inflation, low unemployment, but rising borrowing costs trigger sharp asset price declines. Zombie companies begin to default.	• Above average growth. Period of higher inflation proves transitory and normalises over the course of the year. Asset prices accurately discount this scenario, resulting in modest returns.	• High growth and above average inflation. Nominal growth higher than borrowing costs helps companies and governments to delever, reducing systemic risks. Equities perform very well.
Global GDP Real Growth (PPP)	**2022: +2.5%**	**2022: +2.5%**	**2022: +4.4% (vs. 2021 at +5.9%)**	**2022: +5.5%**
DM Inflation (in 2022)	**2.5%**	**5.5%**	**3.9%**	**4.5%**
Expected 10Y US Treasury Yield (31 Dec 2022)	**1.0%**	**3.5%**	**2.5%**	**3.0%**
MSCI World Expected Return – CY 2022	**-25%**	**-20%**	**+3%**	**+10%**
MSCI World Expected Return – 12m to 31 Jan 2023	**-19%**	**-16%**	**+8%**	**15%**

Source: *Partners Capital*

Hypothetical return expectations are based on simulations with forward looking assumptions, which have inherent limitations. Such forecasts are not reliable indicator of future performance.

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DM Interest Rates: In response to elevated levels of inflation, the central banks of the US and UK will steadily increase interest rates throughout 2022, reaching a base rate of 1.5% in USD and 1.7% in GBP. The European central bank proceeds more cautiously, with a policy rate of -0.2% by the end of the year. Longer maturity bond yields rise modestly faster than priced into the market, biased upward by the high level of net issuance of bonds in 2022 (net of maturing debt & central bank purchases/ sales). In our base case, the US 10-year Treasury yield approaches 2.5% by early 2023 and remains close to that level thereafter. The incremental gain in the 10-year UK Gilt yield will be similar to that of Treasuries, taking the yield to just above 2.0% by early next year. Bunds will also come under pressure as Germany begins to invest more heavily in domestic energy production. German 10yr yields rise to 0.5% and approach 1.0% by 2024. .

DM Equities: In the base case scenario the MSCI World is expected to return c. +8% over the 12m to January 2023. This implies a close to 3% return in 2022 as equity markets slowly recover their recent losses. This return assumption is based on a slight compression in the trailing earnings multiple to 19.8x from the 20.5x as of 31 January 2022. This multiple is applied to earnings growth of +10% in 2022 (I/B/E/S consensus). A dividend yield in line with the historic average of 2.5% is also expected. At a sector level, we anticipate a high degree of dispersion within equities in 2022 due to the rising cost of capital and general macro-volatility. Certain growth sectors with high valuations and low-to-no earnings are likely to underperform, as has been the case recently.

Downside Scenarios

In a break from our normal symmetrical scenario modelling, this year we include two plausible downside scenarios. Specifically, a "Stagflation" scenario, where high inflation causes such a decline in aggregate demand that growth falls amidst high inflation, or a scenario in which central banks aggressively tighten monetary policy to bring inflation under control, thereby severely slowing economic growth ("the Recovery Falters"). The two scenarios are not mutually exclusive and may both occur at sequential points in time. However, the impact on asset performance is sufficiently different that we review both individually.

"Stagflation" (10% probability)

The conflict in Ukraine drags on, and associated political tensions result in a persistent cut in energy supplies from Russia to Europe at a time when energy inventories are low. Alternative supplies fail to materialise as a new Iran deal fails to make headway and environmental concerns limit the increase in production of US shale. The dramatic rise in energy prices constrains growth but feeds into higher inflation.

High demand for goods and labour in western economies leads to shortages, putting persistent upward pressure on prices. Legislation aimed at protecting worker purchasing power further feeds inflation. 'The Great Onshoring' also adds to inflationary pressures as globalisation trends of the last four decades go into reverse. This is in response to both populist politics and corporate risk management after supply chain vulnerabilities were so exposed by the pandemic.

Economic Growth: Global real economic growth declines from +4.5% to +2.5%, but nominal growth remains strong due to high inflation (see below).

DM Inflation: Inflation persists for longer than expected, rising to +5.5% in developed markets in 2022 and remaining above 4% in 2023. The source of the inflation is essentially an energy supply shock, which monetary policy has little ability to address. Central banks initially err on the side of sustaining high nominal growth (but weak real growth) rather than risk causing high unemployment. Policy rates increase in line with market expectations but not faster, despite the high inflation.

DM Interest Rates: Longer maturity bond yields rise sharply as investors demand a higher premium to compensate for much higher inflation. Central banks continue to try and drain liquidity out of the system via quantitative tightening, which further biases up bond yields. US and UK 10-year yields rise to 3.5%, and the German Bund yield rises to 2.0%.

DM Equities: In this scenario, the MSCI World has a negative total return of c. -16% over the 12-months starting 31 January 2022. This implies a c. -21% return in 2022. Our model points to a decline in the forward earnings multiple to 16.5x from a current reading of 20.5x. This forward multiple is applied to an expected earnings decline to +5% as corporate nominal earnings remain positive despite a slowdown in consumer spending. A dividend yield in line with the historic average of 2.5% is still expected.

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"The Recovery Falters" (10% probability)

To combat rising inflation expectations DM central banks increase monetary tightening by more than the market expects. Private investment spending contracts and growth slows. Corporate defaults increase, leading to higher unemployment. Private consumption falls as people save more in response to a bleaker economic outlook.

Efficacy of COVID-19 vaccines wanes over time, including booster shots. Lack of adequate vaccination in developing countries leads to occasional new variants, leading to periodic spikes in the infection rate. These waves are larger than anticipated, putting strain on healthcare systems and leading to localised lockdowns. Governments are slow to launch new support initiatives as they remain saddled with high debt and deficits.

Economic Growth: In this scenario, global economic growth declines from +4.5% to +2.5% with some major economies in full recession.

DM Inflation: Inflation in developed markets ends the year at 2.5%, having peaked above 7% early in the year before declining quickly in response to central bank tightening. Inflation in 2023 drops below 2%.

DM Interest Rates: The yield curve inverts as longer-maturity bond yields fall in response to the aggressive tightening of short rates. This is despite central banks reducing the size of their balance sheets via quantitative tightening, with private sector demand for portfolio duration easily exceeding the net issuance. US and UK 10-year yields move down to 1.0%. The German Bund yield declines back to -0.5%.

DM Equities: In this scenario, the MSCI World has a negative total return of c. -19% over the 12-months starting 31 January 2022. Our model points to a decline in the forward earnings multiple to 17x from a current reading of 20.5x. This forward multiple is applied to an expected earnings decline of -5%. A dividend yield in line with the historic average of 2.5% is still expected.

Upside Scenario: "Reflation 2.0" (20% probability)

Inflation pressures remain high for an extended period as energy supplies and other supply chains struggle to cope with demand. DM fiscal spending remains popular in an election year, and in the US, Democrats finally reach a partisan agreement to increase spending.

Central banks slow the pace of monetary tightening in a belief that inflationary pressures are mainly supply-driven and see limited benefit in crushing demand via the interest rate channel. The US and China re-engage in a more constructive trading relationship. Corporate capital expenditure rises and labour participation rates fully recover to pre-pandemic levels, helping sustain global growth.

Economic Growth: Global real GDP growth rises to +5.5% in 2022, a relatively small decline from the 5.9% growth in 2021 and materially faster than the base case growth of 4.4%.

DM Inflation: DM inflation remains above central bank targets, reaching 4.5% by the end of 2022 as central banks allow inflation to run above target. 2023 inflation settles around 3%.

DM Interest Rates: Longer-dated government bond yields in developed markets move higher as growth and inflation expectations rise. In this scenario, the yield on the US 10-year bond moves towards 3.0% by the end of 2022, higher than our base case of 2.5%. 10-year UK Gilt yields rise to 2.0% and German Bund yields rise to 1.0%.

DM Equities: The MSCI World index generates a total return of c.15% over the 12-months starting 31 January 2021. This assumes a contraction in the trailing earnings multiple to 19.2x from 20.5x as of 31 January. This multiple is applied to an earnings growth assumption of 15%, moderately faster than the current consensus earnings growth of 10%. A dividend yield in line with the historic average of 2.5% results in a total return of +15%.

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Potential Macroeconomic and Political Events

As we have shown in prior issues of Insights, in addition to our discrete base, downside and upside scenarios, we include a more granular spectrum of downside and upside events arranged by their expected impact on the global economy and financial markets from '+3' being an event that could increase the GDP in next 2-3 years by 1% or more a year and '-3' indicating the event could decrease global GDP by 1% or more. The worst scenarios could result in equity markets dropping by -15% or more, but we do not see any structural aspect of the global financial system that could generate an outcome similar to the 2008 global financial crisis (Exhibit 3).

Exhibit 3

Partners Capital inventory of potential fat tail events (both tails)

Macroeconomic and Political Events	Risk Score (1-3)	Probability in 2022
Russia's conflict in Ukraine becomes a catalyst for greater Western unity. The EU in particular embrace greater fiscal integration in the form of broad-based debt mutualisation to provide for a surge of investment spending on defence and energy - boosting growth in the region. Closer ties between Europe and the US allow for greater flow of trade.	2	20%
Acceleration in technology adoption exceeds all expectations, benefitting tech and non-tech sectors in terms of digital transformation driving up productivity and growth, while dampening inflation.	2	20%
Supply shortages ease more quickly than expected and inflation pressures start to ease. In response, central bank forward guidance indicates a more gradual removal of the punch bowl, helping to underpin strong economic growth.	1	30%
The French election in April delivers a right-wing populist president with promises to halt freedom of movement. This is at odds with the 4 principles of the EU, throwing the bloc into another existential crisis. Sovereign bond yields spike, triggering European Sovereign Debt Crisis 2.0.	-2	10%
A combination of rising rates and proposals to break up the largest social media platforms and increase regulation hits tech stocks hard, and drag down the global equity market with them by c. -20%.	-2	20%
China continues to implement harsh restrictions wherever a cluster of COVID cases are found. As highly contagious Omicron begins to spread, China's policymakers insist on increasingly broad restrictions, eventually shutting down important sectors of the economy and rebooting the supply crisis, fuelling higher inflation across the world.	-2	15%
COVID-19 variants emerge that render vaccines ineffective. Stop/start lockdown measures lead to collapse of vulnerable sectors of the economy resulting in high unemployment and defaults.	-2	15%
Indications surface that Iran is close to obtaining a sufficient mass of highly enriched uranium such that they will be capable of creating a nuclear device. Israel launches a pre-emptive strike on Iran to prevent this situation, setting in motion renewed war in the Middle East, exacerbating the energy crisis in Europe and sending inflation higher.	-2	10%
China's leadership perceives the US administration to be distracted with Russia and various domestic issues and takes steps to forcibly 'reclaim' Taiwan leading to fears of eventual military confrontation with the US.	-3	<5%
NATO is drawn into conflict with Russia over Ukraine, precipitating a nuclear standoff or worse. Fear grips Western capitals creating an exodus of people from major urban centres.	-3	<5%

Scoring methodology: Each event was defined to one level of extremity which stopped short of the worst case but was a clearly positive or negative event. Then based on that definition of the event, we estimated the impact it could have on global growth over the next 3 years. +3 is equivalent to adding 1% to global GDP in each of the next three years and -3% the opposite. A -3 score suggests the event, as defined, will have a severe enough impact to cause global growth to fall below 2.5% p.a. over the next 3 years (our downside scenario). A +3 points towards 4% global growth (our upside scenario) over the next 3 years.

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2022 Investment Themes

Our investment philosophy is rooted in the classic Endowment Model of investing, but we have made several important enhancements to the original model that we now term the Partners Capital Risk-Managed Endowment Approach (PRMEA). The most important enhancements include the following:

1. Build portfolios around and truly diversify across market exposures (7 core betas), not asset classes
2. Manage total risk to beta not volatility, with the best measure of portfolio risk being aggregate market exposure (equivalent net equity beta or "ENEB")
3. Embrace tactical asset allocation as a source of additional returns, using extreme market moves to reposition portfolios
4. Disaggregate manager returns into beta and alpha (outperformance), and do not pay high fees for beta
5. Partner with exceptional managers to deliver alpha using proprietary structures and co-investments to increase capital efficiency and lower costs
6. Diversify sources of outperformance, ensuring managers are operating across different sectors, geographies, and styles to generate outperformance
7. Identify and **overweight specific long-term investment themes** that could be a source of significant excess returns

There are currently six key long-term investment themes that we expect will drive excess returns in portfolios, which we summarise briefly below.

Invest in the long-term winners from technology disruption

Technological disruption is now ubiquitous across all industries, creating opportunities for those at the forefront of innovation. We focus our investments in three specific sub-sectors where massive R&D over many years have unleashed breakthrough technologies: software/tech services, biotechnology and sustainable energy. The resulting innovations have progressed to the point where they have created brand new industries (e.g., cloud computing, cybersecurity, gene therapy) and completely upended traditional ones (e.g., consumer retail, payments, pharmaceuticals, automotive).

We seek to profit from this disruption by investing across the entire lifecycle of innovative companies, from early-stage start-ups to mature market leaders. To do so, we partner with asset managers who possess three important characteristics: i) deep expertise in evaluating the technology and science at the heart of these innovations, ii) experience to assess business models and competitive positioning and iii) networks and reputation to attract and engage with senior management teams. Our investment focus is to own the equity in these companies, in their **early stages via venture capital, at inflection points via growth equity** and as innovative **market leaders via specialist public equity** managers.

Position for the significant opportunity set arising from the sustainability mega-trend

Our sustainable investing strategy has increasingly focused on the environment and the transition to a low carbon economy. Power generation and industry (steel and cement, in particular) account for 62% of current global CO_2 emissions, with transport, agriculture and building accounting for the rest. China, US and Europe account for 60% of emissions. Today, 80% of global GDP is located in countries that have a net zero ambition, up from 50% at the beginning of 2021.

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In pursuit of net zero ambitions, renewable energy is clearly the dominant contributor, but it will also require meaningful contributions from carbon capture, hydrogen, battery technology and increases in our natural sinks like forests. To achieve net zero by 2050, experts suggest it will require an incremental $2.3-3.8T of average annual investment out to 2050, an increase of over 100% from the estimated $2.2T that was invested annually towards net zero between 2016 and 2020.

With this backdrop, our investment strategy will follow our long-running sustainable investment framework:

1) Favour those managers best able to assess the degree to which companies will be affected by the energy transition, regardless of their industry
2) Allocate capital to those companies and sectors which sit in pivotal positions on the path to net zero emissions.

Capitalise on emerging Asian opportunities created by growth, diversification and dispersion

Asia is a large and diverse region. In terms of people, the region comprises 60% of world's population including 4 of the 5 most populous countries in the world. In terms of economics, GDP/capita in the region has increased by c. 10x in the last 30 years, bringing the combined economies to a total size of US$31 trillion comprising c. 40% of global GDP.

The complexities of navigating the regulatory environment in Asia is not something new but is instead a relatively constant feature of investing in the region. In recent years we have navigated multiple electoral cycles, the RMB devaluation, Indian demonetisation, trade wars, as well as varying responses to the Covid-19 pandemic. These periods of macro volatility can present highly profitable opportunities to investors who are able to see through short-term volatility and position for longer-term gains. It also requires investing alongside high-quality active managers who have deep expertise in the regions or sectors they invest in, as well as a keen sense of trade flows and capital market dynamics. As an example, while the MSCI China has only generated +7.8% p.a. over the last 3 years and significantly underperformed the MSCI World at +21.7%, an equally weighted composite of our approved China long-only equity managers has generated returns of +30.9% p.a. Dislocations, short-termism and dispersion are the key drivers of profits for long-term investors in the region.

Maximise exposure to private markets

We continue to believe the private markets asset classes can deliver an illiquidity premium of c. 400bps over and above the return of the risk equivalent public market security. Thereafter, returns can be further improved by the judicious selection of asset managers and fee savings through co-investments. The excess returns in comparison to public market securities of the private market asset classes have become increasingly valuable as the expected return for liquid asset classes continues to decline, driving our decision to maximise the allocation to private markets within the constraints of clients' liquidity budgets. For the 2022 Tactical Asset Allocation (TAA), we continue to recommend a 33% allocation to private markets within our model portfolio. This allocation is split across private equity (18%), private equity real estate (7%) and private debt (8%).

Given the record levels of dry powder and record purchase price multiples in certain sectors, private markets will not be immune to the declines in expected returns witnessed in other asset classes and will continue to require judicious selection of both sub-sectors and asset managers. Against this backdrop, within private equity and real estate, we remain focused on value-oriented managers with unique sourcing capabilities that can invest in opportunities at discounts to average market multiples and have identified meaningful operational improvements which they are well equipped to support. We favour sector specialist asset managers with deep domain knowledge which we believe confers competitive advantage throughout the investment value chain, including sourcing, speed of decision making, industry trends and attracting management teams. Growth and venture remain an important part of the strategy given our long-term theme around innovation and the continuing trend of early-stage businesses staying private for longer. However, we continue to be cautious about valuations, particularly in late-stage venture.

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Increase portfolio resilience to the economic cycle by boosting uncorrelated sources of return

As the cycle matures and central banks begin to withdraw liquidity, investments with solid risk-adjusted returns independent of the economic cycle will become increasingly valuable to portfolios. We access uncorrelated investments in two broad ways: a) structured solutions including "alternative alternatives" and specialist private debt, and b) absolute return strategies including low-net exposure equities.

Structured solutions involve investing in securities that are structured to have minimal market risk ("alternative alternatives"). Examples include litigation funding (where the return is determined by success in patent and other litigation in the courts), drug trial financing (where the return is determined by clinical trial outcomes) and royalties (where the return is derived from percentage of sales of IP with stable demand). It is critical to carefully assess the expected risk-adjusted return and invest only in strategies that present persistently attractive return streams. Not all uncorrelated strategies make good investments. Given the relative novelty of many of these structures, it is also important to evaluate the robustness of the contractual rights granted to investors and the risks of adverse changes to the market structure.

Absolute return strategies provide uncorrelated returns by owning portfolios of securities that do individually have "market beta" but where these market risks are effectively hedged out at the strategy level. The objective of these strategies is to isolate an attractive "idiosyncratic alpha" stream. Traditional examples include statistical arbitrage, quantitative/systematic, relative value and merger arbitrage strategies. When evaluating these strategies and asset managers who pursue them, we seek alpha truly independent of market betas, with low volatility relative to its expected value and with manageable stress behaviour.

Boost portfolio's robustness to unexpected inflation volatility

The benign inflation regime of the post-GFC era is over. Not only have **inflation levels risen in the aftermath of the pandemic and the massive levels of monetary and fiscal stimulus provided, but inflation itself may become more volatile as we return to the more classic boom-bust cycles of the eighties, nineties and noughties.** In the near term, we will likely see current pressures ease as supply chains re-normalise and the post-pandemic world re-equilibrates. Over the longer term, three factors will increase inflation volatility:

1. **fiscal policymakers, central bankers and investors will have less latitude** to smooth growth risks by easing policy
2. The **energy transition**, which may eventually provide lower-cost renewable energy, is likely to constrain fossil fuel supply in the interim, leading to price shocks
3. Heightened **geopolitical uncertainty** relating to Russian and potentially Middle Eastern energy producers has the potential to generate further supply shocks.

We expect to see this regime shift manifest itself as a driver of short-term market volatility as investors react to changes in inflation and interest rate expectations. We also see greater downside and a broader range of outcomes around the ultimate path of inflation and hence rates, which could negatively impact asset values and markets in the longer term.

This new environment requires our portfolios to be truly multi-dimensional and supports the greater allocations to the classic inflation-protected asset classes of property, inflation-linked bonds and selective commodity exposures.

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Exhibit 4
Estimated Investment Theme Implementation by Asset Class

	Themes	Cash, Fixed Income, Liquid Credit	Private Debt	Absolute Return	Public Equities	Private Equity (Buyouts)	Private Equity (Venture Capital)	Liquid Real Assets (ILBs, Commodities)	Property (Core & Opportunistic)	Expected Portfolio Allocation
	2022 Tactical Asset Allocation	1%	8%	14%	45%	14%	4%	5%	9%	
1	Technology Disruption									20-25%
2	Sustainability									10-15%
3	Emerging Asia									10-15%
4	Private Markets									30-40%
5	Uncorrelated Sources of Return									15-20%
6	Protect against Unexpected Inflation									25-35%
	Expected Portfolio Allocation Represented by Themes									**65-75%**

Source: *Partners Capital*

Legend	
Theme not relevant	
Theme represents <20% of allocation	
Themes represents between 20%-50% of allocation	
Themes represents >50% of allocation	

2022 Tactical Asset Allocation

At the highest level, our recommended 2022 tactical asset allocation (TAA) positions the portfolio for an environment of heightened macro volatility, particularly around the rate of change of key variables such as interest rates and inflation. Compared to the 2021 TAA, we recommend rotating 2% out of Hedged Equities in favour of Absolute Return strategies that should benefit from this volatility, and also rotating 2% out of Gold into Core Property to boost the portfolio's resilience to inflation spikes.

Relative to the long-term SAA benchmark, we maintain our underweight of c.-5% to nominal government bonds with capital reallocated to Private Debt (+3% overweight) and Absolute Return (now +2%). We also maintain a -5% underweight to Developed Market equities, with the capital reallocated to Emerging Market equities (+1%), Hedged Equities (reduced overweight at +2%) and a Core Property allocation (+2%). We will review the Government Bond underweight if 10-year yields in the US and UK were to rise to c. 2.5% or if the German Bund rose to c. 1.5% for Euro investors. We are actively monitoring how best we seek exposures to certain parts of the commodity complex and are likely to express selected sub-sector themes within the equity portfolio.

Using our scenario-weighted asset class return assumptions, we expect the TAA to deliver a return of +6.2% in 2022, this is the weighted average of the base case estimate of +8.5% (60% probability), an upside case of +12.4% (20% probability), -9.0% in the downside scenario of slower growth (10% probability) or -4.6% in the alternative downside scenario of stagflation (10% probability). This compares favourably to the SAA or a 70/30 mix of Developed Market Equities and Government Bonds. The respective returns are shown in Exhibit 4. A 70/30 portfolio is likely to be especially vulnerable to a stagflation scenario, and we estimate it could fall -13%. On a scenario probability-weighted basis, we expect our 2022 portfolio to outperform the SAA by 50bps and a 70/30 equity/bond index by over 400bps.

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Exhibit 5

Model Portfolio 2022 Tactical Asset Allocation vs. Benchmark Strategic Asset Allocation

Asset Class	SAA	New TAA	Difference	Rationale
Cash	1.0%	1.0%	—	Maintain minimum liquidity buffer subject to operational constraints given very low/negative yields.
Fixed Income	5.0%	—	-5.0%	Government Bonds are still unattractive given low yields. We would look to reduce the size of our duration underweight for USD and GBP portfolios if the yield on 10yr Treasury and/or Gilt rose to 2.5%, and for EUR portfolios if German Bund yield rose to 1.5%.
Liquid Credit	—	—	—	High-yield bonds offer little upside with tight spreads offering little compensation for either rising inflation or rising defaults as the cost of capital increases. However, there are attractive sub-sector opportunities in structured credit and short-duration lending for those clients who cannot allocate to less liquid private debt.
Private Debt	5.0%	8.0%	3.0%	Private Debt continues to take advantage of opportunistic lending strategies offering a significant premium to Liquid Credit. Opportunities to lend into new sectors such as renewable energy, agriculture, emerging healthcare segments and technologies. Also includes uncorrelated strategies such as drug trial financing and litigation funding strategies. Skew away from vanilla middle-market corporate lending strategies, which remain competitive.
Absolute Return	12.0%	14.0%	2.0%	Absolute Return appears more attractive compared to recent years due to (i) increased capital efficiency driving better total return potential from our focus on multi-manager platforms, (ii) tactical opportunities in risk-managed ELS and merger arbitrage and (iii) AR strategies that may fare better in an environment of macro uncertainty and with rising rates.
Hedged Equities	11.0%	13.0%	2.0%	Maintain overweight reflecting the confidence in our manager lineup and their continued ability to generate outsized alpha, particularly in the current environment of high dispersion and low inter-stock correlation.
DM Equities	32.0%	27.0%	-5.0%	Underweight to long equities reflecting a preference for more nimble, specialist hedged equity managers and an overweight to EM equities. Within DM equities, we focus on concentrated, multi-sector and quantitative strategies.
EM Equities	4.0%	5.0%	1.0%	Overweight emerging markets, with allocations dedicated to the Asia Pacific region, reflecting one of our core investment themes and benefiting from the attractive opportunity for manager alpha and portfolio diversification.
Private Equity	18.0%	18.0%	—	PE remains a reliable source of outperformance through our managers' ability to "create alpha" by making material improvements in the operating performance of private companies. We focus on the lower middle market, where there is less competition and better valuations. PE is the key means to investing in the long-term winners of tech disruption through growth equity and venture capital.
Inflation-Linked Bonds	5.0%	5.0%	—	ILBs are real assets serving as a store of value that will protect portfolios in the event of higher-than-expected inflation. Also provides exposure to interest rate duration and is highly liquid, allowing for rapid portfolio rebalancing in a market sell-off.
Gold	—	—	—	Recommend removing gold from portfolios in 2022, consistent with the long-term benchmark. Gold has performed well as a portfolio hedge given the Russian invasion of Ukraine, but the economic case for gold has diminished given the rising interest rate environment and higher real yields.
Commodities	—	—	—	The increase in demand for “green metals” such as copper and aluminium appears to be a structural support. In the near term, this must be weighed against demand destruction from other destinations, such as declining Chinese investment in property and infrastructure. This is an area we are closely researching, as detailed in our investment themes and our framework for investing behind the global energy transition.
Core Property	—	2.0%	2.0%	Structural changes resulting from the COVID-19 pandemic create both challenges and opportunities. Within Core Property, we target those sectors with supply-demand imbalances such as multifamily and industrials/logistics, which provide attractive yields and good inflation protection. Where possible, clients should gain property exposure via PERE, where there is greater scope for value add.
Private Equity Real Estate	7.0%	7.0%	—	
Total	**100%**	**100%**	**0%**	

Source: *Partners Capital*

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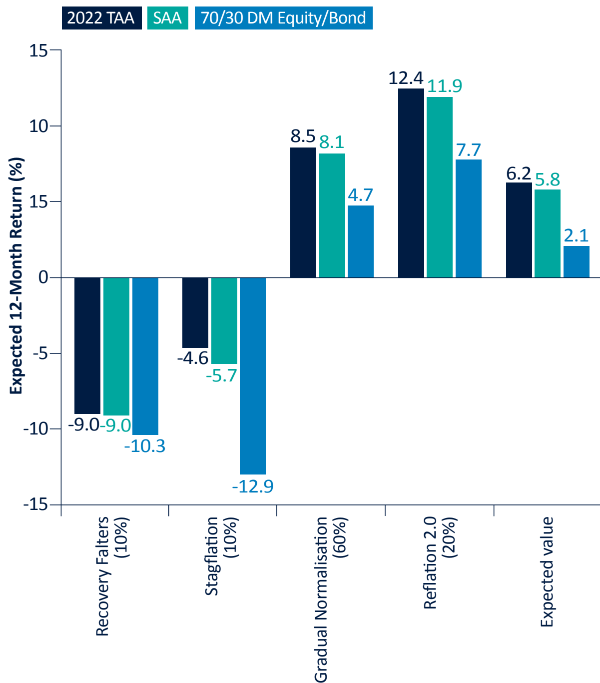
Exhibit 6

Expected model portfolio returns by scenario, TAA vs. SAA and a 70/30 Equity/Bond benchmark (12-month expected returns starting 31 Jan 2022)



Note: *Return assumptions are for the 12 months from 31 January 2022. Hypothetical return expectations are based on simulations with forward looking assumptions, which have inherent limitations. Such forecasts are not reliable indicator of future performance.*

Source: *Partners Capital*

Conclusion

Our clients who know us well know that we are long-term investors. Our 'Insights' views are developed over several months and are meant to inform investment decisions over several years. We cannot anticipate every major development, on the upside or the downside. But we take comfort that our diversified multi-asset portfolios have weathered and even outperformed in the face of unforeseen events. The exercise of producing this time-consuming and challenging document, while primarily for your benefit, has also enhanced and deepened our own understanding of the main risks and opportunities that lie ahead, and how best to construct portfolios to position for them.

While it is always difficult to predict what the markets have in store for investors, we hope that Insights 2022 provides you with some useful perspectives into our investment process, and we look forward to discussing our findings with you in our next meeting – which hopefully will be in person rather than by video.

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