

Inflation – A Practitioner’s Guide

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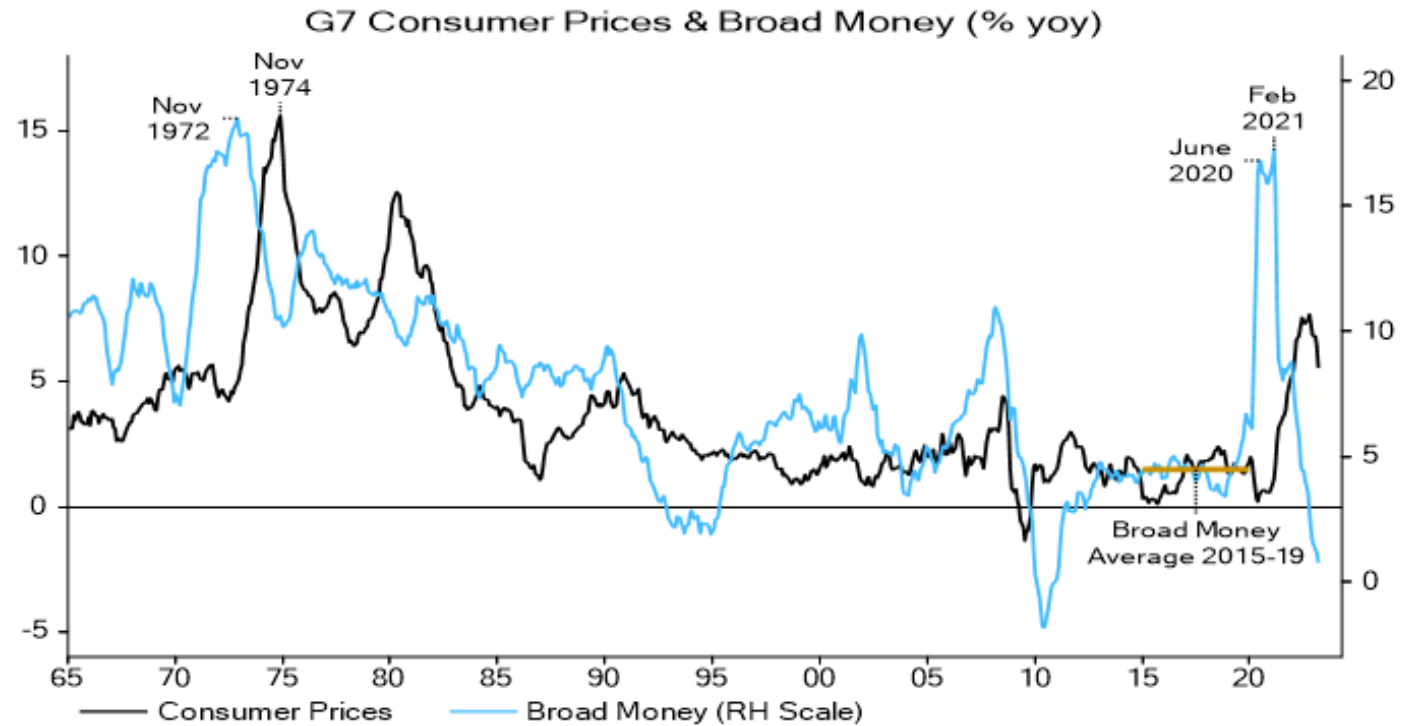
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Marketing Communication

see money differently

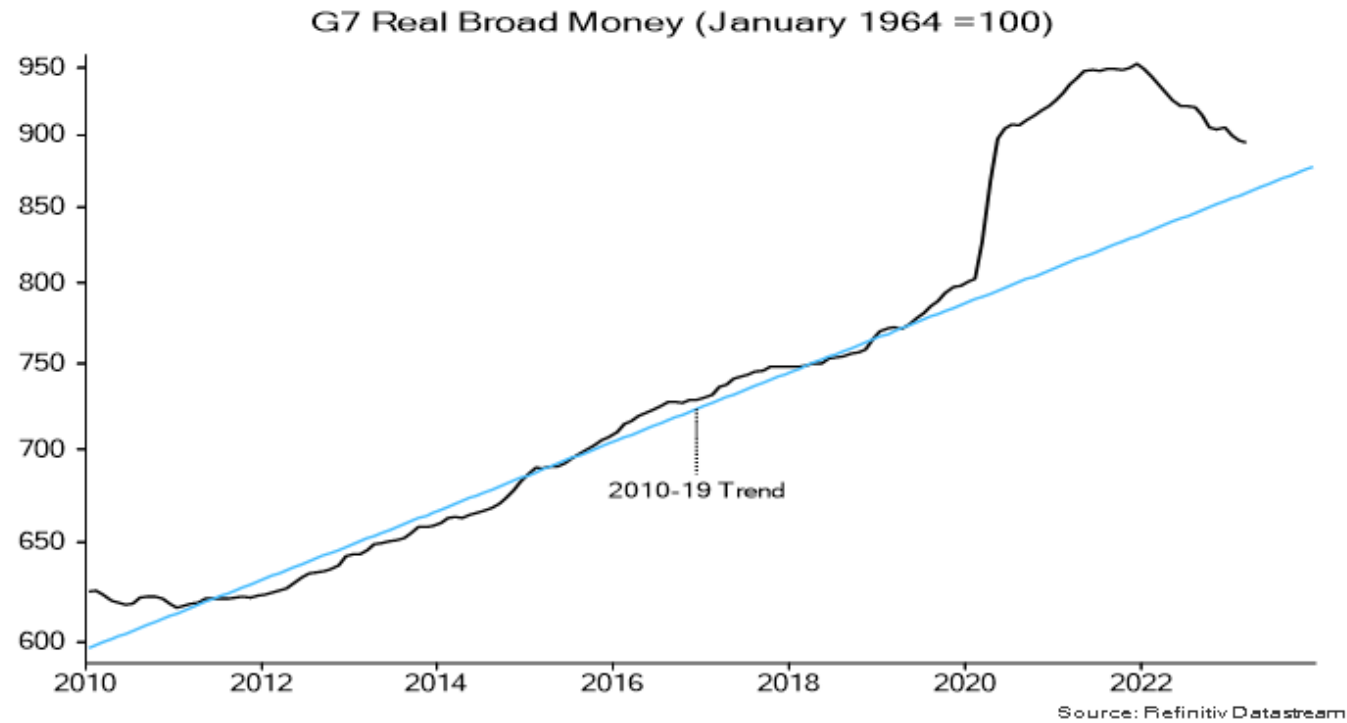
- “Inflation is always and everywhere a monetary phenomenon”
- Liquidity Theory of Asset Prices (“Money Moves Markets”) - when does money supply (liquidity) create moves in asset markets and when does it mean inflation?
- Rapid deterioration in money growth for DM after pandemic excesses
- Forecasts - Inflation to come rattling back
- EM policy constraint underpins lower inflation and stronger money numbers
- Long term view
- Stocks to own in inflation, disinflation (and deflation jitters)

Monetarist rule: Money leads prices by c.2 years



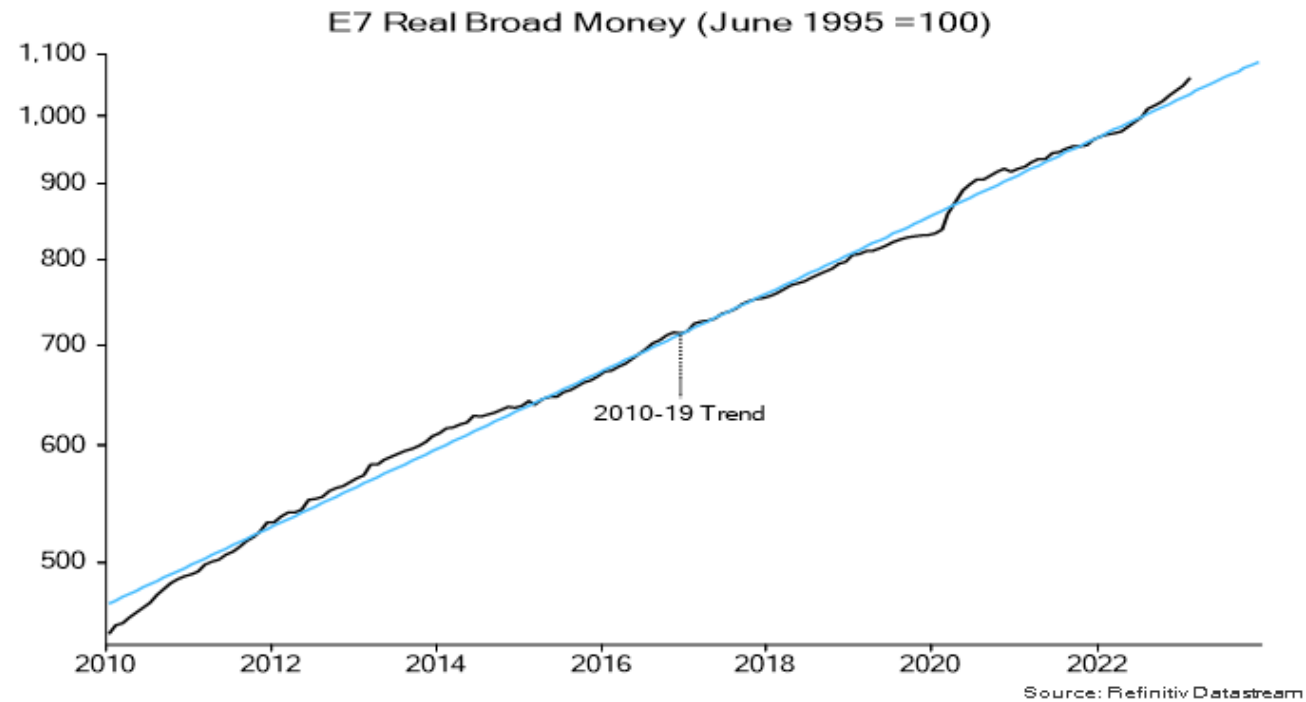
- 2020 money growth surge fully reversed, not step change to higher level (cf. 1970s).

G7 covid policy response created “excess” money balances



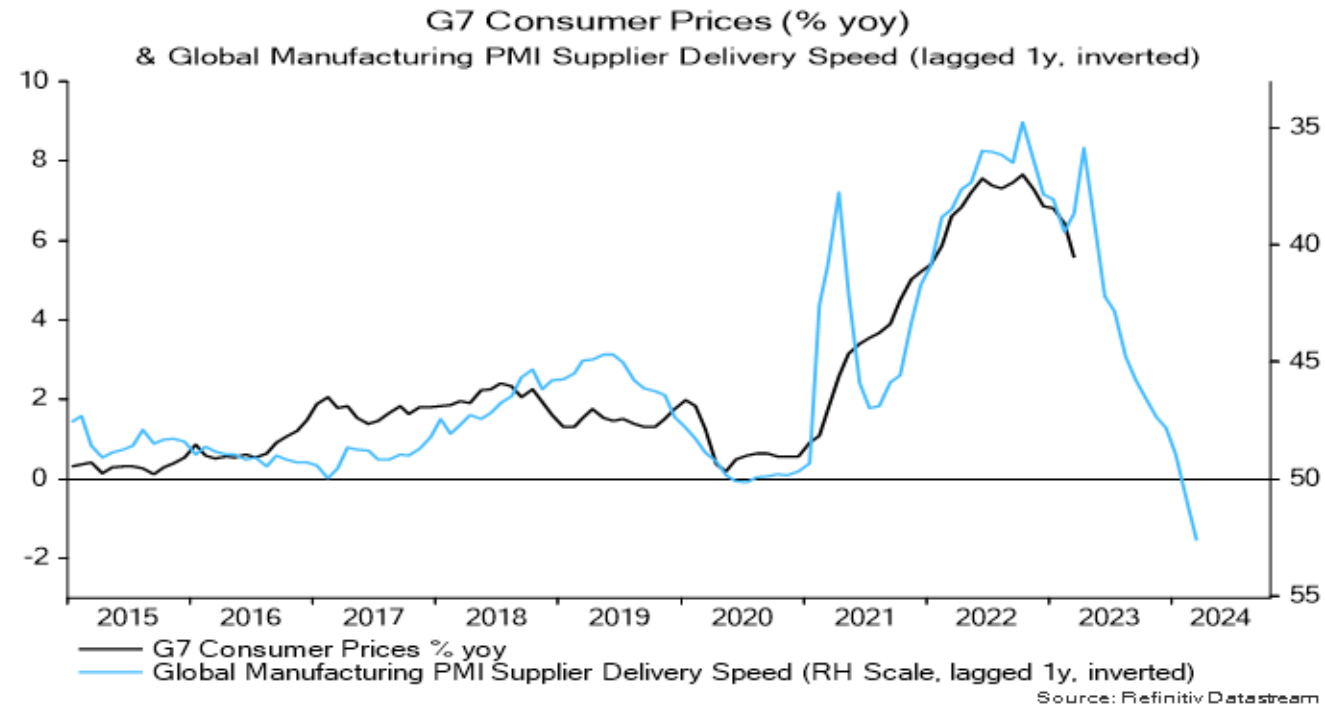
- Excess money reflected in asset prices then goods / services inflation.

Em policy easing was more circumspect / less destabilising



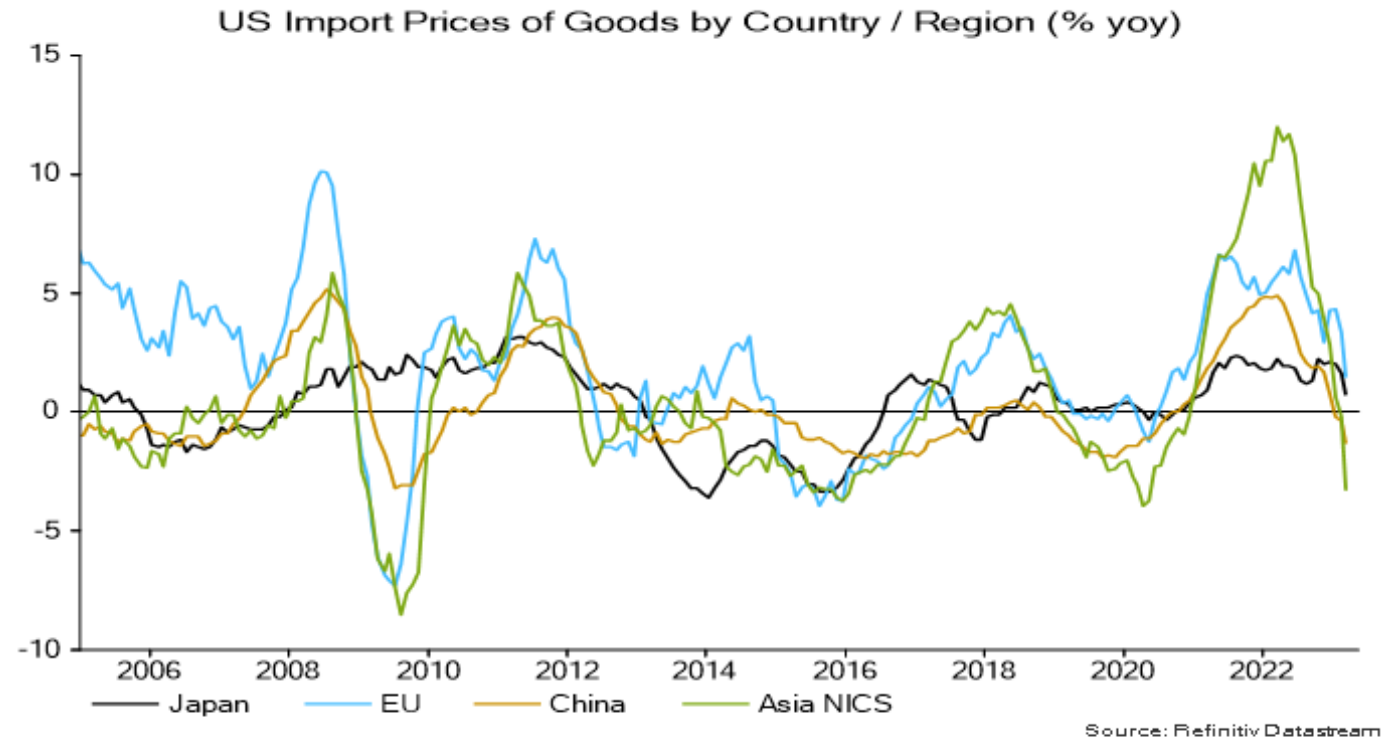
- Asset markets less bullish but better inflation control.

Excess supply signalling goods disinflation / deflation



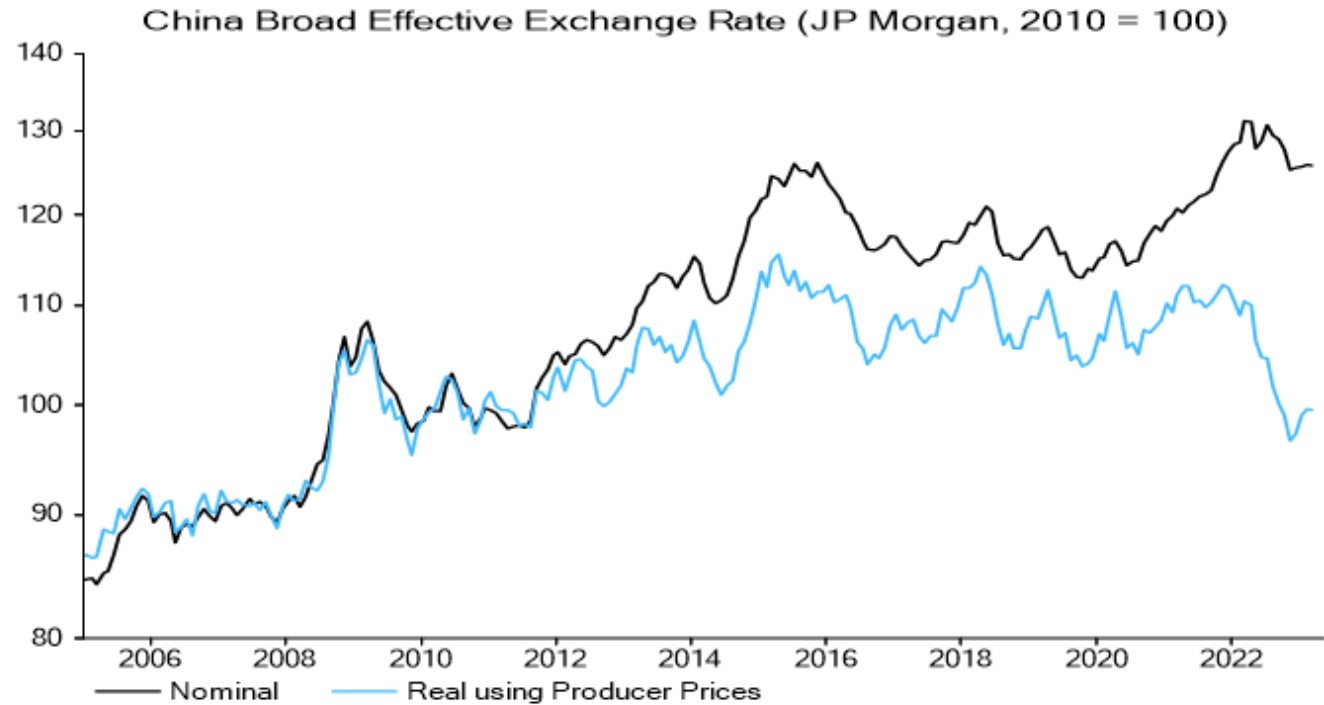
- Excess supply = faster deliveries = loss of pricing power.

Chinese / Asian nics manufacturers already cutting prices



- Further downward pressure from Chinese reopening, US recession?
- Its what they do best!

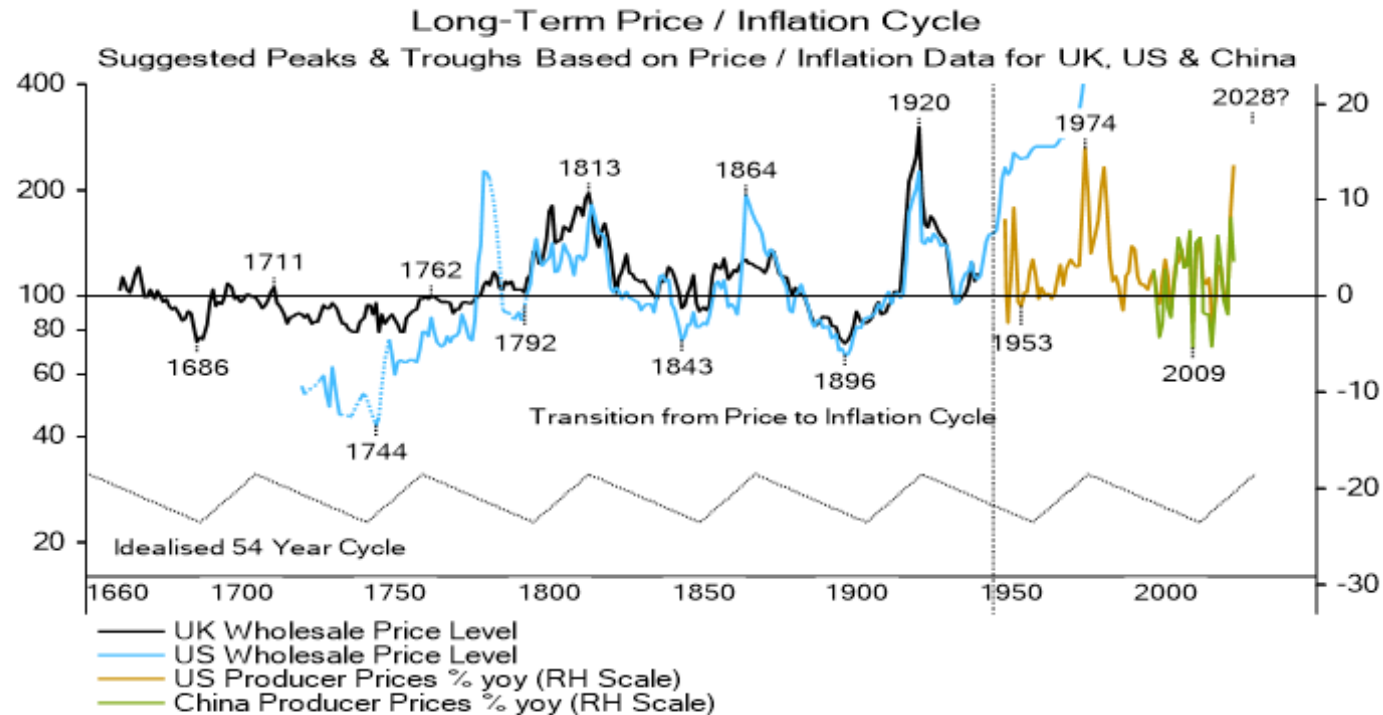
Low Chinese inflation = competitive real exchange rate



Source: Refinitiv Datastream

- Stealth devaluation via better inflation control.

Long cycle suggesting another inflation peak in late 2020s



Source: Refinitiv Datastream

- Major peaks in prices or (since WW2) inflation every c.54 years: next = $1974 + 54 = 2028?$

- **The long-term inflation cycle**
 - » Contentious idea
 - » Suggests prices (pre-breakdown of gold standard) or inflation (post) reach a peak roughly every 54 years
 - » Another peak due in the late 2020s
- **2021 surge consistent with this notion**
 - » Inflation tends to accelerate only in the late stages of the cycle
 - » Is there another surge coming later this decade?
- **Issue for investors**
 - » How to position for changes in the inflation cycle?
 - » In short term, slowdown and recession different during inflation period than disinflation and deflation – equities is about the nominal!

Stockbuilding Cycle (Kitchin)

3 – 5 years

Business Investment Cycle (Juglar)

7 – 11 years

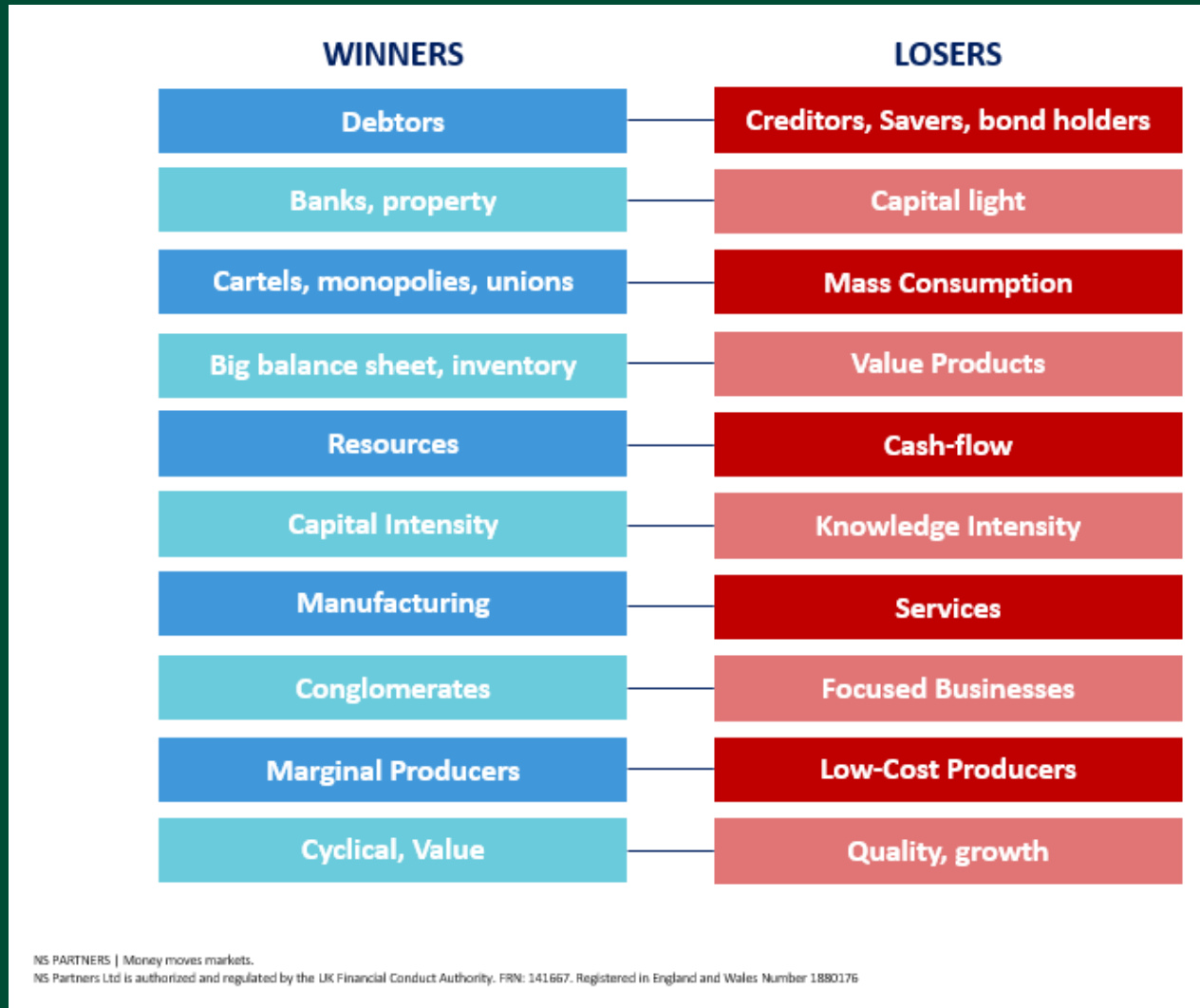
Housing Cycle (Kuznets)

15 - 25 years

Price/Inflation cycle (Kondratyev)

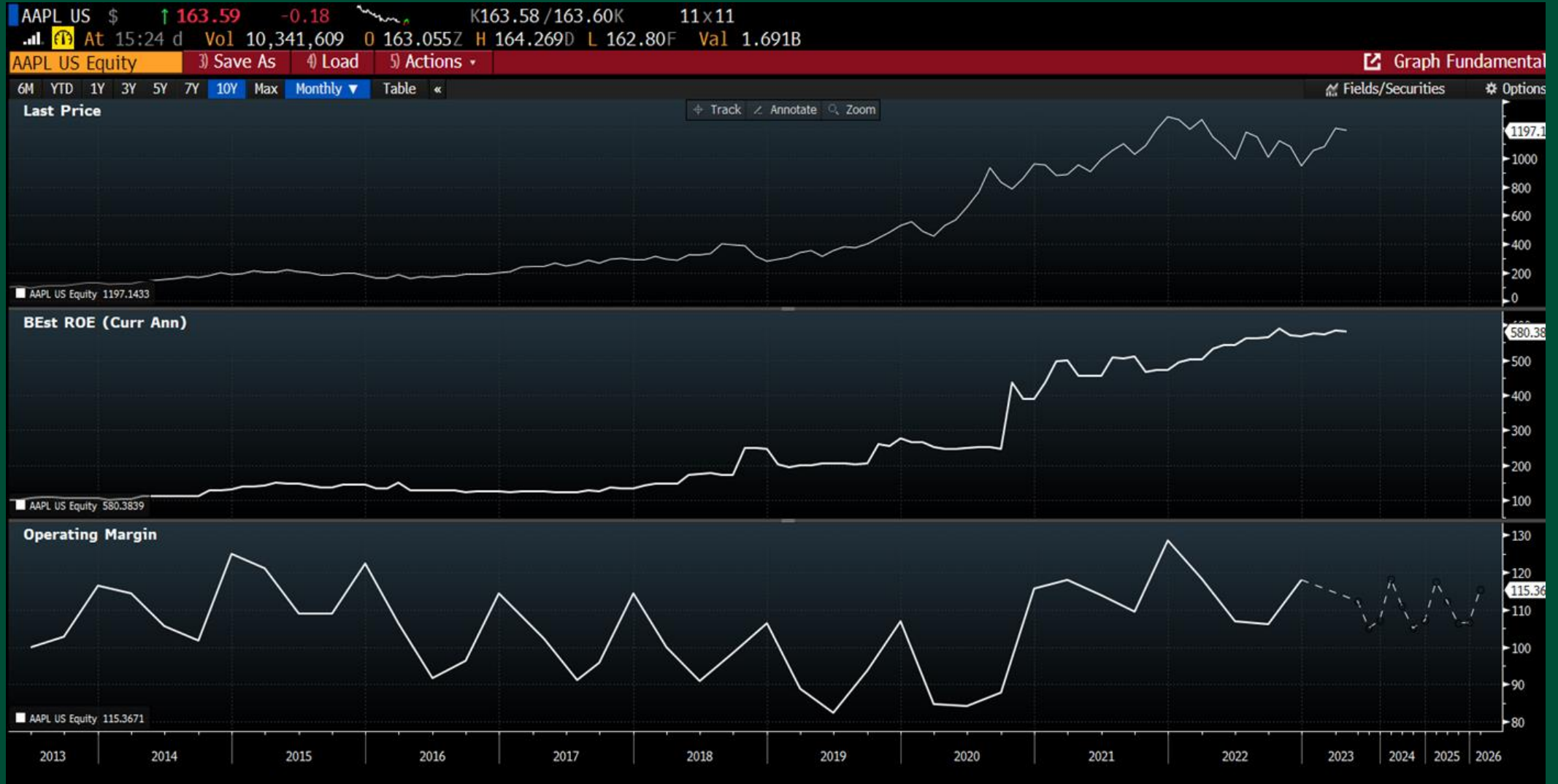
45 - 60 years (?)

Inflation winners and losers











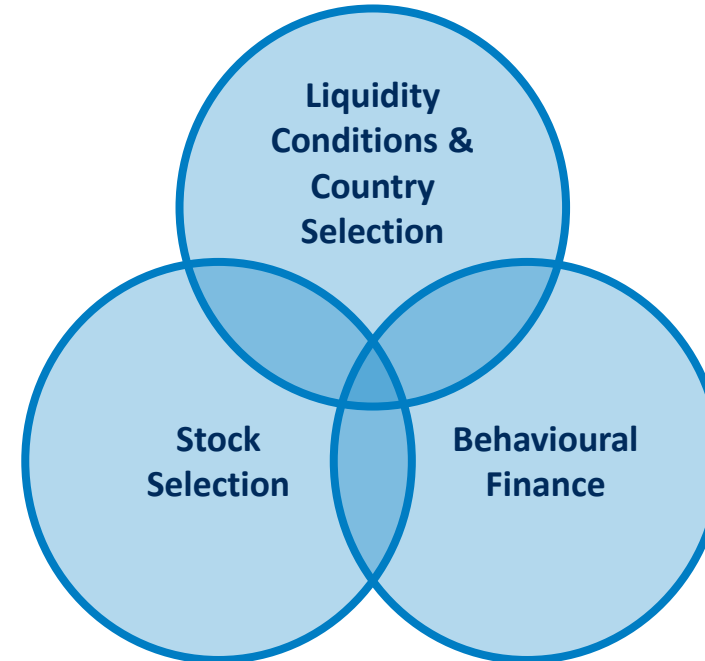
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INVESTMENTS

Thank you.

see money differently

INVESTMENT PHILOSOPHY

- **Liquidity Conditions & Country Selection**
 - » Money supply leads economy, but excess money moves asset markets earlier i.e. Money Moves Markets
(Liquidity Theory of Asset Prices)
- **Stock Selection Focused on Economic Profitability**
 - » Securities expected to generate high / improving economic profitability (ROIC/WACC) relative to the market will outperform
(EVA Approach)
- **Peer Review Ensures Discipline**
 - » Revalidate, test conviction continuously; ensure tight capital discipline
(Behavioural Finance Theory)

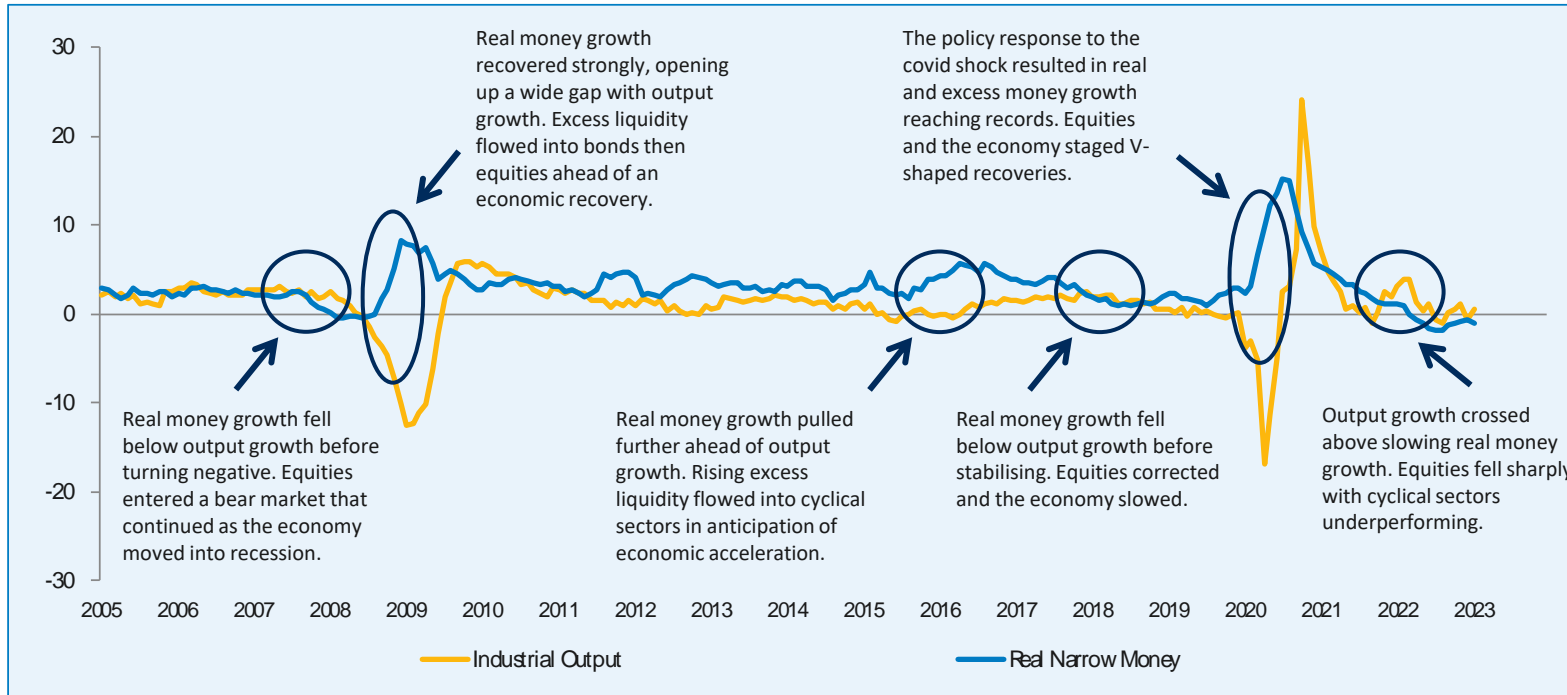


EXAMPLE: ECONOMIC LIQUIDITY ANALYSIS

Fundamental macroeconomic analysis is a key performance driver

- Real money growth in excess of output growth signals asset price inflation
- Output/real money growth cross-over usually an early warning indicator
- Real narrow money leads economy by 6-12 months

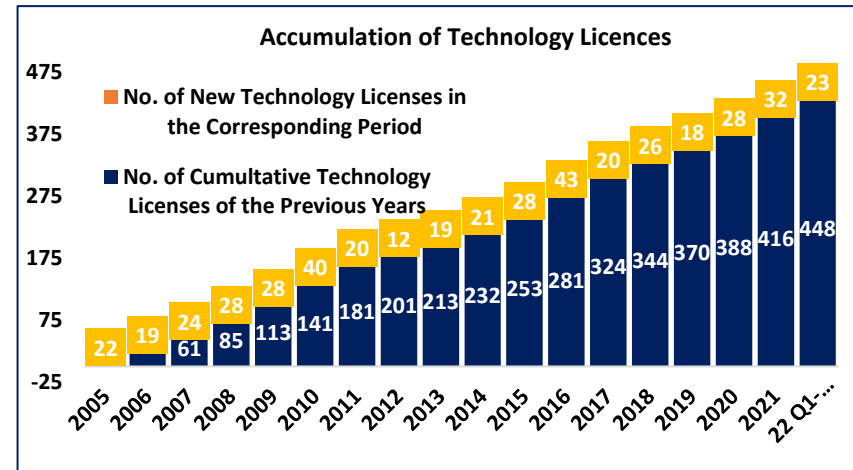
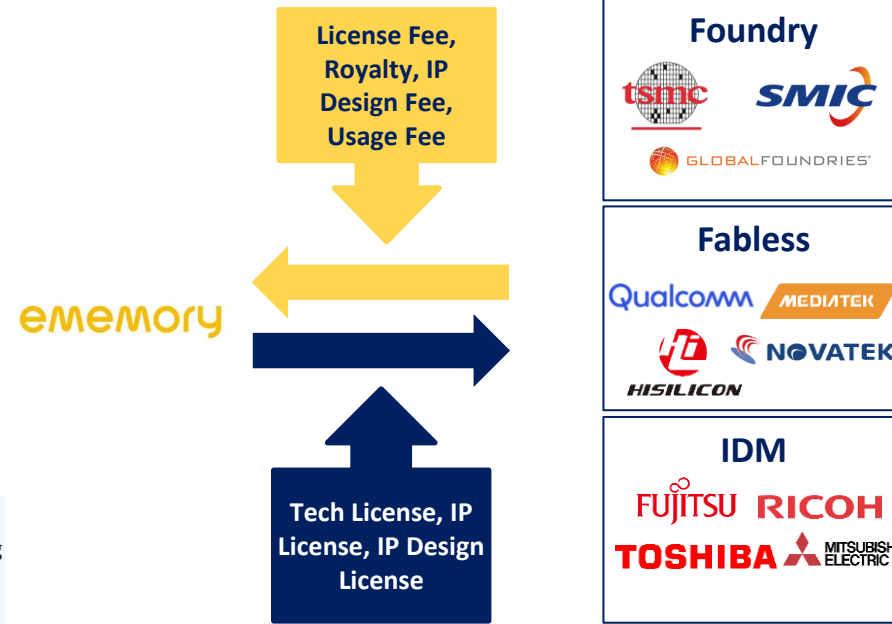
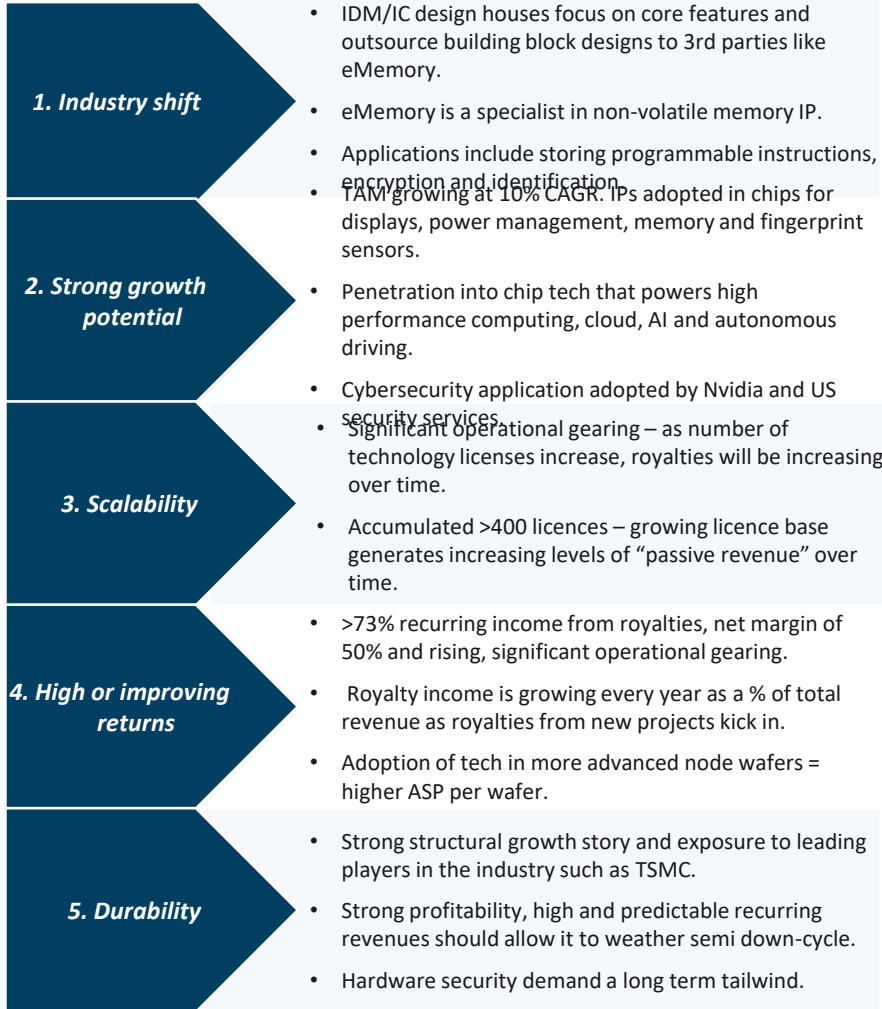
LIQUIDITY IS A LEADING INDICATOR



Source: Refinitiv Datastream & NS calculations
Shows % change over 6 months in G7 + E7 industrial output and real narrow money

ememory HIDDEN GEM AMONG TAIWAN SEMI COMPANIES

Dominant player in a fast growing niche



Source: NS Partners & CLSA.

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