



Turbulence ahead

Investing for inflation volatility

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- 2021 in review
- The wrong question
- Torrey Canyon

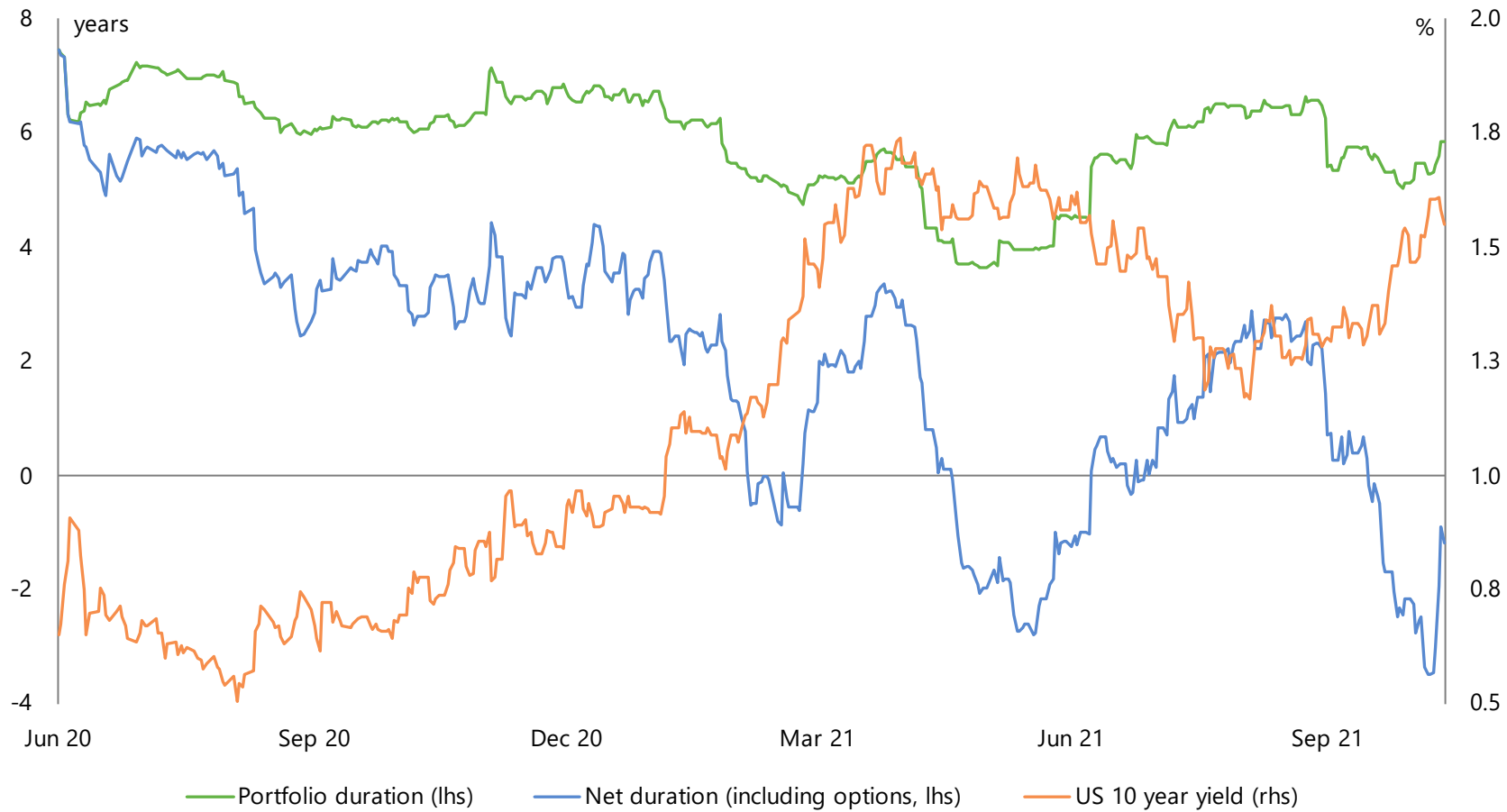
Positive momentum in different environments

% CONTRIBUTION TO PERFORMANCE



Source: Ruffer LLP, Statpro as at 31 December 2021. Shown in local currency. All references to Ruffer performance refer to the Ruffer representative portfolio which shows the performance of an unconstrained, segregated portfolio of £1 million set up in 1995 to follow Ruffer's investment approach.

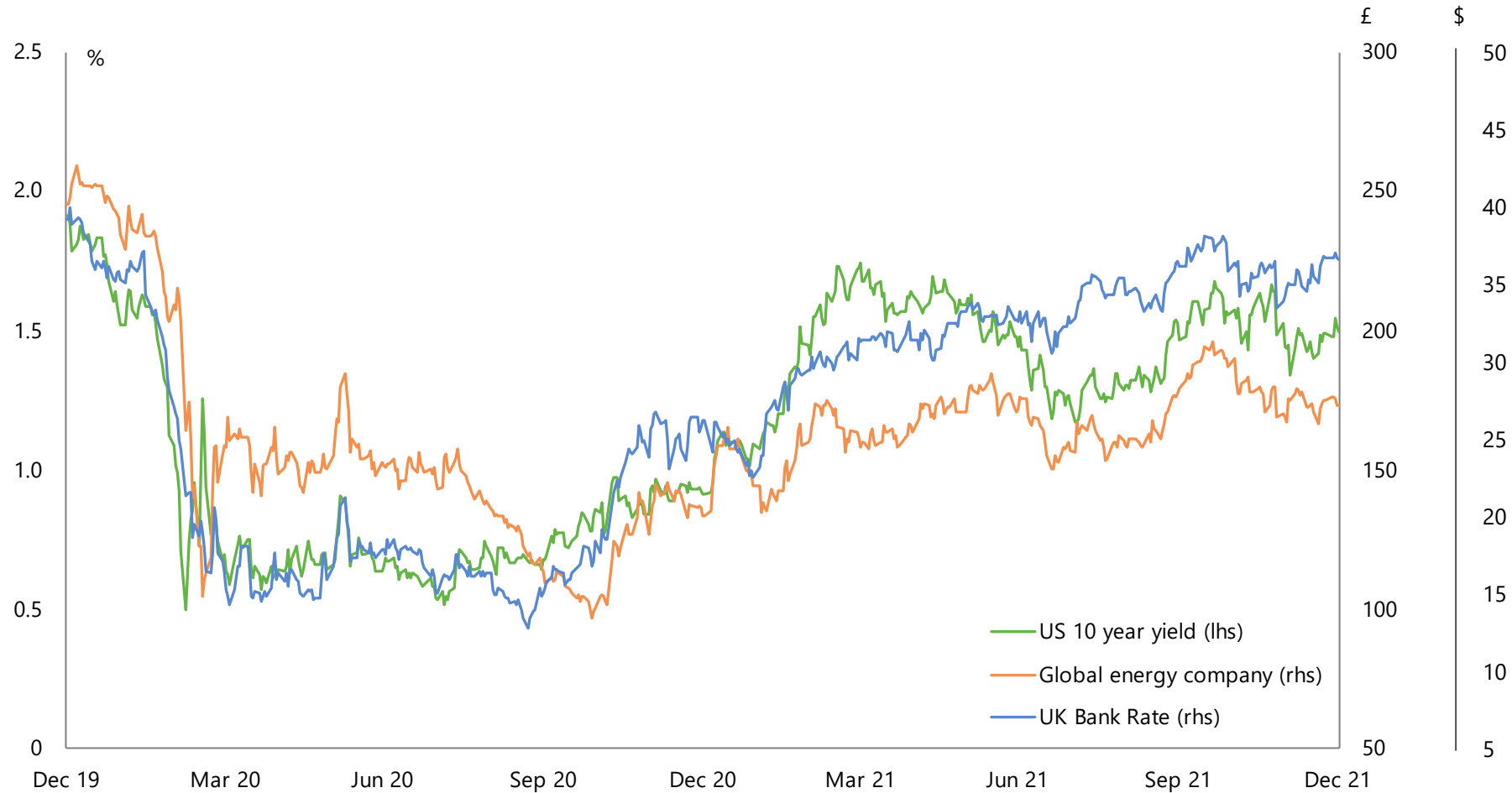
Duration management has been essential



Source: Ruffer LLP, Ruffer analysis, FactSet. References to duration are based on the Ruffer representative portfolio which is an unconstrained, segregated portfolio of £1 million set up in 1995 to follow Ruffer's investment approach.

In equities as well as bonds

USING EQUITIES TO MANAGE DURATION RISK



Source: Datastream, Ruffer analysis. US 10 year benchmark yield. UK bank stock priced in GBP. UK energy company ADR priced in USD. Daily date from 31 Dec 2019 to 31 Dec 2021

Big Government is back...



Christine Lagarde

@Lagarde

I spoke this morning about tackling climate change on [@bloombergtv](#). Central bankers can participate in the process, but everybody has to be at the table – regulators, policymakers and governments alike.



...and so is inflation

NEW TONIGHT

INFLATION HITS FOUR-DECADE HIGH, CONSUMER PRICES SOAR 7%

Makenna Sievertson | Grocery Store Customer in DC

CNN

SITUATION ROOM

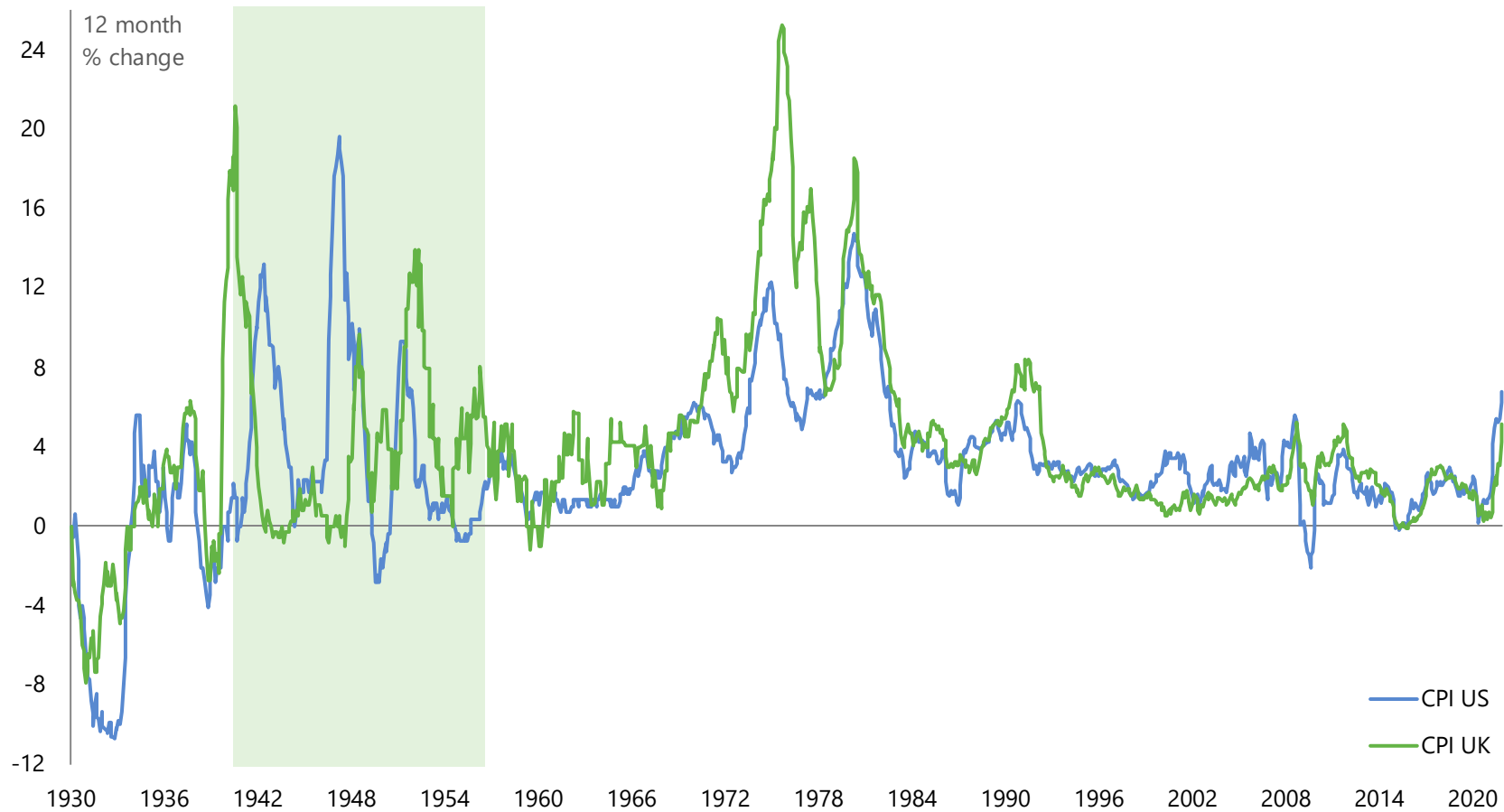
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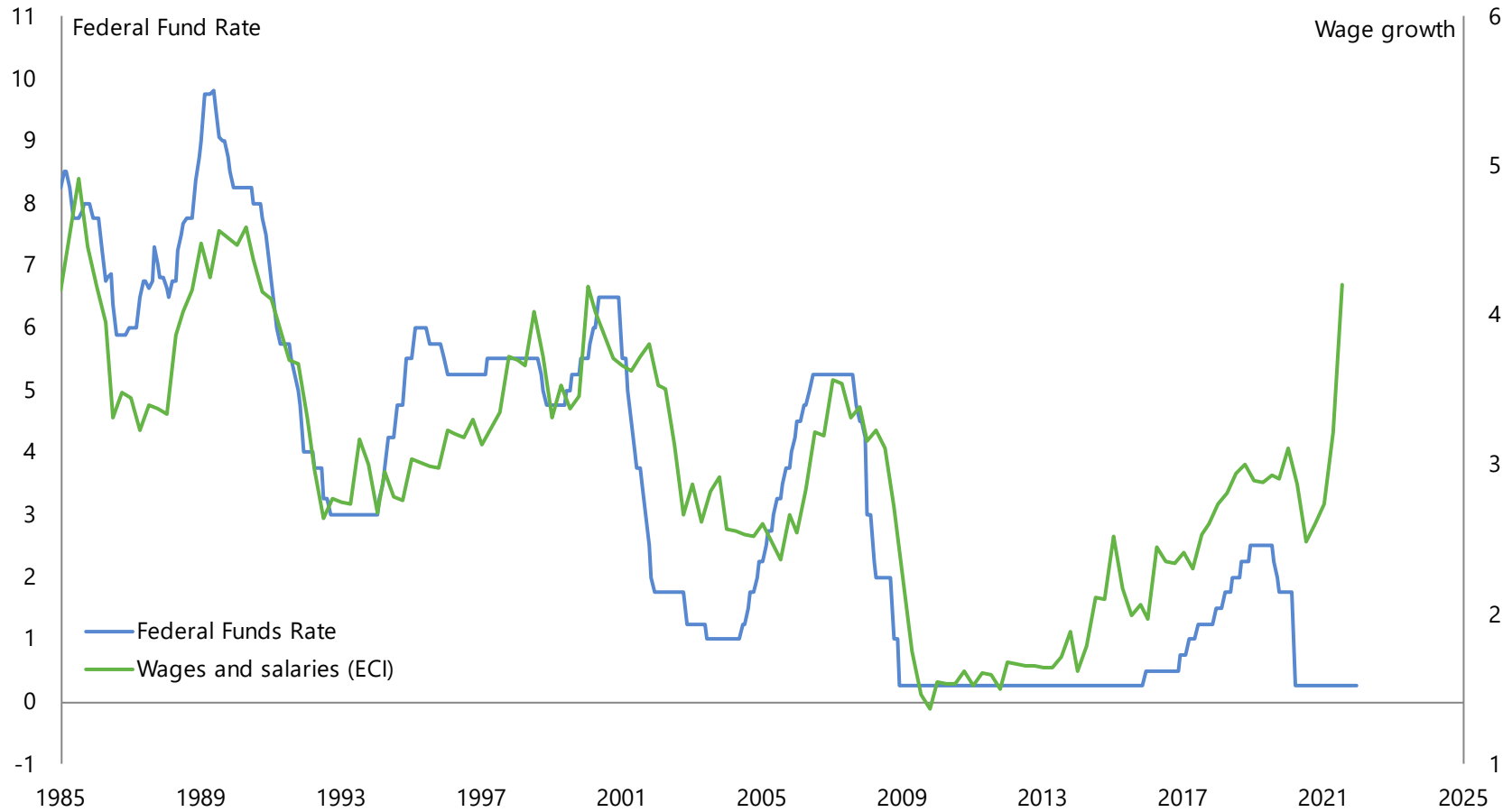
The outcome is unlikely to be linear

MORE VOLATILE THAN ELEVATED



The Federal Reserve is going to tighten policy

FED FUNDS RATE AND WAGE GROWTH



But the policy error may have already occurred



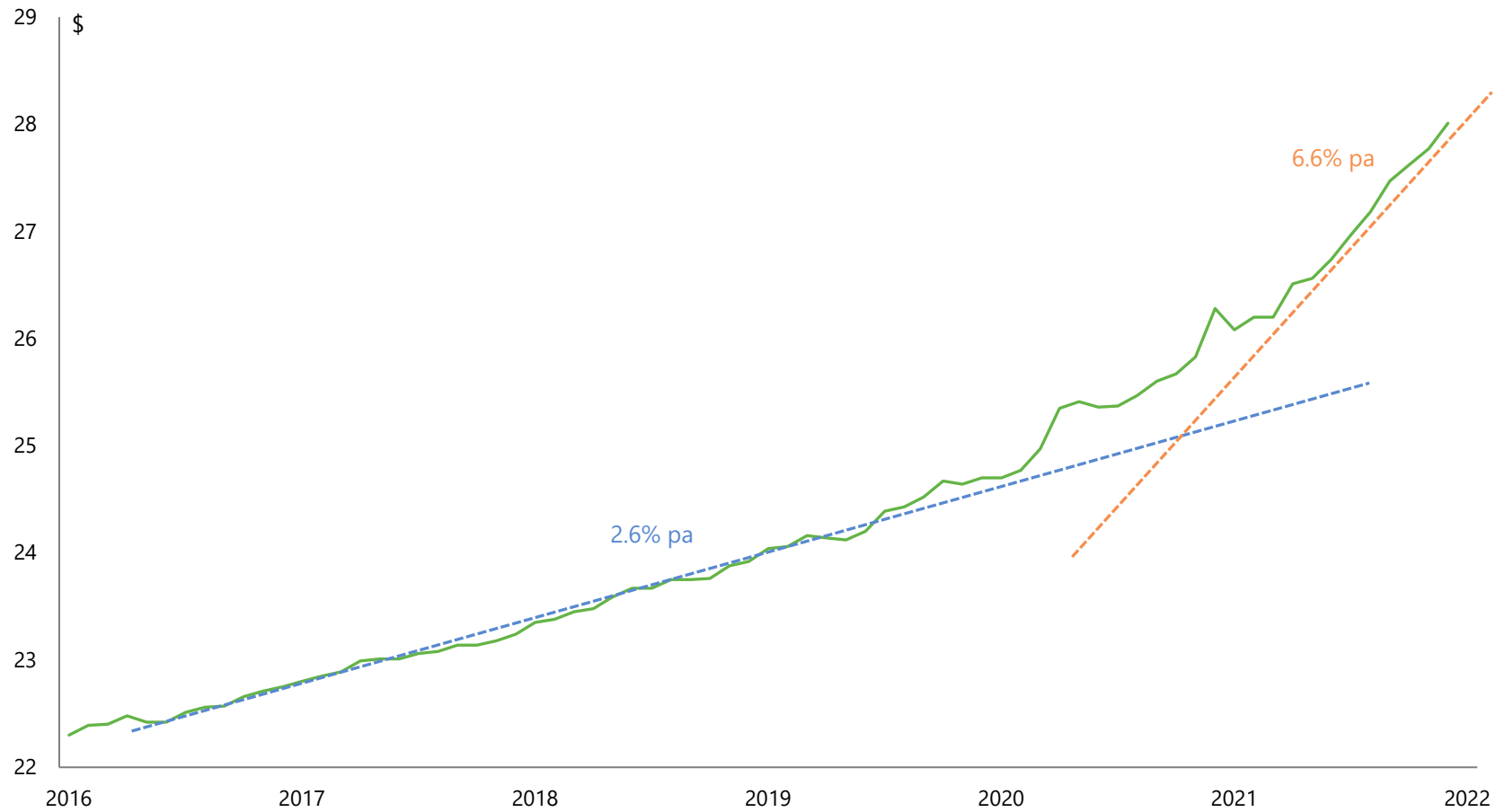
NOW HIRING

UP TO \$200

SIGN ON BONUS

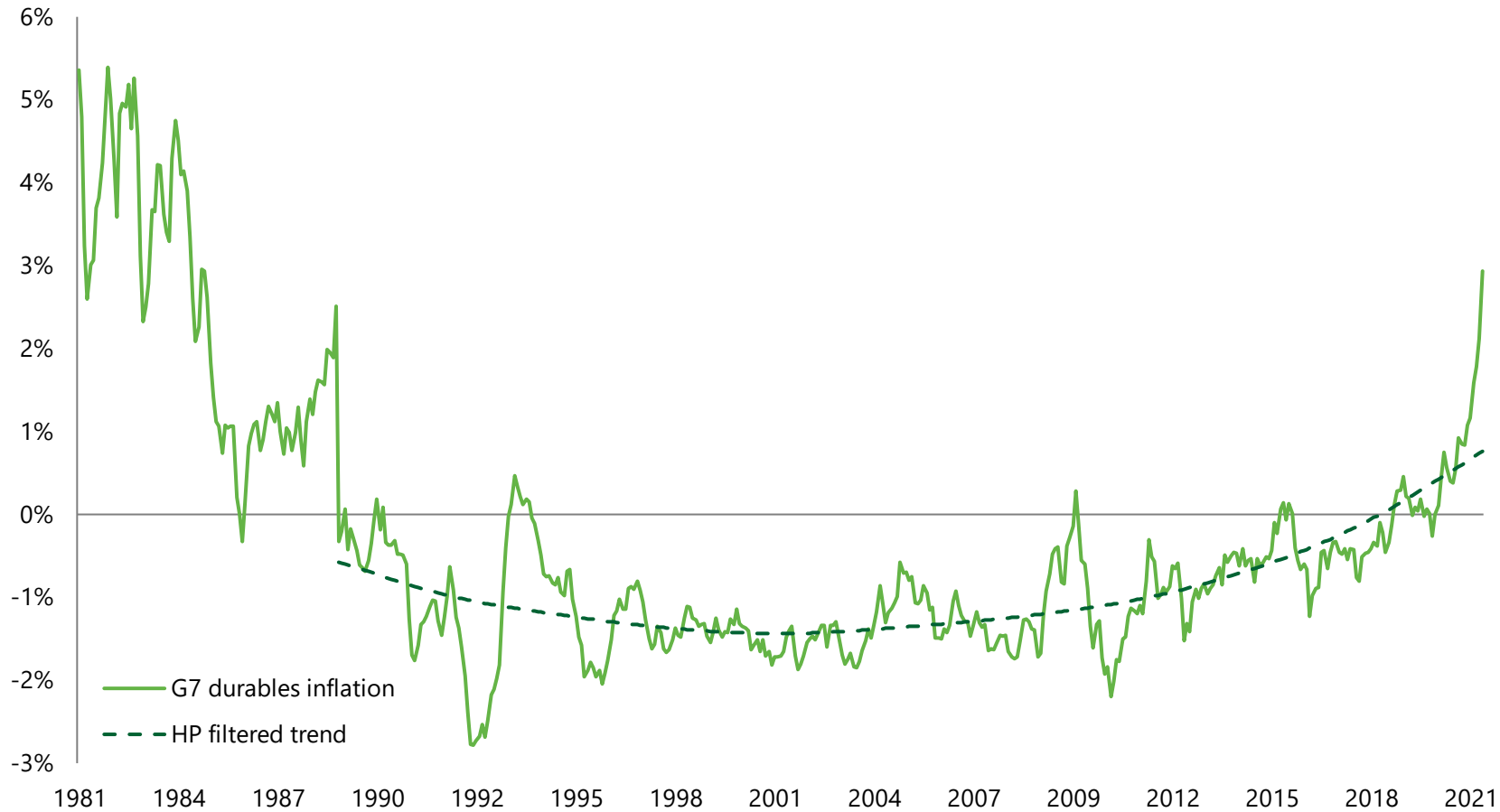
All you have to do is ask

US AVERAGE HOURLY EARNINGS – EDUCATION, HEALTHCARE, PRODUCTION, NONSUPERVISORY EMPLOYEES



Supply side pressures are not relenting

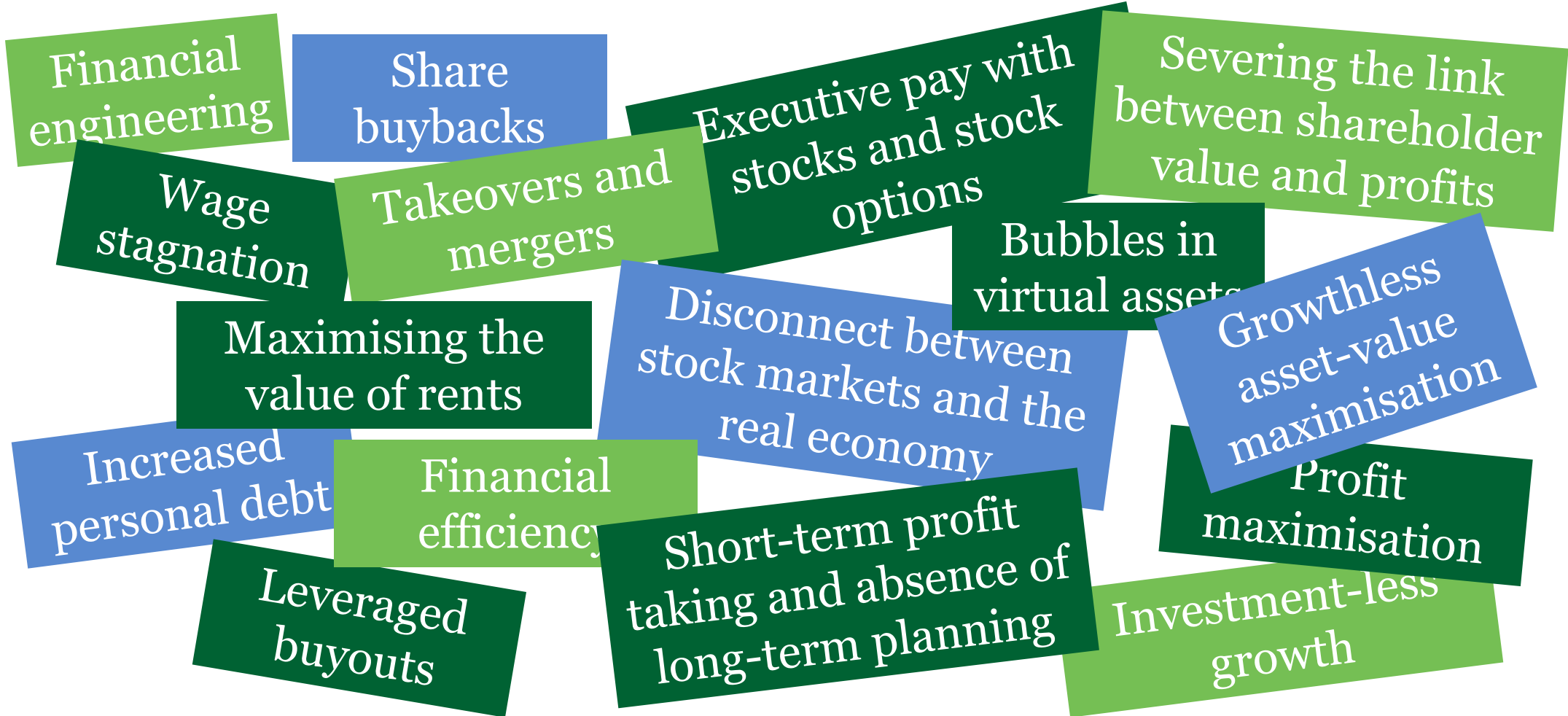
DURABLE CONSUMER GOODS PRICE INFLATION IN ADVANCED ECONOMIES, %



12m % change in CPI, country-level data aggregated using annually-updated weights for durable goods spending, US, UK, Euro area, Japan and Canada included, US only before 1989

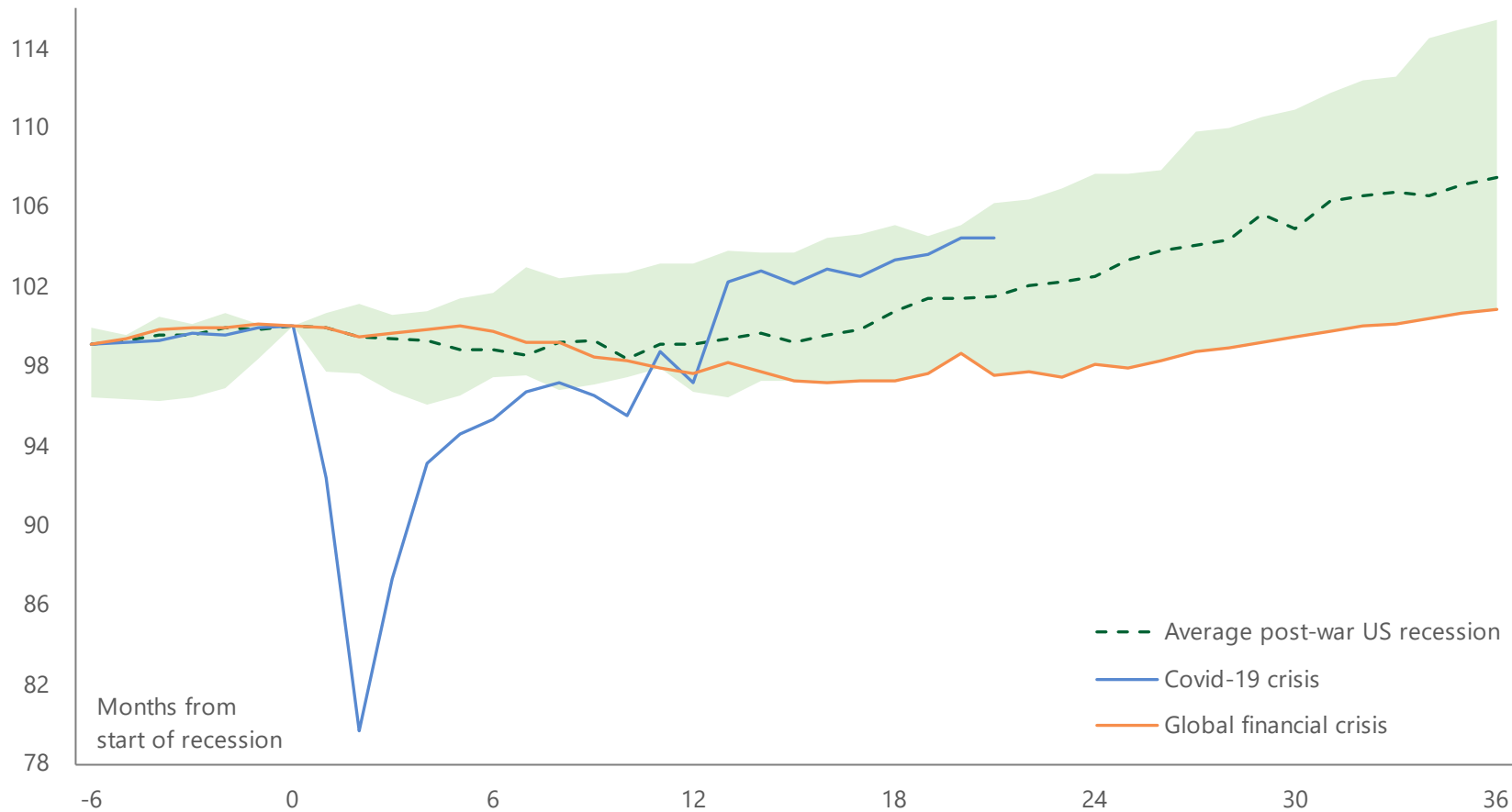
Hyper-financialisation

THE US HAS OPTIMISED ITS ECONOMY AROUND FINANCIAL ASSET PRICES



The recovery has been extraordinarily sharp

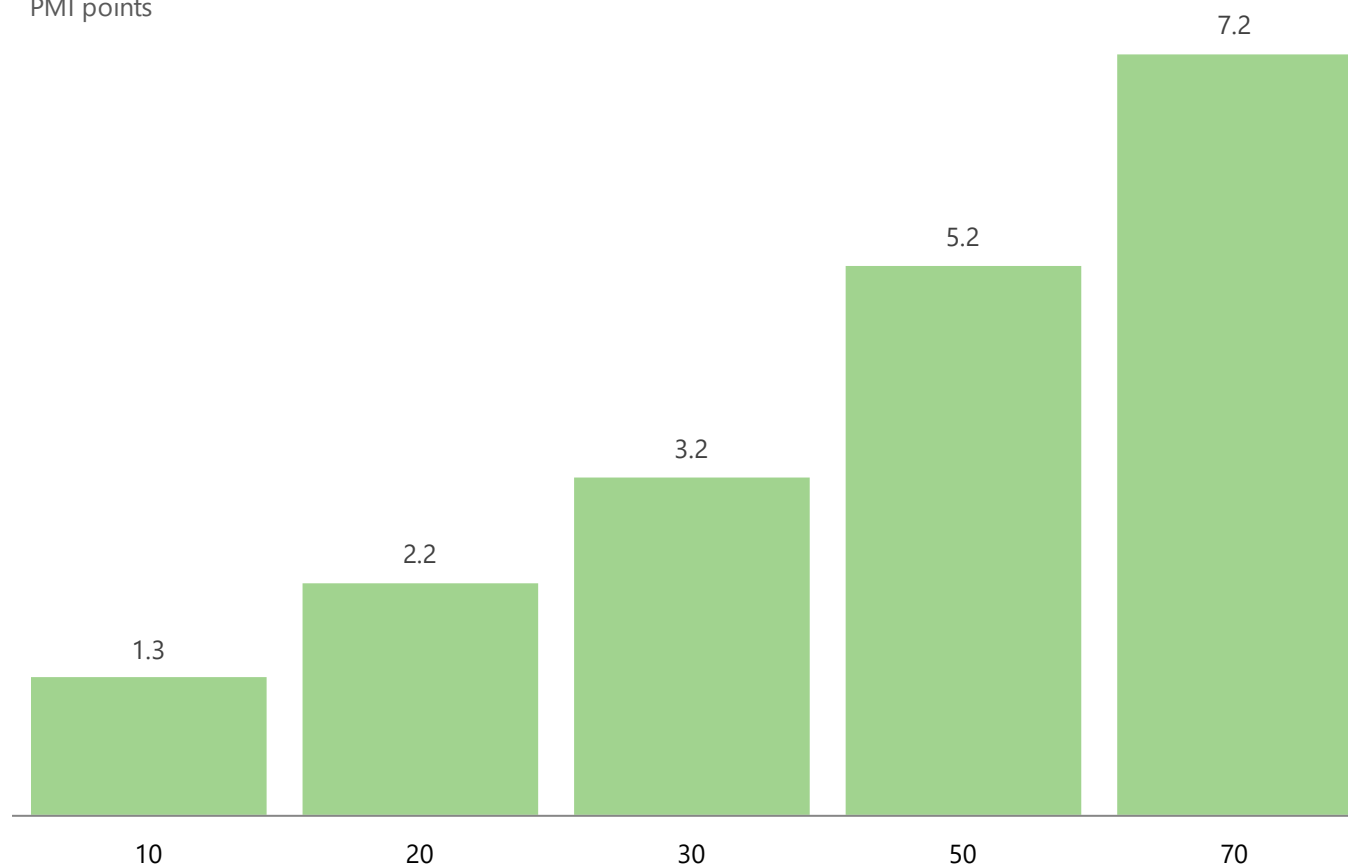
REAL CONSUMER SPENDING IN POST-WORLD WAR II US RECESSIONS



Economic momentum **NEEDS** to continue

MAGNITUDE OF PMI LIFT NEEDED TO NEUTRALISE MARKET IMPACT OF DIFFERENT REAL RATE MOVES

PMI points



A 5.2 point PMI lift needed to neutralise 50bp rise in real rates

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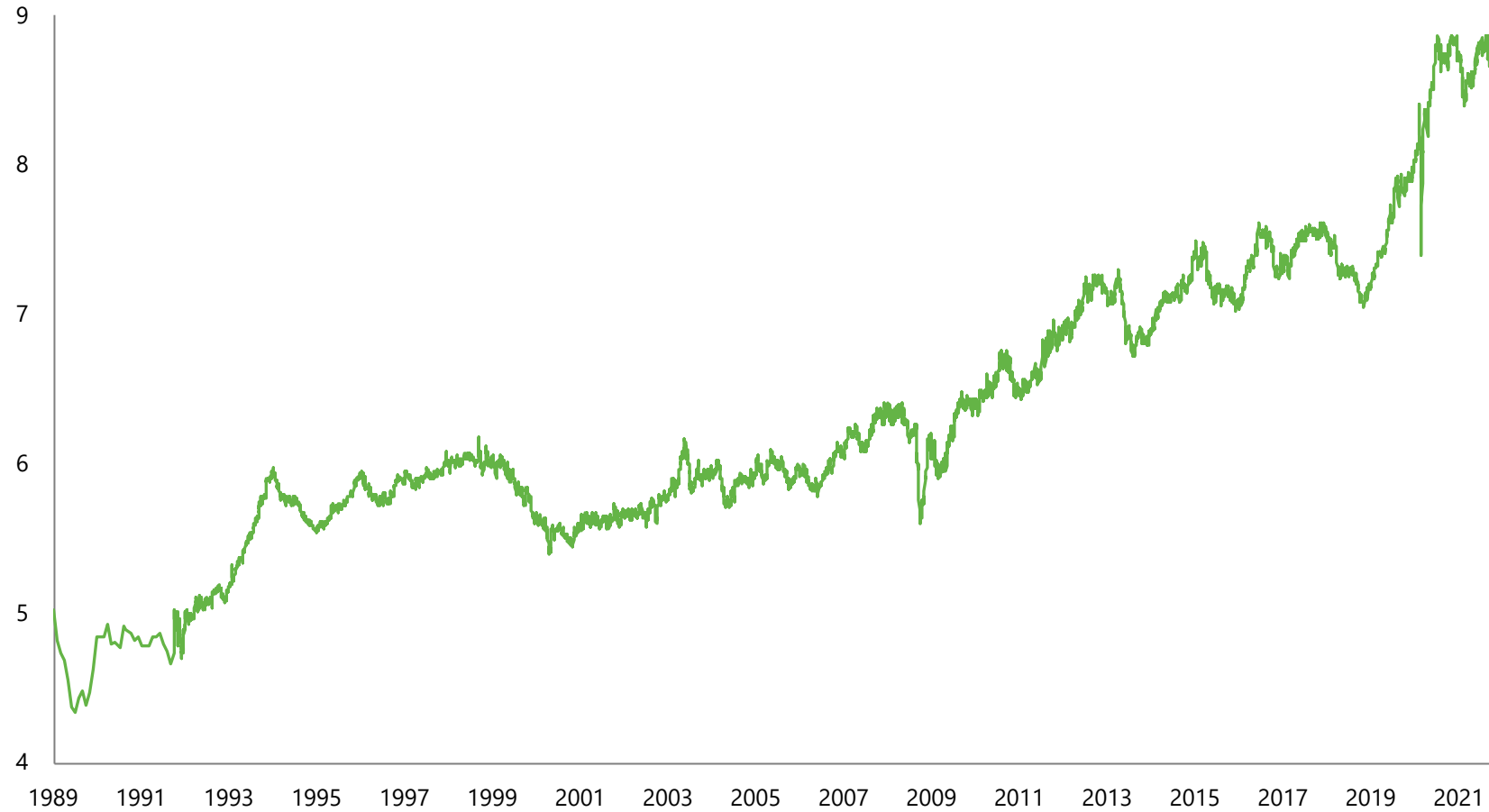


“If I only had thirty
more seconds”

Captain Pastrengo Rugiati

Bond markets are intolerant to rising rates

US AGGREGATE CORPORATE BOND DURATION



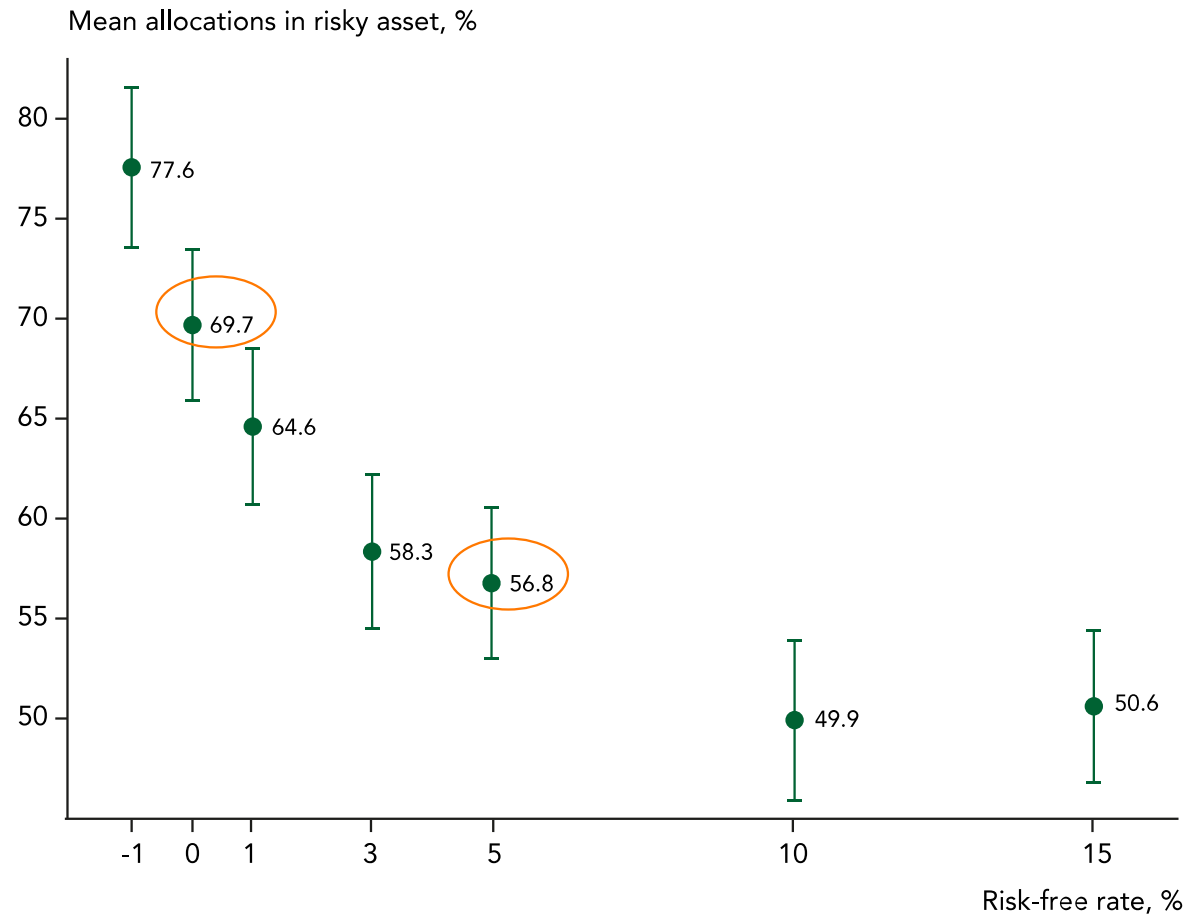
The same is true for equity markets

ESTIMATED US EQUITY MARKET DURATION



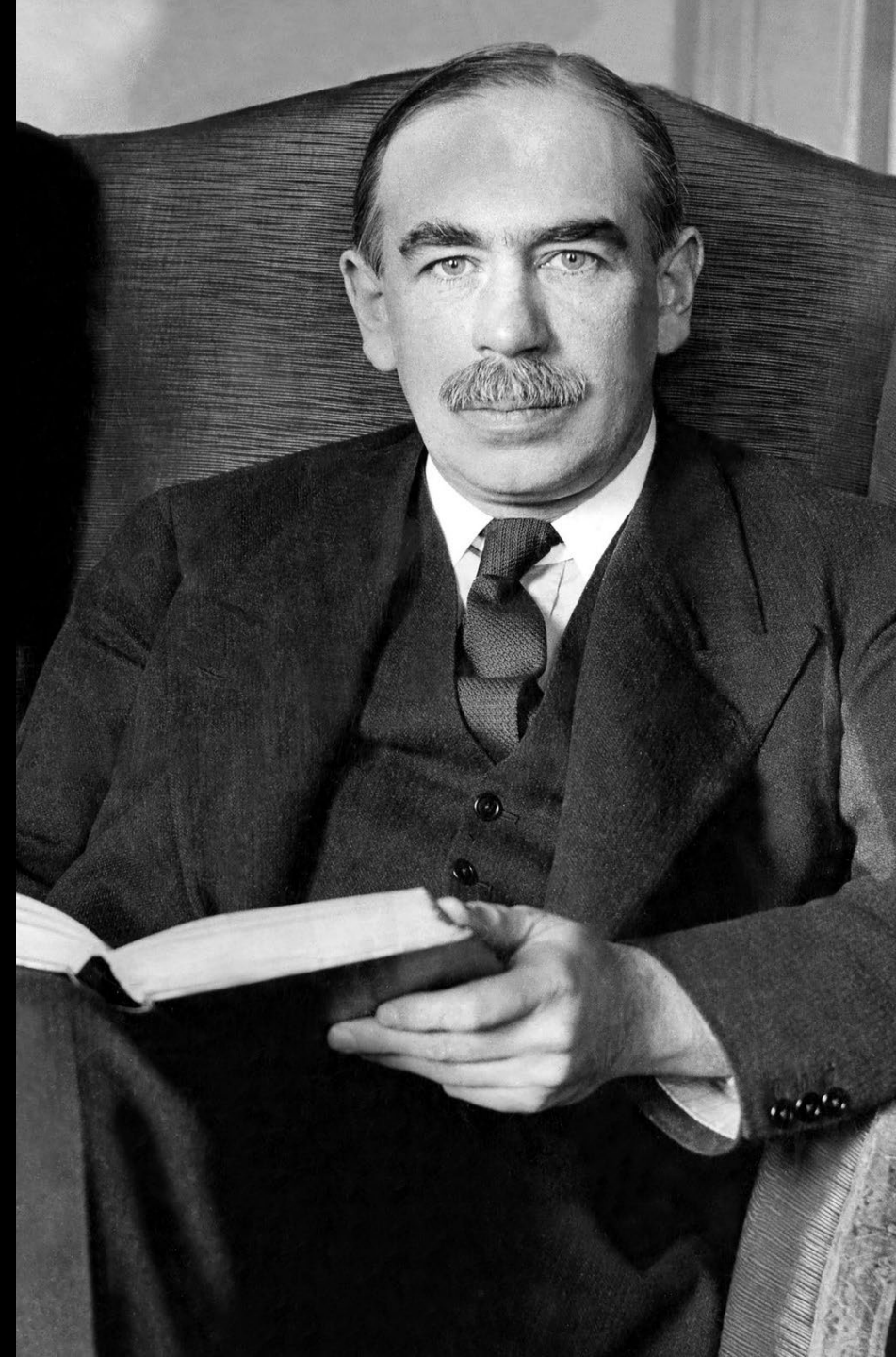
The fear of missing out

LOWER RATES DRIVE HIGHER ALLOCATIONS TO RISKY ASSETS



“ When the facts change,
I change my mind ”

John Maynard Keynes....
maybe



Be active

Pay for convexity

Use cash

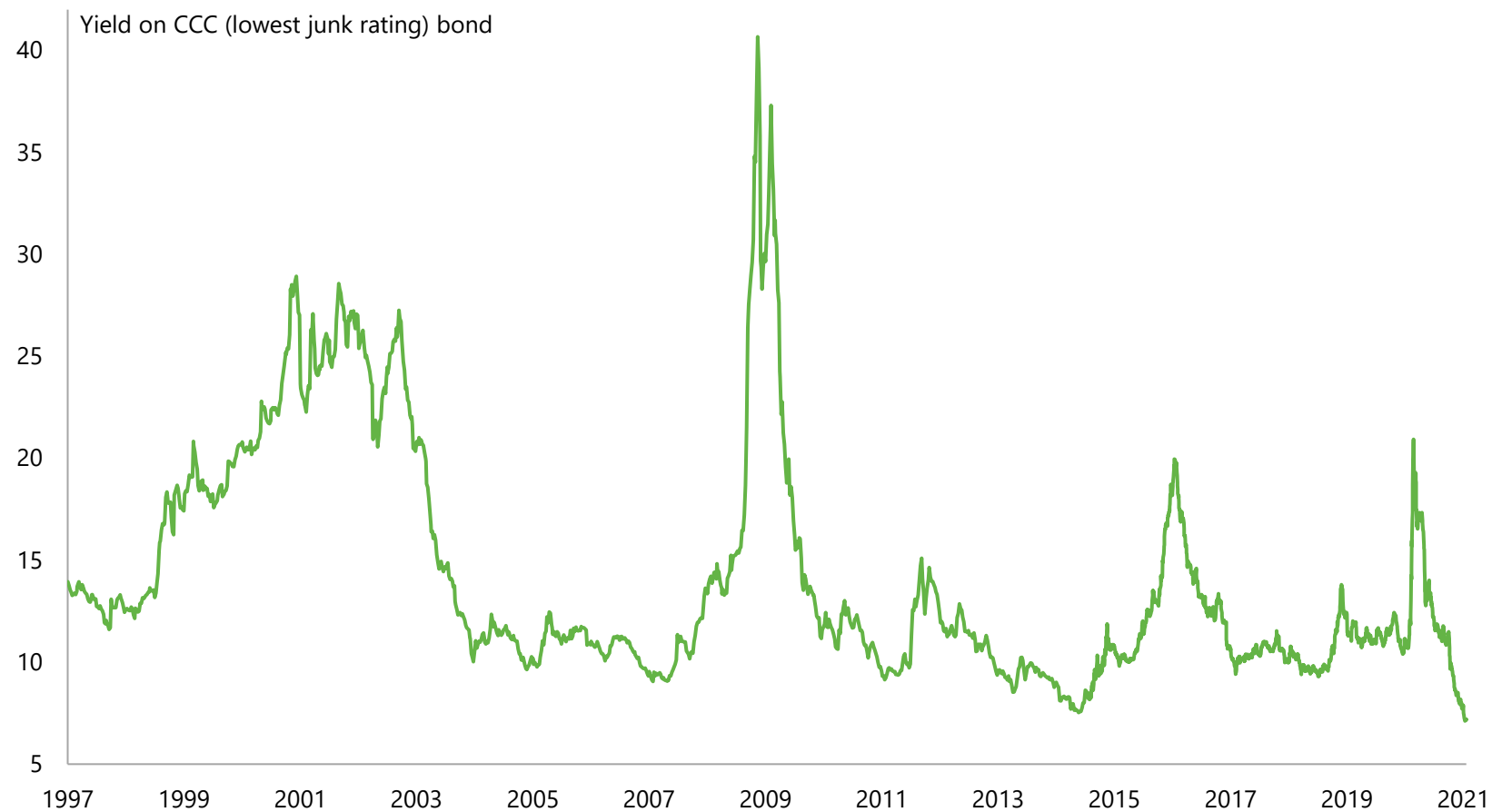
Resilience over optimisation

Underinvestment creates risk and opportunity



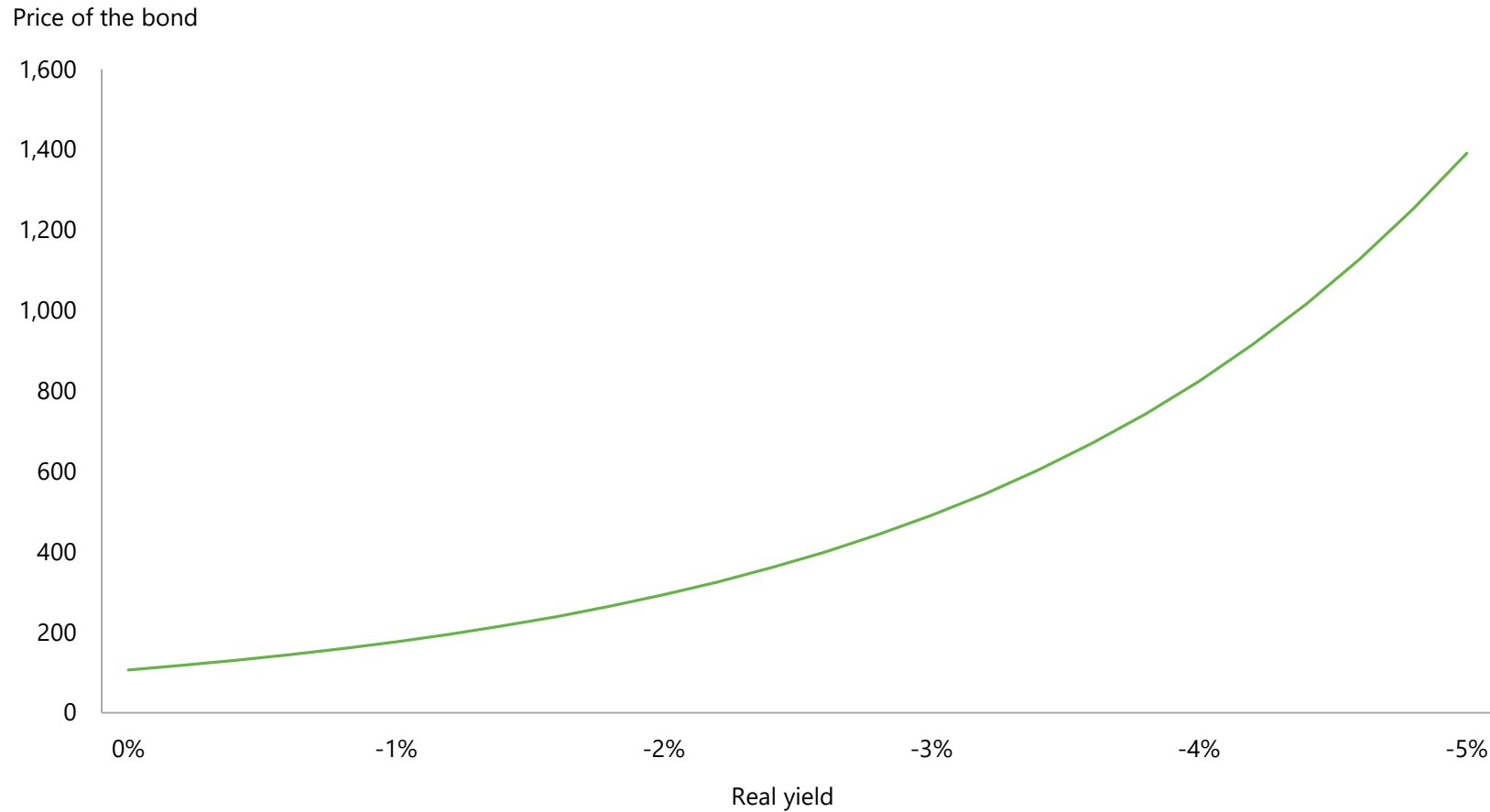
Short credit remains a great hedge

THE POOR RISK-REWARD IN CREDIT MAKES IT AN ATTRACTIVE HEDGE AGAINST DEFLATION



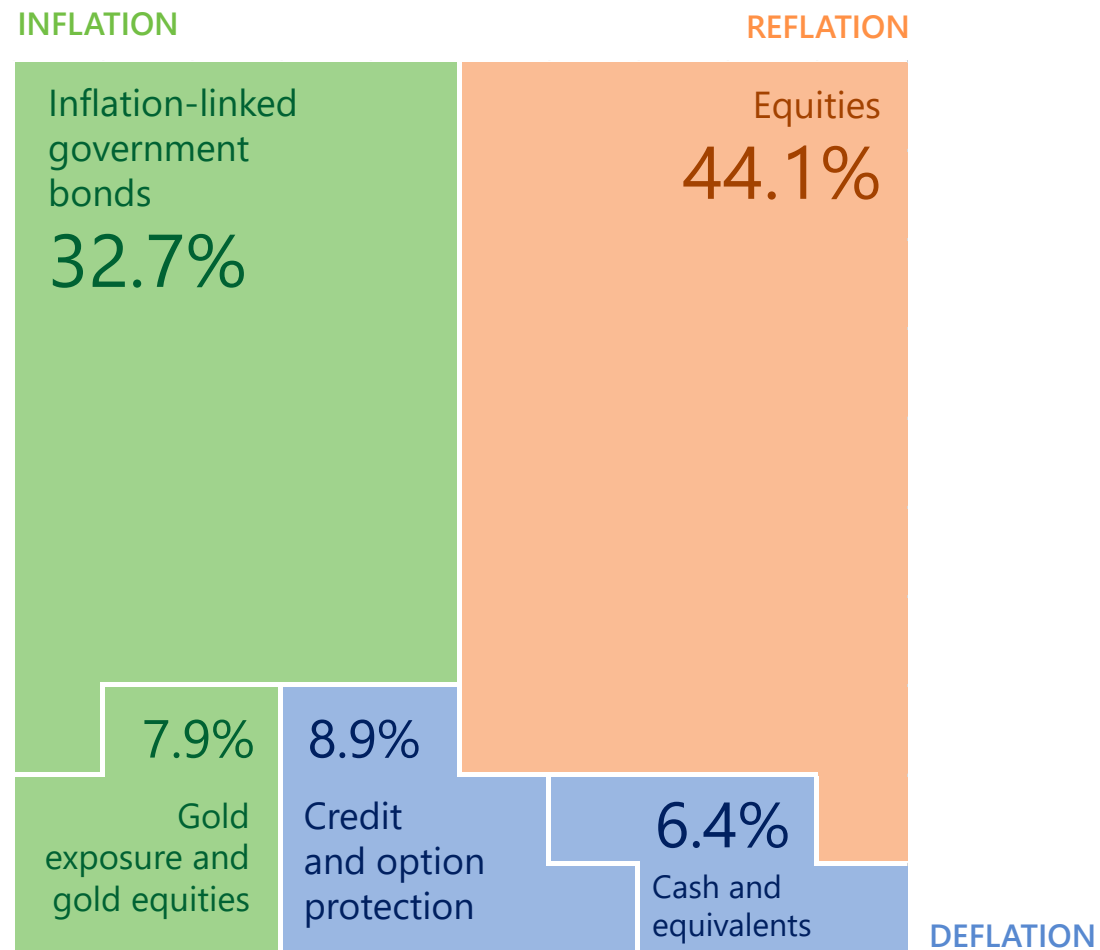
As do inflation linked bonds

HOW THE PRICE OF THE 2068 INFLATION-LINKED GILT CHANGES AT DIFFERENT LEVELS OF 'REAL YIELD'



Current portfolio structure

ASSET ALLOCATION DRIVES THE WEIGHT OF EFFORT



Regulatory performance data

PERCENTAGE GROWTH

To 31 Dec %	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21
Ruffer	10.6	19.8	22.7	-0.2	16.8	5.5	3.0	16.8	11.3	14.1	8.4	2.1	16.0	13.0	15.1	1.3	4.6	11.1	4.2	-0.1	10.9	0.5	-5.8	7.0	16.7	8.2
Bank Rate	6.1	6.6	7.4	5.5	6.0	5.3	4.1	3.8	4.4	4.7	4.7	5.6	5.0	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.6	0.8	0.3	0.1

Source: Ruffer, Bloomberg. Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a reliable indicator of future performance. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested. The value of overseas investments will be influenced by the rate of exchange. Calendar quarter data has been used up to the latest quarter end. Ruffer LLP is authorised and regulated by the Financial Conduct Authority. This document, and any statements accompanying it, are for information only and are not intended to be legally binding. Unless otherwise agreed in writing, our investment management agreement, in the form entered into, constitutes the entire agreement between Ruffer and its clients, and supersedes all previous assurances, warranties and representations, whether written or oral, relating to the services which Ruffer provides. All references to Ruffer performance refer to the Ruffer representative portfolio which shows the performance of an unconstrained, segregated portfolio of £1 million set up in 1995 to follow Ruffer's investment approach.



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