

Q3 2026 portfolio update



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India White-Spunner

Good afternoon and welcome to Ruffer's Q3 webinar. I'm India White-Spunner. I'm a Director on Ruffer's institutional team and I'm delighted to be joined today by Teun Draaisma, Head of Investment Strategy and Alex Chartres, one of our senior fund managers.

The Ruffer portfolio went on a round trip this quarter, leaving performance broadly flat. Now following a positive Q1 but a more challenging Q2, this also leaves performance flat in the year to date.

Alex and Teun will begin with a presentation. They'll shed some more light on performance and activity in the quarter. They'll then look at some of the opportunities we're seeing in bonds, commodities and equities. And then they'll explore the range of outcomes we think may lie ahead and why the portfolio is well positioned to navigate potential shifts in market dynamics.

Following the presentation, we'll move on to audience Q&A. Many thanks to those of you who've sent questions in advance. But if you haven't and you'd like to do so, please feel free to submit them as we go. And finally, as usual, you'll receive both a recording of the webinar and a copy of the slides afterwards. So without further ado, over to you, Alex.

Alexander Chartres

Thank you very much. Afternoon, everybody. We'll start with the attribution for the quarter, which you can hopefully see on the slide in front of you. Now, the headline wasn't much to write home about over the last three months, but at least you can see some classic Ruffer balance. You always want to see some green shaded areas in our attribution chart. Those are the tailwinds for performance and some detractors in orange because that means not everything can go up or down together at the same time.

So starting at the top, the big driver against a relatively benign backdrop, unsurprisingly are equity allocation. And that particularly profited in a benign rotation in July and August. Then encouraging to see a positive contribution from our friend the yen. Actually at points in the quarter, it was one of the only things working, so it's been very useful recently. Gold mining stocks in the portfolio, profiting from a rally in bullion, some income from those short-dated bonds, a bit of a tailwind from some of the commodity exposure. But then on the negative side of the ledger, given that relatively benign backdrop, the derivative protections were a cost and government bonds that we hold in the portfolio, likewise, as yields continue to rise. That rising yield story is very important and we're going to spend a bit of time on it today.

But just to give you a sense of some of the activity we've been up to over the last quarter, there's actually been rather a lot. So I'm going to give you edited highlights rather than a blow by blow account. But in short, we've actually added to most areas of the portfolio over the last three months reflecting growing asymmetry and conviction in all of these areas. And we've funded it largely through selling some of our short-dated bonds that were held there to give us the option to add to interesting opportunities as they arise.

Now three important things I think to draw out here. The first is equities. At the end of June, we had about a third of the portfolio in stocks. That's gone up by around about 5%. It's now more

like 37% or 38%. Most of that actually is in attractively valued US stocks and we've also got some tech call options on top.

Secondly, we've added to bonds. Our effective bond exposure has actually doubled over the last quarter and we see growing opportunity there. And we've also added to dollars. They've gone up from about 12% to about 17% and they're proving a useful offset in the portfolio.

I'm sorry about that. Tech gremlins getting the better of us, but hopefully we're back now thinking about the big market themes. We've thought about AI and how that's been driving the market and how we expect a broadening of growth if it continues. And here we're looking at the impact from conflict, which is the second big story this year. Now what we're looking at here on this colourful slide are the barrels of refined oil products. So think about things like diesel and petrol that have been lost over the last 12 months. And in the orange and red zones, you can see what's been lost from Russian refining output and the Persian Gulf as a direct result of conflict. Now of course, higher fuel costs feed into higher inflation, feeds into higher yields and market pressure. And it's a good reminder why energy, which we have a decent slug of mainly through energy stocks in the portfolio is a useful offset in the portfolio.

Now thinking about energy and its impact on inflation, you may have seen yesterday that there was a CPI print in America that came in hot and that was down to inflation. But if you forget the volatile food and energy inputs to inflation, the world post covid is still one of sticky inflation. And that's what we're showing you on this slide here. This is core inflation. So stripping out energy and food according to the Federal Reserve's favourite measure. And you can see that it's been well above target for the last five years plus. And that's a reminder that this new era that we're very much in, of tech revolution, of global breakdown, of sticky inflation is something that's persistent and we think will continue for years to come.

Now, the other useful bit of context here is to remind ourselves about the debt and deficits challenge. This chart looks back over 50 years and it shows you two things in green. We're seeing the US federal government deficit because it is almost always a deficit over that half century. And in blue you have the US unemployment rate inverted. So that means that when the blue line is going down the page sharply, that's unemployment going up, and that's typically associated with a recession.

Now, through most of history, what you'd find is that during recession, unemployment goes up. Government spends more money to paper over the cracks, but then both of them fall again as the recession ends. Except if you look on the right hand side of this, you'll see that after covid, unemployment fell to a record low, but the government deficit. So the amount government is spending more than it's taking in tax stayed at a peacetime record high. And this has contributed to this new environment of more inflationary growth, but also growing fiscal pressure.

So those are some very important pieces of context and lead us to the third and final of the really important market drivers this year. So AI is 1, fallout from conflict is another and rising bond yields, which is what we're showing you here on this slide, 30-year yields for several developed markets over the last 25 years. They are the other big story, particularly for the last quarter.

Now, there are lots of things contributing to higher yields. One of them is higher growth in places like America and Japan. One of them is more inflation pressure. Think about that energy story I mentioned. Some of it is policy uncertainty. Some of it's global competition for capital. But I'd observed two particularly interesting and I think relevant things. The first is that it's starting to cause real fiscal pressure on governments. And remember, the political settlement in the Western world is very intolerant to spending cuts. So we're going to see more pressure

between public finances that are straightened and political economy. That's why Mr Bessent has been trying to fiddle around with the US yield curve and why we've seen intervention between the US and Japan in the exchange rate.

But the second thing is that for the first time in a long time, we think there is really interesting value emerging in fixed income. And so I'm going to hand over to Mr Draaisma, who's going to talk you through what we think is a really interesting tactical opportunity.

Teun Draaisma — 9:42

Alex, indeed, bond yields risen from about 0% around the world in around covid in 2020 to over 5% now. And that's just another way of saying that there've been a very bad investment in recent years. This chart tries to show exactly that and how unusual that is. This chart, every dot on the chart shows the 10-year performance up to that point of holding 10-year treasuries. And it's been the worst in decades, as you can see. And we all know when there's a big sell off, big correction in something in financial markets, that's often possibly a really big opportunity. And that's what we're exploring. And we think this is a strong candidate.

To start, the yield is just high and attractive. Take 10-year TIPS in the US, 3% yield, which simply means if you hold it to maturity, you've got a guaranteed 3% real return with inflation on top. So that's a simple way of describing the value on offer, but I'm going to show you three more things that help us decide that we've got to have a bit more bonds now.

First, this model of the equity risk premium. This is US data. And what you can see here is the green line shows the best estimate for the next 10 years of return to equities over return to bonds. So this number, it's most of the time positive equities, you have a part of the economy you grow, they tend to be better performers than bonds are. But every now and then, typically at the end of a big, big bull market, this number turns negative. The last time that happened was in 2000 at the peak of the tech bubble back then and just now. So this is one indication that tells us bonds are better than equities on a 10-year view. It's a really compelling indicator for us.

But there's more. There's a margin of safety now. We like to be exposed to assets with asymmetry, with a margin of safety. And now I'm going to take the example of five-year gilts. That's what you see here. They are currently yielding about 5%, which means if you hold them for one year, nothing else changes, you're going to make 5%. No surprise there. It's possible that the 5% a year from now is 4% that you get a bit of capital gains as well. And if that happens the big bar on the right-hand side shows you would make a total return on a one year view of 9%. So that's nice.

But what's really important if you're focused on risk most of all as we are, that if yields rise further, it will be a headwind. You'd lose money, capital on your capital. If they rise a further 1% from here, from 5 to 6% on the one year view, you would actually still make 1.1%. That's what the small bar shows. So there's a margin of safety here that we think is on offer.

And then the third and final thing I want to show about bonds and the attractions is this, which is a bit more technical, so bear with me. One thing is to focus on the level of rates on offer. The other thing is to focus on how quickly we got there. So the blue line is fast moving here. What is the blue line on this chart that shows the speed at which rates have been rising over time at any point in time? So sometimes it spikes one way or the other, but most of the time it's around zero. But it's spiked recently. You can see that on the chart. And actually it's spiked so much that it's above the green line.

What's the green line? The green line is from options markets. We calculate what the typical rise in bond yields that one could expect actually is. And so the fact that the blue line is above the green line is very significant. In our experience it means one of two things, either something is about to break, big correction because rates are breaking things or it simply means that the rate move has been excessive and it's an opportunity to buy in to. If something is about to break from here, our protection book would kick in and would help us, performance wise. And if not, our increased exposure to duration we think will help us as well in the coming months and quarters.

Alexander — 14:13

So that's part of the case about why bonds are looking increasingly tactically compelling. But we have to remember the central challenge that many investors building portfolios face today when we're thinking about how to scale that position. And that's what I'm showing you on this slide here. This is the rolling stock/bond correlation in America going back a century and a quarter. And when the green line is above the horizontal axis, stocks and bonds are moving in the same direction at the same time, and when it's below the horizontal axis, they are acting as offsets.

Now that we've moved back into a more inflation-prone volatile era, the stock/bond correlation has flipped positive. So at the moment, stocks and bonds are still moving in the same direction at the same time. And that means as you add to bonds, they might be idiosyncratically more interesting from a valuation perspective, but they can amplify what's happening in the portfolio around moves in your equity book, for example. So if this moves back into negative territory, you'd be getting some kind of offset again and it might give you more conviction to add. But the key point is that if our regime change thesis continues to play out as it has in recent years, bonds will still be a more unreliable offsets and you'll have to use them more tactically as we're doing at the moment, as we've done many times in recent years to drive returns.

That means you have to think about alternative ways of putting offsets into portfolios. We have several ways of doing this, but one of the most important are our derivative protections. And what I'm showing you here is the relationship between our biggest derivative protection at the moment, which is on credit spreads. So we profit when credit spreads get wider and that's associated with financial market stress. It's the relationship between those spreads going wider and the US 10-year yield.

When the green line is above the horizontal axis, it means that our credit spread protection is moving in the same direction as the US 10-year yield. So in other words, if the US 10-year yield is increasing, so is the value of our credit tail protection. And what you can see is that we are well into positive correlation territory. That means the credit protection is going up as yields go up. And that again, adding to turn signals earlier can give us confidence to start adding to bonds because either bonds rally, yields come down that supports equities and bonds and the portfolio will be fine, or yields keep going up pressuring bonds and equities, but our derivative protections kick in as well. So derivatives remain an absolutely essential tool kit addressing this challenge of more volatile correlations.

Teun — 17:07

And so our commodities, commodities is another element of what we do and we think is increasingly important in providing the diversification and offsets to portfolios of equities and bonds only. Why do we say that? It sounds good, you might read it in our newspapers, but you need to do detailed research as we've done to come to that conclusion. And this is, you might have seen it from US investment clock. You can look at investment regimes in lots of different ways. And this is just one way in which we do it where we define a regime based on the level, but

also the direction of inflation. If inflation is high and rising is very bearish historically for traditional assets. And if inflation is high and falling, it actually very bullish. So you got to take the direction into account and logically just four quadrants.

Let's look at the top right of this diagram. When inflation is high and rising, we call that inflation. And that happens 20% of the time historically. This is data based on data of the last 100 years. So this is important and better than looking at the last 10 or 20 years when inflation hadn't really happened 20% of the time. And you can see equities and bonds both go down about 6%, average annualised performance, negative performance and commodities in contrast go up a lot in that kind of environment.

You heard us talk about high and volatile inflation. And what that means in the context of this diagram is that we now stay in the top half of this diagram. High inflation sometimes rising, sometimes falling. And that means, as the data confirms here, that equities and bonds either go down together or they go up together and you need something else. And commodities is really important as that part of something else because either they do really well, as you can see here, or they're basically flat in this inflation. So there's a bit of asymmetry there, which we tried to benefit from.

How do we do that in practice? There's a bunch of ways. There's indices. You can have exposure to a static index of a broad diversified set of commodities. That's not bad. I think BCOM is a famous such index that people can be exposed to. It's not bad, but you can do better and we aim to do better. This slide shows month by month since the beginning of 2025, what our allocation has been to a whole range of commodities. And the key point here is it's been dynamic and we've been able to go to where the opportunities are, being unconstrained and being active managers.

Maybe some highlights. We had lots of yellow at the start in January 25, which means lots of precious commodities. It helped us a lot in 2025. You might remember we did sell into the strength that we saw and we recycled that in some of the other commodities, most notably when at the end of 25, when oil was \$60 and nobody wanted it. We did recognise the fundamental trouble with oil price, but we thought. Could be a good geopolitical hedge if something happens and we bought some at \$60 and subsequently we sold some at \$120 when the war unfolded. And since we have recycled some of that into agricultural commodities, our analysis shows they're a catch up trade to higher oil and fertiliser prices with the El Nino impact on top. But the key point is here is active dynamic management. We can go to where the opportunities are.

Of course we should talk about equities as well. We think it's important to do the things we do, protection commodities and the things we've spoken about so far. But equities has to be an important part of anyone's portfolio over time. Currently about 37% allocation. As you heard earlier, this is an important chart. We showed it to you earlier. It's been all about AI capex, but that won't last to the same extent as it has been in the last few years. Maybe the biggest theme over the next two years will be that the green line rolls over. AI cap back still important, but it won't be growing as explosively as it has done. That would help pressure on inflation, it would help pressure on rates, and it could lead to other drivers of the economy taking over.

And you can see that here. How would it unfold? AI capex has very low interest rate sensitivity, as this slide tries to show. If you're going to change the world, through artificial intelligence, whether rates are 5%, 6% or 7%, it doesn't matter too much. So that's low interest rate sensitivity and it's currently booming, but at some point it will roll over and then it will go to these other areas, other business capex, consumer spending and even housing and interest rate sensitive areas.

We have good exposure to a broader equity market in the US That's why we've increased our US equity exposure and our dollar exposure, which doesn't need oil relief, which doesn't need rate relief. All it needs is a continuation of the economic cycle. Also, Japan equities is a favourite area. Activism and restructuring is absolutely rampant, leading to good performance. And we're even starting to invest in the last phase, housing related areas where perhaps the recovery is a little bit further off. But the asymmetry is really biggest and the potential is biggest and we see opportunities there as well. So equity is an important part of what we do.

Alexander — 23:13

So let's have a look at the current portfolio and the key scenarios that we see ahead. We've covered today lots of signs of the big macroeconomic shift that we've been talking about. It's no longer an abstract tabletop exercise. It's very much right here, right now. That's a tech revolution. It's conflicts. It's fiscal pressure and debt feeding into increasingly fractious politics. And I think we can break down the outlook here into three main scenarios broken up in blue-green and orange on this slide.

We'll start on the left. And that's arguably where we've been, of course, and that's a narrow AI rally that's particularly focused on a handful of US tech names. Now we do have quite material exposure here, although it is not the scenario in which this portfolio will currently do best. What do we have for this setup? We've got dollars, we've got US equities, we've got the Japanese equities Teun was mentioning, energy and financials are likely to perform as well. We've added materially especially to US stocks, including through call options on the NASDAQ and to dollars recently. And we would expect to be able to carry positively in this environment and hopefully do better than that as well.

But we see much greater asymmetry in the other two scenarios, which we think from here are increasingly likely. In the green central scenario, this is where most of our growth assets are aimed and Teun has talked through some of them. This is a benign market rotation, so the market broadens out from its narrow focus on a handful of AI beneficiaries and that unlocks growth in all sorts of areas, some of which Teun has mentioned. But typically they'll be more rate sensitive or cyclical equities. And we may also get something out of our bonds as well because that benign rotation would likely be associated with stabilisation or a rally in rates. So rates move lower and potentially lower energy prices as well. So there's a lot of growth asymmetry on offer and we've got plenty of it in the book. And you saw that in January and February during that benign rotation period for portfolio performance and again in July and August. And we think that will happen again.

Alternatively, if it's a less benign rotation from here, if growth doesn't broaden out and we instead get a shock or the AI capex story rolls over and that takes us into the right hand environment, maybe that'll actually be driven by a classic end of cycle economy overheating, the Fed overtightens, yields crack the system, maybe it'll be an inflationary overshoot, maybe it'll be geopol. It could be anything. We don't try to work out exactly what the shock will be. We certainly don't try to time it. We just want to make sure that we are prepared for it whenever it comes and we have very powerful protections against those shocks.

We've spoken about some today. The credit default swaps are the biggest position. We have defences against sharply rising volatility. We've got the yen and in some circumstances we would also expect bonds to rally as well. So a lot of asymmetry and growth for that broader scenario, a lot of asymmetry in the tail protections as well. And the net result is a portfolio that can make quite a bit of money quite quickly in either of those scenarios. And we think that's what's going to happen. India.

India — 26:44

Thank you very much both and apologies again for those technical issues. I think, Alex, the audience missed your initial AI point. So maybe if we jump in there on the questions to make sure that it's reflected. So let's start with AI continues to dominate markets and investor attention. The current valuations reflect lasting investment opportunity or is there a risk that expectations have moved too far?

Alexander — 27:08

We're extremely bullish on real world AI potential and it's an area we spend a lot of time thinking about and having investment team focus on. Every tech boom in history has involved massive misallocation of capital. It's very hard to have high conviction in where the economic returns will be made sustainably in this economic boom. And there are any number of things we could talk about from the threat from Chinese AI models, the open source question, commoditisation of the frontier of AI and much else besides.

The key point from our side is that we think there are growth opportunities that you can have high conviction in with really good asymmetry that don't require you to take that on. Now, I've already said that we do have things in the portfolio that will profit if you get a continuation of that AI-centric, US-centric dynamic. We've actually added to some of them recently to help portfolio balance. But fundamentally, we think the best asymmetry at the moment is elsewhere.

India — 28:10

Thank you. And if we zoom out a little, Alex, again, you've spoken about regime change for a long time. That regime seems to have arrived with geopolitics, inflation, rising bond yields, all dominating headlines. Given that Ruffer was early to predict these trends, why has recent performance not reflected that?

Alexander — 28:30

This year has clearly been pretty underwhelming. Last year I think was a very good example of taking advantage of exactly these sorts of trends. If you think about gold as a huge driver of performance, questions around debt sustainability and political volatility, trade volatility around Liberation Day that saw our derivatives come into play. So this is a multi year story that we expect will keep throwing up opportunities.

And I'd add two other points. I think the first is that we are carrying some very powerful left tail protections. In other words, for big market shocks where you could face material declines. Obviously it's disappointing that the headline numbers are not so far more exciting this year, but we are carrying really potent tail protections.

And the second thing is we've outlined already today all the sources of asymmetry we think we can look forward to and that can drive returns pretty fast from here.

India — 29:25

Thank you. And Teun, maybe turning to the bonds now, does the increased exposure to bonds reflect and move away from Ruffer's structural bearishness on the asset class?

Teun — 29:36

Yeah, I see. I didn't mention that. No, there is structural risks in bonds are absolutely still there. Government finances, inflation, these are real, real risks and real issues. In addition, there's

another risk that that question doesn't spell out, which is adding bonds is adding risk, right? Equities and bonds go up and down together. So we take that very seriously.

But still the big thing is when something becomes front page news, it's an opportunity. And we don't, which we have to consider very carefully and seriously. We don't always automatically buy things when the sell off has been so bad that it's front page news. But in this case, I hope I showed some of the models. We think it's good. And it's important to have increased exposure.

I would add yesterday in the US we had a hot CPI print. Today we had a hot PPI print. And sometimes when you have an investment case based on, fundamental outlook, the thing that happens as well as a market tell and what happened yesterday and today, I think is a market tell early days and it tell is hot numbers, bonds rally. I think the bad news for now is in the price and it's an opportunity that we have taken on.

India — 31:06

OK. And Alex, when investors can get a 5% return from short gilts and money market funds, where does Ruffer fit into a portfolio?

Alexander — 31:16

I think the short answer is we can do better. Teun showed some pretty handy maths earlier. You can pick up your 5% at the moment and you can get a bit of capital upside as well if you get a rate rally. But what are you going to do at that point when your running yield is lower and you've had the capital gain we would expect in those circumstances where the economic backdrop might easily be more difficult if you've seen a sharp rates rally, that's exactly the moment a lot of people won't want to be investing into other things because there could be some stress around.

We would do exactly what we've done for 30 years, which is to exploit volatility. So in short, active management and we can and expect to do materially better than that through the cycle. And Teun we briefly referenced this in the presentation, but the S&P is at all time highs, but only a small proportion of constituents are hitting highs while most constituents are significantly lower than their peaks. Are index funds therefore a calamity waiting to happen and could they pull down other investments with them?

Teun — 32:22

It's interesting. When we spoke in the past about regime change, one aspect is the new world order leading to a higher, more volatile inflation. Another aspect is the change in the market structure and the rise of passive has been a big contributor. There's other things that have contributed to the change in market structure, but I think that question highlights that trend.

In fact, I've done a study into this, hopefully that becomes a Ruffer Review article, where I've looked at the last 100 years to see whether mega caps like the 10 biggest stocks do well over time or not. And very consistently the mega caps underperform. But every now and then there's an up to 10 year that they outperform. The last time that happened, TMT in the tech bubble, there was a big period of the big caps outperforming. And that trend ended when the market peaked.

We've now had 10 years of mega caps outperforming. The rise of passive was a contributor to that. Of course, the mega caps, the big companies have been extraordinary as well. So it's not only the flows, but I think the calamity waiting to happen that's maybe putting it strongly, but the inflows which have contributed to the outperformance will turn into outflows if passive investing turns out to be suboptimal, great opportunity for active managers when that comes. And I think it's not far away. It's really not far away.

And one more thing to add, when new companies IPO at one trillion, two trillion market cap, that's for me a sign of when the history books are written, people will point to that as a sign of getting towards the end of that trend.

India — 34:19

OK. And I think one of the other topics we missed slightly with the technical issues was the addition to the US dollar. So Teun maybe you could give your current view of the US dollar and what factors are most likely to influence its direction from here.

Teun — 34:33

We missed all the good bits in the those few minutes. Apologies for that.

The dollar can really be helpful in creating a resilient portfolio. It's been historically quite a magic asset in the sense that when traditional assets, equities and bonds sell off, the dollar typically strengthens in a flight to safety. And it can also do well when everything goes well. Typically the dollar is a bit weak when there's a good global growth cycle. And if that's the case, then other stuff in our portfolio we'll do well as well.

So a bit of a magical magic asset, unless the crisis that dominates the world is driven by something in the US such as Liberation Day. Today the dollar is a little bit expensive, a little bit popular. We don't want it to be all in. But we've increased our exposure to both US equities and the dollar. And we think that really helps portfolio balance going forward.

India — 35:36

And staying on the US, Alex, looking ahead, we've got the US midterms. They're likely to become an increasing focus for markets. What are you watching most closely and how could the result affect markets or policy?

Alexander — 35:52

I think a short answer is the midterms being curiously unremarked compared to a usual cycle. The base case must be that the Republicans lose the House. The Senate seems to be more of a toss up. No, no edge there.

I think if you think about some of the other big themes this year, particularly around conflicts, the question about how decision making around, for example, the Iran war changes before and after the midterms when the political incentive to do a deal has dried up somewhat, that's pretty market relevant as we come into the end of the year. And I think obviously if the Democrats do make some gains as expected, then the conflict between Trump and the Congress is going to ramp up. And we anyway expect more policy volatility in the last two years the Trump administration.

But I think if you look across the political piece, we may come to France, for example, you are seeing this interaction of increasingly volatile political dynamics with straightened public finances. And that does find its way into markets.

India — 36:54

Alex, you've already mentioned France. Is this something investors should be worried about?

Alexander — 36:59

I think it's a fundamentally different beast to eurozone crisis Mark I, for example, Greece could actually leave the euro in theory in a way that obviously France can't. It's too big to fail. And so

interventional support is a question of when, not if, if the situation continues to get worse. So it's fundamentally a political problem. And I would guess that there's no incentive for the ECB to provide support before you see materially more stress. And the bond market is quite a good way to try and discipline politicians in France if you're sitting in the ECB or Brussels. So I would expect more stress.

But I think we should zoom out again to the key point, which is this elephant in the room that's debt and persistent deficits and voting publics that simply weren't countenance spending cuts outside of major crises against the back of all these revolutions we're talking about, where they actually want more support from government. And that's why we should expect more fiscal pressure, more debt, palliative measures, more of the sort of thing Mr Bessent's been doing over time.

India — 38:06

And Teun, protection comes with a cost during periods when markets remain resilient. How do you assess whether that cost has been worthwhile and why it's important to maintain the protection today?

Teun — 38:18

It is really important. We started adding derivatives about 20 years ago. In the old days you could do 60/40 equities bonds and you had a well diversified portfolio. We identified early that we might need to change that and we've had a dedicated team for 15 years now.

There are some costs and in the good times, you pay your insurance premium for your house or anything and you don't need it. The costs have been about 2% a year in normal years when you don't need it. But when you do need it, it has really helped us out a lot. It contributed 7% in 2028% in 2022.

And my view is today is absolutely not a time to give up on protection. Quite the contrary. Some of the most exciting assets are in protection. We have VIX calls. It's a way to be exposed to the volatility of the index. At the moment the volatility of the index of equities despite everything that's going on is artificially low for quite technical reasons. If things start to go wrong, we can see a non linear move in the VIX and it would really be a non linear bail off in the kind of things we're exposed to.

And there's a similar thing going on in credit where credit spreads have benefited from huge flows, not unlike the rise of passive to the other question we heard earlier. And if things go wrong, those inflows will become outflows leading to possibly a nonlinear moving in credit as well.

So not the time, not the time to give up on it. If it's only natural that when you have needed at least the temptation is to give up on it, but that's exactly the time to not do it. So I understand the frustration.

India — 40:27

We're coming to the end of our time. So Alex, just one final question from me. What are the key messages you'd like our audience to take away today?

Alexander — 40:35

I think number one is that this long term change in the market environment we've talked about is very much here and now. And we've got the right tool kit to navigate it. And I hope we've given some examples to the people watching at home today of those sorts of tools.

The second thing is that traditional offsets remain unreliable and that in particular means bonds, but it could also include the dollar, which has been very much propped up by inflows to equity to support the AI trade. We do think bonds are tactically much more interesting, but that challenge around changed correlations in this new regime is very much there.

And the third thing is that we think there is very favourable asymmetry on offer in that more benign growth rotation scenario and also in those tail protections. And that's the focus of the portfolio positioning today.

India — 41:26

Thank you both and thank you very much for your time and attention. I hope you found the discussion useful. If you've asked a question and we haven't been able to get to it today, or you didn't and you still have one, then please do get in touch with your usual Ruffer contact and I'll be very happy to help you. Enjoy the rest of your afternoon.

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