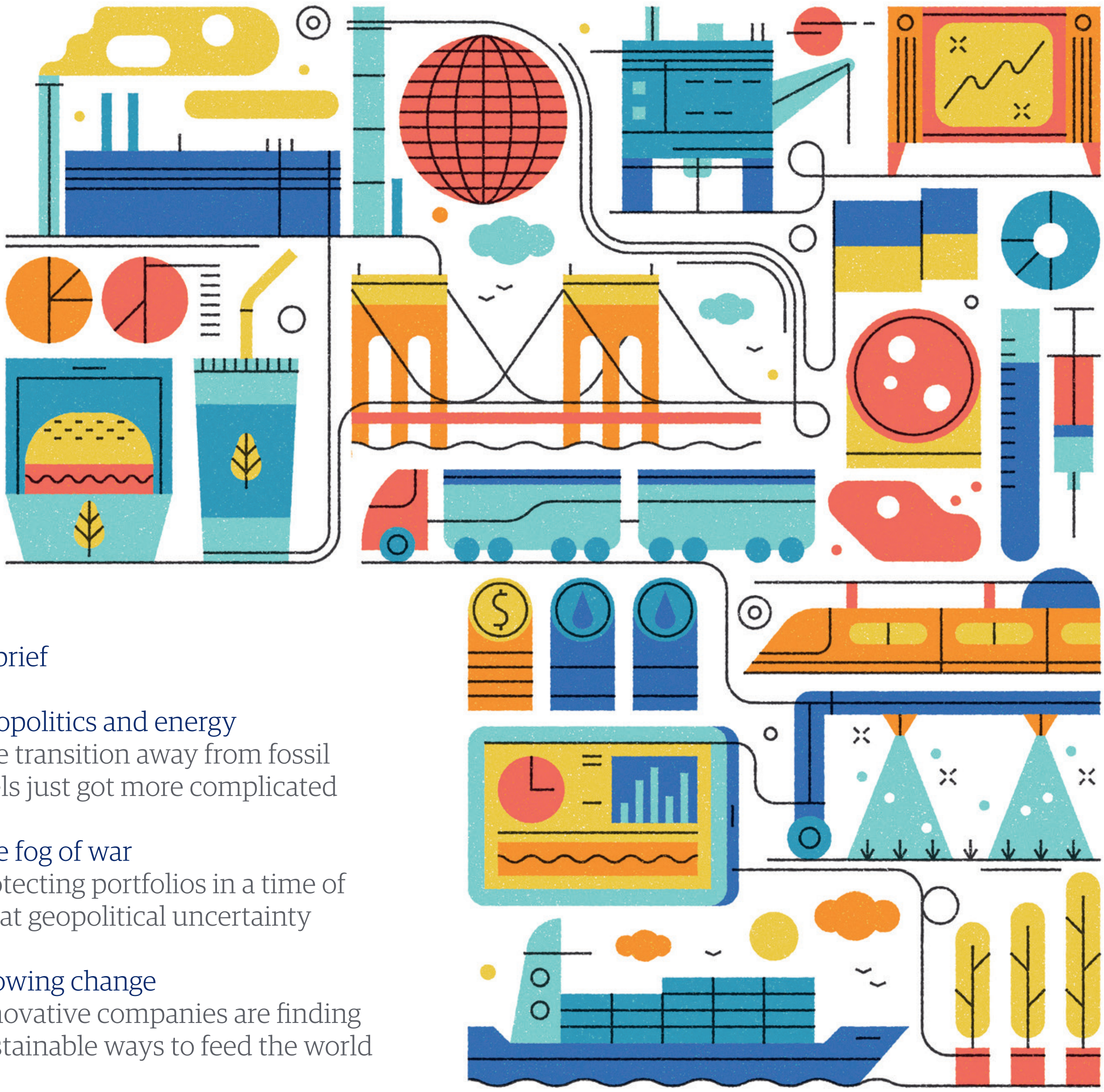
Investment*Insights*

Issue 32 — Second quarter 2022

This is not an economic rerun of the 70s

Classic hits are on the radio, platform boots are back in fashion, oil prices are soaring and inflation is alarmingly high. But stagflation doesn't look like it will make a comeback.



Rathbones
Look forward

Foreword

Financial markets are still adjusting to the geopolitical upheaval following Russia's invasion of Ukraine. The world is shocked by the war and the unfolding humanitarian crisis that is taking place, and our thoughts are with all those affected. At times like these, we also have a duty to our clients to monitor the economic and market impact and keep you informed about the investment implications.

We begin this quarter's edition by looking to the past and whether things really are heading towards an economic echo of the 1970s with our lead article on page 3. With oil prices rising and talk of stagflation, it's easy to make the connection. But we explain why we don't think a repeat of the 1970s is likely.

Our next article on page 5 looks at how the transition away from fossil fuels just got more complicated at this difficult time. With the conflict threatening Europe, the energy industry is in the middle of a perfect storm. What does this mean for the future when it comes to energy companies and consumers alike?

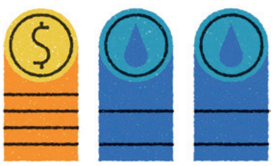
It's important to protect portfolios in a time of geopolitical uncertainty, and in our next feature on page 6 we explain how we are managing our investments given the conflict in Ukraine and its effect on the global economy.

On page 8 we look at key trends in the food production, consumption and waste ecosystem where companies are looking for innovative ways to feed the world. Global food production has increased substantially over the past 50 years, making food more affordable even as the world's population has doubled. But the system faces serious demand and supply-side challenges.

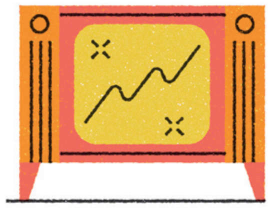
Lastly, we ask whether infrastructure investing can bring sustainability to a portfolio on page 9. Once commonly associated with public–private partnerships and lots of debt, the sector has evolved significantly over the past two decades. We examine the future of infrastructure investing as it embraces trends like renewable energy power generation.

We hope you and your family remain healthy and safe during this uncertain period. Please visit rathbones.com to find out more about our latest views on issues affecting the global economy and investments.

Liz Savage and Ed Smith
Co-chief investment officers



Why we don't see an economic rerun of the 1970s



Some of our older readers may be experiencing some déjà vu. Classic hits from the 70s are on the radio, *Vogue* has just run an article saying the platform boot is *de rigueur* this season, oil prices have gone through the roof – in part due to a war – and inflation is alarmingly high.

Are we in for an economic rerun of the 1970s, with a prolonged period of weak equity-market returns and economic 'stagflation' (sputtering growth and spiralling prices)? We don't think so, and here's why.

Oil prices have almost doubled in just a few months. In 1973–74 the Yom Kippur War and the ensuing Arab/OPEC embargo caused the oil price to triple in a similar span of time. But it wasn't just about oil – US inflation had been above 4% for the majority of the five years before fighting broke out between Israel and the coalition of Arab states, and breached 6% briefly in 1969 (and in the UK 9% in 1971). In other words, persistently high inflation had become endemic long before the oil shock, not for the 10 months or so it's been today. So how did it become so entrenched?

Bad data, economics and policy

Economic historians have shown that the data used by central banks and their Treasury departments in the early 1970s significantly overestimated the amount of spare capacity in the economy – the difference between what the economy was capable of producing at full employment, without overheating, and what it was actually producing. By overestimating this spare capacity, the US Federal Reserve (Fed) and Treasury were therefore underestimating the inflationary effects of their policies.

After the 1970s debacle, the Congressional Budget Office established a unit to independently estimate the output gap. Forged in an inflationary crisis, they have almost invariably underestimated spare capacity ever since. Their estimates aren't perfect, but today they think that the US economy is already operating above capacity.

It wasn't just bad data. In the 1970s, the prevailing 'Keynesian' way of managing the economy – a belief that consumer and business demand was the main driving force and where expansionary government spending was to rise if it faltered – did not understand the role inflation expectations play in wage and price setting. It struggled to explain why inflation could stay so high while unemployment also rose.

Prevailing theories only explained the short-term relationship between inflation and unemployment. For example, say the government decided to embark on an expansionist monetary policy to incentivise consumption. Unemployment is reduced through this economic stimulus package, and the trade-off is some inflation. However, after a short period, people begin to associate expansionist policies with inflation.

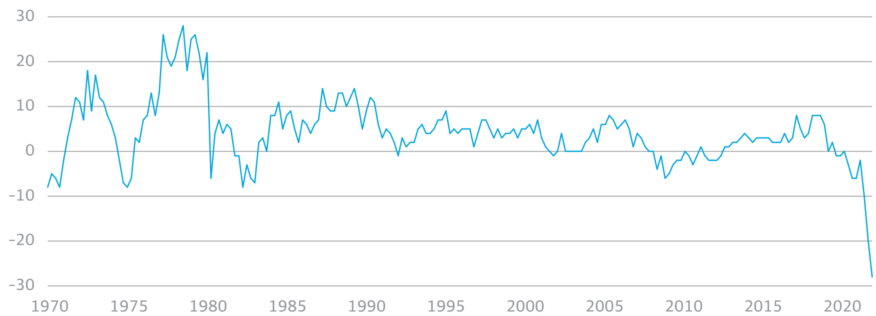
Government and central bank policymakers (the latter not independent from political interference like today) delivered woefully inappropriate responses. While the appropriateness of monetary and fiscal policy over the last couple of years could be debated, fiscal policy is significantly contractionary in the US and UK this year. Monetary policy is on the move too. In his Congressional hearing in March, Fed Chair Jay Powell declared he was today's equivalent of Paul Volcker, the 6 foot 7, cigar-chomping Fed chair who finally restored the central bank's credibility in the early 1980s, not Arthur Burns, Presidents Richard Nixon and Gerald Ford's impuissant Fed chair between 1970 and 1977.

Inflation expectations and wages

Certain countries made matters worse. Some, such as the UK, encouraged a private sector borrowing binge with de-regulation. In the US, Nixon started a bout of protectionism, under the guise of

Figure 1: Consumers are showing restraint as inflation heats up

Net % of respondents saying it's a good time to buy large household goods amid rising prices.



Source: Refinitiv, Rathbones.

helping domestic industries, but it served only to raise input prices and, in turn, output prices further.

Nixon also abrogated the Bretton Woods currency system, which was like a gold standard – the dollar devalued, which meant that import prices soared. Even in countries whose currencies appreciated as a result, inflation became less well-anchored because there was no longer an international institution enforcing a "credible commitment" to economic rectitude.

Underlying the fact that inflation is as much an institutional phenomenon as anything else (the 1920s in Europe also proved this) countries that held on to more conservative fiscal and monetary policies, such as Germany and Switzerland, were relatively unscathed by the 1973 oil shock and runaway inflation in general. In fact, Swiss inflation fell from the mid-1970s, while countries such as the UK or Italy that made the biggest policy mistakes, fared the worst.

Today lending is tightly regulated and there are no currency regimes to be broken. We don't see evidence of significant institutional failure, and believe as long as our institutions remain credible, the chance of inflation spiralling out of control is very low because they anchor inflation expectations. Medium-term inflation expectations are still at (for consumers) or below (by market-based measures) where they were between 1995 and 2010, and a fraction of what they were 45 years ago (we don't have great data for the early 1970s).

We also know high prices are making consumers less likely to make significant purchases today, in stark contrast to the 1970s (figure 1 shows the long-running University of Michigan survey on this question). As the chart reveals, consumers in the 1970s thought that the price rises they were experiencing were likely to continue long into the future, and therefore it was better to buy a big ticket item 'today'. Consumers feel the opposite today. In other words inflation is likely to curtail demand and therefore become self-limiting.

That's not a surprise when wage inflation is still relatively contained. In the late 1960s and early 1970s, wage inflation ran ahead of price inflation. In fact a recent examination of inflation spirals by Oxford Economics, from a wide sample of countries over many decades, found that wage growth tends to run ahead of price growth in times of runaway inflation.

That's not happening today and we don't expect it to start. Not least because labour market institutions are different – there are few inflation-indexed wage contracts, labour movements are weaker and so is bargaining power, for example look at below-inflation wage settlements in collective bargaining in Germany.

The bottom line

There are many other structural factors that militate against runaway inflation – demographics, wealth inequality, technological change – too many to go into in the space we have here.

The bottom line is that the 1970s was a period of extraordinary inflation. If you look at a chart of UK inflation going back a few hundred years, the 1970s was the anomaly, not today (see figure 2 below). Even if our base case of fading inflation turns out to be wrong – and the risks are rising – the 1970s were really quite unlike today and unlikely to be repeated.

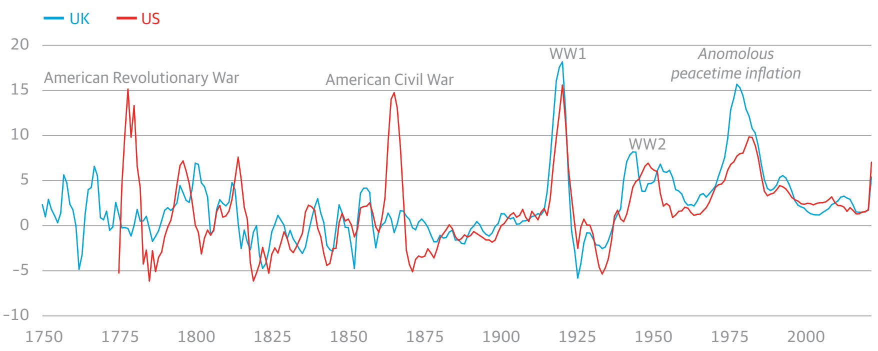
Today's outlook for inflation suggests that bond yields could keep rising for a while, which could favour cheaper 'value' stocks over their more expensive 'growth' peers – rising bond yields make those expected future profits less valuable today. That said, we believe that growth companies with high-quality, highly profitable and inflation resilient business models are still attractive. While the future is very uncertain, when economic growth has been weak or negative and inflation has been high in the past, companies found in more defensive sectors such as pharmaceuticals or food and drug retail have done well. But so have miners and certain industrial companies that are able to pass on rising input costs.

What is stagflation?

Stagflation can be defined as a condition of slow economic growth and relatively high unemployment, or economic stagnation, accompanied by rising prices, or inflation. It's most famously associated with advanced economies in the 1970s when, for example, the US economy contracted in five out of seven consecutive quarters while inflation exceeded 12%, or when the UK contracted in six out of nine quarters while inflation topped 27%.

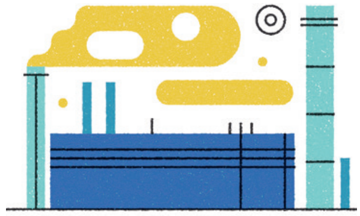
Figure 2: High peacetime inflation was a unique 70s phenomenon

Five-year averages, except last data point (%).



Source: Refinitiv, Rathbones.

The transition away from fossil fuels just got more complicated



Old hands in the energy industry talk of the energy trilemma' – the competing aspects of security of supply, affordability and dealing with climate change. Last year's Glasgow COP summit, along with other urgent reports that preceded it, focused attention on the fight to limit climate change. Yet the affordability question was creeping back into view long before tanks rolled over the Ukrainian border. With the conflict threatening Europe, the energy industry is in the middle of a perfect storm.

Fossil fuel companies were already under pressure to accelerate investment and production to head off a damaging leap in oil and gas prices, even before Russia's invasion and threats to its energy exports. For most companies, increasing demand in itself would not be a bad thing, but fossil fuel producers face the thorniest problem: future demand for their products is in serious question if the world is to abide by its emission reduction goals. In this context, it might make business sense to cover the energy shortfall by shifting the risk to other industries or by investing as little with the long-term remedy as possible. Unfortunately, the energy sources that can be increased more easily in the short term, coal and fracking, have high environmental costs.

Cut your principles or demand?

What does this mean for the companies in the middle of the trilemma, with two pressing short-term crises enveloped in a long-term existential threat?

In the short term, the pressure has been to align with international sanctions on Russia. BP announced the sale of its stake in Rosneft, while Shell said it is withdrawing from Russian oil and gas activities. At the same time, the industry is buoyed by the highest oil prices for many years. How and where they choose to invest the unexpected surplus is crucial. BP recently released its statistical review of world energy, a high-profile event in the energy industry, with an increased focus on the climate angle. One of its key findings is that the world spent almost twice as much on developing fossil fuels as it did on renewables between 2015 and 2019 – and that this trend needs to be reversed to keep the goals of the Paris Agreement in sight.

What about consumers? Sky high energy bills and a looming cost of living crisis are at their door. As the old adage goes, the solution to high energy prices is high energy prices. People take careful stock of their usage and tend to reduce demand naturally. But that might not be enough to soften the landing from the crisis in the energy markets, especially among the vulnerable.

One way to address short-term supply constraints is to approve renewed investment in coal and gas power. A cleaner and more productive way to reduce energy costs would be to curb energy demand by insulating Britain's notoriously creaky homes. Households are the largest UK users of natural gas, and make up about 17% of the nation's greenhouse gas emissions. This is something we'll be exploring in more depth later this year in a report on the role of buildings and construction in combating climate change.

One construction industry group believes a £5 billion government insulation drive could employ around 100,000 people in each region to get the job done over the next five years or so. An energy efficiency lobby group calculates that improving the nation's 15 million lowest-rated homes would save households £500 a year, which equates to somewhere in the region of £7.5 billion of recurring savings. That saved money could then be spent or invested by families, which would in turn benefit businesses and also the government, in terms of increased tax revenues. Perhaps 'Insulating Britain' will be a far less divisive issue in 2022.

Thinking about the future

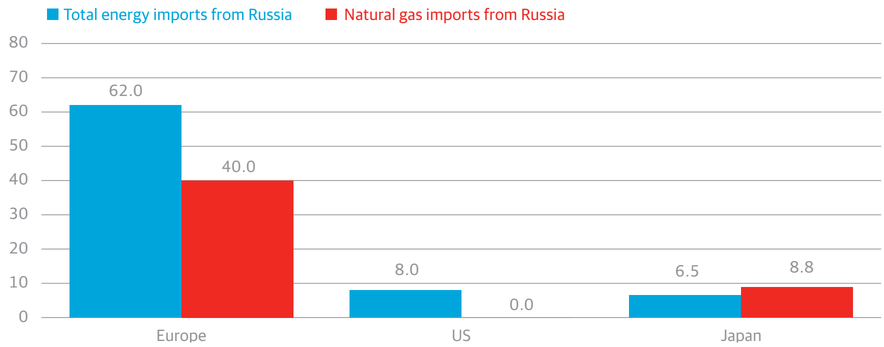
To ignore the long-term climate crisis while minds are understandably focused on dealing with the immediate turmoil of the war in Ukraine and soaring energy prices would be a mistake.

The energy transition was never going to be straightforward, and it's still possible to make short-term decisions within a long-term framework which protects our shared future. Governments have a vital role to play in ensuring their energy strategies get the balance right.

Protecting our climate and ensuring security of energy supply need not be irreconcilable. In fact, solving one may solve the other. As German Finance Minister Christian Lindner said, "Renewable energy is freedom energy."

Figure 3: Energy imports from Russia (% of total imports)

Europe relies heavily on energy imports from Russia in absolute terms as well as relative to other regions, such as the US and Japan.



Source: IEA, Rathbones.

Protecting portfolios in a time of great geopolitical uncertainty

Alongside the devastation among the Ukrainian people, Russia's invasion has also set off a chain of consequences that have spread through many markets and significantly added to the uncertainty surrounding the global outlook. Still, we have a responsibility to manage our clients' investments through this situation. How are we doing that?

We believe there are a range of channels through which the war might affect the global economy. The most significant threat is to the global supply of commodities, and as we explain in more detail in our most recent Investment*Update* on Ukraine, the invasion has further increased the upside risks to inflation and downside risks to global growth. To help us navigate through this fog of uncertainty, we've mapped out three possible scenarios, considering the implications and likelihood of each.

What happens next?

First, a quick resolution to the conflict, allowing crucial exports of agricultural commodities from Ukraine to resume and perhaps the reversal of some sanctions disrupting Russia's exports. (Ukraine exports over 10% of global corn and wheat and Russia 12% and 17% of global oil and gas respectively, as well as being a major exporter of many industrial metals).

Resumption of this trade would largely remove the greatest risk to global growth stemming from the invasion, disruption to global energy supply. Global economic growth might still slow a little further, but it would probably remain solid – consistent with the pre-invasion outlook. This is the least likely of the three scenarios.

Second, a prolonged conflict, but without significant near-term disruption to global energy supply. This could come to pass if most of Europe continues to buy Russian oil and gas in the short term (even if the US and UK boycott Russian oil and longer-term plans to reduce energy dependence on Russia go ahead), while Russia itself maintains its energy exports. The sanctions imposed on Russia so far contain specific exemptions for trade in energy commodities, Russia's main source of hard currency now that its access to reserves held at other central banks has been cut off.

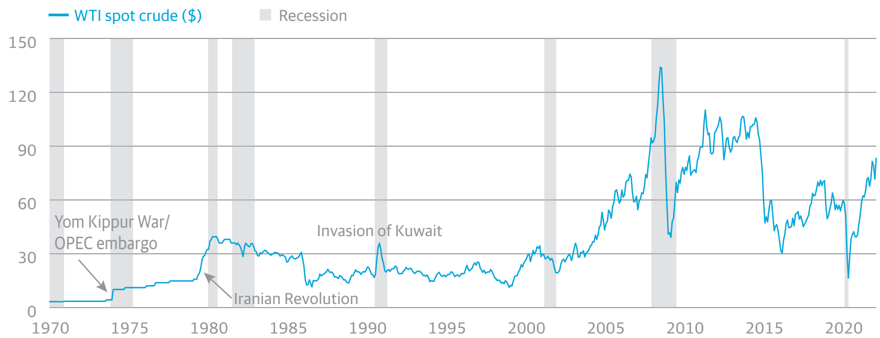
In this scenario, energy prices should fall back, though perhaps not all the way to pre-invasion levels. The outlook for the prices of other commodities would be more uncertain. They could conceivably rise beyond their current highs, since Ukraine's exports would remain disrupted and strict sanctions on Russia would stay in place, limiting its ability to export non-energy products. In these circumstances, inflation would decline even more slowly than previously seemed likely, adding to the squeeze on consumers. Global growth would probably continue to slow, and by more than in the first scenario. However, on balance, we believe a period of middling, but positive, growth would probably result. We think this is the most likely of the three scenarios.

The worst case would be a prolonged conflict and major near-term disruption to global energy supply. This could happen if the boycott of Russian oil

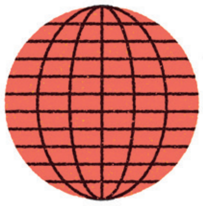
"War is the realm of uncertainty; three quarters of the factors on which action in war is based are wrapped in a fog of greater or lesser uncertainty."
Carl von Clausewitz

Figure 4: Oil price contribution to inflation

Higher energy prices have tended to coincide with periods of recession in the US economy (shaded) over the past 50 years, but not always.



Source: Refinitiv, Rathbones.



and gas spreads to many European and other countries, or if Russia withholds supply for its own reasons. Some research suggests that Brent crude prices could hit up to $200 per barrel in such circumstances, roughly double the price at the time of writing.

A recession could result, as happened following the two oil shocks of the 1970s, and after Iraq's 1990 invasion of Kuwait disrupted global oil supply (figure 4). Meanwhile, inflation would probably remain high for much longer, or even rise further in the short term (figure 5). Policymakers would find it hard to provide offsetting support given they were already worried about high inflation becoming entrenched. This is the second most likely scenario.

Global economic strains

Beyond these direct economic effects, the invasion has increased the chances of hard-to-predict second-round shocks for the global economy. They could include further geopolitical instability (whether through spreading conflict or unrest connected to surging food prices), or unanticipated strains in the global financial system like those that followed Russia's default in 1998.

In the first two scenarios equities recover, it's a question of speed and which parts of the market do better than others. In the third scenario, we are headed for recession. Probability weighting these scenarios together suggests we should remain invested – a recession is not the most likely scenario. However, just two months ago the risk of a recession being around the corner seemed as good as zero. That's a profound shift.

We must acknowledge the increase in uncertainty, around pretty much all of the moving parts relevant for asset valuations. So while we think prices of the most exposed assets already reflect a lot of the economic risks, we think it makes sense to have a more defensive stance at this point.

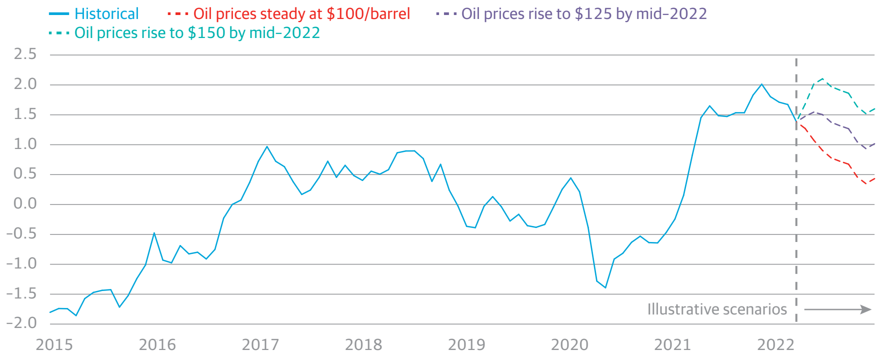
That would include holding some stocks that tend not to move in lock step with the wider market, those whose prices have little sensitivity to the economic cycle or counter-cyclical stocks with quality balance sheets and business models. You can read more about our view on portfolio positioning in 'Why we don't see an economic rerun of the 1970s'.

Three scenarios

Russia/Ukraine conflict	Quick resolution	Prolonged conflict, energy supply disruption limited	Prolonged conflict, major energy supply disruption
Virus situation	Improving	Improving	Improving
Monetary policy	Tightening	Tightening	Tightening
Fiscal policy	Tightening	Tightening	Tightening
Energy prices	Fall sharply	Fall slightly	Rise sharply
Other commodity prices	Fall sharply	Rise	Rise
Global growth	Slowing, but still solid	Slowing, but still positive	Recession

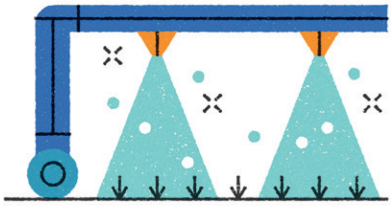
Figure 5: Pushing up inflation

Energy costs comprise a large part of US CPI inflation and so the war in Ukraine is now an important factor when assessing the outlook for price rises (%).



Source: Refinitiv, Rathbones.

Innovative companies are finding sustainable ways to feed the world



The global food system faces serious demand and supply-side challenges. Global food production has increased substantially over the past 50 years, making food more affordable even as the world's population has doubled. These gains have been driven by the industrialisation and globalisation of food production and supply chains. But, as we explain in our *Planet Paper: Feeding the planet*, they have significantly increased greenhouse gas emissions and deforestation, as well as degrading soils and ecosystems.

Farming faces multiple challenges. There will be nearly 10 billion people on earth by 2050 – there's a huge shortfall between the amount of food produced today and what will be needed to feed everyone by then. But intensive farming has damaged the land. COVID-19 and the war in Ukraine remind us of the fragility of long supply chains. We are seeing a structural shift in the number of companies helping to feed the world more sustainably.

Food 2.0

Many firms are responding to the need to shift away from diets that are bad for us and for the planet and to capitalise on opportunities in plant-based foods and milks. Some are focused on grains like soybeans and seitan, as well as oat and nut milks. Others are developing next-generation protein-rich meat alternatives and 'cultured' (lab-grown) meat.

We think many 'alt protein' stocks are trading too speculatively and their business models are a little untested. But the huge surge in popular demand for plant-based milks, for example, shows there's a big addressable market of people keen to embrace 'food 2.0' and its potential climate and health benefits.

Many companies are developing innovative production methods augmented by data-driven technologies that could play a major role in the transition to more environmentally friendly farming. Vertical techniques allow crops to be grown in multiple layers on top of each other in virtually any location (including underground tunnels and disused buildings).

Hydroponic vertical farming enables crops to be grown in soil-free liquid nutrients, while aeroponic approaches allow them to be grown in nutrient-supplemented air or mist. It's still early days for many of these companies so it's hard to determine which may emerge as the eventual winners, but the growth potential in their market is huge.

Simple technologies (like smart-phones and solar water pumps) can lead to more sustainable farming. Several companies are developing innovative machinery and equipment, including robotics for precision weeding and crop fertilisation, self-driving tractors, drones and satellites. It's a mature market and some big firms have gained sizeable market shares. But smaller start-ups are emerging. We believe firms that have mastered precision agriculture will be able to take advantage of technologies in their infancy, like complex gene editing of crops and robots to harvest them.

Tackling food loss and waste

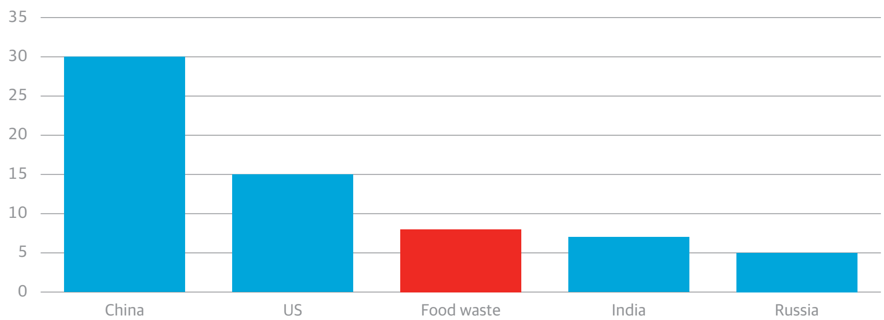
Many firms ranging from large multi-national food producers, retailers and supermarkets to niche specialists are working across the food ecosystem to tackle the world's food loss and waste problem. Less loss and waste could ease pressures to produce more to feed a growing population. In turn, this could have a dramatic impact on efforts to limit climate change.

Nutrition and life science companies are developing preservatives to increase shelf-life and protect against bacteria. Warehousing and logistics providers are offering intelligent fulfilment solutions. Outside the global food giants, private companies and not-for-profits are recycling waste food and distributing surplus food. It's difficult to identify which could grow into the global mega-caps of tomorrow but see potential in this market.

Our food resources play a critical role in the health of our planet, but the global sustainability agenda has focused on energy. A food revolution has begun even if it still has a long way to go. For now, farming and the food industry are highly fragmented. Smaller private companies and not-for-profits are driving some of the more innovative approaches to overhauling our food ecosystem. We expect these dynamics to shift over the medium to longer term as larger companies spend more on research and development and acquire younger leaders in the space.

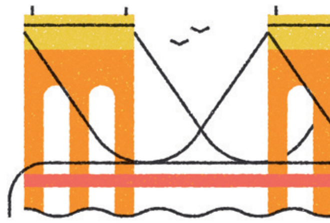
Figure 6: Greenhouse gas emissions by country (% of total)

Food waste is one of the greatest contributors to climate change even when compared to countries and their output of greenhouse gases.



Source: US Environmental Protection Agency, Rathbones.

Can investing in infrastructure bring stability to portfolios?



Infrastructure investing, once commonly associated with assets from public-private partnerships (PPP) and lots of debt, has evolved significantly over the past two decades. Today the sector embraces future-shaping trends like renewable energy power generation.

This evolution has broadened the drivers of performance, and the capital and income return to investors, beyond public policy. Investing in renewable energy, for example, requires an understanding of weather patterns as well as a focus on prevailing power prices. A longstanding attraction of infrastructure is that it can act as a portfolio diversifier in times of stress and over the business cycle because its sources of return depend less on how well the economy is doing. As well as having this traditional characteristic of stability, some infrastructure sectors are now beneficiaries of bigger secular trends – the green energy transition in particular – and demand for them is outstripping supply.

Traditional investments have served as relatively defensive asset classes over many years, with a diverse range including utilities, transport, healthcare, education, and other PPP investments that can include areas of social need such as housing, accommodation, law and order, or other public projects. Whether it's lending money or owning a real asset, these core investments have been supported primarily by government-backed revenue from long-term projects and contracts. For investments within regulated industries, such as utilities, it's not unusual for income to have a degree of annual inflation-linked increases.

With many of these projects having a long duration, over 10 years in lots of cases, infrastructure investments can generate inflation-linked income via a secure counterparty with long-term visibility. So what's not to like?

First, careful selection is needed. Not every traditional, or core, infrastructure investment operates in this manner, with some having a greater degree of cyclicality compared to more regulated assets. For example, train lines and toll-roads are deemed low-risk and essential services, but their returns are ultimately determined by demand - this goes up and down with the economic cycle. Demand for these types of assets has fallen since COVID-related lockdowns and the great shift toward working from home, despite them being 'low risk' with regards to regulation and their provision of an essential service to society.

A sustainable approach

The increasing popularity of sustainable investing, factoring in environmental, social and governance (ESG) risks, is a tailwind for infrastructure. Core assets are lauded for their investment in key social amenities and improving infrastructure in areas such as water utilities and energy transmission. But the tailwinds are strongest for renewable energy generation as the world seeks to combat climate change (see our recent Planet paper on the COP26 climate conference *Good COP bad COP*).

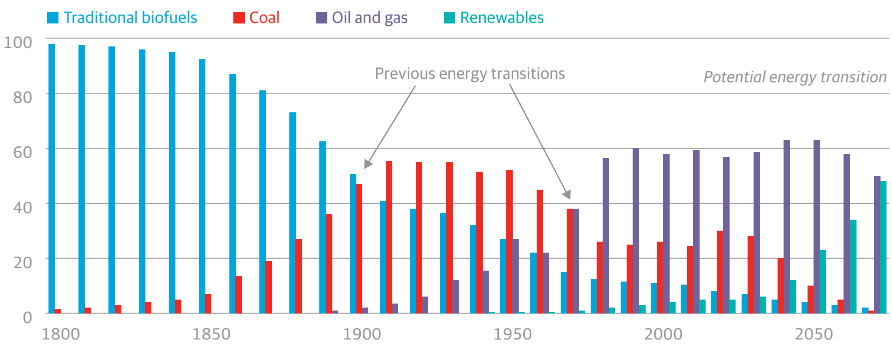
For example, the UK Government's Energy White Paper sets out ambitions for a fourfold increase in offshore wind capacity by 2030, enough to power every UK home. The International Renewable Energy Agency predicts global electricity generation from renewables will increase from 25% of total power generation in 2017 to 85% in 2050.

Although renewable infrastructure uses different technologies across the world, investors have benefited from revenues linked to prevailing power prices. Energy generating infrastructure has benefited as these prices have spiked higher in 2022, but this volatility can also work in the opposite direction. That said, many assets receive revenues via a mix of state subsidies or commercial power purchase arrangements (PPA). This means a more visible and stable earnings stream that is less sensitive to sudden changes in inflation and power prices.

Given the level of state engagement, the biggest risks for infrastructure investors are political. Yet there is a clear ambition to pursue policies that facilitate the energy transition away from fossil fuels as well as plans to enhance social development. Overall, given the structural trends of increasing investment in infrastructure and the stable returns provided by this asset class, we believe it can serve as a good diversifier, not just in times of market stress, but throughout the ups and downs of economic cycles.

Figure 7: Global prime energy use (share of global energy consumed)

There have been two previous energy transitions – the shift from biofuels to coal at the end of the 1800s, followed by the shift from coal to oil and gas in mid 20th century.



Source: BNEF, IEA, World Bank, Schroders — 31 December 2021, Rathbones.

Financial markets

The year got off to a bumpy start, with stocks tumbling in January over concerns central banks would start raising interest rates to tackle rising inflation. Tech shares were some of the hardest hit, with the Nasdaq Composite Index – which is heavily weighted towards tech companies – having its worst month since 2008. Some of the companies that have led markets over the past decade, such as Alphabet, Microsoft and Apple, saw their share prices slide.

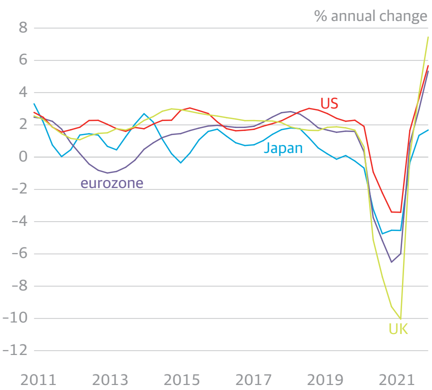
Global markets plummeted on news of Russia invading Ukraine, with the UK and Europe bearing the brunt of the selling. Fallout from tougher sanctions rippled through markets, with some of the world's biggest companies pulling out of Russia after mounting pressure. Russia's central bank more than doubled the country's key interest rate to 20%, as the rouble collapsed on the back of economic sanctions.

A difficult quarter

The FTSE 100 dropped substantially on news of the invasion, with British banks among the biggest fallers. Oil and gas prices spiked over Russia supply fears. Brent crude surged above $110 a barrel for the first time since September 2014, while the price of natural gas in Europe climbed as high as €345 per megawatt-hour. Wheat prices also soared by more than 60%. Not surprisingly, investors have been sheltering in safe havens like gold and the dollar, driving prices to multi-month highs.

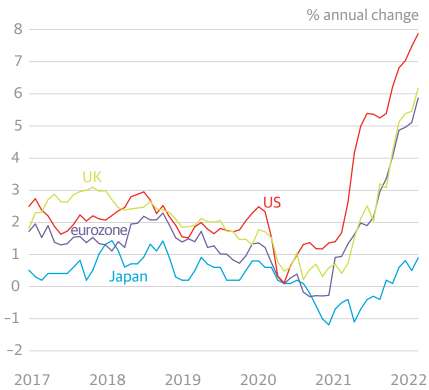
Russia's invasion is reshaping the geopolitical landscape and threatens hopes of a strong global recovery from the pandemic. Governments around the world have responded with sanctions, targeting Russia's banking system, state-controlled companies and powerful oligarchs. The US and the UK have followed with plans to ban Russian oil and gas imports.

GDP growth



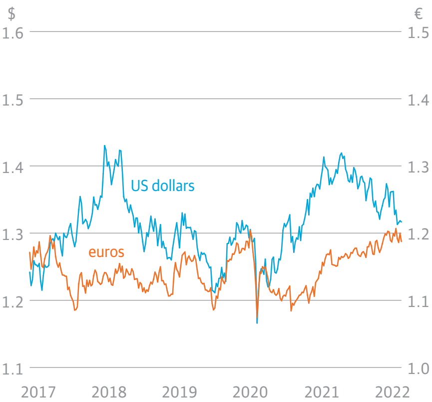
Source: Factset and Rathbones.

Inflation



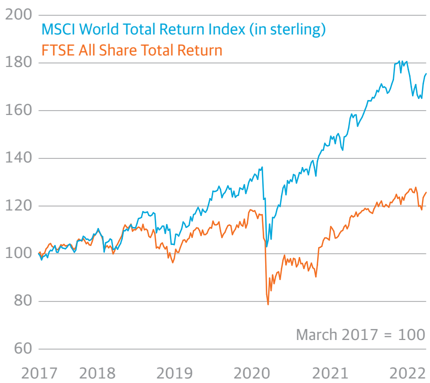
Source: Factset and Rathbones.

Sterling



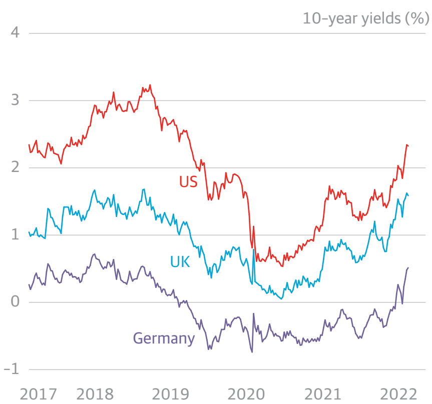
Source: Factset and Rathbones.

Equities



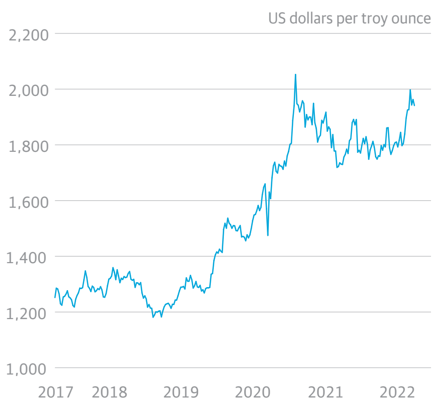
Source: Factset and Rathbones.

Government bonds



Source: Factset and Rathbones.

Gold



Source: Factset and Rathbones.

Past performance is not a reliable indicator of future performance.

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The value of investments and the income generated by them can go down as well as up.

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