



# Ruffer LLP

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JUNE 2021

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# GOODBYE MR BOND



# The first bond

Discovered in  
Nippur, Mesopotamia,  
2400 BC



- 1 Diamonds are forever
- 2 Tomorrow never dies
- 3 Skyfall

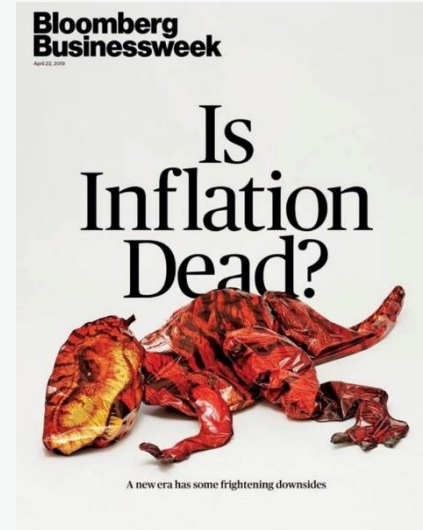
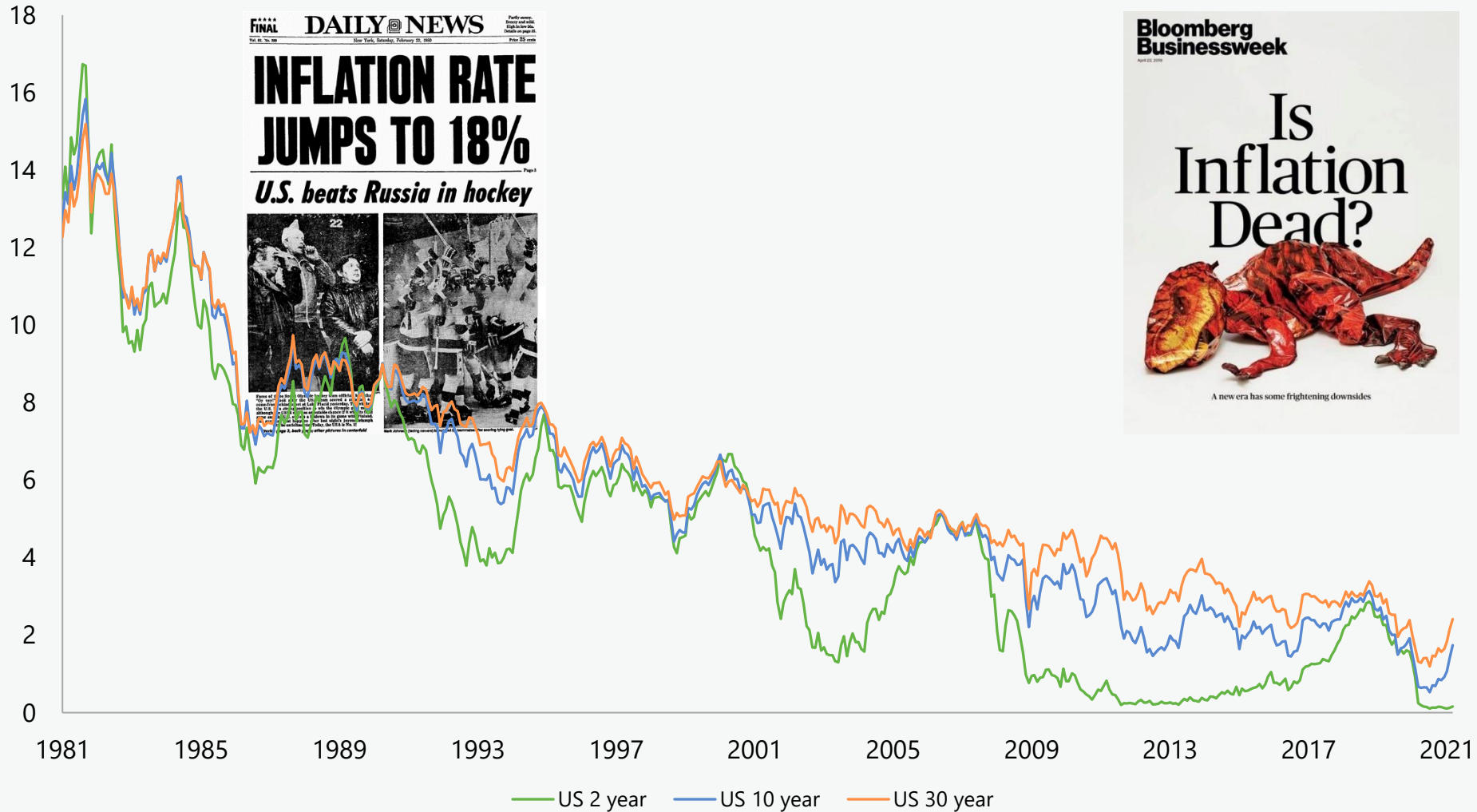
“ I used to think if there was reincarnation, I wanted to come back as the President or the Pope or a .400 baseball hitter.

But now I want to come back as the bond market. You can intimidate anyone. ”

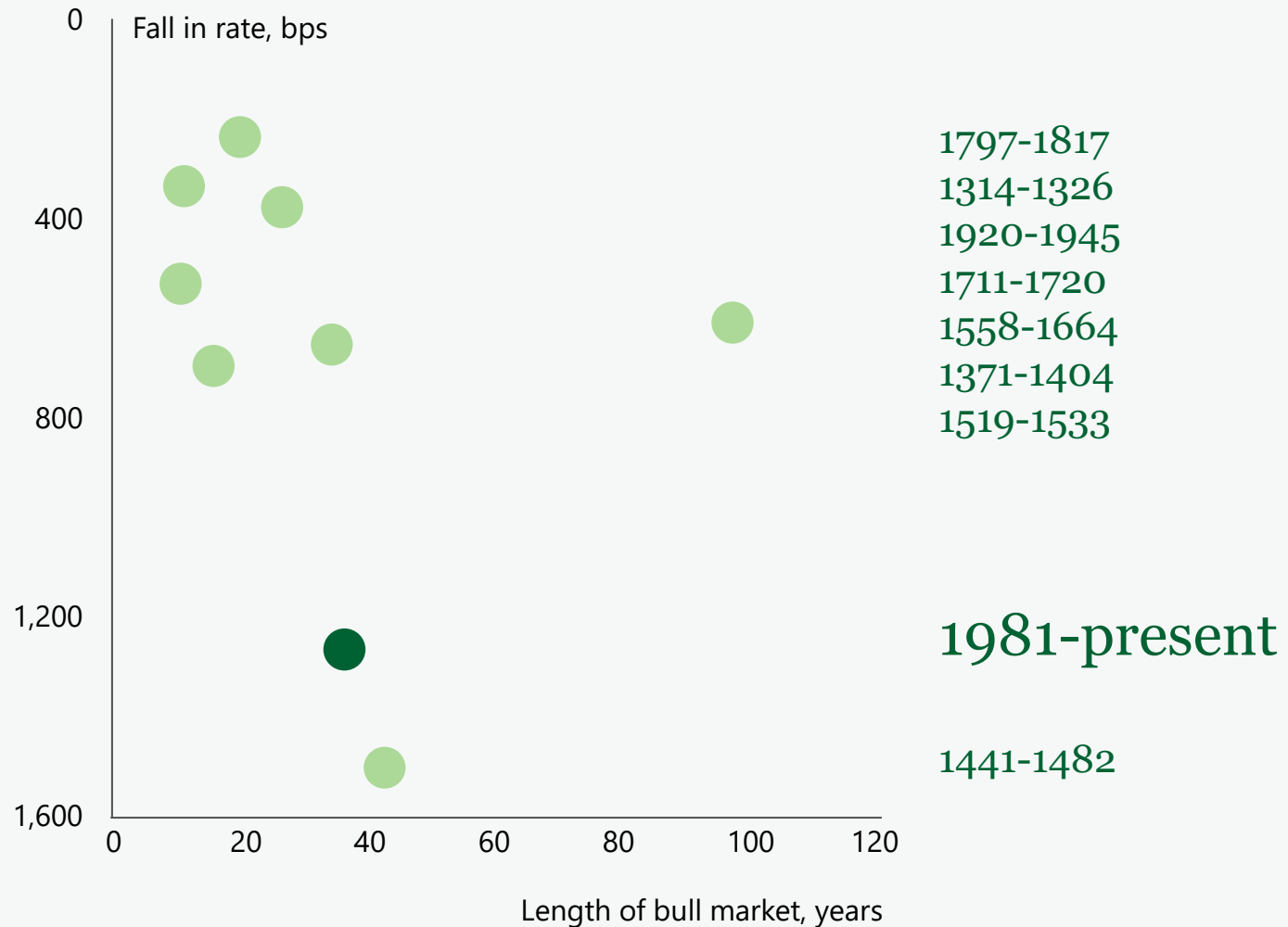
James Carville

Clinton Campaign Strategist

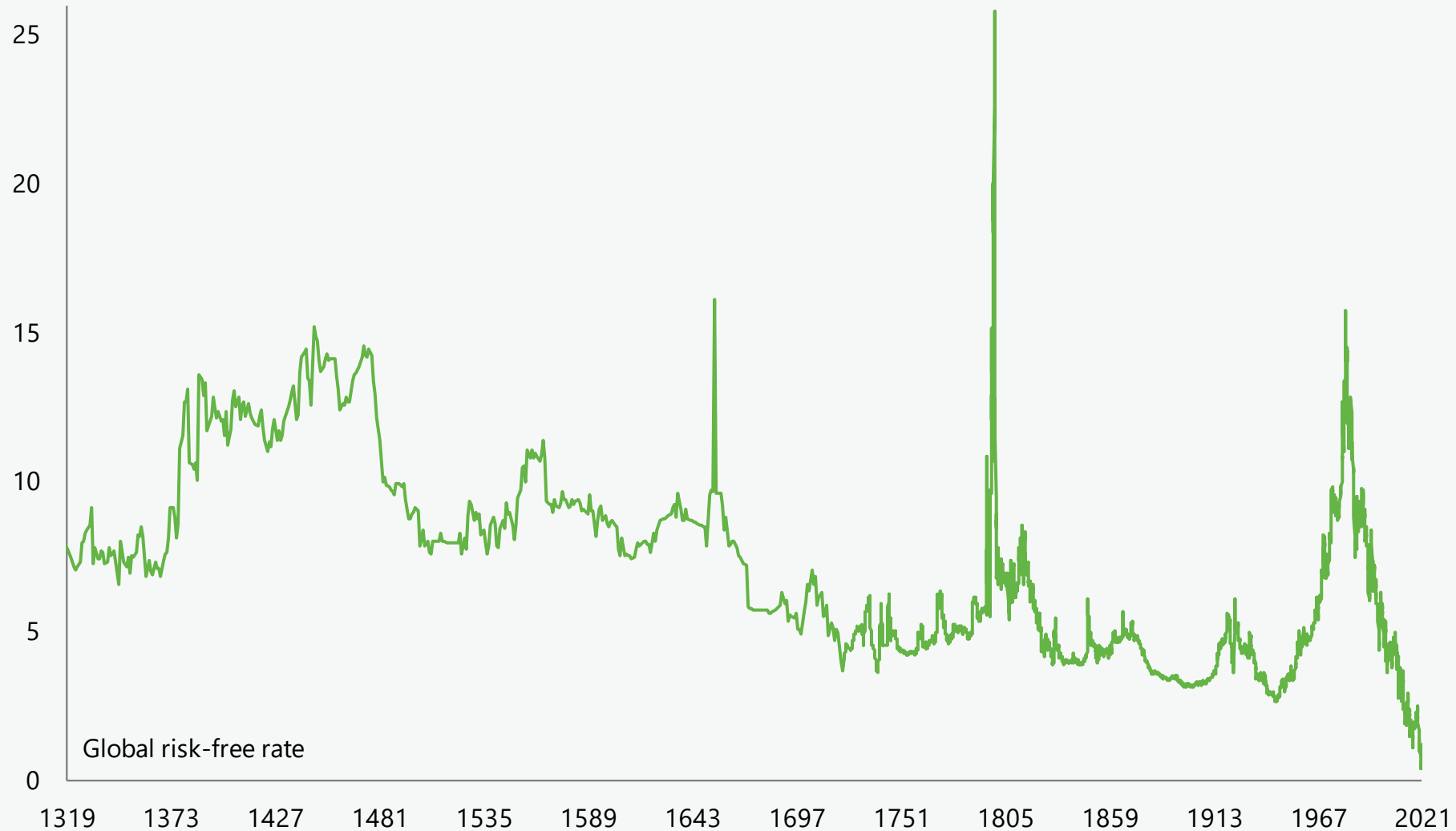
# Bonds have been an extraordinary journey



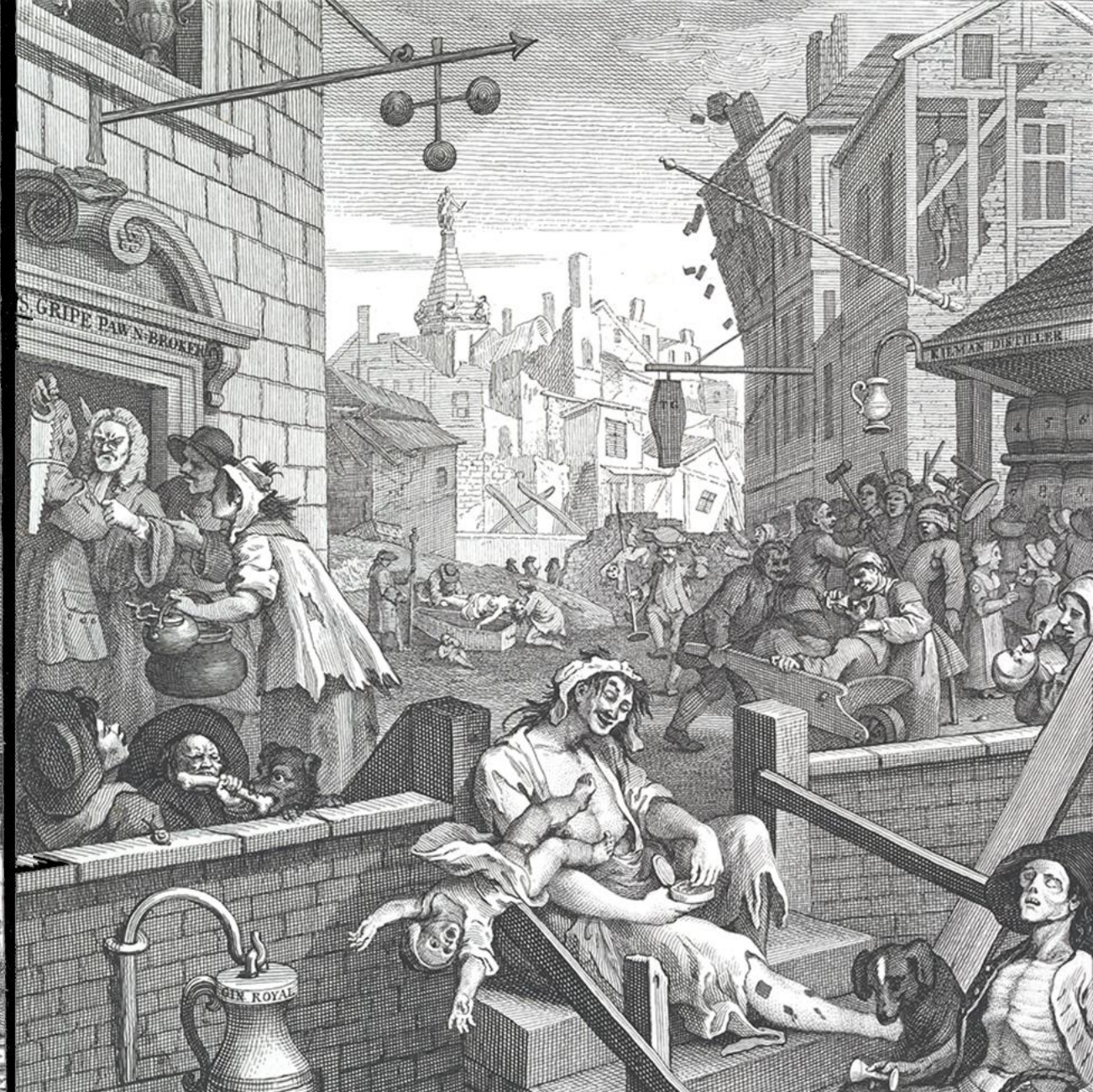
# Amongst the longest and deepest ever



# And this has been a global phenomenon







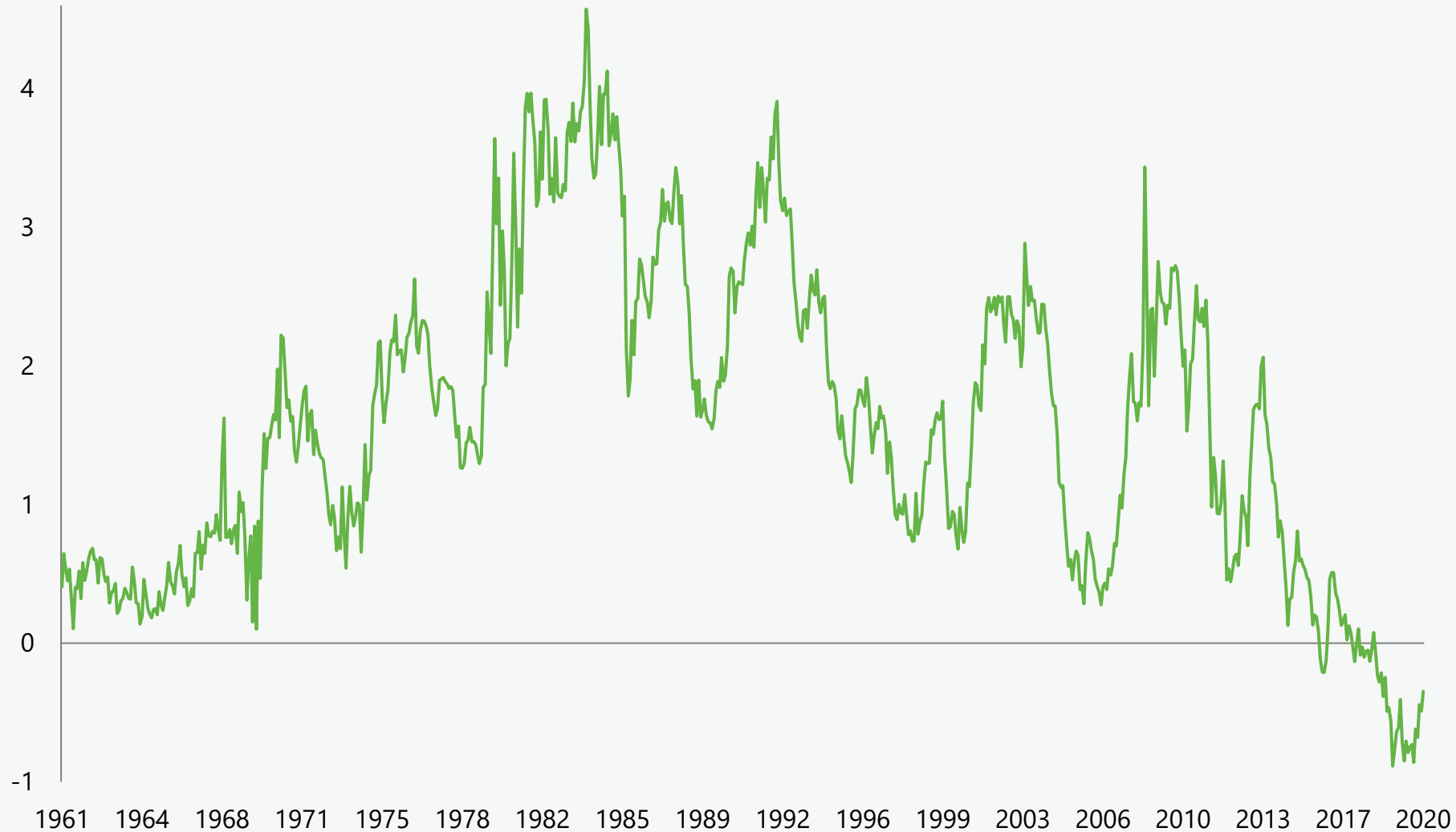
Black Death | Bad harvests | Great Slump | Great Bullion Famine





\$16 trillion

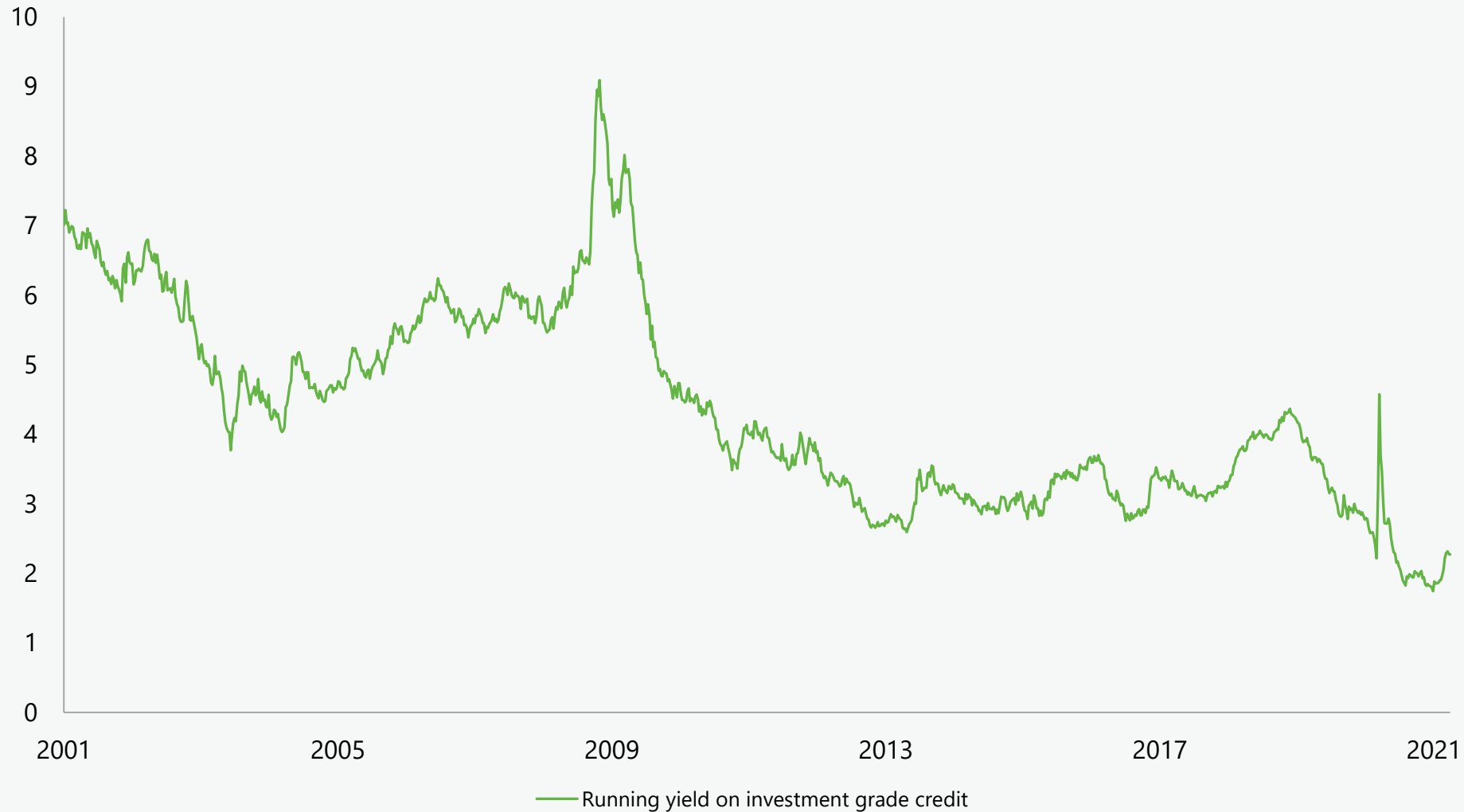
# Leading to a hefty term 'discount'

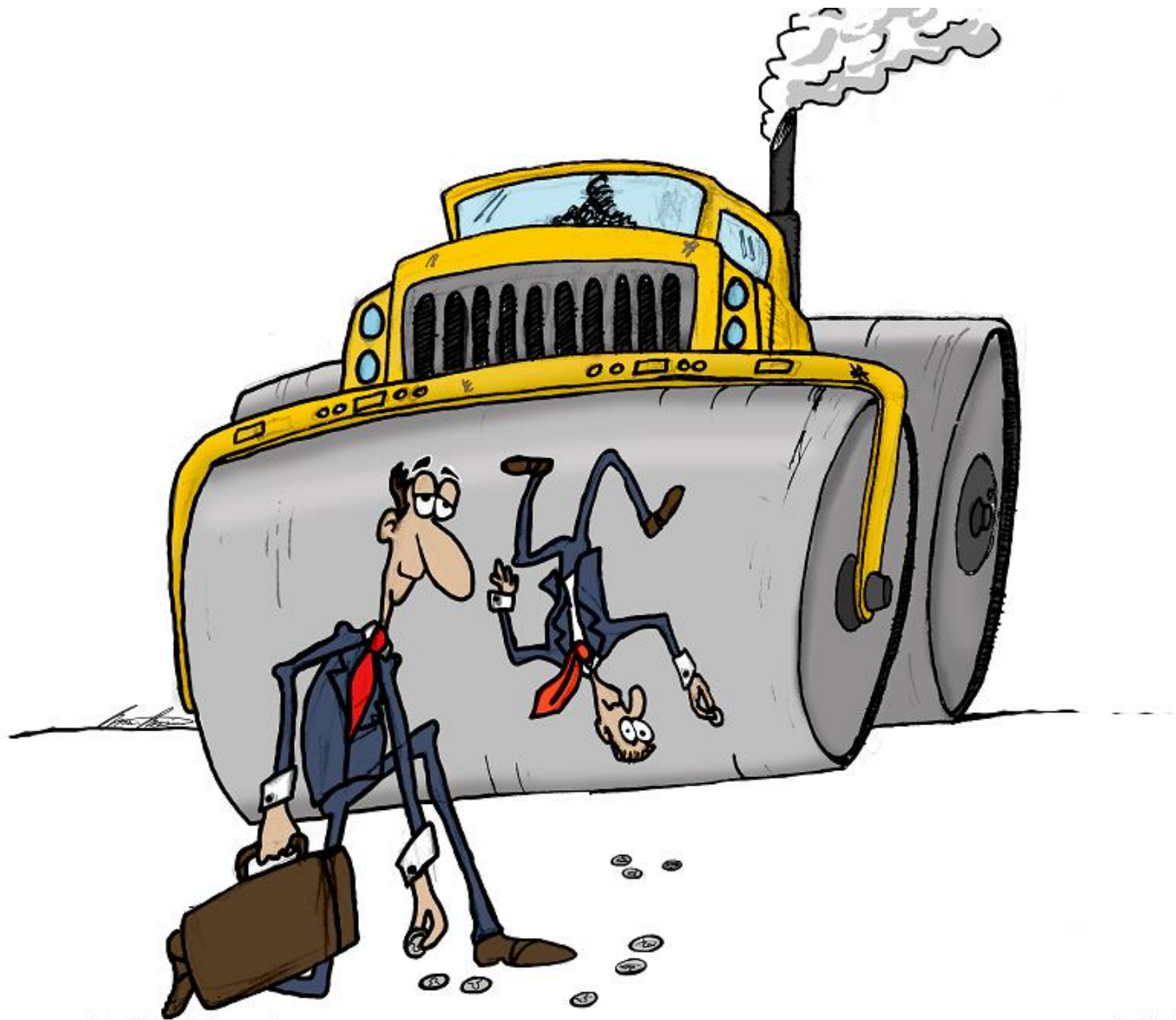


# This has led on more risk taking...



# ...and the yield is not enough





With no  
margin  
of safety



- 1 Diamonds are forever
- 2 Tomorrow never dies
- 3 Skyfall

# Four villains



Inflation



Policy  
error



Fiscal  
laxity



Excess  
leverage



Numero Trehund fyratje En

**D**enne Credityf-Zedels innehafwande haf-  
 wer i Stockholms Banco sub N.º 341. at fordra Ett Hundrade  
 Daler SöfwerMynt / dhet warder af oss Banco Director, Commillarier,  
 Bookhållare och Casseurer hwar för sig och medh dheß egne Händers Un-  
 derkriffte och Signeter attesterat; Sålom och til yttermere wisso medh dhe  
 dher til förordnade större och mindre Banco Sigiller verificerat, Datum Stock-  
 holms Banco An. 1666 den 30. Januarij

Ett 100. Dal. Söf. Mynt.

Johan Paenstreck.

Görel Sjöberg

Jacob Davogman

Sindrik  
E. Beckman

Herman Månstam

Göring Torbjörn

Karl Kay Jöns

Anders Ruyt

HIGH FOOD PRICES  
EAT UP OUR WAGES  
WHILE WE EAT LESS  
CENTER FOR UNITED LABOR ACTION

BACK  
S NOT VETE  
ITY BENEFIT  
Service

OPERATION:  
FOOD PRICE  
ROLLBACK  
FOR ACTION

OPERATION:  
FOOD PRICE  
ROLLBACK  
FOR ACTION

FACE

FOOD PRICES  
ED FOR ACTION

¡NO COMEN  
HASTA QUE  
LOS PRECIOS  
BATE

REDIT

E-Z  
TERMS

TAPES  
RADIO STEREO  
APPLIANCES

ALRA DISCOUNT  
CORP.

GRAND OPENING  
SALE



# Ghosts of 1994



2003 VaR shock



# Four villains



Inflation



Policy  
error

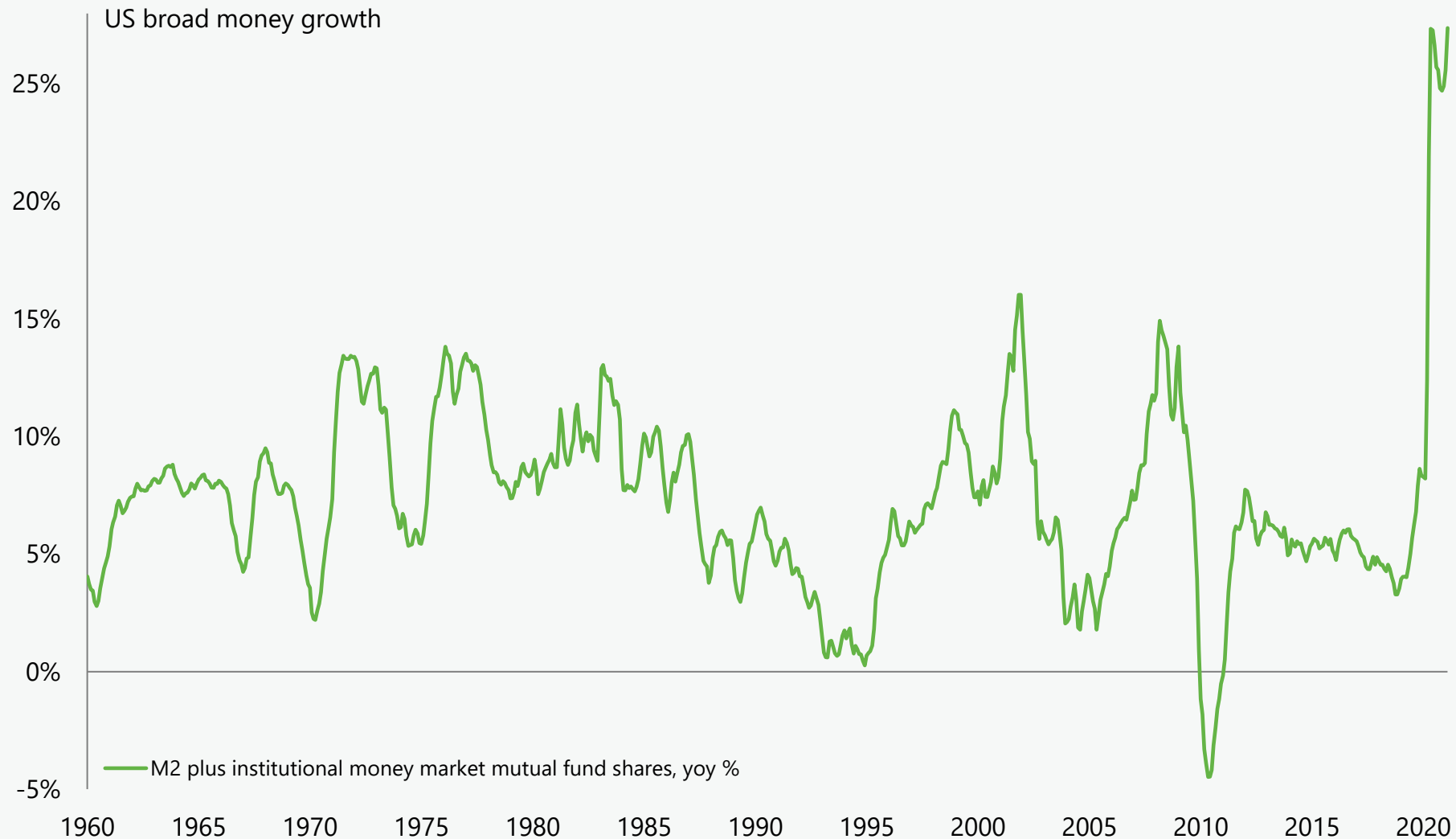


Fiscal  
laxity



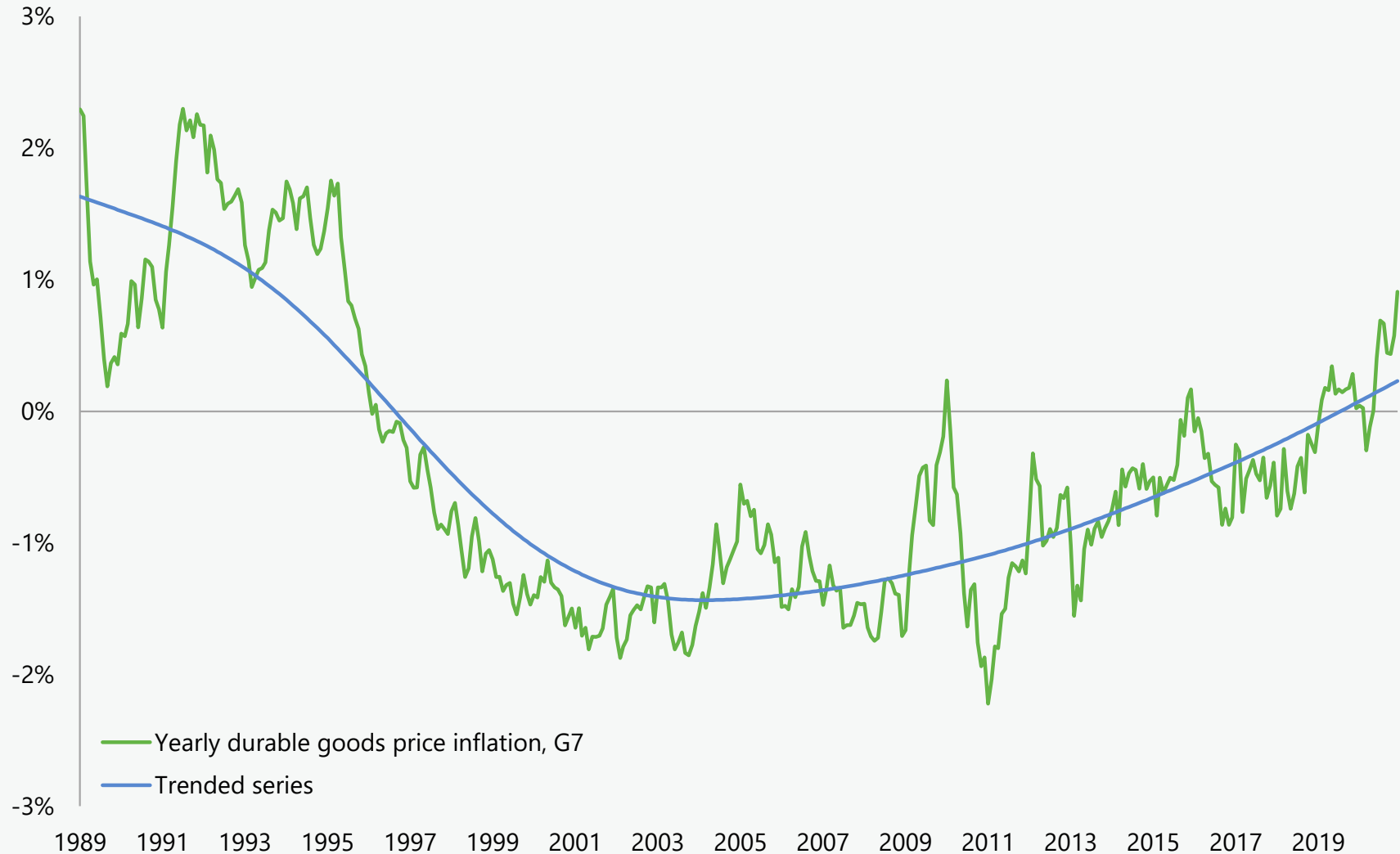
Excess  
leverage

# The amount of money has exploded

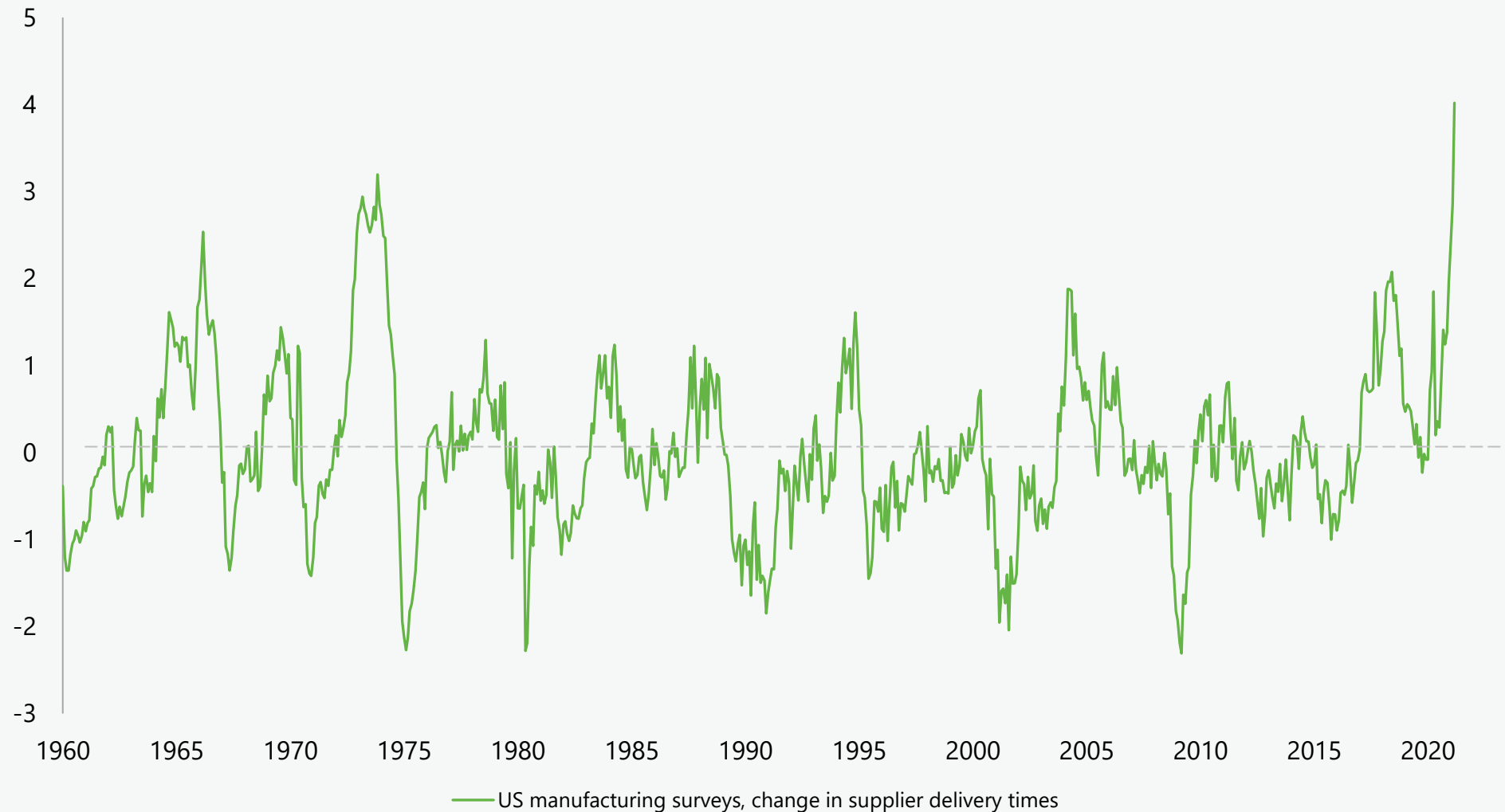




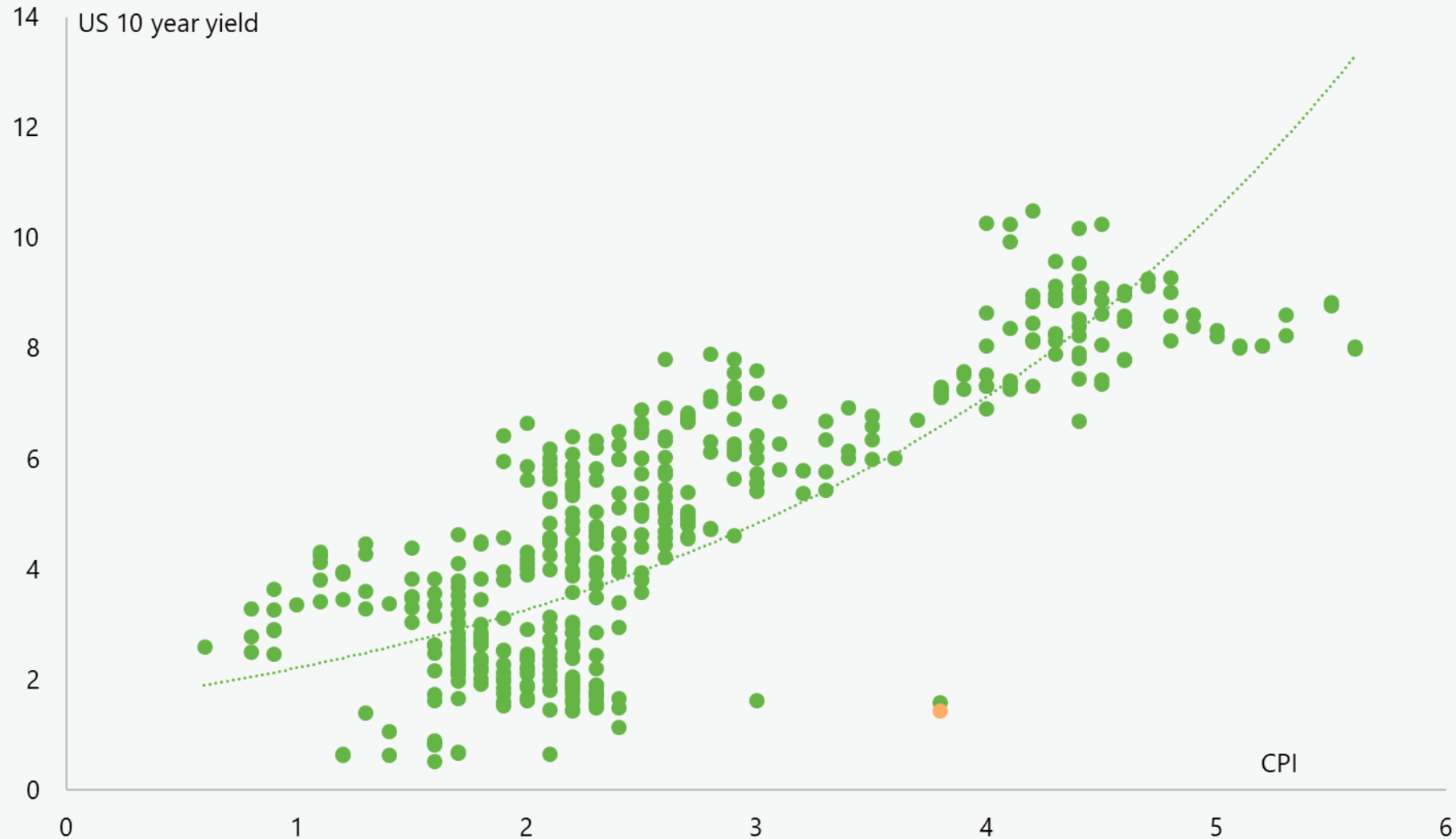
# Deflation is less persistent than most think



# Shortages are the first sign of inflation in the wild



# Transitory?



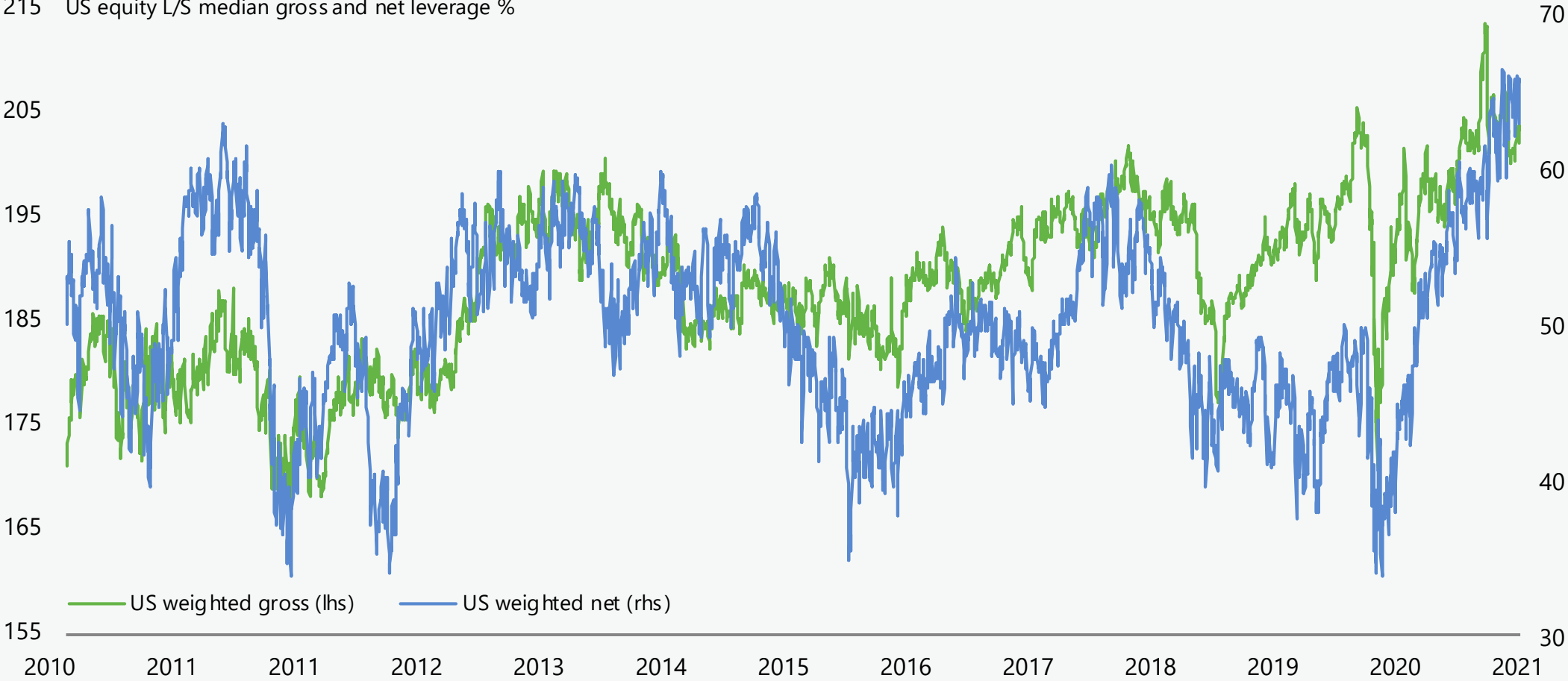
“In the end the Party would announce that two and two made five, and you would have to believe it... The heresy of heresies was common sense. And what was terrifying was not that they would kill you for thinking otherwise, but that they might be right.”

George Orwell, 1984



# More certainty leads to more risk taking

215 US equity L/S median gross and net leverage %



Data reflects 1-D averages. Source: Bloomberg, Morgan Stanley Prime Brokerage, data as at 30 April 2021

- 1 Diamonds are forever
- 2 Tomorrow never dies
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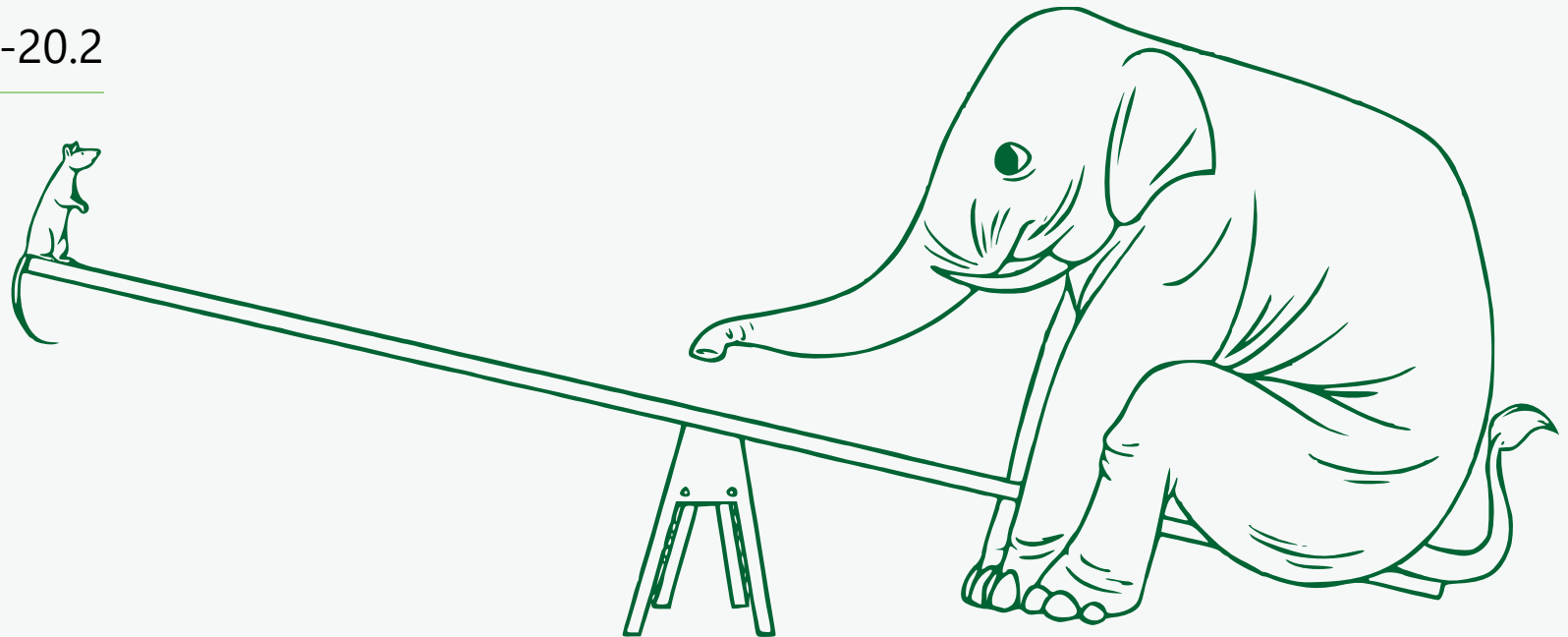


“No plan survives  
contact with  
the enemy”

Field Marshal  
Helmuth von Moltke  
(1800-1891)

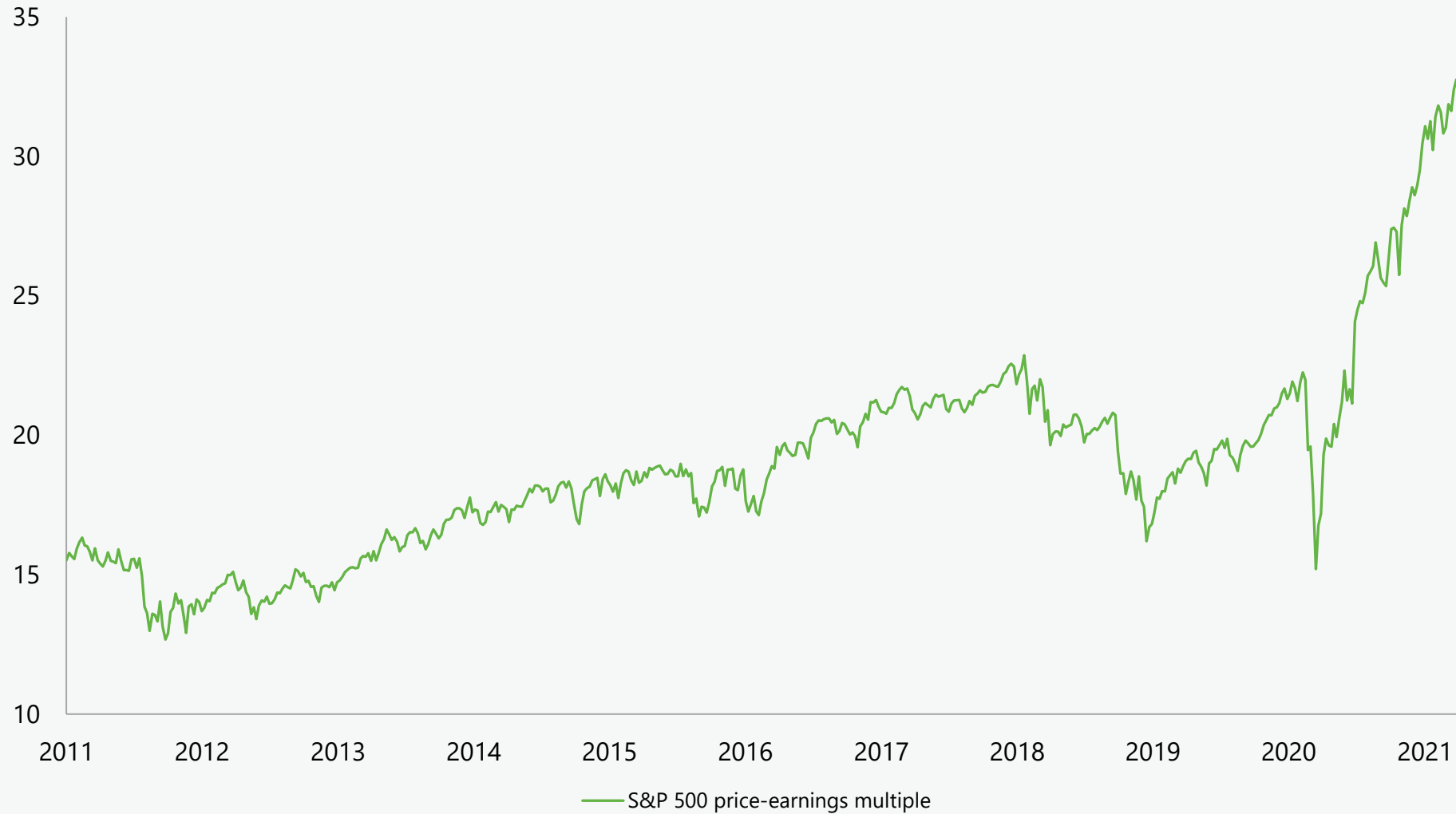
# Where do you get protection if bonds are falling?

From	To	Drawdown %
Dec 08	Mar 10	-25.8
Jun 79	Sep 81	-23.2
Dec 72	Sep 74	-23.1
Jul 20	Mar 21	-23.1
Jul 12	Dec 13	-20.2

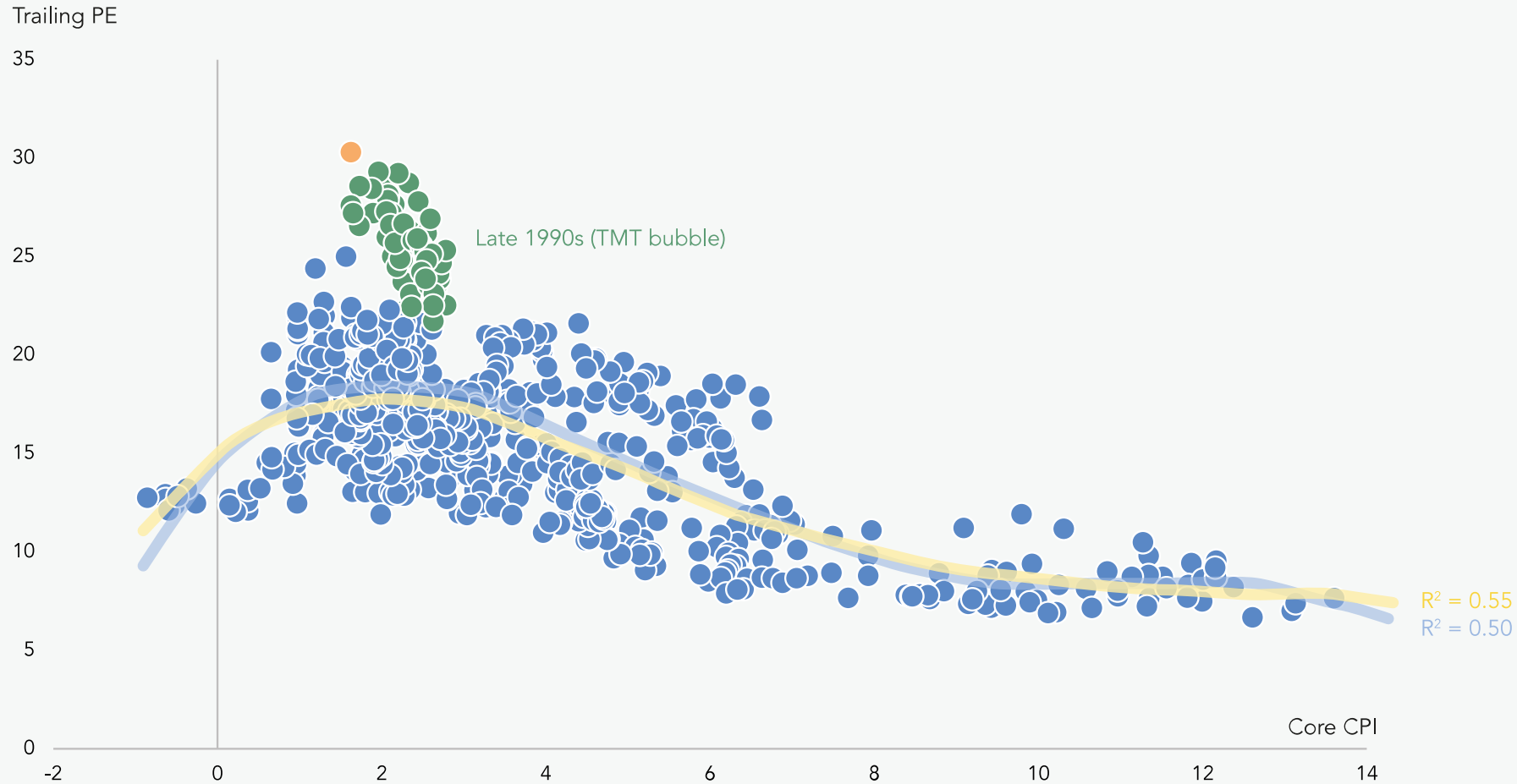




# Especially if equities have been inflated

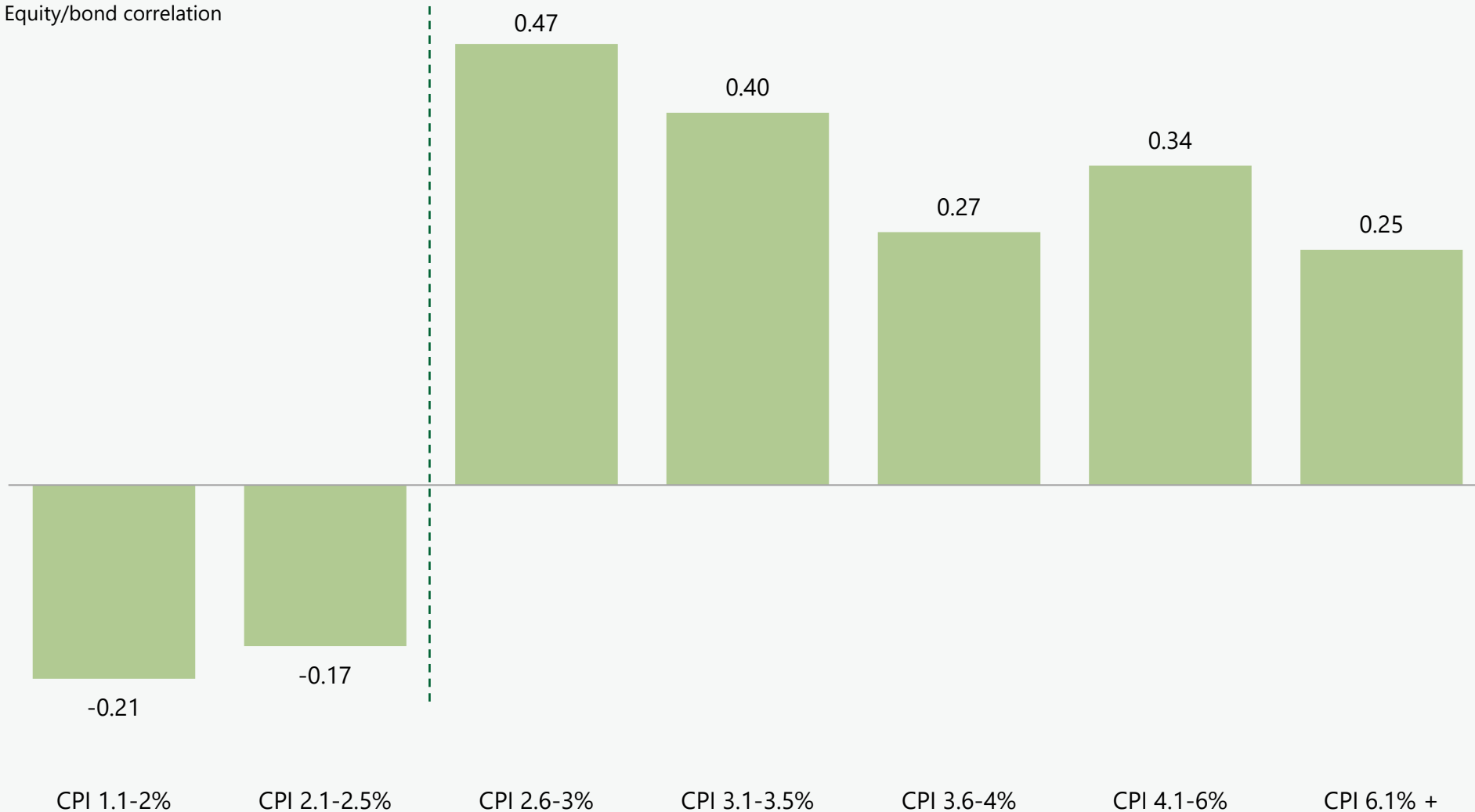


# Low inflation has been the key input

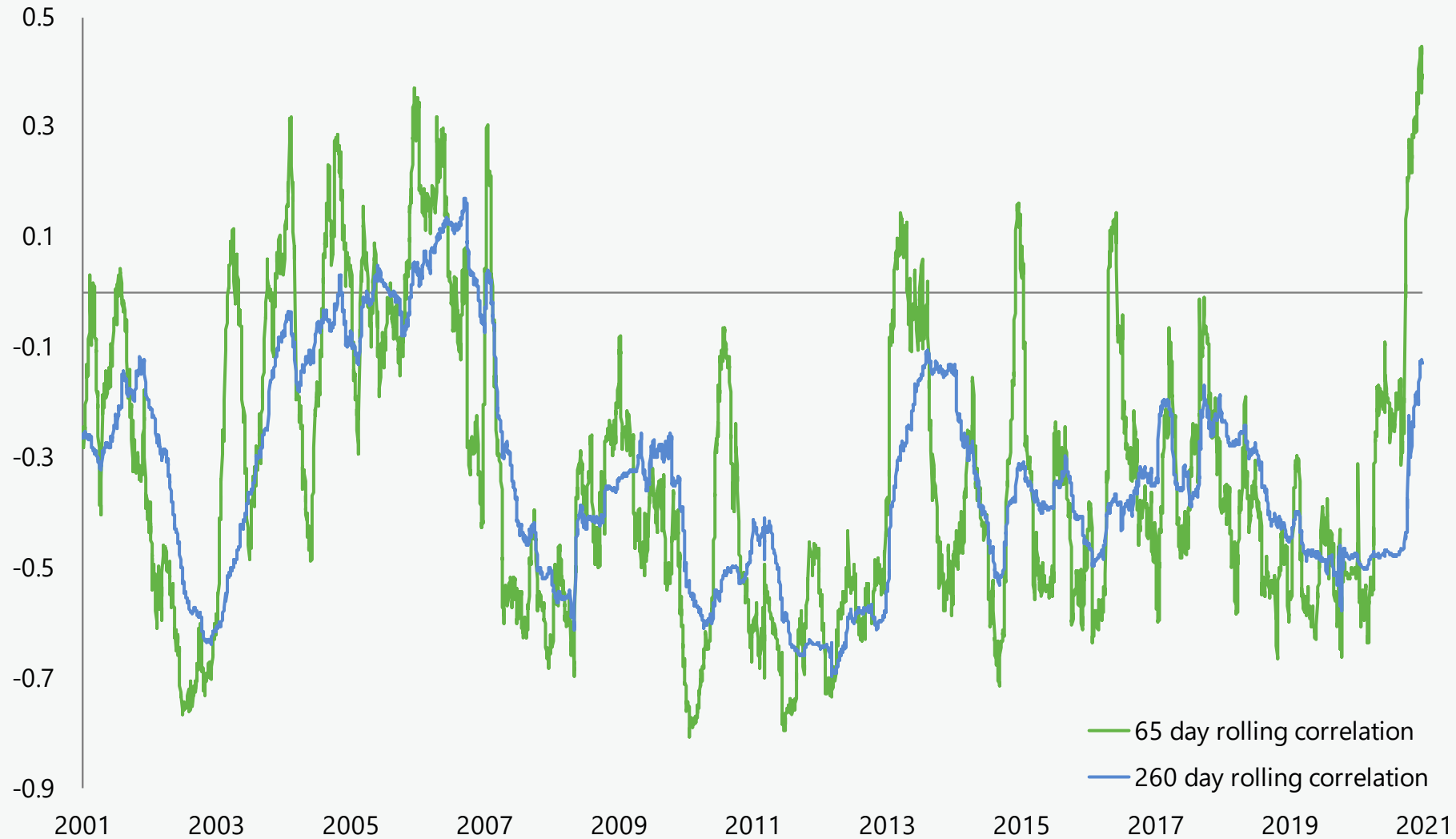


# Above 2.5% CPI is when bonds stop offsetting?

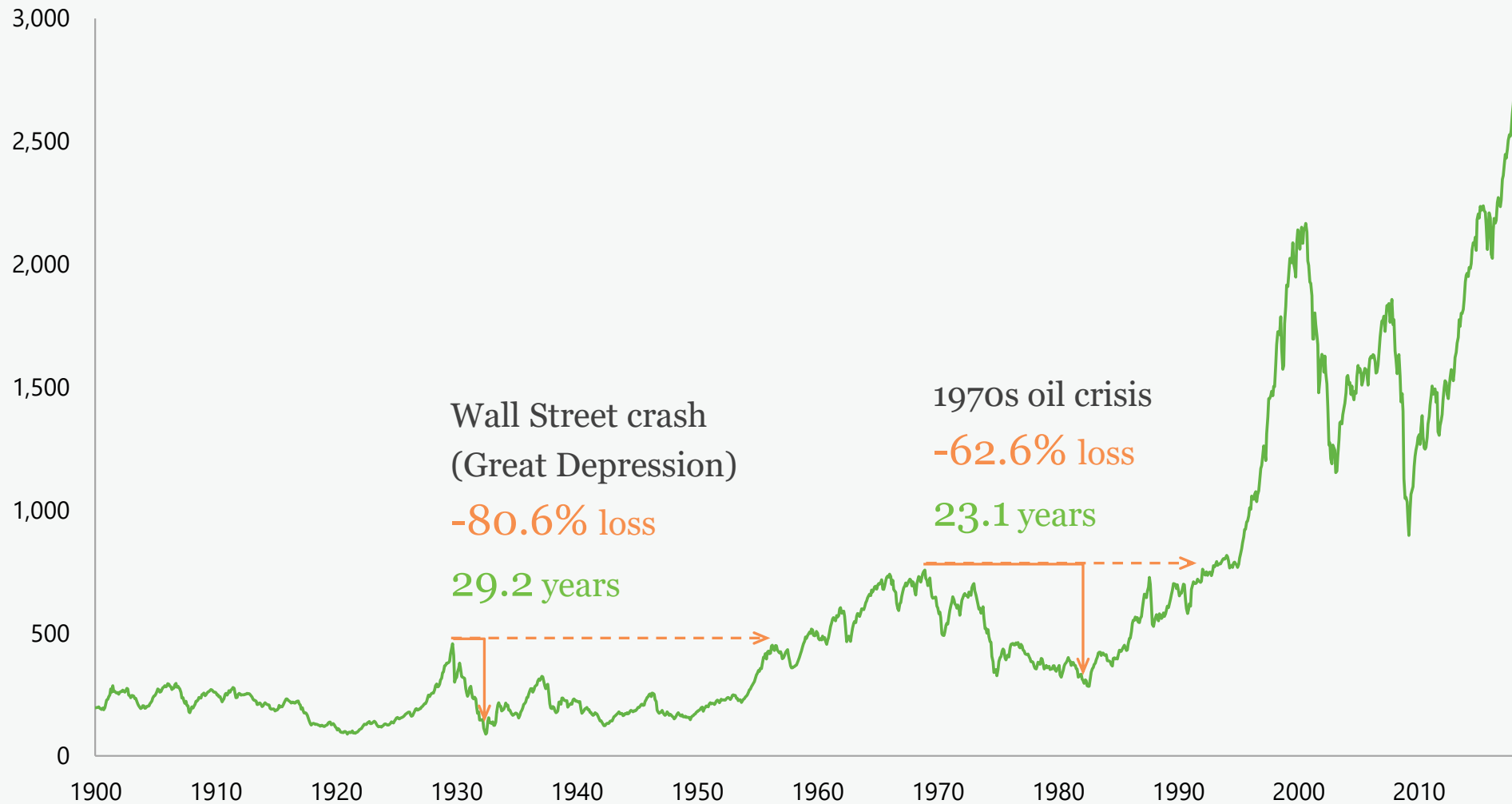
Equity/bond correlation



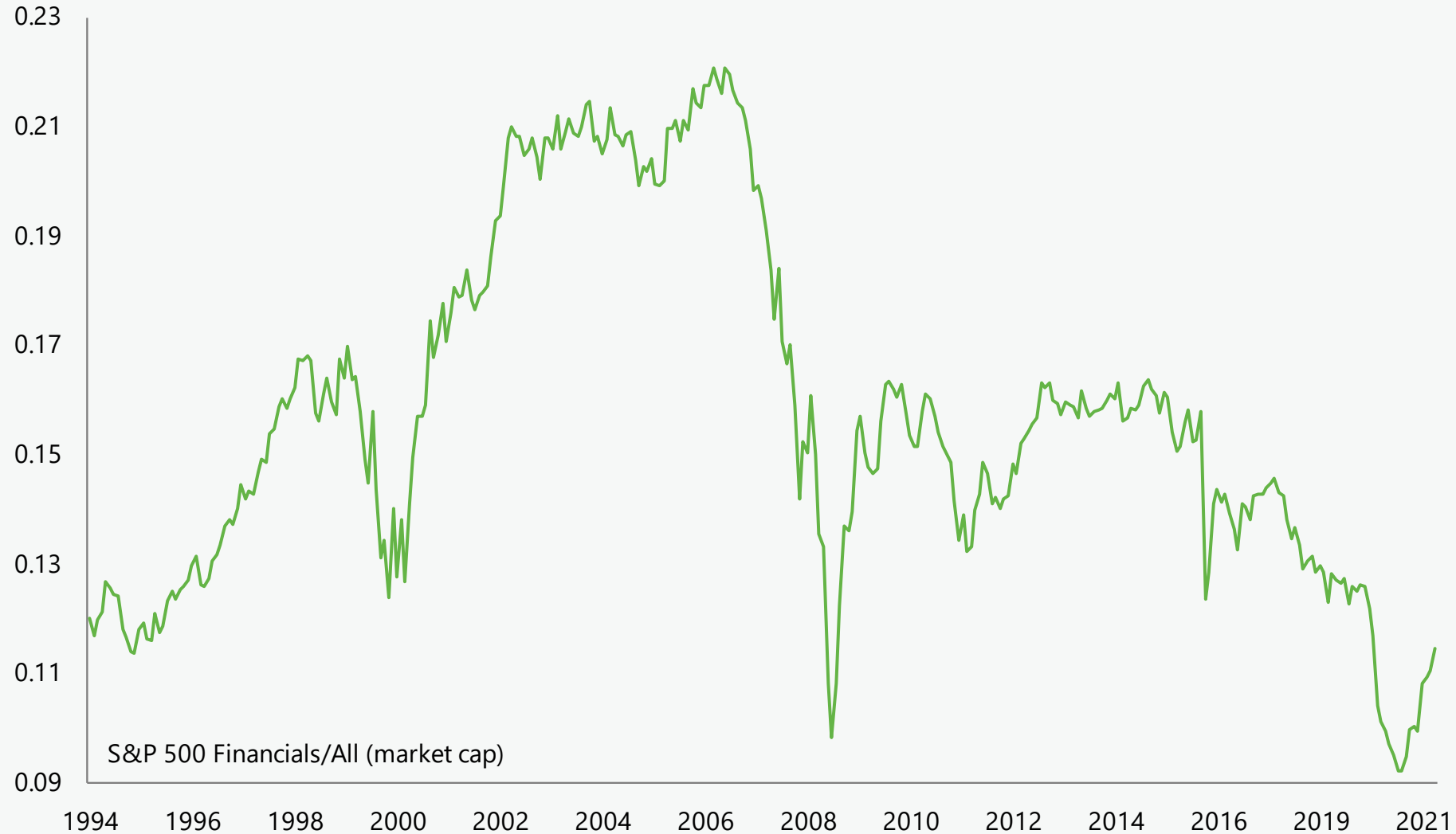
# And is starting to make a difference



# There can be long periods in the wilderness

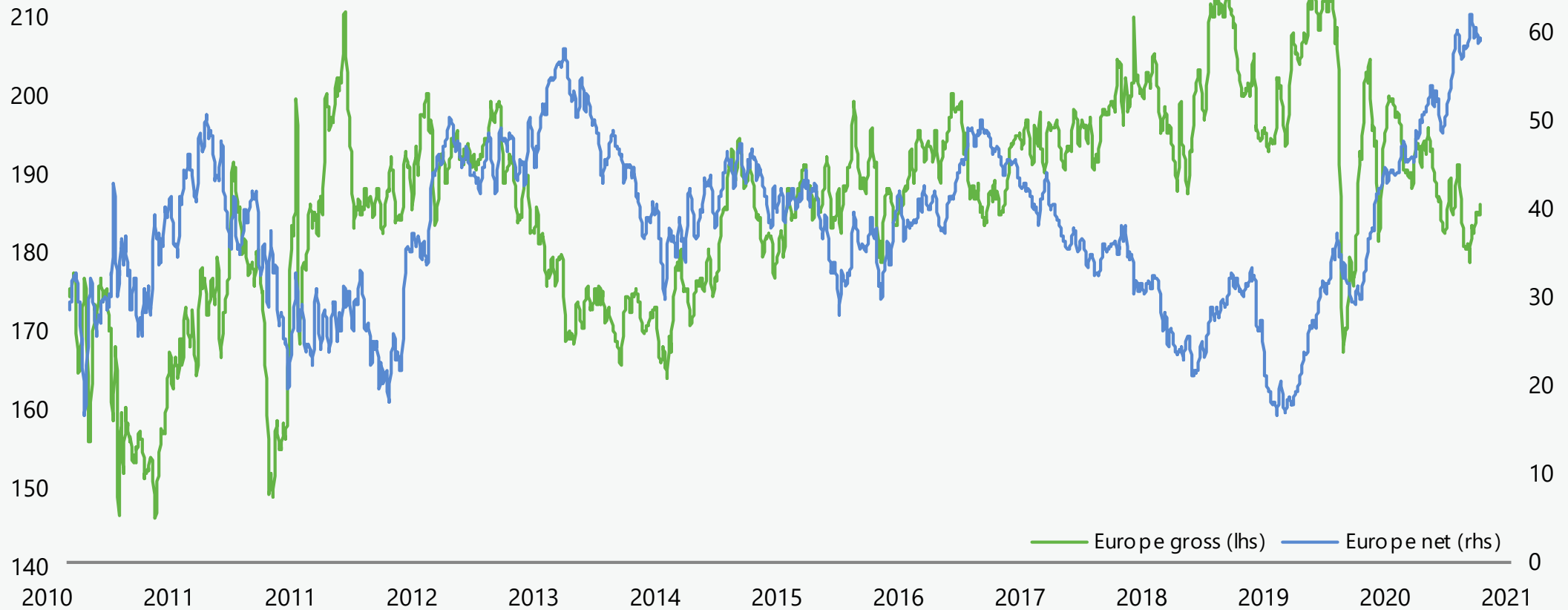


# Banks remain underweight in portfolios

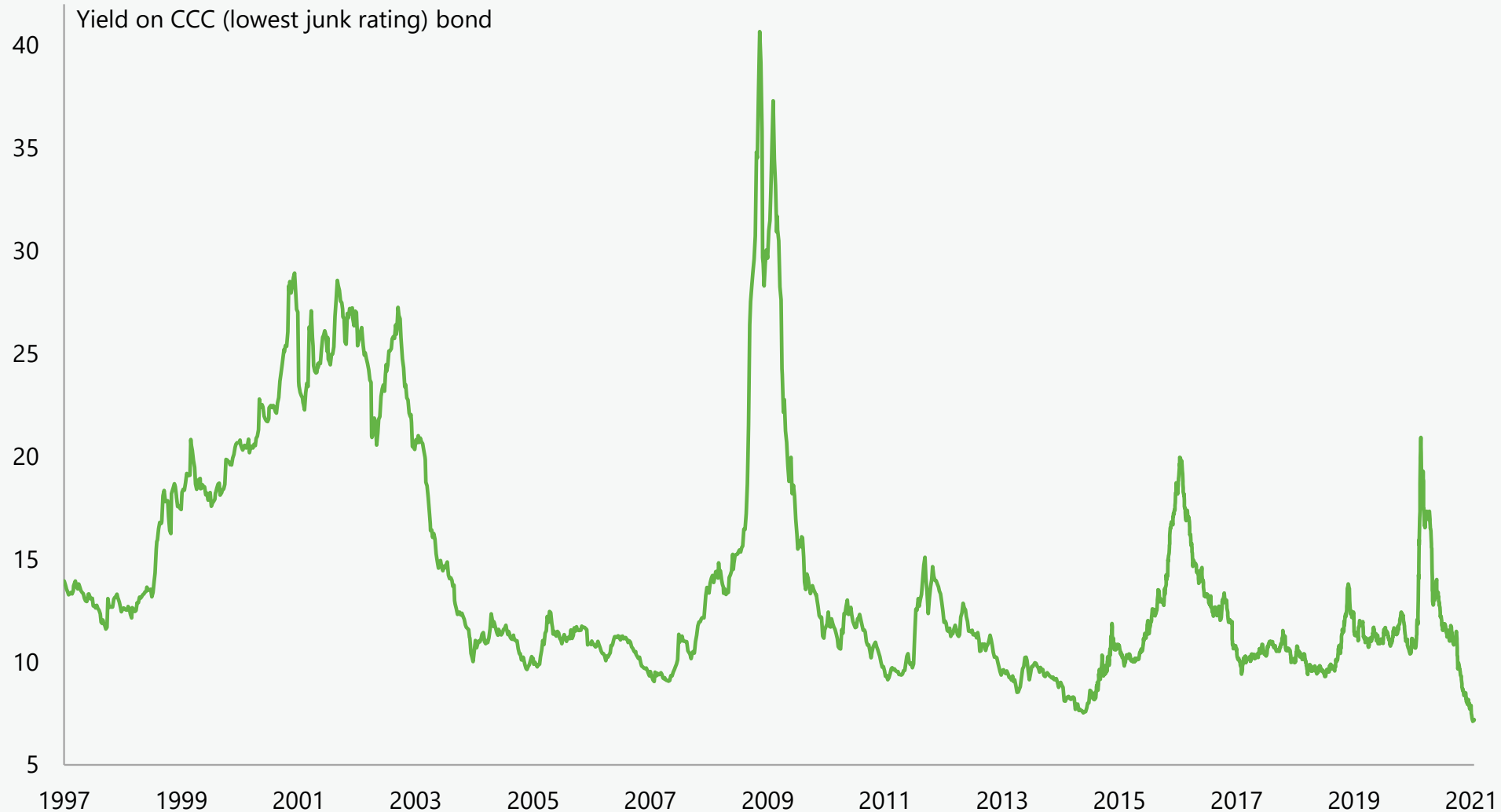


# Positioning in Europe is less extreme

220 Europe equity L/S average gross and net leverage %



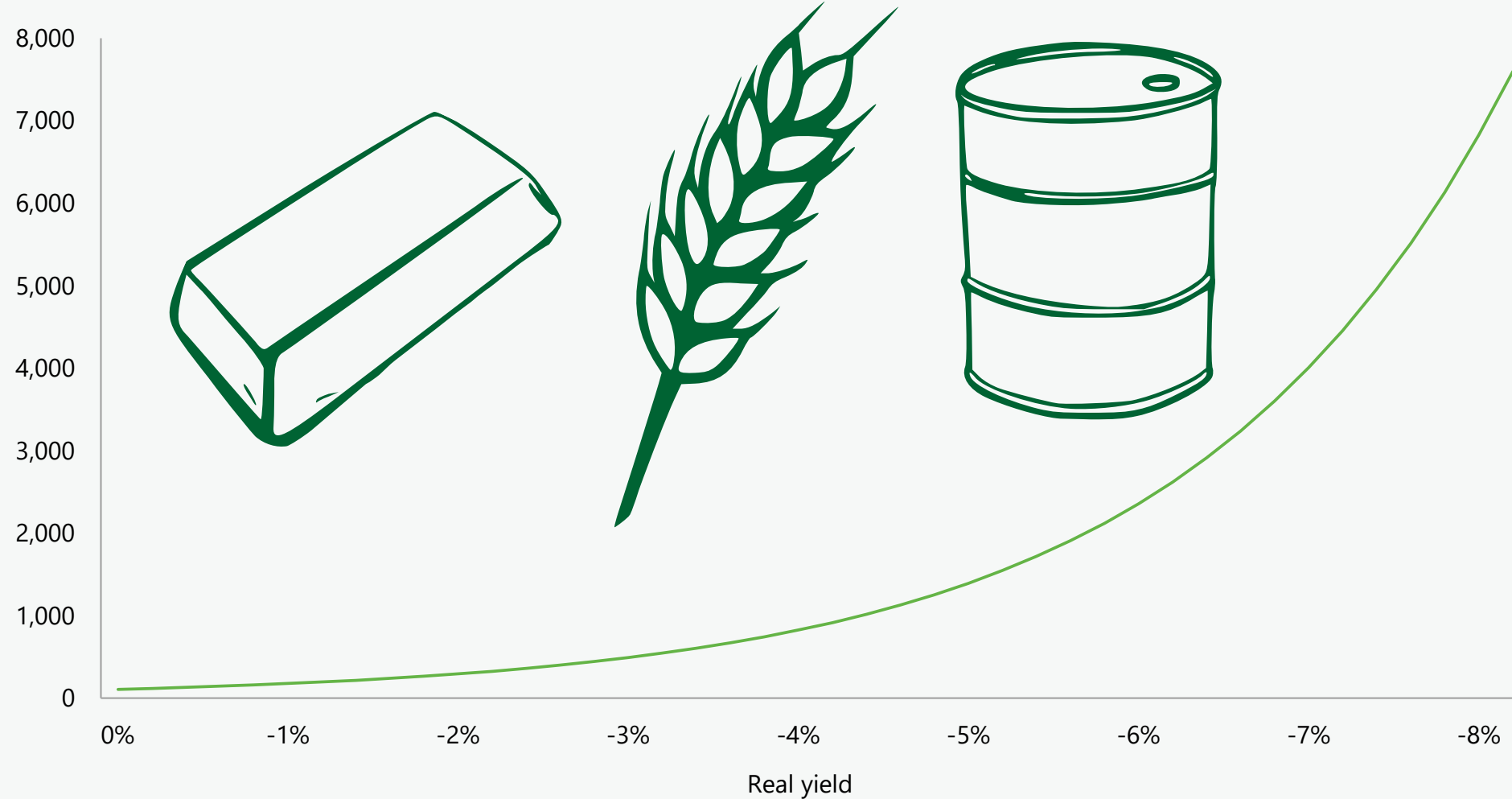
# And pricing makes (short) credit a great hedge





# As are real assets

Price of the bond

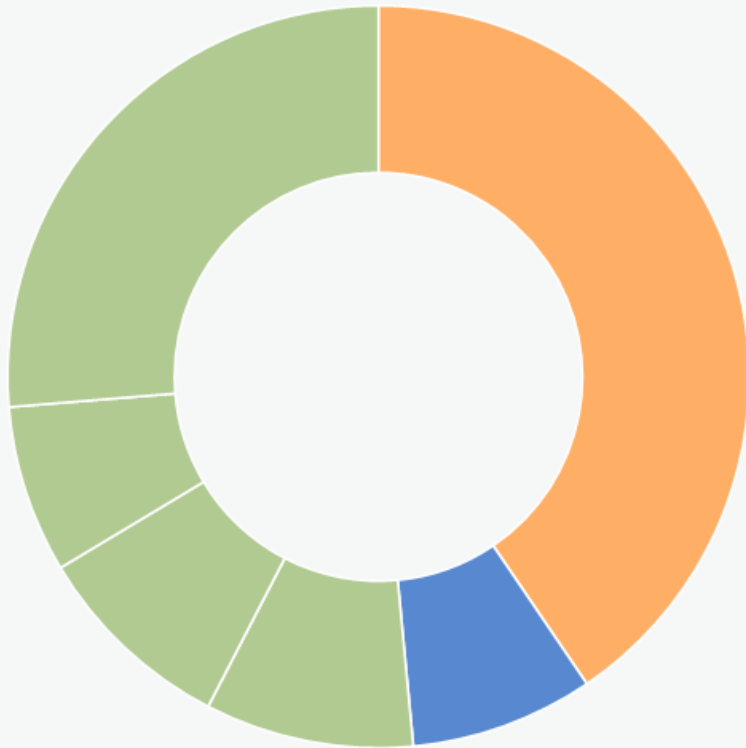


If the real yield changes from -2.0% today to -5.6%, the price of this bond would move from £315 to c£1,900 (a c640% increase). A shift of equal magnitude in the opposite direction, to a real yield of +2.4% would result in the price falling to £33 (a c90% fall). This exemplifies how the long-dated index-linked bonds have an asymmetric pay-off, particularly in an environment where higher inflation and low interest rates are likely to play a key role in clearing the real value of debt, currently at unsustainable levels. Source: Bloomberg, September 2020

“ We mourn the transitory things and fret under the yoke of immutable ones. ”

Paul Eldridge

# Current portfolio structure



## Inflation %

Inflation-linked bonds 26.3

Gold and gold equities 7.3

Short dated bonds 8.8

Cash 9.1

## Reflation %

Equities 40.5

## Deflation %

Protection Strategies 8.0

*R U F F E R*