



Crossing the Rubicon

Navigating the New World Disorder

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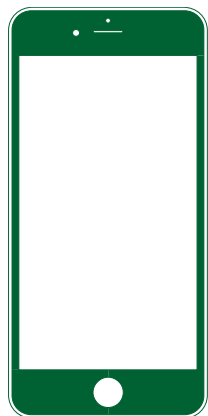
27 APRIL 2022

Photo of the Dnieper River in Dnipropetrovsk Oblast, Ukraine by Dima Novoklimov, 2016 @dima_novoklimov CC4.0

Stability breeds instability

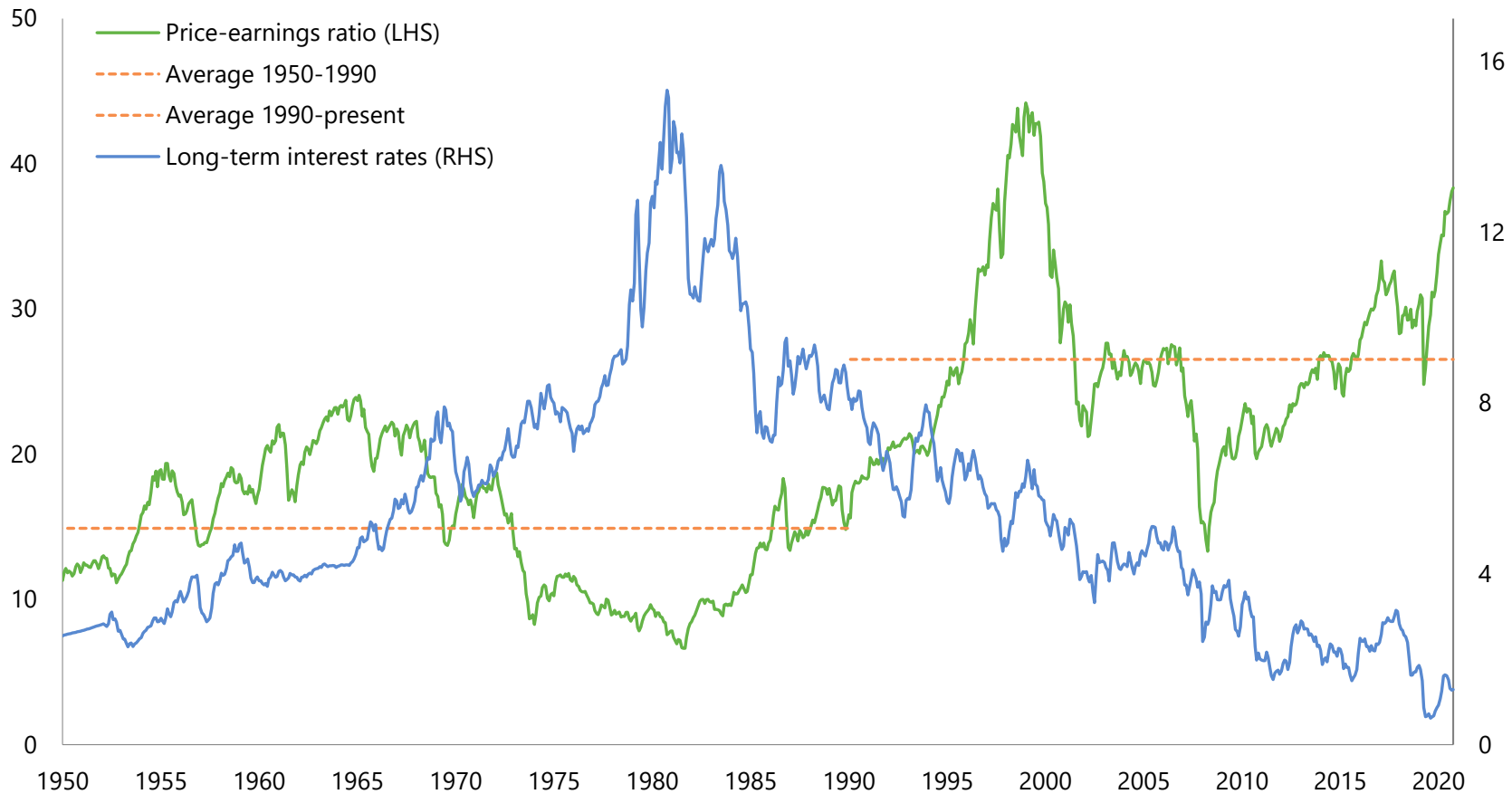


Disinflationary drivers



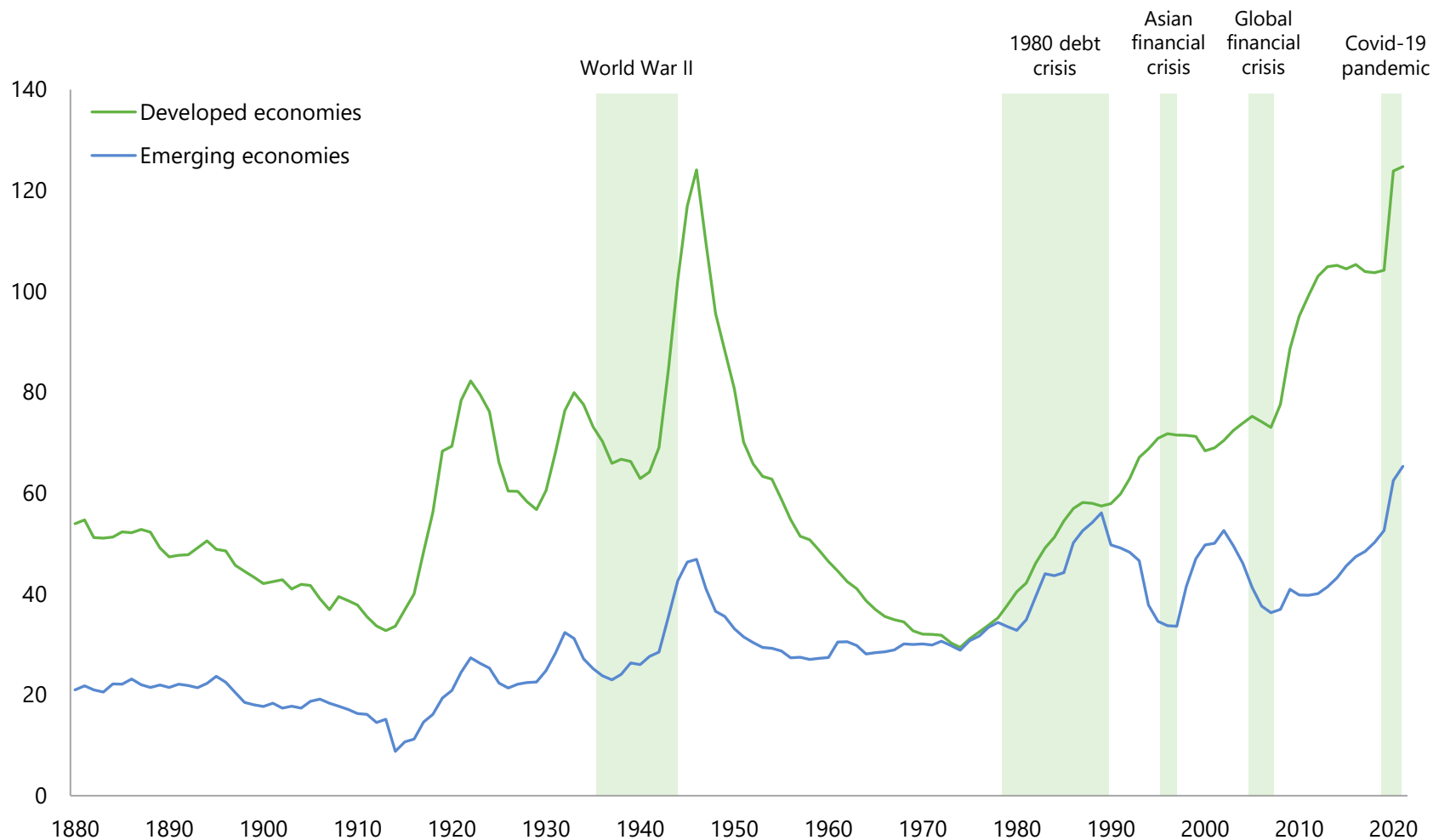
Capital's post-Cold War Golden Age: permanent? (no)

LOW RATES, INFLATION AND VOLATILITY HAVE UNDERPINNED ASSET PERFORMANCE



Global debt has grown quickly, too

DEBT AS A PERCENTAGE OF GDP IS BACK AT WWII LEVELS, INCREASING ECONOMIC FRAGILITY



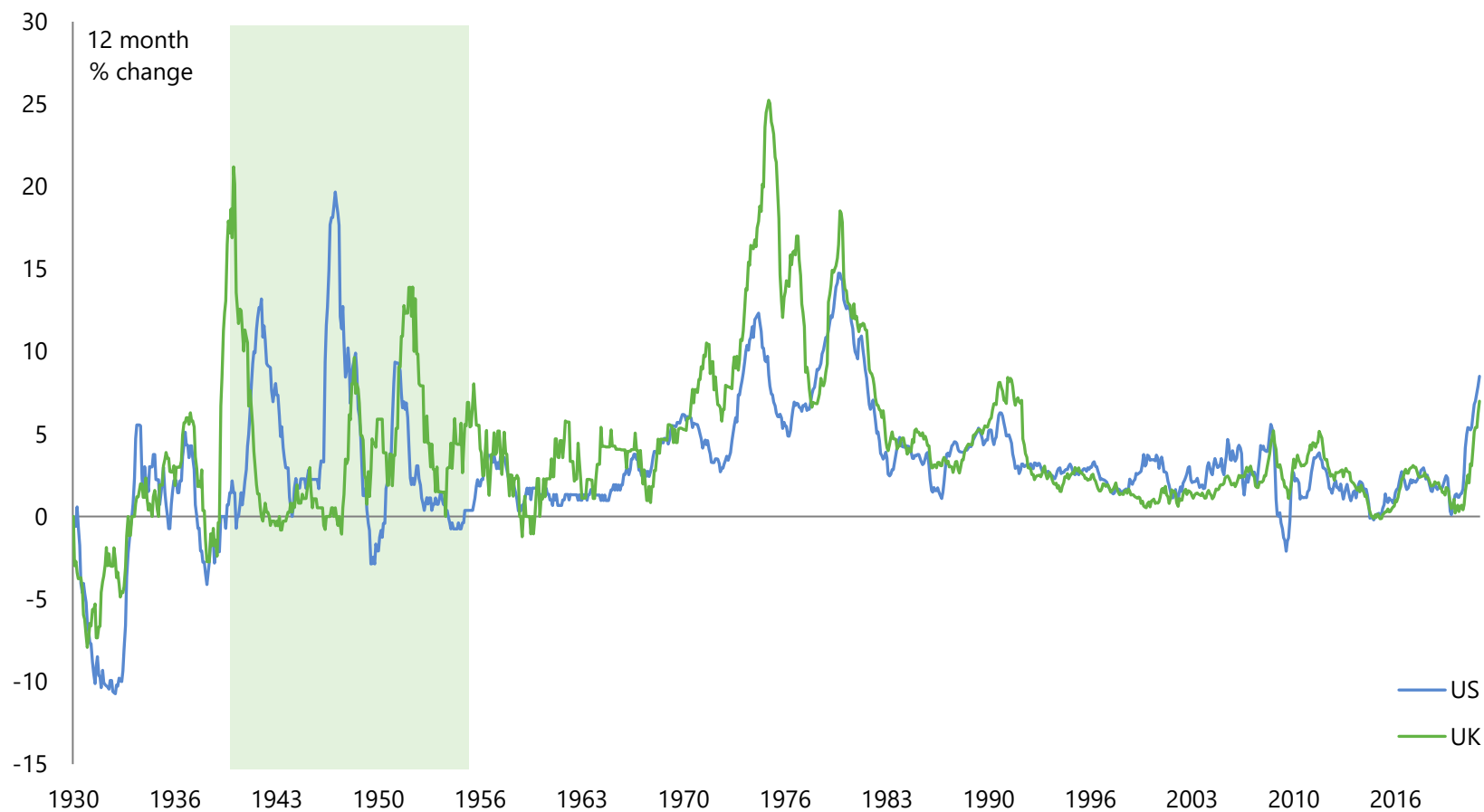
Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; Maddison Database Project; and IMF staff calculations.

Note: The aggregate public-debt-to-GDP series for advanced economies and emerging market economies is based on a constant sample of 25 and 27 countries, respectively, weighted by GDP in purchasing power parity terms.



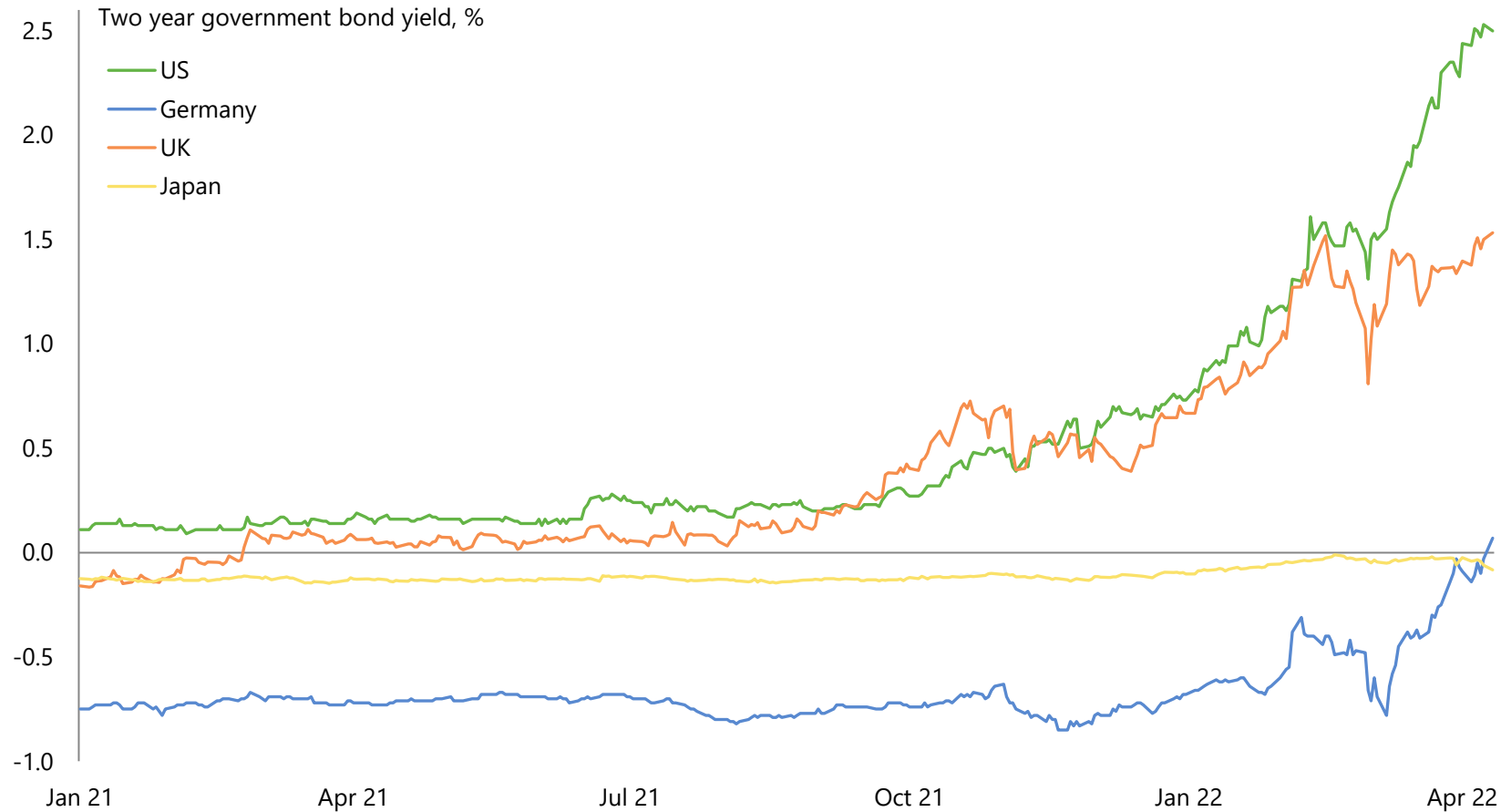
The new era dawns: inflation at 40 year highs

THE OUTCOME IS UNLIKELY TO BE LINEAR: MORE VOLATILE THAN ELEVATED. COVID & UKRAINE = ACCELERANTS



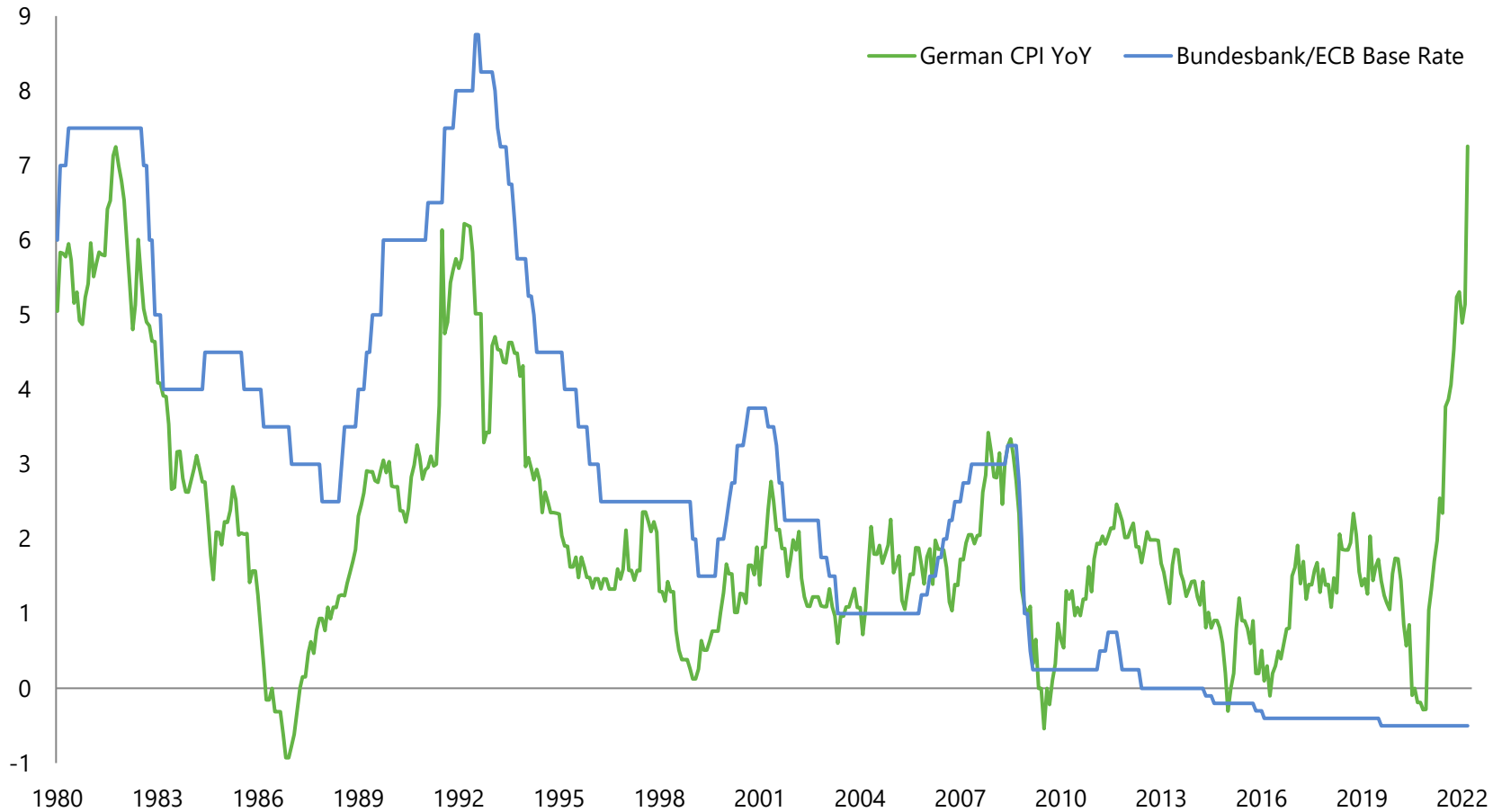
Operation Stable Door begins...

INFLATION IS OUT OF CONTROL. CENTRAL BANKS & INVESTORS ARE PLAYING CATCH-UP

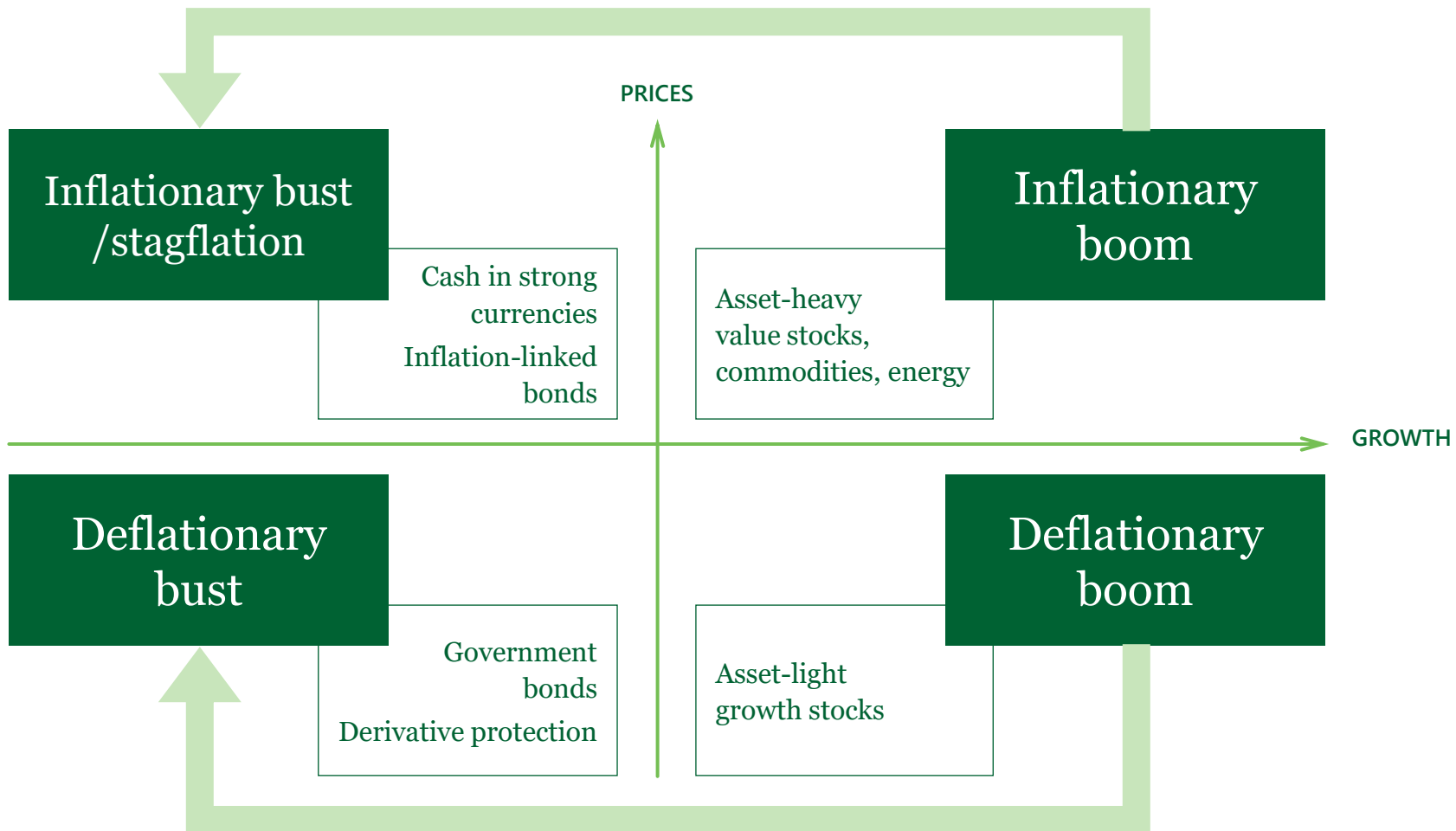


Some doors are more open than others...

IS THE ECB RUNNING ON FAITH?

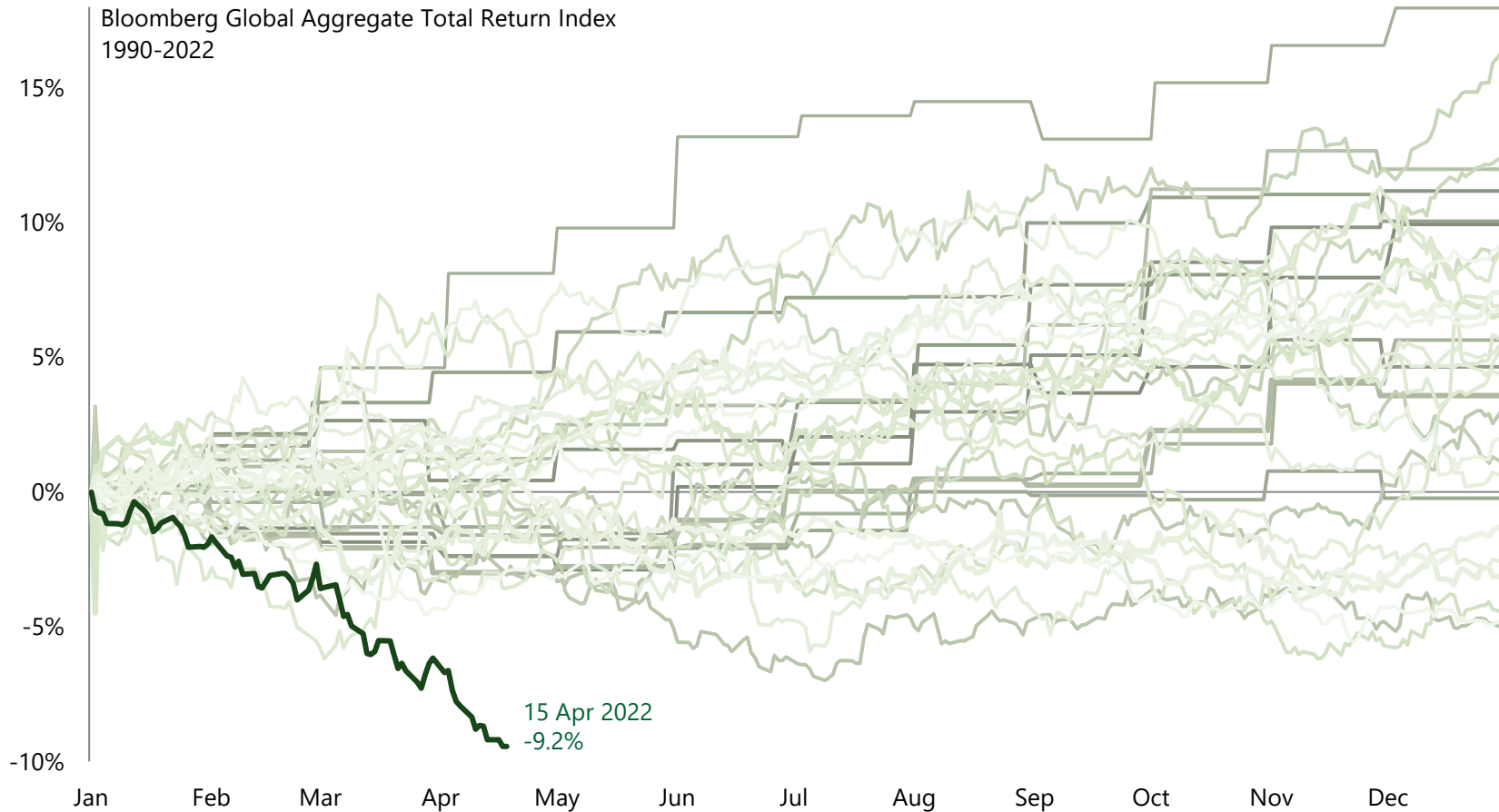


Boom to bust?



So much for 'safe haven'...

FIXED INCOME ENDURES ITS WORST START TO A YEAR. REMIND ME WHY YOU OWN CONVENTIONAL BONDS?



What about the market darlings? (turns out they do care...)



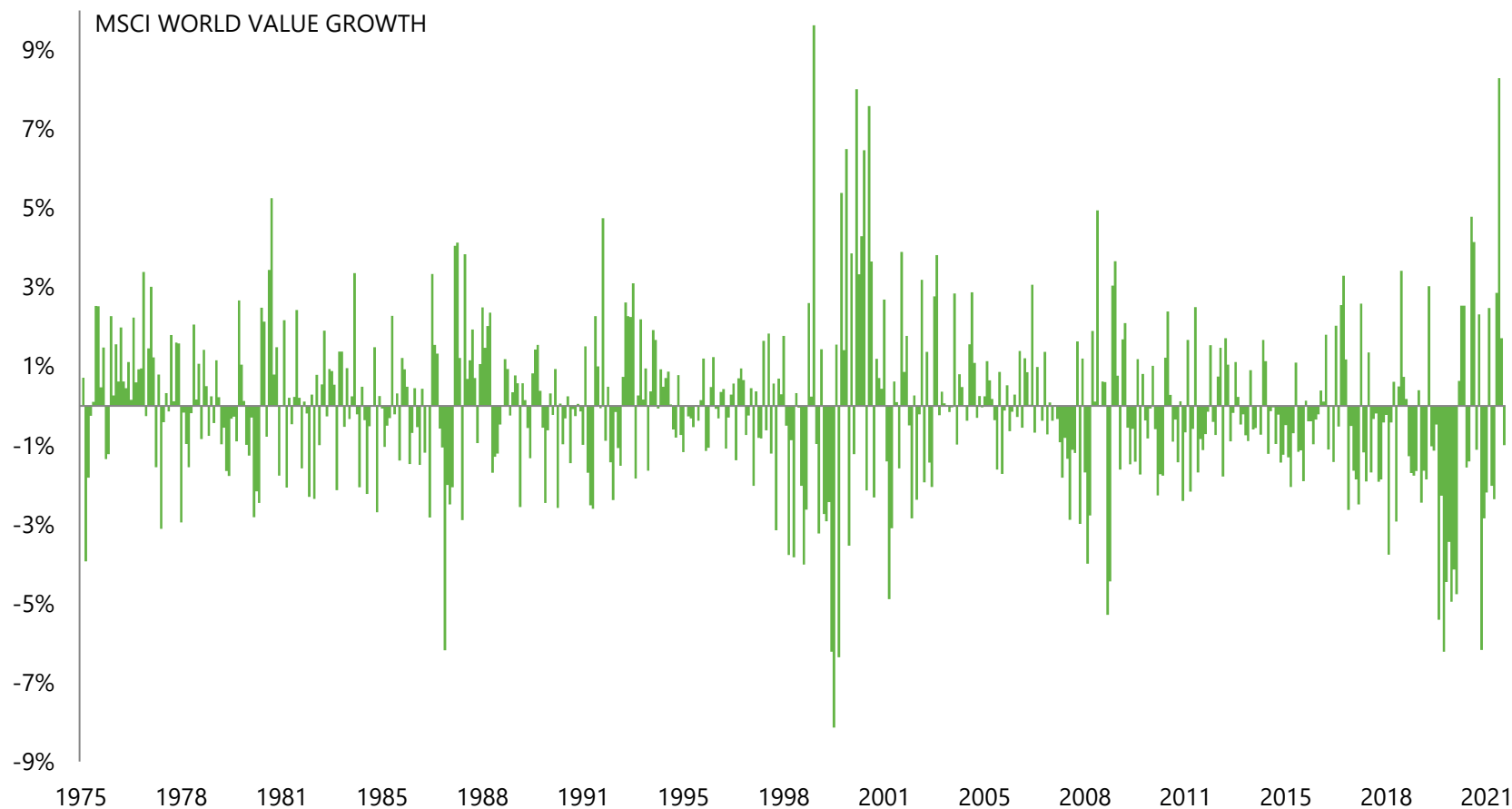
MAD MONEY

Scroll for details

@JIMCRAMER

Higher inflation and rates = equity rotation

JANUARY MARKED THE SECOND BEST MONTH IN 50 YEARS FOR VALUE – BUT IS IT THE START OF A TREND?



Liquidity remains a critical variable



The taps are now being tightened – but how far?

Something always breaks...

IT'S A QUESTION OF 'WHEN', NOT 'IF'



R U F F E R

The road ahead



Energy transition

World order

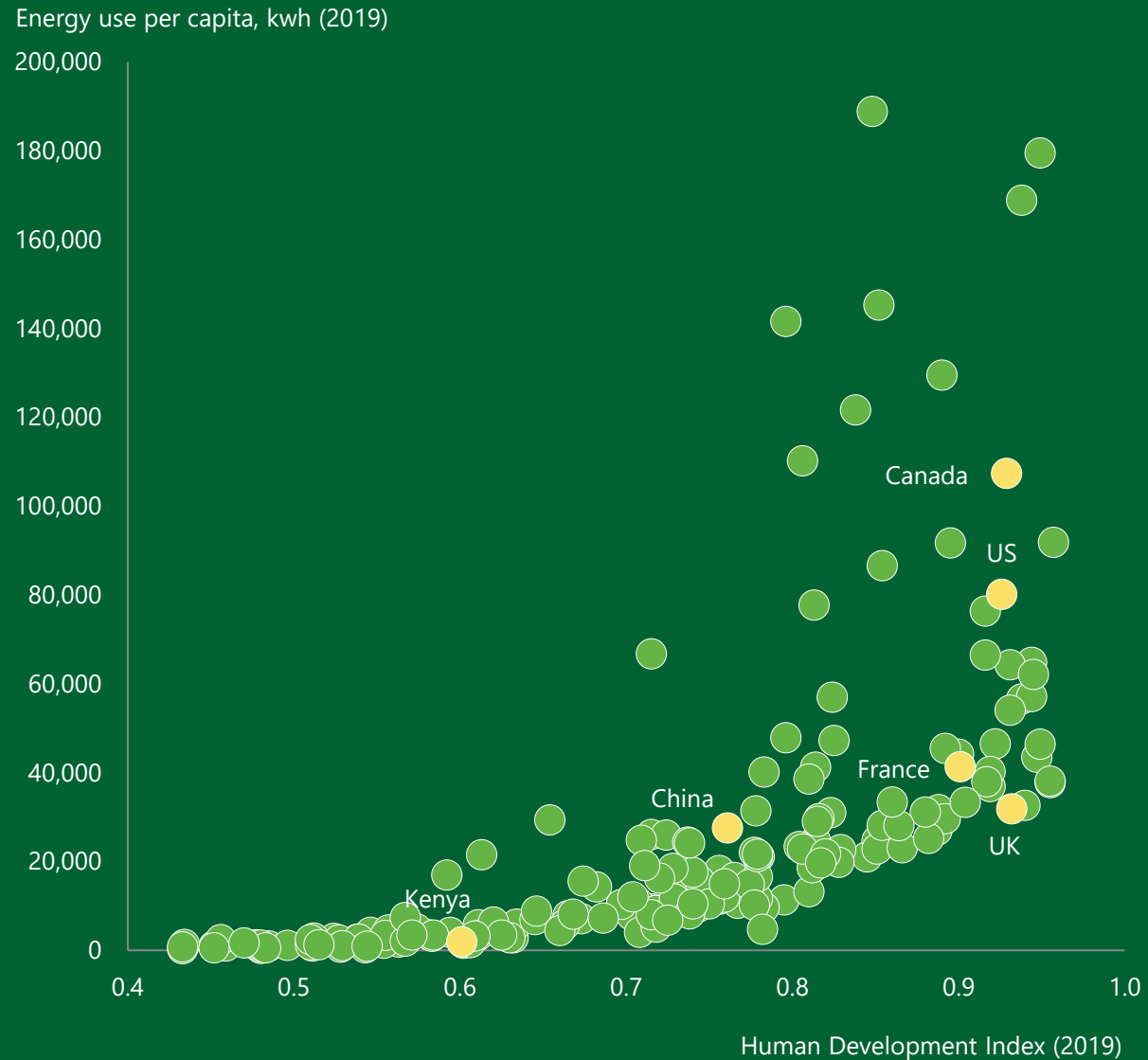
Digital

Fourth turning

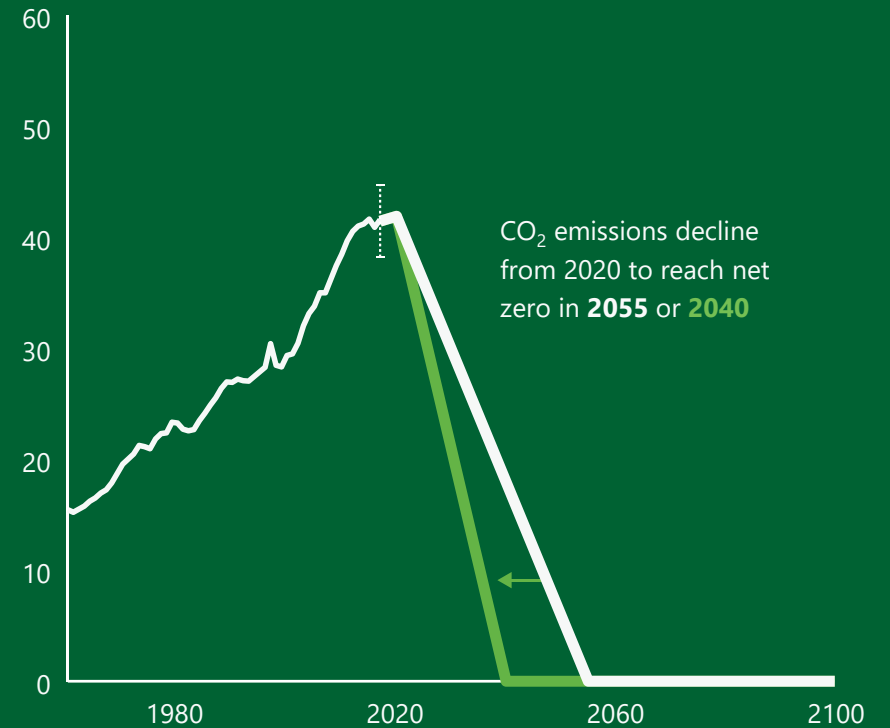
Environmental

Monetary

It's all about power



Stylized net global CO₂ emission pathways
Billion tonnes CO₂ per year (GtCO₂/yr)



New supply side shocks which aren't deflationary

ESG – THE TRANSITION TO NET ZERO INVOLVES A LARGE NEGATIVE SUPPLY SHOCK & MEGA CAPEX



Energy sector weighting in the S&P 500

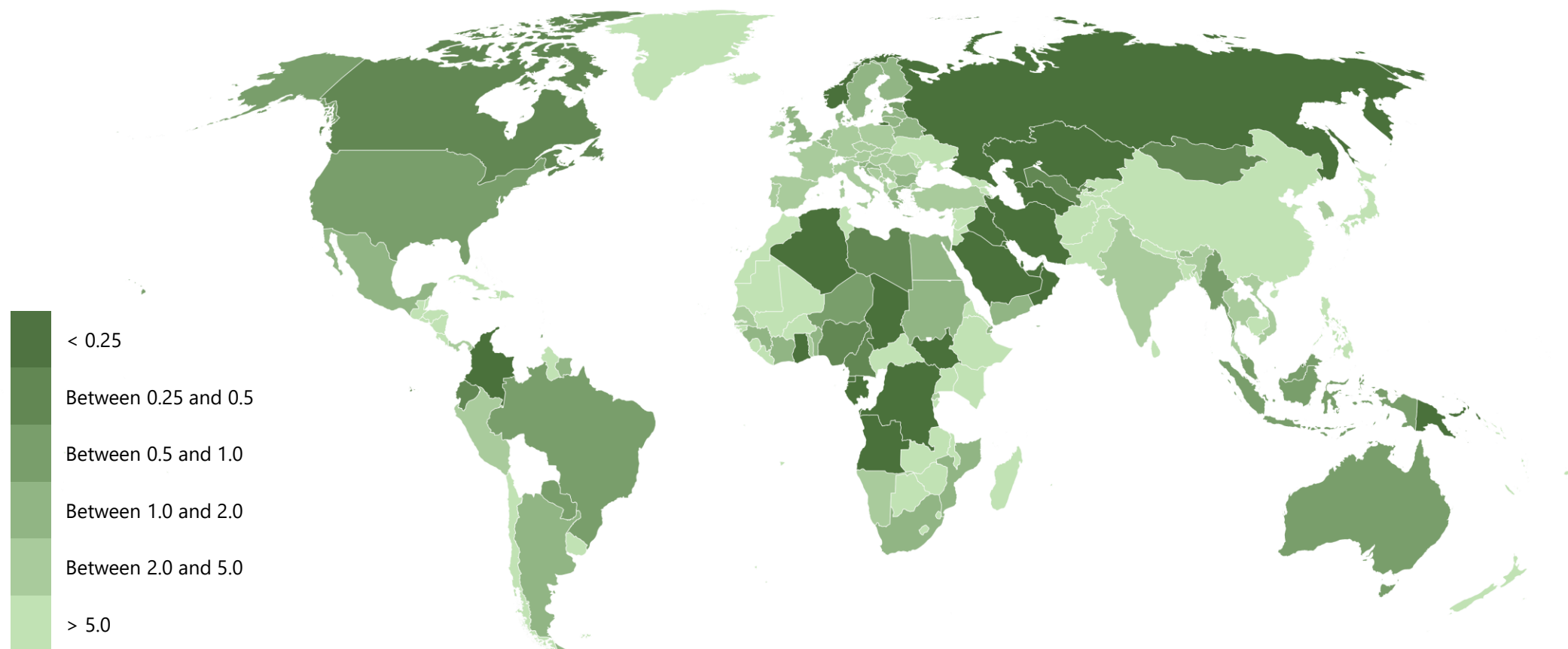
MARKET CAP OF S&P ENERGY SECTOR AS A PERCENTAGE OF THE S&P MARKET CAP





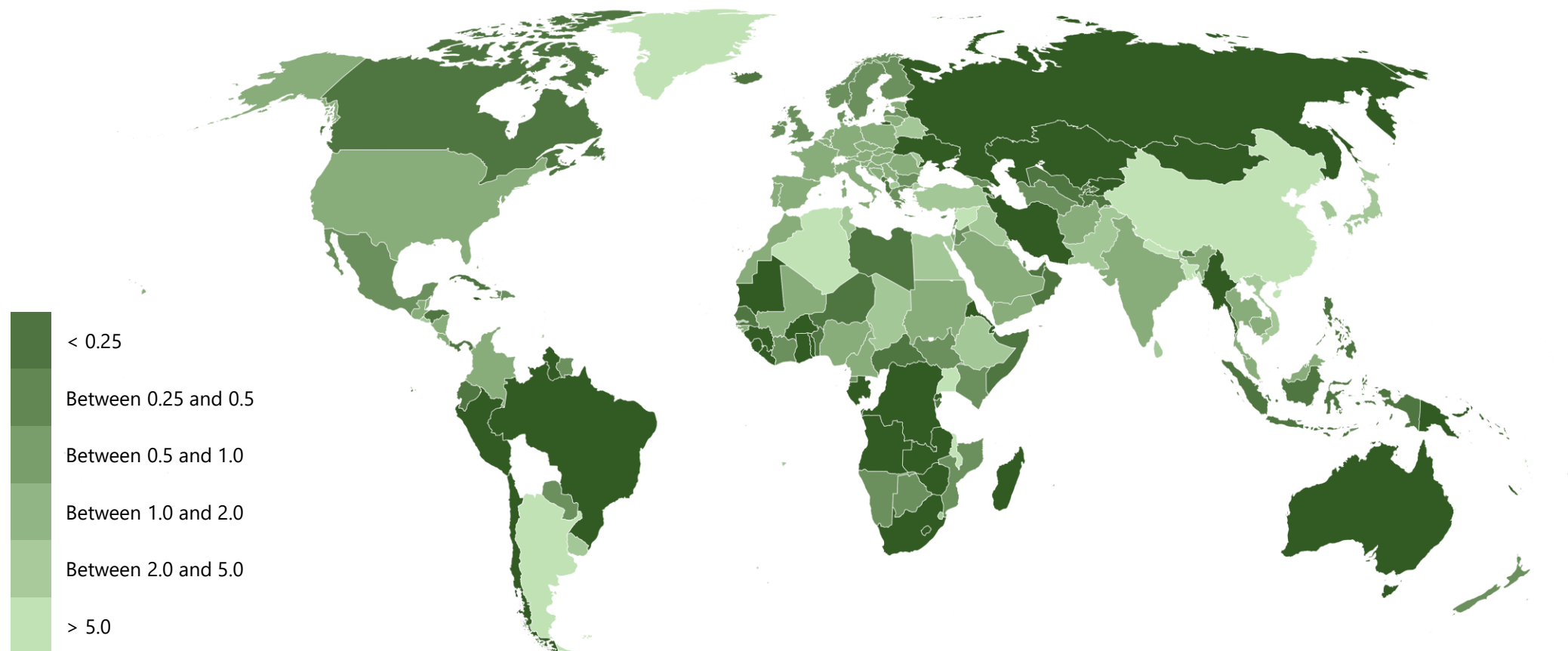
From a hydrocarbon world order...

RATIO OF FUEL IMPORTS TO EXPORTS. EUROPE, CHINA AND JAPAN ARE ALL VULNERABLE TO HIGH FUEL PRICES



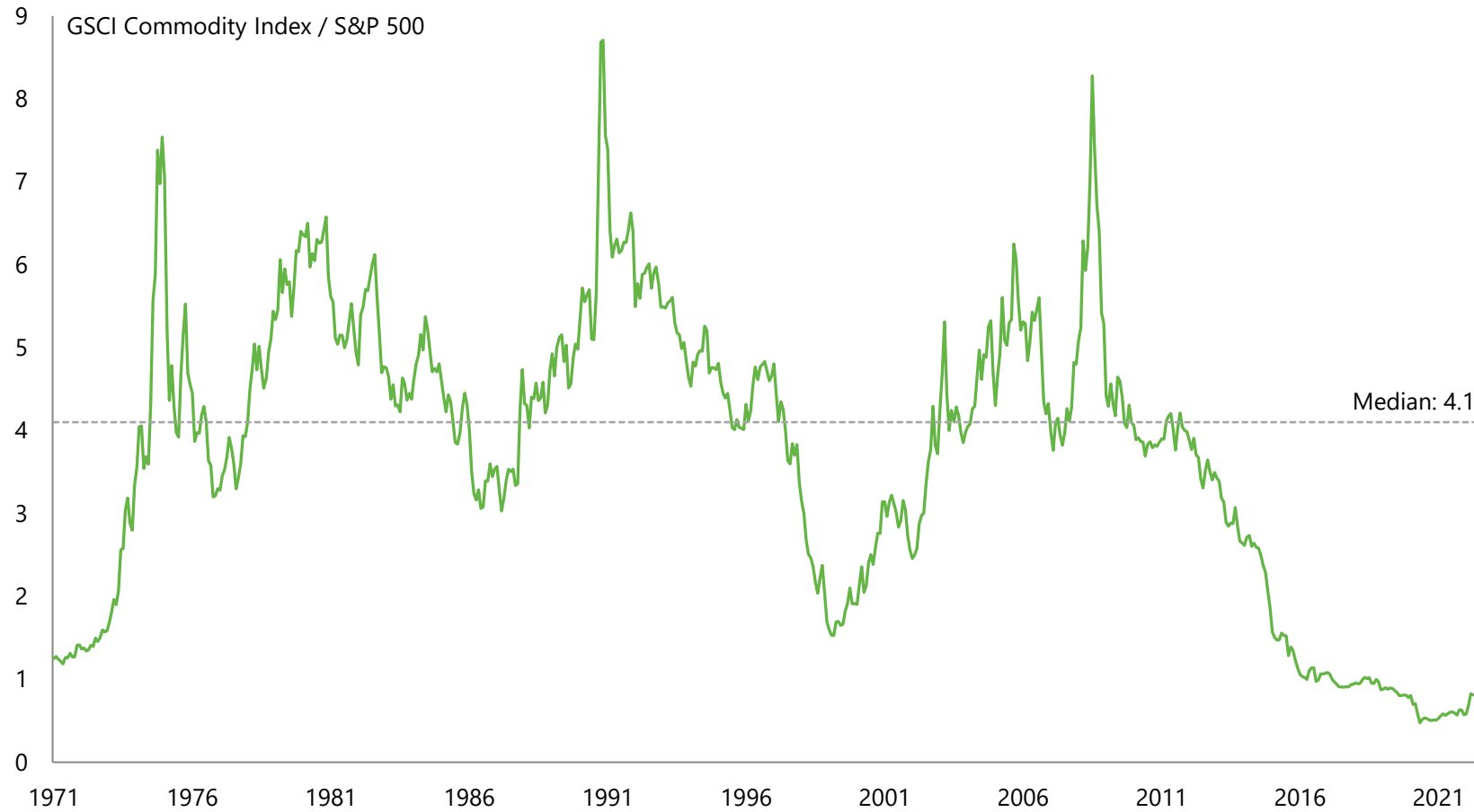
...to a metal world order

RATIO OF HARD COMMODITY IMPORTS TO EXPORTS. JURISDICTIONAL RISK IS NOW CRITICAL



'Financial' versus 'real'

EQUITIES EXPENSIVE RELATIVE TO COMMODITIES?



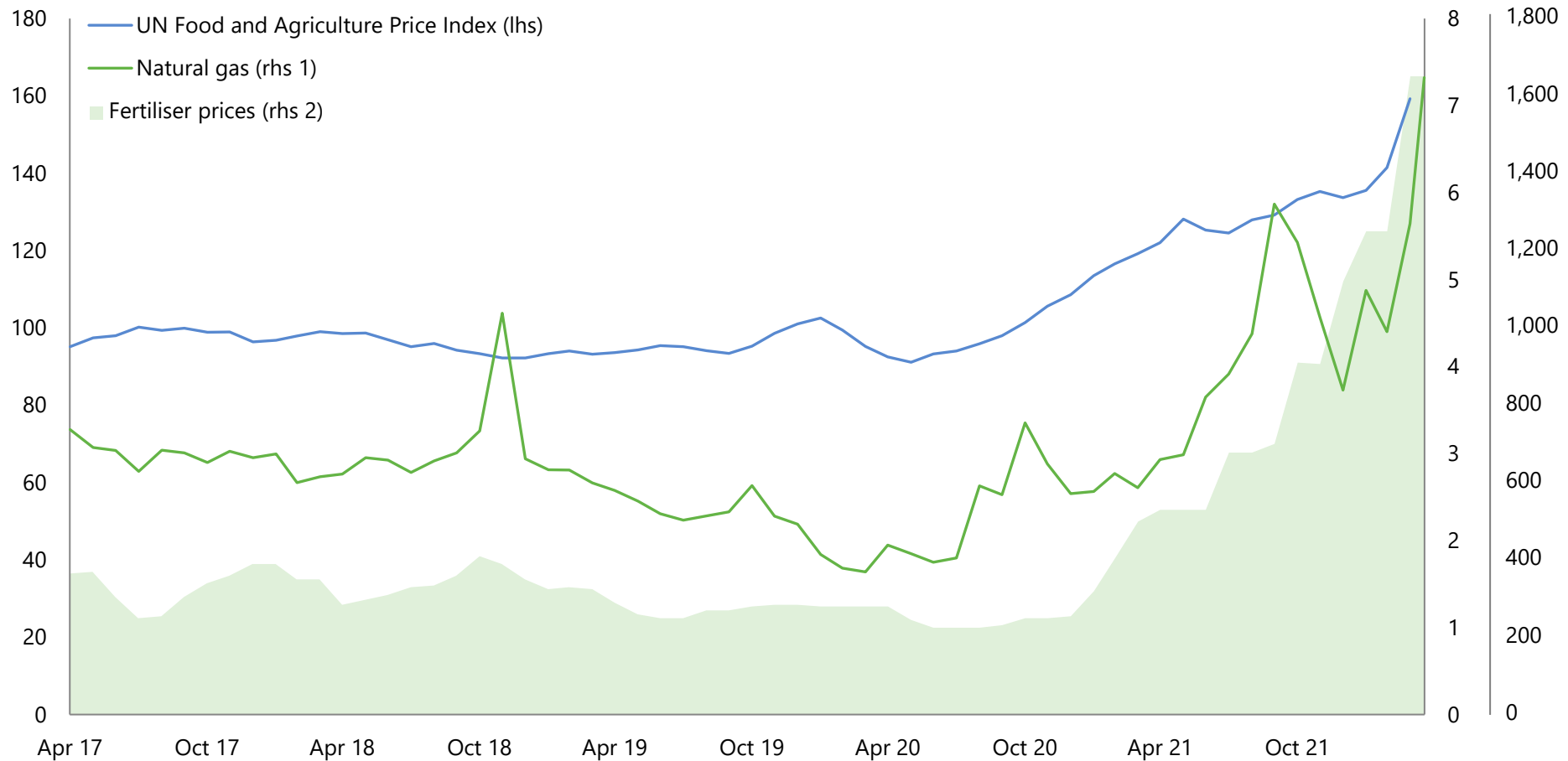
Commodity currencies have lagged commodity prices

EQUITY-LIKE RISK, WITHOUT THE EQUITIES



Let them eat (lentil?) cake!

WORLD FOOD PRICES HAVE JUST POSTED THEIR FASTEST EVER INCREASE.
HIGH FERTILISER PRICES = LOWER CROP YIELDS NEXT YEAR



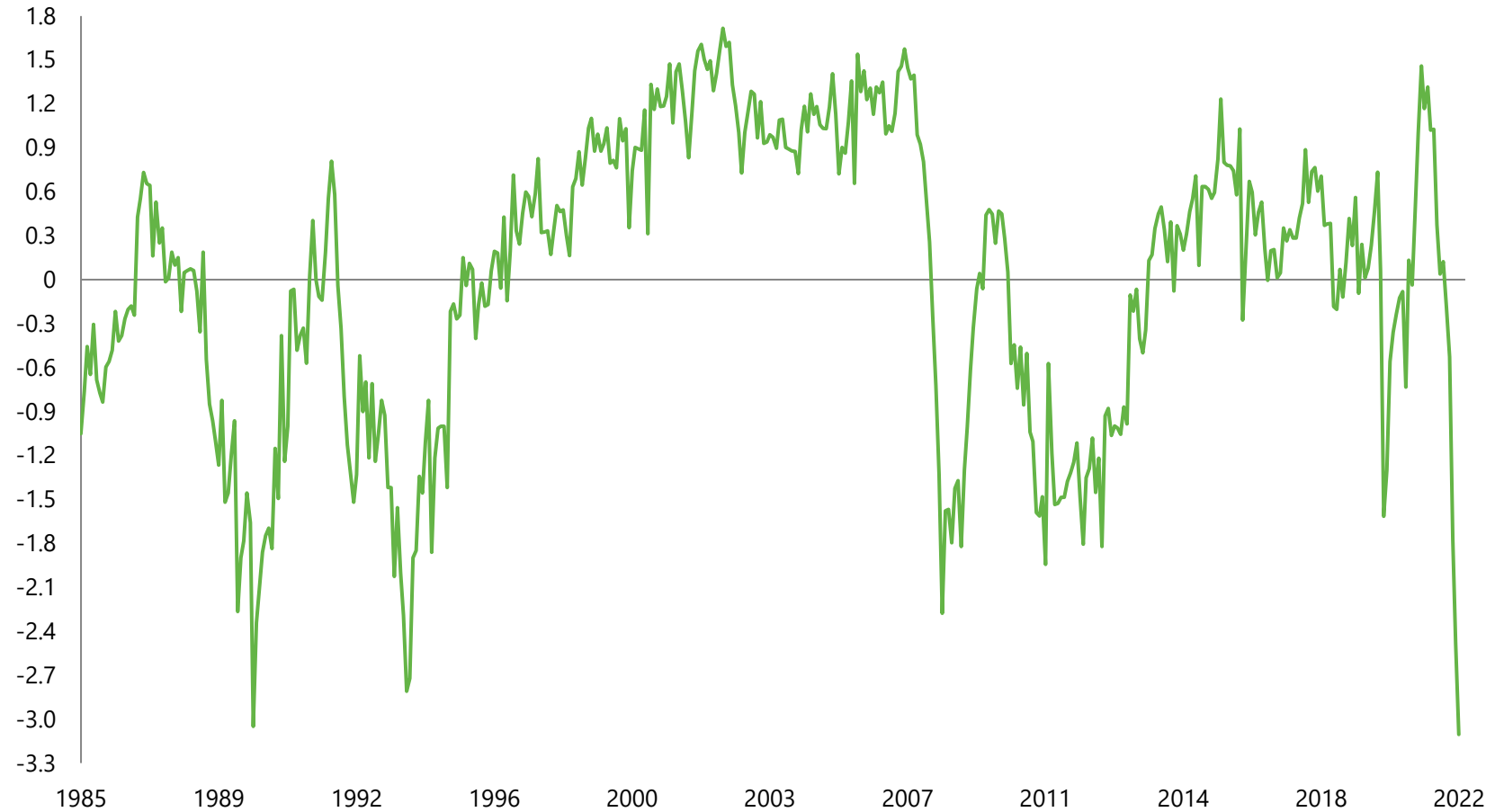
“Let them
eat cake!”

Like fuel,
food drives
revolution



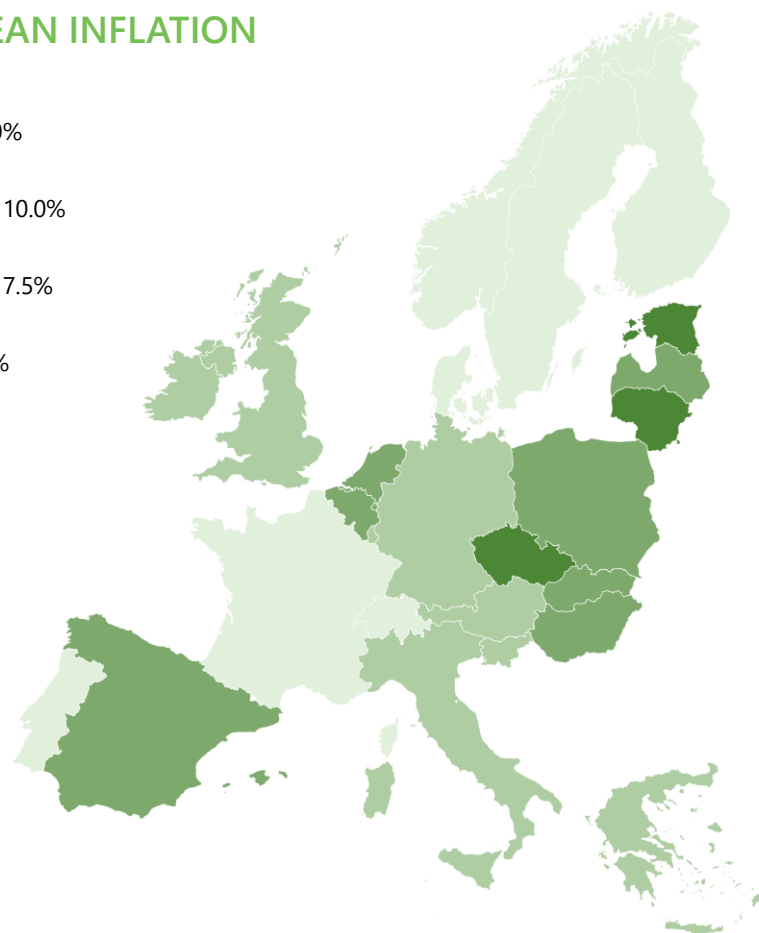
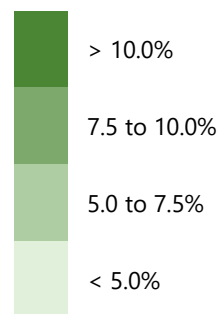
Cost of living crisis drives confidence collapse

UK CONSUMERS' EXPECTED PERSONAL FINANCIAL SITUATION (NEXT 12M) = BAD FOR INCUMBENT POLITICIANS

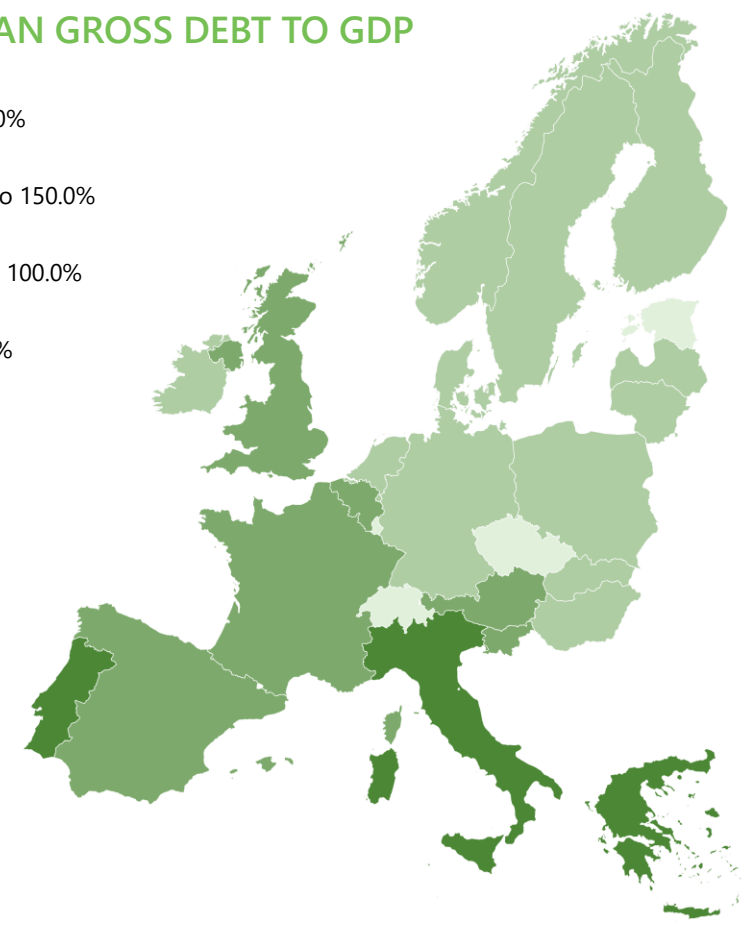
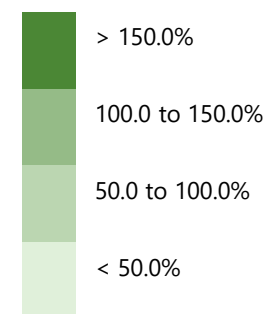


Whatever it takes?

EUROPEAN INFLATION



EUROPEAN GROSS DEBT TO GDP





‘No limits’?

“Our objective should be free but secure trade. We cannot allow countries to use their market position in key raw materials, technologies, or products to have the power to disrupt our economy or exercise unwanted geopolitical leverage.”

Janet Yellen
US Treasury Secretary
April 2022



“Perhaps the time has come when we should preferentially do business with those who are not only trading partners, but also want to be partners in values...”

We have to recognize that we have an enormous risk. China doesn't respect our social model, our understanding of liberality, our recognition of international law...

Our trade relationship with China is almost a concentration of risk for our economy.”

Christian Lindner
German Finance Minister
March 2022





MILITARY-
CIVILIAN
OVERLAP



TAIWAN

COMPETITION
BILL

'NATO FOR
TRADE'

INDUSTRIAL
STRATEGY

CURRENCY
INDEPENDENCE

RESERVE
DIVERSIFICATION

ENERGY
SECURITY

TARIFFS

TECHNOLOGY
RESTRICTIONS

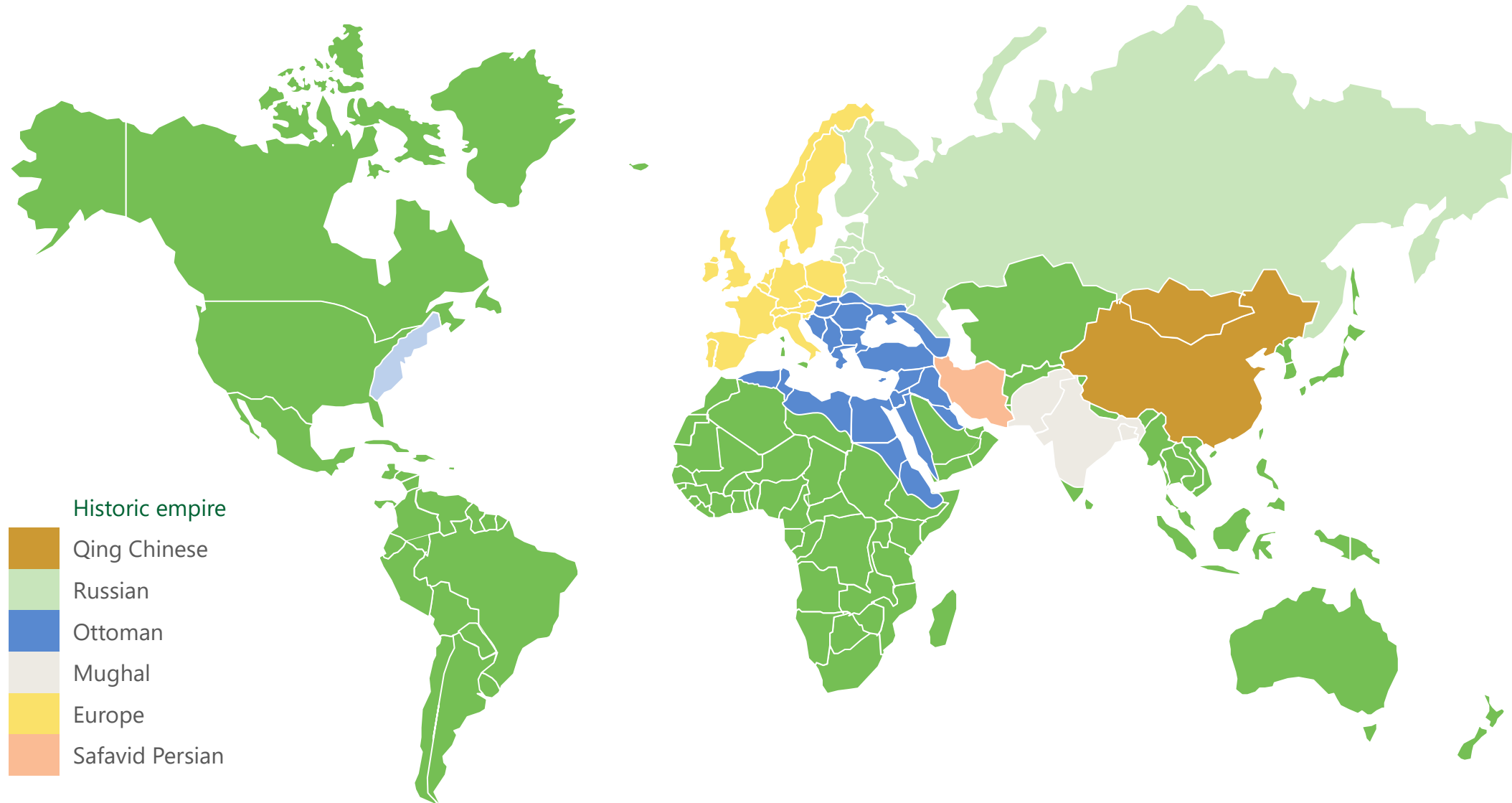
INVESTMENT
RESTRICTIONS



Electric vehicle or intelligence asset?



Great Power politics is here to stay...



...and it looks suspiciously 18th century

So, expect more lobster pots





FedEx



LVMH

NETFLIX

AIRBUS



MAERSK



DELL



BOEING

Google



Disney



H&M

SONY

So, what do you actually own?



Gold versus equities

●
\$2.5t
Gold

●
\$2.5t
Global
equities

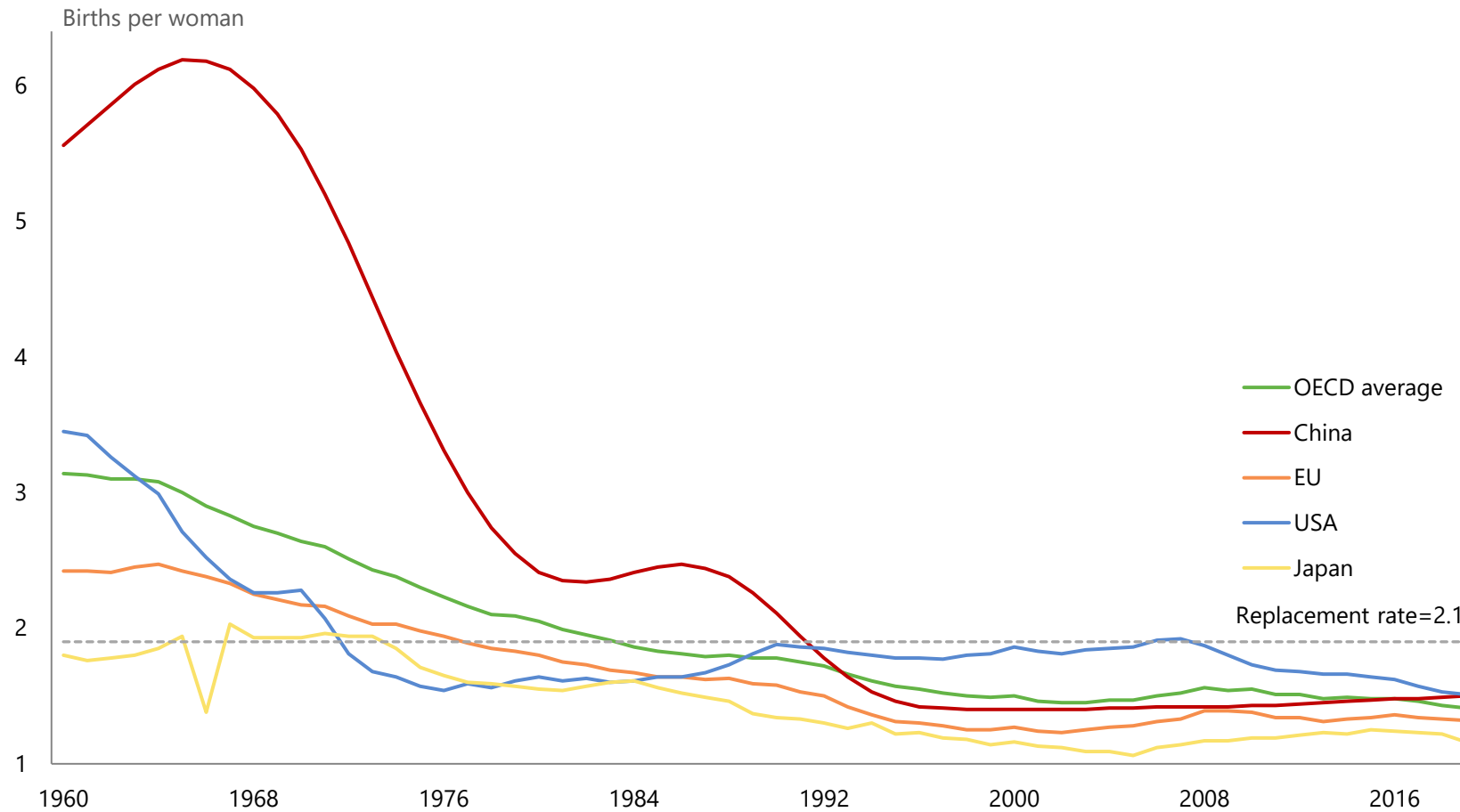
January 1980



2022

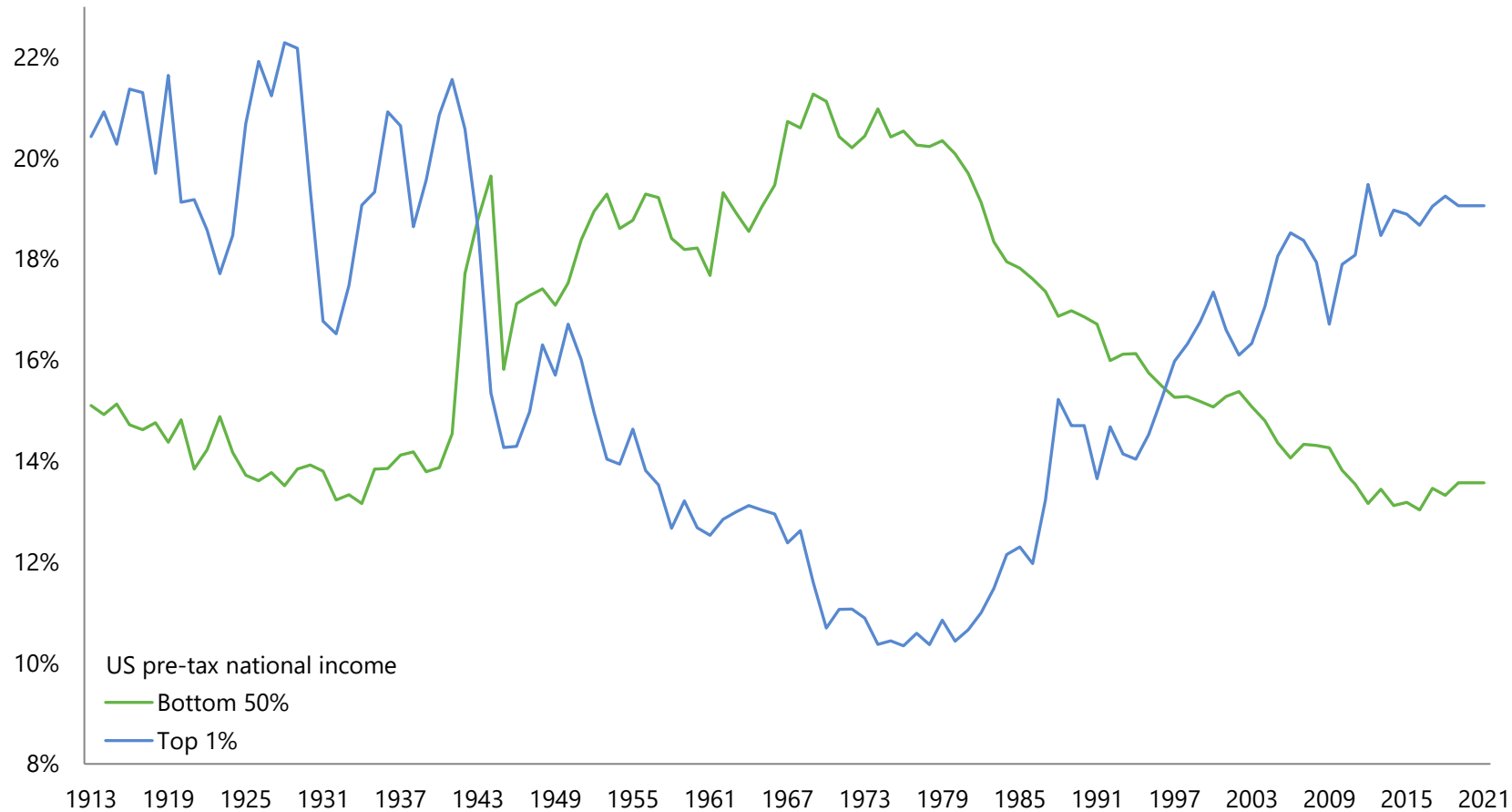
From baby boomers to busters

OVERPOPULATION WILL NOT BE THE PROBLEM... EXPECT MASSIVE AUTOMATION PUSH & PUBLIC FINANCE CRISIS



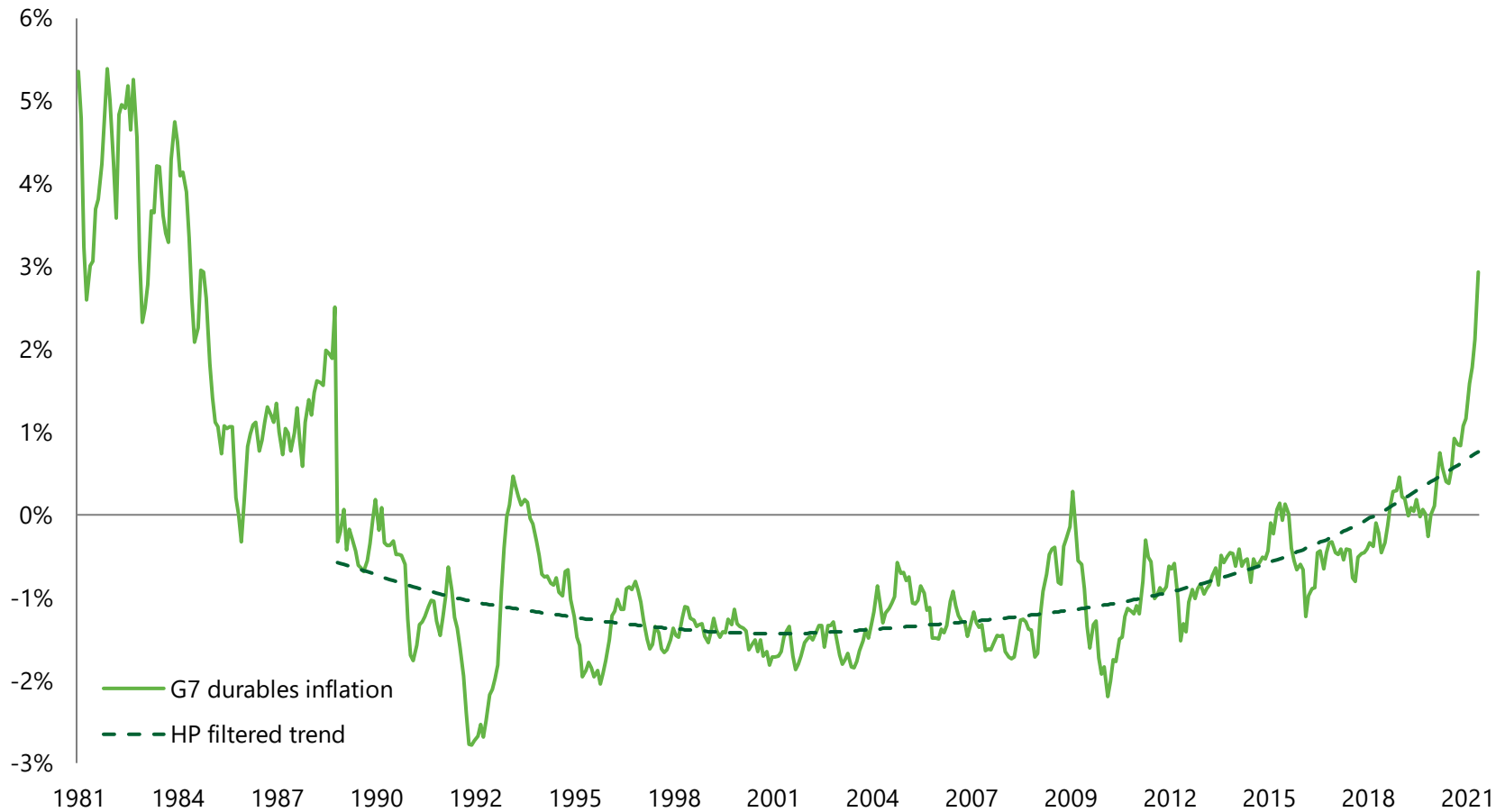
From have yachts to have nots?

WILL THE ECONOMIC PENDULUM NOW SWING AWAY FROM CAPITAL? INFLATION IS A CLEARING MECHANISM



Supply side pressures have been building for years

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



Investment implications

**The
Economist**

Ukraine's Minsky moment

Indian democracy: festive but fraying

Xi Jinping's thinker-in-chief

Redistricting: a bipartisan scandal

FEBRUARY 12TH-18TH 2022

When the ride ends

What would happen if the markets crashed?



The big risk...

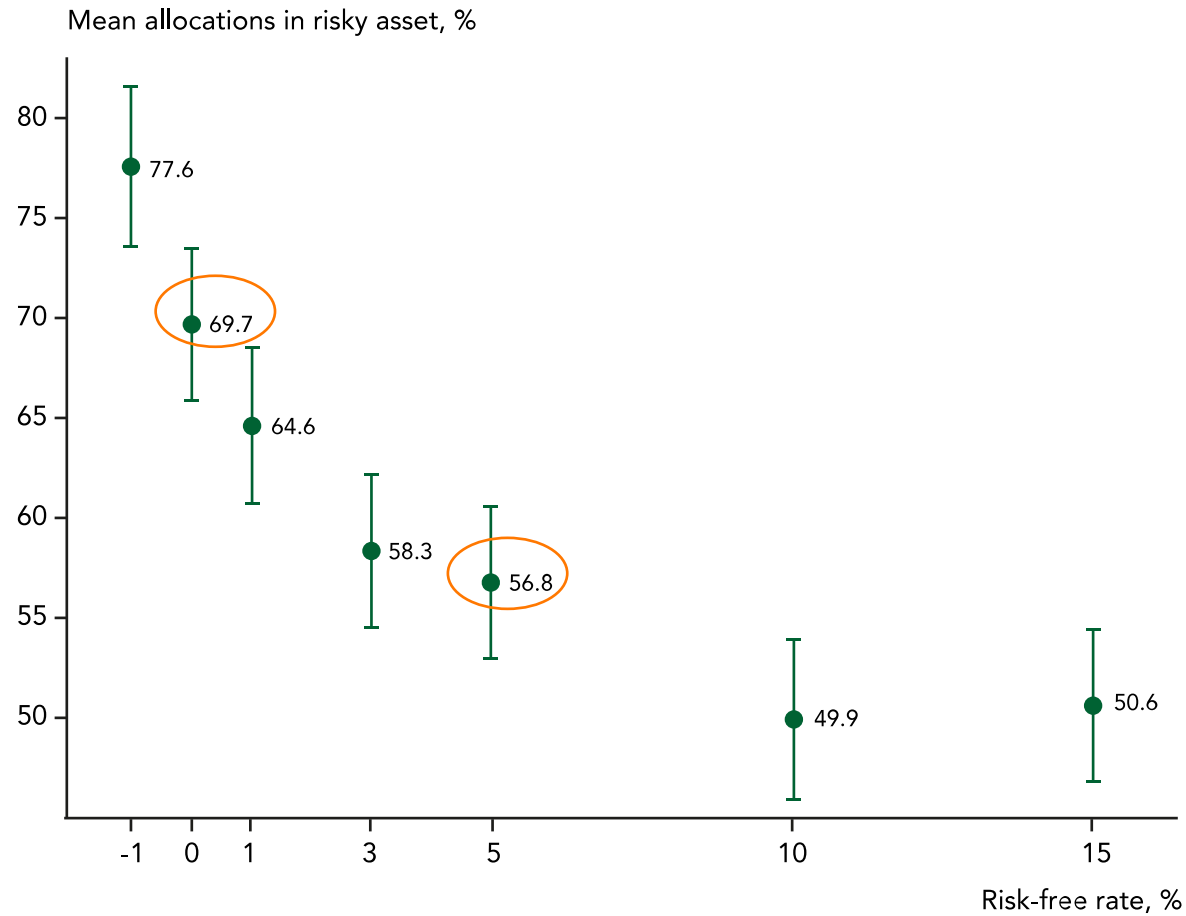
Inflation-prone economy

versus

inflation-intolerant financial system

The fear of missing out

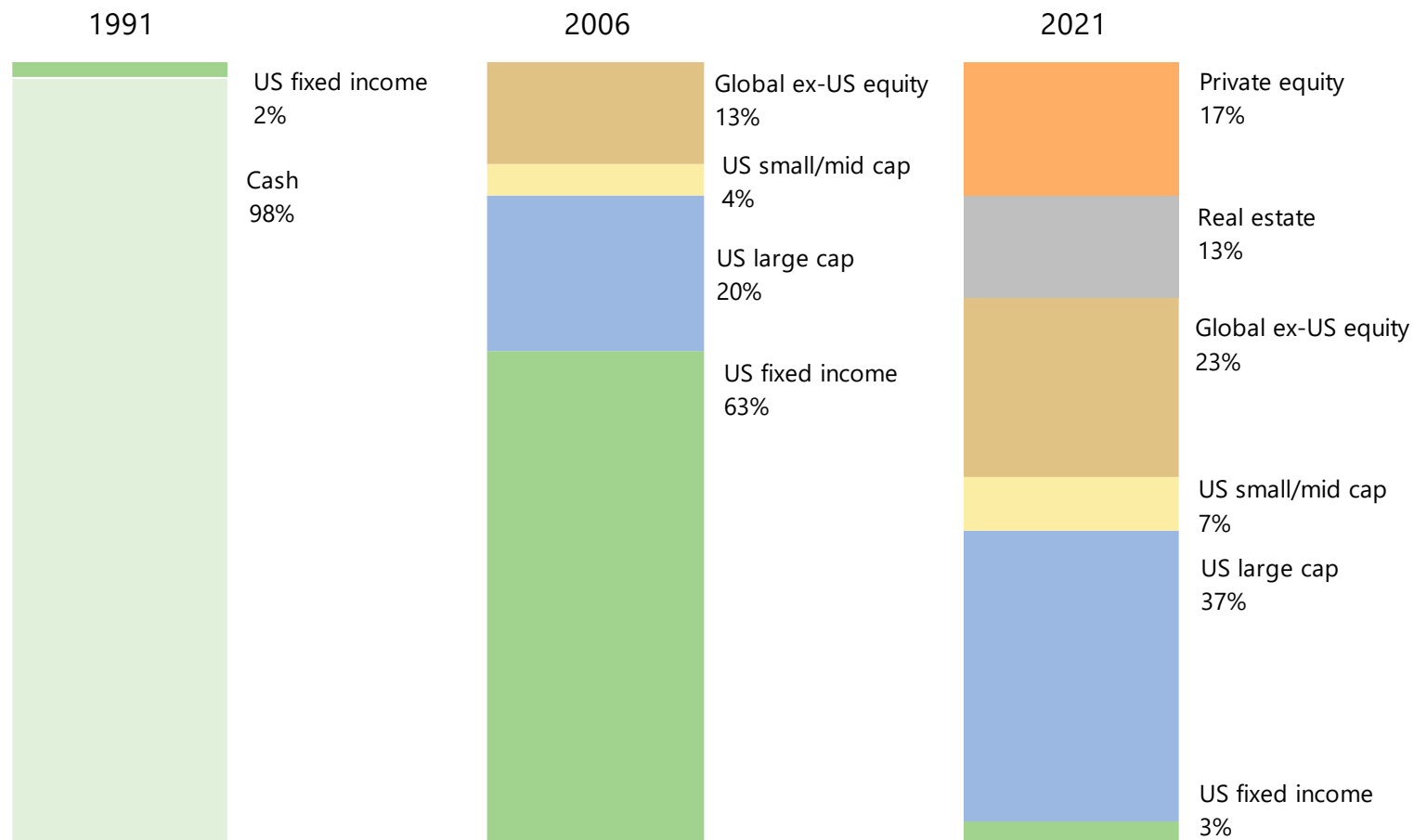
LOWER RATES DRIVE HIGHER ALLOCATIONS TO RISKY ASSETS – AND HAVE INCREASED MARKETS' DURATION



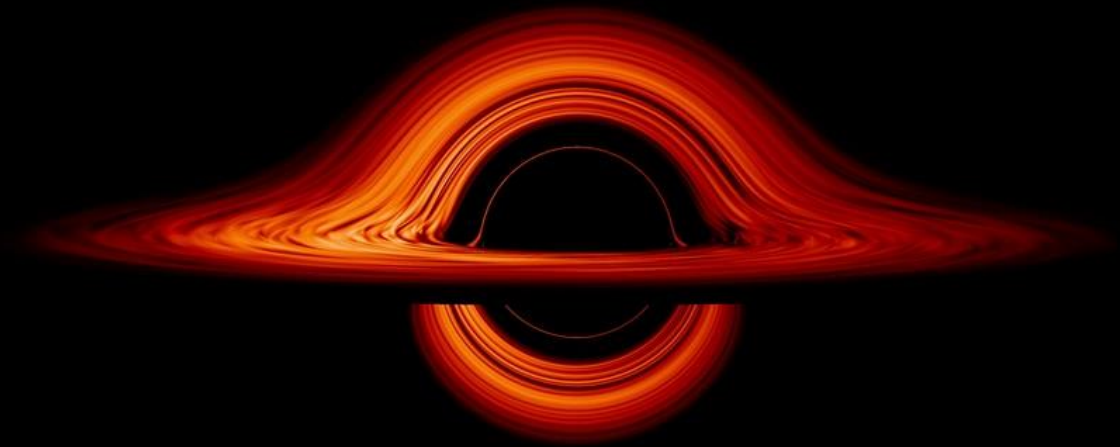
Source: Ma and Zijlstra (2018), A new take on low interest rates and risk taking

The same return, with 16 times the risk

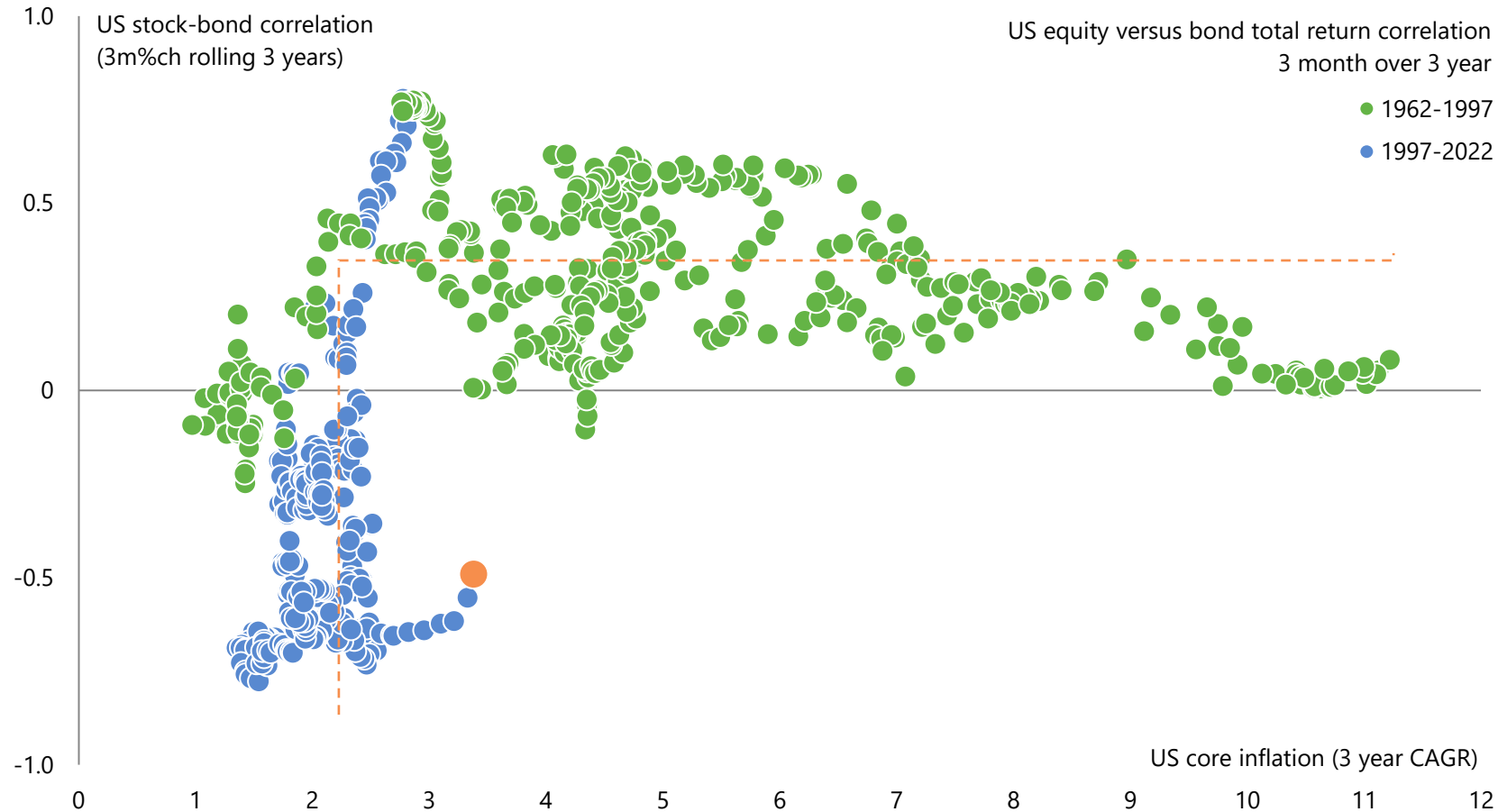
ESTIMATES OF WHAT PORTFOLIO INVESTORS NEED TO EARN A 7% RETURN



%	1991	2006	2021
Return	7.0	7.0	7.0
Risk	1.1	6.7	17.3
Risk increase versus 1991		6.1x	15.7x
Sharpe ratio	1.2	0.3	0.4



Kryptonite for conventional balanced portfolios



5 dimensional chess

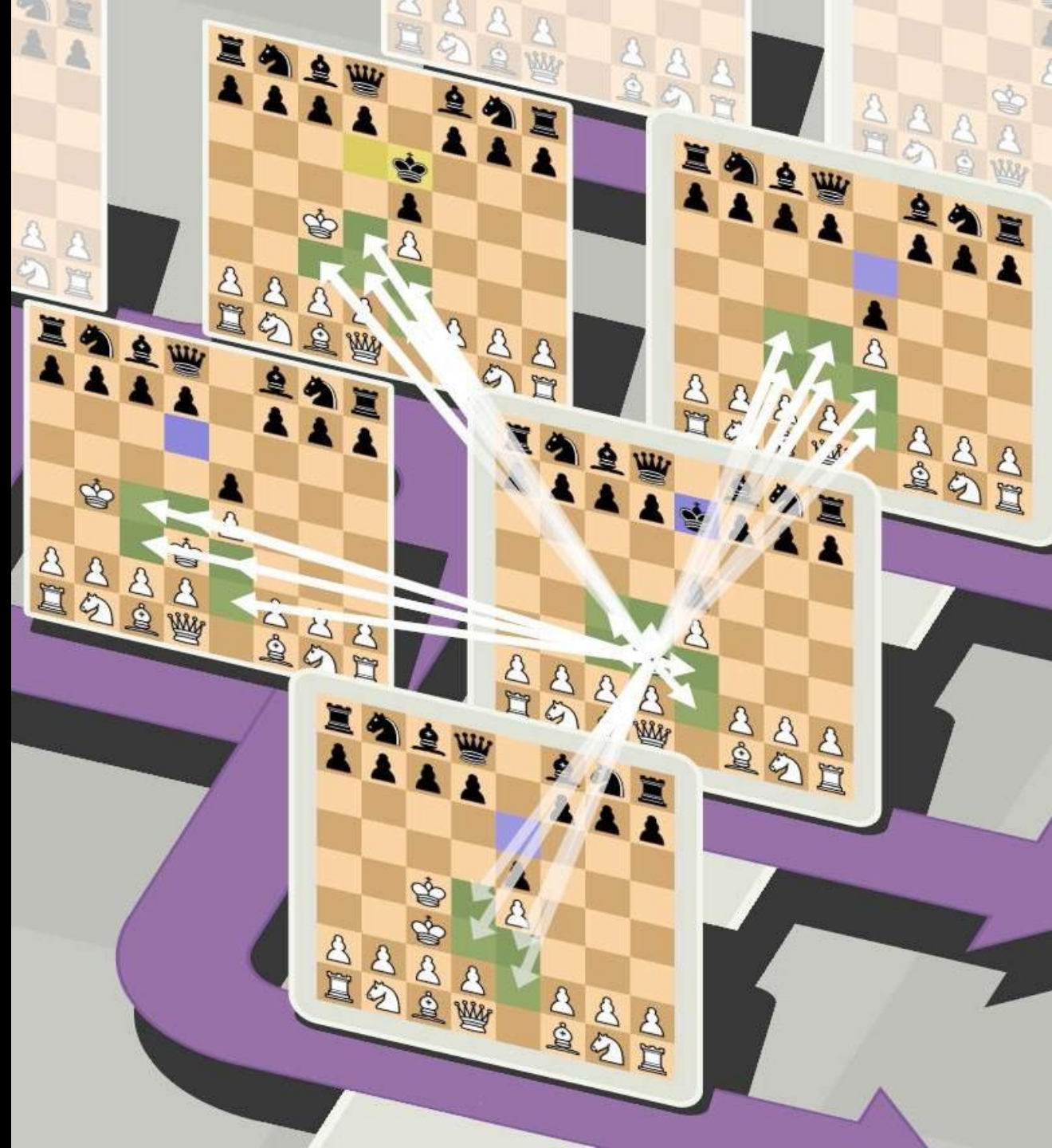
Future focus

Be active

Be anti-fragile

Make time your friend

Own real assets



“ Great doubt: great enlightenment
Small doubt: small enlightenment
No doubt: no enlightenment ”

Zen Buddhism



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Regulatory performance data

PERCENTAGE GROWTH

To 31 Mar %	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	22
Ruffer	11.0	29.7	7.6	2.6	20.4	5.2	-0.8	17.5	12.2	20.5	1.6	4.8	10.3	24.2	6.8	5.3	10.7	0.9	10.0	-5.5	12.0	-1.9	-1.6	5.6	23.3	5.6
LF Ruffer Total Return						9.6	6.9	20.8	10.0	18.2	-3.2	8.5	9.8	23.2	7.5	3.1	10.4	-1.6	11.8	-4.7	12.8	-1.7	-1.1	4.0	20.3	6.1
FTSE All-Share	18.7	36.5	6.8	9.9	-10.8	-3.2	-29.8	31.0	15.6	28.0	11.1	-7.7	-29.3	52.3	8.7	1.4	16.8	8.8	6.6	-3.9	22.0	1.2	6.4	-18.5	26.7	13.0
FTSE All-World	1.3	28.7	15.8	24.8	-14.4	-3.1	-31.0	25.9	8.4	31.6	3.2	-1.4	-20.4	48.4	8.4	-0.2	17.1	6.8	19.2	-0.5	33.1	2.9	10.7	-6.2	39.6	12.8

Source: Ruffer, FTSE International. 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 Ruffer's representative portfolio which is an unconstrained segregated portfolio following Ruffer's investment approach.

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