RAYMOND JAMES

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INVESTMENT STRATEGY QUARTERLY

Letter from the Chief Investment Officer

Come Together

It has been 60 years since the Beatles signed their first record deal. The rock group from Liverpool dominated the industry for nearly a decade – and long after that as individual performers. John Lennon, Paul McCartney, George Harrison, and Ringo Starr created timeless tunes and memorable messages that we can borrow today to portray our economic and financial market outlook.

Here comes the sun, or so we thought. As Omicron subsided, there were smiles returning to the faces that are now mask-free. But as the unprovoked Russian invasion of Ukraine escalated, surging commodity prices pushed inflation even higher – with few consumers saying "*it's all right*" as they eyed higher prices in shops and at petrol stations. While we still hope that Russia will *give peace a chance*, we believe Western nations will continue to *come together* to punish Putin's actions. But despite geopolitical hotspots, rising interest rates, higher commodity prices, and an uptick in volatility we still think there will be *something in the way* the economy and financial markets *move* in the months ahead.

It does not take an avid fan to recognise the Abbey Road cover art, with the Fab Four striding along a zebra crossing outside their recording studio. Even non-economists worry the Federal Reserve's (Fed's) and Bank of England's tightening cycle and fuel prices could cause the economy to cross into contraction, but our Fab Four metrics suggest it is not on *Recession Road*. Resilient labour market conditions, healthy manufacturing, still-attractive lending standards, and advancing real-time activity metrics (i.e., air traffic, driving, and restaurant activity) point to above-trend economic growth, particularly in the US of ~2.5% for 2022. The sustained reopening and pent-up demand (particularly for services) should also keep us off a *long and winding road*. While the psychological impact of lingering fuel prices poses the greatest downside risk, we do not think it will outweigh these positive catalysts and cause the economy to lose its stride.

Count on Chairman Powell to *speak words of wisdom* as inflation is at the highest level in 40 years and neither the Fed nor the Bank of England can no longer *let it be*. The Russia-Ukraine crisis and climbing COVID cases in China have both worsened times of inflation *trouble*, leading the market to price in an additional eight-plus Fed rate hikes this year and more in the UK. While our year-end inflation targets are higher than we originally thought, *it won't be long* before inflation decelerates from its recent pace. Our expectation is that the Fed and the Bank of England will be less aggressive than the market anticipated, raising interest rates slowly and steadily through year end to maintain maximum flexibility in an economy that is incredibly interest rate sensitive. The Fed will also often *stop and think about* the yield curve (as an inversion often serves as a precursor to a recession), and will reduce its balance sheet as another means to unwind its ultra-accommodative policy this summer.

The 10-year US Treasury yield will struggle to *get back, get back to where it once belonged*, as history shows it trends lower after each successive tightening cycle. Inflationary pressures and the repricing of rate hike expectations could lift it temporarily above 2.50% in the US, but it won't stay there for long before it eases back to the 2.25% level by year end. The high interest rate sensitivity of both the US and UK economies and the attractiveness of yield-producing assets should limit how high interest rates can go. From a sector perspective, credit spreads have widened due to economic concerns rather than a deterioration in credit fundamentals or rising default rates. Since the US economy in particular is still on solid ground this recent move may be exaggerated. But are corporate bonds and municipals still potential opportunities for income focused investors? *Yeah, yeah, yeah*.

Since we disagree with the calls for a recession, US equities still have the *ticket to ride* higher as do UK Equities. A robust macroeconomic backdrop, resilient earnings, attractive valuations, and positive shareholder activity should guide the S&P 500 to our year-end price target of 4,725. The Fed's and the Bank of England's tightening cycle may cause further volatility, but historically, *life goes on*, as the bull market tends to last an additional 3.6 years and rally an additional ~100% after the first

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hike. From a sector perspective, we remain biased toward the cyclical sectors (Energy, Financials, and Industrials), but have dialled back Consumer Discretionary exposure as it tries to *carry the weight* of higher energy costs.

European equities *need somebody (help!) not just anybody (help!)* as the crisis could cause stagflation (rising inflation with tepid growth). The tragedy has stunted tourism, pushed fuel prices to nearly double the levels seen in the US, put key imports in the crosshairs, and caused the worst European refugee crisis since World War II. Not to mention, much of Europe is still battling the pandemic. As a result, we continue to favour US equities over the other developed international markets. Emerging markets have also been adversely impacted by rising commodity prices and a resurgence in COVID cases, but compelling valuations may make select regions, like Asia, an opportunity for long-term investors.

You say you want an energy revolution, but this recent crisis has only revealed the deep global dependency on oil and gas. Some investors fear the events of the Beatles era might repeat themselves – hour-long petrol station queues and astronomical prices. But the US is now much more energy independent, and the International Energy Agency has ~1.5 billion barrels of strategic reserves – enough to replace Russia's export production for over six months. Since production around the world has not been reduced and there are no shortages, we believe we can *say goodbye, goodbye* to the recent calls for a conflict-induced price of $150+ per barrel. In addition to an eventual (hopeful) resolution in Ukraine, increased OPEC and US production should moderate prices toward $95 per barrel by year end. Ultimately, higher energy prices should accelerate the global development and adoption of alternative energy sources such as solar and wind.

Despite the recent volatility, we still believe the economy and markets *can be full steam ahead* by year end. We're hopeful for a peaceful resolution and rebuild for Ukraine so that the devastation ends. It would also validate the historical precedent of geopolitical conflicts being short-lived events so long as they do not coincide with a recession. In the meantime, we encourage you to *get by with a little help from your* wealth manager *all you need is* confidence in a comprehensive financial plan when these difficult times arrive, so that emotionally driven decisions can be avoided.

Overall, we remain optimistic for the world, US, and financial markets. As John Lennon so eloquently sang, *"You may say I'm a dreamer, but I'm not the only one. I hope someday you'll join us. And the world will live as one."*

All the best.

Lawrence V. Adam, III, CFA, CIMA®, CFP®
Chief Investment Officer, Private Client Group

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What is the Federal Reserve: Goals and Tools

Scott J. Brown, PhD, *Chief Economist,* Raymond James

The Federal Reserve (Fed) is the central bank of the US. It was created by Congress in 1913 to prevent financial panics. Its responsibilities have grown over time. While sometimes referred to as the unofficial fourth branch of government, it is quasi-governmental – independent, but answerable to Congress. The Fed is made up of the seven-member Board of Governors in Washington, DC and 12 Federal Reserve Banks around the country. The Fed governors are appointed by the president and confirmed by Congress, with terms of 14 years. The Chair, Vice Chair, and Vice Chair of Supervision (also governors) are appointed to four-year terms. The 12 regional bank presidents are appointed by the boards (composed of private citizens) of each of their individual banks.

One of the Fed's main tasks, and the one most critical to financial markets, is monetary policy – the setting of short-term interest rates to achieve the optimal performance of the economy. The Federal Open Market Committee (FOMC), made up of the Fed governors, the New York district bank president, and four other district bank presidents (who rotate in January), sets monetary policy. While only FOMC members vote on monetary policy, all senior Fed officials participate at policy meetings.

The Fed also supervises and regulates banks, promotes consumer protection and community development, and works to ensure stability in the financial system. The Fed acts as a bank to other banks, clearing checks, making electronic payments, and providing currency.

MONETARY POLICY GOALS

In regard to monetary policy, the Federal Reserve Act states that the Fed "shall maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

The Fed interprets "stable prices" as low, but positive, inflation. This gives the Fed some room to support the economy with low interest rates during a recession and allows inflation-adjusted wages to adjust downward during periods of economic weakness.

In January 2012, the Fed followed other central banks in formally adopting a 2% inflation target (as measured by the Personal Consumption Expenditures Price Index), although it had an implicit target of 1.7% to 2.0% before that.

The employment goal is maximum sustainable employment. There is no specific target for the unemployment rate. The belief has been that using monetary policy to push the unemployment rate lower would eventually lead to inflationary pressures. In fact, the dual mandate of stable prices and maximum employment is taken largely as a single operational objective – the job market will perform better over the long run if inflation is low and stable.

After a comprehensive public review, the Fed revised its monetary policy framework in August 2020. One problem with the 2% inflation goal was that it was seen by the markets as a ceiling rather than a target. As a consequence, inflation would average less than 2%. In the revised framework, the Fed moved to a flexible average inflation-targeting system. The long-term inflation goal remains at 2%, but following a period with inflation below 2% (as in the pre-pandemic years), the Fed would seek a period with inflation moderately above 2%. Needless to say, the timing of the shift in the framework was terrible (given the increased inflation pressure seen over the last year).

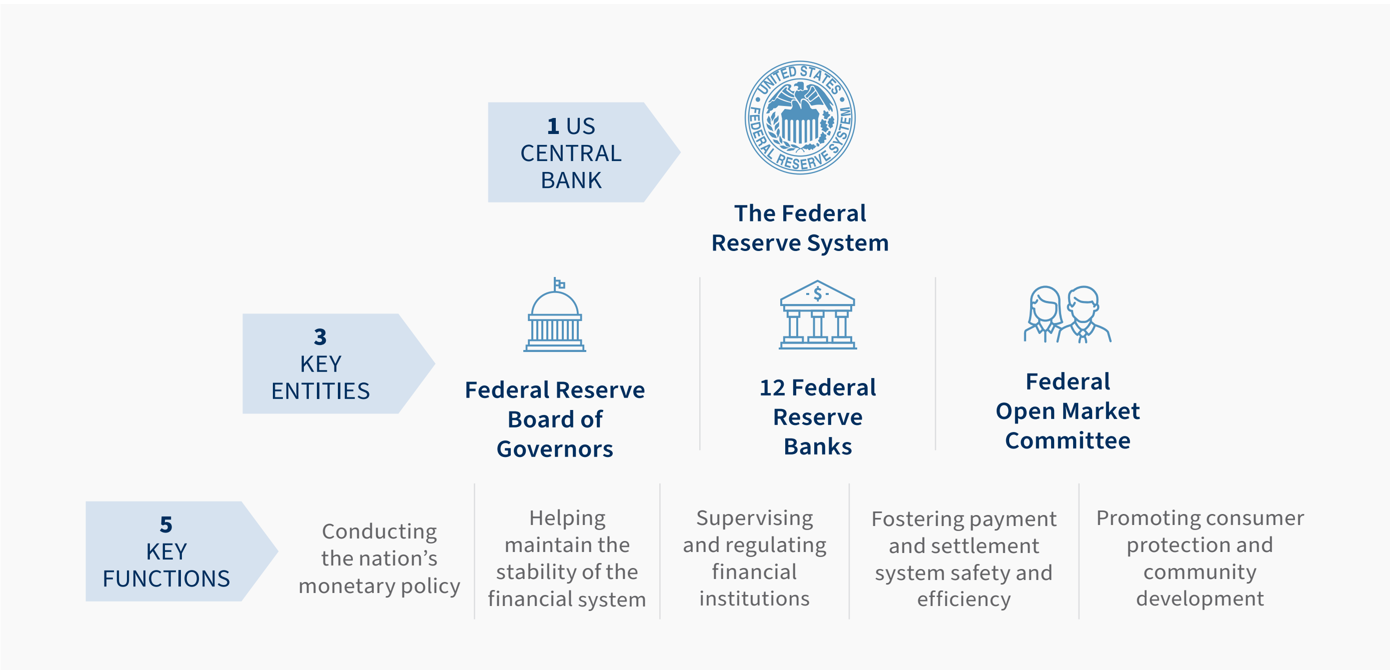
> The dual mandate of stable prices and maximum employment is taken largely as a single operational objective – the job market will perform better over the long run if inflation is low and stable.

In conducting its review, the Fed talked to a wide range of businesses, academics, and the general public. One thing that stood out was that low-income communities were very slow to recover from the 2008 financial crisis. Black unemployment rises faster than white unemployment during a recession and falls more slowly in an economic recovery. The Fed made its employment goal "broad-based and inclusive." Maximum employment is viewed as "not directly measurable and changes over time owing largely to non-monetary factors that affect the structure and dynamics of the labour market." In setting monetary policy, the Fed assesses shortfalls in employment from its maximum level and considers a wide range of labour market indicators.

The Fed recognises that these goals may sometimes be in conflict. Under such circumstances, the Fed will make a judgement call based on how far away it is from each individual goal, and how long it would take to reach those goals.

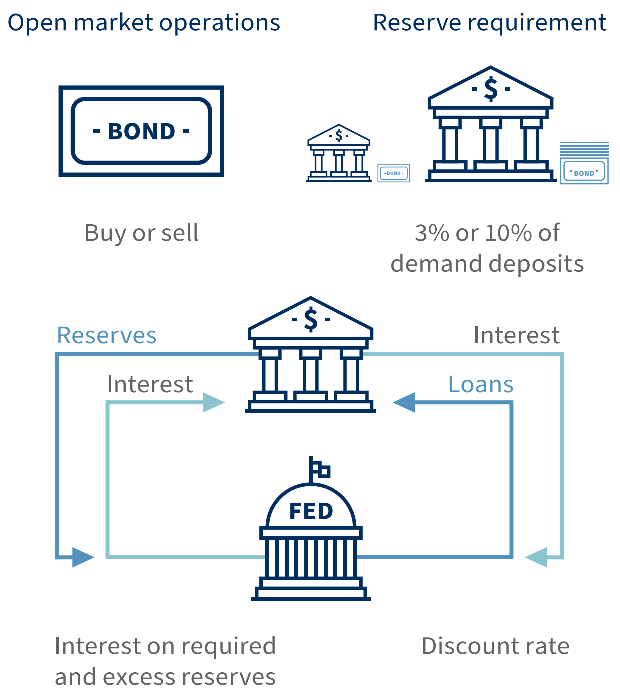
MONETARY POLICY TOOLS

The primary tool for monetary policy is the federal funds rate, the



Source: Federal Reserve

Monetary Policy Tools



Source: Federal Reserve

overnight lending rate that banks charge each other for borrowing reserves. Reserves are balances held at the Fed to satisfy banks' reserve requirements. Banks with excess reserves can lend them to banks that need larger reserves. The federal funds rate is a market rate. The Fed sets a target range and performs open market operations (buying or selling Treasury securities) to achieve it (hence, the name 'Open Market Committee'). The federal funds rate (and where it appears to be headed) affects longer-term interest rates. In raising the federal funds rate, the Fed 'tightens' the availability of credit. Lowering the federal funds rate 'eases' credit conditions.

The primary credit rate (sometimes still called the discount rate) is the rate that the Fed charges banks for short-term borrowing. The Fed's Board of Governors approves (or not) a request for a change in the primary credit rate made by one or more of the federal district banks. Typically, the primary credit rate is changed at the same time as the federal funds target. Note that the FOMC only began to announce changes to the federal funds target in 1994. Before that, the discount rate, a posted rate, was viewed as the main policy signal.

The Fed sometimes employs forward guidance, a conditional commitment to keep the federal funds rate low for a certain period of time or until some economic objective has been achieved. These promises help to keep long-term interest rates low, promoting growth.

During the 2008 financial crisis, the FOMC lowered the federal funds target range to 0-0.25%. Seemingly out of ammo, the FOMC began its first Large-Scale Asset Purchase program (LSAP), which is more commonly called quantitative easing (QE). In quantitative easing, the Fed buys large amounts of Treasury and mortgage-backed securities each month. The Fed employed QE1, QE2, and QE3 in the aftermath of the financial crisis, and restarted asset purchases on a massive scale in the early stages of the pandemic. The Fed's asset purchases helped lower long-term interest rates, although they seemed to become less effective at each stage. Unwinding the balance sheet will work in the opposite way, raising long-term interest rates.

The Fed's asset purchases have ballooned the size of its balance sheet to nearly $9 trillion (it was below $1 trillion before the financial crisis and around $4 trillion before the pandemic). The FOMC expects to begin unwinding its balance sheet later this year. That will occur naturally over time, as the FOMC reinvests a portion of maturing securities. The FOMC does not plan to sell securities out of its portfolio outright, although it will be buying and selling across maturities as the size of the balance sheet declines. The ultimate size of the balance sheet is uncertain; however, it will be based on maintaining an adequate level of reserves in the banking system.

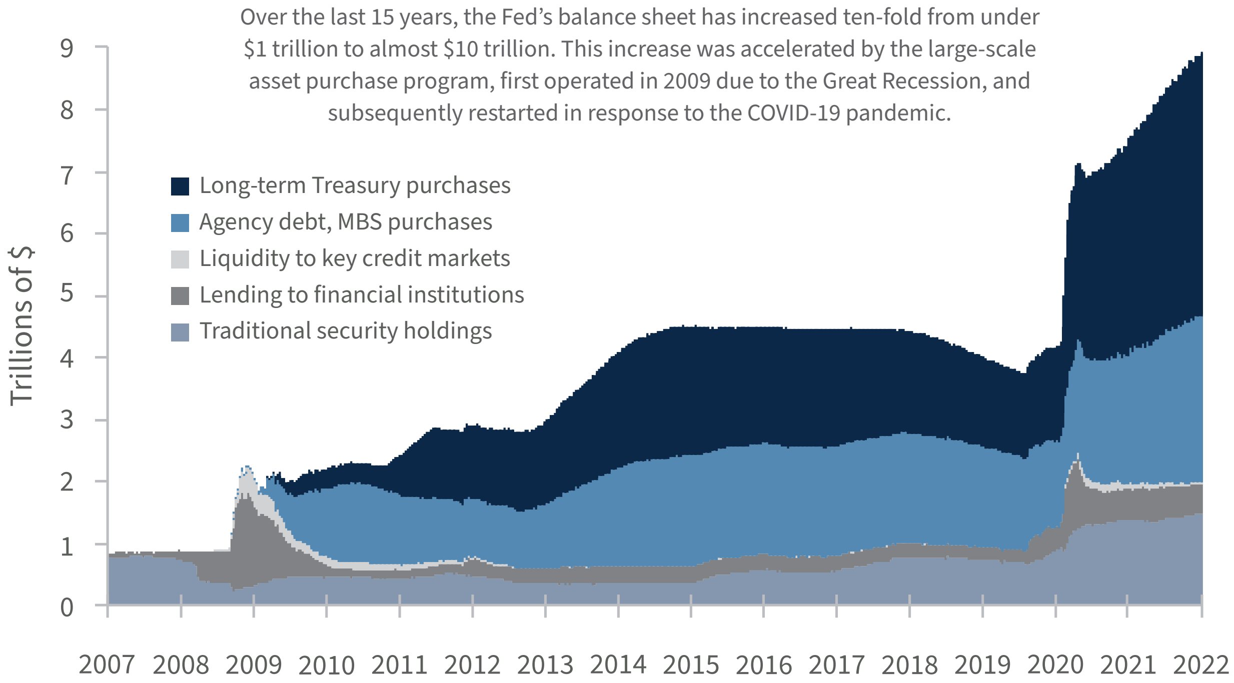
MONETARY POLICY IN PRACTICE

In theory, monetary policy uses the money supply to influence employment and inflation, but the money supply plays no role in policy decisions. As Chair Powell testified in 2021: "The connection between monetary aggregates and either growth or inflation was very strong for a long, long time, which ended about 40 years ago. It was probably correct when it was written, but it's been a different economy and a different financial system for some time."

Policy decisions are based on a wide range of information. The Fed doesn't react to the economic data per se, but to what the data imply for the outlook ahead. Economic data are subject to statistical noise and seasonal adjustment quirks and are often revised. The Fed also relies on anecdotal information collected by the district banks to gauge labour market conditions and inflation pressures.

The FOMC arrives at its policy decisions by consensus. Officials are in touch with each other before policy meetings and a decision rarely hasn't been worked out in advance. Occasionally,

Federal Reserve Balance Sheet at a Record



Source: Federal Reserve, as of 31/03/2022

one or two FOMC members may formally dissent in favour of tighter or looser policy.

Monetary policy affects the economy with a long and variable lag. It may be a year or more before the full effects of a policy change are felt. Hence, monetary policy is akin to steering a supertanker. Policy changes tend to be gradual. However, rate cuts tend to come faster than rate increases.

The Federal Reserve is firmly committed to achieving the goals that Congress has given it. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. On March 16, the FOMC raised the federal funds target range by 25 basis points (to 0.25-0.50%) and signalled a more aggressive outlook on rate hikes into 2023. Of the 16 senior Fed officials, 12 anticipated raising the federal funds target range by an additional 150 basis points or more by the end of this year, and most expect another 75 basis points or so in 2023. However, none of this is written in stone. In his press conference following the FOMC meeting, Chair Powell admitted that, in hindsight, the Fed should have begun tightening policy sooner. Powell indicated that the FOMC could raise rates more quickly if appropriate. If inflation fails to moderate as the Fed anticipates, we could see much tighter monetary policy in the months ahead.

The oil shocks of the 1970s and early 1980s are associated with recession as well as higher inflation. While higher oil prices do not cause recessions, in the past, the Fed reacted to higher oil prices by raising interest rates and tighter monetary policy led to recession. Fed policymakers now know that the central bank should not respond to temporary supply shocks. However, because monetary policy affects the economy with a lag, there is a chance of overdoing it and raising rates too much, possibly leading to a recession in 2023, but the odds of that are still relatively low. In the early 1980s, the Volcker-led Fed purposely steered the economy into a recession to reduce inflation. A similar outcome may be possible in the current situation, but inflation was much higher in the early 1980s and long-term inflation expectations have remained well anchored.

KEY TAKEAWAYS:

- The Federal Reserve (Fed) is the central bank of the US. It was created by Congress in 1913 to prevent financial panics and, over time, its responsibilities have grown.
- The Fed's dual mandate is stable prices and maximum employment, and its primary monetary policy tool is the federal funds rate.
- Policy decisions are based on a wide range of information. The Fed doesn't react to the economic data per se, but to what the data imply for the outlook ahead.
- Monetary policy is akin to steering a supertanker.

Q&A: Compelling Opportunities in Today's Markets

Tracey Manzi, CFA, *Senior Investment Strategist,* Investment Strategy

Doug Drabik, *Managing Director,* Fixed Income Research

Tracey Manzi

Q: Where do you see opportunities in the global equity markets?

A: We think Asian emerging market equities continue to look attractive. With monetary policy transitioning toward tightening throughout most of the developed markets amid higher inflationary pressures, conditions could not be more different across Asia. Not only is inflation lower across most countries in Asia, but the People's Bank of China is the only major central bank that is easing rates right now. While China's economy suffered from a policy-driven slowdown last year, the government is now prioritising stabilising growth ahead of Xi Jinping's leadership conference later this year. In order to rekindle growth, Chinese authorities are now pursuing more stimulative fiscal and monetary policies, which should be supportive of Chinese stocks as the economic growth outlook starts to improve.

From a valuation standpoint, Chinese equities are attractive, trading at approximately 11 times forward earnings and near a 40% discount to US stocks. While some of this discount is justified by Chinese equities' lower relative earnings growth, the contrast in policy settings should prove to be a tailwind in 2022, and beyond, which should help narrow this gap. We are also constructive on other Asian emerging market (EM) equities, such as Taiwan, Korea and India, as we think they are poised to benefit from longer-term secular trends in technology, e-commerce and digital payments. While EM Asia's 2021 performance was disappointing, we are more optimistic on the region as we move through 2022 for three key reasons: 1) China, the main engine of growth in the region, is returning to a pro-growth policy, 2) cheaper valuations should provide a buffer as the market transitions away from more expensive stocks, and 3) the regulatory headwinds that plagued the market in 2021 are no longer the top priority for government officials.

Q: What opportunities do you see in the emerging markets debt sector?

A: The onset of the Federal Reserve's tightening cycle and geopolitical tensions have pushed spreads on dollar-denominated emerging markets bonds close to 400 basis points, the additional yield compensation an investor receives for owning a riskier credit, and yields to well above 5.5%. Historically, these levels have been attractive entry points for investors. Since 2010, there have only been a handful of occasions where emerging market bonds have surpassed these levels. These periods include the 2011 European debt crisis, Russia's annexation of Crimea in 2014, China's 2016 growth slowdown and during the 2020 Coronavirus pandemic. In the 12 months following each of these periods, dollar-denominated emerging markets bonds delivered strong, positive total returns. Given the modestly wider spreads and higher yields available in emerging markets, we believe it is an opportune time to begin selectively adding some risk.

We are also starting to warm up to local currency emerging markets debt. While developed market central banks are just starting to normalise monetary policy, the tightening cycles in emerging markets are well underway. Central bankers in Latin America and Emerging Europe were among the first to respond to the escalating inflationary pressures that emerged late last year. Significantly higher interest rates across Latin America are taking a toll on growth now that rates are well above their pre-pandemic levels in most countries across the region. In fact, two of the largest economies in Latin America, Brazil and Mexico, slipped into a technical recession, which is defined by two consecutive quarters of declining economic growth, last year. While the growth slowdown suggests we may be nearing the end of the tightening cycles in some emerging markets, we think central bankers will be reluctant to respond to growth concerns as long as inflation remains elevated. We are carefully watching how this dynamic plays out as we believe there may be attractive opportunities in select local currency markets in the months ahead.

Doug Drabik

Q: Why bonds in this market?

A: There is typically a trade-off observed between investment types. Striving for strong alpha (beating the market averages) will likely come with additional risks of some sort. For decades now, added market volatility risk has been offset by the positive total return effects of falling interest rates and tightening credit spreads. Money managers and individuals alike benefited when market prices generally moved higher. It also helped managed money by diminishing timing effects on liquidations. Most bonds exhibited profits throughout their holding periods. Tightening spreads created pricing tailwinds. These tailwinds vanish when interest rates rise, and spreads widen. Total return bond strategies may be strapped with added challenges in a generally rising interest rate environment. Higher yields and spread widening can create an opportune time to increase fixed income holdings which provide principal protection and steady cash flow – regardless of market volatility or geopolitical events.

Q: Should I be concerned about falling bond prices?

A: Investors have a natural predisposition and sensitivity to their investment portfolio holdings' price performance. Observing a security's negative price change can be emotional and maybe even traumatic. After all, poor price performance can be damaging to one's financial health and place an investor in the undesirable circumstance of having to 'make up' a loss of principal or hard-earned income. Price declines' unwelcome effects apply to many growth and total return strategies; however, with individual bonds, there are key differences. As interest rates rise and individual bond prices fall, there is no interruption or reduction to the bond's cash flow and income stream. Interest rates have risen with intermittent swiftness since the start of 2022. When a portfolio displays 'red' figures on individual bonds, remember the primary purpose of these holdings is often principal protection and balancing a portfolio strategy. Despite the negative market price movement, this portion of the portfolio maintains cash flow, yield and principal when held to maturity, barring an unlikely default.

Emerging Markets Asia Poised for a Rebound?

In addition to its already cheaper valuation, with China instituting pro-growth policies and relaxing its regulations, we are optimistic on the region for 2022. As China makes up ~40% of the MSCI Emerging Markets Index, we expect a positive performance to have a huge impact on the broader index.

The Oil Market Is NOT Just a Russia Story: Supply/Demand Fundamentals Are What Matter

Pavel Molchanov, *Managing Director, Energy Analyst,* Equity Research

For our readers with investments in the oil value chain, the fact that oil prices reached fourteen-year highs in the early spring of 2022 helps explain the Energy sector's outperformance year-to-date, building on its gains from 2021, when it had been the best sector in the S&P 500. On the other hand, the oil market rally is also contributing to the global economy's inflationary spiral, with consumers as well as businesses feeling the pain of high prices at the fuel pump. Whether we like it or not, high oil prices are here to stay. We forecast that West Texas Intermediate (WTI) crude will average $100/barrel (Bbl.) in 2022, with only a modest cool-off to $90/Bbl. in 2023. For some perspective, as recently as December 2021, WTI was in the low $70s. Brent crude, the global benchmark, should remain a few dollars above WTI.

GEOPOLITICS AND THE OIL MARKET

There is no disputing the fact that geopolitical factors played a major role in the oil market rally of recent months. The prime example is the crisis that culminated in Russia's invasion of Ukraine. Why does this matter for the oil market? Because Russia produces approximately 11 million barrels per day, or 11% of the world's oil supply – on par with the US and Saudi Arabia – of which 7.5 million barrels per day (bpd) is exported, including 4 million bpd that is sold into European countries. Russia's natural gas production – three-quarters of which goes to Europe – is even more of a geopolitical hot potato. Thus far during the war, oil and gas pipelines have continued to operate normally. Also thus far, sanctions have had only a peripheral effect on Russia's energy sector. Germany has made it crystal clear that the Nord Stream 2 gas pipeline – an $11 billion project owned by the Russian gas giant Gazprom – will be blocked from operating for the foreseeable future. The US has imposed an embargo on Russian oil, and the U.K. and Poland plan to do so by year-end 2022, but unless the rest of Europe follows suit, it won't mean much in practical terms.

> It is equally true that the underlying oil market fundamentals – good ol' supply and demand – are as bullish as they have been over the past decade.

Separate and distinct from Russia/Ukraine, other geopolitical hot spots that contribute to high oil prices include Libya (the plan to hold a presidential election has broken down); Yemen (the Houthi rebels continue to fire missiles into neighbouring countries); and Iran (progress in negotiations toward a new nuclear agreement is uneven, at best).

SUPPLY AND DEMAND FUNDAMENTALS

It is equally true that the underlying oil market fundamentals — good ol' supply and demand — are as bullish as they have been over the past decade. Our global oil market model points to inventories declining by approximately 2 million bpd in 2022. When inventories are declining, by definition it means that demand is outstripping supply. Demand in 2022 is back to the pre-COVID peak of 100 million bpd. Meanwhile, OPEC has remained very consistent with its roadmap of gradually bringing production back to pre-COVID levels by September 2022. Capital spending by the world's oil and gas companies is finally recovering from the ultra-austere levels of 2020-2021, but the industry's commitment to capital discipline is firmly in place. Management teams are accommodating long-standing shareholder demands for less production growth and instead more emphasis on dividends and share repurchases. Even for those companies that are willing to substantially increase capital spending, it will take time

> "The war has dramatically raised the issue of energy security on the agenda across Europe."

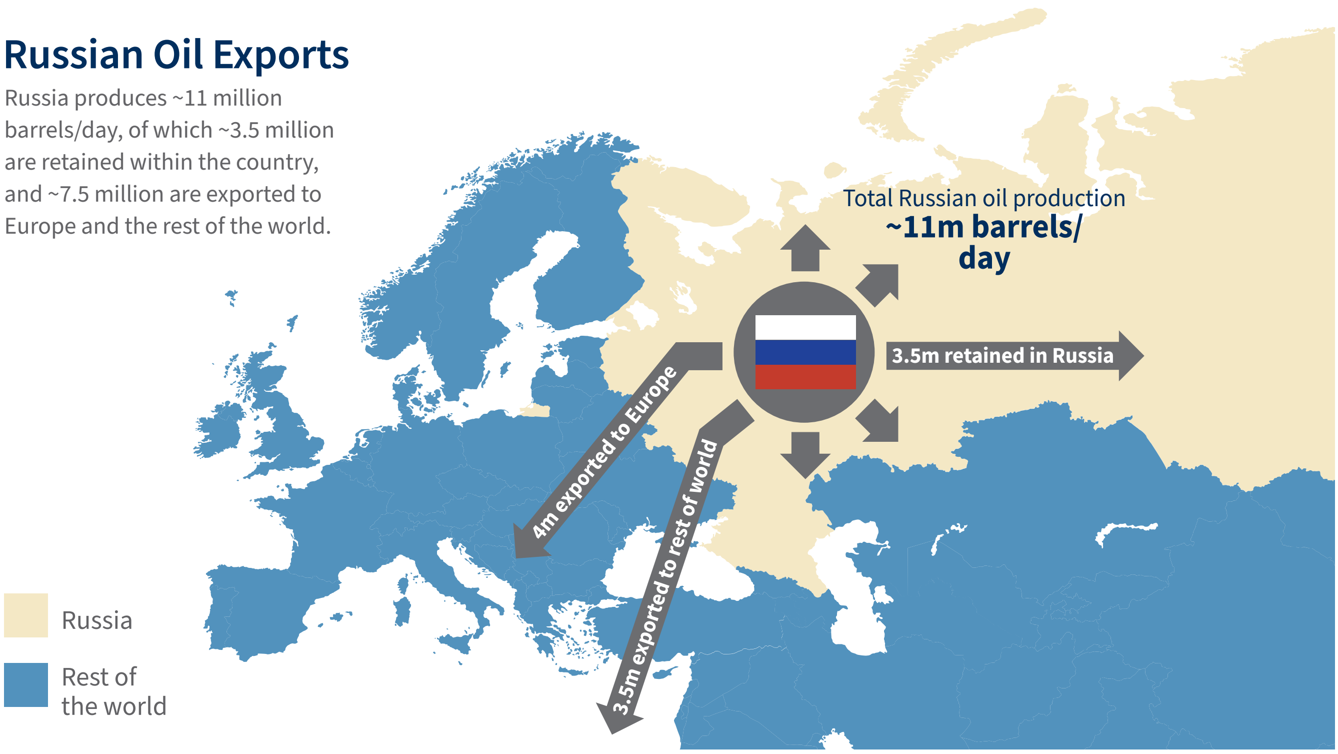
for drilling activity to provide a meaningful boost to supply. For North American shale, production uplift will remain muted until 2023. For oil-producing regions with mostly long lead time projects, such as Brazil and West Africa, it will take even longer.

ENERGY TRANSITION

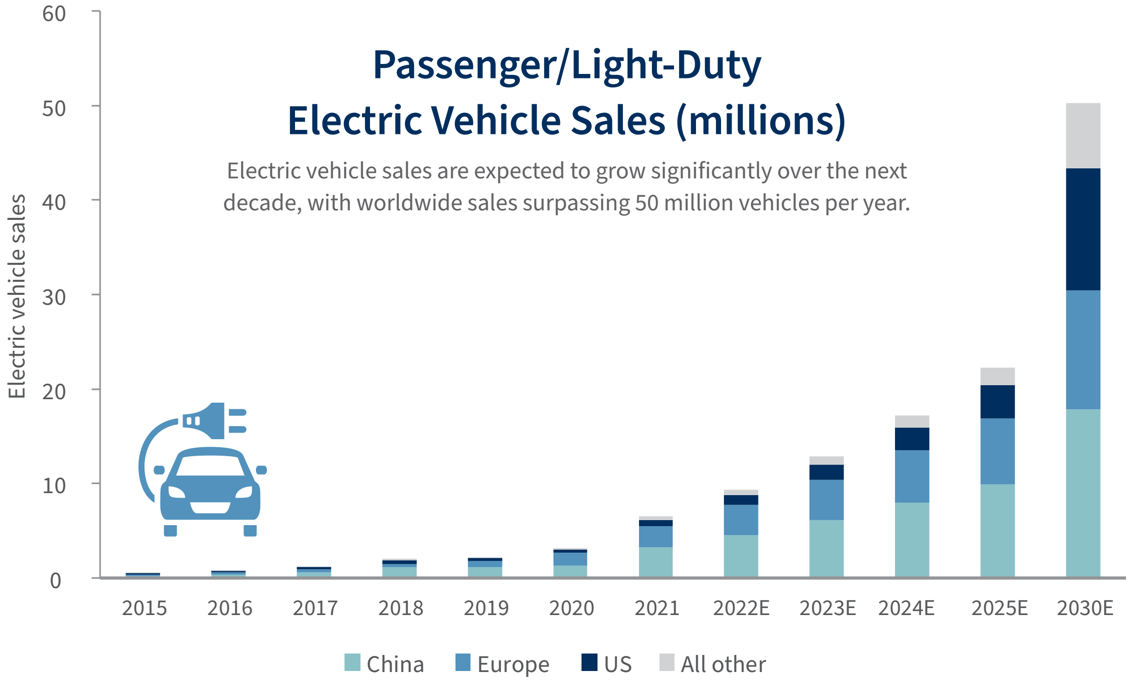
The oil industry may be tempted to celebrate that good times are back again, and indeed it is the case that profitability and free cash flow metrics are currently very strong. But high oil prices on a prolonged basis will carry an unavoidable side effect: accelerating the energy transition, away from fossil fuels. Government policies vis-à-vis climate change (such as carbon taxes

Russian Oil Exports

Russia produces ~11 million barrels/day, of which ~3.5 million are retained within the country, and ~7.5 million are exported to Europe and the rest of the world.



Source: Raymond James Research



Source: Raymond James Research

and petroleum phase-outs) are already pointing consumers and businesses toward low- and zero-emission alternatives. Oil prices at fourteen-year highs are compounding the effect of climate policies, as the economics of electric vehicles look more attractive than they did just a few years ago. As it relates to Europe specifically, there is also the geopolitical urgency of shifting away from Russian oil. The war has dramatically raised the issue of energy security on the agenda across Europe. Germany, whose new coalition government includes the Green Party, is taking the lead: targeting 15 million electric vehicles (EVs) on the road by 2030, which is approximately equivalent to what the entire world currently has. EVs in Germany had a market share of 26% in 2021 (among light-duty auto sales) – the highest of any G20 economy. By comparison, the US was at only 5%. If Germany reaches its 2030 EV target, it would have the effect of erasing the need to buy Russian oil ever again.

Taking a global perspective, we forecast light-duty EV market share increasing from 8% in 2021 to 25% in 2025 and 50% in 2030. Alongside the demand boost from high fuel prices, expansion of consumer appetite for EVs is being driven by the declining cost of lithium-ion batteries, longer range of those batteries, and a broader array of model choices across the price spectrum. Interestingly, though, the adoption curve is progressing more rapidly in buses as compared to the car market. China is the standout leader in electric buses, though Europe and the US are moving in the same direction. Electrification of trucks is at a very early stage, but if it follows the trajectory of buses, this will imply rapid transformation of truck fleets into the second half of this decade. It is worth noting that sustaining rapid growth in EV sales will require an equally aggressive buildout of charging infrastructure, especially the DC ultra-fast chargers that can make it as convenient as filling up a conventional car at a fuel station, i.e., a mere five to ten minutes.

KEY TAKEAWAYS:

- High oil prices are here to stay. We forecast that West Texas Intermediate (WTI) crude will average $100/Bbl. in 2022, with only a modest cool-off to $90/Bbl. in 2023.
- Russia is a major producer of oil and natural gas. Three quarters of natural gas production goes to Europe.
- High oil prices will accelerate the transition away from fossil fuels.
- Along with higher gas prices, consumer appetite for electric vehicles is being driven by high oil prices.

Lost in Translation

Chris Bailey, *European Strategist,* Raymond James Investment Services Ltd*

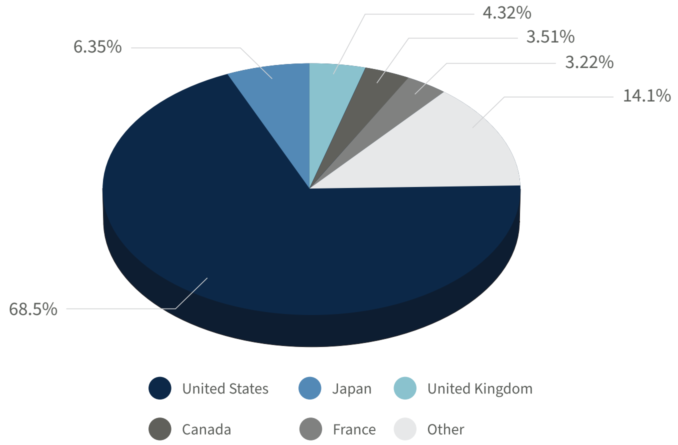
> “Lost time is never found again”
>
> **- Benjamin Franklin**

So far 2022 has not been a straightforward year for the average investor, however global stock market total returns if divided by an index of 10-year government bond total returns, a measure of relative performance, is currently at an all-time high. For the average, investor it has not just been a remarkably remunerative last decade, but the last generation or two.

There have been changes. I was born during the time of an oil crisis, but what has been striking since the first few years of the 1970s is the steady improvement of global energy efficiency around the world. The best initial improvement came in Japan, an economy that less than fifteen years later had a world equity index country weighting of over 50%. Japan still has the strongest real output per gigajoule measurement - which is of help during the current backdrop of heightened energy prices - but the country’s world equity index weighting is now below 7%. Times do change.

It is not that the Japanese economy has not grown or innovated over the last thirty years. It is just that the domestic combination of firm multiples, high debt and an ageing population had a significant effect even before the heightened competition from the United States, Europe, South Korea, Taiwan and - inevitably - China and India started to impact. So, what became a globally popular bull market in the 1980s? With the Nikkei 225 index reaching an all-time high of 38,915 on December 29, 1989, the last trading day of that year - today’s equity market level (despite improvements over the last twenty years) is still over 30% below that high. Today the Japanese stock market is not fundamentally expensive, it is just a market you need to carefully pick and choose investments in. After all the combination of heightened government debt levels and a continued desire by the country’s central bank to not only maintain negative interest rates but also continue government bond - and other - stimulus purchasing.

COUNTRY WEIGHTS



Source: MSCI World Index (USD) 28/02/22

There are two key insights for global investors. The first is centred on the likely rising importance of active management

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policies. It has not been impossible to find interesting investments to make in the Japanese stock market over the last thirty years, the importance is to be very selective. This has become more important in the European markets over the last decade and increasingly important in the United States over recent months. It is not just that certain individual sectors are more exciting than others, as a backdrop of slower domestic growth, an ageing population and more global competition can have an impact anywhere.

Global Central Bank Policy Rates

Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	Last move	Last move date
Switzerland	Target Rate	-0.75%	2.2%	-3.0%	Cut	Jan-15
Denmark	Deposit Rate	-0.60%	4.8%	-5.4%	Cut	Sep-21
Eurozone	Deposit Rate	-0.50%	5.9%	-6.4%	Cut	Sep-19
Japan	Policy Rate Bal	-0.10%	0.9%	-1.0%	Cut	Jan-16
Sweden	Repo Rate	0.00%	4.3%	-4.3%	Hike	Dec-19
Australia	Cash Rate	0.10%	3.5%	-3.4%	Cut	Nov-20
US	Fed Funds	0.38%	7.9%	-7.5%	Hike	Mar-22
Canada	Overnight	0.50%	5.7%	-5.2%	Hike	Mar-22
Thailand	Policy Rate	0.50%	5.3%	-4.8%	Cut	May-20
UK	Bank Rate	0.75%	6.2%	-5.5%	Hike	Mar-22

Source: Compound data (01/04/22)

Global investors are also changing. It is not just the economic rise of the emerging markets - a number of which should already be reclassified - but that global investor allocation profiles will change too. It is not that every nation whose stock market transitorily becomes over 50% of the world index, will inevitably follow the example of the Japanese market and move to a single-digit level within three decades. However, even neutral allocations to today's emerging market countries will build over the 2020s and 2030s, driven by both the growth of allocations from their domestic investors as well as global investors from other countries.

There is still one question remaining concerning the speed of these shifts. Whilst rising interest rates and government bond yield levels in a number of developed market countries have caused fear for many investment markets, it does show an appreciation of continued economic growth too. A lack of central bank confidence in raising interest rates and bringing an end to policy stimulus does also show a fear that forward economic growth numbers and medium-term inflationary pressures are likely to be modest. This remains the possible difference between economies in the UK, Europe and the United States compared to Japan, something which will become more evident as the 2020s evolves. But for all investors today there are lessons to be learnt: the investment world is forever changing (as noted by Japanese investors over the last three decades).

KEY TAKEAWAYS:

- In the late 1980s the Japanese market was over 50% of the world index.
- Despite growth and innovation, this statistic is now below 7%.
- The UK, European and American investors can learn some insights.
- Important to watch both stock market and central bank insights.

DISCLOSURE

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