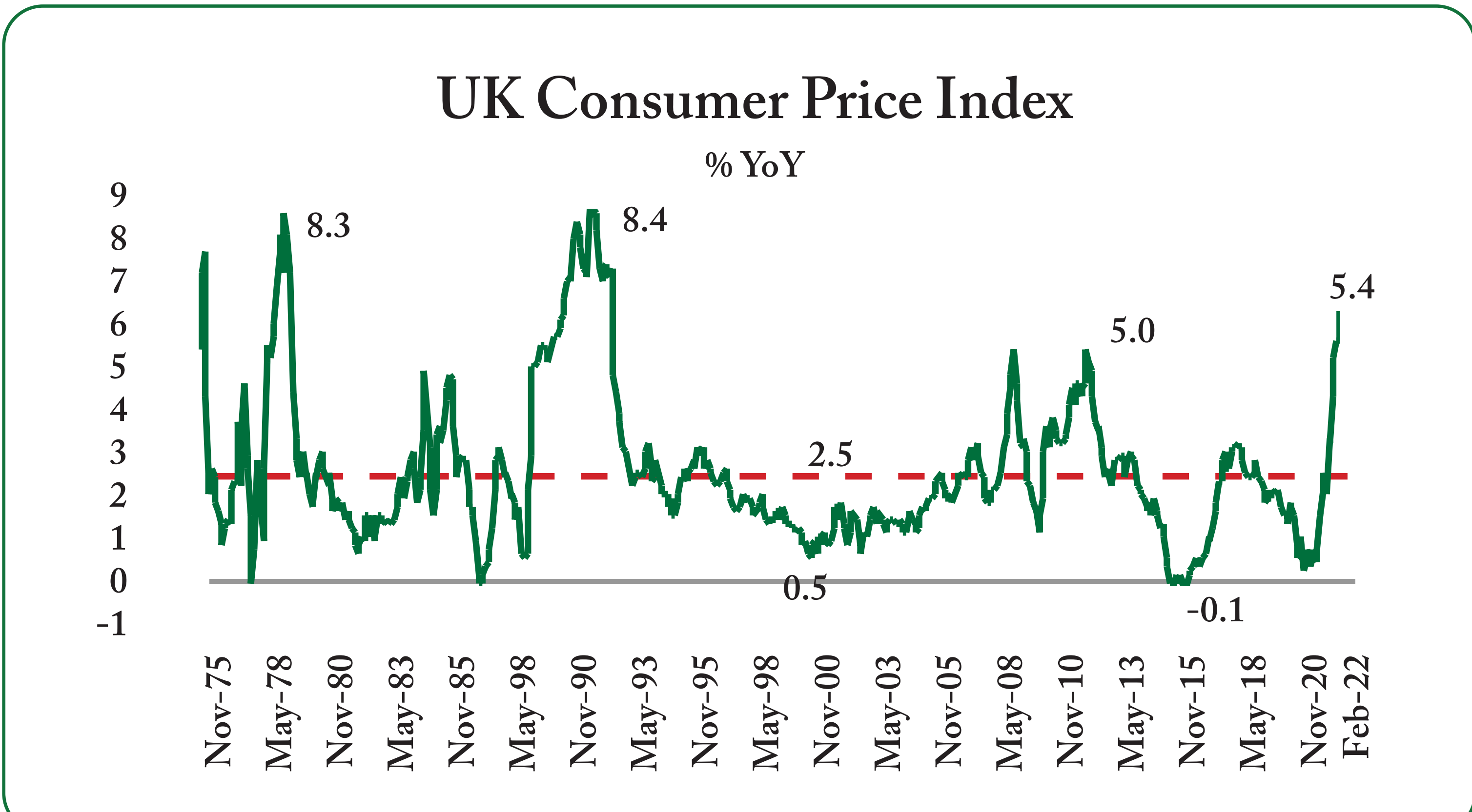
VIEWS FROM OUR CEO

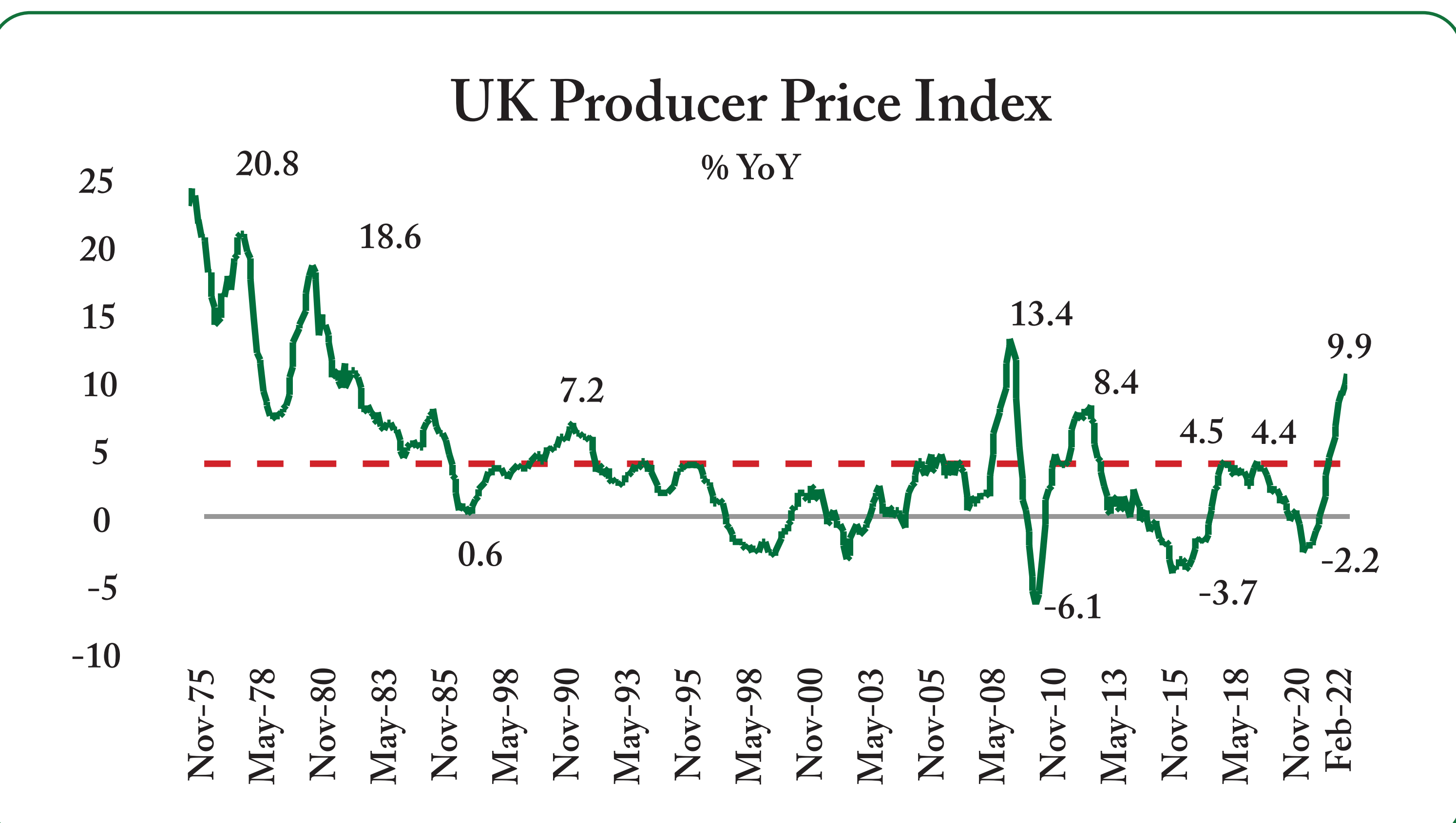
The world economy is currently experiencing a surge in inflation, the likes of which we have not seen in 40 years. There are a number of drivers of the surge:

- excessive money printing by central banks
- significant global supply chain dislocations from the on-off COVID lockdowns
- a shift to clean energy which in recent years has limited investment into new sources of fossil fuels
- war in the 'bread baskets' of Ukraine and Russia and accompanying sanctions against Russia



- - - PERIOD AVERAGE

SOURCE: BLOOMBERG & OASIS RESEARCH



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SOURCE: BLOOMBERG & OASIS RESEARCH

Without owning suitable inflation hedge assets, like property, commodities and selective equity, high and sustained inflation can negatively impact our personal finances and standard of living. As prices rise, a bigger slice of income gets spent rather than saved. Over time, this leads to a much slower accumulation of wealth. Low income households are particularly exposed given a high propensity to consume out of income and having little savings to invest.

An inflationary environment also leads to corporate winners and losers. Companies facing a lot of market competition with easily substitutable goods or services will be unable to pass on rapidly rising costs and experience falling profit margins. By contrast, a company with a unique offering will be in a much better position to pass on costs, protect its margins and prosper. This highlights the critical importance of active stock selection by your fund manager which is not achieved via passive investments in index tracker funds.

How does inflation impact the relative wealth of nations? Countries that import a large share of goods, including commodities, are more exposed to rising goods prices. Europe and Asia are particularly exposed to the current surge in energy costs. For commodity exporters in the Middle East, Australia, South Africa and Latin America, a global inflationary environment which boosts terms of trade can help strengthen currencies, offsetting general price pressures.

A final consideration is relative debt levels, an issue which impacts individuals, companies and countries. As central banks move to raise policy rates to counter inflation, there is a painful increase in debt servicing costs for highly indebted entities. Returning to the personal finance theme, there are two key measures to consider for adequate inflation protection. Firstly, build up savings by living within ones means and reduce debt. Secondly, deploy savings into inflation hedge investment assets.

UK ECONOMY

Earlier this year, the world's key central banks quickly pivoted toward more restrictive monetary policy after the current inflation surge, which began in early 2021, turned out to be much more persistent than they had previously thought. In March this year, the Federal Reserve increased the Fed Funds rate to 0.5%, the first increase since 2018. It also signalled that it could raise the policy rate a further 6

times this year to reach 2.0% by year-end. The Federal Reserve has also suspended its so called 'Quantitative Easing' programme, whereby it buys mainly US Treasuries from market participants in return for newly created 'money' (i.e. central bank reserves) and it is now looking to reduce the size of its $9tn balance sheet. The European Central Bank (ECB), by contrast, has appeared less eager to tighten monetary policy quickly. However, at its March monetary policy meeting, the Governing Council indicated that it would significantly reduce the timeline to withdraw its asset purchase programme, from ending in 2023 to June this year, given the widespread concern over spiralling inflation. Meanwhile, the Bank of England hiked its repo rate for a 3rd consecutive time in March, from record lows of 0.1% in 2021, to take its policy interest rate to 0.75%. Eight members voted to hike although there was one dissention, voting for no change instead. This split in the vote broadly reflected the cautious tone of the accompanying statement which acknowledged that the Ukraine war may contribute towards further inflationary pressure and increased uncertainty for global economic activity.

The growing challenge for central banks, looking to tame inflationary pressures, is that the war in Ukraine is massively boosting energy and food inflation even further, sapping economic confidence. This is likely to lead to a significant slowdown in global activity over the remainder of the year. A 'stagflationary' economic environment (stagnant growth, high inflation), is a lose-lose from a monetary policy perspective as any interest rate hikes by central banks, which raise the cost of borrowing to reduce inflation, could have an adverse influence over economic growth outcomes.

FINANCIAL ADVICE

In an inflationary environment we need to be selective in our investments, choosing the right companies and the right sectors. Typically in retirement funds, portfolios have 60% of capital invested in bonds. For the past 10 -15 years, interest rates have been falling in a low inflation environment, providing a steady return on capital. Looking ahead, as the world struggles with a surge in inflation through a series of 1970's style supply shocks, holding a large share of bonds in a portfolio is unlikely to adequately protect one's wealth against inflation. On the equity side, there have also been significant inflows into index trackers in recent years. Long duration stocks which promise higher future growth, like Technology stocks, soared in value in a low interest rate environment, which also increased their weight in indices, providing mutually reinforcing upside returns. With rising interest rates expectations, a higher expected discount rate has dramatically lowered the estimated future value of these overvalued growth stocks, leading to capital losses.

In order to protect your capital against inflation and to improve your real wealth over time, please consider inflation beating products like our Balanced Fund range, which invests across equity, property and income asset classes. Speak to an Oasis accredited financial advisor, who will assist you in the process of identifying your most suitable options.

OASIS UPDATE

Oasis stewardship of client assets is based on its philosophy of protecting and growing the wealth of our clients. Over the past 24-and-a-half years, the global economy and financial markets have faced numerous 'crises' and periods of heightened volatility. At Oasis, we will continue to endeavour to deliver sustained excellence, during both challenging and prosperous times, through the various business functions that are a part of our investment philosophy, strategy, and implementation, as well as through our human resource procedures.

Remaining invested for the long term will ensure that you reach your investment goals, as we move through the different market phases. Our funds are constructed to weather the volatile conditions, and more especially our strategy seeks out volatile periods in which to identify further opportunities to improve your portfolio. One of Oasis' best investment products, designed to take advantage of periods of opportunity and withstand downward movements is our hallmark balanced range of funds. All Oasis balanced funds offer investors maximum diversification within their portfolio. This includes diversifying across sectors, asset classes, geographies, currencies and instruments, resulting in a fund that offers investors value over the long term. Furthermore, the Oasis balanced funds offer different levels of exposure to the markets and investors can choose a product that suits their risk preferences and needs. We invite investors to contact our advisory team, or speak to a financial advisor, to keep themselves updated on the health and status of their portfolios, and to assist them especially during times of volatility.

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* Performance (% returns) in GBP; net of fees, gross of non permissable income. Source Oasis Research using www.oecd.org.

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