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Six minute strategy Blowing bubbles

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23 June 2023



US equity market rally has been extraordinarily narrow in 2023

'Magnificent 7' tech super-caps lead market – equally weighted indices underperform

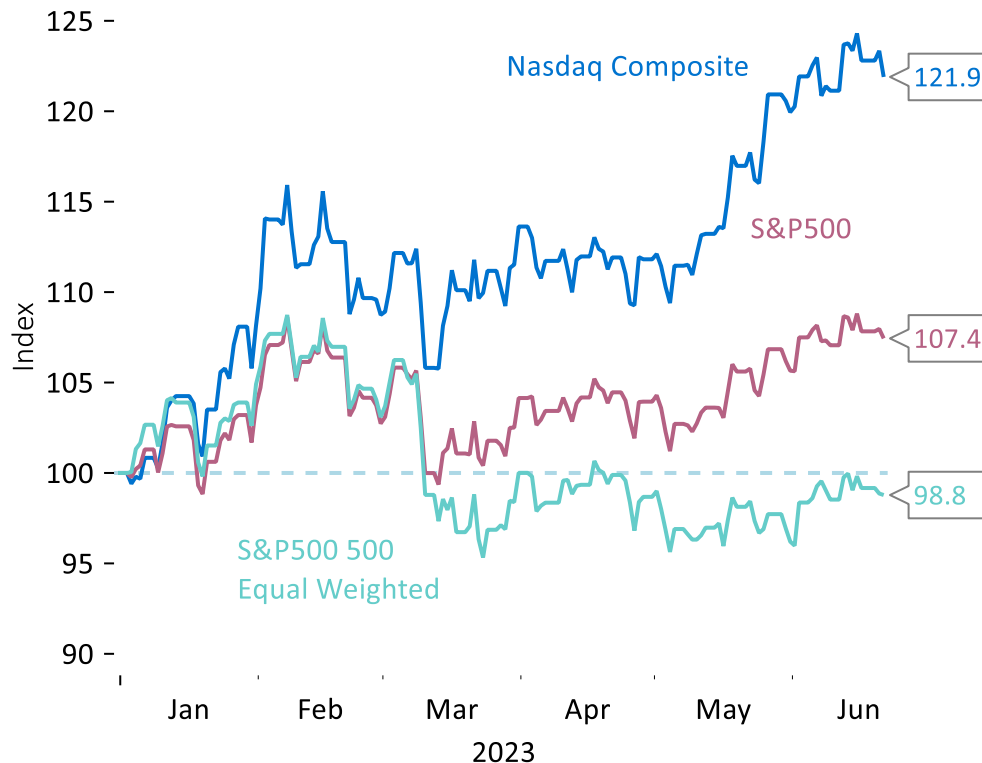


Equally weighted indices sharply under-perform



Equity market leadership still extraordinarily tight

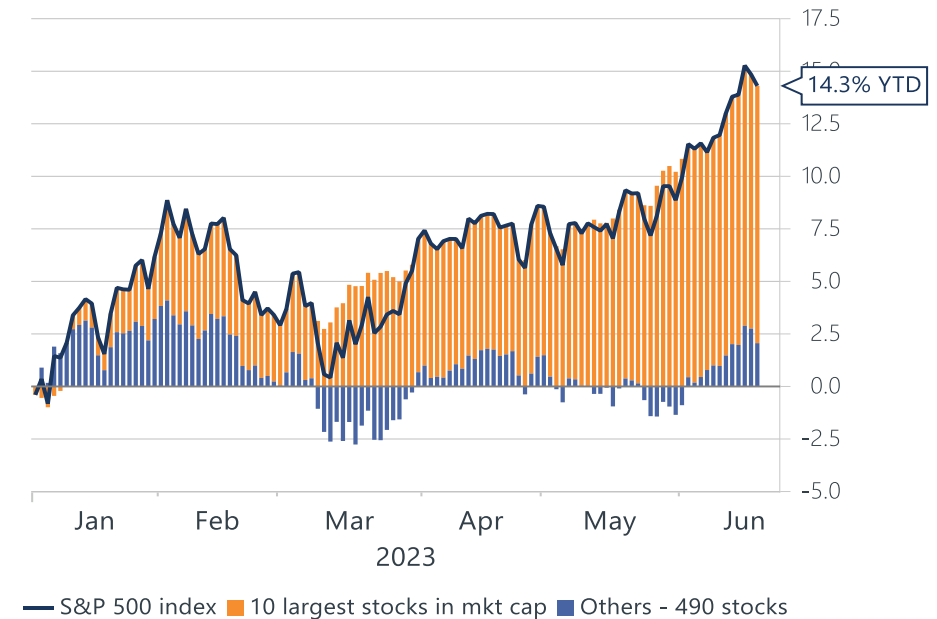
Asset class performance 2023 (STG)



Source: Macrobond, 22.06.23

Largest stocks are driving the current S&P rally

Source: S&P Global



— S&P 500 index ■ 10 largest stocks in mkt cap ■ Others - 490 stocks

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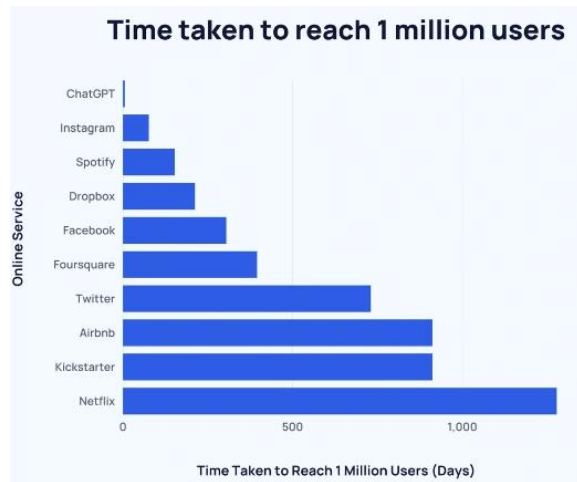
Apple, MSFT, Tesla, Nvidia, Alphabet, Amazon, Meta,
United Health, Berkshire Hathaway, Exxon.
"The Magnificent Seven"

Are we facing a bubble in AI related US technology stocks?



What is a financial bubble – Chat GPT

‘During a bubble, market sentiment becomes overwhelmingly positive, leading to a self-perpetuating cycle of rising prices and increasing investor demand. This irrational exuberance and optimism can result in the formation of an investment bubble.’ Chat GPT

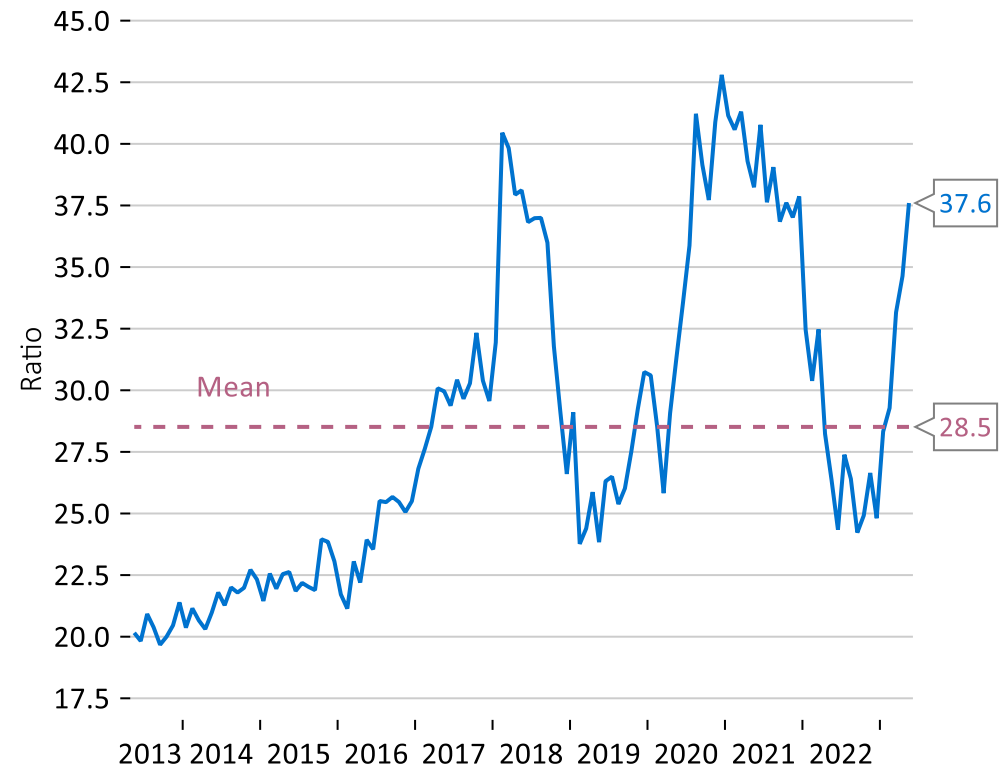


Source: Exploding topics, the Guardian and Chat GPT May 2023



US technology valuation

US Technology P/E Ratio (FactSet)



Source: Macrobond, 22.06.23

The AI equity bubble is still small by historic standards...

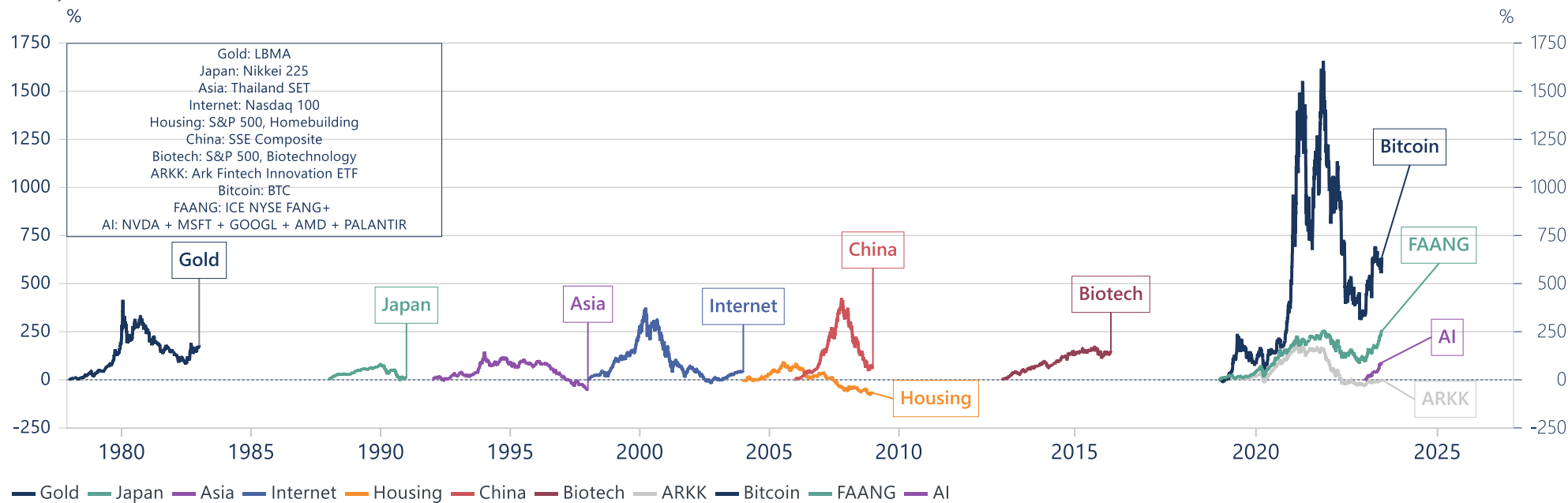
Four bubbles identified in the last three years as COVID-driven liquidity surged



Four asset class bubbles driven by COVID-era monetary policy (Bitcoin, FAANG, ARKK and now AI)

Historic asset class bubbles and AI today

History of asset bubbles



Source: LBMA, Nikkei Inc., SET, Nasdaq, S&P Global, SSE, Macrobond, ICE Date: 21.06.23

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Bubble Risk 1: Interest rates continue to rise globally

Rapid normalisation of interest rates will inevitably see some bubble burst

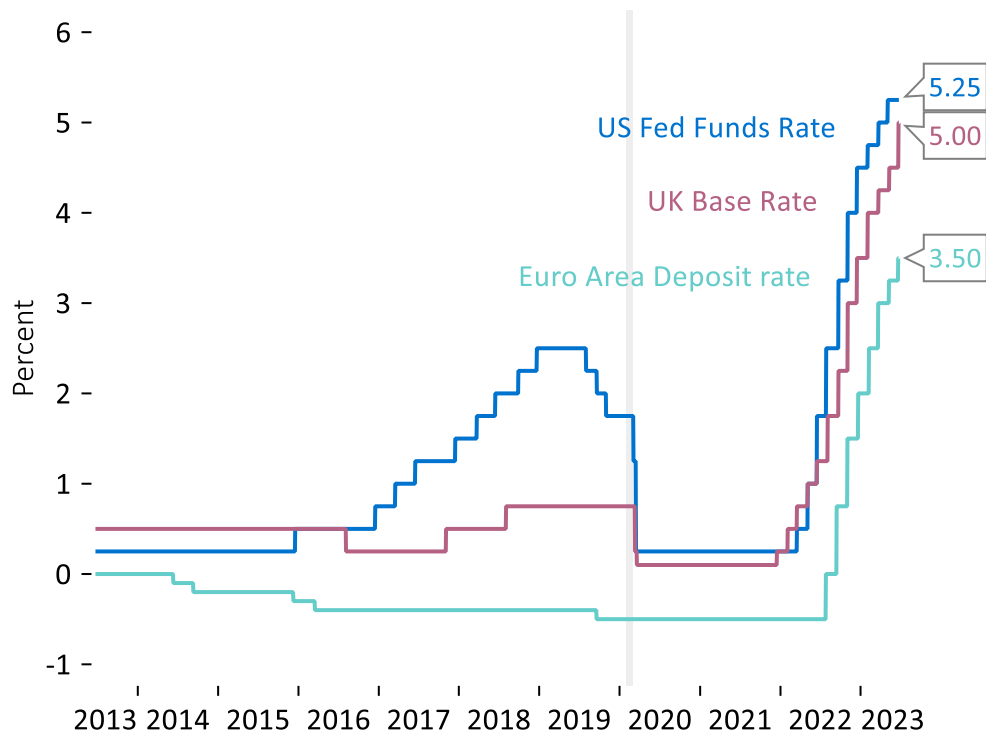


The speed of policy tightening has been aggressive



UK rates have risen from a 330-year low to the average in 18m

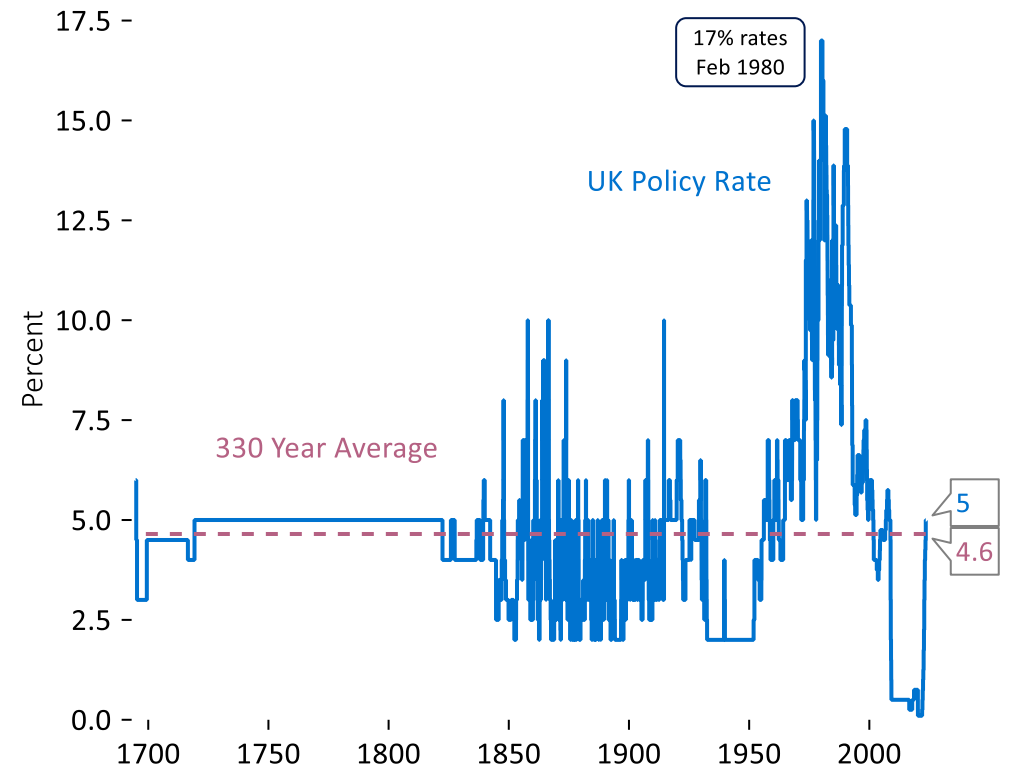
Global Interest Rates



Source: Macrobond, 23.06.23

Market expectation for terminal rates are 5.75% for STG, 5.29% for USD & 3.84 for Euro
Macrobond 20.06.23.23

UK Bank Rate (Bank of England)



Source: Macrobond, 23.06.23

Bubble Risk 2: Central bank balance sheets shrinking

Asset prices are closely correlated with global liquidity

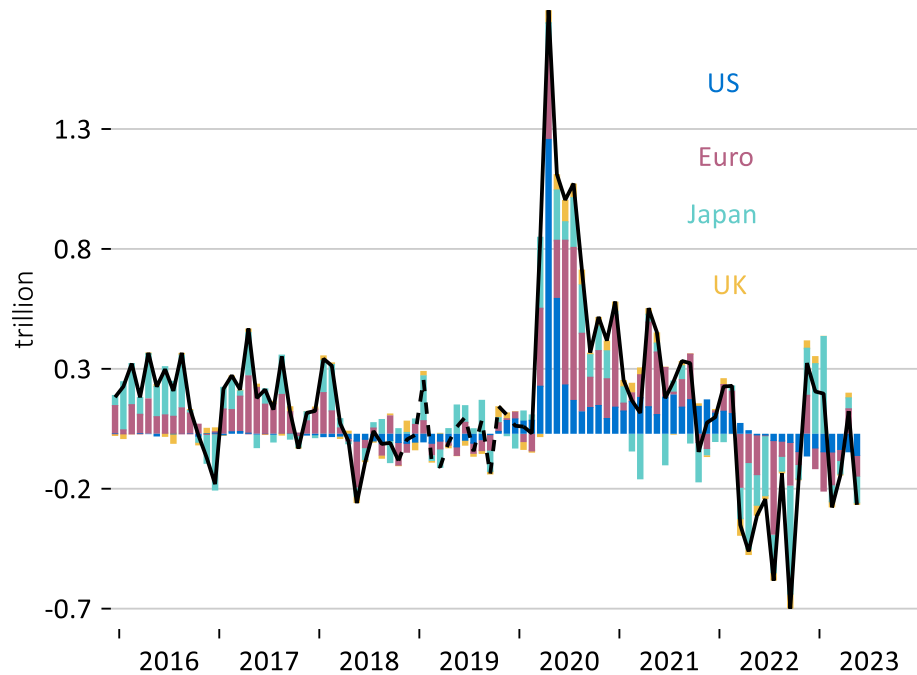


Central bank assets contract again after BoJ intervention



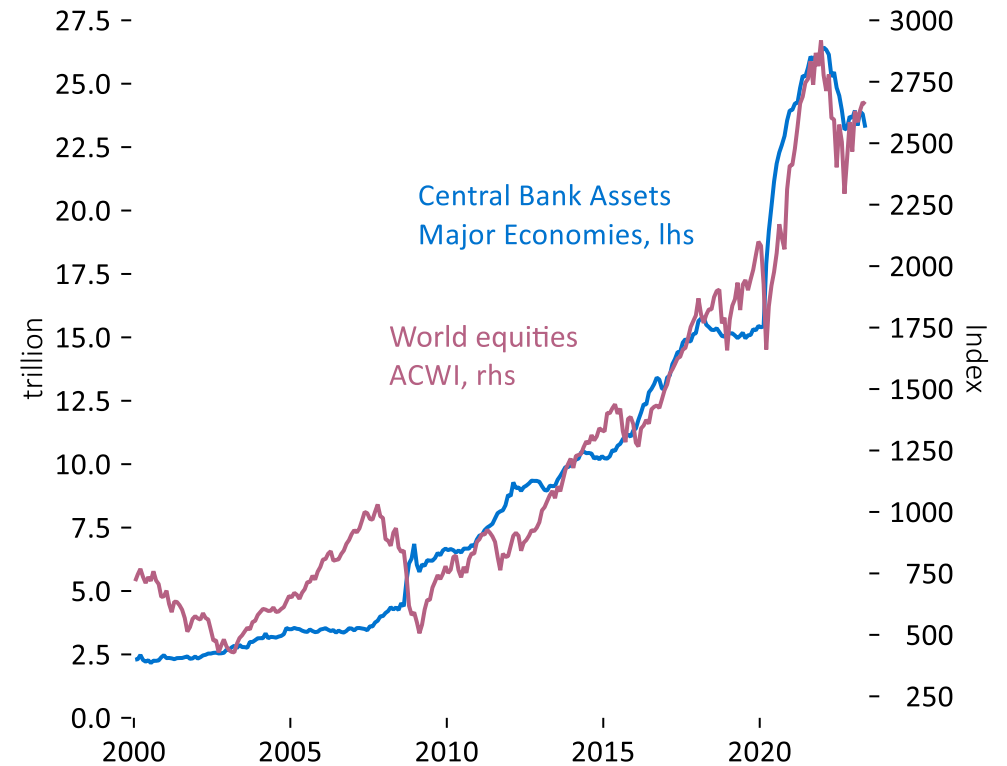
Global equities and Central Bank Assets are correlated

1 month change in Central Bank Assets
USD trillion



Source: Macrobond, 21.06.23

Global Equity Returns & Central Bank Assets



Source: Macrobond, 21.06.23

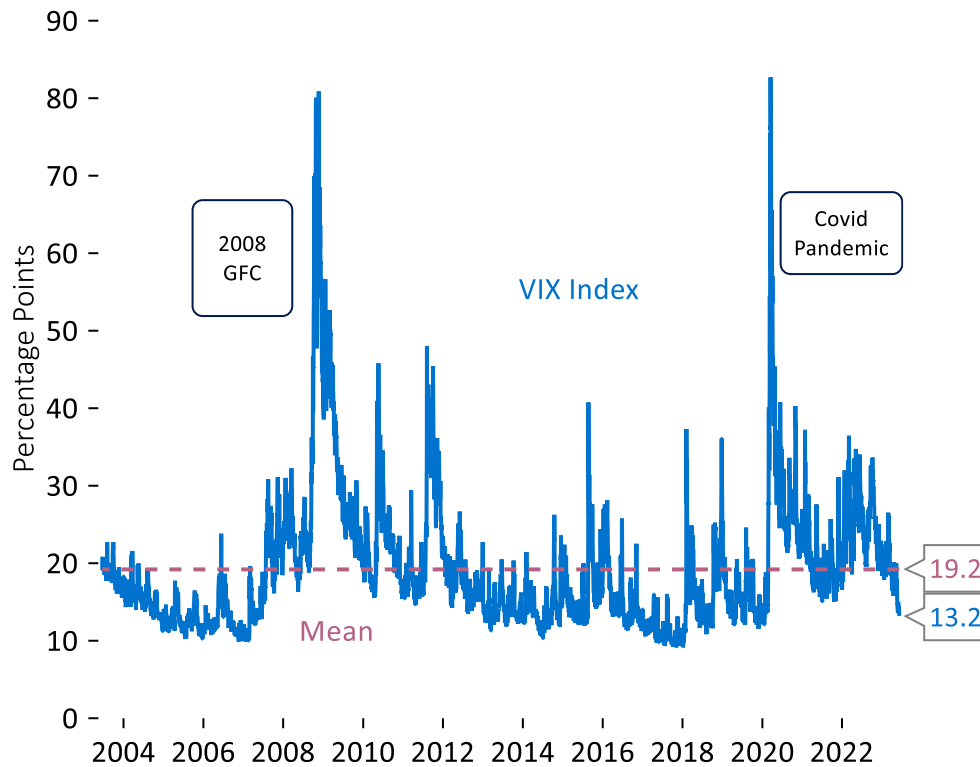
How can we protect against bubbles?

Portfolio protection, dividend underpinning and a multi-theme approach



1. Utilise portfolio protection when the price is right

S&P500 (VIX) Volatility

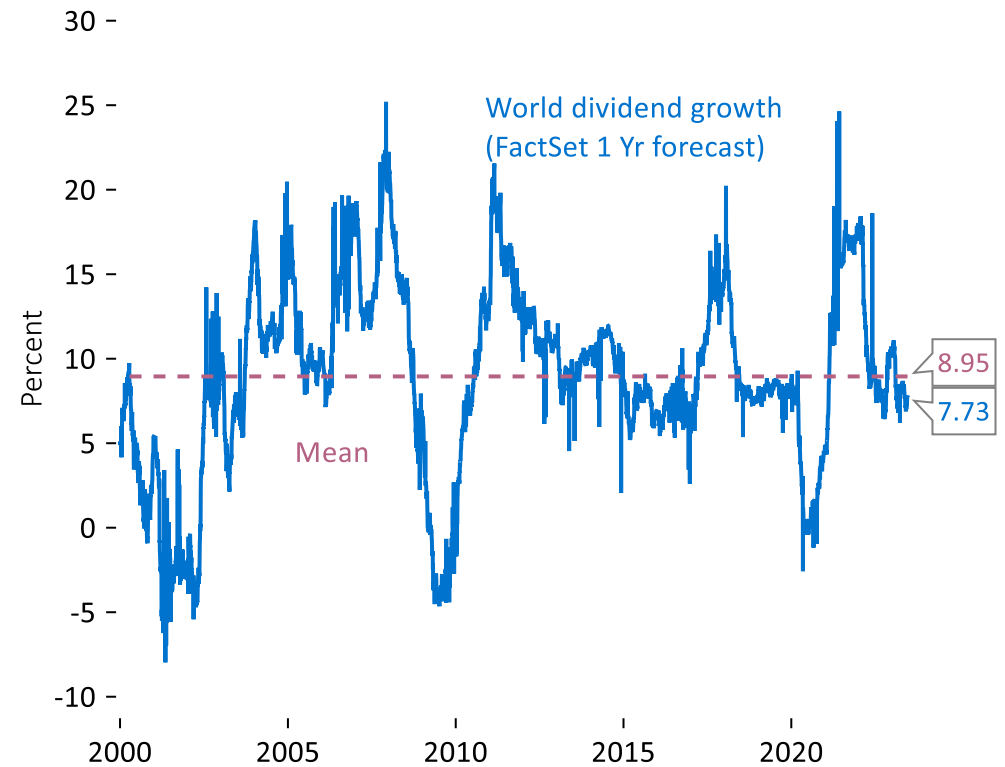


Source: Macrobond, 22.06.23



2. Recurring dividend flows should underpin asset prices

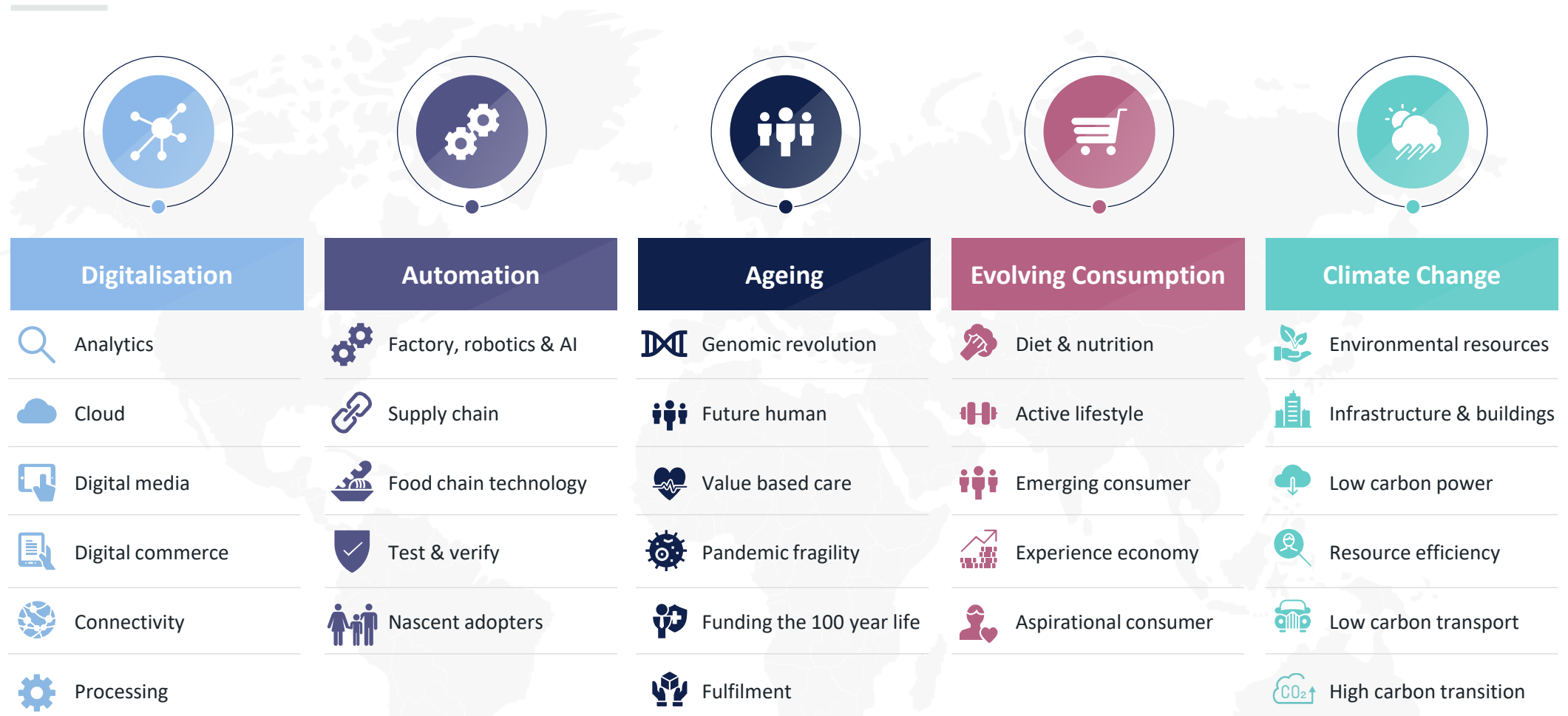
Global dividend growth



Source: Macrobond, 21.06.23

A multi-thematic approach helps mitigate single theme bubbles

Our current mega and sub-themes



Investment themes leading to companies with sustainable long-term businesses

Important information

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