MONTHLY REVIEW – APRIL 2024

OUR PERSPECTIVE

"Capitalism inevitably and by virtue of the very logic of its civilization creates, educates and subsidizes a vested interest in social unrest." ~ Joseph A. Schumpeter

Let's start with a few 'definitions' to think about:

1. **Rentier Capitalism**, according to ChatGPT:
   Rentier capitalism refers to an economic system where a significant portion of wealth and income is derived from owning or controlling access to assets, such as land, property, or financial instruments, rather than from productive economic activities like labour or entrepreneurship. In this system, individuals or entities extract economic rents — excess profits or income obtained beyond what would be necessary to keep an asset in its current use — by exploiting their ownership or control of scarce resources or assets.
2. **Owner occupiers' housing costs rental equivalence**, according to the Office for National Statistics (ONS):
   The owner occupiers' housing costs rental equivalence approach uses the rent paid for an equivalent house as an estimate of the cost of housing services that are consumed. That is, we value housing services by looking at the cost of the next best alternative to home ownership, namely renting a property.
3. **Greedflation**, according to the Collins Dictionary:
   Greedflation is an increase in the price of goods and services caused by businesses increasing their prices by more than their costs have risen.

Inflation has persisted at stubbornly high levels for much longer than many had expected. Whilst demand-side drivers have been robust, it has not been the cause. Rather, its persistence we believe can be attributed to the unintended consequences of higher interest rates and capitalism itself.

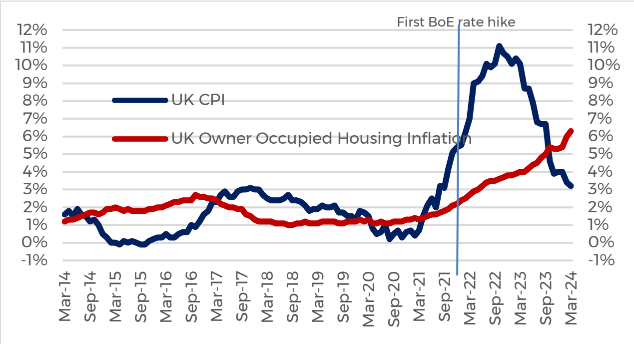
We discussed the concept of Rentier Capitalism in our latest quarterly here. In it we discussed how property and company owners exploit their assets, leading to increased rents and profit margins, exacerbating wealth inequality, particularly noticeable amid record-high property prices relative to incomes and record concentrations in equity ownership. We believe Rentier Capitalism is an unintended but inevitable outcome of a capitalist system in its purest form.

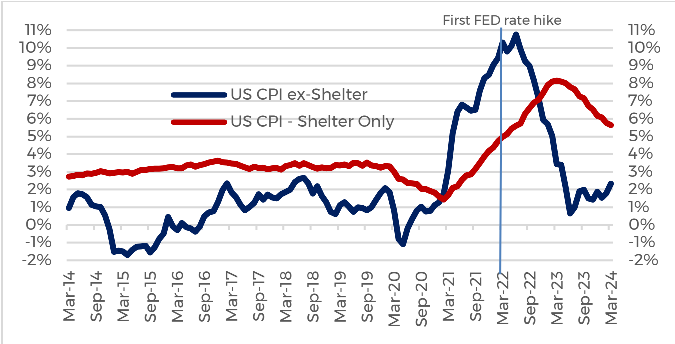
Higher interest rates have led to higher rental costs, despite our central bankers hoping for the opposite. The first charts below show housing inflation in the UK and US, hitting levels not seen in decades despite overall CPI data coming down. With housing affordability at extreme levels, it leaves income dependant individuals in society with no alternative but to accept higher rental costs.

The second chart shows the extreme contribution from corporate profits to higher prices immediately following the Covid-pandemic. Significant fiscal stimulus ended up in the wallets of property and equity owners, via higher rents and increased profit margins. Excellent c-suite management…or corporate greedflation? This trend will likely persist until the global economy goes into a recession.

This dynamic is sustainable as long as consumers have excess cash. The era of fiscal dominance is upon us. Our base case is not for inflation to remain sticky forever…but rather, we likely see extreme swings from outright deflation to double-digit inflation and it is this environment that we feel will be worth preparing for.

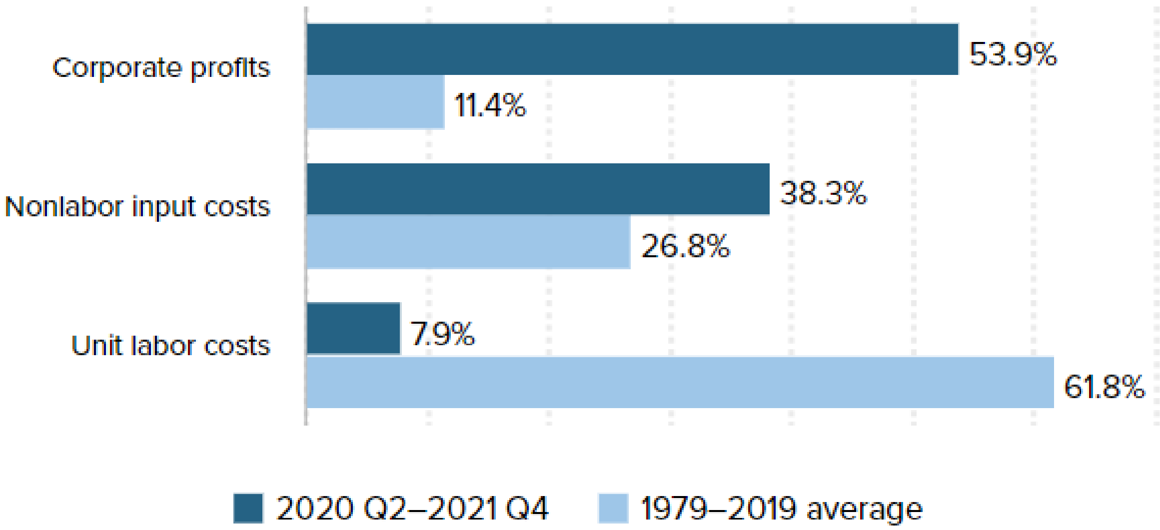
Exhibit 1: Housing Inflation in the US and UK, despite rapid declines in overall CPI data, remains absurdly high. Whilst overall inflation is now below where it was when the UK and US Central Banks started their hiking cycles, housing and shelter inflation remains well above those levels:





Source: ONS, BLS, Shard Capital, 30/04/2024

Exhibit 2: Greedflation in action! Contribution to price changes of all goods and services can be broken down into the three main components of cost: labour costs, non-labour inputs, and the profit margins over the first two components. This chart highlights how the contribution dynamics from these three components have changed post-Pandemic relative to history.



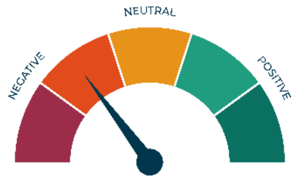
Source: Economic Policy Institute (EPI.org), National Income and Product Accounts (NIPA) of the Bureau of Economic Analysis (BEA), April 2022.

MARKET SNAPSHOT

	Index Series	Currency	Last Price		April	YTD	1 Year TR
					As at:	30/04/2024	
EQUITIES	Bloomberg World Equity Index	USD			-3.17%	4.75%	17.71%
	Bloomberg World Equity - Growth	USD			-3.68%	5.38%	20.59%
	Bloomberg World Equity - Value	USD			-2.25%	3.32%	11.49%
	Bloomberg UK Equity Index	USD			2.24%	5.12%	6.95%
	Bloomberg US Equity Index	USD			-4.16%	5.76%	23.17%
	Bloomberg Europe ex-UK Equity Index	USD			-2.82%	3.24%	8.71%
	Bloomberg Japan Equity Index	USD			-4.73%	6.32%	20.50%
	Bloomberg Asia ex-Japan Equity Index	USD			1.94%	3.36%	6.96%
	Bloomberg China Equity Index	USD			5.34%	4.16%	-8.17%
	Bloomberg Emerging Market Equity Index	USD			0.87%	2.75%	8.54%
FIXED INCOME	Bloomberg Global Aggregate Index	USD			-2.52%	-4.55%	-2.47%
	Bloomberg US Treasury Index	USD			-2.33%	-3.26%	-2.80%
	Bloomberg US Treasury Inflation Protected Securities	USD			-1.69%	-1.77%	-1.35%
	Bloomberg US Corporate Bond Index	USD			-2.54%	-2.93%	1.00%
	Bloomberg UK Gilt Index	GBP			-3.20%	-4.95%	-1.91%
	Bloomberg UK Govt Inflation-Linked Bond Index	GBP			-3.85%	-5.80%	-5.25%
	Bloomberg Sterling Corporate Bond Index	GBP			-2.15%	-2.05%	4.65%
	Bloomberg Euro Agg Government Bond Index	EUR			-1.40%	-2.00%	2.58%
	Bloomberg Euro Govt Inflation-Linked Bond Index	EUR			-0.65%	-1.09%	1.45%
	Bloomberg Euro Aggregate Corporate Bond Index	EUR			-0.85%	-0.39%	5.18%
	Bloomberg EM Hard Currency Aggregate Index	USD			-1.65%	-0.14%	6.22%
	Bloomberg EM Local Currency Govt Index	USD			-1.28%	-1.96%	1.23%
CURRENCIES	GBP Trade Weighted Index		£	74.75	0.31%	1.49%	2.79%
	USD Trade Weighted Index		$	92.00	1.65%	5.29%	4.39%
	EUR Trade Weighted Index		€	123.87	0.38%	0.59%	0.05%
	JPY Trade Weighted Index		¥	81.85	-3.59%	-9.04%	-11.78%
COMMODITIES	Gold Spot $/Oz	USD	$	2,284.00	1.45%	10.71%	15.20%
	LME Copper Spot ($)	USD	$	9,892.40	12.84%	16.88%	15.34%
	Oil - Brent ($)	USD	$	85.37	-2.35%	10.81%	7.64%
	Bitcoin ($)	USD	$	57,685.83	-17.32%	35.71%	108.38%

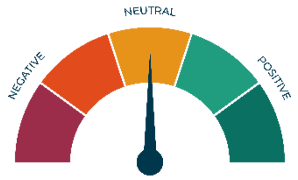
Source: Bloomberg L.P. 30/04/2024

EQUITIES



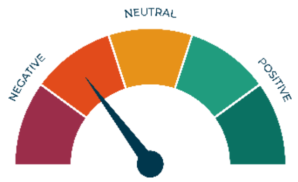
US Equities stumbled through April amid mixed macroeconomic signals, in particular higher inflation, and lower GDP print shaking confidence. Whilst we recognise concerns, we believe China is undervalued and our overweight position paid off as Chinese equities rallied into the end of the month. The other market where we retain conviction and had a strong month was UK equities. Generally unloved, under owned and scarred by Brexit, the FTSE 100 made a new all-time high in April. We remain underweight US equities given valuations, sentiment, and profit expectations. Whilst we maintain conviction in our healthcare and technology related themes, heavily biased to the US equities, the downside risks and absolute size of US equities in global indices, warrants a more cautious allocation.

FIXED INCOME



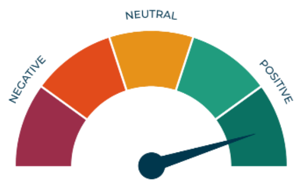
The markets optimism in the soft-landing narrative is very much dependant on rate cuts, which we believe is unlikely in the absence of a significant deterioration in labour data or a credit crisis. This implies rate cuts are more dependent on inflation data and following another higher-than-expected print in April, and risks of accelerating inflation push yields up as bond market generally sold off. We like the absolute yield on offer on shorter-dated Government bonds, including Inflation-linked Government Bonds. Credit spreads remain very tight and given the significant rise in interest rates and material refinancing risks, credit markets are not being priced accordingly and we remain underweight.

REAL ASSETS



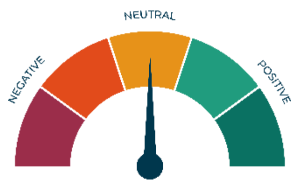
Commodities generally had a strong month, driven by expectations of reaccelerating inflation and recovering Chinese demand. Copper posted double digit gains. WTI and Brent continues to trade in the 70’s to 90’s range, a level likely sustainable in the absence of escalations in the middle east or Ukraine. On the other side, Henry Hub Natural Gas prices fell to its lowest level ever seen in April, pointing to a weakening demand outlook. As for Gold, we retain significant exposure. As previously mentioned, we see $2000 as the new floor, with the price in a strong medium-term up trend, the upside could be very significant. Given half the world will vote in national elections this year, we especially like the hedge it provides against monetary devaluation and event risk.

SPECIALIST STRATEGIES



Our specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures had another strong month and are up between 10% and 20% in YTD. We retain significant conviction in their role in our portfolios. As mentioned previously, we specifically retain conviction in the sustainability of the competitive advantage of the strategies we own, and the alignment of interest between the managers, and us and our clients. As for private markets exposure, we retain limited exposure to these, both credit and equity, given our concerns regarding debt and the refinancing cycle.

CURRENCIES



We remain broadly neutral on currencies. On the margin we note that growth and inflation expectations could support a weaker USD, whilst interest rate differentials are pulling it upwards. The US Dollar remains the global reserve currency of choice, and in a severe market dislocation, we expect it to strengthen. We retain our positive view on the Japanese Yen, which we believe is undervalued and offers significant optionality alongside the potential catalysts for a revaluation.

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

Shard Capital Jersey,
3rd Floor, 5 Anley Street,
St Helier, JE2 3QE,
Jersey.

Telephone: +44(0) 1534 500 040
Email: Info@shardcapitaljersey.com
Web: www.shardcapitaljersey.com

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