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# Recession fears likely exaggerated

T. Rowe Price's Nikolaj Schmidt explains why the global economy is more resilient than many currently believe (page 2)

## Cohen & Steers posts record $9.5bn net inflow

Cohen & Steers, a global leader in listed real assets and alternative income, witnessed record investor demand for its specialist strategies in 2021 – posting an all-time high $9.5bn net inflow over the 12-month period.

The record calendar year net inflow helped drive group-wide total assets under management to a new peak of $106.6bn.

Cohen & Steers' growth was broad-based, with almost every region and distribution channel contributing to its strong 2021 results. Notably, open-end fund net inflows rose 62% year-on-year, to a record $8.8bn, while the advisory channel also registered an all-time high $1.9bn net inflow.

Joe Harvey, president and CEO of Cohen & Steers, says: "With an attractive performance track record and a strong brand, we believe we are well positioned due to rising allocations to real assets, shifts from passive strategies to outperforming active managers and increasing decision-making by centralised asset allocators.

"As the world continues to find its footing as the pandemic eases, we believe government policies, technology and evolving investor needs are converging to drive new opportunities in real assets, creating a sense of urgency amid a massive shift in asset allocations."

# Recession fears likely exaggerated

**Nikolaj Schmidt**
**T. Rowe Price**

Over recent months, it has seemed like economists have been in a race with interest rate markets to see who can be fastest to change their monetary policy outlook.

As interest rates go up and central banks indicate an acceleration of tightening, predictions of a recession are starting to make a comeback.

With the US Fed expected to hike rates up to seven times in 2022 and begin a balance sheet runoff, it is not difficult to see why some investors are worried about the spectre of overtightening. While inflation remains elevated, the Fed and other leading central banks are unlikely to become more dovish. However, even though this may lead to a bumpy ride through H1, predictions of a recession in 2023 are premature.

*"It is not difficult to see why some investors are worried about the spectre of overtightening"*

Recessions usually originate as the result of the interaction of two forces – a shock, which often takes the form of an aggressive tightening of monetary conditions, and an amplifier, a real economy imbalance as the economy grows above potential for some time. The interaction between these two forces creates a negative feedback loop, which tends to push us into a recessionary tailspin.

Central bank tightening means we have fertile ground for the shock – indeed, this is one of the reasons I expect a near-term growth scare. However, the economy probably has not accumulated a sufficiently large real economy imbalance to create a negative feedback loop.

After a decade of deleveraging by the private sector, there were no major imbalances prior to the Covid shock and there has not been a capex boom since. Household consumption of goods is above the historic norm and in need of adjustment, but this is unlikely to tip the economy over the edge. While labour markets are tight and will likely cause a slowdown in global growth, consumer and corporate balance sheets are strong.

Other factors should also boost the global economy's resilience. Capex, for example, has fallen meaningfully below trend since Covid, which suggests there is some pent-up demand. Also, supply chains should begin to normalise through 2022, which will provide another fillip to production and demand.

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# Recycling key to a sustainable future

**Hilde Jenssen**
**Nordea**

With governments taking aim at reducing pollution, there is mounting pressure on the private sector to take action. Many investors are demanding companies improve recycling practices and disclose multi-year waste reduction goals.

Recycling plastics is a megatrend likely to endure. While companies grapple with investments, execution and transparency around recycling programmes, regulations are likely to become more stringent.

This megatrend will produce winners and losers, separating companies with a sustainable strategy from those without. One appealing company is Tomra, which has developed a sensor-based sorting system enabling customers to extract higher-purity fractions from recycling and waste streams, in order to maximise both yields and profits.

***"Investors are demanding companies improve recycling practices"***

**Therese Kieve**
**Sarasin**

One of the key challenges to a lower-waste world is fast fashion.

The fashion industry is the fourth most polluting industry – after housing, transport and food. It uses more water and generates more greenhouse gas emissions than all international flights and ships combined. Moreover, the clothing industry's carbon footprint is growing significantly – with CO2 emissions estimated to reach nearly 2.8 billion tonnes a year by 2030. If the fashion industry continues on its current path, it could use more than 26% of the global carbon budget required for a 2°C pathway by 2050.

While our exposure to fashion companies in our client portfolios is limited, we are engaging with those we own to increase circularity within the industry and protect vulnerable stakeholders.

***"The clothing industry could use more than 26% of the global carbon budget"***

**Hywel Franklin**
**Mirabaud**

Befesa is a German-listed industrial processing business focused on the management of waste materials.

The company is a pioneer in the development of industrial processes for the circular economy and is an emerging global leader within the management of steel and aluminium waste products.

Its raison d'être is to reduce the environmental impact of industrial waste by recovering valuable materials and reintroducing them into the production process. While Befesa may not be a large company, it is a clear leader in European steel dust recycling, with a market share of 45-50%. As Befesa's Chinese production capacity comes online, it will extend its position into new markets, helping improve circularity in construction globally.

***"Befesa is a clear leader in European steel dust recycling, with a market share of 45-50%"***

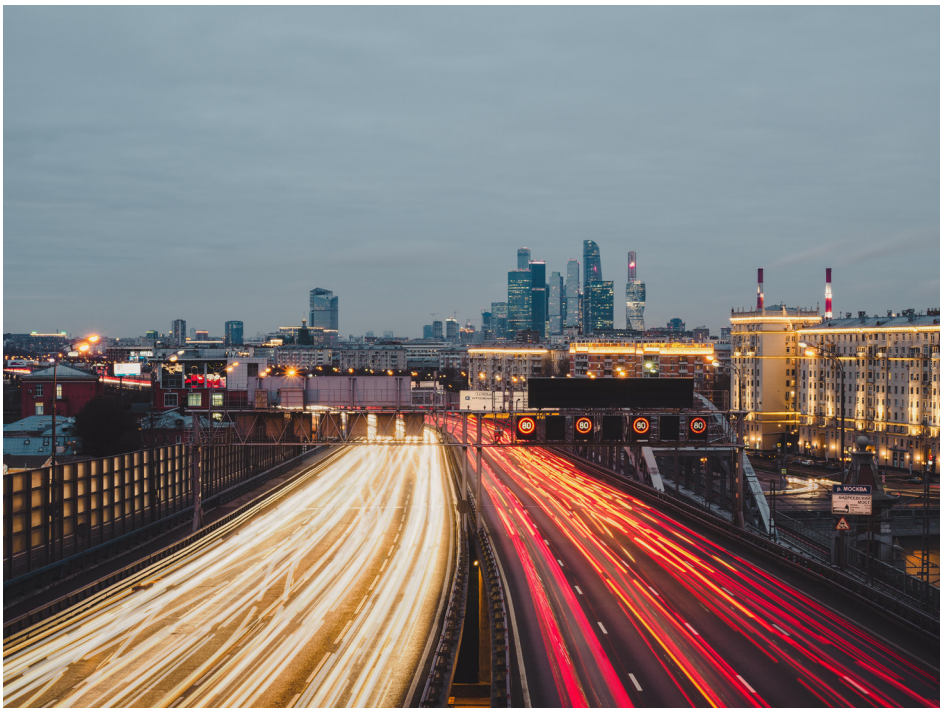
## Baronsmead VCTs raise additional £75m

Baronsmead Venture Trust plc and Baronsmead Second Venture Trust plc, managed by specialist alternative asset manager Gresham House, have raised a further £75m.

As with previous years, this 2022 tax year fundraise closed ahead of schedule and was oversubscribed beyond its initial £50m target, reflecting strong investor demand. It opened up new distribution channels, including the St. James's Place platform, which further increased accessibility to retail investors.

Gresham House's private and public equity teams specialise in high-growth, scalable and technology-driven businesses in the tech, services, consumer, healthcare and education spaces. The funding will be deployed into attractive private and AIM-listed companies in these sectors and beyond.

Bevan Duncan, manager of the Baronsmead VCTs, says: "The success of fundraising for the Baronsmead VCTs reflects Gresham House's expertise in identifying and investing in innovative future leaders. We are now well capitalised to make further investments in exciting businesses at the forefront of the pandemic recovery, and we are confident we can continue to build on the VCTs' strong performance through our extensive network and ongoing company engagement."



# Russia is simply uninvestable

**Brad Tank**
**Neuberger Berman**

As much of the world watched in horror as Russia invaded Ukraine, most capital markets continued to function well, attempting to price for the myriad direct and indirect effects of this geopolitical turmoil.

The most dramatic and immediate effect of the invasion and subsequent sanctions is that local Russian securities are effectively frozen. This is the result of central bank restrictions, bank sanctions, actions taken by exchanges and regulatory bodies, and restrictions enacted by the government of Russia. Unsurprisingly, Russia set a dismal precedent for a sovereign credit when it collapsed from investment grade down to CCC.

While local market trading in Russian securities is frozen, some hard currency bonds continue to trade, albeit with wide bid-offer spreads and low volumes. There is very little liquidity on offer. Prices for Russian government securities are indicative of a default scenario – a likely outcome. Essentially, our view is that Russian debt instruments are to be excluded from the universe for obvious ESG reasons.

*"Russia set a dismal precedent for a sovereign credit"*

More broadly, while EMD spreads have widened, geographies far removed from the conflict have performed better. Commodity exporting countries that are relatively self-sufficient in food production should be resilient, in our view.

While energy prices have dominated the headlines, food prices are rapidly emerging as an area of concern. Russia and Ukraine account for a quarter of global wheat exports and one-seventh of global corn exports. Furthermore, Russia is the world's leading exporter of fertiliser.

Finally, robust global growth forecasts are being lowered meaningfully. Our base case remains that the previously strong economic momentum can overcome the present price shocks.

## Trium Capital launches risk premia strategy

Trium Capital has unveiled the Alternative Growth Fund, as investor demand for uncorrelated return strategies continues to grow.

The UCITS fund is managed by Toby Hayes, who joined Trium in 2021. Hayes has pioneered the use of risk premia indices to deliver uncorrelated returns over his 20-plus year career. The fund launched with an initial £15m in assets.

Targeting annual returns of 5-7% over the medium to long term, the Trium Alternative Growth Fund invests in a core portfolio of alternative premia strategies across the asset class spectrum.

"The launch comes at a time when investors are increasingly keen to integrate strategies that can deliver truly uncorrelated returns," Hayes says. "Implementing the process I have refined over two decades, I select from a range of strategies deriving returns from structural distortions, building a diversified portfolio I believe can provide reliable returns across a wide range of market conditions – while maintaining near zero correlation to equity and bond markets."

Donald Pepper, co-CEO of Trium Capital, adds: "The launch provides investors with access to Toby's pioneering uncorrelated strategy, which harnesses his longstanding and deep technical expertise in the structural return space."

**Katharine Neiss**
**PGIM Fixed Income**

# ECB risks its credibility

The eurozone's economic momentum is strong as it recovers from the pandemic. As a result, the ECB is placing greater emphasis on the short-term inflation caused by Russia's invasion than on medium-term growth – and the medium-term inflation outlook.

However, in our view, the ECB's decision this month to reduce its asset purchases faster is an attempt to increase the bank's 'optionality'. This stance has opened an escape route to faster normalisation if the medium-term inflation outlook accelerates beyond its 2% target.

But continuing to normalise policy as set out in December and February, despite the pivotal events of recent weeks, comes at a cost. It tightens financial conditions across the region, which will put further downward pressure on medium-term growth. It also puts a greater onus on fiscal policy to support the euro area through this crisis and increases fragmentation risks.

If downside risks were to crystallise, the further hawkish pivot could lead to a policy reversal, denting the ECB's credibility. It could even undermine the bank's ability to provide support, as it already finds itself close to the zero lower bound for interest rates, with a sizeable balance sheet.

As growth slows into 2023, we see rate rises capped to just above zero, with the risk that the ECB finds itself, once again, stuck with below-target inflation and weak growth.

*"The further hawkish pivot could lead to a policy reversal"*

**Ailsa Craig**
**International Biotechnology Trust**

# Biotech's deep discounts

The biotechnology sector has rarely been cheaper, in our view.

Approximately 30 companies in the NASDAQ Biotechnology Index, roughly 16% of the benchmark, are trading at negative enterprise values. This is the greatest discount in 20 years, with just 11% of the index at negative enterprise values during the 2008 global financial crisis.

However, the sector is far from flawed – in fact, it possesses solid long-term fundamentals. The expected doubling of over 65s during the next 50 years, in combination with developing economies demanding greater access to healthcare, underpins robust demand for the space. Meanwhile, scientific innovation is expanding exponentially.

These forces are largely unaffected by macro conditions. Instead, investment in the biotech space is heavily sentiment driven. Announcements of new innovative treatments often fuel overly optimistic expectations of future cures, triggering hype that tends to fade once innovations are put to the test and a more realistic picture of their potential emerges. In addition, many investors move in and out of the biotech sector depending on their risk appetite.

This means the recent sell-off poses an opportunity to tap into compelling innovation at attractive prices. Nevertheless, investors must understand the sector's distinctive cyclical nature and where we are in the cycle to make the most of it.

*"Scientific innovation is expanding exponentially"*

# Gender diversity spurs success

**Julie Bech**
**Nordea**

*"A company able to expand its recruitment base will have an edge on the competition"*

Gender diversity is the first step towards supporting a more fair and equal society, which is why awareness efforts – such as International Women's Day earlier this month – are so crucial.

The UN understands the importance of gender diversity, as its 5th Sustainable Development Goal looks to 'achieve gender equality and empower all women and girls'. In recognising gender equality as a fundamental human right – as well as a necessary foundation for peace, prosperity, and sustainability – many public and private actors are taking steps to close the gender gap.

At Nordea, we truly believe the debate over the connection between gender equality and stock performance is rapidly moving from the theoretical to the empirical – as evidence mounts demonstrating gender diversity can indeed make economic sense.

Human capital is a key factor behind a company's profitability, and a company able to expand its recruitment base will have an edge on the competition. In addition to this, diversity is quite often a result of an inclusive and supportive business culture. A positive corporate culture fosters different perspectives and promotes collaboration, while avoiding serious pitfalls such as groupthink.

When actively selecting investment opportunities for our Nordea 1 - Global Gender Diversity Fund, we look closely at gender diversity indicators. We consider the level of diversity in higher leadership levels, promotion and career development opportunities, inclusion, and the change in these gender diversity indicators. This gives us an indication of the level of diversity and inclusion in the company, the areas it excels in, and where it needs to step up. This is also information we use in the engagement process.

A good example of a company at the forefront of gender diversity is Microsoft. There are five women and seven men on the board of Microsoft – which meets our criteria for gender diversity. Many tech firms have come under scrutiny for gender discrimination, but Microsoft has been proactive in this area over recent years, such as providing enterprise-wide diversity training. In our view, having a diverse team is crucial in driving innovation.

Overall, while we are seeing some improvement, progress towards gender equality has been slow. Succeeding in gender equality requires, among others, changes in society norms and values, as well as in legislation. The obstacles are different from country to country and from industry to industry.

While companies are acutely aware of sustainability factors, often most of the emphasis remains on the environmental elements and less on social and governance. As understanding of sustainability evolves, we expect more focus to be paid on the non-environmental ESG factors – such as diversity. Like we saw with environmental considerations, capital will become more readily available for companies leading the way in diversity.