QUARTERLY INSIGHTS – Q1 2024

"NOTHING IN LIFE IS AS IMPORTANT AS YOU THINK IT IS, WHILE YOU ARE THINKING ABOUT IT"

DANIEL KAHNEMAN ~ THINKING, FAST AND SLOW.

A key concept in our investment approach is the idea that the fear of losing money is a much greater driver in human decision making than the hope of winning. Put in another way, investors tend to make choices that minimise potential losses rather than maximise expected gains. This is the fundamental principle behind Prospect Theory, the theory developed by Daniel Kahneman and Amos Tversky in 1979. Professor Kahneman went on to receive the Nobel prize in economics for his work on Behavioural Economics, despite never taking an economics course during his lifetime.

Prior to their groundbreaking research and findings, traditional economics assumed all humans act in a rational way, which can be explained through a statistical model, known as a utility function, with quantifiable variables. Today we know reality is rather different, and our decision making is greatly impacted by heuristics or cognitive biases. These biases tend to get exacerbated as the stakes are raised, and can warp our judgment, often with counterintuitive results.

Professor Kahneman passed away at the end of March. Sadly, I never met him. However, I can categorically say his work has left an impact like few other. Those who've read our past letters will know Prof. Kahneman is perhaps the most frequently quoted individual in them.

If you have not done so yet, get yourself a copy of Thinking Fast and Slow. Seen as a seminal work in psychology and behavioural economics, the book is as much a work of art as it is science. As the FT put it: '*There have been many good books on human rationality and irrationality, but only one masterpiece. That masterpiece is Thinking, Fast and Slow*'.

In the book Prof. Kahneman introduces the concept the two systems of thinking that govern human decision-making: System 1 and System 2. System 1 operates automatically and quickly, with little or no effort and no sense of voluntary control. It's intuitive, emotional, and subconscious. System 2, on the other hand, is slow, deliberate, analytical, and crucially to us, governs our investment approach.

Here at Shard Capital, we stand on the shoulders of giants when making decisions about capital allocation or security selection. None more so than Prof. Kahneman.

With that, on to the quarterly letter…

IN SUMMARY

"COURAGE IS WILLINGNESS TO TAKE THE RISK ONCE YOU KNOW THE ODDS. OPTIMISTIC OVERCONFIDENCE MEANS YOU ARE TAKING THE RISK BECAUSE YOU DON'T KNOW THE ODDS. IT'S A BIG DIFFERENCE."

~ DANIEL KAHNEMAN

The first quarter proved favourable for both us and our clients, as all portfolios outperformed their respective reference indices. Notably, our newly launched Permanent Portfolio had excellent results, achieving a +4.6% gain over the first three months of the year despite minimal exposure to risk assets and virtually no correlation to the traditional 60/40 peer group.

Despite escalating geopolitical uncertainties and surprisingly persistent inflationary pressures, risk assets continued their ascent with equities witnessing further re-ratings whilst credit spreads continued to tighten.

This comes against the backdrop of a shifting narratives, transitioning from recessionary fears to disinflation and now to reflation. Notably, Bloomberg data highlights a stark change in forecasters' outlook, with a majority now anticipating a resurgence in corporate profit growth, having forecasted a recession for the developed world twelve months ago.

However, we are not out of the woods. Economic growth in the UK remains stagnant, nearing official recession territory, while Germany, the EU's largest economy, has already entered a phase of contraction according to the Bundesbank's. Confidence in emerging markets fluctuates, oscillating between optimism over India's potential as the 'new' economic miracle and concerns regarding the perceived demise of the 'old' economic miracle that is China.

We remind our readers that the future is rarely as bad as one might think, or as good as one might hope. Indeed, the only thing we do know is the future is unpredictable.

When uncertainty rise, so does the importance of risk management. Large cap equities in the United States, especially Big-Tech, have very much carried global indices higher over the past 18 months. Fuelled by the new technological miracle that is AI, and the subsequent productivity gains we will experience. Suffice to say, the market is getting rather ahead of itself.

Furthermore, inflation remains persistent at higher levels than many anticipated. This quarter, we delve into the factors underpinning this sticky inflationary trend. Despite the resilience in housing and labour markets, we argue the drivers of inflation are not solely rooted in heightened demand but also in some of the less favourable long-term consequences of capitalism itself. Specifically, we look into how surplus value accrues disproportionately to capital owners rather than society at large.

The inherent risk lies in a potential downturn in consumption and employment, which are integral to the economy, financial markets and social stability more broadly. Particularly given the substantial debt accrued in recent years, rising geopolitical tensions around the globe, and the inequality and political divisiveness that exist with elections on the horizon.

Accordingly, we maintain a more cautious view, with rather large allocations to real assets such as gold and uncorrelated alternative strategies like managed futures. However, selectively opportunities in equity markets exist, as evidenced by our thematic exposures. More on this below.

In summary, courage remains paramount in navigating the current market landscape.

PERFORMANCE REVIEW

"THE ILLUSION THAT WE UNDERSTAND THE PAST FOSTERS OVERCONFIDENCE IN OUR ABILITY TO PREDICT THE FUTURE.",

~ DANIEL KAHNEMAN

Exhibit 1: Market Performance Snapshot

	Index Series	FX	Q1 2024	2023	2022	2021
EQUITIES	Bloomberg World Equity Index	USD	8.18%	22.24%	-18.24%	18.50%
	Bloomberg World Equity - Growth	USD	9.40%	27.14%	-24.70%	18.52%
	Bloomberg World Equity - Value	USD	5.70%	12.96%	-7.51%	17.45%
	Bloomberg UK Equity Index	USD	2.82%	13.57%	-5.51%	18.13%
	Bloomberg US Equity Index	USD	10.35%	26.91%	-19.70%	26.49%
	Bloomberg Europe ex-UK Equity Index	USD	6.24%	22.96%	-17.33%	16.71%
	Bloomberg Japan Equity Index	USD	11.60%	21.22%	-16.18%	1.61%
	Bloomberg Asia ex-Japan Equity Index	USD	1.40%	5.84%	-20.39%	1.18%
	Bloomberg China Equity Index	USD	-1.11%	-12.00%	-24.38%	-11.76%
	Bloomberg Emerging Market Equity Index	USD	1.87%	8.47%	-20.54%	0.21%
FIXED INCOME	Bloomberg Global Aggregate Index	USD	-2.08%	5.72%	-16.25%	-4.71%
	Bloomberg US Treasury Index	USD	-0.96%	4.05%	-12.46%	-2.32%
	Bloomberg US Corporate Bond Index	USD	-0.40%	8.52%	-15.76%	-1.04%
	Bloomberg UK Gilt Index	GBP	-1.80%	3.56%	-25.11%	-5.27%
	Bloomberg Sterling Corporate Bond Index	GBP	0.11%	9.79%	-19.28%	-3.26%
	Bloomberg EM Hard Currency Aggregate Index	USD	1.53%	9.09%	-15.26%	-1.65%
	Bloomberg EM Local Currency Govt Index	USD	-0.69%	6.44%	-8.83%	-1.15%
CURRENCIES	GBP Trade Weighted Index	GBP	1.44%	3.15%	-6.15%	4.68%
	USD Trade Weighted Index	USD	3.25%	-1.35%	8.20%	4.83%
	EUR Trade Weighted Index	EUR	0.31%	1.13%	0.82%	-4.02%
	JPY Trade Weighted Index	JPY	-5.68%	-8.50%	-9.01%	-7.50%
COMMODITIES	SG Trend Index	USD	12.23%	-4.17%	27.35%	9.09%
	Gold Spot $/Oz	USD	8.09%	13.10%	-0.28%	-3.64%
	LME Copper Spot ($)	USD	3.58%	1.19%	-14.13%	25.70%
	Oil - Brent ($)	USD	13.55%	-10.32%	10.45%	50.15%
	Bitcoin ($)	USD	68.62%	152.94%	-64.22%	59.79%

Source: Bloomberg L.P., Morningstar Inc.
Note: Data for Equities and Fixed Income are based on Total Return, with dividends and interest income reinvested. Data for Commodities and Currencies are based on price change, with no interest or dividend income.
Date: 31/03/2024

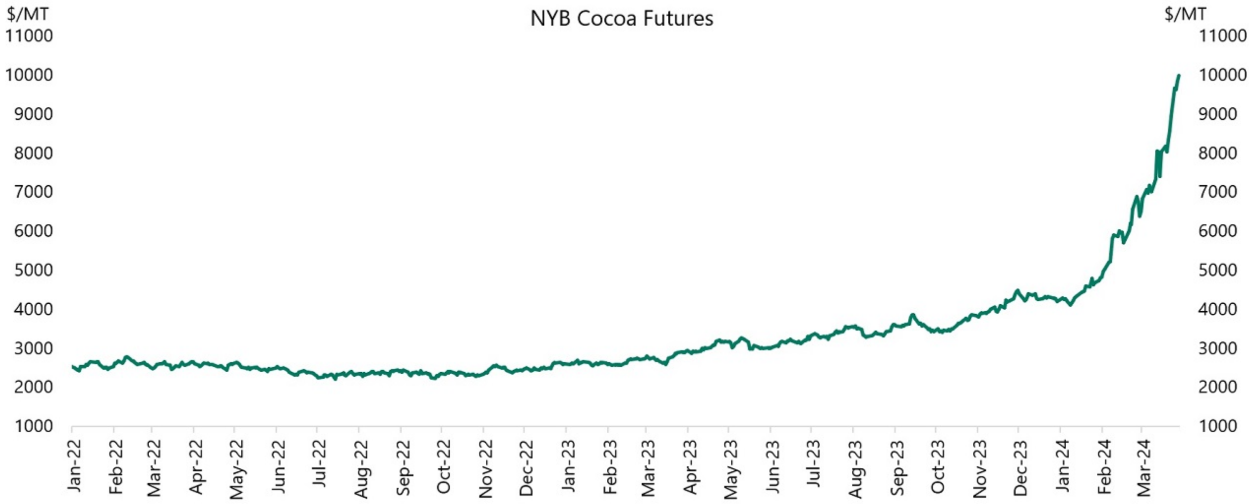
Over the course of the quarter, capital markets stopped trading on the back of the benefits of declining inflation, and more on the expectations of economic and corporate profit growth. This reflects the markets view that the hard landing narrative is no more, despite the recent rise in inflation expectations and commentary form the Federal Reserve that they are in no hurry to cut interest rates. Indeed, if growth is robust and sustainable, there is no need for the Fed to cut interest rates.

As exhibit 1 above shows, US equities, and risk assets in general, continue to perform well. The two exceptions are Chinese equities, which had another volatile quarter, and Gold.

Managed Futures had a strong Q1 following a rather meagre 2023. Indeed, the volatility during the SVB and Credit Suisse debacle along with the significant risk-rally in the last two months of the year, meant most trend following strategies had a rather difficult 2023. In our opinion, most commodities and real assets remain depressed and undervalued relative to financial assets such as equities and corporate bonds. This represents a very attractive opportunity, exemplified by the rally in Cocoa Futures, which, as shown in exhibit

2, is up 150% in Q1 alone, and well over 200% over the course of the last 12 months. A high-quality CTA or Trend Following managed futures strategy such as those managers we use, are far more able to exploit opportunities in commodity and FX markets as opposed to trying to gain direct exposure to these assets. Managed futures offer investors not only strong real expected returns, but also very attractive diversification benefits. We talked about the benefits of trend following in our February 'Monthly Review', and can be accessed here.

Exhibit 2: Cocoa Futures has seen a 'sweet' surge on the back of supply-demand imbalances:

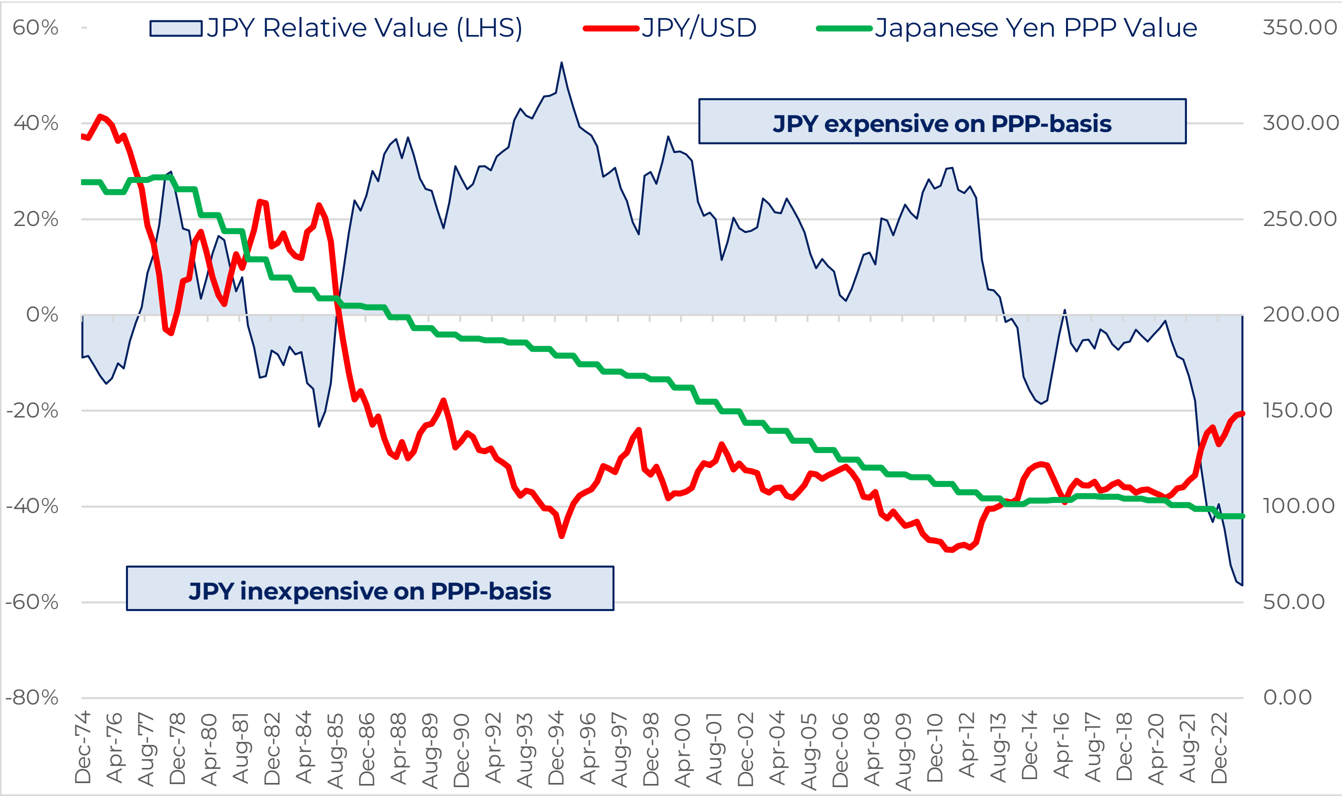


Source: The Daily Spark by Torsten Slok, Apollo Chief Economist, Bloomberg LP.

Another asset that has rallied significantly is Bitcoin. This comes on the back of remarkable flows into spot-Bitcoin ETFs following their launch on 10th January. Excluding the pre-existing Grayscale Bitcoin Trust, which also converted to an ETF, the total flows into these ETFs amassed just shy of $30bn by the end of the quarter. This is, in our opinion, further proof that our thesis of financial repression and fiat devaluation is not only inevitable, but the market is becoming more and more aware of it. Whether cryptocurrencies are a viable solution for investors to protect themselves against the consequences, remains to be seen. That said the rally in cryptocurrencies over the past 12 months has been nothing short of spectacular, albeit less so in the context of Cocoa futures.

As for more traditional fiat currencies, we support the Dollar Milkshake Theory, proposed by Brent Johnson – but only relative to other fiat currencies, and not hard assets or store of value, such as gold. The theory postulates that the USD will persist in strengthening and maintaining its dominance in the global currency arena, despite ongoing economic uncertainties and the demise of the "US Dollar-standard". That said, the Japanese Yen continues to be the outlier. Whilst all fiat currencies will continue to devalue, as evidenced by the value of Gold, the Yen has suffered in particular. Currency markets are questioning the ability of the BoJ to increase interest rates, justifiably so. However, we would note that there are trends, and then there are extremes, and the Japanese Yen is trending towards the latter.

Exhibit 3: No need to hedge your JPY exposure anymore! The Japanese Yen has diverged meaningfully from what Purchasing Power Parity (PPP) would suggest is a 'fair value', making it perhaps as inexpensive as it's ever been.



Source: OECD Data, Bloomberg L.P., 31/03/2024

ON INFLATION

"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, ECONOMIST

Inflation has proven to be more persistent than initially anticipated. However, it's important to recognise that the last mile of any challenge is often the toughest, and it is no different with taming inflation. That said, the persistence of inflation is in our opinion less driven by robust demand and more by the unintended consequences of capitalism and higher interest rates themselves.

Traditionally, higher interest rates are believed to elevate the cost of capital, thereby increasing the hurdle for investors and management teams considering investments. This can lead to a gradual decline in investment activity, causing a slowdown in economic growth and subsequently dampening demand, which in turn can help alleviate inflationary pressures. However, these effects don't manifest overnight, and correlations are seldom one-to-one. But this is the theory that underpins the effectiveness of monetary policy, alongside the caveat of the often-cited 'long and variable lag'.

We know that quantitative easing (QE) and zero-interest-rate-policy (ZIRP) results in monetary devaluation, an appreciation in financial assets, leading to exacerbated wealth inequality. Now, the opposite may not be true. I introduce to you Rentier Capitalism. The concept of the exploitation by rent-seeking owners of property and companies. In Marxist-theory this is termed *Surplus Value Extraction*.

Ultimately, when mortgage rates rise, property owners might be more inclined to increase rents. In the presence of all-time high property prices relative to incomes, tenants and occupants will of course accept these increases, as opposed to being out on the street. This is true however, as long as tenants have cash available. We should thank central banks, governments, and future generations who will ultimately shoulder the burden of debt repayment.

The point we're making is these long-term consequences of capitalism and widening wealth inequality are beginning to manifest in ways that may not be fully recognised by traditional economic models. This is particularly evident in the persistence of high core and services inflation, most notably driven by housing inflation – which is measured by rental costs.

The chart below shows housing inflation in the UK, hitting levels not seen since 1992. The scary part is, these levels of housing inflation continue to rise, and seems much more correlated with interest rates itself than our monetarist friends would suggest. In the UK the ONS use the rental equivalence approach to measuring Owner Occupiers' Housing Costs (OOH). From their website:

> *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.*

This is not dissimilar to the Owner Equivalent Rent (OER), used to calculate the Shelter component in US CPI. Our point is this is not a fair representation of inflation, distorted in part because of the lack of alternative, and in part because its imputed or survey based.

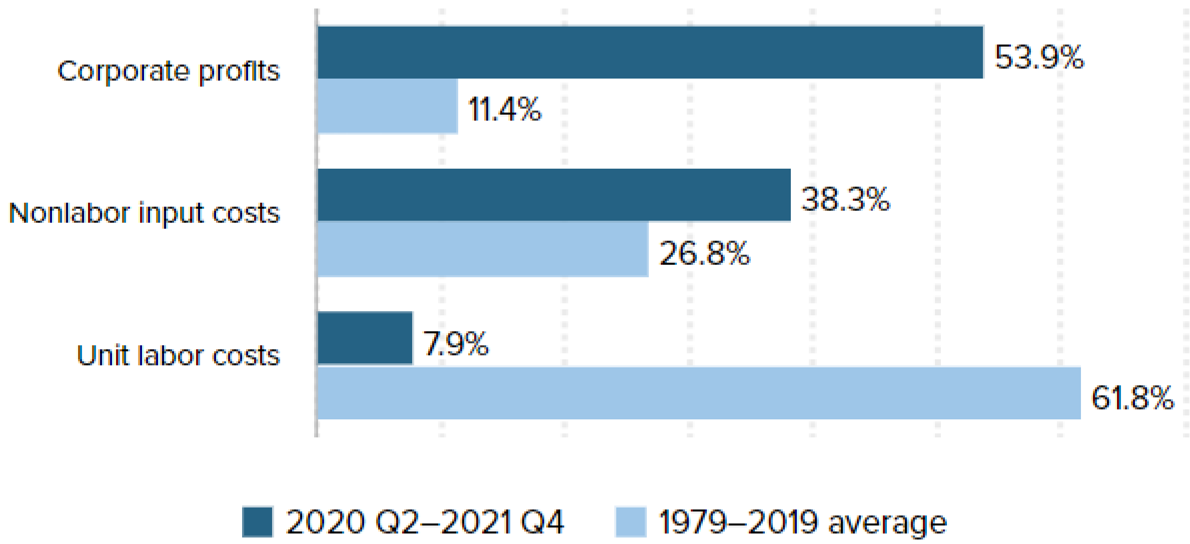
Exhibit 4: Housing Inflation in the UK continues to rise.

Source: ONS, 17/04/2024

Another factor to consider is that of 'Greedflation'. In the Unites States, prices across the Non-Financial Corporate sector have increased at an annual rate of 6.1% since the low point of the COVID-19 recession in the second quarter of 2020. This is a material rise from the 1.8% annual rate seen during the pre-pandemic period spanning from 2007 to 2019. Notably, more than half of this surge (53.9%) can be attributed to expanded profit margins, with labour expenses contributing less than 8%. This departure from the norm is striking. Historically, between 1979 to 2019, profits only accounted for around 11% of price growth, while labour costs dominated at over 60%. As expected, non-labour inputs, supply-demand dynamics and supply chain disruptions, exerted a greater-than-usual influence on price increases post-Pandemic. This is what the market has come to term: 'Corporate Greedflation', another factor we believe are keeping inflation stickier than it would otherwise be.

Exhibit 5: 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.



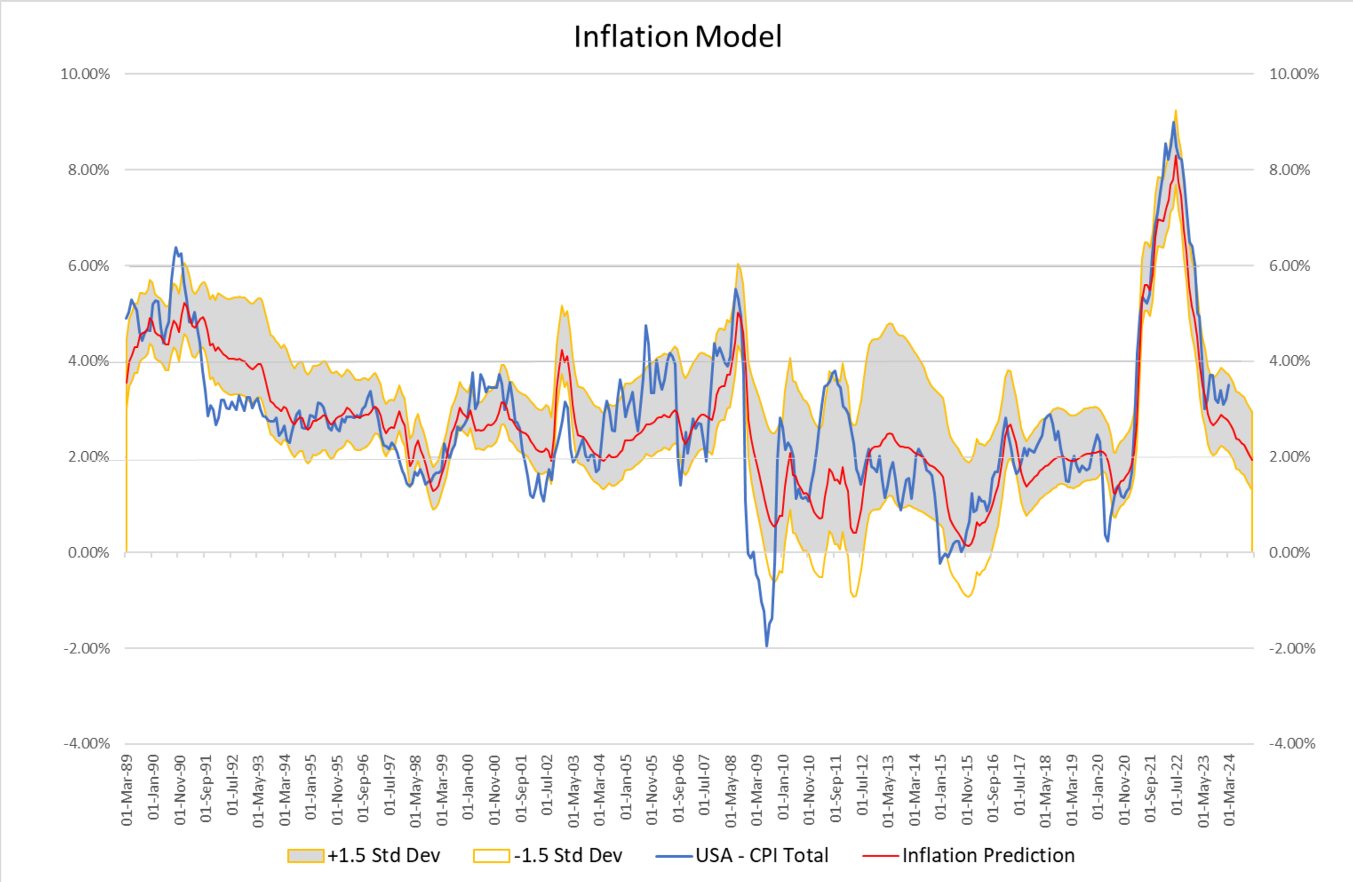
Source: Economic Policy Institute (EPI.org), National Income and Product Accounts (NIPA) of the Bureau of Economic Analysis (BEA), April 2022.

Below we show our internal Inflation Model. It underscores how inflation, in the absence of surplus value extraction, should continue to trend downwards. We know cost-push inflation is a transient phenomenon, a direct consequence of fiscal and monetary excesses. To be clear, the significant rise in the cost of living during this cycle has been a direct consequence of massive fiscal stimulus via transfer payments along with central banks' dramatic balance sheet expansion. We have not created or increased structural demand drivers, and secular deflation continues to be the primary risk on the horizon. We remain of the view that the inflation trends in the economy are towards central bank targets.

Looking further ahead, we remain of the belief that financial repression and further monetary devaluation are inevitable, which could easily drive inflation back to recent highs. The only certainty we have is the future is unpredictable and inflation dynamics are increasingly uncertain. In particular, how the inflationary forces of near-shoring and monetary devaluation interact with the deflationary forces of Artificial Intelligence and a shrinking labour force remain to be seen.

Ultimately, the most unlikely outcome is the one we've experienced over the last four decades, dominated by price stability and the persistent decline in the cost of capital. That in particular, will have major ramifications on asset allocation dynamics.

Exhibit 6: Our internal Inflation Model suggest inflation should continue to moderate towards central banks targets, in the absence of Surplus Value Extraction and Greedflation:



Source: Shard Capital, 17/04/2024

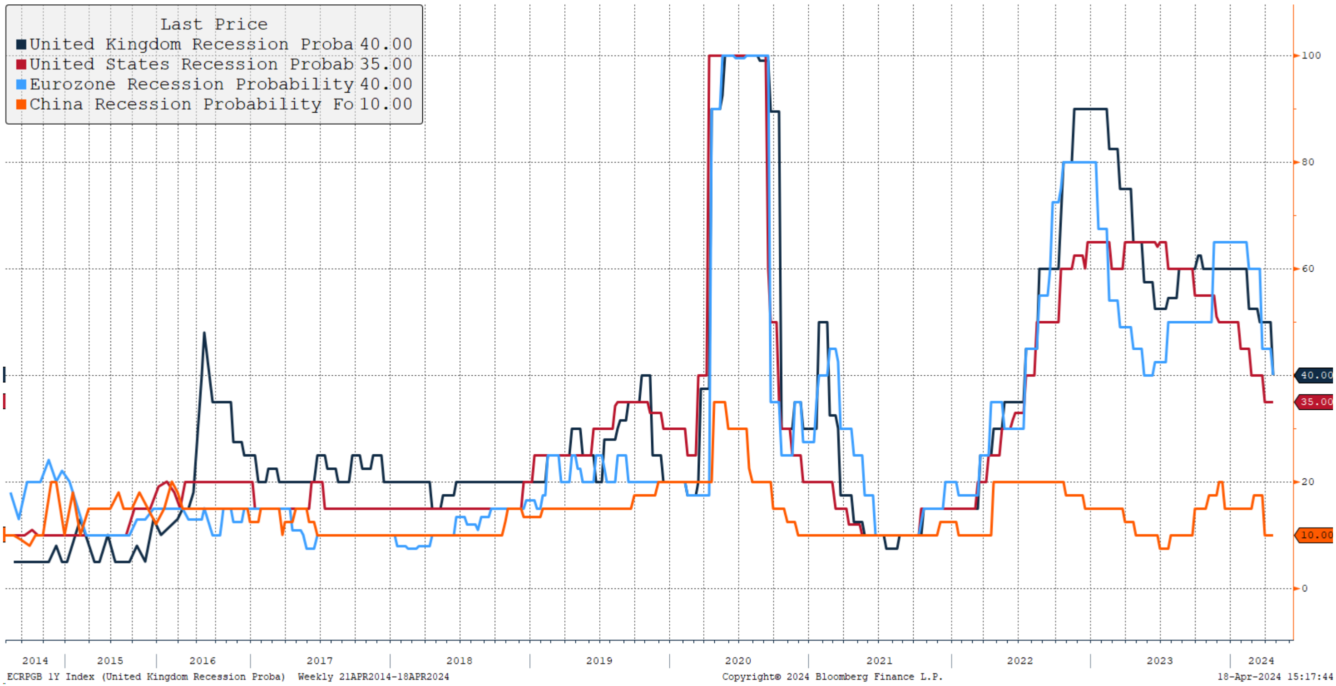
ON ECONOMIC GROWTH

"CHINA'S IMPORT OF CHIPS—$260 BILLION IN 2017, THE YEAR OF XI'S DAVOS DEBUT—WAS FAR LARGER THAN SAUDI ARABIA'S EXPORT OF OIL OR GERMANY'S EXPORT OF CARS. CHINA SPENDS MORE MONEY BUYING CHIPS EACH YEAR THAN THE ENTIRE GLOBAL TRADE IN AIRCRAFT. NO PRODUCT IS MORE CENTRAL TO INTERNATIONAL TRADE THAN SEMICONDUCTORS."

~ CHRIS MILLER, AUTHOR OF *CHIP WAR: THE FIGHT FOR THE WORLD'S MOST CRITICAL TECHNOLOGY*

Economic growth remains strong and indeed, leading indicators that have been pointing to recession for best part of 18 months, are now looking like they are turning up. Seemingly, the 'recession-that-never-happened' is now behind us.

Exhibit 7: Probability of Recession has declined materially over the last 18 months:

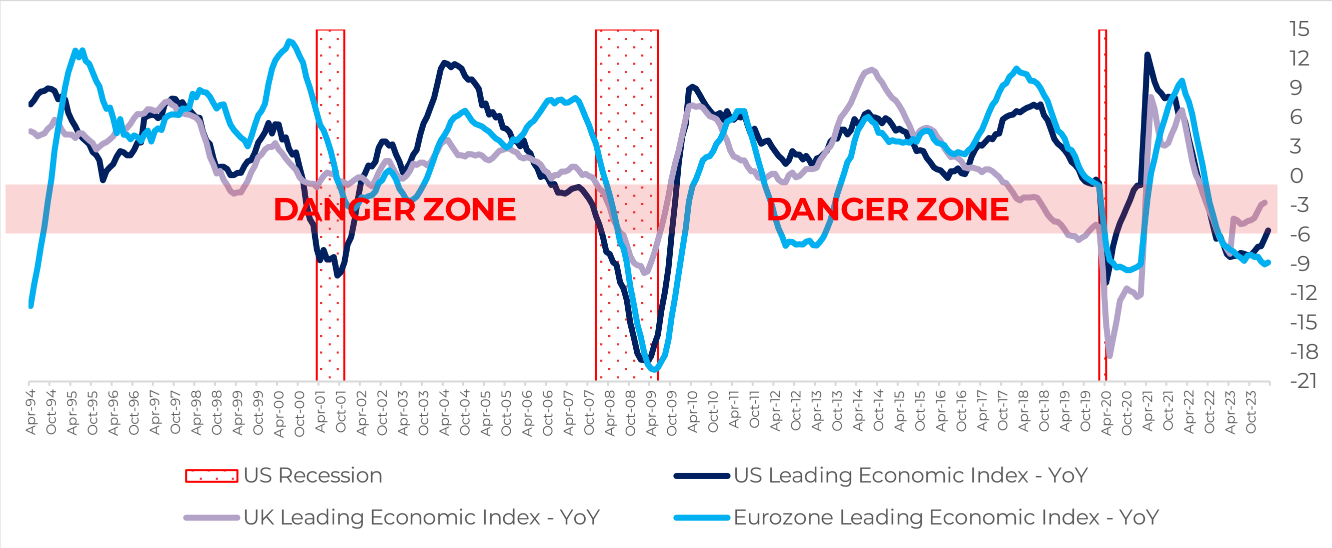


Source: Bloomberg L.P., 17/04/2024

However, the growth outlook is more finely balanced than the chart above would suggest. We believe the likelihood of growth surprising to the downside is perhaps very similar to that of economic growth surprising to the upside. In hindsight Western economies have coped much better with higher interest rates than initially expected and note consumer spending in the US as the primary driver. Recent increases in growth expectations, not least by the IMF, is driven by increasing confidence that history will not be repeated, and that interest rate policy will not have the impact on economies it has had historically. We believe this is a fallacy, and there is no evidence that the markets dependence on the cost-of-capital has been altered.

That said, we do not see material risks of an outright recession in the near term. As mentioned, many leading indicators are turning back up, albeit from very low levels.

Exhibit 8: The Conference Board's series of Leading Economic Indices has turned upwards, albeit from very depressed levels. History would suggest western economies are not out of the woods yet:



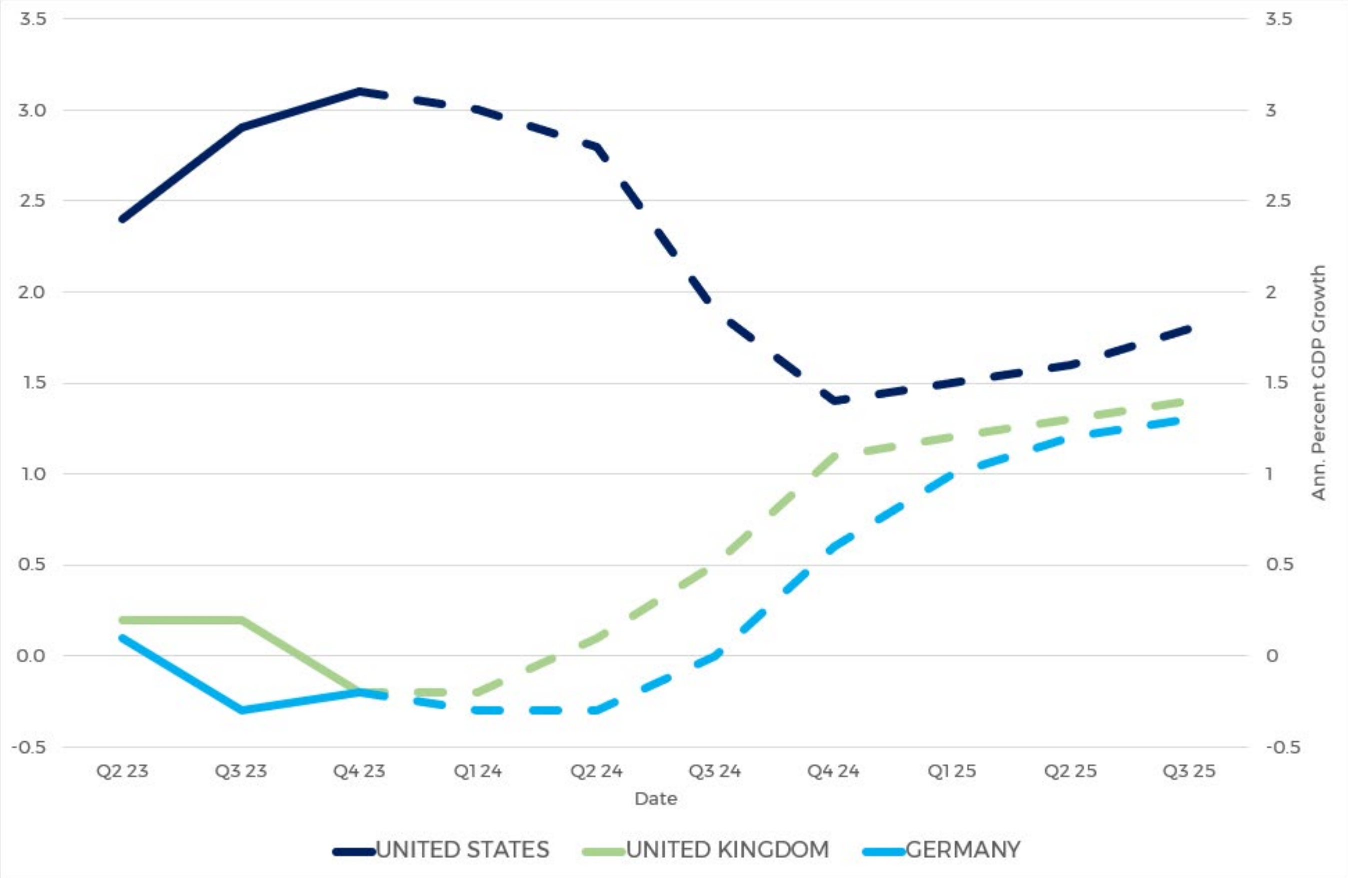
Source: Conference Board, Bloomberg L.P., 31/03/2024

China remains problematic and a point of contention. We remain of the opinion that the robust manufacturing industry will continue to support a recovery in consumption. Major risks to China are a global recession impacting net-exports / manufacturing, the continued uncertainty arising from a local housing market crisis and negative demographics. However, the risks of a recession we believe is low, as indicated in exhibit 7.

In Europe, overall economic activity is expected to pick up. The UK is teetering on the verge of a recession, and according to the Bundesbank, Germany is already in one. Consensus views are for growth to start to recover, in the presence of cuts in interest rates. There's much debate, but we expect European Central Banks to cut before the Fed.

Across the Atlantic, growth in US GDP is expected to normalise from surprising high levels. The decline might be swifter than many expect as excess savings run out and the long and variable lag of tighter monetary policy and higher interest rates finally starts to bite.

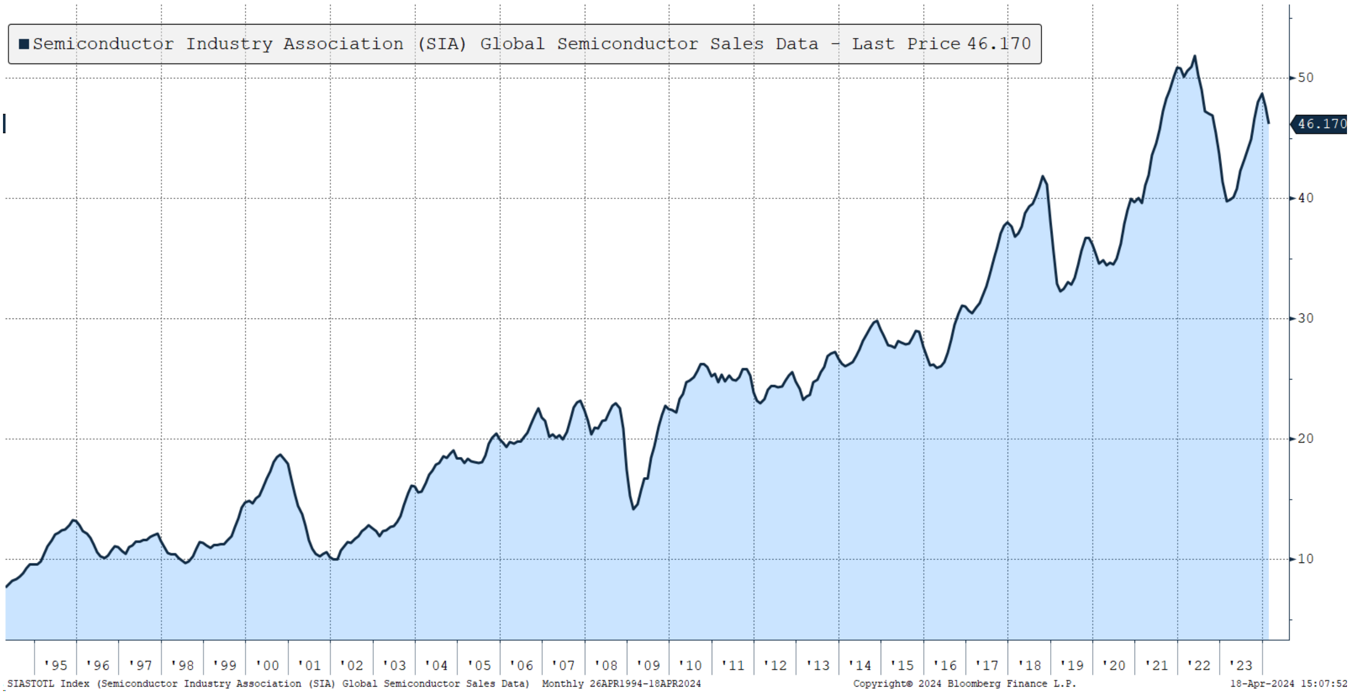
Exhibit 9: GDP Growth expectations in the West:



Source: Bloomberg L.P., 31/03/2024

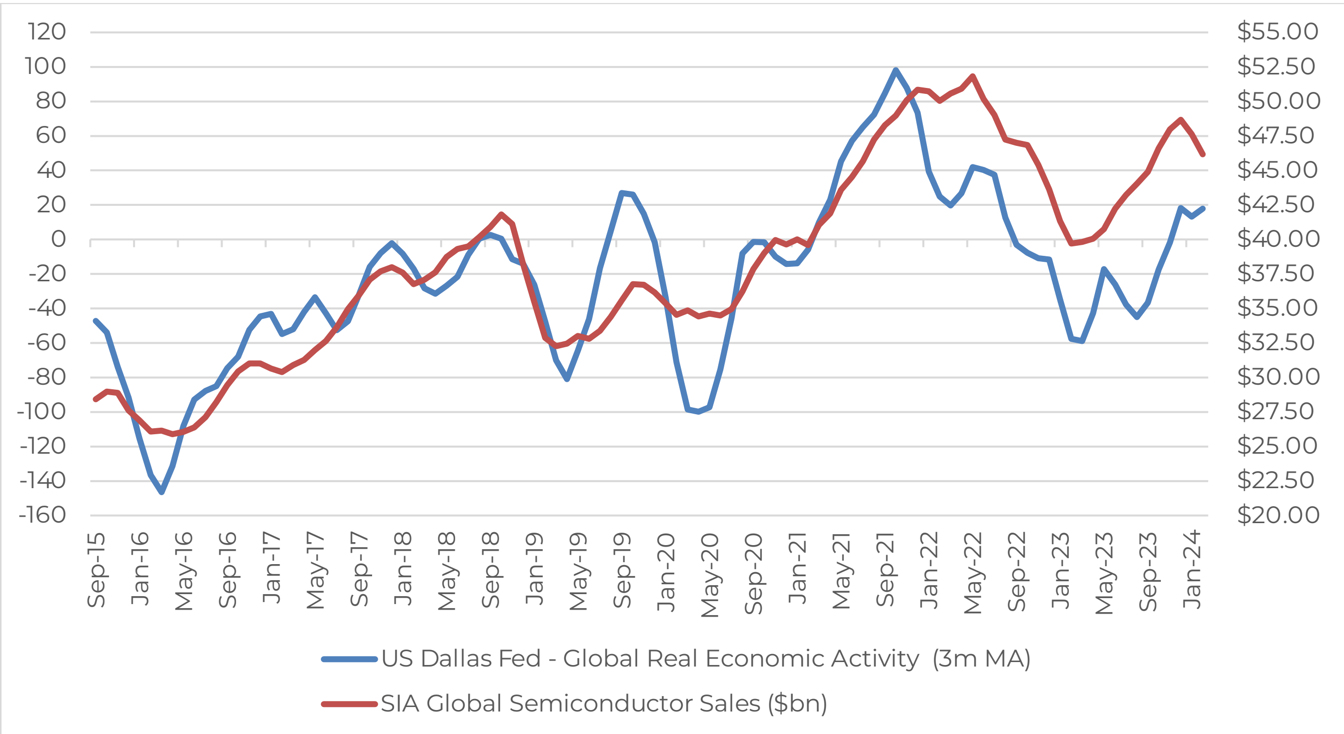
A key indicator we track is Global Semiconductor Sales. The below two charts highlight the increasing importance of semiconductors as an indicator of economic activity. On the positive side, it has seen a strong rebounded coming out of 2022. However, less optimistically, it did not reach new highs, and the last two months have experienced declining sales levels. Alongside declining corporate capex intentions and the latest earnings reports from industry bellwethers like ASML, we are sceptical on whether demand is as robust as many pundits might suggest.

Exhibit 10: Global Semiconductor Sales, monthly, in billions of US Dollar:



Source: Bloomberg L.P., 31/03/2024

Exhibit 11: Semiconductors are often dubbed 'Oil in the Digital Age'. As per below, there is a high correlation between semiconductor sales and global economic activity:

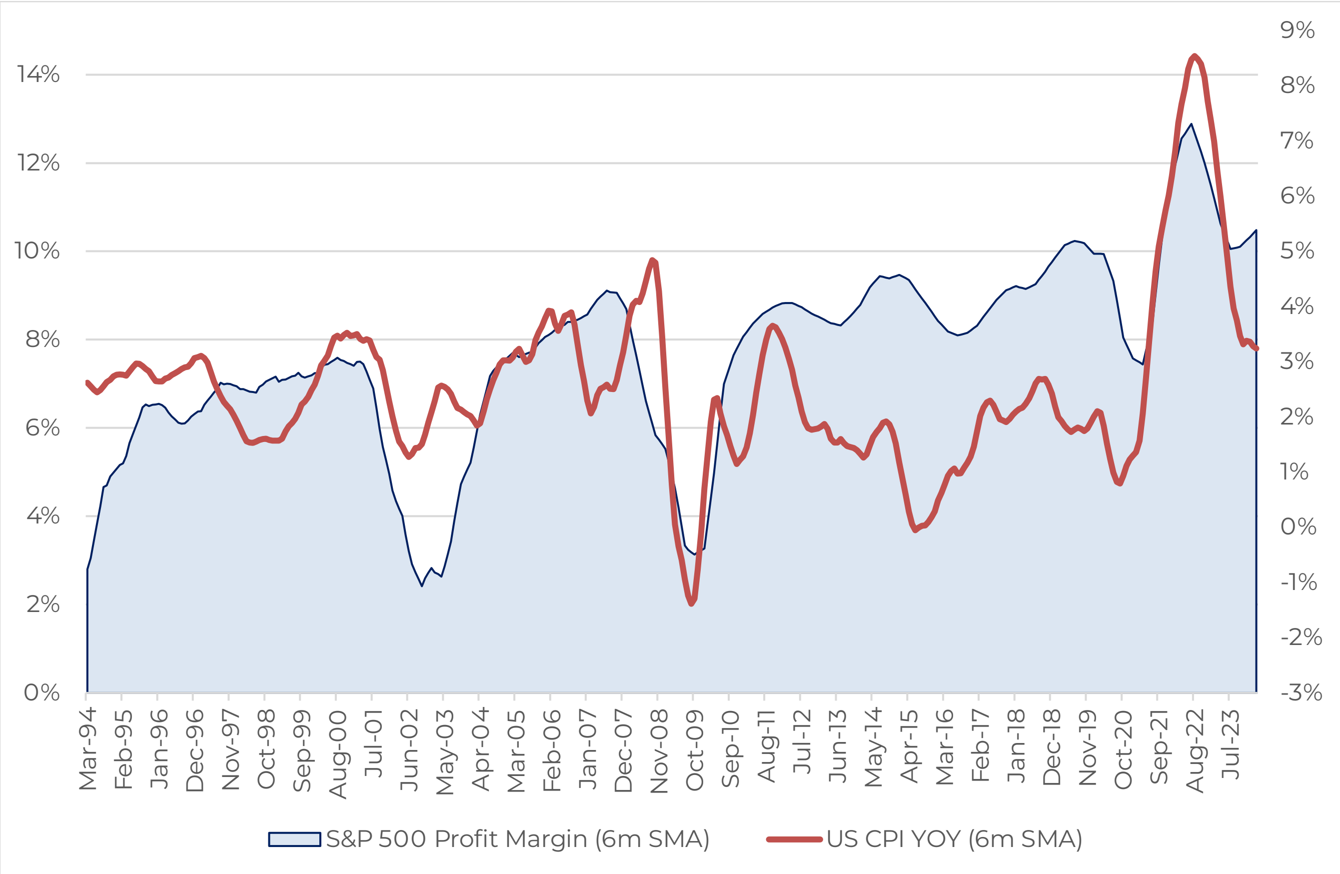


Source: Bloomberg L.P., 31/03/2024

As for corporate profits, this is perhaps where our biggest concerns lie. Large, listed companies are extremely good at taking advantage of periods of rising inflation by raising prices themselves and passing on a greater share to customers. Consequently, they are able to expand profit margins when inflation rises, then sustain them at these new levels when inflation comes down.

This is what the market refers to as 'greedflation' more recently, but more generally highlights the power of capital over labour. Many market participants suggest this might change, and indeed, we too acknowledge there is a real risk to high profit margins generally. Of course, if you were to exclude large cap technology companies the cyclicality of these margins becomes much more pronounced. But suffice to say, banking on further margin expansion from the Magnificent 7 is a big bet.

Exhibit 12: Corporate profit margins typically benefit from rising inflation as listed companies are very good at passing through inflation plus some.



Source: Bloomberg L.P., 31/03/2024

ON LIQUIDITY

"I DO NOT THINK IT IS AN EXAGGERATION TO SAY HISTORY IS LARGELY A HISTORY OF INFLATION, USUALLY INFLATIONS ENGINEERED BY GOVERNMENTS FOR THE GAIN OF GOVERNMENTS."

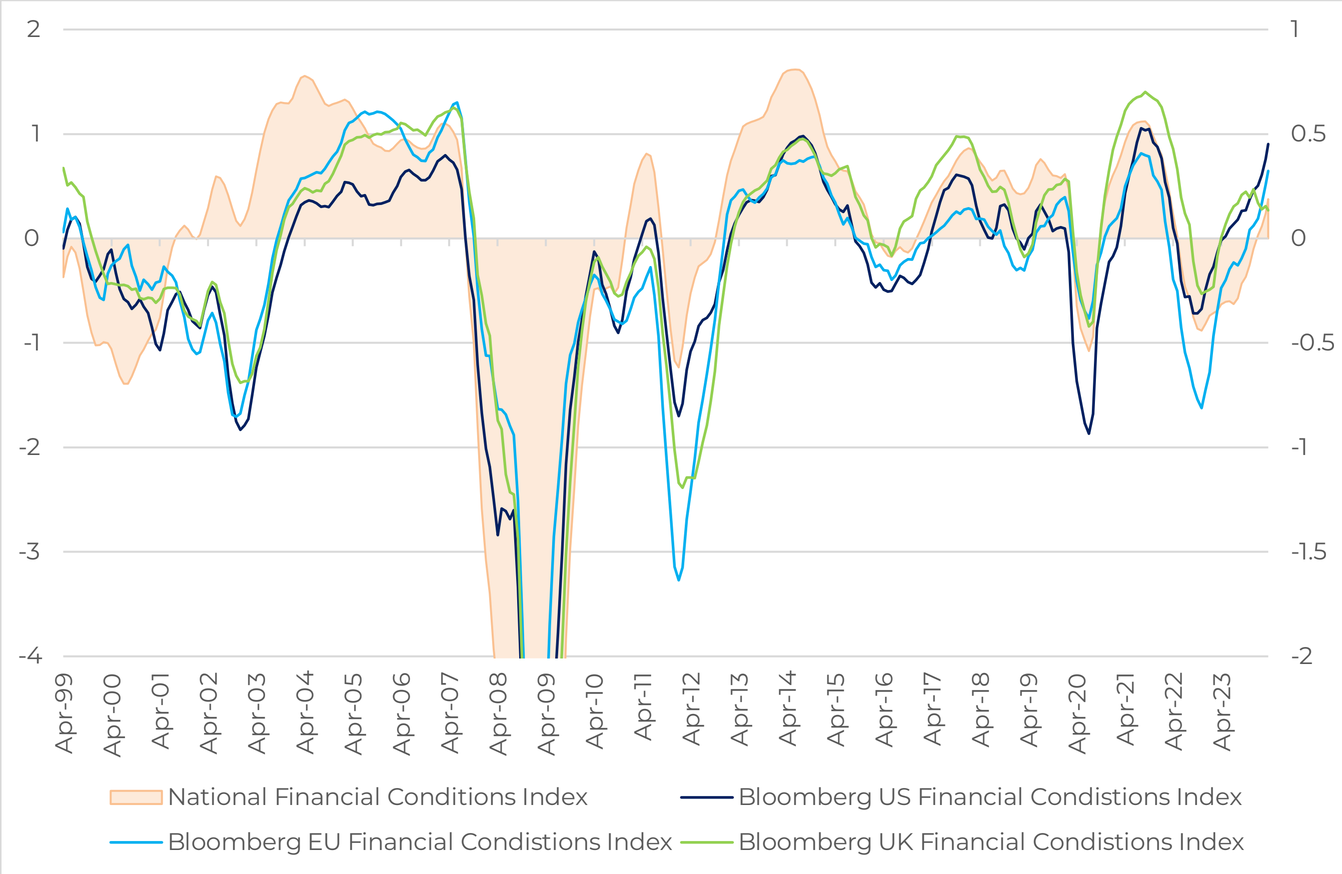
~ FRIEDRICH VON HAYEK, ECONOMIST

Liquidity dynamics broadly remain positive, not least supported by the market rally over the last 5 months. The significant deficit in the United States and fiscal spending more broadly – and multiplier effects from that fiscal spending – has not only supported liquidity, but also the economy and sustained consumer spending.

The high cost of capital has not had the impact on capital markets that many, including us, feared. This might be because modern capital market are refinancing machines, and it is about the marginal availability of capital, rather than the cost of capital itself. This has been true since GFC.

Liquidity indicators broadly have turned positive after bottoming out in late 2022.

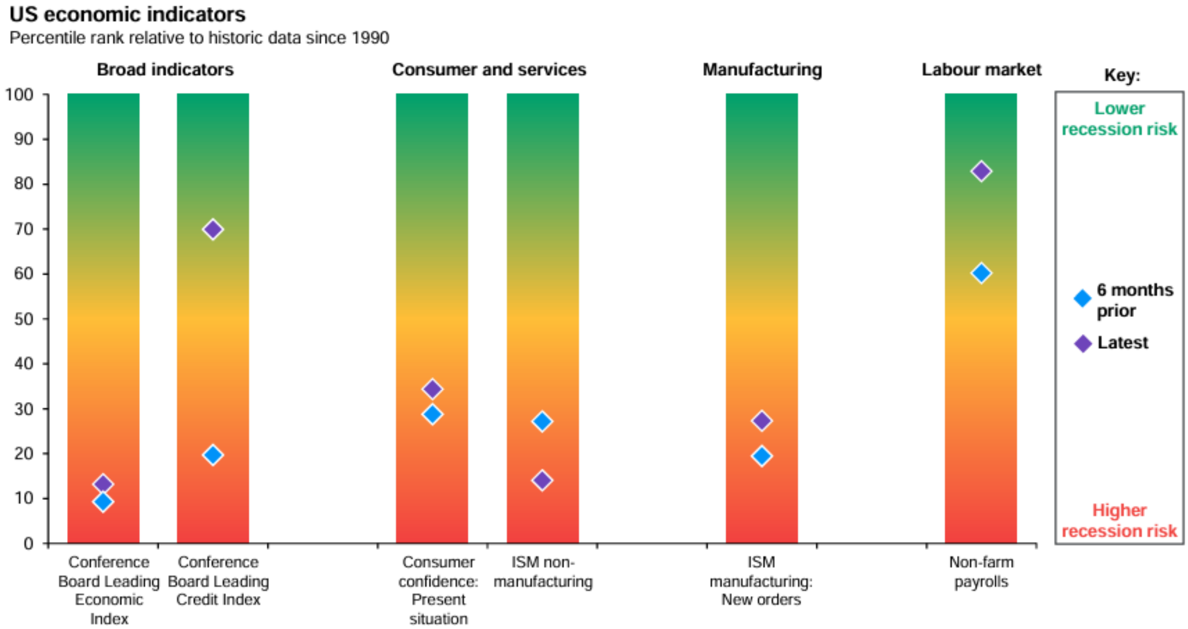
Exhibit 13: Bloomberg Financial Conditions Index and the Atlanta Fed's National Financial Conditions Index show improved liquidity across western Europe and the US.



Source: Bloomberg L.P., 31/03/2024

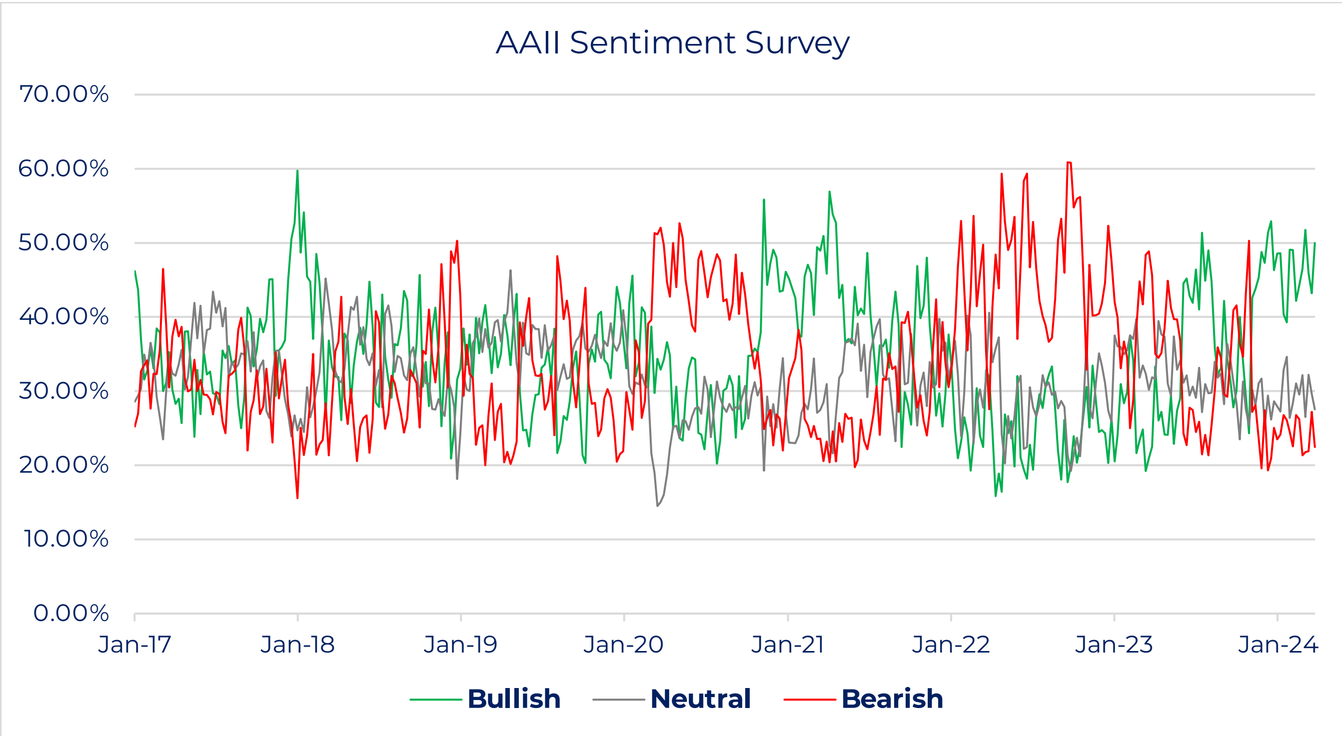
Below we show JP Morgan Asset Management's US Economic Indicator summary from their hugely popular 'Guide to the Markets'. The two material improvements over the last six months has been the Conference Board's Leading Credit Index and Labour Market dynamics. One of the indicators in the Leading Credit Index is the AAII Sentiment Survey, alongside lending standards and credit spreads. We like to us the AAII Sentiment Survey as a contrarian indicator. Whilst the AAII Sentiment survey does give some indication of liquidity, the correlation between the peak and troughs in bullishness with peaks and troughs in equity markets is spectacular!

Exhibit 14: The marginal improvement in US economic conditions have been driven primarily by sentiment, and to some extent by credit conditions and labour force dynamics.



Source: JPMorgan AM – Guide to the Markets, 17/04/2024

Exhibit 15: The AAII Sentiment Survey shows bullishness is back at the peaks of 2021 and 2018, just prior to material market declines.



Source: The American Association of Individual Investors, https://www.aaii.com/

OUR SECULAR THEMES

"IT'S A WONDERFUL THING TO BE OPTIMISTIC. IT KEEPS YOU HEALTHY AND IT KEEPS YOU RESILIENT.",
~ DANIEL KAHNEMAN

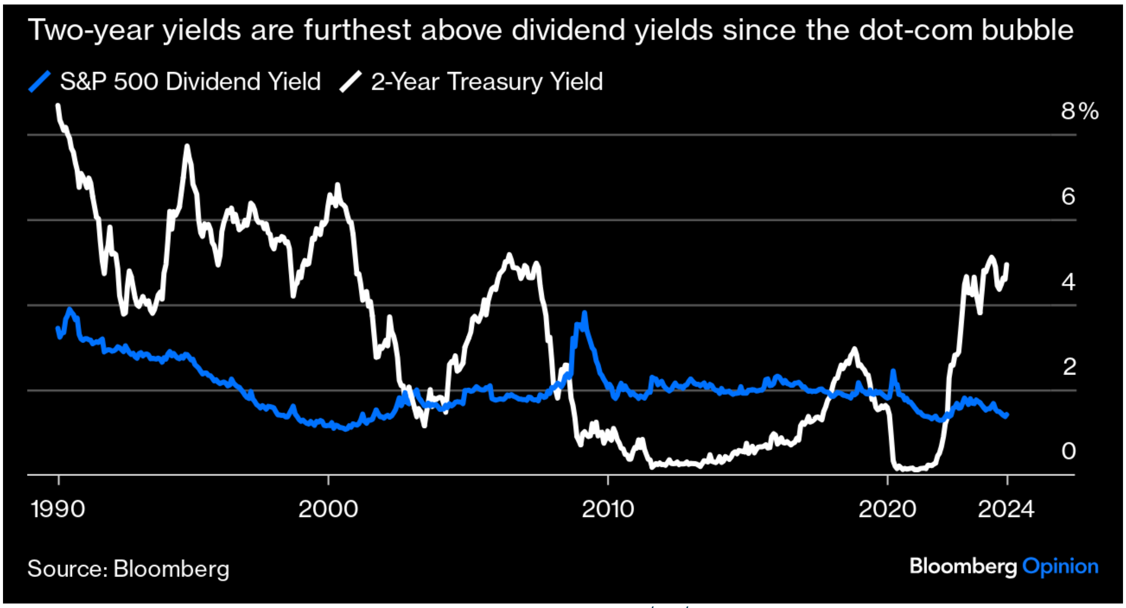
	Theme		Description	Thesis
1	**Health Sciences**		Exposure to innovation and deflationary forces in healthcare.	Global Healthcare Systems are too expensive. We expect new technologies with deflationary benefits to receive outsized profits from quicker adoption, both in private and public healthcare models. Scientific advances and the use of AI have allowed for an increased pace of innovation. This should result in accelerated approval times, with new therapies and technologies applied in all areas of healthcare, including diagnostics, drug discovery, patient care, and services.
2	**Artificial Intelligence & Digitalisation**	**Software & Cloud Infrastructure**	Beneficiaries of monetising the efficiency gains of moving business models into the cloud.	Innovation has occurred and new technologies have been developed, including IaaS and SaaS. It is now a matter of the Cloud Infrastructure and Software market leaders – including some of the "Magnificent 7", to monetise their products and services.
3		**Digital Entertainment**	Digital entertainment is defined as taking the human experience into the digital universe.	Eventually all digital experiences should or could culminate in the Metaverse. The best way to access this trend is by investing in Gaming and eSports, a subset of the digital entertainment universe closest to transcending and monetising this experience into the metaverse. We further view digital entertainment industry as one of the first to monetise AI in one form or another. "*You don't live in the real world… You're like me. You live inside this illusion.*", Ready Player One.
4		**Robotics & Automation**	The automation of manufacturing, supply chains and service delivery.	The automation of supply chains is crucial to ensure we are able to sustain productivity and at the same time maintain an equilibrium between the supply-demand curve of goods and services. Labour shortages? Not so quick!
5		**Semiconductors**	Rising demand for semiconductors.	The need for both increasing and faster data-management will continue to drive growth behind semiconductors, in all areas of life! Whilst Nvidia, ASML and TSMC are the poster children for this industry, we also know this is not a winner-takes-all market, and with rising geopolitical tension, opportunities across the world will arise.
6	**Smart Infrastructure**		5G, renewable energy, logistics and much more as outdated infrastructure in the world we live in, are being replaced.	Attractive rates of return, often through income distributing investments, offer sustainable and growing dividend streams. Furthermore, in a world of uncertain inflation dynamics, there are gems in the infrastructure space that offers protection against high and volatile inflation. A characteristic we like and seek to take advantage of.
7	**Emerging Consumer**		Wealth creation in emerging economies, especially the east, will drive higher per capital disposable income.	Rising disposable incomes will lead to an upgrade of current consumption as well as opportunities for new products and services. We particularly favour Central and Southeast Asia and beneficiaries from ongoing US-China tensions, like Vietnam and Mexico.
8	**Inflation**		An understanding of inflation risk, the market's expectations for inflation, its direction and the shorter-term consequences.	With the arrival of AI, an increase in the pace of innovation, poor demographics and significant debt levels, the deflationary forces globally are very significant. At the same time, the changing dynamics of global supply chains - moving from just-in-time to just-in-case, alongside the transition to net zero, labour shortages and populist politics, the inflationary forces at work remains equally significant. The biggest factor however is monetary devaluation and financial repression – an inflationary force few investors are prepared for!
9	**Energy Sustainability**		Energy security is a more significant focus and objective for politicians and policy makers as the world come to terms with the importance of independence and our attempts to transition to net-zero.	The opportunity set in energy and energy related investments resulting from the need for energy security alongside the global transition to a greener economy, is vast and attractive. Opportunities might involve traditional oil & gas producers, renewable energy infrastructure or the pick & shovels supporting these.

ON MARKET VALUATIONS

"IT'S FAR BETTER TO BUY A WONDERFUL COMPANY AT A FAIR PRICE THAN A FAIR COMPANY AT A WONDERFUL PRICE.",

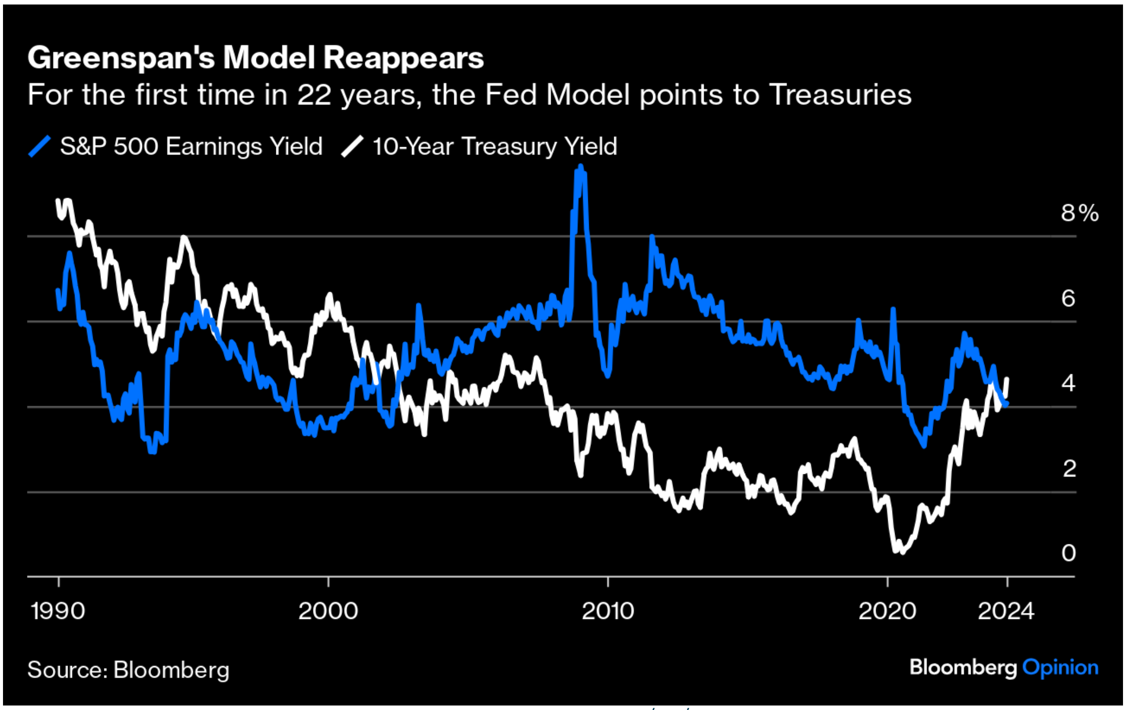
~ WARREN BUFFETT

Exhibit 16: As John Authers over at Bloomberg puts it: There Is An Alternative Now.



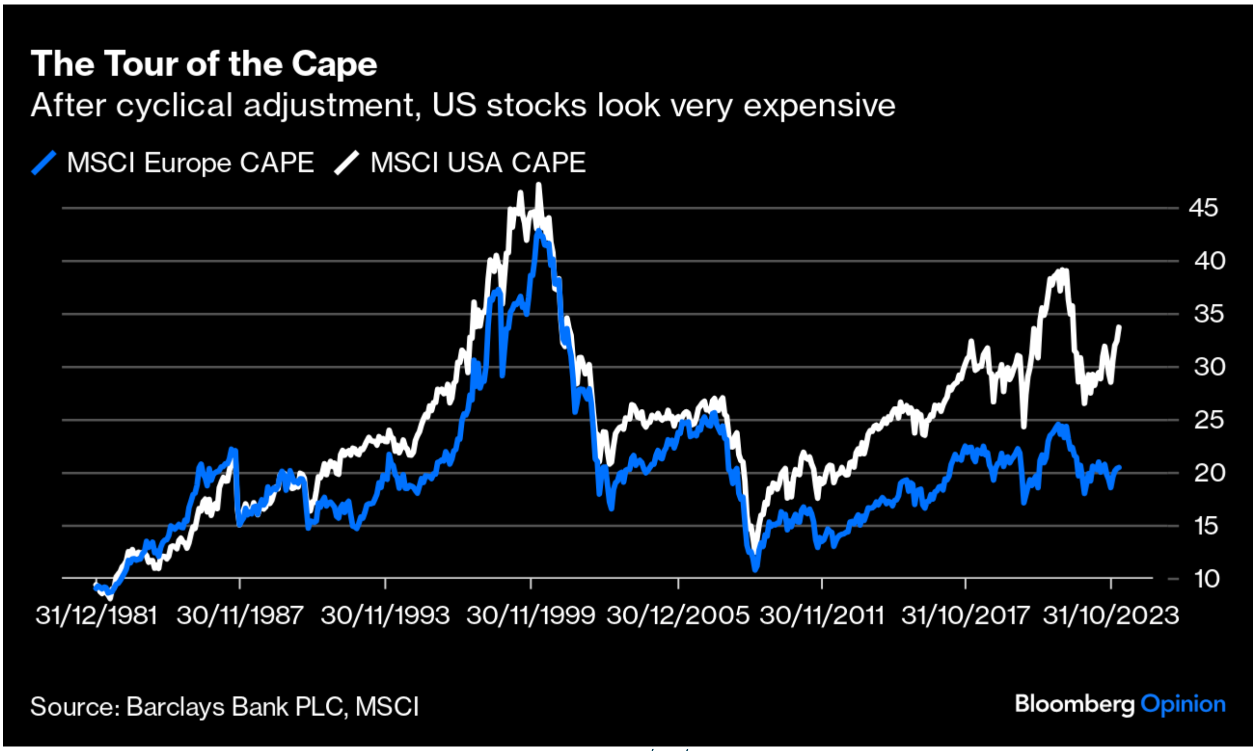
Source: Bloomberg L.P., Points of Return, by John Authers, 03/04/2024

Exhibit 17: Whilst the 10-year treasury perhaps offer a fair yield, and even some capital appreciation potential, it does not give you inflation protection!



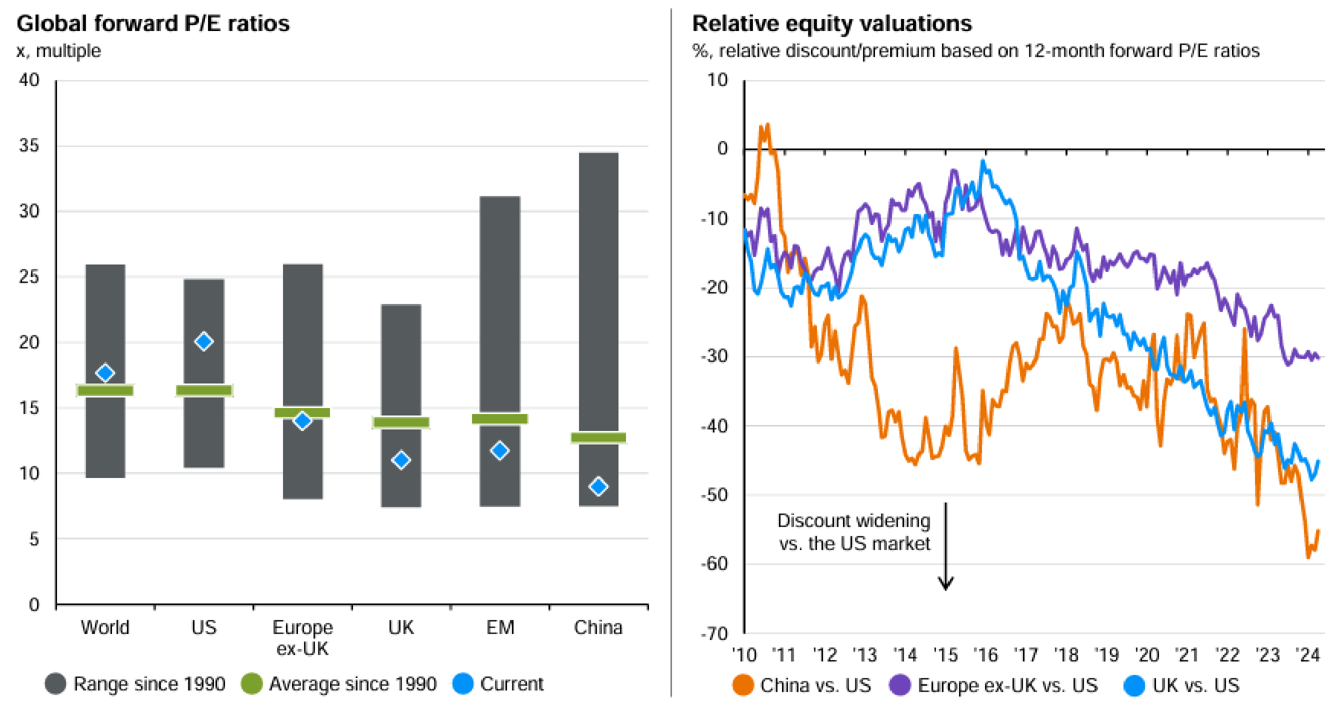
Source: Bloomberg L.P., Points of Return, by John Authers, 03/04/2024

Exhibit 18: One does not need to adjust US stocks for cyclicality to come to the conclusion that they are expensive relative to European stocks. But if you do:



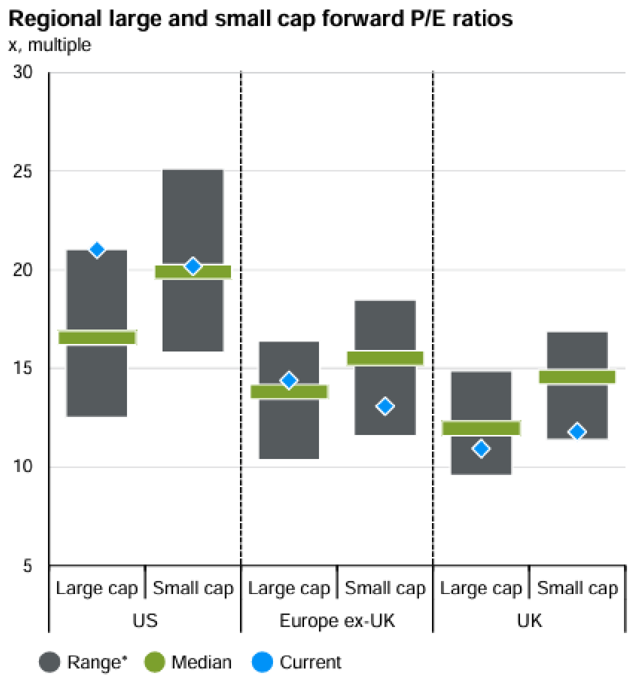
Source: Bloomberg L.P., Points of Return, by John Authers, 03/04/2024

Exhibit 19: US Equity markets IS the outlier!



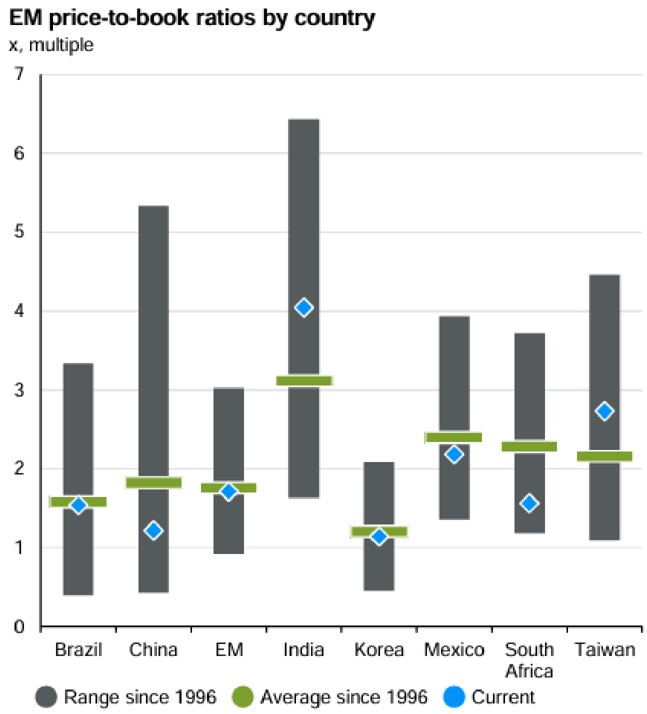
Source: JPMorgan AM – Guide to the Markets, 17/04/2024

Exhibit 20: And to be more specific – US Large Cap Equity is the outlier!



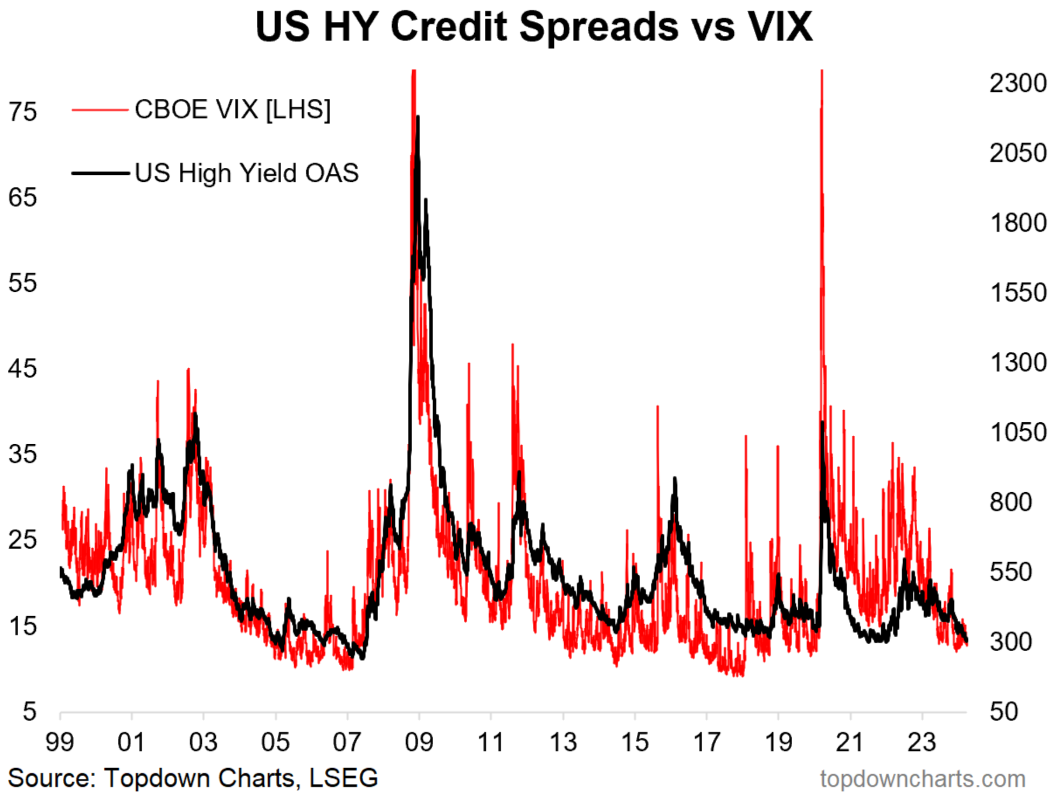
Source: JPMorgan AM – Guide to the Markets, 17/04/2024

Exhibit 21: Valuations in emerging markets – excluding India – remain very inexpensive! (In our opinion Taiwan is not an emerging market. And India is attractive.)



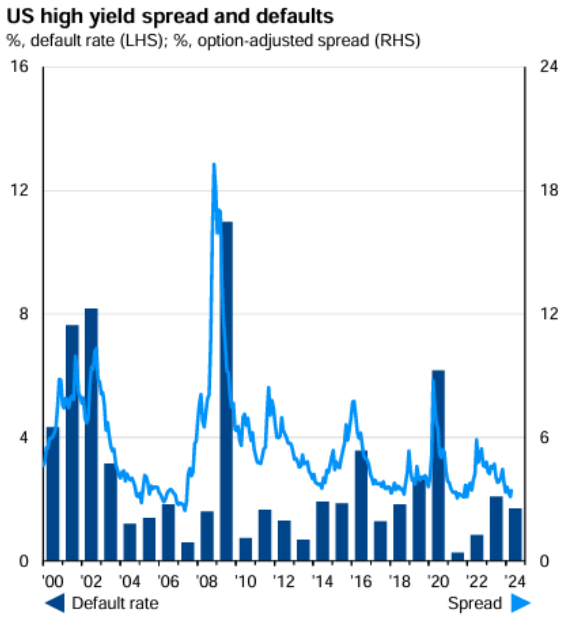
Source: JPMorgan AM – Guide to the Markets, 17/04/2024

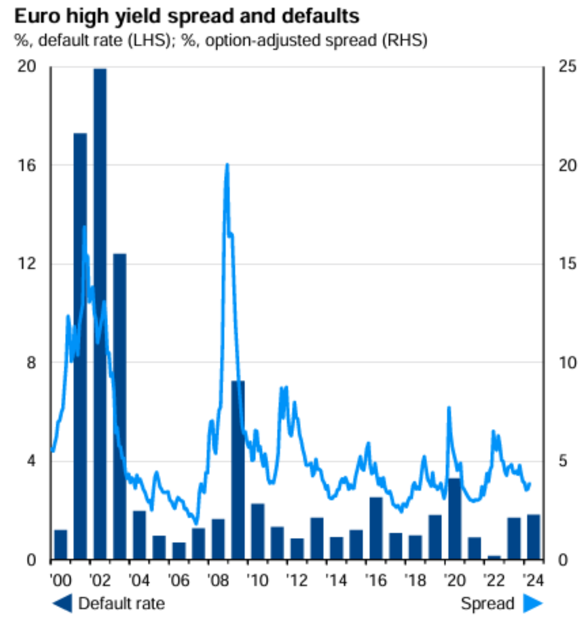
Exhibit 22: Credit spreads are not reflecting a higher for longer environment, or the risks of persistent and sticky inflation. Indeed, they are reflecting a world where Governments and Central Banks will run to the rescue if something bad occurs:



Source: Topdown Charts, topdowncharts.com, 31/03/2024

Exhibit 23: Spreads are tight because corporate defaults remain benign. We would argue these levels are unsustainable:





FRIEDRICH VON HAYEK

JPMorgan AM – Guide to the Markets, 17/04/2024

POSITIONING AND OUTLOOK

"PREDICTING RAIN DOESN'T COUNT. BUILDING ARKS DOES.",

~ WARREN BUFFETT

	Positioning	Investment Thesis
CASH		
Cash	**NEUTRAL**	
Cash Equivalents	**NEUTRAL**	With yield of 5% on offer, T-bills are increasingly attractive in the short term.

	Positioning	Investment Thesis
FIXED INCOME		
DM – Government Bonds	**OVERWEIGHT**	Having sold off very sharply in 2022 and H1 2023, we believe the rapid increase in yields alongside increasing risks of a recession, now make government bonds relatively attractive. Short-dated yields remain attractive in the current environment., We prefer some duration in the UK as Gilts offer a more attractive risk-reward opportunity, whereas term-premia remain uncertain on the US yield curve.
DM – Corporate Bonds	**UNDER WEIGHT**	The risk-reward profile remains unattractive given tight spreads and economic risks. Potentially attractive security specific / RV opportunities.
EMD – Government Bonds	**OVERWEIGHT**	A strong US$ and rising rates has negatively impacted EM Govt bond valuations. However Central Banks in many emerging economies managed the inflation cycle very well and are well positioned to support their own economies. As the US economy slow in 2024, we believe the strong US$ trend will plateau out supporting EMD, especially in those countries where central banks remain ahead of the curve, e.g. India, Brazil, Mexico, etc.
EMD – Corporate Bonds	**NEUTRAL**	Risks include negative economic shock, FX-mismatch. Attractive security specific / RV opportunities.

	Positioning	Investment Thesis
DEVELOPED MARKET EQUITY		
Global Equity	**NEUTRAL**	At a macro level we seek exposure to strongly capitalised businesses with proven pricing power and secure dividend streams. Selectively we also consider security specific opportunities in healthcare, robotics & automation, AI, contrarian and/or relative value, e.g. Gold equities.
North America	**UNDER WEIGHT**	Given US markets have outperformed so strongly over the last 20 years valuations were very elevated coming out of Covid and remains above long-term average levels. We believe risks to profit margins and credit defaults, remains significant. Following the recent rally, particularly in the Tech sector, we retain our U/W exposure.

UK	**OVERWEIGHT**	We note recessionary risks remain high alongside political uncertainty. However, these are very much reflected in equity valuations, and with strong GBP and falling inflation we believe risks are skewed to the upside. Whilst we retain a preference for high quality and stability, we note the opportunity in small and midcap companies with these characteristics warrant attention.
Europe ex-UK	**UNDER WEIGHT**	We believe FX and Stagflation risks remain material. Better risk-reward opportunities elsewhere.
Japan	**OVERWEIGHT**	Structural changes, attractive valuation, macroeconomics and convexity all present opportunity in this market. Corporate Japan's strong balance and low valuation make for attractive risk-reward profile. Attractive currency exposure with catalysts to revalue higher.

	Positioning	Investment Thesis
ALTERNATIVES		
Property	**UNDER WEIGHT**	Whilst attractive secular opportunity in warehouse, logistics & data centres persist, the supply-demand dynamics and impact of the significant increase in interest rates are not reflected in cap-rates.
Commodities	**OVERWEIGHT**	We remain positive on precious metals as geopolitical and economic uncertainty rises, with optionality driven by errors from policy makers. Whilst sustainability of demand remains uncertain, increasingly uncertain weather conditions, Asian growth, and significant industrial commodity price weakness, might offer attractive opportunity investors to increase exposure to energy complex.
Infrastructure	**OVERWEIGHT**	Attractive and sustainable tailwinds: especially in smart / digital infrastructure, 5G, renewables and energy security. Valuations have come off recent highs and we believe infrastructure that provides long-term CF's and inflation protection remains attractive at current levels.
Private Equity	**UNDERWEIGHT**	Listed PE is always vulnerable to liquidity risks during periods of increased market dislocations. Furthermore, the risks from rising interest rates and difficulties in refinancing is an increasing risk, not reflected in private markets, accordingly we remain Underweight. On a selective basis, attractive discounts have opened up which warrants attention.
Alternative Strategies	**OVERWEIGHT**	Uncertainty behind inflation and economic growth drive the opportunity for uncorrelated investment propositions in the Hedge Funds space. Attractive security specific opportunities with i) lower volatility, ii) uncorrelated profile and iii) attractive risk-adjusted return expectations, iv) long-volatility pay-off profile. We particularly like Managed Futures.

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 Partners
Floor 2, 70 Mark Lane
London, EC3R 7NQ
United Kingdom

Telephone: +44(0)20 3971 7000
Email: Info@shardcapital.com
Web: www.shardcapital.com

Disclaimer:
We try to ensure that the information provided is correct, but we do not give any express or implied warranty as to its accuracy. We do not accept any liability for errors or omissions. The content of this brochure is for guidance purposes only and does not constitute financial or professional advice.

***Source:**
Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance LP. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.

IMPORTANT INFORMATION

Shard Capital Partners LLP is a limited liability partnership, registered in England with registration number OC360394. Shard Capital Partners LLP Registered office: 36-38 Cornhill, London, EC3V 3NG. Shard Capital Partners LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom, reference number 538762.

This document is provided for information purposes only and is intend for confidential and sole use by the recipient. It is not to be reproduced, copied or made available to others. The information set out in this document does not constitute investment advice or a personal recommendation. The views expressed in this document are not intended as an offer or a solicitation, to purchase or sell any security or other financial instrument, credit or lending product or to engage in any investment activity.

Past performance is not a guide to future performance. It is important that you understand that with investments, your capital is at risk. The value of investments, as well as the income derived from them, can go down as well as up and investors may get back less than the original amount invested. It is your responsibility to ensure that you make an informed decision about whether to invest with us, based on your particular objectives. If you are still unsure if investing is right for you, please seek independent advice.

The information and opinions expressed within this document are the views of (the company) and are based on information we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. Any information provided is given in good faith but is subject to change without notice.

No liability is accepted whatsoever by (the company) or its employees and associated companies for any direct or consequential loss arising from this document.