Jupiter Merlin Portfolios

JUPITER INDEPENDENT FUNDS TEAM

“Stagflation” looms

News headlines are dominated by talk of inflation pressures: Brent crude nudging $80 per barrel is close to its recent pre-pandemic high of $82, the highest price since 2014; natural gas prices have not merely risen by percentage points but accelerated in multiplies in as few as three months; HGV drivers are being offered £1500 ‘golden hellos’ to move jobs, or similar sums as loyalty bonuses for those tempted by richer pickings elsewhere; there is much more in the same vein. Consumer price inflation (CPI) in the UK stands at 3.2% with the Bank of England expecting it to be 4% or more in the first quarter of 2022 before slipping back; in context 4% is double the official nominal target rate set by the Treasury in the Bank’s core mandate. The September eurozone inflation rate accelerated to 3.4% within which Germany’s headline rate is 4.1%, again against a 2% target. Meanwhile US CPI stands at 5.3% although the Core rate, the one the Federal Reserve considers when setting interest rate policy (it excludes food and fuel prices, notwithstanding however volatile they might be there is precious little elasticity of demand: we still need to move and eat) is a more modest 4%.

All of this is against a backdrop of strong economic post-vaccine recovery in the first half of the year which is now stuttering and staggering, not only here in the UK but globally (China faces recessionary pressures as industrial production is severely curtailed arising from an acute shortage of coal disrupting electricity supplies). Excess demand for goods reflecting the catching-up from Covid lock-down has created significant dislocation in labour, transport and energy markets. The knock-on effects reveal themselves as frictional costs impacting economic recovery rates, while simultaneously shortages of materials, goods and labour are pushing up prices. This is the very essence of “stagflation”, the economic phenomenon familiar to anyone brought up in the 1970s. In the UK, tip into the mix rising energy costs, stroppy unions flexing their muscles, persistent worries about the unreformed NHS falling over again this winter and a government at sixes-and-sevens about how to deal with it all, there is little surprise that news editors revert to Shakespeare’s opening lines in Richard III, “Now is the winter of our discontent…”.

Central banks on the horns of a dilemma

The situation presents a pretty problem for the major central banks, stuck on the horns of a dilemma. On the one hand, strong inflationary pressures which are showing signs of becoming enduring rather than merely transitory, scream “raise rates!”, not least to mitigate against the corrosive effects of increasingly negative real interest rates (the amount by which inflation exceeds bank interest rates, eroding the purchasing power of savers’ cash). On the other, the dislocation and disruption and the stuttering global recovery say that now is absolutely not the right time to be thinking either about tapering QE or raising interest rates. What is also abundantly clear is that were we to talk ourselves in to a second global recession, the central banks would be on the ropes; while there are many technical complexities to monetary policy, essentially there are only two principal levers at a central banker’s disposal: 1) pumping in money through Quantitative Easing (a strategy already demonstrably on the law of diminishing returns economically), and 2) flexing interest rates. But rates are already at zero (negative in the eurozone); that lever is at its maximum limit on the arc of effective travel, the US Federal Reserve in particular having been adamant that negative rates are not a viable option. The risk is that central banks would be going to war with half their armoury unavailable. The language from the principal central bankers, Powell at the Federal Reserve, Lagarde at the ECB, Kuroda in Japan and Bailey at the Bank of England, is to hold a consistent line: this is a bump in the road, dislocation will sort itself out, the inflation pressure is transitory; keep calm. But you can tell that behind the microphones and the podiums, they have all their fingers and toes crossed; they are in trouble if they are wrong.

Safe, clean, sustainable and reliable future energy? Go nuclear!

Finally, the current energy crisis lays bare which countries have been caught swimming naked when the tide has gone out. Too many, including the UK, have incoherent energy strategies with minimal security, self-reliance or resilience, particularly in an industrialised world transitioning from quarter of a millennium reliant on fossil fuels to one which is essentially carbon-free. Renewables have their place but the only reliable way forward for mature, first world economic systems is nuclear.

The Jupiter Merlin Portfolios are long-term investments; they are certainly not immune from market volatility, but they are expected to be less volatile over time, commensurate with the risk tolerance of each. With liquidity uppermost in our mind, we seek to invest in funds run by experienced managers with a blend of styles but who share our core philosophy of trying to capture good performance in buoyant markets while minimising as far as possible the risk of losses in more.

Risks

The NURS Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested.