-Global Thematic Investors' Diary
Iain Little 9th March 2021

"There are decades when nothing happens; and there are weeks when decades happen". *Lenin.*

Our last note, written on the day the Russian tanks rolled in, ended: *"More later when developments are clearer."* Clearer? Maybe not. We have the valiant Ukrainians to thank for that. But momentous? Certainly. Our clients hold between 5% and 25% in gold and we're checking out defence stocks. But here are some general thoughts on asset allocation. *Spoiler alert: our last diary's commodity bias is reinforced, and we stick with our "barbell" strategy.*

First, a new national self-sufficiency. No nation will wish to expose itself to the craven energy dependence of Germany and Russia's client economies in Europe. Resources will be brought onshore or supplied by friendly hands. The UK government is already hinting that marginally profitable North Sea hydrocarbon acreage may now get the nod. Relegation of ESG teams to the second division salons at Davos will not be far behind. This de-globalization trend will imitate that following WWI. North America is clearly the most self-sufficient bloc, as it was in 1919.

Second, a self-sufficiency at the micro-economic level. Complex supply chains -automotive, electronic, consumer- will be simplified. "Bringing It Home" will stimulate economies stressed by USD 150 oil just when they need it. In Europe it will chime with the upcoming electoral cycle.

Third, fixed income markets, largely reward-free risk pre-Ukraine, now face a further knock-out blow. The pressure for rate rises justified by existing 5%+ inflation will be ramped up by the commodity scarcity from sanctions on 12% of the world's oil production and much of its strategic metals. Add a negative credit effect on bond yields derived from civil unrest in countries relying on imported wheat to feed youthful, volatile populations; Ukraine, at 30% of global total, is the world's largest supplier. The only cure is a lighter hand on the rate rise tiller from central banks now wary of recession 12-18 months from now. This contradiction is negative for long rates.

Fourth, a wholesale reorientation of institutional portfolios. In 1980, as we have written before, energy was 30% of USA portfolios. Today it is under 3%. Most managers are well below 2%, shamed by the ESG crowd. Materials, in 1980 nearly 10%, are well under 3%. Expect a re-rating of "scarcity" sectors at the expense of "efficiency". A small positive point here. The imperative to offer renewable energy and to improve crop efficiency should lead to an acceleration in aggro- and energy-tech just when higher bond yields lessened the attractions of tech related sectors.

Fifth, a shout out for mining company management. It takes 10 years to build a mine, if you can get a permit *and* escape the censure of ESG warriors, and the capital markets window has been closed to all but the highest quality miners since 2012. As a result some of the highest free cash flow yields in the world -FCF as % of market cap, money retained and unnecessary to the business- are to be found in the mining sector, routinely 10% plus. Mining managers chastened by years of financial ostracism will adopt more generous dividend policies because they have few other choices.

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