



Pandemic, Inflation, War — Investing Amidst Uncertainty

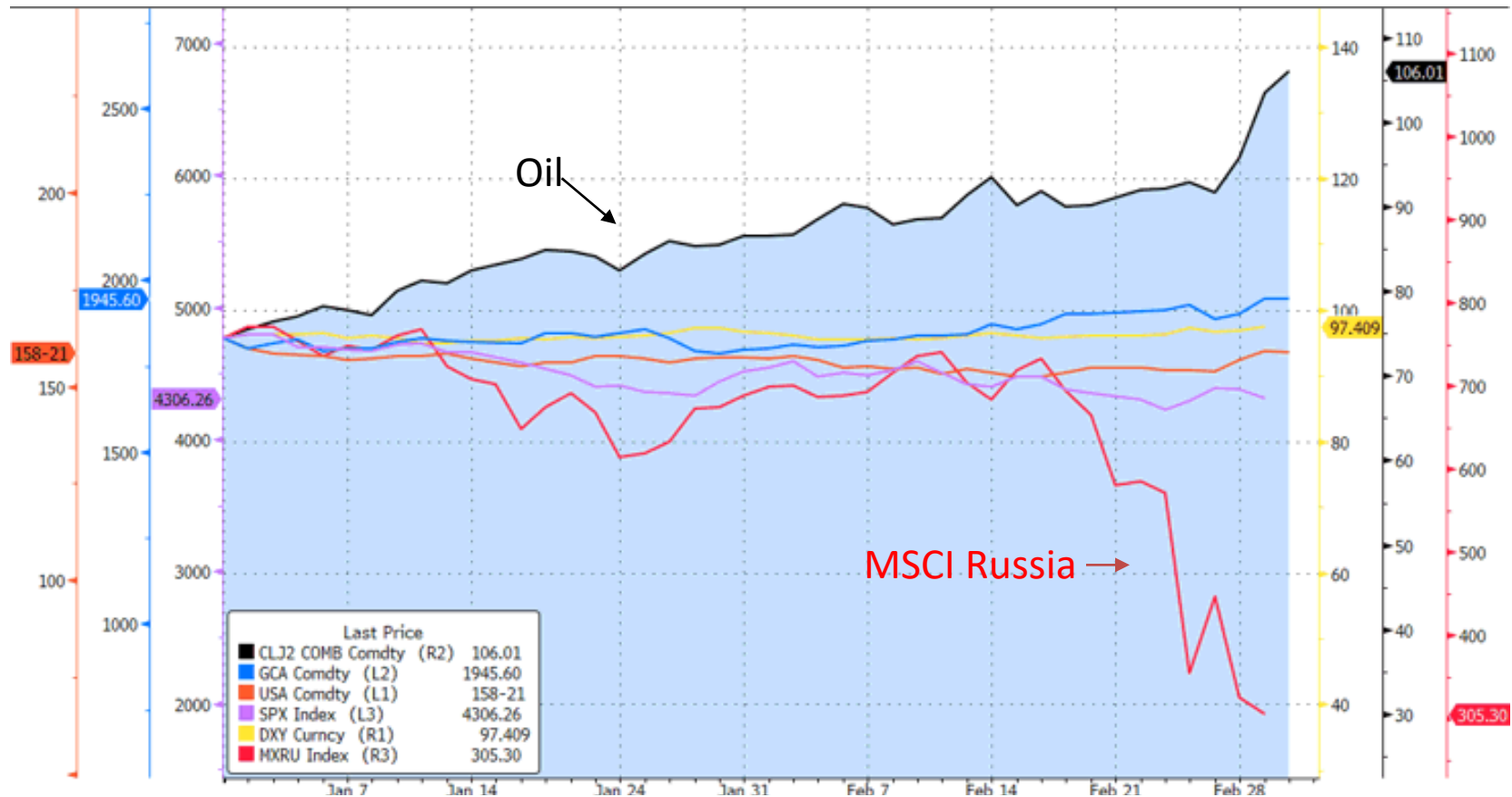
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Join the Webinar:

Wednesday, March 2nd at 1pm pst

Markets Orderly and Predictable

2022 YTD Returns: Oil, Gold, USTs, SPX, DXY, MSCI Russia



Major Geopolitical Events Have Little Lasting Market Effects

JFK Assassination Nov. 1963



9/11 Attacks



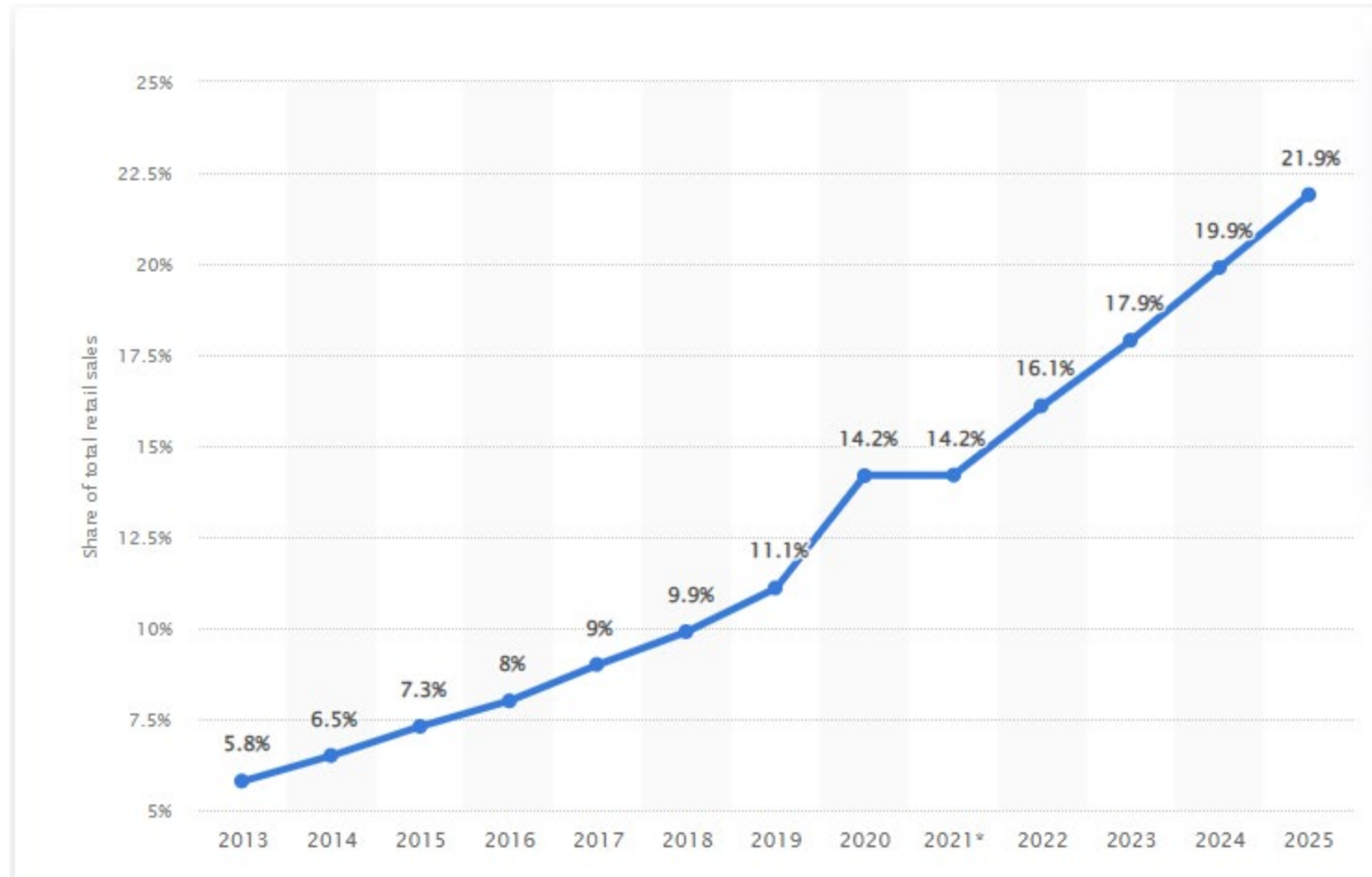
Event	Fed Policy Stance	S&P 500		
		Next Day	30-Day	To Worst
Downing of MH17 (2014)	Steady	-0.2	-1.3	-3.6
Crimea Conflict (2014)	Steady	0.8	0.7	N/A
US Invasion of Iraq (2003)	Easing	2.5	2.2	-3.0
September 11 Attacks (2001)	Easing	N/A	0.4	-11.6
Kosovo War (1999)	Tightening	2.2	7.5	N/A
Iraq Invasion of Kuwait (1990)	Easing	-3.0	-9.3	-16.9
Iran-Iraq War (1980)	Tightening	0.1	2.1	-4.4
Arab Oil Embargo (1973)	Tightening	-0.2	-5.7	-16.4
Cuban Missile Crisis (1962)	Tightening	-3.8	9.4	-3.8
Pearl Harbor Attack (1941)	N/A	-3.8	-2.9	-10.2
German Invasion of Poland (1939)	N/A	1.1	14.4	N/A

Courtesy: Goldman Sachs



Pandemic Accelerated Previous Trends

E-Commerce as Percentage of Total Retail Sales



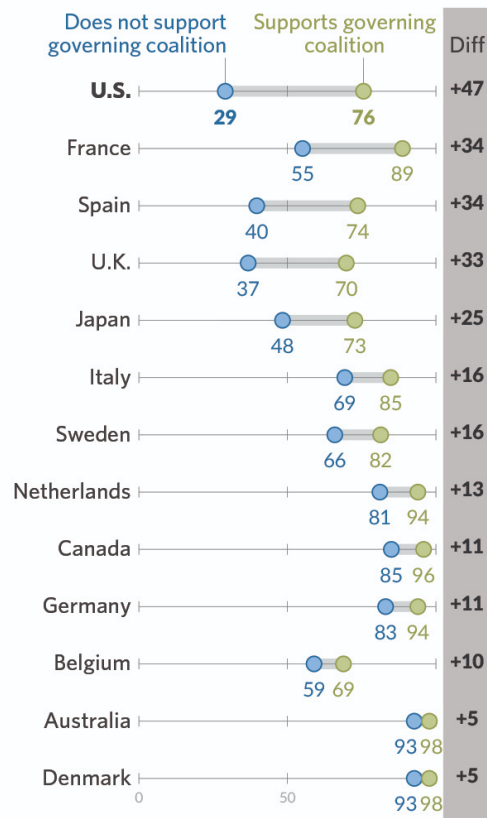
Source: Statista.



Pandemic Accelerated Previous Trends

Majorities of governing party supporters say their country has dealt with coronavirus outbreak well

*% who say their own country has done a **good** job dealing with the coronavirus outbreak*



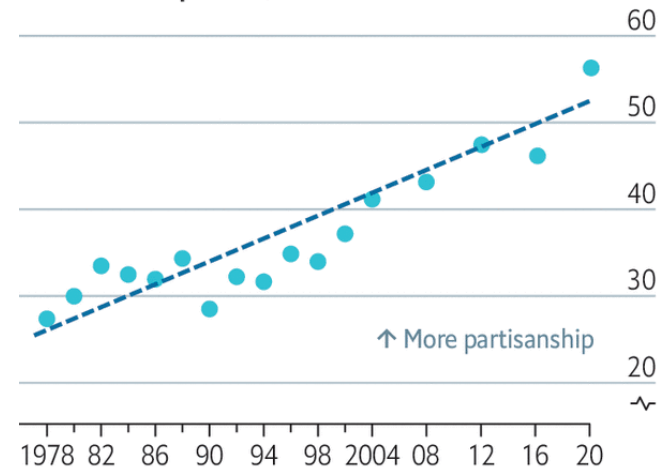
Source: Pew Research Center

Political Polarization

Polarisation paradox

United States

Difference in feeling to own political party minus other parties, score from 0-100



Source: The Economist



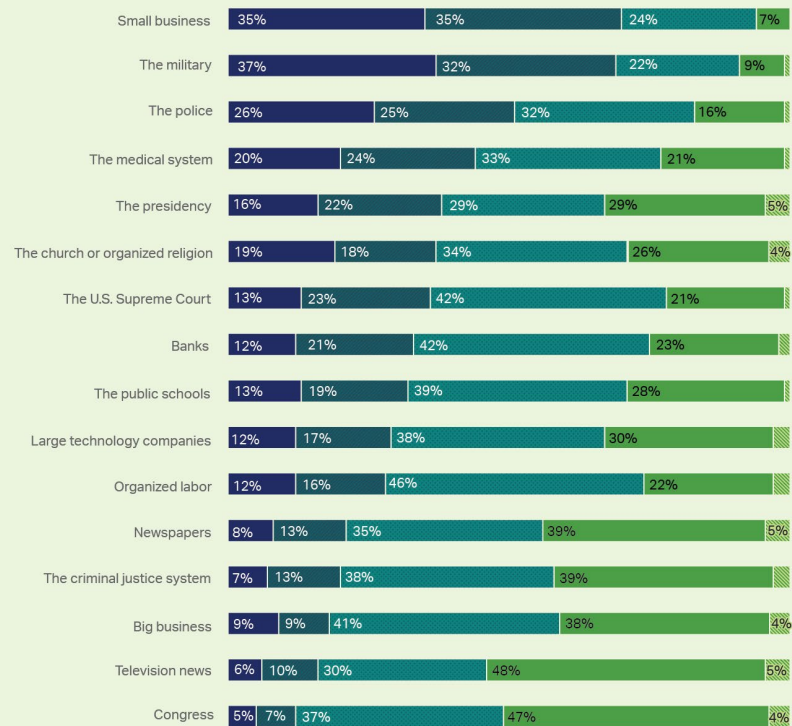
Pandemic Accelerated Previous Trends

Political Polarization—Trust in Institutions

Americans' Confidence in U.S. Institutions

How much confidence do you, yourself, have in each one -- a great deal, quite a lot, some or very little?

■ Great deal ■ Quite a lot ■ Some ■ Very little ■ None/No opinion



GALLUP, JUNE 1-JULY 5, 2021

Partisans' Confidence in 16 U.S. Institutions

% With "a great deal" or "quite a lot" of confidence

	Republicans/Leaners	Democrats/Leaners	Rep-Dem difference
	%	%	pct. pts.
The police	76	31	+45
The church or organized religion	51	26	+25
The military	78	62	+16
Small business	76	64	+12
The U.S. Supreme Court	39	35	+4
Big business	19	17	+2
Banks	35	33	+2
The criminal justice system	20	19	+1
Congress	7	17	-10
Large technology companies	22	34	-12
The medical system	36	50	-14
Television news	6	25	-19
Organized labor	16	39	-23
The public schools	20	43	-23
Newspapers	8	35	-27
The presidency	13	62	-49

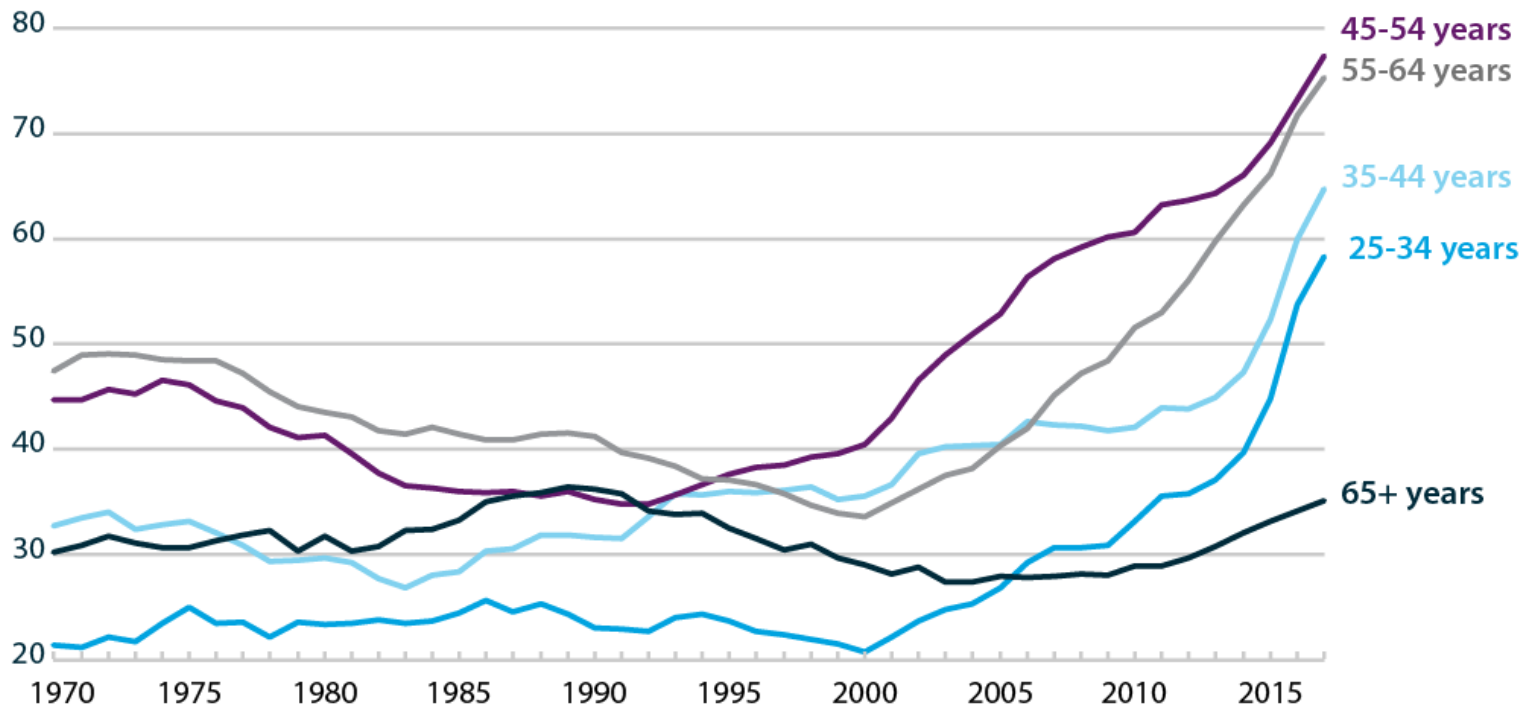
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Pandemic Accelerated Previous Trends

Deaths of Despair

United States: Deaths of despair (per 100,000 by age group)

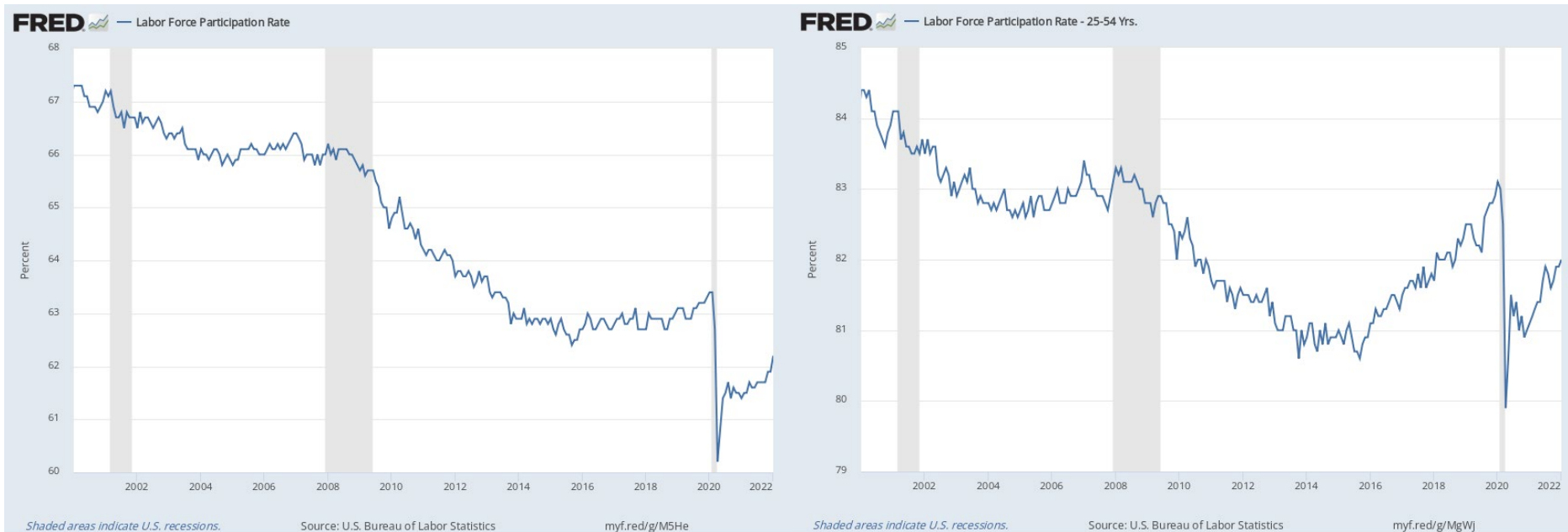


Sources: The Social Capital Project of the US Congress Joint Economic Committee/
The Centers for Disease Control and Prevention



Pandemic Accelerated Previous Trends

Labor Participation Rate



Pandemic Accelerated Previous Trends

Job Openings and Quit Levels



Pandemic Accelerated Previous Trends

Clogged Ports

Container ships at Los Angeles and Long Beach port hit record levels

Total daily number of all container ships queued, awaiting berth in port

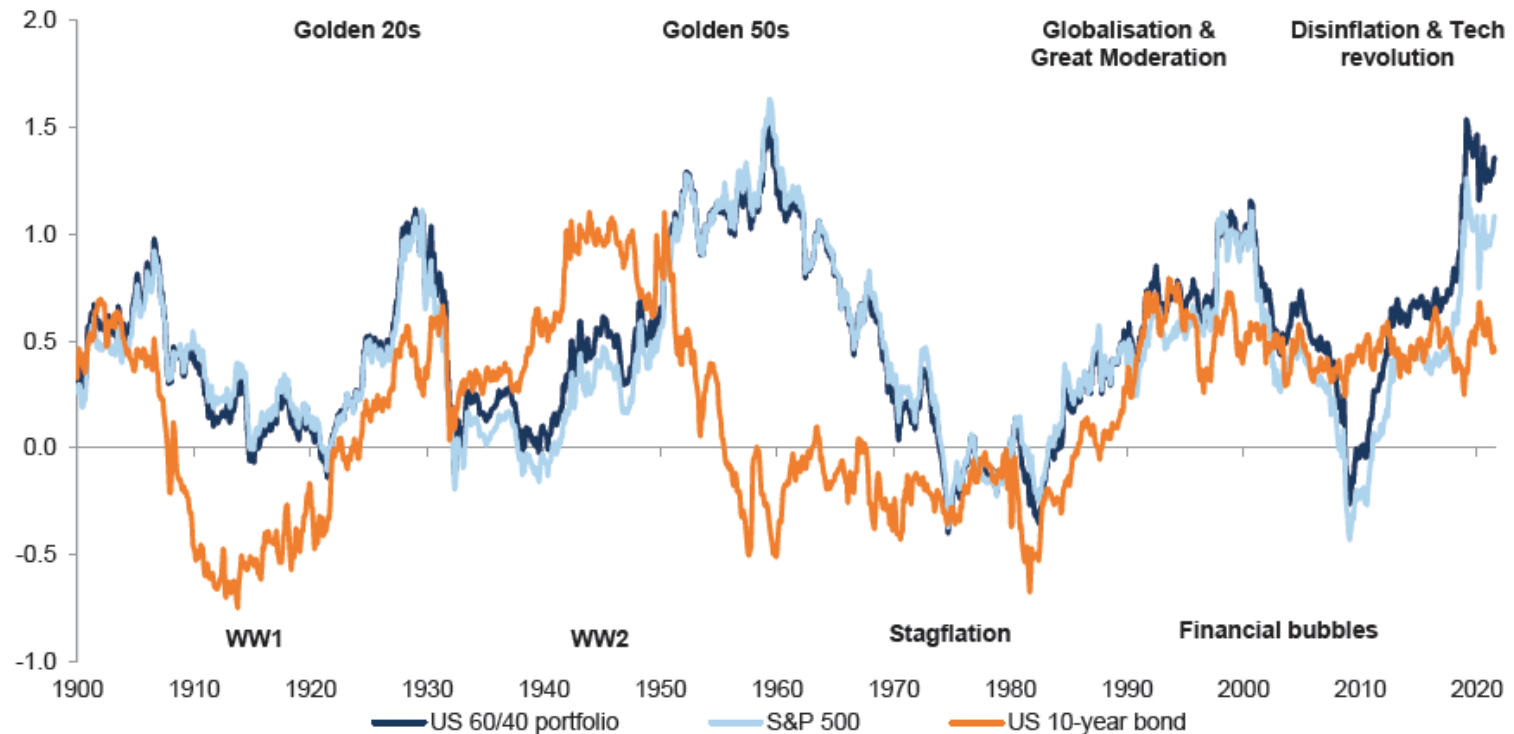


Source: Marine Exchange of Southern California
FT Graphic: Caitlin Gilbert / @caitlinsgilbert
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It Was The Best of Times...for Investors

10-year rolling Sharpe ratio (monthly returns)



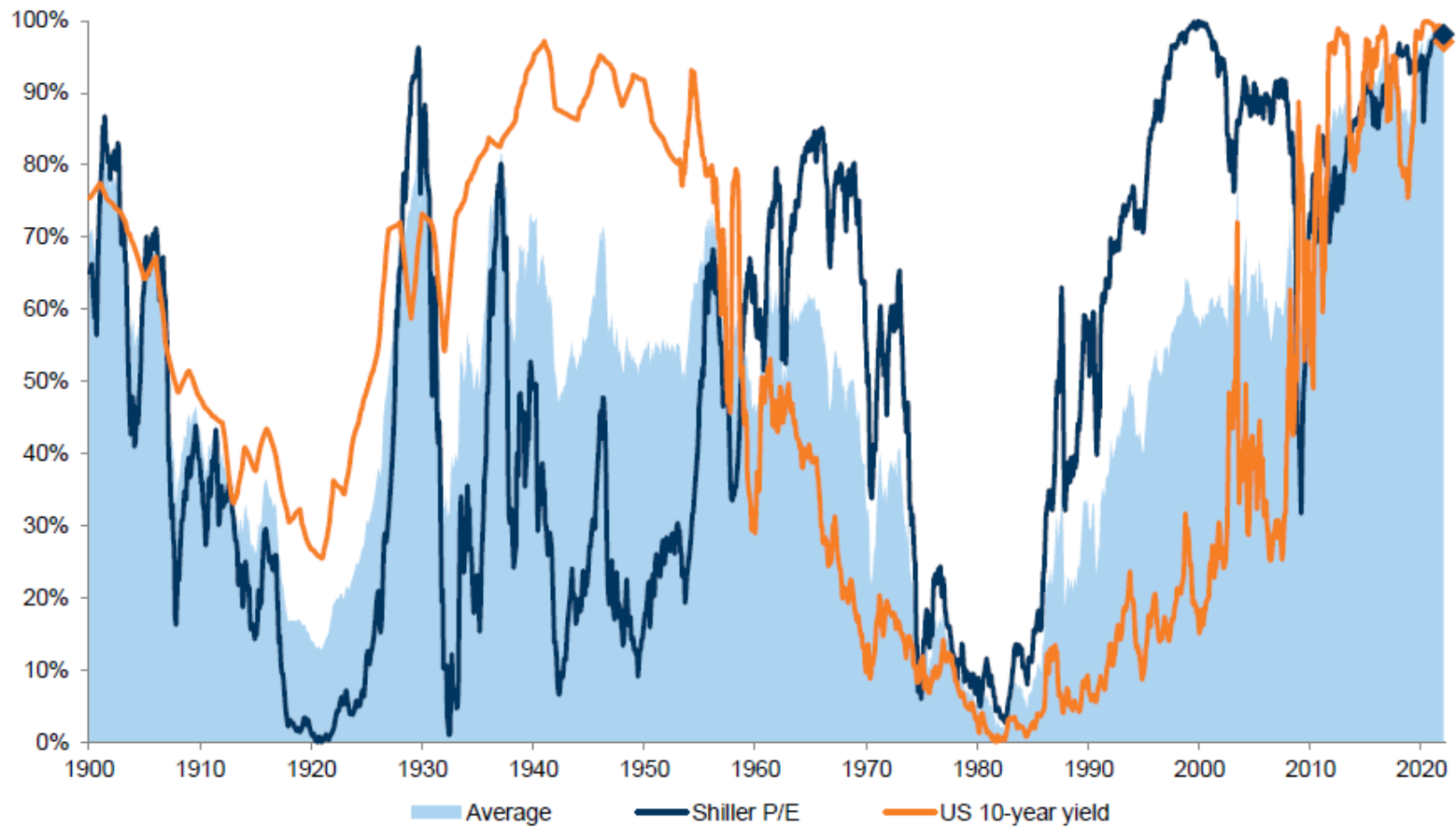
Source: Haver Analytics, Goldman Sachs Global Investment Research



It Will Be the Worst of Times?

?

Valuation percentile (since 1881 for S&P 500 & US 10-year yields)



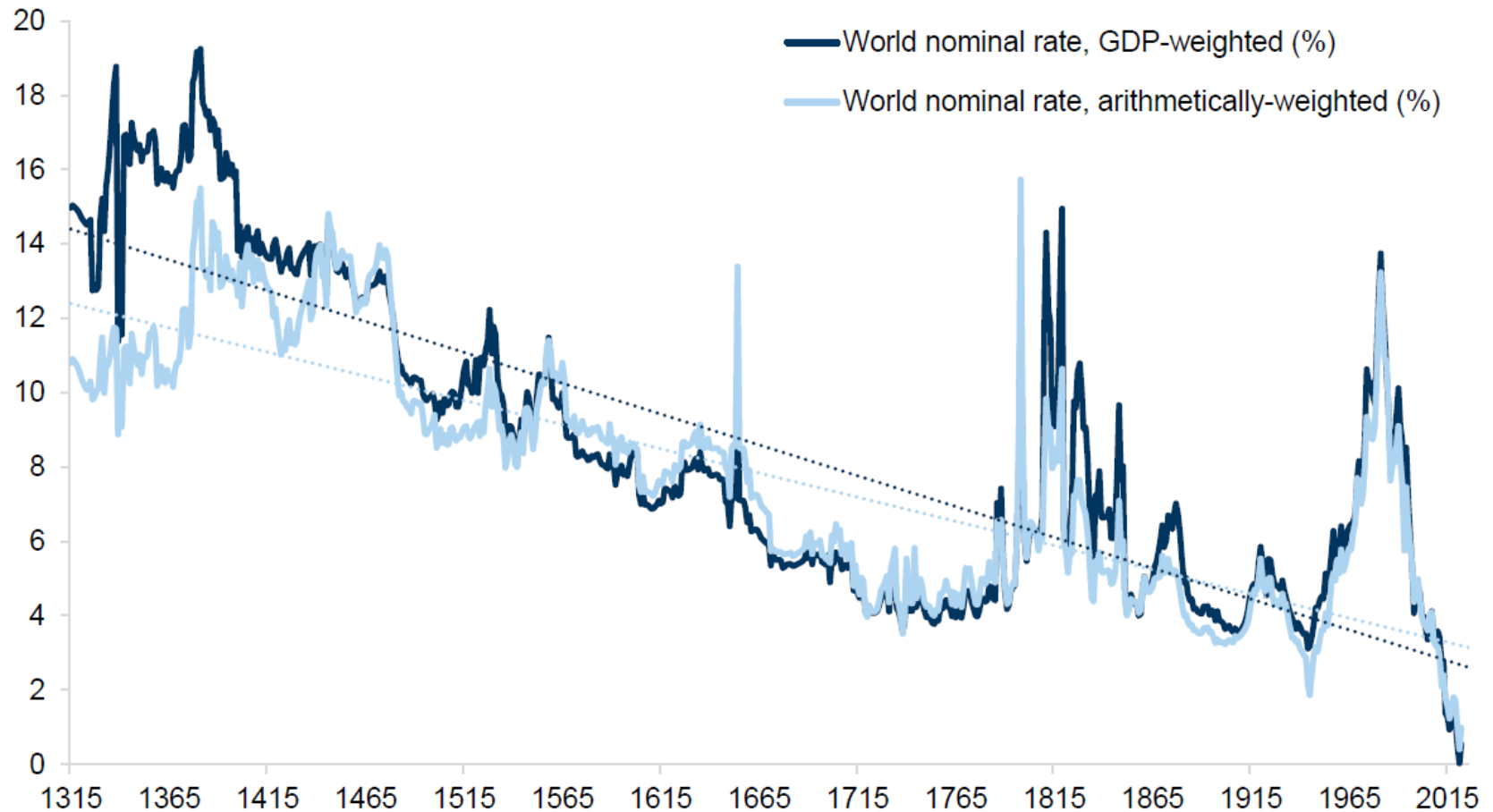
Source: Robert Shiller, Goldman Sachs Global Investment Research



It Will Be the Worst of Times?

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Nominal bond yields, GDP- and arithmetically-weighted, 1315-Today

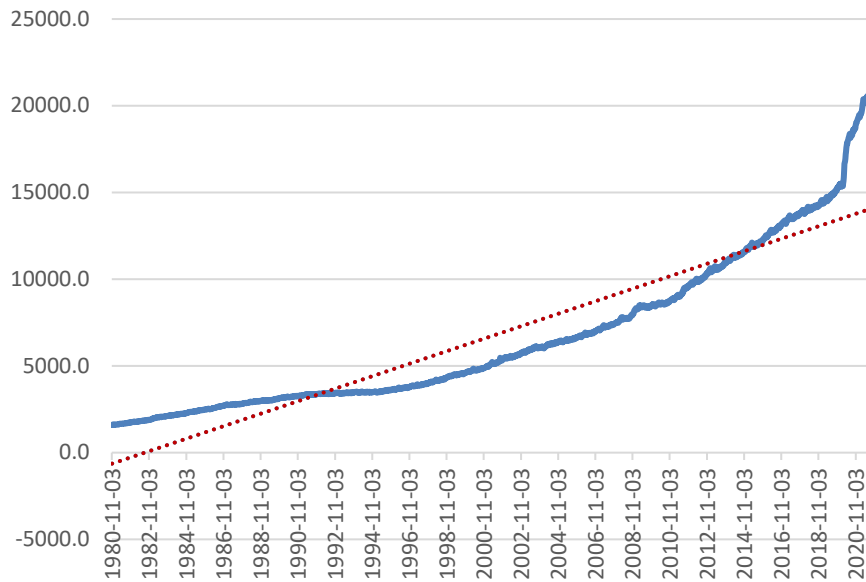


Source: Bank of England, Goldman Sachs Global Investment Research

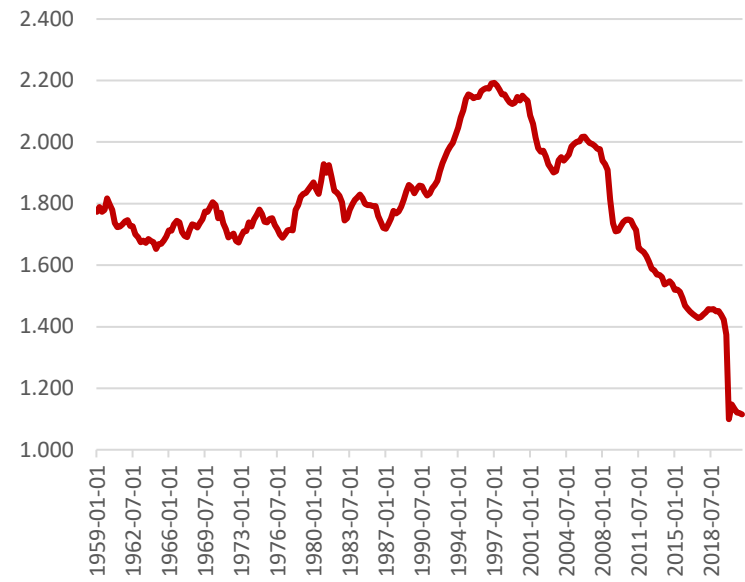


Inflation— $PQ=MV$

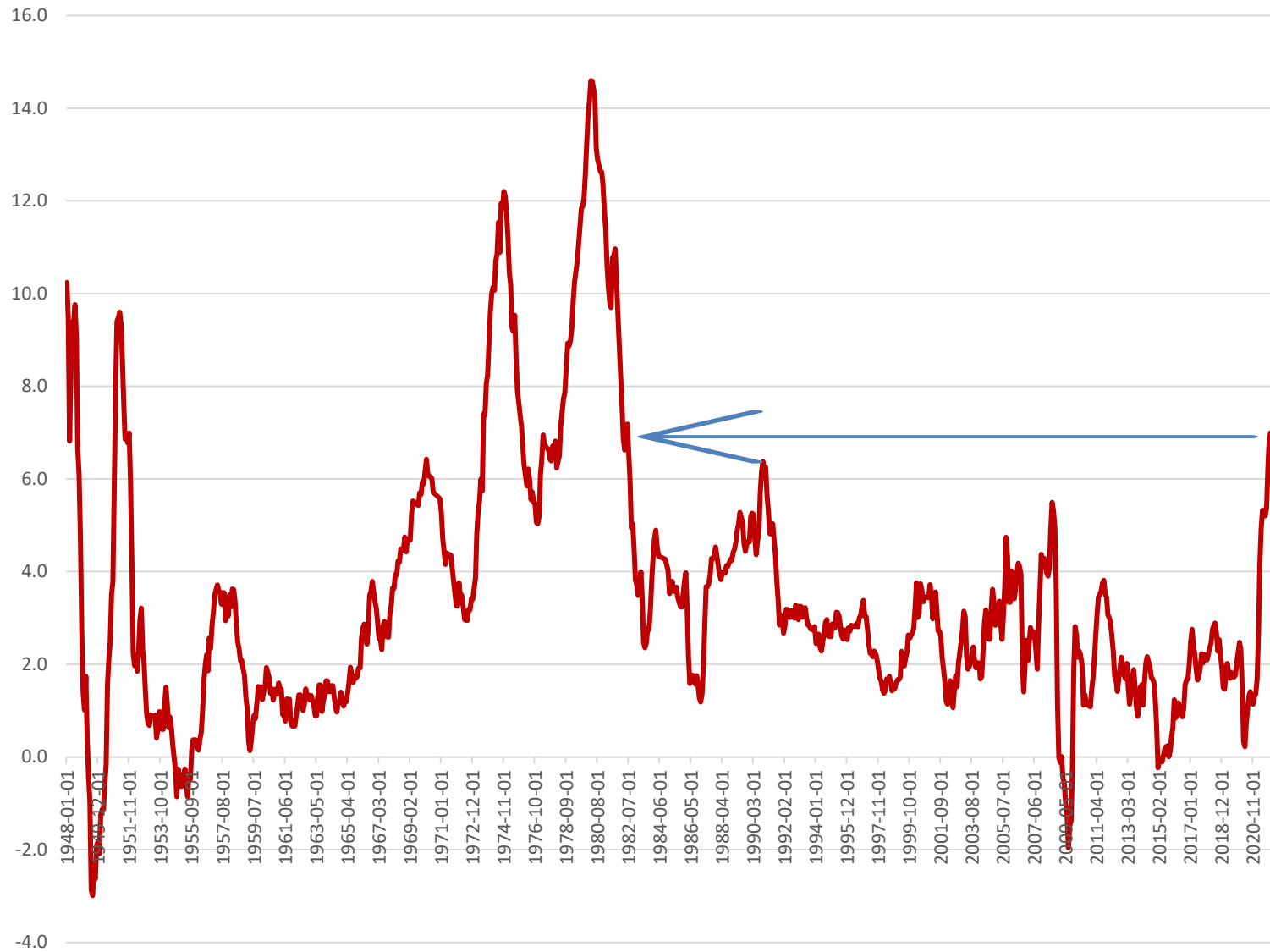
M2, \$Bil



Velocity of M2



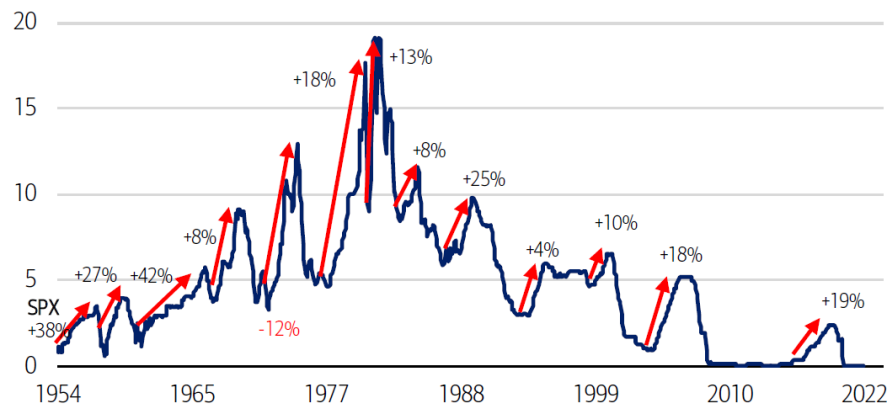
Inflation—CPI



Rising Rates—Not Necessarily Bad for Equities

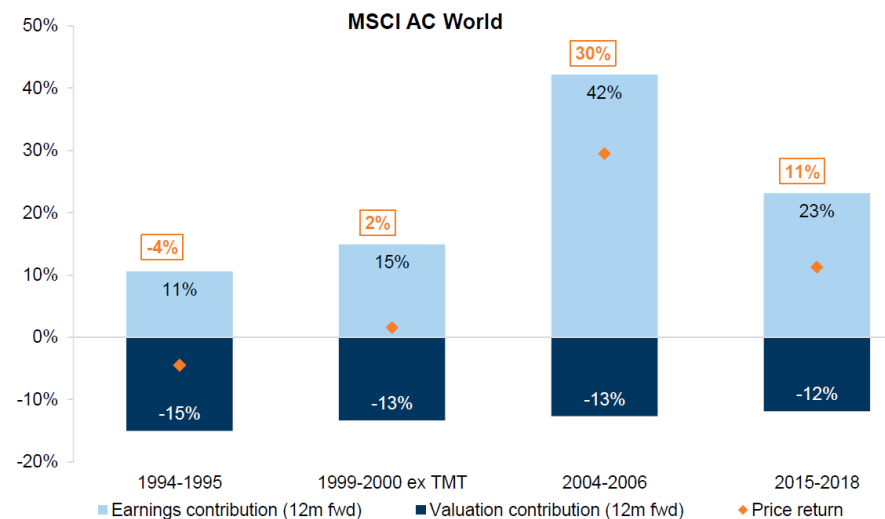
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S&P 500 total returns during Fed hiking cycles since 1954



Source: BofA Research Investment Committee, Global Financial Data, Bloomberg

MSCI AC World performance split between earnings and valuation in previous Fed rate hiking cycles

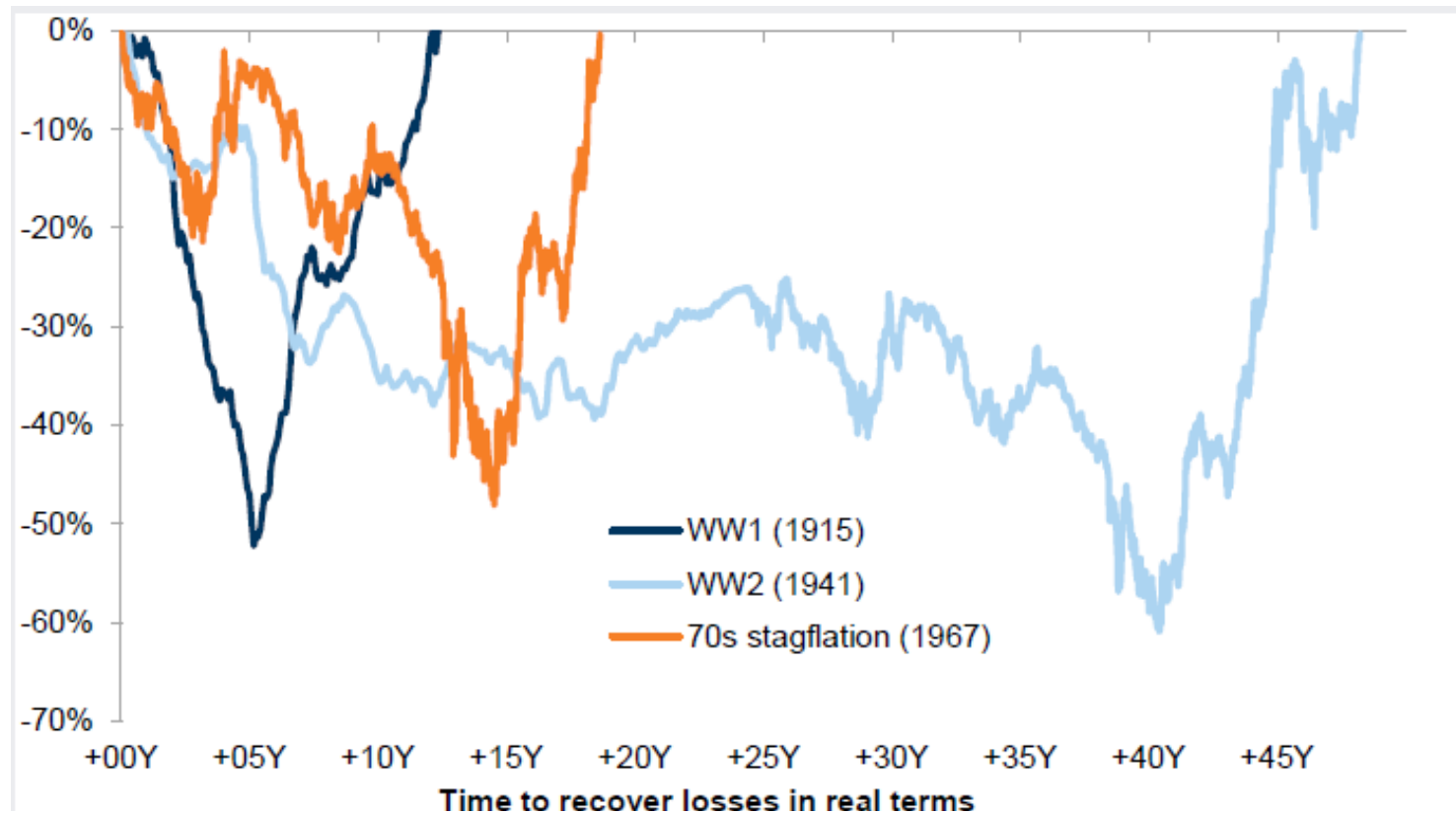


Source: Datastream, Worldscope, Haver Analytics, Goldman Sachs Global Investment Research



Bonds—A Loser's Game

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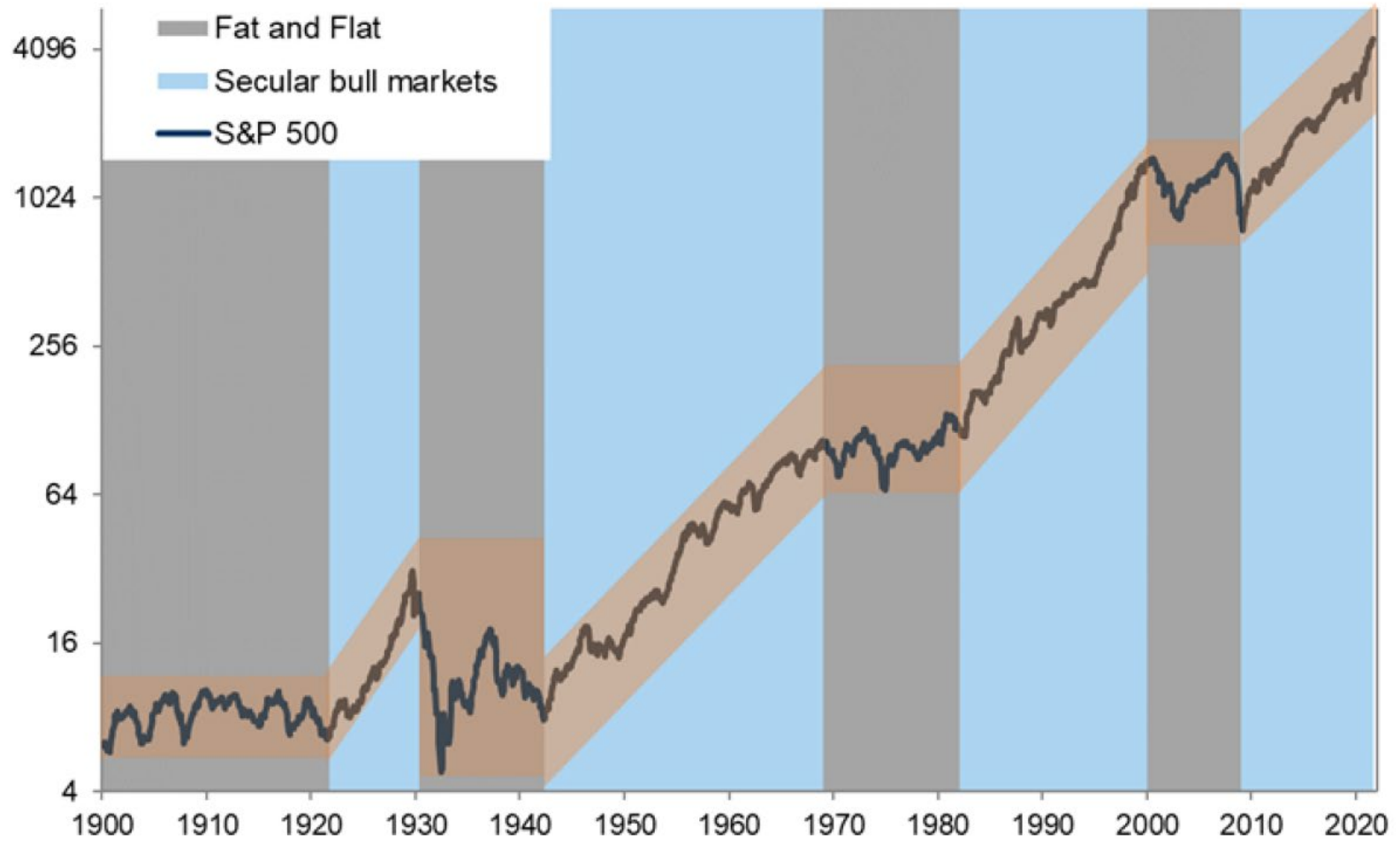
Source: Goldman Sachs



Keep the Long View

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S&P 500 (log scale)



Source: Robert Shiller, Goldman Sachs Global Investment Research



Summary

- War in Ukraine is likely to have a modest and short-term impact on markets.
- The Pandemic accelerated numerous pre-existing trends.
 - On-line shopping to political polarization to deaths of despair
 - Some aspects may never fully recover
 - Labor participation, office occupancy
- Inflation is here
 - Supply constraints are part of it, but fundamentally, it's a monetary problem.
- The past decade has been a golden era for investors.
- The coming decade will be more challenging
 - High starting valuations
 - Bond investors will lose money for a generation
- Fed tightening not necessarily bad for investors
- Still in a structural bull market (for now)





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