Spectrum

Inflation: One year on

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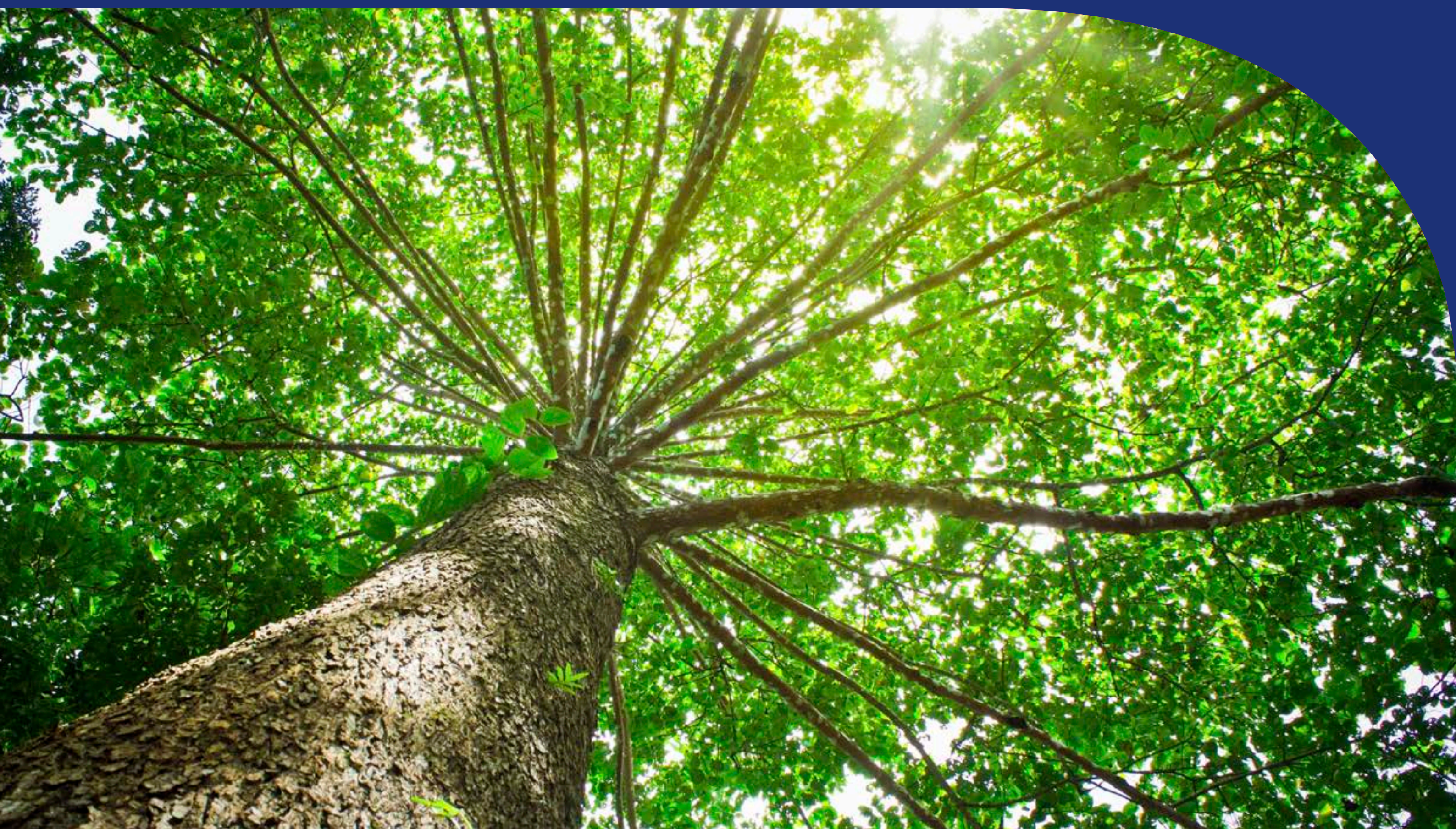


Introduction

One year ago, Federated Hermes Limited published its Q4 Spectrum report, 'Inflation: What if they are wrong?'. In it, we asked investors to consider their portfolios from the 'worst case scenario'; **what if inflation fails to remain transitory, and how might investors react?**

Over the subsequent 12 months, that question has been answered in no uncertain terms. Consumer price indexes (CPIs) have climbed inexorably, and central banks, too, have responded by raising interest rates sharply.

Yet from where we sit today, it's hard to ignore how much of inflation seems contingent on potentially short-lived factors: global supply-chain disruptions, China's zero-Covid strategy, the energy crisis, and the war in Ukraine are just a few factors adding to this inflationary environment.

All these issues are stoking inflation and inflationary pressures. Yet, if any of those headwinds were to subside or be removed altogether (consider, for instance, the impact a sustained global recession would have on prices) then potentially many of these pressures would fall away too.

And that's the key question to which this report hopes to provide some answers. **If inflation were to fall, what might investors do to position for a new range of opportunities in a lower inflation world?**

Please read on to find out more. We hope you find this an informative edition of Spectrum.

To begin, we turn to our Senior Economist, **Silvia Dall'Angelo**, who provides a view from the macroeconomic perspective.

The macroeconomic outlook

Silvia Dall'Angelo
Senior Economist

When the facts change, I change my mind – what do you do, Sir?

In our Q4 2021 edition of Spectrum, we invited our Senior Economist Silvia Dall'Angelo crunch the numbers and outline the worst-case inflationary scenario. One year down the line, taking a quote attributed to John Maynard Keynes as her cue, Dall'Angelo asks the question: how far have the facts changed and has that influenced our broader thinking?

> **Over the last 18 months, inflation has systematically surprised to the upside, climbing to new peaks, and proving more stubborn than we initially imagined.**

Over the last 18 months, inflation has systematically surprised to the upside, climbing to new peaks, and proving more stubborn than we initially imagined. What began as an output of pronounced supply-demand imbalances created by the Covid-19 pandemic has since become an unwavering part of the economic environment and does not look set to falter any time soon.

> **A (supposedly) temporary shock from the fallout of the pandemic and subsequent lockdowns then become more persistent than expected as dislocations and bottleneck effects reinforced each other, while the pandemic itself rumbled on for longer than forecast.**

> **During the worst of the pandemic and in the initial phases of the recovery, a shift in consumption patterns towards goods and away from services amplified imbalances in the goods sector.**

As economies around the world reopened in disjointed fashion following the initial and most severe lockdowns, a surge in demand – fuelled by extraordinary fiscal and monetary stimulus – met insufficient and disrupted supply. A (supposedly) temporary shock from the fallout of the pandemic and subsequent lockdowns then become more persistent than expected as dislocations and bottleneck effects reinforced each other, while the pandemic itself rumbled on for longer than forecast.

During the worst of the pandemic and in the initial phases of the recovery, a shift in consumption patterns towards goods and away from services amplified imbalances in the goods sector. At the same time, the pandemic curtailed supply in the labour market, stoking wage pressures. Then, in February 2022, the Russian invasion of Ukraine compounded those Covid-related distortions and imparted a new inflationary shock to the world's economy through its impact on commodity prices – most notably energy.

The result is that high inflation has been a global phenomenon, affecting both developed and emerging economies. According to the latest IMF estimates, global CPI inflation is expected to peak just shy of 10% in 2022, while in advanced economies, inflation is expected to peak at 7.5% – in both cases a multi-decade high[1]. Indeed, for developed countries you would need to go back to the 1990s to witness such inflationary peaks. In emerging markets, you would need to go back even further – to the 1980s.

[1] IMF WEO, as at October 2022. World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis (imf.org)

In our base case, too, inflation globally is close to its peak. In the US, headline CPI inflation is likely to have already reached its high-water mark at 9.1% in June. Nevertheless, core inflation is still on the rise, reflecting domestic price pressures still in the pipeline, mainly related to the labour market.

Indeed, in November UK inflation hit a 40-year high, coming in at a historic 11.1%[2], and surpassing the Bank of England's consensus expectations.

Figure 1: UK inflation reaches 40-year high

Source: Office for National Statistics, as at 16 November 2022.

In my view, inflation will likely trend down over 2023, initially reflecting stabilisation in commodity prices (and related base effects) and an easing of global supply-chain disruptions.

In my view, inflation will likely trend down over 2023, initially reflecting stabilisation in commodity prices (and related base effects) and an easing of global supply-chain disruptions. Crucially, a significant demand slowdown – driven by high inflation itself and monetary policy tightening – will weigh on core inflation starting in mid-2023. That said, inflation will remain above target throughout 2023 and in our base case will converge to target only in 2024.

Nonetheless, risks remain and we cannot discount a scenario of inflation stabilising above target in the medium-term, through a three- to five-year horizon.

For starters, inflation has recently exhibited more persistence, with price gains in non-core components – energy notably – spilling over to the core. In addition, it is likely that the Covid-related shock accelerated some structural supply constraints that were already in the making – notably in the energy sector and in labour markets.

For starters, inflation has recently exhibited more persistence, with price gains in non-core components – energy notably – spilling over to the core.

[2] UK inflation accelerates to 41-year high of 11.1% | Financial Times (ft.com)

The six big 'ifs'

What factors could be instrumental in bringing inflation to an earlier end?

The year has been an unforgettable one, and not always for the right reasons. The past 12 months will live on in economic history as the year global economies staggered under the weight of tremendous inflationary pressures.

Many of the causes of this unwelcome resurgence in inflation can be traced back to structural issues related to the Covid-19 pandemic, subsequent supply-chain disruptions, and shocks caused by the Russia/Ukraine war and European energy crisis.

As the year draws to a close, there has seldom been a more appropriate time to think about the future of inflation. We have asked our investment teams to discuss what might happen if these economic headwinds were to subside or, indeed, be removed from the equation entirely. What might this mean for markets and investors – and how might they respond to a bursting of the inflationary bubble?

Factor 1

Supply chain improvements signify light at end of tunnel

Silvia Dall'Angelo, Senior Economist, notes how although both supply-side and demand-side elements have driven inflation higher globally in 2022, corrections on both sides of the equation could bring inflation down over the next few years.

Supply-side factors have been prominent drivers of the surge in inflation globally, although their weight varies across geographies. In the US, the San Francisco Fed estimates that roughly half of inflation is accounted for by supply-side disruptions[3].

The correction of dislocations in global supply chains is a key driver of lower inflation in our base line scenario for 2023. Recent developments have been encouraging. Many gauges of supply-chain pressure have recently started to dwindle. Cargo shipping prices have plummeted, with spot rates for shipping containers plunging by about 60% this year[4]. Port congestion has also improved across the board, with delays shortening significantly when compared to headlines from earlier this year. Delivery times cited in the manufacturing PMI survey indicate global improvements, and producer prices have cooled too.

Summarising these developments, the Global Supply Chain Pressure Index compiled by the Federal Reserve Bank of New York showed significant and consistent improvement between May and September 2022, as illustrated by Figure 2 on the next page. The index suggests there are still some dislocations, but these are comparatively limited when measured against the peak experienced at the end of 2021, and normal levels are predicted to be within reach for 2023.

While the weakening of global demand has contributed, and will contribute further, to the easing of supply chain pressures, the process is unlikely to be plain sailing. For one thing, the gradual relaxing of China's harsh zero-Covid policy may not gain the momentum investors had until recently hoped for. Furthermore, looking at the longer-term, the increasingly confrontational relationship between China and the US has been the catalyst behind a constant reshuffling of global supply chains – and this, too, could continue.

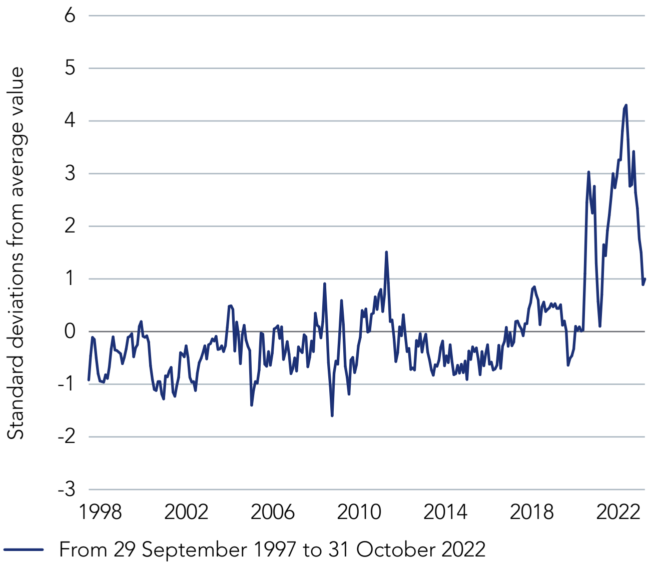
More generally, it is possible that some of the supply disruptions that the pandemic and the war in Ukraine unleashed will become more permanent. Indeed, these recent shocks happened against a backdrop of growing international geopolitical tensions and intensified pre-existing trends pointing towards a partial reversal of globalisation.

Longer term, the impact of climate change might also contribute to a picture of supply constraints (e.g., food shortages), while an uncoordinated and mismanaged transition to net zero is certain to be inefficient and costly.

[3] Federal Reserve Bank of San Francisco, as at June 2022.
[4] WSJ, as at September 2022.

Overall, it is possible we are heading towards a world dominated by supply constraints and slow-moving but relentless supply chain re-arrangements, which might imply higher inflation – at least when compared with the pre-Covid era.

Figure 2: Supply chains disruptions have eased significantly but are still well-above the norm



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, as at October 2022.

Factor 2

Energy price moderation (but it's still too early to be complacent)

Despite the recent positive developments in the gas market, investors must heed with caution, says Audra Delport, Head of Corporate Credit Research.

As we entered 2022, higher inflation was mostly attributed to factors relating to the Covid-19 pandemic: supply chain disruptions due to asynchronised re-openings, a shift in demand from services to goods putting a strain on production, as well as labour shortages.

Russia's invasion of Ukraine in February 2022, meanwhile, resulted in a significant increase in both oil and natural gas prices, adding to fears of a supply disruption given Russia's role as a major exporter of both commodities.

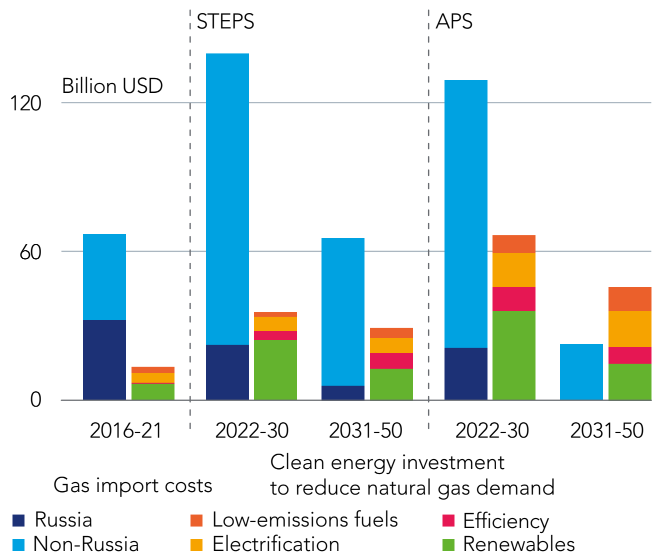
The energy shock further exacerbated inflationary pressures throughout the year and remains a major contributor to the current cost of living crisis. Natural gas prices in Europe witnessed a spike in August as Russia restricted flows and as the continent rushed to fill storage to prepare for winter.

As demonstrated by Figure 3 overleaf, the cost of reduced EU reliance on Russian gas is clear. In the Announced Pledges Scenario (APS), the European Union has committed to doubling down on clean energy, spending $65bn per year to bring natural gas demand down by 60% by 2030[5].

[5] World Energy Outlook 2022.

> **Global oil prices also retraced from the March highs but remain at elevated levels and are higher when compared to the same period last year (owing tight supply and OPEC production cuts).**

Figure 3: The price tag for reduced EU dependence on natural gas



Source: World Energy Outlook, 2022.

More recently, natural gas prices have fallen from the August highs, as Europeans have benefitted from unseasonably warm weather in October, meaning fears of an energy shortage and potential winter rationing have abated.

Global oil prices also retraced from the March highs but remain at elevated levels and are higher when compared to the same period last year (owing tight supply and OPEC production cuts).

While such recent commodity pricing moderation is encouraging, and we believe will likely help ease inflationary pressures in the near term, it is too early to declare victory against commodity-driven inflationary pressures. The key reasons for this are as follows:

- The risk remains that natural gas prices will spike in the event of a colder winter. The UK's Met Office recently raised the probability of a colder season to 25% – a larger probability than usual.
- If European inventories get depleted this winter, it will be hard to refill them next year. If China fully re-opens, Europeans will face higher competition to acquire liquefied natural gas. This will add to upwards pressure on prices.
- December's ban by Western countries on the provision of maritime services to shipments of Russian oil (unless the oil is sold below a set price) will also drive prices higher.

While recent lower energy prices can clearly help contain inflationary pressures, our outlook on inflation remains cautious going in to 2023.

Factor 3

A fiscal impasse – over to you, Fed

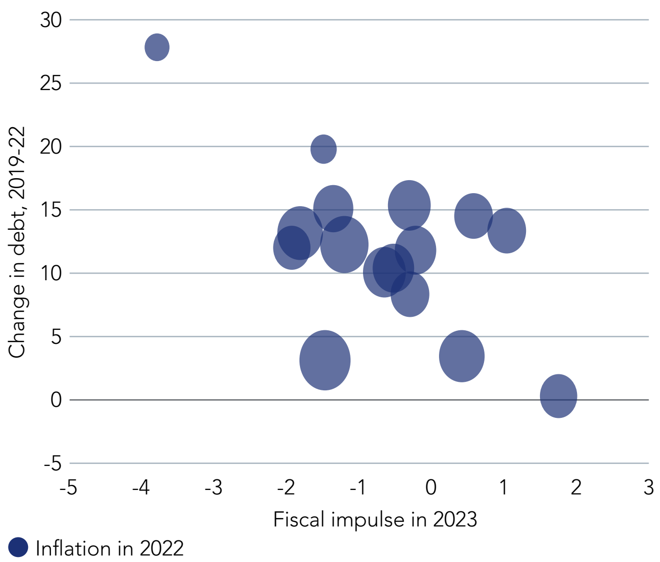
The results of the US midterms have resulted in a divided government, and probable policy gridlock. Here, Senior Economist Silvia Dall'Angelo asks whether the election outcome puts the US Federal Reserve on a firmer footing in its fight against inflation.

The extraordinary fiscal response to the Covid-19 crisis imparted a boost to aggregate demand, which has likely contributed to the recent surge in inflation globally. Advanced economies were more profligate than emerging countries, with the size of US fiscal stimulus standing out.

According to the International Monetary Fund's (IMF) estimates, the cyclically-adjusted primary balance (as a percent of potential GDP) increased by five percentage points on average across advanced economies between 2019 and 2020. However, since 2021, the fiscal stance has become restrictive across the board, with most countries embarking on a process of fiscal consolidation.

In 2021 and 2022, fiscal deficits fell sharply, reflecting the unwinding of pandemic-related measures, and a positive contribution from inflation surprises. Looking at 2023, reducing deficits will be necessary to support the fight against inflation, and ensure debt sustainability, as seen in figure 4 below.

Figure 4: Fiscal impulse, inflation, and debt for G20 countries



Source: IMF Fiscal Monitor, World Economic Outlook database, as at October 2022. *Note: this excludes Argentina, Russia, Saudi Arabia, and Turkey. Fiscal impulse is measured by the change in the cyclically adjusted primary balance. The size of the bubble reflects the inflation rate.*

While governments might be tempted to let inflation run higher to accommodate fiscal correction, this approach is not sustainable.

First, low and stable inflation is a key precondition for macroeconomic stability and good economic performance in the longer term. Second, higher inflation has put pressure on governments – especially in Europe – to resort to fiscal stimulus to cushion households and firms as they face the worst cost-of-living crisis since the 1970s.

So far, European governments have generally opted for targeted and limited fiscal support, although there have been differences across countries, depending on their respective fiscal position.

Overall, the process of fiscal correction has slowed or stalled but has not been reversed yet, although this is a risk for the future, if the European energy crisis proves longer-lasting.

Wherever you look, policymakers are facing trade-offs that are difficult to square. On the one hand, any creation of additional fiscal support could help stoke the very inflationary pressures central banks are aiming to combat. On the other, raising rates – the pre-requisite for fighting inflation – limits the headroom for fiscal stimulus.

Against this backdrop, the US is in a slightly stronger position. For one thing, policymakers are not facing the same energy price shock as Europe. But most of all, the current political configuration – a divided government, with policy gridlock – implies no additional fiscal policy in the foreseeable future. A severe recession could change this thinking – but as yet this is not our base case scenario.

Factor 4

The prospect of a global recession

The macroeconomic outlook steadily deteriorated over the course of 2022, and for Silvia Dall'Angelo, Senior Economist, the shadow of a global recession is looming. What does this mean for inflation, and how should investors brace themselves for impact?

While the recovery from the Covid-related recession was still ongoing in most countries, the Russian invasion of Ukraine in early-2022 imparted a new energy shock to the global economy, which has been particularly painful for net-commodity importers.

More recently, the outlook has deteriorated further, largely reflecting three main drivers:

- **First**, the European energy crisis has intensified in recent months, with Russia cutting its gas provisions to Europe. The terms-of-trade shock from high energy prices is likely to tip the region into a recession this winter, and risks are skewed to the downside with the potential for the price shock to morph into a quantity shock.

- **Second**, inflation has continued to surprise to the upside across the board, proving even higher and stickier than expected a few months ago. This has resulted in a faster pace of monetary policy tightening. Historically, inflation at current levels has almost always been the precursor for a recession.
- **Third**, the Chinese economy has performed poorly as a result of the government's harsh zero-Covid policy, and the ongoing correction in the property sector.

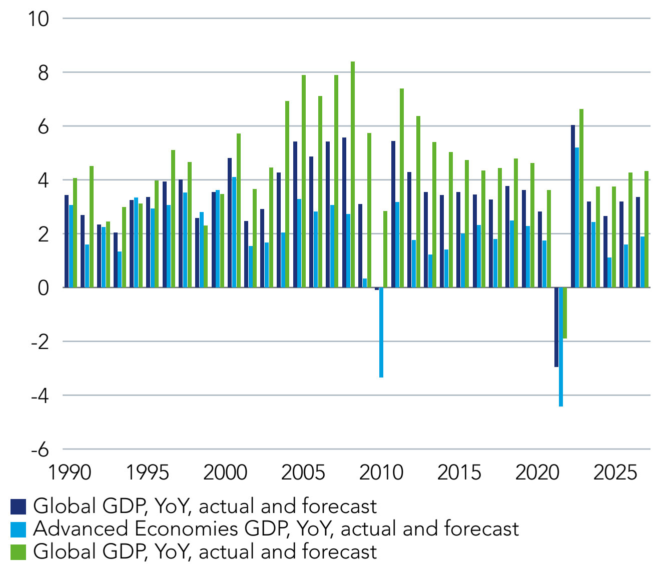
According to the latest IMF forecasts, global growth is now set to come in at only slightly above 3% this year, and 2.7% next year, well below the trend prevailing in the few decades before the Covid recession (~3.5%).

Risks to those forecasts are on the downside as a broad information set, including national surveys and hard data on industrial production, consumption and the labour market, points to a broad-based economic slowdown (although it is worth noting the differences across regions and countries).

The US economy has so far outperformed, reflecting energy independence and, to some extent, the long-lasting impact from the large Covid-related fiscal stimulus. Nonetheless, the Fed's aggressive tightening since March 2022, coupled with waning fiscal support and the tendency of rising inflation to erode real incomes, has changed this scenario. In our view, the US is likely to enter a mild recession, with our base case for this to occur in mid-2023.

> **The US economy has so far outperformed, reflecting energy independence and, to some extent, the long-lasting impact from the large Covid-related fiscal stimulus.**

Figure 5: The International Monetary Fund (IMF) expects a significant slowdown in global growth in 2023



Source: Refinitiv Datastream, as of October 2022.

Factor 5

Not if, but when: China's zero-Covid policy is not made to last

It's difficult to predict when China might loosen its strict zero-Covid policy, but Jonathan Pines, Lead Portfolio Manager, Asia ex-Japan Equity, argues the country is approaching a crossroads where attempting to contain the virus is no longer possible.

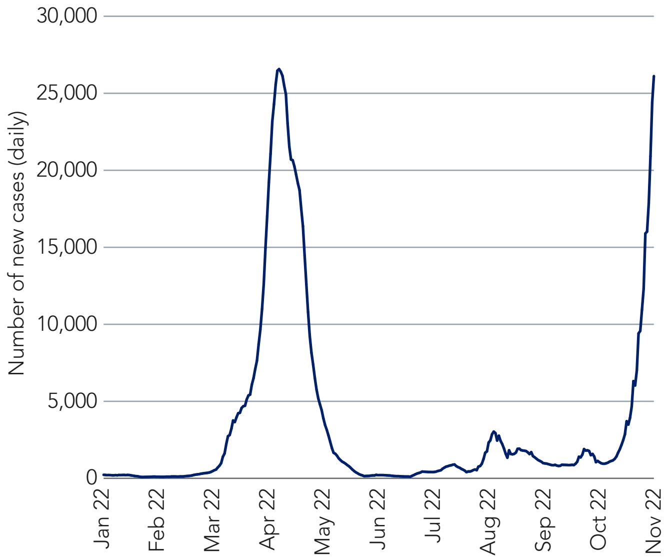
China's authoritarian approach to virus containment, which it calls 'dynamic zero', has been in place for almost three years. Investors are holding onto the hope that China may ease measures over the coming months, in order to release the pressure exacted on the world's second-largest economy.

As the global economy continues to be buffeted by various macro headwinds, for China, the huge economic and social cost of trying to contain the virus may finally cease to be a price worth paying, as the recent eruption of anti-government protest in the country bears testament.

In our view, current market prices present an unmistakable buying opportunity. That said, nothing is simple, and prices are not low as a result of zero-Covid alone. The delisting of American depository receipts (ADRs), the collapse of the property market, geopolitical tensions, and common prosperity are all factors contributing to low valuations in China.

While we think investing in China is worth it on a price-adjusted basis, our risk assessment of China is that we need to consider all these risks, and not just zero-Covid.

Figure 6: Spike in China Covid-19 cases look set to surpass level during Shanghai outbreak



Source: Our World in Data, as at 22 November 2022.

Factor 6

Higher interest rates as a solution to inflation?

In the current environment of above-target inflation, central banks have turned hawkish in their efforts to dampen inflation and keep expectations in check. For Orla Garvey, Senior Portfolio Manager for Fixed Income, the question remains: will it work?

The inflation we are currently experiencing has been driven for the most part by a combination of supply constraints post-Covid, the Russia/Ukraine war, the China zero-Covid policy, labour shortages, and the impact of extremely loose central bank and fiscal policy post-pandemic.

Central banks do not have the tools to impact the supply channel, and this is complicated further by a lack of clarity over how fiscal policy will interact with growth and inflation as we head into 2023.

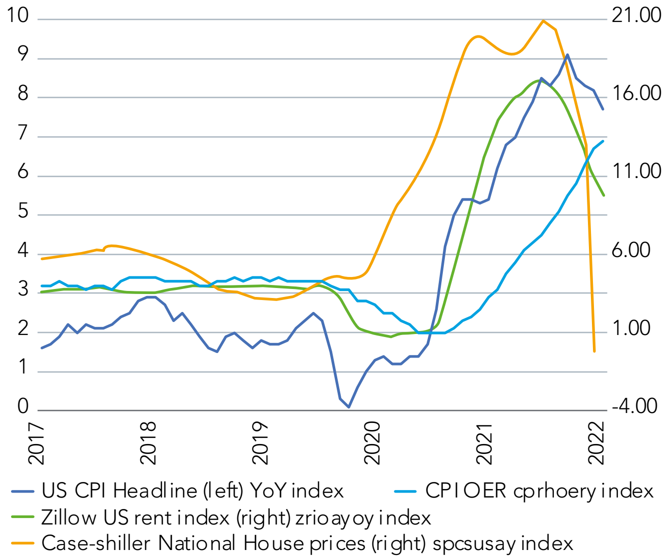
On the demand side, we are seeing some weakening in sectors sensitive to interest rates such as housing, where high mortgage rates and a sharp rise in prices post-Covid has weighed on demand and consequently on pricing. Demand destruction is also visible in used car prices, which is similarly helping prices to deflate.

The services sector is trickier: tight labour markets are leading to shortages across some sectors which, in turn, has pushed up costs – and it is likely this will only be resolved by higher unemployment.

The result has been a broadening of inflation across the services basket which, in turn, will likely add to pressure on central bankers to maintain tight policy even as headline inflation continues to fall.

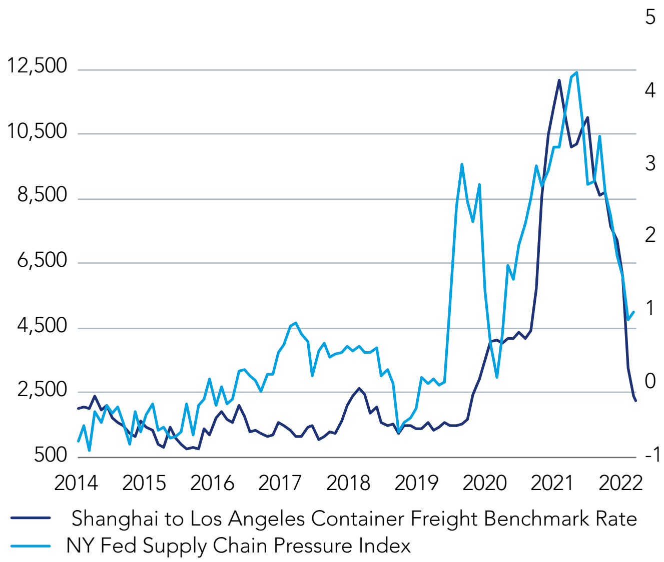
The question for investors is which way central banks turn from here. Do they maintain their hawkish path with all that implies for growth – or do they soften and so risk inflation expectations becoming dis-anchored?

Figure 7: US Owners' equivalent rent vs. home prices year-on-year and US Zillow Rent Index (ZRI)

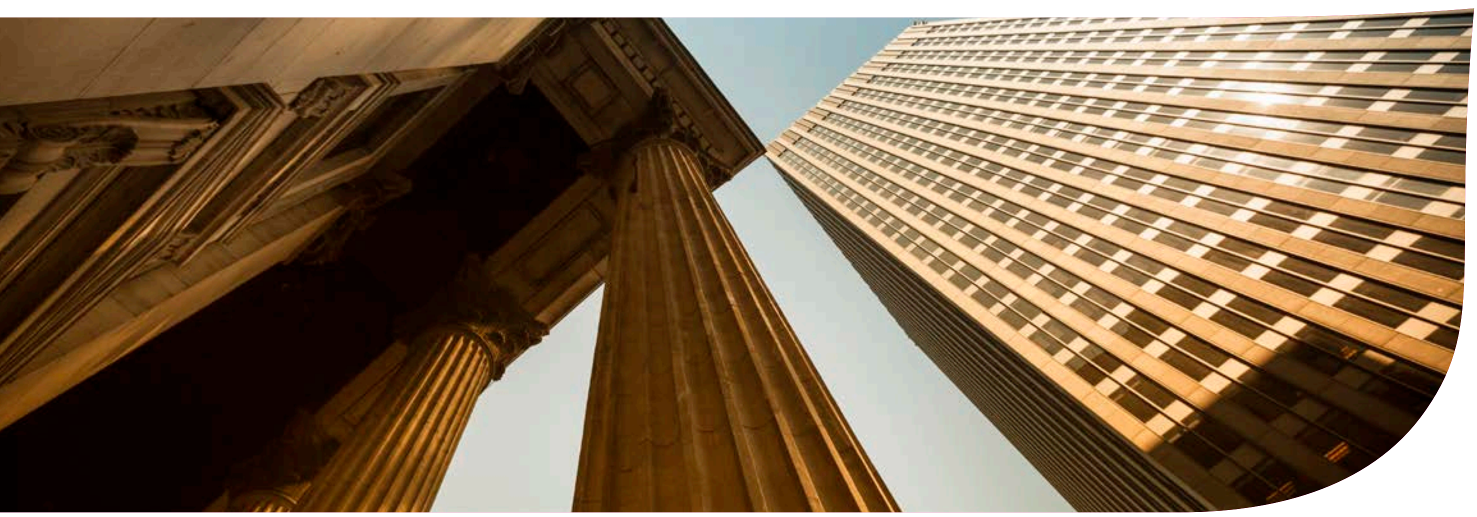


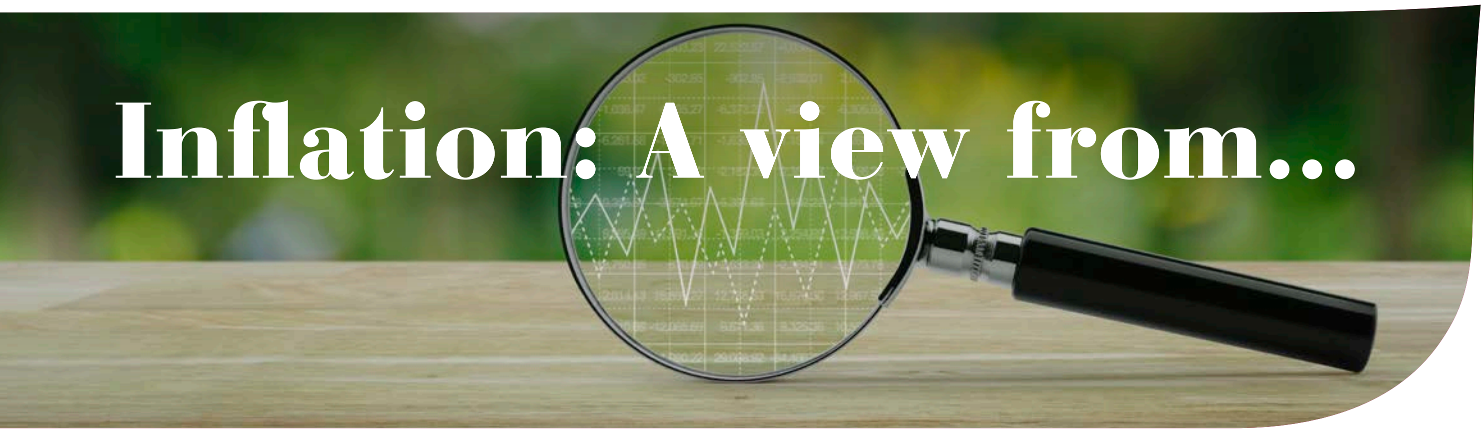
Source: Bloomberg, as at 23 November 2022.

Figure 8: Global Supply Chain Pressure Index (GSCPI) and Shanghai-to-LA container freight rate



Source: Bloomberg, as at 10 November 2022.





Inflation: A view from...

Martin Todd
Portfolio Manager,
Sustainable Global Equities

Equities

How can investors address inflation – responsibly?

While the most acute impacts of the Ukraine conflict on energy and food supplies are likely to prove temporary, we believe deglobalisation and greenflation will result in a higher base level of inflation over the medium term than seen over the last decade, says Martin Todd.

Our base case is that once the most acute impacts of the Ukraine conflict and energy and food supplies abate, we can expect a higher base level of inflation. Developed markets will need to get used to structural inflation – a 'new normal' paradigm for markets – as businesses and individuals adapt to an environment where near-zero rates no longer reign supreme.

In our view, structural inflation has two main components: **deglobalisation**, and **greenflation**.

Our base case is that once the most acute impacts of the Ukraine conflict and energy and food supplies abate, we can expect a higher base level of inflation.

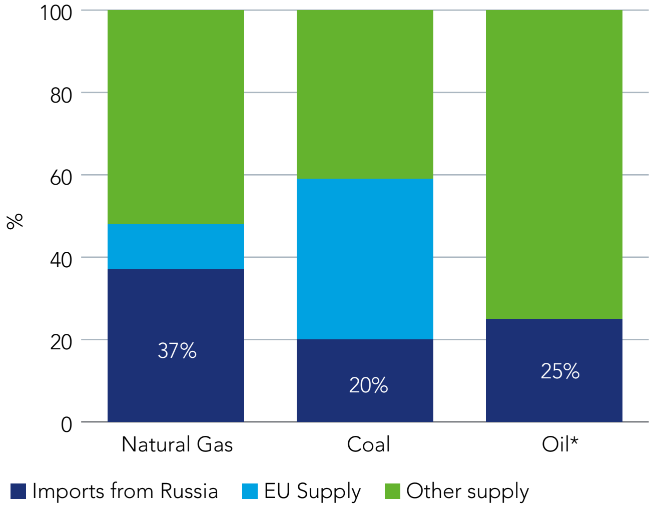
In the wake of the Covid-19 pandemic, economies experienced a stark reversal of globalisation. Companies were forced to onshore, reshore or nearshore their supply chains; a process which, at its core, is inflationary as it typically involves moving the source of production from a lower cost environment to one where costs are structurally higher.

The need to transition to a more sustainable economic model will also have an effect. The energy crisis, driven primarily by the war in Ukraine, has made the move away from fossil fuels even more urgent, and European countries are being forced into an inevitable reckoning with their reliance on foreign sources of oil and gas. (See Figure 9 for a view on how Russia's energy market share dominates commodity demand in Europe.)

The transition from fossil fuels to renewables and clean sources of energy will take considerable time and money. In the interim, we expect costs to remain elevated.

The energy crisis, driven primarily by the war in Ukraine, has made the move away from fossil fuels even more urgent, and European countries are being forced into an inevitable reckoning with their reliance on foreign sources of oil and gas.

Figure 9: Russian share of European oil, gas, and coal consumption in 2021



*Crude and products. May include re-exports of product and oil that is stored but not processed.

Source: BP (British Petroleum), Statistical Review of World Energy, as at 2022.

In 2021...

Russian natural gas imports accounted for almost

40% of total EU natural gas consumption

Russian oil imports made up

25% of total EU oil imports

Russian coal imports contributed

20% of total EU coal energy consumption.

The investor response

In the current challenging macro backdrop, we believe quality will continue to prevail. Companies that can demonstrate genuine pricing power and high-quality balance sheets once subjected to rigorous analysis will remain our focus as we look to H1 2023 and onwards. Whether the coming recession proves to be mild or more serious, we believe that in such an environment, high-quality, defensive businesses are well-placed to outperform.

To find out more about our equity product range, please visit this link.

Orla Garvey
Senior Portfolio Manager,
Fixed Income

Fixed Income

What's not priced in on the inflation outlook?

Bond investors could do well to see beyond current market expectations, says Orla Garvey, Senior Fixed Income Portfolio Manager.

The market has priced in the risk of inflation staying higher for longer. But, in my view, what's maybe not been fully priced in is the prospect of inflation falling further and faster than current forecasts might lead us to believe.

At present, the expectation is for price rises to stabilise from Q1 2023 but for inflation in most developed economies to remain above central bank targets. That's based on greater pricing power for companies as consumers begin to accept inflation-driven prices rises. It's also to do with deglobalisation – reshoring supply chains, for example – and with the workforce starting to target real income levels.

Longer term, demand for investment in the energy transition is also inflationary – as is a lack of investment in carbon-heavy forms of energy generation which will have its own impact on supply.

So, the case for a higher-for-longer inflationary scenario is a totally reasonable one, but I do think it's interesting to consider the alternatives.

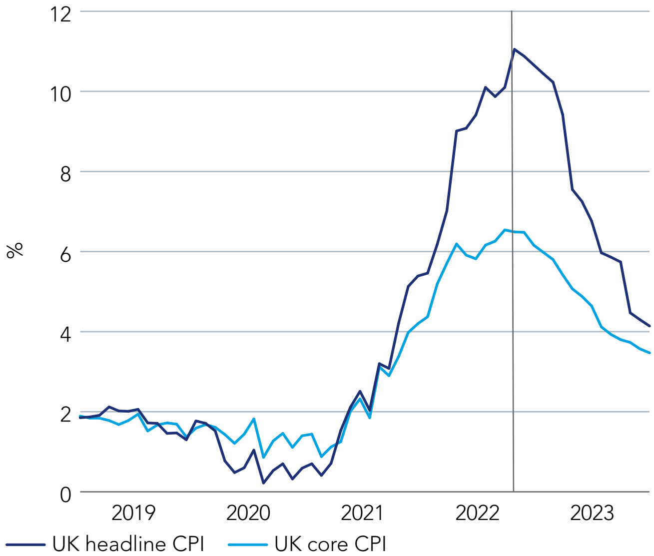
For one thing, the outlook is massively complicated by the nexus between fiscal spending, energy pricing and monetary policy. There are other unknowns that must be factored in as well.

Financial stability, for instance, is an obvious concern. Depending on how things play out, we might witness a destabilisation of markets and a fall in asset values, which would be disinflationary in the short term.

But the potential for disinflation is very real in those mid- and long-term scenarios too. Take the secular stagnation theme. Has that been written off too soon? Sure, we might be seeing a change from what we've experienced over the past decade or so – but is it wise to entirely discount the effects of ageing and shrinking demographics on aggregate demand? Likewise advances in technology and the impact on aggregate supply.

As a portfolio manager you're always thinking of things that are in the distribution but aren't necessarily being priced in fully by markets – and I think the possibility of a steeper-than-expected drop-off in inflationary pressure sits within that category.

Figure 10: UK Consumer Price Index (CPI)



Source: Refinitiv Datastream, as at November 2022.

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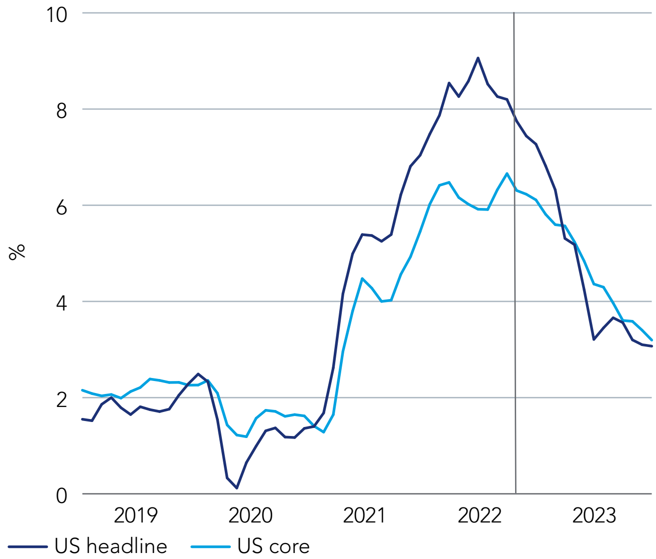
Figure 11: US Consumer Price Index (CPI)



Source: Refinitiv Datastream, as at November 2022.

To find out more about our fixed income product range, please visit this link.

Steve McGoohan
Managing Director,
Private Markets

Private Markets

Does the 'new' new normal of structural inflation present threat, opportunity, or both?

Private markets are transitioning through a paradigm shift where the 'new normal' of structural disinflation which followed the global financial crisis of 2008-09 has been replaced by a 'new new normal' of structural inflation, believes Steve McGoohan, Managing Director, Private Markets.

In our view, it is logical to assume that in a de-globalising world many of the positive factors which helped keep inflation under control will now cease to apply, or at least not to the same degree.

> **Demographics also look likely to play a key role in keeping inflation structurally higher given the impact the Covid-19 pandemic has had not just on the global workforce at large, but also on working practices.**

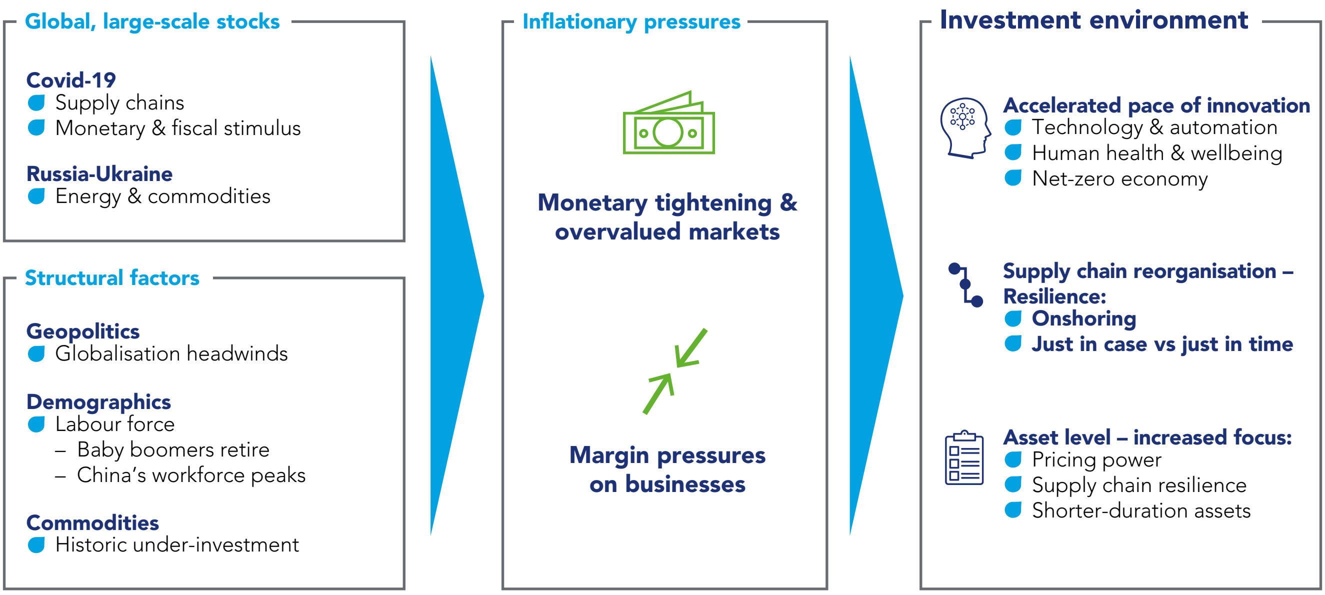
One of those relates to global supply chains, as disruption has resulted in companies making their supply chains more resilient, adopting a 'just-in-case' rather than a 'just-in-time' mentality, which, in turn, has resulted in the development of an expensive, and by nature, inflationary, buffer.

> **In the West, and now increasingly in China, population aging is influencing labour prices and therefore having an impact on margins.**

Demographics also look likely to play a key role in keeping inflation structurally higher given the impact the Covid-19 pandemic has had not just on the global workforce at large, but also on working practices. In the West, and now increasingly in China, population aging is influencing labour prices and therefore having an impact on margins. In our view, this as both a threat and opportunity given that companies able to automate, digitise or otherwise improve efficiency in operations will be the beneficiaries in this new, higher inflation, environment.

Figure 12, below, neatly illustrates where we view potential threats within this higher-inflation environment, and where we therefore see investment opportunities arising.

Figure 12: Threats and opportunities presented by inflation



Source: Federated Hermes Limited, as at October 2022.

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- Jonathan Pines is Lead Portfolio Manager for the Asia ex-Japan Equity Strategy.
- Martin Todd is Lead Portfolio Manager for the Sustainable Global Equity Fund and Portfolio Manager for the Impact Opportunities Equity Fund.

Fixed Income

- Orla Garvey is Senior Portfolio Manager for Fixed Income.
- Audra Delport is Head of Corporate Credit research.

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- Steve McGoohan is Managing Director for Private Markets.

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