ASTUTE INVESTMENT MANAGEMENT

VT Astute Funds

Quarterly Commentary

Q4 2021

Introduction

Thank you for taking the time to read our Q4 commentary. While 2021 ended in challenging circumstances, following the emergence of the Omicron variant, we hope you had a relaxing festive season and are looking forward to the year ahead. With so much happening in the last 12 months, including somewhere close to 9 billion vaccine doses, it is tempting to dwell on past events and dissect the year gone by. However, our approach remains long-term in nature, and in order to deliver on our investment objectives, and the financial goals of our investors, we remain firmly focused on the future.

With that in mind, our CIO letter this quarter concentrates more on the road ahead than the rear view mirror, and considers the key challenges we are likely to face in 2022 and how can we manage the risks they present to our portfolios.

In our **Astute Overview** section, we look at why inflation has risen to decade highs and why it will struggle to stay there; including supply and demand dynamics, where a myriad of factors are driving diverging opinions on the outlook for logistics in 2022.

Our regular **Astute Perspective** shows our current conviction views, while **Astute Positioning** covers how those views translate into the portfolios, and what changes we have made in the past three months.

Finally, **Astute Observations** highlights some of the more interesting research, data, or charts we have encountered recently with a few short and, hopefully, enlightening comments.

As always, we take a long-term approach to investing our clients' assets, but success is a journey, not a destination, and the short-term views expressed herein are aimed at managing risk and making your investment journey as smooth as possible. By taking a risk-adjusted approach to your investments, we aim to deliver reliable growth in line with our stated risk profiles and provide you, and your financial planner, the consistency and security to plan for your long-term financial future. Thank you for your continued support. If you have any further questions or require any additional information, please do not hesitate to contact your usual financial planner.

Fund Management Team

Scott Osborne
Chief Investment Officer

Toby Hulse
Investment Analyst

Mark Houghton
Investment Analyst

Two Little Ducks

Happy New Year and best wishes for a healthy and prosperous 2022. The dawn of New Year is traditionally a good time to get your ducks in a row and prepare yourself for the year ahead. It is also the time of year my inbox is inevitably filled with outlooks, predictions and forecasts for the year ahead. I find reviewing similar documents from a year ago provides a helpful dose of scepticism when reading any commentary (including my own!) and puts into perspective the futility of short-term thinking. Collating views from diverse sources helps to crystalise where the main risks in markets may lie but you can't prepare for every eventuality, and every duck in your row could be a black swan waiting to happen. This is why successful investing is built on disciplined risk management and sensible time horizons, not 12-month predictions. With that in mind, let's consider some of the potential risks we are certain we will have to navigate at some point in the year ahead.

2021 saw asset classes returns diverge as equities delivered strong returns but bonds fell in value, a scenario not seen since 2013. Unsurprisingly this was also the year the US Federal Reserve (Fed) started to unwind its post financial crisis policy easing. Rising interest rates puts pressure on valuations, but with economic growth rebounding and strong company earnings, equities can still deliver positive returns. So far, so good. The big difference between 2013 onwards and where we stand today is inflation, and the potential impact it has on the pace of future tightening. We discuss why inflation will fall from current levels later (see **Astute Overview**) but it may remain elevated enough versus history to force interest rates higher more quickly. At the end of last year the Fed raised its guidance for 2022 to include three rate increases. The Bank of England already muddled their way to a 0.15% increase. So the big question for this year is, if interest rates rise this quickly will company earnings growth be enough to justify lofty valuations?

Firstly there are a number of sources of uncertainty which could cast doubt on inflation and thus the speed of tightening. While vaccine-led immunity has provided protection from the worst effects of the new Omicron variant, including economically via lockdowns, there is significant uncertainty over its second order effects like work absence, childcare issues, and consumer behaviour, all of which could cool growth a little. Supply chain disruption has been the other large source of inflation. This is examined in more detail later (see **Astute Overview**) but barring further shocks, supply chain disruption should ease this year and put downward pressure on inflation. Both these areas should give pause to central bankers rushing to tighten policy. Our expectation is inflation pressure will rapidly cool from the second quarter but the risks to that view are high.

What about company earnings? The reason markets, particularly in the US, were on such a tear last year was because earnings growth was so good, a record breaking 45% for the S&P 500 in fact. This almost certainly won't be repeated. Through December we saw relatively few earnings upgrades pencilled in for Q1, a pattern that had supported positive surprises throughout 2021, and there is a clear rotation in the type of companies being rewarded as quality and stability is preferred to the speculative-looking growth which prospered in 2020.

Increasingly hawkish central banks, uncertainty around inflation and peaking company earnings is not an attractive outlook. However, if inflation eases (giving the Fed flexibility to move more slowly) and company earnings are solid, there is a path to a perfectly reasonable market "normalisation". Nevertheless, that path to a goldilocks growth environment is growing more perilous and it seems prudent to diversify risk as much as possible (see **Astute Positioning**). We have for some time focused our research on alternatives and risk diversifiers, giving us the tools we need to navigate the tricky period ahead. We know what our ultra defensive "bunker" portfolio looks like and while we might be giving it a spring clean, we certainly aren't climbing into it just yet.

As always, a focus on our long-term investment objectives remains key. Short-term volatility is inevitable, but our disciplined research process and rigorous risk controls aim to harness that volatility to generate returns.

Scott Osborne PhD CFA
Chief Investment Officer

INFLATION MECHANICS – MORE HOT AIR

Inflation expectations were a key driver of market turbulence throughout 2021 as the debate raged over how persistent rising inflation pressure would be, how high it could reach, and if and when it would come back down. Over the course of the year, the typical "transitory" areas continued to show strength as comparisons to falling prices in 2020 and pent up demand saw prices rise rapidly. Perhaps more importantly, there are signs of rising prices elsewhere in the inflation basket, and it is these areas, driven by strong demand and rising wages, that have led central banks accelerate their plans to tighten monetary policy. Having said all that, inflation will fall this year, in all but the most extreme scenarios, simply because of the way it is calculated.

To understand this better let's look at the latest numbers from the UK which were published in the middle of December and compare the cost of a basket of goods and services in November 2021 to the same basket a year earlier. Using the Consumer Price Index (not the retail price index which is now defunct) the total price increase was 5.1%, the highest annual rate since 2011. For inflation to stay at this level prices would have to increase another 5% by November 2022. If prices stay where they are inflation drops to 0%. That seems blindingly obvious but it's worth reiterating given some of the dire predictions made towards the end of the year.

Let's look inside the basket and see why we don't believe prices can stay that high. Of the 5.1% increase, over half (around 2.7%), came from just two categories: "housing, water, electricity, gas and other fuels" where prices increased 7% and "transport" where prices increased 12.5%. The basket is intended to be representative of spending and these two categories make up just under a third of the total consumption. No prizes for guessing rising gas and electricity prices are the key driver in the first category. Drilling down into the data shows prices here increased 18% and 28% respectively, mostly due to the European gas shortage and geo-political wrangling with Russian supply. Given the price cap is supressing some of the consumer impact here, this is one area prices could feasibly increase further, but another 20-30% would surely trigger some intervention.

Transport alone is adding 1.7% to the headline number, a third of total inflation. Rising petrol prices are obviously a factor here with "fuel and lubricants" rising almost 30%. This only adds 0.8% to the total however, and there are other meaningful contributions from "transport" where a 7.5% price increase adds 0.16% to the total, and second hand cars, where a whopping 27% price increase adds another 0.43% to headline inflation. Those increases are not sustainable and that is why inflation will fall. If oil rises to over $110 a barrel, wholesale gas prices double (again!) and my 10 year old Fiesta increases in value, inflation may stay at these levels, but it seems equally likely some of these prices actually go into reverse and become disinflationary in a year's time.

Subtracting the cyclical and pandemic-affected areas still leaves an above-target rate of over 2.5% with food, clothing and recreation all running hot. It is this underlying trend that central banks are attempting to address by increasing borrowing costs. With disrupted supply chains and borrowers increasingly on fixed rates however, it is not clear to us what impact these interventions will have, and the risk of a policy error looks greater than ever.

Astute Response:

The current spike in inflation will cool by the middle of the year but prices could still be rising above the target rate and thus warrant central bank action. However, the embedded uncertainty around the drivers of inflation increases the chances of a hawkish policy error, i.e. increasing rates too quickly. This leads us to a more cautious view on equity valuations and increases our focus on hedging against a market correction.

SUPPLY & DEMAND – THE FORRESTER FOR THE TREES

The inability of global supply chains to keep pace with shifting global demand over the last 18 months has undoubtedly contributed to supply shortages and price increases across a variety of sectors. A combination of shifting habits, disproportionate spending on goods versus services, and logistical problems, from driver shortages to port closures, have conspired to snarl up a once seamless global supply chain. How this complex system copes in the year ahead will be key for companies, but there is more to supply chains than container ships and lorry drivers, and behaviour is likely to be the biggest determining factor in "normalising" supply.

Firstly, the increase in goods consumption through the pandemic, as consumers spent wages on "possessions" instead of "experiences", strained available capacity. It's questionable if this trend will continue. Omicron may extend it, but even in this case the topping out of container shipping rates suggests we are approaching an equilibrium between this elevated demand level and the ability to move that quantity of goods. If goods demand falls, and with open economies and a reduction in fiscal giveaways (no more "stimmy" cheques) there are sound reasons to believe it could, companies must manage their inventory carefully to avoid overshooting supply. This balancing act is crucial for avoiding a so-called "bullwhip" effect in demand expectations.

Also known as the Forrester effect, the bullwhip is named after the increasing waves a bullwhip forms following a relatively small movement from the person holding the whip. A classic example is ice creams in a heatwave. An increase in demand sees shops sell out. Retailers add 20% onto their usual order and maybe place it with two wholesalers instead of one to ensure they don't miss out. Wholesalers now see orders go through the roof. They take the already larger than usual order and add 20%, because demand is rising, and send it to the manufacturer. The manufacturer is now seeing demand go ballistic and orders double the raw material and maybe starts plans to build a new factory, etc etc. Even if the heatwave lasts forever the real demand is easy to overestimate. This creates oversupply, discounting and ultimately price deflation becomes the reality.

Obviously this is an unrealistic example and with good communication and reasonable sales forecasting the irrational behaviour is ironed out. Nevertheless, with so much uncertainty around consumer behaviour in the world at the moment, the rational response may actually be to over order. If demand remains high you capitalise and if supply becomes more constrained you actually take market share. In the event demand is lower (or supply higher) you simply re-stock your inventory and that can't be a bad thing given how inconsistent deliveries have been… that is until inventories build up in excess of final demand. This is when discounting starts, orders dry up and prices actually fall.

In many industries we are already seeing inventories build relative to new orders as manufactures build more resilient supply chains, "just in case" replacing "just in time". As with shipping rates however, once you hit an equilibrium the upward pressure on prices ceases and the risk of oversupply and weaker demand can quickly turn the previous price increase into reverse.

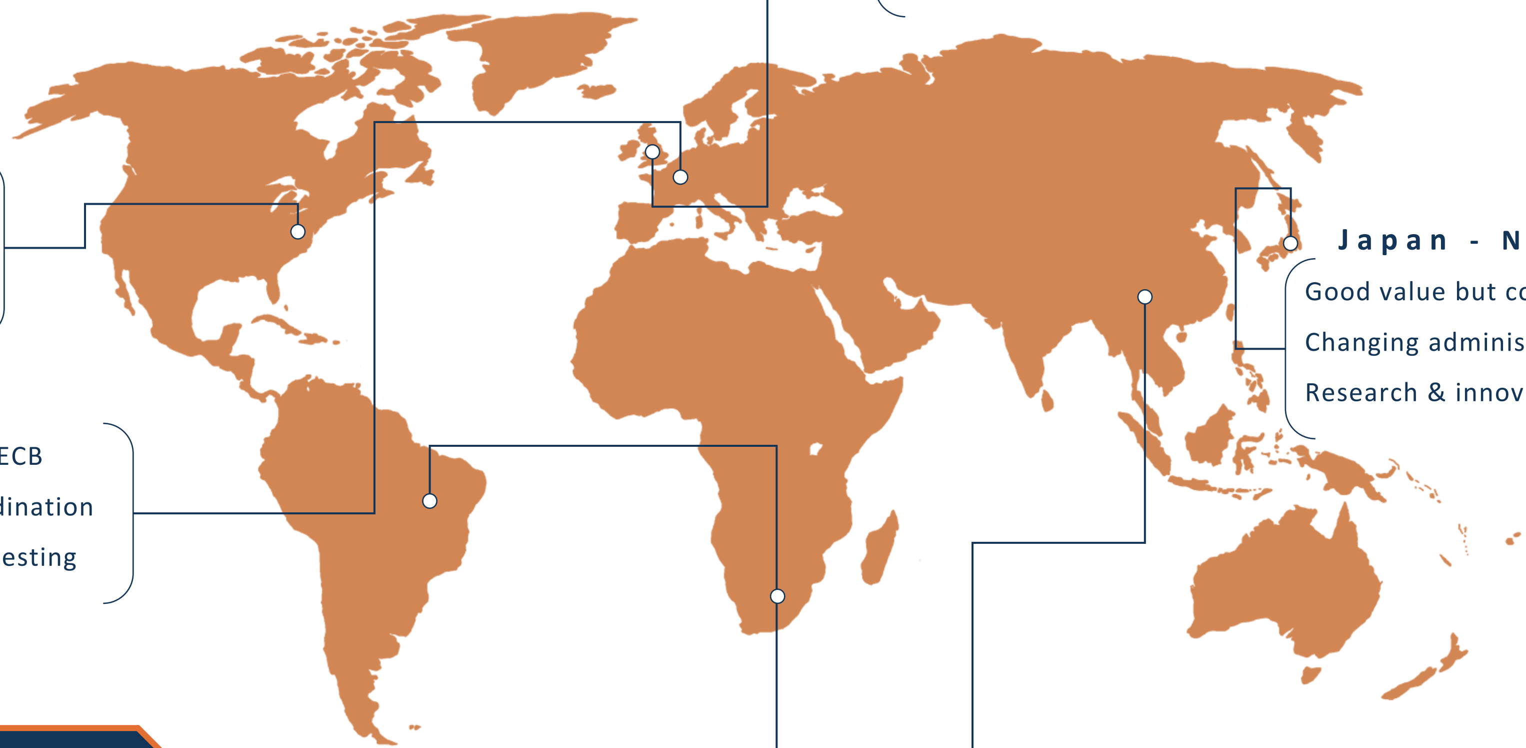
Astute Response:

While there are plenty of reason why supply chains may remain stretched this year we believe the probability of a bullwhip effect in some areas, and its implications for prices and inflation, is underestimated. This leads us to be less positive on growth generally and more worried about unnecessary central bank tightening if there are potential disinflationary forces emerging for later in the year.

Sources: Office of National Statistics, Factset, Bloomberg,

Astute Perspective

ASTUTE
INVESTMENT MANAGEMENT LTD



UK – Neutral/Overweight

- Larger companies remain structurally challenged
- Prefer smaller companies with growth opportunities
- Labour/goods shortages likely exacerbated by Brexit

N. America - Neutral

- Expect strong recovery led by record stimulus
- Rising inflation putting pressure on growth names
- Debt ceiling & mid-terms already looming

Japan - Neutral/Overweight

- Good value but corporate nationalism persists
- Changing administration very much status quo
- Research & innovation remains strong suit

Europe - Neutral

- Fiscal co-operation emerging, supportive ECB
- Elections to have limited impact on co-ordination
- Global leader in green and sustainable investing

Asia & Emerging - Overweight

- Long-term growth from demographics & development
- China tightening policy will slow growth versus peers
- Company valuations attractive vs western equivalents

Conviction Views

A key part of our process is building conviction ideas which are then expressed across each of the portfolios. While asset class and regional views are an important input into this process, the opinions outlined below will be the driving force behind any potential future returns.

1. Pivot to Cyclical
   - Economic rebound will broaden growth opportunities, benefiting cyclical sectors most
   - Valuations more attractive for growth linked to economic rebound but cautious on long-term outlook and avoiding value traps

2. Overweight Technology
   - Technological revolution will continue, lean into disruptive areas, the strong get stronger
   - Look beyond current global leaders and use specialists to stay ahead of the curve

3. Invest Sustainably
   - ESG will become the default option, and the market will shift accordingly
   - If sustainable investing is the future, invest with those who have ESG way into their past

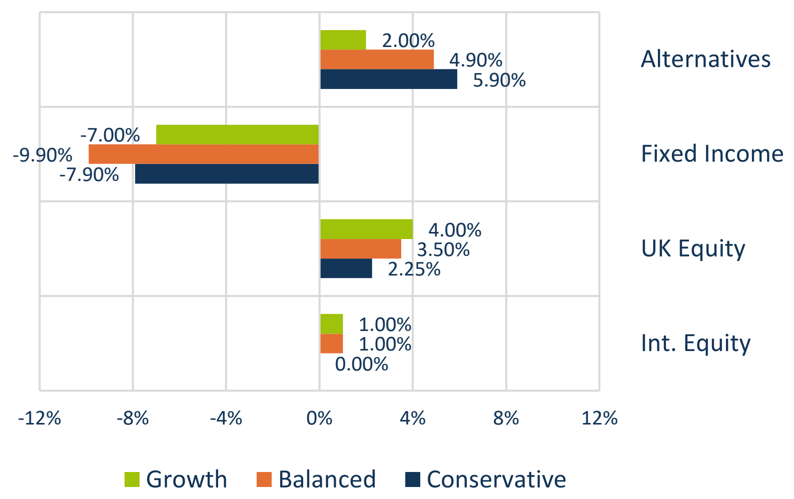
Asset Class Views

Fixed Income	Negative						Positive
Sovereign Bonds							
Corporate Bonds							
High-yield bonds							
EM Debt							
Alternatives	Negative						Positive

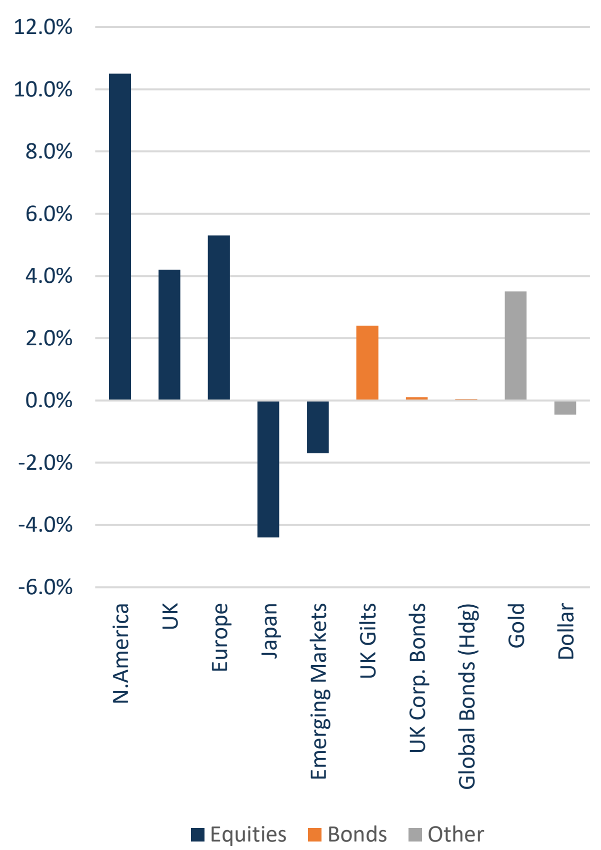
Equities	Negative						Positive
UK							
Europe							
Asia & Emerging							
Japan							
US							

Astute Positioning

Tactical Asset Allocation[1]



Asset Class Returns[2]



Fund Activity

	Fund	Portfolios
New Purchase	ASI UK Mid-Cap Equity	Con, Bal, Gro
New Purchase	iShares China CNY Bond	Con
New Purchase	Royal London Diversified ABS Fund	Con
New Purchase	Syncona Ord	Bal & Gro
New Purchase	M&G Japan Smaller Companies	Bal & Gro
Trim	Baillie Gifford British Smaller Companies	Bal & Gro
Trim	JPM UK Equity	Con, Bal, Gro
Trim	ES R&M UK Recovery	Con, Bal, Gro
Trim	Hermes Multi-Strategy Credit	Con
Trim	iShares $ TIPS ETF	Con
Trim	Polar Capital Global Tech	Bal & Gro
Sold	Allianz Strategic Bond	Con
Sold	Comgest Growth Japan	Bal & Gro

As we grew more cautious over the course of the last quarter we took some initial steps towards reducing risk across the portfolios, both in absolute terms and in terms of diversification. This can be seen by the reduction in international equity and increase in alternatives on our asset allocation chart. We further reduced our growth exposure, as well as shifting from international towards the UK where valuations are less stretched. We reduced credit risk and duration in our bonds by adding in more floating rate asset-backed securities. Finally we diversified our technology theme, which was exposed to short-term valuation risk, into early stage biotechnology, where the risks are more idiosyncratic in nature.

Fund performance over the period was positive in challenging circumstances. The emergence of the Omicron COVID-19 variant in November dominated the quarter and while most markets ended the year at or above their November peaks, it was an uncomfortable end to the year. The immediate "risk off" response from markets saw bonds yields fall and fixed income perform well, a pattern that would start to unwind as Omicron concerns faded. The US proved to be the top performer capping an excellent year, albeit most of the 10% return in Q4 was made before the renewed pandemic fears. The UK and Europe also fared well as high vaccination levels and fast booster campaigns helped them to recover the fastest in December. Bonds were generally positive, but the year ended with rising yields again signalling more pain ahead for fixed income.

Three factors were negative for the funds over the period: overweight emerging markets was once again a drag on performance, the underweight fixed income removed a source of positive return as yields narrowed modestly, and the product selection in the US component particularly lagged the market. We don't see any of these trends as persistent and expect the short-term effects of Omicron to give way to broader valuation pressure in the year ahead. Here we see both bonds and US equities overvalued ahead of rising interest rates while EM looks well placed to weather the hiking cycle. More positively, it was pleasing to see our alternatives hold up exceptionally well over the period. In the absence of conventional portfolio insurance, via government bond duration, the major risk to our current positioning is exactly the kind of shock we saw in Q4, and so the defensive qualities of our alternatives were tested and proved resilient.

All trades made over the last quarter were intended to diversify or reduce risk heading in to the year end. Firstly we trimmed our growth exposure by switching our Japanese growth fund for a more value-orientated strategy, where the catalysts for positive returns are much more linked to company specific news. In a similar move we shifted some of our technology thematic into a specialist UK manager, Syncona. This is an investment trust with a very concentrated, early-stage, biotechnology portfolio, an area we are very positive on longer term. Funding this via trimming Polar Cap Tech also reduces some of our sensitivity to larger technology companies. We retain our long-term conviction on the growth style, but acknowledge the valuation risks in the short term. To balance this we shifted our UK position towards mid cap growth through the purchase of Abrdn UK Mid Cap. While growth stock prices are broadly stretched, the UK offers a modest discount to other regions and this move helps to retain our long-term view while managing the short-term risks.

Finally, in fixed income we took advantage of the yield contraction in November to reduce interest rate sensitivity further. We trimmed the US inflation protected bond position and purchased Chinese government debt. China is one of the few areas where the Central Bank has room to loosen conditions if global growth sours or markets fall as western monetary policy is tightened, providing a better hedge to our equity risk. We also added the Royal London Diversified ABS fund. This invests in a wide variety of niche bond structures which are backed by specific company or physical assets. With floating coupons there is little risk from rising interest rates so credit quality is the principle concern. To offset this we sold our strategic bond manager and trimmed the riskiest credit fund.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2021. Past Performance is not a reliable indicator of future results.
[1] Relative positioning is expressed versus Astute's long-term strategic weights. [2] Total returns in GBP. Broad market indices are used to represent the performance of different regions over the period

VT Astute

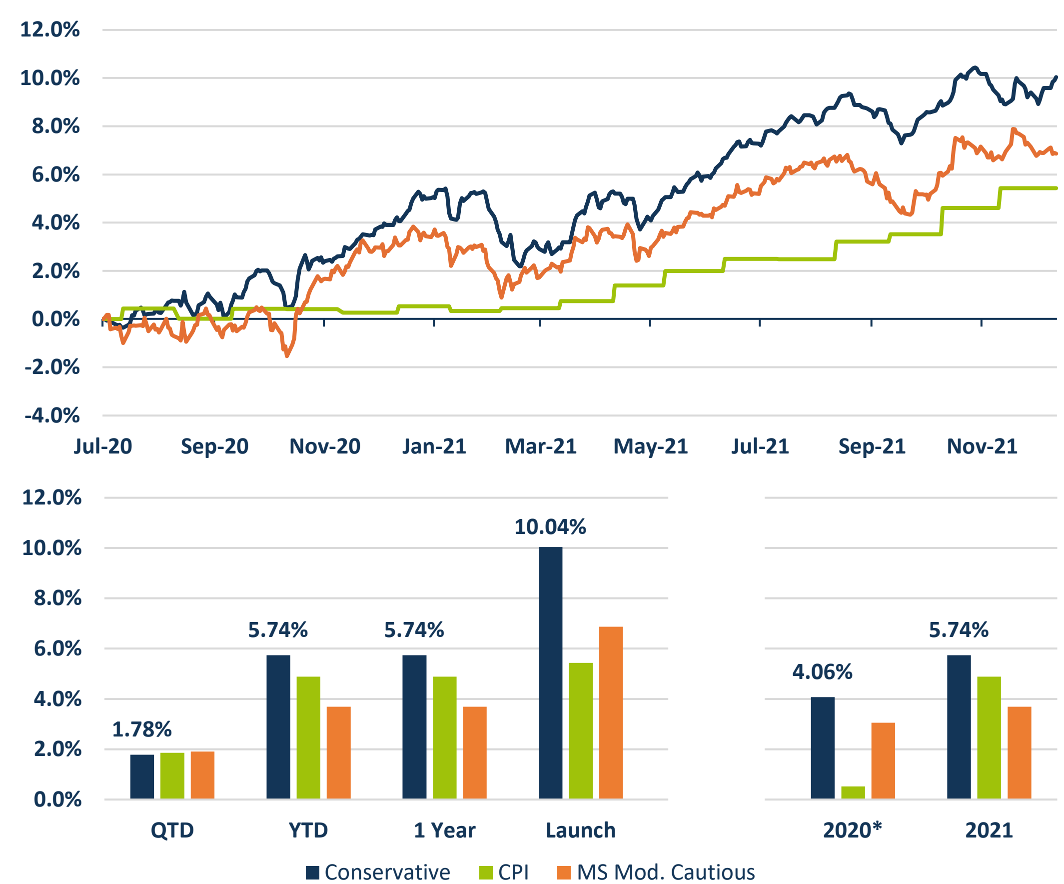
Conservative

The Conservative fund held up well despite the low sensitivity to interest rates within our fixed income component, reflected in the modest contribution from this asset class. While yields compressed following Omicron fears, we believe the move to be temporary and that there will be more pain ahead for traditional fixed income assets in 2022.

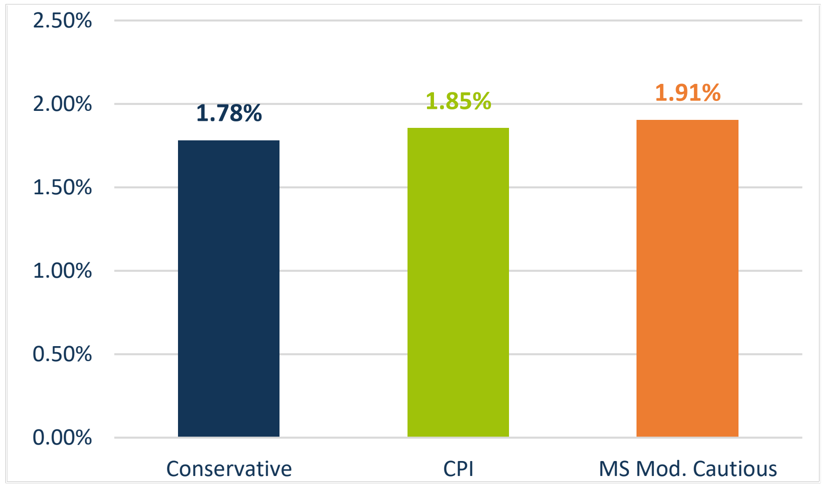
Despite underperforming the broader index, our US equity component was the top contributor from equity in Q4, while Europe and the UK rallied later in the period. We have been diversifying away from the US over the course of the year so the strong end to the year for the S&P 500 held back relative performance. Japan was the laggard despite strong outperformance by our chosen managers. The alternatives component of the portfolio had a strong quarter given the circumstances and delivered nearly half of the total return, with absolute return funds and the real asset investments defending capital well through the November correction.

This is reflected in the top contributing funds over the quarter with the US tracker and core mid cap positions bolstering returns. A large position in our highest conviction equity market neutral fund, Blackrock, also paid dividends as the team navigated the Q4 volatility.

Performance[1]



Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	12.1%	-0.04%	-0.01%
Government	7.1%	1.81%	0.13%
Credit	20.0%	-0.57%	-0.11%
UK	6.1%	2.56%	0.16%
N. America	11.4%	7.51%	0.86%
Europe	3.6%	3.43%	0.12%
Japan	2.1%	-3.85%	-0.08%
Asia & Emerging	4.5%	-1.45%	-0.07%
Alternatives	33.1%	2.66%	0.88%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	5.17%	8.78%	0.45%
BlackRock European Absolute Alpha	6.19%	5.42%	0.34%
Fed. Hermes US SMID	3.13%	6.41%	0.20%
iShares $ TIPS ETF	7.07%	2.76%	0.19%
Invesco S&P 500 ETF	2.07%	9.24%	0.19%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2021. Past Performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2021. [2] Data for the period 30/09/2021 to the 31/12/2021. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding.

VT Astute

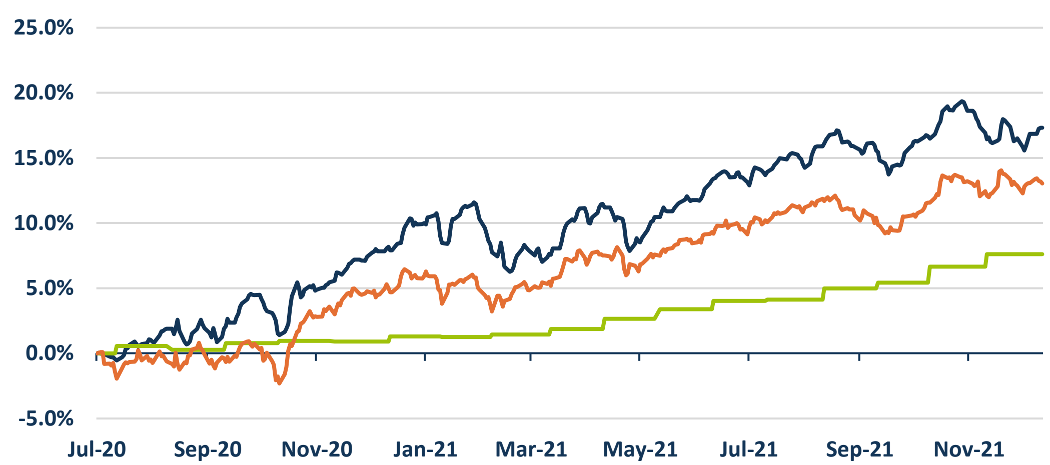
Balanced

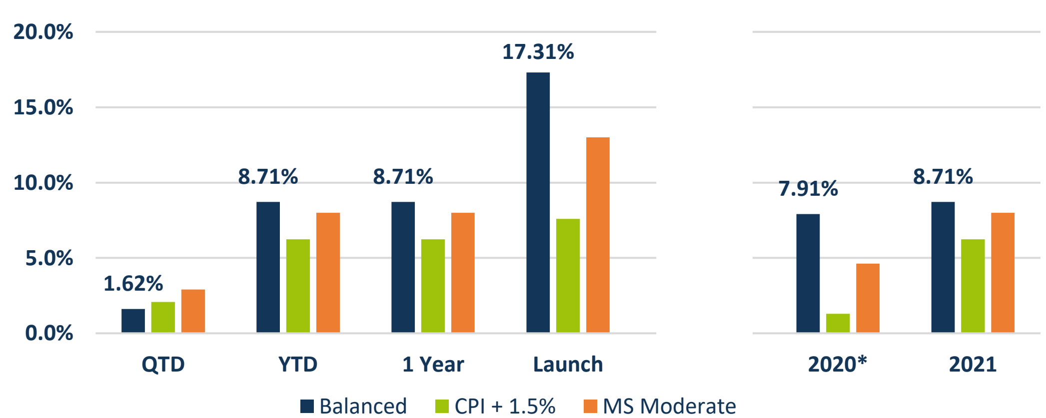
The Balanced fund held up well in spite of the market falls led by Omicron fears. The lack of interest rate sensitivity reduced protection and while alternatives held up well to compensate, the contribution from fixed income assets was negligible.

Within equities the underweight to US and focus on smaller companies hurt relative performance despite strong absolute returns. Large cap growth was the driver of the strong market returns while small cap underperformed. A similar story played out in the UK and Europe as Omicron fears faded. We retain our conviction in mid-cap growth where we believe valuations will ultimately prove less exposed to corrections as interest rates rise in 2022, but longer-term prospects remain bright. Alternatives were a relative bright spot, defending capital well in the correction and providing a defensive element in the absence of traditional bonds.

Top contributing funds are dominated by core trackers where we generate most of our exposure to large cap names. While these are also larger positions and tend to frequently appear as top contributors, it was clear this quarter that many of the active funds in the portfolio underperformed their tracker equivalents. Our highest conviction equity market neutral fund, Blackrock, also had a strong quarter and demonstrated the value of alternatives through volatile market conditions.

Performance[1]





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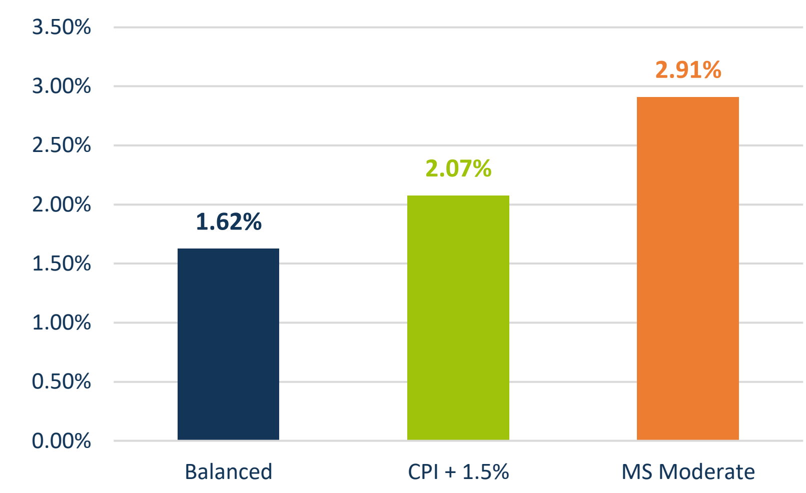

Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	6.1%	0.05%	0.00%
Government	3.0%	2.47%	0.07%
Credit	8.1%	-0.06%	0.00%
UK	11.1%	1.23%	0.14%
N. America	24.8%	3.99%	0.99%
Europe	7.6%	3.06%	0.23%
Japan	4.6%	-3.42%	-0.16%
Asia & Emerging	9.2%	-1.11%	-0.10%
Alternatives	25.4%	2.31%	0.59%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	7.33%	8.78%	0.64%
Invesco S&P 500 ETF	3.09%	9.24%	0.29%
BlackRock European Absolute Alpha	4.09%	5.42%	0.22%
JPM UK Equity Core	6.07%	3.45%	0.21%
Fed. Hermes US SMID	3.09%	6.41%	0.20%

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VT Astute
Growth

As the riskiest product in our range the Growth struggled the most through the market falls led by Omicron fears, but still delivered solid absolute returns. The lack of interest rate sensitivity reduced protection and while alternatives held up well to compensate, the relatively poor returns from equity held back performance.

Within equities the underweight to US and focus on smaller companies hurt relative performance. We have been diversifying away from the US over the course of the year and as large cap growth led the market and mid and small underperformed, our position lagged the index. A similar story played out in the UK and Europe as Omicron fears faded. We retain our conviction in mid-cap growth, where we believe valuations will ultimately prove less exposed to corrections as interest rates rise in 2022 but where longer-term prospects remain bright. The Japanese market was the largest detractor despite strong outperformance by our chosen managers. Emerging markets also struggled in a general risk off market but both areas look less exposed to rising rates in our view.

Top contributing funds are dominated by core trackers where we generate most of our exposure to large cap names. While these are also larger positions, and tend to frequently appear as top contributors, it was clear this quarter that many of the active fund in the portfolio underperformed their tracker equivalents.

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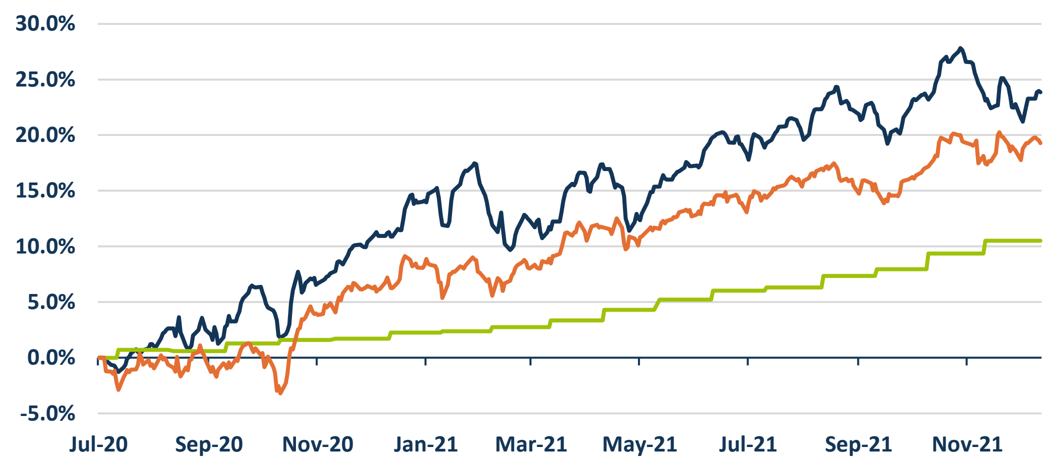
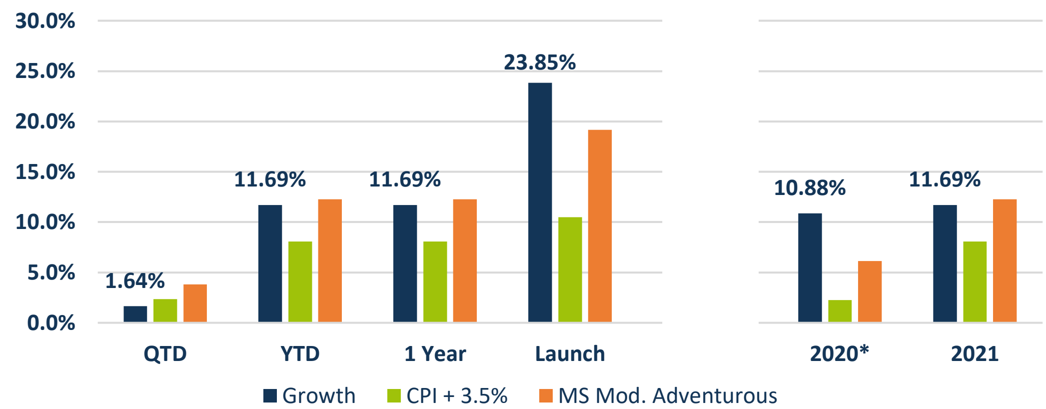
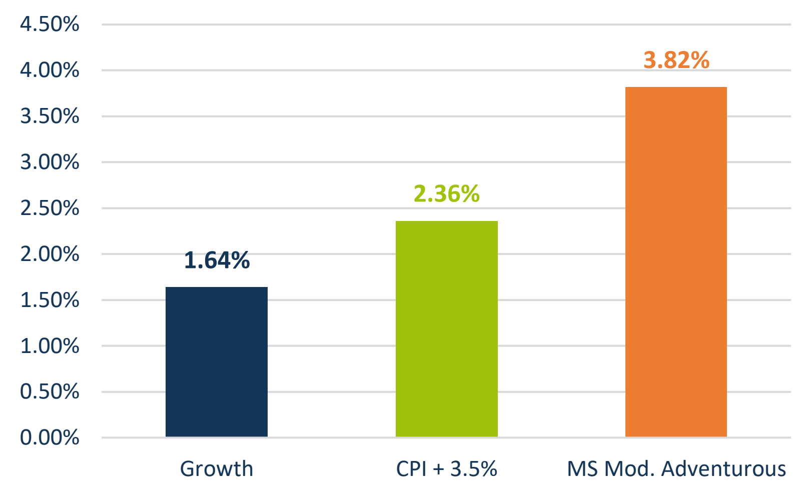




Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	0%	0%	0%
Government	0%	0%	0%
Credit	0%	0%	0%
UK	16.4%	0.82%	0.13%
N. America	39.6%	3.45%	1.37%
Europe	12.3%	3.06%	0.38%
Japan	7.2%	-4.80%	-0.35%
Asia & Emerging	14.3%	-1.07%	-0.15%
Alternatives	10.2%	3.10%	0.32%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
L&G US Equity ETF	11.44%	8.78%	1.00%
Invesco S&P 500 ETF	4.09%	9.24%	0.38%
Fed. Hermes US SMID	5.15%	6.41%	0.33%
JPM UK Equity Core	8.19%	3.45%	0.28%
ES R&M European	5.63%	3.27%	0.18%

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Astute Observations

INTEREST RATES - A HAMMER TO A SCREW?

Rising inflation has put increasing pressure on central banks to start tightening monetary policy in order to prevent an inflationary spiral. Some of this has already started, as money printing (quantitative easing) is winding down, but the principle weapon of the global central banker against rising inflation is interest rates.

By increasing the cost of borrowing, demand should fall, as the cost of servicing existing debt rises and the attractiveness of borrowing additional money to make purchases decreases. However, there are good reasons to believe this lynchpin of inflation control will be less effective against current inflation drivers.

Firstly, in the UK, where mortgage rates are the principle transfer of monetary policy to the consumer wallet, there are more people on fixed rates than ever. The first chart shows this trend, which insulates 80% of the population from rising rates, over 50% of which for at least 3 years. This pushes some of the tightening effect into the future.

The second chart shows a measure of supply chain pressure devised by the New York Federal reserve to measure the impact on inflation. This combines various costs of shipping and logistics into a composite index. The chart shows rising and or falling pressure reflected by volatility on that index. Clearly the recent shocks are unprecedented, but it's also very unclear what impact interest rates can have on resolving this. If anything, higher borrowing costs could reduce capital investment in improving infrastructure. More reason for central bankers to be very cautious in their approach to tightening over the course of 2022.

Sources: Bank of England & New York Fed