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Astra Ventures

Inflation Risks in 2022: Three Strategies to Protect Your Portfolio

Ed Lalanne

Chief Investment Officer
Astra Ventures

Stephen Buehler

Founder/COO/CCO
Astra Ventures

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INFLATION RISKS IN 2022:

THREE STRATEGIES TO PROTECT YOUR PORTFOLIO



ASTRA VENTURES

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MANAGEMENT TEAM

➔ Ed Lalanne - Chief Investment Officer



Experience

- Tse Capital Management (NYC) – Investment Analyst for a \$1 billion+ global macro hedge fund
- Bloomberg (NYC)
- Macro Risk Advisers (NYC)
- Lehman Brothers (NYC)

Education

- MBA – Kellogg School of Management at Northwestern University (2008)
- BA – Dartmouth College (1999)

Interesting Facts

- Avid sailor: competed on a top-10 nationally ranked team in college
- Sailed across the South Pacific for six months
- Married to Natasha Lalanne
- Has 1 daughter (Julie Mae Lalanne)

 @edlalanne

➔ Stephen Buehler - Founder, Chief Operating/Compliance Officer



Experience

- Blackstone (NYC) – Managing Director & Chief Operating Officer of a \$9.5 billion business within the hedge fund division
- Merrill Lynch (NYC)
- KPMG (Memphis)
- Arthur Andersen (Memphis)

Education

- MBA – Kellogg School of Management at Northwestern University (2008)
- BA/BBA – Mississippi State University (2000)

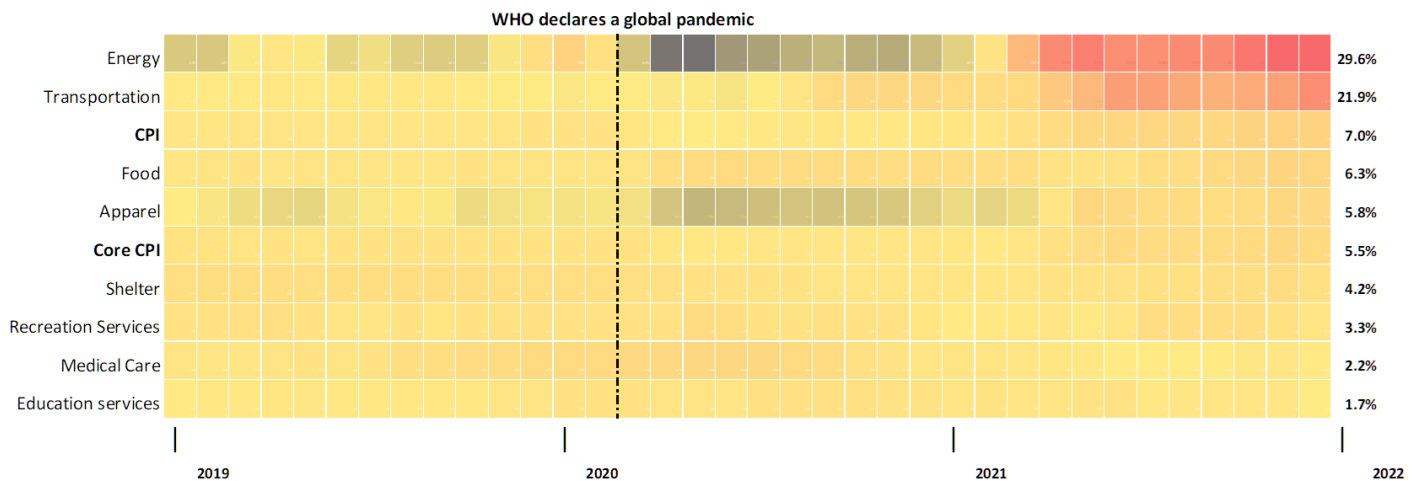
Interesting Facts

- SCUBA on Great Barrier Reef & ran with bulls in Pamplona, Spain
- Named one of the "Top 100 Graduates in First 100 Years of MSU's College of Business"
- Married to Jennifer Stieber Buehler
- Has 1 daughter (Bethany Maria Buehler)

 @stephen_buehler

INFLATION IS NOT TRANSITORY

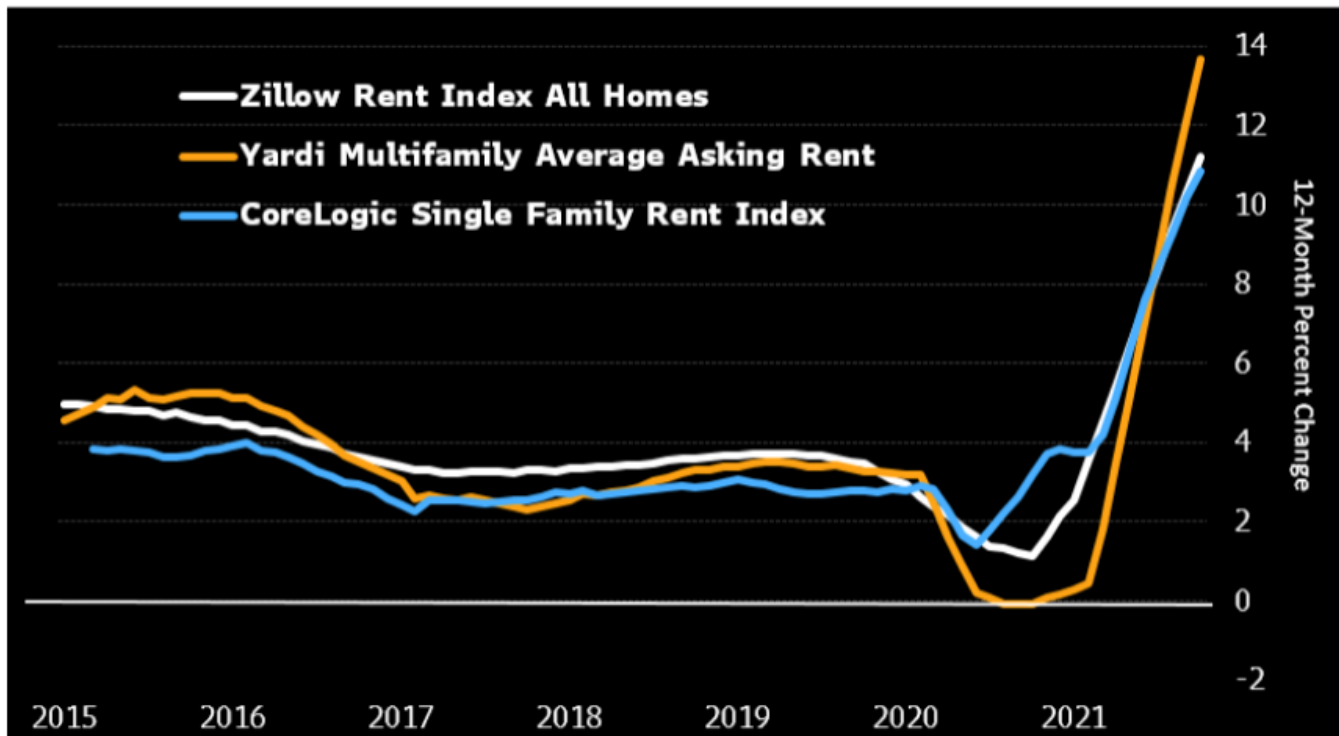
- Currently, economic strength is fueling high demand for inputs, which creates inflationary pressure
- In addition, global supply chain disruptions have limited the supply of inputs, which also creates inflationary pressure
- **THE RESULT:**
CPI is running at **7.0%**, the highest rate since 1982, and could climb further (1)
- It's not just food and energy, or supply side constraints affecting semiconductor chips
- Prices & costs are increasing across clothing, cars, and hardware



(1) Inflation rate from US Bureau of Labor Statistics <https://www.bls.gov/cpi/>

...AND RENTS ARE NOT EVEN FULLY REFLECTED IN CPI

- Persistent increases in rents could become evident in housing costs over the course of 2022
- Increases in rent prices are captured in CPI on a lagged basis and are only fully reflected in CPI as much as a year later
- Home prices could also continue to rise, further contributing to higher CPI



Source: Zillow, Yardi Matrix, CoreLogic, Bloomberg Economics

(1) Sources: Bloomberg: US INSIGHT: Stealth Threat to Fed Target - Modeling Rent Surge

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THE FEDERAL RESERVE PIVOTED



QE Taper & Rate Increases on the Horizon

- At its December meeting, the Fed doubled the pace of its tapering and could end QE bond purchases by mid-March 2022
- At the January meeting, Fed Chair Powell said he expects the first interest rate increase at the next meeting in March
- Additionally, Powell suggested the Fed's balance sheet may begin to shrink as early as May
- However, the Fed can only impact the demand-related contribution to inflation; they cannot relieve the global supply chain constraints



Market Reaction Unknown

- Quantitative tightening would be a monumental shift in liquidity conditions and is not yet a focus in the news
- Key will be how the inflation picture develops in the first few months of 2022

Notes: "Fed" refers to the US Federal Reserve. "QE" refers to Quantitative Easing.

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COMMON STRATEGIES TO PROTECT AGAINST INFLATION

➔ Strategy 1: Tilt equity portfolio

- Historically, certain sectors have been more resilient in the early stages of higher inflation (energy, commodities/gold, financials/banking)
- However, at some point with either higher inflation and/or tighter Fed policy, the economy could slow down and the broader stock market could sell off
- Absolute market declines of more than 10% are typically large enough to drag down all sectors, even outperforming ones
- If rates rise, non-yielding assets like gold can become less attractive

➔ Strategy 2: TIPS, short-term bonds, floaters

- TIPS are designed to protect against a rise in rates driven by inflation. Short term bonds have a lower duration and, thus, lesser impact of a rise in rates. And floating rate instruments can reset as rates rise.
- However, the tax treatment of TIPS is unfavorable, requiring capital gains recognition each year the investment is held
- Short-term bonds have lower coupons that will not offset high inflation
- And floating bonds may not reset rates timely enough to offset inflation - and they often have credit risk correlated to the equity cycle

Notes: Past performance is not a reliable indicator of current or future results.

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IS THERE A MORE EFFECTIVE STRATEGY?

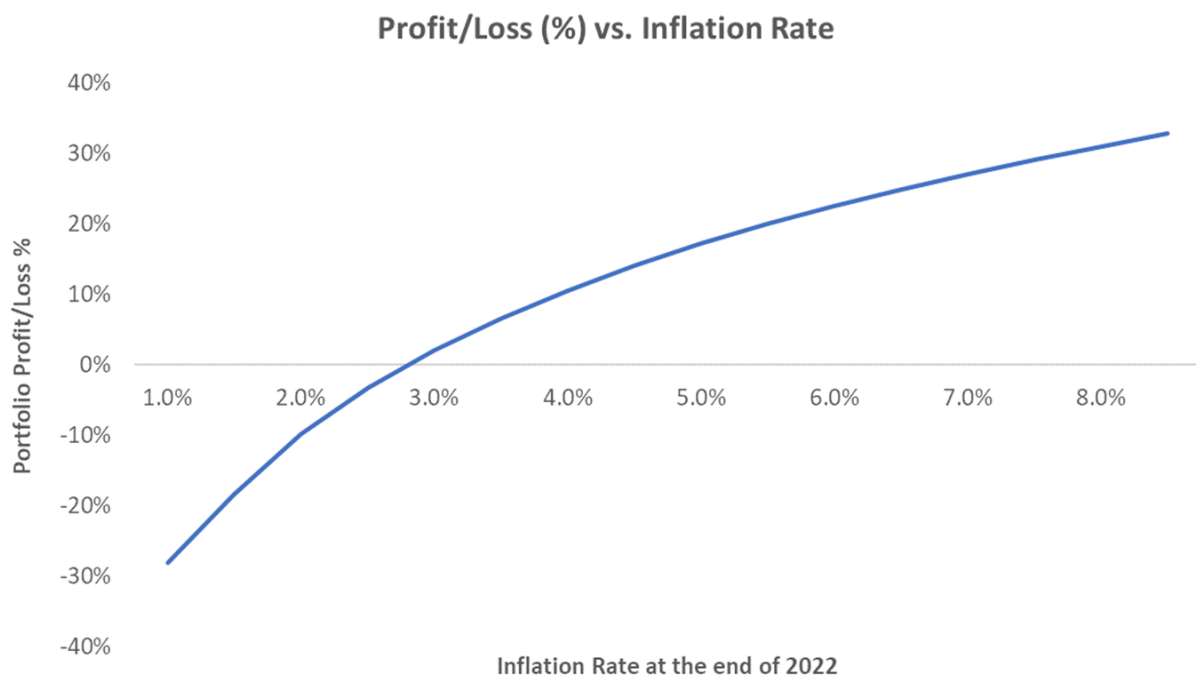
➔ Strategy 3: Short sell bonds, short sell FX

- Strategies that are not constrained to long-only positioning allow for additional flexibility
- Interactive Brokers offers a platform with broad access to futures, FX and securities markets
- A hypothetical approach could include the following positions

Position 1: Short U.S. 10Y bond futures

Position 2: Short Eurodollar futures targeting Fed policy in December 2023

Position 3: Short the euro and the yen vs the dollar



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*Profit/Loss projections are estimates based on specific positions that are subject to change. No reliance should be placed on any estimates as actual results could vary from estimates.

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SUMMARY COMPARISON OF VARIOUS STRATEGIES

	Strategy 1: Tilt equity portfolio	Strategy 2: TIPS, short-term bonds, floaters	Strategy 3: Short sell bonds, short sell FX
→ Helps in early phase?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
→ Helps in later phases?			<input checked="" type="checkbox"/>
→ Resilient to equity declines?			<input checked="" type="checkbox"/>
→ Avoids annual taxable event?	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
→ Avoids credit risk?			<input checked="" type="checkbox"/>
→ Has investment risk?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

ALL STRATEGIES HAVE INVESTMENT RISK - INVESTORS SHOULD DETERMINE WHAT APPROACH BEST FITS THEIR UNIQUE OBJECTIVES

CONTACT DETAILS FOR ADDITIONAL INFORMATION

Email buehler@astravc.com

Phone 901-230-5576

Website astravc.com

THANK YOU

 @edlalanne

 @stephen_buehler

 **Ed Lalanne**

Chief Investment Officer



 **Stephen Buehler**

Founder/COO/CCO

