2022-2023 Investing Environment is **Unique**

2023+ Top Quartile IRRs require Unusual Asset Allocation

2022 Q3 Markets **underestimate** INFLATION + RATES (=defaults) RISKS

US GDP + Inflation to be impacted by situations **outside US**

US: Fed Funds of **4% to 5%+** needed plus accelerated QT

**NOT** – Normal mix of Equities, Fixed Income, **NOT** Alternative Assets, **ESG**

Energy prices will rebound to new highs when **China ends lockdowns**

• **Market underpricing risks of Geopolitical Events**
  • Too many geopolitical events possible – *i.e.* Putin – Nuclear, Chemical?
  • Replace China’s and/or Russia’s Leaders – **downside and then maybe upside?**
  • So. Ukraine reactor meltdown via loss of power = need to evacuate 10+ million
  • China embargo of Taiwan or N. vs. S. Korea hostilities or ? **disrupting trade**
  • Large scale natural disaster (volcano, earthquake, typhoon, etc.)
  • China vs. several SE Asia countries over islands, fishing, energy
  • Dozens of “unlikely events” can become top issues overnight

• **Some Alternative Asset Classes face DISMAL fate of SPACs**

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2023-24 Require Different Investing **Strategy**

**Defaults on Debt** will spike with higher rates and credit downgrades

**Geopolitical Events** can Restrict Supplies that Exacerbate **Inflation**

- **Mass Migrations** – Budgets of EU overstressed
  - Higher national taxes = Corp. Relocation and Defaults jump
  - **10 million Ukrainians** have migrated with more en route
  - > **20 million** expected from Africa/Mid-East per United Nations, World Bank

- **Energy** - Oil, Natural Gas, **Water** – Serious in US
  - **Energy Shortages/Prices** Extreme in EU
  - Futures German Electricity €511/MWh (6x) Coal €285/ton (4x)
  - German manufacturing at risk – and DE is **Sole Engine of EU**
  - Widespread demand for **consumer subsidies** by government

**Government Debt** levels high and likely to rise – **everywhere**


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Many Asset Classes Underpricing Downsides

**Upsides are possible but less likely** (Russia withdraws, droughts end)

18 mo. Inflation to exceed forecasts (wages, rents, energy) = 20% **DOWSIDE**

**Worldwide shortages of regional Energy**
- EU sees USA as unethica for not fully replacing Russian natural gas via added US drilling, pipelines, and LNG exports (return to coal)
- Emerging nations need added electricity to supply / distribute potable water

**Worldwide shortages of regional irrigation WATER** - surpluses elsewhere (EU, UK, US, SE ASIA, Africa, S. America)
- Reduced shipments of grains from idled farms (Ukraine, EU, US, UK, etc.) expected to cause mass starvations – ? **WARs** (Renaissance Dam = Ethiopia vs Egypt)
  - $Trillions for aqueducts, reservoirs. desalination (Army Corp. re Col. + Miss.)
  - Additional > dozen Petawatt-hrs./yr. to pump and desalinate (20%+)

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Indicators Point to Lingering Inflation - Stagflation

Governments have limited options
Politicians rarely pursue long-term solutions without a catastrophic driver (SSA, Medicare)
“Governments can only fix problems they [themselves] created” Gov. Brown (private)

Few Asset Classes can beat US market

Inflation NOT done

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### Countries with the High / Low Debt-to-GDP Ratios

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Debt to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>350%</td>
</tr>
<tr>
<td>Japan</td>
<td>266%</td>
</tr>
<tr>
<td>Sudan</td>
<td>259%</td>
</tr>
<tr>
<td>Greece</td>
<td>206%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>172%</td>
</tr>
<tr>
<td>Cabo Verde</td>
<td>157%</td>
</tr>
<tr>
<td>Italy</td>
<td>156%</td>
</tr>
<tr>
<td>Libya</td>
<td>155%</td>
</tr>
<tr>
<td>Portugal</td>
<td>134%</td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td><strong>131%</strong></td>
</tr>
<tr>
<td>Bahrain</td>
<td>128%</td>
</tr>
<tr>
<td>United States</td>
<td>128%</td>
</tr>
</tbody>
</table>

**Which countries can rescue themselves via **PRODUCTIVITY**?**

**What is the Tipping Point for **DEVALUATION or DEFAULT?**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Debt to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>17.80%</td>
</tr>
<tr>
<td>Estonia</td>
<td>18.20%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>19.00%</td>
</tr>
<tr>
<td>So. Korea</td>
<td>37.70%</td>
</tr>
<tr>
<td>China</td>
<td>50.50%</td>
</tr>
<tr>
<td>Germany</td>
<td>59.80%</td>
</tr>
<tr>
<td>India</td>
<td>69.62%</td>
</tr>
<tr>
<td>Argentina</td>
<td>89.40%</td>
</tr>
<tr>
<td>France</td>
<td>98.10%</td>
</tr>
</tbody>
</table>

*"Total Government Revenue Drops when Tax Targets Over 25% of GDP"* World Bank study  *(tax avoidance?)*

Source: [https://worldpopulationreview.com/country-rankings/debt-to-gdp-ratio-by-country](https://worldpopulationreview.com/country-rankings/debt-to-gdp-ratio-by-country)

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