

CIO ROUNDTABLE

The latest episode (available [here](#)) features Sid Ahl, CIO for Private Client, Endowments and Foundations, Tom Graff, Co-Head of Fixed Income at Brown Advisory, Erika Pagel, CIO of Sustainable Investing and Lauren Cahalan, an investigative analyst at Brown Advisory.

As we enter the fourth quarter, we wanted to drill down on one of the key themes of the year: inflation (**Minutes 1-36**). The discussion drills down into how transitory inflation may actually be, and how we have been positioning portfolios. We also discuss “greenflation,” why the semiconductor shortage is playing an outsized role in inflation and why a potential capital expenditure boom could help subside inflationary pressures over the longer term.

We touch on some of the other major issues that may be top of mind for investors. This includes China, where we've seen regulatory crackdowns and concerns about its real estate sector weighing not just on China but on emerging markets more broadly (**Minutes 37-43**).

The group also discusses what these developments may mean for portfolio positioning (**Minutes 43-47**).

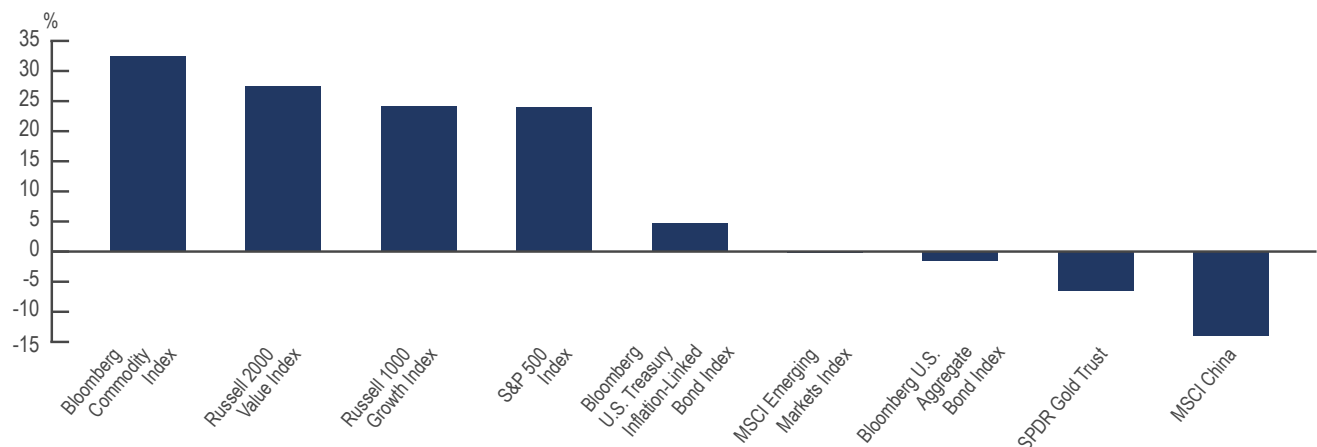
We also look at the technology sector where some high-profile tech giants are facing increasing regulatory scrutiny. As the COVID-19 crisis recedes, lawmakers around the world may be using newfound bandwidth to revisit tech regulation (**Minutes 47-1:02**).

We wanted to share some of the data that's relevant to the conversation below:

Setting the stage (Min 1-4:45)

- Inflation has been a key market theme for the year. This is reflected in the performance of various market segments including the strong gains for commodities and the outperformance of small cap value stocks, which tend to benefit from the expectation of rising interest rates.
- Investor concerns about China, including growing regulatory scrutiny and high debt levels, have contributed to underperformance. This may also be creating headwinds for emerging market stocks more broadly.

YEAR TO DATE RETURNS (1/1/21 – 11/8/21)



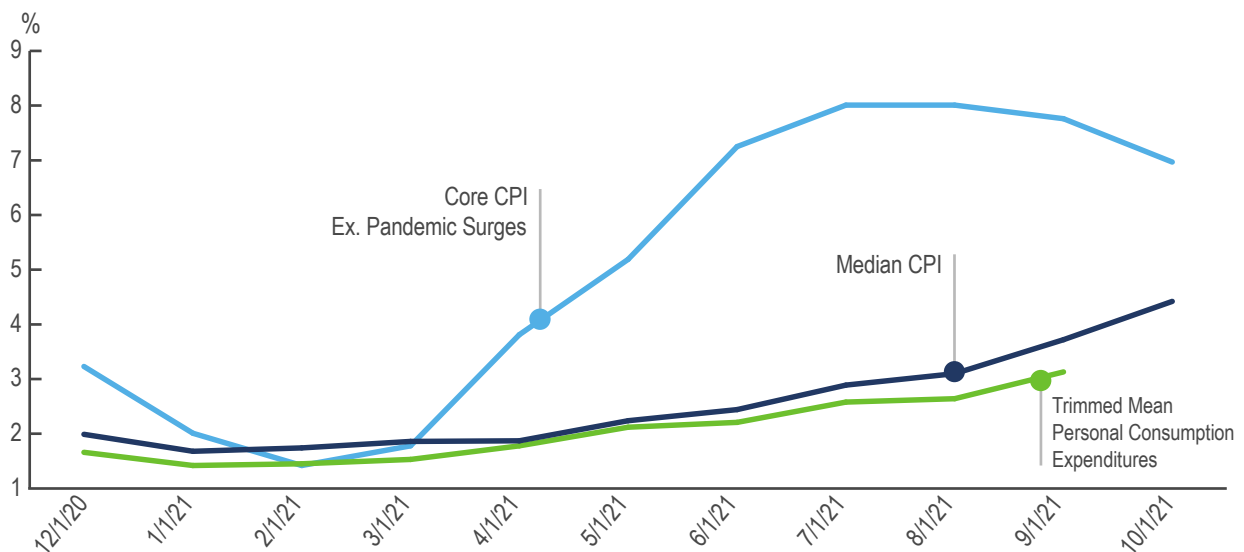
Source: Bloomberg. Past performance is not indicative of future results.

Transitory or broadening? (Min 4:45-12:00)

- Policymakers and markets have viewed inflationary pressures as transitory for much of the year. However, the persistence of inflationary pressures may be causing market participants to reevaluate this view and a look at the components of the Consumer Price Index (CPI) shows that inflationary pressures may be broadening.
- These measures include the Cleveland Fed's median CPI measure, which takes the median of all CPI items. In the six-months ended October, that measure was up 4.4%. Our analysis also calculated a core CPI that stripped out post-pandemic surge items. That basket is up 7.0% over that same six-month period.

INFLATION MEASURES

(6-month annualized)



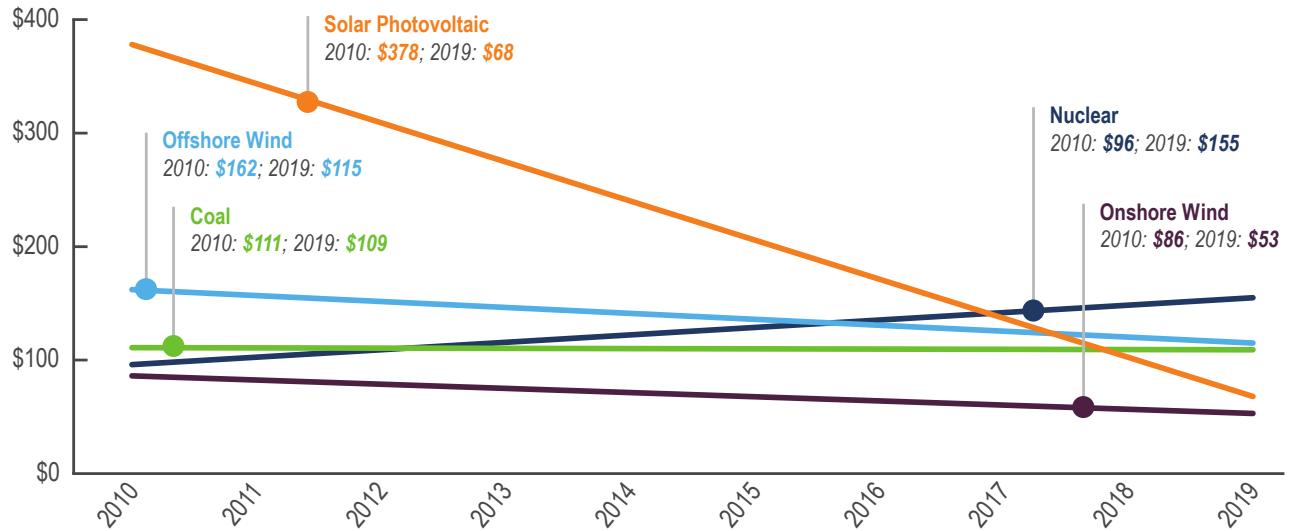
Source: Cleveland Federal Reserve (Median CPI), Bureau of Labor Statistics (Trimmed Mean Personal Consumption Expenditures), Brown Advisory Analysis (Core CPI Ex. Pandemic Surges)
 Dates: 12/1/20 – 11/10/21

Greenflation and the renewable learning curve (Min 12:00-16:20)

- Moving to a more sustainable future may lead to inflationary pressures in the short run. This is because the demand for green technologies and materials can lead to sustained price increases throughout the supply chain. Regulation and low carbon emission may be creating demand for products with limited supply. Several commodities that are used in renewable energy technologies like solar, wind or electric vehicles are up meaningfully this year. These include aluminum, copper and lithium used in batteries.
- However, over the longer term the growing reliance on renewable energy may become a deflationary force. As innovation drives usage or capacity, there's often a tipping point that results in a declining cost curve in a deflationary environment. We've seen that in solar. The cost of electricity from new solar plants declined 90%. If you look at that cost of electricity from wind, it was down 70%. During this time, coal was pretty stable.

THE FALLING COST OF RENEWABLE ENERGY

(Price per megawatt hour of electricity, by source*)



*Global weighted average of levelized costs of energy (LCOE), without subsidies.

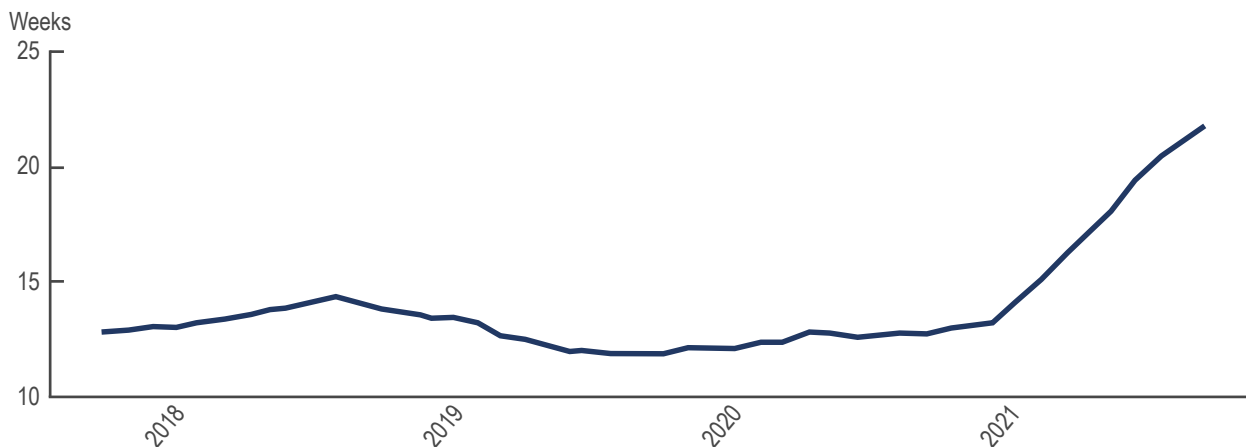
Source: Statista

The semiconductor shortage (Mins 16:20 – 19:30)

- Semiconductors play a key role in a variety of products ranging from computers to kitchen appliances to automobiles. Intel estimated in September that semiconductors will account for over 20% of the input cost of new premium cars in the future, up from four percent in 2019. Given their centrality, the semiconductor shortage is a key factor in supply chain bottlenecks.

THE WAIT FOR SEMICONDUCTOR CHIPS RISES AGAIN

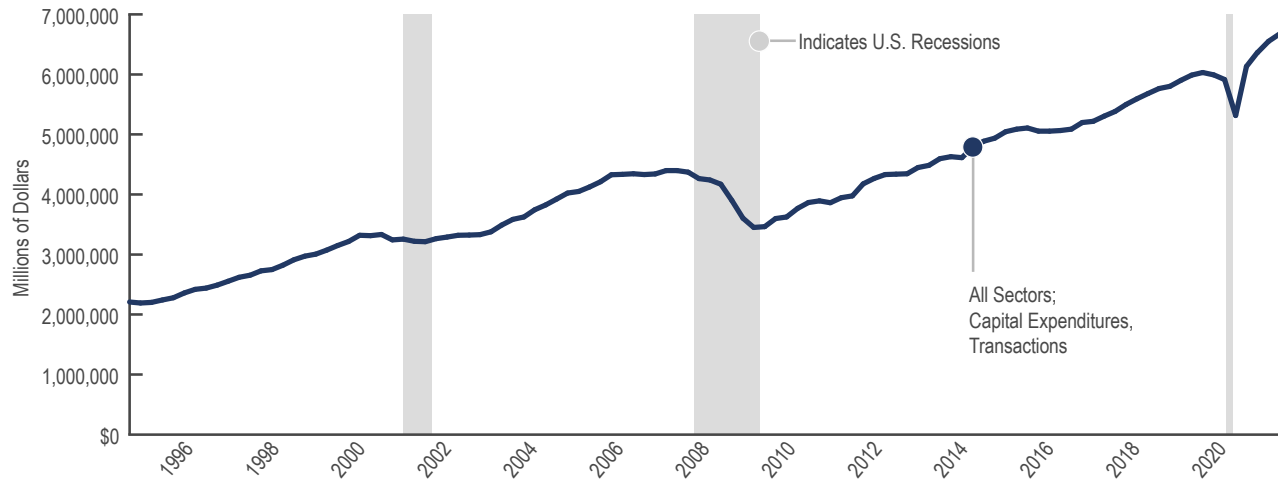
Gap between ordering a chip and delivery hit a record 21.7 weeks



Source: Bloomberg, Susquehanna Financial Group

The capital expenditure boom (Min 23:40 – 26:20)

- Capital expenditure has been growing at the fastest pace since the end of the Great Financial Crisis. Strong capital expenditure could boost productivity growth, which could lower inflationary pressures over time.

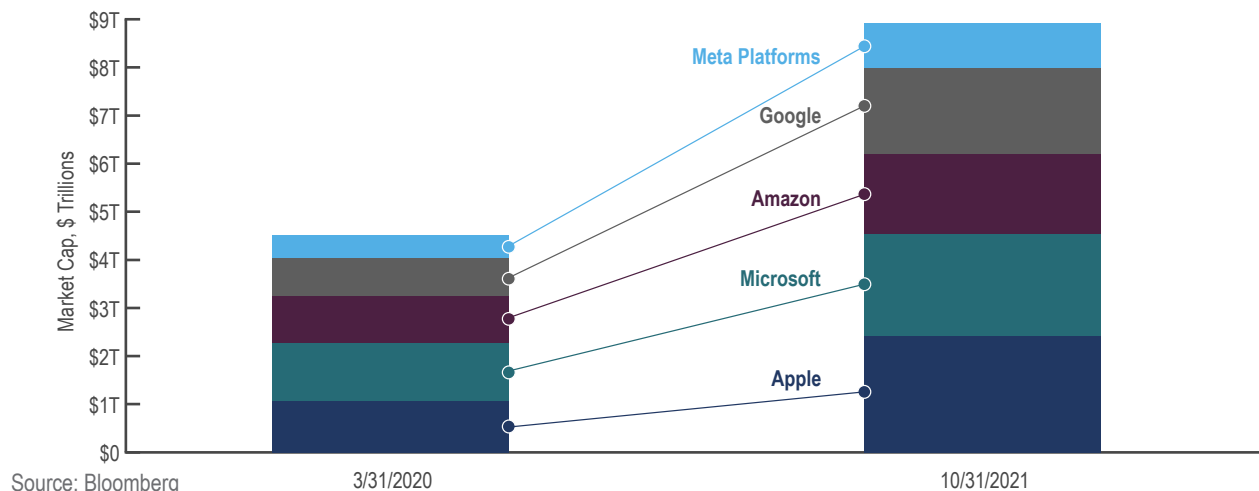


Source: Board of Governors of the Federal Reserve System (US), fred.stlouis.org.

Are the risks of tech regulation rising? (Minutes 47-1:02)

- The largest tech companies may have seen their influence and centrality grow over the quarter. The combined market cap of Apple, Amazon, Facebook(Meta Platforms) and Microsoft have grown to almost \$8.9 trillion now compared to about \$4.5 trillion at the start of the pandemic.
- As the pandemic recedes, lawmakers may again revisit regulating tech giants.

EVEN MIGHTIER THAN BEFORE



Source: Bloomberg

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