EVONITE

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The rules have changed - so must investing

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The world we grew up in as professionals felt stable and predictable. Free markets flourished, the U.S. dominated geopolitics, wars were rare and contained, and a monetary system built around the U.S. Dollar and Chinese Yuan kept global capital flowing. Interest rates were low and property investment was about leveraged income and (hopefully) yield compression (or, if you are in equities, market momentum). It was an era in which investors operated under a clear set of rules and set their investment strategies according to ‘megatrends’.

A new era

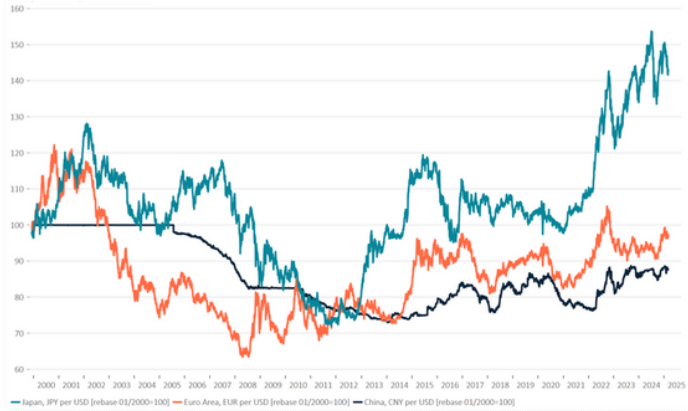
Unfortunately, that era is over. And if we look at history, eras come and go. Echos of a previous era (Spheres of Influence,[1] Monroe Doctrine,[2] Manifest Destiny[3]) come back in the public sphere with a new meaning. History is always somewhat cyclical.

What we are witnessing is not just the arrival of a new economic environment - it is a full-scale transition to something entirely different - a new era. The economic, political, and financial order that shaped the past four decades is breaking apart, and those who fail to adapt will find themselves left behind.

It’s not just the return of political risk. Monetary uncertainty looms large - will China remain tethered to the USD (chart 1), or are we heading towards a bifurcated financial system? The social landscape is also shifting, with power consolidating further into the hands of the plutocratic elite, leaving behind an increasingly fragmented lower and middle class. Meanwhile, technological disruption continues, raising questions about the future of work. Will AI reshape entire industries, rendering swathes of

Chart 1 - China has a managed exchange rate against the dollar, with much less volatility

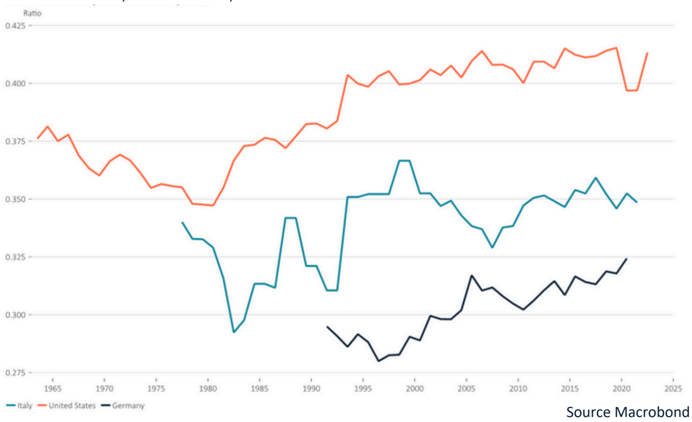
FX spot rates



Source Macrobond

Chart 2 - Inequality has continued to rise since the 1980s neoliberal era (except covid) [4]

Our world in data, Gini Coefficient, Total



Source Macrobond

white-collar jobs obsolete?

The war in Ukraine can be understood as a stress test for Western unity, global trade, and economic resilience.

How did we get here?

The Global Financial Crisis exposed some of the downsides of the neoliberal economic order. Governments responded with their existing rulebook: bailouts, monetary stimulus, and regulatory tweaks. The banking system was saved, but other problems persisted - inequality continued to grow (chart 2), immigration and outsourcing created new competition for the middle class, whose economic prospects stagnated, and debt was set at a persistently high level. Disillusionment spread and populism took hold. The world we are transitioning towards will be shaped by populism.

We saw this coming

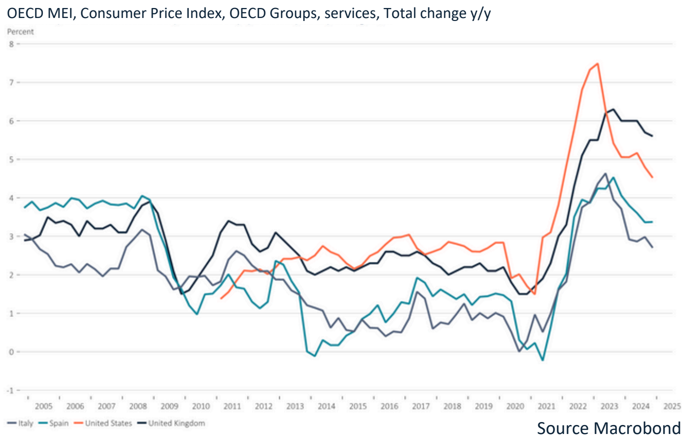
At Evonite, we have always believed we were transitioning into a different world. We saw the signals: the rise of populism, fractures in global trade, China's growing economic influence. This is why our strategy has never been about blindly following 'megatrends' or assuming that the future is always a follow on from recent trends. How can you talk about long-term tailwinds when the fundamental rules of the game are being rewritten?

Nearly everything happening now is potentially inflationary (chart 3). Defence spending is rising and will remain elevated, placing upward pressure on costs – see the performance of European defence stocks (chart 4). Decarbonisation is still a European priority, requiring substantial investment, further driving inflation. Deglobalisation—less trade, higher costs, supply chain disruptions—adds to the pressure. The potential for monetary decoupling remains uncertain, but if it materialises, it could bring even more instability. And of course, populists LOVE inflating the economy.

In this new world, pricing power is everything. Inflation does not negotiate; it erodes returns unless it can be passed on. In real estate, that means owning the right assets in the right locations where tenants have no choice but to be in. Look at the 80s, how rental growth differed from the 90s, 00s and 10s.

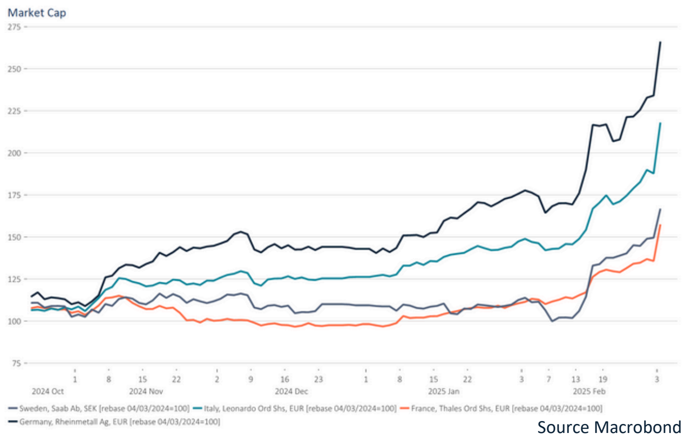
In an inflationary environment, furthermore, interest rates are unlikely to fall much further. For real estate owners who borrowed cheaply before 2022 and now face refinancing at far higher costs, the pressure is mounting. The latest Bayes Business

Chart 3 - Services inflation remains high



Source Macrobond

Chart 4 - European defence stocks booming in 2025



Source Macrobond

School Bank lending survey in the UK states that 14% of loans from both banks and debt funds are currently technically in default.

With valuations already hit by past rate hikes, many will become motivated sellers—not by choice, but by necessity – and a wave of refinancings is coming. Furthermore, German open-ended funds and French OCPIs are suffering redemptions.

At Evonite, since our inception, we have focused on developing a strategy to perform in this new world order.

Our strategy is built on 3 pillars:

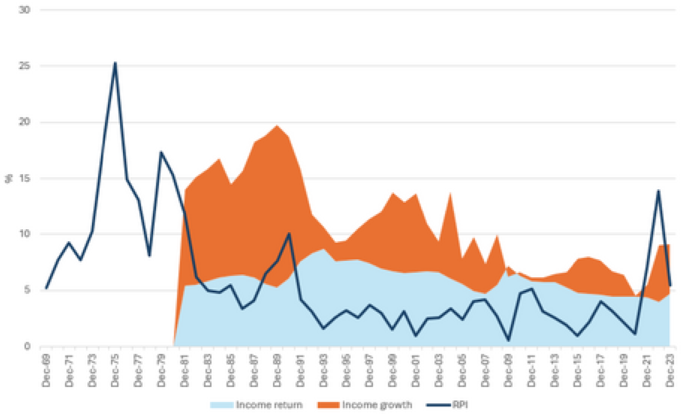
01 **Inflation protection** - owning assets with built-in pricing power

02 **Limited downside** - investing in assets with resilient fundamentals that don't require growth to just function

03 **Occupational soundness** - ensuring that assets maintain strong, stable demand

Those who believe in repositioning, heavy capex and high leverage for a period like this are missing the point. This is a period where you need sound occupational fundamentals, attractive pricing and little else to achieve value add returns. Inflation will give you the returns, not capex (chart 5). The world is shifting, and those who fail to recognise this will be left behind. But for those who understand these changes, there is opportunity. The key is not to invest in what worked in the past but to position for what comes next.

Chart 5 - Following high inflation, the majority of the return comes from income growth



Source MSCI

1. In the field of international relations, a sphere of influence (SOI) is a spatial region or concept division over which a state or organisation has a level of cultural, economic, military, or political exclusivity.
2. The Monroe Doctrine is a United States foreign policy position that opposes European colonialism in the Western Hemisphere.
3. "Manifest destiny" is a phrase that represents the belief in the 19th-century United States that American settlers were destined to expand westward across North America, and that this belief was both obvious ("manifest") and certain ("destiny").
4. In economics, the Gini coefficient is a measure of statistical dispersion intended to represent the income inequality, the wealth inequality, or the consumption inequality within a nation or a social group.