Letter from the Oyat Advisors team

Dear family and friends,

As is typically the case in the world of investment management, 2021 has been an eventful and interesting year. The year started with a substantial pick-up in economic activity worldwide, following the massive blow dealt by the COVID virus to the global economy in 2020. Two main factors contributed to this. First, the pharmaceutical industry was successful in creating a number of vaccines in a record time, which enabled a gradual reduction in restrictive measures imposed by various governments, leading to the 're-opening' of the world economy. Second, monetary and fiscal authorities continued to extensively support financial markets and the global economy via their policies, including an unprecedented amount of fiscal stimulus in many countries.

However, before long, a number of concerns started to surface, in the form of supply chain issues, as well as rising inflation. Central banks were quick to point out that inflation was caused by these temporary disruptions in supply chains, and would therefore be transitory. However, as the year progressed, supply chain issues did not ease in any significant way, labor shortages began to materialize, energy prices spiked, and central banks were eventually compelled to adjust their narrative of 'transitory' inflation and reevaluate their policies.

Later in the year, China started to come under the spotlight of the global investment community, notably due to an increasing level of government intervention in certain sectors, such as technology and education, as well as uncertainty about the foreign listing of Chinese companies. A more fundamental cause for concern was the fact that economic activity in China started to slow down rapidly in the second half of the year, for a number of reasons. First, similarly to most advanced economies in recent decades, China is starting to experience demographic pressures, including a slower growth in its workforce, as well as the overall aging of its population. Second, as part of its effort to rebalance growth from exports and infrastructure/real estate investments towards domestic consumption and the production of higher value-added goods, the government has aimed to constrain the growth of private sector debt in 2021. This soon became problematic, particularly for the real estate market, as evidenced by the recent struggles of Evergrande and numerous other Chinese property developers.

Moreover, the COVID virus continued to be a challenge throughout the year, with the emergence of a number of variants, including the highly infectious Omicron variant, and an increase in the number of hospitalizations in several countries towards the end of the year. Thus far, this hasn't led to the kind of highly restrictive measures we saw in the spring of 2020, apart from a few places in China. Still, pandemic-related restrictions would likely coincide with disappointing economic data in the quarters to come, should they materialize.

Overall, financial markets finished the year at or near an all-time high, and seemed little concerned about the ongoing COVID situation, the rising threat of inflation, China's economic slowdown, or the prospect of policy normalization by monetary, and perhaps even fiscal, authorities. Seemingly, all is for the best in the best of all possible worlds.

For the next section of our annual report entitled 'Investment landscape', we'll be trying something a little different this year. Instead of presenting our customary review of fundamental macroeconomic indicators, which can be tedious reading for those only marginally interested in macroeconomics and financial markets, we'll do something even more tiresome, and discuss recent developments through the lens of fundamental economic theory [1]. We hope that readers will indulge us in this, as we strongly believe that it is important to have a more general discussion about these topics, and think long and hard about the path we are currently on. It has predictable consequences, some of which have already started to manifest themselves.

In closing, we want to thank all of our clients and other stakeholders for their trust, and thank our employees for their valuable contribution throughout 2021.

On behalf of Oyat, we would like to extend our best wishes to you for the New Year.

Sincerely,

The Oyat Advisors team

[1] We should point out that much of what we briefly discuss is heavily based on the work of economists Henry C. Carey and Frédéric Bastiat.

Investment landscape

Economics & political economy

Economics, at its core, is about the notion of scarcity.

This is due, first and foremost, to the fact that human wants are limitless, and second, because of the finite availability of most of the factors of production given to us by nature.

Let's start by looking at wants. The study of psychology provides us with a certain understanding of what motivates human beings. Clearly, we all have basic physiological needs, which must be satisfied under pain of death (e.g. respiration, hydration, nutrition, …). Each of us also has wants and aspirations that are more personal in nature, as is the realization of their satisfaction. Our wants, far from being a fixed quantity, are on the contrary progressive, typically following a certain hierarchy, and tend towards the infinite.

We are also endowed with sensibility – the ability to feel satisfaction, as well as suffering. We cannot satisfy the near totality of our wants without effort, which can be considered as a form of sufferance in itself. Consequently, our personal interest urges us to satisfy our wants, and not suffer from deprivation, while minimizing the amount of effort it takes to do so.

Want, Effort, Satisfaction – this is what characterizes us from an economical point of view.

In this endeavor, we've been gifted with a number of remarkable physical, intellectual, and moral faculties. And we have been situated in the midst of a wide variety of natural elements and forces. We apply our faculties to these natural agents in the production of things that are useful to us, and satisfy our wants.

The question is – what, how, and for whom to produce? Are individuals to decide these basic economic questions, or should that be the role of a central authority? Or perhaps a mix of both? Who should own the means of production? How is the income from production to be distributed among the various factors of production?

These are some of the important questions of economics. In seeking to answer them, two main doctrines of political economy have existed throughout history.

According to the first, human nature is deeply flawed and unlikely to have much scope for perfectibility over time. Individual interests are largely antagonistic, and when left to interact freely, we tend to achieve sub-par results in terms of broad-based economic prosperity and overall societal development. As a result, a significant degree of constraint is required to compel us to peacefully coexist in a social state, prosper in an all-inclusive manner, and achieve our moral ideals. Fortunately, some amongst us are capable of creating an artificial social construct to that end. They legislate and regulate economic and social life, greatly influencing our wants, production, the flow of capital and labor, and even morality, to the benefit of all. Naturally, to do all of this for us, the State and its bureaucratic apparatus must be extensive, and in order to finance itself it must take much from the private sector in the form of taxes, as well as redistribute much amongst the citizenry.

According to the second doctrine of political economy, human nature is certainly prone to errors of judgment and misguided morality, but through experience and foresight, individuals are perfectible over time. Moreover, it suggests that the legitimate interests of individuals are predominantly harmonious, rather than antagonistic. As a result, liberty –

within the confines of the law, restricted to its proper perimeter – as well as both individual and collective responsibility, should be the guiding principle of economic and social life. Thus, the State ought to confine itself, to the largest possible extent, to its fundamental purpose and functions, and take as little as necessary from the private sector to fulfil these.

Regrettably, a third doctrine emerges periodically, which aims to have the 'best of both worlds'. It consists of demanding everything from the State, without giving anything to it. As should be painfully obvious, this notion is simply illusory, absurd, incoherent, and dangerous.

Economic harmonies

Over the next few pages, we'll attempt to describe a number of economic harmonies that make a strong case for a natural organization of society, in other words the 'libertarian' doctrine described above. We'll also highlight a number of artificial factors that disrupt these economic harmonies, many of which relate back to the doctrine of 'statism'. This will give us plenty of chances to discuss certain aspects of today's economic and investment landscape, as well as some of the main dangers of pursuing the illusory path we're currently on of the 'best of both worlds'.

Last, we'll close this section with a number of concluding remarks that refer back to investment management and asset allocation.

Exchange

It must have become evident very early on in the course of human existence, dating further back than even anthropologists are able to tell us, that cooperation is mutually beneficial, and even necessary.

The best way to cooperate is through exchange. This has two manifestations – namely, the union of forces, and the separation of occupations.

In almost all cases, the united force of several persons is superior to the sum of their individual forces. Exchange is such a case. Efforts of equal intensity tend, by mere fact of their union, to yield superior results. This is mainly due to the separation of occupations, which is basically a more permanent way of associating. We divide our labor, which gives birth to professions and trades; we specialize, and as a result we become increasingly productive and innovative. It also enables us to make a more optimal use of natural resources, which are unequally distributed all over the world.

Thus, voluntary exchange truly is mutually beneficial, as well as a significant contributor to peace and stability by way of creating reciprocal dependences. Over time, it enables mankind to continuously diminish the proportion that effort bears on satisfaction, which is precisely what ought to define our conception of economic progress. Just think of the amount of effort it takes to satisfy a given want today compared to fifty years ago, a hundred years ago, a thousand years ago. Likewise, think of the measureless distance that separates the satisfactions we all derive from society, relative to what we could each obtain by our own unassisted efforts. This is the power of exchange. It is perhaps the finest and most decisive economic harmony that exists, and we would do well to remember it.

Capital & labor

In order to facilitate exchange, a form of money is voluntarily adopted as a medium of exchange and unit of account. Money acts as a powerful catalyst for the transmission of goods and services, by creating a coincidence of wants and providing a common measure of value, which is often problematic with barter. Moreover, *sound* money – as a store of value – enables one to defer his purchasing power for a service rendered; in other words save, which accelerates the formation of capital.

We'll come back to the topic of money later on in this section when talking about disrupting factors, and notably inflation, but for now, let's spend a little bit of time discussing capital and labor, and the distribution of income from production.

Capital comes into existence as a result of prior labor. It represents the tools and instruments of production that have been created in order to obtain an ever-greater level of cooperation from natural agents; as well as the fruits of past labors stored in the form of sound money.

As such, capital and labor are two words that in reality express one and the same idea. One is anterior labor – the other is present labor. Capital enables the joint agency of anterior and present labor, which is indispensable for any enterprise of significant magnitude to be undertaken.

This cooperation is mutually beneficial, although not equally so. In the absence of artificial disrupting causes, the natural tendency over time should be for both capital and labor to benefit, in absolute terms, from an increasing level of production – but for labor to benefit disproportionally relative to capital.

This stands to reason because new tools and methods are more productive than older ones, and competition should tend to cause most of the resulting benefits to translate into higher wages, lower prices, or a combination of both. Either way, purchasing power consequently increases.

On the other hand, as capital is formed and accumulated, one might logically assume that its level of remuneration – the rate of interest – would progressively fall over time, as evidenced throughout history. Having said that, it would never reach zero, or a negative rate of interest, since capital formation still requires effort or privation, and who would desire to endure these should there be no advantage in doing so?

So in principle, there should be little antagonism between capital and labor. Both mutually benefit from their joint agency in production, and if any long-term structural advantage is to be found, it should be in favor of labor.

Self-interest & competition

Let's turn to one last economic harmony we'd like to highlight: the counter-balancing forces of personal interest and competition.

On the one hand we have personal interest. There should be little doubt that it is the chief impetus for human action. Under its influence, we are constantly in search of circumstances that will give the greatest value to our services. It is an irrepressible force that spurs us on to progress and discovery. Now, this may regularly lead one to acquire an exclusive advantage, be it in the form of access to natural resources, the invention of a process by which they can be utilized, or perhaps new tools and instruments of production, or even something more intangible.

In the absence of competition, such circumstances would lead to insurmountable inequalities, and increasingly so with every new invention. What a sad state of affairs it would be, if printing were confined to the family of Gutenberg, and if the descendants of Watt could alone work the steam engine. But let competition be introduced, and all such exclusive advantages eventually slip away from individual hands, having remained there, in the form of exceptional remuneration, only long enough to incite us in the first place. Progress then becomes the common inheritance of the great family of mankind.

Let's examine how this occurs in a little bit more detail. As laborers, we all instinctively seek out employment where it is best remunerated, even as we compete with other members of the working population. And as producers or capital owners, we are inevitably attracted by excessive returns, which we thus reduce to the ordinary rate. Hence, in the pursuit of our own interest, and without necessarily knowing or wishing it, we all promote the necessary counter-balancing force that is competition.

It is true that when considered individually, we may well find something to blame in each personal interest and competition. Self-interest, even if rightly understood as distinct from selfishness, and very much compatible with charity, may still appear to some as a baser instinct – a primitive and animal remnant from the painfully slow evolution of our genetic makeup. Competition, on the other hand, is often associated with a 'race to the bottom', and the harmful effect it can have on labor in particular.

And yet, the combination of these two forces constitutes a wonderful economic and social harmony that should, in principle, tend to elevate the general level of humankind, and approximate the conditions of all.

Disrupting factors

Ok, we've probably lost a few readers along the way. And many of those that are still with us are probably fist in the air, shouting at their computer screen:

'How detached from reality can this writer be! How oblivious can one be to such an increasing concentration of capital, such growing levels of inequality, such erosion of purchasing power for large portions of the population; to say nothing of environmental degradation! Hardly any of the economic harmonies that have just been described, and the resulting benefits they are supposed to produce, correspond to observable facts on the ground!'

This is neither unwarranted or without merit. But what is of crucial importance, is to ascertain why this might be the current state of affairs. Are these alleged economic harmonies theoretically flawed or impractical, in which case perhaps we should aim to create a better social design, even if artificial? Or are these economic harmonies still very much pertinent, but greatly disrupted by a number of external factors?

It would seem important to know the answer to these questions, because otherwise, we run the risk of trying to fix what isn't broken, only to worsen the situation. So let's talk about artificial disrupting causes.

The annals of history are filled with records of the most widespread forms of artificial disrupting causes, including relentless wars, slavery, and countless forms of spoliation, whether legal or unlawful. There is little need to detail the manner in which the destruction of large amounts of human and physical capital, the enslavement of populations, and plunder, greatly disrupts broad-based economic and social progress.

Rather, we'd like to focus on more modern-day artificial disrupting causes, namely, the lack of competition, and generally speaking the notion of 'capitalism of connivance', or 'crony capitalism'; and second, monetary & fiscal policy and inflation.

Competition & 'capitalism of connivance'

For decades, economists have debated whether free-market capitalism has an inherent tendency for capital to dynamically self-concentrate. Why is the supposed harmony between capital and labor in the distribution of income from production hardly observable in the recent decades, and especially in advanced economies? Why do the productivity enhancements of tools and methods of production no longer result in higher wages and lower prices? Why are we witnessing increasing levels of income and wealth inequalities?

Many mutually-reinforcing factors have exacerbated this dynamic over time.

First and foremost, there's been a gradual decoupling of productivity and wage growth in advanced economies over the past couple of decades. Globalization and technological progress have played a large part in this, by reducing the relative demand for low-skilled workers (thereby increasing wage inequality), and by reducing the overall labor share (i.e. substituting capital for labor). So, while the expansion of global trade and technological progress is desirable and beneficial in the aggregate, it does come with their fair share of challenges. And for them to remain advantageous, it is key to reconnect wages and productivity growth. This requires labor to continuously adapt and develop new skills, so that it may be employed in jobs that complement, or do not compete head-on with increasingly productive technologies. Importantly, it also requires vibrant competition, in order to promote the transmission of productivity gains to wage growth, as well as lower prices.

Regarding the point on competition, it should be noted that the lax enforcement of antitrust laws, especially since the 1980s, has resulted in an increasing level of industry concentration. This, in turn, has increased the bargaining power of a fewer number of employers, which has had a clear negative impact on labor's ability to bargain for its fair share of the income from production. It has also enabled for the compensation earned by a very small number of senior executives of large corporations to go completely out of control, which is a major driver of wage inequality.

A significant factor in the decline of competitive rivalry is the increasing proximity of corporate and political interests, which is at the root of the notion of 'capitalism of connivance'. Clearly, a single paragraph will not suffice to detail the manner in which countless privileges, be it in the form of laws, regulations, licenses, subsidies, incentives, trade restrictions, and governmental contracts – to name just a few – help create and sustain firms that operate in increasingly concentrated industries.

Inflation

These topics would obviously merit a much more comprehensive discussion, and hopefully we'll be able to return to them in the future, but for now we'd like to move on to the main theme of this section: inflation. This is particularly topical, as 2021 saw a clear inflection point in the rate of inflation, to levels unseen in nearly four decades.

So what is inflation? It is commonly understood as the rate of increase in the price of goods and services. A perhaps more appropriate way to think of inflation is the decrease in the purchasing power of money, which manifests itself by an increase in the general price level. And if inflation is about the purchasing power of money, then it stands to reason that it is essentially a monetary phenomenon, 'always and everywhere', as Milton Friedman once famously stated.

Specifically, inflation occurs when the quantity of money increases at a faster rate than the output of goods and services in the economy. The evidence for this is quite compelling. Throughout history and across countries, there's never been an inflation that wasn't accompanied by an extremely rapid increase in the quantity of money. And there's rarely ever been an extremely rapid increase in the quantity of money that didn't result in inflation.

So why does this occur? Is it necessary, is it desirable?

In the first place, it is important to recognize where money creation occurs: at the level of central banks and commercial banks. Central banks create 'base' money by creating bank reserves, and through open market operations (i.e. purchasing securities in the market using new money). Commercial banks in turn also create money by lending out these deposits in the form of loans, via the fractional reserve banking system. Commercial banks are responsible for the vast majority of overall money creation, and clearly they've been at the center of many of the monetary booms and busts throughout history, the latest example of which being the financial crisis of 07/08. This paved the way for our current predicament, which has more to do with fiscal spending and money creation by central banks, rather than commercial banks, so let us focus on that side of the equation.

One of the main reasons why central banks create money is to finance government spending. Simply put, it enables governments to spend more than they raise in taxes. And yet, it is crucial to understand that whatever deficit exists, it is ultimately paid by us as citizens, via the accumulation of debt, and via inflation. There is no getting around this. Whatever the government spends, we unavoidably have to pay for in full. As we've stated in the past, debt accumulation, especially when used to finance present consumption, fundamentally amounts to borrowing from the future. Inflation, on the other hand, can be seen as a hidden form of taxation, and it's easy to see why politicians see it as a wonderful way to finance government deficit spending. Money printing requires no vote, it comes very close to the notion of 'taxation without representation', and it is a concept that is obscure enough for the broader public not to recognize it as such, until it takes on such proportions that typically create massive social, economic, and political upheaval. Crucially, inflation also reduces the real value of debts accumulated over time, so one can clearly see how debt and inflation go hand in hand in reinforcing governments' capacity to finance deficits.

But it would be narrow-minded to lay the entirety of the blame on elected officials. Arguably, we as voters are also complicit in this. That is certainly the case, when we ask our representatives to continue to increase government spending, without increasing taxes to pay for it. In other words, when we demand the 'best of both worlds' from them, as is quite common nowadays.

Is inflation necessary, is it desirable?

The economics discipline, in its current state, arguably misrepresents inflation by largely ignoring a key determinant that is the quantity of money, and by suggesting that its main drivers are increasing input costs (i.e. cost-push) or thriving demand (i.e. demand-pull). It also endorses the questionable notion that inflation is desirable, as evidenced by many central banks' mandate to achieve 'price stability', or an inflation rate of 2% p.a.. But clearly, if one takes a moment to think it through, it's easy to see that in the bigger picture, rising input costs and higher consumer demand can also be side-effects of money creation, rather than root causes of inflation themselves. Relating this back to the present day: are supply chain issues causing inflation, or is inflation causing supply chain issues? It's certainly not as straightforward as central banks would have us believe.

As for whether inflation is desirable, we're told that a little bit of inflation is a good thing. It stimulates spending, which is a crucial component of overall economic growth, by preventing consumers from being thrifty, and waiting for lower prices. And for most producers, moderate inflation is also seen as desirable, as they can typically increase prices faster than costs rise, which enhances their profitability. That is certainly the case if there's hardly any competition.

All of these assertions are not unreasonable. But what's the overall cost/benefit analysis? What are dangers of inflation? We've already mentioned that inflation can be considered a hidden tax that is largely outside the scope of democratic accountability. Another argument against inflation is that it incentivizes consumers and debtors at the expense of savers and lenders. And this has important implications in terms of savings, capital formation, investments in productive assets, productivity growth, and therefore overall long-term economic performance.

Inflation also has a highly disruptive impact on the economic harmonies described earlier. It is a major contributing factor to rising inequalities, in that money creation does not impact all economic agents simultaneously. This is the central insight of what's known as the 'Cantillion effect': that the closer one is to the emission of new money, the more one benefits from its emission before the unavoidable manifestation of higher prices. And in a world in which the economy has become increasingly financialized, this effect can result in massive increases in the price of financial assets, resulting in growing wealth inequalities. Moreover, lower-income households suffer disproportionally from inflation, as consumption of basic necessities represents a higher share of their total income. For these reasons, inflation, when left unchecked and once it reaches very high levels, will frequently lead to great social tensions and political upheaval.

Let's also briefly discuss the manner in which inflation is measured, which may point to the fact that judging by official numbers, common citizens are not being helped in taking the full measure of the phenomenon. Focusing on the U.S., inflation is typically measured by the Consumer Price Index (CPI).

Simply put, the main issue with the CPI is that it is a measure we employ to try and gauge three different things: prices, the cost of living, and living standards. Now while all of these are clearly interconnected, it is important to understand that they are still different, and that it can be quite misleading to try and measure all of them with a single metric.

Take the example of housing, which obviously represents a large portion of one's expenses. In most countries across the world, house prices and rents have risen significantly faster than wages, making housing increasingly expensive and less affordable. However, this is not fully captured by the CPI, which does not use house prices or rents in its calculation, but rather focuses on interest payments for home owners, and the concept of 'owner-equivalent rent' for tenants (introduced in 1983).

We can also point out that in an effort to have the CPI measure not just simply prices, but also the cost of living, the calculation methodology began using a geometric mean, rather than an arithmetic one previously, in 1999. This, together with the introduction of the 'chained' CPI in 2002, aims to reflect the changes in consumption patterns that consumers make in response to changes in relative prices, or the so-called 'substitution bias'. For example, if the price of beef goes up, people might switch to a different kind of meat. Fair enough. Although it literally becomes an apples-to-oranges comparison, making the argument rather unconvincing, and it implies that such a switch is neutral in terms of satisfaction, which is hardly ever the case. Last, from a purely mathematically stand point, it is important to note that a geometric average is always lower than an arithmetic one. Ok, maybe just a coincidence…

Finally, in an attempt to have the CPI place a larger emphasis on living standards, and not simply prices and cost of living, so-called 'hedonic quality adjustments' were introduced in the early 2000s. This method aims to remove any price differential attributed to a change in quality by adding or subtracting the estimated value of that change from the price of the old item. While it is commendable to try and estimate the enjoyment, usefulness, and quality of life that goods offer in comparing prices over time, it seems clear that this is a task that comes close to being impossible. How does one separate utility, or quality, from all of the other considerations that influence prices? And isn't utility a value judgment that is largely subjective, rather than objectively quantifiable for all persons collectively? At any rate, hedonic adjustments indisputably contribute to the incoherence and dangers of trying to have a single measure appraise the change in prices, cost of living, and living standard all at once.

Cui bono? Who benefits? Well, readers will no doubt have noticed that all of the adjustments made to the calculation methodology over the years have had the effect of reducing, rather than raising, the CPI. Again, maybe just a coincidence… But when you relate this back to what we previously discussed regarding government deficit spending, and the impact of inflation on the 'soft defaulting' of debt, it isn't hard to see that the incentives are there for perpetual monetary expansion and inflation. It certainly seems beneficial for governments to generate moderate inflation, all the while preventing it from going out of control and becoming an economic or social issue. And considering the psychological component of inflation, underreporting it in official metrics such as the CPI makes quite some sense. Furthermore, it is important to note that many mandatory expenditures, such as social security, are directly linked to inflation, providing another strong incentive to keep that measurement artificially low. For those that prefer to refer to hard figures rather than theoretical arguments, suffice it to say that the latest reading for U.S. inflation stood at 7.0% for 2021. Using the calculation methodology of 1990, that number is currently above 10%. And using the methodology prior to 1980 would bring it up closer to 15%.

Conclusion

Very well, let us now tie all of this back to the practice of investment management, and make a transition to our next section on asset allocation, so that these last few pages may have a semblance of justification for belonging in our annual report.

Hopefully, we've convinced some of you that the doctrine of the 'best of both worlds', in other words to demand that the government should run ever-growing deficits on our behalf, and never raise taxes or cut spending, is no way at all. It is sure to result in the debasement of the currency, and mounting inflationary pressures, which, for all of the reasons we've described, has more costs and dangers than benefits. Unmistakably, the return of a higher rate of inflation has been one of the most significant developments of 2021. It is something that investors need to reckon with, as is a certain probability that it may continue to accelerate, or remain at currently elevated levels for a period of time. This marks a substantial departure from the type of investment environment that has been prevalent for the last 40 years, characterized by a declining rate of inflation and falling bond yields. As a result, investors may be well-advised to reconsider whether typical asset allocation frameworks for exposure to fixed income securities and public equities remain appropriate.

But that is not to say that inflation is now the only thing we need to worry about. For years, central banks have been fighting against an inflation rate that they deem to be too low, which – while it may not be the worst thing in the world for consumers and overall economic prosperity – is clearly not in their interest. And there are some strong deflationary drivers out there. We've already alluded to globalization and technological progress. Demographics also certainly merits consideration in this debate. But it is important to recognize that monetary expansion and debt accumulation, in itself, also ultimately becomes a strong deflationary force. This occurs because the accumulation of incremental debt has a diminishing marginal productivity. So, while the amount of debts outstanding increase alongside monetary expansion, inflation rates increase and nominal prices rise, but real output does not grow as fast. And this growing gap creates an increasingly strong deflationary force. As a result, more often than not, inflation ultimately ends up in economic recession or depression, a process through which the liquidation of unproductive debts/credits results in lower prices.

So it's not as simple as saying we just need to worry about inflation from now on, and invest accordingly. Certainly not for longer-term capital allocators. For us at Oyat, the developments that occurred in 2021 change surprisingly little in the manner in which we're positioned across asset classes, as detailed in the next section. As we've stated in previous annual reports, in a world of monetary abundance, we want to mainly focus on owning scarce and/or productive assets, as well as maintain some level of optionality by holding liquid reserves. In that sense, we've long been positioned in a way which adequately reflected the anticipation of a return to a higher rate of inflation. But we've also been strong advocates of a balanced positioning, that accounts for the possibility of various outcomes, including a deflationary recession/depression. Ultimately, we recognize that various outcomes are possible, and therefore aim to maximize the chances of satisfactory results irrespective of how the investment landscape develops from here. We feel comfortable that such an approach is coherent with our investment objectives and overall level of risk tolerance.