ROGATE CAPITAL
QUARTERLY INVESTMENT REVIEW
AUGUST 2023

TECHNOLOGY DRIVEN REVOLUTION

It may be early to say it, but we might just be seeing the end of the inflation and interest rate cycle in the distance suggests Richard Powell. By holding our nerves through the difficult times we will all benefit when sentiment eventually turns positive again.

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Conversations surrounding the health of the global economy continue to be dominated by inflation and pay rises and this is unlikely to change for some time. However, and it may be very early to whisper this, we might just be seeing the first signs that inflation is being brought under control. The most recent figures from a number of economies suggest that the surge in prices over the last year or so is beginning to wane; currently this is due more to the rebuilding of business supply chains and less to the impact of rising interest rates. We are beginning to see some construction businesses announcing price "deals" and even blatant price cuts which suggests that they now have a more plentiful supply of products and are keen to sell them. This can only be good news in the fight against rising prices.

Shielding from mortgage payment increases will not last forever.

Central Banks have been raising interest rates in an effort to take disposable income away from consumers by forcing them to pay more for their mortgages however to date, particularly in the UK and the US, the impact of rising interest rates has yet to really affect mortgage payers. In the US it is not uncommon for borrowers to take a 30 year fixed rate so they have felt no effect of rising or falling rates through the term of their mortgage. In the UK there are currently around four times as many mortgages on fixed rates as on variable rates therefore these mortgage holders have yet to see their mortgage payments increase but they are aware that their shielding from the interest rate rises will not last forever as a large number of these fixed rates come up for renewal in the next twelve months. As they do borrowers will see their payments increase dramatically, as highlighted by recent media articles, and this will have the Central Banks' desired impact on their ability to spend elsewhere which will slow the economy and stop prices rising-which is exactly what the Central Banks are trying to achieve. We do therefore still expect inflation to fall over the coming months even though it hadn't started to fall as early in the year as most people had thought it would.

Technology is going to have a greater impact on our lives.

There is a great deal of interest in the latest developments of Artificial Intelligence (AI) and how this will affect us all. Although the current valuations of businesses involved in AI could certainly be described as a burgeoning "tech bubble" we all need to accept that technology is going to have a greater impact on our lives. Just think back to the mobile phone you used 20 years ago and what your smartphone can do for you now! It has been suggested that we are seeing an industrial revolution developing that will have as great an impact on our lives as the revolution of the 18th/19th Centuries, only this time the revolution is technology driven. Currently the general business spend on AI is low but it is predicted to increase dramatically in the coming years which will have both positive and negative implications for all. AI is creating worry and concern in a various fields; it is alleged that some children are using AI to write their history essay homework, that AI will replace those repetitive jobs currently carried out by humans and even actors and writers in Hollywood are striking while they seek assurances that their jobs won't be lost to AI. It will turn out to be something of a cultural embarrassment if the last major human Hollywood blockbuster is the Barbie Movie and our last memory of human music is Barbie Girl. History tells us that trying to halt progress is as successful as holding back the sea with our bare hands and it is without doubt that "bubble " or not the AI world presents potential investment opportunities that your fund managers will seek out. There

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will be major profits to be made from sections of AI and we should all expect the fund managers to partake in them.

Pleasing increase in the value of holdings.

Many years ago stockbrokers suggested that their clients should "sell in May and go away" as markets have been seen to perform better at the beginning and end of the year. Although their summer holidays to the Riviera may have had a bearing on this (different times!) there is often some truth to this saying and I suspect that we will continue to see volatility over the rest of the summer as the interest rate cycles reach their summit but that markets will begin to improve through the Autumn. Once sentiment does eventually change, and it is impossible to predict when this will be, we will all see a pleasing increase in the value of our holdings.

This article is the opinion of Richard Powell, Director of Rogate Capital.

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