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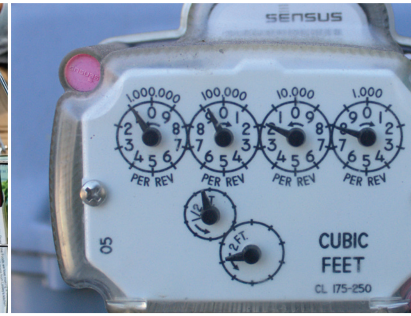
QUARTERLY INVESTMENT REVIEW

FEBRUARY 2023

THE WAVES OF REALITY



There is still trouble in the wider world on many fronts but, proposes Richard Powell, the slight winds of economic change are in the air. There may well be problems in the short term but the medium term outlook is beginning to look promising for investments again as asset classes react to the potential of falling inflation.

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All those involved in the management of investments are very happy to have closed the door on 2022 and are looking forward to 2023. Last year proved to be more than difficult with almost all asset classes struggling and was made particularly uncomfortable as so called “safe haven” assets such as Government Bonds fell in value as general stock markets also fell. They usually balance each other out like a seesaw so that when one sector falls the other rises to compensate, however very occasionally there is a perfect storm when both sectors fall at the same time. With the closure of 2022 behind us we are now able to examine the prospects for 2023 and, being careful to whisper it quietly, the outlook is beginning to look more promising.

A tough winter.

When looking at 2023 we must do so very much from two distinctly different perspectives. For many at an individual level it is a tough winter with rising food and energy prices and troubled public sector employees striking for greater pay. Still, at least we have the same Prime Minister after 4 months in power even if he seems to be fighting on a number of domestic fronts. He is likely to continue to have a troubled few months with the wide number of continuing demands for higher wages but over time the arguments for these are likely to weaken. At an economic and investment level we are probably over the worst as there are definite signs that headline inflation has peaked with slight falls in major economic sectors and further falls expected. A significant but little known indication of this is the cost of moving containers around the world which has fallen by about four fifths since its pandemic high. Even accepting that the price was artificially high at that time, a fall of this significance can only have a positive impact on the price of the goods being shipped and ultimately the price we pay at the tills. With the global consumer either short of money or certainly feeling short of money and the consequent suppression of demand the signs are good that inflation will fall. Further the price of oil is now generally below its pre invasion level and heading towards its pre-pandemic level; gas however is a little more stubborn, but it too has dropped significantly in price. These points are important as they signal the beginning of the end for interest rate rises; it is likely that there will be one (possibly two) small interest rate rises to come but unlikely that there will be more. Interest rates will be kept higher over the coming months in an effort to ensure that any fall in inflation is sustained and the debate now is not about whether inflation is rising or falling but about how steep the decline in inflation will be; the optimists suggest that the level will be back to normal (2%) by the end of the year however the realists (including me) feel it will be more difficult to bring down so that it will be the middle of 2024 before we hit this target. Either way the prospects for growth look much better than they have done for months

Time will do its work.

Markets generally look 9-18 months ahead so the outlook for falling inflation fits within this timeframe and markets are already beginning to react positively. As always, any predictions of positive prospects have to be tempered with the potential of short term overreaction as any sign of improvement can be an excuse for markets to eat too much cake. By the ocean is a pleasant place to reside but we must be wary of the inevitable sudden waves of reality as surprising economic figures can throw us on the rocks or push us off course. Notwithstanding the inevitable setbacks, the general feeling for 2023 is positive but it is brave to make major investment changes

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this early in the year. If inflation stays stubbornly high, the war in Ukraine escalates or the resurgence of Covid in China creates havoc with their healthcare system and economic recovery it will not take a great deal to push markets backwards and they may react badly if this happens. Time will do its work and over the coming weeks your fund managers will be watching the economic indicators very carefully and will take action where appropriate in an effort to best position their funds for any certain signs of recovery. We will continue to monitor them to ensure that their efforts produce the results we are all seeking to further banish the memories of 2022 to history.

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

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