ROGATE CAPITAL
QUARTERLY INVESTMENT REVIEW
MAY 2023

A YEAR OF TWO HALVES

There has not been great change in the investment outlook over the last quarter argues Richard Powell but the outlook for the summer and autumn remains good. Markets are riding the current difficulties with no great shock and should settle then improve in coming months.

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Regular readers of these reports will be aware of my liking for a weather analogy, and I make no excuses for continuing the theme this quarter. The medium term outlook for the global economy is positive and sunny so little has altered since February but in the short term it is as changeable as the April showers. The predictions of falling inflation, and in due course interest rates, still hold good for later in the year which should lead to a positive change in sentiment and, we expect, an increase in market values. However, in the short term values have been hit by two factors; the decision by OPEC to reduce the production of oil and the troubles with a small number of banks. OPEC appear to have been disappointed by the falling oil price and the impact it was having on their revenues, so they have decided to restrict the amount of oil they produce and this has pushed the price up by about 5% - the laws of supply and demand still hold true! Although great news for their bank balances it is clearly not what we, as consumers, wanted as this will keep the price of fuel (and anything that is transported anywhere) higher for longer. This is delaying the expected fall in inflation but do be assured it is only a delay and that the medium term outlook remains very positive for a fall in inflation.

Overexposure to crypto currencies and tech businesses.

The media loves a “crisis” and the troubles with three small to medium sized American Banks hardly fall into this category. Since 2008 all banks have been encouraged by their respective regulators to ensure they maintain a strong capital reserve position and the three American banks failed due to a combination of overexposure to crypto currencies and technology businesses. This hardly falls into the definition of “mainstream retail banking” and as such did not cause us any great worries despite the best efforts of the tabloid headline writers! Their failure did however coincide with the final demise of Credit Suisse as it was taken over by UBS, Credit Suisse is a name we have known for many years but what is less well known is that it has lurched from one struggle/fiasco to another over many years. Its takeover had been predicted for years and was, in reality only a matter of time so again not really a “crisis”.

Considering interest rate position carefully.

The upside of the publicised troubles with these banks is that it has encouraged Central Banks to be cautious in their desire to raise interest rates much further. With inflation sticking and the actions of OPEC keeping it from falling as quickly as hoped there was a feeling Central Banks would like to raise interest rates further and faster. However, with the failure of the three American Banks it would appear that Central Banks are considering the interest rate position much more carefully. The last thing they want to do is engineer a true banking crisis by forcing Banks into much more expensive payments for their own loans, never mind forcing the private borrower into higher repayments.

Interesting markets.

When attempting to look at the forthcoming quarter there is an element of “sitting outside the headmaster’s office” at the moment. Falling inflation and interest rates with the subsequent change in sentiment and rise in investment values may well be calling out to us saying “let me be your fantasy” but in the last few weeks markets haven’t been interested. We do definitely see however, fundamental signs that these “fantasy” desires will come true. We just have to be patient and wait for the fundamentals to improve. The investment managers are suggesting that there is value in both share and

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Government Bond markets at the moment with solid, profitable companies currently undervalued and expected to increase in value and the expectation that the medium term trend for interest rates is definitely downwards which should lead to a rise in Bond prices. The only potential fly in the ointment is the likely increase in military activity in Ukraine as the weather improves. No-one knows how this conflict will end and as we know the Russian position is more than unpredictable; time has a habit of "normalising" events originally considered shocking but an increase in hostilities will have a short term negative impact on values.

In the investment world we know that returns in 2022 were below par and the expectation continues that overall, 2023 will be a better year. There was always however an anticipation that 2023 would turn out to be a year of two halves with a less certain and more volatile first six months followed by a more settled and productive second six months. So far, this particular prediction is proving to be accurate but time is passing and without wishing to sound like a stuck record we do see prospects for plenty of improvement in the coming months.

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

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