



Quarterly Newsletter / Autumn 2023

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In the early hours of Saturday 7th October, just as people here were looking forward to some key games in the Rugby World Cup, the fragile peace in the Middle East was shattered by Gaza-based Hamas fighters – no, let us call them terrorists – breaching the border to Israel by using bulldozers to poke holes in the defences, allowing thousands of them to get into Israeli territory, using SUVs, motorcycles and even paragliders. They first reached a music festival, just a couple of miles from the border, and killed 260 revellers. Some managed to escape, others were taken as hostages back to Gaza. It is believed that some 200 hostages are now incarcerated in various locations in Gaza.

On that fateful Saturday, other terrorists targeted villages nearby, indiscriminately killing civilians, including women and young children, and taking further hostages. It was a massacre, leaving some 1,300 dead.

Hamas was formed by radical militants in Gaza in the 1980s and is a sworn enemy of Israel. Hamas became a proscribed terrorist organisation in 2001 and is financed by a global network of cash donations, charities, and crypto currencies to bypass international sanctions. It is also supported by nations such as Iran and Qatar. Only a few members of its leadership actually live in Gaza; most stay in Qatar and in Turkey, and two of its former leaders live in London!

You will have seen and read reports of what went on, and there is no point in our dwelling further on the horrific deeds of that day.

Over nearly a fortnight, rockets have been fired across the border from both sides, and Israeli jets have been bombing buildings in Gaza which they deemed to be used or occupied by Hamas. Sadly, many innocent Palestinians have been killed as well. As is always the case in this conflict that has been going on for decades, there are claims and counterclaims as to who did what and how many people including innocent civilians have been killed.

Israel urged Palestinians to leave the northern part of Gaza and move south to get out of harm's way. However, that created a humanitarian catastrophe, as it simply was impossible for everyone to flee. In addition, Egypt, abutting the southern border of Gaza, had refused to open its border despite diplomatic efforts to get them to change their mind. According to some information, it is now partially open to allow some much-needed humanitarian aid to reach the displaced Palestinians. Hamas, by the way, praised Egypt for keeping the border shut...

Things changed again when a bomb exploded in a car park outside the al-Ahli Arab hospital. Hamas claimed it was an Israeli attack, killing 500 innocent people. Israel denied this, claiming it was a stray rocket fired from within Gaza. The damage caused, largely superficial without the crater usually associated with an Israeli bombing, would suggest that could be right, but there were still many civilians killed as they sheltered in cars in that car park. Either way, the global response was immediate as many thought the truth lay with what Hamas said. There were pro-Palestine demonstrations everywhere, and the propaganda battle continues to rage. Middle Eastern leaders cancelled planned meetings with President Joe Biden who had wanted to pour oil on troubled waters.

The real worry is a potential escalation of this war. To the north of Israel, Lebanon is home to another terrorist organisation, Hezbollah, which is financed and supported by Iran, Iraq, and Syria. Hezbollah fighters are chomping at the bit to open another front against Israel, although the Hezbollah leadership currently seems to be quiet on that point. Iran may well see a chance to wage a quasi-proxy war against the West. Indeed, it has already threatened to do so. If that were to happen, the repercussions could be immense and very dangerous. Let us hope it does not come to that.

The war between Russia and Ukraine, already protracted after 600 days of warfare, rumbles on. Russia has over the last week or so launched a major new offensive in Eastern Ukraine, the biggest since last winter. Putin is trying to turn the tide after months of defending the Ukrainian counteroffensive which, in truth, has largely failed to breach the Russian defence lines. He is doing so by using hundreds of tanks and armoured vehicles, as well as thousands of troops. We hear that Ukrainian forces are inflicting heavy casualties to the Russians. Videos show that dozens of tanks and armoured vehicles are being destroyed and thousands of soldiers killed.

In September, we learned that President Biden had promised President Zelensky further support in the form of 'a small number' of ballistic missiles of the type used in the Gulf War in the early 90s. These are powerful and very precise, hitting targets of up to 190 miles away. However, any Western supplied weaponry of that kind cannot be used to attack the enemy on Russian soil, but it could be used on territory the Russians gained at the beginning of this war and, of course, Crimea.

This is in stark contrast to Russia who can hit any targets, be they military or civilian, on Ukraine soil with impunity. In this respect, Ukraine is at a distinct disadvantage. It is a bit like a boxer entering a ring with one arm tied behind his back.

Whilst it would appear that some missiles are already in use, it will take quite a few months before they will be fully deployed by Ukraine. In the meantime, targets on Russian soil can only be hit by Ukraine-built air- and water-borne drones, and although they do create confusion and inflict some serious damage, they are well below the capabilities of the missiles we are talking about.

A worrying aspect is the fact that American and Western support for Ukraine is becoming somewhat fragmented, not helped by the historic removal of House speaker Kevin McCarthy following a spat between Republicans and Democrats over President Biden's budget requirements (which includes ongoing support for Ukraine). Removal of the speaker is unprecedented during the middle of a congressional term, and it has left the US congress in a paralysed state. Simply put, it questions, and certainly delays, America's continued support for Kiev's war efforts.

There are also cracks in European nations' resolve in this respect: Hungary has vetoed a \$500m EU package unless the Hungarian OTP Bank is removed from Kiev's so-called 'international sponsors of war' list. This is not the first time Hungary has played hardball; they did the same last December until the Brussels agreed to some concessions. Even Poland, a staunch ally of Ukraine, has said it would stop sending weapons across the border, suggesting it needed to get more modern weapons for its own country. However, we do not yet know how the recent election result may change this stance. The real reason has more to do with a dispute over grain. Since many Black Sea port facilities have been damaged by Russia's bombardment, Ukraine has exported its grain harvest over land through Poland to the West, which upset Polish grain producers as they claim this has seriously suppressed prices for their own crops. Even some UK senior military officers have pointed out that our own arsenal of weapons is running low.

If Western support for Ukraine is unravelling, its war will be extremely difficult to win. Financial sanctions against Russia, Russian business, and oligarchs with close links to Putin have not worked as well as was intended. It even has been suggested that the frozen assets of Russian oligarchs, rumoured to approach nearly \$60billion internationally, should be sold with the proceeds made available to help Ukraine's war efforts now, rather than being earmarked for use in the rebuilding of Ukrainian towns and infrastructure. If that were to become more than a mere suggestion, the international legal fraternity would have a field day!

The protracted Russian/Ukraine war and the turmoil in the Middle East will undoubtedly cause higher energy prices. More importantly, these two wars have, and will cause, more volatility and shocks to the global economy. So far, financial markets have been remarkably resilient to date.

Indices for the first three quarters this year read as follows: S&P 500 +11.7%, FTSE 100 +2.1%, DJ Eurostoxx 50 +10%, Nikkei 225 +22.1%, BRIC -3.2%, FTSE All Gilt -6%, and the S&P US Aggregate Bond -0.4%. It could have been worse.

Here in the UK, the major political parties have had their conference season, and most of the speeches were delivered with an eye on next year's general election. The consensus is that it is Labour's to lose, and it is difficult to foresee a different outcome. Yes, the electorate is notoriously fickle, but it would need a huge change of heart by the voters to see a different result.

Rishi Sunak is talking about wanting to do politics in an honest and different way, but some of his promises vary only slightly from what we have heard before. Keir Starmer has rid the Labour party of its more extreme left-wing (partly antisemitic?) element and is trying to cosy up to business and a more moderate Labour voter. There are hints of a Tony Blair-like approach. His problem, though, is that he comes across as rather boring and predictable.

Overall, the two main parties seem to be quite close in terms of vision and aspiration, but there are differences: the Tories want to stop illegal immigration and deport those who have entered the UK illegally, whereas Labour is far more tolerant on both counts. Rishi Sunak wants a more pragmatic approach to 'net zero' whereas Keir Starmer remains committed to its zero-carbon electricity by 2030, largely ignoring the consequences in terms of costs. The Tories seek to revisit and renegotiate Brexit terms, whilst Labour is seeking closer ties to the EU. When it comes to the economy, Rishi Sunak is on his home turf (highest G7 growth over the last two years) and Keir Starmer seems less self-assured.

As things stand, this country is not in a good place: a serious hike in inflation with the resultant higher costs of living, interest rates likely to stay high for longer than anticipated, highest taxes since records began 70 years ago, strikes everywhere, long NHS waiting lists, public services generally not performing too well despite adding another 133,000 workers over the last year alone, police not attending burglaries and our prisons at near capacity, with judges being asked to be more lenient when considering prison sentences!

Will the electorate blame the current government, ignoring the reasons/excuses of Covid, the war between Russia and Ukraine and other problems?

Well, if yesterday's by-election results in Tamworth and Mid-Befordshire are anything to go by, Keir Starmer will reside in No. 10 Downing Street before long. The Tories saw huge majorities in these two constituencies overturned, and the result in Tamworth saw the second biggest swing from the Conservatives to Labour in the post-war era. By-elections traditionally are poor indicators of what happens in general elections, but these results are seriously worrying for the Tory party. As things stand, they point to a Labour victory next time round.

We will know within the next twelve months.

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Lacomp plc

77 High Street, Bagshot, Surrey, GU19 5AH, England.

Tel: (Intl. +44) (0)1276 475123 e-mail: info@lacomp.co.uk website: www.lacomp.co.uk

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