Lacomp plc

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Lacomp plc is an independent investment management company providing portfolio management services to private investors worldwide.

2022 has turned out to be a difficult and horrible year on so many fronts.

The Russian invasion of Ukraine and the ensuing, terrible war has brought misery to millions of people, albeit for varied reasons. Many soldiers – on both sides – have been injured or lost their lives, as sadly have many Ukrainian civilians. Some seven million Ukrainians have been displaced, fleeing to neighbouring countries and further west. Food shortages and an energy crisis followed, bringing high inflation which peaked globally at 12%.

Although several western intelligence agencies had warned at the end of 2021 that Russia would invade, nobody really took them that seriously, including Ukrainian President Zelensky who dismissed the notion of war. One is reminded of Cassandra in Greek mythology who was able to predict future events, only for no one to believe her. However, those intelligence reports proved accurate as Putin launched his 'special military operation' to 'de-nazify(!) and demilitarize' Ukraine. The strength of the Russian military forces appeared to be overwhelming. In the event, Ukrainian forces not only managed to withstand the initial onslaught, but events throughout the year saw them gain the upper hand.

This would not have been possible without help from other countries, and it is imperative that such help continues to be given if Putin is to be stopped. President Zelensky warns that the Russians are again mobilising more soldiers and regrouping in readiness for a new offensive. The infamous and brutal Wagner Group, also known as 'Putin's private army', has been busy recruiting combatants from prisons, offering them release from jail if they are prepared to fight against the Ukrainian forces. We hear that some of these new recruits have been summarily executed if they displayed disobedience or tried to defect.

Last Friday, concerted efforts were made at the Ramstein US air base in Germany to urge the Germans to provide heavy armour in the form of tanks and armoured infantry combat vehicles. The UK has promised some 14 Challenger 2 tanks, and other countries (but not Germany) are willing to supply German-built Leopard 2 tanks. However, in order to do so, these other countries need permission from Germany to re-export these tanks to Ukraine. Recently, Chancellor Scholz has been dragging his feet to lift that veto. He clearly is worried about a potential blowback if he upsets Putin too much.

Germany says that it will only supply its tanks – and allow other nations to do so – if America offers their M1 Abrams tanks first. However, the Americans say their tank is far from ideal for the purpose, quoting its use of a gas turbine engine, the very high fuel consumption and the accompanying logistics problems.

The Polish Prime Minister Morawiecki, in open defiance of the German stance, is trying to form a coalition of countries with the aim of supplying their own Leopard 2 tanks to Ukraine.

Chancellor Scholz is also aware that German citizens are somewhat ambiguous about their stance vis-à-vis Russia's role. Last summer, a poll revealed that the majority of Germans were not prepared to suffer economic hardships brought about by sanctions against Russia. Interestingly, the Eastern part of Germany (the old GDR) was more pro-Russian than the Western part.

To be fair, Germany has contributed a lot to Ukraine, but if you look at the list of what they sent, you notice that most of it is to enhance Ukraine's defence capability, alongside massive help in the medical field. Tanks are a different matter as they would allow Ukraine to be more aggressive in trying to reclaim territory previously occupied by the Russians.

Apart from tanks, Ukraine also needs more heavy artillery and missiles to achieve that aim.

In essence, Ukraine is helped by the West, and the Russians get assistance from anti-West countries such as North Korea and Iran. The conflict has become a West versus East confrontation, with China holding a watching brief on developments.

Mind you, China's Xi Jinping has plenty to worry about at home without getting too involved in that war. His disastrous Zero Covid policy has cost both him and China dearly. The hardcore lockdowns across the nation had a very negative impact, both economically and, probably more importantly, socially. Many millions of Chinese were kept locked in their homes, and they were starving as it was virtually impossible to obtain food, resulting in widespread protests that the police had difficulty in quelling. In an age of social media, even China's strict online censorship cannot stop news from spreading. Economic activity slowed down dramatically, and moving goods by road, rail or shipping was massively curtailed.

Lately, Beijing has also tried to cover up the true number of Covid-related deaths. Official figures are laughably low whilst hospitals and crematoria are completely overwhelmed. Xi now must be worried whether his previous seemingly untouchable position is safe, and he certainly is in no mood to be seen to help Russia.

Help can also come from unexpected quarters: Elon Musk (the eccentric founder of Tesla and SpaceX) seems an unlikely candidate, but his SpaceX business has created something called Starlink, a network of over 3,000 small satellites that orbit the globe much closer to earth (between 180 and 745 miles above the ground) than the larger, 'geostationary' satellites that hover some 22,000 miles above earth. According to a Sunday Times article, Starlink was intended for civilian use, bringing the internet to everywhere across the world, including mountains, deserts, and oceans.

However, Starlink and its internet link capabilities have now been made available to the Ukrainian armed forces. It is very easily accessible using a small, portable dish that can be powered by a car battery or the cigarette lighter in a car. A simple photograph of an enemy position (or tank) can be downloaded onto an app in seconds and allows commanders to destroy the target. No previous army has ever enjoyed such immediate and constant connectivity across a battlefield.

The Russians have long been recognised to be experts at cyberattacks. Exactly an hour before the invasion on 24 February last year, they knocked out the American satellite provider used by Ukraine to communicate with frontline troops, a serious setback for Ukrainian defence at the time. Fortunately, Starlink is virtually immune to Russian missiles or cyberattacks. Since it consists of over 3,000 small satellites (with the ability to 'sidestep' intruders) it is tantamount to trying to use a gun to shoot down a swarm of hornets. Starlink appears to be a real gamechanger in this war.

Of course, we all remember the veiled threats by Russian sources about the use of tactical nuclear weapons. Rational thought leads one to almost dismiss such a possibility, and retaliation could escalate and lead towards the path of mutually assured destruction, something one should not even think about.

Putin miscalculated his 'special military operation', there is opposition against him in his homeland, and that makes him unpredictable and very dangerous. If he were removed from office or otherwise overthrown, who would take his place? An even more nationalistic demagogue?

So much for the current situation in the Russia/Ukraine war, but as already touched on, the war also resulted in an energy crisis which exacerbated inflation figures. So much also for the central banks' earlier assurances that we were merely looking at a 'transitory inflation' – scoffed at by us in a previous Newsletter. It was the American Fed that coined the phrase, but it was readily adopted by other central banks, including our Bank of England. The BoE has consistently been poor at forecasting, and the same can be said for the OECD and, above all, the European Central Bank.

Less than three months ago, at the beginning of November, BoE Governor Andrew Bailey told us that the UK could expect the longest recession in 100 years, that the unemployment rate could double to 6.5%, and he also expected inflation to fall well below its target of 2% over the next two years! Really?

We believe that whilst inflation may well have peaked, it will be years before that target range can be reached. Similarly, we do not expect the recession to be so severe or long-lasting, and the labour market is quite robust with many vacancies to be filled. In fact, there is now more benign talk that the UK may well escape recession altogether.

On the other hand, the International Monetary Fund predicted that a third of the world would fall into recession this year, and that might well include the UK. Well, the IMF also has proven to be a poor forecaster for many years, so let us hope they remain consistent in their inaccuracy.

Either way, households and businesses in the UK are feeling the pinch. Wages are growing much less than the costs of living, and taxes are increasing. We already have seen strikes across many sectors – mostly public.

Wednesday 1st February will see massive strike action by the rail networks, schools, universities, even in Whitehall and among other groups. Coordinated by the TUC, they say the day's action is meant to 'protect the right to strike'. Nurses and ambulances will also go on strike a few days later.

We have some sympathy for nurses who get paid an average of £33,384 per annum, according to The Royal College of Nursing. They carry out a stressful job and spend most of their time on their feet. However, we have some difficulty summing up the same degree of sympathy for train drivers who occupy very comfortable seats, get between 33 and 40 days' holidays and are paid between £55,000 and £60,000 depending on the individual companies they work for. Recent press reports stated that some drivers can earn well over £100,000 per year after overtime.

February 1st is not exactly a general strike, which would stop all economic activity, but seeing that nearly half a million people will not turn up to work, you can easily see the negative impact on the economy. Not the easiest time for the occupants of Nos. 10 & 11 Downing Street!

Talking of Downing Street, what a crazy year we have seen in our political arena - three Prime Ministers and four Chancellors! Lots of problems remain, and there are few positives to see. Admittedly, Rishi Sunak seems to have achieved a somewhat softer relationship with the EU than his predecessors, but it is early days.

Another good outcome, after six months of wrangling, was the blocking of the sale of Britain's microchip manufacturer Newport Wafer Fab to the Chinese-owned Dutch firm Nexperia. We wrote about it in last summer's Newsletter, and it seemed foolish to us to let that company fall into Chinese hands, particularly when there was, and still is, a worldwide shortage of chips.

Last year we had another climate summit, number 27 this time, held in Egypt. We often wonder whether these conferences are more akin to talking shops than meaningful meetings with some real achievements.

COP 27 was not really that different, and it failed to reach an agreement to further cut emissions, not helped by the fact that three of the world's four biggest polluters (China, India, and Russia) did not even attend. A late climate compensation deal to financially help 'particularly vulnerable countries' was agreed, but the questions about how much, by whom and payable to whom were left open, to be dealt with at the next COP summit in the UAE.

Oh yes, we wondered whether to say something about Prince Harry. But then, why bother?

What about the financial markets last year? Well, they have also recorded abysmally bad results. MSCI World -17%, S&P 500 -19.4%, NASDAQ -33.1%, DJ Eurostoxx 50 -11.7% and the FTSE All Gilt a staggering -25.4%. The FTSE 250 was minus 19.7%, and only the FTSE 100 managed to stay in positive territory, up 0.9%. Many FTSE 100 companies earn their money abroad, and the fall in the value of sterling (11% against the dollar) has helped in this regard, as have energy and defence stocks, which performed strongly.

Fortunately, our clients' portfolios have done well compared to the major indices.

At Lacomp, we generally have shunned fixed interest investments for some time – to good effect! – but with inflation on the way down and interest rates unlikely to rise substantially further and indeed unlikely to remain high for too long, we feel that re-entering the bond environment is a good opportunity at present. At the same time, it will have the effect of bringing portfolios back in line with our more normal asset allocations. In other words, we believe that a lower risk, more defensive stance is sensible in the current climate.

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