



# Quarterly Newsletter - Winter 2023/24

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

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After a dismal 2022, when virtually all asset classes and stock market indices fell in value, we were anticipating that 2023 would turn out to be a better year. Overall, this proved to be correct, and indices were largely up over the year. Apart from the BRIC index (Brazil, Russia, India, and China) which was down just 0.5%, everything else did go up: MSCI World (Sterling) 14%, Dow Jones 14%, S&P 500 24%, FTSE 4%, DJ Euro Stoxx 50 19%, and Japan's Nikkei 225 28%. Even the FTSE All Gilt index managed to climb back into positive territory, up just 1%.

With the benefit of hindsight, and having previously largely ignored fixed interest investments for good reasons, we expected interest rates to peak earlier than they did, and we re-entered that market segment a little ahead of the curve. When we identify a trend, we tend to enter that market earlier rather than follow the crowd, but this time we were two or three months too early. Still, our views have since been vindicated and fixed interest investments have been performing strongly.

In 2022, UK GDP growth was 4.1%, and the OECD expects last year's GDP growth to end up around 0.5%. There is some optimism that 2024 might show an improvement, but there are various aspects affecting the economy, both at home and across the world, that could loosely be described as 'known unknowns'.

UK inflation, whilst at long last on a downward trend, will still be some way off the Bank of England's 2% target range, but do not expect cost of living expenditure to improve markedly. Similarly, UK interest rates – currently at a 15-year high at 5.25% – will start to fall, but we think this will happen slowly and guess the rate may only come down to about 4.25% by the end of this year. As far as taxation is concerned, the cut in the rate of national insurance from 12% to 10% this month will ease the tax burden a little, but the freezing of income tax thresholds for years to come will more than offset what the government is giving us now. Equally, we do not know what the Budget on 6<sup>th</sup> March will tell us, but it is fair to assume that the Chancellor will want to be seen as in a generous mood, given that a general election looms.

Current voting polls reckon the Tories are on 22% against Labour's 45%, quite a change in fortunes bearing in mind that back in 2020, the Tories registered 50% against Labour's 30% (Source: YouGov). We said in our last Newsletter that the forthcoming election will be Labour's to lose, and headlines earlier this week talked of a 1997-style wipeout for the Tories.

Both parties had their fair share of internal strife. Keir Starmer has got rid of the extreme left-wing faction and fought antisemitism. Labour is transforming itself and moving more towards the middle ground. Sir Keir is often accused of not being clear about his views and political agenda. But does he need to? The Tories have done their best to tear their party apart, and four prime ministers in five years tell their own story. No wonder we are becoming the laughing stock in foreign parts.

The party is also disunited over the Rwanda Bill and is beginning to look like a party in power but unable to govern.

On another issue, it took a TV docudrama to push the government into taking decisive action to bring about justice for over 700 sub-postmasters and mistresses wrongly convicted after faulty Fujitsu software made it appear money was missing. The Post Office Horizon IT inquiry is now in full swing and will go on for quite a few more months. It is a huge scandal and a horrendous miscarriage of justice, comparable to the aftermath of the Hillsborough stadium disaster and the earlier tainted blood fiasco in the 1970s and 1980s.

The Tories were quick to point out that Keir Starmer oversaw the Crown Prosecution Service when prosecutions took place. However, Sir Keir did not have any personal involvement in any of the cases. In truth, the finger could be pointed at Sir Ed Davey who was the minister responsible at the relevant time under the coalition between the Conservatives and the Liberal Democrats. As we now know, he refused to meet with people who rightly felt aggrieved. Sir Ed's excuse is that the Post Office had lied to him. Does that fully exonerate him, or was he simply not doing his oversight job properly?

Horizon software developer Fujitsu is deeply embedded in government, and since 2012, has been awarded nearly £7bn in public contracts by many public sector bodies, even including our own regulators, the FCA, as well as HMRC.

Going further back to 2002, Fujitsu was also one of the lead contractors on the NHS Programme to digitise records, but that scheme failed as well, at a cost of more than 11 billion pounds to the taxpayer!

Let us now go away from events in the UK and look elsewhere.

When we talked about 'known unknowns', we were thinking of geopolitical tensions all over the world that continue to concern us, and this is likely to remain the case throughout this year ahead.

The Russia/Ukraine war, whilst continuing unabated, seems to have reached a kind of stalemate, necessitating a different approach on both sides. The Ukrainian counteroffensive last year has not achieved what Kyiv had hoped for, hindered mainly by a formidable defensive line built by the Russians to entrench their troops in what was Ukrainian territory.

Over the last three weeks, Russia has increased its aerial attacks by utilising less of its previously favoured cruise missiles - relatively easy to intercept and shoot down - in favour of so-called glide bombs. These glide bombs can be unloaded from aircraft from some 15 miles and, as the name suggests, follow a flatter trajectory than conventional bombs that must be dropped from directly above the target, making the planes carrying them more susceptible to ground-to-air defence systems. The Russians are also stepping up the use of reportedly North Korean ballistic missiles and Iranian Shahed drones.

Ukraine, on the other hand, have intensified its long-range attacks on military targets around Crimea and in Russian territories, as well as the successful destruction and interruption of supply lines, be they railways, roads, or bridges. Shortly after the increased bombing of Ukrainian targets at the end of December, Ukraine launched a retaliatory attack on the Russian city of Belgorod (some 25 miles from the Ukrainian border) causing panic among the Russian population. This in turn prompted a heavy response from the Russians, hitting civilian targets, particularly in Kharkiv. Putin has since threatened a widening line of attack to remove Ukrainian forces from the area capable of hitting Belgorod.

Ukraine has been clamouring for more Western support, and one senses a degree of reluctance in that respect. Some previously strong supporters point to their own domestic problems and other priorities.

The question is this: if Russia wins this war, will Putin (or his successors) stop at that stage or feel emboldened to look at other land grabs? President Zelensky frequently says that the war is not just an existential question for Ukraine, but also for Europe and the wider world.

The American president, Joe Biden, faces an uphill struggle to get Congress to approve further aid to Ukraine. Is Putin waiting for a change in America, hoping for a victory of Donald Trump against Joe Biden? Trump has boasted publicly that as president, he would 'end the war in Ukraine within 24 hours'. He did not, however, explain how he would do this.

Be that as it may, we can brace ourselves to witness a potentially unsavoury edition of the American presidential election. Well, we have been there before!

Joe Biden, having last year announced his decision to seek another term, seems to have no credible opponents from his Democratic party ranks. Yet, according to the latest polls, 39% of Democrats do not want him to run, whereas 61% think he should. Of the 39% who thought he should *not* run, 96% cited his age, and 67% worried about him finishing a second term.

One of the major problems revolves around the apparent cognitive decline of the 81-year-old incumbent. You will have seen plenty of examples that have been recorded on camera: numerous gaffes in speeches, confusion of where he is and where he is meant to be going, poor memory, and absentmindedness. Sad though it really is to see, it is quite scary to think of Joe Biden in the role as 'the leader of the free world' for another four years.

Donald Trump, on the other hand, seems to be the clear front runner to win the Republican nomination. Looking at recent polls, he scores over 60% whereas his two main opponents, Ron DeSantis and Nikki Haley, barely hover above 10%.

At the same time, many opponents are trying to debar Trump from even being a candidate in this election. He currently is facing many legal problems: 44 federal and 47 state charges across 4 criminal cases, to be precise. The charges are mainly to do with his efforts to overturn the 2020 election, election interference, illegally holding on to classified documents after he left office and, oh yes, paying hush money to a porn star. If you wrote a film script along these lines, it would be considered laughable and thrown into the dustbin.

Yet, and quite bizarrely, it appears that the American constitution does not bar anyone indicted, or convicted, or even serving jail time, from running as president and winning the presidency!

The first caucuses took place at the beginning of this week in Iowa, and they will be followed by another 26 primaries or caucuses between now and 4 June. In Iowa, Donald Trump scored a resounding success, registering 51% of the votes, followed by Ron DeSantis at 21% and Nikki Haley at 19%. Iowa's electorate is mainly made up of white evangelical Christians and very conservative voters. Political commentators said that this result, with Trump's winning margin unprecedented in Iowa, almost guarantees Trump to become the Republican candidate in the presidential election.

Nikki Haley, the former governor of South Carolina and US Ambassador to the UN, should not be written off just yet. She hardly campaigned in Iowa, whereas DeSantis, the governor of Florida, spent a lot of his massive election war chest in that state. Haley is hoping for a better result in the New Hampshire primary which will take place next Tuesday.

Talking of the US and UK general elections, they are not the only ones this year. 2024 is *the* year for general elections – in total, there are 64 scheduled across the world with half its population going to the polls!

The Middle East crisis is another major concern. It is just over 100 days ago since the Hamas terrorists' horrendous attack on civilians on Israeli soil, randomly killing men, women, and children, as well as capturing hostages. The Israeli response has been brutal. There were widespread demonstrations against Israel's retaliatory actions, claiming too many innocent Palestinians living in Gaza were killed. Even Israel's allies have demanded a different approach, but Israel seems determined to get rid of Hamas once and for all, even though that goal is very unrealistic and frankly unachievable. Their actions may well kill Hamas radicals, but in so doing it will nurture a new generation of fanatics.

South Africa went so far as to refer Israel to the International Criminal Court in The Hague for an investigation into alleged war crimes. The situation in Gaza remains terrible, and we cannot see a solution that will be acceptable or palatable to both sides.

There are other problems in the area around Israel. To the north, Lebanon is home to another anti-Israel terrorist group, Hezbollah. That conflict goes back to the 1980s and has gathered momentum recently. It is no secret that both Hezbollah and Hamas are financed, and possibly directed, by Iran.

To make matters worse, to the south of Israel, in Yemen, there is another group, the Houthi movement, Shiite Muslims who have long been in battle with Saudi Arabia. The Saudis are Sunni Muslims, and Sunni and Shia have been at loggerheads since 632, the year Mohammad died.

You probably know that the Houthis are also financed by, or you guessed it, Iran. Whilst Iran is unlikely to fancy an outright confrontation with Western powers, their leader, the Ayatollah Ali Khamenei, can fight the West and Israel by using his quasi frontline 'troops' in the form of Hamas, Hezbollah, and the Houthis.

The Houthis recently have hit the headlines by attacking ships in the Red Sea, which provides access to the Suez Canal. Most oil tankers now avoid both the Red Sea and the Suez Canal, taking the safer route by going around Africa which can add between 10 and 20 days to their journey, thus obstructing normal global trade. Some container ships still risk the route through the Suez Canal, but they do so at an insurance premium that is 20 times higher than previously! These higher transport costs will undoubtedly put upward pressure on inflation rates.

The disruption of supply lines and the interference with global maritime transport has brought about a coalition of Western nations, led by America and Britain, who have been carrying out military strikes from ships, and with aircraft and missiles, against Houthi targets.

It is a crazy world we are living in, but our portfolios are structured to cope with this situation.

### **Housekeeping**

We already send our quarterly valuations and Newsletters to some clients *only* by email, as pdf attachments. If you too would prefer us to send you your valuations by email – and therefore reduce the amount of physical paperwork you receive and need to store! – do please let us know, and confirm which email address you would like us to use.

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