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

So many problems in today's world!

War between Russia and Ukraine, poor performance in equity and bond markets, threats of more strikes in the UK's public sector, high inflation, travel chaos, now a heatwave and a Tory leadership election...

Travel is becoming ever more difficult: more than 10,000 flights have already been cancelled this summer. Heathrow simply cannot cope, having laid off staff during the lockdown period and been unsuccessful in rehiring them afterwards (at reduced pay!). But it is not only international travel that suffers: we are told to expect four more strikes by tube and train operators.

Elsewhere in Europe, they have their own problems. Less than a month ago in France, President Macron lost his parliamentary majority, rendering the country almost ungovernable and throwing his plans – both at home and abroad – into disarray. In Italy, PM Mario Draghi offered his resignation only last week after his coalition failed, and there will probably be another snap election.

In Germany, Chancellor Schulz and his coalition government continue to grapple with the problem of re-aligning their economic situation with the new political reality. Heavily criticized at home and abroad, he has often promised but only rarely and even then, only partially delivered the heavy weaponry needed by Ukraine, a failure surely not entirely unconnected with Germany's continuing (and some might say short-sighted) over-reliance on Russian gas. If supplies through Nordstream 1 are not switched back on, the EU's most important economy faces impending crisis and a bleak winter indeed.

Further afield, the American Supreme Court (dominated by Republican Justices) overturned the 50-year-old Roe v Wade ruling guaranteeing abortion as a constitutional right, leading to widespread protests across the nation. "Sleepy Joe" Biden's controversial trip to the Middle East to increase Saudi (and OPEC) oil output did not achieve what he had wished, and his anti-British comments (made in Tel Aviv!) over the treatment of Palestinians did not make him new friends there or over here. As Sir Paul Lever, our former ambassador to Germany, tweeted: *"President Biden has compared Israel's treatment of the Palestinians with Britain's treatment of Irish Catholics. He could also have mentioned, but didn't, his own country's treatment of black and native Americans".*

Worryingly, Biden's approval rating in America is dire. According to the latest polls, 69% of voters think he is mishandling the economy, and 64% of *Democratic* voters would prefer another candidate, rather than Biden, in the 2024 presidential election. Biden's action – or inaction – concerning inflation has an even higher disapproval rating, not surprising as he is spending enormous sums of money to meet the promises he made to the American electorate.

It is highly likely Biden's losses in the US Midterms later this year will render him even more toothless than he is at present. It is not inconceivable that we could see a certain recent and divisive ex-President stage a return in the 2024 elections, a possibility that much of the world outside the Red-voting US states would view with trepidation verging on disbelief and horror.

Inflation is a worldwide problem right now. You will remember we were critical of the Fed talking about "transitory inflation" last year: that statement is now generally viewed as 'the worst inflation call in the Fed's history'.

Economists call inflation a 'lag-indicator' meaning it is a consequence of past actions. We have often said that QE (quantitative easing) can have a nasty sting in its tail, namely inflation, and we are now reaping the result of mind-bogglingly colossal money printing by central banks across the globe. The Bank of England has been criticised in this regard as well, but it is worth remembering that Rishi Sunak, as Chancellor of the Exchequer, signed off on the QE programme which the Treasury could have stopped or at least curtailed.

True, the war in Ukraine has not helped, with rising energy prices, but it seems disingenuous to blame Putin for all our inflation ills.

What we are living with are inflation figures reaching double digits, with rapidly increasing food prices – and in some countries, shortages. Here, diesel and petrol briefly exceeded £2 a litre but at least both have recently fallen back a little as the oil price has fallen.

However, oil is bought using dollars, and dollar strength versus most currencies has exacerbated the problem immensely. For example, since 2008 sterling has lost around 40% of its value against the dollar while the euro has fared even worse, slumping to below parity with the dollar a few days ago.

To put this in context, in April 2008 the price of oil peaked at $143/barrel – or £71. At the time of writing, it is now $97 – or £81. 32% *cheaper* than 2008 in US dollars but 14% *higher* in sterling. So, not quite all the price hike you see at the pump is the fault of the Exchequer's tax rates or 'greedy' oil companies.

And far from being 'transitory', we had better get used to the idea that high inflation will be with us well into 2023. It will come down gradually, but to see the Bank of England's inflation target of 2% being reached, think even of mid to late 2024.

Central banks are now doing what we feel they should have been done some time ago: raising interest rates. However, they should not be too aggressive in doing so as this would risk negatively affecting the economy. It is a precarious balancing act.

With all this bad news, it would be wonderful to be able to say that investments have done well, but they have not.

The first half of 2022 has seen negative performance in <u>all</u> the major indices: MSCI World ($) down 21.2%, Dow Jones -15.3%, S&P 500 -20.6%, FTSE 100 -2.9%, FTSE 250 -20.5%, Euro Stoxx 50 -19.6%, Nikkei 225 -8.3%, Gold -0.7%, FTSE All Gilt -14.9%, and the S&P US Aggregate Bond -9.6%.

In other words, everything has fallen, from equities to gilts and bonds (fixed interest).

No one likes portfolios losing value, least of all us! While no two portfolios are identical – because clients all have different objectives, parameters, and of course risk profiles – we know that after taking into account monies out and monies in, income and charges, the vast majority of clients will, on looking back over the last six months, be relieved by how we have fared for you in comparison with these major indices.

Long-term clients have seen this before, and you will also recall that we can recover from these market shocks. It would be naïve to say that things will improve quickly, and we expect markets to display some more turbulence, both up and down.

Despite a first major land war in Europe since 1945, a global energy crisis, soaring inflation, rising interest rates, and the omni-present impact of Covid on supply chains and the world's economy, if you compare the indices at the end of June this year with June 2020, they have all retained much of their subsequent recovery in value, very considerably so in some instances. History shows that markets *do* recover.

Many portfolios still hold cash positions, and we are keeping a very close eye on developments: we want to return to the markets for clients, and are very conscious that with Bank base rates rising there are some superficially attractive deposit rates available. However, with inflation at near double digits such deposit rates serve only to erode the value of money but with no prospect of any real recovery.

Markets tend to behave irrationally, and recent events have proven this to be true. One moment we were looking forward to the global economy emerging from the worst effects of Covid and the associated lockdowns, but then we had stoppages in production lines everywhere due to the shortage of computer chips, coupled with other supply chain obstacles. Financial markets hate uncertainties, and we have had plenty of those!

China's severe zero-Covid measures and the complete lockdown of Shanghai and its harbour have further aggravated the supply chain problem, including semiconductors. We have a factory in South Wales that manufactures chips, and it employs 450 people. Last year, it was sold to a Dutch firm called Nexperia, and Nexperia in turn is a subsidiary of a Chinese company called Wingtech Group. At first, it was rumoured that the Welsh plant would be shut down and production moved to Shanghai, something denied by Nexperia. Only last week, and in probably one of his last interventions whilst in Downing Street, Boris Johnson announced a national security investigation into the sale of the UK's largest semiconductor manufacturer. We shall see…

With the heatwave upon us and the Tory leadership campaign in full swing, it is not surprising that our ministers and MPs are somewhat preoccupied and maybe don't give national affairs their full attention. Add to those other cultural changes such as the advance of gender fluidity moving at a rate with which broader society is as yet unable to keep pace, the worrying rise of "cancel culture" stifling open debate and re-writing history, and "woke-ism", and it makes one wonder how anything gets done these days in the corridors of power.

At the time of writing Liz Truss has the edge among Party members while Rishi Sunak was the frontrunner among MPs, a candidate who regards inflation as the biggest problem we face – a little odd as he allowed QE to continue for so long – but he also tells us that he is the man to fix the economy. He is seen as 'Conservative light' and faces Liz Truss from the right wing of the party. She voted to remain in the EU - but had a change of mind, so she tells us. Until 1996 when she joined the Conservatives, she had supported the Lib Dems, was anti-Thatcher, anti-nuclear and anti-monarchy. Is she truly capable of steering the ship and setting its sails accordingly, or does she prefer to let the prevailing wind push her where it will?

An interesting choice faces Conservative Party members, but politics is a weird game, and we will have to wait until the beginning of September to learn who is given the keys to No. 10.

Climate change has been moved down the agenda for the time being, but there is quite a lot of ‘greenwashing’ going on in the corporate world. Much of what we have seen in this respect amounts more to tokenism than real action, we fear.

So, what do we think of Boris Johnson’s time in charge? Well, after a promising start it has been “mixed to poor”. Admittedly, the Covid pandemic would have been incredibly tough for *any* government, and the political agenda and manifesto promises were temporarily pushed to one side. Sadly, they have been largely forgotten ever since.

The Brexit dividend is yet to materialise, and the relationship between the UK and the EU is far from friendly. Of course, the war in Ukraine clearly also hindered progress, although to his credit Johnson’s leadership unquestionably pulled Europe and the western world together to form a much more united alliance than had the task fallen to Biden, Macron or Schulz.

On Boris Johnson’s (and Rishi Sunak’s!) watch, UK taxes have risen considerably. They are now at their highest in 70 years, including the unpopular hike in National Insurance contributions.

Other problems(!) made Johnson’s premiership difficult, but most of those sadly were self-inflicted. Seldom in such a short time in British politics has so much damage been done to and trust lost in the institutions of Parliament and Government and office of Prime Minister, as under Boris Johnson’s brief tenure.

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