Quarterly Newsletter
Spring 2024

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

Markets

The first quarter of this year has seen the major markets return positive results: the MSCI World (£) Index has added 9.5%, the S&P 500 10.2%, the FTSE 100 2.8%, the Dow Jones Euro Stoxx 50 12.4%, and the Japanese Nikkei 225 20.6%. By contrast, the FTSE All Gilt was down 2.3%, but Gold ($) rose 8.2%.

The **FTSE 100** looks a bit like the poor relation, and it has been largely flatlining over the previous two years. It is, however, a steady if unexciting performer offering decent dividends and a gentle upward trend over the longer term. The index started forty years ago, and in the meantime, it has gone from its base line of 1,000 to over 8,000. All things being equal, we expect it to rise to over 8,700 by the end of this year. Some US forecasters see an even higher level by the year end.

You may recall that in November 2022, the Bank of England Governor Andrew Bailey predicted that the UK would fall into the longest recession on record. We thought that was a slightly crazy statement at the time, as was his earlier comment in June 2021 that inflation in the UK would merely be ‘transitory’, i.e. temporary. Well, we know what happened: he was so wrong on both counts.

True, at the end of 2023, we fell into a recession of sorts: GDP growth in Q3 in 2023 was minus 0.1%, followed by Q4 with another minus, this time 0.3%. So, we had what is called a ‘technical’ recession (two successive quarters with negative growth). We would call it a shallow recession at most, and the government's Office for Budget Responsibility last month forecast an expansion of 0.8% in 2024, higher than the Bank of England's projection of only 0.25% GDP growth.

Inflation at long last is coming down and currently stands at 3.2%, mostly due to lower food and energy prices. However, ‘core’ inflation, which excludes food and energy, and measures the costs of services and goods, remains still stubbornly higher, at 4.2% last month. It is one of the reasons the Bank of England is hesitant in reducing the rate of interest, mirroring the sentiment of the American Federal Reserve, albeit for different reasons, and some other central banks. Indeed, the Fed’s Chairman Jay Powell said only last week that the fight against inflation would take “longer than expected.”

Larry Summers, a former Secretary of the Treasury, said in a February Bloomberg Television interview: “There is a meaningful chance that the next move is going to be upwards in rates, not downwards.” That makes some sense, seeing that the American economy is doing very well at present, with new Nonfarm Payroll numbers showing that over 300,000 more people were employed and unemployment was falling. GDP growth and positive consumer sentiment point to a soft landing and banish the thoughts of a recession, at least for the time being.

Rishi Sunak has at last managed to get his Rwanda bill through parliament, although he continues to face fierce opposition from within his own and other parties. Irrespective of how you feel about this development, we still have not seen any credible alternatives.

Our PM obviously was keen to see one of his pledges come to fruition, but it will be interesting to see how the electorate reacts. The upcoming local and mayoral elections in England and Wales on 2nd May will give us a foretaste of what will come in the general election.

While the power-sharing deal between the SNP and Green Party collapsed this morning, the SNP will attempt to continue as a minority administration. The results of a YouGov survey a fortnight ago show that Labour has overtaken the SNP for the first time since the 2014 independence referendum and it is not inconceivable the SNP could lose both Holyrood *and* their treasured "3rd party" status in Westminster. So it is unlikely First Minister Hamza Yousaf will want to call a Scottish Parliament election in the same year as a UK General Election, particularly with the continuing controversy surrounding Nicola Sturgeon and her husband and former SNP chief executive Peter Murrell, who has now been charged with embezzlement.

Probably best, then, not to dwell any further on UK politics, which are in a pretty dire state!

What do other markets have in store for us for the rest of this year, though? Obviously, **geopolitical risks** remain the biggest concern. Apart from the Middle East conflict, the Russia Ukraine war rumbles on, and intelligence reports tell us that Russia is preparing for a major onslaught during the summer. The US House of Representatives has, after months of wrangling, approved the 61 billion dollar military aid package for Ukraine, alongside 26 billion dollars for Israel. The delay in helping has cost Ukraine loss of territory and, more importantly, lives. Russia has been outgunning Ukrainian defence forces who simply did not have enough ammunition to counter the onslaught. Moreover, Ukraine is worried what will happen in 2025, after the US election, as many Republicans already are saying that the war is becoming too expensive for them.

Ukraine must also be wondering how Israel was able to effectively nullify Iranian attacks by shooting down some 300 missiles and drones heading for Israel.

Israel and Iran have been bitter enemies for decades, and Iran has been funding and arming proxy forces in the form of Hamas, Hezbollah, and the Houthis, all sworn enemies of Israel and mostly designated as terrorist organisations by many nations around the world. Interestingly, a lot of Arab nations and other Muslim countries so far have remained quiet and rather passive, and many of those are certainly no friends of Israel.

It all harks back to the Sunni/Shia split nearly 1,400 years ago when Islam split into two main branches, i.e. the Sunni and Shia. The separation came about because of a disagreement over who should succeed Muhammad. Today, nearly 90% of the world's Muslims are Sunni, and Shia make up most of the rest. The Shia form the majority in Iran, Iraq, Azerbaijan, and Bahrain. Most other Islamic countries are predominantly Sunni, stretching from North Africa (Morocco) to Southeast Asia (Indonesia). Many Arab nations in the Middle East are very concerned about Iran's growing territorial ambitions, tacitly supported by the 'axis of evil' – Russia, China, and North Korea. A variation of the age-old adage might suggest "My enemy's enemy may not be my friend, but I fear and distrust my enemy far more!"

Mind you, China would not have been interested in seeing the crisis flare up even more. Iran is OPEC's third biggest oil producer, and 90% of their output is sold to China, and the latter would certainly not want the Strait of Hormuz closed and affect their exports to the West.

We were worried that the Israeli retaliatory strike on Iran's consulate in Syria could be the spark for a tit-for-tat which could ignite a wider Middle Eastern war, but the latest action by the Israelis – a relatively minor strike aimed at a military installation some 130 miles south of Tehran – seems to suggest that this could signify the end of a potentially escalating head-on conflict between Israel and Iran. No doubt Israel's closest allies will have leant on Netanyahu not to respond too heavy-handedly.

However, what happened in Gaza is appalling whatever your views on the attempt by Israel to eradicate Hamas. The loss of life, and the suffering of innocent Palestinians in Gaza is beyond belief.

Russia is expected to grow by 3.2% this year, more than the UK, France, and Germany. That is, if you believe the IMF's forecast, and history has taught us to take everything they say in terms of predictions with a pinch of salt. Russia's oil exports have 'held steady' and government spending has 'remained high', according to the IMF. We can understand the increase in public spending, particularly on military and in manufacturing, as well as construction in building extensive defensive fortifications in eastern Ukraine and southwestern Russia.

The IMF have downgraded 2024 GDP forecasts for Europe and the UK (Germany +0,2%, Eurozone +0.8% and the UK +0.5%). In the case of the UK, that puts the IMF prediction nicely between our Bank of England (+0.25%) and our Office for Budget Responsibility (+0.8%).

The IMF also see UK interest rates to remain higher than other advanced nations, close to 4% until 2029! We shall see…

We should also mention gold as it has performed very well. Not all clients hold gold in their portfolios, usually because of their risk profile or the need to maximise income, and gold does not, of course, produce an income. We have been 'gold bugs' for some time and have previously taken some profits whilst leaving the original investment intact, and that has again done well, as those who do hold it will know from their portfolio valuations.

The gold price has at times almost behaved irrationally, and it is unusual to see the price go to new highs when some stock market indices have also performed extremely well. Apart from acting as a safe heaven in times of trouble – real or expected – there are some additional reasons as to why the value has gone up.

China, for one, has been a massive buyer of gold in recent times, the biggest by far in the world, possibly to reduce their reliance on fiat currencies, particularly the US dollar. Or were they busy building their own war chest, maybe glancing sideways at Taiwan? We think not, given they currently have big problems at home. After stellar GDP growth from the mid-nineties, it slowed dramatically latterly to around 5% or below. There is now real unrest among the younger population of China, with youth (16-24) unemployment hitting 15.4% in February. Massive investment in mega infrastructure and construction projects had kept the economy going. Some of these developments cost hundreds of billions of dollars, some exceeding a trillion! However, things started to unravel when the Evergrande Group, originally a developer for upmarket apartments and later a conglomerate with a diverse company network, could not service its massive debt mountain and ultimately had to be liquidated. Property prices have collapsed, which is important as the property market sector accounts for approximately 20% of the economy, and entire developments and new suburbs remain largely unsold, barely occupied "ghost towns".

Having said all that, there are some indications that the Chinese economy is turning the corner, and may be suitable for inclusion in some client portfolios. Policymakers recently maintained the GDP growth target at 5% – although achieving this may be challenging – and kept the fiscal deficit target at 3%. There is to be renewed focus on infrastructure investment, boosting consumption, support for the property sector and that old cliché in western economies, "improving productivity". Geo-political headwinds will not make for plain sailing towards these targets, but time will tell.

Another, less well publicised reason for some investors rushing into gold is the unforeseen consequence of an EU plan to use nearly 30 billion euros in profits from over 300 billion euros in frozen Russian assets by earmarking the 30 billion euros to pay for the rebuilding of Ukraine's destroyed infrastructure and humanitarian efforts. The monies are largely invested in foreign currencies and investment bonds, all of which produce an income stream. We hear that there is a rush out of dividend or income producing assets into an investment that does not provide an income – ergo gold!

We do not have a crystal ball and therefore are not fortune tellers, and we are very cognisant of the many problems that could provide a headwind for financial markets. However, we believe that many of the fundamentals are in sufficiently reasonable or good order to allow economies to ride out a potential storm.

"Housekeeping"

Clients with potentially taxable portfolios (i.e. General Investment Accounts, or "GIAs") will find enclosed with their valuations, summaries of acquisitions and disposals during the 2023-2024 tax year. Dividend and interest information for tax returns will be issued by your platform in a Consolidated Tax Voucher during the next few months.

As mentioned in our last Newsletter, if you would prefer us to send you your quarterly valuations and Newsletters by email as password-protected pdf attachments rather than in "hard copy", do please let us know, and confirm which email address you would like us to use.

And finally, this month sees the retirement of our dear friend and colleague **Heather Clark.** The temptations of spending more time with her family and in her beautiful garden have finally overcome our protestations. Heather joined Lacomp in 2001 and has been a quite invaluable member of the admin team, a tremendous support to us all over the years, and indeed a good friend to many clients. We would like to take this opportunity to thank her publicly, and to wish her a long and very happy retirement!

Bagshot 25th April 2024