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# NEW INVESTMENT HORIZONS

**Dear One and All,** **In this special edition of our newsletter we will:**

- **Update you on our thoughts for investment markets for the year ahead and what we think you should do.**
- **Provide you with a snapshot analysis of the current position of the various Asset Sectors that make up clients' portfolios.**

What a year this has continued to be. A confluence of factors and situations have combined to cause a rise in inflation not seen for 50 years. The influence of inflation was removed from the financial system in the 1980s by the concerted effort of the Treasury, the ECB and the Bank of England. Interest rate policy is the most effective tool for reducing inflation, as higher interest rates stalls economic activity. The conquering of inflation has led to the last two decades having the lowest rates of interest since records began.

Geopolitical tensions, (China and the USA) and the pandemic has fractured supply chains which has in turn increased the price of goods in the west. All of this was known and expected last year and this inflation was described by central banks as under control, transitory, because supply chains can be fixed, normalizing prices. The disgraceful war by President Putin of Russia against his neighbour Ukraine, the strength and robustness of the sanctions imposed by western nations against this aggression, has increased the severity of the inflationary pressures by increasing the price of commodities especially oil and gas. Therefore it is likely that the economic slowdown in 2023, may be more severe than we thought in April.

Whether high inflation will be a temporary chill wind, or a longer lasting Arctic blast on world economic activity, at the time of writing, it is impossible to know. But given the financial resilience of the wealthy west, (particularly USA) coupled with the reopening of Shanghai boosting and unblocking of supply cycles mean that we are hopeful for only a short sharp recession in 2023. The hawkish way that central banks have raised interest rates has caused a large, and we feel excessive, selling in both the Equity and Fixed Interest markets, leaving investors with few places to hide from loss. However pay restraint and strong interest rate policy should mean that inflation is likely to peak this year. If it does then the scale of downturn in 2023 can be more accurately predicted and oversold markets may rise. High energy prices will hasten the transition to sustainable energy sources and opportunities these will bring for investors. Our clients are long term investors and in 3 to 5 years the recent set backs, we are confident may be seen as but a temporary knock to the rise of their prosperity.

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# World ~ Asset Allocation Review ~ Sector Views

**UK CASH** ~ Our least favoured long term asset class, Best rate Virgin 1.56% easy access, Inflation rate 10% = A Guaranteed loss of 8.44%. Interest rates are likely to peak at 3~4%.

**UK FIXED INTEREST** ~ Higher than expected interest rises have hit Government Inflation linked Gilt funds and UK Corporate Bonds. Brexit makes these assets higher risk for the return they provide.

**INTERNATIONAL FIXED INTEREST** ~ We see International Bonds offering the best opportunity for those wanting stable returns.

**UK EQUITIES** ~ The FTSE UK Equities have done well this year. It is likely that this performance will continue as overseas investors see the UK as a safe home, unless you're Russian. Brexit acts as a drag to return for these assets.

**USA EQUITIES** ~ The US economy has been given huge stimulus by President Biden and there is more to come with the new infrastructure package. This has led to a rotation away from growth to value stocks, most of our clients are invested in USA value holdings. We have concerns over the direction American politics, but that we will address in 2024.

**ASIAN EQUITIES** ~ The Chinese economy has just reopened and its property market is still in crisis. The high levels of corruptions and the machinations of the Chinese leadership makes us nervous. Safer opportunities exist in India, Indonesia, Vietnam and wider Asia.

**EUROPE EQUITIES** ~ Europe remains one of the best performing asset classes, with World class companies. Disparity in growth and interest rates within the Eurozone is a weakness which has yet to be properly dealt with, another Euro crisis?

**JAPAN EQUITIES** ~ The Nikkei index has since shrunk back, but Japan should be a part of nearly everyone's portfolio. A new government / leader, greater corporate transparency and their robotics are just a few reasons why investment in Japan is a good idea.

**GLOBAL EMERGING MARKETS (GEM)** ~ Those who seek investment with high long term growth potential, inclusion of this sector is essential in ones portfolio. The strong US Dollar is hitting these economies hard, but their young dynamic populations show huge potential. Russia naturally is excluded from our client recommendations.

**COMMODITIES** ~ The World restarting of economic activity has caused large demand for raw materials and has increased prices. Putin's illegal adventure will mean a spike in prices for the next 3 years. High risk investments.

**PROPERTY FUNDS** ~ We do not recommend UK residential property for investment purposes. We feel that interest rate hikes will send house prices negative. We typically recommend commercial property, offices, factories etc, from across the world as a way of achieving stable returns. Predictions of the revolution in working practice with people working more flexibly from home, seems to have been overdone. Global commercial property warrants inclusion in nearly all portfolios.