Investment Committee Report

April 2023

Introduction

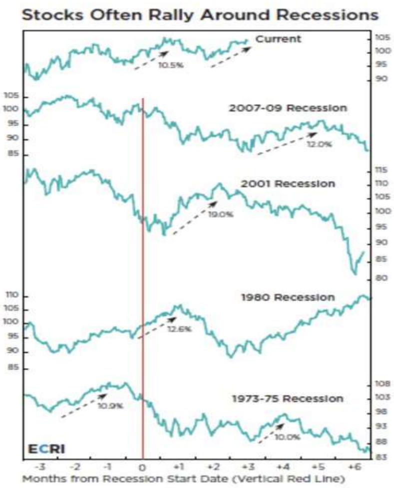
This month after looking at our key factors I thought that it would be interesting to show you some charts that help to demonstrate the UK economic position that we described last month and in particular what needs to happen for inflation to start to fall consistently.

Key Factors to Watch

- The high levels of debt that households, companies, and Governments hold increases the risk of a crisis – if interest rates rise further or stay at current levels the cost of the debt increases and with it the strain on cash-flows.

- In the US the S&P500 stock market index has been driven higher this year by seven companies whose rise in value made up 90% of the gains in the overall index. This means there was very narrow breadth, and that the performance of the index is tied too heavily to a small group of firms. If these firms – that include Facebook, Meta, and other technology stocks – fail to perform this will have an extremely negative impact on the overall market.

- A rising stock market does not always mean that everything is well in the World, and we can expect strong economic growth and positive stock market performance. As the Felder Report[1] highlighted



- Gold is within touching distance of the key $2,000 per ounce level and is in a significant uptrend for several reasons; our expectation is that we may see some short-term retracement to lower levels but that the outlook is positive.

- There was a bounce in the Oil price as OPEC cut output; however, this could well be the harbinger of economic slowdown as most other commodities such as industrial metals that are not controlled by a cartel continued to fall in value.

[1] The Felder Report Blinded By The AI Light 27th April 2023

The UK faces one of the highest rates of inflation in developed economies with the Retail Price Index at over 13%; as reported in Money Week[2] part of the reason is energy cost and Britain's heavy reliance on gas for home heating.

Whilst we should see inflation fall in coming months due to declining gas prices and the base effect (inflation rose sharply from a low-level last year and this large surge will drop out of calculations soon) it is important to consider what else is going on in the economy and what must happen to move us back into an equilibrium.

Wage growth is one of the major drivers of structural changes to the rate of inflation; if unemployment is low, or the work force shrinks, and there are lots of job vacancies then employers have to offer higher wages to fill those openings.

In recent years low inflation and interest rates has created a ceiling on wage increases; however, if inflation rises faster than wages then the work force start to feel the pinch and demand higher wages adding to inflationary pressures.

So, let's look at this in some charts for the UK.

Unemployment has fallen to its lowest level since the 1970s which means that there are less people who need to find a job.

[2] Money Week Why Is Inflation so high in the UK 28th April 2023

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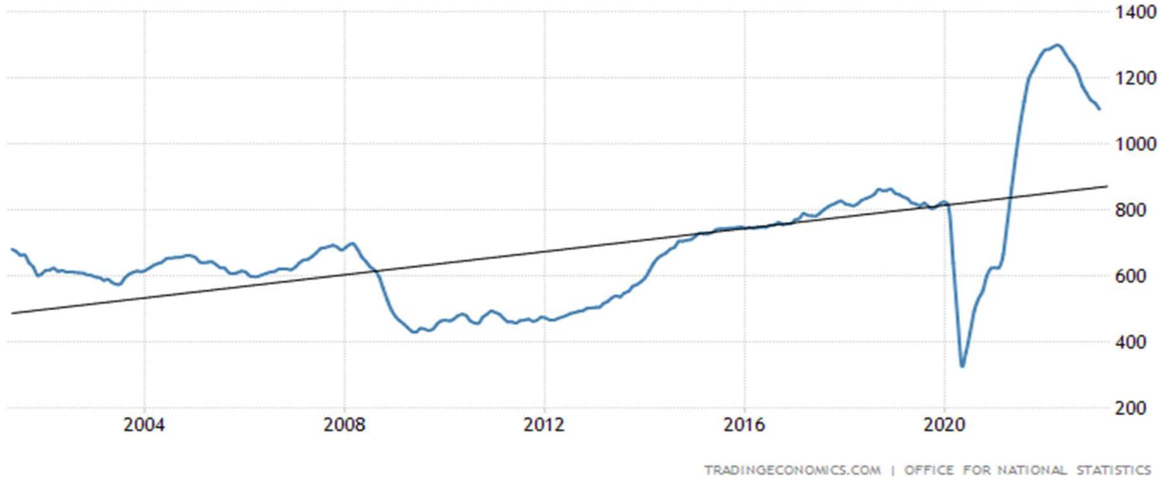
The labour participation rate shows that 79% of the population is seeking work, and improvement from the declines post COVID.

Job vacancies hit multi-year highs in 2022, well above trend meaning that employers had to offer higher wages to attract applicants.



This is all confirmed by the rise in wages over the last few years.

The demand for higher wages has also been growing louder from employees as the effects of inflation impact how far pay packets can stretch as real average weekly earnings have shrunk for 16 consecutive months.

For inflation to start to fall we will need to see a rise in unemployment and a fall in job vacancies; if the labour participation rate continues to increase there will be more workers chasing less jobs and more will be willing to accept lower wages. At the same time those already employed will be more satisfied with their salaries as inflation is not eroding their real value and they will not be demanding significant pay increases.

However, this may come at a price; if things move too far then economic slowdown and a recession is increasingly likely – Central Banks are stuck between a rock and a hard place as they try to use their financial levers to slow inflation and avoid recession all at the same time.

Investment Strategy

For the fourth consecutive month there are no significant changes to our outlook or strategy.

- Retain high cash balances as interest rates on investable cash have increased.

- Gold remains in a strong uptrend and provides protection against market volatility. If this continues holdings in Gold Mining Stocks will benefit as well.

- Long term there is a strong case for commodities rising from historically low levels, but in the near-term recessionary pressures and economic slowdown make them less attractive than they were last year.

- Holdings within Multi-Asset to be retained as they offer diversification and consistency in difficult market conditions because of their flexible investment strategies.

- Selected equity holdings to remain in place, but this will likely be less than 25% of total portfolio values.

- Should we be convinced that interest rates have reached somewhere near their peak we will be recommending US Treasuries and UK Gilts that would perform well in a recession.