CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

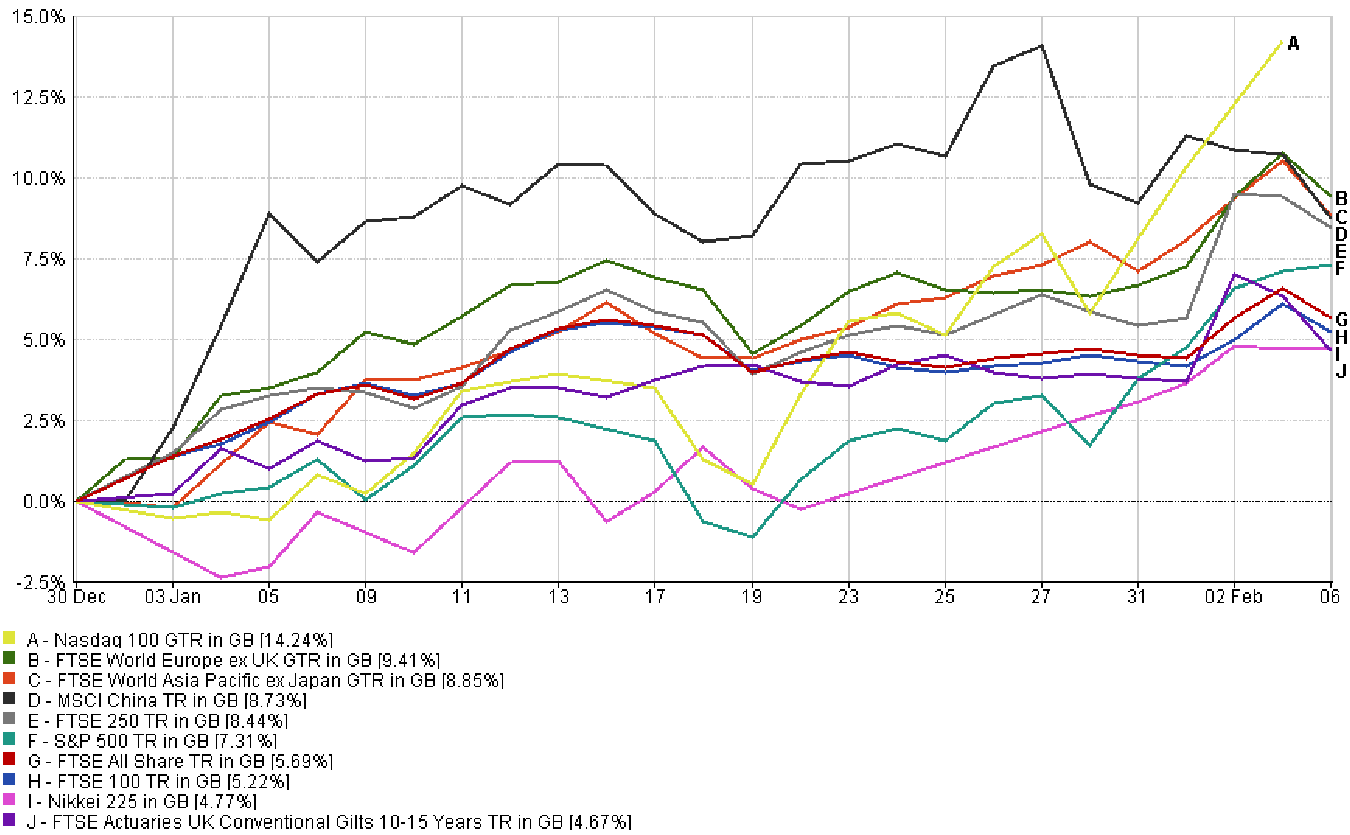
INVESTMENT COMMENTARY

06 FEBRUARY 2023

OVERVIEW

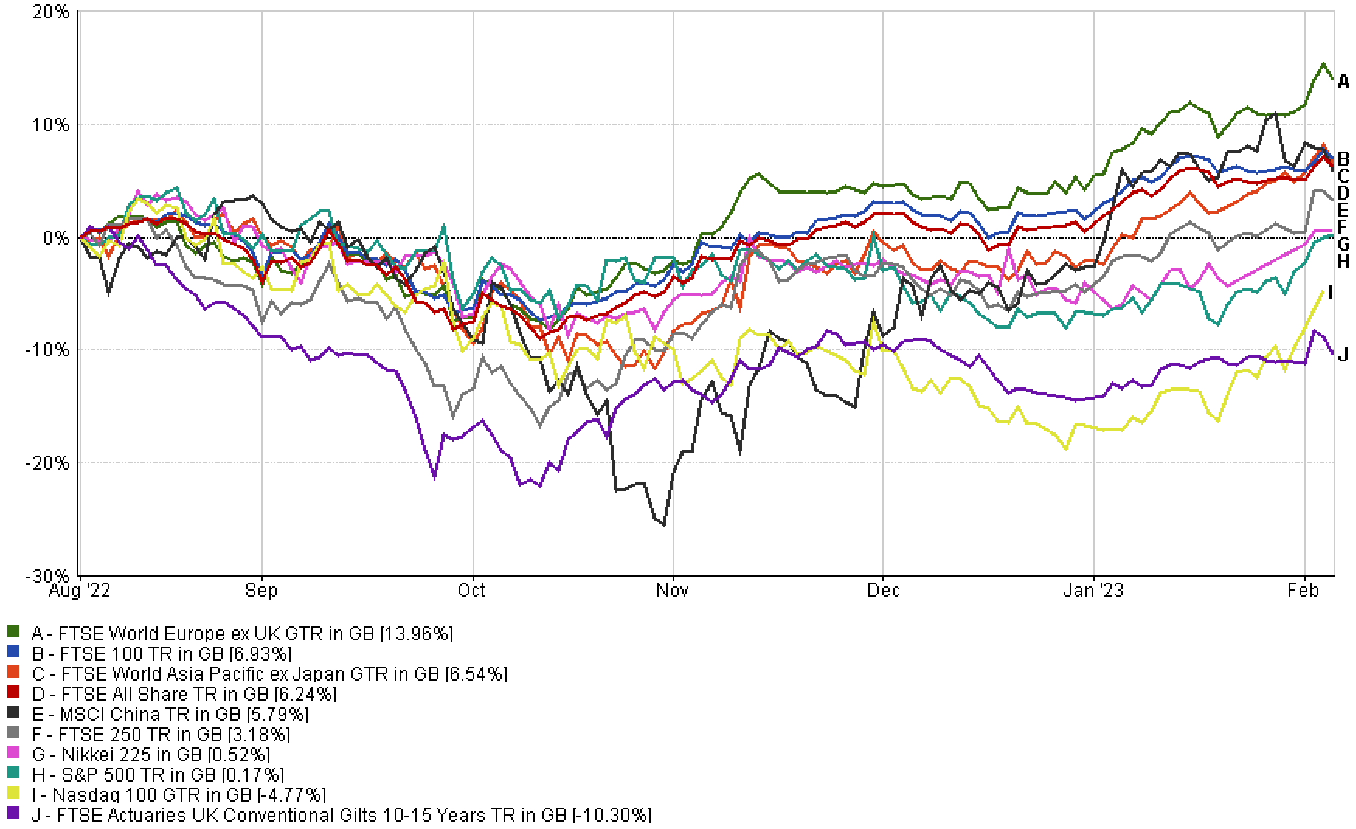
Investment markets have made a strong start to 2023 as investor sentiment has turned more positive. Inflation levels around the world seem to be moderating and consequently it appears likely that interest rates are to continue to rise, but at a slower pace and rates will eventually peak, once inflation is on a downwards trajectory – hopefully later in 2023. The major other catalyst for the recent strong performance of investment markets has been the re-opening of the Chinese economy as pandemic restrictions have been lifted; the economy should start to improve after a three year hiatus. Recent history tells us that pent up demand drives economies after such restrictions disappear.

INVESTMENT MARKETS YEAR TO DATE STERLING RETURNS



30/12/2022 - 06/02/2023 Data from FE fundinfo2023

INVESTMENT MARKET SIX MONTH STERLING TOTAL RETURNS



05/08/2022 - 06/02/2023 Data from FE fundinfo2023

At their February meetings, the US Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) all increased their main interest rates, as expected, but it was the announcements surrounding these moves that proved influential for investment markets. The Fed increased its benchmark interest rate by 0.25% to a range of 4.5-4.75%. This was the smallest rise in a year, after four consecutive rises of 0.75% followed by an increase of 0.50% in December. This slowing pace of increase by the Fed indicates that inflation may have peaked, supported by signs that wage rises were moderating over the last quarter of 2022. Nevertheless, Jerome Powell, the Chair of the Fed, did state that it was "very premature to declare victory" over inflation and he said he needed to see more evidence of a sustained decrease. It will take some time for the impact of the series of steep interest rate increases to be fully felt. Investors focussed on the slowing interest rate cycle rather than on the possibility that the Fed may have over-tightened. Another note of caution arose from unexpectedly strongly jobs data, with the number of job openings increasing markedly by 517000 and more people leaving their jobs for new ones. However, more positively, the number of people returning to the workplace has increased, so if sustained, pressure on wages might be downwards.

The BoE's Monetary Policy Committee (MPC) increased Bank Rate by 0.5% to 4.0%. The MPC voted for a rise as it considered the risks to inflation "skewed significantly to the upside". Again looking for the positives, the market concentrated on the MPC's view that further rate rises would only be needed if high levels of inflation persisted – so 4% may now be the peak of this current cycle. Inflation is expected to fall from its 10.5% level seen in December 2022 to 4% by the end of 2023.

The ECB was more cautious in its announcement of a 0.5% increase in the benchmark deposit rate to 2.5%. The ECB intends to "stay the course" in defeating inflation with Christine Lagarde, President of the ECB, commenting that inflationary pressures are still "alive and kicking". A further 0.5% increase is expected following its March 2023 meeting.

Inflation appears to be more problematic in Europe (8.5%) and the UK (10.5%) than in the US (6.5%). If the Fed continues to increase interest rates at a slower pace and they peak this year, the US dollar may weaken against the euro and sterling. A weaker dollar could impact positively on European and UK inflation rates as the cost of commodities priced in US dollars, such as oil, gas and metals, would fall for European and UK purchasers.

The re-opening of the Chinese economy as pandemic-related restrictions were lifted led to steep rises in the Chinese and Asia Pacific equity markets, but resurgent demand may stoke inflation – particularly as demand for commodities is likely to increase significantly, impacting on prices.

Growth in US GDP (gross domestic product) has been supportive of US equities more recently. In Q4 2022, the US economy grew by 2.9% pa, down from 3.2% pa in the previous quarter, but above estimates. Sentiment towards consumer shares has benefited as a result, with Tesla shares rising sharply for example. The US mega-tech companies announced disappointing results, with the exception of Meta. Apple's revenues declined for the first time in seven years, as Covid restrictions and then protests in China disrupted production. Conversely, the major oil companies announced strong results after energy prices rocketed following the Russian invasion of Ukraine. Shell's annual profits were £32.2 bn – a record for the company. The eurozone economy grew by 0.1% in the fourth quarter of 2022, just avoiding the 0.2% contraction widely expected. The International Monetary Fund (IMF) has upgraded its global growth forecast for 2023 to 2.9% - up from 2.7% predicted in October 2022.

If you have any queries please do not hesitate to contact

your Cartlidge Morland consultant.

The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartlidge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR VIEW

As we regularly remind readers of our monthly Investment Commentary, it is impossible to time investment markets and it is therefore important to remain invested in portfolios which reflect the individual investor's objectives and level of risk tolerance. Clients were right to stay invested throughout the market volatility of Autumn 2022. Markets have recovered strongly since, as the performance figures indicate. Divestment during the nadir of Autumn 2022 would simply have embedded significant losses, whilst denying recovery. Fear of further losses would have been a natural reaction, but not one to yield to.

We are optimistic inflation will continue to tick downwards. Indicators point to slowing economies around the world, as we would expect given the very steep rises in interest rates seen over 2022. It takes about a year for an interest rate hike to start having significant impact on inflation. The aim of the central banks in tightening monetary policy is to reduce demand and consequently to tame price increases. We will see the high energy prices experienced in the wake of the Russian invasion of Ukraine fall out of annual inflation figures over the next few months. Investor sentiment should be supported by improving global economic growth expectations, inflation falling and interest rates stabilising.

UK equities remain good value by international standards; amidst general media gloom, it is easily forgotten that the UK remains home to a significant number of market leading companies whether domestically, regionally or globally. The strong international earnings profile of the FTSE 100 gives exposure to global economic growth.

Of course, with the UK equity market now accounting for little more than 4% of global market capitalisation, the need to go further afield to diversify both risk and opportunity only becomes more important, despite the hazard of currency movements. The UK is by no means unique, Europe is also home to many globally leading companies and to invaluable brands. It also appears to offer value presently. Nothing can match the sheer dynamism, size and diversity of the US market, for all that

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OUR VIEW .... Continued

much of it is said to be fully valued. Japan remains an area of interest to us and we have established core weightings. Sharp profits in areas such as Asia Pacific and Emerging Markets need to be taken and redeployed whilst they are there. Realistic yields in 'normalised' global bond markets are looking far more attractive as the rotation from quantitative easing to normalised interest rates continues.

In our view, this is a good time to be invested and to invest, as the global economy retreats from yet another abyss. Geo-political risks, including those posed by the continuing war in Ukraine, are always present and that war undoubtedly elevates them. All one can do is to invest on the basis of likely scenarios and to possess contingency assets to meet the extraordinary or extreme. To allow the latter scenarios to dominate strategy may provide comfort in exceptional circumstances but scant consolation assuming the far more likely scenarios to unfold over the years ahead.

Lastly, always remember corporate bonds and equities are loans to or equity in companies; not national economies nor governments. Whilst governments, central banks and national economies definitely influence sentiment and outcomes, corporate management is a far greater factor in the success or otherwise of corporations and is reflected above all in corporate earnings, debt cover and share prices. There is so often divergence between the fortunes of host governments, national economies and resident companies. After all, businessmen and women across the globe claim to have succeeded despite governments, rather than because of them.

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