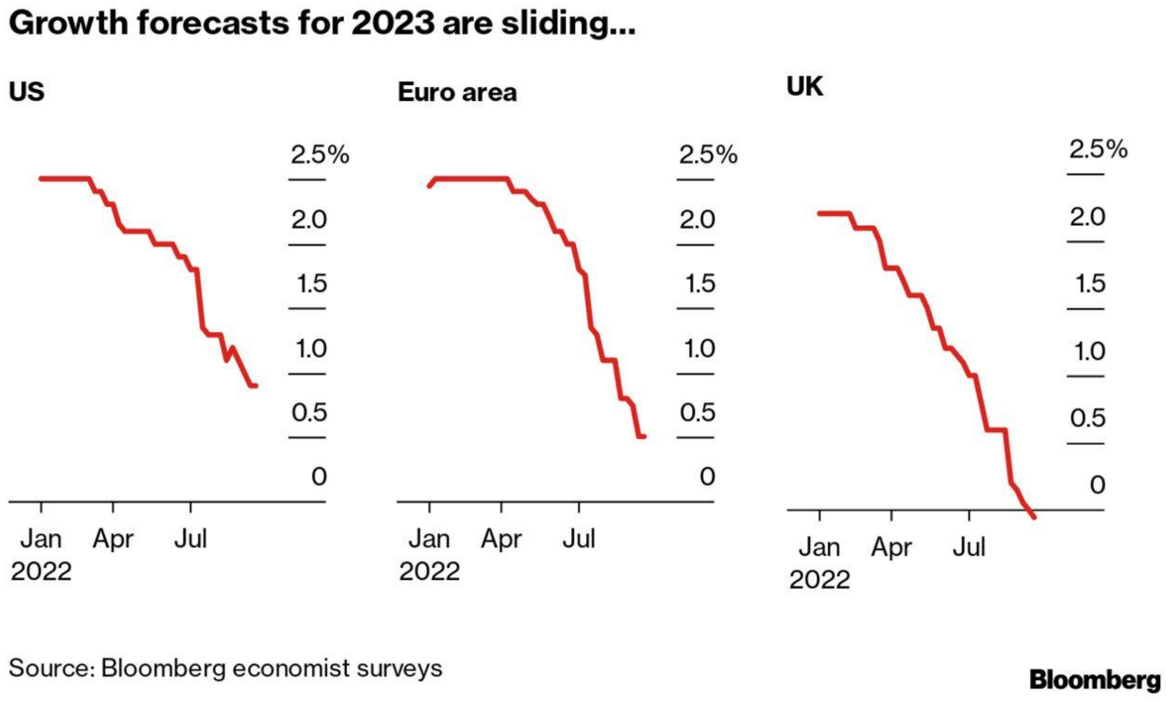
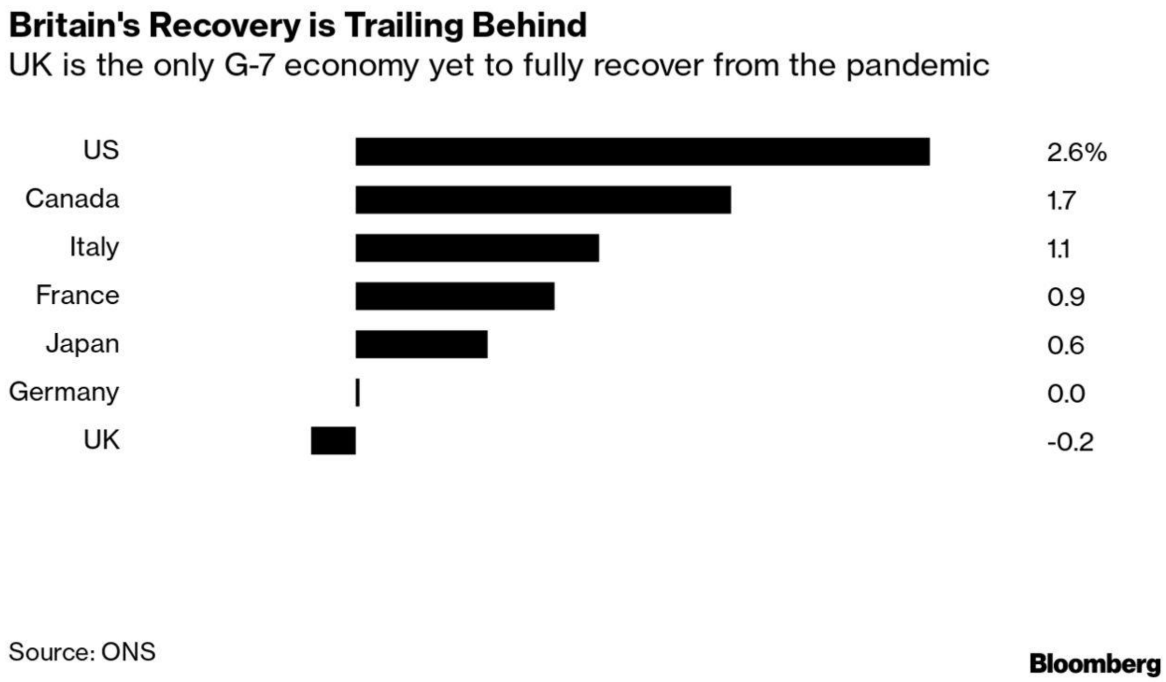
OCTOBER 2022 Market Report

Investment Review

Summary

During the one-month period to 30th September 2022, major equity markets, as measured by the aggregate FTSE All – World Index, fell sharply 9.6%, taking the year-to-date loss to 26%, in $ terms. All major equity declined with the UK, Europe and Japan marginally outperforming while China and Emerging Markets fell over 12% during the month. The VIX index rose sharply, finishing the period at a level of 31.62. Key equity market drivers were continued concerns over global economic growth, inflation, food crises, rising interest rates and political uncertainty.
Government Fixed Interest stocks also fell over the month largely on inflationary, supply and specific UK related issues. The UK 10-year gilt ended the month on a yield of 4.13% (2.8% one month ago) with corresponding yields of 3.73%, 2.11% and 0.25% in USA, Germany, and Japan respectively. Speculative and lower quality bonds also mostly fell in price terms. Currency moves featured a weaker pound and stronger US dollar. Commodities mostly fell in price terms on revised economic growth forecasts.





News

Over the recent month, there have been further significant official economic growth downgrades (graphs above) and growing anecdotal corporate evidence of difficult trading conditions. Central Banks have become more hawkish in battling stubbornly high inflation announcing interest rate hikes both sooner and higher than expectations in many cases.UK macro news was dominated by a" mini-Budget "which was anything but…

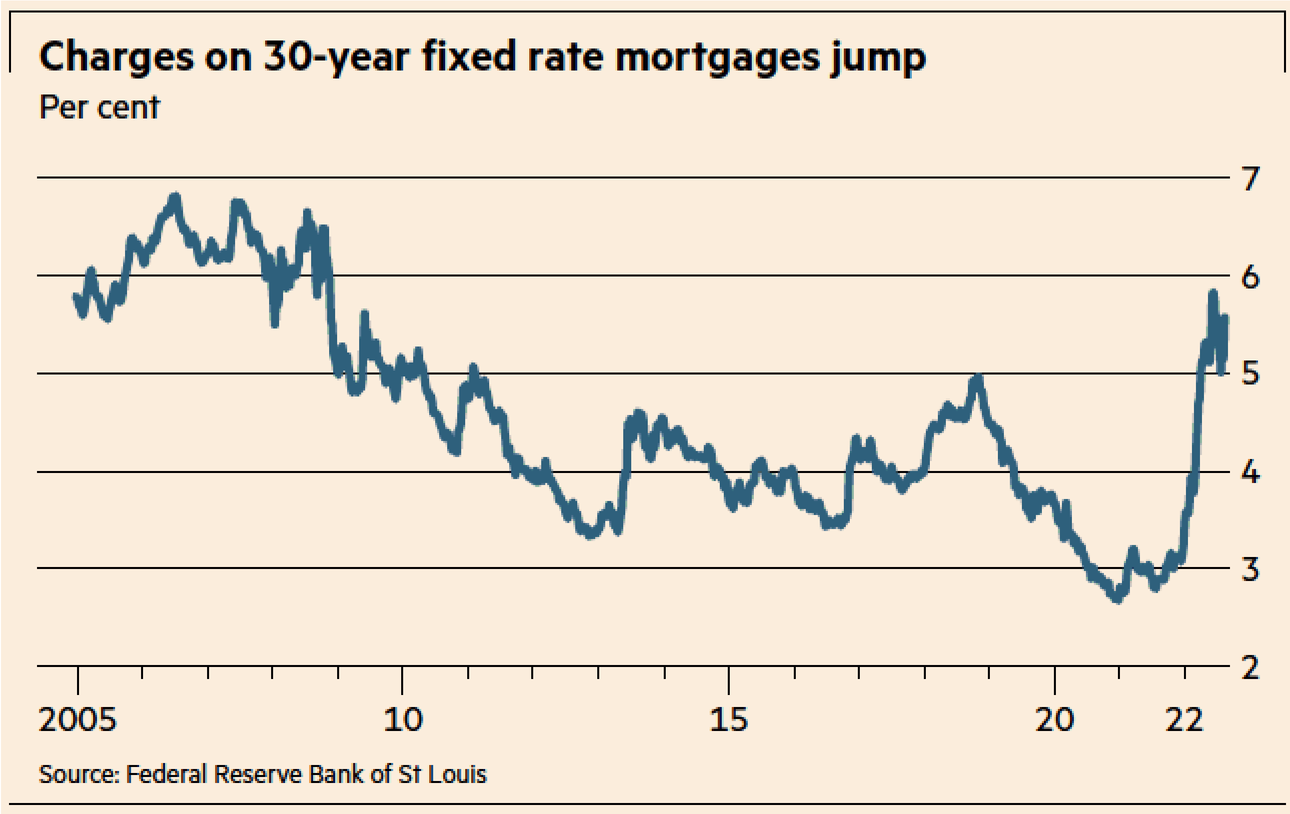
All organizations highlight the considerable regional variation, the IMF for example talking of "severe recession" in parts of Eastern Europe and Italy on various natural gas scenarios, while the World Bank has speculated on the" possibility" of a global recession in 2023.The World Bank explores the possibilities of three world growth, per person, outcomes between +1.5% to -0.4% crucially dependant on the extent of Central Bank tightening, to tackle inflation.

US

Recent **US Federal Reserve meetings and informal comments by Jerome Powell and other Fed governors have clearly become much more hawkish and several interest rate increases are expected over coming months. At the September 21st meeting the Fed raised the benchmark rate by 75 bp, for the third time in a row and signalled its intention to keep policy tight. Downward projections to economic growth, and upward moves to inflation forecasts were also released.**

Recently announced inflation indicators showed August headline CPI of 8.35%, higher than estimates, while the core inflation rate rose by 6.3% led by services. First quarter negative GDP growth followed by second quarter of -0.9% signals a "technical recession", although labour/employment trends still seem robust. Recent consumer sentiment indicators, retail sales, housing activity, construction figures and the Empire States Survey, however, show declining trends into August/September. Independent economic forecasts are now expecting very low GDP growth for full year 2022 with the unemployment level rising to about 4.4%. The Fed's own forecasts expect

GDP growth of 0.2% and 1.2%, and core PCE growth of 4.5% and 3.1% respectively for 2022 and 2023



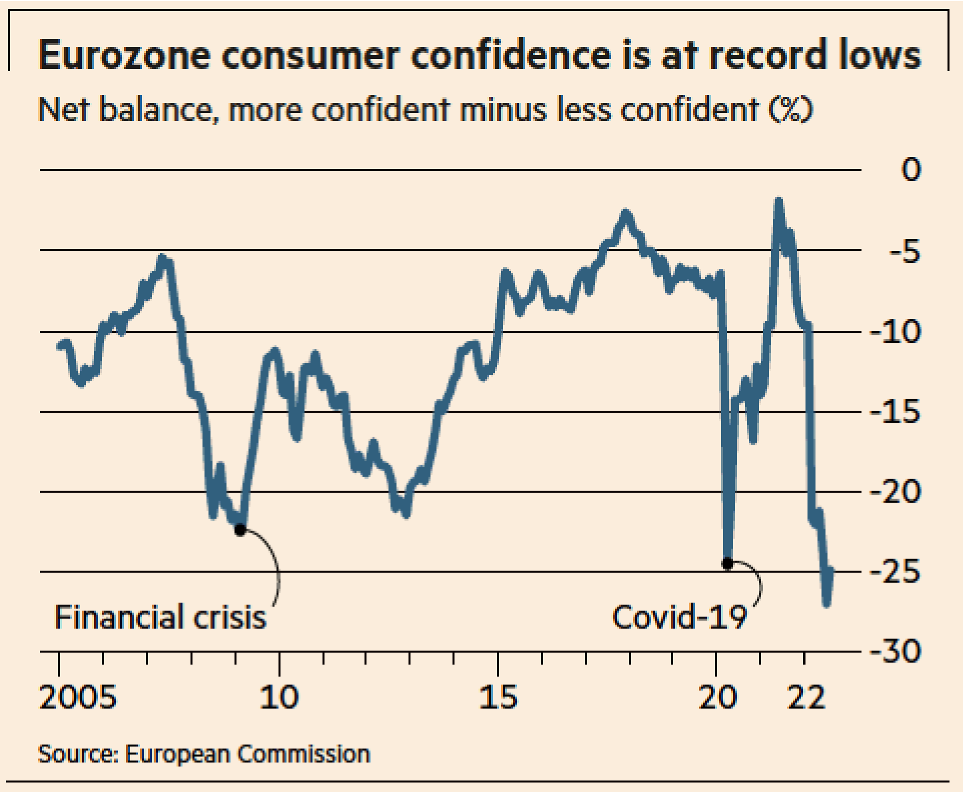
EUROPE

The European Central Bank raised interest rates by half a percentage point on July 22nd, and a further 75bp in September also pledging to support surging borrowing costs from sparking a eurozone debt crisis. Co-ordinated moves to help mitigate the gas crisis, including windfall taxes and energy pricing reforms are also being urgently discussed. First quarter 2022 GDP for the Eurozone showed a weaker than expected trend especially in Sweden, Italy and Germany and more recent indicators show a continuation of this trend into August and September, exacerbated by the Russia/Ukraine conflict, supply chain issues, and rapidly increasing costs. A technical recession seems inevitable.

Current ECB staff projections foresee economic growth of 2.8% for 2022, a sharp reduction on the previous forecast, and further downgrades could be likely in the wake of the ongoing Ukrainian conflict and related gas shortages.

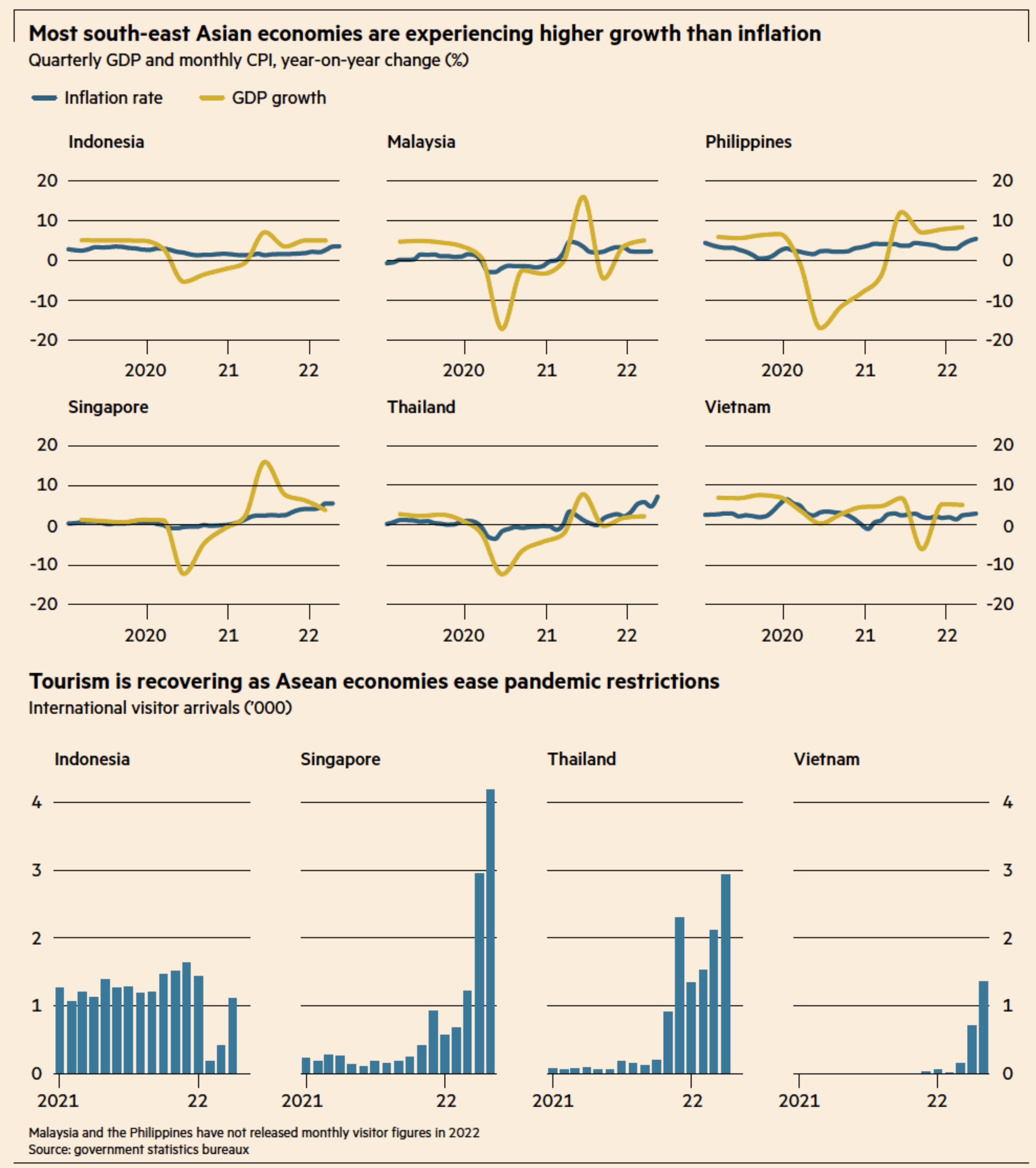
September Eurozone inflation, just released, of 10.0% (Holland15%) was higher than expected.

Political events have included the election in Italy of Giorgia Meloni to the position of prime minister and head of a three-party right-wing alliance.



ASIA excl JAPAN

Unlike other major economic zones there have been no major economic downgrades within this region, (maybe a lagged effect) but there are a wide range of possible outcomes depending on commodity exposure, tourism, debt, Chinese linkages, US dollar effects, etc. Recent FT analysis shows that in four of the six biggest countries in ASEAN (Vietnam, Malaysia, Indonesia and Philippines), GDP is rising faster than inflation (see graph below) in contrast to the majority of the G10 countries. A sharp bounce back from the pandemic (Philippines), commodity exposure (Indonesian palm oil and coal), (Malaysian palm oil and rubber), and Thai (rubber) and shifting supply chains away from China (Apple iPads from Vietnam) are all factors behind the region's resilience. The World Bank estimates that the Pacific ex China are could grow at 5.3% in 2022,higher than China.



CHINA

Chinese economic data over past months has cast strong doubts on the 5.5% official growth target for 2022, with some investment banks now forecasting below 3%. Official data covering the period to end August showed weakening trends in consumer spending, fixed asset investment and construction activity while more recent "live" tracking data e.g., mobility, cement production and electricity use also showed subdued economic activity. Of note were the precipitous drops in real estate and related construction activity, where, at the time of writing, government and quasi-government rescue packages are being put urgently into place The zero tolerance Covid policy has of course also had depressing effects on several economic sectors (see below). Various government "economic support" measures have recently been introduced to soften these headwinds and the

2022 National Congress this autumn, starting on October16th, will be closely monitored for economic and political pointers. Further reinforcement of "common prosperity" and "anti-corruption "themes could lead to unpredictable government interference at short notice.

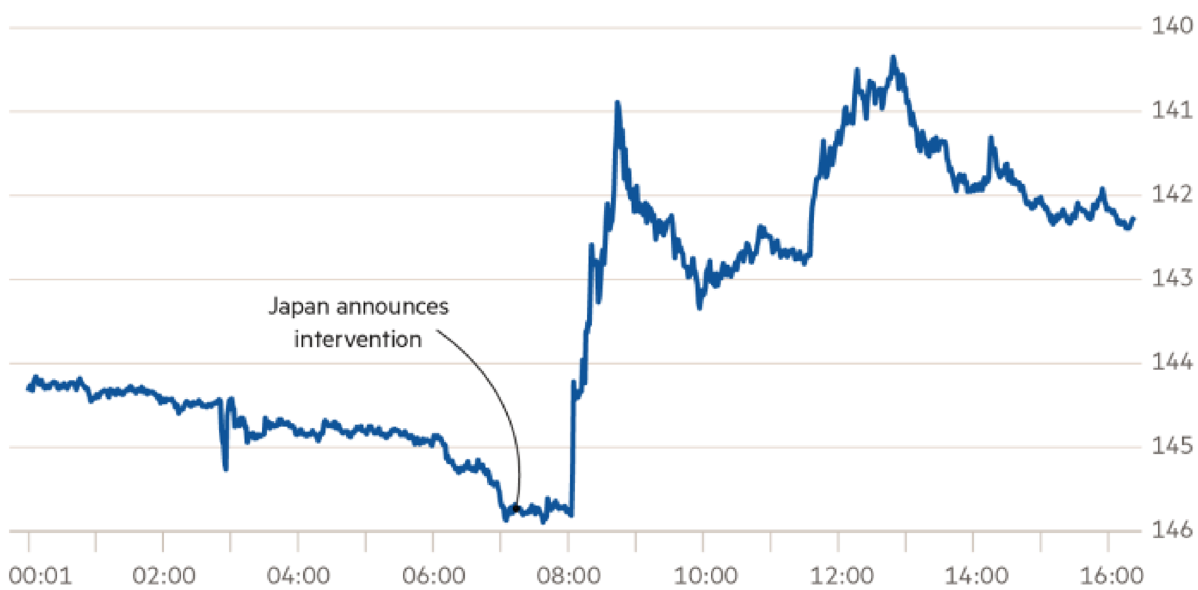
"China's most locked-down city exemplifies the perils of endless Covid Zero. Ruili's residents saw seven lockdowns from March 2021 to April 2022 and have spent a total 119 days barred from leaving their homes for any reason—other than to test for Covid. Even today when they go out, all movements are tracked, partly by facial recognition cameras. And a once-porous border is now patrolled by thousands of guards, equipped with heat-seeking technology"-source Bloomberg

JAPAN

After fourth quarter GDP 2021 growth of 5.4% annualised, led by more buoyant consumer spending and a tentative manufacturing recovery, the first quarter 2022 figure showed a decline of 1.0% annualised, somewhat higher than some estimates, then followed by 2.2% in Q2 2022, largely consumer driven. Estimates for the full year seem to fall mainly within the 1.5%-2.0% band. Inflation, while still well below international peers, rose by 3.0%(core 2.8%) in August, led by fuel and food and the weakening Yen. Fiscal policy remains loose, and the BOJ recently reaffirmed its yield control policy, while keeping key interest rates at -0.1%. However recent verbal and actual intervention (see below-one day trading) suggest that Yen weakness (on relative interest and divergent policy grounds), is no longer a one-way bet!

Yen in most volatile trading session since 2016

¥ per $ (scale inverted)



GMT time
Source: Refinitiv
© FT

UNITED KINGDOM

Within the UK, live activity data (e.g September Gfk data) shows a weaker overall trend, especially within the services sector. According to this survey, released late September, consumer confidence dropped to another new level (--49) amid the cost-of-living crisis. To put this into perspective, the low point during the height of the pandemic was -34!..people really are gloomy. Other data has also been uninspiring with flat GDP and industrial production to end July and poor August retail sales.Second quarter official GDP,just released ,show a gain of 0.2% rather than a previously announced decline of 0.1%. RICS and Nationwide have reported a definite slowing in housing activity and there are doubts that the tax cuts/ stamp duty/first time buyer, changes announced in the "so-called"! mini budget will offset the inevitable mortgage effect going forward. Unemployment, however, is still at a very low level, although recent official figures did show a tentative slowing in hiring intentions and there could be other adjustments due to some working age people leaving the work force permanently (health?).

Inflation continues to rise, the August CPI and core readings registering hikes of 9.9% and 6.3% respectively led by fuel and food prices. The British Retail Consortium reported on September 27th that prices hit a record high in September, rising 5.7% on the month, with food bills up 10.6%. The recently announced energy support package will at least take the heat out of some of the more extreme inflation forecasts as well as provide some financial relief.

The PSBR was starting to deteriorate again, largely as a results of rapidly rising interest (index linked) payments and expectations of higher public sector pay and state pensions. Projections following the September 23rd mini budget and energy support packages have ballooned, the Institute for Fiscal Studies for example expecting public borrowing to top £190 billion this financial year taking the Debt/GDP forecast near 100%. Official gilt sales were scheduled to start this month, although the BOE statement on 28th September, regarding "providing stability" actually calls for a short period of gilt buying! .

The current account deficit for Q1 was the worst on record at 8.3% of GDP, another worrying sign. It will be interesting to see if sterling weakness since then has changed the aggregate figures.

Despite some relief with the recent energy price package (but not other utilities) and budget related tax/NI cuts, shop price inflation, merchandise availability, upward interest/mortgage rate pressure, stalling house prices, accelerating rents, insolvencies/evictions, pension triple-lock suspension (22/23), legacy Brexit issues, strike activity, covid revival will continue to be headwinds and the outlook for economic growth over coming quarters is highly uncertain.

Experts at consultancy EY-Parthenon reported that company profit warnings had jumped over 65% during the first half of 2022 citing increasing costs and overheads as the main reason. The same consultancy also issued a worse case inflation forecast of 15%, even higher than that of Bank of England governor Bailey. Another report from Begbies Traynor quoted that 600,000 business were already in financial distress. Anecdotal evidence from reporting quoted companies at the interim stage show a very mixed trend, and in my view, the just announced mini-Budget will create another batch of winners/losers.

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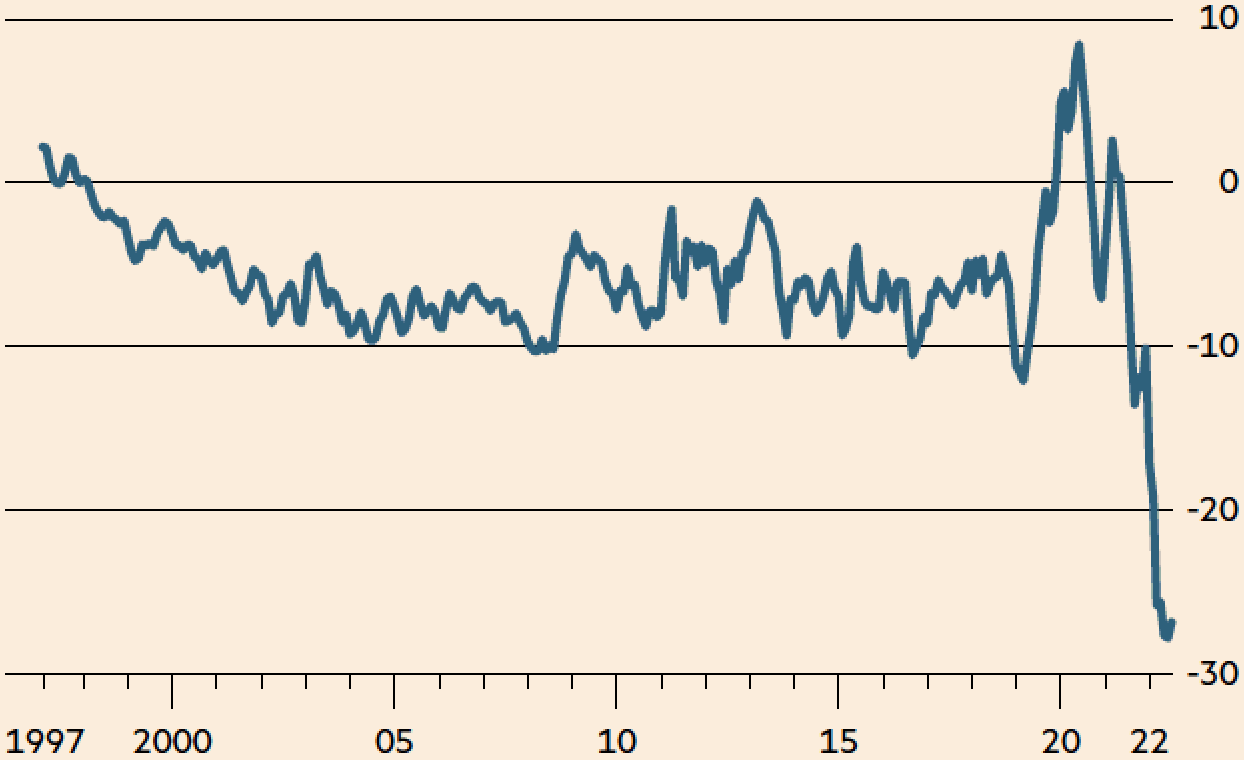
Monetary policy has tightened from a 0.1% interest rate in December last year to the 1.25% rate set in June and a further 50bp at the August, meeting, followed by 50bp in September, taking the benchmark rate to 2.25%. Markets were expecting rates to be above 3.5% by mid-2023, but following the mini-Budget, the feeling is that the Bank of England will need to be more aggressive and figures of 5.0% for both shorter term rates and the 10-year Government bond yield are not totally unrealistic.

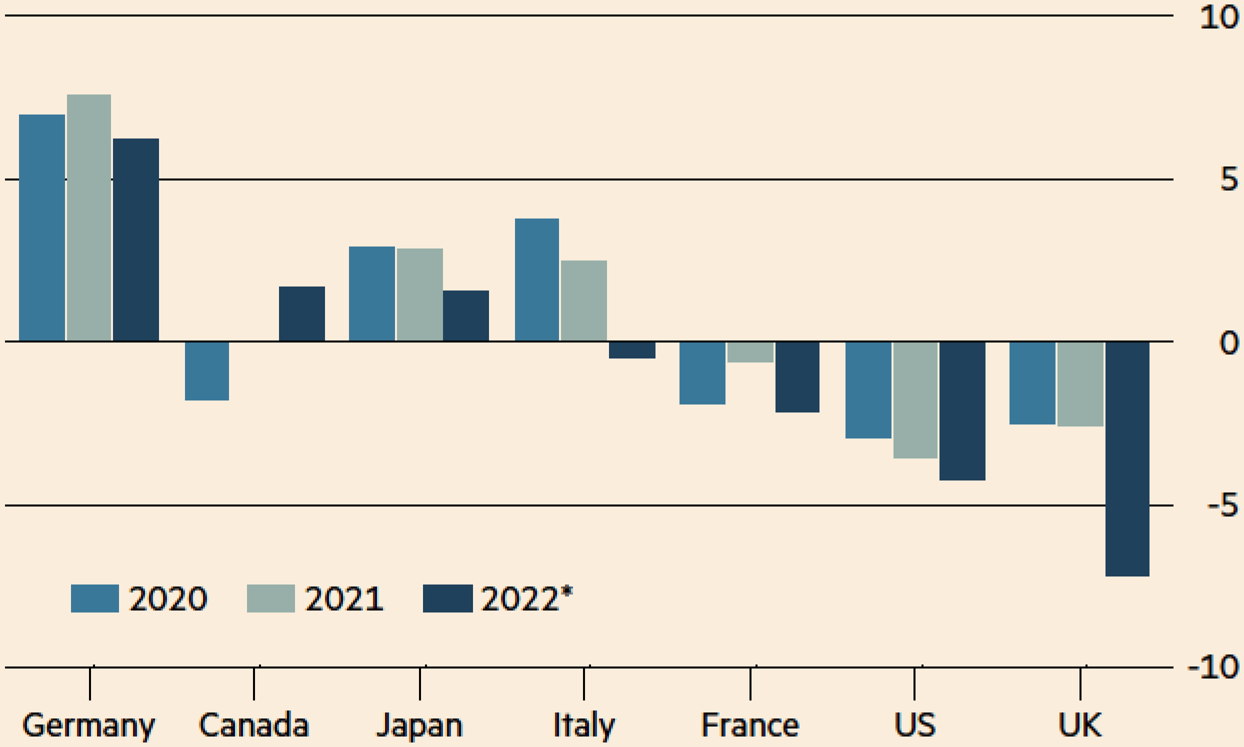
UK trade deficit is the worst on record

Rolling three-month sum (£bn)



Current account deficit is forecast to be the worst in the G7

% of GDP



* OECD forecast

Sources: ONS; OECD Jun forecasts; Refinitiv

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Expo

Real e

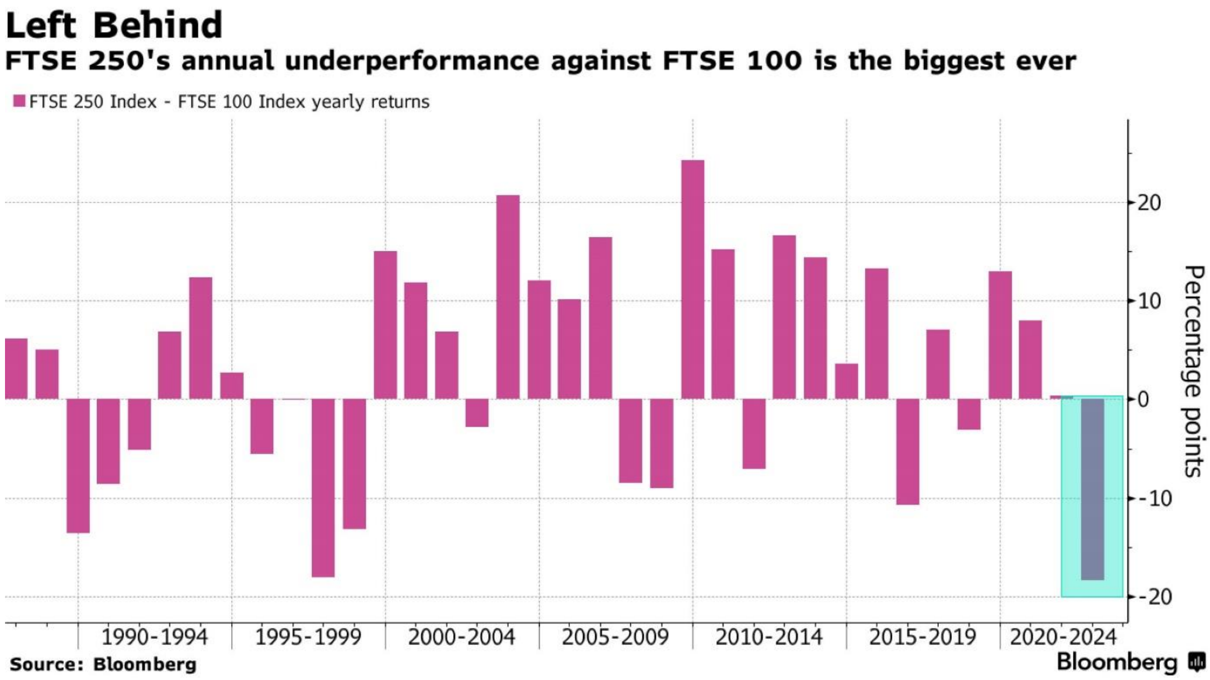
Monthly Review of Markets

Equities

Global Equities fell sharply over September, extending the year-to-date decline to 26% in dollar terms, with large variation between countries and sectors. The major UK equity indices and Japan, while still declining, outperformed in relative terms while China and Emerging Markets registered price falls in excess of 10%. The VIX index jumped over the month to an end September at a level of 30.32. The nine- month gain of 75% reflects the degree of risk aversion compared with the" relative calm" of last December (medical, geo-political and economic!).

UK Sectors

Sector moves were very mixed over the month although virtually all ended in negative territory. Mining, oil and pharmaceuticals proved to be relatively defensive while real estate,telco's, household goods and food fell sharply. The FTSE100 continued to outperform FT ALL-Share on the month and is outperforming on a year-to-date basis, by around 4% largely due to the international/resource bias of the former and the low expectations for the UK domestic economy. . By IA sectors, UK active unit trusts are **underperforming benchmark indices, trackers etc,** so far this year, with small company funds even more so. Income based funds, by contrast, are outperforming the averages. "Balanced" funds, by IA definitions, are falling by about 12% so far this year (Source: Trustnet September 30th). Due to the unprecedented fall in gilt and related prices, defensive funds are falling as fast as growth funds so far this year

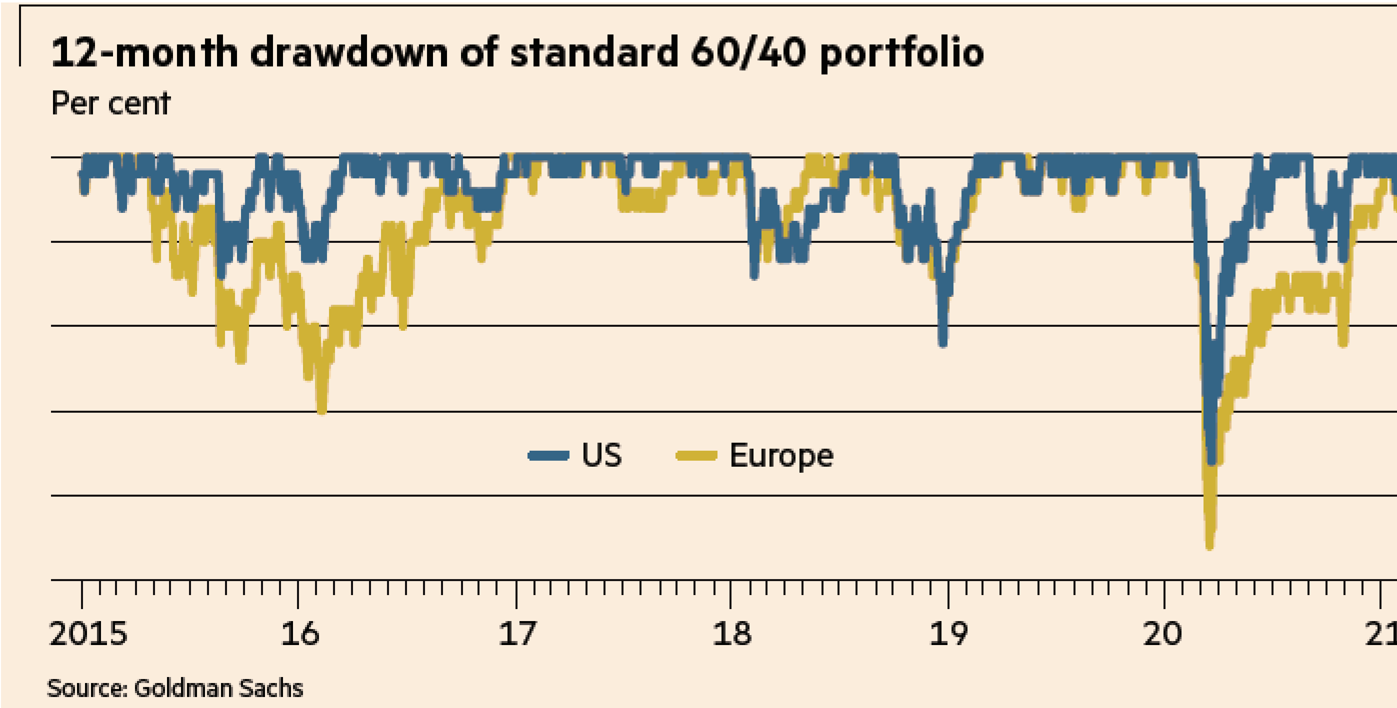


Fixed Interest

Major global government bonds collapsed, in price terms over September, the UK 10-year yield for instance finishing the month at a yield of 4.13%. Other ten-year government bond prices showed closing month ten-year yields of 3.73%, 2.11% and 0.25%for US, German and Japanese debt

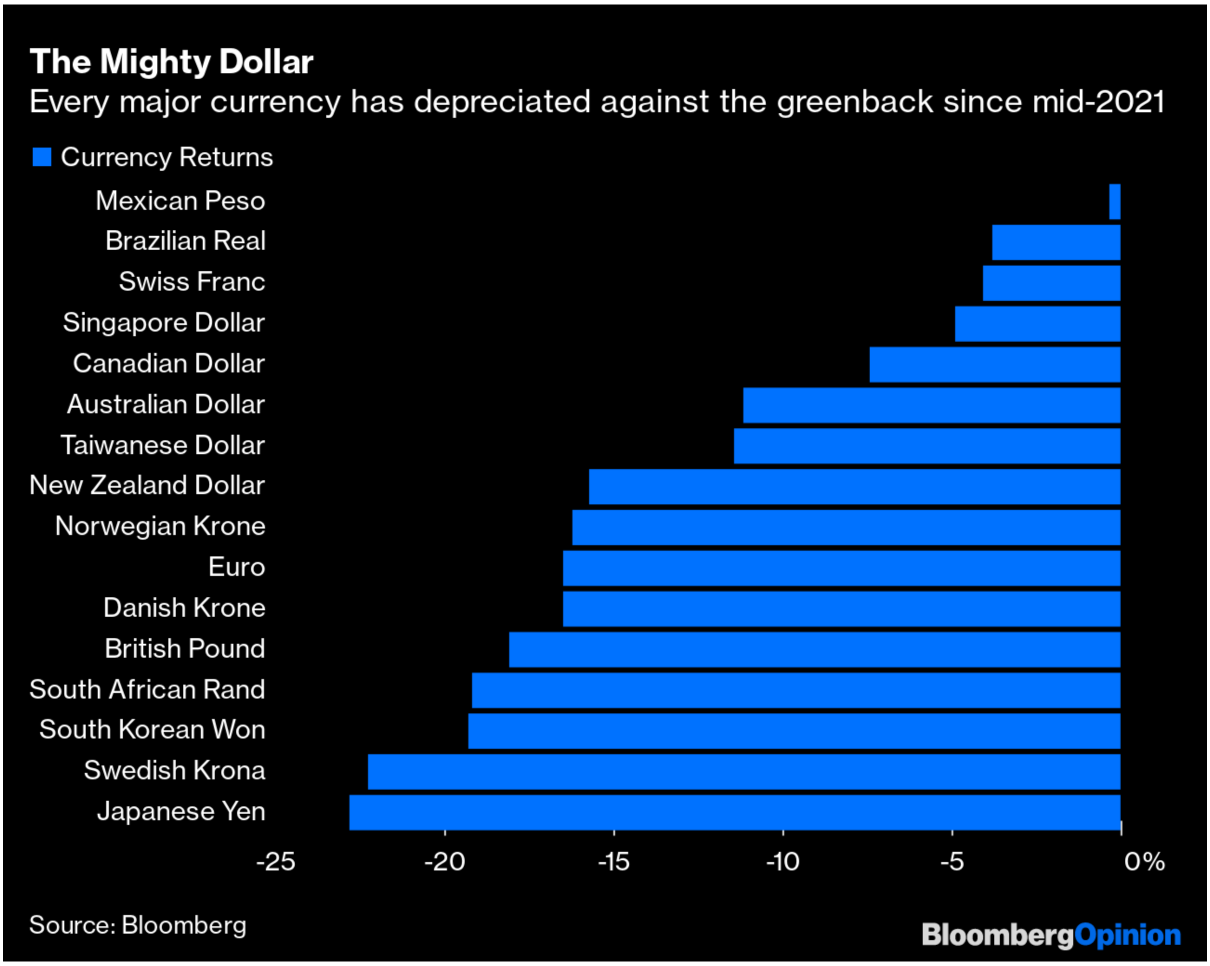
respectively. The very sharp move in longer gilts, prompted by the “surprise” Budget caused some immediate stresses amongst pension funds, which was the major reason for the BoE to initiate some “emergency measures” and defer the scheduled gilt sales.
Year to date, the composite gilt index has fallen approximately 26% marginally underperforming UK higher quality corporate bonds.

Check my recommendations in preference shares, selected corporate bonds,fixed interest ETF’s , zero-coupons, speculative high yield etc. A list of my top ideas from over 10 different asset classes is also available to subscribers.



Foreign Exchange

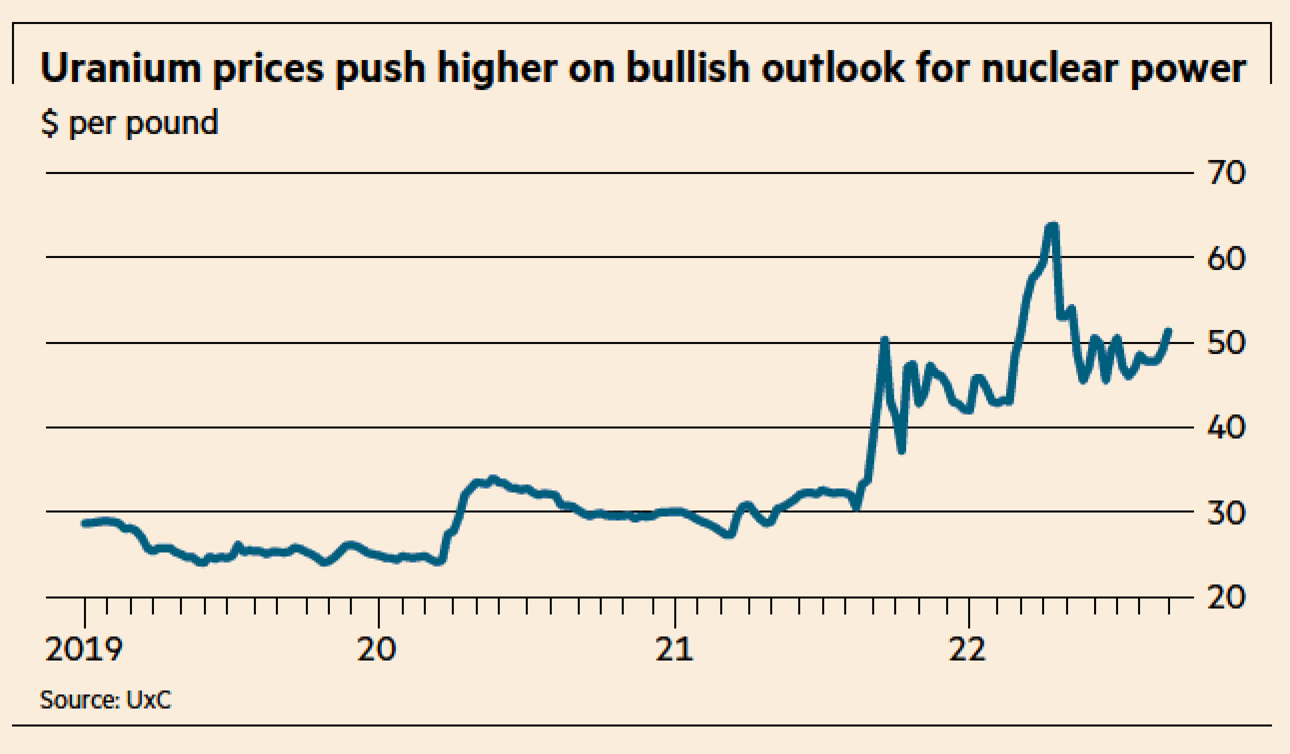
Currency moves featured weakness in sterling and strength in the dollar, the actual cross rate between the two moving by over 4%. Currency developments during September also included verbal and actual intervention by the Japanese and Chinese authorities as well as the well-publicised UK FX volatility which at one stage saw the pound heading for parity to the dollar. The strength of the dollar largely on the increasingly hawkish US Federal Reserve is creating many distortions.in developed and emerging markets alike.


The Mighty Dollar
Every major currency has depreciated against the greenback since mid-2021
Currency Returns
Mexican Peso
Brazilian Real
Swiss Franc
Singapore Dollar
Canadian Dollar
Australian Dollar
Taiwanese Dollar
New Zealand Dollar
Norwegian Krone
Euro
Danish Krone
British Pound
South African Rand
South Korean Won
Swedish Krona
Japanese Yen
-25
-20
-15
-10
-5
0%
Source: Bloomberg
BloombergOpinion


September: The Month of Interventions
First Japan, then the UK, and now China acted against the strong dollar
Yen/Dollar
145
144
143
142
141
140
139
Sep 1 2022
Sep 29
Pound/Dollar
0.95
0.90
0.85
Sep 1 2022
Sep 29
Yuan/Dollar
7.2
7.1
7.0
6.9
Sep 1 2022
Sep 29
Source: Bloomberg
BloombergOpinion

Commodities

With the exceptions of corn, palladium and wheat, commodities were weak across the board. Year to date, some soft commodities, uranium and the energy complex are still showing good gains, but industrial metals such as copper, iron ore and aluminium are nursing losses of 23%,24% and 25% respectively.



Looking Forward

Longer term investment concerns regarding variable economic recoveries and inflation, with related interest rate/fiscal implications have superseded Covid worries, even though the latter is "far from over" in a global perspective. Further rounds of autumn vaccination are already underway in several Northern Hemisphere locations. **Shorter term, Ukraine issues are adding to equity, bond, currency and significantly, commodity, variability while UK assets, following the election and recent mini-Budget seem likely to remain volatile for several weeks (currency, bond and equities).**

Major central banks have turned much more hawkish with reducing QE and accelerating the timing and extents of rate increases, especially where inflation control is the sole mandate. In a growing number of smaller economies where US contagion, politics, commodity exposure inflation/fx are also issues, several official increase rate increases have already taken effect. Japan, however, has continued to adopt stimulative measures, up to now.

Global Government Bonds have started to weaken again in price terms, with longer maturity debt now falling significantly as well as shorter term paper. Absolute yield levels, however, still look low when inflation, government supply and quantitative tightening are considered, especially regarding the UK, where new government policies, seem likely to fuel inflation, increase government borrowing, weaken the currency and possibly lead to greater than expected interest rate hikes.

For equities, the two medium term key questions will be when **rising interest rates** eventually cause equity derating/fund flow switches, government, corporate and household problems, and how the rate of **corporate earnings growth** develops after the initial snapback. Going forward, withdrawal of certain pandemic supports, uncertain consumer and corporate behaviour and cost pressures are likely to lead to great variations by sector and individual company.

Observations/Thoughts

ASSET ALLOCATION

As well as maintaining an **overweight position in UK equities**, it may be worth initiating or adding to **Japanese positions** within an international portfolio. The **US market** has fallen about 24% so far this year (NASDAQ -31%) but remains a relative **underweight** in my view. Margin pressure headwinds, political uncertainty and technology sector volatility must be balanced against the current stock market ratings. **Continental European equities** appear cheaply rated in aggregate, but great selectivity is required. Current Ukraine tensions have opened new opportunities within the **emerging market** space, but extreme caution warranted**. Latin America and parts of Asia, for example, have enjoyed economic rebounds, revived tourism, some commodity exposure, and little negative Ukraine spill over and this has been reflected in some indices e.g Latin America.**

	PE	**PE**	**P/B**	**P/B**	**Yield**	**Yield**	**Eps growth**	**Eps growth**	**Dividend growth**	**Dividend growth**
	22	**23**	**22**	**23**	**22**	**23**	**22**	**23**	**22**	**23**
World	**15.1**	**14.3**	**2.5**	**2.3**	**2.3**	**2.4**	**11.3**	**5.9**	**8.7**	**4.8**
USA	**17.4**	**16.1**	**3.6**	**3.3**	**1.7**	**1.8**	**7.9**	**8.2**	**8.0**	**6.2**
Japan	**12.3**	**12.1**	**1.2**	**1.1**	**2.7**	**2.8**	**13.2**	**1.3**	**8.2**	**3.9**
Europe ex-UK	**11.2**	**10.9**	**1.6**	**1.5**	**3.8**	**4.0**	**17.3**	**2.4**	**9.5**	**4.6**
UK	**9.1**	**9.1**	**1.5**	**1.4**	**4.3**	**4.5**	**21.6**	**-0.7**	**8.7**	**5.3**
Global Emerging	**10.9**	**10.3**	**1.4**	**1.3**	**3.7**	**3.6**	**10.2**	**5.4**	**21.6**	**-0.7**

Source: MSCI, IBES,Morgan Stanley September 24th .

Another major asset allocation decision would be to **replace part of the conventional "fixed interest" portion with alternative income plays in the infrastructure, renewables, and specialist property areas.** Many instruments in this area provide superior capital growth, income, and lower volatility than gilts for example**. I am also adding selected preference shares to the "fixed interest" allocation, where** annual yields of approximately 6% are currently available after the recent bounce in prices.

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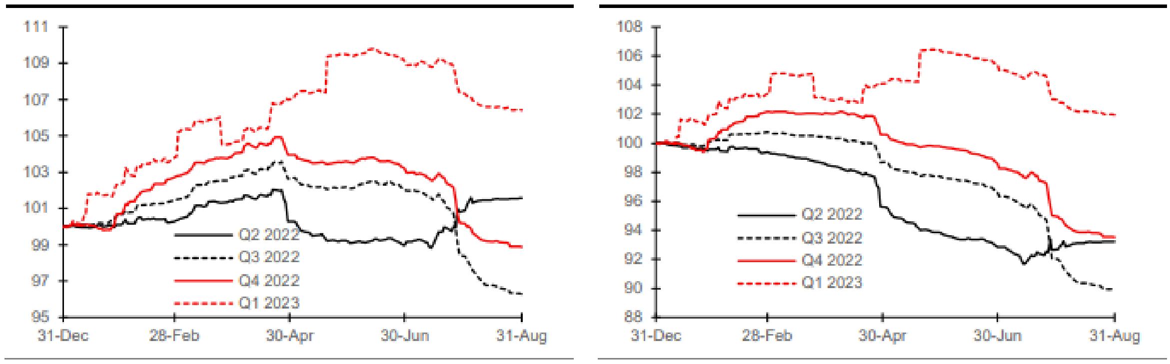
US earnings quarterly changes

S&P 500 | **S&P 500 ex Oil & Gas and Materials**



UK EQUITIES/GILTS

At this time of writing, with so many political, economic unknowns (and rapidly moving developments), there will be a high degree of error in any forward looking economic/investment strategy/sector/stock projections, but I would heroically attempt to present the current picture as I see it.

- **The historic "hard data" is poor up to the end of September, and remember that these are the "facts"that the OBR will use in their base case not to be overly distracted by current political noise and spin.**
- **Several headwinds I outlined on page 7, are still very appropriate, (though forgotten by several commentators), and importantly, predate issues of energy prices….and then interest rates/mortgage payments.**
- **Short and long term interest rates were abnormally low until recent months…still a global QE effect, plus slow Central Bank reactions to inflation**
- **Biting my tongue to avoid any political comment, the first attempt (I will call it that) at the budget of the new government proposed tax cuts, with very little information on revenue raising…. immediate cue for UK asset volatility.**
- **Understandably, international observers (important gilt holders and the IMF) want to know more, as does the OBR, who seem to have been side-lined (or worse).Kwarteng will have to convince a sceptical OBR that his 2.5% medium term growth plan can be achieved through supply side reforms, while still remaining fiscally responsible. Remember that the OBR was predicting only 2.0% sustainable growth in March when the economy was much stronger.**
- **The Bank of England, with its main remit of price stability, would be inclined to put-up short-term interest rates even higher than originally planned. One of the IMF objections to the proposed fiscal package was the likely conflict with the Bank of England.**
- **My best guess now is that there may be some behind the scenes conversations between OBR and government, possibly some back tracking or even personnel moves and further detail on Govt spending/saving before the rather too distant date of November 23rd**
- **BoE will temporarily put gilt selling on hold, but expect volatility, both during after the stated time period (14th October).**

The recent (September 23rd) budget and subsequent chain of events has reinforced my long standing view that equities should currently be favoured over gilts, despite the large outperformance already this year with a loss of just 6.7% for the FTSE 100 versus a 26% decline for the All Gilt Index. Both figures exclude income, which would in fact show UK equities in an even better light. Holders of "balanced funds" should assess whether their current asset mix is appropriate. However, it feels rather late to open new short positions in Fixed Interest and some more conservative/income oriented may start looking more closely at certain fixed interest products, that have fallen to sustainably attractive yield bases

<u>Equities</u> continue to remain a **relative overweight** in my view, based on several conventional investment metrics (see above), longer term underperformance since the Brexit vote, style preference (value overgrowth) and international resource exposure although be aware of the numerous domestic headwinds I have highlighted above.

Value should be favoured over growth, and the FTSE 100 favoured over the FT All-Share. Apart from the style drift, remember that the non sterling element of leading FTSE 100 companies and sectors is relatively high

By sector, **Oil and Mining** equities continue to benefit from above average yields, strong balance sheets, dollar exposure and secular demand e.g copper, cobalt for electronics, construction, electric vehicles etc

Remain overweight in **pharmaceuticals a**nd underweight in non-renewable **utility** stocks which may suffer from consumer and government pressures, and no longer trade on yield premia, especially against the back drop of rapidly rising gilt yields.

Construction materials, especially cement will benefit from growing infrastructure/renewable initiatives.

Banks, may enjoy some relative strength from rising interest rates, but continue to monitor the recession/loan growth and default risks. Preference Shares as well as ordinary shares have attractions in this area

Housebuilders and real estate-expect depressed activity and remember that the rising interest rates have not yet been fully factored into bricks and mortar property yields. Some property company corporate bonds however have shown some immediate weakness.

Weak sterling and changes re Duty Free rules should positively affect certain **tourism/luxury good companies**.

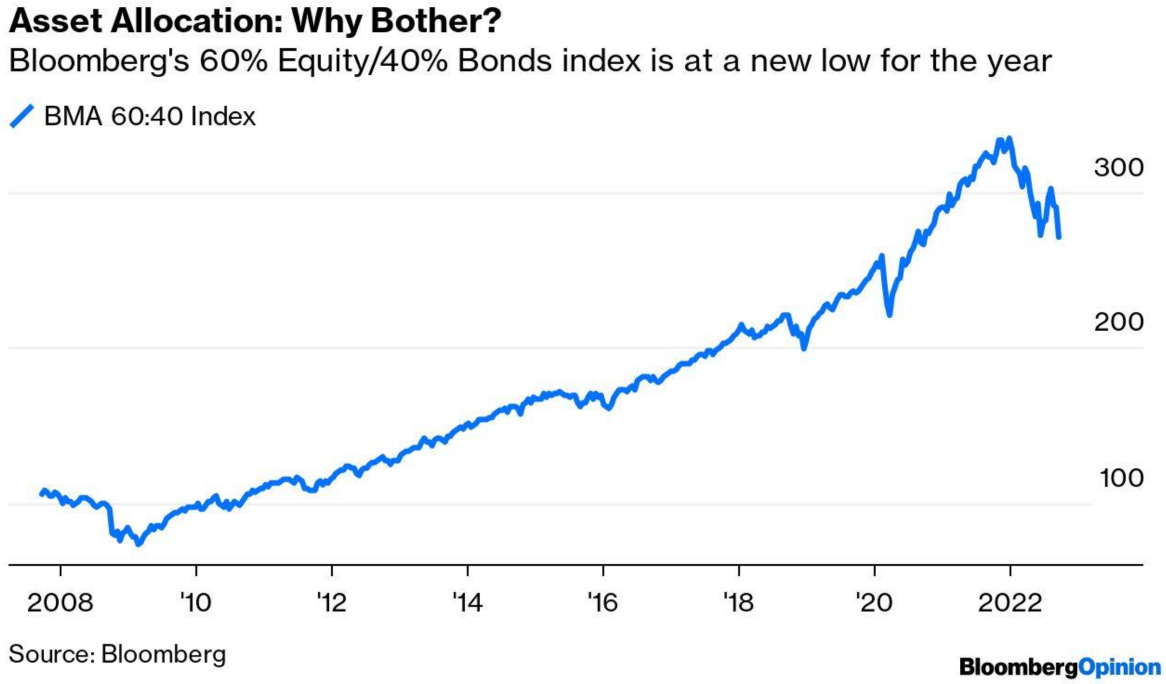
Domestic Breweries/pubs etc are having a hard time with stalling consumer's expenditure,supermarket competition and rapidly rising costs.

Airlines may suffer as a result of large dollar costs, uncertain foreign travel outlook and often high debt levels

Extra due diligence at **stock level more generally** will be required as I expect a growing number of profit warnings and downbeat forward looking statements.
Takeover activity is also clearly increasing with, for example, private equity snapping up UK-listed companies at the fastest pace for more than twenty years. Foreign takeover, stake building is also increasing, current weak sterling being a factor, with Vodafone under scrutiny by a French (who already have BT interest!) investor.Biffa(waste management),MicroFocus(technology),Aveva(software) and RPS(professional services) have all succumbed to foreign takeovers in recent months, much by "strong dollar" American or Canadian organizations.

Gilts

It is difficult to see value in conventional gilts now against the current inflation and debt/GDP ratios, and the supply expected over coming months. At some stage **however,** institutional asset/liability considerations, and equity to bond switching may reappear. Ten-year gilt yields of 4.13% do appear more attractive now against a current FTSE 100 yield of 3.9% than the 0.97% gilt yield at the beginning of the year.



JAPANESE EQUITIES also remain an overweight in my view, although my recent comment re hedging may "nuanced "now following the extreme currency weakness and surprise intervention. Unlike most other major economies, Japan is expected to continue its easy money policy. Exporters have benefitted from the plunging Yen although higher input costs and more "off-shoring" also must be considered. The price/book ratio of 1.20 is attracting interest of corporate and private equity buyers, while the prospective yield of 2.8% is above the world average and compares very favourably with USA (1.8%). Corporate governance is rapidly improving with diverse boards, reduction of cross holding, higher dividends etc. Private equity stake building interest in Toshiba and growing activity in the property sector (discount on a discount in a cheap currency) demonstrate the search for value in Japan.

On a valuation basis (see table above) the forward PE multiple of 12.1 is at a considerable discount to the world, and especially US average

- **EMERGING MARKETS**-Very difficult to adopt a “blanket” approach to the region even in “normal times”, but especially difficult now, with so many different COVID, commodity, sectoral mix, debt, geo-political and increasingly natural disaster variables. Interestingly the rush into Emerging Market assets, both bonds and equities, at the start of 2021 moderated through the year and into 2022 as many dramas have unfolded e. g South Africa, Turkey, Ukraine, Chinese regulation. This latter factor has special relevance to those using Emerging Market Benchmark Indices. The IMF recently warned that several emerging nations could disproportionately suffer from a combination of COVID and adverse reaction to “tapering” by developed counties e.g., FX/Interest rate pressures. Six countries have already defaulted during the pandemic, and the IMF is currently in various stages of bail-out discussions with Pakistan,Argentina,Zambia,Sri Lanka,Ghana,Tunisia and Egypt.

  However, within the emerging space, I continue to have a **relatively f**avourable longer term view on Asia, where relative COVID success, stable FX,inward investment, lower relative inflation and export mix help investor sentiment

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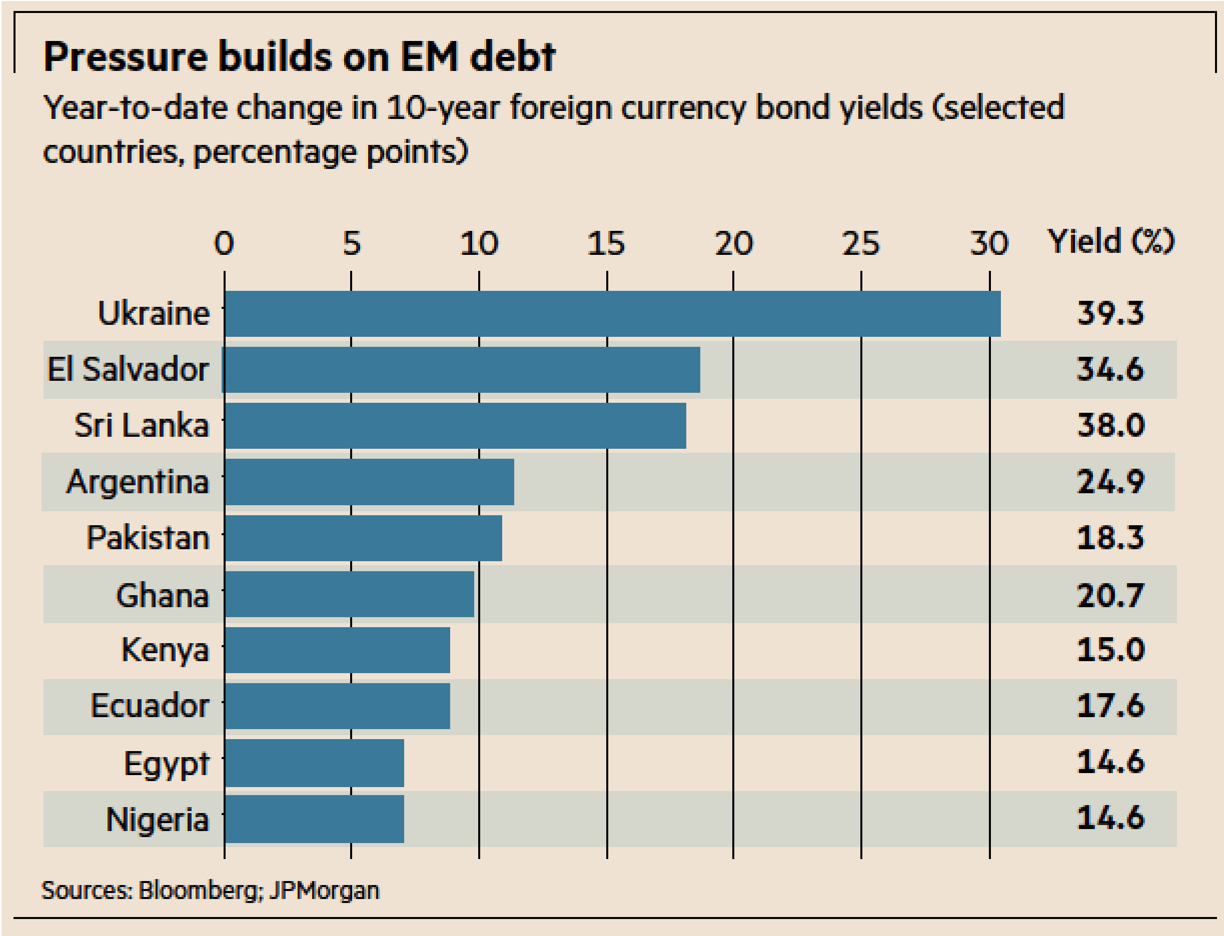
  Vietnam, for example, is supported by positive demographics, with a population of near 100 million, an emerging middle class, and a recipient of strong foreign direct investment. Qualconn,an Apple supplier, Intel(semi-conductors),Lego and Samsung(mobile phone plant) have all recently invested in new capacity in the country. Other big names moving chunks of production from China to Vietnam include Dell and HP(laptops),Google(phones)and Microsoft (Games Consoles) The economy is expected to grow at around 6.5% this year (7.7% Q2 2022) and current inflation is running at about 3.5%. On a relatively low prospective PE based on forecast earnings growth over 20%, Vietnamese equities appear good value. **India**, although quite highly rated and a major oil importer, warrants inclusion in a diversified portfolio, and is currently receiving some fund flows from "overweight" Chinese portfolios. Indonesia,the last of my current Asian ideas benefits from a commodity boom, strong domestic market, low debt, relatively stable currency, forecast 5% GDP growth and 5% inflation

Caution is required in many **South American** markets with poor COVID-19 situations, deteriorating fiscal balances and inefficient governments, many of which are up for change. However, some stock market valuations currently appear interesting in the region, which, so far, has been relatively unaffected by events in Ukraine. Commodity exposure, deglobalization beneficiary, valuation and recovery from a very low-level account for some year-to-date stock market relative out- performance.

Certain areas within Central Europe are starting to receive more attention, mainly on valuation grounds, but the lingering Covid effects and indirect effects of the Russia/Ukraine invasion should be borne into account. Regarding the latter, a reduction/termination of Russian gas supply could have a serious recessionary impact in certain countries. Large refugee influxes e.g Poland are also starting to create budgetary/social issues.

Comments re great selectivity above also apply to **emerging market debt**. For the more adventurous fixed interest investor combinations of well above average yields (sometimes caused by pre-emptive moves last year), stable fiscal and FX situations and, diversified economic models could provide outperformance from carefully selected bonds.JP Morgan is sounding out big investors on adding India to its emerging market bond index with an announcement due in October. This could have a dramatic effect on inflows into Indian debt.



- **COMMODITIES**- Gold spiked to over $2000 in March, a recent high, when Russia invaded Ukraine, but has since fallen about 17%. Global gold ETF's continue to experience outflows) with other inflation "hedges" available, this zero yielding asset seems likely to remain friendless. The **longer-term prospects** for more cyclical plays continue to look brighter. Increased renewable initiatives, greater infrastructure spending as well as general growth, especially from Asia, are likely to keep selected commodities in demand at the same time as certain supply constraints (weather, labour and equipment shortages, Covid, transport) are biting. Anecdotal evidence from reporting companies RTZ, BHP and Anglo American appear to suggest that the industry is enjoying a bumper time, and with disciplined capex programmes, extra dividends and share buy-backs are commonplace! In the short term there could be additional **supply** disruption in the areas of natural gas, palladium, nickel, aluminium, potash and certain foodstuffs. It should be remembered that commodity investment is inherently volatile.

- Wheat and other grain prices have fallen from the levels reached following the Russian invasion of Ukraine, but the current shipping "truce", planting/harvesting schedules within the region and extreme global meteorological conditions are expected to lead to further price volatility. If the conflict is prolonged it will affect millions of people living in such places as Egypt, Libya, Lebanon Tunisia, Morocco, Pakistan and Indonesia that could have political consequences. There has been renewed interest in **agricultural funds** as well as the soft commodities themselves.

GLOBAL CLIMATE CHANGE remains **a longer-term theme,** and will be built into the many infrastructure initiatives, being pursued by Europe, USA, and Asia. The Russia/Ukraine conflict is accelerating the debate, and hopefully the action. There are several infrastructure/renewable investment vehicles which still appear attractive, in my view, combining well above average yields and low market correlation with low premium to asset value. The recent volatility in natural gas prices has highlighted both risks and opportunities in the production and storage of energy from alternative sources. However, increasing levels of due diligence are required, in committing new money to the area overall. Financial watchdogs across the world are sharpening their scrutiny of potential "greenwashing" in the investment industry on rising concerns that capital is being deployed on misleading claims.

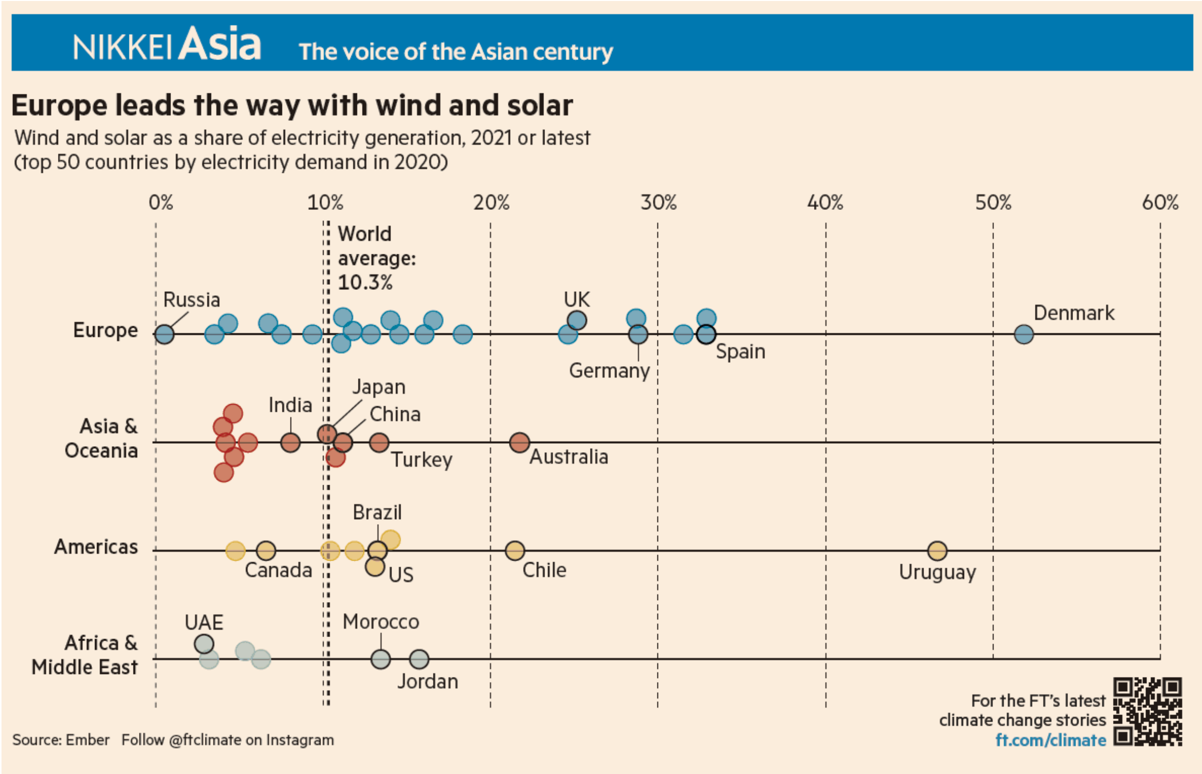
- However, in the **shorter term**, the Russian invasion of Ukraine has precipitated a global energy crisis, that has forced countries, especially in Europe to look for ways to quickly wean themselves off Russian oil and gas, and reconsider timelines of commitments to cut the use of fossil fuels. At the time of writing, it seems highly likely that USA will increase oil and gas output, UK North Sea may see further investment and EU coal consumption could increase.

- Another area currently in the ESG purist cross hairs is **"nuclear".** Ignoring the fact that nuclear weapons have not been used in anger since 1945, and the fact that some deterrent is needed, (now?), where should the confused investor stand when it comes to nuclear power substituting coal power? Japan, UK and Germany are all studying proposals to revive their nuclear power capacities. I have some interesting "uranium play" ideas for those interested.

- **ALTERNATIVE ASSETS**-this group, encompassing private equity, private debt, hedge funds, real estate, infrastructure, and natural resources is expected to continue growing both in actual and relative terms over coming years.

Traditional asset management groups are racing to expand offerings in alternative investments as they seek to boost profitability and head off competition from private equity groups (see graph below).

I have, for a while, recommended some exposure to this area maybe as part of the former "gilt allocation". **With strong caveats re liquidity, transparency, dealing process, I still adopt this stance, continuing to use the investment trust route. So far this year, gilts have declined approximately 20% while my favoured UK renewable closed-end funds have appreciated by around 15% in capital terms and delivered about 6% in annual income.** Please contact me directly for specific ideas



COMMERCIAL PROPERTY-The most recent MSC/IPD UK Property Index up to the end of **July 2022** showed a monthly total return of -0.6% across all properties, 9.0% total return year to date, thus building on the 21.9% return experienced for full year 2021.This was the first monthly fall in capital values since October 2020.Capital values of Industrial properties in both the Southeast and Rest of UK decreased 1.9% over the month. Rents grew on average at an annualised rate of 3.7% p.a in July with Gains in Industrial rents broadly offsetting rents in the Office and Retail sectors.

Several analysts are down grading their estimates for the sector following the rapid move in UK longer and shorter-term interest rates. Property asset valuations take time to materialise where there is a lag between balance sheet date and results publication in the listed area. Live traded property corporate bonds, however, have already moved sharply lower.

Full asset allocation and stock selection ideas if needed for ISA/dealing accounts, pensions. Ideas for a ten stock FTSE portfolio. Stock/pooled fund lists for income, cautious or growth portfolios are available. Hedging ideas, and a list of shorter-term low risk/ high risk ideas can also be purchased.

I also undertake bespoke portfolio construction/restructuring and analysis of legacy portfolios.

Independence from any product provider and transparent charging structure

Feel free to contact regarding any investment project.

Good luck with performance!

Ken Baksh Bsc,Fellow (UK Society of Investment Professionals)

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1st October ,2022

Important Note: This article is not an investment recommendation and should not be relied upon when making investment decisions - investors should conduct their own comprehensive research. Please read the disclaimer.

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