Strategy Commentaries for April 2022 [28 March, 2, 9, 25 April 22]

STRATEGY FOR week commencing 28 March –Notifications this week that inflation is hitting levels not seen in many a year is nothing to be surprised at. Old traditional monetarism suggests that pumping money into the system can only mean unsupported price rises. It's now payback time by master Inflation. Years and years of quantitative easing without real productivity increases together with unsustainable levels of government support during the pandemic meant that price increases will become the norm. Old economic thinking with demand pull or cost push inflation is here now as factors beyond ones control mean that the price level escalation a forgone absolute. Like the 1970s oil prices levels are now increasing to levels with widespread consequences. The difference to today is the world has changed significantly as geopolitical conflicts with penalties now come with significant economic and human costs. Energy costs continue to bear a heavy burden and the effect on wealth inequality is something that has yet to be discussed. Increasing levels of inflation enable Governments to actually benefit as the huge debt interest is eroded away by high levels of inflation. Inflation is regressive as the not so well off will be unequally affected. The portfolio saw another positive return of +2.76% last week. The continuing parabolic rise of Aloca saw me take profits as price target was achieved at $95. By the end of last week Aloca had retraced to $91 on which reinvestment of profits was again made on Aloca. Supply problems of aluminium would I suggest create the opportunity for further upside in my humble opinion. Energy stocks of Devon [+8%] and PDC [+14%] both returned in the ascendency consistent with the general rise in fuel costs. The spirited rise of Nano materials provides reason to be cheerful with additional acquisition last week. The dowdy performance of US housing stock DR Horton continues to frustrate and the holding period of negative returns leads me to the view that housing share direction may not offer much solace given the increasing trend of expected interest rate rises in the future. This week I will look when appropriate to diversify in other stocks that look good for potential. Until next time.

STRATEGY FOR week commencing 2 April – The US economy added 431,000 payrolls in March of 2022, below market forecasts of 490,000. The ISM Manufacturing PMI for the US fell to 57.1 in March of 2022 from 58.6 in February, well below market forecasts of 59 and pointing to the slowest growth in factory activity since September of 2020. Yes its above 50 which signifies expansion but further reductions to below 50 will be warning signs. And with inflation running away like an express station, a slowdown in new US orders (53.8 vs 61.7), production (54.5 vs 58.5) and backlog of orders (60 vs 65) and price pressures intensified (87.1 vs 75.6) due to instability in global energy markets could well signify slowdown in the US in the next six months. All the hallmarks of a movie script is apparent in the twists and turns of energy supply from Russia to suppliers. When dependency becomes acute in anything, one is always vunerable to the demands of a blackmailer. Finding alternatives is often the way forward to offset the demands of the host. Geo political conflicts have turned economic as countries begin to try and find ways to counter unfavourable demands. Recent pronouncements by the US to solve the energy supply issue on Russian Gas has seen the Biden administration stating that the U.S. will aim to supply European buyers this year with an additional 15 billion cubic meters (bcm) of LNG, and 50 bcm by 2030 to replace Russian gas imports as the West seeks to punish Moscow for its invasion of Ukraine. This week I took a position on New Fortress Energy Inc a supplier of liquid natural gas. Growing demand among customers, especially in Europe, was behind New Fortress Energy's decision to invest its own money to build a 2.8 million tonne per annum (MTPA) plant off the coast of Louisiana. Last week the portfolio saw a slight decline of -0.53%. Adding to the portfolio NFE will provide exposure to the LNG market topical with countries looking to cut down its reliance on Russian gas oil imports. NFE was the shining light last week as other shares in the portfolio disrupted by market volatility. Technology, housing shares all seeing downbeat performance. DR Horton continues to frustrate and time is approaching to say adios unless a turn of fortune is apparent. The resources sector being the sector that has held its own. This week will be monitoring and review but taking losses on poor performers will again be a strategy that I may adopt conscious of the fact that shares at not one friend but their to be used for positive contribution. Until next time.

STRATEGY FOR week commencing 2 April –

The short holiday week in the US will be dominated by the start of the earnings season, a hot inflation report, and speeches from several Fed officials. Also, monetary policy decisions in the Euro Area, Canada, Turkey, and New Zealand will be in the spotlight. Energy has become a hot potato as of late as countries begin to look for alternative suppliers in response to Russian oil. The old chestnut of payment in foreign currency has reared its head as Russia demands payment of its oil in Rubbles. That together with talk of default in foreign national debt raises the prospect of that a real possibility. Last week the UK has adopted a new policy on energy production confirming that nuclear and wind power to take a prominent role in the future. Globally the resources sector continues to dominate the news with demand and supply led factors influencing price action. Examples include Chicago wheat futures rose past $10.5 per bushel, a one-week high and 25% above prices before the events in Ukraine as investors weighed on the FAO report and the impact of additional sanctions on grain supply. Wheat production data in 2022 is forecasted to drop below the 5-year average in Ukraine, with at least 20% of winter plantations not being harvested due to direct destruction, constrained access, or lack or recourses to harvest the crop. Orange juice futures skyrocketed above 170 USd/Lbs in April, a level not seen since June 2018, amid record levels of low rainfall in top producers Spain and Portugal and a deficient US citrus production. Large areas, particularly in the south of Spain, faced extreme water shortages, underscoring continuing risks of drought stress to crops. The portfolio saw a -5.63% decline last week with Devon energy the best performer with a +4.0% increase. All other stocks in the portfolio saw negative performance in line with the NASDAQ market performance. I called time on DR Horton as frustration on its dismal performance continued with a loss incurred. Conscious of the fact that the FEDs policy of increasing interest rates will have a downside effect on future housing stock price action led me to effectively cut the cancer from the portfolio. Regret bias is often an overlooked concept and future elevated stock prices will lead me to consider selling shares when they are competitively priced and have reached a peak a mistake I made with DR Horton. I look to position myself to use receipts from DR Horton to capture another opportunity but will be governed my market sentiment whatever direction it may seek to make. Until next time.

STRATEGY FOR week commencing 9 April – The short holiday week in the US will be dominated by the start of the earnings season, a hot inflation report, and speeches from several Fed officials. Also, monetary policy decisions in the Euro Area, Canada, Turkey, and New Zealand will be in the spotlight. Energy has become a hot potato as of late as countries begin to look for alternative suppliers in response to Russian oil. The old chestnut of payment in foreign currency has reared its head as Russia demands payment of its oil in Rubbles. That together with talk of default in foreign national debt raises the prospect of that a real possibility. Last week the UK has adopted a new policy on energy production confirming that nuclear and wind power to take a prominent role in the future. Globally the resources sector continues to dominate the news with demand and supply led factors influencing price action. Examples include Chicago wheat futures rose past $10.5 per bushel, a one-week high and 25% above prices before the events in Ukraine as investors weighed on the FAO report and the impact of additional sanctions on grain supply. Wheat production data in 2022 is forecasted to drop below the 5-year average in Ukraine, with at least 20% of winter plantations not being harvested due to direct destruction, constrained access, or lack or recourses to harvest the crop. Orange juice futures skyrocketed above 170 USd/Lbs in April, a level not seen since June 2018, amid record levels of low rainfall in top producers Spain and Portugal and a deficient US citrus production. Large areas, particularly in the south of Spain, faced extreme water shortages, underscoring continuing risks of drought stress to crops. The portfolio saw a -5.63% decline last week with Devon energy the best performer with a +4.0% increase. All other stocks in the portfolio saw negative performance in line with the NASDAQ market performance. I called time on DR Horton as frustration on its dismal performance continued with a loss incurred. Conscious of the fact that the FEDs policy of increasing interest rates will have a downside effect on future housing stock price action led me to effectively cut the cancer from the portfolio. Regret bias is often an overlooked concept and future elevated stock prices will lead me to consider selling shares when they are competitively priced and have reached a peak a mistake I made with DR Horton. I look to position myself to use receipts from DR Horton to capture another opportunity but will be governed my market sentiment whatever direction it may seek to make. Until next time.

STRATEGY FOR week commencing 25 April – Recent weeks have seen market sentiment turn negative as last Friday [25 Apr] saw the Dow decline by 1000 points [-2.82%] . Ugly action in markets have been sobering for the optimist. The slump in shares prices fuelled not only by geo political factors but the FEDs stated aim of Balance sheet reduction and talk of a minimum 0.50 hike in interest rates to counter inflationary presses currently exceeding 7%. WTI crude futures tumbled almost 5% to around $97 per barrel on Monday, hitting their lowest in nearly 2 weeks, amid mounting concerns that prolonged Covid lockdowns in China and rapid rate hikes in the US would weigh on global economic growth and fuel demand. Negative sentiment is driving down share prices and even the resources sector has seen significant downside. Yet there are pockets of optimism alas not favoured by the climate change brigade as coal reaches a 5 week high. In the UK The British pound depreciated further to below $1.275, the lowest since September 2020 weighed down by poor economic data and less hawkish Bank of England expectations. British retail sales volumes tumbled 1.4% from a month earlier in March, much worse than market expectations of a 0.3% decrease. Also, PMI data signalled a marked cooling in the pace of UK economic growth during April with service providers experiencing a considerable loss of momentum and manufacturers facing a headwind to order books from rising output charges. Up coming Local elections in the UK may provide the tone of electoral behaviour and whether British Prime Minister Johnson should be concerned. The last two weeks portfolio performance +1.68% [15 Apr] and -5.22% [22 Apr] provides tempestuous and violent contrast. Resource sector shares Aloca [Aluminium] despites good earnings report saw significant correction off by -20%. Similarly Nano One Materials [Lithium] off by -11%. All other shares in the portfolio experiencing declines -5% and below. Akamei Technology proving some solace but overall one needs to have testicular fortitude in times like this. This week I look to review with the intension of having to taking losses so protect future damage to the portfolio. Until next time.