

## Strategy Commentaries for February 2023

**Week Commencing 20 February** – Inflation the arch enemy of financial stability has reared its head in the last year and has had a direct effect on monetary policy intervention by Central Banks. Interest rates as an instrument used to curb excessive spending with its associated effects on the Bond market has had such an influential effect on global Market performance. Years of quantitative easing eventually has taken its toll as inflation roared back to its uncomfortable levels last experienced in the 1970s. For generation Z who have had little experience of such exploded inflation rates it must have come as a unwelcome shock. How sensitive prices are can be influenced by many factors but in essence demand and supply play a role which also includes trading. The elasticity of such demand/supply will influence perception and therefore consumer behaviour. Sectors will be influenced by the rigours of the market. In trading the concept of beta allows one to assess share price sensitive to market volatility. Hence high Beta stocks imply acceptance of risk with the share price moving higher and lower relative to the market. The converse true of low beta stocks. In days of high inflation adopting high beta strategy in shares implies accepting risk which one must be comfortable with. Recent performance in oil is as an example where volatility has been influenced by market factors so a high beta factor will invariably result in greater risk when market falls or rises are intensified. After several weeks of positivity the portfolio saw a decline of -2.49% for the week. Not helped by the performance of Devon Energy which saw a -16%, fall week on week. Several Shares last week in the portfolio went ex-dividend assisting in future income generation. Gulf Keystone petroleum was disposed of using a stop loss on ex-dividend date, a useful strategy to capture income and ensure loss protection in the event that share price falls below break-even stop loss. In the week ahead in the US, the focus will be on the FOMC Meeting minutes and speeches by Fed officials. Investors will also closely follow personal income, spending, PCE price index, and 2nd estimate for Q4 GDP growth rate. Also, the attention will be taken by fresh PMI manufacturing and services readings for major economies including US, UK, France, Germany, and Japan. This week I will consider stock replacement in an uncorrelated sector. Until next time.

**Week Commencing 13 February** - Market sentiment is such a critical factor in stock market performance. The perception that things will improve or get worse can filter into market sentiment as has been the case for 2023 where market optimism has been the flavour for this year. Hawkes and doves, glass full or empty. Invariably markets are driven by market sentiment. Think back to historical evidence. The Wall Street crash of 1929 driven by market sentiment of over exuberance. Similarly in 2008 when Lehmans went broke with market sentiment being a key factor in its downfall. Fast forward to the present and recent evidence supported by the University of Michigan [a market leading indicator] of consumer sentiment for the US jumped to a thirteen-month high of 66.4 in February of 2023 from 64.9 in January, beating market forecasts of 65, preliminary estimates showed. After three consecutive months of increases, sentiment is now 6% above a year ago but still 14% below two years ago, prior to the current inflationary episode. Meanwhile, inflation expectations for the year ahead went up to 4.2% from 3.9% while the five-year outlook remained steady at 2.9%. So in the short time one may be looking at over rational exuberance in the US. Contrarily however we are now more than halfway through the fourth quarter earnings season yet fewer companies are managing to beat Wall Street expectations than normal. Couple that with other economic news and confirmation that more rate hikes are coming this year, and it's not surprising some

investors are becoming a bit more bearish. Oil prices are rising after Russia said it plans to reduce output by half a million barrels per day starting in March. Lower Russian output combined with China's economic reopening should tighten the oil market over the coming year, pushing up prices. In the UK, bickering and the blame game seem on top of the political agenda as a wave of industrial strife seem not to have dented the FTSE 100 performance. Yet the devil is in the detail as news that the UK moves towards recession and with UK car production on its knees, political diversionary tactics are again being employed by the current UK Government in shouting *halaluya* were going for 'a digital pound.' The Orwellian prophesy of a UK Government controlled autocratic society moves closer to the coronation. The portfolio held a neutral performance last week with a +0.14% increase. A mixture of pluses and minuses ensured a balance change from the previous week. Again patience was again the watchword as the winners and losers balanced out. I alas have been given up on Thungela Resources which has performed so badly reminiscent of going down a shaft in a coal mine. Its constant price retrograde with no prospect of recovery reminds me of dog barking for its survival. Virgin Money went ex-divi last week securing future income. Alas circumstances denied me stop loss protection so off to the downside the consequence. Yet not all was doom and gloom as Devon Energy begun to find its feet. The past weeks have relied on One main holdings to steady the ship and last week yet again saved the day with a week on week increase of +3.80%. Careful micro management has been my policy since 1 Jan and despite the fragilities of Thungela, EQT, I still have dignity of a +5% increase year too date. Geo political tensions continue to wave red flags so one must be prepared for those additional black swans to fly on by like Balloons or UFOs. Shares will go up and share go down but my heart goes out to the victims of the earthquake in Turkey and Syria. Give a thought for those brave souls that have been lost, not for the moneymen who only know greed. Until next time.

**Week Commencing 6 February** –In the words from harmony Bonny and Cher duo 'and the beat goes on'. Global markets continued to bring welcome relief with optimistic enthusiasm as indices continued to recover from the start of the year. The FTSE 100 is at its highest level for many a year 7,900 driven by gains in the energy and healthcare sector. Despite pound sterling retracing to \$1.20 the London index has shown to be resilient being a better performer in 2022 than their US market indices. Last week the Bank of England raised interest rates by 50bps to 4%. In the US the Federal Reserve opted for a 25bps increase, the eleventh in a row. Suggestions that the FED and BOE are approaching the end game with interest rate increases but as always this needs to be taken with a pinch of salt as rate increases will be dependent upon data. Inflation still is at uncomfortably high levels with 10%+. Restrictive money policy continues to be the main artillery used in combating inflation. In the US nonfarm payrolls increasing by 517,000 jobs last month. On top of that, ISM data showed that the services sector, which accounts for more than two-thirds of US economic activity, rebounded sharply in January. So until inflation begins to returned to a normalised level expect continued restrictions to apply. In the UK, industrial strife continues with elevated pay claims the order of the day. Alas inflation is the primary driver for pay claims and with the lagging effects of inflation still expect industrial harmony for some way to go. Since year start gold continues to show popularity and at \$1900 expect further increases to be possible. Geo political tensions between nations may yet derail the positive start to the year. The portfolio continues to recover and last week's +2.43% increase has brought shares back from the brink of misery. EQT Corp and Thungela resources have continued their poor performance. Yet all other shares have seen a rebound. This week

Virgin Money goes Ex dividend so a stop loss will be put in place prior to ex dividend to ensure future income and a net neutral position if the stop loss is triggered. US share One Main Holdings continues to be the star of the show at present and has done be proud offset the poor performers of the portfolio. Diana shipping is also on the up but I wont hold my breathe. Last week's commentary emphasised that the flavour of political concern is the lack of growth. Expect the powers that be to ignite strategies designed to booster this in the weeks up to the UK budget in March. This week I will continue to nurse the portfolio back to health but this obviously dependent upon market sentiment which at present continues to gain favour. May this continue. Watch out for some possible black swans or ballons in the sky that derail the optimism that currently is in play. Until Next time.

**Week Commencing 30 January** - January has proved to have been a robust monthly performer so far. Unexpected unknowns were the outcome of 2022. 2023 has started with an optimistic tone despite high levels of inflation, rising interest rates and unaffordable levels of sovereign nation debt. This coming week sees the FED and BOE challenging orthodox economic theory by imposing further rises in interest rates despite limiting growth potential. Suddenly flavour of the next few months will be the growth agenda. The sudden concern on how the UK needs to kick start the economy is pure camouflage as years of public sector expenditure restraint together with eroding industrial relations has now shown how weak position the UK economy is in. Recent statistics reveal the shortage of workers and the poor productivity levels that current exist in the UK. So expect a budget campaign 'your country needs you' on encouraging older retired workers to return the working fold. Alas years of easy money and sub-zero interest rates are now coming home to roost where heavily debt mortgaged householders will experience further difficulties with the impending interest rate rises. 50 bps rises look on the horizon by the FED and BOE so how this will reflect in the brief rally that has happened in stock market major indices only time will tell. Despite Moving Averages being lagging indicators, last week break above the 200 day moving averages in some of the major markets may be the first signs of a turning point. The recovery of pound sterling \$1.23 from its previous troughs position \$1.04 care of the mini budget may also be a sign of optimism. Recurrent high Inflation levels will over time be accepted by the masses as it will become the norm. The absurdity of a policy announcement by achieving a projected 50% reduction to the inflation rate as a substitute to a pay rise is again a naïve concept. My aim for the 2023 portfolio was to steady the ship after the degrading 2022. Careful mini management and the better expected rise in January stock markets has seen January to be in a positive position with a January to date 1.3% increase. Thungela Resources continue to frustrate with another -6% decline week for week. Problems with transportation with exporting coal supplies in South Africa has become a significant issue in this shares performance. This share together with Diana Shipping has become a real drain on the portfolio. How do you solve a problem with a share that continually disappoints? On a positive note US share One Main Holdings is the share that's breathing life in the portfolio with a +6% last week for week increase. Financial US share Arbour Realty inc saw a +4% increase. This coming week will see earnings, Interest rates and economics indications and with non payrolls due early February. This may well be a pivotal point where market sentiment will again play determining a role in the trajectory into february which is historically the 4<sup>th</sup> performing month of the year so maybe good things look ahead. Until next time.