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How to become a 'Growth Opportunity' Investor?

Market Insights

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In this issue of 'Money Minder's Market Insights', Ray Black, Managing Director and Investment Committee Chairman shares his updated view on inflation, interest rates, investment markets and the global economy.

Ongoing Banking Concerns, Interest Rates, Inflation, Global Debt, Property Price Reductions, BRICS+ New Joiners, Commodity Prices, & Growth Opportunities Ahead……….

Inflation is lower than it was but it's not yet as low as the global central banks would like it to be! Interest rates appear to have stabilised for now, bond yields have risen, US debt levels have gone up significantly, stock prices are still ranging, property prices are still falling, conflict escalates and geopolitical tensions are still strained……....what should we be thinking about next?

How can you potentially protect your wealth whilst also taking advantage of the ongoing turmoil and uncertainty in the global economy?

Estimated Reading Time – 20 to 25 minutes

There is still a lot going on in the global economy, therefore, it's once again time for me to put pen to paper to provide you with this 'Money Minder Market Insights' update, to read at your leisure.

The views and comments in this report are my own. It has been written with the sole intention of helping you to 'read between the headlines' in order for you to make informed decisions in regard to your lifetime savings.

Whilst the comments in this article are my own, it is has been formulated as a direct result of my constant research into current and historical data and market insights. This is continually being updated as I seek out market views and commentary from some of the most respected economists and investment managers from around the world. My view is not dissimilar to some of the World's most well-known and revered investment managers and financial commentators, however, it may be quite different to what you read in the main stream press. Please also be aware, similar but different views of the global economy and where we might be headed are both common and to be expected, especially when two or more economists are discussing both the global and their own domestic economies.

Inflation & Interest Rates – Where are they now and where are they headed?

Inflation Now

The Bank of England (BoE) tell us they are doing everything they can to bring inflation down and that they are committed to getting inflation back down to their 2% target. However, whilst prices are not rising as fast as they were, they are still rising.

It's helpful to know that there are actually three measures of inflation that are published by the Office of National Statistics (ONS) every month, CPI, CPIH & RPI.

In November 2023, the ONS inflation report stated that consumer price inflation including owner-occupiers' housing costs (CPIH) has cooled to 4.7%. The Bank of England's main priority is to get this measure down to 2%. In comparison, the UK's longstanding measure of inflation known as the Retail Prices Index, (RPI) that has been monitored since 1947 fell to 6.1%.

It's important to remember that whilst this downturn in inflation is very welcome, it doesn't mean that the total cost of your weekly shop and fuel bills are coming down. It just means that they aren't going up in price as quickly as they were and the previous increases are now cooked in. Its only deflation that reduces the costs of the goods and services we want or need to buy. A good example of this is modern technology, that often goes down in price.

Normally, deflation is more likely to occur when the supply of goods and services is greater than the demand. This happens when people are putting off spending any more than they need to each month, or when they just can't afford to pay the mortgage as well as their food bills and energy costs out of their normal monthly income. Deflation is therefore most likely to happen in a period of recession. This is when growth and profits are down and companies are less confident about investing in their business and start looking for ways to cut costs due to lower demand because their customers are buying less of their goods and services due to the constrained budgets they are having to live with. More about that later.

Inflation Going Forward

At the start of this year the Bank of England thought that inflation would fall quickly in or around the middle of 2023. Now they are suggesting that inflation will be down to the 2% target by the end of 2025.

Wholesale energy prices are certainly more affordable now than they were in June 2022. The Brent crude oil price is down by almost 40% since then and continues to find reasonable support at around $80 per barrel. However, even after the OPEC countries restricting supply and the most recent conflict in the Middle East, Oil has had trouble breaking above $95 per barrel. Hopefully the lower wholesale prices of Oil and Gas will filter through to our own energy bills soon. Generally speaking, energy costs do tend to come down during a period of recession, as demand from both individuals and companies declines. However, something to watch out for in the event of any recession is how the Central Banks react to it. If, perhaps due to a global recession, they all decide to start lowering interest rates and printing money via some form of 'Quantitative Easing' (QE) once again, it's very possible that as domestic currencies devalue, the cost of food and energy would once again start to rise again and that could then lead on to another dose of high inflation for us all to contend with.

Interest Rates Now

Jerome Powell (the Chairman of the American Federal Reserve – aka The Fed) and Andrew Bailey (The Governor of the Bank of England) have been consistently stating that interest rates were likely to have to 'stay higher for longer' in order to get on top of inflation.

However, in recent months both Jerome Powell and Andrew Bailey have both gone on record saying that interest rates may now be near the peak. This has led a number of economists and investment managers to believe that the large central banks of the UK, Europe and the US are almost done with interest rates rises. Having said that, it's very unlikely that they will start to reduce interest rates in the near term, at least not without something going wrong. This could be, for example, a downturn in global or domestic stock market values, a decline in corporate incomes, an increase in unemployment, and an expectation of future economic growth being poor or even turning negative.

Looking at history, it's not uncommon for the large Central Banks to be late in reducing interest rates after a downturn in economic activity and stock market values. This delay to act can clearly be seen in both early 2003 after the dot.com bubble had actually started to burst in 2000 and in early 2009 due to the credit crisis that had actually started to cause problems in autumn 2007 and carried on right through 2008 and in to spring 2009. On both occasions, stimulus by way of interest rate cuts and later QE (money printing) were introduced too late to be able to stop global stock markets falling in value significantly. In hindsight, it was quite clear that these recessionary periods were actually in full swing, prior to the Central Banks acting.

In my opinion, it's reasonable to suggest that this time will be no different to the previous occasions. The Banks have no reason to act until they have a reason to act, by which time, something, like the economy may have already begun to slow down or even falter altogether. However, this is when opportunities arise, giving investors the chance to take advantage of lower share prices that can, given time, be financially rewarding. Once again, more about this later.

Interest Rates Going Forward

As mentioned in my last Market Insights Report of April 2023, high inflation is normally the side effect of either: booming economic growth, a lack of supply, a devaluing currency or in some cases a mixture of all three.

In the short term, inflation has started to subside and most people will be feeling that is a good thing. However, if it turns out that the interest rate hikes were just too fast and too high for individuals, companies and even the large Governments to cope with the increased costs in their borrowings - what happens next?

If that's the case, it's highly likely that the Banks will have killed off more than just the inflation problem. As we saw in 2008, this could lead to a reversal in interest rate policy. That means Central Banks could start to lower them again in a bid to stimulate the economy and potentially restart the digital money printing presses via Modern Monetary Theory (MMT) aka Quantitative Easing (QE). Generally speaking, this type of monetary policy leads to a currencies becoming worth less (because there is more of it) and the cost of both products and services rise, once again. This is how the classic 'Boom and Bust' cycles that we have seen so many times before happen. However, on this specific occasion it may well be that we are currently on the precipice of a 'Bust then Boom' cycle that is waiting patiently in the wings to play out across the globe in the not too distant future.

Now that the recent interest rate rises in developed economies appear to have had the desired effect of reducing inflation levels, it could be enough for us to miss the bust cycle altogether and that would be great news for all. Alternatively, if a global recession is just around the corner for us, this could actually turn in to a period of deflation. If that happened, it's highly likely that lower interest rates and the digital money printing presses will be used once again to stimulate both business investment and consumer spending by lowering borrowing costs.

When currencies are devalued and interest rates are reduced, asset prices tend to go up in value. This is particularly true in regard to bonds, commodities and the shares of companies that are related to consumer staples (like food, agriculture and energy). In this environment, all are likely to go up in value and if interest rates start to go back down again, this is potentially an exciting opportunity to enjoy some quality growth on your investments. More to come about this later too.

Bond Yields

When interest rates rise, the capital value of bonds go down in value and the interest rate return (the income or yield) goes up. This has been the case since early 2022. The interest rate returns payable on corporate bonds (loans to companies), Gilts (loans to the UK Government) and Treasury Bills (loans to the US government) have all gone up over the last 2 years.

If we are now at the end, or close to the end, of this current round of interest rate rises, it's likely that this situation will reverse. That means that the capital value of these investments will start to go back up and the yields will start to go down again. However, that means that right now, bonds look reasonably good value. Investors are currently able to lock in higher interest rate returns than we have seen in many years with the potential for some good capital growth.

Having said that, if we do move in to a global recession over the next 6 months or so, it's also highly likely that a further, short lived, buying opportunity may present itself in the near term.

That's because as is so often the case, when significant negative market news is communicated by the global or domestic press, everything goes down in value in the short term. At that point, some investors will inevitably sell assets that they really shouldn't be selling and others will realign their investment portfolios to take advantage of the new situation. In addition, as has now been evidenced on a number of occasions since the financial crisis of 2008/09, once the markets have dropped enough in value for the Central Banks to feel they need to intervene they have. In the past they have done this by cutting interest rates to reduce the cost of borrowing. In turn, this action provides a really good tail wind for capital growth in Corporate Bonds, UK Gilts and US Treasuries.

In summary, UK Corporate Bonds and Gilts (also known as 'fixed income' assets) look good value for investors. After a number of years of being underweight in this sector due to our concerns that they were overpriced and could incur significant losses if interest rates were to rise, (which of course they did) we are now starting to increase our exposure to them within our client portfolios. They now look to have the potential to provide a good income for investors and the potential to go up in value if and when interest rates start to go down again. More Later.

Stock Prices

Stock prices continue to rise and fall in value (known as ranging) but have still not broken out to either higher highs or lower lows. Whilst this is very frustrating for all of us, I do believe we are now getting closer to an impact point that help to move markets forward again.

Whilst I don't believe that we are quite at the end of this ranging period just yet, I do believe that we are not too far away from it now. Over the last 6 months, we have been very busy raising the cash levels in our client's investment and pension portfolios.

This proactive action has reduced volatility by providing some protection against market dips over the past few months without missing out altogether on any rally's in stock prices either. At the same time, clients have also been taking advantage of the higher interest rates now payable on the cash holdings in their investment portfolios.

The UK FTSE 100 still looks one of the best value markets in the world. Potentially, there is a lot of upside to look forward to over the longer term. In the UK Stock Market we currently favour the very large UK registered companies involved in consumer staples or blue chip stocks. These household name companies are, at present, still paying good levels of income (dividends) and they tend to be better equipped to pass on price increases to their customers in high inflation periods because they provide the goods and services that we all need and have very little choice or purchasing power over, i.e. we all need energy and food to survive.

In comparison, both of the main US Stock Markets (Dow Jones and S&P 500) still look significantly over-priced when compared to US inflation between the top of the dot.com boom in Jan/Feb 2000 and now. Meanwhile, the Eurozone also faces some economic challenges with Germany expected to fall back in to recession in the 1st quarter of 2024.

In summary, we currently feel that having some exposure to well known, large, blue chip, UK based businesses that are paying good dividends can be considered a defensive investment choice in the current climate. These stocks can provide both income and capital growth for investors over the longer term and potentially resilient returns should inflation be a factor in the UK economy than the Bank of England currently expect it to be.

Property Prices are Still Falling

Generally speaking, when the cost of borrowing goes up property values go down. This is nothing new. When the cost of borrowing goes up significantly, both companies and individuals find it more difficult to keep up the repayments on their loans. In the worst case scenario, borrowers default and repossessions occur. For example, between 1990 to 1995 government figures confirm that there were over 345,000 repossessions.

In August, UK house prices fell at the fastest annual rate since 2009 and in November the Office of Budget Responsibility predicted that house prices will fall by almost 5% in 2024. Potentially, this may give some of the younger generation an opportunity to get on the housing ladder. However, we would advise caution for anyone that might be considering this downturn in prices as an opportunity to invest in a Buy to Let property to consider the negative income tax, capital gains tax and inheritance tax implications that come alongside investing in a 2nd property very carefully before walking this path. In addition, increases in both costs and tenancy rights has also provided some landlords with significant cause for concern in recent times. Research by Hampton's released in April 23 reported that an estimated 140,000 landlords retired, sold up and left the market last year and a further 500,000 are expected to follow over the next five years. This significant influx of supply will hopefully help many more people to invest in their own affordable home in which to bring up their young

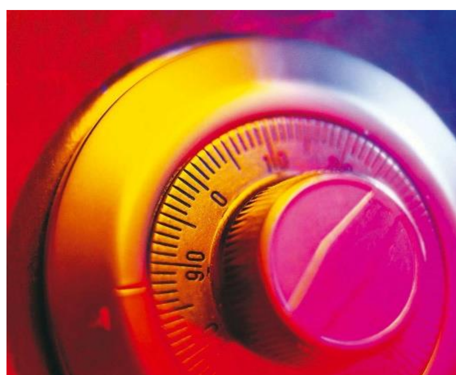
children as opposed to being limited to a lifetime of renting a property owned by a third party that the owner ends up paying a lot of tax on and the renter never gets to call his or her own.

There are much more tax efficient ways of investing your life savings that are also much easier to administer than owning a rental property. Access to capital is much easier, income can be set up to suit your personal circumstances and you don't have to worry about the property being left empty whilst looking for a new tenant or and existing tenant not treating your property with the respect or care that you feel they should be.

At Money Minder, we don't invest our clients' savings into residential property funds. However, we do recommend UK based commercial property funds as it provides diversification within their investment strategy. After falling in value in the second half of 2022, the main fund that we use within our client portfolios has maintained a reasonably consistent value between January 2023 and the end of November 2023 and is up in value since end of March 2023.

If residential and/or commercial property prices fall further as a result of interest rates staying higher for longer, a buying opportunity may become apparent in this sector. Commercial Property Fund Managers are now able to apply for planning permission to convert existing properties into residential development opportunities. Not only could this help to alleviate the housing problems in the UK, these funds can be held in both tax free pensions and Investment ISA's and are much lower cost to run & much easier to manage than owning the properties directly, which often entails having to deal with tenants, agents, builders, plumbers and decorators to keep the property in good condition and compliant with letting rules and regulations.

Some Globally Exposed Banks Failed in Spring 2023............is everything ok now?



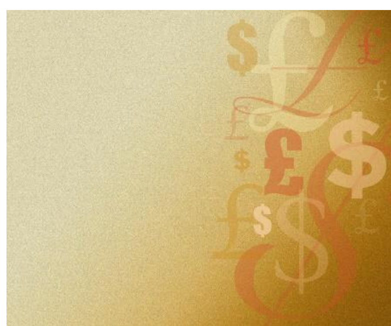
According to two credit ratings agencies, the banking problems that arose in March 2023 as a direct result of very fast and successive interest rate rises by Central Banks are not yet completely resolved, especially for US based regional banks. In November 23, the Managing Director of Moodys, Ana Arsov, said "the banking sector is not yet out of the woods, with re-inflation a risk if banks fail to sufficiently predict rate moves."

In addition, Ratings agency Fitch said "U.S. regional banks will face continued challenges in 2024" although they also suggested that this could "leave larger players relatively well-positioned to continue to gain market share."

If there was another global financial crisis, similar to 2008/09, it is generally believed that the central bankers will once again reduce interest rates and may also inject more significant amounts of liquidity in to the global financial system by way of more Quantitative Easing (QE). Whilst this option could indeed solve an immediate problem, lowering interest rates and QE can also stoke inflation and asset prices, especially if it's the US that is setting the pace of the QE, as it did back in 2009. That's because printing more dollar's via QE effectively reduces its value, meaning, we need more of them to buy the same goods and services than before the currency was devalued.

As virtually all commodities have been priced in dollars for many years, if the dollar weakens in value, the cost of 'stuff' goes up. This can be helpful for investors with some exposure to commodity based funds in their portfolios.

Update: BRICS+ Alliance and the Possibility of a New Global Reserve Currency



In my last Market Insights Report I discussed the fact that the US dollar is not 'backed' by anything. i.e. gold. It's a fiat currency that the FED can print at will. I also mentioned the possibility of more countries joining the BRICS+ alliance.

That did happen and as from January 2024 in addition to Brazil, India, China, Russia and South Africa, six new countries are joining the BRICS, Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. It's very interesting to note that all of these countries have 'resources' based economies i.e. they are involved in producing 'stuff' within the commodity sector.

Three of the countries are Oil producing (Iran, Saudi Arabia and UAE) although Iran's main export is Ethylene Polymers and is also famous for being the largest producer of Saffron in the world too. Egypt's main exports are

petroleum, petroleum products and cotton. Argentina's are Corn, Soy Beans & Wheat and Ethiopia's main exports are Coffee and Gold.

In January '23, it was reported that global central banks were buying gold at faster rate than has been seen in 55 years. This trend is continuing with a recent report from the World Gold Council confirming that the appetite for Gold is still very high across the globe.

Until such a time that geo political tensions have calmed and the risk of an impending financial crisis / global recession has abated, we expect the appetite for gold to continue, potentially pushing this rare earth metal to reach all-time highs once again in the not too distant future.

Alternative Options to the 'Dollar' as the Global Reserve Currency

In my last report I discussed the possibility of an alternative payment option for BRICS+ alliance and other countries to consider using instead of the dollar for World Trade payments. Some countries are already dealing with each other in their domestic currencies as opposed to being reliant on the US Dollar global payment system.

This is commonly referred to as de-dollarization and some commentators suggest that it's only a matter of time before the dollar will lose its global reserve currency status. Others believe it's unlikely the dollar will lose its reserve status any time soon.

An alternative to the dollar is to create a crypto based, commodity backed digital currency. As it stands, there are now 130 countries, (up 16 since April 23) exploring CBDC's according to the Central Bank Digital Currency Tracker website.

Whilst these will be domestic based currencies that allow their respective central banks to monitor (and potentially influence) what their populations actually spend money on, it's then only a small step to a centralised, crypto based world trade currency for imports and exports. It might also be decided that the easiest and simplest way to set up this new global trade currency is to have it backed by gold. If that happened, it's likely to cause a significant increase in the value of gold.

This might also help to explain why so much gold is currently being purchased by central banks from countries all around the World (and in particular Eastern Europe and all over Asia) at such historically high levels.

What is Money Minder doing to provide our clients with an opportunity to both protect and grow their wealth?

We have always provided our clients with bespoke investment portfolios that we do our best to align to the economic backdrop that they are investing in. This is especially important when markets are difficult and uncertain.

Over the last 9 months, in an effort to reduce volatility and protect portfolio values, we have been super busy speaking with our investment and pension clients. In the vast majority of cases we have then been reducing risk on their portfolios by taking profits, from mainly overseas equities, in order to increase the cash holdings inside their portfolios. **This is referred to as tactical asset allocation.**

As a general rule of thumb, all of our client's investment portfolios will normally have exposure to lower risk assets like cash, bonds and commercial property, medium risk assets like UK, European and US based stocks and shares funds and higher risk assets like Asia Pacific, Emerging Markets and Commodity based (Oil, Gas, Infrastructure metals) investment funds.

This approach provides our clients with asset class diversification and can help deliver some protection if stock markets fall in value. From time to time, normally at a review meeting, we will reassess our client's investment strategy with them and rebalance the portfolio as needed to ensure that we are always taking into account their risk attitude and investment objectives. With our client's permission, we also make fund switches to ensure the portfolio is in line with the asset allocation agreed. **This is referred to as strategical asset allocation.**

In 2023, we enjoyed the successful launch of a 'tactical asset allocated' portfolio called **The Money Minder Aggressively Defensive Portfolio** that a significant number of our clients have since chosen to invest in. This portfolios asset allocation has provided our clients with a 'safer haven' throughout this year whilst also helping to maintain capital values, in what has been a challenging period for investors all over the world.

In light of how well employing this investment strategy has worked out for our clients, we are pleased to be able to introduce to our clients a new 'strategical asset allocated' portfolio that can be moved in to quickly and efficiently if required. Whist I don't think that now is quite the right moment to be moving out of the aggressive defensive portfolio, I am hopeful that the time when it may be right to do so might not be too far away. This will either be because the dangerous times that have been looming in the background seem to have passed, or, there has been some kind of an event that has led to a downturn in market values and there are some high quality funds available for investors at discount prices. If either of these situations come about over the next 6 months, we are ready.

There is of course absolutely no requirement to switch your current investment strategy to this one.

However, if the Global Economy takes a turn for the worse, we wanted to provide all of our clients with an option that provides them with the opportunity to take advantage of lower share prices in a relatively quick and efficient way to enable them to deploy cash that could potentially provide them with growth in line with, or above, the level of inflation over the short to medium term, (this is, of course, not guaranteed).

The Money Minder 'Growth Opportunity' Portfolio invests in to a mixture of equity based funds including exposure to both the US and European sectors. It is overweight in the UK Equity Income Sector (blue chips) and also has exposure to Asia Pacific, the Emerging Markets, and Commodity based funds. The Asia Pacific, Emerging Markets and commodity funds should be considered as higher risk, however, in order to not increase the volatility of the portfolio to high, overall, there is only15% in total allocated between these three sectors inside the 'Growth Opportunity Portfolio.'

This portfolio still also keeps exposure to Bonds and Commercial Property. Both sectors are considered to be lower risk and may perform well if interest rates start to go down again in the future. They might not perform so well if interest rates start to rise again.

I would also like to point out to all of our clients that there is no expectation or obligation to move their existing Money Minder Investment Portfolio into the 'Growth Opportunity' investment strategy. All of our clients are considered medium to long term investors and many have been invested with us through the ups and downs of stock markets caused by the Credit crunch, Brexit and the Global Pandemic. Some were even invested with us during the bursting of dot.com bubble in the late 90's / early 2000's.

As part of our normal advice service, all of our clients have a hand-picked and continually monitored selection of the World's best fund managers looking after their existing investment portfolios. We also pride ourselves in providing them with access to those superior fund managers at highly competitive rates. Not only that, all of our client portfolios are sufficiently well diversified to take advantage of the fact that when one or more asset class is going down in value, there is normally another asset class they hold in their portfolio that will be going up in value. This approach to investing has been proven to help smooth out the ups and downs of investing time and time again.

What should you do next?

If you are happy with your existing investment strategy as it is, you don't have to do anything. However, I do hope that you found this updated Money Minder's Market Insights informative and helpful. Well done for making it this far!

Alternatively, if you would like to find out more about 'Money Minder's Growth Opportunity Portfolio' because you want to be ready to invest should an opportunity arise to do so in the New Year, we can send you a Factsheet via e-mail for you to review this option in detail.

The Growth Opportunity Portfolio has been constructed to help you to take advantage of any Market downturns, should one occur, quickly and efficiently for the potential of capital growth. If you were to decide to move in to this portfolio, your overarching investment strategy should still be discussed at your next review meeting.

Final Thoughts & Past Performance

In closing, I would like to remind you that ups and downs in the value of stock markets, bond values, property, and commodity prices is completely normal and expected. Those movements can be traced back over decades, even centuries. Over the last 25 years we have all experienced both booms and busts in different asset classes. That's very unlikely to change over the next 25 years and in reality, there is very little that any of us can do to avoid them.

Having a diversified portfolio that invests in different asset classes and geographical areas of the global economy is a great start. When markets fall in value, don't let your emotions dictate your actions. Instead, try to see them as opportunities to buy high quality stock at a discount. Ultimately, it's not all to do with the timing of when you invest in different markets and asset classes, it's the length of time that you are invested in those markets that matters. The longer the term, the better those returns are likely to be, especially if you invest your savings with some of the best fund managers in the world. We do that for everyone who chooses to entrust their life savings with Money Minder.

In November 23, we compared the typical Money Minder Asset Allocated Portfolio against the 3 Adviser Fund Index (AFI) portfolios (Cautious, Balanced & Aggressive) that are monitored by our commercial data provider, Financial Express. AFI Portfolios are made up of the recommended portfolios of a panel of leading UK financial advisers. Based entirely on the funds actually recommended to their clients, the AFI portfolios provide an insight in terms of the benefits of holding top quality funds.

I am pleased to be able to report that a typical Money Minder Asset Allocated Portfolio has outperformed all three AFI benchmarks over 1, 3 & 5 Years. Not only has the portfolio performed better, it has a lower FE risk score than both the AFI Aggressive Portfolio and the AFI Balanced Portfolio (research retained). I hope this knowledge helps to reassure you that you are in good hands and that our track record is able to speak for itself.

Finally, I would also like to take this opportunity to thank everyone who has invested with Money Minder for their continued trust and for regularly recommending our services to friends and family over many years now, especially in these more challenging times.

If after reading the article you would like to speak to us about your investments, or any other matter, please do call the office on 01529 300 300.

We'll be pleased to help you in any way we can and we are only ever a phone call away.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM CAN GO DOWN AS WELL AS UP. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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