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Investment and Economic Update March 2023

Firstly, to look at the economic and investment conditions in general, it is fair to say that 2022 was one of the most difficult years for investments that we can remember. 2023 has started a little more promisingly, but cautiously so, with some difficulties already being seen.

As a recap, the beginning part of 2022 was hit very hard by China's severe stance on Covid, which affected supply chains globally. Although those restrictions have eased a little, it did have a significant impact on prices throughout the year. Very high inflation globally was fuelled throughout the year, contributed to by the Russian invasion of Ukraine and the upward pressure on oil and gas prices. This was also impacted due to Ukraine being such a major supplier of wheat globally, which has had a knock-on effect on food prices globally.

Overall, the pressures on inflation, both through wages and commodities, continue to be seen and it certainly looks as though the era of cheap money that we have seen for so many years has come to an end. I think there is now an acceptance that there will be some level of higher inflation and interest rates being with us for some time.

Throughout 2022 bonds, both corporate and government stocks, all lost money and it is very difficult for investors when bonds and equities are all in downward spirals because it affects all portfolios and you do not have the normal protection provided by more cautious investments. Only the FTSE showed any positive returns throughout 2022 and that it because it is so heavily supported by oil and gas.

There has been a slightly more encouraging start to 2023 with equity and bond volatility having seen some reduction. The forecast, looking forward into 2023, remains uncertain and we feel we need to build protection into portfolios. Although pressures have eased a little globally there are still significant pressures in the UK, for example there are currently many more jobs than there is labour to fill them, and unrest within employment markets remains very evident.

Savings ratios are declining and credit card debt is increasing, putting consumers under pressure. In the US, the Fed wanted to bring this excess down to normalise the economy and dampen demand, which has happened to some extent. Data on earnings has been a little stronger than expected as, overall, things have been a little more positive.

The question is really how much sentiment has already been factored into market values and whether it will continue to drive values. It is however likely that an excess of volatility is likely to persist. Our feeling is that continuing to invest in a range of very high-quality investments is key. Some investments, such as bonds, are now gradually beginning to look better value so there may be some more opportunities throughout the year.

I have again provided some figures below to demonstrate not only the problems seen throughout 2022, but also the position for the first couple of months of this year.

Index	2022 Returns	1st Jan – 28th Feb 2023
AFI Cautious	-9.73%	+2.36%
AFI Balanced	-11.67%	+2.90%
AFI Aggressive	-13.26%	+3.34%
FTSE AllShare (UK)	+0.34%	+6.09%
S&P500	-8.25%	+2.94%
FTSE World	-7.15%	+3.83%
FTSE UK Conventional Gilt All Stocks	-23.83%	-0.79%

These figures continue to highlight the difficulty in the more cautious end of the investment market, underlining the need for diversity and protection and quality asset and fund selectin to continue. It also shows why we believe there is now value to be seen in certain assets such as the UK Gilt market.

So, we cannot really say when any recovery will be sustained recover, but we do feel that 2023 will see some return to growth throughout portfolios. We will continue to monitor them and make small changes where it is felt absolutely necessary without making any undue alterations at what remains a very difficult time.

I have heard some forecasts, such as that from JP Morgan, suggesting UK equity returns over the next 10 years are forecast to be about 7.0% - 7.5% per year, although this is of course only one forecast and should not be relied on by any means. Another respected portfolio manager believes that inflation may be back to a standard 2.0% - 2.5% by perhaps 2024.