

Monthly Investment Update March 2023

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Performance Update

February saw some weakness in stock markets, with the MSCI World Index falling by 0.72%. The FTSE 100 and Europe rose though. Bonds suffered relatively high falls.

Stock markets generally remain in their upward trend but pulled back a little last month. Stronger economic news towards the end of the month dented investor sentiment by increasing the fears that persistent inflation could lead to additional interest rate hikes. Inflation in the US accelerated higher with consumer prices rising 0.6% in January, the most since last June. The rate of increase in inflation had been falling recently, which many saw as a sign that interest rates would start to come down. Companies borrow money to invest in their businesses and as interest rates go up, the cost of borrowing and thus their profits go down. Hence stock markets generally prefer lower interest rates.

Bonds fell over the month with UK Gilts and UK Inflation-linked bonds falling by 3.42% and 5.56% respectively. This is in reaction to stronger economic news causing the expectation that interest rates will peak much higher and start falling much further into the future.

The European energy crisis seems to be over for now as the price of European natural gas fell even further from 63.5 to 53.6 in February. It is worth remembering that the high was over 300 Euros. Europe has weaned itself off Russian gas by a combination of conserving gas, unseasonably warm weather and more imports from Norway, North Africa, US and Qatar. The price is still much higher than the long-term pre-war average and without the Ukraine war, Europe would probably be enjoying strong economic growth. Falling gas prices could be the catalyst for an economic resurgent Europe.

Despite global stock markets generally falling, Sterling also fell which helped minimise their losses in Sterling terms. Even the new deal between the EU and the UK on trade rules in Ireland did not provide a significant bounce.

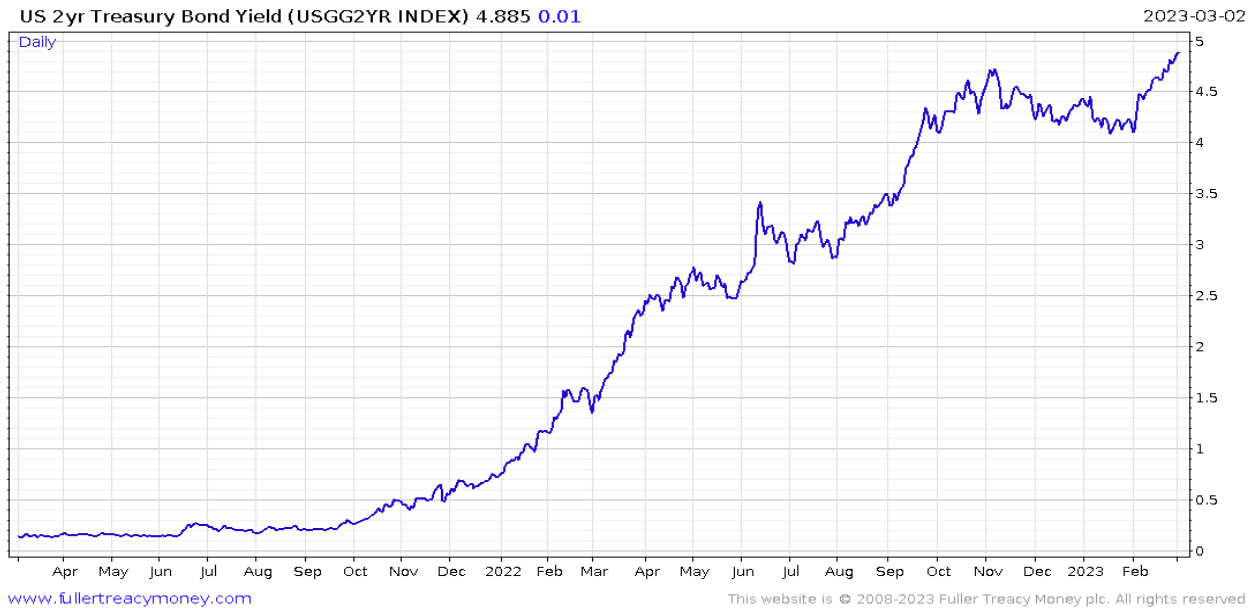
The performance of the main markets we invest in over the last month, 6 months and 1 year is shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
FTSE 100	1.76	9.45	9.60
MSCI World	-0.76	0.00	2.70
S&P 500	-0.84	-2.93	1.79
Euro Stoxx	1.23	19.45	12.82
Nikkei 225	-2.50	-4.44	-3.04
Emerging Market Equities	-4.90	-6.08	-6.11
UK Corporate Bonds	-2.06	-0.80	-10.51
UK Gilts	-3.50	-7.61	-20.32
Gold	-3.59	2.00	5.47

*All figures are sourced from Financial Express to 28.02.2023 and converted into Sterling.

[Investment Overview](#)

Global stock markets have been recovering well on the belief that central banks would be cutting interest rates this year due to rapidly falling inflation. However, February saw US retail sales grow at the fastest pace in nearly two years, while the rate of increases in inflation began to rise again. This has meant that the pivot to lower interest rates has been pushed further into the future. At the start of February, markets were pricing in two US interest rate cuts before the end of 2023, with the Bank of England following closely behind. However, the chance of one cut is now 50/50 at best and US interest rates are now expected to peak at 5.25% with some commentators suggesting that they could go up to 7%. They are currently between 4.5% and 4.75%. The expectation for inflation in a year's time has also jumped from 2.1% to 2.9%. The yield on US Government 2 year bonds is worth looking at in order to see the future direction of interest rates in the US and this has continued to increase in February, moving closer to the 5% level:



Whilst strong economic news should be positive for stock markets, interest rates that remain higher for longer is not good news for investors as it pushes up the cost of borrowing for companies and thus reduces profits. There is also a higher risk that eventually high-interest rates will cause a significant economic crash. The good news though is that investing in companies that can increase the price of their products in line with inflation should lead to profits also increasing with inflation and thus help protect your wealth.

Asset Class Review

This section will give you an insight into our current thinking. This month we look at how the good economic news over the last month caused bond and equity markets to fall somewhat.

Bond yields go up- bonds fall in value

We had some good economic news in February with the main change being that the US and UK are likely to avoid a recession. Whilst this appears to be good news, it has changed the expectation that interest rates will fall this year. Due to stronger economic growth, they are now expected to peak at a higher level and come down slower. The chart below shows the yield that you would receive from investing in a 10-year UK Government Bond. The yield reflects the direction of future interest rates, and you can see how they have moved up from 3% to 3.8% in February. This has caused bonds to fall in value.



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S&P 500 – posts a higher high but falls back below 4000

Whilst avoiding a recession and stronger economic growth should be received positively, stock markets generally fell in February. The perfect scenario for stock markets is the “goldilocks” economy where we get not “too strong” and “not too” weak growth. This scenario should cause lower interest rates and lower inflation, but the recent stronger economic news has caused concerns that inflation will not fall as expected (healthy consumer demand pushes up prices) and therefore interest rates will not fall (higher interest rates means stock markets are not as attractive in comparison). The positive news is that we still have a higher high and the market hasn’t fallen below the previous low.



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Emerging Markets – just about remain in their up-phase

Emerging markets have underperformed the US for many years, and we could be about to see them catch up. However, like the US, they fell in February, posted a new higher high, and not broken below their previous low. It will need a quick change of direction to confirm that they remain in the new up-phase.



European Equities – continuing to outperform

Not every stock market suffered, and we saw Europe post a gain despite general weakness in most major stock markets. The all-time high was in the year 2000 when the market nearly reached 5500. Therefore, there is a lot of upside potential for European stock markets, and they remain relatively good value.



In Summary

February saw most stock markets give up some of their strong January gains due to higher expected inflation and interest rates. However, most remain in their upward phases, with Europe outperforming.

Medical Progress

Bad news sells and there is certainly a lot of it around now for our media to report on. From a psychological point of view, we have a collective hunger to hear and remember bad news. This trait has helped humans survive as we have evolved to react quickly to potential threats and avoid danger. However, we are also living through an incredible period in history in which the exponential growth of technology in our lives is solving some of the world's biggest problems. From an investment point of view, it is worth examining what progress is being made and what types of companies are potentially making the biggest advancements. Last month Apple announced/leaked this story which was reported on Bloomberg:

“The goal of this secret endeavor – dubbed E5 – is to measure how much glucose is in someone’s body without needing to prick the skin for blood. After hitting major milestones recently, the company (Apple) now believes it could eventually bring glucose monitoring to market, according to people familiar with the effort. If perfected, such a breakthrough would be a boon to diabetics and help cement Apple as a powerhouse in health care. Adding the monitoring system to the Apple Watch, the ultimate goal, would also make that device an essential item for millions of diabetics around the world.

There’s still years of work ahead, but the move could upend a multibillion-Dollar industry. Roughly 1 in 10 Americans have diabetes, and they typically rely on a device that pokes the skin for a blood sample. There are also patches from Dexcom Inc. and Abbott Laboratories that are inserted into the skin but need to be replaced about every two weeks.”

It could be years before this kind of technology makes its way into products, but the market potential is significant. Hundreds of millions of people in the middle classes of Asia have diabetes or are at risk of developing it. An early warning system would be a welcome product offering. Apple could become one of the biggest healthcare companies in the world, bringing a health monitoring system via a simple watch. The watch can already take an ECG of your heart rhythm, measure your blood oxygen levels, track your sleep patterns, detect a fall and contact emergency services as well as much more.

The share fell in 2022, along with nearly every other technology company but has performed extremely well over the last 5 years:



Technology companies are trying to solve some of the world's biggest problems and with it, they will potentially become even more profitable than where they are now. These companies will become global conglomerates and spend money on researching many different solutions to our current problems, hopefully producing stable steady returns for investors going forward.

Summary

It is very easy to look at the world through a half-empty glass and we must remember that it is in the interest of the media to bring us bad news as it helps sell their product. However, we must also balance this out by looking at the progress we are making at solving problems and doing so will help us make more effective investment decisions going forward.

Final Comment

February saw a change in the direction of inflation in the US. Rather than the monthly rate of increase falling, which it has done for the last 7 months in the US, the rate of increase moved higher. This has caused investors to rethink how high-interest rates will peak and when they will start falling again.

Bonds were affected the most as we had started to see them slowly recover, but February saw them experiencing relatively high losses. Stock markets were less affected and remain in an upward phase

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