MONTHLY REVIEW – MAY 2023

OUR PERSPECTIVE

As we write this month's commentary, we appear to be on the verge of either the unimaginable reality of a US default, or an increase in the US debt ceiling. We hope that it will be the latter. Whilst we believe balancing a budget is important, whether you are a household or a nation, we also know that politicians are rarely willing to make tough decisions, as these might just cost them their jobs! So, rather than increasing taxes or cutting spending, we expect the most likely outcome to be more of the same……namely more money printing. Under the circumstances a devaluation of the US Dollar is most likely, and probably not for the last time either. Where the US leads many have been tempted to follow, so we should not be surprised if other developed economies head down the same inflationary path.

This brings us to our topic this month: Gold!

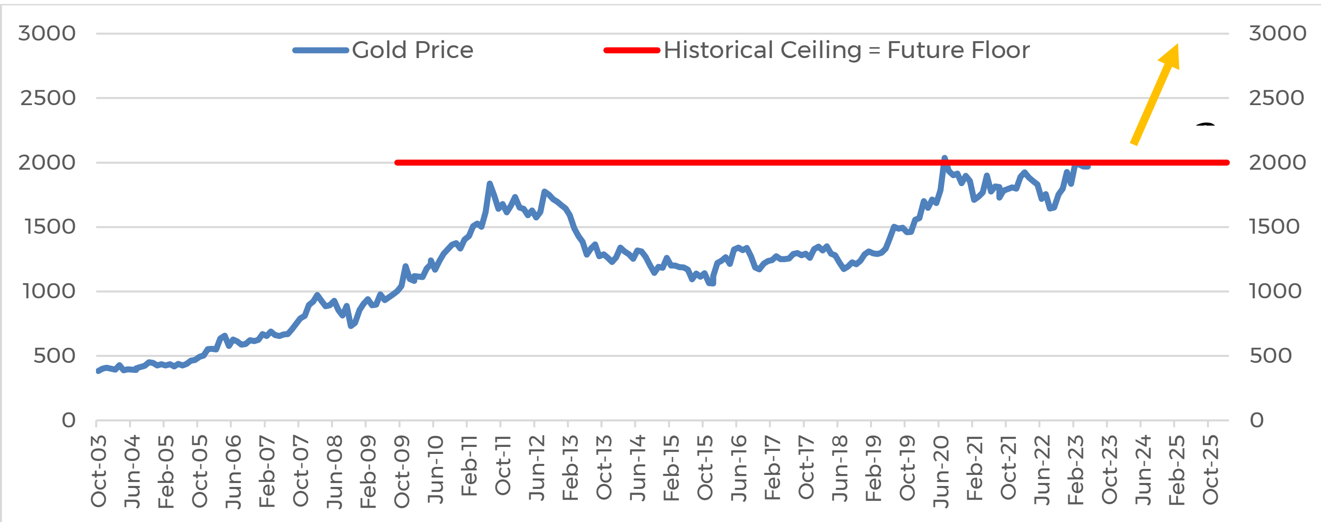
We have just released a podcast (insert link) discussing its value(s) and characteristics, but suffice to say the three pillars of our Gold-thesis are:

1. A store of value whilst central banks and governments around the world continue to devalue currencies whose intrinsic value is ultimately based on trust (fiat!),
2. A provider of insurance amidst the rising risks of increasing geopolitical tensions as the two biggest global powers continue to lock horns, and
3. A provider of liquidity as asset values – from equity markets to commercial real estate – potentially take a plunge later this year!

As for the debt ceiling, we believe the true risk lies not in a US default…this will merely be a technicality…but in the nature of our escalating reliance on debt and the very meaning of fiat…Trust!

History shows that when Trust is in short supply Gold tends to outperform…and right now Trust, in both the fractional reserve banking system and the fiat currencies that underpin it, are definitely in short supply!

Chart: The magical $2000 has been seen as the ceiling for the price of gold in recent history. This number might just become the floor for the price of gold in the future!



Source: BullionVault Ltd. 31/05/2023

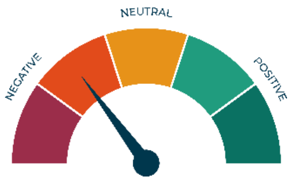
MARKET SNAPSHOT

	Index	Currency	As at Previous Close	Total Return MTD	Total Return YTD	Total Return 1 Year
Equities	Bloomberg World Equity Index	USD		-1.01%	7.69%	1.15%
	Bloomberg World Equity - Growth	USD		1.02%	12.24%	3.93%
	Bloomberg World Equity - Value	USD		-4.63%	-0.17%	-4.69%
	Bloomberg UK Equity Index	USD		-6.34%	4.54%	-0.22%
	Bloomberg US Equity Index	USD		0.64%	9.66%	2.77%
	Bloomberg Europe ex-UK Equity Index	USD		-5.31%	10.58%	7.23%
	Bloomberg Japan Equity Index	USD		1.99%	9.08%	5.05%
	Bloomberg Asia ex-Japan Equity Index	USD		-2.17%	0.06%	-7.31%
	Bloomberg Emerging Market Equity Index	USD		-2.07%	0.56%	-8.07%
Fixed Income	Bloomberg Global Aggregate Index	USD		-1.95%	1.44%	-4.48%
	Bloomberg US Treasury Index	USD		-1.16%	2.35%	-2.26%
	Bloomberg US Corporate Bond Index	USD		-1.45%	2.78%	-1.70%
	Bloomberg UK Gilt Index	GBP		-3.78%	-3.44%	-16.79%
	Bloomberg Sterling Corporate Bond Index	GBP		-2.49%	0.20%	-8.93%
	Bloomberg EM Hard Currency Aggregate Index	USD		-0.75%	1.78%	-0.68%
Commodities	Bloomberg EM Local Currency Govt Index	USD		-1.07%	1.98%	-0.67%
	Gold Spot $/Oz	USD	$ 1,955.15	-1.38%	7.19%	5.88%
	LME Copper Spot ($)	USD	$ 8,070.00	-5.91%	-3.52%	-14.56%
	Oil - Brent ($)	USD	$ 72.95	-8.02%	-15.09%	-37.27%
Currencies	Bitcoin ($)	USD	$ 26,844.34	-3.03%	62.30%	-9.38%
	GBP-USD FX-Rate	USD	$ 1.24	-0.54%	2.86%	-0.46%
	EUR-GBP FX-Rate	GBP	£ 0.86	2.26%	3.07%	-0.65%
	USD-JPY FX-Rate	JPY	¥ 139.87	-1.69%	-6.26%	-6.96%

Source: Bloomberg L.P. 30/05/2023

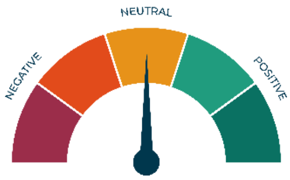
EQUITIES

It's all about AI! Equity markets continue to be led by a narrow set of companies. The market words to reference in earnings calls are "integrating AI" and the biggest contributions are coming from the likes of Nvidia, AMD and Microsoft. We're not in an AI bubble, in our opinion, yet. But these companies are not cheap...and it has all the hallmarks of the making of a bubble!



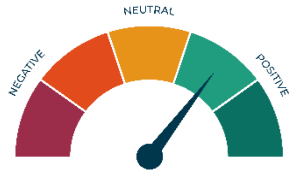
FIXED INCOME

Fixed Income volatility bounced back up as fears of a US debt default rose to the fore. Core UK inflation proved to be stickier than many expected, and Gilts sold off heavily over the course of the month. We retain our views that inflation is a problem in the rear-view mirror, and that the bigger issue lies in deflationary risks alongside an over-reliance on debt. For this reason, we retain exposure primarily towards high quality nominal bonds, with a marginal exposure in short duration inflation-linked bonds as a hedge. With regards to broader credit markets, we remain underweight as we believe markets are mispricing risk, with downside potential further exacerbated by our concerns around liquidity.



REAL ASSETS

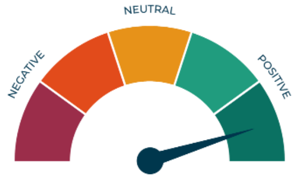
Fears of a property crises continue to be topic *du jour* and given the extent and pace of the rise in interest rates and tightening of lending standards, we share much of the concerns highlighted in financial media. Whilst we're not expecting anything like the GFC, we remain underweight property given prices do not reflect the significant re-pricing of interest rates and of weakening demand. We retain conviction in the infrastructure space, especially in the renewable and digital infrastructure.



Within the commodity complex, whilst positive on the longer-term trends, the near term the risk of an economic downturn could put further pressure on already weak prices, and we remain underweight. We retain however a significant overweight position in gold.

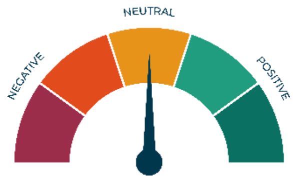
SPECIALIST STRATEGIES

Specialist strategies continue to play a significant stabilising role within our portfolios. Managed futures continues to see a recovery following a relatively difficult Q1, whilst our market neutral exposures continue to deliver solid results. We retain limited exposure to private markets and retain concerns regarding NAV and risks of mark downs.



CURRENCIES

Generally, we remain neutral on currencies. On the margin we note that whilst inflation and interest rate differential would support a stronger USD, the risks of devaluation and trust in the US political systems are major longer term concerns. We remain positive on the Japanese Yen, which we believe is both undervalued and under-owned, with potential catalysts for a revaluation higher.



CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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