JONATHAN DAVIS WM
Leaders in Wealth Management

Chartered Financial Planners

Economics and Wealth Advice Update

In this edition of the Booms & Busts Report:

1. The GB£ and British Independence (aka BREXIT)
2. Energy stocks
3. Global Stocks
4. Copper and Emerging Markets
5. Have they told you Bonds will make you money and will reduce your risk?
6. House prices

Have you heard the one about the GB£, that British Independence causes to fall AND rise?

Yes, it's amazing. When the £ fell in H2 2016 (post referendum) it must have been because of British Independence, so the Remainer media and Remainer politicians tell us.

And now that British Independence is within weeks, the £ is also rising.
Gosh, how clever is that British Independence to do both of those...

In other words, as I have been saying for years, British Independence has practically NO EFFECT on the GB£.

In 2016 the £ fell because IT WAS IN A DOWNTREND, SINCE 2014 (or 2007, or the 1950s or 1914 - take your pick). The £ has been in a downtrend for over a hundred years. Also, The Bank of England, in its infinite ridiculousness, cut the Base Rate, making our currency EVEN less attractive (if that were even possible).

October 2016 appears to be thee bottom for the £ for a long while. Indeed, if, as seems likely, The Bank actually starts raising interest rates, with a new Governor, from early next year, then watch the £ fly. Whether or not we will have exited the EU by then.

Energy Stocks

If these are strong then, logically, energies and fuels are strong. Inflation.

Global Energy stocks, over the last 10-15 years have been in bull and bear markets.

It seems to me the bottom for years was seen in early 2016. Clearly, it is taking a long time to get going. But the weight of evidence is that Global Energy share prices will get going. The companies, in question, are the likes of Exxon (Esso in the UK), Shell, Total et al.

Now look at **Exxon**, the largest public energy company in the world, **vis-a-vis the the US stock market**.

Exxon is at the relative cheapest SINCE THE 1970s. This is astonishing.
It seems to me this incredibly low relative valuation will not sustain. Indeed, energy companies will have their day and rise, relative to the wider market, for years.

We have had low inflation, indeed, falling inflation for decades. One of the many reasons is the cost of energy has been falling and falling. There comes a point when it stops falling.

If and when energy costs rise, expect inflation, as well as huge growth in energy stock prices. Also, expect higher interest rates.

Or maybe you were thinking interest rates would stay at All Time Lows for ever. It isn't likely.

Global Stocks

If energy stocks rise, relative to the wider market, it does not mean, at all, that the wider market falls. On the contrary, just that energy companies' prices will rise faster than stocks, generally.

Look at **Global Stocks**, top 100 companies.

It's curious. Pick up a newspaper, listen to the news, watch the TV. Everywhere you go, and every pundit you hear, it's Recession, Recession, Recession everywhere and it's going to be huge.

Yet...according to officials, everywhere, the US will grow some 2% this year and 2020.

The UK will grow some 1% this year and next year.

The global economy will grow around 3% this year and next.

And the pundits can't say why the growth rates will not happen.

Well, a recession this year is not going to happen. Nor is it likely in 2020. As you know, I have been bullish for the last 2-3 years, while the bulk of commentators have been bearish.

Stock markets are near or at All Time Highs. Stock prices are excellent forecasters. They are not forecasting recession. Stock prices are not random. They are the ACTIONS of all the millions of stock market participants, globally. Not the WORDS. Words are cheap. Actions speak louder than words.

It is true they are at the same level, or similar, to nearly 2 years ago.

Many are saying, global stock prices can't break through. Prices have topped and will crash.

I see it as prices rose, fast and furiously, in 2016 and 2017 (50%!) and the markets need time to take that on board. Since January 2018, prices have been no higher and have already had a correction of over 15%, and recovered, completely.

Global Stocks have already had their correction.

As I have said, repeatedly, it seems to me that Boxing Day 2018 was the start of a new multi year global stocks bull market.

Many readers will have taken on board the idea - that is often trotted out - that we are due a stocks' crash because we haven't had a bear market since the huge one which ended in Spring 2009.

As I see it they are very wrong to think like that and those who preach it are selling something which is extremely unhelpful (or worse).

Commonly, we say a fall of 20% in stocks is a bear market. Why? Why does it have to be 20%? Why not 30%? Or 15%? It can. It is a myth that a 19% fall is not a bear market.

Global stocks fell 21% in 2011, from their peak.
Prices fell 17% in 2015.
And fell 16% to Christmas Eve 2018.

As I see it, we have had THREE global stocks' bear markets in the last decade. Contrary to consensus that says we haven't had even ONE.

We are not DUE a crash. If anything, we are DUE a bull market!

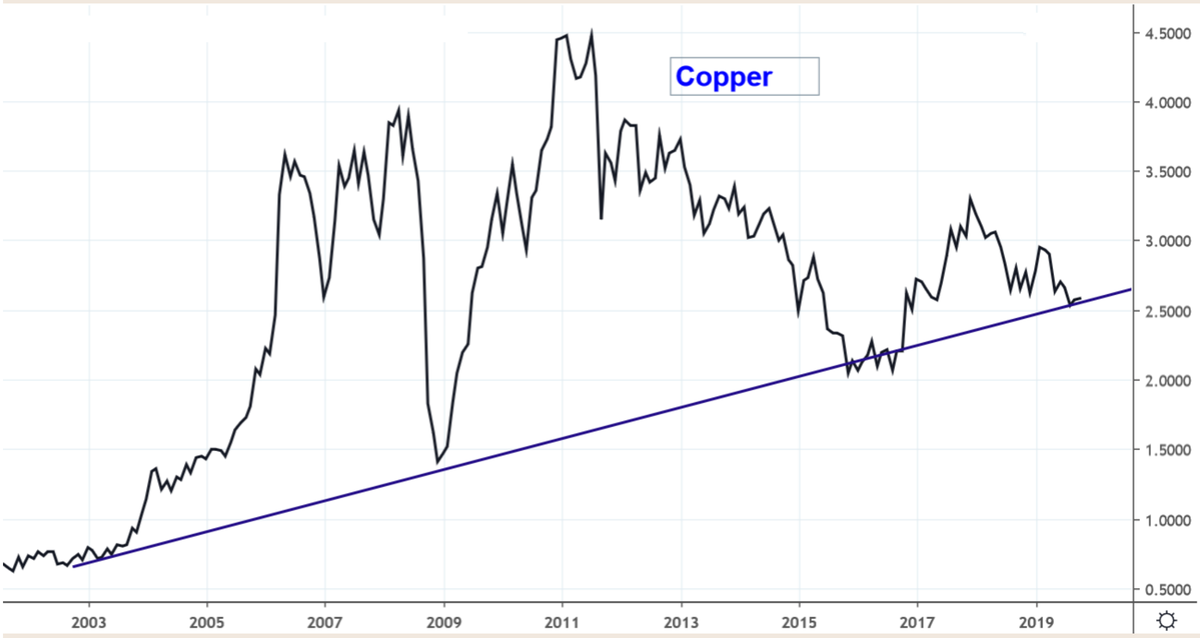
And, as I see it, with the global economy growing reasonably well - not hugely or recessionary - the next cycle in global stocks growth will be led by Emerging Markets (EMs), with Developed Markets trailing (but also rising).

And the EM rise, along with energy and other commodities rising, will be inflationary.

All the bears and 'deflationistas' are eager to point out all the world's travails, eg China/Hong Kong, Germany, Iran, Venezuela, Turkey, South Africa, British Independence, Euro Banks et al. There are at least a baker's dozen of problems which could bring global-sized problems.

But... if the problems were so bad, how is it we still have global economic growth?
If so bad, how is it we do not see Copper - which is so important to the global economy - crashing?

Look at **Copper**



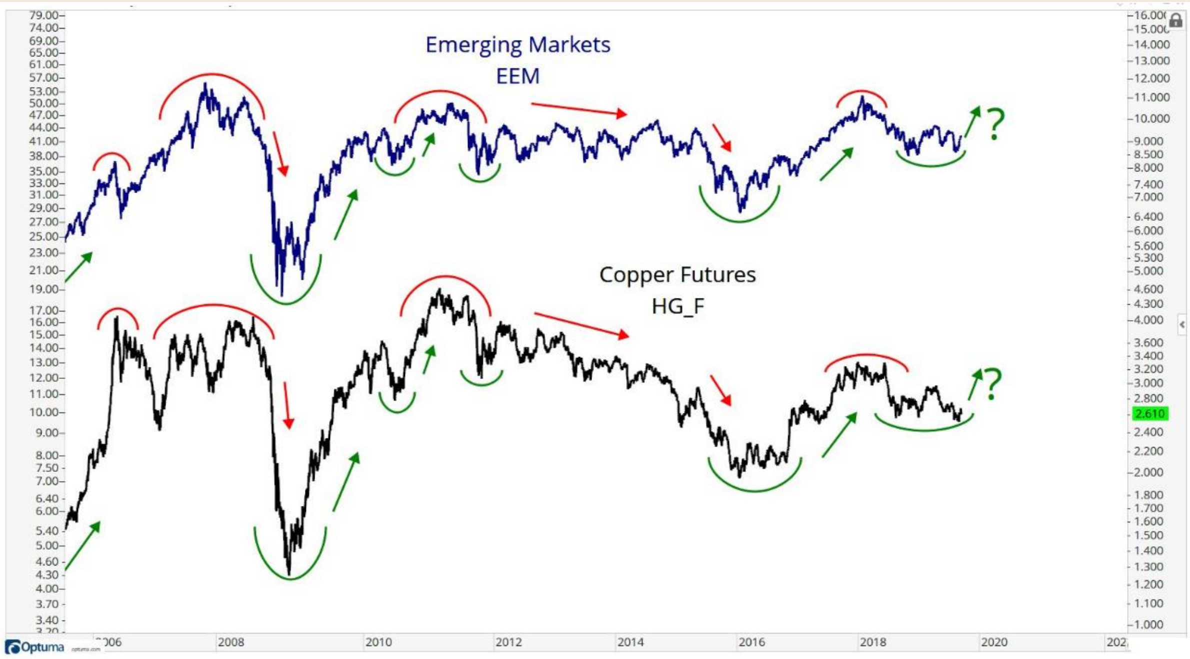
After over a decade and a half, the price of copper - used in telecommunications, car manufacturing, tall building construction, power generation and transmission, industrial equipment and household appliances - is trending up. An average car has nearly A MILE of copper wiring inside.

Copper is hugely important to economic growth.

And the price of copper is not doing what bears suggest it should.

Sure, it's not at the heady heights of 2011 - the peak of the commodities' cycle - and it has fallen from then. Thus, we had deflation in commodities to the end of 2015. Since 2016, copper has net risen. If it takes off from around here, expect inflation folks. Along with higher (much higher) commodity prices, generally, and interest rates...

And, incidentally, look at **Emerging Markets (index) and Copper** on one chart.



It seems to me they move, pretty well, hand in glove. This is unsurprising, since most commodities' productions are the backbones of Emerging Market economies.

So, reasonably, we can say that if we see continued strength in EMs, we can expect to see this too in copper and other commodities. Inflation. Interest rates.

It seems to me, we will.

Bonds

They tell you that Bonds, in a portfolio, reduce your capital risk. They say, as shares go up, Bonds go down and vice versa.

Total nonsense.

For decades, as shares have risen, as have Bonds. Clearly, as inflation falls, Bond prices will rise.

Look at this decade of Global Stocks prices relative to UK Bond (Gilts) prices.

Global Stocks have risen more than Gilts. The question is - does the outperformance continue or do stocks lose value vis-a-vis Gilts?

What have I been writing for 2-3 years, and, repeatedly, in this Booms & Busts Report? On the weight of evidence, inflation should rise.

If inflation rises, Bond prices will fall.

If inflation rises, it will not be for a year or two. It will be for a decade or two!

Bond prices are at risk of falling for 10 or 20 years.

Most portfolios have 20-40% in Bonds. And, in 'Diversified Portfolios' (which the bulk of folk have) this percentage doesn't much change through the years.

Good luck with that!

If you see inflation rising, and interest rates rising, ask yourself why your Wealth Manager has you in long term losing positions (Bonds) ...

Added to that, I forecast that, by next year, we'll be hearing and reading of central banks changing the generally accepted 2% inflation target. The target will increase to 3 or 4 %.

By letting inflation rise, they will be able to slow the rate of increase in interest rates that, otherwise, they would need to keep inflation sub 2%.

Interest rates will still rise, but more slowly than needed for current inflation targets.

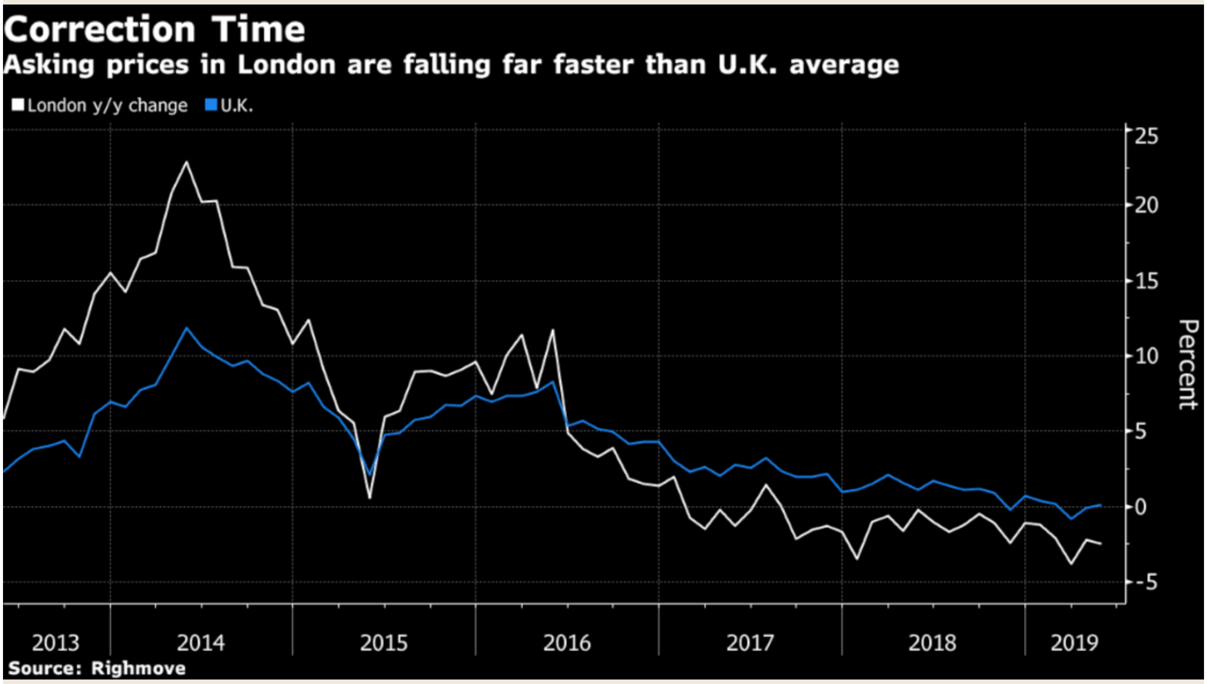
House prices

You may recall, 2 years ago, I forecasted a 16% fall in London house prices, from the peak in July 2017, to the end of 2020.

Of course, everyone laughed. Nothing new there, then.

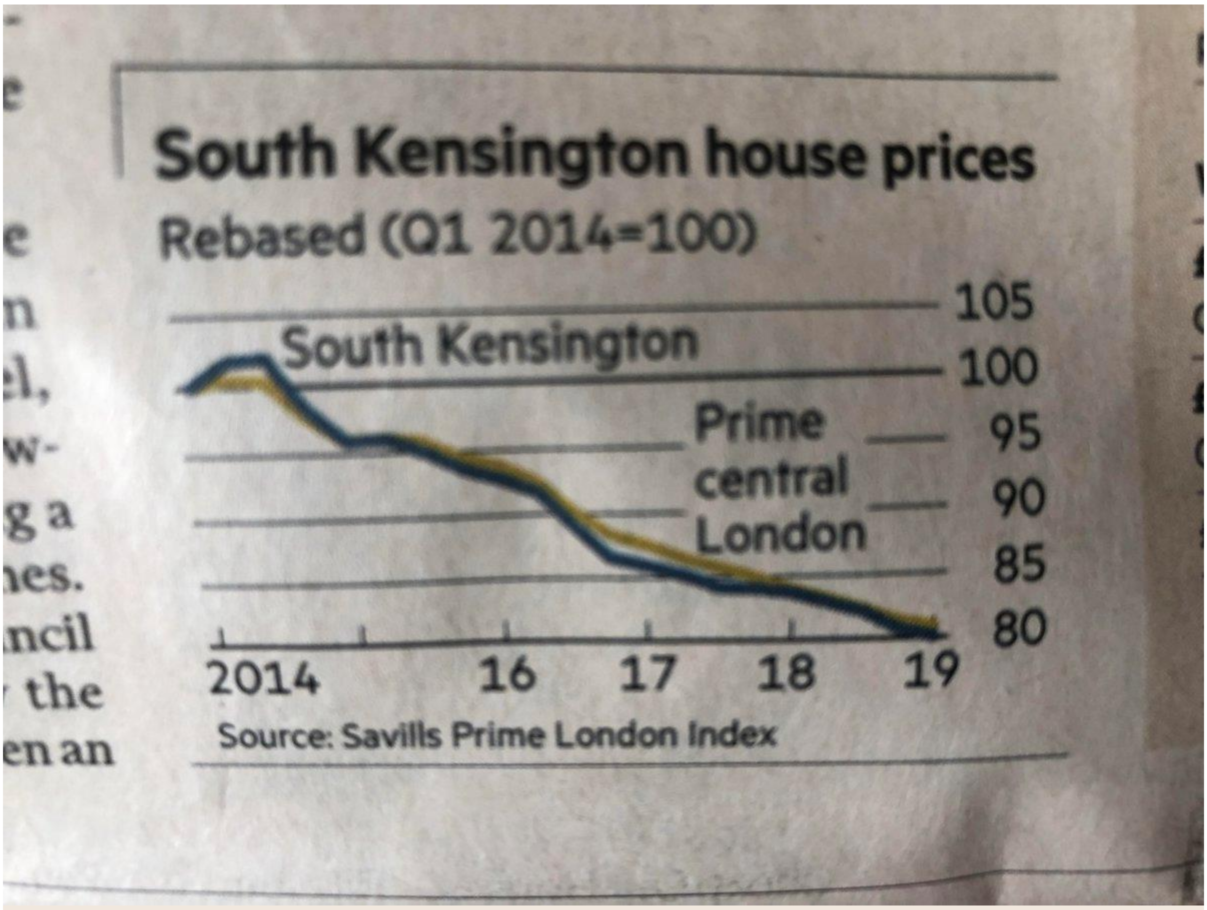
So, let's see where we are.

Asking Prices



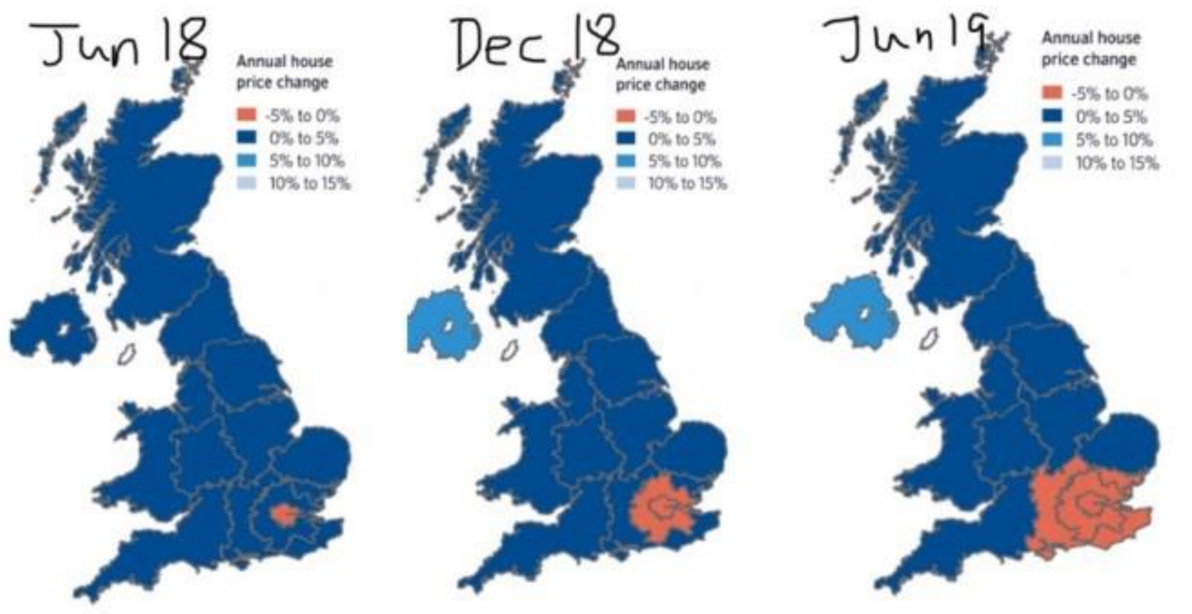
1. Asking Prices' changes in London have been lower than the national picture since mid 2016. Indeed, asking prices, in London, have been falling since early 2017, apart from a few months.

Prime Central London



2. South Kensington (like 90210 / Prime Central London) house prices have fallen 20% since the peak in as long ago as 2014. [Nothing to do with British Independence!]

Falls are spreading out from Central London



3. In mid 2018, year-on-year falls were seen across London.

6 months later, outside London in the 'Home Counties' too.

6 months further on (June 2019), the y-on-y falls have spread to the entire South East of England.
This is not suggestive of a strong market.

Brits know that what happens for London house prices, tends to spread to the rest of the country.

London actual selling prices are still only marginally down on July 2017, even though asking prices have fallen for over 2 years, and Central London prices have fallen for materially longer. As we know house prices are really sticky to the downside.

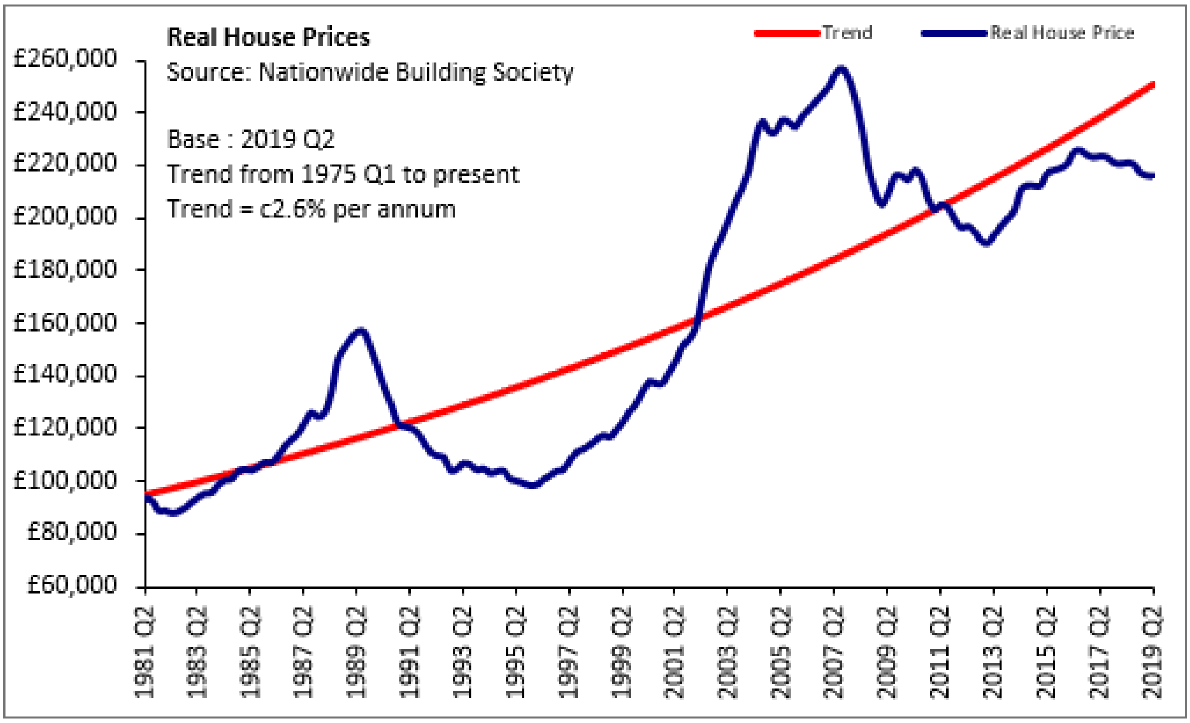
However, there is still some 15 months to the end of next year.
No doubt Boris Johnson's government will do whatever it can to push prices up. It's what politicians do.

However, if interest rates rise 1 or 2 or even 3 times over the next year - it's possible - it seems to me the damn will burst.

#onverra

And the bigger picture of house prices against inflation is notable.

Real house prices



Inflation-adjusted house prices peaked, in the UK, over a decade ago. And we see a lower high, in the Help-To-Buy bounce, suggestive of a downtrend. Still to be confirmed. Confirmation will come with a level below the 2013 low. (Lower high and lower low.)

(Help to Buy? How Orwellian can you get?)

It's not just London. I read that Manhattan prices are down for the 4th straight year.

Sydney is down for 2 years.
San Francisco is down.
Vancouver is down.
Whatever is going on it's nothing to do with British Independence. You didn't really believe British Independence had anything to do with house prices, did you?

And, by the way, I still come across loads of folk who are absolute believers in the myth that size of land and numbers of people and houses determine house prices.
Ease or tightness of lending and costs of borrowing (mortgage rates) are FAR MORE important to house prices.

If it was all about land and numbers of people, how can the likes of Hong Kong ever have house price crashes? Yet they do.

The bulk of portfolio managers has NEVER managed money in an era of rising inflation.
They have only known falling inflation, throughout their careers. Just like you.
What is your portfolio adviser / manager saying and doing?

What should YOU do to secure and grow your wealth and purchasing power?
Don't put it off till it's self-evidently too late.

If your portfolio, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion with me about your plans and objectives?
We also advise high earners, whose portfolios will get there.
We advise clients all over the UK and indeed on 3 continents.

Our most important and most often repeated philosophy is:
"We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note, carefully, the following important message:
I think most folk also do not realise, in big picture, the excellent opportunities in our markets.
They will. But will they have benefited?

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me ***here***.

Follow me @j0nathandavis where I frequently comment and link to material commentaries on markets and economics.
See ***Jonathan Davis youtube*** channel.

Kind Regards

Jonathan Davis **BA MBA FCII FPFS**
Economist and Wealth Adviser
Chartered Financial Planner
Presenter of The Booms and Busts podcast on ***audioboom*** and ***itunes***.
See @boomsbustsshow

Share this:

0345 862 2919
jonathandaviswm.com
20 Glenwood, Broxbourne EN10 7LP