JONATHAN DAVIS

Wealth and Later Life Finance Advisers

Chartered Financial Planner

Booms & Busts Report

I wrote in November that "2023 will be a major economic recession."
It is building, rapidly.

Are you prepared?

The annual rate of UK inflation (RPI, still a **huge 13.4%** - it peaked at 14.2% in October) ought now to fall to around 7% this year. We are experiencing disinflation. This happens in recessions. Prices fall as demand falls.

This is the January 2023 Booms & Busts Report. I publish these, free, every two months.

Forward to friends, family, clients and suggest to them to subscribe for future Reports, at our site. ***Subscribe here***, free. No subscriber will be junk-mailed, nor their details sold.

If you decide the Booms & Busts Report is not for you, just click ***Unsubscribe*** at the foot of this Report.

In this edition of The Booms & Busts Report:

- **2023 Economics and Markets Outlooks**
- **Gold**
- **Government Bonds**
- **US and Global Economy heading into economic recession**
- **Uranium revisited**
- **JDWM Clients' investment performance**

2023 Economics and Markets Outlooks

The size of the economy, reflected in GDP, will fall.

- House prices will fall.
- Corporate profits will collapse.
- Unemployment will rise.
- Base Rates will CONTINUE TO RISE. for a few more months... as we head into recession. (For decades, they always CUT rates heading into recession. You. Couldn't. Make. It. Up.)

Rates MAY fall later in the year. It will depend on how long it takes for inflation to fall.)

Inflation is falling now. (Some prices are actually falling. The UK peak rate of price increases was in October. US inflation peaked last June.)

- Inflation will continue to fall into 2023
- Household Incomes will rise BELOW the rise in the costs of living. (Earners' standards of living will fall.)

- The stock market and Corporate Bonds will continue crashing since the peak, over a year ago, and there is a lot more to fall).

As global investors sell stocks, they will move to Cash.

- Thus, the US$ will resume its bull market (and Euro, Yen, Sterling et al will crash again).
- Commodities will continue to crash.
- Gold may continue to rise, for now, but then crash.
- Government Bonds will soar, with falling inflation and falling long term government borrowing rates.
- Crypto/Bitcoin will resume their collapse.

(None of the markets' prognostications will be in a straight line.)

I ask again: Are you i.e. is your investment portfolio prepared?

If you are an employee, will your job withstand the recession?

Same question, if you run your own SME.

Gold

Every tinfoil hat-wearer's go-to investment (since crypto collapsed*).

Gold is in a new bull market. There, I've said it.

So, why aren't I investing in it? (Yet.)
I don't have to be in everything and I can even be in nothing (except Cash) if I choose.

Our portfolio is invested such that, while stocks, corporate bonds and commodities continue their crashes, we expect to GROW our wealth. We could also invest in Gold but we do not need to.

We're effectively not in stocks, nor corporate bonds nor commodities, generally.
My expectation is that, as the US$ resumes its bull market, in the stocks crash and economic recession, this will become too strong a headwind for Gold. Also, when the stocks crash develops into a crescendo, margin calls (look it up) will abound. Many investors will be forced to liquidate their profitable holdings, to cover. This will include Gold holdings.

I expect a sizeable, sharp correction in Gold as the stocks crash heads to its peak (i.e. trough in prices).

In 2020, while stocks crashed around 35%, Gold only fell 15%. (Silver, incidentally, fell 35%. Junior Miners collapsed 44%, within a month.)
I expect, similarly, Gold to fall less than stocks. (Silver and Miners to fall more than Gold.) Hence, there is no need for me to be in Gold or Precious Metals for now, even while Gold is trending up. We can move in, after the next sizeable fall.

* There has been a short term rally in Crypto/Bitcoin. It will resume its crash.

Government bonds

We're now heavily invested in Government Bonds.

Last year both stocks and bonds collapsed. You experienced severe pain in your portfolios. That was rising inflation.

I wrote, above, US inflation peaked seven months ago. Falling inflation brings lower long term government borrowing rates. Long rates in the US peaked three months ago, as the market finally noticed that inflation was falling.

The maths are simple: as long term borrowing rates fall (in fact, collapse) Government Bond prices soar.

In 2023, 60/40 portfolios will be almost as useless as in 2022. Certainly in H1, as I see it.

Economic indicators

In the US:

The number of people with car loans severely in arrears is now the highest since early 2009... at the end of the recession of the Lehmans bust / Sub Prime Mortgages collapse.

The percentage of Subprime car loan borrowers, at least 60 days late on their payments, rose to 5.7%. The peak in January 2009 was 5.0%.

Expect used car prices to continue to fall, as demand falls and repossessions rise.

The **Leading Economic Index** fell for a 10th straight month.

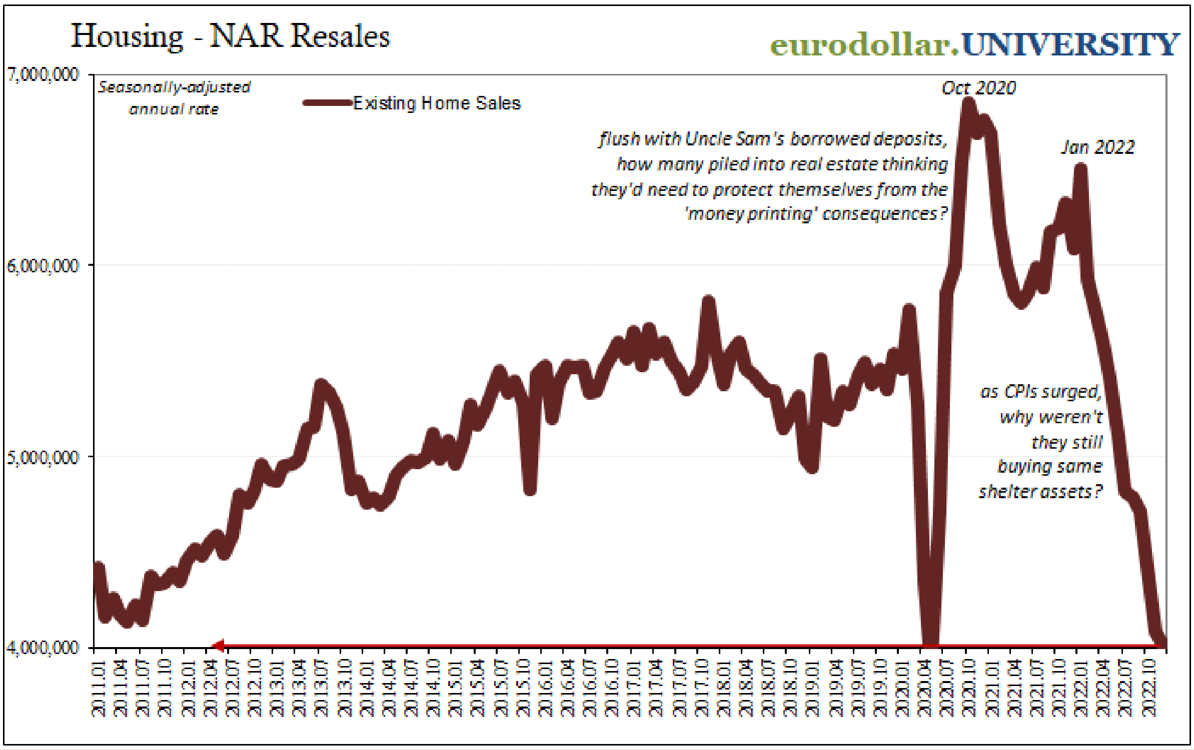
From January 2022, YoY, the index decreased by 7.4% (and is down for a 7th straight month - and this consecutive number of months is usually associated with a recession).

> "The US LEI fell sharply again in December—continuing to signal recession for the US economy in the near term. There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead.
>
> **Conference Board**
> **January 23, 2023**

Housing market:
US house sales are running **at the same number as the lows of the 2020 Lockup recession**. And the lowest number since the house sales number recorded in 2010. The number of sales in 2022 was 18% lower than in 2021.

Think about that. Think how awfully low that number of sales is, if the same as the Lock Up lows. (It's 4m annualised Vs 7m annualised in late 2020. And it was 6.5m a year ago.) Think also, how a crashed housing market affects consumer spending. The consumer is some 70% of the US economy.

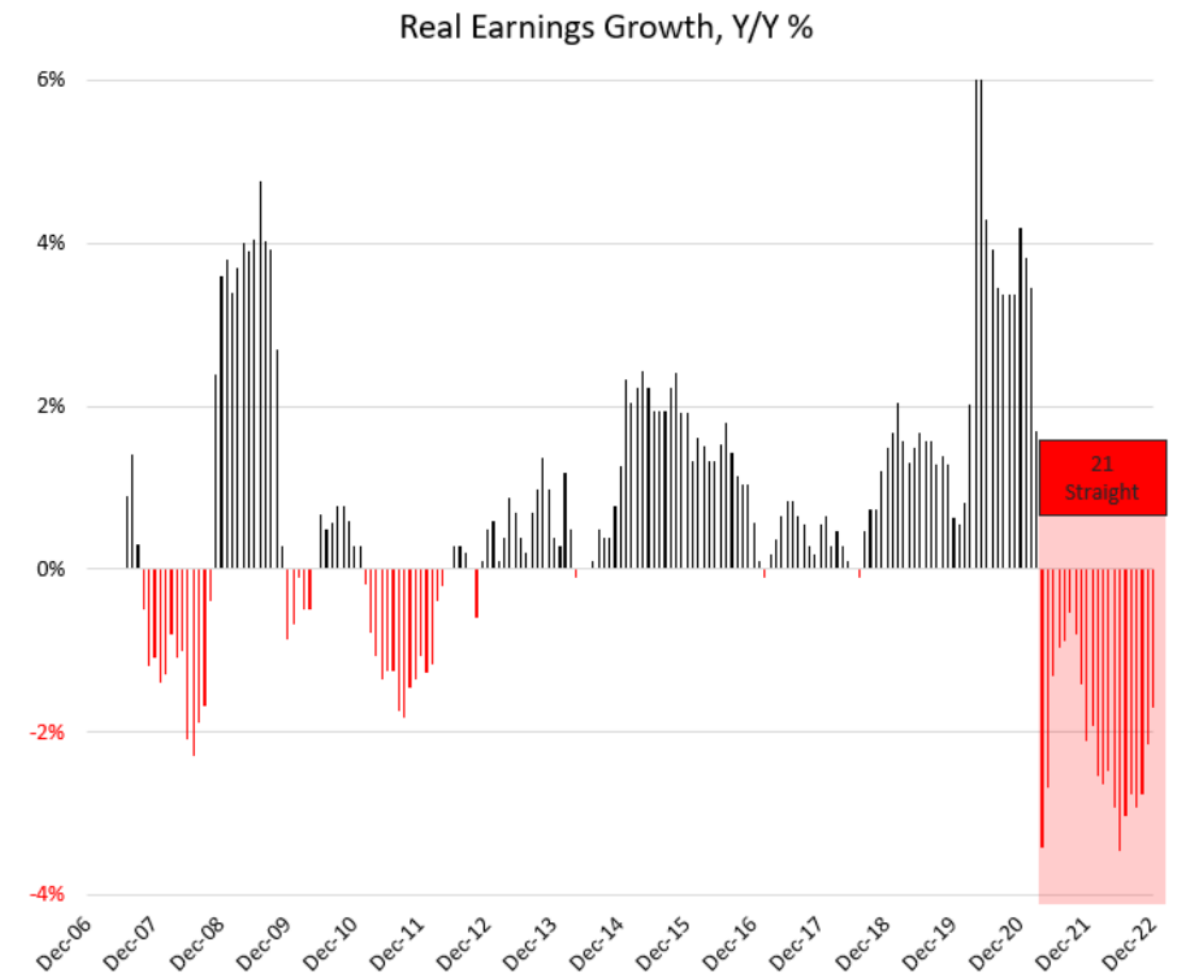
Think also, how such low sales will likely affect house prices. If you lose your income, in a recession, you will be forced to sell your home and pay off the debt. Forced sales means lower prices.



Unsurprisingly, US retail sales are flat now for an extended period. Soon they will actually fall off a cliff.

The last two times this happened was 2007 to 2009 and 2000 to 2003. You know, the last prolonged economic recessions and stocks' collapses.

"Those who forget the past are condemned to repeat it."
- George Santayana 1863 - 1952.



The chart shows how earnings increases have been lower than the increases in the costs of living for nearly two straight years. So, how do people keep up their standards of living, and pretend all is well, to the outside? (People take really childish actions and behaviours to hide (harsh) realities from 'friends' and family et al.) (They should reduce debts and tighten their belts, of course.)

You know, there are some 325m Americans.

Last year, 50m new credit cards were issued...

If anyone points to how consumer spending is holding up, reflect on that, and reflect on the fact that, after the party, someone has to clean up. They will have to pay the debt.

Unemployment remains relatively low. However, Big Tech has been shedding 6-figure income jobs like billy oh the last few months. For example, Microsoft just made 6% of its staff redundant. Companies normally do everything they can before cutting staff. The unemployment rate will soar this year. This is what happens in actual recessions.

You believe the US economy is strong? The most important economy to the global economy.

Inverted Yield Curve

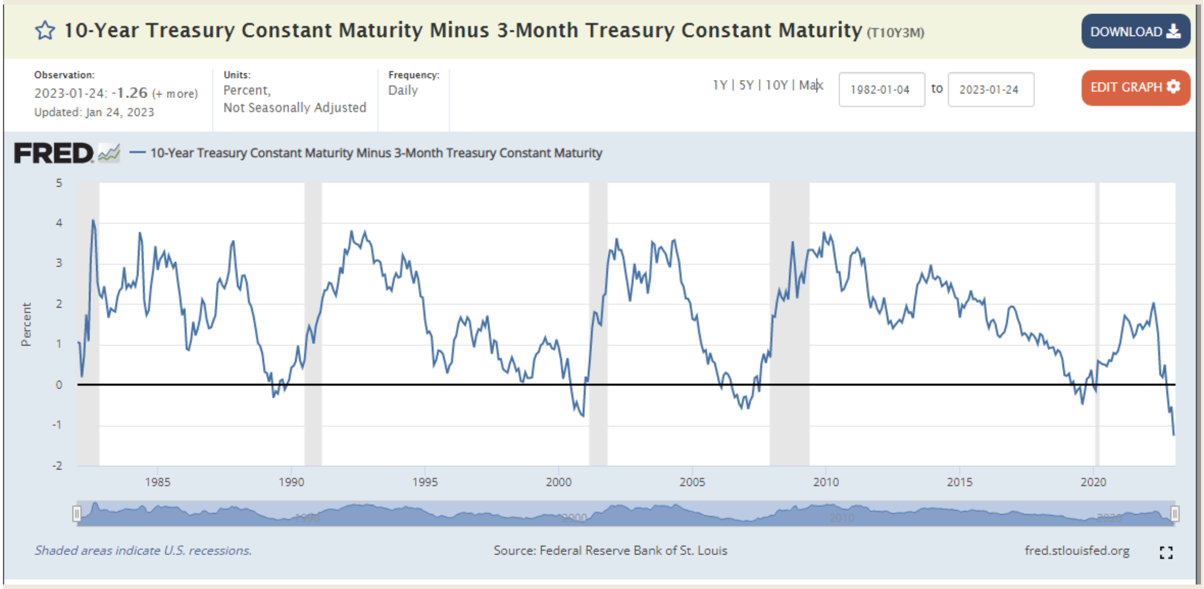
Normally, we expect longer term borrowing rates to be higher than short term rates.

For months, the 10 YEAR rate has been lower than the 3 MONTH rate (practically the Cash rate). And we call this : **Inversion**.

And such inversions indicate recession. They have proven accurate almost every time over many decades. The below chart shows just to the early 1980s.

The inversion, now, is steeper than during the last 40 years...

Corporate profits are already crashing. Stock prices will follow. Then Corporate Bonds, with bankruptcies.



There are many who say the FED (US Central Bank) will simply not allow a major, deep recession. If you believe them, I have a bridge to sell you.

ALL the FED (and European Central Bank, Bank of Japan and Bank of England et al) care about right now ... is inflation. Inflation. Is. Too. High.

It is miles above their own stated (illegitimate) inflation target of 2.0%.

There. Is. No. Way they will cut rates ... until the recession bites so hard that inflation collapses. In the US, inflation is still at 6.5% (even though it has been falling for several months).

Practically everywhere else the economies are dire.
All of UK and Europe (except Russia which still has loads of energy to sell and is doing so... because it is being bought.) (The UK still has double digit inflation. Nowhere near the 2% target. The Bank will continue to raise the Base Rate.)

The rest of the West.

Japan

et al

Pretty well, uniquely, China is coming out of a dire economy. That is of course because they imprisoned their people for far longer than we did. So they are now coming out of that Hell.
China alone will not stave off a global economic recession.

According to S&P Global Market Intelligence, global supply shortages have fallen to levels last seen in 2020... when we were all locked up and nobody bought stuff. Inflation and indeed prices will fall with collapsing demand and no stocks' shortages. All good.
But this will be in a recession... while the central banks are still raising interest rates...!

Are you prepared?

To be fair, central banks are actually no longer the important parties. It's politicians now. And you should also know that governments will stimulate hugely as the recession takes hold. I doubt though they will do much before the next major leg of the stocks crash.

Uranium

We continue to hold sizeable investments in Uranium and Miners. The supply / demand dynamics only strengthen the case. There remains a medium to long term mega bull market in the golden metal. Uranium is needed to produce nuclear electricity.

It's not rocket science and it doesn't have to be.

Uranium

The chart shows the price, per pound, of Uranium, over the last 12 or so years.

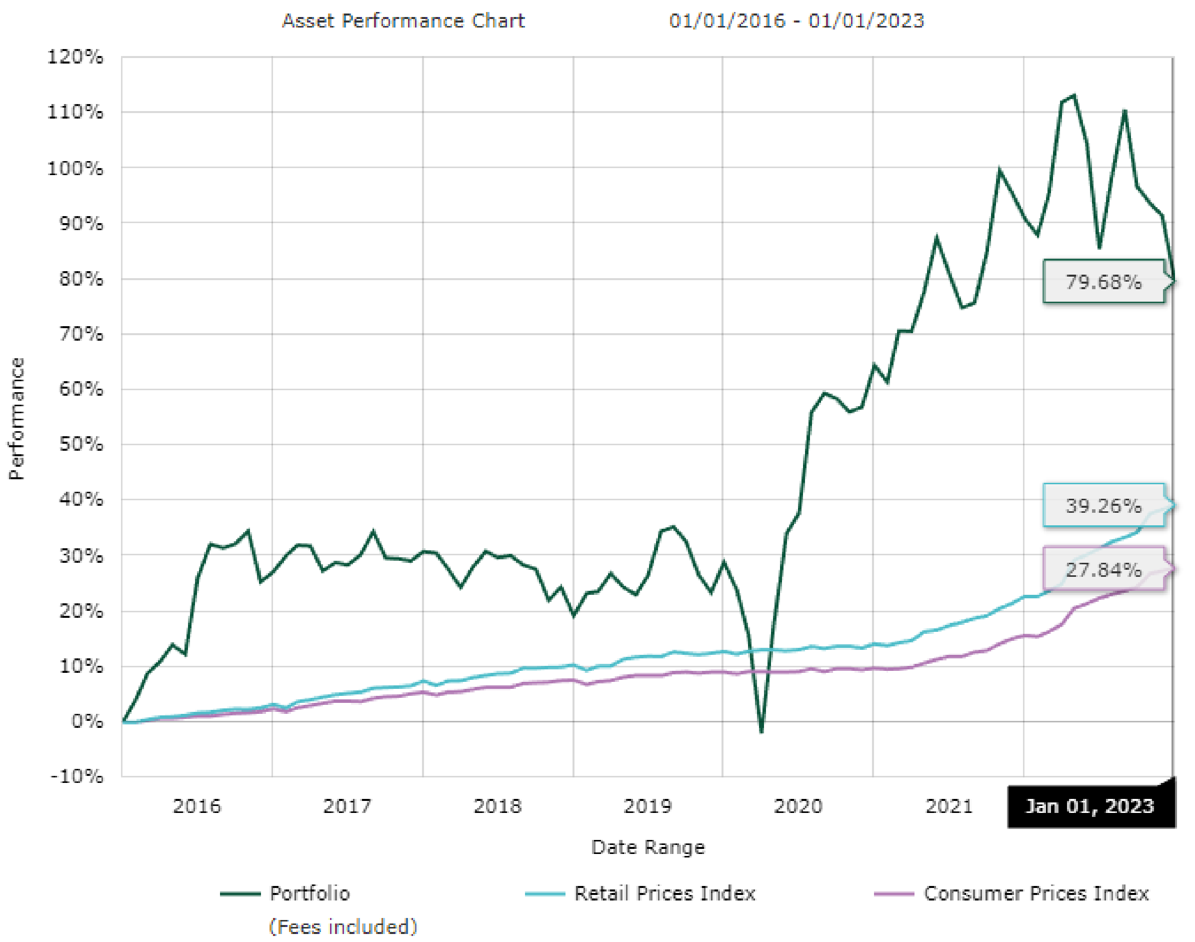
As you see, it fell for years in a mega bear market. From 2007, in fact (not shown), to 2016.
It started the mega multi year bull then. The miners didn't start till 2020.

The miners will follow the metal.

Uranium soared from Spring 2020 to Spring 2022. Unsurprisingly, faltered at the 15 year Resistance level. Had a few months of serious indigestion and quickly recovered. It seems to me Uranium is heading to all time highs, above the 2007 ATH. The miners will follow the metal.

The next few years in Uranium and Uranium Miners will be explosive, as have been the last three years.

JD WM Clients' investment performance *(2016 to 2022)*



JD WM Typical Client (TC)* portfolio performance
Since 1 January 2016, the TC is up ~80% net (Vs RPI of ~39% / CPI of ~28%).

How has your portfolio performed in the last few years?

My readings suggest the bulk of UK portfolios grew around 10-25% over the last three years.
Over that period, inflation has risen more than most pension etc investment portfolios. The bulk of (non JD WM) UK portfolios are not keeping up with the costs of living.

My Service

I advise clients on Wealth Advice and Later Life Advice all over GB and, indeed, on four continents.
“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 you.

I think most folk do not realise the sizeable risks and opportunities in investment markets.
They will. But will they have benefitted or lost from the actions taken?

As Burns wrote:

"the best laid plans of mice and men often go awry"

(English translation from Tae a Mouse)

Robert Burns, born 25 January 1759.

But do YOU have best laid plans for your portfolio?

Follow me on Twitter @j0nathandavis where I frequently comment on markets and economics and where you will see day-to-day thinking, and sometimes big picture.

Thank you for reading. I hope you found it interest and, perhaps, useful.
If you have any queries over any of the issues raised call me or email by clicking ***here*.**

With kind regards

Jonathan Davis **BA MBA FCII FPFS EFP**
Wealth and Later Life Finance Adviser
Chartered, Financial Adviser and Economist

SOLLA
Society of Later Life Advisers
ACCREDITED

Chartered Financial Planner
JONATHAN DAVIS
Wealth and Later Life Finance Advisers

Share this:

0345 862 2919
jonathandaviswm.com
Hawthorn House, Hoadleys Lane, Crowborough TN6 1TH