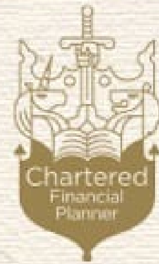
JONATHAN DAVIS

Wealth and Later Life Finance Advisers



Booms & Busts Report

I wrote in November 2022 and January 2023 that the global economic recession is building rapidly. It is.

Is your portfolio prepared? (AKA Are you STILL invested in shares, generally? Really? You know it's an ongoing bear market, right?)

The annual rate of UK inflation (RPI, February 2023, still a **huge 13.8%** - it peaked at 14.2% in October) ought now to fall to around 7% this year. It had fallen, for a few months, and rose again last month. The recent big rise was largely due to the (unimportant cost of...) food rising 18% y-on-y... The peak in inflation was likely October.

In the US, CPI peaked at 9.1% in June 2022, and is now down to 6.0% (February).

We have global disinflation. This happens in recessions. Prices fall as demand falls. (Not for food though...)

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

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In this edition of The Booms & Busts Report:

- **Why are these US banks going bust? Does it matter to me? (DOES IT MATTER?!!!)**
- **Corporate profits are down year on year.**
- **What's happening in the 'real' economy?**
- **Housing activity**
- **Why is inflation falling? And what happens next?**
- **2023 is not 2022. Like last year, in your pension and investments, you'll again lose a lot of money, if you don't take action.**

Why are these US banks going bust or looking like they will, and does it matter?

So, we've had Silicon Valley Bank - it was the 16th largest bank in the US, Sovereign Bank, Silvergate Bank, Signature Bank and First Republic Bank (14th largest) is on its knees.

SVB’s customers (primarily Hollywood, hi tech Venture Capital funds, tech startups and biotech companies) were spending (aka losing) more cash than they expected to, so they needed to withdraw more than the bank was in position to provide. Thus SVB had a bank run, just like we saw in 2007 and 2008.

Banks take in deposits (which they treat as short term borrowing) and these banks were lending to technology and commercial real estate companies (which means they lend longer term). Over time, the banks should make a profit from the interest received on loans plus gains on investments less the interest paid on deposits and costs of running the business.

Problematically, as everyone knows, interest rates have SOARED in the last year or so. Thus, fewer companies have borrowed at high costs of borrowings, so the banks have had excess funds to invest. They have invested, largely, in long term Government Bonds (which they believed to be safe) ... and, problematically, no one told them... that interest rates were SOARING (😂) ...so the investments in Government Bonds have collapsed in value...so they have lost money... which means they (further) loaned less and less (tight lending, not easy lending) ... they have made less and less profits... and the vicious spiral went on... until they could pretend no longer.

Then the authorities decided to close SVB down.

S V B

Silicon Valley Bank

Thee bank at the epicentre of Silicon Valley. The centre of US hi tech. Every tech company you can think of; every Venture Capitalist in that region went to SVB. It had its fingers everywhere.

It is no longer there. This was the 2nd largest bank failure in US history. The biggest was in 2008 (Washington Mutual). WM was a $300Bns bank failure. Between Silicon Valley and Signature, you have $310Bns.

This will tighten lending generally. As all similar banks will be similarly affected.

Indeed, take car loans, for example. It is reported, in the US, 1 in 11 applications are now rejected. In 2021, the ratio was 1 in 100.

Now, move to New York. **Signature Bank.** The 3rd largest banking failure in US history... the day after the failure of SVB.

SB was a MAJOR lender and hub lender to private equity ie that which is not listed on the public markets. It is estimated that PE owns 25% of US commercial real estate.

The thing about PE is that they don't have to do accounting like public companies.

Isn't it fascinating that, while public companies crashed in price last year, the PE companies were smug that their asset values had risen double digits?

Er, how can that possibly be true? Because it's likely rubbish, at best, and outright fraud, at worst. My money is on the latter.

What has been happening is real estate has also been crashing (ever heard of Work From Home?) and the PE companies have just cooked the books not to mark down their asset valuations. They've been sucking in more and more sucker investors, while asset prices have actually been plummeting.

More and more bank customers were going out of business and this, eventually, ended with SB going bust.

You think it's just these two banks.

The banking system is a complex spider's web of interconnections and overlaps. Your foot cannot work well if your femur doesn't. There will be others. Many. Others.

As I said last time, "**Those who cannot remember the past are condemned to repeat it**". (George Santayana). Similarities to 2008 abound.

You think it's just America?

It is a global banking system.

Credit Suisse, thousands of miles away, has just been taken over by UBS and they have been given a $50Bn bailout from the Swiss Central Bank. This is exactly like Bear Stearns 'going bust' in March 2008 and J P Morgan taking it over for 2c on the Dollar. Literally.

Remember Northern Rock, going bust in December 2007? An 'inconsequential' mortgage bank in the UK. Abbey National? Natwest? Royal Bank of Scotland. These were thousands of miles from Wall St. It's a global banking system.

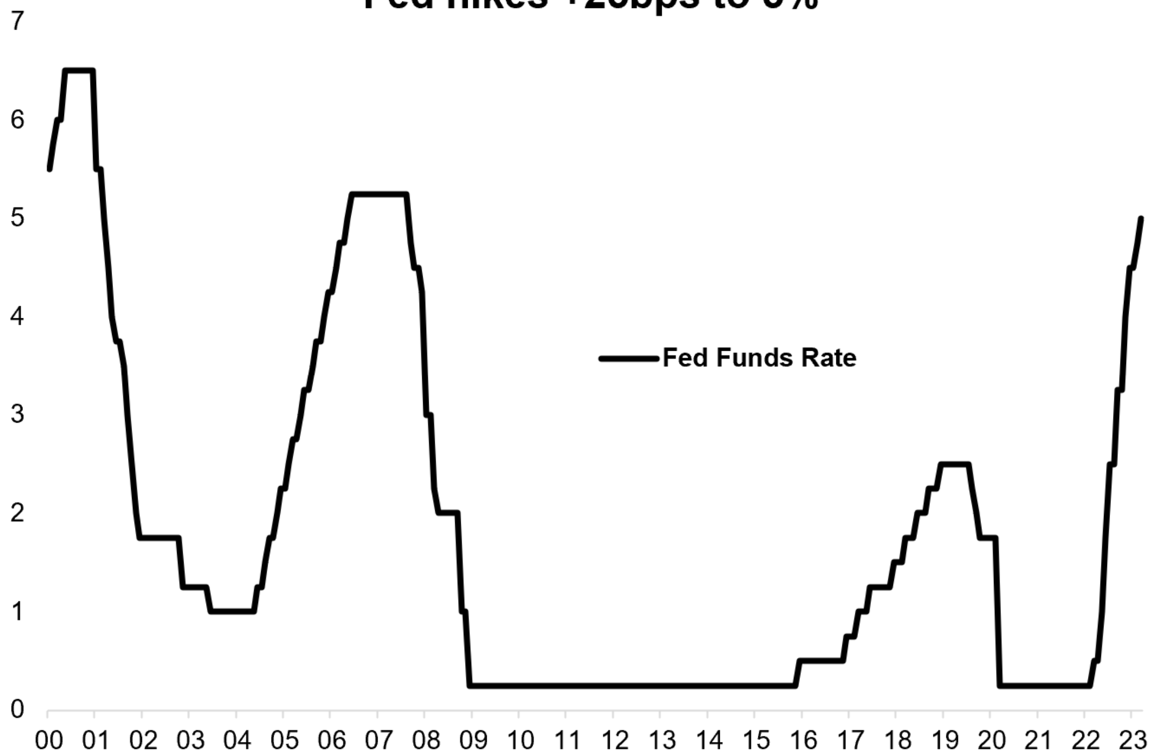
You name a European bank and it is hurting as I type. Their costs of default insurances (CDSs) are rocketing.

THIS is why global share indices are trending down... why lending is tightening, globally (they need liquidity to meet obligations, thus they can't lend!)... why other companies are having it harder and harder... why unemployment is rising... why corporate profits are falling (NASDAQ profits are down 14% year on year)...why the US$ is trending up... and why longer term (10+ years) Government Bonds are trending up so strongly.

All the while, in the EU, inflation is STILL 8.5% and the ECB just hiked the Base Rate ANOTHER 0.5%, **in a recession**. These central bankers will not cut rates till inflation is materially closer to their (illegal) target of 2%.

UK inflation (CPI) is 10.4%. Even further away from the 2% target. Of course, the Bank of England also just raised the Base Rate to 4.25%. The highest in 15 years!

US inflation is at 6% and last week, too, the US central bank raised the Base Rate to 5.0%. Also the highest in the last 15+ years!



They are now at around the level at which rates peaked, just before the 2008 collapse.

And the rate of the rises has been the fastest in history. It is a HUGE shock to the system The system is breaking as I type. It will unfold, like 2007 to 2009, over some months. And each time they bail a bank out they say all is well now. It isn't.

So, the major central banks ARE RAISING INTO A RECESSION. This was one of THEE causes of the 2008 collapse.

Does anyone really imagine this is in any way bullish the economy and/or share prices? (Or house prices, for that matter?)

Do you see anyone pivoting? Those who believe that they are in the know have been hearing for months about the central banks about to pivot from raising rates to cutting, or just pausing the increases. It has all been smoke to keep you invested in the funds, while the managers and their friends sell their holdings.

AND you are told that a pivot or a pause will be a positive for markets.

From October 2007 to March 2009, the Bank of England cut the Base Rate nine times. The stock market (FT 250) still plummeted over 50%, from the peak (October 2007), to the trough (end 2008 / beginning 2009).

WHEN they start to cut rates, or even pause, hold on to your hats. IT WILL BE SUPER BEARISH for the stock market... because the market will realise what a bad position it is if the central banks are cutting.

Oh, and rising interest rates are also super bearish the stocks markets because the economy is toast.

Heads you lose and tails you lose. Unless you get out of shares, that is.

This is where I talk about 60/40 portfolios. Again.

I have written, repeatedly, that your portfolio (pension, S/S ISA, family trust etc) likely is around 60% shares (including property companies and direct investments) and 40% Corporate and Government Bonds.

(Our clients' portfolios are not like this.)

I like to lump the Corporate Bonds into the shares element as, in booms and busts, they perform not dissimilarly. So, actually, you are 80/20.

The 80% has been falling since late 2021, and continues to trend down.

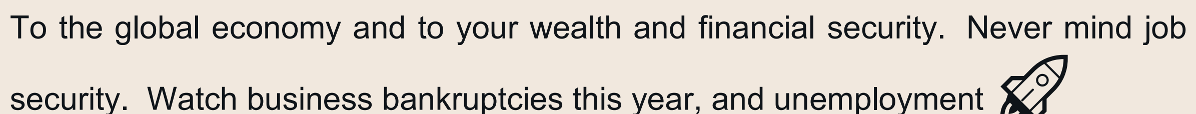
The 20% (Govt Bonds) crashed from Spring 2020 to Autumn 2022. They are trending up now. Strongly.

The 80%s' losses, this year, will dwarf the 20%s' gains.

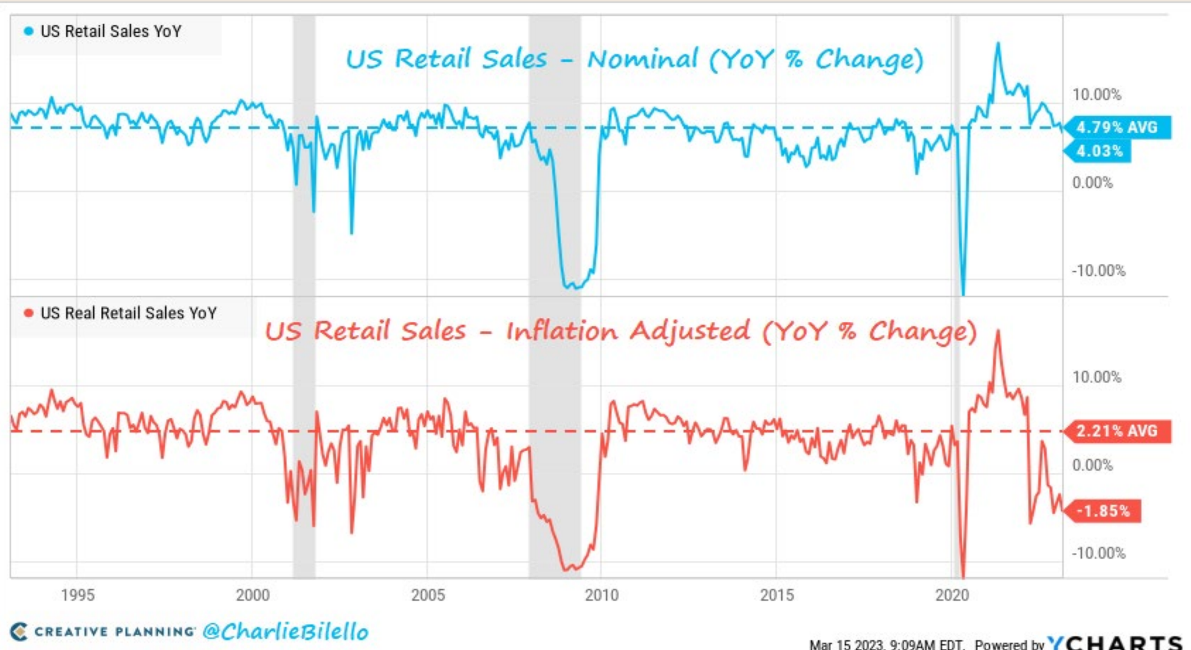
I've been saying this for ages. Read prior Booms & Busts Reports.

Does it matter these banks are crashing and being taken over? It certainly does.

To the global economy and to your wealth and financial security. Never mind job security. Watch business bankruptcies this year, and unemployment



US Retail Sales

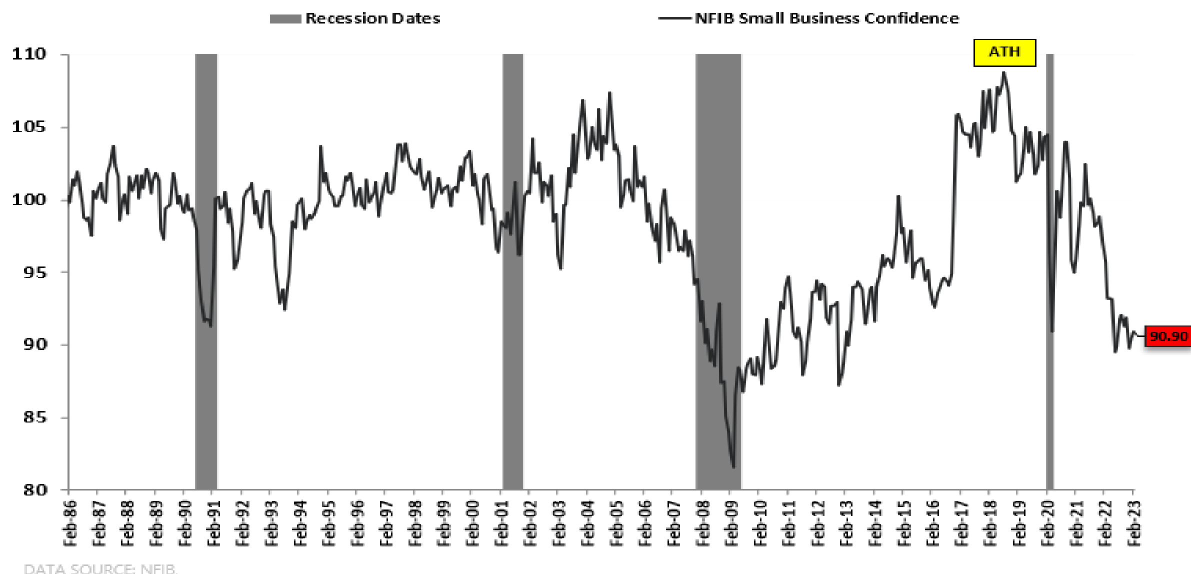


Inflation-adjusted retail sales growth has been below the long run average (of 2.2% pa) for SIX YEARS.

Nominal sales growth has been falling for two years. it will soon be below the long run average.

NB The US population has soared in recent years. Retail is performing badly because... the consumer is tapped out.

Look at what US businesses are saying (outside S&P 500 mega companies):



Well, they are clearly Pessimistic. Hugely.

In fact, as pessimistic as they have been, in 40 years, except for... 2008. As the economy worsens yet further, they will get to those hugely pessimistic levels.

They are the real economy of the US. The largest economy... which affects everyone else.

Now look at the UK FT 250 index of UK companies' share prices:

The FT 250 index is a good representation of the UK economy. (Not the FT100 ... which represents the global companies, which just happen to be listed in the UK.)

Share prices have been crashing since H2 2021. They've had a sizeable bounce, since October, as global shares have, generally. With the huge financial markets' issues, coming to light now, share prices are at serious and imminent danger, again. It seems to me that prices will go down below the October lows and will end 40-60% lower than the 2021 highs. You invest in these.

How's that 80/20 portfolio looking?

Did I not tell you to get out of shares (and corporate bonds)?

The housing market in the UK is similar to that of the US.

US house sales - Luxury and non Luxury - as I pointed out to you, are absolutely imploding. Some 40% down on last year.

40%!

Do you think this might affect the economy, more generally, and share prices?

If the economy is not in recession TODAY it is imminent.

The UK Office for National Statistics, this month, said they expect UK house prices to fall some 10% this year. That, as it happens, is what i have been saying for months. The last 12 months has not been a good time, financially, to buy or trade up. Great time to sell or trade down.

Later this year, Base Rates will fall, mortgage rates probably too. That will likely stop prices falling.

I reiterate my long term forecast for house prices is SUB long term inflation gains. This, of course, compares with the ABOVE inflation gains for decades.

Property will NOT secure your wealth i.e. purchasing power, to keep you financially secure for the long term.

We are in an inflationary world. We hadn't been for nearly five decades, till 2022. Thus, interest rates / mortgage rates will have to be higher for many years, materially higher than the rates we had for many years...till last year.

This will be a long term headwind to house prices, whereas lower and lower rates used to be a tailwind. Though other issues will continue to be tailwinds in the future. So, at this point, I expect prices to rise less than inflation, not fall for many years.

Commercial property is toast for a long time as I see it.

So, the economy is in or heading to recession. That is why inflation has been falling for months and will continue to head down for a few / several months.
Along with 80/20 investment portfolios...
With the eyes on the elections in the UK and the US at the end of 2024 the politicians are preparing to 'help'. Thus, later this year, we will likely end the recession, we will see green shoots of recovery, inflation will stop falling, share prices will stop crashing, and we will re-enter economic growth.

Expect something similar to H2 2020 and 2021 in the economy and markets and inflation.

Then...say in 2026, the inflation will cause another recession and what we have seen in 2022, and going on this year, can be expected to be repeated.

We used to have several years of growth then a year or two of recession.

Now, the cycles are shortened to say 2-3 years up, 1-2 years down ... rinse, repeat... for the next 10-20 years, as I see it.

It's the inflation M'Lord. Created by the politicians. Not just "because". Inflation is always created. If the economy was left to itself we would have gorgeous deflation. Everything would get cheaper and we would have economic expansion for decades.

From an investment perspective, 2022 was about RISING inflation.

2023 is about FALLING inflation.

You lost a lot of money and/or purchasing power last year as shares, corporate and government bonds lost a lot of value... during, what, 15-20% inflation (I don't believe the official stats. Do you?).

To make money from the financial markets this year needs an entirely different mindset to last year.

What are you doing about it?

What, in the financial markets, in your pensions etc, makes money if corporate profits are falling, companies are going bust, the economy is in recession, inflation is falling... and so on?

If you don't know, then ask the guys who do. YOUR PORTFOLIO ADVISER / MANAGER! After all, YOU PAY THEM TO TAKE THE APPROPRIATE ACTIONS.

And do not accept, for one moment, that there is nothing you can do. Not. For. One. Moment.

Or, ask me. It costs nothing to contact me. I'll give anyone half an hour of my time.

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?

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

JONATHAN DAVIS
Wealth and Later Life Finance Advisers

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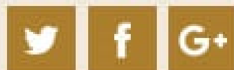

0345 862 2919
jonathandaviswm.com
Hawthorn House, Hoadleys Lane, Crowborough TN6 1TH

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