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Chartered Financial Planner

Booms & Busts Report

30% of China's economy (2nd largest in the World) is real estate. The largest developer, Evergrande, just went bust with... are you sitting down?... $344 BILLIONS of bad debts. Other huge companies are on the verge.
Do you think China's economy could be in trouble? And that it might affect the rest of us? Or shall we just ignore it?

Is your investment/pension portfolio prepared?
Shares and Corporate Bonds are teetering on the edge of the cliff, hanging by their fingertips. That's probably 80% of your overall portfolio...

This is the January 2024 Booms & Busts Report. I publish these, free, every two months.
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In this edition of The Booms & Busts Report:

- **Company profits and share prices' outlook**
- **Unemployment**
- **GDP**
- **Housing**
- **Insolvencies**
- **Commercial Real Estate**
- **Manufacturing**
- **Cars**
- **Inflation**

- **China**
- **Our clients' investment performance**

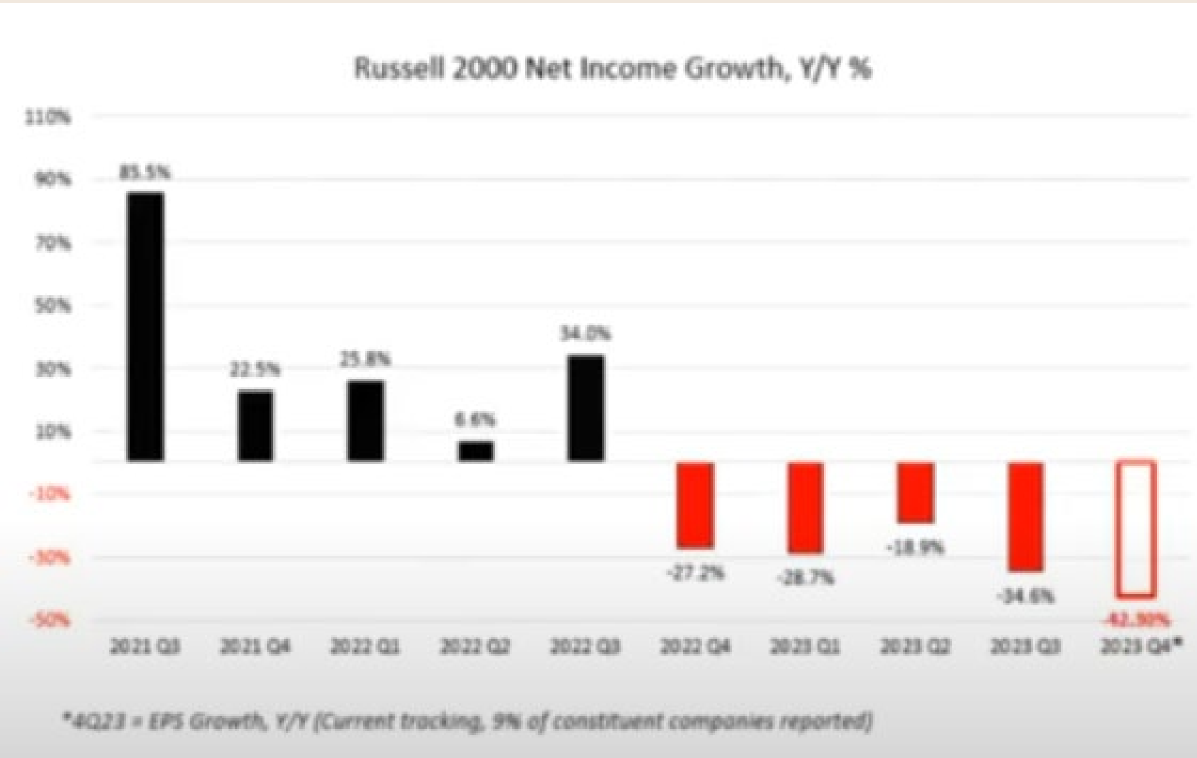
Stocks

In the US, the Russell 2000 index, like that of the UK FTSE 250 index, is the index of mid capitalisation stocks. Those that are not as highly valued as the global S&P 500 or FTSE 100 stocks.

The Russell and the 250 represent well their respective economies.

Early constituents of the Russell Index have reported Q4 2023 earnings ie profits.

Russell Companies' Earnings



What is the above showing?

In the five quarters, leading up to Q3 2022, Russell companies' net earnings were higher, repeatedly, compared to the year previously.

Since Q4 2022 (five quarters ago), 'real economy' companies' net earnings have been falling year on year. In the last quarter, namely, Q4 2023, company profits were JUST OVER A HALF OF WHAT THEY WERE THE YEAR PRIOR.

This isn't just bad. This is entirely disastrous.

THIS is telling us everything we need to know about the US economy. Even BEFORE a recession is announced.

It is not dissimilar in the UK. Or practically anywhere else.

Russell 2000 Index

Both the US Russell 2000 and FT 250 indices peaked in 2021. That's over two years ago...

For a year they have consolidated and, it seems to me, they are preparing for the next major leg down AKA stocks crash. If corporate profits are anything to go by... (and they really usually are...)

The trips down and up, repeatedly, are designed the confuse investors and keep them in invested, while the insiders sell, as they have been doing. Then the crash comes and they can say 'Nobody could have seen it coming...'

Jobs

In the US, the Bureau of Labor (sic!) Statistics produces the frequent Job Openings and Labor Turnover Survey (JOLTS).

The **JOLTS hires rate** refers to the number of hires during a specific period, expressed as a percentage of total employment during that period. It is accepted as an essential indicator of labour market trends and the overall health of the economy.

In the most recent publication, as at November 2023, the JOLTS US national hiring rate was at the lowest in years and down to recessionary levels. Which is not a surprise.

Hiring announcements are at the lowest level since 2010, nearly 15 years ago, not counting the enforced economy shut down in early 2020.

If not hiring then employment will fall. Unemployment will rise.

Sure, official unemployment remains low. As it always does, just before economic crashes.

However, 60%+ (and rising) of metropolitan areas are reporting rising unemployment. The last time with so high a proportion? Early 2020 during Lock Up.

Before that? 2008.

Before that? 2000.

All huge recessions and markets crashes.

Temporary staffing is collapsing. This also is associated with major recessions.

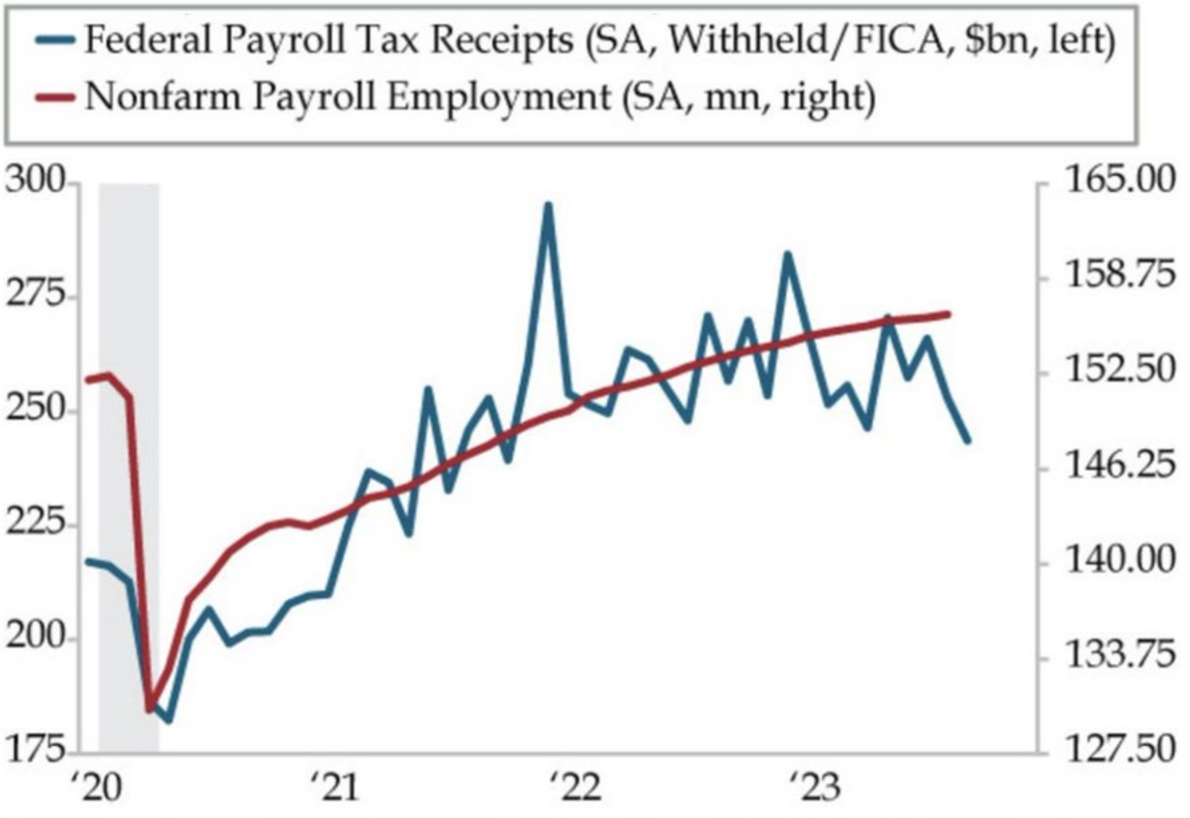
Overtime hours worked has collapsed. This correlates with rising (indeed soaring) unemployment.

The unemployment rate has been rising, marginally, now, for the last few months. Nationally, the rate is up 0.5% since the lows, last year. It doesn't sound much, and yet, that 0.5% has, previously, been enough to tip the US into recession. And then unemployment has gone vertical, soon after.

The US lost 3 million full time jobs in the six months to December 2023.

And the jobs numbers they publish are heavily manipulated up. Conspiracy?
If untrue, why are income tax receipts falling at speed, while jobs numbers aren't?
No conspiracy.

US Federal payroll tax receipts, and payroll numbers, to September 2023



Source: BLS, U.S. Treasury. Recession shaded. Sep '23 is month-to-date through the 28th.

In blue is payroll taxes received. Falling, while employment numbers, in red, continue to be strong. Manipulation of employment numbers.

GDP

We now know that Q4 2023 GDP was lower than Q3.

Expect Q1 '24 to be lower than Q4.

Expect Q2 to be lower, still, than Q1.

You will recall that, in the US, it's the National Bureau of Economic Research that determines when the US goes into and comes out of recession. Expect, later this year, that they will pronounce that the US had already been in recession by the end of 2023 (well before), when they finally pronounce.

In December 2008 they said recession had started in December 2007. (Only a full year after the fact.)

What happened to the stock markets well before the NBER pronounced the recession had started a year before...?

What happened to your 80 (equities and corporate bonds) / 20 (government bonds) portfolios and properties in 2008 and 2001-02? And yet you're allowing it to happen again.

Housing

In 2023, 3.8m 2nd hand homes sold. That is **the lowest level for the last 30 years**. While the population has soared. In 2020, 6.5m used homes were sold.

In 2023, the US built 670,000 new apartments. The average build number, in the prior 5 and 10 years, respectively, was 400k and 350k... when mortgage costs were less than a half what they are now. I am told that, when developers are this busy, the market is strong. Laughable. Anyone remember Ireland and Spain, heading into 2008?

A year ago, the average sales price of a newly built US home peaked at c $570k. The most recent **average price is** $490k, according to the US Census Bureau, **down 14%**. That's a reasonably accurate percentage fall across the price spectrum.

And this year will see even bigger price falls, given vastly more unwanted stock to sell, home repossessions to offload, redundancies, bankruptcies, higher unemployment etc.

The number of mortgage applications, for house purchase, is down to levels last seen 30 years ago. While the supply of properties for sale - new and used - is at multi decade highs.

So, fewer homes sold and more homes built.

But prices will stay enormous, right?

Remember, it's not about 'if you don't need to sell, you don't need to reduce the price'... So prices can't fall (so I'm told.) Oh please.

There will always be the three Ds: Death, Divorce and Displacements - redundancies and bankruptcies - (the latter two Ds especially in hard recessions). Be under NO allusion. Prices of property, right across the Western world, will crash. Are crashing. If you want to believe the manipulated statistics of vested interest analysts like civil servants, banks, MSM, property websites et al then I don't know what else to say to you.

And, as I said previously, many of those who bought or traded up, in the last year or two, at the enormous peak of the cycle, with minimal mortgage rates, are going to rue the day and the decision. It will also be extremely painful, financially.

Many are, currently, insulated from mortgage rises with low five year fixes. They will of course end in due course.

In the UK, the ONS / Land Registry this month announced that the average London price fell 6%, in the year to November 2023. England & Wales fell 2%. Yet, you heard prices rose last year, did you not? The media attention and indices are heavily manipulated.

And the ONS/LR are still way out of line with the reality.

Why? Well, as I have written, previously, all these indices are many months out of date. The ONS/LR is the MOST out of date. This month, the reported numbers were for November completions ie actual home sales which occurred. These are completions which are at least three months old before they get into the Land Registry. So, completions of September 2023, at the earliest. (Talk about 20th century data collection.) And they relate to prices agreed some five months before that! It takes, on average, five months for an agreed sale to complete. So, **anytime**

you see ONS/LR stats, see them in the light that they are some 10-12 months out of date and they DO NOT reflect the current position... which is that we have, now, materially lower prices compared to early 2023.

The average London sale price is down 10-20% since the 2022 highs... for properties that sell. Forget Asking Prices.

Nationally (ie England and Wales), the average price is down less, more like 5 - 10%.

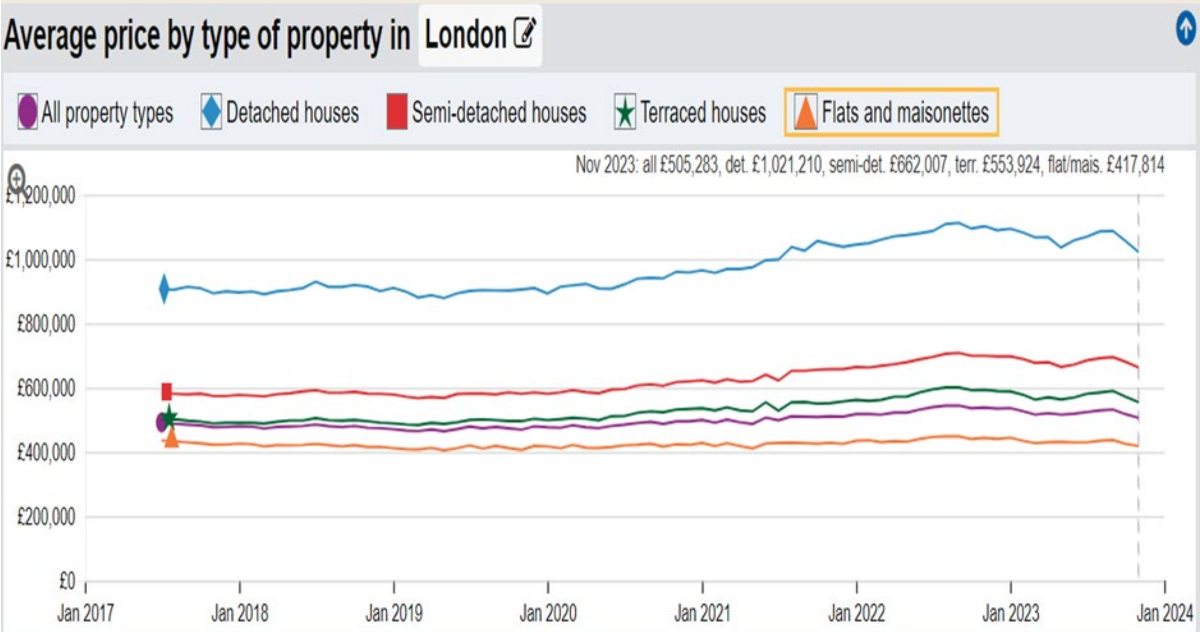
On average.

It just means London went into the crash first and will come out first, probably by next year. Maybe 2026, depending on the amount of stimulus and rates cuts we will see, and how quickly, when they come.

Outside London will still be crashing into 2026 as I see it. Perhaps 2027.

Remember: 5% mortgages Vs 1.5% 18 months ago... And with Asking Prices generally still at 1.5% mortgage levels...

Land Registry / Office for National Statistics - London prices. However...



You can't lose with property...

You may recall, a couple of years ago, I went bearish on London property. Look up old Booms & Busts Reports.

Everyone laughed and/or sneered.

The above shows official London prices, since mid 2017, to November 2023. 6.5 years, practically.

In that time, the average Flat and Maisonette (orange) price has FALLEN.

The Overall average (purple) is net practically unchanged.

Even the biggest winner average price, of large value detached houses, is up (only) some 15% over several years.

This is not what London home owners experienced for decades from the mid 70s.

And this information is 10-12 months out of date.

In due course, we should expect to see average prices down over 6 - 7 years, any month now, as more data becomes known to the LR.

Not what 'they' tell you, is it?

Reported in **The Negotiator**, the estate agents' trade paper, according to consultants, **TwentyCi**, in the UK **2000 estate agents' offices closed last year** (net of openings). TWO THOUSAND. Now why would that happen if the housing market was as strong as we're constantly being told?

Do prices of goods rise or fall in a weak market?

Incidentally, did it ever strike you to wonder?:

How is the average Rightmove Asking Price c £360k, when the average Halifax Bank agreed sale price is c £290k (20% lower)?

Because Asking Prices are nonsense... especially in a weak market.

The number of mortgage applications, for home purchase, fell an enormous 41% from 2022 to 2023, according to UK Finance.

UK Retail sales' volumes fell 2.4% last year. Expect big retailers to go bust (like Debenhams and Wilko already), with huge corporate debts to service, at much lower profits and much higher costs.

What do you need to build houses?

Bricks!

According to DBT, UK brick deliveries, last year, were around 120m per month.

The average, for 2018-2019, was 170m.

The developers have slowed building, markedly, on this side of the Pond, earlier than on t'other side. As **the number of home sales has crashed (already) 20 - 30%**, according to HMRC.*

You'd think less building would make prices rise. That's what you've been told to believe for decades. Clearly, it is and always has been untrue.

* Isn't it interesting that HMRC has completion details, in real time, and Land Registry doesn't access? It's almost as if they deliberately don't want real time data published.

According to The Insolvency Service (government agency) in 2023, 25,000 companies went bust.

15,000 in 2019.

Expect a much higher number of insolvencies in 2024, than 2023.

According to the major professional services firm, Begbies Traynor, at the end of last year, **47,000 businesses were on the verge of bankruptcy, in 'critical financial distress'.**

How many jobs at serious risk? 250,000? 500,000? 1,000,000? Just in the UK.

According to UK Finance, **in December, there were 105,000 residential mortgages in arrears. A 30% rise compared to December 2022.**

Buy To Let mortgages (£££) loaned were down 53% last year versus 2022.

I read that major shareholders in large estate agency, **Foxtons**, are trying to pressurise the board to sell. They must be really confident for the business and the share price, which is down 40% from four years ago...

But what do they know? They only own AND WANT TO SELL the largest estate agency chain in London.

And they (the MSM, the banks, the property guys et al) tell us there is no recession and we will have a soft landing.

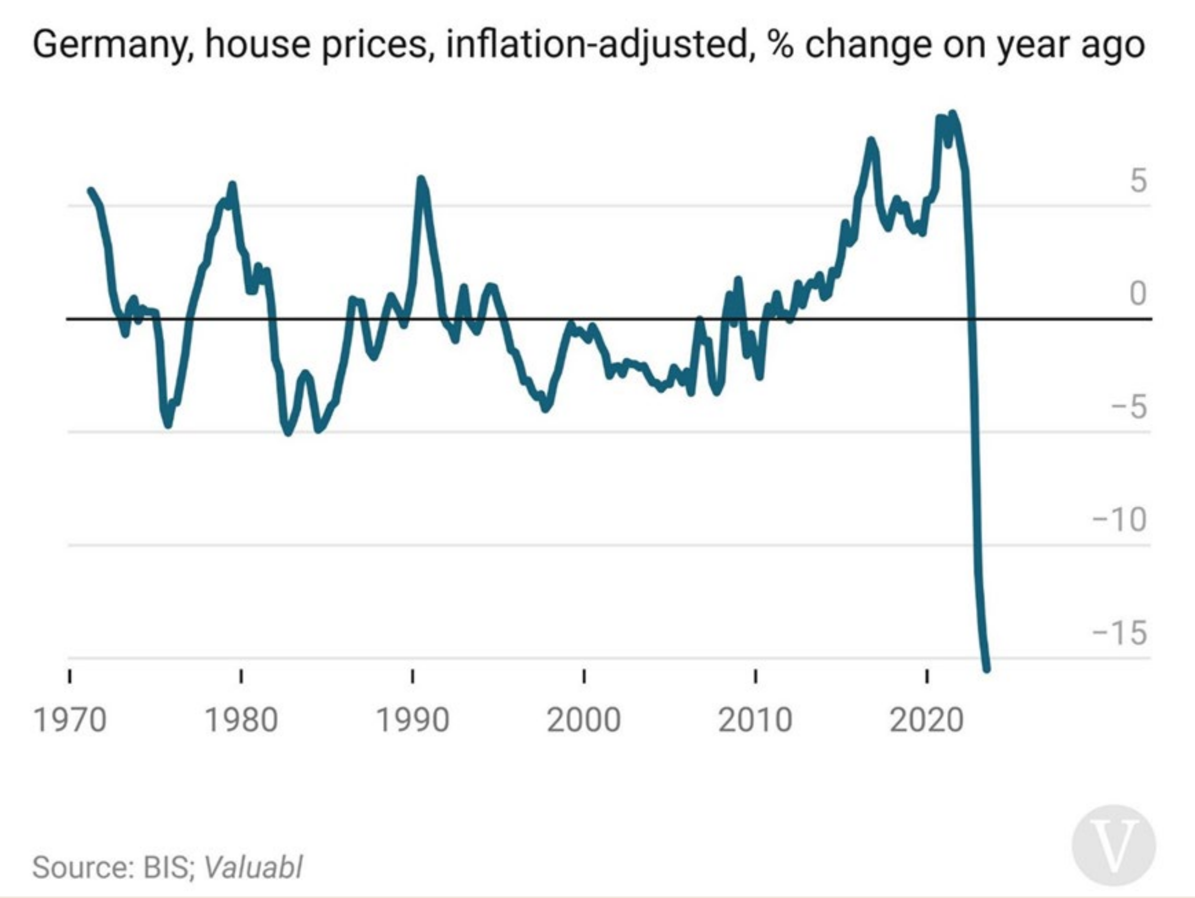
You still believe that? Still???

In France, 875k 2nd hand houses sold in 2023, according to the Fédération Nationale de l'Immobilier (FNAIM), France’s leading union of estate agents. **A 22% drop from 1.11m in 2022.**

The sharpest year-on-year fall for at least half a century.

Here's an astonishing chart of **German house prices.** For decades, real house prices (inflation adjusted) moved between -5% and +5% pa. From 2015 to 2020 real prices rose a smidgeon over 5% pa.

Recently, **prices have crashed -15%, in real terms** (after accounting for recent HIGH inflation). As I say, astonishing.



Germany is the largest economy on this continent.

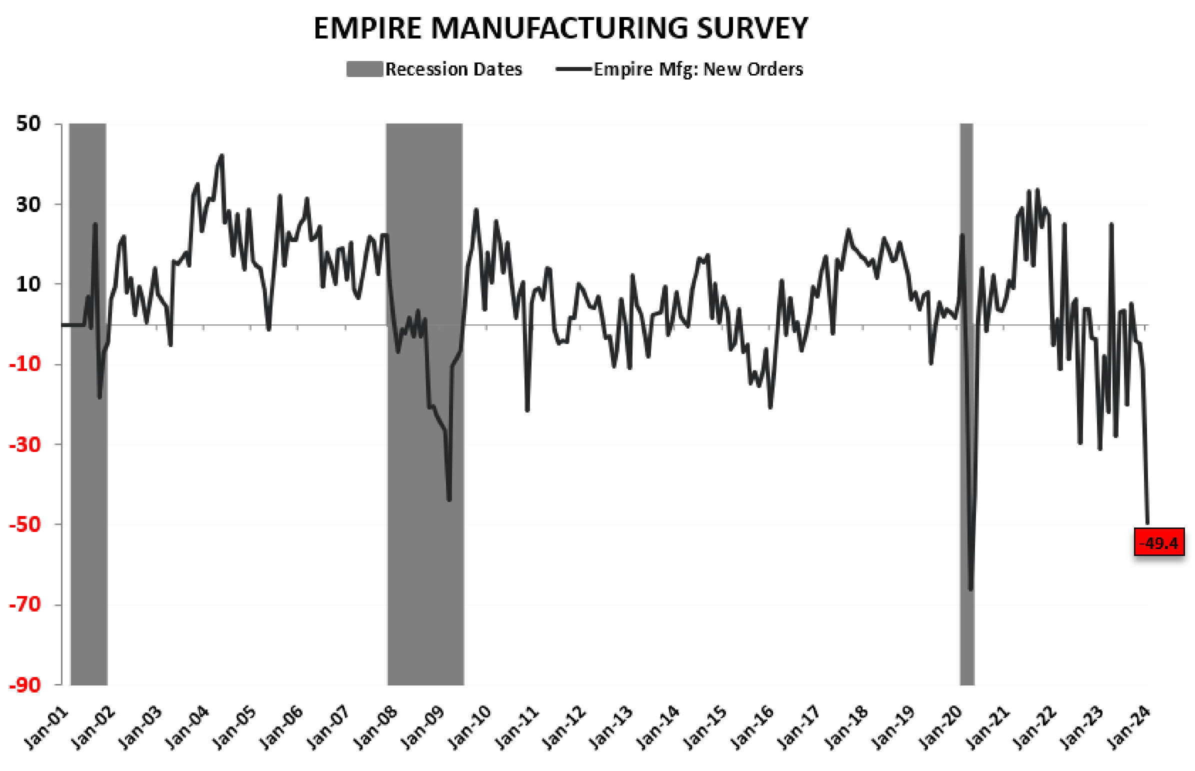
Commercial Real Estate

According to the US National Bureau of Economic Research, 14% of the $2.7 TRILLONS of commercial real estate loans, are on properties with negative equity and 'are at risk of immediate default'. That suggests, **potentially, a hit of $378 billions of losses to US banks.**

With more to come this year.

Manufacturing

The New York Federal Reserve's **Empire State** business-conditions index / **Manufacturing Survey** is an important gauge of manufacturing activity in the North East belt of the US.



This is an indescribably bad report. The worst in history, outside of enforced economy shut down. Worse than 2008. Worse than 2001.

Why?

Stocks of unsold manufactured goods are at 60+ year highs (not counting the enforced economy shut down in 2020).

60+. Year. Highs.

Including 2008 and 2001 and 1991 and 1980 - huge crashes / recessions.

US industry

According to the Institute of Supply Management, in 2022, 17 industries reported growth.

In 2023, just one industry reported continued growth...

All others reported decline.

The last time we were at this level was 2008.

UK manufacturing was down again in December. **The 17th consecutive month** manufacturing reported decline**.**

German manufacturing output was nearly 5% down last year, compared to 2022. This is, actually, a huge drop.

Taiwan

The biggest manufacturers and exporters of semiconductors, globally, has **export orders down 16%** over the last year. This is a globally relevant economic statistic.

Cars

Stocks of cars for sale, relative to numbers sold, **are at all time highs.** This correlates to recession.

So, unemployment is rising.

Bankruptcies are soaring.

Loan defaults are soaring.

Property - commercial and residential - **prices are crashing.**

Car sales collapsing.

Manufacturing activity is collapsing.

Stocks prices are in a state of collapse - the ones that reflect the real economy. Not the financialised, pretend world, of the mega cap tech companies. If that is where your money is, you've done well and, er, good luck.

Commodities have been crashing. Paused just now, with NATO wanting to take on Iran. Oil etc may rise for weeks or a few months. If they do this will raise inflation and bring on, even more, the crash in everything. Just like 2008.

Uranium - which feeds nuclear power plants - **has soared from under $40/lb in late 2022 to over $100 recently.** This should continue through $200 by next year or 2026. Imagine what that does to uranium mining company share prices.

Long term interest rates (not Base Rates...which follow long term rates...) **soared to Autumn 2023 and are now trending down.** (With oil rising, they may rise a bit, short term.) A falling trend points to Base (and mortgage) Rates falling, materially, this year, and perhaps continuing to fall next year. After a crash event.

I said, above, inflation had stabilised. Well, according to officials it has. Manipulated? Perish the thought.

It is certainly true that the oil price has moved up, in recent weeks, from just under $70/barrel (WTI), to the high $70s. And crude is nearly 10% of the US CPI statistic. However, there is an organisation called Truflation which measures UK and US inflation far more accurately than the bureaucrats. The official statistic eventually finds it way to where Truflation has been. There is eventually a 97% correlation.

UK official CPI is at 4.0%. **Truflation is at 3.0%.**

US official CPI is at 3.4%. **Truflation is** UNDER THE (illegal) TARGET OF 2%, **at 1.8%.** And, note that, over the last six months, OFFICIAL US (what they call) Core CPI has been at 1.9% annualised.

UK and US inflation will keep falling on a trend basis.

Interest rates will start to fall, as long rates have been doing, for the last few months. Mortgage rates will fall.

This may start in a few months and carry on for over a year.

Or they may stop falling this year. But for now inflation and rates will and are trending down.

China

Readers will recall I have been hugely bearish China the last couple of years.

I mentioned Evergrande right at the top, above.

This is the Chinese stock market.

Crashed, from early 2021, like Western markets. Back to early 2020 levels, which is where I expect Westerners to head to.

In **Hong Kong**, in 2003, there was HK$160 Bns of negative equity residential mortgages.

That fell rapidly to practically nothing, which held right up till mid 2022. It has now soared to HK$130 Bns.

If you hold Emerging Markets you probably hold China and Hong Kong, for, they say, diversification. At JD WM, we have held zero exposure to EMs for the last few years, for capital preservation...

Our clients' investment performance

For our investment management performance I would refer you to the firm's Homepage. The chart is updated quarterly. It shows the Typical Client's portfolio performance Vs RPI Vs the standard UK private client portfolio performance.

I got a lot wrong in 2022 and 2023. For two years, yet client portfolios fell only c 5%. Clients lost c 6% in 2022, and gained c 1% last year. When I got a lot wrong.

I got a lot right in 2020 and 2021. Clients made c 47%, even accounting for the markets collapse in early 2020. c +27% in 2020. c +16% in 2021,

Over 5 and 10 years, clients portfolios have outperformed RPI, which is a major - indeed vital - objective.

What makes money in disinflationary / deflationary recessions and markets crashes? We are heavily invested in such assets.

We are also heavily invested in uncorrelated (to stocks or the economy) assets, which are in multi year mega bull markets.

I advise clients on Wealth Advice and Later Life Financial Advice (paying for Care Fees) all over GB and, indeed, on three 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 decisions made?

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

With kind regards

Jonathan Davis **BA MBA FCII FPFS EFP**
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