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Leaders in Wealth Management

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Booms and Busts Report

I publish these reports on Economics and Markets several times a year. We produce more detailed, in-depth reports, for clients.

I well recall, going into 2016, showing readers clear, strong deflationary and recessionary indications.

In the markets: Oil was crashing. Emerging Markets' shares were crashing. The US$ was soaring. Government Bonds were soaring.

In the economy I showed year-on-year global growth was the second worst in 58 years.

So, we were heavily invested in US Treasuries.

By the Summer of 2016, the deflationary impulses were so strong that Government Bonds achieved all time high prices and, in some countries, lenders were paying governments to borrow. Literally. There were (and still are some) NEGATIVE interest (borrowing) rates.

However, during 2016 I saw signs that the deflation and lacklustre economics were dissipating. We saw signs of inflation eg oil was rising. We saw global growth ticking up.

So, we reduced our Government Bond and US $ holdings and, GRADUALLY, moved into inflationary assets, such as Energy Shares, Emerging Markets and Global Equities, generally.

In Summer 2016 nobody was talking about inflation. Well, not nobody. I was. UK CPI was practically at 0% and now it's nearly 3% and RPI is nearly 4%.

The US Federal Reserve has raised interest rates 4 times over the last year and a half or so, from 0% to 1%.

Many major countries' central banks are discussing, openly, raising rates. Even the Bank of England.

The question is:

Is the era - some 40 years - of falling inflation, falling interest rates and rising lending over?

The bulk of folk cannot remember an era of sustainably rising inflation and rates and falling lending.

Even now, as you read this, I know that many of you cannot imagine it.

The thought that inflation could be, within 10 years, well into double digits, is absurd. Is it?

The thought that the UK Base Rate could be, within 10 years, 5-10%, is absurd.

And the thought that lending to households and businesses could actually fall, is absurd.

And yet...

What isn't absurd is that, over 40 years, rates fell from some 15% to some 0%. That inflation fell from some 15% to some 0%. That a loan on a house rose from £30,000 to £500,000. These are not absurd, apparently. Of course, they all happened.

I put it you that what is absurd is the notion that what we have now will always be. It is simply not credible that the global and national economies would be in status quo for ever. In fact, I would say it is impossible.

So, what are the options?

1. Continuation of inflation falls, rate falls and lending rises.

Much of this is still possible. We could have a deflationary recession and we go back to deflation and rates go negative, practically everywhere. Of course, in the next recession, lending is likely to collapse, not rise.

It is, however, not on the horizon. Global growth is rising. China is mostly the reason. The sheer scale of the One Belt One Road initiative of building sea, rail and air links from China to everywhere else, for commercial and military purposes, means that growth is rising. And it appears sustainable, at least for the foreseeable future.

So, Option 1 is unlikely.

2. Inflation levels, interest rates and lending levels stay the same.

In the real world, little stays the same for more than a very short period. So, this is most unlikely.

3. Inflation rises, interest rates rise and lending to households and businesses falls.

This is most likely.

Certainly, inflation IS rising, and has been for 1-2 years:

Commodities - oil, copper, iron ore, lumber, agricultural produce - are rising.
Emerging Markets share prices (the countries that do the farming and drilling for oil, digging up out of the ground / mining etc, mainly) are soaring.
Your weekly grocery shop bill is rising or staying the same but the products you buy are shrinking. How many times has someone said, at your dining table: "Hey, this used to be bigger...?"
Even your earnings are rising and governments are loosening their belts on the public sector.

The FED, as I said, has been raising rates. Other central banks (including the Bank of England) have said they will do likewise.

With rising rates, is it credible that households and businesses will borrow even more? I think not.

This option/scenario is the most likely of the three.

So, how do you build your retirement funds, over the next 10, 20, 30 years, when what has been, for the last 30-40 years, is reversing?

Do you invest as you've always done?

Will Government Bonds, of which you hold probably 15-40%, do well in sustained inflation? Mathematically, they do not.

Will Developed Market (FTSE, US, European etc) stocks do well when pension funds can obtain higher and higher interest returns by buying Government Bonds?

The US and UK stock markets have seen broadly similar returns over the decades.

In 1965, with very low inflation, the US Dow Jones 30 Index stood at... c 1000.

In 1981, after 1970s Super inflation, the Dow Jones 30 Index stood at... c 1000.
But, after huge inflation, 1000 wasn't worth anywhere near what 1000 was worth 16 years previously.

Property? Well, I hear often, inflation is good for property prices. Well, I would say, that is misinformation. FALLING inflation and borrowing rates and RISING lending are positive for property prices. I doubt very much that rising inflation and borrowing rates and falling lending will be too.

I've been banging the drum about inflation for, now, nigh on a year. It starts slowly then it quickens. It somewhat catches you unawares. It seems to me that we are merely outside base camp. We're not even at the foothills yet.

I strongly suggest you consider the outlook for your longer term investments should, indeed, we have years and years of rising inflation. Again, what does your wealth adviser say? What are they doing?

If I were you, I would look carefully at your holdings and not just the bottom line - which is a reflection of the past.

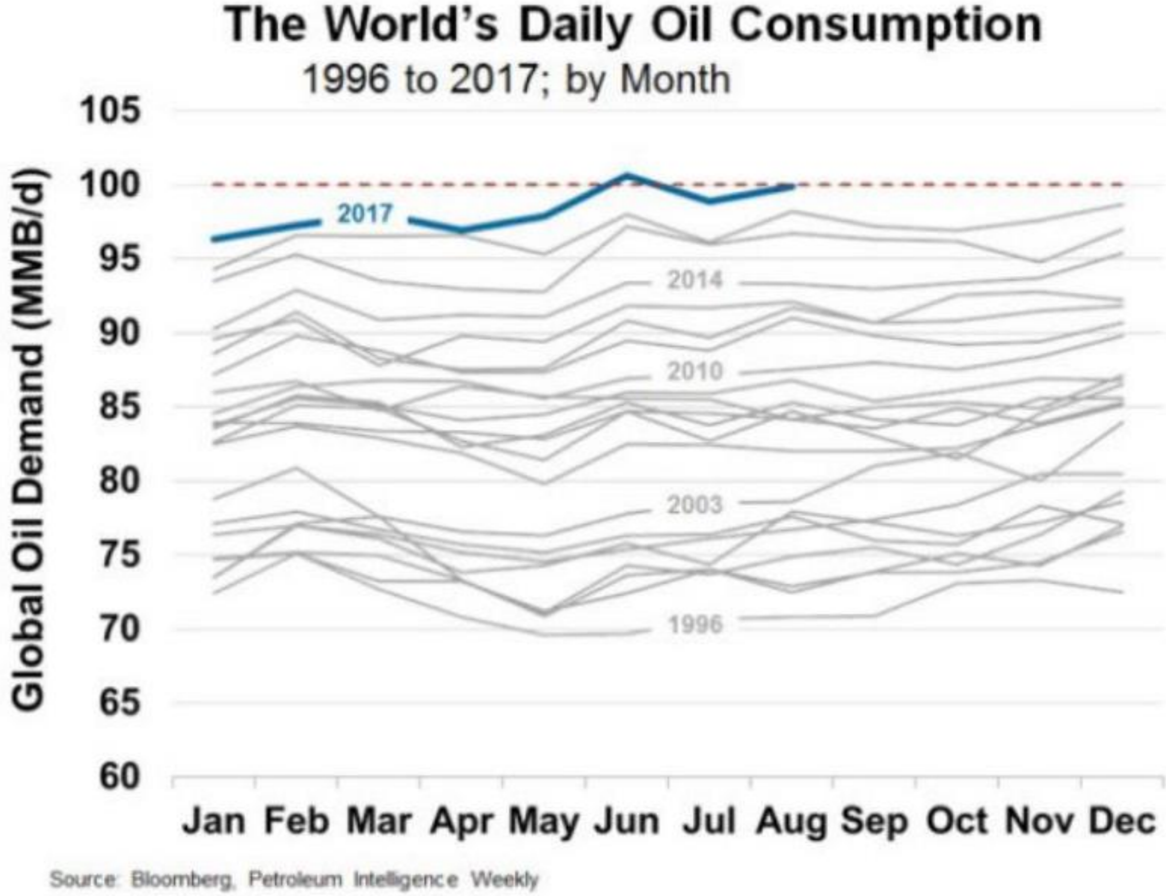
Here are some charts, while you ponder.

Manufacturing activity - everywhere is strong

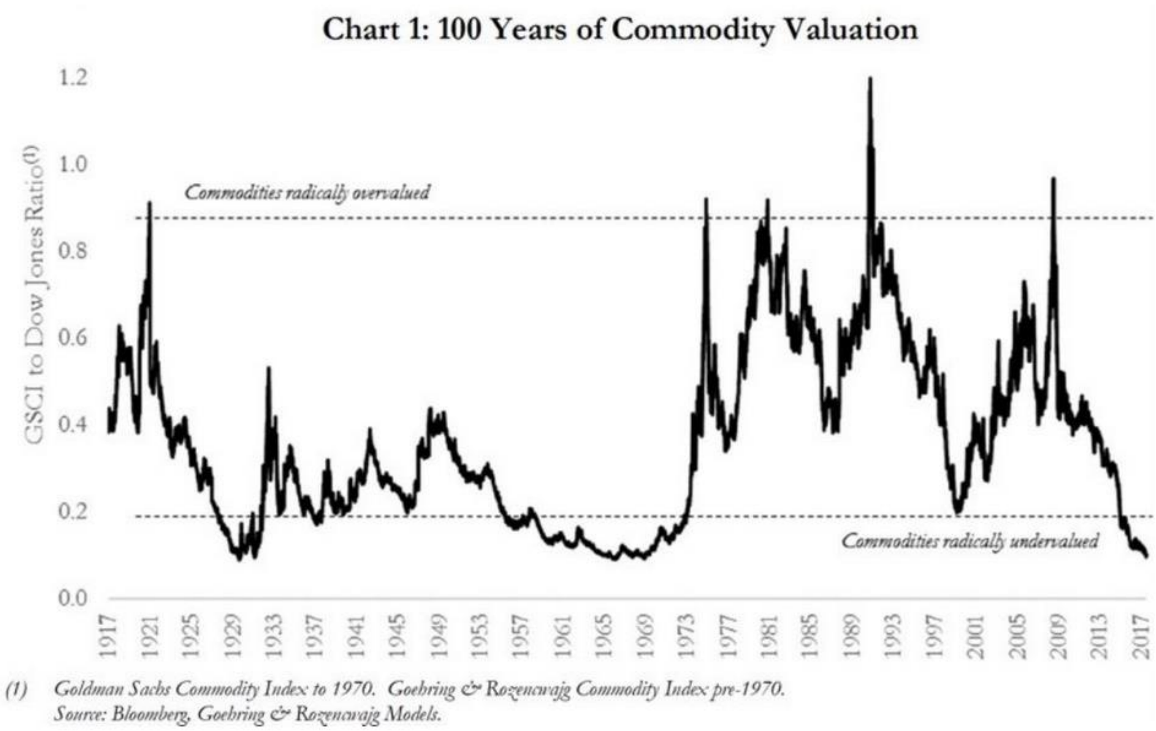
Global Purchasing Managers' Index for manufacturing

		2015			2016												2017								
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
	Global	51.0	51.0	50.7	50.9	50.0	50.6	50.2	50.1	50.4	51.0	50.8	51.1	52.0	52.1	52.7	52.8	53.0	53.0	52.7	52.6	52.6	52.7	53.1	53.2
	Developed Markets	52.5	52.3	52.0	52.1	50.8	50.9	50.5	50.4	51.2	51.5	51.2	51.5	52.6	53.0	53.8	54.2	54.1	53.9	54.1	54.1	53.9	54.0	54.2	N/A
	Emerging Markets	49.0	49.2	49.0	49.4	48.9	50.2	49.6	49.5	49.3	50.3	50.1	50.3	51.0	50.8	51.1	50.8	51.3	51.6	50.9	50.6	50.8	50.9	51.7	N/A
Developed	U.S.	54.1	52.8	51.2	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8	52.7	52.0	53.3	52.8	53.1
	Canada	48.0	48.6	47.5	49.3	49.4	51.5	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55.0
	Japan	52.4	52.6	52.6	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.6
	UK	54.5	52.4	51.2	52.2	50.9	51.3	49.6	50.5	53.1	48.4	53.0	55.6	54.2	53.4	55.8	55.4	54.6	54.3	57.2	56.4	54.2	55.2	56.7	55.9
	Euro Area	52.3	52.8	53.2	52.3	51.2	51.6	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1
	Germany	52.1	52.9	53.2	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6
	France	50.6	50.6	51.4	50.0	50.2	49.6	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.0
	Italy	54.1	54.9	55.6	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3
	Spain	51.3	53.1	53.0	55.4	54.1	53.4	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3
	Greece	47.3	48.1	50.2	50.0	48.4	49.0	49.7	48.4	50.4	48.7	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8
Emerging	China	48.3	48.6	48.2	48.4	48.0	49.7	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51.0
	Indonesia	47.8	46.9	47.8	48.9	48.7	50.6	50.9	50.6	51.9	48.4	50.4	50.9	48.7	49.7	49.0	50.4	49.3	50.5	51.2	50.6	49.5	48.6	50.7	50.4
	Korea	49.1	49.1	50.7	49.5	48.7	49.5	50.0	50.1	50.5	50.1	48.6	47.6	48.0	48.0	49.4	49.0	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6
	Taiwan	47.8	49.5	51.7	50.6	49.4	51.1	49.7	48.5	50.5	51.0	51.8	52.2	52.7	54.7	56.2	55.6	54.5	56.2	54.4	53.1	53.3	53.6	54.3	54.2
	India	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	N/A
	Brazil	44.1	43.8	45.6	47.4	44.5	46.0	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1	52.0	50.5	50.0	50.9	50.9
	Mexico	53.0	53.0	52.4	52.2	53.1	53.2	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.1	50.2	50.8	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8
	Russia	50.2	50.1	48.7	49.8	49.3	48.3	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9

World oil consumption at All Time Highs



Commodity prices have never been cheaper. There is only one direction they can, reasonably go. Up.



The Bank of England is telling us, clearly, they will raise rates. It seems to me, once they start raising, it will be years before they stop.

BoE's Haldane: Interest Rate Rise Should Not Be Feared

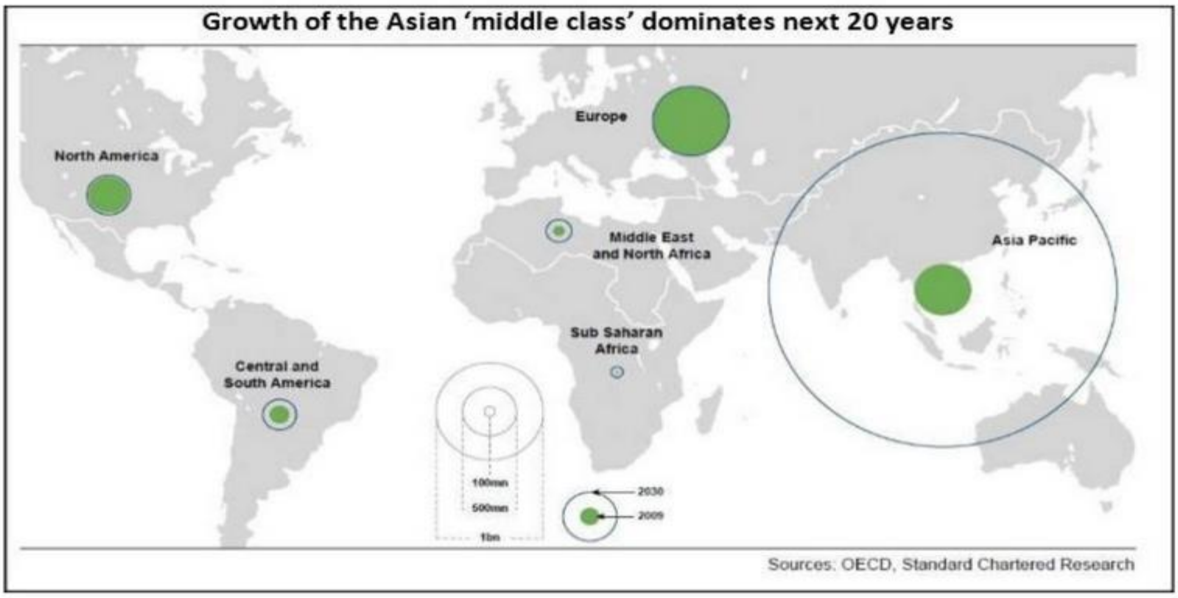
news.sky.com 27 Sep 2017

Interest rate rise should not be feared, says Bank of England economist

The BoE's chief economist says an interest rate rise would be a "good news story", as speculation grows of an imminent increase.

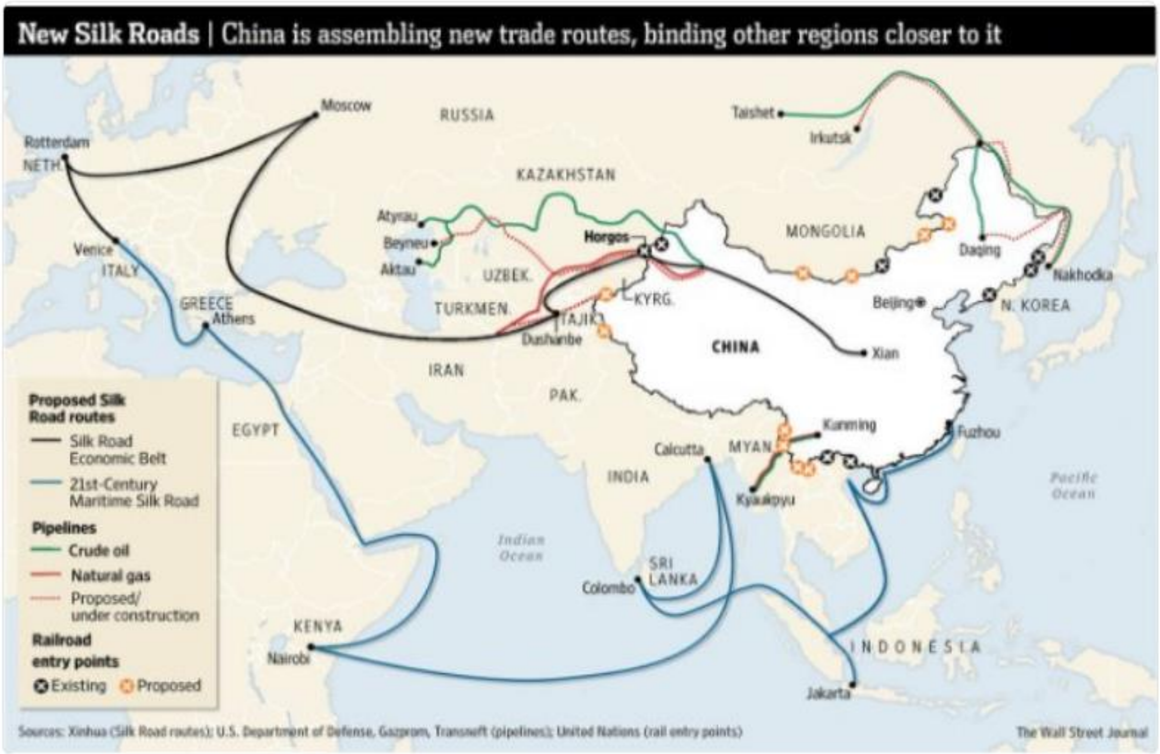
Go East young man, will be the cry for the 21st century for someone setting out on their route to wealth. As well as investors.

The size of the blue circles indicates OECD forecasts of size of middle class population, by region, by 2030.

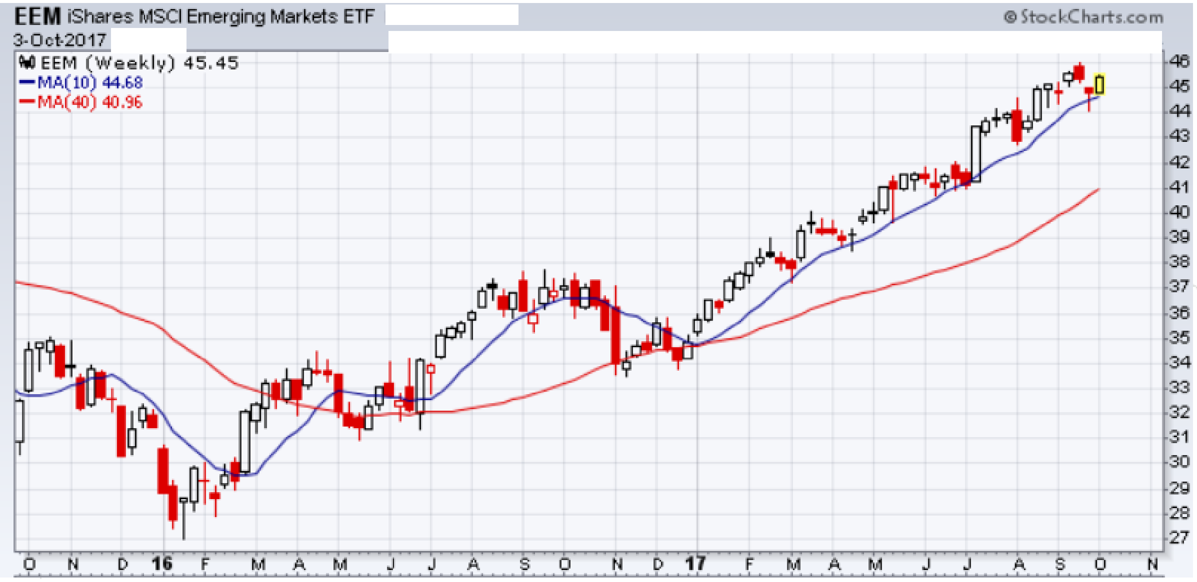


One Belt One Road is literally huge. it is estimated it will be $1.3Trn of infrastructure investment. That is $1,300,000,000,000. And into countries where a Dollar goes a long way.

7 Chinese superstructures that leave the rest of the world in the shade wef.ch/2vYMbWr



Emerging Markets' share prices have rocketed and the multi year bull market is only just starting, as far as I can tell.



You would expect inflation to be seen in the share prices of energy companies. They have been rocketing. They have much more to come as far as I can tell.

What should you do to secure your wealth and purchasing power? The Dow Jones 30 Index was the same in 1981 as in 1965 but it bought only 20% of what it could buy in 1965.

Don't put it off till it's self-evidently too late.

Can you benefit potentially from our advice?
We work for wealthy families and/or high earners.
We work for clients all over the UK and indeed on three continents.

We now have an association with a financial planning firm who will be able to advise those with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is (as seen widely on our website): "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 messages:

I believe most folk do not realise, in big picture, the changes happening right now in our economy and markets (major stock markets, corporate and government bonds and property).

They will.

I think most folk also do not realise, in big picture, the amazing opportunities in our markets.

They will. But will they benefit?

Click ***to forward to a friend*** if you think they could benefit from reading this.

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 at ***jdavis@jonathandaviswm.com***.

On Twitter, follow me ***@J0nathanDavis*** where I frequently comment and link to important commentaries on markets and economics.

Kind Regards

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Please note that investments can fall as well as rise. And they do!