STRATEGY OUTLOOK

April 2024

Key takeaways-

- Did the Governor of the Reserve Bank of NZ say the quiet part out loud?
- November's election could be difficult for markets to digest.

Our portfolios had another solid month. In summary it was another episode of a **"rising tide, lifts all boats".** However, there are two areas where we do have concerns and where we would hope to provide something different to a backward-looking monthly diatribe. Recent comments from a Reserve Bank governor and the outlook for the US elections are weighting on our minds on asset allocation and risk management.

"It's a great business to be in, central banking, where do you print money and people believe it "

"We actually fund ourselves and then decide what dividends to pay"

Adrian Orr, Governor Reserve Bank of New Zealand.

Did Mr. Orr **really mean to say that out loud?** The RBNZ are no different to any Central Bank so upon reading such comments these are just small additional pieces of evidence to our thesis that you want to own what can't be printed. **It's as simple as that.** The chart below highlights what Bitcoin, Gold, Nasdaq, or the Dow Jones has done and what Government bonds haven't done when they are all indexed. Even if Bitcoin is too racy for an investor Gold over 5 years is up 166% and the Dow up 170%. Bonds have lost 26% over that same 5-year period. Bonds are issued every single month.

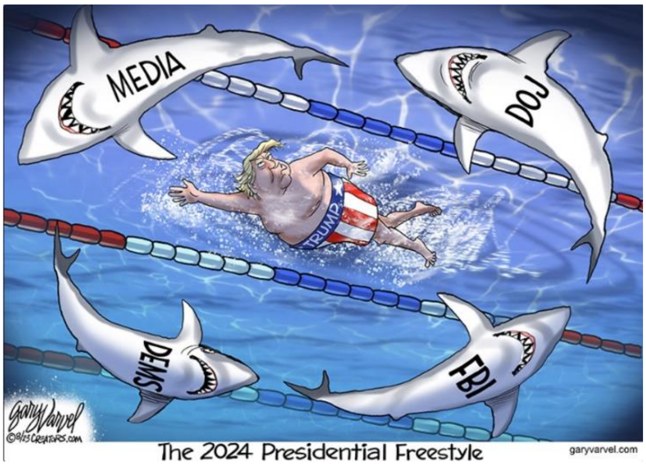
The term 'financial repression' has been loosely banded about for years but it's a **silent killer for returns.** We believe this concept is not to be taken lightly. Its ongoing and will only increase as Governments have to find buyers for their debt. Perhaps it's too conspiratorial but ultimately there is too much debt outstanding and currently loose Government spending habits. Economic history is full of examples (e.g., The Romans gradually decreased the silver content of their Denarius) of "slowly stealing money from people". If bond yields can be kept lower than inflation rates and institutions forced to buy those same bonds and, with the passage of time, the burden of that debt falls. Without a growth spurt or productivity increase the only other option is default aka political suicide.

November's US election could see a significant spike in volatility and hence uncertainty for markets. We think there are two elements to this –

1. Could the Republican playbook be more conservative than history?
2. Could Robert Kennedy Junior (RKJ) do enough to prevent one single winner being elected?

As I type the narrative today is that Trump wins, he enacts more spending, geopolitics becomes less of an issue (due to his unpredictability) and markets behave just like 2016 i.e., positively.

Biden's approval rating just keeps falling. Over his Presidency food has risen 20+%, rent +20%, electric +28%, public transportation + 20.8% and real wages -4.2%. This data is his Achilles heel. **Democratic party strategy has also gone AWOL.**



The 2024 Presidential Freestyle

The impact of Mr Trump, out with his usual foibles, is completely dependent on who controls the Senate and House. These are unknowns especially if we combine any chance of our second point above. **For markets the key questions are does he (Trump) double tariffs on China, how fiscally conservative will he be (or allowed to be!) and to what extent he really kills the immigration issue.**

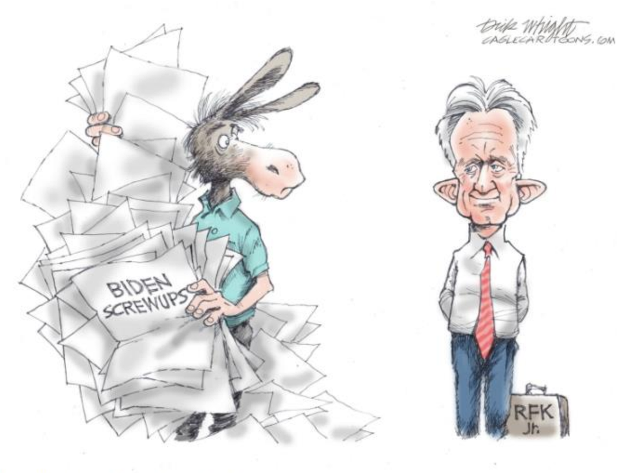
The easy takeaway or assumption is that Defence spending will remain untouched. Nuclear/uranium, cement etc can do well as we see less green energy investment. Another easy assumption is that within Trump's DNA debt does not matter however, again, that depends on Congress and maybe his own party will start to turn the screws fiscally?

RKJ just needs to do enough to stop either Trump or Biden from winning 270 electoral college votes. Interestingly you must go back to the 1800s when the US last faced a contingent election. If nobody winds 270 votes, then the vote falls to the House of Representatives with the Senate choosing the Vice President. **If it is no longer a two-man race, then this process is going to be very uncertain.**

With such polarising opponents and coming from the world's most famous Democratic family RKJ, to many, could be a good alternative. Indeed, RKJ does not need to campaign countrywide, he just needs to focus on a few key cities that tend to be centrist leading. **He's the wildcard** and with that we have no history and no idea on his economic policies. For markets he is another big step into the unknown. His VP announcement is Nicole Shanahan, of Google fame. This is a far-left pick albeit with significant financial resources and the potential technology to make it work. **We know how Facebook and Twitter influenced things in previous elections.** My hunch however is that she will be seen as the problem that Trump/RKJ are partly running on i.e., draining the swamp, reducing the impact of the WEF etc.

So, there are a lot of potential end games, and we may well not know the result on November 11th. **For markets, political uncertainty will have to be priced in sometime just before, during or after the 11th.**

Based on the typical 4-year Presidential cycle the equity market should continue to perform into 2025 but we believe that depends heavily on the points we've made above to potentially disturb this current bull market.



RFK, Jr. Alternative To Biden – By Dick Wright

Positive liquidity flows continue to be the main driver of risk markets. Economically however consumer (back to 2012 levels) and small business delinquencies are rising, and the jobs market isn't quite so robust. Inflation remains sticky and cuts into consumer spending. The Fed's dovish message hints to this and they seem ready to cut rates but are aware of inflation remaining above target. For the time being the bullish fundamentals are strong.

Tactically portfolios remain fully invested with a preference, argued earlier, that stocks will outperform bonds. **We believe assets that cannot be printed will outperform.** Having just discussed politics there is a counter argument that no President makes any difference, that Government is just a machine operating in perpetuity. We don't disagree especially given the almost endless propaganda we are, at times, forced to consume. What we've highlighted are more open questions and markets, overall, don't like these. But we need to be careful and Covid, for markets, was only an unanswered question for three (albeit highly destructive) weeks.

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