STRATEGY OUTLOOK

June 2024

Key takeaways-

- April weakness forgotten short term.
- Waiting for a new bullish catalyst into summer.

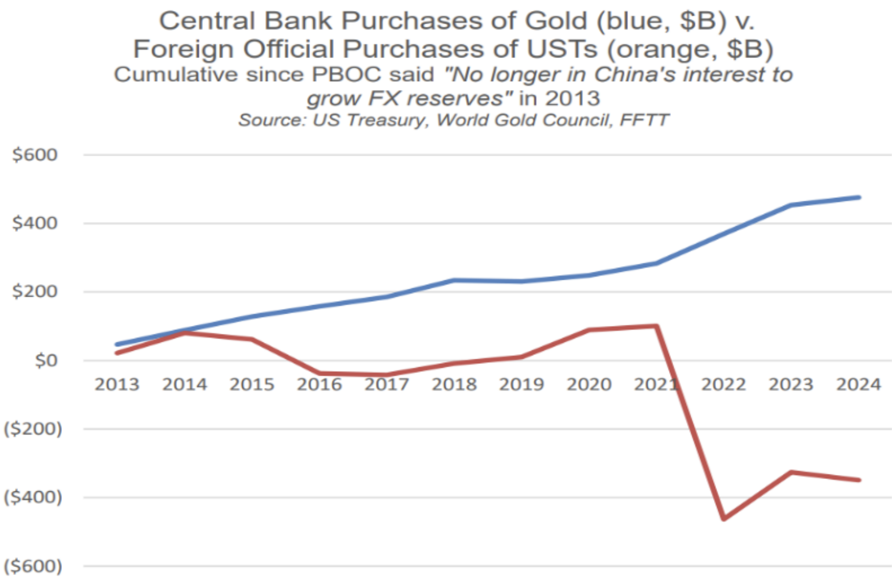
April's wobble reversed in May as flows, sentiment and liquidity recovered and reversed. Year to date equity returns, as at the end of May, remain robust with the Nikkei, S&P, Euro Stoxx and SMI up 16%, 10%, 10% and 7% respectively.

So far, it's been a typical election year combined with economic expansion (powered by Government spending), falling inflation and, most importantly behind the scenes, increasing liquidity. In a financial system with such huge amounts of debt (the train), all which periodically need to be rolled, **Central Banks greatest task is to simply keep the "train on the tracks".** Keeping financial conditions easy and markets stable. However, the result of this liquidity is monetary inflation which becomes, as investors, our only true benchmark to beat – keeping pace with, in effect, debasement.

If central banks are increasing the supply of money by e.g., 5% per year then that must be our target even before we bring in consumer inflation. Its ultimately the same method used by the Romans where they would debase by reducing the content of silver and copper in their coins over time.

With these thoughts we remain focussed on assets, as much as possible, which can't **simply be printed and are more finite in nature**. Precious metals, stocks and crypto are preferred over bonds and cash.

This chart we have highlighted before. Foreign central banks are switching to Gold. Add in the clear lesson available from the recent confiscation of Russian assets and why would an entity willingly now choose to buy US Treasuries.



But someone must. The Bank of Japan own 47% of the domestic Government bond market. AI, infrastructure, climate, Ukraine…. there is no shortage of spending avenues. Janet **Yellen's job of keeping the "train on the tracks"** is key. Indeed, Yellen acknowledged this month "A higher interest rate path worsens the fiscal challenge".

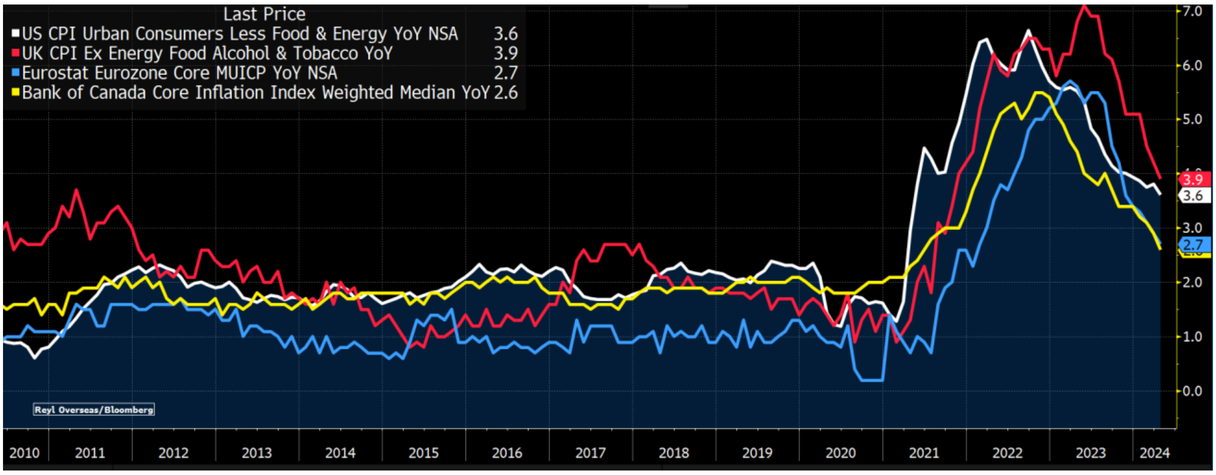
A couple of years ago the US was financing its debt at 0% interest. Today T bills are issued at 5.25%. So, as well as having a high and increasing amount of debt (deficit of

7% of GDP, debt/GDP of 120%) the cost of financing that debt has risen 525bps. I would assume Government tax receipts aren't rising at the same pace.

Not surprisingly neither candidate for November is running on "cutting debt or spending". Behind the scenes **demographics are slowly worsening the situation.**

Hence our preferred assets. The authorities cannot allow a fiscal crisis. They need to get interest rates and the US Dollar weaker whilst keeping growth above trend. Precious metals, stocks and crypto should outperform over the medium term.

The current issue for the Fed is **sticky inflation** as the chart below highlights. US CPI remains at 3.6% versus the 2% target. Within the data the overiding issue is elevated housing inflation. It's worth noting that these are significant lagging indicators a point, it seems, often forgotten by Fed officials. A recent WSJ article believes that boomers are transferrring around $75 trillion to their kids. Apparently, it's legal to lend your child a downpayment and then foregive the principal over time using the annual gift-tax exemption likewise to act as mortage provider. Maybe we see shelter removed or tweaked from the CPI calculations.



Other "tweaks" happening in the housing market is a proposal for Freddie Mac (and maybe Fannie) to guarantee second mortgages. This, in effect, could potentially release around $1.8 trillion of cash to consumers. Dependent on how this is marketed it's **effectivly consumer stimulus on the one hand and a forced buyer of debt on the other**.

Uranium is a theme we still like. Georgia Power just announced their fourth nuclear reactor. It will provide 30m megawatt hours of electricity per year and should last 60 to 80 years. To replicate this you would need 32k wind turbines over 10k acres of land. Bare in mind solar panels and turbine blades go to landfill after their short life too. Japan also has announced it's reopening five reactors by 2025 and will issue debt to invest in more plants. We believe this remains the optimum way to invest in two themes - the energy transition and the demand story (AI/data storage needs).

Portfolios remain fully invested with a preference for **assets that are more finite in supply.** We remain bullish into the election but, as discussed in previous monthlies, we are concerned that the 2-party race is disrupted by Robert Kennedy Junior. **The path of inflation, July/August earnings season and the robustness of the economy will be the focus for markets into the summer.** Liquidity remains key given the longerterm challenges/opportunities of sticky inflation, ageing populations, large public deficits, deglobalization, political polarization and massive technological and probably societal change. How these develop and affect markets remain significant unknowns.

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