REYL
OVERSEAS

STRATEGY OUTLOOK

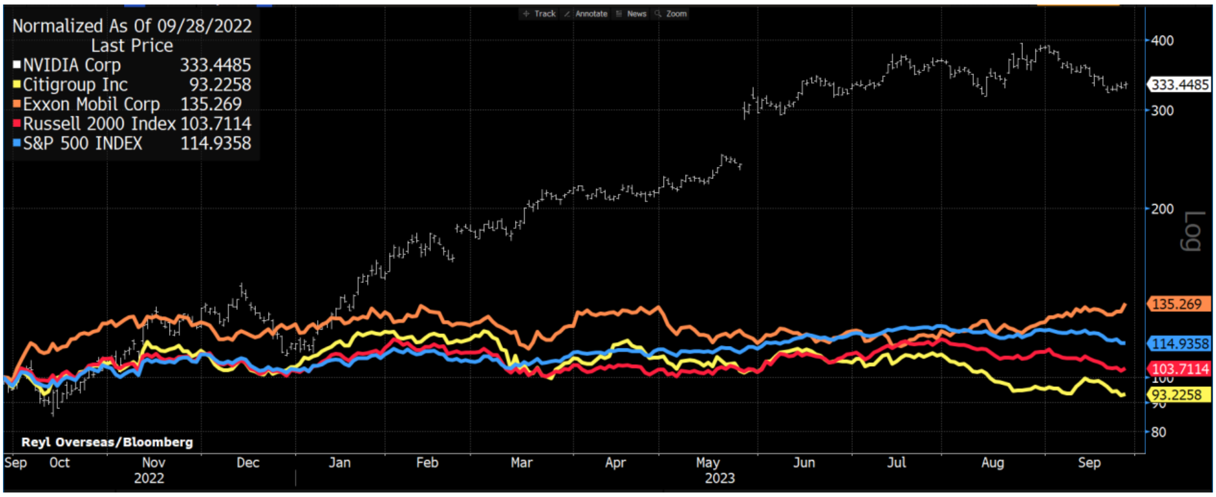
October 2023

Key takeaways-

- Hard vs soft landing – evidence of both
- Asset markets are struggling but oil & uranium excel.

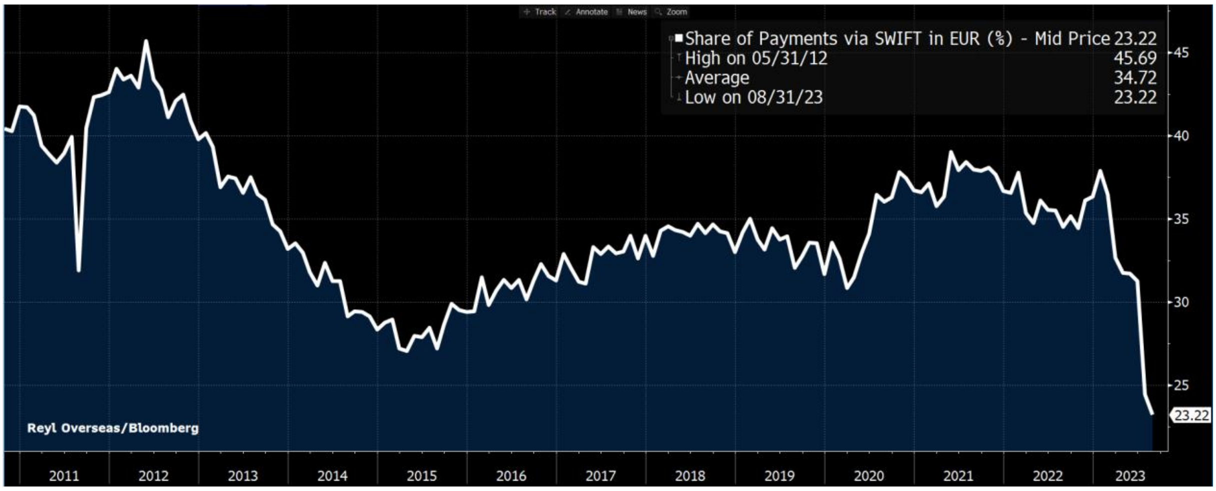
The end of summer is here, and it won't be long till the Pogues "Fairytale of New York" is played on autoloop in retail stores to herald some Christmas cheer. For markets Christmas seems a long way off when there remain enduring unanswered questions. The market remains convinced that we will see **either a hard or soft landing**. Indeed, bond investors are convinced we see a hard landing and have appropriately loaded up. However, bonds, for the time being, are more concerned about expanding deficits and hence bond supply with inflation another concern.

We know it's a highly complex environment. As interest rates are increased by Central banks, **Governments are implementing the opposite** with expansionary fiscal policy. US mortgage rates hit over 7.8% this month when two years ago they were 3%. These factors are lagged and take time to feed into the system, but they will bite one day. We can see evidence everywhere for each type of landing and so the growth trajectory remains uncertain and almost unforecastable. We do know that historically it's a matter of months between the last interest rate hike by central banks before the need for easing. **Maybe that will be the story of 2024.**



For September it was **another tough month for markets**. The market darling – Nvidia, which has risen over 230% in the last 12 months suffered weakness and helped set the tone. The chart highlights the extraordinary performance witnessed by Nvidia (white line) and the extent it has helped prop up the S&P500 (blue line). The story is entirely different away from those few AI-related names. On a one-year view Citigroup (as a proxy for financials) is negative, the Russel (small cap index of 2000 firms) is barely positive (and has underperformed cash) and Exxon is being driven by oil. The European major indices are in a similar situation perhaps only Japan bucks the trend.

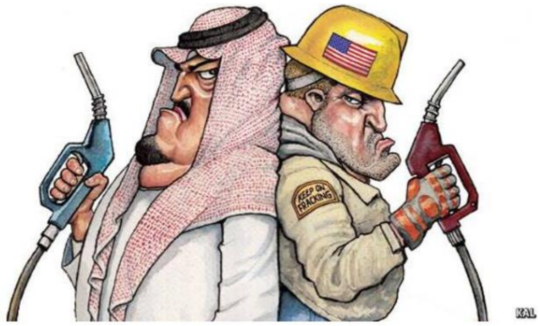
Also setting the tone was the continued strength in the USD. Most central banks increased interest rates again in the month but the rhetoric changed **and left the Federal Reserve looking hawkish**. De-dollarisation and the rise of emerging markets is a long-term theme we favour. So, it was with surprise the second chart came to our attention.



The use of the EUR in the SWIFT payments system has plummeted this year (to a 23% share of payments) and not the Dollar. Our conclusion from this based on the caveats that is just one data source doesn't change our thinking on Emerging markets, but it perhaps makes **us more undecided on Europe's prospects.**

Within our portfolios positive performance came from positioning in oil, uranium, Japan, and India. As we look into the fourth quarter, **we are keeping a close eye on the Dollar, oil, Q3 earnings releases and the bond market.**

Change and erosion in politics across nations from Australia to Canada and the UK are slowly having a social and political impact. These will set the tone in capital markets. Change seems to be happening quick with confusion and new rules. Freedom of speech, at best, looks to be being freely watered down by, overall, headless but not directionless government. Many call it the fourth turning.



In summary the economy remains robust driven by expansionary fiscal policy even with the opposite effect in place and tightening monetary policy. **Cracks are increasing** and current growth levels are far too far above trend. The timing, as we've experienced, is an inexact science. However, to what extent this matters to markets is debatable.

We still have a situation where equity investors remain optimistic on earnings and bond investors gloomy. Liquidity really is key but at current estimates US indices, albeit heavily influenced by a tiny number of growth stories, are expensive. **We continue to add to our energy theme and remain positive on Uranium.**

We are more cautious than two months ago but again to labour the point that **what is most important is to figure out to what extent global liquidity i.e., the pool of cash and credit sloshing around financial markets will be positive or negative. If there is money sloshing about the system, then asset prices are going up.**

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