January 2023

The Premier Partnership Limited

Your Family Office

Investment REPORT

Lead Us Not Into Inflation – From Darkness To Dawn

Today's heading sounds a lot like the new Marvel or DC cinematic offering, but its not intended to. More of a glimpse of what is to come. I think we can confidently say that 2022 was the worst year for investors since the Financial Crash of 2008, and what a difference a year can make.

As we rolled into 2022. Crypto enthusiasm was the fad of the day, stock markets were trading a fraction off all time highs, and the Federal Reserve hadn't raised interest rates since 2018. In came 2022, and brought with it, a War, an inflation surge to levels not seen in four decades, hikes in global interest rates and a rapidly cooling housing market. Fun heh?

So, with all of the above, you may be nervous going into 2023 – but don't be. Some basic financial planning advice can alleviate the stress of potentially volatile stock markets.

Pay off high interest debts – not only are you saving interest over time, but you will free cash flow in your budget.

As we have advised many times, create a cash deposit based savings fund that you can utilise if things get volatile, and we need, for example, to amend retirement drawdown processes and amounts.

Review your expenditure, there is always something that can be reduced, and don't forget the full extent of electricity cost rises are yet to come.

Adequate emergency funds help to calm emotional reactions to investment downturns, thus helping to avoid selling at the wrong or a forced time.

However, the darkest hour is just before dawn! (Mamas and Papas 1967).

We believe that it's possible that the worst of the equity market falls have already occurred, and although economic news may deteriorate in 2023, markets are always forward looking and have already priced in bad economic outcomes ahead of time.

The focus for the year is whether inflation will moderate sufficiently to allow banks to change tack from interest rate hikes, and potentially begin easing monetary policy. We will not see inflation moderate early in 2023, but we believe by Q3 we could be setting the scene for the next economic upswing. The recession will be longer in the UK than the US, but the Chinese economy exiting its zero Covid policy will assist global supply chains. This in turn will assist corporate activity and profits – but it will not be a quick turnaround.

We have had, as a global economy, an era of cheap money that was the exception rather than the norm. The transition back to the norm (higher inflation and interest rates overall) may be painful for some, but the forward outlook for asset returns looks much rosier. Investors in cash deposits can get over 4.5% for a 12 month fixed term, which is a far cry from the 0.5% available not so long ago. This is in stark contrast to the past decade, where there has been no alternative to stock markets to generate investment return. But, we reiterate our oft stated view that the markets historically have always acted as lead indicators of macroeconomics, and therefore we do expect to see markets recovering well before the worst of the economic news is out of the system. Another indicator of inflation reducing is the strength – or recent lack of it – of the Dollar. From its recent peak levels, the Dollar has lost some 14% versus sterling, around 10% against the Euro and Yen and 5% versus the Chinese currency, the Renminbi. With the world pricing the majority of commodities in Dollars, this weakness is a positive sign.

So, reasons to be cheerful – Part 1.

Our 2023 base case is of positive returns for developed market equities: a moderate recession, and inflation falling by Q3.

Reasons to be cheerful – Part 2.

By the end of September 2022, the S+P 500 Index had declined 25% from its peak. Historically, following this level of decline, the index (with the exception of 2 years since 1950, those being the 2008 Financial Crisis and the year 2000 Dot Com Bubble bursting) – has been higher 12 months later.

Reasons to be cheerful - Part 3.

Given this has been the best predicted recession in the last 50 years, we believe that equity markets have priced in its effects a lot earlier than markets usually do, and so the potential for further severe downturns are extremely limited. So one prediction only this year – developed equity market indices will finish 2023 higher than the figures at which they closed 2022.

So, here's to a very happy, peaceful and prosperous New Year.

Global Stock Market Performance 2022

Market	Index	31 December 2021	30 December 2022	Percentage Performance Year to date
USA	Dow Jones	36338.3	33006.97	-9.17
	NASDAQ	15644.97	10397.46	-33.54
	S&P 500	4766.18	3822.23	-19.81
UK	FTSE 100	7384.54	7451.74	+0.91
France	CAC 40	7153.03	6504.22	-9.07
Germany	Xetra Dax	15884.86	13923.59	-12.35
Italy	FTSE MIB	27346.00	23706.96	-13.31
Spain	IBEX 35	8713.80	8229.10	-5.56
Switzerland	SMI	12875.66	10729.40	-16.67
Japan	Nikkei 225	28791.71	26094.50	-9.37
Hong Kong	Hang Seng	23397.67	19781.41	-15.46
China	Shanghai Composite	3639.78	3089.26	-15.13
India	Sensex 30	58253.82	60840.74	+4.44

Data provided by Morningstar

MSCI WMA Private Investor Index Series Values

Capital Performance	30 December 2022	% Change During:		
Index Category/Level	**Index Value**	**3 months**	**12 months**	**5 years**
Global Growth	2807.822	1.89	-7.39	7.96
Balanced	2602.058	3.91	-8.10	3.14
Income	2395.797	4.09	-8.49	2.49
Conservative	1702.078	3.89	-11.60	1.18
Growth	2835.912	3.81	-6.12	4.46

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