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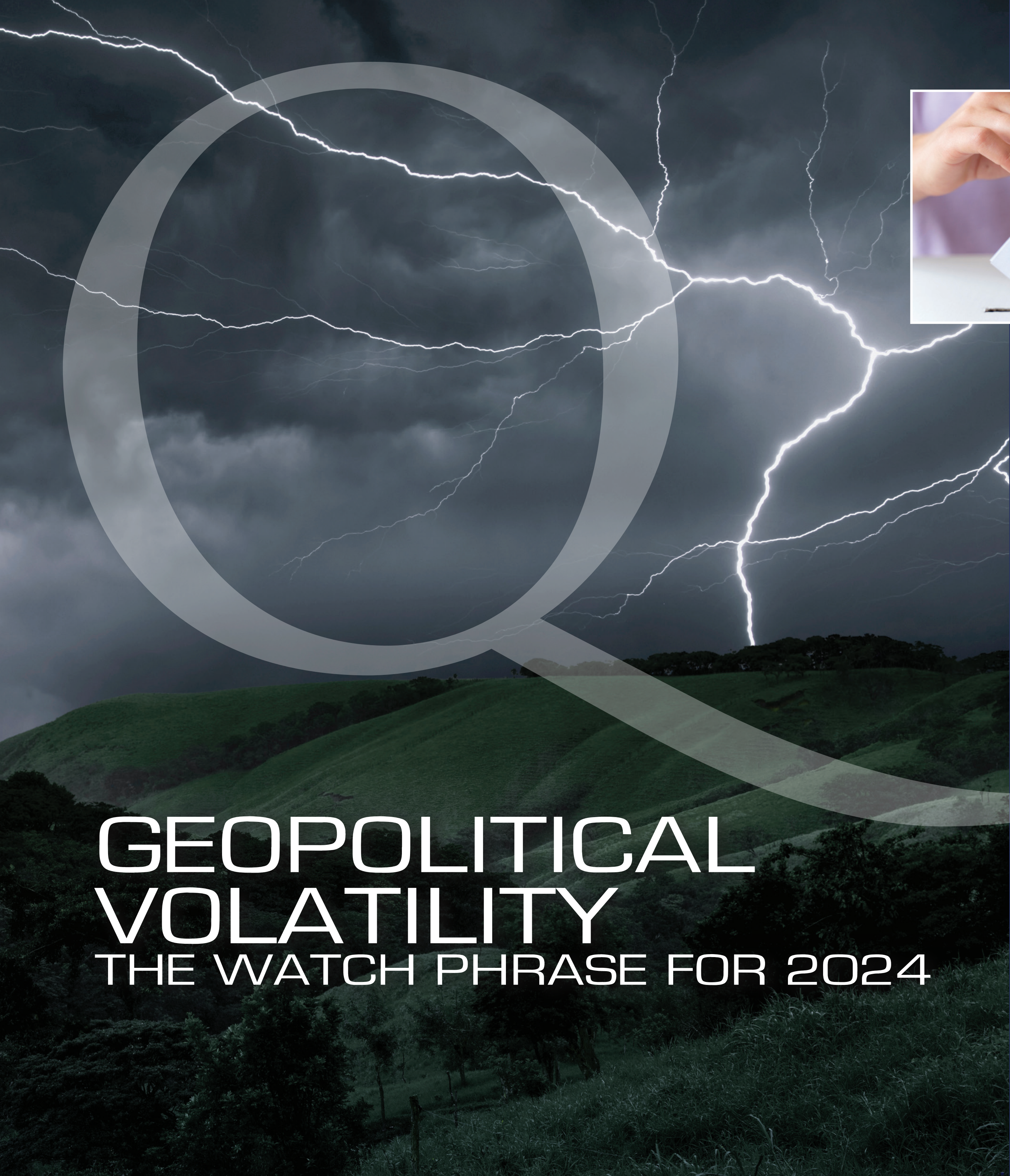
QUARTERLY INVESTMENT REVIEW
FEBRUARY 2024



Geopolitical volatility is the watch phrase for 2024 as the global economy moves forward suggests Richard Powell, but with market instability and overreaction comes the opportunity for profit.

GEOPOLITICAL VOLATILITY

THE WATCH PHRASE FOR 2024

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What a difference in three months. The predictions of falling inflation have come true, both equity and bond markets have (over)reacted, Christmas has come and gone, the cold weather has arrived and the electioneering has started.

A sense of realism has returned

Whatever we may feel about Rishi Sunak as Prime Minister and his please Mr Postman requests to deliver good news at Christmas we must all acknowledge that he understands mathematics and Public finances. It was no real surprise to the investment world when the inflation figures fell as predicted at the end of last year. With inflation dropping, pressure on interest rates to keep rising eased considerably and immediately talk turned to when they might fall. Markets went into overdrive on anticipation that interest rates might fall quickly and significantly, giving a noticeable rise in investment values at the end of the year. Since then, a sense of realism has returned with the view that despite last year's interest rate rises sections of the global economy (principally the USA) are actually in a strong position and although inflation has fallen it has most definitely not gone away. Interest rate cuts may not arrive quite as quickly or as often as was hoped at the turn of the year. With economics however there is always a balancing argument; currently the fear with interest rates higher than they have been, is that we may fall into recession, so although interest rate cuts may not appear quite as quickly as first thought, it is fair to say that the next move in rates will most likely be downwards and equally could quite easily come quickly should the economic data turn towards the negative.

Geographical and political uncertainty

The major concern this year is on the geopolitical front. We have seen the conflict in the Middle East escalate across the region and there are real concerns that further military action, on all sides, will create significant troubles across the global economy. The Middle East is not the only area with uncertainty, as due to a quirk of timing there are a large number of Government elections happening in 2024 across the globe. The more obvious ones are in the USA and the UK; in addition there are other elections such that around half of the world's population will be voting this year. Allied to the military worries in the Middle East and the general uncertainty over the global economic position, this political uncertainty is going to create volatility through the year.

Two sides to volatility

Volatility is likely to be the watchword for 2024 and its presence should remind us all to remember that we are investing for the medium term (at least). There are two sides to volatility, and we should not focus just on the negative but also appreciate that upside volatility is there to be profited from. The fund managers tend to hold the majority of the holdings in your funds for the medium term but often they will also actively trade a (generally small) proportion of their funds in an effort to profit from market overreactions. Provided we are investing for the right timeframe we must not be too afraid of the level of volatility in our portfolios which are matched to your specific risk profile but embrace the opportunity to profit from it. By "running to cash" at the first sign of trouble we can only reinvest just before a rally if we have a crystal ball that truly works perfectly! Investors who have run to cash in the past inevitably reinvest when markets have already recovered and in doing so miss out on the "bounce". This often dramatically reduces long-term returns and I am afraid that the old cliché "it is

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time in the market not timing the market that counts" holds true today just as it always has.

Riding out the volatility

If we accept that all parts of the global economy move in a cyclical manner it is likely that we are now moving out of a retraction phase and into one of expansion. This is not guaranteed as the fear of moving into a recession has not evaporated but with falling inflation and in time, interest rates following, it is not unreasonable to expect positive returns. These returns will be affected by the volatility that is certain to come this year but if we ride out the volatility we can benefit from the upside that should become more defined when the geopolitical situation stabilises. The fund managers will be focusing on "stock picking" rather than blanket asset allocation and it is their ability to do so which should enhance the returns from your portfolio. They will allocate your moneys accordingly and in time you will see the benefit of their expertise in a more pleasing overall return.

This article is the opinion of Richard Powell, Director of Rogate Capital.

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