ROGATE CAPITAL QUARTERLY INVESTMENT REVIEW

MAY 2024

A MARKET DRIVEN BY FORCES

Continued instability in the Middle East allied to wider global political uncertainty continues the theme of volatility says Richard Powell, however the global economy shows signs of growth amid the current turmoil.

ROGATE CAPITAL
LIMITED

QUARTERLY INVESTMENT REVIEW
MAY 2024

I mentioned geopolitical events in last quarter's report and the hostilities in the Middle East continue to dominate headlines. The performance of the global economy is still very much driven by the price of oil despite wider efforts to move towards sources of renewable energy and certainly for the coming years at least, the price of oil will have a direct impact on our finances. Since the beginning of the year the oil price has risen noticeably but has not spiked to extreme levels however we must be aware that should hostilities escalate even further then this is a real possibility. A major spike in the price of oil will be good news for OPEC and America - as major producers but will not help the wider world in its battle against inflation. At every level, not just economically, we can only hope for a reduction in tensions over the coming months. In the longer term the reliance on oil and therefore the impact of its price movements will diminish, for example in the UK we already regularly generate over half of our electricity from sources other than oil, coal and gas. The rise of renewable and substantiable electricity production is already having an impact on the economy and as the years pass this will only increase.

Moving back towards a version of its historic normal

Away from the Middle East there is talk that the global economy is moving back towards a version of its historic normal - if there is such a thing! The global economy is market driven by forces such as supply and demand and moves in cycles of expansion, peak, contraction, and trough. Before 2020 the last major trough was in 2008/9 and it then had 12 years or so of expansion/peak before being struck with Covid, Brexit and the inflationary consequences of Russia invading Ukraine together with the subsequent sanctions that were put in place to hurt Russia. It is likely that we have now moved from contraction and trough into expansion as inflation has been falling and the expectation is that interest rates will follow suit. The rush of anticipation towards rapidly falling interest rates however has now definitely subsided - particularly in America. We always knew that it would be relatively straightforward to bring inflation down from its peak in the Autumn of 2022 but that it would be much more difficult driving it down towards the 2% target and this is proving to be the case. Accepting this as a sweeping statement; it is clear that consumers are (broadly speaking) absorbing higher prices partly through adjusting their spending habits but also because of reasonable wage increases. In this environment driving inflation down further will take longer than anticipated and be more difficult. With this in mind we do still expect interest rates to fall later this year and in the UK the market is pricing a June cut into its figures, but I would not be surprised if this turned out to be premature.

Ingredients for potential growth

The upside of "sticky" inflation is the suggestion that the global economy is actually not in a bad way, with inflation at a much lower level and falling (albeit slowly), interest rates in a position where Central Banks have the option to cut them and consumers willing to spend money. These are some of the ingredients for potential global growth which we might anticipate as the economic cycle moves forward. There are obvious headwinds to a continued run of better economic news but we mustn't lose sight of the fact that there are definite upsides in markets and the impact this will have on your investments.

Mindful of the volatility

The global political situation continues to take our focus andwill only

ROGATE CAPITAL

LIMITED

THE VALUE OF INVESTMENTS AND THE INCOME FROM THEM CAN FALL AS WELL AS RISE, MEANING YOU COULD GET BACK LESS THAN ORIGINALLY INVESTED. THE MATERIAL CONTAINED IN THIS BULLETIN IS FOR GENERAL INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE ADVICE.

FINANCIAL CONDUCT AUTHORITY

Rogate Capital Limited is regulated by the Financial Conduct Authority (FCA No. 502263)

increase as we move towards the elections in the second half of the year; even Nigel Farage has reappeared suggesting that there ain't no sunshine when he's gone although perhaps not everyone will agree with this. The rise of any form of more extreme views always creates concern in markets and with so many elections taking place this year we are mindful of the volatility they can create in investment markets. Your fund managers do have an optimistic outlook for returns but are pragmatic and, in the very short term, concerned about volatility. However this will pass in due course and should the economic cycle behave as it has done historically we should see decent returns looking further ahead to the end of the year and into 2025.

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

ROGATE CAPITAL LIMITED

The Blackfriars Foundry
156 Blackfriars Road
London SE1 8EN

T: 020 7953 7313
F: 020 7953 7325
E: de@rocap.co.uk
E: rp@rocap.co.uk

www.rocap.co.uk