

Necessity is the mother of all invention

Agenda

- | | |
|----------------|---|
| Patrick: | KMG stance in challenging times |
| Chris Ford: | Review of AI tech and example of a segment of your portfolio |
| Julian Jessop: | Economic over view including his involvement in Trussonomics! |
| Q/A | Please expect a lively debate |

(Team all around you and notes on key points to be sent ASAP plus video later in week)

Key worries at the moment

- Latest Government , bonkers or transformational [Barber boom or bust]
- Blue version of Corbynomics and schizophrenic conservative party. [Keynes facts change]
- Debt to GDP? Sterling weakness good for exports bad for imports. [Andy key points]
- Inequality, health care, education, housing , demographics.
- Inflation [is always and everywhere a monetary phenomenon, Freidman]World different to UK?
- Excluding energy and food underlying inflation to high 6%
- 2 and 10 yr UK US government debt rates [[FT today]
- Cost of energy , negative or positive
- Chinese covid Taiwan global presence [unhappy populous, make up!]
- Russians Ukraine and the outcome
- Northern Ireland protocol And Brexit
- COVID

- Future always turns out better than expected.
- KMGs role is always to look through the fog.
- Political and economic fads constantly ebb and flow.
- Examples to follow.

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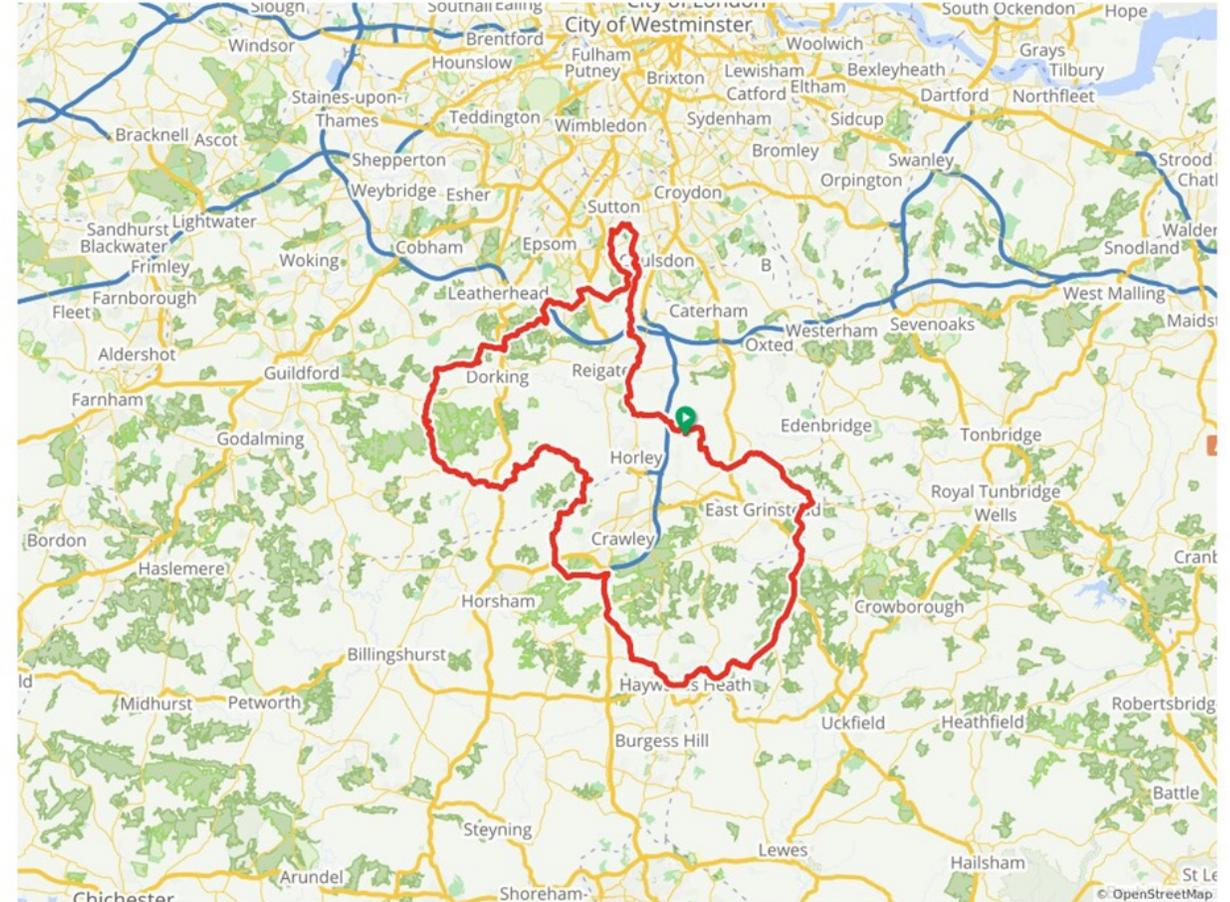
Jenna Duffett



Maggie's Surrey and Sussex Hills Cycle Ride

For Maggie's Charity [the home of cancer care at the Royal Marsden Hospital]

<https://www.justgiving.com/fundraising.nick-matthews15>



97.3 mi
DISTANCE

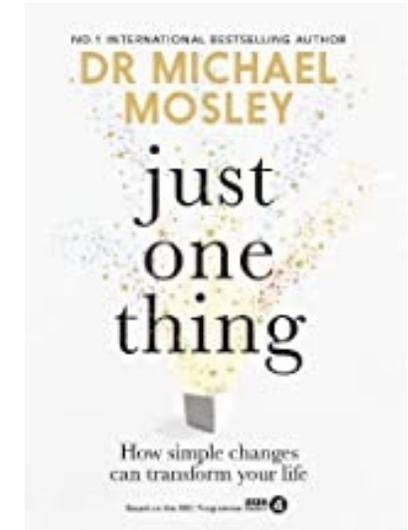
6,082 ft
ELEVATION GAIN

7 h 49 m
MOVING TIME



Positives

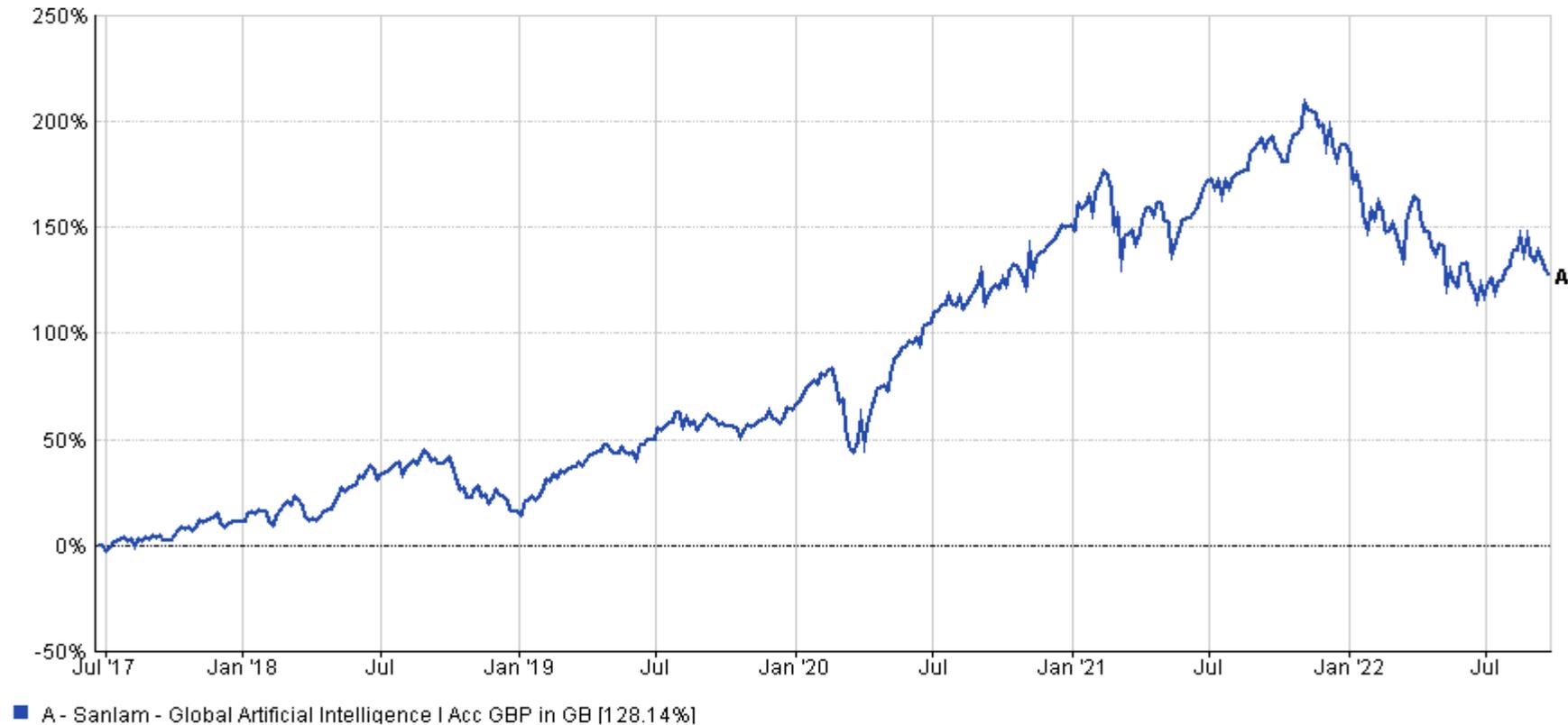
- Subliminal evolution [Ford]
- Michael Mosley, **Just One Thing: How simple changes can transform your life – 27 Oct. 2022**
- Gas price and restructuring the energy market
- Commodities falling , shipping rates down
- Infrastructure in renewables and everything
- Fundraising for the Democrats in America
- The Chinese and the audit process [Mosley and diabetes]
- Demographics and Japanese
- Pilotless ships cars planes
- Plants food and pharmaceuticals



- Change inevitable
- Change is positive
- Change is what your investment portfolio is all about

Chris Ford

Review of AI tech and example of a segment of your portfolio



23/06/2017 - 23/09/2022 Data from FE fundinfo2022

Sanlam Global Artificial Intelligence Film



Click picture to view in your web browser - requires internet access



Economic Overview

Julian Jessop

28th September 2022

1. Outline

- What's worrying global markets
 - “Stagflation”
 - Tighter monetary policy
- Things not to forget
- Regional focus
 - US
 - China
 - Euro area
- A closer look at the UK

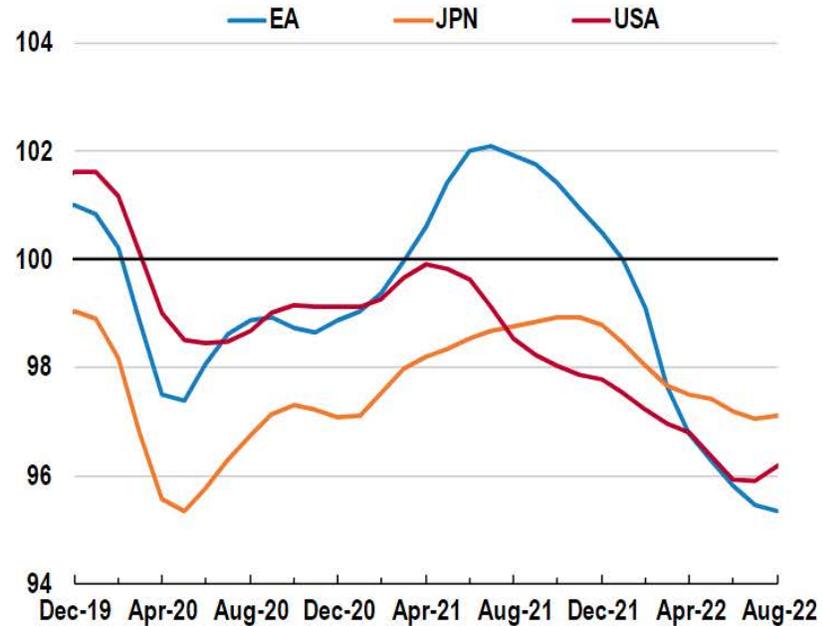


2. “Stagflation”

Confidence is low and activity is losing momentum

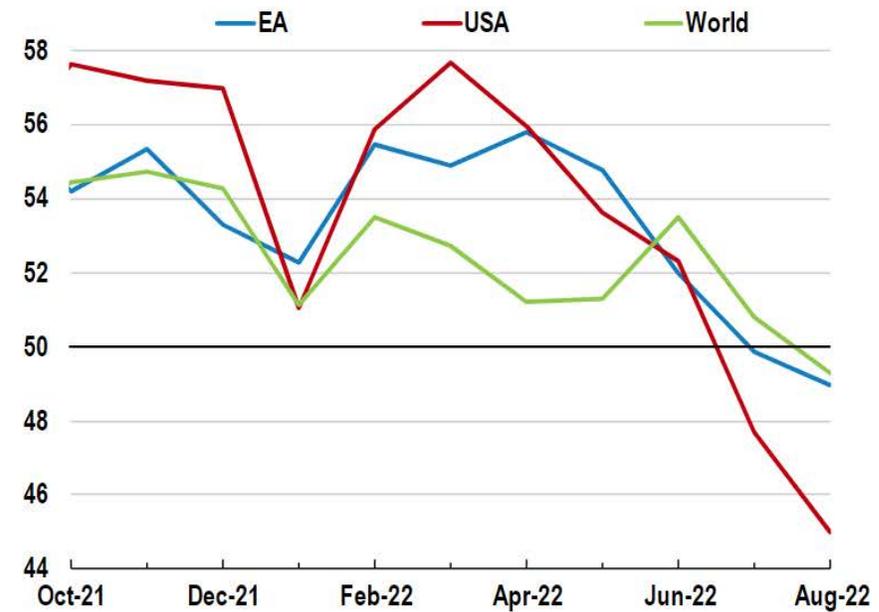
Consumer confidence

Long-term average = 100



Composite output PMI

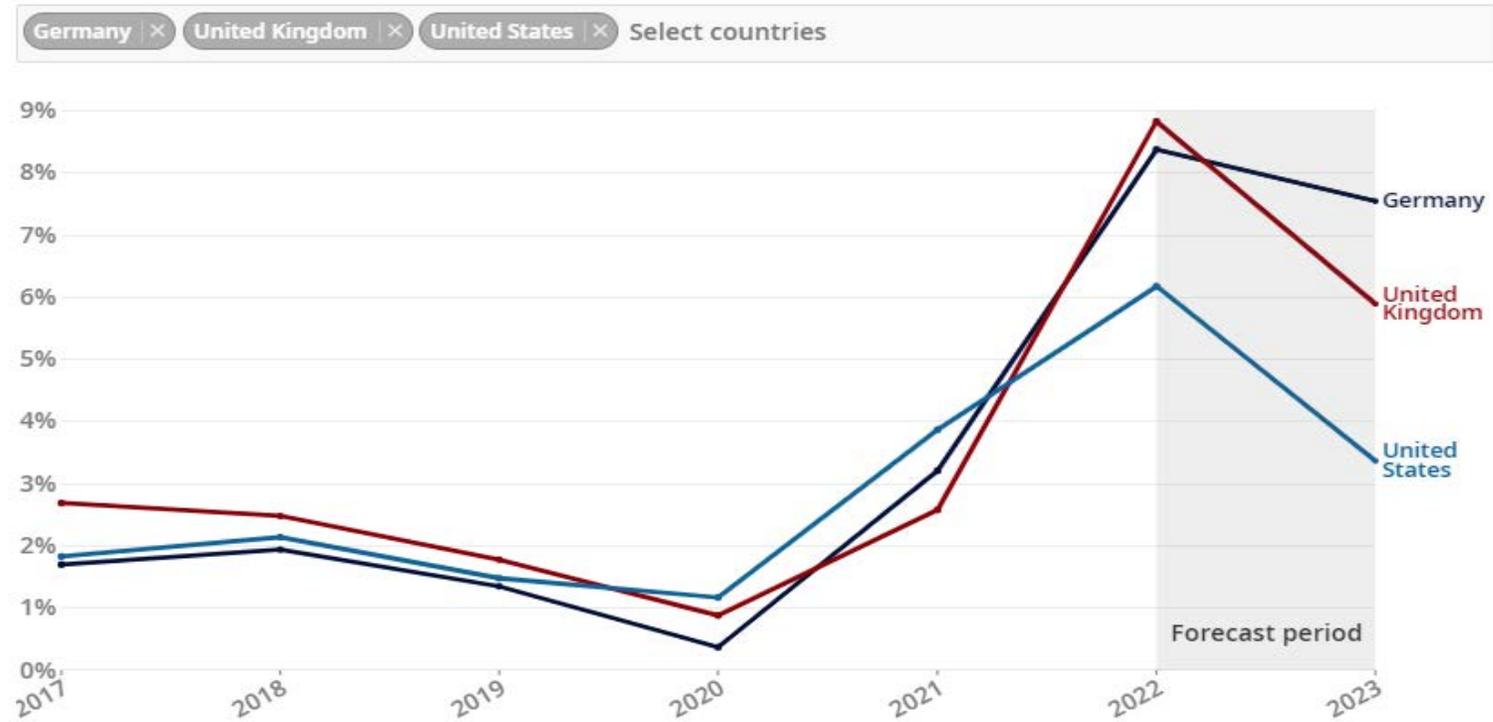
Values below 50 suggest decreasing activity



3. “Stagflation”

Inflation is hitting the world economy

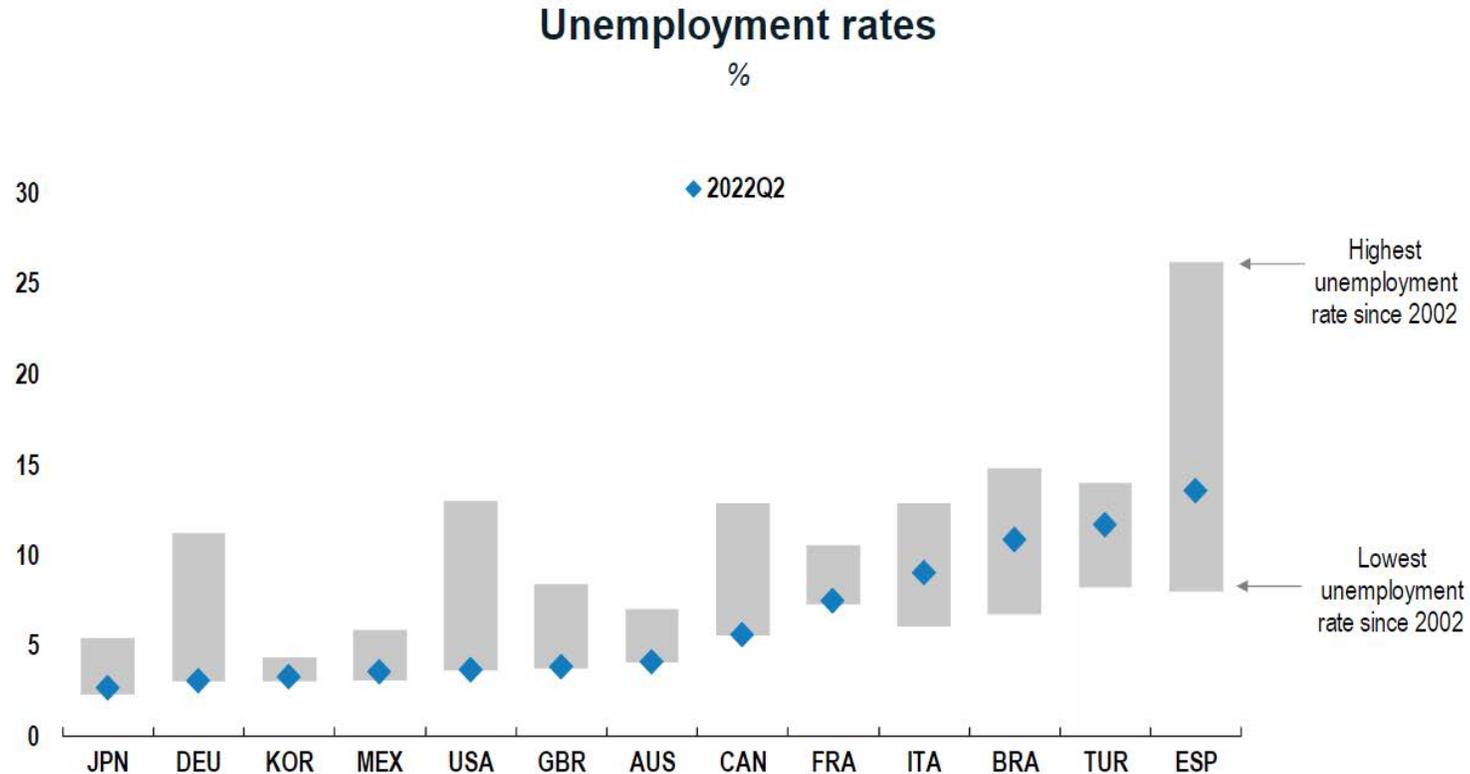
Year-over-year, %



Source: [OECD Economic Outlook, Interim Report September 2022](#)

4. “But this time it’s different”

Labour markets remain tight



5. Things not to forget

- Covid – not yet over
- Demographics
- Geopolitical risks
 - China
 - UK vs EU and US
 - Russia



6. The fallout from Ukraine

Affordability is threatening food security

Fertiliser price
USD/metric tonne



Food price index
100 = 2014-2016 average



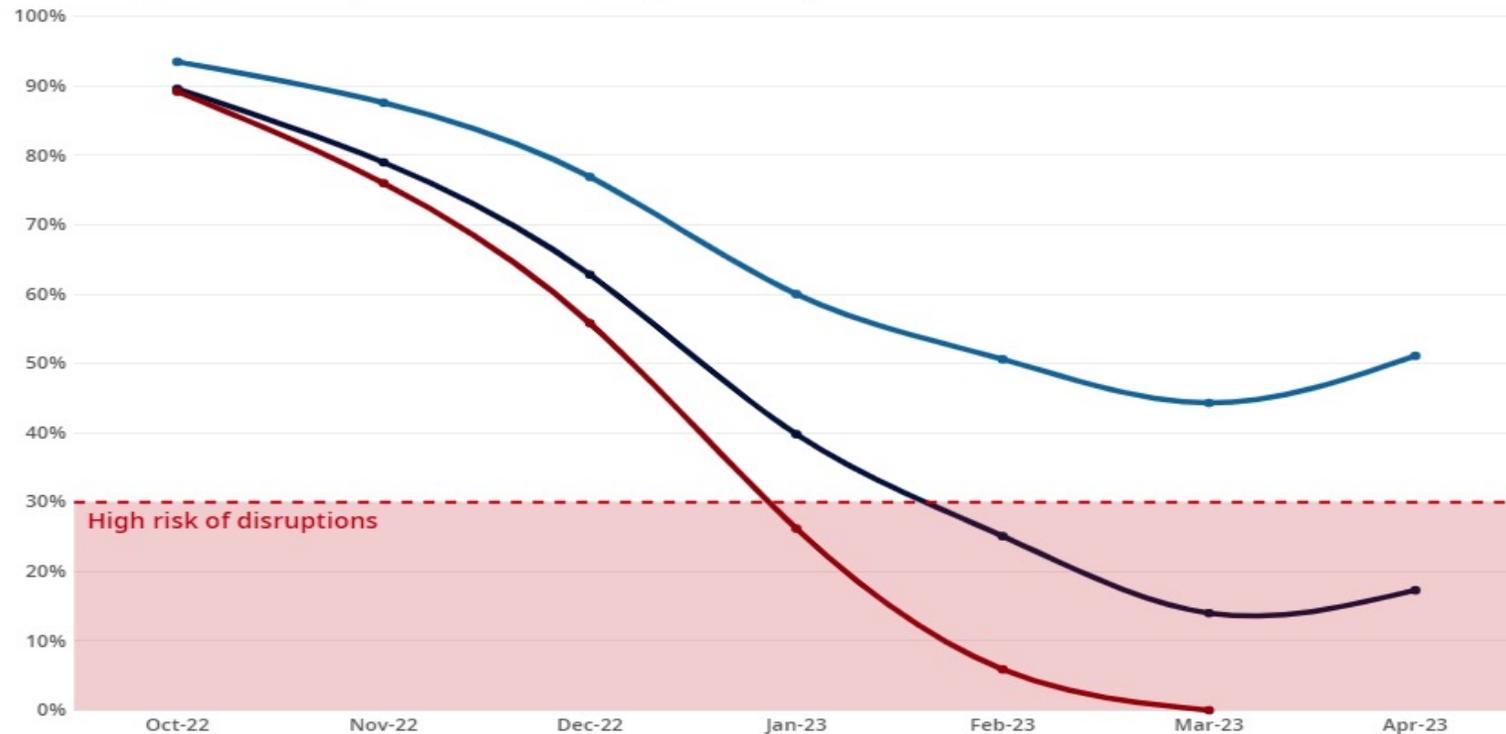
7. Europe's energy crisis

Projected European gas stock scenarios

1/2 < >

% of storage capacity

■ No change in gas consumption ■ -10% change in gas consumption ■ Cold winter



Projections for EU and United Kingdom, based on 2017-2021 gas consumption: "No change" average consumption; "Cold winter" maximum consumption; "-10% change" 90% of average consumption.

Source: [OECD Economic Outlook, Interim Report September 2022](#)

8. United States

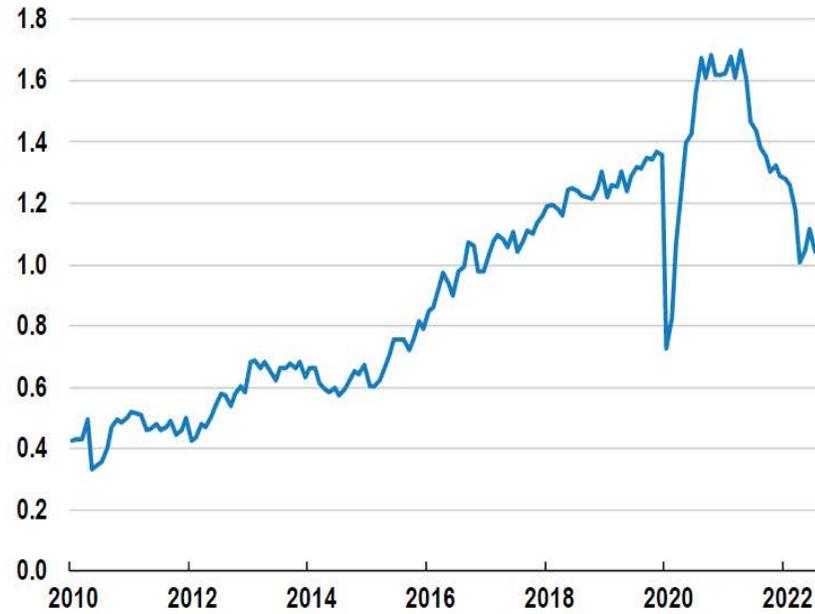
- The US central bank (Fed) has already raised interest rates by 75 basis points three times (to 3¼%)
- FOMC members expect US interest rates to peak at around 4½% next year
- This – along with lower exposure to the energy crisis and increased safe-haven demand – explains the broad strength of the dollar

Percent					
Variable	Median ¹				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation ⁴	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5

9. China

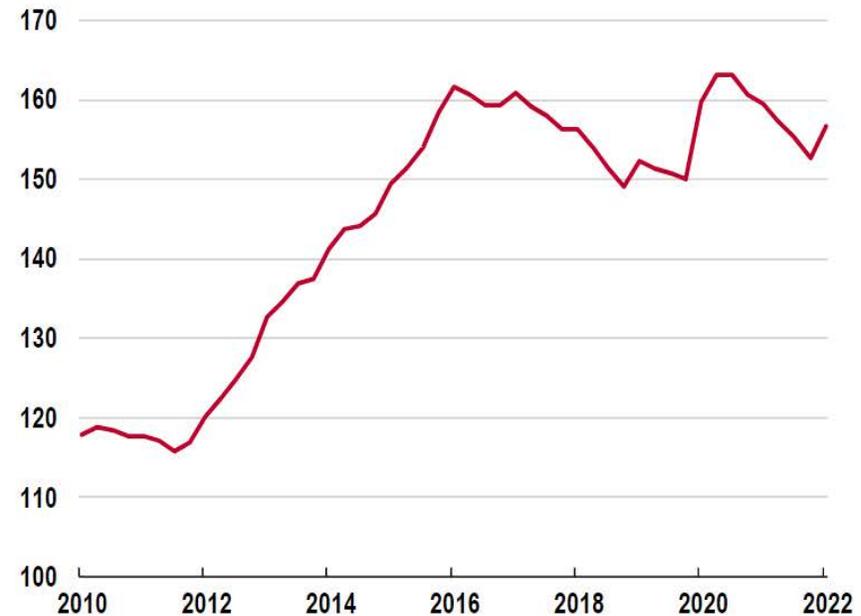
Total housing sales

RMB trillions

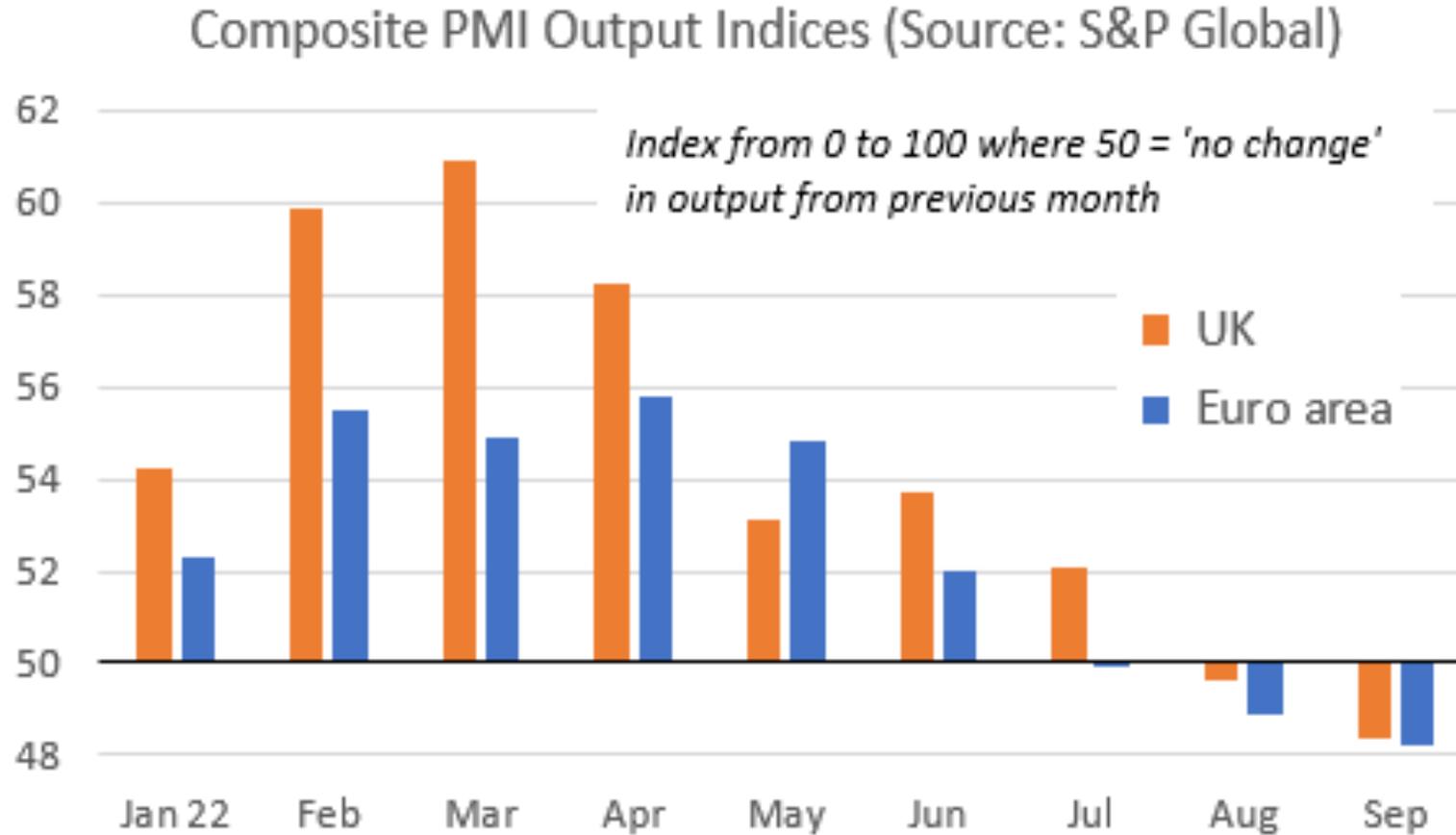


Corporate debt

% of GDP



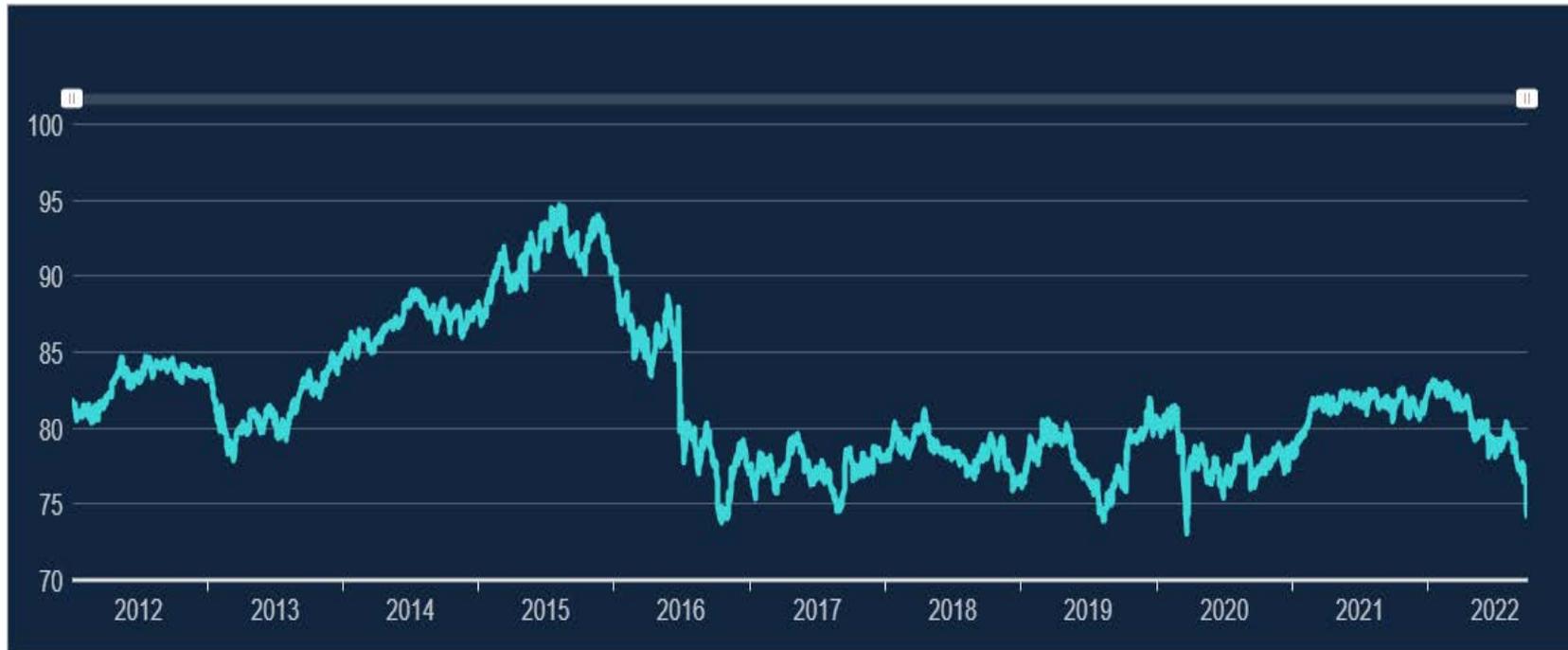
10. The euro area



11. 'Trussonomics'

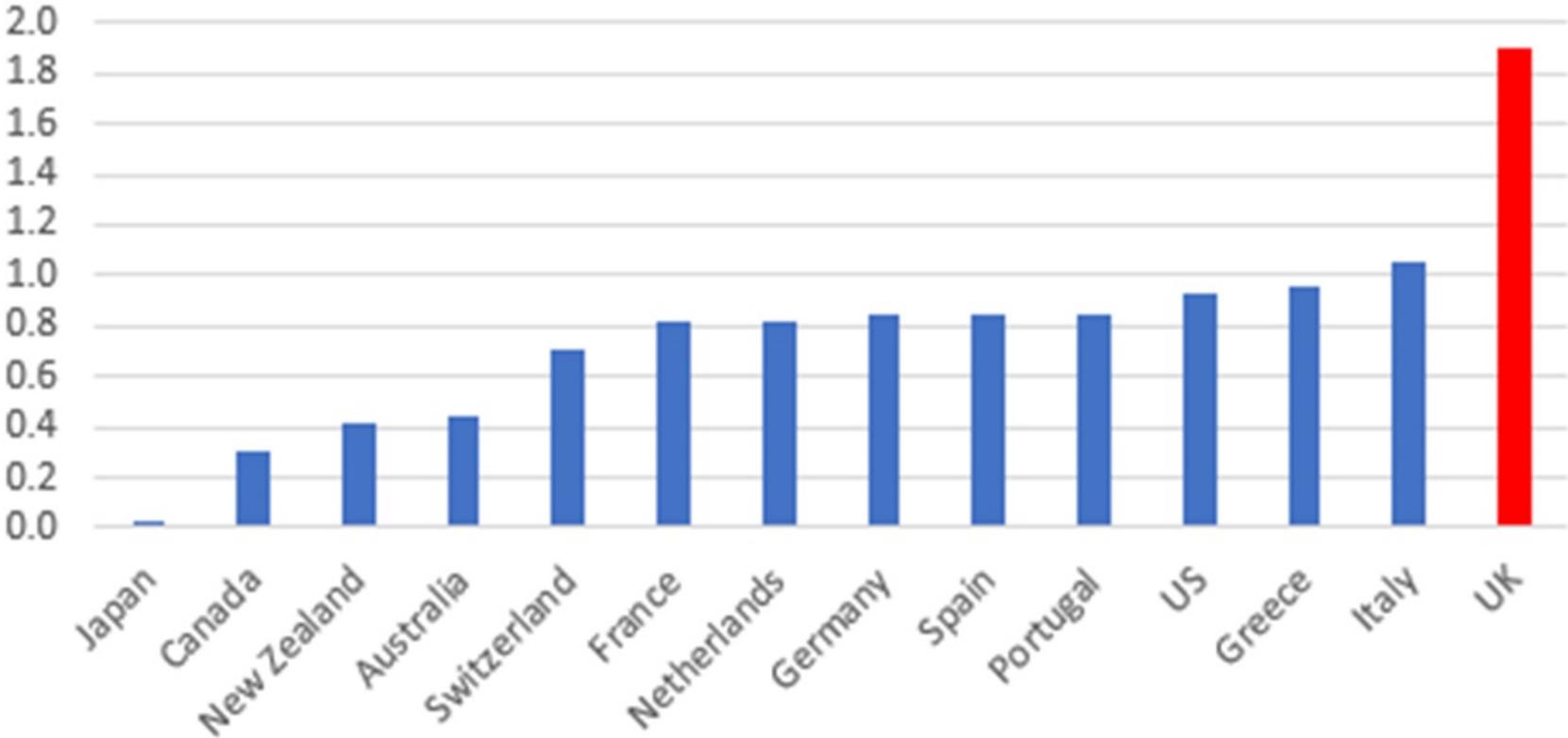
- Emphasis on boosting longer-term **economic growth**, driven by tax cuts, structural reforms and resetting of monetary policy
- Fiscal rules should focus on getting debt down relative to national income (or GDP), not short-term borrowing
- Decisive, e.g. **Energy Price Guarantee**
- Willingness to do what you think is right for the economy (e.g. scrapping **bankers bonus cap** and **45%** additional rate of income tax), even if unpopular
- Not '**trickledown economics**'

12. Bank of England's Sterling Index (January 2005 = 100)



13. Bond Yields

Increase in 10-year Government Bond Yields
(%-points, Month to 27 September) (Bloomberg)

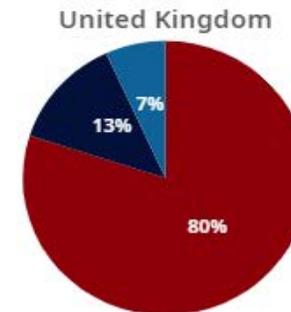
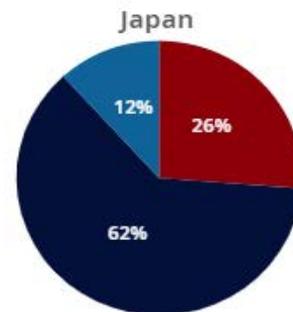
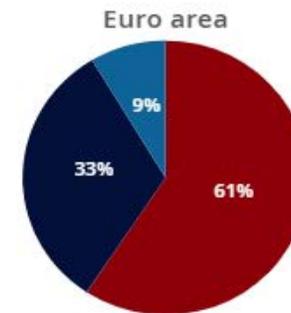
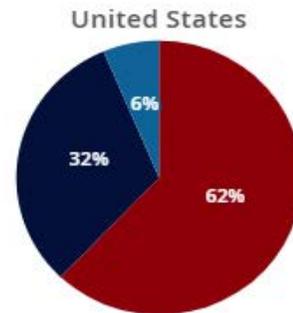


14. UK inflation now relatively widespread

Inflation levels of consumer goods and services

% of consumer basket items

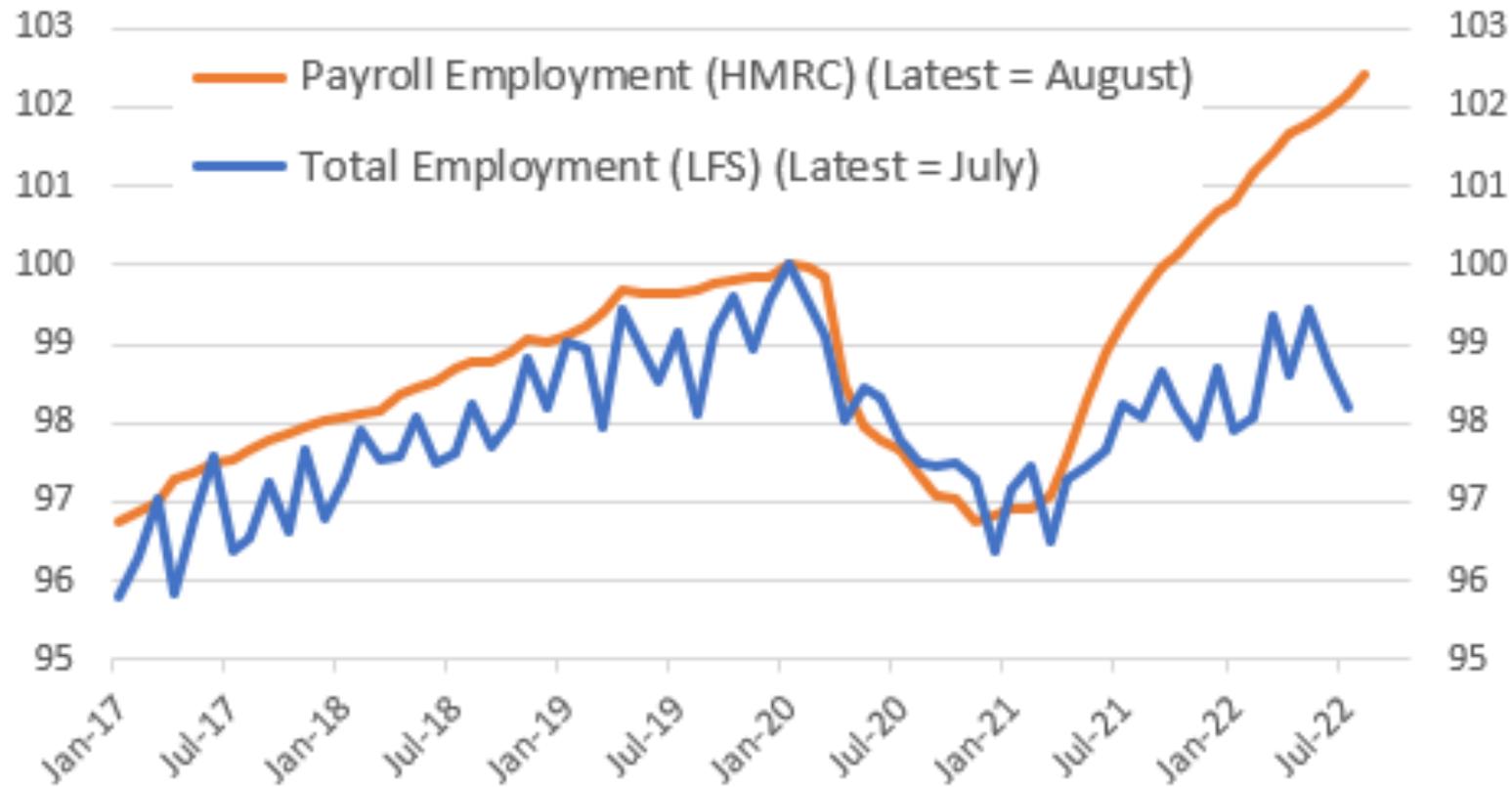
Inflation: ■ < 0% ■ 0% - 4% ■ > 4%



Data refers to July 2022 for United States and August 2022 otherwise.
Source: [OECD Economic Outlook, Interim Report September 2022](#)

15. A tale of two labour markets

UK Employment (Jan. 2020 = 100) (Source: ONS)



16. UK household savings

- Household saving in the UK as a proportion of household resources increased significantly during the coronavirus (COVID-19) pandemic, peaking at a record 23.9% in Quarter 2 (Apr to June) 2020.
- The sharp rise in household saving coincided with government-imposed restrictions on social contact and economic activities resulting in significantly reduced household spending.
- Using an econometric model of the household saving ratio, it is estimated that approximately three-quarters of the increase in household saving during the pandemic was the result of forced saving; this amounts to over £140 billion, or around 10% of annual household disposable income.

Over £140
billion, or 10%
of annual
household
disposable
income!

Source: Economic modelling of forced saving during the coronavirus (COVID-19) pandemic (ONS, 6th June 2022)

17. UK interest rates

- One way to think of the 'normal' (or long-term 'neutral') rate is that it should match the nominal growth rate of the economy, so 2% inflation plus 2½% real growth might give you 4½%.
- But I don't think we'll get that high just yet, especially given high levels of debt, including mortgage debt
- My guess (only a guess!) is that UK interest rates, currently still just 2¼%, are heading for 4%.

18. Conclusions

- Global economy is fragile, but any **recession** is likely to be shallow and short-lived.
- Markets are right to worry about **monetary policy**: usually interest rates are cut to ease recessions, but high **inflation** means this won't happen now.
- Nonetheless, **interest rates** are likely to remain low by historic standards, especially in real terms.
- A lot of bad news has already been priced in (including in the UK, where the consensus is too gloomy).
- Give '**Trussonomics**' time...

Question and Answer Session

Panel

Patrick McIntosh - KMG

Julian Jessop

Andrew Heath – KMG

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