

Investment report for Teesside Pension Fund

September 2024

Political and economic outlook

Levels of political uncertainty continue to be high perpetuating a state which has been present for an extended period of time. Kamala Harris has taken the Democratic presidential candidate baton from Joe Biden in a move designed to improve the Democrat's chances of winning the election. However, the going is tough. Harris outperformed Trump in the first and last presidential candidate debate. Despite this and Trump's criminal convictions the dial has not moved significantly in favour of Kamala Harris. Additionally Trump supporters are boasting that they are now significantly better organised to carry out effective civil disobedience compared to their level of preparedness after the last presidential election. It is not in Trump's nature to defuse this tension that his supporters are promoting so the prospects of a mini Civil War are very real indeed.

Across in the UK a new government seems to have brought a feeling of security and stability rather than the opposite which you would normally expect with a change of government. Furthermore the new government appears to have done a lot of preparation in anticipation of taking power. An altogether different approach to that taken on by the previous Conservative administration. In my opinion the Conservatives have only themselves to blame for the size of the election defeat by choosing opportunistic leaders without the skill set required to run a country. They could find themselves in the wilderness for many years to come. A richly deserved and predictable outcome.

Meanwhile in Europe the lurch to populist and hard-right parties continues with France and Germany following on the lead of the Netherlands and

Italy. These developments could lead to a weakening support for Ukraine in its efforts to remove the Russians from its territory. To add to the uncertainty Viktor Orban in Hungary and Robert Fiko in Slovakia have cozied up to the Russians which would facilitate an easy route to the heart of Europe, in the event that they opted to become neutral, if the Ukrainians lose the war. The European Union and the UK have not yet responded to this threat by loosening the rules of engagement for Ukraine.

Additionally the war in Gaza and its conduct has damaged relationships irreparably in the Middle East and tensions and violence will continue there in the long term.

Despite all this gloom on the political front the economic news is slightly more cheery.

The UK economy grew at a respectable 2.3% in the first half of 2024 outstripping all of the other G7 economies. The US grew by 1.3% and France and Germany sub 1% over the same period. After a protracted period of low growth this may just be a blip rather than a trend but let's hope it's the start of a new era. If it is a new start then the Conservatives have every right to claim it as their very own economic miracle.

Headline inflation rates have fallen across the globe with the UK now near the Bank of England's target rate of 2% at 2.2% in July, having hit the target rate in June. The UK performance here is also quite impressive and much better than my expectations. Core and services inflation is significantly higher than headline CPI and this may still derail attempts to get to a persistent low inflation environment. Worryingly, wages in most countries are growing at a rate which is inconsistent with Central Bank inflation targets. This may slow any interest rate cuts in the medium term.

All in all World economies appear pretty stable after the inflation shock therefore we should expect a benign environment for most of the world stock markets.

Markets

Real interest rates remain low which should be beneficial for equity markets despite the political uncertainties. However there are signs that this environment is deterring buyers from bond markets which would indicate that long term interest rates are likely to increase albeit modestly.

Index linked yields remain low and relatively stable, this is unlikely to change in a world where economic growth is modest and prices relatively stable. Over the longer term however imbalances within economies will have to be repaired and a price will have to be paid which would imply rising real interest rates and falling equity markets. It does not look as if the action required will be taken by democratic economies anytime soon and therefore the medium term outlook for markets looks benign.

The commercial property market in the UK will struggle to make significant progress in the current environment.

There are straws in the wind which indicate that capital raising in the alternatives markets is beginning to ease. However this has not been significant and capital remains scarce. In short the market will find it difficult to raise the capital it requires and performance will be impacted accordingly.

Portfolio recommendation

The fund's commitment to the alternative investment markets via Borders to Coast dictate any portfolio recommendations. The refinancing difficulties in the alternative market space make it likely that the fund will be over committed to this asset class for the next few years. Investing in other asset classes will be very difficult while this over invested position continues. Attractive opportunities will no doubt present themselves and

these will have to be financed from the fund's equity holdings to aid portfolio changes.

Additionally it is advisable for the fund to hold sufficient cash balances to meet cashflow shortfalls over the medium term to help reduce the impact of equity market volatility on the downside.

Peter Moon

16 September 2024