Investment report for Teesside Pension Fund December 2024

Political and economic outlook

It's been a busy and defining quarter in political and economic terms. Trump has been elected with a resounding victory in the US presidential election which may be an indication that the United States is not yet ready for a woman president let alone a black woman. The unpredictability of the president elect has no doubt raised uncertainty levels on the world stage. How much in practice he will be able to carry out in raising tariffs or stopping military aid for Ukraine remains in question.

I have just returned from South Korea where I visited a few companies to gauge their mood in the potential climate of higher tariffs and a more isolationist United States. There was clearly a heightened anxiety about the increased likelihood of North Korea making a play for South Korea. There was more uncertainty on the exact impact of a Trump tariff regime, mainly because companies were not sure the levels at which tariffs would be levied across countries. One thing was sure though they would be detrimental to business and the Korean economy and by implication the world economy.

SK hynix is a manufacturer of high quality semiconductors used in more advanced applications and is a major supplier to Nvidia, the pre-eminent Artificial Intelligence chip supplier with over 80% of the world market. When asked what would happen if Taiwan was invaded and Taiwan Semiconductor Manufacturing Company was unable to produce or export semiconductors. The response was stark that they would cease production immediately. Although this is common knowledge the fact that there is no alternative post globalisation would indicate that isolationism is not that

easy a choice for the United States. In the face of a collapsing world economy (and its impact on the United States) it is likely that the United States would respond. For information Taiwan produces about 70% of the world's semiconductors and over 90% of the most advanced.
Instability seems to be the watchword in world politics. More extreme political parties and more intractable conflicts have left us with a more uncertain world than we've seen for quite some time.
Despite all the preparation the new Labour government has not got off to the seamless start it intended as a few political misjudgments have left them looking more like the previous administration than they would wish. Additionally Rachel Reeves presented her long awaited budget. It contained a few surprises but in the main it was along the lines of previously leaked information. Increased taxes on corporations was the main revenue earner through raised employer National Insurance contributions. The aim of the budget was to raise the economic growth rate to provide a stable and growing revenue stream for the government. The immediate impact has been to make employment more expensive and these growth targets more difficult to achieve. Unless exogenous factors come into play it is hard to see the economy growing at the rate required by the chancellor's plans.
The independent Institute of Fiscal Studies has criticised both the Conservative and Labour parties for not being entirely straight with the electorate and suggested much tougher and radical plans for raising government finances needs to be considered. The alternative path is continuing higher taxation coupled with a reduction in public services. This is not a very attractive prospect given what the electorate have already been through under the last administration. Let us hope that this government, given his mandate, is at least able to be truthful and introduce the necessary policy responses to stabilise the government's finances and produce a more stable framework for growth.
At her Mansion House address the chancellor proposed reforms to the LGPS by amalgamating pools so that they more resembled the Canadian

pension fund model.The aim is to promote a more effective investment regime. This initiative is doomed to failure because corporate governance in Canada is entirely different to that in the UK and increasing the size of the pools will just bring more of the same.

Markets

Trump's re-election has signaled a more uncertain and unpredictable environment which is likely to impair market returns over the medium term. I would expect markets to remain fairly flat over the next quarter or two. This implies the real interest rates will remain low and bond markets won't move much from their current levels. With inflation remaining subdued and little movement in interest rates index linked yields are expected to remain pretty stable.

Likewise equity markets are in a similar position with very little movement expected.

Similarly not much movement is expected in commercial property despite the improvement we've seen in the housing sector.

Funding in the alternative markets remains extremely tight although it has eased marginally. There is simply just not enough capital to easily fund the commitments that have already been made in this sector.

Essentially I expect a dull performance for most market areas.

Portfolio recommendation

My portfolio recommendation remains the same as last time and given the overcommitment to unquoted stocks is unlikely to change over the longer term.
Current quoted equity holdings should be used to finance attractive investment opportunities elsewhere when they arise.
For the time being the fund's emphasis on growth assets should be continued while assessing the impact on markets of the changed economic and political environment.
As previously recommended the funds cash levels should be sufficient to meet cash outflows over the medium term.

Peter Moon
2 December 2024