# Investment report for Teesside Pension Fund September 2021

## Political and economic outlook

I had little idea when I wrote in the June report to you about the incompetence of the government in managing the transportation of goods in the UK since Brexit that we would be in the situation we are currently. The total absence of planning and sheer incompetence has led to an extraordinarily dangerous position for the UK economy. As yet the government has done little to remedy the problems.

The unacceptable difficulties associated with the Northern Ireland border and free travel of goods which there should be between Eire and the United Kingdom has not been addressed. We now have a position where the UK government is prepared to act unilaterally in the face of an agreement previously ratified. Effectively we have become a bandit prepared to ignore international rules which can only diminish this country's standing in the world.

The news on Covid is a lot better with heroic attempts being made to reach herd immunity in the UK although some of the experts are now saying that this is an impossible aspiration. Economic performance will be determined by our re-entry to normal living so it's rather important that we get it right.

As we all know the UK is a small-time player in world politics and world economics, the major players are the USA and China. Things have changed significantly since I last wrote in June when I was implying there was a power struggle for world leadership between China and the USA. In the last quarter USA has relinquished any pretence that it is interested in remaining the world's policeman. This has devastating consequences for western democracy and Global stability.

After significant improvements in global relationships between Russia, China and the West up until the year 2000 there has been a telling deterioration since the arrival of presidents Putin and Xi. They have repressed their own people and taken an aggressive stance against the USA which has accommodated their every thrust for increased power. The consequence of successive presidents of the USA not using their undoubted firepower to respond to unacceptable behaviour and the crossing of red lines has been that China and Russia have seized countries and islands and sponsored despots to cement strategic advantage. Until August the US response had been pathetic and in August it was disastrous. it gave a clear signal to China and Russia that they could dictate the world agenda going forward. It signalled that the USA and by association the West were no longer interested in looking after areas of significance.

Additionally the retreat from Afghanistan has left a void for the terrorist sponsoring Nations to occupy and train new recruits which is likely to increase the rate of terrorism and civilian casualties amongst the Western democracies. The world's gone from the relative stability of the Cold War with two opposing Nations to a scenario where there are significantly more players which by definition increases the chances of misunderstanding and conflict.

Uncertainty has also increased in Europe after the German election. The departure of Angela Merkel could well lead to a fight for the leadership within the European Union.

The impact of the supply chain difficulties outlined above will be for higher future inflation and lower future economic growth, however in the last quarter the UK economy continued to respond positively to the opening up of the economy after Covid. Both wage and price inflation has embedded itself across many countries very quickly and there is no reason to believe given the extended period of loose money that these pressures will subside anytime soon. The changing shape of the world economy and the move away from globalisation will add fuel to the fire.

## Markets

Equity markets dislike inflation and and dislike rising inflation even more which is the situation we find ourselves in now. International equity markets have marked time over the last 3 months or so and the Asian markets have fallen significantly since the beginning of the year partly due to protectionist measures against companies taken by the Chinese authorities.

Despite extremely low short-term interest rates, bond yields are on the rise, given the inflationary pressures within the economy this is a trend that is likely to continue for some time. This is yet another reason for equities to struggle.

As the UK economy has moved out of lockdown the property market has returned to some level of normality. Rent collection levels have improved significantly as tenants' ability to pay has improved as the economy has recovered. Uncertainties persist as the impact of pandemic on working and consumer preferences is still not fully known.

Large infrastructure projects look pretty fully valued as too much money is devoted to the sector. However this overvaluation might well persist if equity markets trend down. Some smaller projects in more niche areas still appear attractive.

In the other alternative investment areas private equity will no doubt have some attractive investments given the range of sectors.

If bond markets continue to fall, attractive credit opportunities will become increasingly difficult to find, however there might be some merit in fixed interest funds which provide higher return than cash If we decide to liquidate further our position in equities.

Cash continues to be unattractive.

## Portfolio recommendations

My portfolio recommendations remain unchanged.
Our largest investment area equities along with the rest of the quoted markets is looking less attractive. The problem will be to find attractive investments in the alternative space , including property, which will return a similar amount to equities.
Over the past few years we've enjoyed this situation where equity markets have risen as we've moved money into alternative investments.  that position looks increasingly likely not to be the case in the  medium term future.
Therefore cash levels within the fund are likely to rise and alternatives to cash which are uncorrelated with equity markets and other quoted investments but with a higher yield than cash will need to be researched.

**Peter Moon**

**29 September 2021**