ARK Financial Planning

October 2023

Newsletter

Welcome to a special *Spooky* edition of the ARK Financial Planning Newsletter, thankfully– this one is more *Treat* than *Trick*. Here's what has been bubbling in the *cauldron* of our minds recently…

- Inflation, it's down for the 7th consecutive month
- Bank Of England base rate has been held at 5.25% - is this the start of the end?
- The Israel- Palestine conflict
- The importance of diversification
- What we're seeing in our investment portfolios

Inflation is moving in the right direction

We're now into our 7th month of inflation either remaining the same or coming down. Further to that, inflation is now 4.4% lower than it was this time last year. This *spells* good news for investors (and when we say investors, we mean anyone who has some sort of exposure to virtually any investment globally, so really we mean **everyone**).

In reality, it means we can all expect to have a bit less of a *fright* at the supermarket till or when we get our household bills. We are getting to a place where we can feel more certain around how much things cost now and how much they'll cost in the future.

So have we ridden out the 'cost of living' storm?

Well, we're not quite out of the woods yet and only time will tell if what the Bank of England (and other country's monetary policy committees) actions have been enough to curb the global inflation crisis we have been in without sending us into a period of economic turmoil. That being said, a significant part of the makeup of investment market's values is derived from how we feel (i.e. investor sentiment) and from speaking to our clients recently – the 'cost of living crisis' and concerns around inflation seem to be slowly settling down.

So does this mean that interest rates are going to come back down?

Again, only time will tell. In our last newsletter, we highlighted how we were going through the second fastest rate hike in the UK's history. When you look at the history books, the BoE usually tends to 'over cook' their monetary tightening approach (that's the technical name given to hiking interest rates).

This time, however, it appears as though the BoE are taking a slightly different approach. An approach that doesn't keep thoughtlessly increasing interest rates until the economy cries in pain - but more of one that increases interest rates to a certain point, and then holds them at said point for a number of months – waiting until the economy reacts more softly. At which point they can start to reduce the BoE base rate to enable the economy to, steadily, return to normality.

The scenario described in the paragraph above is known as a 'soft landing'; something that all economists agree would be the best route out of our current economic situation. However, 'soft landings' are a bit like landing a jumbo jet on a football pitch – it's not impossible but it would be seen as a real feat of skill. If you overshoot the football pitch - the economy could fall into a recession. If you land your jumbo jet short, there's a risk that you don't kill the high inflation in the economy, and we go back into a new 'cost of living' crisis.

You might think that it's all a bit scary right now and when all we hear is UK based news outlets reporting on what is happening in our own country, we tend to forget what is happening elsewhere. Remember that all markets are linked and, when we look globally, we can count ourselves much luckier.

Most of Europe are still suffering with high annual rates of inflation. Hungary is at 12.2%, Poland 7.7%, Austria 7.3%, Czech republic 6.9%, Sweden 6.5, Finland 5.5%, Italy 5.3%, France 4.9% and Germany 4.5%.

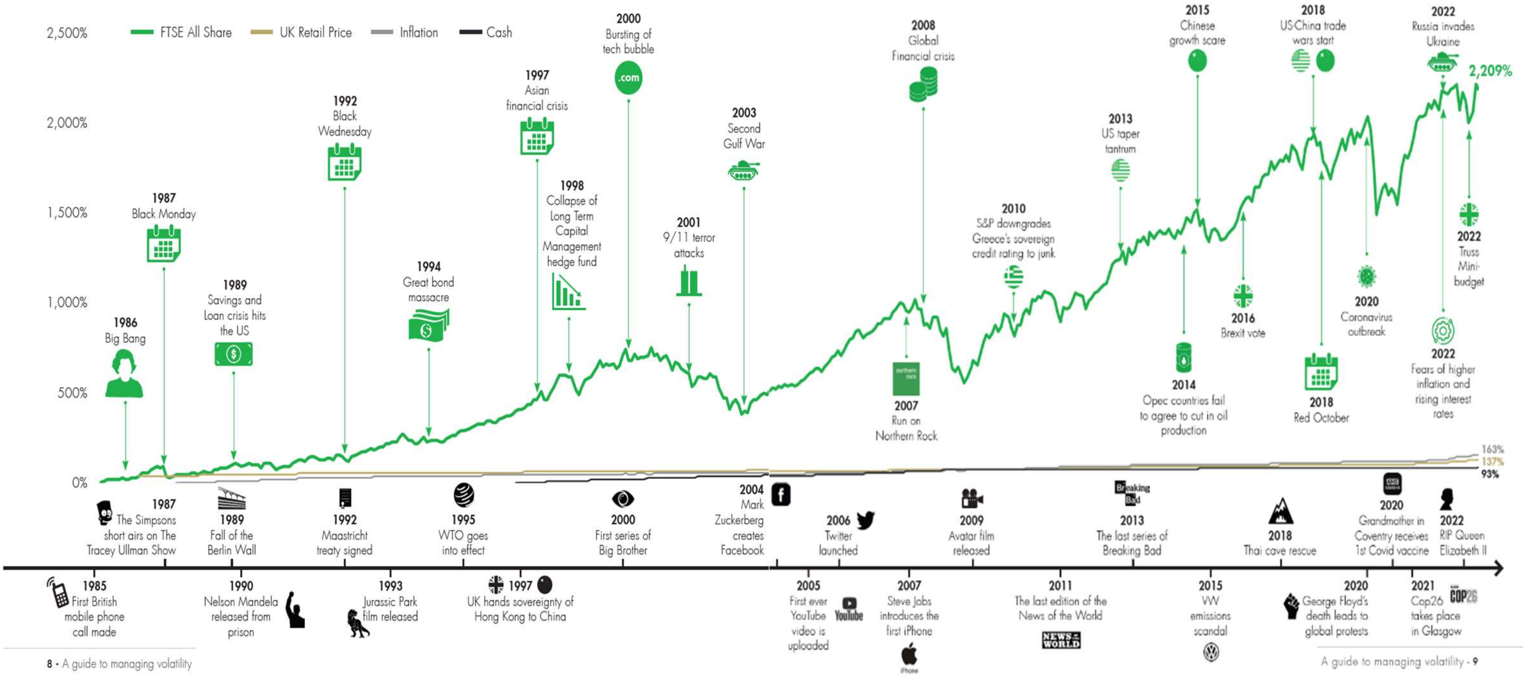
Further afield, Egypt are experiencing inflation of 38% and Turkey are seeing figures above 60%. Argentina is seeing annual inflation rates of 138% and Zimbabwe are at 229%! But no other country comes close to (and I hope you're reading this whilst sitting down)…Venezuela, with a current rate on inflation of 317%!

Of course, some of these countries are not comparable to the UK and have bigger concerns than inflation right now, but the point remains – don't let spooky headlines scare you.

The Israel – Palestine conflict

We're saddened by the news of the Israel – Palestine conflict and especially concerned around the humanitarian crisis that has been created in the region as a consequence of the conflict. Our hope is for an amicable resolution and ceasefire which, we hope, will bring peace to a region which has seen fighting for too long.

Thinking closer to home, from an investment standpoint, as the current situation unfolds – we don't expect there to be a huge impact on our investment portfolios because of the conflict. Whilst this conflict bears some resemblance to the conflict still ongoing in Ukraine, investment markets are somewhat numb to conflicts in the middle east. If we think back over the past 50 years, we have seen civil war in Syria and Iraq, a 20 year NATO operation in Afghanistan, an attempted coup in Turkey, the Arab uprising in 2011, the Iran – Iraq war, gulf war 1 and gulf war 2, ISIS and the removal of Sadam Hussain. And when we look at what happened to investment markets over that time most of these events had little to no impact in our portfolios.



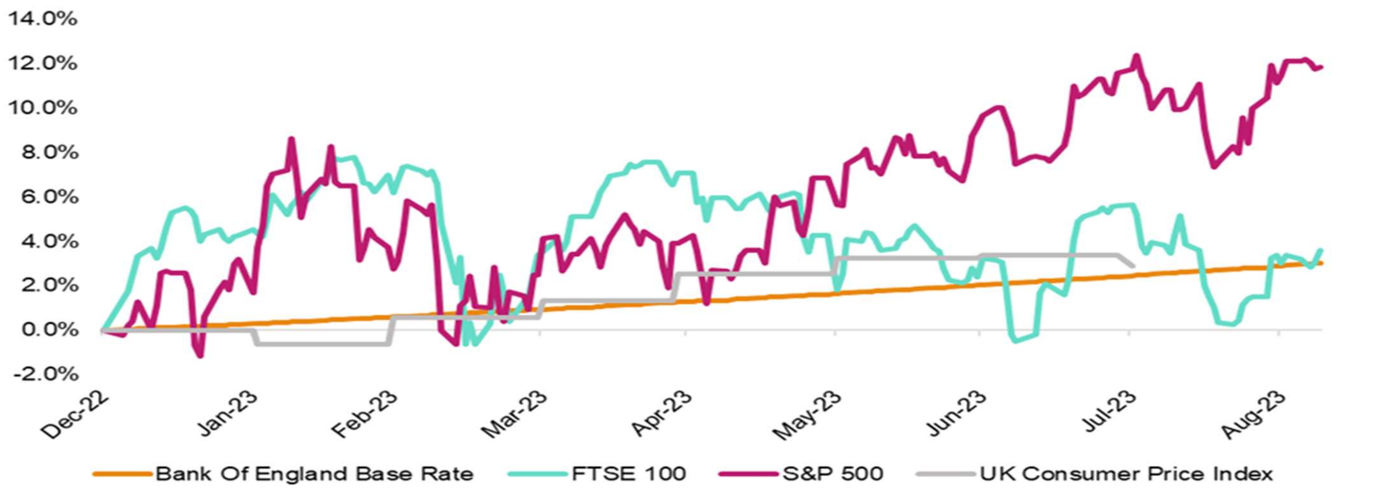
The only caveat being that, similar to the Ukraine conflict – the small risk of the conflict spilling out and creating a bigger issue. Iran, for instance, are probably top of the U.S.'s most watched country list right now as they have announced time and time again their support for Palestine. The 'spill over risk' being that Iran gets more involved, especially militarily – which may in turn prompt a reaction from the west (lead of course by the U.S.). However, this risk remains very low.

The importance of diversification

We regularly hear, from various sources, their opinion on where we should invest our clients' money, with really strong evidence of why their right. Here's a good example:

Opinion 1

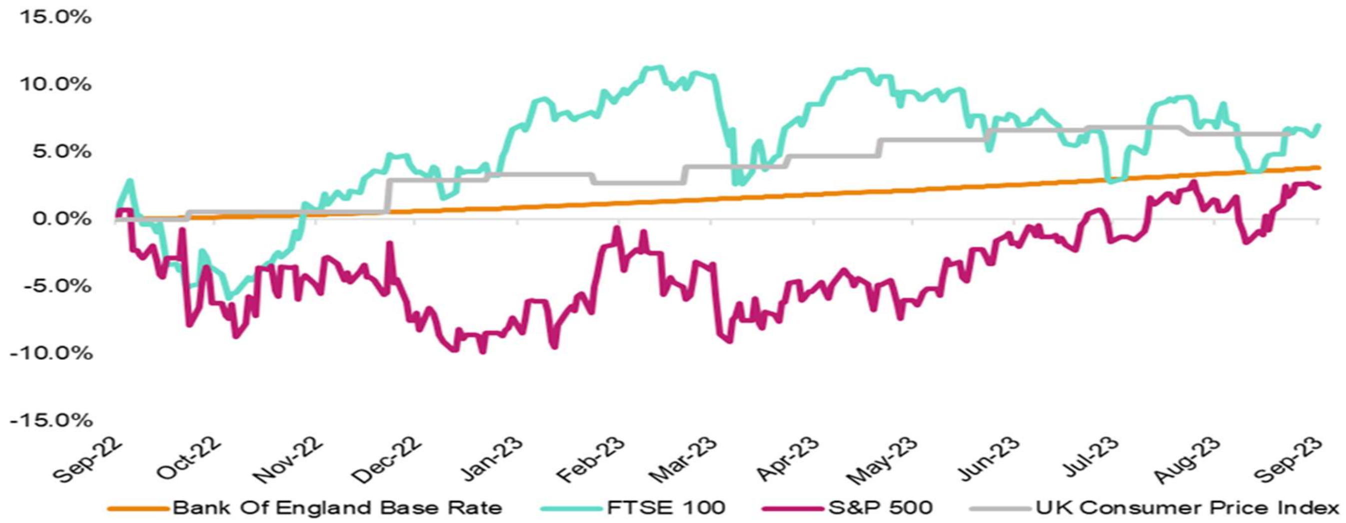
'The US equity market (S&P 500) has been unstoppable this year. It has trounced the FTSE 100, beaten the highest interest rate cash account and beaten inflation.' And here's the evidence to prove it:



And it's hard to argue otherwise. This would lead one to think ***'I agree! The US is definitely the place to be!'*** however, let's look at opinion 2…

Opinion 2

'The US equity market has been awful. It has significantly underperformed the FTSE 100 and fallen well short of matching inflation; any high street current account could have beaten it.' And here's the evidence to prove it:



What's interesting is that both opinions sound viable and have solid, recent evidence to back it up.

However, as with most of these things – the *devil* is in the detail. Opinion 1 is looking at the performance from the start of the year to now, while Opinion 2 is looking at the last 12 months. Both are very common time frames in our world.

Accepting "standard" timeframes or single points of time (usually the last 12 months when doing an annual review) can warp your view on performance and what you should or should not be invested into.

This is why it's so important to filter out the noise and remember our core fundamental principles of investing. We never try to time the market or put any onus or weighting towards certain markets or investment approaches. We trust the long-term process and accept that, with hindsight, there will always be something better you should have been invested in – but there's also a lot of other things that have done much, much worse.

What we're seeing in our investment portfolios

The volatility that we've previously seen in the market appears to be settling down now, with most portfolios seeing less swings in their value over the last few months compared with what we have seen over the past couple of years.

This indicates that the world really is now adjusting to 'the new, new normal' – by which I mean, interest rates are likely to not go back down to the 0.01% that they were a couple of years ago, but similarly they aren't likely to go up much more (if at all) either.

As it appears more and more likely that inflation will naturally fade away into the back of our minds as it makes further falls, the global 'investor sentiment' relaxes – meaning that investment markets feel a little surer of their own expectations and have more certainty in what might happen next, which means that they can better plan and, in turn, provide more consistent returns.

As we always say - crucially, with investment markets, no news = good news and whilst it might make our annual reviews a bit less interesting – the bottom line is we can all sit a bit more comfortably in our seats.

Tell us what you think!

- What are your views on what is happening in the world?
- Is there something that you'd like to see covered in future newsletters?
- Do you think there's something we're missing?
- Did you like the cringe worthy Halloween puns we crowbarred in?

Finally

We're really proud to say that we have close to 30 Five-star Google reviews, awarded to us by our wonderful clients, we really appreciate you taking the time to thank us publicly and to hear such positive feedback – thank you!

If you haven't already given us a google review and you would be kind enough to share your thoughts. You can do so here: https://g.page/r/CVLAeUfA-0AOEB0/review

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