PORTFOLIO MONTHLY REPORT – November 2021

Situation

Last month saw the reappointment of Mr Powell as chairman at the USA central bank. Since that is the most influential bank in the investment world and its decisions impact the global economy his reappointment suggests no change in policy. However that policy is creating inflation and at some point a change of policy is going to be necessary unless they are happy with double digit inflation.

Inflation is a growing threat also in Europe. Petrol at the pump is much higher and that impacts all businesses as most distribution is done by road. Energy prices are rising rapidly and winter heating bills rising. The new German government wants to raise the minimum wage and have ever more green policies. Both attractive maybe but they put upward pressure on prices. On top of this we have the policy response to Covid19 which again is inflationary. So looking ahead to 2022 inflation is going to rise. But this from the ECB site.

Inflation is currently being pushed up largely by temporary factors that are expected to fade in the coming years. The staff projections foresee inflation at 2.2% in 2021,1.7% in 2022 and 1.5% in 2023.

That looks very optimistic to me. They go on to say …

What can the ECB do about all of this?

We are confident that inflation will decline in the course of 2022. Because monetary policy works with some delay, it can't help against short-lived spikes in prices. Making borrowing more expensive at a time when higher energy and fuel bills are squeezing people's incomes and companies' profits would create unwarranted headwinds for the recovery.

Which means they can do nothing … we are on our own! Its the same situation in the UK.

If those projections are wrong and we are going into a new era of high inflation there will be a delay in adjusting. Markets move their expectations as a herd moves. No movement, then suddenly rapidly and all together. We saw that in Feb/Mar 2020 with Covid19. Stories coming out of China about a virus were ignored by the financial world until mid February and then suddenly stock markets dropped all at once. Could we see a similar behaviour early next year regarding inflation? If so then it would be the government bond market that would suffer, long term rates would rise and Tech companies could be hit hard as higher discount rates make their future profits far less in todays terms.

It has been the Tech companies in the USA which have supported the stock markets, the famous FAANGs stocks. (Facebook,Amazon,Apple,Netflix and Google). If they were to be viewed in a different light then markets globally could be more volatile. We have been here before with the BRIC stocks.

In 2001 Goldman Sachs coined the term of BRIC (Brazil, Russia, India and China) and the idea was that these countries had the best prospects. However they have done no better than the global index but with much higher volatility. Catchy sound bites are mostly about marketing.

Here in Europe the main markets consist not of Tech companies but are called value companies. They have been out of favour in recent years but they are defensive, pay dividends and will probably do well even if inflation is higher.

These are the largest companies in the USA and UK and where they derive their revenue:

USA	Revenue source	UK	Revenue source
1.Apple	Mobile telephones	Astra Zeneca	Pharma
2.Microsoft	Software	Linde	Gas/Energy
3.Google	Adverts/Search	Diageo	Beverages
4.Amazon	Distribution	HSBC	Finance
5. Tesla	Electric cars	Glaxco	Pharma
6.Facebook	Adverts	Rio Tinto	Mining

Source

https://companiesmarketcap.com/united-kingdom/largest-companies-in-the-uk-by-market-cap/

If inflation is truly returning then revenue source is going to be very important in the coming years.

Best wishes

Tim 7 December 2021