



Newsletter – August 2024

Situation - Growing Global Risks

A. Recession risks

1. US economy is on the brink of recession. Europe and China are already in economic trouble.
2. US 2 year bond now yields less than the Fed Funds rate by the most in history. This indicates the Fed will soon lower rates and by a significant amount due to recession risk. Same for ECB.
3. US stock market has been driven by a handful of Tech stocks which are very highly valued.
4. AI company Nvidia is valued at 30 times sales. The star of 2000 Tech boom hit 10x then crashed.
5. The Kiel Institute has revised growth estimates lower in Germany to minus 0.1% for 2024.

B. War escalation risks

6. The invasion of Ukraine by Russia in February 2022 continues today.
7. Weapon systems given by NATO to Ukraine have enabled it to continue the war.
8. The latest system to be given to Ukraine is the F16 fighter plane.
9. Russia knows they are capable of carrying tactical nuclear weapons and has stated that if they are flown they will consider all flights so armed.
10. Russia has also stated that it will target all bases holding such planes even if outside Ukraine.
"Of course, if they will be used from airfields in third countries, they become for us legitimate targets, wherever they might be located," Putin said. *
11. In addition long range missiles from the UK and USA are now being delivered to Ukraine

C. Political risks

12. With Biden having medical problems it is not clear who controls the US administration.
13. The US presidential election is on 5 November. If Trump wins a change of power happens at the end of January. Given the political friction, a peaceful change of administration is not certain.
14. The new UK Labour government was elected by just 20% of the eligible voters.
15. The president of Ukraine has canceled elections and continues in power regardless.
16. The German government is polling at just 36% (SPD 16%, Green 14%, FDP 6%).

Most fund managers only consider the economic risks as outlined in section A above. Sections B and C risks are ignored as they are not within their mandate. But any of the above risks could have a significant impact on the investment world in the coming six months.

Something to consider.

Best wishes

Tim Underwood

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*<https://www.reuters.com/world/europe/putin-tells-pilots-f16s-can-carry-nuclear-weapons-they-wont-change-things-2024-03-27/>