



LWM Consultants Ltd

“Focusing on helping individuals & companies understand and plan their financial future”.



ClimateHero

**We offset our calculated
carbon footprint by
200% with ClimateHero**

Are you curious about how much CO2 you actually generate?
Go to climatehero.me and calculate your carbon footprint in 5 minutes!

QUARTERLY MARKET UPDATE – APRIL 2023

“History provides a crucial insight regarding market crisis: they are inevitable, painful and ultimately surmountable.” – Shelby MC Davies

January started with a bang! It felt like everyone wanted to forget about 2022. Markets rose strongly and there was a sense of euphoria. 2023 was going to be good!

It is periods such as this that make us nervous. That caution was well founded as markets dropped back in February and March.

We have an investment risk matrix and within that we have interest rates, inflation and recession as high risk. The impact of higher rates is starting to be felt as companies find it harder to get capital, and so we see the likes of Virgin Orbit filing for bankruptcy. Then we have the fallout from the collapse of SVB on other areas of the market.

Excluding something we can't see, the key for us is a recession. If we look through history, markets tend to recover once we enter a recession.

Recession Start	Recession End	Length (Months)	Market Low During Recession?	Distance from Recession Start (Months)	Distance from Recession End (Months)
Nov. 1948	Oct. 1949	11	Yes	6	-5
July 1953	May 1954	10	Yes	1	-9
Aug. 1957	April 1958	8	Yes	2	-6
April 1960	Feb. 1961	10	Yes	6	-4
Dec. 1969	Nov. 1970	11	Yes	5	-6
Nov. 1973	March 1975	16	Yes	10	-6
Jan. 1980	July 1980	6	Yes	2	-4
July 1981	Nov. 1982	16	Yes	12	-4
July 1990	March 1991	8	Yes	2	-6
March 2001	Nov. 2001	8	No	18	10
Dec. 2007	June 2009	18	Yes	14	-4
Feb. 2020	April 2020	2	Yes	1	-1
Average:		10.3		6.6	-3.8

QUARTERLY MARKET UPDATE – APRIL 2023

Stock Market Returns During Recession Years

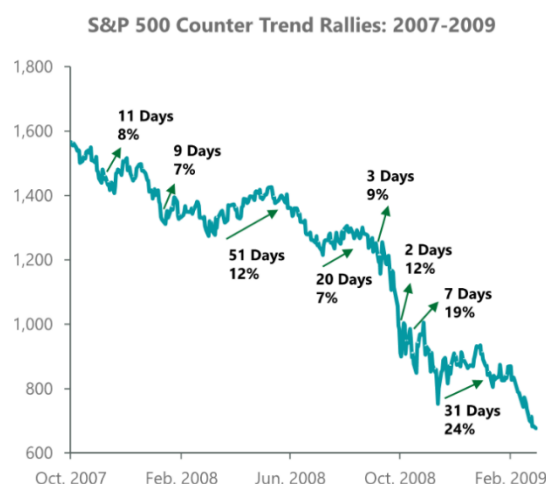
Markets typically bottom out and rebound months before the end of a recession.

Recession Year	Recession Year Returns (S&P 500)	Following Year Returns (S&P 500)
1945	30.3%	-11.9%
1949	10.3%	21.8%
1953	-6.6%	45.0%
1957	-14.3%	38.1%
1960	-3.0%	23.1%
1970	0.1%	10.8%
1974	-29.7%	31.5%
1980	25.8%	-9.7%
1982	14.8%	17.3%
1990	-6.6%	26.3%
2001	-13.0%	-23.4%
2008	-38.5%	23.5%
2020	16.3%	26.9%

Source: CFRA Research, NBER, S&P Global. • [Get the data](#) • Created with [Datawrapper](#)

History is really the one area we can look to as a guide to the future. Counter trend rallies are common.

Largest Historical Recessionary Counter Trend Rallies		
Recession Start	Recession End	Largest Counter Trend Rally
Dec. 1969	Nov. 1970	6%
Nov. 1973	Mar. 1975	10%
Jan. 1980	July 1980	4%
Jul. 1981	Nov. 1982	12%
Jul. 1990	Mar. 1991	6%
Mar. 2001	Nov. 2001	19%
Dec. 2007	June 2009	24%
Feb. 2020	Apr. 2020	9%
Average:		11%
Current:		17%



This is where we see markets rise and then quickly drop back, and it seems that this is something we need to accept over the coming months.

However, this is not all gloom.

QUARTERLY MARKET UPDATE – APRIL 2023

We follow ClearBridge Investments who produce a US Recession Indicator, and this is showing that the US is moving towards recessionary territory. This means we could be close to the low point of the markets.

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall dashboard is currently signaling recession

	Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Consumer	Housing Permits	✗	✗	✗	✗	✗	✗	✗	✗
	Job Sentiment	✗	✗	✗	✗	✗	✗	✗	✗
	Jobless Claims	✗	✗	✗	✗	✗	✗	✗	✗
	Retail Sales	✗	✗	✗	✗	✗	✗	✗	✗
	Wage Growth	✗	✗	✗	✗	✗	✗	✗	✗
Business Activity	Commodities	✗	✗	✗	✗	✗	✗	✗	✗
	ISM New Orders	✗	✗	✗	✗	✗	✗	✗	✗
	Profit Margins	✗	✗	✗	✗	✗	✗	✗	✗
	Truck Shipments	✗	✗	✗	✗	✗	✗	n/a	n/a
Financial	Credit Spreads	✗	✗	✗	✗	✗	✗	✗	✗
	Money Supply	✗	✗	✗	✗	✗	✗	✗	✗
	Yield Curve	✗	✗	✗	✗	✗	✗	✗	✗
Overall Signal		✗	✗	✗	✗	✗	✗	✗	✗

✗ Expansion ✗ Caution ✗ Recession

ClearBridge
Investments

Data as of Feb. 28, 2023. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

12

The other data point we follow is from BlackRock, who produce expected annual returns across different asset classes. The table below is the latest data.

	5-year	10-year	Expected volatility
Private Equity	10.70%	10.70%	24.90%
Europe Large Cap	10.00%	9.50%	15.90%
Emerging Markets Large Cap	10.30%	10.10%	19.20%
Global ex UK	8.60%	8.20%	15.90%
UK Large	7.30%	7.20%	14.70%
Global Infrastructure	10.80%	10.20%	16.80%
Japan Large Cap	8.00%	7.00%	16.60%
China A	8.80%	8.00%	30.20%
US Large	7.00%	7.00%	16.50%
Global Aggregate Bonds	4.60%	4.30%	3.80%
Global Core Real Estate	4.10%	4.50%	10.90%

The chart below has been produced by JP Morgan.

QUARTERLY MARKET UPDATE – APRIL 2023



We cannot second guess what is going to happen next. What we can do is look to the past and look to data. We should from this be able to take comfort. The US is close to recession, and others will follow. It is at that point that we should reach the bottom of the markets, and then start to recover.

The long-term outlook from two separate sources is positive. The temptation is capitulate and the chart below is a good way to finish this summary. However hard, time and time again, data shows that staying invested and not trying to time the market is the best place to be.

Stay invested so you don't miss the market's best days

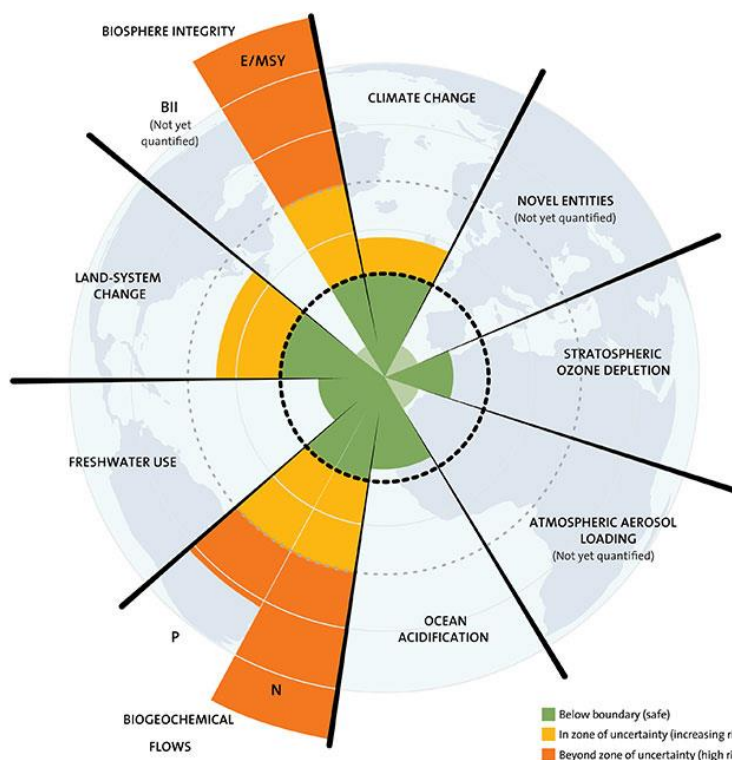


George Ladd's

George Ladd, Director, April 2023

QUARTERLY MARKET UPDATE – APRIL 2023

Responsible Investing



This is a fascinating chart. It shows the seven planetary boundaries to enable the world to operate. We can see from this that two of these areas have been breached.

Ultimately, we can choose to ignore what is happening, but the end result is that the world will at some point be unable to function.

From an investment standpoint, we know that there are many companies that are directly investing in developing solutions to combat some of these challenges, and therefore we must adapt our investment style to benefit from this.

But responsible investing is not just about the planet. There is a lot of talk about ESG. ESG covers issues of environmental, social and governance. This is purely a quality screen. A fund which has these screens can still invest in fossil fuels.

The crucial element to this is ensuring that companies are doing the right things. Ultimately if a company treats its employees badly, or underpays its suppliers, this is negative and will damage shareholder returns.

There will be lots of terminology bandied about over the coming years but there are two crucial takeaways when investing. If we want to invest to protect the world, then some form of impactful exclusionary investment is likely to be the solution. If we want to make sure we get the best returns, then we need to understand the quality screens that fund managers apply. This can apply across exclusionary and non-exclusionary strategies.

A quality screening is not just about a tick box exercise but it is also about understanding how committed a business is, and this can be through their engagement with the companies they invest in. In summary, responsible investing is not a negative driver of returns. Whichever route we select there should be considerable value to this going forward.

QUARTERLY MARKET UPDATE – APRIL 2023

US, EUROPE & UK

Five year returns 1 April 2018 – 31 March 2023

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



30/03/2018 - 31/03/2023 Data from FEfundinfo2023

Special note to graph: You should note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.



Let's start with the US. Trump has stated his intentions to run in the 2024 elections. As he is the first US President to go on trial you would think this would scupper his ambitions, but it seems not.

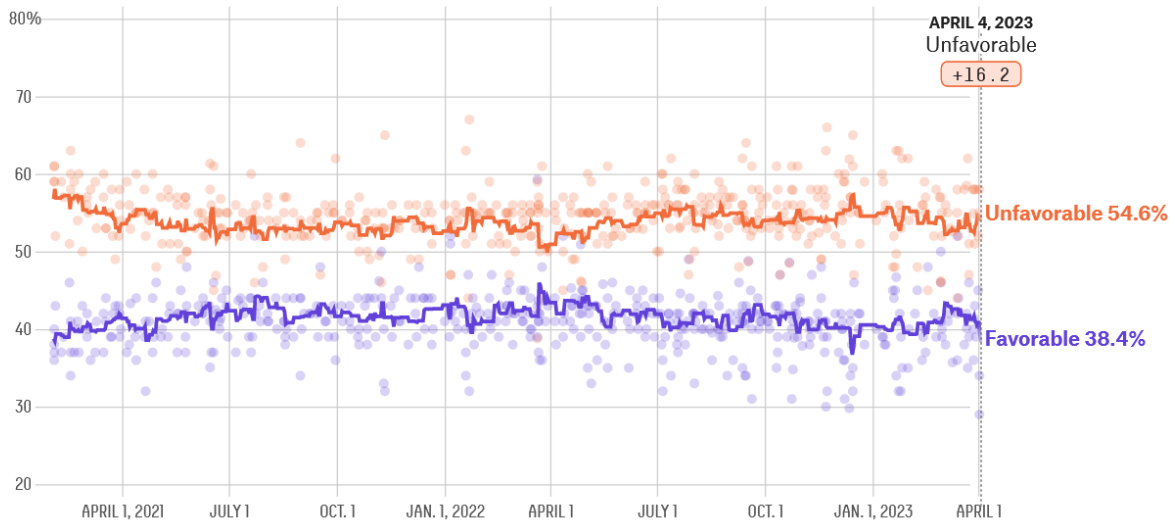
This is for him a chance to revitalise his campaign. We always knew this would be an interesting campaign but clearly there are more twists and turns to come.

If we look at the chart below, we can see that Trump's popularity had been slipping. But he now has a platform and clearly he is going to take it!

QUARTERLY MARKET UPDATE – APRIL 2023

Do Americans have a favorable or unfavorable opinion of Donald Trump?

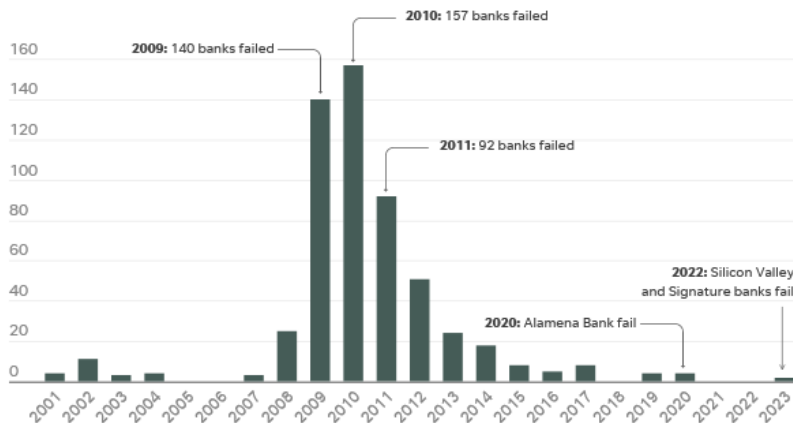
An updating average, accounting for each poll's quality, recency, sample size and partisan lean.



Joe Biden is running on 42.8% so although Trump has been dropping back, there isn't much difference between the two.

In 22 years, 563 US banks have failed

There have been 563 bank failures from 2001 through 2023 YTD. Failures per year:



NOTE As of March 17; SOURCE Federal Deposit Insurance Corp.

The main thing to watch over the coming months is the US and a recession. It seems that the Fed moved too slowly and then too quickly in raising interest rates and that has placed a strain on the market. This was reflected in the collapse of SVB. Bank failures in the US are not uncommon.

The recessionary indicators show that most variables are now in

recessionary territory.

The area to watch is employment. Historically an increase of 0.5% or more in the unemployment rate vs the lows over the prior year has signalled a recession. The Fed is expecting this to be 0.9% next year.

QUARTERLY MARKET UPDATE – APRIL 2023

What's The Fed Telling Us?



Unlike the UK, US consumers are less sensitive to interest rates as they tend to have 30-year fixed rate mortgages. However, mortgages cannot be transported between properties, meaning that people are not moving, which is slowing the housing market.

As we wait for the recession the next thing to watch for is the recovery dashboard. This is almost all red, so we are not seeing any economic expansion at this stage.

		February 2023	January 2023	December 2022
Confidence	Consumer Confidence	×	×	×
	Business Confidence (ISM)	×	×	×
	Investor Sentiment	×	×	×
Economic	Housing Starts	×	×	×
	Initial Jobless Claims	×	×	×
	Philly Fed	↑	●	●
Financial	Credit Spreads	×	×	×
	Fed Policy	×	×	×
	Financial Conditions	×	×	×
Overall Signal		×	×	×

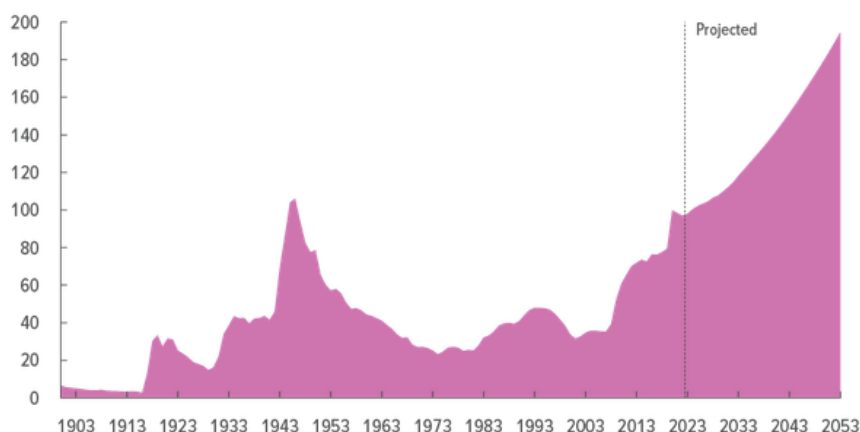
↑ Expansion ● Improvement × Recession

For the US, the Presidential Campaign will be at the centre for many months to come. From an economic point of view we need to carefully watch the signals, but it is moving into recessionary territory. The other area to watch is that the US could default on its debt unless Congress raises the \$31.4 trillion debt ceiling. This is not a done deal and we should expect some uncertainty, especially over the summer whilst politicians push for a solution.

QUARTERLY MARKET UPDATE – APRIL 2023

Federal Debt Held by the Public, 1900 to 2053

Percentage of GDP



Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

The UK faces many challenges, in part caused by leaving the European union and in part by COVID. The UK tax intake is clearly too low for the services and expectations, and how this is addressed will be one for debate. The tax to GDP ratio was 32% in 2010, and this was higher than the OECD average at that time. In 2020 it was 32.1% but lower than the OECD average.

In 2021 this increased to 33.5%. In Germany the rate is 39.5%, France 45.1% and Italy 43.3%. It is however higher than the US which is 26.6%. But it is important to remember the differences with the US, who are more self-sufficient compared to the UK.



Rising inflation leads to demands for higher wages as people struggle with the ever increasing costs.

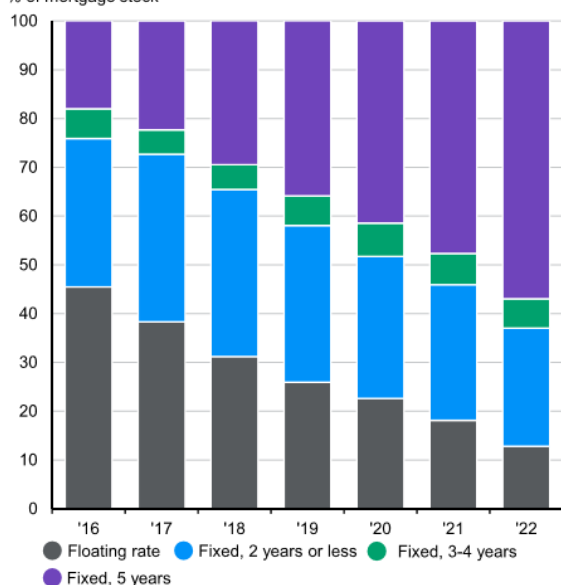
The average salary in the UK has increased from £17,500 in 1999, to £33,000 in 2022. According to the Healthy Journal, 25% of the UK population earn over £50,000. In 2010 this was 15%.

The UK household is more sensitive to rising rates. Although fixed rate mortgages have increased these tend to be at 5-years maximum. The chart shows the mix. This doesn't reflect longer mortgages but these are a smaller percentage.

QUARTERLY MARKET UPDATE – APRIL 2023

UK mortgages

% of mortgage stock



Inflation is likely to remain elevated in the UK and we saw an increase in February. Expectations are that inflation will be around 9% by the end of the year and then will come down in 2024, but the level at which it finally settles is debated.

Interest rates are likely to be at higher levels than we have seen for the last decade but probably at a more normalised level. This is having an impact on house prices. Housing prices have come down slightly and properties are taking longer to sell.

However, the rental market remains strong, and there is a demand / supply imbalance which should avoid the property crash we

saw in the nineties.

In terms of markets, the UK remains unloved and cheap. The UK is not just about the FTSE100. There are great companies but no-one is buying. The chart below is the FTSE All-Share Forward P/E ratio which shows this below the average.

UK FTSE All-Share forward P/E ratio

x, multiple

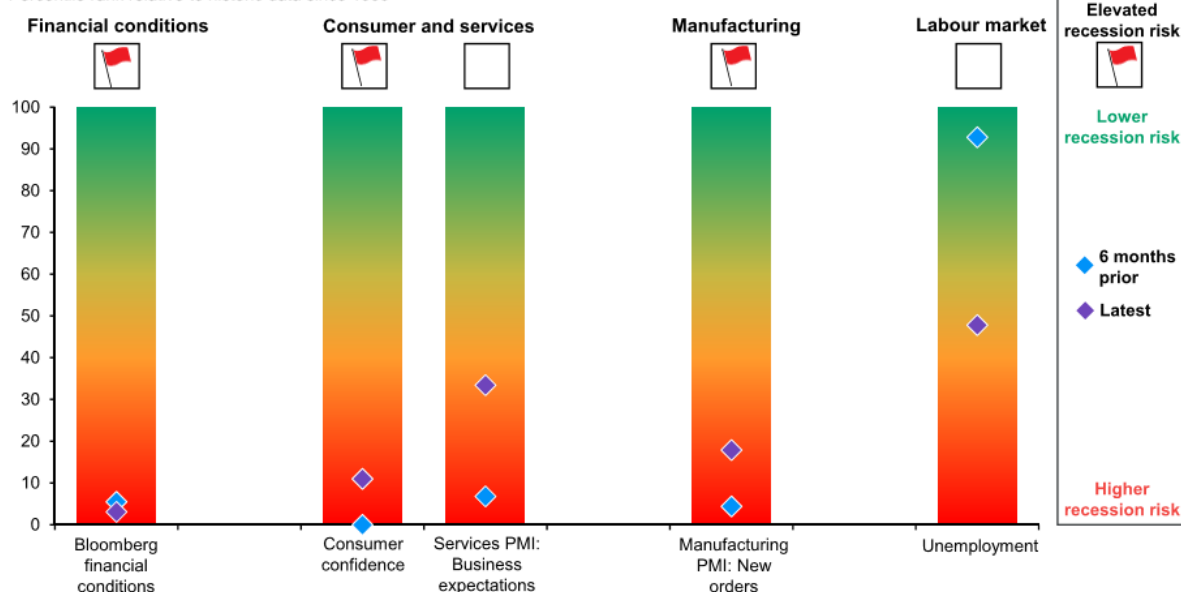


We have lowered our allocation to the UK as we find there are better opportunities globally. However we still have some exposure because it is cheap, and at some point there will be a turnaround. The UK recession is more complicated because there is a shortage of workers, and this may mean that unemployment is not as bad as we have seen in other recessions.

QUARTERLY MARKET UPDATE – APRIL 2023

Eurozone economic indicators

Percentile rank relative to historic data since 1999



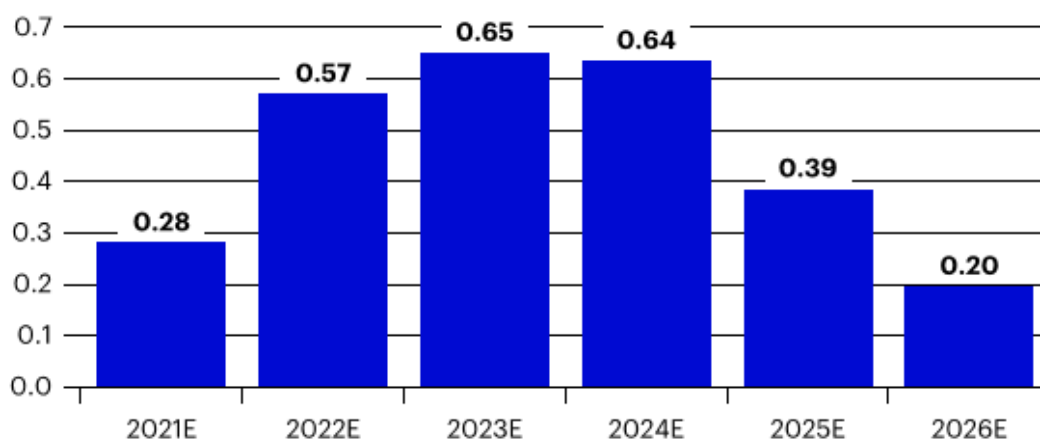
Europe is moving more into recessionary territory. However, the signs for Europe are perhaps more positive than the US over the long-term. The last decade was all about the US. However, the “green transition” really plays to Europe’s strengths. The €750 billion European Recovery Fund is a game changer.

European companies are actively penalised where their activities do significant harm and there is nothing like a financial incentive to make change happen. Europe has leading wind turbine manufacturers and semiconductor companies involved with Auto electrification. Names such as Vestas, Nordex, Siemens Gamesa, Enel, EDP, Acciona, Infineon and STMicro could all be the big names over the next ten years, and means that Europe outperforms the US.

The important aspect of the European Recovery Fund is that it is spread over a number of years, meaning that this is not a one-off payment but gradual and phased, resulting in a more sustainable recovery.

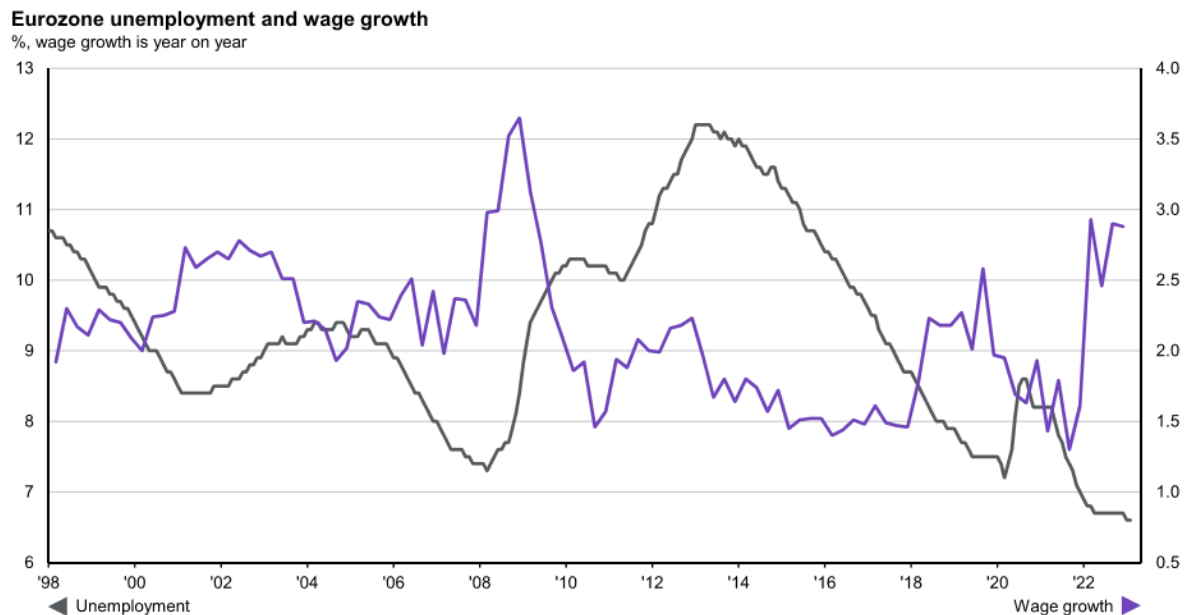
Figure 3

Next Generation EU – projected payments of Grants, % of GDP



QUARTERLY MARKET UPDATE – APRIL 2023

Europe has challenges including politics and energy transition as well as inflation and higher rates. As it stands unemployment is still coming down.



Inflation is expected to drop below 7% this year, still ahead of the 2% target but better than the UK. Interest rates will likely remain lower than the UK and US.

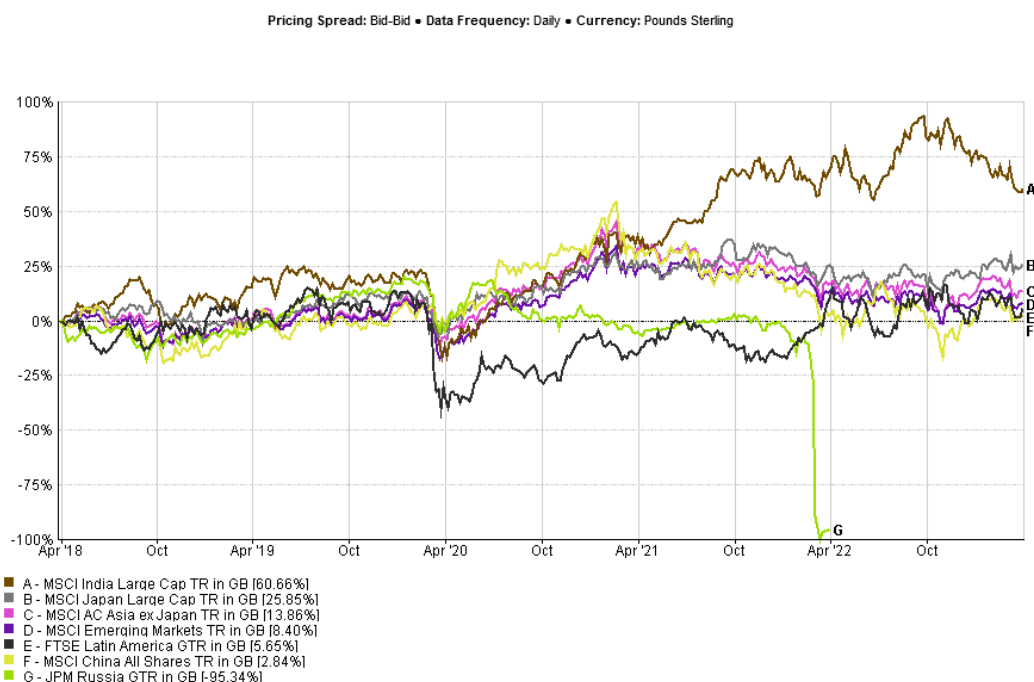
The challenge is oil and gas. 49% of Germany's gas supply came from Russia, Italy is 46% and France 24%. Getting supplies from other parts of the world is not easy and therefore this could continue to create uncertainty in the short term.

In summary, the key focus in the short-term is recessionary. The sooner this comes, the sooner we can start to see a recovery in markets. Longer term we favour Europe over the US simply because where the US dominated tech over the last ten years, Europe is likely to dominate the green transition. Europe is committed to this path whereas the US and UK are less so. The US is likely to have a volatile period running up to the election in 2024, and the result is far from certain.

QUARTERLY MARKET UPDATE – APRIL 2023

EMERGING, ASIA AND FRONTIER MARKETS

Five year returns 1 April 2018 – 31 March 2023



30/03/2018 - 31/03/2023 Data from FE fundinfo 2023

Special note to graph: You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

The world is a complex place. As the US battle with its debt ceiling, it is worth reflecting on who owns its debt:

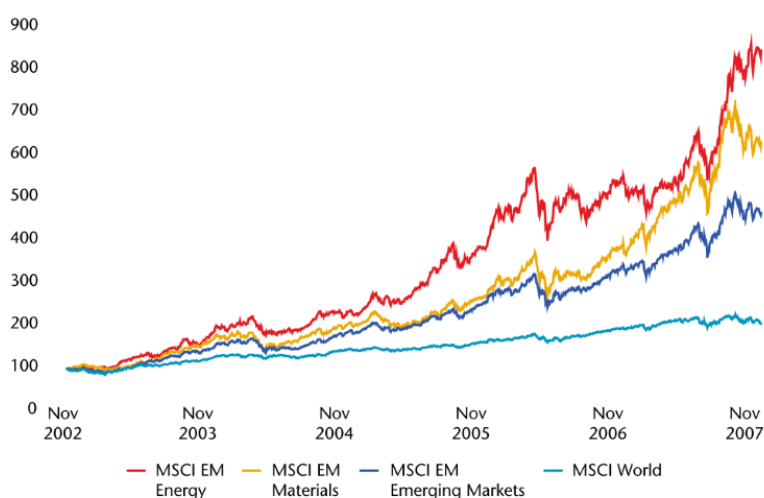
QUARTERLY MARKET UPDATE – APRIL 2023

Rank	Country	U.S. Treasury Holdings	Share of Total
1	 Japan	\$1,076B	14.7%
2	 China	\$867B	11.9%
3	 United Kingdom	\$655B	8.9%
4	 Belgium	\$354B	4.8%
5	 Luxembourg	\$329B	4.5%
6	 Cayman Islands	\$284B	3.9%
7	 Switzerland	\$270B	3.7%
8	 Ireland	\$255B	3.5%
9	 Taiwan	\$226B	3.1%
10	 India	\$224B	3.1%

The US can be anti-China, but they must take care. China is the second largest holder of US debt and although this has reduced this is an important consideration. China opening is good for emerging markets, but the journey back will not be smooth. China is very clear on what it wants to achieve, and we believe that as a long term investment story it shouldn't be ignored. However, emerging markets is not just about China.

FIGURE 1. THE COMMODITIES-LED EMERGING MARKETS BOOM

Gross returns from 2002 to 2007



Source: FactSet. Note: All indices indexed to 100. **Past performance is no guarantee of future results.** Indices are unmanaged and shown for comparative purposes only. It is not possible to invest directly in an index.

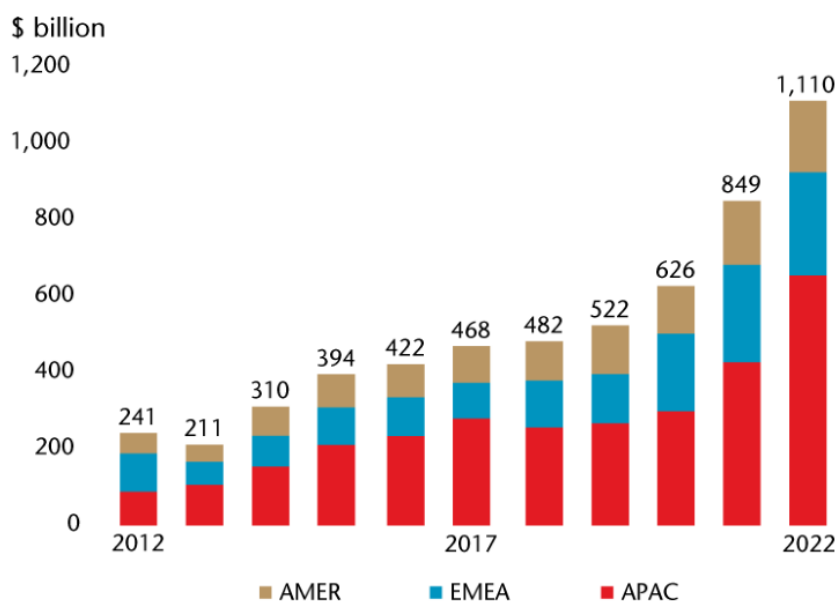
As we have indicated Europe is likely to be a leader over the next decade as we transition to “green energy”. However, to get to this point commodities from Latin America, Asia, Middle East and Africa will be needed. This could produce another commodity led emerging market boom as was seen between 2002 and 2007.

But this is not just about commodities. Many of the emerging market economies will need to transition to a greener economy. The chart below shows that cost across the different emerging market regions.

QUARTERLY MARKET UPDATE – APRIL 2023

FIGURE 2. A SUSTAINABLE EMERGING MARKETS BOOM?

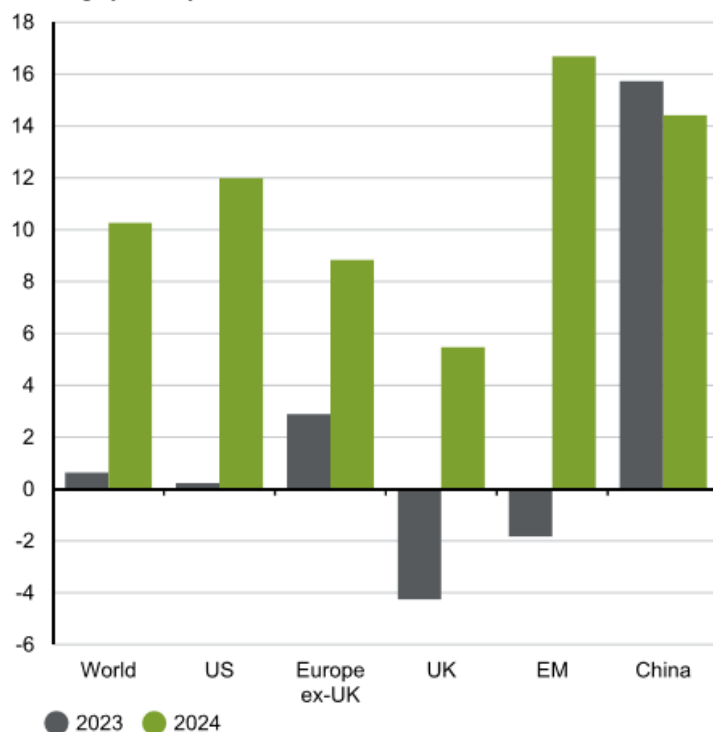
Annual investment in energy transition by region from 2012 to 2022



Source: BloombergNEF, data as of Feb. 2023. BloombergNEF defines energy transition investment as money spent to deploy clean technologies such as clean energy, electric vehicles, hydrogen and carbon capture. AMER - North, Central and South America; EMEA - Europe, the Middle East and Africa; APAC - Asia and Pacific.

Consensus estimates for global earnings per share growth

% change year on year



willing to accept change.

If we consider valuations and global earnings growth then emerging markets exceeds the US, Europe and UK.

It is not just about growth; urbanisation remains relatively low compared to developed economies and that transition to more city based and higher incomes all benefit emerging markets.

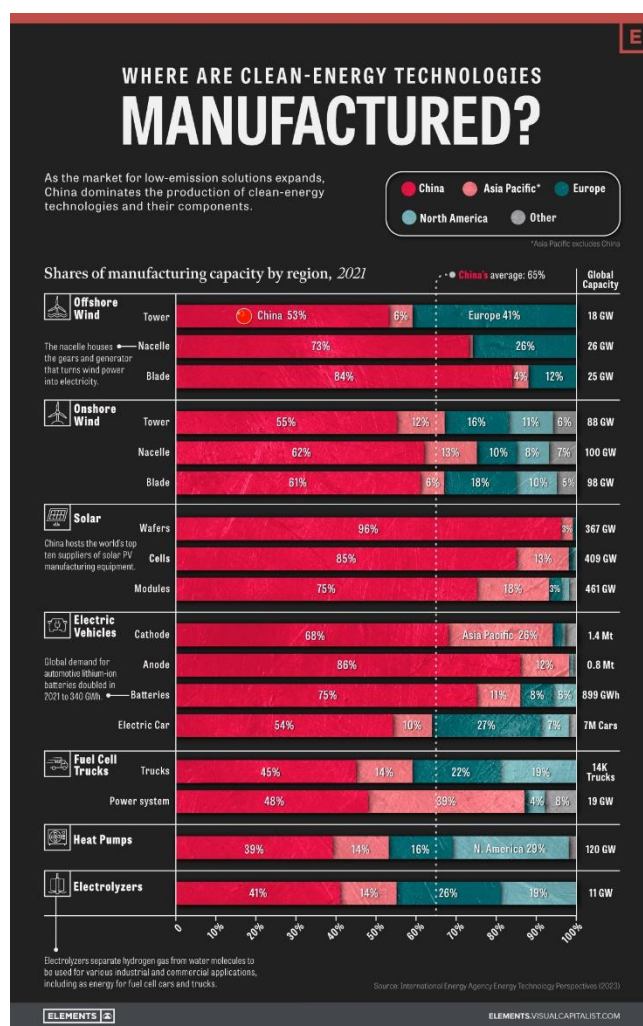
Higher oil prices do impact some economies but benefits others. Many emerging market economies are well managed with lower levels of debt compared to their Western counterparties. They also tend to be more inventive and more

QUARTERLY MARKET UPDATE – APRIL 2023

Inflation can be an issue. Venezuela has inflation of 538%. But countries such as Philippines, Mexico, South Africa, India, Brazil, Indonesia and Thailand all have inflation below that of the UK.

In terms of interest rates countries such as Kuwait, Singapore, China, South Korea, Morocco, Malaysia and Thailand all have rates below that of the UK.

In terms of debt, the US had debt of around 115% of GDP in 2021. Countries such as South Africa, Morocco, India, Thailand, Mexico, Chile and Kuwait have debt well below that of the US and below 100% of GDP.



In summary, compared to Western Economies many emerging markets have lower levels of debt and in some cases lower rates of inflation and interest rates. Some of these economies will benefit from a commodity boom as we transition to a greener world, and the economies themselves will also become part of that transition. Emerging markets have had a difficult decade but like Europe, there are signs that this decade could be the decade for emerging markets to shine again.

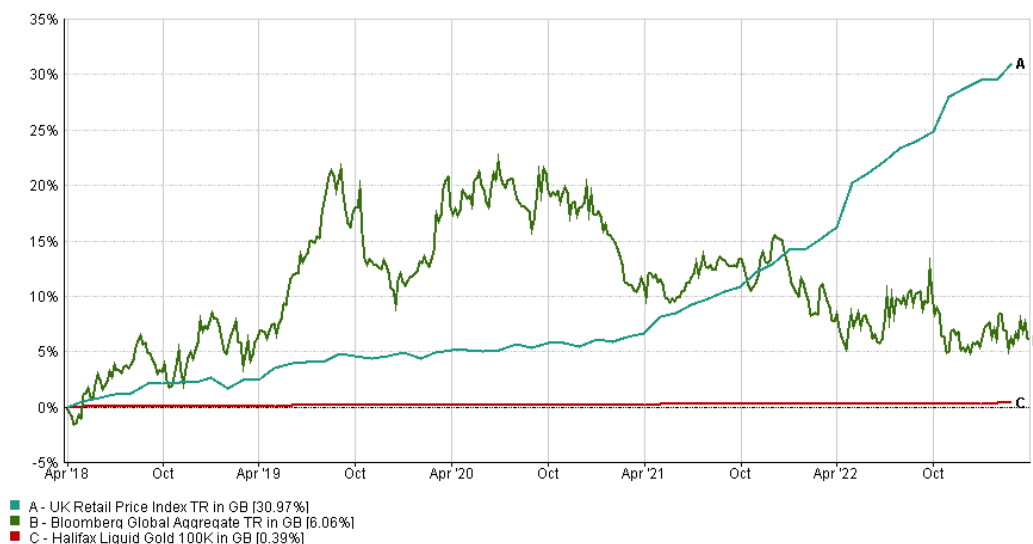
We thought it would be worth ending with this chart which shows where clean energy technologies are manufactured.

QUARTERLY MARKET UPDATE – APRIL 2023

CASH

Five year returns 1 April 2018 – 31 April 2023

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



30/03/2018 - 31/03/2023 Data from FEfundinfo2023

Special note to graph: You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Cash is attractive because it doesn't go down, and interest rates rising mean that it is now generating an income. However, interest rates are not at the levels they were and to beat inflation the interest paid needs to be considerably higher.

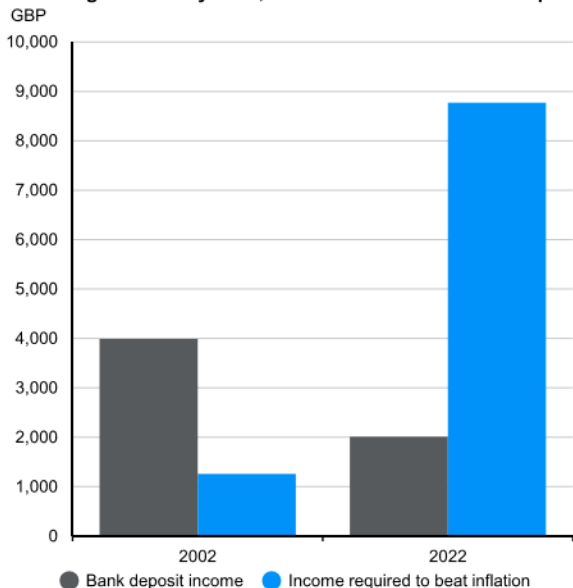
Holding cash is not bad and getting some interest on this is definitely worth it. But as a long term investment it remains questionable.

QUARTERLY MARKET UPDATE – APRIL 2023

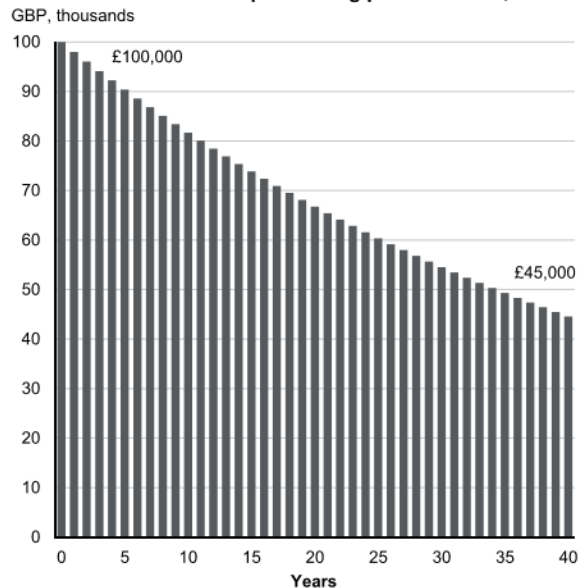
Cash investments

GTM UK 91

Income generated by £100,000 in a three-month bank deposit



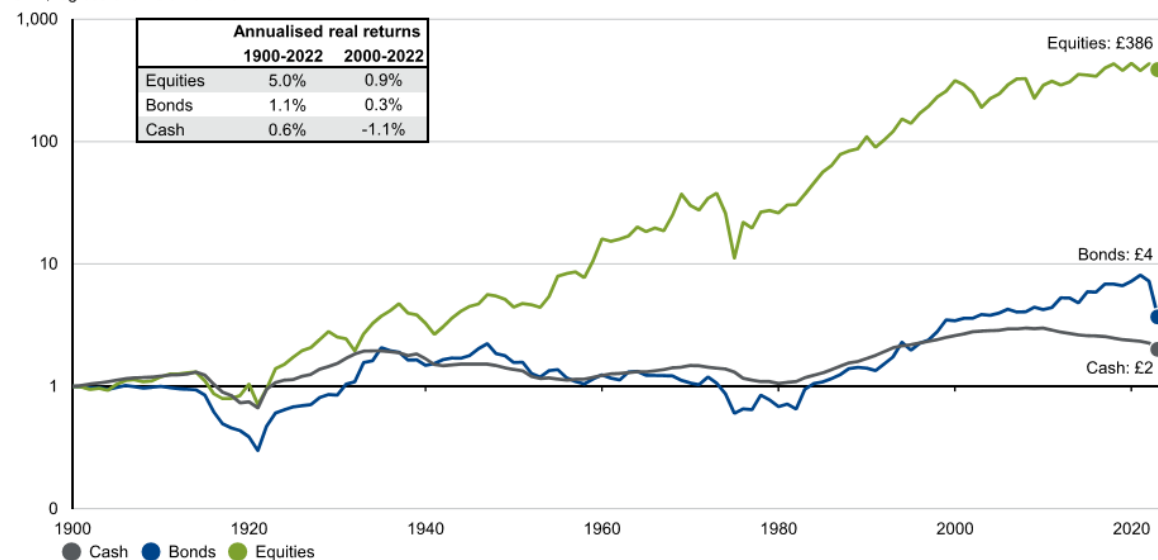
Effect of 2% inflation on purchasing power of £100,000



If we consider the longer term returns, cash has struggled.

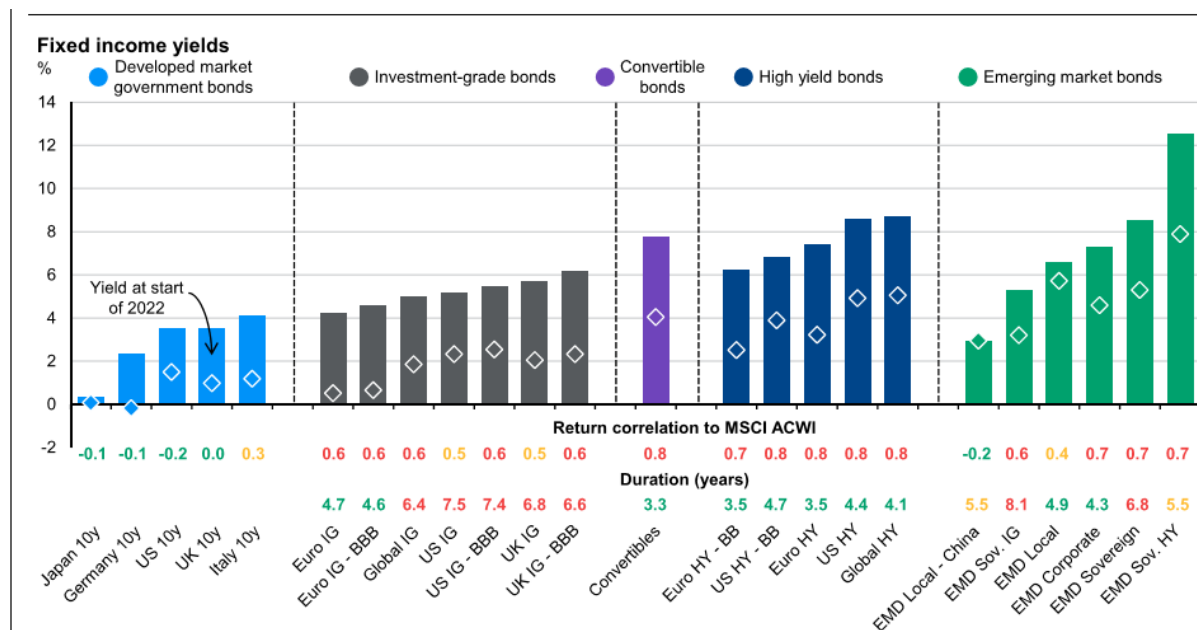
Total return of £1 in real terms

GBP, log scale for total returns



It is worth adding that debt (fixed income investments) has come back into play. The chart below shows where yields sat at the start of 2022 and where they are now. For the first time in a long time this asset class offers strong diversification vs equities.

QUARTERLY MARKET UPDATE – APRIL 2023



QUARTERLY MARKET UPDATE – APRIL 2023

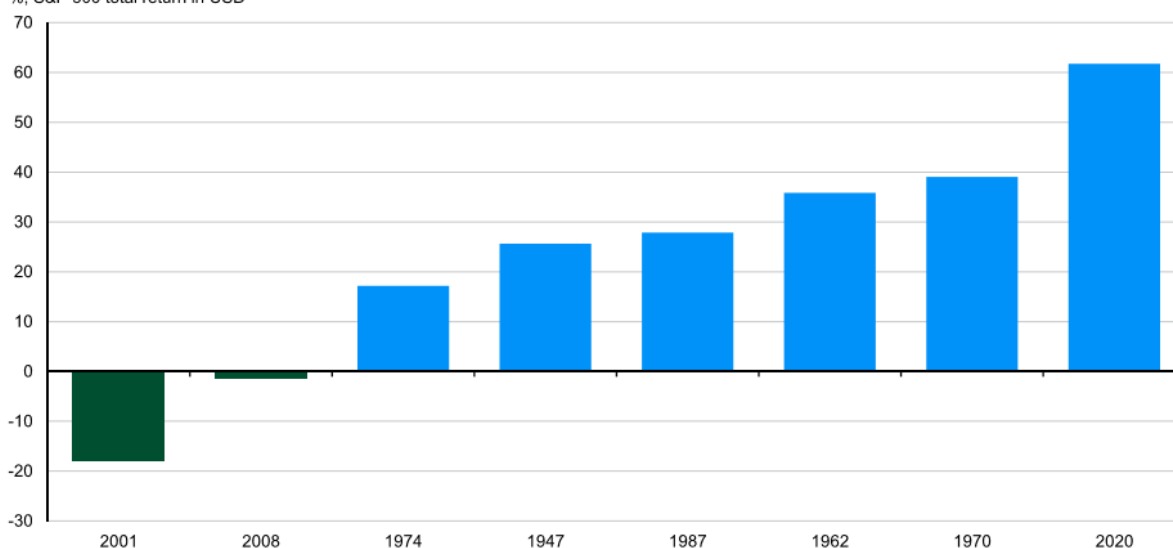
CONCLUSION

We have used more charts in this update to provide an indication of what might happen. The takeaways we would say are:

- It is very hard to say how the markets will look at the end of 2023.
- We should take comfort from that fact that there are recessionary signs in the US and Europe.
- A recession is not bad for markets; the bottom of the market tends to be during a recession.
- Longer term we would point to Europe, with a more sustained focus on a greener economy.
- We would also point to emerging markets which is likely to benefit from the energy transition.
- US still has a part to play but expect uncertainty and volatility around the debt ceiling and the build up to the election.

The chart below shows the returns after 25% drawdowns on the S&P 500:

Subsequent 12-month returns after 25% drawdowns
%, S&P 500 total return in USD

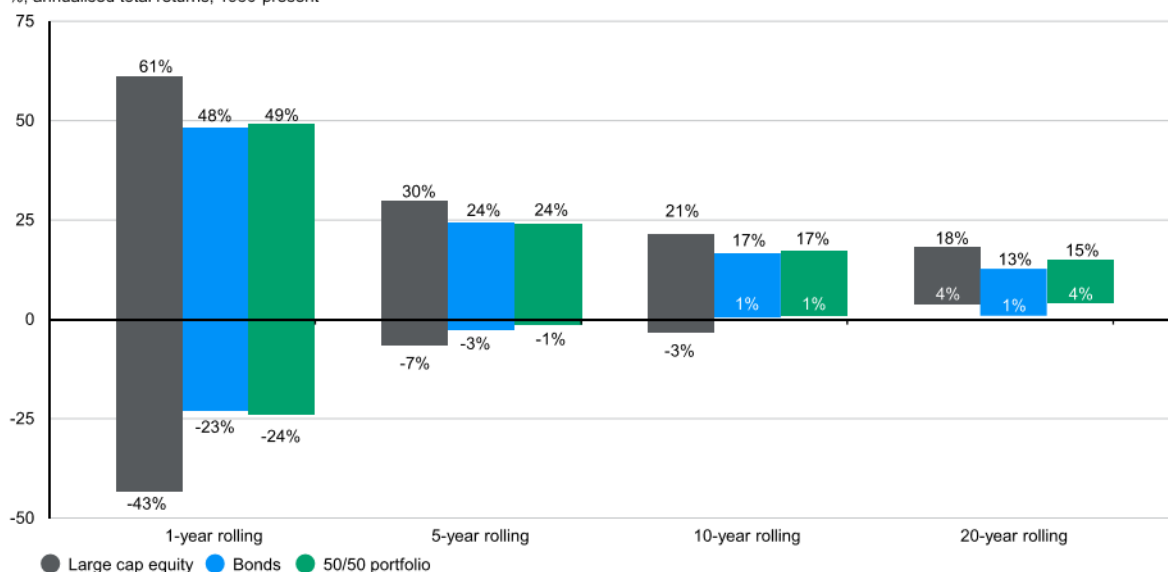


And this shows the range of global returns.

QUARTERLY MARKET UPDATE – APRIL 2023

Range of equity and bond total returns

%, annualised total returns, 1950-present



In summary, the worst is often when we are in the midst of it, and we certainly seem to be at that point! We can at this times only turn to data, and that really is where we can seek comfort.

General disclaimer: The data has been sourced from external sources (the charts for example are from FE Analytics, JPMorgan and ClearBridge) and although we have looked to ensure this is as accurate as possible, we are not responsible for data they supply.

The view on markets is written in a personal capacity and reflects the view of the author, it does not necessarily reflect the views of LWM Consultants. Individuals wishing to buy any product or service because of this update must seek advice or carry out their own research before making any decision. The author will not be held liable for decisions made because of this paper (particularly where no advice has been sought).

Please also note past performance is no guide to future performance and investments can fall as well as rise.

LWM Consultants Ltd is authorised and regulated by the Financial Conduct Authority. FCA Number 728107. Registered in England & Wales under Company Number 07408315.
Registered Office: The Garden Suite, 23 Westfield Park, Redland, Bristol, BS6 6LT