ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

> *The most difficult thing is the decision to act, the rest is merely tenacity.*
> ***Amelia Earhart***

Friday, 10 March 2023

In this week's Investment Insight

No shelter in US ports
Most investors alive today have been able to rely on a fairly safe assumption, virtually a truism, that when the global economy is stormy, the US offers a safe port to investors. Increasingly, that is looking like a less reliable assumption. In *The Inside Track* we look at the factors that are changing the way investors view the US.

Copper fastened
According to US Geological Survey data, since 1950 there has always been, on average, 40 years of copper reserves and over 200 years of resources left. However, the best and most productive copper resources are steadily being used up, leaving only harder-to-access deposits in the more far-flung corners of the world. As a result, the market is becoming increasingly tight. In the *Pic of the Week* we take a look at the supply versus demand outlook.

Newswire
Some interesting nuggets from this week's newswires.

Market view
A visual snapshot of recent market performance.

The Inside Track: No shelter in US ports

2022 saw a profound change in the backdrop that had supported developed world equity markets for several decades. Last year's high inflation and rising interest rates led to the correction of overstretched equity market valuations, resulting in sharp losses for many investors. While company fundamentals in many leading businesses may not have changed significantly, the price which investors are willing to ascribe to the prospect of future success has diminished. However, despite the reduced valuations, there are still significant near-term and longer-term risks. Domestically generated inflation remains uncomfortably high in the US and UK in particular. Just this week the US Federal Reserve signalled more interest rate increases resulting in the most inverted yield curve since the early 1980s. As the Fed seeks to engineer a recession, the consequent risks to economic growth and corporate earnings are high.

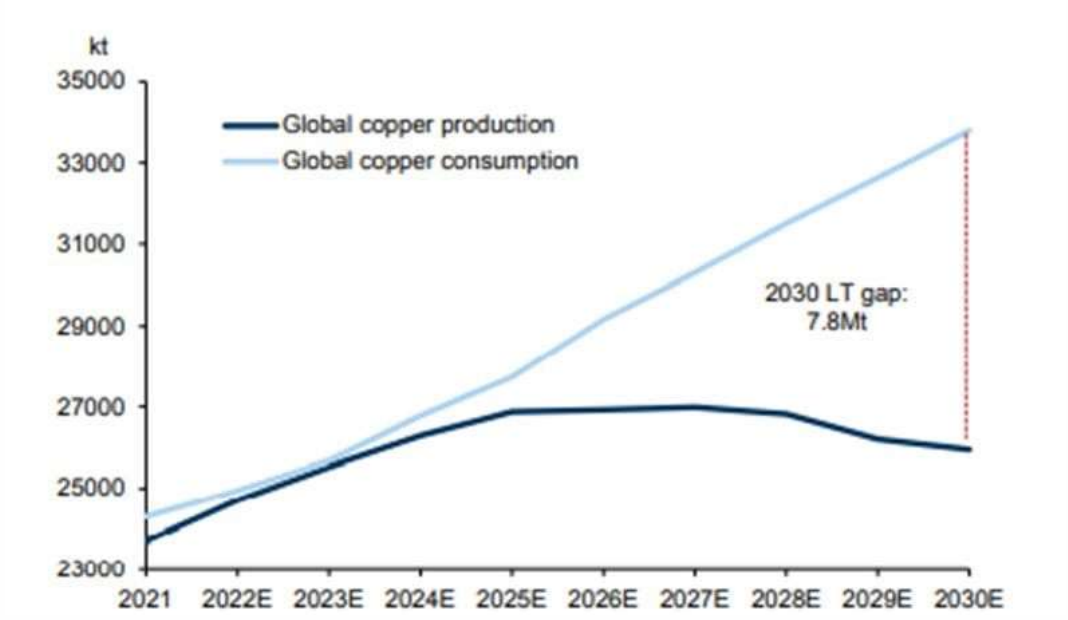
We may also be facing a secular shift that could result in better opportunities for investors from European and Emerging Markets moreso than the US. Aside from the short-term pressures afflicting the US, there are more fundamental secular issues at play. The US's political climate is increasingly polarized. Coupled with a rise in social and economic tensions, this has led to greater uncertainty for investors. While clearly evident prior to Covid 19, the pandemic has esacerbated the problem.

Another factor that has eroded investor confidence in the US is its growing debt burden, particularly when viewed in the context of continual increases in the debt ceiling, agreement on which is becoming ever more politicised. Of course, rising interest rates only add fuel to this fire, making the servicing of the debt ever more costly. It is now approaching levels that many experts consider unsustainable. In an armageddon scenario, this could threaten the US's long-term economic and political stability. Not unrelated to the debt issue, the world is awash with US dollars. Seeming hitherto invulnerable, it looks increasingly probable that we will see a gradual weakening of the US dollar.

These factors are contributing to a growing sense of unease among investors. While it is still a major economic power, the US may no longer be the unquestioned safe haven for investors that it once was.

Pic of the Week: Copper fastened

Many factors, including higher interest rates, feed into higher copper prices. However, Despite the relatively strong price, capex starvation on the part of producers since 2015 is having its effect. According to Goldman Sachs, a breadth of issues at mines across the continent of South America means that production for 2023 is expected to come in significantly behind expectations which provides another inflationary tailwind for short-term copper prices. With China reopening after Covid into a stuttering global economy, the immediate outcome for copper prices is far from predictable. However, Goldman Sachs believes that the green structural rise in demand will near outweigh the cyclical slowdown. As their chart below illustrates, the forecast gap between supply and demand in the years ahead is ever growing, suggesting copper prices won't be cheapening any time soon.



Newswire

...on Monday
Austrian central bank chief Robert Holzmann calls for interest rate rises of 0.5% at each of the ECB's next four meetings.

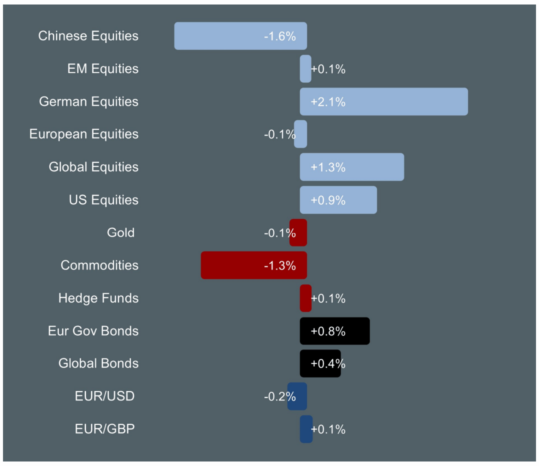
...on Tuesday
The Federal Reserve Chair, Jerome Powell, says interest rates will likely increase more than expected in response to recent strong data.

...on Wednesday
Job openings data in the US suggest the labour market remains tight.

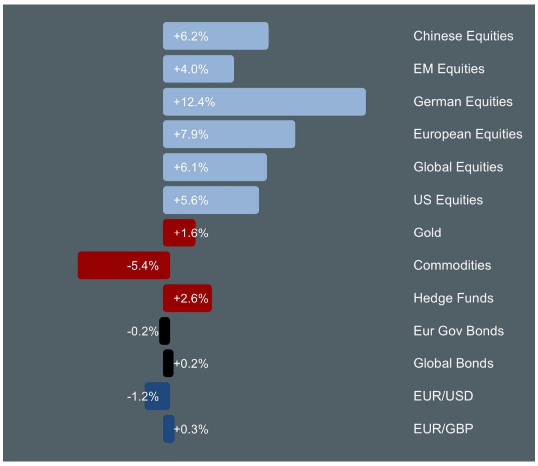
...on Thursday
The NTMA auctions bonds at 3.37%, the highest rate in 9 years.

Market View

Last 7 days (€)



Year to date (€)



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