UPDATE

Knightsbridge Wealth

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The Knightsbridge Wealth magazine for international clients

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A welcome note from Knightsbridge Wealth

According to the United Nations, the global population reached eight billion. In 1927, it was just two billion, having taken about 123 years to double. No wonder, then, that in the past two centuries, fears that the growing population would overwhelm the Earth's resources and lead to misery and war have kept recurring. But this notion, originally articulated by economist Thomas Malthus in 1798 and evident today in parts of the environmental movement, has been proved wrong.

The proportion of people living in absolute poverty (defined by the World Bank as living on $2.15 a day) has fallen from around 90% to 10% in the past two centuries, while commodity prices, which would have rocketed had everyone been competing for scarce resources, have slumped. Human innovation has been the key: new sources of raw materials, new extraction methods, and the discovery of alternative resources have kept us going.

If anything, we will soon be worrying about too few people. In the developed world, at least, population growth is slowing sharply (it peaked in 1964) and, crucially, the growth in the working-age population is on the wane. This is awkward for governments, which spent the wealthy post-war years making pension and welfare commitments to their citizens that relied on a healthy supply of future workers to finance. Governments could use future strong population growth to pay for their real-time promises to their citizens.

Now, the supply of workers is dwindling, but the debt incurred while making these promises remains. And fewer workers imply less growth in prospect to work it off, or at least keep it manageable. Demographics, then, are a key structural element of the growth and debt problems the developed world is grappling with.

Despite our development, humans make poor investors. Evolution has programmed us to survive, and none of the instincts conducive to survival help us make sensible long-term decisions. Our tendency to exchange information and gossip ensured that we thrived when we crawled out of the sea, but it now means we might listen to investment advice on Twitter. Similarly, panicking and running when faced with danger is helpful for avoiding woolly mammoths, but also prompts us to pull our money out of the market after sharp declines, when it would make more sense to buy in preparation for the rebound.

One market many investors feel jittery about at present is the British one, which has made scant progress in the past few years. There is plenty to worry about, but the optimistic can be confident that they are buying low. Starting valuations are the key to healthy long-term returns. Income seekers will enjoy a 4.5% dividend yield and should also note that global dividends hit a new high in the third quarter. With plenty of bad news in the price, the market seems cheap enough to buy now, even if it hasn't quite hit bottom yet. Instead of staying on the side-lines and failing to identify the bottom of a market like most investors, and then rushing to catch up with a big bounce, sitting tight and ignoring the headlines should pay off in the long term.

One of the biggest traps in investing is thinking that the future will play out exactly like the past. History can offer ideas, but every bull market is different. What happens depends on trends in growth, inflation, monetary policy, politics, technology and more that will not repeat exactly.

That said, markets often seem to follow long cycles. An asset comes into fashion or goes out of favour, and the resulting boom or bust lasts much longer than you'd expect. What did best in the last cycle generally doesn't take off again fast. The big beneficiary of the past decade was US equities, particularly tech stocks. The big beneficiary of the past four decades was bonds. So even though some strategists argue that bonds offer good value or previously sceptical investors are buying tech, it's hard to see these leading the way in the next few years. They have major headwinds from recent trends. They are not yet cheap, and sentiment is weak.

The top candidate to lead the next boom is perhaps energy, which is always a highly cyclical business. Oil and gas soared in the 2000s, but then spent the second half of the 2010s deeply out of favour. Shares have rallied in the last couple of years, but years of underinvestment in production won't be undone quickly. Companies in renewables, nuclear and the energy transition will also get a boost because high fossil fuel prices make their alternatives more competitive and urgent. By 2008-2010, many of the world's largest companies were oil majors. Maybe we'll see the same happen again.

Our strategic partnership with UBS (Union Bank of Switzerland) gives the best of both worlds – personal service and the ability to react in a way that only a small firm can, partnered by one of the world's most prestigious brands.

The same principle applies to emerging markets. Some – such as Brazil – should simply be helped by higher commodity prices. Others – such a Southeast Asia – were fashionable in the early 2010s, then the story fell apart. Now economic reopening, a shift away from China by manufacturers and reasonable valuations could put them back on the radar again.

This edition of Update covers some of the paramount topics as 2021 draws to a close – such as the collapse of Crypto currency, China's new-found confidence and Qatar's presence on the international stage.

It has never been more important to get an expert view on your investments. In closing, the team at Knightsbridge Wealth wish you all best wishes for Christmas and look forward to working with you closely throughout the year ahead.

The Crypto collapse gathers pace

The fall from grace was hard and fast. Last month, Sam Bankman-Fried was in the stratosphere. His cryptocurrency exchange, FTX, was valued at $32bn; his own wealth was estimated at $16bn. Venture Capitalists thought he was the financial genius who could wow investors while playing video games. In Washington, he was the acceptable face of crypto, communing with lawmakers and bankrolling efforts to influence its regulation.

Each new scandal that erupts makes it more likely that genuine innovators will be frightened off and the industry will dwindle. Yet a chance remains, diminishing though it is, that some lasting innovation will one day emerge.

Today there is nothing left but 1m furious creditors, dozens of shaky crypto firms, and a range of regulatory and criminal probes to get to the bottom of what has happened. The implosion of FTX has dealt a catastrophic blow to an industry with a history of failure and scandals. Never has crypto looked so criminal, wasteful, and useless.

The more that comes out about the demise of FTX, the more shocking the tale becomes. The exchange's own terms of service said it would not lend customers' assets to its trading arm. Yet of $14bn of such assets, it had reportedly lent $8bn-worth to Alameda Research, a trading firm also owned by Mr Bankman-Fried. In turn, it accepted as collateral its own digital tokens, which it had conjured out of thin air. A fatal run on the exchange exposed the gaping hole in its balance-sheet. To cap it all, after FTX declared bankruptcy in America, hundreds of millions of dollars mysteriously flowed out of its accounts.

Big personalities, unexplained loans and overnight collapses are the stuff of classic financial manias. At its peak last year, the market value of all cryptocurrencies surged to almost $3trn, up from nearly $800bn at the start of 2021. It is now back at $830bn.

The question now is whether crypto can ever be useful for anything other than scams and speculation. The promise was of a technology that could make financial intermediation faster, cheaper, and more efficient. Each new scandal that erupts makes it more likely that genuine innovators will be frightened off and the industry will dwindle. Yet a chance remains, diminishing though it is, that some lasting innovation will one day emerge.

Amid the wreckage, it is worth remembering the technology's underlying potential. Conventional banking requires a vast infrastructure to maintain trust between strangers. This is expensive and is often captured by insiders who take a cut. Public blockchains, by contrast, are built on a network of computers, making their transactions transparent and, in theory, trustworthy

The disappointment is that 14 years after the Bitcoin blockchain was invented, little of this promise has been realised. Crypto's frenzy drew in talent from bright graduates to Wall Street professionals, and capital from Venture Capital firms, sovereign-wealth, and pension funds. Vast quantities of money, time, talent, and energy have been used to build what amount to virtual casinos. Efficient, decentralised versions of mainstream financial functions, such as currency exchanges and lending, exist. But many consumers, fearful of losing their money, do not trust them. Instead, they are used to speculate on unstable tokens. Money-launderers, sanctions-dodgers and scammers abound.

Presented with all this, a sceptic might say that now is the time to regulate the industry out of existence. They should also acknowledge that nobody can predict which innovations will bear fruit and which will not.

Whether crypto survives or becomes a financial curiosity will not ultimately depend on regulation. The more scandals ensue, the more the whole enterprise and its aspirations become tainted. The lure of innovation means nothing if investors and users fear their money will disappear into thin air. For crypto to rise again, it must find a valid use that leaves the dodginess behind. That's not the vision to inspire the libertarians who launched the Crypto dream. But without significant regulatory reform, that seems the most likely bet.

China’s bull market

Chinese stocks have entered a bull market following new help for the embattled property sector and signs that the country is easing its strict zero-covid rules. Officials recently cut quarantine time for international travellers from seven days to five (plus three days of home isolation) and eased some other restrictions. That raised the prospect of a recovery in international travel. The news sent Hong Kong’s Hang Seng index up by 7.7% for its biggest one-day gain in eight months.

The Covid-19 news was followed by a new 16-point plan to help the property market. The Hang Seng China Enterprises index (HSCEI), which tracks mainland stocks listed in Hong Kong, has risen by 21% since October. That meets the technical definition of a bull market (a rise of a fifth), but it is still down by 25% since the start of the year. Global investors bought $2.4bn of mainland stocks on Monday, the largest sum since December 2021.

The latest measures constitute China’s most significant housing policy shift since it started tightening the screws two years ago. Beijing is sticking to rules designed to cut leverage in the sector, but it is now giving developers and lenders more time to meet the targets by extending loans. Investors are wrong to think that the end of zero-Covid is at hand, though. With vaccination rates among the elderly still low and winter looming, a reopening is months away. And the threat of lockdowns endures.

Chinese shares are certainly cheap after this year’s slump. China is the only big economy still prone to lockdowns, making this the last opportunity for investors to profit from a reopening rally. Goldman Sachs estimates that reopening could lift the value of China’s shares by 20%, or $2.6trn.

Chinese stocks have been a rollercoaster ride of late. Equities fell sharply late last month after the National Party Congress was interpreted as... de-prioritising economic goals, only to surge on speculation this month that an exit from zero-Covid was near. Still, this may not mark the start of a more sustained rally. The global slowdown will hamper China’s exporters. 2021’s markdowns in local equities don’t merely reflect a zero-Covid discount either. Foreign investors seem to have been spooked by growing risks of financial ‘decoupling’ with the US, which raises the chance, in perhaps the worst- case scenario, of stranded assets, as happened in Russia.

Meanwhile, US president Joe Biden and Chinese leader Xi Jinping met on the side-lines of the G20 summit of world leaders in Indonesia this week after years of souring relations. The pair’s first face-to-face meeting sparked hopes of a rapprochement between the two superpowers. Both leaders reiterated their

opposition to the use or threat of use of nuclear weapons in Ukraine and agreed to resume talks on climate change that had been put on hold by Beijing in the summer. They also agreed to a series of follow-up meetings. Biden downplayed his concerns about the risk of an imminent Chinese attack on Taiwan.

Asian leaders will breathe a sigh of relief. They have been concerned about the strategic challenges that have arisen as a result of the downward spiral in relations between America and China, and worry about the consequences of a clash between the two superpowers over Taiwan. Even if that conflict doesn't turn hot, a Chinese military blockade of the island could entail costs to the region running into the trillions of dollars. Asian policymakers also worry that the Biden administration's overwhelming desire to keep China down is forcing countries to take sides in ways that make them highly uncomfortable.

The fact that Biden and Xi were talking at all is certainly a good sign, given that US-China relations have declined dramatically in recent years. Isolating China in a new Cold War is not realistic or sensible, given its importance to the world economy. Still, Biden would do well not to get too friendly too soon.

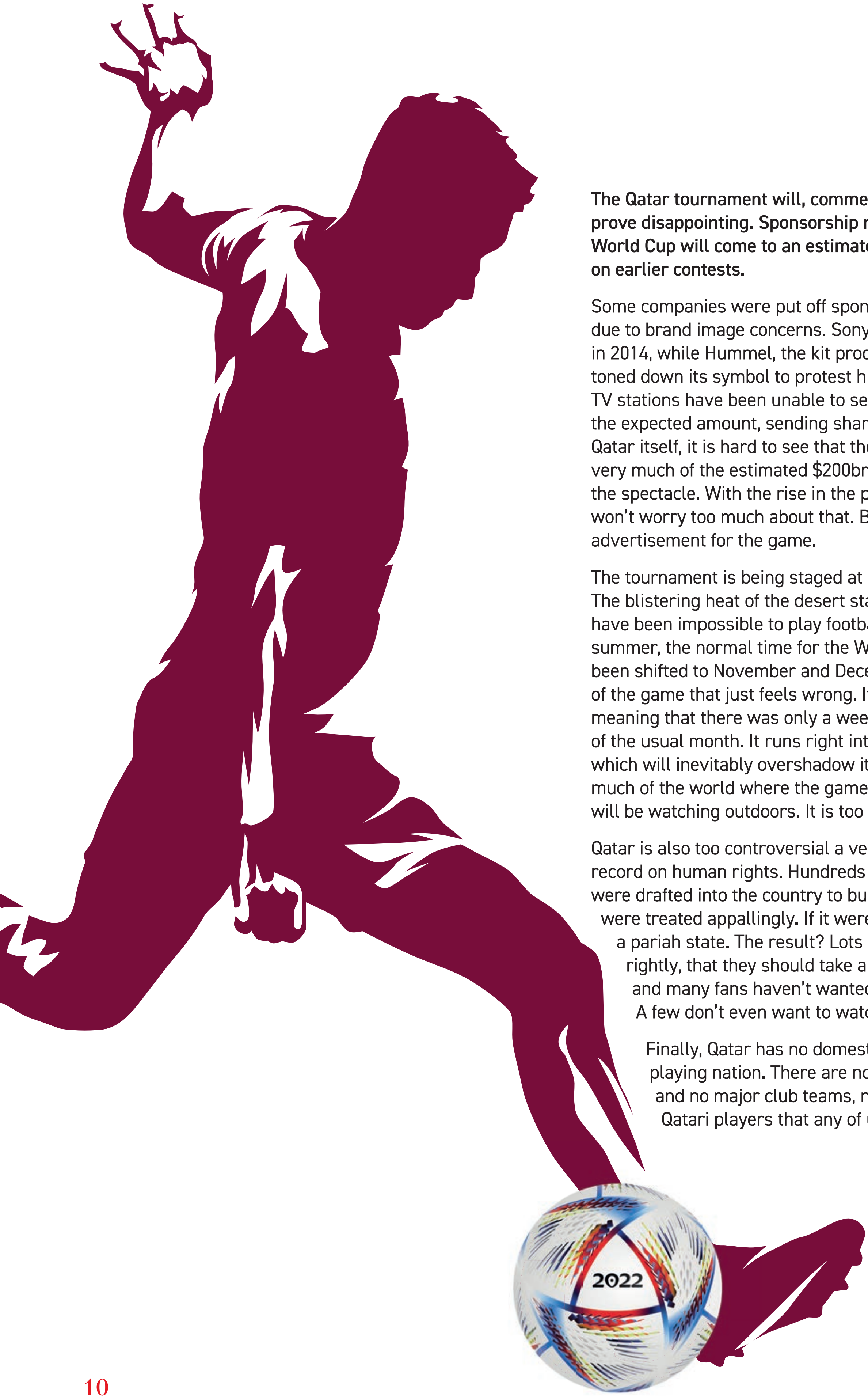
China needs to make moves on several issues – not just over Taiwan, but over its treatment of Hong Kong and the Uyghurs, and in relation to global IT security and trade dumping – before warmer relations can be contemplated. Until there is movement on these issues, robust containment remains the West's best option.

Even if Washington's determination to restrain Beijing means that further decoupling from China is inevitable, Biden must at the same time manage relations with Beijing with care. The relationship should be guided by three principles: that decoupling should not crash the global economy; that war must be avoided; and that China's cooperation is still needed on a range of global issues. After all, even at the height of the Cold War in 1962 the US and the Soviet Union managed to work together.

Whatever the long-term implications for relations between China and the US, the G20 summit also underlined Russia's increasing international isolation, even from its traditional allies in Beijing and New Delhi. Beijing's acknowledgement that the war is harming the global economy suggests that it now believes that a continuation, let alone an escalation, of the conflict is not in Beijing's interest.

The key question is whether the increased diplomatic pressure on Russia will force it to compromise on Ukraine – something analysts say is unlikely to happen unless Moscow continues to endure battlefield losses.

The Christmas World Cup



The Qatar tournament will, commercially at least, prove disappointing. Sponsorship revenue for the 2022 World Cup will come to an estimated $1.1bn, 16% down on earlier contests.

Some companies were put off sponsoring the tournament due to brand image concerns. Sony ended its sponsorship in 2014, while Hummel, the kit producer for Denmark, has toned down its symbol to protest human-rights violations. TV stations have been unable to sell advertising space at the expected amount, sending shares sharply lower. As for Qatar itself, it is hard to see that the state will ever recoup very much of the estimated $200bn it has spent on staging the spectacle. With the rise in the price of oil and gas, Qatar won't worry too much about that. But it is hardly a great advertisement for the game.

The tournament is being staged at the wrong time of year. The blistering heat of the desert state meant that it would have been impossible to play football there during the early summer, the normal time for the World Cup. Instead, it has been shifted to November and December. To most followers of the game that just feels wrong. It breaks up the season, meaning that there was only a week for preparation instead of the usual month. It runs right into the Christmas season, which will inevitably overshadow it. And it means that in much of the world where the game is most popular, no one will be watching outdoors. It is too cold.

Qatar is also too controversial a venue. It has a terrible record on human rights. Hundreds of thousands of workers were drafted into the country to build the stadiums and were treated appallingly. If it were not so rich, it would be a pariah state. The result? Lots of the players feel, quite rightly, that they should take a stand against the regime and many fans haven't wanted to travel to the games. A few don't even want to watch on television.

Finally, Qatar has no domestic tradition as a football-playing nation. There are no home fans to speak of, and no major club teams, nor are there any great Qatari players that any of us have ever heard of.

Just 13 days before Qatar's opening game, Sepp Blatter, the former president of FIFA, world football's governing body, said that awarding the World Cup to Qatar had been a "mistake". He took a different line in 2010 when he pulled the card from the envelope and publicly announced that football was going to "new lands." The idea was to broaden the game's appeal. Few other observers were willing to defend the deal. Accusations of corruption and bribery grew.

Qatar has spent lavishly to ensure the tournament is a success, building seven stadiums, an expanded airport, and dozens of hotels. But it will be only a temporary reprieve. The decision to hold football's biggest party in a tiny, autocratic petrostate with plenty of money, but no footballing heritage, is only the starkest example of how money and new ideas are shaking up the top levels of the world's favourite sport.

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Last year saw the rise and temporary fall of a plan for a breakaway "European Super League" (ESL) of elite clubs, built on the closed, cartel-like model of American professional sports. Hedge funds and investors from America and the Middle East have invested in financially precarious European clubs: they are keen to squeeze yet more games into an already packed calendar. There is even talk among investors, and the sport's administrators, of a rash of new super-tournaments, some of which are explicitly designed to compete with the World Cup itself.

Money was one of Qatar's chief attractions. Its team are Asian champions, but few considered them contenders. In fact, the national side has never qualified for a World Cup before. But it is a financial force, and keen to promote itself as a modern, developed country. Solid numbers are scarce, but the current World Cup is almost certainly the most expensive ever staged. The stadiums alone are said to have cost $6.5bn. Much of a broader $300bn economic development plan called Qatar 2030 has been written with the needs of the World Cup in mind (a gleaming new metro system, for instance, serves several of the new stadiums).

It is entirely true that migrant workers are often treated very badly in Qatar and there is much less sexual freedom than in Western countries. It is not a democracy. They are also true of Russia, which hosted the previous World Cup, and China, which hosted the most recent Olympic games, last winter.

Qatar may not be a democracy, but it is not the despicable regime that some are pointing out. The previous emir, under no popular pressure at all, introduced elections of a sort. He also set up a news channel, Al Jazeera, that is more outspoken than its Arab rivals, even if it goes easy on Qatar itself. That is a far cry from Vladimir Putin's Russia, where you get sent to prison for describing the war in Ukraine as a war, let alone denouncing it. And it is a world of difference from China, where no peep of political dissent is tolerated. The Argentine junta that hosted the World Cup in 1978 threw critics out of helicopters.

The world also looks at migrant workers in Qatar through a distorted lens. For one thing, the emirate is more open to foreign labour than America or any European country. Native Qataris make up only 12% of the population—a proportion supposedly more enlightened countries simply would not tolerate. Although these migrants are sometimes mistreated, the wages most earn are life-changing, which is why so many want to come in the first place. And whereas hosting the Olympics twice has not made China more democratic, the chance to stage the World Cup has led to an improvement in Qatar's labour laws.

The idea of bringing the World Cup to the world is only right. The Middle East is full of fans, but has never hosted the event before. Nor has any Muslim country. If the World Cup is ever to be held in such a place, Qatar is a perfectly good choice.

Meanwhile, bids for the 2030 World Cup are already being prepared. Saudi Arabia, a bitter geopolitical rival of Qatar's, is keen to host a World Cup of its own. In theory, eligibility criteria should preclude another Middle Eastern country acting as host for the next two tournaments. But Saudi Arabia has hitched its bid to those of Greece and Egypt, in the hope that it will therefore count as European or African. The kingdom says it will pay to build stadiums in both countries. The decision is not due until March 2024. But one lesson of Qatar is that it would be bold to bet against another winter World Cup in an autocratic desert state in the not-too-distant future. In football, as in so much else, money talks.

Arise King Charles III

On September 9th 2022, King Charles III gave his first public speech as monarch. It honoured the queen - "my darling mama" - for her dedication, service and duty. Implicitly, it answered questions about what kind of king he is going to be and spoke, quietly, to some of the many criticisms levelled at him while he was heir apparent.

What sort of King will Charles be?

The man who is now called King has long seemed uneasy about the job that 73 years ago he was born to do. Charles once described the realisation that he was going to become king as dawning with "the most ghastly, inexorable sense". The British people seemed to share this cool appraisal of him. A poll carried out in May 2022 put his popularity rating at 54%, far below the late queen's at 81%.

Little of this is unusual. Transitions from one monarch to the next are notoriously uneasy moments. Henry VII's courtiers so feared his death would lead to the downfall of the Tudors that they hid his body in his rooms and brought his corpse meals for two days.

If Charles did view his new role with dread, he is not alone. Few modern monarchs, even those who reign with success, have regarded their task with enthusiasm. That is not unreasonable. The role of king or queen is hard, its duration long (death or abdication offer the only possible exits) and its form ill defined.

Whereas his mother was scrupulously neutral, Charles has not been. In his speeches, Charles has spoken out about everything from the "carbuncles" of modern architecture to the culling of badgers. He lobbied Tony Blair over fox-hunting, which Sir Tony's government banned but Charles wanted to preserve. His absence from a state banquet for China in 2015 was noted and considered pointed. These things did not look like regal impartiality. They looked, to many, like overstepping.

And there has been little privacy: during Charles's long period as heir, daylight was let in on both the magic but also on the mess.

The national mood is forgiving. A YouGov poll showed that those who think he will do a good job has doubled from 32% in May to 63% since his mother's death. In his first speech as king he strongly implied that his aim would be to replicate Elizabeth's style rather than deviate from it.

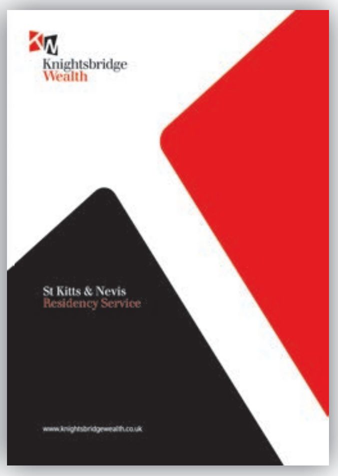
That includes matters of religion. Each British monarch bears the title "Defender of the Faith", meaning of the Anglican variety: the monarch is the Supreme Governor of the Church of England. In 1994 Charles, who has long shown interest in numerous other religions, including Islam and Greek Orthodoxy, remarked that he "personally would rather see it as 'Defender of Faith', not the Faith", since religious exclusivism is something that causes "a deal of a problem." Charles's first speech as monarch, however, took a different tone. He noted his "responsibility towards the Church of England" in which "my own faith is so deeply rooted".

One area in which he might excel—and win support among younger people—is environmentalism. Charles capitalises the word "Nature", champions rewilding, was an early advocate of organic farming—even founding a brand of organic food—and is obsessive about waste. Far from indulging in fast fashion, he wears suits until they are patched beneath the pocket. Once, such passions seemed peculiar; today, they seem advanced.

Despite the long run-up, no one really knows what Charles's reign will mean. For kings, like stocks, past success is no guide to future performance. Edward VIII was at first thought to be thrillingly modern—so modern, it turned out, that he abdicated.

Quite how this new era will be viewed is impossible to say. But so far, the UK's new King appears to be wearing his crown far more easily than many of his subjects expected.

Knightsbridge Wealth Reports



In March 2020, the onset of the Covid pandemic meant many of us delayed or cancelled important plans affecting our financial planning.

In 2022, many clients focussed again at the important parts of their financial planning – both for themselves and their families. To assist those looking at educating their children, settling in London, or investing in increasingly high profile crypto-currencies, Knightsbridge Wealth published specialist guides to provide useful advice and information at this time of recovery.

Top Schools in London and the UK
Simplifying the process of finding the perfect school.

London Living
Exploring the benefits and choices of living in London.

Cryptocurrency Report
Demystifying the complex world of Crypto investment.

If you would like a copy of any of our guides, get in touch and our team will be pleased to assist.

St Kitts & Nevis Residency Service
Individuals and families are becoming increasingly mobile and the ability to hold a second passport is becoming more relevant. As more High Net Worth Clients can consider Remote Working, the Caribbean has re-emerged as an attractive destination for several reasons. As well as offering a relaxing lifestyle, beautiful scenery and climate, there are also opportunities to hold a second passport.

There are a variety of reasons why people wish to acquire a second or alternate citizenship:

- To offer insurance against political, economic, or fiscal change in the individual's country of origin.
- To make international travel easier. Nationals of many countries must endure lengthy waiting periods to obtain visas for travel. This may be because they are nationals of a developing country or there may be animosity between their country and another.
- To allow the passport holder to avoid discrimination.
- To present new opportunities for the tax structuring of personal tax affairs. Generally, an individual's residence and citizenship are the ultimate basis for most taxation rulings.
- Citizens of the USA are subject to tax on their worldwide income, irrespective of their country of residence. They are denied the residence-linked tax planning opportunities that are available to others. It is possible for such individuals to gain fiscal advantages by acquiring a new citizenship and renouncing their original citizenship.

There are several different options for Citizenship within the Caribbean. The most popular passport schemes include St Kitts & Nevis, Grenada and Dominica.

The St Kitts and Nevis citizenship by investment programme has been in operation since 1984, making it the oldest and one of the most reputable citizenship programmes globally. Passport holders enjoy full Schengen privileges and enables travel to approximately 156 countries worldwide ether on a visa free or visa on entry basis.

Knightsbridge Wealth offers a St Kitts & Nevis Residency Service to assist with all issues surrounding the application, including a Fast-Track option. Contact us for our Information Guide and for further advice on how global immigration is a key part of wealth management planning for international clients.

A weaker dollar will be good for us all

Anyone who argued over the course of the last decade that the launch of the Euro or the rise of China would bring an end to the US dollar's reign as the world's reserve currency would have had to revise their opinion over the last few months. The currency has seen one of its strongest bull runs of recent times. The dollar index, which measures its strength against six major free-floating currencies, is up by 12% so far this year, taking it to its highest point in two decades.

It rose above €1 per dollar for the first time since the euro's launch at the start of the century. It drove the pound down to an all-time low of $1.04, sparking turmoil in British politics. It sent the yen to its lowest in two decades, sparking a rare intervention from the Bank of Japan. Even China, with a huge trade surplus with the US, was caught up in the rout, and has been intervening to stop the Renminbi from falling too far. Whatever else happened in the markets, the dollar just kept on rising and rising.

It's not hard to work out why. The Federal Reserve was the first major central bank to raise rates and so investors could suddenly start to earn a better return on cash by holding dollars. And with the war in Ukraine and sanctions against Russia, everyone wanted to own more of what remains the world's safest asset. Put those two factors together and the stage was set for the currency to keep on rallying.

Yet now there are signs that the tide has begun to turn.

If the dollar bull market is finally over that will have huge consequences for the global economy. First, it will start to ease inflation in other countries. As the dollar soared, most other economies not only suffered all the inflationary consequences of the pandemic and the war in Ukraine, but they also had to contend with far higher prices for everything they import since typically that will be priced in dollars. That was especially acute in the UK and most of the rest of Europe, which import vast amounts of dollar-priced energy. As the currency starts to fall again, those imports will automatically get cheaper, and that will put downward pressure on prices.

Finally, a weaker dollar will ease liquidity around the world, giving financial markets space to recover.

That in turn will also ease the pressure for interest rates to rise so quickly. The Bank of England has already started to push rates higher and so has the European Central Bank. With the dollar so strong they did not have much choice. But as inflation starts to fall, led by falling prices for commodity imports, it will be easier to slow down the pace of rate hikes. A few weeks ago, we were looking at interest rates peaking at 6% or 7% in the UK. Now 4%-5% looks more plausible. That will make the recession much shallower than it otherwise would have been.

Finally, a weaker dollar will ease liquidity around the world, giving financial markets space to recover. When the dollar is as strong as it has been for the last year, and when the Fed is taking back some of the money it printed, there are far fewer dollars in the world. That means asset prices fall.

In many ways the real surprise of the last year has not been the bear market. It is that the falls in equity markets have not been far worse. With the war in the Ukraine, and the aftermath of the pandemic and the supply-chain chaos it unleashed, the global economy has had a tough year. Everyone has suffered. The rising dollar was a big part of that. It made the outlook far worse for every other country in the world. There are now clear signs the bull run has peaked and is about to go into reverse. If that carries on, it will help the recovery to get going.

Opportunity in Indonesia

Southeast Asia has never captured the imagination of Western investors the way China or India have. The region's complex array of economies and cultures can be difficult to navigate, but their importance is growing. The ten members of the Association of Southeast Asian Nations (Asean) boast a combined GDP of $3.36trn. That is less than one-fifth of China's for now, but output looks set to expand at 5% every year for the rest of the decade. With 500 million working-age people, the region is in line for a "demographic dividend". In 2021 the median age in Indonesia was 29.7 years and 27.7 in the Philippines, compared to 38.4 in China and 38.8 in the US.

The MSCI Asean index has fallen by 15% in a year, but that is still much better than a 31% fall across emerging markets as a whole. Shares listed in regional financial hub Singapore account for 32% of the index, followed by Indonesia (21%), Thailand (20%), Malaysia (15%) and the Philippines (7%). Asean has something to offer everyone. Singapore is gaining ground in financial services and high-tech, while Vietnam and Malaysia are attracting new manufacturing investment. Indonesia is a commodity play now receiving record-high investments to tap into its mineral resources, especially nickel, which is a vital component of electric- vehicle batteries.

Meanwhile, Thailand looks set to benefit from a post-Covid-19 tourism boom. The country's SET index is still 12% below its January 2018 peak, but a rapid recovery in tourism through the northern hemisphere's winter should see it climb back towards that level.

Indonesia, where President Joko Widodo recently hosted the G20 summit, is Asean's biggest economy. The local IDX Composite index has risen by 6% since the start of the year. It has also been enjoying a listings boom. Between 2018 and 2021, the stock exchange had 217 new listed firms, making it the Asean listings champion for four years running. This reflects a dynamic digital-services economy. The world's fourth-most populous country has tightly run public finances and a president intent on building infrastructure and reforming education and labour laws. Now the sixth-biggest emerging market economy, its clout looks set to increase spectacularly in future.

Indonesia is the most important country that people routinely overlook, but perhaps not for much longer.

Xi's increasing grip on China

There weren't supposed to be any surprises at October's National Congress of the Chinese Communist Party. Xi Jinping was guaranteed to be reappointed as general secretary of the party. The seven- member politburo standing committee (PSC) – the top decision-making body – would be filled predominantly with officials loyal to him. And several long- standing officials seen as more reform-minded or moderate would step down as they reached retirement.

That is exactly what transpired, despite some rather unlikely speculation earlier this year that Xi's plan to break norms and stay on for a third term would face serious opposition. Yet there was one major surprise, when Xi's predecessor Hu Jintao was escorted out of the hall during the final session, visibly reluctant and unhappy. Xinhua, the official state news agency, later reported that he had been feeling unwell and had left to recuperate, but that did nothing to dampen speculation about what had really happened. Did Xi deliberately arrange for Hu to be removed to humiliate his predecessor (in an earlier speech, he had offered some fairly blunt comments on where he thought China was going wrong at the time he took over)? Was it a purge or a way to show that he now exercised absolute power?

It's impossible to say. There is no transparency about what goes on in the top echelons of China's leadership and what lies behind many decisions. That situation has worsened in the last few years under Xi. Unless the party begins publicly investigating Hu for corruption or similar offences, as has happened to officials who might have posed a threat to Xi, we may never know.

Why doesn't the truth matter? For two reasons. First, the fact that we cannot know for certain whether the current president had his predecessor purged in full view of the world's media sums up the difficulties of investing in China now. Government policy is all-important and yet an incident like this is a matter of hot debate. That's far more of a problem than knowing that it was a purge. Second, what we know about the state of the Chinese economy, its political direction under Xi (in particular, the last five years or so) and the outlook already tells us where investors stand.

Let's take the economy. The release of GDP data, which had been scheduled for the middle of the meeting, was unexpectedly delayed. It reported that GDP grew by 3.9% year-on-year in the three months ending in September 2022. That figure was higher than expected, following China's falling growth rate from double-digit rates prior to the global financial crisis to the point where a number like this – which is well below the official 5.5% target. That's partly due to the slump in the all-important real-estate sector (around one-quarter of GDP) and the disruption caused by rolling pandemic lockdowns.

However, it's too optimistic to treat these as temporary factors, because they reflect the wider issues in China.

Real estate and investment in fixed assets has an outsized impact on the Chinese economy and it's reached the point where the marginal gains from funding yet more of the same really don't exist anymore. The economy needs to rebalance towards greater household consumption, as economists have been saying for well over a decade. This is supposedly an objective for the Communist Party. But it requires several reforms and changes that don't seem likely, not least because a more dynamic, individualistic, consumer-focused economy is at odds with a government that is focused on the state having more control over the economy rather than less.

Yet, if real-estate and infrastructure investments drop without being replaced by other drivers of growth, China's growth rate plummets. Pessimistic analysts argue the long-term trend growth rate will be more like 2%-3%. Of course, the government can try to stimulate the economy by bailing out the property sector or promoting more infrastructure investment (such as by pushing banks to lend more), but this means a short-term boost to growth that builds up future problems in the form of more debt. It's not surprising that forecasts of when the Chinese economy might pass the US in size are being pushed back, and some bearish economists are starting to suggest that it might never happen.

You can also see the fact that the government can't find a way out of a lockdown-focused approach to Covid-19 as a part of the wider dilemma. Widespread coronavirus outbreaks are a significant problem for China: the healthcare system is inadequate, Chinese vaccines don't seem to work as well as Western ones, and many people in China aren't vaccinated anyway (hard though it may be to believe, the government has no problem locking people in their houses, but doesn't seem to think that it's able to force people to be vaccinated). Given relatively low levels of existing immunity, allowing the virus to spread would probably result in significant numbers of deaths. This seems to be considered politically unacceptable, at least

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to Xi, for whom keeping China safe through zero-Covid has become a flagship policy that he can't abandon.

It is possible that China will start to open up more next year now that the congress is over and Xi's power is cemented to an even greater extent. That would remove a headwind for the economy. Yet the lesson remains that the government will always be reluctant to loosen any forms of state control, regardless of the vast social and economic costs.

Some analysts casting around for crumbs of comfort from the congress seem to have been encouraged by the fact that Li Qiang has ended up as second-ranked on the PSC and will be premier; he is normally described as business-friendly. Yet Li is a Xi loyalist who oversaw the chaotic two-month Shanghai lockdown earlier in the year.

In short, the economy is sluggish, real-estate is in a slump that may get much worse, economic reforms are unlikely and the Communist Party's social control is only getting stronger (facilitated by the kind of surveillance measures brought in to manage the pandemic).

There are other problems too, of which the most discussed is demographics. The number of births has declined for the past five years and barely outnumbered deaths last year, according to official data. A few demographers think the population may already have peaked; others expect it to do so by 2025. Given that much of China's rapid development depended on a young population entering the workforce at a time when the older population who needed to be supported was lower, this bodes poorly for future growth. Keeping the economy growing well while dealing with that challenge seems likely to require a flexible, innovative, open economy. But the government is moving in precisely the opposite direction. The long-standing bearish prediction that China will grow old before it grows rich starts to look more plausible all the time.

If you look at all these issues, you can understand headlines saying that the Chinese economy will soon collapse, followed by the fall of the Communist Party. Whilst good for headlines, this seems unlikely on any timescale that matters. Slow growth and stagnation seems a more likely risk than collapse. And the government has shown that it is extremely ruthless and very good at maintaining control through the 70-plus years it has ruled China. It's hard to see how a popular, anti-government force is allowed to arise. More broadly, history suggests that authoritarian governments rarely collapse in response to public dissatisfaction unless undermined from within (by reformers getting into positions of authority or by factions who see a chance to grab more power for themselves). The most plausible economic force for bringing down non-democratic governments is probably hyperinflation – and China seems unusually well-placed to survive even that.

A loss of economic momentum won't necessarily undermine China's rise if the government sees that as a priority. A return to a greater role for the state means more resources are directed towards national goals. The extreme example of this is North Korea: its policy of self-reliance is a miserable failure, it depends on China for economic support, much of the population lives in absolute poverty, and yet the resources ploughed into the armed forces have enabled it to build nuclear weapons and increasingly powerful rockets. China is not North Korea (even if it is closing itself off from the world more under Xi), its economy will remain far more powerful even if growth is sluggish and it will be able to achieve a lot, even if the West seeks to contain it.

This points to the huge long-term problem for investors. To challenge the US as a global power, it wants to promote the use of the renminbi in international trade. Having a currency that is widely used for settlement or as a store of value – like the US dollar – means having foreigners hold financial instruments denominated in that currency. So, China requires deep, liquid capital markets that are accessible to international investors. Over the past few years, it has moved to open its markets faster and it seems unlikely it will choose to put that into reverse.

However, China's other great long-term priority is to take control of Taiwan. Xi reiterated this position in his speech at the congress, while continuing to say China wanted this to happen peacefully. That's not going to happen under his rule for any meaningful definition of peaceful. Taiwan has seen what happened in Hong Kong after Xi ripped up the promise of "one country, two systems" and is not going to fall for any promises of autonomy.

Xi is now installed as paramount leader indefinitely. There's no reason to expect China to try to invade Taiwan imminently (although some defence analysts argue that the army's capability and readiness to do so might be closer than the West has assumed). However, with every single development like this year's congress, it becomes harder to imagine Xi being willing to leave office without wrapping up his biggest piece of unfinished business. The number of dissenting viewpoints around him is probably shrinking. Russia's invasion of Ukraine shows us what would happen to investments in China in that scenario. In this context, China can now only be treated as a trading opportunity, and not a long-term investment.

Market report

Bonds
Risk of defaults increasing

Global bonds, since the start of 2022, have undergone their worst sell-off ever. Over the third quarter of 2022, the Bloomberg Global Treasury Index fell by almost 8% in US Dollar terms. UK Government Bonds – usually considered the safest possible investment, collapsed by almost 13% following the ill-judged mini budget by the then Prime Minister, Truss, and her Chancellor, Kwarteng. Index linked gilts fell by over 9%.

We have seen interest rate hikes from a range of major central banks recently. The most watched, the Federal Reserve, now sits at 3-3.25% funds rate having hiked another 0.75% in September, the third move in a row of this size. The European Central Bank has also raised rates twice recently, in both July and September. Deposit rates now sit at 0.75%, whilst refinancing rates are 1.25%.

Spreads widened as Fears on economic outlook has increased the premium that investors demand for taking credit risk. Bond market volatility will remain high as central banks continue to raise interest rates and withdraw liquidity support. Tighter lending standards and slower growth suggests a higher risk of default.

Gold
Providing diversification

The price of gold in US Dollar terms has declined by 9% this year. That has outperformed risk assets like the S&P 500, which has fallen by 20%, providing diversification in portfolios.

Gold has held its value, or increased it, in non-US Dollar terms. But as a hedge against heightened financial volatility, it has disappointed. Gold is likely to face a recovery in the second-half of next year.

Foreign Exchange
US Dollar preference continues

The US dollar has reached its strongest level in decades rallying significantly in response to large rate hikes by the Federal Reserve and rising global geopolitical concerns. US data came in slightly weaker than expected, boosting investor optimism about a potential moderation of the federal reserve's plan to continue to raise interest rates.

The euro remains clearly out of favour. The European Central Bank has been slower to raise rates than the Fed, while Eurozone inflation remains far too high for comfort. The euro is also weighed down by Europe's high exposure to risks from the Ukraine war – particularly concerns about energy supply shortages – and an increasingly grim economic outlook. The Bank of England faces similar concerns in its outlook.

Commodities
Focus on energy

Broad commodity indexes have moved sideways since a correction in June and early August. The stable performance of commodities on a total return basis should be seen in the context of a stronger US Dollar and weaker equity markets. Risks to economic growth are dimming the near-term outlook for commodity markets and boosting the case for a more active investment approach toward the asset class. Negative returns over the next 6 to 12 months are unlikely.

The focus falls on energy as a source of positive returns, with demand factors and powerful enough to withstand the global growth slowdown. This cannot be said for base and precious metals that require brighter economic prospects and lower US interest rate expectations As for agriculture and livestock, the geopolitics and sector-specific factors remain the key sources of returns. Grains are the most likely source of upside for the sector. Unlike other commodities, grains also remain somewhat detached from global cyclical aspects. Both sectors are important sources of stability for broadly diversified commodity indexes.

Oil
Demand holding up

Despite recession fears and elevated market and uncertainty, oil demand is holding up. This recovery should extend into next year. There are several price supportive factors on the supply side, such the European ban of Russian oil.

Due to years of under investment in new oil projects and given the capital discipline of US shale producers which limits the development of projects with short lead times, the oil market is set to remain tight over the coming years. Higher prices are needed to incentivise supply, and slow demand growth.

Equities
UK and Australia appeal

Slow economic growth and high inflation, coupled with rising interest rates and falling liquidity, present a challenging backdrop for equities. In an environment of high inflation, and less accommodative central banks, equity returns rely on earnings which are likely to contract next year.

Geographically, US equities are looking expensive, whilst the UK and Australia are the most preferred markets. Across sectors, global energy healthcare and consumer staples and a less preferred and information technology industrials and consumer staples are most preferred. Value and quality income are preferable for growth.

Energy, healthcare, and consumer staples remain preferred sectors. Valuations of energy companies look extremely appealing. Earnings growth remain strong, and firms will extend share buybacks and dividends, boosting their appeal further.

Value and quality income stocks are preferable to growth names.

We've over 200 years experience in the world's largest Banks

Alexander Wade

Alexander is one of the most experienced London advisers in the international market, specialising in this field for over 17 years whilst at HSBC, where he was consistently recognised as one of its most accomplished advisers. He has over 25 years' experience in international wealth management.

Stuart Poonawala

Stuart has worked in financial services since 1998. In 2003, he helped to found HSBC's specialist London arm advising international clients which quickly became one of the bank's most successful UK divisions. In 2009, he launched Kubera Wealth, our sister company, focussing on providing quality advice to the UK market.

Graeme Cowie

Graeme is responsible for building our professional connections with international lawyers and accountants, as well as co-ordinating our relationship with key fund managers at a number of international Private Banks and Discretionary Fund Managers. He has spent over 20 years in financial services and investment management, most recently spending more than six years at UBS where he led the Strategic Partnership team.

New Additions to the Team

We are pleased to welcome **Jamie Sellar**, **Vickie Morgan** and **Laura Gillard** to the team.

Vickie is a seasoned project manager and Executive Assistant with over 20 years' experience in a variety of businesses including publishing, TV, advertising and Fast Moving Consumer Goods. Prior to joining the team in September, Vickie was the Admin & Communications Manager for a branded spirits producer operating across Central and Eastern Europe, responsible for developing consistent Group-wide internal communications.

Jamie joined the Knightsbridge Wealth team in July as a Chartered Financial Planner. He studied economics at the University of Birmingham and has attained the coveted Level 6 Advanced Diploma qualification from the Chartered Insurance Institute.

Laura has worked in financial services since 2016 and joined the Knightsbridge team in August, with a passion for excellent client support, a positive team culture, and a clear vision for the business.

Vickie Morgan
Executive Assistant

Jamie Stellar
Chartered Financial Planner

Laura Gillard
Client Services Administrator

Michelle Bye
Business Manager

Claire Hobbs
Senior Client Services Assistant

Michelle Hoskin
Head of Operations and Business Development

Kellie Lewis
Client Relationship Manager

Caroline Lvy
Client Relationship Manager

Kelly Kular
Personal Assistant to the Partners

Daniel Hawes
Relationship Officer

Heidi Witham
Paraplanner