# UPDATE

Knightsbridge Wealth

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The Knightsbridge Wealth magazine for international clients

Special feature: USA

## No challengers to King Dollar's throne

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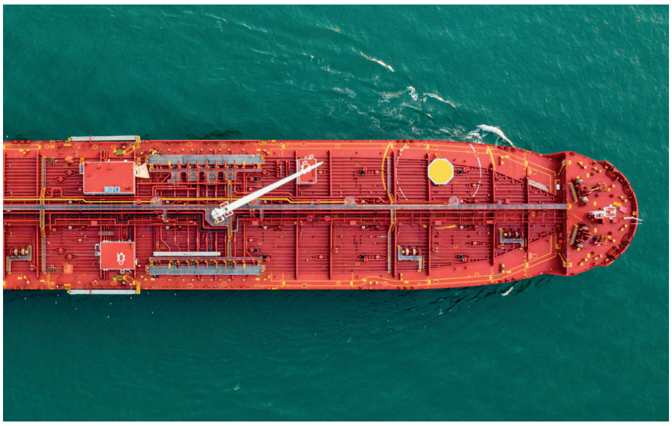

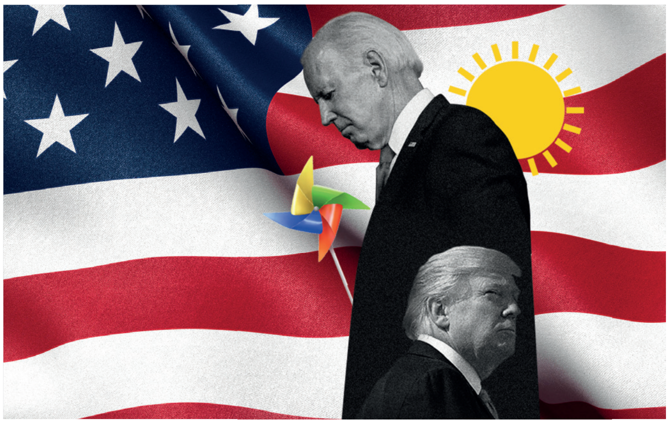

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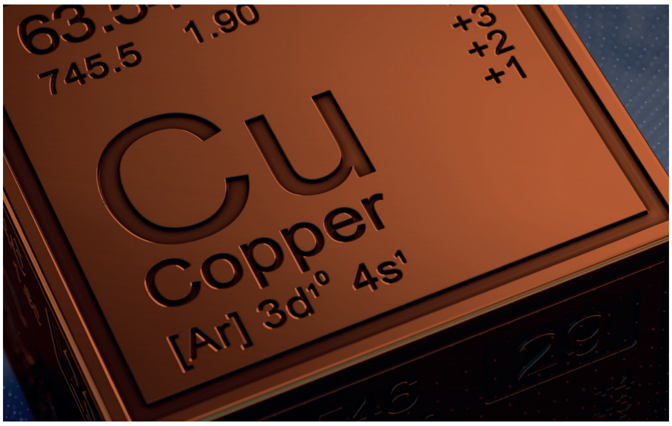


Knightsbridge Wealth

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# A welcome note from Knightsbridge Wealth

At the time of writing we are embarking on yet another incredibly important year for the global economy. Volatility is everywhere. Geopolitics feels more fraught than it has for many years, and two of the world's major democracies are in election mode.

The battle lines appear to be drawn everywhere, from the tensions between aging populations and attitudes of younger worker, to the aspirations of global elites against national protectionists, or from the foreign policy challenges to current international boundaries in Asia and the Middle East, to the demands of climate change advocates against climate change deniers, there are tensions affecting investments everywhere.

All this makes reading the runes of what is to come next ever more difficult. No sooner had the market priced in rate cuts, on the back of falling inflation, the Federal Reserve Chair, Jerome Powell, signalled US central bankers will wait longer to cut borrowing costs. That seemed inevitable following a series of higher inflation readings, and reduces the room for looser economic policy worldwide.

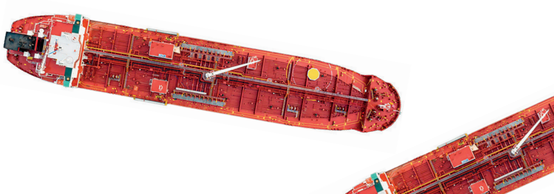
Change – even sensible change which is beneficial in the long run – is traumatic and contributes to uncertainty. We all need change, but it's nicer to have it in manageable doses. That's human nature. Indeed, for most of us, our existence is spent mostly trying to inject certainty into the fragile business of being alive.

It's why I sincerely hope you find the content of this month's magazine some comfort amidst the broader turmoil. It may feel tempting to look to traditional options like property and gold when the future seems so opaque. But with so much perceived volatility comes opportunity.  We need to remember the importance of two investment principles – to diversify and to have conviction.

Whether you are reflecting on oil, the future of the dollar, the potential of investments in Vietnam or the opportunities for commodities in the Americas, we have something for you in this edition.

Good financial planning has never been so important, and we look forward to continuing to support you.

## 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.



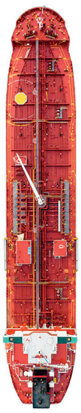
# Pouring oil on troubled waters

**As western governments mull the persistent nature of global inflation, they will be looking at the turmoil in the Middle East with furrowed brows. The human tragedy is undeniable and, as time passes, the economic bad news will become harder to resist. Global geopolitical tensions often play a pivotal role in shaping people's perceptions of economic growth.**

Central bankers have had their work cut out in recent years. Having negotiated the post pandemic supply chain issues and the war in the Ukraine, the global economy is looking into a new inflation shock in the form of the Israeli Hamas conflict. The conflict threatens to compound an already fragile global outlook. If the Russia-Ukraine war has taught us one thing, it's that we should be mindful of the complex interdependencies that shape the global economic and geopolitical landscape.

Historically, conflicts in the Middle East result in spikes in oil prices – as we saw in 1973-1974, 1978-1979, 1980, and in 1990-91. Since the region accounts for as much as a third of the world's supply, volatility creates price instability, which in turn is reflected in the risk premium.

There was always the concern that the conflict would escalate and spread to the point of impacting oil producing nations. At the time of writing, and notwithstanding the action of Houthi rebels in the Red Sea, Brent crude futures for May settled at $87.48 a barrel, the highest level since October, after gaining $1.39, or 1.6%. The more actively traded June contract settled at $87 a barrel, rising $1.58. According to one analyst, the market is converging on a June start to cuts for both the Fed and the European Central Bank. Lower interest rates typically support oil demand. And until there is a clear threat to global supply, traders appear to have relegated tensions in the Middle East to background noise.



Pouring oil on troubled waters is traditionally something to calm a situation. But the expansion of the Middle East woes to the Red Sea is doing nothing to calm fears of rising prices. Yemen's Iran-aligned Shia Houthis have continued their attacks in the Red Sea, claiming solidarity with Palestinians and striking vessels with commercial ties to the U.S., Britain and Israel.

One factor keeping a lid on oil and commodity prices at the moment is the likely course of US interest rates, which will almost certainly stay where they are until June and limit any price gains.

The key is to a degree how long the turmoil ensues. On current evidence it is not fleeting and while economies are so far coping there is already collateral damage to places like Egypt, given its reliance on the shipping in the Suez canal as a means of raising revenue. Transit fees last year raised $9bn. But companies who depend on exports brought through the Red Sea are also hurting. Tesla and Volvo suspended production at their plants as they awaited deliveries now having to navigate the Cape of Good Hope.

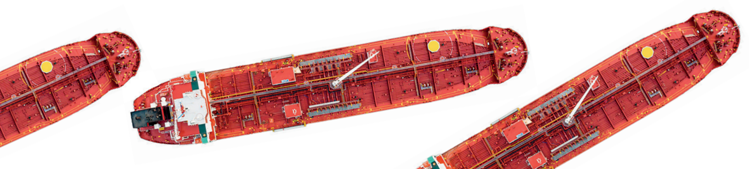
All that said, oil can still be shipped around the southern tip of Africa and, recent record US production, together with the lifting of oil sanctions in Venezuela and lower global demand, all help to offset the issue. However, if tensions around Hormuz increased, this might change.

Nearly one-sixth of the global supply of oil is transported daily through the Strait of Hormuz, between the Arabian Gulf and the Gulf of Oman. If Iran became actively engaged in the conflict, Tehran could threaten to close this vital channel. Any such closure could see crude prices surge.

All of this points to caution and higher interest rates for longer and investors should be taking sophisticated positions to navigate the months ahead.

Donald Rumsfeld famously observed it was the unknown unknowns that we really have to look out for. There is less certainty in the world today than there has been for some time, and, as a species, uncertainty is something we are wired to avoid. But when uncertainty is the only certainty there is, whether that be the fate of NATO, elections in the UK, US and elsewhere, then understanding that and acting accordingly is what elevates ordinary advice to (black) gold.

If black gold is no longer a reliable source of return then investors will look elsewhere. They are already bracing for increased financial volatility across the board – from stocks and government bonds to commodity markets. Real gold by contrast, the eternal resort of threatened investors in the face of overwhelming economic uncertainty has shot up following the latest escalation in the Israel-Palestine conflict. At the heart of all of this is the likelihood of a fuller regional conflict that will increase, the longer the fighting in Gaza persists. Yemen is proving that.



# 'CEO' of the world's largest economy

**Super Tuesday came and went and bar any truly unforeseen events, the 2024 presidential election will be a re-run of 2020.**

Based on presidential primary results, the stage is set for a re-run of 2020's contest. It appears very little will interrupt the progress of President Joe Biden winning the Democratic Party nomination and former President Donald Trump capturing the Republican Party nomination.

For investors, there is much to mull. The political fallout of this election will carry consequences for political stability in the US but for now, investors should focus on economic fundamentals rather than political machinations.

**At a glance**
Without doubt from an economic perspective alone there is some clear blue water between the candidates to consider. A victory for Donald Trump would play more favourably to the traditional oil and gas producers; for his part, Biden has shown strong support for clean energy. The renewable sector, such as solar and wind would, therefore, likely see increased government support and investment.

But over and above policy positions, there are considerations for growth more generally as investors ponder what will happen to the individual tax cuts that expire at the end of 25, consider the future of the corporate tax rate, and the more protectionist bent of Trump's trade agenda. More tariffs on imports will undoubtedly impact investment in the States and further afield.

Biden by contrast, has publicly expressed support for expanding the Affordable Care Act (ACA), which, in turn, will support healthcare providers and insurance companies, though by the same measure pharmaceutical companies could face more pressure to lower drug prices.

**History lessons**
It's been said that there is more chance of us plotting the trajectory of an asteroid hurtling to earth more accurately than guessing the outcomes of economic policy. There are so many more variables. If these therefore seem overwhelming, investors may be able to take comfort in the lessons of history. Share prices appear to be following a tried and trusted pattern.

The US electoral cycle sheds some light on the value of markets. Currently indices in the US are booming. The US S&P 500 is up 28 per cent in the past year. It resonates with the four-year cycle of presidential terms as incumbents tend to stimulate the market in the hope, if not expectation, that it will indeed fire up their prospects at the polls. Voters welcome it and optimism grows on the back of manifesto pledges and the prospect of new energy for a new term or new president.

This stimulus is in turn felt by the smaller companies that are almost always focussed on domestic markets while bigger companies who sell and deal internationally enjoy a bounce in investor confidence at home.

If we stop and consider what is happening in the US right now, we can see the US is sending money and spending big(ly). The $1.7 trillion deficit racked up in the fiscal year to September 2023 was the third biggest on record, and an even bigger number is on the cards for 2024.

Of course, the sustainability of this kind of intervention is up for question but if monetary policy plays its part – and no-one will want to raise rates and prompt an economic downturn – then it may continue longer than many think.

**Running up that Capitol Hill**
The promises of parties will be worked through in earnest this summer in conjunction with the programme of national conventions and these often tell investors  a lot more than the pledges of individuals.

And, although investors will keep a close eye on election results in anticipation of any impact on stock market performance, it's crucial to understand that other factors might have a bigger influence on portfolios. Based on past performance, economic and inflation trends appear to have a stronger and more stable correlation with market returns than election results.

Rising growth and falling inflation have typically resulted in returns that are as a rule above the long-term average, while falling economic growth and rising inflation have typically been reflected in positive but below average returns. For investors, staying focused on these trends shines as much light on the likely outcomes as any political machinations.

Where politics clearly matters is in parties' proposed policy actions and reactions to events, regulation and geo-politics.

But domestic economic concerns will lead the agenda. The incumbent president might claim the US economy is "literally the envy of the world", but many Americans are still feeling the pinch. Inflation has fallen significantly since its 9.1% peak almost two years ago, but household budgets remain under pressure. Soft landing or death by a thousand cuts, for American voters and the rest of the world, a lot is at stake. Watching the fundamentals will be key.


OIL

# No challengers to King Dollar's throne

**Whilst economists argue whether we are heading to a hard or soft landing, the US economy is picking up altitude again. From the labour market to manufacturing, recent data coming out of the world's biggest economy has been relentlessly strong. While that is good news, it carries the risk that inflation and interest rates could both stay higher than expected.**

At the start of 2024 markets were betting that the US Federal Reserve would deliver six interest rate cuts by the year's end. That has since fallen to just two or three. The prospect of less monetary loosening ahead should weigh on stocks, but the S&P 500 index has still gained 9.5% so far this year. For now, strong corporate profits and excitement about Artificial Intelligence (AI) are keeping the market aloft.

Investors in the US stock market face a conundrum – stick with a buoyant but stretched market or sell, even though betting against US stocks has been a bad strategy for years. Goldman Sachs analysts calculate that the S&P could gain another 15% from here if the 'megacap exceptionalism' of US technology giants persists.

Yet too many on Wall Street seem to have a belief in the infallibility of US companies, despite high prices. "It's just harder and harder to get excited about owning the S&P 500 because of how well that index has done, how high the valuations are. The longer America's stock market outperforms the rest, the more it seems like the natural way of things," says The Economist. The premium valuations that US stocks command to the rest of the world have become glaring. Take the cyclically adjusted price-to-earnings (Cape) ratio of US stocks, a popular valuation metric that smooths out performance over the economic cycle. European stocks trade on a Cape of roughly 20, with Japanese ones a little higher; the S&P is on almost 34.

It has only been higher twice before – at the peak of the dotcom bubble, and just before the crash of 2022. That doesn't mean a bust is imminent, but history shows high Capes are a "strong indicator that poor or even negative long-run real returns lie ahead". The US market has delivered a total gain of 46% since the October 2022 lows. In historical terms, that only makes this a "baby bull". The past 18 bull markets delivered gains of anywhere between 42% and 169%.

The current debate about valuations is a healthy sign that investors haven't lost their bearings and given in to total euphoria yet, as they are wont to do at the market top. We don't know what will happen next, but as equity investors it is always wise to be psychologically prepared for big drawdowns. Markets go up and down, but what matters is whether you remain patient during a crash or lose your nerve by panic selling and crystallising losses.

**A slow-motion property crisis**

US commercial property may be a slow-burning crisis. Los Angeles office towers are being sold for half their pre-Covid prices; in Chicago 'graceful Art Deco buildings' in the city centre are recording occupancy rates of just 17% owing to remote working. About 44% of US office loans are now in negative equity, with the outstanding debt worth more than the property that backs them. Small and regional lenders, already weakened by last year's banking crisis, are especially exposed. The question is not whether big losses are coming, but whether they will prove to be a slow bleed or a panic-inducing wave.

It's not just the banks that are exposed to tumbling commercial property values. In the 2010s, low interest rates encouraged global investors to buy offices in big US cities, which were wrongly seen as super-safe bets. The work-from-home pain is now felt by banks and asset managers in Germany and Japan. In February, 28% of US work days were undertaken from home, quadruple the pre-2020 level. Rather than sparking a sudden liquidity crisis, as during last year's bank failures, the office bust is likely to prove a slow-moving train wreck" as banks delay booking losses and hope for a market revival.

The dollar index, which measures the greenback against a basket of major trading partners' currencies, has gained 13% over the past three years as US growth has outstripped that seen in other parts of the world.

**Dollar keeps ruling**

There are still no challengers to King Dollar's throne. The dollar index, which measures the greenback against a basket of major trading partners' currencies, has gained 13% over the past three years as US growth has outstripped that seen in other parts of the world. High US interest rates have supported the dollar recently.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THE PAST 18
DELIVERED GAINS OF
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Better US yields give global investors an incentive to move into dollar-based assets, bidding up their price.

Rate cuts, expected later this year, had been expected to erode the greenback's lead. But while US inflation is trending back towards 2%, the journey there has hit a large speed bump. Annual US inflation continues to come in above target – it was 3.2% in February – and employment data remains surprisingly strong. That means the US Federal Reserve will be cautious about slashing borrowing costs too quickly. Rates will stay high.

Many have thought it overpriced, but a strong dollar increasingly looks like the new normal. The greenback has consolidated this year at levels comfortably higher than pre-Covid. Ironically, that partly reflects Trump's threat to initiate a new round of trade wars if he wins the presidency. The dollar rose during Trump's previous spats with China.

When governments try to tilt trade in their favour through tariffs, foreign exchange markets tend to push back by making a currency more expensive (thus making exports less competitive).

Most fundamentally, the dollar's rise reflects the strength of the US economy compared with peers over the past two decades. America's economy has dodged the dreaded hard landing. A painful slowdown was thought inevitable when the Fed raised rates in 2022. Instead, unemployment has remained close to 50-year lows even as inflation has trended down. Since the end of 2019, the US economy has grown by 8%, compared with just 3% in the Euro area and zero in the UK. That partly reflects state profligacy, which has kept households flush; last year's 7.5% deficit was a level typically seen only during wars or recessions. But it is also because America's gas and oil independence has let it dodge the energy crisis. Last year it became the world's top exporter of liquefied natural gas.

Last year, US GDP rose by more than the size of the Spanish economy. Resilient US growth has helped support the global economy, offsetting stagnation across most of Europe and Asia. Pockets of weakness are emerging, from ballooning credit-card balances to strains in commercial property. Yet with interest-rate cuts set to juice growth, America is set to keep motoring and outperforming.

# Asia's new tiger economy is ready to roar

**Just two decades ago, Vietnam was one of the world's poorest nations. Now it is a thriving regional hub with ample scope for further rapid development.**

The years following Beijing's accession to the World Trade Organisation (WTO) in 2001 were a thrilling time in the Middle Kingdom. GDP growth repeatedly topped 10% per year. Foreign investment flooded in and manufactured goods poured out in astonishing quantities onto global markets. There is still a place where that post-Cold-War optimism is alive and well. To China's south there is another communist country whose economic dynamism, manufacturing prowess and openness to the West feels reminiscent of early 2000s China: Vietnam.

Vietnam's own growth story is in some respects even more astounding than China's. Even after the Vietnam war ended in 1975, the conflict-ravaged nation found itself under a US trade embargo that lasted until 1994. In 1979, intra-communist disputes saw Hanoi sucked into a brief border war with China, its powerful northern neighbour. Vietnam started the following decade as one of the world's poorest nations, with a GDP per capita comparable to that of Ethiopia.

By the mid-1980s the shortcomings of centralised command economies were becoming apparent even to Marxists. Just as the Soviet Union had Perestroika, and China had "Reform and Opening-up", so Vietnam began "Doi Moi". Literally meaning "renovation", these reforms made more space for the private sector through deregulation at home and liberalised trade policy abroad. Trade was key for Vietnam, whose impoverished domestic consumer base could not support a manufacturing economy.

Instead, growth was to be export-led, enabled by a flurry of trade deals. In 1995 the country joined the Association of Southeast Asian Nations (ASEAN), the main regional bloc. In 2000, Washington and Hanoi put their old enmity aside to sign their first bilateral trade deal. Accession to the WTO followed in 2007.

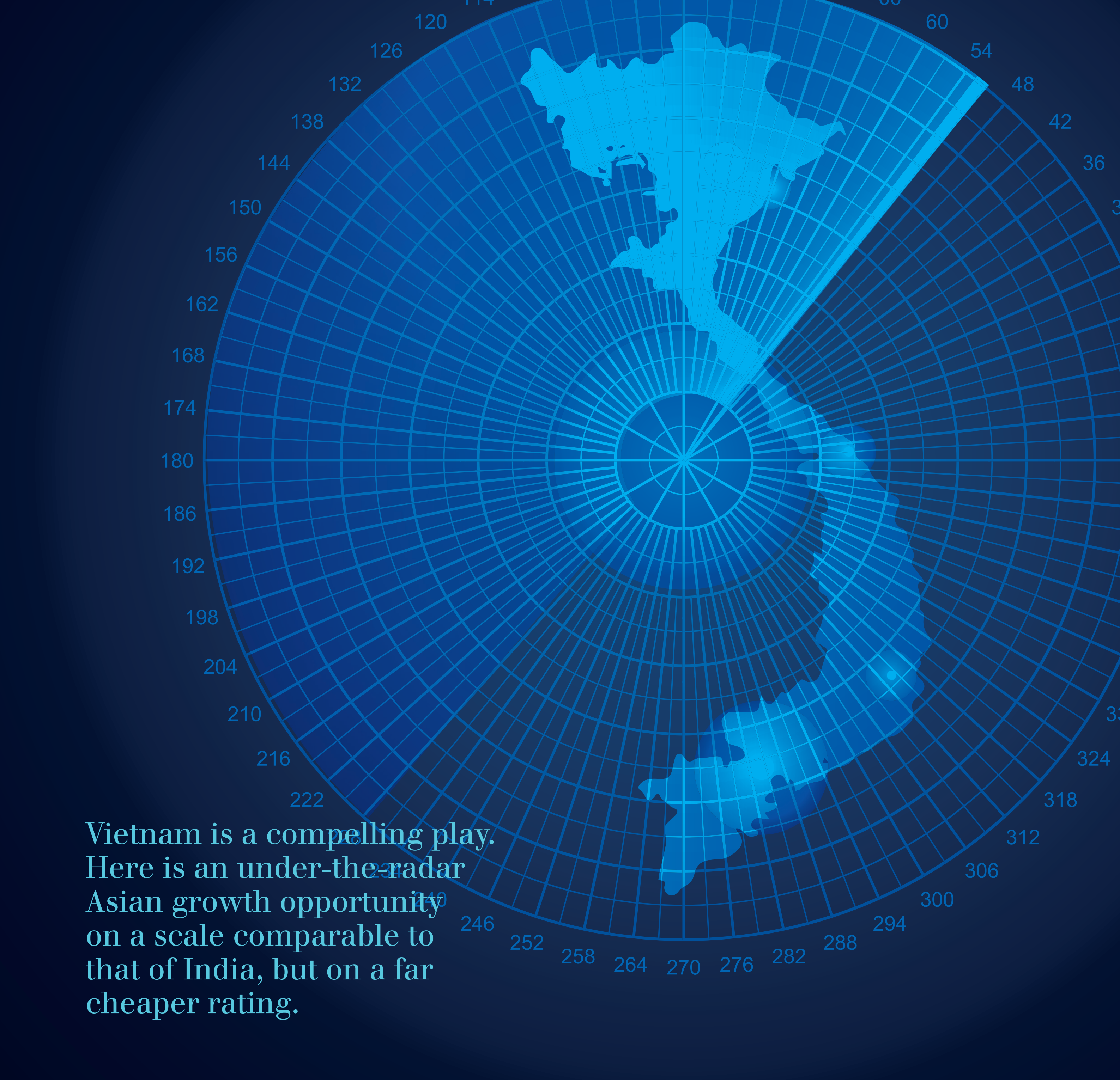
In 1986 exports of goods and services represented less than 7% of Vietnam's GDP; by 2021 that figure had risen to 93%. Within a single generation, Vietnam has gone from being one of the world's poorest nations to having middle-income status, with GDP per capita rising 3.6 times in the two decades after 2002.

Over that period Vietnam has enjoyed three distinct booms in foreign investment. The first began in the mid-1990s, when Honda Motor of Japan started local two-wheeler production and global sportswear brands moved in to set up local factories. Then the early 2000s saw tech firms from elsewhere in Asia establish production lines for simple electronics.

Finally, in the mid-2010s, rising local incomes began to tempt in foreign retail businesses, such as Japanese 'shopping behemoth' Aeon. The overall effect has been to create an export powerhouse. More than half of Nike's shoes and 60% of Samsung's phones are made in Vietnam.

Vietnam's smartphone dominance is in large part due to huge investments by South Korean giant Samsung. The firm employs more than 100,000 people in Vietnam. Samsung's $65bn of exports from Vietnam in 2022 accounted for an impressive 18% of all Vietnamese exports.

It could herald an emerging fourth investment wave. Vietnam is intent on pivoting from labour-intensive textiles and electrical assembly work into more profitable sectors, such as semiconductors. Foreign capital is keen to help, given the growing pressure to diversify supply chains away from China. US business investment has historically been more limited than that coming from Japan and South Korea, but a visit by president Joe Biden to Hanoi in September, at which the two countries upgraded ties to a 'Comprehensive Strategic Partnership', should act as a 'green light' for increased investment from corporate America.




Vietnam is a compelling play. Here is an under-the-radar Asian growth opportunity on a scale comparable to that of India, but on a far cheaper rating.

Vietnam has emerged as the clear winner in the race to find supply-chain alternatives to China. The country's competitive advantage is plain to see. Factory wages are less than half those of China, while the quality of the workforce is comparable in many sectors. The country is also geographically close to key technology supply chains in southern China.

Vietnam's phone exports last year were six times India's. About 75% of the bill for materials in a typical smartphone is made up of the combined cost of the printed circuit board, camera module, touch screen and glass cover. Vietnamese manufacturers can source most of these parts from elsewhere in Asia with zero tariffs, thanks to the country's network of free-trade deals. Their Indian rivals, meanwhile, must contend with customs duties as high as 22%.

**Frontier living**

Vietnam's booming economy has remained below the radar for most foreign investors for a simple reason: it is still not classified as an emerging market by MSCI. The leading index compiler continues to consider the country a "frontier market", putting its stocks in the same category as Benin, Kazakhstan and Serbia.

An upgrade to Emerging Market (EM) status would prompt large inflows from funds that track the benchmark EM index, delivering a boost to local stocks of an estimated $5bn-$8bn. Vietnamese stocks are the single largest component of the frontier-markets sector, and foreign investors have spent recent years betting that an upgrade for such a dynamic emerging economy was only a matter of time.

Yet the MSCI gatekeepers seem inclined to stick with the current classification for the foreseeable future. The main

A 2019 report by an American think tank noted that "in order to become a high-income country by 2045, Vietnam will need to sustain average growth rates of at least 7% over the next 25 years".

sticking point is strict limits on foreign ownership, which cap overseas holdings at 30% for banks and 49% for other listed firms. The problem may not be insurmountable. Thailand has previously found a workaround to similar issues by creating non-voting shares. But for now, the ownership rules look like a deal killer for MSCI.

Vietnamese stocks have other drawbacks. For one, they don't provide perfect exposure to the country's growth story, since multinationals such as Samsung account for three-quarters of Vietnam's foreign sales. Vietnam has plenty of light industry that assembles cameras and cables. Yet the country has yet to create a local supplier that builds on experience of working with multinational companies to establish a brand of its own.

One Vietnamese company has recently made bold moves for the Western consumer: electric-vehicle business VinFast, which is expanding quickly in the US. Yet instead of listing domestically, it instead chose to list over the summer in the US. Surprisingly, information technology stocks comprise less than 1% of the MSCI Vietnam index. Instead, Vietnam's domestic market is dominated by banks and real estate developers, which between them account for half of the overall market value.

The dominance of property companies has made Vietnamese shares vulnerable to a post-pandemic bust. As in China, Vietnamese authorities have initiated a clampdown on property speculation, imposing leverage restrictions and making high-profile arrests of property tycoons on charges of bond market fraud. The moves have forced hundreds of smaller developers and property groups into bankruptcy and seen thousands of construction projects suspended. A crackdown on debt build-up in the property sector may be no bad thing on a long-term view, but in the short term it has shaken business confidence. Last year the local VN-index plunged by a third, one of the worst stock market performances globally.

That was followed this year by an equally powerful bounce back. Vietnam has faced milder inflation than many Western economies of late, enabling the central bank to cut interest rates four times last year. That has sent ordinary retail investors flooding into the market in search of better returns than those available on bank deposits. The VN-index thus soared.

Vietnam has been dubbed the new Asian tiger, bringing to mind the rapid development of South Korea, Taiwan, Hong Kong and Singapore in the latter half of the 20th century. Vietnamese investors certainly hope that the country can emulate the example of the earlier tigers to climb into the high-income bracket, defined by the World Bank as those countries with a gross national income per capita above $13,845.

Yet the Vietnamese need only look to their immediate neighbours in Southeast Asia to see that the path to prosperity can be a bumpy one. In the 1990s Thailand and Malaysia also produced impressive growth, but struggled to regain their old momentum in the years following the 1997 Asian financial crisis. While both remain much richer than Vietnam for now, they are far from the first promising emerging markets to have succumbed to the middle-income trap, which sees national income rise above poverty levels but become stuck well short of the rich world.

A 2019 report from an American think tank noted that "in order to become a high-income country by 2045, Vietnam will need to sustain average growth rates of at least 7% over the next 25 years". That will become harder as the low-hanging fruit of workers moving from lower-productivity agriculture to higher-productivity manufacturing is picked. Vietnam's low wages are a key attraction for inward investment, but that advantage can't last forever if the end goal is a richer society.

Yet there are also reasons for optimism. Vietnamese GDP per capita still sits at $4,000. That is less than one third of the global average, so there should still be plenty of straightforward catch-up growth to come before the middle-income trap threatens to bite.

Many countries find their path to high-income status blocked by low levels of human capital that keep their workforces locked into mundane factory jobs. Yet Vietnam spends significantly more on education as a percentage of GDP than its immediate neighbours. Its students boast the second-longest learning-adjusted years of schooling in Southeast Asia, behind only wealthy Singapore. Vietnam's human capital index is the highest among lower middle-income economies. Vietnam's educated, entrepreneurial workforce thus looks well-equipped to secure their country a pay increase.

For investors, the volatile nature of the local stock market means that Vietnam isn't yet one to put at the centre of a portfolio, but it still merits some exposure. Last year's rally pushed up the price/earnings (p/e) ratio of the VN-index to about 15.36, comparable to Malaysia's KLCI, although still at a large discount to Thailand's SET (21.4) or India's BSE Sensex (22.86).

Even as a frontier market, Vietnam is a compelling play. Here is an under-the-radar Asian growth opportunity on a scale comparable to that of India, but on a far cheaper rating.

# Discovering Latin America's shine

A new form of The Great Game is afoot in Latin America. The US, China and EU are scrambling to amass political power and natural resources in the region. The pandemic, the war in Ukraine and the energy transition have all prompted these economic superpowers to secure critical supplies of food, metals and energy. And Latin America has more of these key commodities available for export than anywhere else in the world.

China was the first 21st-century power to recognise the importance of Latin America. It has been on a buying spree in the region since the first commodity super-cycle began in the early 2000s. That has been accompanied by a political advance that has seen it persuade several central American countries to switch official diplomatic recognition from Taiwan to China.

The US, which was guilty of taking its backyard for granted, began to pay attention in 2016, when trade tensions with China encouraged the government and US corporations to explore new supply chains in Latin America. The EU belatedly caught up last summer, when it hosted its first summit with the region for eight years. Now it is trying to revive a trade deal – which has been stalled for more than 20 years – with Latin America's largest trade block, Mercosur.

Since achieving independence around 200 years ago, Latin America has been a backwater in the world economy. But that will change as it becomes a key global supplier of everything from food to fuel.

The energy transition is becoming the most important economic trend in this century. It's clear that government pledges combined with corporate will funnel trillions of dollars into the energy transition over the next few decades. And Latin America, home to huge reserves of the critical metals needed for the transition, will be the main beneficiary.

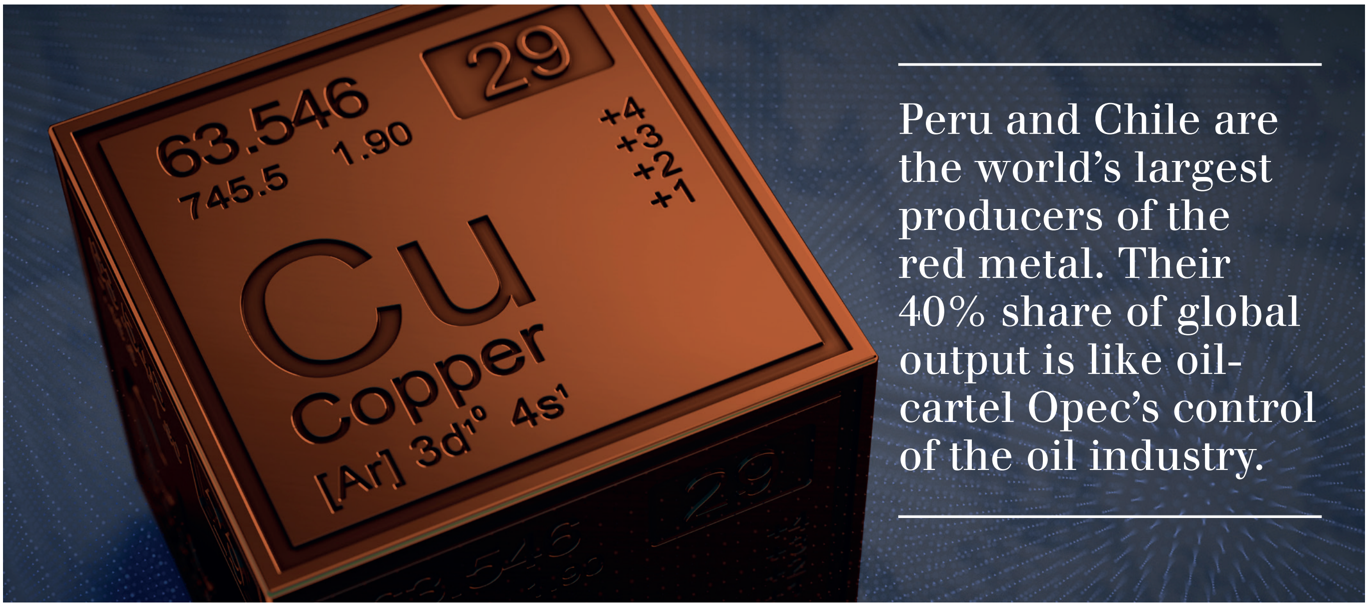
Electric vehicles (EVs) use far more copper than cars with internal combustion engines. The International Energy Agency (IEA) believes growing EV production means the world will have an annual shortfall of 2.4 million tonnes of copper by 2030. Peru and Chile are the world's largest producers of the red metal. Their 40% share of global output is like oil-cartel Opec's control of the oil industry.

The region's share of the world copper market is likely to increase in the coming decades; geologists believe that Ecuador and Argentina could eventually mine as much of the red metal as their neighbours. Currently, Ecuador only has one large-scale copper mine, while Argentina has none. But a pipeline of multibillion-dollar copper mines is set to come online in both countries, which will catapult them into the global top-ten copper producers by 2030.

The IEA estimates that global lithium production needs to triple between now and 2030 to meet the extra demand for the metal. The 'lithium triangle' of Bolivia, Chile and Argentina is believed to hold 54% of the planet's supplies of the metal. Meanwhile, Peru and Mexico have started to make significant discoveries. Chile is now the world's second-largest producer, and a lithium boom in neighbouring Argentina means that country will be the top global miner of the metal by 2030.

Latin America also has the world's 'greenest' electricity grid. More than 60% of the region's electricity is powered by renewable energy – more than anywhere else on the planet – and in some countries, such as Costa Rica, that figure is almost 100%. That helps to attract energy-intensive industries that want to cut their carbon footprint, as they can source their power from a renewable grid.

The energy transition isn't the only trend working in Latin America's favour. The world's growing population – the




Peru and Chile are the world's largest producers of the red metal. Their 40% share of global output is like oil-cartel Opec's control of the oil industry.

United Nations estimates that it will peak at 10.4 billion in 2086, up from 7.9 billion today – will drive demand for food as countries grow wealthier, their populations inevitably consume more calories and protein. Governments seeking to secure food supplies are already looking to Latin America. An Abu Dhabi investment vehicle controlled by the brother of the UAE's ruler recently spent $2.7bn buying Colombian food conglomerate, Nutresa.

Latin America will benefit from inflows of sustainable capital. Earlier this year Ecuador completed the world's largest debt-for-nature swap by refinancing existing government bonds – saving $1bn in interest costs – in return for conserving ecosystems in the Galapagos Islands. Another example of the growing economic value of diversity comes from Brazil, where deforestation was down by 33% year on year in the first six months of 2023.

The new government is determined to replace the illegal miners, loggers and farmers currently deforesting the Amazon with new industries that work with biodiversity. Brazil is also launching a carbon-credit scheme that will place a monetary value on the Amazon's vital role in sequestering CO2. In the coming decades the world will funnel money into Latin America to protect its unique stores of the world's natural capital.

The crucial point isn't just that Latin America has lots of resources; China and the US do too. The key is that Latin America is almost the size of China and the US combined with a third of the population. The region has less than 10% of the planet's people, but a much larger share of its reserves of energy, metals and food, which makes it a natural exporter. And those exports will increase significantly over the next few decades as superpowers compete to secure supply chains.

There is more to Latin America than just raw materials. Latin America is more peaceful than Eastern Europe, less corrupt than Africa and more democratic than Asia. Most of Latin America has been democratic since the 1980s. And during the past three decades key institutions have developed. The most obvious are Latin America's independent central banks, which outperformed their counterparts in the richer world. They reacted to inflation by raising rates more quickly. Brazil raised its benchmark rate a full year before the US Federal Reserve. Populist leaders in the region's two top economies, Brazil and Mexico, were unable to influence the central banks' decision making.

The war in Ukraine has shown the advantages of sourcing fuel and food from Latin America, as they won't be interrupted by conflict. Geopolitical neutrality in the tensions between the US and China is also an asset for Latin America's miners as it exports metals to both blocks.

With instability in one country or another always in the news, many investors are not convinced that the region is safer than they imagine. But one clear indicator is the tech boom taking place. Private investment in Latin American technology increased from $6bn in 2015 to a record $29bn in 2021, which was almost as much as India received. Internet penetration in Colombia, Brazil, Mexico, Chile and Argentina is higher than in China or India. The tech boom evidences that Latin America is more advanced than outsiders realise.

The region could become the world's one-stop shop, boasting the raw materials required for the energy transition and key foodstuffs to cater for growing populations. Climate change – and the efforts to fight it by switching to renewable energy – could define the global economy in the 21st century. Latin America will be a key winner and is increasingly reflected in our clients' portfolios.


The 'lithium triangle' of Bolivia, Chile and Argentina is believed to hold 54% of the planet's supplies of the metal.

# UK PLC – Handle with care

**The well trailed UK budget, in the end delivered very little in the way of surprises. The Chancellor's room for manoeuvre was significantly curtailed by persistent inflation and higher borrowing rates. Notwithstanding the imminent election, little was forthcoming on many areas of policy. We shall wait to see what is promised in manifestos.**

Nevertheless, there were some things of note for investors. First was Jeremy Hunt's announcement that he was abolishing non-dom tax status. At first glance this appeared counter-intuitive to a Conservative view of life but in the context of an election Conservatives are unlikely to win, this robbed the opposition Labour party of one of its key money raising schemes for their own spending priorities and has them now scrabbling for some other way raise the cash. Hunt knows this change was imminent so took the opportunity to claim it for himself and set Conservative spending priorities on the back of it.

Of course, behind the headlines lies the detail. The UK is now adopting a practice used by most other countries. The new regime also provides a more limited tax break, lasting only the first four years, rather than 15 years as currently. This gives new arrivals time to settle into the UK and sort out their foreign investments before UK tax is applied on that wealth.

In truth the reform also misses a trick as it will continue to offer a tax break for investments made abroad – something that arguably disincentives wealthy families that settle here from investing here as UK investments would incur tax. Perhaps this nuance reflects the reality that many living here hold their investments abroad and by allowing people to continue to operate these investments with tax breaks, there is no real change.

As ever, the biggest issue now is the impact of lobbying by those who do stand to lose – including tax advisors. And it is important to note the abolition of the status is not immediate in its implementation or effect. Capital gains made before 2019 will be exempted from tax, even if the non-dom has been living here more than a decade. The announcement that the reform won't be implemented until April 2025 also allows non-doms to get their money into a trust, to permanently avoid inheritance tax.

Elsewhere, the Chancellor has made changes that may stir equity markets in the UK. Pension funds will now need to disclose the proportion of their assets that are held in UK equities. Both defined contribution and local government pensions will have to disclose their international and domestic exposure, in order to increase investment in the UK.

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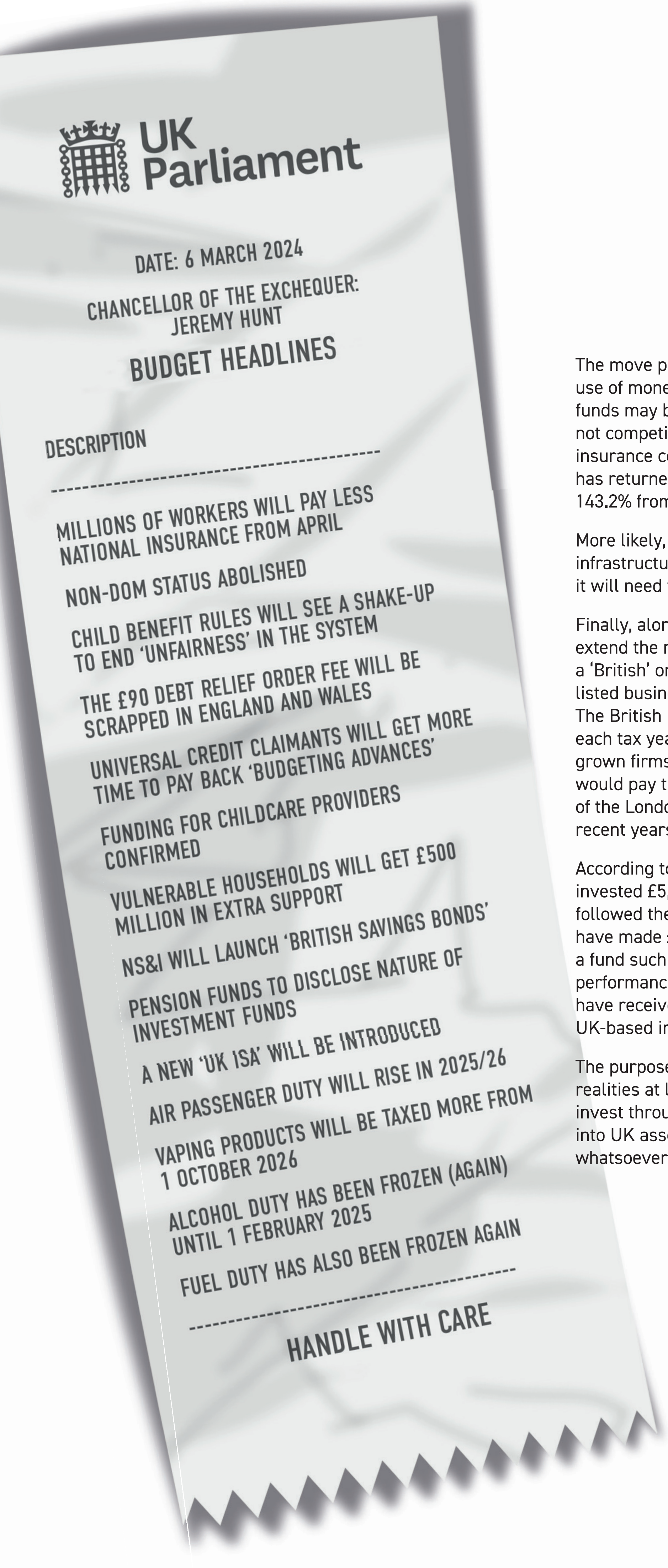


The move presupposes investment in the UK is an effective use of money for pensions funds. High UK equity exposure funds may be shunned by investors if the performance is not competitive. According to AJ Bell research, the average insurance company pension fund investing in UK shares has returned 40.7% over the last decade compared to 143.2% from more regionally diversified mandates.

More likely, this move is aimed at diverting money into infrastructure and housing which would be no bad thing but it will need to be handled with care.

Finally, along the same lines, the Chancellor proposed to extend the range of individual savings accounts to include a 'British' or 'UK' ISA with the onus on investment in UK-listed businesses. This met with a mixed reaction again. The British ISA to provide an additional £5,000 allowance each tax year providing investments are made in home-grown firms. But the concern persists that retail investors would pay the price for their domestic loyalty because of the London stock market's lacklustre performance in recent years.

According to investing platform AJ Bell, someone who invested £5,000 a year for 10 years into a tracker fund that followed the UK's broad FTSE All Share stock index would have made £67,658.But an identical investor who favoured a fund such as Fidelity Index World, which copies the performance of the global MSCI World stock index, would have received a return of £97,488 – £30,000 more than the UK-based investment.

The purpose is laudable but again when looking at the realities at least 50% of the money our customers currently invest through their stocks and shares ISAs is invested into UK assets, so this new allowance will have no impact whatsoever on their investment behaviour.

# Will China's rally last?


**The benchmark CSI 300 index has fallen for the past three years. During the rout, more than $6trn was wiped off stock values – equivalent to roughly double the value of the entire London market. But after an awful January, officials cracked down on short sellers, eased financial conditions and encouraged stock buying by state-linked funds. The CSI has bounced 12% since the February nadir.**

A more positive turn in the economic data has also helped sentiment. Industrial production rose 7% in the year to January and February, yet an ailing property sector remains the market's Achilles heel. At least five property developers, including Evergrande, have been ordered to wind up operations. Forthcoming liquidations could spook foreign investors and increase the temptation for those sitting on profits to take the money and run.

The CSI 300 now trades on about 13 times forward earnings, not vastly cheaper than the 14 times average for all global stocks outside the historically expensive US market. That doesn't seem attractive given the risks. China's government recently announced a 5% GDP growth target, in line with last year's official figure.

That won't be met. The tailwind of last year's post-Covid recovery is already ebbing; fiscal and monetary stimulus efforts have been half-hearted. Old growth drivers are exhausted, with property in structural decline and infrastructure weighed down by high debt. That leaves manufacturing – Beijing has doubled down on areas such as solar power and electric cars.

But China already produces a third of the world's manufactured goods, more than the US, Germany, Japan and South Korea combined. Relative to global GDP, the country's surpluses in manufactured goods are now roughly twice as big as the biggest surpluses achieved by Japan in the 1980s. Governments worldwide are increasingly frustrated with the flood of cheap steel, cars, consumer electronics and solar panels, which put their own industries at risk. The EU and India are mulling tariffs; the Biden White House has only tightened Trump- era trade restrictions. Trade officials argue restrictions are justified because China's cheap state bank loans, land grants and subsidised electricity give unfair advantages.

With trade quarrels spilling onto the diplomatic agenda, the discount applied to Chinese shares in the past few years is unlikely to completely reverse. At its 2021 peak, the MSCI China index was trading at roughly 18 times forward earnings, compared with about nine times now. Valuations on Hong Kong's Hang Seng are still barely higher than the trough reached at the nadir of the financial crisis. But while long-term pressures continue to mount, with the tailwind of state support and low valuations this rally should keep running, and Chinese shares could continue to do well over the next year or two.

# Market report

## Bonds
### High grade Bonds appeal

Although inflation has edged higher globally in recent months, it remains on a downward path as the drivers of lower inflation on the goods, rent and labour markets remain encouraging. Additionally, financial conditions have eased since the beginning of the year. However, lending standards remain restrictive, and this will apply downward pressure on growth and inflation. This is a positive driver for the performance of high-quality Bonds.

High grade bonds are most preferred since inflationary pressures are reducing and major central banks are now in discussions on when rate cuts may be appropriate. This is a favourable backdrop for longer term Bonds with attractive yields.

## Foreign Exchange
### Swiss Franc weakening

The upside for the Euro is limited for the time being. A necessary condition for a sharp and large appreciation would be a strong rebound in both Euro-zone and global growth.

The Pound is likely to remain steady against the Euro. The UK and the Euro-zone are at a very similar stage in the economic and monetary policy cycle. Just like the Euro, Sterling would need a stronger global growth backdrop and a more stable geopolitical outlook to rally substantially.

There are limits to continued US Dollar strength. Markets expect most G10 central banks to cut interest rates over the next two years. This should provide very solid support for 'risk currencies' like the Euro and Sterling, as well as commodity currencies such as the Australian Dollar, Canadian Dollar and New Zealand Dollar.

The Swiss Franc is weakening and is likely to continue its decline.

## Oil
### Demand remains sluggish

Rising global instability has pushed oil prices to a five-month high, hitting $89 a barrel, a day after a suspected Israeli airstrike on Iran's embassy in Syria. The attack raised the spectre that the war between Israel and Hamas in Gaza will spill over into a wider regional conflict. The war in Gaza has not significantly disrupted oil supply so far. However, markets are worried that an escalation in the conflict could come to involve the major oil-producing countries in the region.

Meanwhile, a concerted campaign of Ukrainian drone attacks on Russian oil hubs and refineries is jeopardising Russian energy output. The strikes have taken an estimated 14% of Russia's national refining capacity offline, forcing Moscow to ban exports of petrol and diesel and import fuel from neighbouring Belarus to fill the gap. Energy exports account for 30% of the Russian state's budget revenues and are crucial for funding the country's war machine.

Global demand remains sluggish as anaemic global growth and the growth of green alternatives slowly whittles away at the world's appetite for fuel.

## Equities
### Emerging Markets appeal

Global equities extended their rally in February and March. The rally has been mainly driven by robust results from high-quality companies and encouraging macroeconomic data. The outlook has undoubtedly improved, but optimism is already high, limiting the appetite to chase the rally from here. Equities are likely to deliver low-single-digit returns by the end of 2024.

The earnings outlook continues to improve, with a soft landing as the most likely outcome. A Goldilocks scenario where central banks cut interest rates with still-resilient economic growth is also being entertained. Against this backdrop, earnings likely troughed in 2023, and will reaccelerate in 2024. Tech sectors should lead the growth as they harvest the fruits of their cost-cutting measures from 2023, and they benefit from rapid developments in the AI space.

Rising interest rates remain a risk. For most of 2023, equities and interest rates have been negatively correlated. The latest rally, which started in November, was initially triggered by a sharp drop in yields as inflation slowed. So far this year, inflation fears somewhat fell in the background, and equities focused essentially on the improved growth outlook and tolerated higher yields. However, the latest higher than expected US inflation data added some volatility and means there is some questions around the ability of central banks to deliver expected cuts. Equity markets may be underappreciating this risk.

Emerging market equities look attractive. The Far East (excluding China) trades at very attractive valuations, has fast-growing earnings, and should be a key beneficiary of lower US yields. The start of the Fed cutting cycle may help unlock emerging markets' value.

## Gold
### Hitting new highs

Gold has hit a series of new record high, passing $2,200 per troy ounce for the first time at the end of March. It has also been hitting new records in sterling terms, trading close to £1,800 per troy ounce this week. The metal has gained almost 10% so far in 2024. High interest rates are usually a more difficult environment for precious metals, which pay no interest, but gold has held up well through the tightening cycle of the past two years.

Investors are now betting that US rate cuts will help it keep glittering in coming months. This latest rally has yet to spark widespread enthusiasm, but a slew of leading banks are backing it for further gains.

## Commodities
### Positive outlook

Commodities are up by around 4% already this year supported by strong contribution from all sectors. The outlook for commodities is positive, supported by interest rate cuts and a recovery in global industry. Commodity specific supply-side factors should combine to push commodities higher Total returns of around 10% over the next six to twelve months are likely with all sectors contributing to the performance.

All commodity exposure needs to be actively managed to carefully assess downside risk.

# 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.

## The Team

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Chartered Financial Planner

**Iwan Arden**
Technical Assistant

**Michelle Bye**
Business Manager

**Claire Hobbs**
Senior Client Services Assistant

**Michelle Hoskin**
Head of Operations and Business Development

**Kellie Lewis**
Client Relationship Manager

**Caroline Levy**
Client Relationship Manager

**Kelly Kular**
Personal Assistant to the Partners

**Daniel Hawes**
Relationship Officer

**Heidi Witham**
Paraplanner

**Joe Towlson**
**Client Services Assisiant**

**Georgia Creighton**
Financial Adviser