



Oldfield Partners

## Quarterly Commentary Q4 2022

The BBC's main story a little while ago was, roughly, 'The UK economy fell in the last quarter, the beginning of what the Bank of England expects to be the longest recession in history.' The fall was 0.3%. The headline treated a slight fall, which was news though better than expected, as though it were a collapse. It treated prediction as though it too were news, when we should know by now how erratic predictions are. It showed a reverence for the Bank of England's forecasts. The Bank of England, less than two years ago, was expecting UK inflation to peak at 2.2%.

Altogether, the BBC was exhibiting a particular relish, which has been fashionable in many places since the Brexit referendum, in reporting how badly Britain is doing. The Financial Times shares in the BBC's predilection for putting a bad forecast about the UK ahead of bad news about Ukraine. The FT greeted the New Year with the headline 'UK faces worst and longest recession in G7.' They may be right or wrong. That is not the point. The point is that forecasts should not be treated with the same elevated importance as fact.

Britain has brought this sort of treatment on itself. There is something humiliating and embarrassing about Britain's political shenanigans and Prince Harry's interviews ranking ahead, in the news, of real human disasters. With luck the UK's political shenanigans have peaked. The story of the Truss government seemed to capture in high resolution technicolour what the rest of the world has also been going through economically in blurred black and white. Britain is not alone in having to confront the headwinds of too much debt and too high inflation, but the combination of Bank of England and government actions created a hurricane.

But hurricanes do not last long. We noted in our last quarterly that investment advisers' sentiment (measured in the US, but it would have been true in spades if there were the same survey in the UK) was at an extreme low, an inverse indicator which led us to suggest that returns could be surprisingly good over the next twelve months. There has been a strong recovery in markets since then, not so much because news has been good but because it has not been quite as bad as expected.

It might well go on being not as bad as expected. Expectations remain bleak. The Davos World Economic Forum briefing is about the world's 'polycrisis'. Davos has a habit of being better at identifying yesterday's big deal than tomorrow's, at diagnosis rather than prognosis. There is no bigger deal than a polycrisis. Yet there are signs that inflation is coming down – emphatically in the US, less clearly in Europe, but the US is usually the leader. Recession is not quite so evident, even in the UK. The bookies would put longer odds now on the Bank of England being right in its prediction of five quarters of negative growth.

Meanwhile valuations are moderate. At the beginning of the career of the oldest of those at OP, in the early 1980s, we looked for price-earnings ratios of around ten or less as an indicator, in companies with essentially sound businesses, of good value. There have been a few subsequent recurrences of similarly low valuations – most notably (even lower) in 2009. We see those sorts of valuations again now. Inevitably such valuations occur at times of gloom. The lack of productivity growth around the world's leading economies is a major concern, and in the UK especially. The need for major investment is constrained by governments' balance

sheets and the possibility of further interest rate rises to take rates to where they should be in relation to inflation. But inflation may well be coming down to alleviate that problem.

We often recite two mantras. The first is that over the long term equities tend to provide good real returns. The second is that low valuations tend to lead, over the next ten years, to high returns (and high valuations to low returns). We are reciting those mantras now. In all our strategies the current average price-earnings ratios are around ten or less.

### **Appointment of Charles Sunnucks**

We are delighted to announce the appointment of Charles Sunnucks to the investment team as an Emerging Markets analyst. Charles joined OP at the start of 2023, prior to which he was involved in cross-border M&A transactions at investment bank NovitasFTCL. He previously worked at Jupiter Asset Management where he was part of a team managing the Jupiter Emerging & Frontier Income Trust.

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***January 2023***

**The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance**

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