Lincolnshire COUNTY COUNCIL Working for a better future

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**16 March 2023**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee discuss the report and consider whether any further information is required.

Background

Investment Commentary – March 2023

Market outlook – short and longer term

Stock markets, both equities and bonds, have started off the year surprisingly well considering the uncertainties the world currently faces. Equities have certainly not surged – rather they have just followed a shallow rising trend: when they have had a "down day", that seems to have attracted buyers. Bonds too saw yields in a modest falling trend (i.e. prices edging higher), until the last few weeks when they have risen back to levels seen at the start of 2023. Recently, when the monthly US inflation figures did not meet their expectations, markets had an attack of the "jitters", hopefully only short term. So sentiment is fragile.

Has the rate of Inflation peaked?

One of the (if not the principal) pre-occupations of both markets is the likely trend in inflation in 2023. The headline rate (which includes the prices of energy and food) is falling – quite rapidly in the USA; but less so in Europe and the UK. In the UK, in particular, inflation is still close to 10% and is expected to stay far too high. There is a disconnect – globally – between what Central Banks say they will do (i.e. not cut their interest rates this year) and markets who believe that they will be forced to do so in late 2023, as recessionary forces threaten to appear in their respective economies. As ever, it is important to watch what Central Bankers actually do – not what they say they will do!

Economic prospects for 2023

At the end of 2022, most commentators were gloomy about prospects for global economic growth this year. China was not anticipated to contribute much to global growth because of its covid lockdown; the EU was expected to experience a mild recession. Brighter spots were the US (where energy costs are far lower than elsewhere) and in countries such as India, driven by its population growth. Recently published economic statistics however have prompted a major rethink. The data, almost everywhere, has been surprisingly upbeat. Even the UK, may not actually fall into recession. The consequence is that prospects for equity earnings and dividends will probably be upgraded over coming weeks, thus justifying current equity market levels. Bonds are less happy on the basis that short term interest rates may need to be higher for longer.

As ever, there are things for markets to fret over. The war in the Ukraine seemingly has no end in sight. The potential for China to side with Russia over the war is worrying – and would exacerbate tensions with the USA and other western countries. But China's sends around 15% of its exports to the USA, which will limit its actions. And, virtually all the global Central Banks want to sell down the vast holdings of their own government's debt, bought as part of "quantitative easing" – the measures they used to combat the recessionary economic impacts of covid. As ever, as the saying goes, equity markets climb the "wall of worry".

Longer term economic prospects

Globally, populations continue to grow, at around 1% per annum. The growth rate is on a slowly declining trend, as fertility rates fall. The median age of the global population is around 30 years, much higher in developed countries and lower in emerging nations. Young people are the spenders (as they marry, set up home and have children) and it is they that drive economic growth. This is the ultimate long-term justification for buying and holding global equities. There is no reason to doubt that this will continue for several decades to come. It is not, of course, a short-term argument for buying equities at any particular moment in time.

Conclusion

This is my last meeting with the committee after 12 years as your independent investment advisor. It has been a privilege to work with you all, your chairman and with Jo and Claire. I wish you well and leave you with the thought that equities have served the fund very well in the past. I believe that they will continue to do so.

Peter Jones
1st March 2023

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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