BRI Wealth Management PLC

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After a stormy 2022, global equity markets rose slightly during the first quarter of 2023 in a surprise show of resilience despite a banking crisis, stubborn inflation, and uncertainty about what lies ahead for the economy. Lower energy prices have played an important role in the improvement in business sentiment, along with the reopening of China. Still, nothing about the first quarter's performance was linear.

The quarter was plagued by the emergence of a banking crisis that shook financial markets in early March as questions arose about the health of the US banking system. On 10th March, America's 16th largest bank, § forced to step in. As word quickly spread, consumers rushed to withdraw deposits from SVB causing a 'run' on the bank, the final nail in SVB's coffin.

This was the second biggest banking failure in American history and was swiftly followed by the third, Signature Bank, just two days later. Understandably, markets reacted negatively to these developments. In a bid to reduce contagion risk, governments on both sides of the Atlantic reacted swiftly to reassure both consumers and financial markets. The American authorities stepped in and ensured that all customers who had cash deposits at these banks would be protected. In addition, the UK Government worked collaboratively to strike up a deal with HSBC who acquired the UK subsidiary of SVB for just £1.

As markets briefly paused for breath, on 15th March fears emerged over the health of the far larger European bank, Credit Suisse. A major shareholder of the bank announced on television that it would not be providing any extra capital to the bank. On the same day, Credit Suisse released its annual report, the contents of which spooked investors. A heavy sell-off across global equities followed since what had started out as a US banking crisis had now moved to Europe. The FTSE 100 fell 300 points in just one day, notching its biggest one-day loss since February 2022. Swift action, this time from the Swiss central bank, provided a CHF50 billion lifeline loan to Credit Suisse in an attempt to shore up its liquidity and reassure global markets. This loan was simply not enough to cover the troubles of the bank that had already been on its knees even prior to this banking crisis. Over the weekend of 19th March, Swiss regulators worked tirelessly to organise a government-forced takeover of Credit Suisse's assets by its largest competitor, UBS.

A consequence of the above episodes was a mass swing in US interest rate expectations, a key driver that had dominated investor sentiment for much of the last 12 months. Bond prices rose as investors wagered that the Federal Reserve would not raise rates as high as previously expected now that something in the system had broken. Throughout 2022, the Federal Reserve Chair Jerome Powell and his fellow policy makers have been talking tough that rate rises were needed to cool US inflation (which currently sits at 6%, falling back from 6.4% in January) and the red-hot jobs market. The breaking of certain (weaker) parts of the banking system stirred hopes that the Fed might adjust its monetary policy. Within days of the Credit Suisse failure, expectations of a 0.50% rate rise by the FED in its March meeting swung from a 40% chance to a near zero chance: a massive swing. The Federal Reserve raised rates by 25 basis points at the end of March, taking US interest rates to 4.75%, the highest since 2007. Financial markets are now expecting interest rates to be lower by the end of this year (despite the policy makers announcing that they don't see this happening).

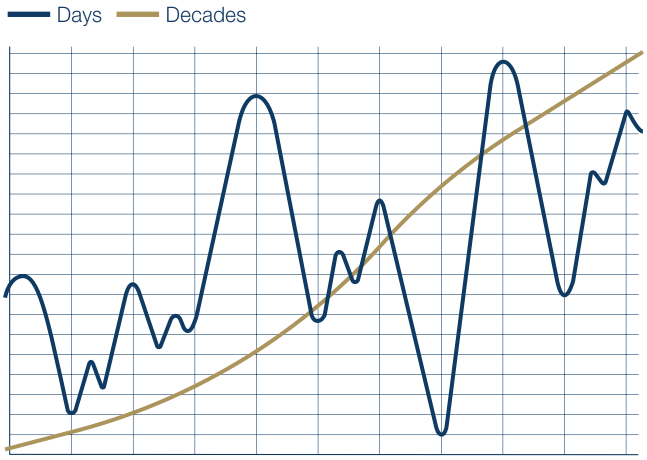
The last few years have seen the world lurch from crisis to crisis and 2023 seems to be shaping up in a similar way. However, during these crises come the greatest opportunities and we have every confidence that better days for investors lie ahead. Patience is crucial for investing. In the words of Warren Buffett, 'The most important quality for an investor is temperament,' ***'The most important quality for an investor is temperament,'*** and in the words of US investor Peter Lynch, ***'The Key to making money in stocks is not to get scared out of them.'***

EDITOR'S NOTES

April has seen markets recover from their relatively low levels at the end of March. It's pleasing to see a little more stability in the markets but perplexing that once again markets seem to feel that all is well with the world. We still remain concerned about recession and banking risk and expect markets to pay more attention to these in the coming months. We recently hosted a market update presentation and if you'd like to see this presentation, then please speak to your usual advisor.

I have just finished reading Warren Buffett's most recent missive to shareholders which is as insightful as ever. Warren Buffett is one of the most successful investors in the world with a highly impressive 60 year investing career, delivering returns of 3,787,464% compared to the S&P 500 returning 24,708%. What struck me was looking at the variability of his returns over his career. Despite his incredibly strong long-term returns, he has underperformed his 'benchmark' in 19 of the last 58 years (32.7% of the time). The average underperformance during these years is 15%, the largest annual underperformance was 39.9% and the worst two-year underperformance was 57%. I'm trying to make several points with this analysis. Firstly, timeframe and patience are crucial when investing. Secondly, investing is not a linear or smooth process. It's bumpy, it's frustrating, it's emotional and it can take time to work. If you'd been concerned by Warren Buffetts' hefty underperformance in 1967, you would have gone on to miss several million percent of excess returns. Timeframe and mentality have always been and will always be the most important attributes for investing.

You decide which to focus on...



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