



## VIEW FROM THE SQUARE

June 2023

### Inflation Holds the Key

'Are we there yet' is the traditional cry of the child in the back seat. In the US, the first sign of an easing of the labour market is a factor that could lead to a pause in the Fed raising interest rates. In the UK, a further upward nudge in the interest rate on 10-year Gilts suggests inflationary pressures are still being strongly felt.

The spread of Artificial Intelligence seems not to have reached Wall Street where their Greed and Fear index is currently at extreme levels. A handful of perceived growth stocks are being pushed to elevated levels as investors press for immediate returns pushing conventional valuation yardsticks to the side.

The above factors suggest that there is still time before markets are ready to offer sustainable value on a widescale basis. The UK, while concerned about entrenched wage pressure on several fronts, is much less highly rated than Wall Street and several other major markets.

Current ratings combined with a weak currency have seen a rise in opportunistic bids leading to an underpinning in the valuation of companies with growth prospects. Investing in the US is a binary choice; dare to buy a handful of tech stocks on very high PE ratios and outperform the market; or avoid them and suffer in the immediate period while hoping to avoid a fall as the narrow market runs out of steam.

On balance, we hope for a better market tone over the Summer but are alert to renewed pressures on the inflation front, particularly with some commodities such as the basic metal range vulnerable to price rises, as capital investment has been modest, and new mines expensive to develop.

9<sup>th</sup> June 2023

W.Forsyth, Executive Chairman and CIO



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