OASIS

YOUR OASIS

UK MAY EDITION - **2022**

VIEWS FROM OUR CEO

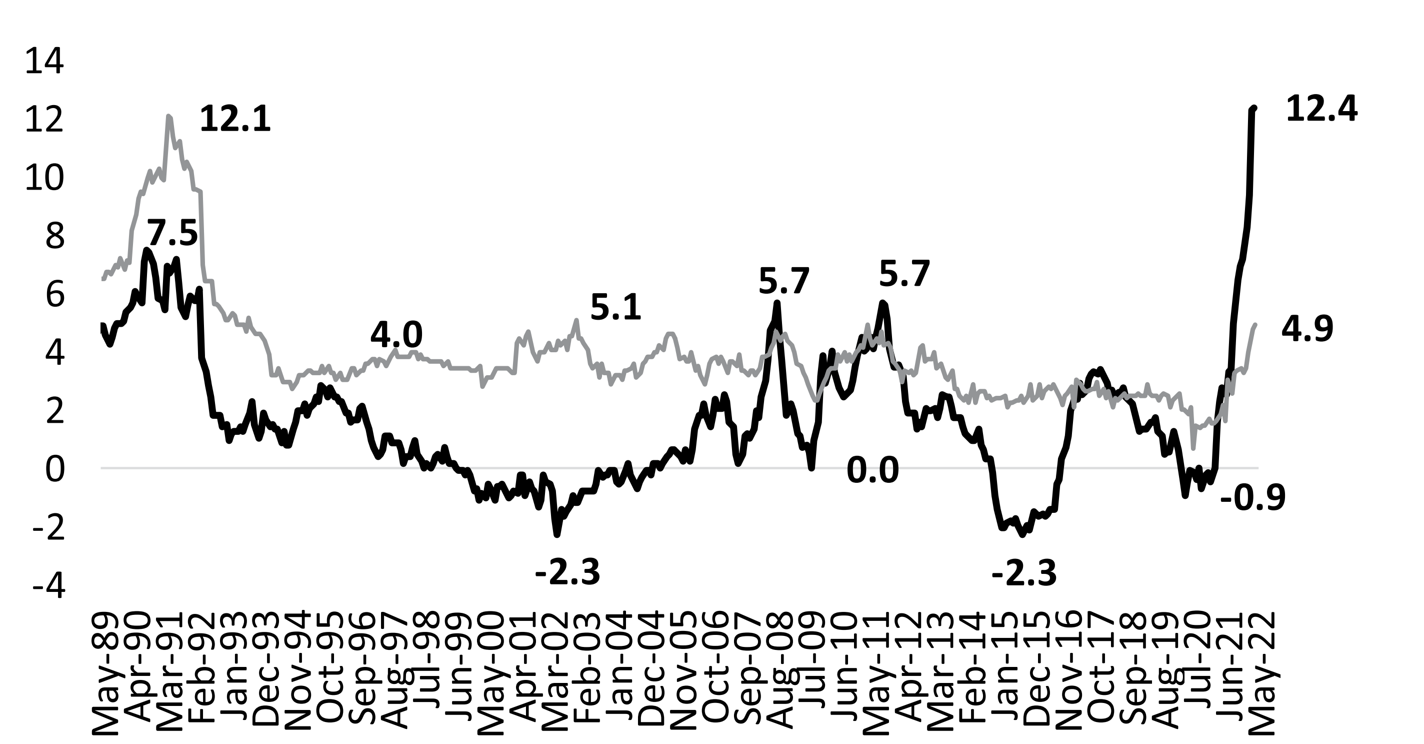
With inflation surging over the past year, there has been much comparison to the so-called 'Great Inflation' decade of the 1970's. At that time, inflation in the U.S. rose to 12.3% in December 1974 and then went on further to reach an all-time record of 14.8% in March 1980. A number of drivers caused the inflation surge in the 1970s, which are not entirely dissimilar to those we face today. In the 1970's, the growing U.S. fiscal burden of the Vietnam War (1955-1975) combined with 2 oil price shocks in 1973 and 1979 led to global and U.S. recessions, rising unemployment and widespread political and social discontentment. These global and domestic shocks were compounded by misguided macro-economic policy. What were ultimately a series of supply shocks, like today, were made worse by over-stimulative monetary and fiscal policy to boost demand which dramatically worsened the inflation outlook.

In the 3 decades following the 1970s global inflation shock, the global economy increasingly entered into period known as the "Great Moderation". Restrictive monetary policy during the early 1980's by Federal Reserve Chairman Paul Volcker helped tame upward inflationary pressures. Meanwhile, increasing globalisation, technological advances (particularly in computing and the internet) combined with the embrace of China into the global economy, all unleashed a remarkable period of stable economic growth beginning in the 1990s which led to both rising prosperity, employment participation and appreciating asset values. How was this possible? Receding inflation allowed interest rates to fall, reducing the cost of borrowing. Rising financial market asset values, including the housing market, boosted household net wealth and created a virtuous circle of rising wealth, consumption and production which was serviced by increasingly sophisticated, just-in-time global supply chains with Asia and China at its heart.

This process of globalisation led to the offshoring of production to cheaper labour jurisdictions, like China, and would ultimately lay the seeds for a populist political uprising some 3 decades later, drawing the curtain on ever-outward looking globalisation. In this important respect, this period of rising wealth and global political stability led to complacency in so far as it was believed that the forces toward the "Great Moderation" would persist indefinitely. However, the UK Brexit vote in June 2016, the election of Donald Trump as US president in November 2016, the outbreak of the COVID-19 pandemic in early 2020 and war in Ukraine in March 2022, have interrupted the previous 3 decades of global stability.

What does this all mean for us today? The global economy is currently in a period of unprecedented flux. For the time being, the world has moved from globalisation and offshoring towards regionalisation and onshoring; from the abundance of commodities and labour inputs toward scarcity. Now that China is both ageing rapidly and moving toward a higher wage and consumer driven economy, the global deflationary impulse has unwound. The drive towards 'clean tech' and reducing carbon emissions has led to stagnating investment in fossil fuels such as coal and oil while at the same time placing enormous pressure on a range of metals, particularly lithium, copper and platinum. Increased local demand for labour is leading to shortages and rapid wage growth, particularly as inflation expectations ratchet higher. Even though inflation could soon peak at current rates, inflation rates for both goods and services are likely to remain well above recent norms given the greater frictions in world trade and energy production the world economy is currently witnessing. As a result, households' purchasing power is going to remain under severe pressure, particularly at the lower income levels. In summary, a world of high inflation and high interest rates are probably here to stay in coming years which will not be a supportive environment for substantial wealth creation and increased prosperity.

Chart 1: UK CPI Inflation: Goods vs Services



Source: Office of National Statistics (ONS) and Oasis Research

UK ECONOMY

At its May monetary policy meeting, the Bank of England (BoE) raised the policy rate +0.25 percentage points to 1.00%. The BoE warned that global inflation pressures had intensified following the Ukraine invasion by Russia due to adverse supply shocks which had increased the price of crude oil and wheat. The accompanying Monetary Policy Report (MPR) now sees headline inflation rising to 9% by mid-2022 and peaking around 10% by end 2022[1]. In fact, the average Q4 2022 CPI forecast was raised from 5.8% to 10.3%. The MPR projects that inflation will fall sharply next year to 3.5% by Q4 2023. Notably, the BoE now sees GDP growth slowing very sharply over 2H 2022. In fact, the BoE predicts that the economy will be in recession by Q4 this year already as the OFGEM Price Cap is reset substantially higher by 32% in October, hitting household income. While the BoE expects average GDP growth in 2022 will be unchanged at 3.75%, it now expects an annual average decline of -0.25% over 2023 (previously: 1.25%) and just +0.25% in 2024. The MPC warned that monetary policy cannot prevent the short-term pressure on household real incomes and corporate profits that is coming from cost push supply shocks. Monetary policy needs to stay focused on achieving the 2% inflation target over the medium term. That said, in a sign that the BoE is becoming more concerned over the deteriorating economic growth outlook, the accompanying minutes to the interest rate decision noted that "some" MPC members did not want to give 'forward guidance' that further rate hikes would be automatically needed. At the end of the day, the BoE like other central banks around the world, are increasingly being pulled in two directions as global growth slows while inflation remains well above target.

1 Source: Bank of England Monetary Policy Report, May 2022

Table: Bank of England Monetary Policy Report – May 2022

	1998-2007	2010-2019	2020	2021	2022	2023	2024
UK GDP	3.0	2.0	-9.3	7.5	3.8	-0.3	0.3
CPI	1.5	2.3	0.5	5.0	10.3	3.5	1.5

Source: Bank of England Monetary Policy Report, May 2022 and Oasis Research

FINANCIAL ADVICE

The last 30 years of investment returns have been very strongly correlated with a high degree of wealth creation. Over this period, we have increasingly moved from a situation of satisfying needs to satisfying wants, often in the context of rising indebtedness. The complacency around rising indebtedness reflects a belief that rising asset values could always be used to pay down accumulated debt. In the current challenging financial and economic environment we now find ourselves, we need to fundamentally reassess our views that rising asset values justify us taking on larger amounts of debt. By contrast, in a world of higher inflation and interest rates, and potentially more modest investment returns than we have been used to over the past couple of decades, we should instead look to reduce our exposure to debt. As individuals we should carefully identify our families' needs versus our wants or desires. As an example, when receiving a performance related bonus, rather than take an overseas holiday, a portion of the bonus should be used to reduce outstanding debts and/or invest towards a savings nest, useful for a rainy day, or as a contribution towards a retirement fund.

At Oasis, our resolute and committed focus to our valued clients remains on protecting and growing real wealth in order that they meet their financial needs consistently and sustainably over the long term. During uncertain times, a prudent investor should look to invest in a range of asset classes that would yield their desired outcomes, while reducing the overall risk within their portfolio. Having a balanced approach to investing would ensure that your long term objectives are met. A key advantage of investing in one of our Balanced Funds over a single asset class is the ability to diversify your investment portfolio across a variety of asset classes (equity, property & income) in order to reduce volatility and meet your individual riskprofile. Speak to an accredited Oasis financial advisor to assist you in identifying products suitable to your needs.

OASIS UPDATE

1 June 2022 is a special time for the Oasis Group as we have reached our twenty fifth year of operation. This occasion continuously reminds us of the Barakah (blessings) bestowed on us and how, over the past 25 years, we have been privileged to contribute so meaningfully to our clients, our stakeholders, our employees and the communities at large. Our drive at Oasis to deliver sustainable material change in the lives of our investors is as prevalent today as it was in 1997 and we look forward to continue sharing in these valuable relationships with our unwavering commitment to protect and grow your wealth.

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