



Chronicles in disgraced leadership did not start in 2016! Donald Trump now joins a cast of past American leaders who conducted criminal activity while holding office in the executive branch.

Market Update

By Bruce VonCannon

**Global Equity Markets Rebound in the
1st Quarter!**

April 15, 2023

The Voice for Reason

Comments and Views for the Individual Investor

(March 31, 2023) The first quarter of 2023 has come to an end leaving most investors cautiously optimistic. The optimism comes in part owing to how dastardly bad 2022 was for almost every asset class. The swift uptick in the market actually began in the last quarter of 2022 and, despite the negative outcome for the 2022 year, the 4th quarter equity markets edged upward. That sentiment pushed through strongly in the first month of 2023 as the January rally was significant. However, euphoria cooled a bit in February when inflation figures remained intractable. March has given hope to renewed optimism. Despite a US Fed rate hike on March 21st, the equity markets pushed upward, and most US Dollar based balanced risk portfolios will show another consecutive positive quarterly performance.

Looking forward deeper into 2023, key determinants of how the market indices will perform as we proceed into the year will likely include the following:

-Can inflation be kept under 8%?

Historically speaking, chances are good for a positive equity market outcome if inflation can be kept in check. However, at present, key among pushback forces working against controlling inflation in the United States is the protracted existence of a tight labor market.

-The world is less global today than a decade ago

Free trade has become a less fashionable topic in the smoke-filled rooms of government planners and politicians. Policies that promote free trade at the expense of domestic job security have been under siege now for over a decade. A growing bifurcation in the world of technology continues to worsen. It seems increasingly evident that the US has chosen a strategy of restricting exports of certain technologies to China in areas where it is believed the Chinese use it for military purposes.

Are more interest rate hikes likely?

The US Federal Reserve and other central banks seek to control inflationary pressures through measures that largely include short term rate hikes. Such rate hikes raise the cost of borrowing money for companies competing in their respective industries and marketplaces. These rate-hikes raise the cost of doing business and (especially for companies that have high levels of leverage) must either be passed on to consumers or absorbed by the companies themselves. Companies that manage their balance sheets wisely may be able to structure their borrowings for working capital through clever long-term lending or bond issuance. However, at some point higher borrowing rates cannot be tolerated indefinitely by the corporate sector.

The outlook for this year does not yet seem to suggest that the Fed has completed its agenda and will now start to lower rates. Quite the opposite appears to be the case. Inflationary pressures in the US market as well as globally suggest that the Fed may need to raise rates further. The same can be said for the European Central Bank (ECB) as Europe is experiencing inflationary pressures that are even higher than those in the U.S..

What sectors seem to offer the most opportunity for investors?

Healthcare remains one of the best performing sectors over the past 15 years. If there were what one would label a “defensive equity sector,” it is Healthcare.

Another sector not to be ignored would be Information Technology (IT). Despite staggering layoffs in the sector over the past year and correction in IT equity valuations nearly across the board, we still believe IT remains an attractive equity sector with emphasis on hardware product manufacturers versus software providers.

Will there be opportunities in other areas? Most certainly and additional investment themes where we see opportunity include the following:

Moderating strength in the US dollar

- In 2022, the USD was particularly strong versus Sterling, Yen, and Euro. However, it would be logical to expect that the greenback might pull back a bit in 2023. For US reference currency investors, adding some non-dollar positions may add a bit of alpha to your investment portfolio. Year to Date in 2023 European equity markets have also slightly outperformed the US indices.

Mixed expectation for commodity price valuations

- Will commodity prices in areas such as oil and gas, gold, wheat, and copper remain firm? They exploded upwards at various times over the past year following the outbreak of the Ukraine War. Adding commodity exposure to a portfolio normally provides diversification as commodities like gold historically have low correlation with global equity markets.

In summary, all portfolios should have a prudent degree of diversification within a mix of asset classes that include cash/deposits/money market, fixed income, equities and alternative investments. Asset allocation remains a very crucial determinant of portfolio investment success.

The Historical Perspective : Grasping the moment we are in!

I would be remiss not to comment on the announcement this past week of the indictment and arrest of former president Donald Trump which has broken across global news headlines. Such an indictment was spawned initially by alleged hush money payments to a porn star prior to the 2016 election and later swelled into 30 additional New York State criminal code violations for falsifying business records as investigators looked more deeply into the case.

It is highly likely that Trump will face at least three additional indictments in the coming weeks for criminal acts involving attempts to change vote counts in the US state of Georgia in 2020 as well as his involvement in the planning of the January 6 insurrection in the US capitol and tampering with the peaceful transfer of power. While it is not a certainty, there is likelihood that Trump could face prison terms if convicted. With upcoming presidential and

congressional elections scheduled in the US for late 2024, do the events of the past week create the likelihood of more political violence and domestic strife and spillover effect into the management of the economy?

- As tragic as these events are, and regardless of whether or not one is a Trump supporter, some critics see this as a deep crack in the prestige of the US government and its democratic model of governance. It clearly suggests worrying evidence of a deep divisions within sectors of U.S. electorate maybe not seen since the late 1960s or even dating back to the 1850s. However, others view this is as a defining moment, a cleansing process and proof that the system has prevailed. No person in the United States is above the law. It is not the first time that US prestige has been dented by derelict judgement and immoral leadership. At least three other notorious historical examples in the nation's history are worth citing:
 - In 1807 Vice President Aaron Burr during Thomas Jefferson's Presidency was later to be tried for treason as he attempted to set up another country within the confines of the domestic US territory. Burr, by the way, had already been wanted for murder following an 1804 duel in which he killed America's first Secretary of Treasury, Alexander Hamilton, who had been a member of the rival Federalist Party.
 - In 1921 the shameless Teapot Dome scandal broke under the leadership of President Warren Harding who would later die of a heart attack in the arms of his mistress in a San Francisco hotel two years later. Harding's Secretary of Interior, Albert B. Fall, received a prison sentence for bribery.
 - Recently pundits claim that Trump is the first President to be indicted for crimes. However, most certainly President Richard Nixon, who was impeached and resigned in shame in office in 1974 following the Watergate break-in scandal, would have been indicted by Special Prosecutor Leon Jaworski had President Gerald Ford not pardoned him. It should also be remembered that Nixon's first Vice-President, Spiro Agnew, had resigned in disgrace in 1973 following allegations of bribery, conspiracy, and tax fraud.

Given the severity and multitude of episodes of documented criminal behavior by Trump prior to and during his four-year presidency it seems wishful thinking to believe he will be completely exonerated. Wrongdoing, if proven under the US legal tradition of “trial by jury,” is unlikely to go unpunished. One thing is for sure. In terms of moral leadership Trump may not necessarily be the lowest of the low. It is not the first time that the Great American experiment in democracy has stumbled and gone dark and slightly off the rails. Other scoundrels have come and gone before Trump and rule of law in America still prevails.



About the author:

Bruce VonCannon is a native of North Carolina USA and currently a Managing Director with Vanheel Management Ltd., a Hong Kong SFC and U.S. licensed independent asset management firm founded in 2002. His career spanning 27 years in international banking and wealth management has included assignments in New York, Taiwan, Hong Kong, Singapore and Geneva. He is a frequent speaker at financial seminars, universities, and business forums as well as author of “A Guidebook for the Asian Investor,” available in hardback and e-book courtesy of Palgrave MacMillan and in Chinese language courtesy of Beijing University Press.