Albemarle
STREET PARTNERS

The Big Three

February 2024

This month's three big investment themes

1 Jobs Galore

For much of the past year a key question for investors has been whether inflation can really be defeated without triggering a recession or whether that is simply too good to be true. The past month has so far given us more evidence that we should stay on the optimistic side of this debate. In the United States the number of new jobs created has smashed economists' estimates even as core inflation has continued to move lower. This scenario would allow the US Federal Reserve to claim it has been successful in driving down the cost of money without tanking the economy. So far, the signs are good but the Fed itself is telling us to just wait and watch the data as it comes in to make sure. Optimism about the future is warranted here, but we must leave no room for naivety. Our portfolios therefore are slowly positioning for recovery but not ahead of the actual evidence that this is occurring in the real world.

2 Coming of age on Facebook

Anyone who has opened Facebook to be reminded of some life event from 15 years ago knows that the social network is surprisingly old. Indeed, as it comes to its 20th anniversary it has crossed a key coming of age threshold and paid its first dividend. Typically, US technology companies avoid dividends. Classic US thinking is that really fast-growing companies should be deploying their cash to grow even faster rather than paying it out. Yet Facebook's parent company Meta has shown that even in the mature phase it can grow whilst paying out money. It has demonstrated that it can deal with tougher times by cutting costs and finding efficiencies to an extent that most had not expected. Likewise, other major tech names like ride-hailing app Uber have moved to full-year operating profit for the first time this year. Whilst all investors wait and hope that the wider market can catch up with the returns offered by large US technology

3 Geopolitical tension grows

Recent weeks have seen a gradual but real escalation in Middle East tensions as the US administration has launched retaliatory strikes on Iranian-backed militia groups in Yemen in order to secure the precious shipping lanes that run through the Strait of Homuz. Understandably some will question whether this has the potential to escalate into a conflict that could destabilise the world economy. There are, of course, no guarantees about events in the Middle East. However, we continue to believe this is an unlikely outcome. Few countries in the Gulf and Arabian Peninsula have any incentive to provoke a conflict with the West and indeed every incentive not to. The Gulf states in particular, which are now highly connected to the wider developed world economies, will do all they can to avoid this. This, we believe, is why the impact on oil prices of this uncertainty has continued to be only modest.

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