

Bull and Bear

Misunderstandings and Unexpected Consequences

Both Bull and Bear have been on the conference circuit recently - with very mixed results.

Bear: How's it going, Bull?



Bull: Yes, fine. Thank you. Did I tell you that I went to a seminar ten days ago on AI? It was not at all as I was expecting. The promotional headlines were something like – Why do it yourself when you can use AI?

Bear: And?

Bull: Well, as you know, I am greatly troubled by the whole thing. It's existential. If our farmers go down that AI road too far, we Bulls will all be out of business.

I was expecting the speakers to be a bunch of country folk wearing red corduroy trousers and green wellies. But it turns out there wasn't a farmer or vet amongst them. And the average age of the delegates couldn't have been more than twenty-one. But it turns out that the talk wasn't on AI at all. It was all about Artificial Intelligence. There wasn't a single mention of syringes or improved cattle pregnancy rates throughout the whole event. It was like they were speaking another language.

Bear: Goodness me. But did you learn anything?

Bull: Yes, once I had grasped the lingo. It seems that building designs and M&E systems are already knee-deep in the technology and so is Big Data grab and analysis. But I have to tell you that when push comes to shove, I am still convinced that there will be a place for good old-fashioned 'gutfeel'. Anyway, enough of that. What about you, Bear? Weren't you heading off on some jolly or other?

Bear: Yes. It was our Annual Bears R Us Global Alliance convention. It is always held a few weeks before World Bear Day. It's on 23 March this year if you are interested.

Bull: How did it go?

Bear: Not well. At all. The agenda is always in two parts – firstly, geopolitics and the global economy, and the second, property. However, the whole thing was acrimonious from the very start. There had been some debate beforehand as to whether the Russians should be invited, but since they have a larger population of bears (120,000) than anyone else, any conference without them would barely make sense. But the whole thing exploded into chaos when some hot head from the US (32,500) insisted that the organisation should be rebranded from Bears R Us to Bears R USA to reflect their global importance. Arrogant so and so.

Bull: Did the Chinese have anything to say about that?

Bear: Too right they did. No-one knows quite how many bears there are in China, but the number is somewhere between 18,000 and 50,000. And their elite Giant Panda Brigade is 1,850 strong. Put simply, they threw their toys out the pram and threatened to walk out of the conference if they weren't given a permanent seat on the Alliance's main board. But what alarmed everyone even more was their open contempt for the 200 or so cute Formosan Black Bears in Taiwan, who have become fiercely independent recently. I sense trouble ahead there.

Bull: And the Russians?

Bear: In one word ... dangerous. They already have a nasty habit of wandering uninvited into other bears' territories, so you can imagine the gasps of anguish when the same bloke from the US announced that, if he was chairman of the Alliance board, he wouldn't support any European bear colonies unless they had paid up their annual subscription in full. The Russians couldn't stop laughing and slapping themselves on the back.

Bull: Who was chairing this?

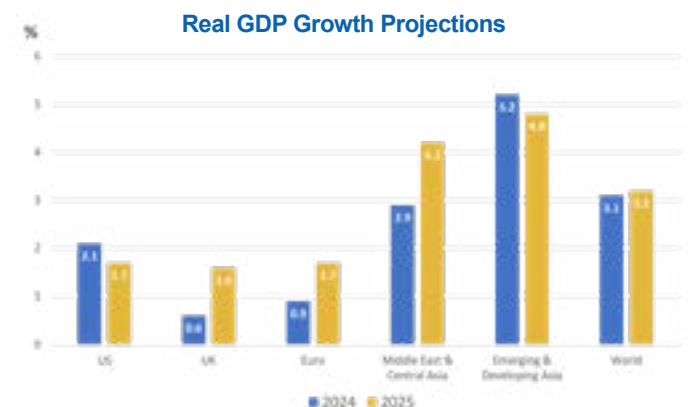
Bear: King Polar. Everyone holds him and his fellow bears (22,000-31,000) in the highest regard, but he was not happy at all. He begged the conference to take global warming much more seriously, but frankly no-one was listening. They all seemed consumed by their own petty agendas.

Bull: Wow. And, apart from you, was there anyone else from the UK?

Bear: Yes. There was this short fellow. I'm not sure of his name ... Paddy Turn, or something like that. I guess he must be important as he told me that, a couple of years' ago, he had tea with the late Queen. Nice chap, even if his table manners did leave something to be desired.

Bull: What was the general view on the global economy then? I assume that since all the delegates were bears, it was pretty gloomy.

Bear: Yes, it was. Everyone was talking about the same old stuff - high inflation, high interest rates, tight labour markets and fractured logistics. They were particularly dismissive of the IMF's latest upbeat predictions for global growth at 3.1% for this year and 3.2% for 2025. It was nowhere near bearish enough for their liking.



Source: IMF, January 2024

Bull: And what is the prediction for the UK's GDP growth? How do we fare amongst our global peers? Clearly the revised figures for Quarter 4 showing that the UK entered recession does not paint a positive picture.

Bear: I am embarrassed to say that we are rather letting the side down at present. Just 0.6% is predicted for this year and 1.6% in 2025.

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Bear: In fact, there was one guy who claimed he was from Goldman Sachs who chirped up that the British economy is 5% smaller now than it would have been if we had stayed in the European Union. The Europeans could hardly conceal their glee.

And the horror-show continued. One of the speakers then put a slide up on the screen that showed the recent performance of the major global stock markets. There it was. As bold as bold could be. Over five years, the FTSE 100 index has gone up a miserable 6.6%. This compares with a thumping 80% from the S&P 500 and a doubling of the Nasdaq Composite. No wonder Arm chose to list in New York rather than London. Even Tokyo has boomed (+78.2%).

Stock Market Performances

	1 Year	5 Years
FTSE 100	- 5.5%	+ 6.6%
FTSE 350	- 5.4%	+ 5.4%
S&P 500	+ 23.3%	+ 80.1%
Nasdaq Composite	+ 34.9%	+ 109.4%
Nikkei 225	+ 39.9%	+ 78.2%

Source: FTSE

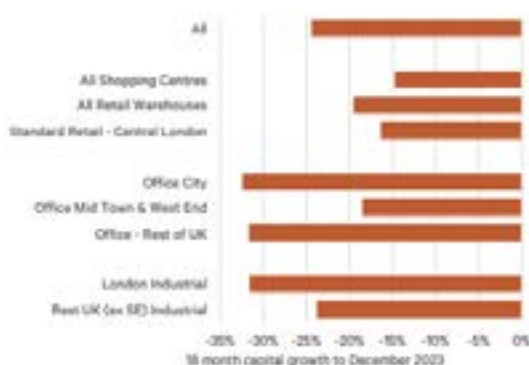
Bull: Cripes. It sounds as if the Brits got a bit of a pasting.

Bear: Yes, we did. Yet, no one seemed to acknowledge that we must be doing something right as the pound has strengthened against both the dollar (+6.8%) and Euro (+4.4%) since last March.

Bull: Surely there was some good news?

Bear: You might have thought so, but don't forget that this was exclusively a Bears' gathering. That said, the whole tenor of the day changed for me when we got to the property bit. Some delegates started taking the mickey because UK property capital values have fallen so far over the past couple of years. Comments like 'Broken Britain' and 'Sick Man of Europe' were being whispered behind my back. I am afraid I just couldn't hold it in. I blew my top!

Valuation Declines Since June 2022



Source: Berenberg, MSCI

Bull: Wow, Bear. I am proud of you. What did you say? I hope you made a spectacle of yourself.

Bear: Yes. I am afraid I did. I stood on a chair, let out one of my most frightening growls to get everyone's attention and then preceded to reel off a list of ten reasons why investing in UK property is such a good thing:

- We have easily the most transparent market in the world. We are trustworthy and reliable. And our rule of law is sound.
- The UK property market is taking the climate crisis seriously, and I suggested that it was about time they did too. Otherwise, we can say goodbye to all our Polar bear cousins.
- We have great communications. We speak the global language and sit on the GMT timeline.
- London has been ranked Number 1 World City since St Bride's World City Index was launched in 2012. And rightly so. It really is a phenomenal city.
- And the UK isn't just about London. We have some of the best universities in the world and we are great at innovation and invention.
- We are always the first to mark our valuations to market, both up and down. This invariably means that we are the first to pull out of the doldrums. Others may learn something from us on this score.
- We attract more overseas capital into property than anywhere else in Europe.
- Unlike many developed markets, our population is still growing. This will continue to underwrite strong ongoing occupier demand for both commercial and residential buildings.
- Rental income is steady and predictable and, with tight planning constraints on development, rental values will continue to rise on investment grade assets.

And then I stuck my neck out and predicted that UK property performance over the next three years would knock the socks off anywhere else.

Bull: Wow! Do you really believe that?

Bear: Yes, I do.

Bull: I bet that shut them up.

Bear: It most certainly did. The only trouble is that I was then summoned in front of the board to be told that they had voted to kick me out of the Alliance for having unacceptably bullish opinions.

Bull: That's brilliant news, Bear. At least we will see a smile come back onto your face. C'mon, give me one of your famous bear hugs. Everything is going to be absolutely fine.