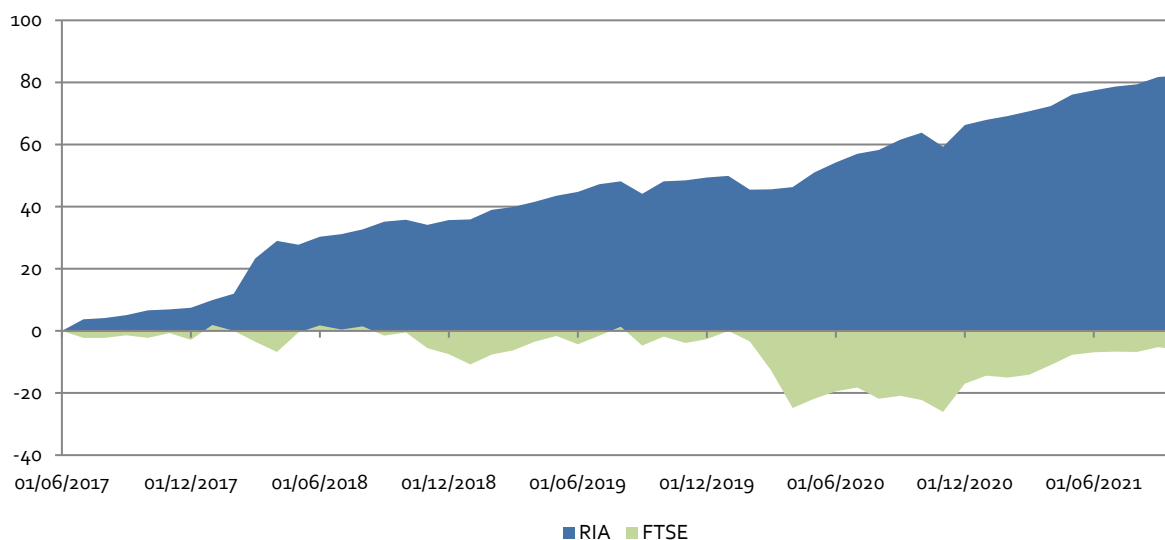




## RIO REGULAR INVESTMENT ACCOUNT GBP

During September the FTSE 100 had dropped below the 7,000 mark for the first time since July. Fortunately, I had already banked gains for those invested. September closed with the FTSE ending the month down 0.86%. RIO Regular, in stark contrast, gained 0.23%. The graph below shows the returns filed for the Regular Investment Account (GBP) since its launch in June 2017. The gain of 82.18% is far above the target return.



The market made a positive start to this week, in fact, it ended at session highs on Monday. It was given a push as the US debt ceiling turmoil was put to bed, temporarily. For now the market focus has shifted ahead to another season of corporate earnings.

### The Economic outlook

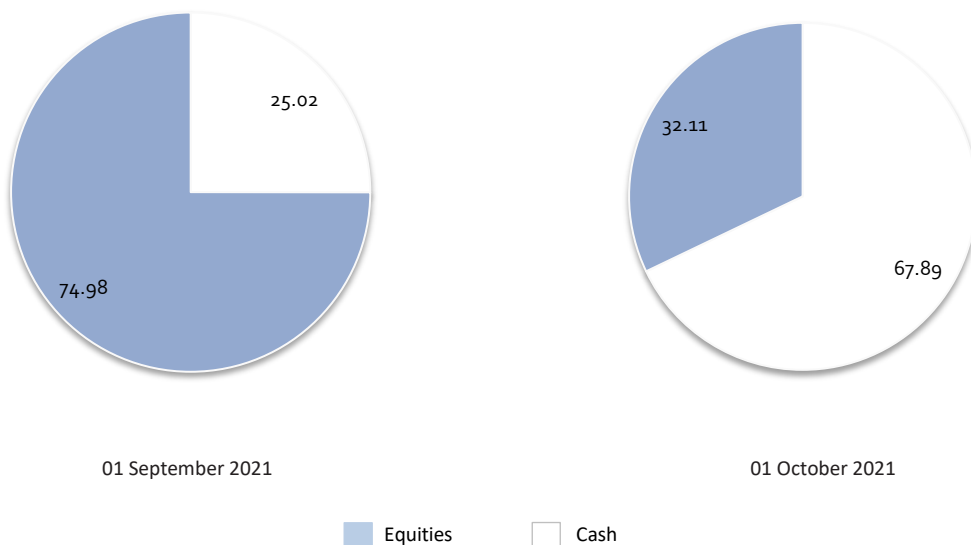
The British economy emerged from the last lockdown stronger than first thought, but still has far to climb to reach its pre-crisis level. Fuel and raw material shortages are driving inflation and pushing prices higher, this has spurred on the UK government who have unveiled a £500 million hardship fund to assist consumers with the rising cost of living during the winter period. There are growing shortages of gas which could have been avoided. Not that long ago, as I recall, the UK shut down its massive gas storage facilities, absurdly, these facilities had just the sort of stockpile that the country needs right now.

The UK employment number came in far better than those across the pond with employers adding 207,000 employees to their payrolls in September, shortly before the government's furlough scheme ended. In the last three months the unemployment rate has fallen from 4.6% to 4.5%. A good October jobs report is likely to open the door to a rate hike as soon as December. These statistics have the BoE firmly focused and closely monitoring wages growth in an attempt to gauge how persistent this recent jump in inflation could be. I forecast that the BoE will become the first major central bank to raise rates since COVID-19 changed the world. After all, inflation is heading towards 4% or higher, double the 2% target.

The new Chief Economist has now stated concern over longer lasting inflation, this is something I have been warning of for months. This could be bad news for some pension funds, as many of the younger generation of fund managers in charge of public money, and manning trading desks, have no experience of trading in an inflationary market, this could lead to losses.

And let me be clear, the inflation trade is here. We have now seen consecutive consumer price index rise of plus 5%-6% year on year. While the Fed had chosen to stick with their "inflation is transient" comments, they are also beginning to wane. To me transient means three or four months, a year is an entirely different matter. So, inflation will continue to be featured more and more as the big media story; as four months turn to five, six, and seven all the warning bells will begin to toll and the Fed will be forced to admit it's not a rose garden after all. The markets will, as always, begin to price the predicted future in.

On a positive note, Boris Johnson has announced that there will be no more 'amber list' country ratings, while also removing the requirement for PCR tests for those who have been double-jabbed, and has taken dozens of countries off the 'red list'. With that, opportunity comes, as we should now see the prospects for a rebound in transatlantic travel. Rolls-Royce has already moved upwards, rising 2.3% as the change is better for its core business of making and servicing engines for long-haul aircraft.



Above: Asset Allocation %, RIO Regular Investment Account

Above are the pie charts for the period September 1st and October 1st, you can see the move to a safety stance in October. The reason for this is as noted in the manager comments of the October factsheet, we are likely to see a market correction during October; if my forecast is proven correct and the predicted fall back occurs we are positioned perfectly. This week I have already closed another two positions in profit, and have moved both the capital and profit to cash, lowering the risk for the month.

William Gray  
The RIO Club