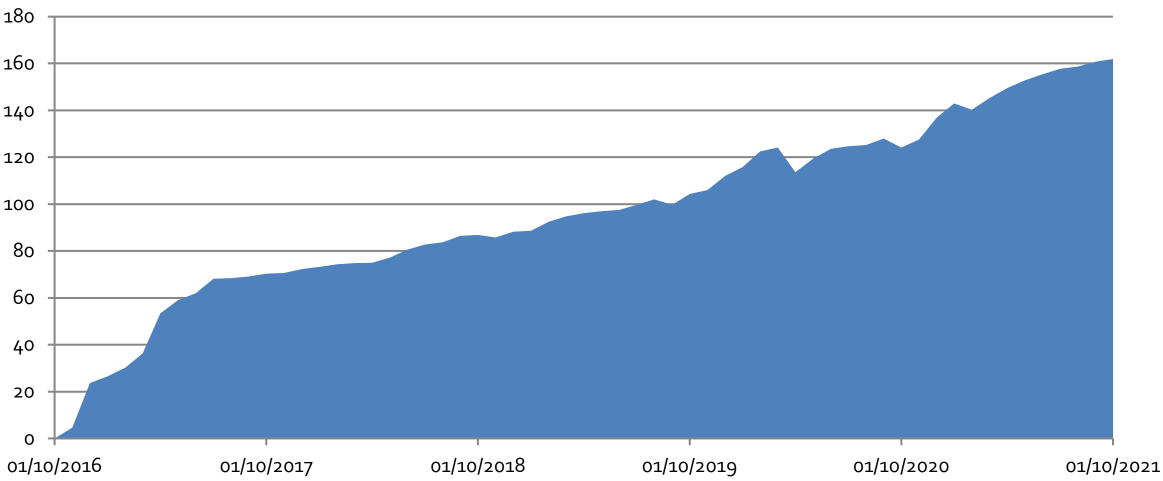
RIO REGULAR INVESTMENT ACCOUNT USD

The graph below charts the returns filed for the Regular Investment Account (USD) in the past five-year period. The gain of 161.92% is far above the target return, as is the average annual growth of 32.38%. This investment is an excellent example of why RIO always comments that it can be, and in this case has been, very rewarding for any member who remains invested over the five-year period.

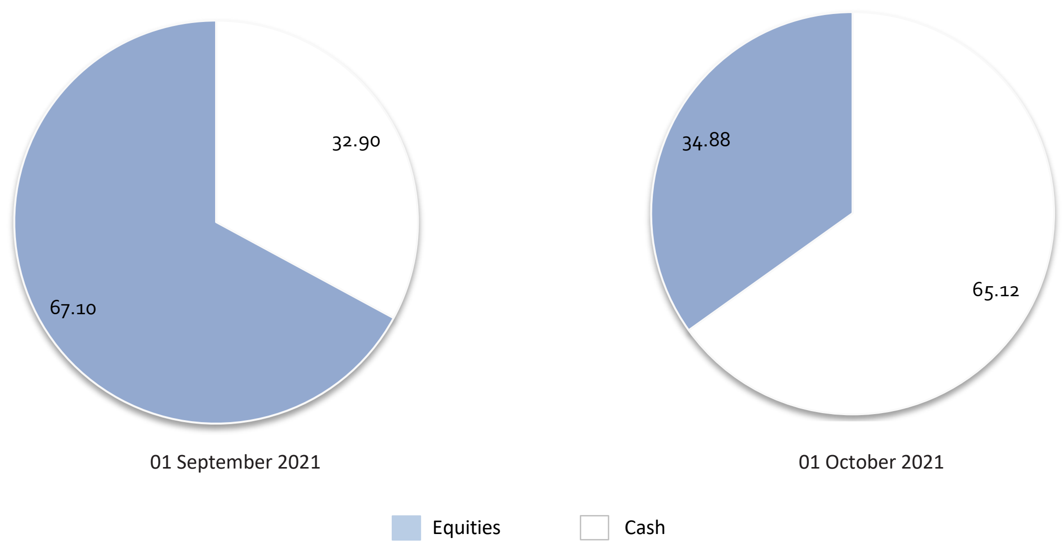


The account posted a profit of 0.47% during September, this its eighth consecutive gain. I'm proud to say that each of the trades closed during September were closed in profit. The Dow by comparison closed September down over 4%. The selloff in risk assets had plagued markets amid mounting concern over the debt-ceiling impasse in Washington, with stocks suffering their worst rout since May. Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen both warned that a U.S. default due to a failure to raise the debt ceiling would have catastrophic consequences. The Republicans blocked a Democratic move in the Senate to raise the debt limit which had escalated tensions a few weeks previously, but reprieve came as a temporary deal was done to raise the statutory debt limit by $480 billion (estimated to be enough to allow the government to continue borrowing to early December). This fiasco will all start again as they address the debt ceiling issue in December, and yet again hopefully with reason prevailing the Treasury will potentially be able to avert the unthinkable federal payments default.

With the Debt issue out of the way, for now anyway, investors turned to the economic data released on Friday the 8th which unnerved markets. The statistics on the US employment data came in far weaker than expected. Now, at times this may have been taken as good news for markets. The reason being that weaker jobs data means looser monetary policy, while strong jobs reports are good for the economy, stronger numbers also implies that interest rates might have to rise.

All else being equal, markets aren't fond of higher interest rates. Since late 2011 it would be true to say that disappointing jobs figures had been welcomed by markets, simply because it means that monetary policy would stay loose for longer. As the data was released markets were initially up on Friday, perhaps automatic trading programs had simply failed to rationalize the true market position, misjudging the facts, and misreading the numbers filed, programmed to react to the old norm. In fact, the Nasdaq had rallied, but any experienced institutional fund manager who hadn't already positioned correctly, would have at some point during that day actioned the common-sense trade, this caused the market to fall back by close of business on Friday last week.

The US non-farm payrolls reported figures on Friday were, in my opinion, poor at best. Economists had expected a job gain of 470k in September, but the actual numbers were far lower at 194,000. I would draw attention to the fact that the figures released were the weakest of 2021. Fortunately, I had correctly positioned the account for the lower than expected labour growth, and prior to announcement had lowered the accounts equity holding, the net result meant that our holding were not negatively affected by the stock market fall back. Many market commentators feel that the weaker numbers will delay the Feds tapering strategy, there will soon be firmer comment on that front I am sure.



Above: Asset Allocation %,
RIO Regular Investment Account

It was also interesting to see that, as I had correctly anticipated, wages numbers showed that they had risen significantly. The figures released on Friday showed the strongest increase in months, need I say again fuelling inflation! The take away being simple, rising inflation, driven by a stronger economy is likely to lead to higher interest rates, but it should also mean better corporate revenues and profits. Costs (raw materials prices and wages) might rise for companies but productivity gains and increased sales may in turn offset this. Only time will tell.

Recently I noted that The Fed have been backpedaling on previous comments; Powell has admitted that inflation is high and well above target. I have been warning members for several months that inflation will soon replace Covid as the main issue for markets and policy makers, the news today more and more is focusing on inflation. Rightfully so because risks are there.

The danger is getting both inflation and a weaker economy; that's stagflation; the worst outcome. The world's central banks will be more than vexed trying to deal with that type of problem! Holding Gold in one’s investment portfolio may prove both wise and rewarding in that scenario.

William Gray
The RIO Club