# What goes up, must come down

The macroeconomic and geopolitical landscape has seldom looked as uniformly stark as it does now. After 30 years of tailwinds from China, the world's workshop was shut for much of this year, with its zero Covid-19 policy imposing lockdowns across major cities and industrial zones. There is a global dearth of chips and components, with even a shortage of the chips to make the machines that make the chips. That's serious.

In Europe, Russia's invasion of Ukraine, with its impact on the global gas supply, has hit Germany particularly hard and paralysed Europe's engine for growth, the world's second-largest exporter. Elsewhere, in the UK, we stumble from the aftermath of Brexit's labour shortages (and the departure of 700,000 eastern Europeans) to Covid-induced tax hikes in the face of record inflation and rising interest rates, to a cost-of-living crisis exacerbated by the war in Ukraine, against a backdrop of supply chain issues and elevated freight costs.

Meanwhile, the US, the driver of the world's growth, is grappling with rising inflation and the first interest rate hikes in 20 years. A generation that has only known free money and sky-high tech valuations has been confronted by capitalism's harshest lesson. In a recession, capital is returned to its rightful owners. That is, from speculators and gamblers to investors and long-term grafters. An investment is only an investment if there is a return, otherwise it's pure speculation.

The Fed – which, historically, has ridden to the rescue by lowering interest rates during times of crisis – is now doing the reverse. The US consumer has a debilitating choice between a rock and a hard place – confidently spend savings and stoke further inflation, and consequently higher interest rates and possibly stagflation, or prudently save and plunge the country into a deeper and longer recession than might otherwise have been the case. Stark choices for stark times.

Against this unremitting backdrop, what does it mean for the markets and those tech growth stocks that powered the longest bull market in history, alongside the lowest interest rates known to man? Well, the future is as difficult to predict as the weather, but venture capitalists are probably the canaries in this mineshaft. After all, they are the folk who generously subsidised the consumer in companies such as Uber, whose business model was loss-making, but predicated on disrupting traditional hackney cabs, capturing the entire market and creating a profitable (dare I say it?) monopoly. At least that is what it looked like to the uninitiated outsider.

Predictably, there are dire early warnings from operators on the tech frontline. The chief executive at Uber has written a chilling staff letter, some key phrases from which include that "some initiatives that require substantial capital will be slowed"; the least efficient marketing and incentive spend "will be pulled back"; "we will be even more hardcore about costs across the board"; and "in some places we'll have to pull back to spring ahead".

There we have it. For growth investors and executives alike, the focus has changed from endless vistas of growth to back to basics. The pendulum has swung back as it always does, from boom to bust. Feast followed by famine as winter follows summer. The emphasis now will be on balance sheet strength so that any downturn or recession is merely a question of timing and not terminal, as it will be for companies with high levels of leverage. Recovery will come, but we first need to pay for the good times.

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To end on a more cheerful note, we can always rely on the indomitable human spirit to adapt, survive and thrive. Things are never as bad as they seem, just as they are never as good as they seem. Take, for instance, the dire predictions of the collapse in central London property on talk of deserting the city for the countryside. Until, that is, a cold, boring winter pulled the young and able-bodied back to the excitement and bright city lights.

To underscore this, Shaftesbury and Capital & Counties Properties, owners of vast tracts of Soho, Carnaby and Covent Garden, confirmed in May that they were in advanced discussions regarding an all-share merger to create a new £3.5bn property giant. It will be focused on retail and hospitality space, together with office and residential accommodation in the West End of London. Undoubtedly, the opening of the new Elizabeth Line is helpful timing. After all, London survived the Great Plague, the Great Fire of London and the Blitz, to hold its place as the greatest city in the world.