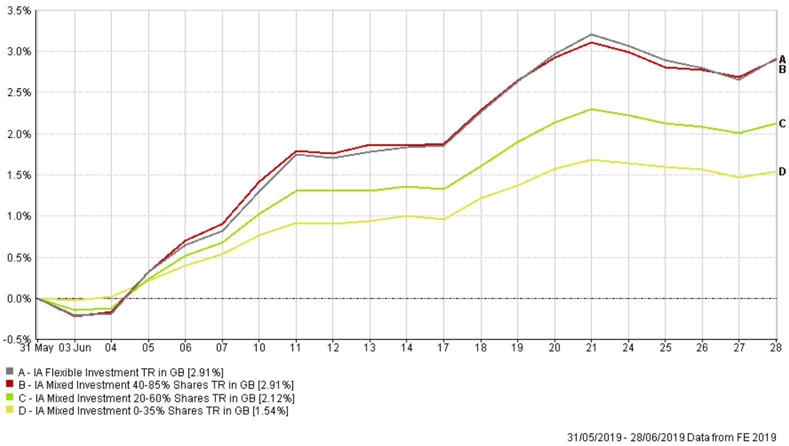
MARKET UPDATE

JULY 2019 MPU

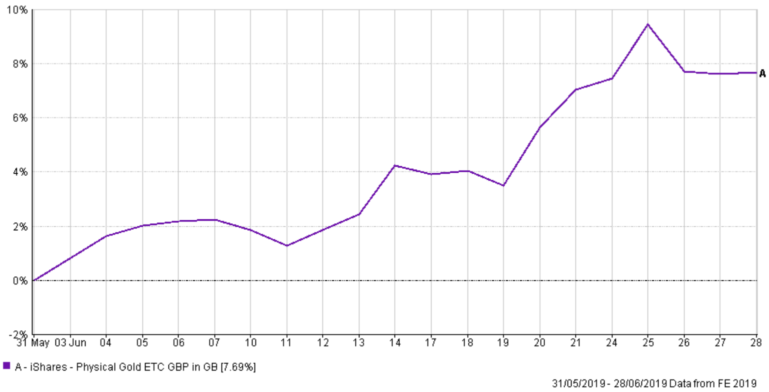
Futures made of virtual insanity

It was very difficult not to make good investment returns in June. In fact, unless your portfolio invested purely in UK Smaller Companies and/or UK Index linked Gilts, it was impossible as every other sector was positive. The real standout investment however was gold, whether it be via the gold miners or the physical stuff. This situation is rare but not unprecedented, as once again the central banks jawboned the equity and bond markets higher with dovish capitulation aplenty. Ironically, at least in our opinion, gold was up for exactly the opposite reason. Interest rates and bond yields are literally going to, and then through, the floor due to the actions of central banks egged on by the even more short-termist politicians. The double upside for gold is the reducing opportunity cost, as it doesn't matter that gold yields nothing as neither do bonds. The second benefit is a diminishing faith in the various authorities to ever extricate us from the bond yield death spiral, leading to a perceived increase in systemic risk.

IA Multi-asset sectors (June 2019)



Gold (June 2019)



Cause ain't nothin' goin' on but the rent

We will come back to the property and infrastructure situation in greater detail, but we wanted to highlight an issue which is likely to keep cropping up in many global residential markets. Rent capping has been tried at various times and by various countries but with some pretty mixed results. The two latest attempts by France and Germany haven't really worked. In some cases they have pushed rents up making them even more unaffordable. It will probably not come a surprise to many that Jeremy Corbyn announced his own, albeit sketchy, version of rent controls last year. It's hard to envisage a system which is positive for both landlords and tenants. We once again run the risk of proposing vote winning ideas whilst ignoring all the historical evidence that suggests it doesn't in fact work.

Give me 100, need you 100%

Trump's trade wars continue to expand geographically, with Europe and Vietnam being the latest to be accused of unfair practices. The main trade war remains his battle with China and, despite some very weak positive words from the G20 talks, basically nothing is resolved. In a thinly veiled attempt to prop up the Dow Jones, we keep hearing talk about a deal being 90% done or 95% done, only for another Trump tweet or a minion's comment then contradicting the previous statement. These trade deals, like the Brexit talks, might have milestones and temporary truces but they are not finite events and the negotiations will likely rumble on indefinitely. What is factual is that the trade wars (and, again, in common with Brexit) curtail companies and governments desire to invest. The short-term effect of the trade wars could be the hastening of a global recession. Even if these trade wars were resolved to Trump's satisfaction, the effect on global GDP will likely remain negative for years to come. It's also important to point out that the leading indicators of a global slowdown started before trade wars were even a rumour.

Meet the new boss… Same as the old boss

On the 2nd July it was announced that Christine Lagarde, now the former head of the IMF, will become the new head of the ECB. After several other options were discussed by the real power brokers in the EU, and binned due to a lack of agreement, the compromise of Lagarde was proposed. This will almost certainly lead to more of the same policies that haven't worked so far, which many will find to be a disappointing outcome.

One line sums up why it might be perceived that there is little hope that the Eurozone can avoid Japanification. Lagarde recently pronounced that "Sub-zero interest rates in Europe and Japan are "*net positives*" for the global economy". If there was evidence to back up this statement, then all would be fine, but nobody seems to be able to produce it. The markets, which are the very essence of living in the moment if not the nano second, are thrilled. So, for now, more of the same pump priming, and let's leave the fundamentals for another day, bond and equities continue to party hard.

What are you waiting for?

In the few short weeks of Q4 2018 we saw what happened to equity markets when they were judged on something pertaining to fundamentals, and it wasn't particularly pretty. One of the biggest short-term risks to markets is the Fed disappointing on interest rate cuts in the coming months. We also await Q2 earnings which kick off on the 15th July in the US. Despite the rapid lowering of expectations, the figures could still disappoint to the downside and leading indicators suggest this could well be the case. The reality is that with each passing month markets get higher, the trade war continues, valuations get more stretched and the economic backdrop deteriorates. As ever, it's up to advisers and their investors as to what they do with this information. We are always very happy to pick up with any advisers individually who wish to discuss any aspect of the current investing landscape with us, or indeed to debate the makeup of our investments.

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