MARKET UPDATE

NOVEMBER 2019 MPU

Brexit – it's a bit of an animal

From a UK perspective October was yet another month of Brexit related stalemate with the politicians seemingly far better at explaining what they don't want than what they do want. The latest twist is a general election, called for the 12th December, but the potential range of outcomes is so vast and so unknowable that we are not really any clearer. We have maintained for years now that the Brexit situation will never be fully resolved and, like the Scottish referendum on independence and the global trade wars, will roll on indefinitely. Like a peatland fire, the issues can flare up at any time and almost without warning. Given this backdrop our approach is to focus on valuations and longer-term market moving dynamics. It might be possible to day trade on the basis of a Trump tweet on trade war negotiations or a comment from either the EU or UK on the prospects of a trade deal but you cannot really invest on this basis, nor do we feel we should be trying to.

UK Vs. US Equities – it's a funny old game (Saint)

In October, the best performing IA equity market was the UK smaller companies (+1.30%) and the worst was North America (-2.70%), followed by North American Smaller Companies (-2.31%). Over the three months the differences are even more stark with UK Small Companies returning -0.30% whilst the North America sector has returned -5.43% and the North America Smaller Companies sector -7.08%. This is at a time when US markets are eking out new highs to much fanfare and the UK is nowhere near its highs of July 2018. In the US trading volumes are very thin and it's a narrow range of stocks which are driving markets. In the background many leading economic indicators continue to decline. In the latest US earnings season, many earnings forecasts had been lowered so much that it was difficult for some companies not to beat their final forecasts. With results being so effectively manipulated to create the illusion of strong performance, it's difficult to extract very much from the end results.

Closer to home and, as we highlighted at our recent investment days, in many circles nobody has a positive word to say about UK plc and that brings opportunities for longer term investors which is exactly how we see ourselves.

Currency wars – what are they good for? absolutely nothing

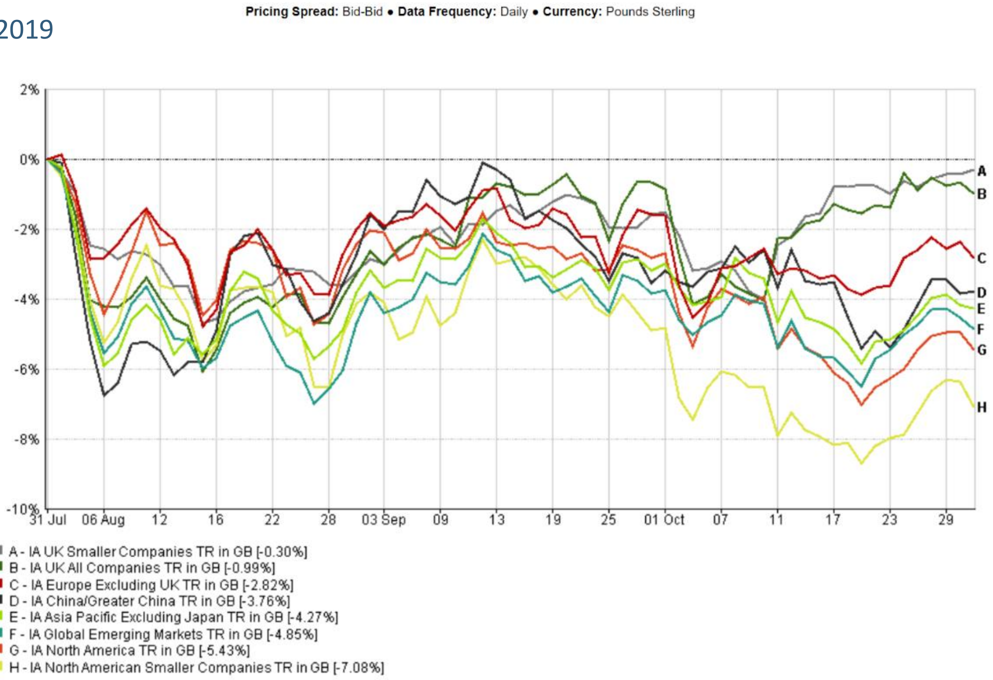
The sense of irritation from the US President regarding the strong dollar is becoming stronger by the day. If only the Fed would slash rates to 0% (at most) the dollar would fall, the US exporters would become more competitive and US firms could borrow at similar rates to places like Germany and Japan. Either President Trump has not seen the German economic data, or he doesn't understand it, but Germany looks to us like the last country anyone else would seek to be emulating. The trade war is having a negative impact on the US economy but not the stock market which keeps trading up on trade war resolution and soundbites. Ultimately this isn't desirable or sustainable, but the question of the moment is - can it last until after the next US election? Here in the UK our investors are feeling the other side of the post Brexit vote currency devaluation. The 40-85% equity (mixed asset) sector has produced -2.02% in Sterling terms whereas in Dollars it is up +3.54% over the last three months. We remain sceptical about the percentage of UK investors who comprehend the effect on their investments of a successful Brexit outcome for the Pound. For our part, we continue to try and neutralise the currency effects within all our investments.

When doves cry

The race to be the most dovish central bank in some way shows little chance of stopping, especially with the US Federal Reserve having cute rates last week for the third time. You may remember that, up until the Powell pivot at the end of 2018, they were supposed to be on an upward trajectory. The head of the Bank of England, Mark Carney, had earned the nickname of 'unreliable boyfriend' after frequent changes of mind on interest rate moves and guidance which was subsequently revoked. He might feel this is a little harsh on a relative basis given the rollercoaster the Fed, led by Powell, has put investors on since October last year. In the end though, it's the Fed which moves the world's markets and not the Bank of England, perhaps that's just as well. We feel here at IBOSS there is growing dissent about ever lower interest rates and this will be significant if it is picked by politicians of any hue and in any region or country in significant numbers. When negative interest rates start hitting depositors on main street things could change quickly. This is yet another reason why we are cautious in the fixed income space. The greater fool theory of negative rates will hold until it doesn't and, whilst no investor considers themselves a fool, somebody looks bound to be caught on the wrong side of this trade. The reach for yield as an outcome of these poorly thought out policies means the risks remain elevated but there remains a highly plausible counterargument that yields just go basically nowhere for years, like in Japan. Whatever any experts expound, the bottom line is that nobody really knows how this plays out. It's been the central banks which have been driving monetary policy for many years, if it's the turn of the voters and politicians' things could look very different.

2 MONTH EQUITY RETURNS

31/07/2019 – 31/10/2019



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