MARKET UPDATE

SEPTEMBER 2020

The US Election – buckle up

There is a general perception that civil unrest is largely positive for Trump which is maybe why he visited Kenosha, Wisconsin where a black man was recently shot. This has become a key election issue; Trump claims that his influence maintains law and order whilst his opponents claim it is his actions that are the main current driver of unrest.
The other issue central to the US election is Trump's handling of the COVID-19 pandemic. Trump polls better when the virus cases look to be falling. His constant playing down of the effects and dangers of the disease gain support on days where virus figures are relatively good. As with climate change many of his supporters believe the effects and risks of COVID are magnified by a mainly left-wing media and fake news. It is however the case that all these issues remain very real in the political arena. We can expect unprecedented vitriolic rhetoric between now and election day and probably beyond it as well. It is not clear that the result, whichever result that is, will be accepted given all the claims and counterclaims over postal voting. This unclear outcome, when played out through the courts, could be a worst-case scenario for risk assets as we all know markets dislike uncertainty and counterintuitively often prefer definitive and quantifiable bad news.

Brexit – the continuing impasse

The only new Brexit information seems to be that there are less days until something must give. We cannot help feeling that if we were given a 10-year extension to reach an agreement then nine and a bit years later we would approximately be where we are today. Meanwhile, whilst the UK Stock Market remains unloved by almost all investors it has had its best August for stocks in six years. We have seen little selling of our sovereign gilt market and pound sterling is well above its average against the dollar since the Brexit vote. A vote which cratered what was once the world's reserve currency. Much of the pound's recent strength can be attributed to a rapidly weakening dollar. The Powell speech at the Fed's recent virtual conference did the job i.e. out with lower rates for longer and in with indefinitely low rates – period.

Big in Japan

Japan's serving Prime Minister Shinzo Abe is to step down for health reasons. This news immediately brings about the question; is this the end of Abenomics? In the short term the answer is likely no as Kuroda will remain the head of the Japanese Central Bank until 2022. Additionally, Abe's right-hand man, Yoshihide Suga is favourite to succeed the creator of Abenomics. In the longer term the answer is probably still no, chiefly on the grounds that nobody has offered up any palatable alternatives. Another stand-out development surrounding Japan is Warren Buffets recent 5% stakes in five Japanese trading houses. Several years ago, when I was discussing the idiosyncrasies of the Japanese market with an Asian fund manager, he described Japan as "a complete basket case" and implied that the geography was uninvestable. We have recently started to initiate our first explicit Japanese positions for many years. What has changed over the last few years is that Japan's once extreme monetary policy and interest rate environment no longer looks much different to other developed economies.

To offer up a quote from comedy legend Eric Morcambe, in this new era "they are all at it". Any pretence of Central Bank's being truly independent has become largely window dressing. The Powell pivot in Q4 2018 may well have made history as the last US Central Bank leader to try to stick to an agenda. This was apolitical and not measured by stock market values. It is worth considering however that nothing is certain. Christine Lagarde, the new appointed head of the ECB, discovered that careless talk causes panic. Her ill-considered comment that it is not the job of the ECB to "close the spread" – a comment referring to Italian bond yields relative to German ones - backfired instantly. As far as markets were concerned that was very much the ECB's job and sure enough, she later apologised and soothed the market's nerves. There might be occasional attempts by politicians and central bankers to defy the markets but so far nobody has held their nerve. The fact remains that we have still not had an event sufficiently outside of central bank control to derail the equity markets and it may be we can add global pandemics to the list of events which have failed to do so.

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