THROGMORTON

Year in Review

January 2018

'Stocks have reached what looks like a permanently high plateau.'
Irving Fisher, Professor of Economics, Yale University, 1929

The statement above, made shortly before the crash which signalled the beginning of the Great Depression, demonstrates the perils of forecasting. By trying to peer through the Economic mist and the Political shenanigans to discern the potential impact on investment markets you set yourself up to be a hostage to fortune.

Over this last few years we have had; low inflation, subdued but steady economic growth and historically low interest rates. In this environment it has been fairly easy to be 'right' over the medium term with our predictions of reasonable investment returns for all of our clients. But we must not be complacent, for in time all things change.

It is not so long ago that the UK media used to constantly refer to the 'scourge of inflation' and the battle to control it. I would not suggest that this battle is decisively won, but there are several strong factors that would suggest it will not re-emerge any time soon. Ageing demographics in the developed world and the consequent reduced desire for consumption, the accelerating technological innovations being seen in all walks of life, intensifying competition through pressure from the internet and an oversupply of oil all serve to depress prices.

This apparently significant change in the longer-term trend for inflation is termed an inflection point, and it is these inflection points in inflation, interest rates and economic growth rates that we are constantly on the lookout for. We examine the ruins, the intestines of the Christmas Turkey, the Tarot cards and even the Earl Grey tea leaves in the bottom of the cup. If any signs are spotted, this can provide valuable early warning of pending problems or more hopefully early warning of potential investment opportunities. The interpretation of the (sometimes) conflicting signs is the skill. As an example we have a USA economy growing at 3.2% per annum, which is an above trend figure, and a current President intent on fuelling further consumer led growth by dishing out tax cuts to both individuals and some companies. This will hasten the interest rate increases in the United States probably giving rise to at least three 0.25% increases over this next year. Good news for equity markets, bad news for borrowers. Good news for cash deposits, bad news for fixed rate bond holders. So as ever there will be winners and losers.

To protect your interest we would always tend to take a balanced view as this is what reduces volatility over time. It is extremely rare that there is ever only one correct view.

To the optimist the glass is half full. To the pessimist the glass is half empty, but to the engineer the glass is twice as big as it needs to be.

Any changes therefore need to be gradual and considered. You never test the depth of the water with both feet.

At this moment in time, and as I seem to have been saying for several years now, we do not see any need for radical change. The global recovery (from the 2008 'crisis') that struggled to gain traction for a few years is now established and indeed in many areas accelerating to now provide a solid backdrop for investors. There will be bumps along the way as there always are but I do believe there remains scope for reasonable returns again this year for our investors, and I would expect to be reporting further gains to your portfolios in my next letter.

Not unreasonably the UK Government are playing their Brexit negotiating hand close to their chest and thus it is difficult to see through to the landscape beyond. This makes assessing the impact of the eventual deal they end up with tricky. We have suspected that this would be the case for some time now and thus a good international exposure in portfolios is called for until the smoke clears, this remains our stance.

Again as ever, short term volatility in markets tends to be driven more by political events than economics. Many of you reading this letter will by now know my views on our esteemed (in their minds) leaders.

There is a growing (healthy) cynicism with politics and politicians that some would have you believe is new. Not so.

'We hang the petty thieves and appoint the great ones to public office'. (Aesop 560BC)

'Just because you do not take an interest in politics doesn't mean politics won't take an interest in you!' (Pericles 430BC)

But from a positive perspective, and as I referred to in my last note in July, the impact of political events on investment markets would seem to be diminishing as economic fundamentals are seen as more important than political interference.

My own cynical view of life was brought home to me a short while ago when my younger son, who finished University last year but is still 'finding himself', was having a discussion with me on the relative unattractiveness of work and how to make lots of money easily, postulated the answer as 'going into organised crime'. My automatic response was 'well, it depends whether you prefer Government or the private sector'.

As ever I wish you all a happy, healthy and prosperous new year and if we can help you, your friends or your family with any financial issues please contact us.

Best Wishes

Yours Sincerely

Frank McWilliams