

'The problem with political jokes is that they get elected'
(Henry Cate VII 1459-1509)

During the 6 months since my last missive to you we have seen a continuation of the trends that had been building over the previous two years, namely an increase in market volatility and the pre-dominance of political news over economic news. This is unsurprising to us in that within the UK the importance of the BREXIT negotiations almost demands that it is examined in forensic detail but what has been surprising is the volatility occasioned by the combative style of the Trump White House.

With the relative size of the UK against the European Union it is not difficult to see that the current negotiations have the ability to hurt the UK economy significantly if they go badly, whereas the impact on Europe will inevitably be a lot less. Similarly, if the eventual outcome is clear and the terms of separation are deemed to be favourable there is scope for a good uptick in equity values from current levels. But the key thing here is the ability to see through the negotiations to the potential economic landscape beyond and that point of visibility is still looking a good way off. For obvious reasons the Government are reluctant to divulge their negotiating strategy, and we can only hope that they know where they are going and have a cogent plan as how to get there.

'If one does not know to which port one is sailing, no wind is favourable'
(Lucius Annaeus Seneca c.4BC-AD65)

Across 'the pond' in the USA President Trump has handed out a parcel of tax cuts to both corporations and to individuals, but simultaneously decided to pick a fight with almost all of the USA's trading partners. His central thesis seems to be that the USA is consistently running a huge trade deficit and this must be because the existing trade deals they have signed are 'unfair' and thus should be torn up. He has unilaterally imposed tariffs on a selection of raw materials and goods, and the EEC and China have responded by slapping tariffs of their own on a selection of American goods. This is a potentially worrying situation that has the ability to escalate into a full blown trade war from which history would indicate never gives rise to a clear winner but always provides several losers.

Needless to say that all of this political and economic fury we are seeing from the US President will not go unanswered but the uncertainty that it engenders (much like our own BREXIT negotiations and the Iranian nuclear deal) makes it very difficult for investors or commentators to assess the landscape after the storm has passed. It is strange how some thin-skinned people are able to create their own storms, but then get upset when it rains.

The world economy, with a few notable exceptions (sadly the UK is one), is enjoying a period of above trend growth. In the US, China and Europe corporate profits and dividends are rising and slowly, very slowly, central banks are trying to move towards interest rate normalisation.

Inflation is not a big worry, unless you are Venezuelan or Argentinian. So, the climate should be set fair for investment values to continue to improve, but things are sadly not that simple. We remain at the mercy of the people in Westminster, Brussels and Capitol Hill and their pronouncements, and thus the economic fundamentals can take longer than usual to reassert themselves.

'Politics is the skilled use of blunt objects'
(Lester B. Pearson 1897-1972)

I have been saying for some years now that this next year will not be dissimilar to the last in that inflation will remain low, interest rates will remain low and investment returns will be positive. I see no burning need to change these predictions for the year ahead. But then you know what they say about predictions.....Why did God create economists? To make weather forecasters look good.

Best Wishes
Yours sincerely

F McWilliams

Frank McWilliams

