



Quarterly Newsletter / Autumn 2020

Lacomp plc is an independent investment management company providing portfolio management services to private investors worldwide.

We guess that once you have read our Quarterly Newsletter, it may well end up in the wastepaper basket. A bit like your daily newspapers, perhaps?

If, on the other hand, you still have the Spring 2020 Newsletter we wrote back in April, you might want to reread the first page. Virtually everything we said at the time still applies today.

In other words, we are still none the wiser where this C-19 pandemic is heading, and we are still getting mixed messages from both scientists and politicians.

We do have a bit more clarity about the costs of trying to rescue the economy and save jobs. In August, the national debt passed the £2trillion mark, and it is reckoned to increase by a billion per day. £2trillion represents over £30,000 for every man, woman and child in the UK.

The level of debt now exceeds the UK's GDP, and that surely must be unprecedented? Not quite as, following the Napoleonic Wars, the debt mountain was 260% of GDP, and after WWII, it stood at 240%. The industrial revolution effectively paid for the 18th century debt, and 20th century inflation reduced the post-war debt dramatically. A debt of £1million in 1946 would have shrunk, in real terms, to a mere £30,000 by 2008!

Clearly, inflation will not get us off the hook in the foreseeable future. At the same time, interest rates are so low as to make servicing any debt very affordable, so at least we will not have to go into a heavy austerity exercise which would make an already difficult situation for many people unbelievably tough.

The Spring Budget will be interesting, to say the least. Our Chancellor, Rishi Sunak, has so far handled the problems extremely well, but he will become more unpopular with tax rises, and tax rises there will be. What form these will take is anyone's guess, but suggestions range from higher Capital Gains Taxes (or changes to allowances etc.), a property wealth tax, Council Tax increases or a potential IHT levy on pension pots on death.

Taxes are never welcome but spare a thought for the people who have nothing they can be taxed on. C-19 will leave a lot of people with serious problems that exceed mere financial ones. They could be related to poor health – the lack of cancer treatment during lockdown is a good case in point. Job security worries, the loss of a job and financial hardship, can all cause mental health problems and the lack of social contact negatively affects people who live on their own.

In fact, one begins to wonder whether it would not have been better to continue on the path towards herd immunity, even though some new 'evidence' suggests that acquired immunity may not last very long.

However, the elderly and those with underlying health conditions are very aware of the danger and the need to remain careful when it comes to social distancing, and the young, as well as the fit and healthy, seem less affected by this virus.

A recently published and wide-ranging British Medical Association survey found that one third of the 6,600 participating doctors felt that lockdowns and lockdown Tiers will have no impact on efforts to contain the spread of coronavirus. That is a worrying view from the coal face.

However, applying repeated lockdowns and Tiers will certainly have one guaranteed result: the economy will suffer greatly, with many businesses ceasing to exist.

Let us pray that an effective vaccine can be found soon and rolled out en masse!

One topic that seems to have gone a bit quiet in recent days is that of Brexit. Having been told that the 15th October deadline would signify the end of Brexit talks, Monsieur Barnier is back in town and continues to negotiate with Lord Frost. He arrived last Thursday and was meant to return to Brussels on Sunday, but he is still here and intends staying until Wednesday.

We have long believed that a free trade deal of sorts would ultimately be done, but in typical EU fashion, this could go down to the wire.

What are the sticking points in the EU's view? Just three, in fact: fishing, European Court of Justice dominance, and the so-called 'level playing field'.

Monsieur Macron is determined to become Monsieur 'Non' if he does not get his preferred deal for his fishermen. The fact that currently applicable fishing rights are very unfairly favouring the EU over the UK does not seem to matter. On the other hand, is fishery that important an issue for the UK, seeing that it contributes only about 1.2% to the UK's GDP?

Well, that goes back to Ted Heath who in 1971 caved in to Europe's demands, fully expecting that the deal would be fine-tuned to bring about a degree of evenness, but that never happened. To the current UK government the fishery issue is hugely important, both politically and symbolically, as indeed it is for Macron who has taken an aggressive stance by promising that his fishermen would not be ignored. He is now finding out that the other 26 EU member states are not quite as enthusiastic about his position, being well aware of the damage a 'no deal Brexit' would mean for them.

A 'no deal Brexit' would mean that the UK's future trading terms with the EU (which apply both ways, of course ...) would be done under the WTO (World Trade Organisation) rules. It is (nearly!) the same for the USA, Australia, China and Brazil, and is probably the reason No. 10 Downing Street now prefers to euphemistically refer to the 'no deal Brexit' as the 'Australia type deal'. We said 'nearly', as there are quite a few side agreements relating to certain trades that have already been ratified between some of the mentioned nations and the EU.

However, and that is where it becomes important, WTO rules effectively *already* provide for a 'level playing field'. The EU, though, is keen to go a step further, mainly to stop the UK becoming a next-door neighbour with a competitive advantage. This really is the nub of the issue: the EU is scared stiff of having a 'Singapore over the channel' situation, and they are trying to prevent the UK gaining from operating in a way that differs from the EU. Ironically, these restrictions were mostly introduced and driven by the UK during its membership of the EU.

Finally, there is the subject of the European Court of Justice. The EU wants the ECJ to be the ultimate arbiter in disputes between the EU and the UK. By leaving the EU, the UK wanted to reclaim its sovereign nation status. How could it possibly do so if it had to submit to the other side's courts? That would mean being gullible and very trusting or, more likely, plain crazy.

In the United States, the presidential election will soon be upon us. What a choice for the American people! President Trump is divisive, at times bombastic and chaotic, and Joe Biden, who turns 78 next month, has wanted to be president for at least 30 years, failing repeatedly in his quest. Does age matter? Both men are older than Bill Clinton, which makes you think. The rumour mill has cast doubts over Joe Biden's mental agility, and that makes his running mate, Kamala Harris, a potential president-in-waiting.

In a week's time, we will know who will occupy the White House for the next term. Or will we? We understand that both Republicans and Democrats have engaged law firms specialising in electoral law. That does not bode well, particularly as Donald Trump has often talked about the election being rigged, and he even suggested that he might not accept the result!

We are reminded of the US election of 2000, when George Bush and Al Gore disputed the Florida result, and it took over a month of legal wrangling before the Supreme Court ruled in favour of Bush. If we indeed end up with that sort of dispute, we are in for an unedifying spectacle.

The battle over the appointment of Amy Coney Barrett to the Supreme Court has been won by Donald Trump against the Democrats' opposition, and she was only sworn in yesterday, a mere week before the election. In other words, the Supreme Court now has a conservative majority and therefore must be viewed as pro-Republican.

More importantly, how will the result affect the relationship with the UK? Politically, Boris Johnson is closer to Trump than Biden. During Barack Obama's presidency, our now PM made some unkind remarks about Obama, and Joe Biden will not have forgotten. Equally, where Trump was all for Brexit, Biden took a different view, considering our leaving the EU a terrible mistake. He has already stated that a US/UK trade deal would be off the table if Brexit in any way endangered the Good Friday Agreement.

One hopes that pragmatism and realism will overcome any personal feelings of our leaders. Britain is still an important ally of America. Even though our once formidable military might have shrunk considerably, the UK still matters in terms of economic power, as well as our security and intelligence capabilities.

What about the financial markets? From 1st January to the end of September, the major stock market indices have shown a negative picture: the Dow Jones is down 2%, the Eurostoxx 50 minus 14.7%, the FTSE 100 and the Nikkei 225 are down 22.7% and 13.2% respectively.

Fortunately, clients' portfolios have fared much better, with a lot of positive numbers over the period. As we said before, you can judge our performance by comparing the end December valuation with the end September valuation, taking into account any additions to or withdrawals from the portfolios during that time.

Since the end of September, indices have largely stood still with the markets over the last few days somewhat jittery, mostly caused by more C-19 worries, the Brexit unknowns and the American election.

Please stay well and healthy!

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