



# Quarterly Newsletter / Spring 2017

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Wow! Just as we are worrying about President Trump abandoning his isolationist policy and getting heavy-handed abroad, and whilst we are also thinking about forthcoming elections in both France and Germany, Mrs. May surprises us all by calling a snap election here at home!

Having repeatedly assured us that she would not go to the country until 2020, she clearly has performed a U-turn, announcing a General Election on 8<sup>th</sup> June. What was her thinking to come to that decision? Did she want to be properly elected and at the same time obtain a mandate for her Brexit approach, or was it the fact that polls show the Conservatives some 20 points ahead of Labour? In her statement on Tuesday morning, she said that whilst the country had come together, Westminster had not. Difficult to tell whether she is reading the mood of the electorate correctly when she says “the country has come together”, but she is very aware of all the opposition she has been encountering over Brexit. Labour are split on the issue – as indeed are her backbenchers, if rather less so – and the Liberal Democrats simply wish to ignore the EU Referendum result. At the same time, the SNP wants Scotland to remain in the EU and is angling for another Independence Referendum, despite the fact the appetite for the latter seems to be waning among Scottish voters.

The latest polls in the UK concerning Brexit before Mrs. May’s change of heart suggest that some 65 - 70% of the population just want her “to get on with it”, but it will be interesting to see whether that will pan out on 8<sup>th</sup> June. There is no doubt that some EU Referendum voters have since changed their mind, and that applies to both Brexiteers and Remainers.

We will shortly see the Tory manifesto for this General Election, and it will reflect Mrs. May’s own plans not just on her negotiations with the EU but also her vision on domestic issues, ranging from grammar schools to reforms to corporate governance, capping foreign aid and energy costs and, quite possibly, reducing the number of peers in the Upper House. Of course, Brexit, immigration control and distancing the UK from the European Court of Justice will be in there writ large, and we cannot help the feeling that this election will be a quasi re-run of the EU Referendum, albeit under a different name.

So, we have two General Elections, interspersed with the EU Referendum, in little over two years. You could understand if a degree of poll fatigue were to set in, and voter apathy could potentially inhibit Mrs. May’s ambition of a very large majority. The General Election in 2015 saw a 66.1% turnout, and that was bettered in the EU Referendum with 72.2%. What participation in the democratic process this time?

France also is going to the polls this Sunday for the first of two rounds of their presidential election. Centrist and pro-Europe Emmanuel Macron and far-right Marine Le Pen are expected to make it into the final round on 7<sup>th</sup> May, but a resurgence of the scandal-hit François Fillon and the unexpected emergence of the hard-left Jean-Luc Mélenchon put a question mark over the assumed outcome. After last year’s EU Referendum and Trump’s victory in America, it would be foolhardy to make predictions with any degree of certainty.

The same applies when it comes to the German federal elections in September. Chancellor Angela Merkel has lost a lot of her unquestioned popularity, and she now admits that her decision to open the doors to refugees may have been a step too far. Not only did it result in protests and anger across Germany, it also helped the right-wing AfD (Alternative für Deutschland) to become more prominent.

Furthermore, Mrs. Merkel's Christian Democrat Union (CDU) had a bit of a shock last month when opinion polls put her party neck and neck with the Social Democrats (SDP), with AfD trailing in third place.

The SDP's popularity has been rising with the announcement that the former European Parliament President, Martin Schulz, would stand as a candidate in the federal election. Herr Schulz is an interesting character: he eschewed going to university, hoping to become a professional footballer until an injury stopped that aspiration, and that was followed by a period of depression and alcoholism. He then became an apprentice bookseller, ending up running his own bookshop. He involved himself with local politics, becoming the mayor of a small town at the age of 32. However, he had bigger ambitions, and in 1994 became a member of the European Parliament, steadily rising through the ranks until he became its president in 2012. He resigned his position last year, having set his sights on becoming Chancellor of Germany.

He is relatively unknown in Germany and therefore untainted by national political life, and as we have seen in the recent past, being an outsider is not a hindrance in succeeding in politics. Mrs. Merkel should worry – Martin Schulz could be a formidable opponent come September.

Against these question marks over electoral results across the Channel, Europe's economies at long last appear to have turned the corner with both Germany and France figuring strongly. Even the eurozone as a whole is performing relatively well. Last year, it recorded a respectable GDP growth rate of 1.7%, and the European Central Bank (ECB) is predicting a growth figure of 1.8% for the current year.

You will remember that following the financial crisis, the eurozone has struggled on many fronts, but it did see a recovery in 2009/10 which prompted the ECB to raise interest rates in 2011 thus choosing a monetary policy that was in contrast to those of America and the UK. Alas, that proved too early as the good news did not last long with the sovereign debt crisis and associated problems crushing any chance of a sustainable recovery.

This time, ECB president Mario Draghi is being more cautious than his predecessor Jean-Claude Trichet was in 2011. Signor Draghi intends to continue with quantitative easing which, combined with the collapse in the oil price and the strengthening dollar (good for European exporters!) have greatly helped the eurozone recovery. In addition, the ECB is retaining its very low deposit rate. By charging banks 0.4% to keep money with the ECB, it is effectively forcing banks to lend more.

By comparison, the UK's economy improved by 2% last year, rather less than in the previous two years which showed 2.2% and 3.1% respectively. The Office for Budget Responsibility as well as the Bank of England reckon 2017 will see a growth rate of 2%, whereas the IMF, who thought it would only be 1.1% back in October, increased that forecast to 1.5% in January and, finally this week, to 2%.

Who is right? Relatively poor results in retail sales during the first two months of this year suggest people are tightening their belts, probably worried about price increases in the shops and sluggish wage growth. Whilst household spending is vitally important for the UK – it accounts for roughly 60% of the economy – buying in shops and stores only represents one third of consumer spending.

The markets have continued their gentle upward path during the first quarter of 2017, and we see no reason why that should change in the foreseeable future. To the end of March, international market indices have crept further ahead, all in positive territory of up to 9.8% (Hong Kong's Hang Seng) with the sole exception of Japan which registered a negative 1.1%.

It is interesting and worrying to note that atrocities, such as the killing of pedestrians and a House of Commons policeman, cause shock, grief and outrage, but they nowadays hardly move the markets. Horrible and sad though such events are, it is almost as though we have come to accept the unacceptable as commonplace.

Of course, there is always the chance of something unforeseen happening, and in that we are thinking particularly about geopolitical events. By ignoring a number of UN resolutions on the testing of atomic devices, North Korea continues to provoke the international community with impunity. Donald Trump, having lambasted previous administrations for spending “trillions” on getting involved in foreign wars and “playing the world’s policeman” during his election campaign, now seems to have given his military a free hand in taking a much tougher stance. At the beginning of the year, US special forces attacked al-Qaeda in Yemen. Earlier this month, the US Navy launched 59 Tomahawk cruise missiles and inflicted severe damage on a Syrian airfield, and only a week ago the US Air Force dropped the biggest non-nuclear bomb on a complex of ISIS tunnels in Afghanistan.

Also about a week ago, White House Press Secretary Spicer – the man who recently made the gaffe about Hitler not having used chemical weapons! – informed reporters that a strike force including an aircraft carrier was on its way to the South China Sea, and Donald Trump similarly told Fox Business News that he was sending a powerful armada to the region. This was meant as a show of strength and force to North Korea’s leader Kim Jong-un and deter him from any further nuclear tests. It now turns out that they were wrong. In fact, the “armada” was sailing in the opposite direction, some 3,500 miles away, to take part in a joint exercise with the Australian Navy in the Indian Ocean. It took the White House a week to own up to this “error”, and it would be comical if it did not involve the subject of nuclear warfare.

The aircraft carrier and accompanying warships now have turned around and are indeed on the way to the Korean peninsula, but if the Pentagon and the White House cannot agree where exactly the flagship of what is called *Carrier Strike Group 1* is to be found, it does not fill one with much confidence in the military ability of the US high command.

We can only hope that China manages to exert some pressure on Pyongyang and keep Kim Jong-un calm. If indeed it comes to more posturing and brinkmanship, we can only hope that sanity prevails on both sides. Let’s face it, the threat of mutual destruction has managed to keep a form of peace throughout the Cold War period, but we had hoped that those scenarios were well and truly behind us.

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