



Quarterly Newsletter / Spring 2020

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

This edition of our Quarterly Newsletter will be shorter than usual.

Why? Well, when it comes to the problems of the C-19 pandemic, the length of the lockdown, the strength of the economy after we return to some degree of normality or the ensuing long-term debt, we are as much in the dark as just about anyone else.

We get differing information from epidemiology scientists, medics, politicians, the media as well as the usual self-appointed armchair experts, and one genuinely does not know whom to believe.

We are told that the death toll appears to have peaked on 12th April, but we then hear that care home deaths have doubled in the last week.

Furthermore, and looking at global C-19 statistics, we do not know how accurately other countries report their tragic figures. Some misinformation due to margins of error, maybe, or even deliberately misleading?

The EU now says that the British government had repeatedly been invited to join its procurement programme, an invitation that apparently fell on deaf ears. It would appear the UK was too slow in obtaining PPE (personal protective equipment) which is now woefully short for NHS and care home workers. When the penny dropped, it was too late, demand had outstripped supply, and we had to join the queue behind other nations who wanted the same equipment.

There is a lot of finger-pointing going on as to who is responsible for this procurement and distribution fiasco, and most criticism is being levelled at the Government.

The one criticism one is hearing more often these days is that our politicians are still somewhat lacking in giving us truthful answers when questions are asked. They probably make the age-old mistake of trying to protect their own position or, even worse, protect us! People can handle the truth, and any obfuscating responses only increase mistrust in the powers that be.

Finally, there is the question of what it will cost the nation to overcome the inevitable economic fallout. Our Debt Management Office, part of the Treasury, has attempted to predict the likely borrowing requirement for the UK, based on how long the lockdown continues. It makes grim reading, suggesting we may need £225 billion by July and potentially £1 trillion if the lockdown lasts six months.

Still, and to put that into context, the Spanish government are proposing that the EU stump up well in excess of that sum to help those member states that were especially badly affected by C-19, including Portugal and, above all, Italy. These countries are keen to avoid being burdened with a Greek-style debt mountain, asking the EU for grants rather than loans, and argue that €1.5 trillion is needed. This is opposed by the Netherlands and Germany as well as other northern EU countries, and the EU is now faced with a de facto North/South divide, which is entirely contrary to EU ideology.

While it has been widely reported that EU leaders will agree a €540bn emergency fund, what has not yet been agreed are the details, bringing to mind the old saying “*there’s many a slip twixt cup and lip*”.

Long-term readers of our Newsletter will know that we always predicted a “two-speed EU” with the core being strong and the Mediterranean periphery weak.

The concerns expressed recently by President Macron and other European leaders suggest this is a bigger threat to the EU than the 2008/09 Financial Crisis, and anti-EU sentiment is again coming to the fore in Italy, Spain and other southern European states.

To that we can add the EU’s problems on its “Eastern Front”. The EU has failed so far to tackle the evidently anti-democratic government in Hungary, where Prime Minister Viktor Orban’s latest manoeuvre has been to give himself authority to “rule by decree” for the duration of the C-19 crisis. Now, in the latest of a long-running series of disagreements it has also failed to resolve very questionable governance issues in Poland, where the European Court of Justice has suspended Poland’s Supreme Court disciplinary chamber, set up in 2017 by the ruling Law and Justice party to handle disciplinary cases against judges, over questions about its independence.

We wish we could end this Newsletter on a positive note. Well, the weather is glorious, and that lifts our spirits, but there is little else to shout about.

The valuations at the end of the first quarter are dismal but, if there is a glimmer of hope, the major market indices have improved somewhat in the last three weeks: FTSE 100 up 6.6%, FTSE All-Share up 7.3%, Dow Jones up 11.7%, Stoxx Europe 600 up 7.9%, Nikkei 225 up 9.0%, Shanghai Composite up 2.6% and Gold Spot up 6.2%.

Bagshot 23rd April 2020

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Registered in England No. 1851201

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