Quarterly Newsletter / Summer 2020

Lacomp plc

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

FINANCIAL MARKETS

Portfolio performance over the first six months of this year generally has been quite satisfactory, and we have seen strong recoveries from the depths plumbed in late March.

Looking at the major stock market indices' performance since the beginning of this year to the end of June, they make grim reading: the Dow Jones is down 9.6%, the Eurostoxx 50 down 13.7%, the FTSE 100 down 18.7% and the Nikkei 225 down 16.4%.

If you care to look at your valuation at the end of December and compare it with your latest one, obviously taking into account any withdrawals (or additions), you will easily see how we have performed for you.

Being bespoke, all portfolios are of course managed in accordance with clients' aims and objectives as well as their overall risk profiles, and in some cases, they are subject to restrictions on available fund ranges. Nevertheless, diversification of markets and asset classes largely have proven to be the right call.

We are however very conscious that the pandemic-induced fog of uncertainty obscuring our "crystal ball" makes economic forecasting, as well as stock market predictions, an especially difficult task these days. We expect volatility to continue, with downward shocks and upward surges as global investors absorb daily economic, political, and Covid-19 news.

At this stage, as we head towards the autumn and the possibility of a winter resurgence of the virus – after all, most of South East Asia is of course in the northern hemisphere, too – we are not expecting a repeat of the March sell-off, but we are ready to take action if necessary to protect the recovery and recent gains clients have enjoyed.

We are paying close attention to what is happening in America. Their Coronavirus statistics look awful, but the market continues to rise. The presidential election in November also throws up a few unknowns. Joe Biden is leading Donald Trump in the polls by a considerable margin, and we are not sure as to how and to what degree a Democrat administration would change the current approach regarding the economy.

Psychology will play a big part in the near term when it comes to investor sentiment, whilst in the longer term it will be more governed by what represents value.

In the UK, other considerations weigh on our minds. We are particularly concerned about potential social problems once the furloughing stops and many people will lose their jobs. The financial repercussions of Chancellor Rishi Sunak's good efforts to protect jobs look ominous, and it will be future generations that will feel the aftereffects of the current expenditure.

To put it into context, and in doing so touching on a current topic, the Slavery Abolition Act 1833 entailed compensation to the slave owners of that time. To meet that expenditure, the UK government borrowed £20 million. £20 million does not sound like a lot of money nowadays, but in 1835, when the money was borrowed, that sum represented 40% of the Treasury's annual income. Guess how long it took our government to repay that debt? Well, it may sound unbelievable, but it took until 2015!

Sadly, no money whatsoever was paid to the slaves themselves.

Talking of indebtedness, the EU Commission (rather than its members!) are borrowing €400 billion from capital markets. The fact that the Commission can raise and distribute the money as they see fit is a clear departure from the previous modus operandi. It is politically driven, much as many other decisions in the past. EU leaders were seriously worried that the EU could disintegrate if a post-Covid stimulus package were not agreed. The money raised will form part of a €750 billion Recovery Fund. Whether it actually helps with the current Coronavirus crisis is debatable – nobody gets any money this year, and some of it will be stretched out until the mid-2020s.

It took the EU leaders at their summit no less than 90 hours of 'discussions' – some of them rather less than civil – to eventually come to an agreement. This was mainly due to the determination of some member states, notably the Netherlands, Austria, Denmark, Norway, and Sweden, to stop another round of handouts to poorer countries. In the event, the grant element was reduced, and the five objectors, now known as the 'EU Frugals', have been promised larger rebates in the next budgetary round.

The Brussels summit was an unedifying spectacle, and Perfidious Albion has been replaced by the Frugals, led by the Flying Dutchman. There clearly remain many more questions about the solidarity of the EU bloc.

A bit of housekeeping: Firstly, we will largely continue to work remotely in the immediate future, but the office is staffed every day. We have a daily Zoom call which not only keeps the team spirit going but also gives us the chance to discuss markets and other business-related topics. At times, we even manage to talk about gardening issues or food recipes…

Secondly, we will be revamping our website and would really appreciate it if some of our clients saw fit to write a brief testimonial about their Lacomp experience. We may use some of them on the website, obviously appropriately anonymised.

Until we write to you again, all at Lacomp wish you health and good spirits in these difficult times!

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