Lacomp plc

# Quarterly Newsletter / Spring 2019

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

## Markets

As we reported in our Winter Newsletter, the fourth quarter of 2018, and December in particular, represented a trying time for investors with markets around the globe falling in unison and news channels reporting the 'worst December on Wall Street since the Depression'.

The simple assignment of an arbitrary cut-off date in the calendar on which to base such doom and gloom is rather contrived – China does not end its year until February, for example. Nevertheless, the year did appear to be ending on a stream of unremitting bad news or, rather, on a negative reaction to news of whatever nature. Markets across the globe posted double-digit losses in marked contrast to the upward momentum of the previous year.

One of the chief causes for concern lay in the increasingly bitter Sino-American trade war which had seen the United States impose some $250 billion in tariffs (varying from 10% to 25%) on a wide range of industrial and consumer items. Neither side could be seen to back down in what was very much a prestige contest, especially for President Trump as he headed into the mid-term elections. Nevertheless, there was a hint of compromise in late December as both sides imposed a 90-day moratorium on further tariff increases whilst talks were held.

The US might be forgiven for believing that, given the massive imbalance in trade flows between the two (the original source for much of the US disquiet), it could 'tough it out' for longer and force some sort of deal. China had largely exhausted its options in terms of targeting US imports and, it was reasoned, would eventually make concessions. But China also had motives for not backing down and losing face; it could orchestrate customer boycotts and similar moves to prolong the contest. However, there can be no long-term winners in a trade war which hurts both parties to a greater or lesser degree and the poorest members of society the most. Perhaps the President, in typical Trump fashion, would argue that a pyrrhic victory is still a victory…

In addition to the trade dispute and ensuing slowdown, in January the US had to contend with the longest government shutdown in history as Congress refused to ratify spending for the proposed border wall with Mexico. This tactic has become more common in recent years and is increasingly partisan, having been used to good effect by Republicans opposed to Obamacare and, previously, to Clinton's planned spending cuts. The images of government workers under severe financial pressure did little to raise the overall levels of optimism and it took calming words from Jerome Powell at the Federal Reserve to steady those who feared a recession was imminent.

At the January meeting Powell hinted at a pause in rate rises and, shortly after, statistics for the jobs market were significantly stronger than anticipated. Such statistics are based on raw data and are usually substantially revised in the ensuing months, but they were apparently sufficient to swing the balance of sentiment towards the positive. When Powell reinforced his comments in March by talking of “solid underlying economic fundamentals” and promising no rate rises at all during 2019, the perceived ‘crisis’ of December suddenly seemed a distant bad memory.

The market recovery in the US began in early January, albeit with increased volatility and numerous ‘negative’ days when it appeared that the China trade talks would falter. Nevertheless, the market had risen 7% by the end of January and, by the end of the quarter, the S&P 500 was up by 13%. This has had all the hallmarks of a relief rally with world markets generally showing positive results over the quarter as well.

Powell’s dovish comments slowed the seemingly endless rise of the US dollar, helping Asian markets in particular. In the UK and Europe, the market recovery has been less pronounced but still solidly positive (at around 8%) despite the endless wrangling and uncertainty induced by the Brexit saga. In addition, France has been rocked by the ‘gilet jaunes’ movement and there is the potential for a broad populist surge in the forthcoming election for the European Parliament on 23rd May, and that could further add to the general air of instability.

On an economic level, there are worrying signs that the slowdown in China is impacting Germany’s car exports and raising the prospect of a recession whilst a survey of UK services in March claimed that the economy was ‘close to stalling’ despite a small increase in the PMI (Purchasing Managers’ Index), attributed to pre-stocking of inventory levels ahead of a possible ‘no deal’ exit from the EU.

China has responded to all of this by implementing a much looser policy stance, cutting the Reserve Requirement for its banks by an estimated 800 billion Renminbi (£92 billion) in order to boost the domestic economy. Alongside tax cuts and increased infrastructure spending, this might be an indication that China is indeed feeling the pinch from the trade dispute but whatever the motivation, the likely impact will be to keep China’s growth at a respectable level in the near future.

So, for the present, if market indices are any indication, economic disaster has been postponed in the eyes of the public. How long this view will prevail and from where the catalyst for a reversal of such unguarded optimism will come is anyone’s guess. It was remarkable that the recent clash between two nuclear powers in Kashmir barely registered in the markets – as long as such a relaxed view prevails then a cautious continued presence in the market makes sense.

Still, we have further de-risked portfolios, keeping a cautious eye on the markets.

## Housekeeping

In our Autumn 2017 Newsletter, we talked about the new MiFID II regime and how it would affect our relationship with you, the client. MiFID, you may recall, stands for Markets in Financial Instruments Directive, and we told you that the new rules would involve us – and you! – in additional paperwork, such as the annual update of “Know your Client” documentation, revisiting on a yearly basis your risk profile and “Capacity for Loss”. The latest requirement is attached to this Newsletter, namely a breakdown of all the costs and charges that have been incurred.

Of course, Lacomp’s charges and fees have always been clearly laid out through the cash transaction history, the client account bank statements and the invoices you receive. However, the EU’s directive goes a stage further inasmuch as we now have to annually report any other costs (those charged by product providers) and other third-party payments (levied by investment management groups and reflected in unit or share prices). Thus, the attached report looks at all the costs you incurred during the 2018 calendar year, and we will repeat the exercise in twelve months' time for the year 2019.

As you can imagine, this has been a mammoth task, particularly as we have to establish the underlying costs of both product providers and the funds we invest in. Total costs will vary from year to year, dependent on whether new money has been introduced or withdrawn, as well as whether there have been any changes within your portfolio, such as the recent de-risking strategy.

In addition to this report, we also enclose, where applicable, the tax year end schedules.

Since this will be a yearly exercise, we thought you would also like to see how the indices of the major markets have fared. Effectively, this will give you a snapshot of the overall performance compared with the markets after costs.

Under the heading **Housekeeping**, we would also like to draw your attention to the problem of **Identity Theft.**

Wealth Managers and IFAs are frequently targeted by criminals. In the first six months of 2018 alone there were 3,886 reported cases of impersonation scams in the UK, resulting in over £500 million stolen by fraudsters during that period!

For example, a fraudster might hack into an individual's email account. We might then receive an email, supposedly from a long-standing client, asking for a sum of money that was urgently required, possibly to be sent to a bank account of, say, their daughter or son (or a new account of their own) and giving a reason (trip abroad or illness) why they couldn't speak to us.

Once a fraudster has obtained access to your email account, they can be incredibly clever and devious, even providing emailed evidence of a "new" account or other convincing proof.

As you will know, <u>at Lacomp we never act on an instruction of this type</u>, and we would always call the client in question. In some cases, we might even insist on a written and signed instruction. It may sound a little overly cautious or tedious, but it is with your protection in mind that we go to such lengths.

Finally, in this Newsletter we have carefully avoided talking about Brexit. We hope you are pleased to hear that!

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