Quarterly Newsletter / Summer 2019

Lacomp plc

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

FINANCIAL MARKETS

Chief amongst the difficulties faced when trying to assess economic prospects is the sheer weight of data, much of which is contradictory or open to interpretation.

Lacomp have always tried to determine the general direction of travel for markets rather than making specific predictions regarding the occurrence or timing of events. Making firm predictions is foolhardy given the number of variables which feed into the equation. They frequently produce somewhat perverse reactions to seemingly unambiguous data. The background 'noise' of market events which fill the airwaves and news feeds on a daily basis is further complicated by the intervention of politicians and other interested parties who all seem to have an agenda to which the 'facts' can be adapted.

As you will have seen in previous Newsletters, there is rarely a complete absence of things to create concern but, equally, it is often the case that the most obvious 'headwind', be it political or economic, is simply swept aside by a market view that is determined to take a positive stance. The sabre rattling between India and Pakistan back in February is a case in point. However, it can also be that a relatively minor event can trigger a reaction which is out of all proportion to its lasting impact and this randomness of response can pose greater difficulty.

Donald Rumsfeld's infamous 'unknown unknowns' arguably pose the greater danger but it is equally imprudent to assume that a recognised threat is somehow negated simply because it is 'known'. And in either instance, it is how market sentiment receives the news which is crucial.

There are some indicators to which we pay particular attention when assessing the range of possible outcomes. The monthly US employment statistics, the 'non-farm payroll' figures in particular, are often seen as a good barometer of the economic performance of the world's largest economy but, even here, there is scope for error as the figures are almost invariably revised downwards at a later date. Of course, by then the headline figures have entered the mindset and influenced investor sentiment and subsequent behaviour.

The June 'Jobs Report' neatly highlights the issue. The market view ahead of the announcement (based on other economic indicators or simply wishful thinking) was that approximately 165,000 jobs would be created during June, that the labour market was weakening and that the Federal reserve would likely take the decision to cut interest rates during July. When the announcement of 224,000 new jobs was made, sentiment swung behind predictions of a delay in rate cuts and postponement of the 'inevitable' US recession.

‘Three cheers’ you might say but the news led to distinctly subdued market performance in Asia in the following session – the absence of a rate cut meant a continuing strong dollar which was an issue for those with dollar denominated debt or a heavy reliance on imported commodities which are typically priced in dollars. All ‘winds’ are generally ‘ill’ for somebody, the key is to identify those ill-effects that pose the greatest threat to the greatest number, particularly when they affect major stock markets.

To further cloud the issue, President Trump would dearly like to see a booming economy if and when he stands for re-election and feels that a rate cut would allow the economy to take off “like a rocket ship”. In typical fashion, he lashed out at those who take a different view of events – “We don’t have a Fed who know what they are doing” he announced. So, we have the President undermining confidence in his own central bank and hoping for weaker jobs figures so that rates will be cut…

The price of gold is another indicator to which we pay attention, particularly when there are clear threats on the horizon. This is because gold is typically regarded as a ‘safe haven’ in times of economic difficulty and will generally experience a rise in value as investors abandon riskier assets or currencies. We have taken positions in a physical gold exchange traded fund in anticipation of such an event. Again, this is not a prediction but merely a precautionary move which has seen a degree of capital appreciation already as the weight of sentiment gradually shifts. Note that it is the actions of nervous investors that drive the price, not the actual occurrence of the feared event. Bizarrely, a positive result can be achieved from an action taken in anticipation of an event which doesn’t happen as predicted or which fails to materialise at all!

The oil price also is quite a good indicator of political stresses and, because it is linked to the dollar, can trigger negative market reactions among those economies which are net importers. The increasing tension between the US and Iran has played into this, driving the price of Brent Crude up by some 20% in the year to date. A strengthening oil price will adversely impact global growth prospects and provide further cause for concern for those of a nervous disposition. Markets have been likened to a weighing machine - if sufficient weight of investment moves as a result of perceived tensions then fears become self-fulfilling but, equally, a more relaxed approach can serve to negate bad news.

The Lacomp view at present is cautious but we have not abandoned equity markets altogether and have generally benefitted from the continuing positive moves in key indices that have marked the first half of the year. Our caution is shown by the use of gold as mentioned above and by the inclusion of more bonds within portfolios. We are confident that the current long bull run will eventually come to an end as the US economy tips into recession but we are certainly not making any predictions regarding the timing or extent of the downturn at the present.

POLITICS

Next Tuesday, we will know who the new UK Prime Minister is or, to put it another way, we will have confirmation that Boris Johnson is the winner of that ‘contest’ between him and Jeremy Hunt.

What a spectacle! Ballot after ballot, gradually whittling down the 10(!) original candidates to those two. Hustings after hustings, without the electorate learning a lot that wasn't already known.

Having seen the full list of candidates in early June after nominations officially opened, you wondered whether some of them had suffered a bout of 'folie de grandeur' which made them throw their hat into the ring. Some were hardly known to the general public, others even less so. A typical politician at work, you may say, expecting to garner some supporters whose votes he or she can then hope to trade in for a decent elevation in their political standing by pledging them to whoever they think will win.

Maybe they thought that if Donald Trump could win the US Presidency, they stood a chance for pulling off a similar coup this side of the pond. Pathetic!

Across the English Channel, the EU appeared to take rather less long to elect Jean-Claude Juncker's successor. Although jockeying for position behind closed doors for the presidency of the European Commission had been going on for ages – it took three summits and endless negotiations, all away from public scrutiny - in the end it was an outsider, the German Defence Minister Ursula von der Leyen, who was proposed by the European Council, anointed and duly elected. The chronology ran as follows: proposed as a candidate on 2nd July, resigned as German Defence Minister on 15th July, elected on 16th July. Job done!

So, the new President of the European Commission had been Germany's Defence Minister since 2013. She was proposed by the European Council whose president is Donald Tusk, a former Polish Prime Minister, and she is now replacing Jean-Claude Juncker who, of course, had been Prime Minister of Luxembourg. One can detect a common thread here…

Under the headline *"The farcical EU is a cushy retirement home for has-been politicians"*, The Daily Telegraph described it as a gripping one-horse race. Would it be too cynical to suggest that some of our own parliamentarians who are so vehemently opposed to Brexit might consider such a route attractive for the next stage or twilight of their careers?

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Lacomp plc
77 High Street, Bagshot, Surrey, GU19 5AH, England.
Tel: (Intl. +44) (0)1276 475123 Fax: (0)1276 475273 e-mail: info@lacomp.co.uk website: www.lacomp.co.uk
Registered in England No. 1851201
Authorised and Regulated by The Financial Conduct Authority (FCA)