



INVESTMENT NOTES - May 2nd, 2019
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This past week we witnessed new highs in the US market and a strong dollar. Our portfolio was positive but not as much as we would like since we are overweight European equities and the Euro. This week will be telling, if the US stock market continues its upward trajectory, there will be more pressure on investment managers to invest as cash levels are still high.

The Fed and China trade talks, as always, will be watched closely this week. There is definitely talk of a very small rate cut to keep rates in line- really a technicality. Since investors are on 'pins and needles' for any hint of QE4, whatever the Fed does will have attention. China trade talks are of more concern. It appears President Trump is taking the same line as he did with Canada and Mexico- namely that the US would have the ability to approve trade deals of the other countries. In the China/US case, both countries would have the right to approve trade deals of the other. This is the WTO's function. Therefore with these trade deal approvals, the countries are usurping WTO of its power and bringing it back to individual nations. Sir John Templeton always said that as long as world trade was increasing, stock markets would increase. It looks like world trade is not going to be increasing- how will stock markets react?

We took part in a breakfast held by the Legatum Institute in London not too long after the Brexit vote. At the breakfast were current or former trade commissioners from seven countries and leaders of UK industry. Overwhelmingly, the commissioners said that WTO needed a leader and the UK could be that leader. Some three years later we see that the UK didn't take up that role and we could be witnessing the demise of a leaderless WTO.

Perhaps WTO doesn't matter as trade now is less in goods and more in services and digital. Sir John's advice although rings in our ears once again with his saying that, " the most dangerous words in investing are: it's different this time."

We are listening to Sir John's wisdom and sticking to our scenario that the first half of this year is when all the investment profits will be made and the second half will prove difficult. We believe politics will become ugly (or perhaps uglier..) as pressure on President Trump to reveal tax and financial records increases leading to what we predict will not necessarily mean an impeachment but criminal charges brought upon the President and/or his family. We think economically, the strength of the dollar will start having effect on some emerging market economy that no one is paying attention to, leading to a debt default. We think that profits will be more difficult to generate as the tax break starts to wear off and the lack of investment begins to take effect. We believe that although the market wants to believe in New Monetary Theory, that deep down they know that debt, whether its government debt or not, needs to be paid back and serviced, and this can only be done through inflation or deflation (which is political suicide) at these levels.

All the more reason for us to concentrate on what we can know (not what we believe). Therefore we are continuing our research on select equity names. However, this week we concentrated more on shorts in anticipation of 'sell in May and stay away.'