INVESTMENT NOTES - June 4th, 2019

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We were taught by Sir John Templeton that optimists made more money than pessimists because it was easier to be a pessimist. It is with this in mind that we looked at the investment markets this week.

The recurring theme in brokers notes this week is that bond markets are discounting the effects of the trade war(s), but the stock markets have not fully discounted a prolonged negotiation. Indeed, the broadening topics of the trade war, such as who controls global technology delivery, Asia, global trading patterns, the reserve currency and if the U.S. will re-order the global trading system should give pause for concern, but there is a brighter side too.

The WTO was a vehicle fit for purpose twenty years ago, but that is no longer the case. We made the point a few weeks ago, that the U.K. missed an opportunity to lead WTO and instead we are still in Brexit negotiations (maybe?). Members of WTO have not followed the rules they signed up for- for a long time and now aggrieved parties are pushing back.

The bond market as stated earlier, is making the call that this will not turn out well for risk markets. At least the US market still has positive interest rates that they can lower. With the ECB in negative interest rates- what will they do? Natural remedies would be fiscal spending which the Germans do not want to do, and/or currency devaluation which would be a big problem for Asian and Chinese debtors who are short US dollars. A strong dollar that would result in currency devaluations, would be really bad news for risk assets and especially emerging markets.

China's announcement about Fed-Ex resembles a divorce to us- not a negotiation. Unfortunately, when the U.S. used trade policy to achieve a political agenda in the past has ended in conflict. The pessimistic view is that Mexico could go bankrupt quickly and it's cross rate of USD/Mexican peso is a major cross rate. However, the government already has asked for a meeting and Mexico only has to enforce an immigration policy already in place to stop people moving through their country at will.

Although the Trump balloon is flying over Trafalgar Square, political leaders are lining up to meet with him. Trump's advice given to May in the previous visit was disregarded. This advice included a closer trading relationship with the US, free trade with the US, tax cuts and deregulation in the UK along with a lower GBP/Euro.

Perhaps Trump is giving this advice again, but this time has an audience who is listening. Another possibility is that he is proposing a Commonwealth-wide trade deal, which also includes the US. There are 53 countries in the Commonwealth with about $10.4 trillion of GDP and 2.4 billion people or about 30% of the world population. With the US in the deal, the numbers move to more than $30 trillion of global GDP over half the world output, 2.7 Billion consumers or 35% of the world total. The one asset that is trading close to lows is the GBP- perhaps it is time to go long.

We will be watching to see if the US market can bounce off of the current strong support that it is at now. If not, we will be further reducing our equity exposure and selectively going long bond markets, TIPS and agricultural commodities.