Weekly Digest

9 December 2019

The weekly insight into world stock markets

Investec Wealth & Investment

Paraskevidekatriaphobia

Unlike "supercalifragilisticexpialidocious", this week's title word does have a real meaning rooted in Greek - fear of Friday the thirteenth. And for every person who is eagerly awaiting the result of Thursday's general election, there are at least as many who are dreading the outcome. Never have loyalties been so split, with the traditional Conservative/Labour demarcation lines being blurred by the arguments over Brexit, and many voters faced with the invidious choice of a "least bad" option. Remarkably, in its editorial last Friday, the Financial Times declined to endorse either of the two leading parties, while its support for "liberal" ideals was most notable for the lack of a capital "L". Much ink has been spilled on the topic of UK politics in recent years, and the flow is unlikely to stop with this week's result. There are still several potential outcomes, ranging from a large Conservative majority, which is the markets' preferred short-term outcome, to a Labour victory that would be anathema to investors. Between those is a tortuous range of indecisive hung parliaments which would extend the current uncertainty.

It is very much not the purpose of this letter to influence voting decisions or to express the writer's preference. Our task is to evaluate the potential outcomes from an investment perspective and to allocate capital accordingly. It has long been our considered opinion that a "No Deal" Brexit or a Labour government (at least as conceived by the current leadership) are the worst potential outcomes, both of which would undermine economic activity and lead to a substantially weaker pound. With that in mind we have consistently since the Brexit referendum maintained an underweight position in UK-exposed risk assets and also recommended to investment managers that they retain a portion of their fixed income exposure in non-sterling bonds. We have reduced that hedge to some degree over the last year in response to the better value being offered relative to the risks, but have not taken off the insurance policy completely. That would be the equivalent of ringing up your insurance company from the car to cancel your policy ten miles from home because you are most of the way there. The risk of a Labour-led government is not off the table by any means, and there are big questions being asked of the government's claim to be able to negotiate a trade deal with the EU before the December 2020 deadline.

There is also the not inconsiderable problem that the UK is burdened by what appear to be structural twin deficits, both trade and fiscal. We continue to import a lot more than we export, and it is notable that sterling's devaluation had little effect on correcting that imbalance, to some degree owing to weak demand from our main trading partner, the EU. Meanwhile, the spending plans laid out by all of the parties in their election manifestos suggest that austerity is being consigned to history – and voters are strongly supportive of this view. But the structural shortage of pension provisions combined with the demands of an ageing population suggest that there is a lot of unfinished business ahead. Owners of sterling assets can perhaps be grateful that much of the rest of the world is in the same boat, but the long-term implications are more negative.

One leader who has dared to grasp the nettle is the French President, Emmanuel Macron. He is attempting to consolidate more than forty separate state-backed pension schemes as well as to raise pension ages, but has met with the traditional French response of paralysing strikes, protests and burning cars. In stark contrast, Jeremy Corbyn has promised the "Waspis" a payout worth around £58bn to compensate them for receiving their state pension several years later than they were originally expecting. Indeed, several of the policies on offer are aimed squarely at specific groups who could swing the result in marginal seats. And it is the potential for tactical voting in marginal seats that makes this election so fascinating in its uncertainty. Despite the introduction of the new-fangled Multi-Level Regression and Post-Stratification (MRP) method of polling, which has superseded Uniform Swing as the method of choice, and which is supposed to offer more granular detail by individual constituency, most punters are still hedging their bets. It's why you will see party leaders turning up in all sorts of places they never even knew existed over the next couple days, probably wearing a variety of hard hats and hair nets and partaking of a range of regional snacks and beverages.

One thing worth remembering from the 2017 election is that Theresa May called it thinking that she would win a parliamentary majority of as much as a hundred. Theoretically that would have put her in a position to bypass the hardline eurosceptics and to negotiate a "softer" form of Brexit. One theory emerging in recent days is that Boris Johnson, if in receipt of such a large majority, could execute a similar pivot, which might well earn him a ticker-tape parade through the streets of the City. Given the history of Brexit so far, can we rule anything out?

We will be sending out a further communication on Friday morning once the result has become (we hope) clear. If only that were a chance to close the book on politics for a while. Next Sunday is when further tariffs might be imposed on China if a "phase one" deal is not agreed with the US. There again, if a deal is reached, tariffs could be rolled back, which would be an early Christmas present for markets. What happens there is going to be far more important to global investors than our election result. Meanwhile we are less than eleven months away from the US presidential election, and I'll be raising the volume on that subject as we move into 2020, initially with all the permutations in the Democrat candidates' campaign.

John Wyn-Evans

Head of Investment Strategy

FTSE 100 Weekly Winners

British Land	5.5%
Royal Mail plc	4.8%
easyJet plc	3.7%
Antofagasta plc	3.5%
Marks and Spencer	3.5%
J Sainsbury plc	2.7%
Anglo American plc	2.0%

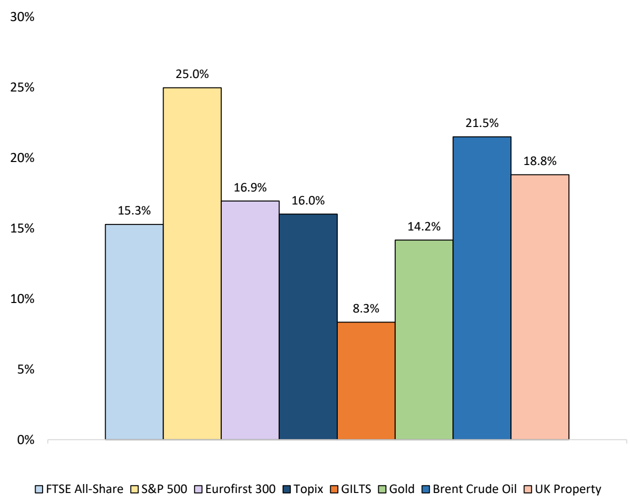
Source:FactSet

FTSE 100 Weekly Losers

Glencore plc	-9.7%
TUI AG	-8.0%
Ocado Group PLC	-7.9%
John Wood Group PLC	-7.8%
Vodafone Group Plc	-5.9%
Prudential plc	-4.2%
Fresnillo PLC	-3.8%

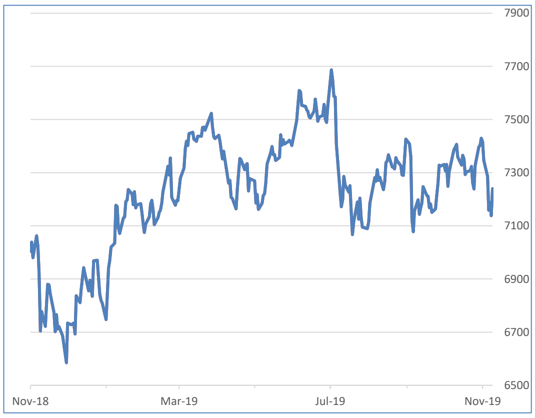
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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