Weekly Digest

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Time Travelling

A soggy Saturday in London provided the perfect opportunity to clamber into the loft to continue the seemingly never-ending process of sorting through accumulated memorabilia and family heirlooms – or "junk" as others might see it. One specific target was a metal trunk of indeterminate age containing various ornaments which last saw the light of day in the 1960s. They must have been packed when we moved from North Wales to South Wales in 1970, with the moving day somewhat inauspiciously set for April 1st. Bubble-wrap not being a thing then, old newspapers were the primary packaging material, and segments of the Sunday Telegraph dated March 8th 1970 provide plenty of reminders that, for all the differences, not a lot has changed over the decades.

I particularly liked a review written by Ludovic Kennedy of a book called "The Selling of the President". This was about how Richard Nixon's campaign team had worked with the television industry and advertising agencies to promote their candidate as more electable, whether it be through a more polished appearance, or memorable, but generally trite, slogans and soundbites. It obviously worked, although, interestingly, Nixon polled five million fewer popular votes in 1968 than he did when losing to John F. Kennedy in 1960. Of course, we all know how this presidency ended. The reviewer would have been as right today as he was then with his own observation: "[There is nothing new] in the notion of a politician putting himself in the best possible light, adjusting his tie and clearing his throat and telling half-truths and concealing what is awkward. It is what politicians do everywhere all the time."

The cookery section proves that cheese and bacon never go out of fashion as go-to ingredients, but I am not qualified to judge whether or not the "gypsy look" is in again. How about a nice car coat from Harrods for just £14?

I was particularly excited to find pages two and three of the City section. UK government efforts to increase productivity were no less evident then than they are today, as an in-depth article on the

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Selective Employment Tax (SET) illustrates. This was a tax intended to subsidise manufacturers at the expense of service companies, with the intention of improving the supply side of the economy and boosting exports. It was binned by the next Conservative government and (sort of) replaced by Value Added Tax (VAT). Apparently (hat tip to Wikipedia), the SET was used as an excuse by bookmakers to cut the payouts on each-way bets. Rascals!

The Market Miscellany section is a veritable treasure trove. It mentions companies whose existence extended into my City career, but which were subsequently subject to take-overs, including the London Rubber Company (now embedded within the Reckitt Benckiser Group), Laporte Industries (in various different hands) and Burmah (now part of BP, although its main branded product, Castrol – itself acquired by Burmah in 1966 – remains very much with us today. Proof, perhaps, that brands are more enduring than the corporate entities that own them.) In these days when governments are having to support any number of businesses in different ways, it is also worth noting that Burmah was subject to a government bail-out in 1974 following huge losses being racked up by its oil tanker fleet.

Another intriguing snippet mentions the merger between tyre manufacturers Dunlop and Pirelli, billed here as the "first major inter-European industrial link-up". Shame, then, that it turned out to be a disaster! And while today we can't get our hands on building materials for love or money, it seems, in 1970 they were lamenting the fact that the UK's pile of unwanted bricks had just topped the billion mark for the first time ever, equivalent to roughly half of today's annual production.

There are also tantalising tips for a company called Poseidon, which is especially relevant in today's world of perceived bubbles and booming metals prices. Poseidon was a bubble for the ages. Nickel was in high demand (Vietnam War) and short supply (industrial action) at the end of 1960s, with the price rising from less than £2,000 per ton to more than £7,000 in 1969. Poseidon was an Australian mining company that announced the discovery of rich nickel deposits in September 1969, sending its share price on a journey from 80 cents to A$280 in February 1970. By then the nickel price was already well past its peak, but even in March there was plenty of excitement, it seems, ahead of an upcoming progress report from Poseidon. And if you couldn't afford to buy the minimum 50 shares, you could have a crack at other mining companies that held stakes in it. This particular saga came to a sticky end in 1974, when the company went into receivership, brought down by a combination of cost escalation and lower-than expected ore grades – not to mention a much lower nickel price. If there is a silver lining, it is that a subsequent inquiry, which revealed all sorts of shenanigans, resulted in formal companies and securities legislation in Australia and much tighter regulation. When I had my first gap year job in the City in early 1980, people were still talking about Poseidon, and narrating its fate as a cautionary tale against speculating in such stocks!

I also like the reference to "knowledgeable country buying" of the shares of builders' and plumbers' merchants Rowe Brothers. I think that's a polite way of saying "insider trading", which was still seen as a perk of the well-connected, and not made illegal in the UK until 1980.

One hardy perennial of investing over pretty much any period of time you may choose is speculation over the direction of interest rates. Back in the days when, perhaps, central banks other than the US Federal Reserve (Fed) had a bit more clout, the first week of March 1970 had seen something of a divergence of opinion between the Bank of England (cutting the base rate) and Germany's Bundesbank (raising rates). We can only look back wistfully and with some pride at a time when the Bank of England's decision was credited with "stabilising the municipal bond market" in the US. And just to put things into context, the UK rate was cut from 8% to 7.5%, with (West) Germany increasing from 6% to 7.5%, a move largely aimed at reversing the trend of capital outflows to London. The world was still five months away from the collapse of the Bretton Woods system of fixed (or at least very tightly managed) exchange rates.

Then, as today, though, there was much head-scratching as to what the Fed's next policy move might be. There was speculation at the time that the Fed was easing policy through open market operations, but there was no certainty owing to limited disclosure and the fact that minutes were published only ninety days following the Open Market Committee's meetings. (Still better than the once-a-year regime pre-1967. The current delay is three weeks, although there is a lot more detail in the immediate post-meeting press conference now).

Time to set our TARDIS to return to the present day, then, and to ask the question: "How long is a piece of string?" Last week saw the publication of the latest employment data in the United States, and it was much weaker than expected, certainly in terms of the monthly additions to Non-Farm Payrolls in April, which rose by just 266,000 against consensus expectations for a gain of one million. After March's very strong data, chairman Jerome Powell said that, given the Fed's desire to see much fuller levels of employment, they "want to see a string of months" like the March report in order to reach the Fed's goals. But how many months might that be? How long is the string? On the one hand it greatly depends on how quickly jobs are created; on the other it also depends on what exactly constitutes "full employment". Estimates for the path of job creation have been thrown into disarray by last Friday's jobs data. Historically, "full employment" might have been defined by the Phillips Curve, which projects the level at which employment conditions become tight enough to force wage inflation – and that itself has been a moving target in recent years, falling to much lower levels than in past cycles. Matters are further obfuscated by the fact that the Fed also wants to ensure higher levels of employment in the lower-income brackets, and also that it has promised to allow the economy to "run hot" to make up for past shortfalls in the level of inflation relative to its 2% target.

Former Federal Reserve chair Janet Yellen, now the Treasury Secretary, stuck her own oar in last week, suggesting during an interview that interest rates might have to rise if growth and inflation started to accelerate too quickly. However logical that might sound, it sent shock waves through markets, at least until she executed a rapid U-turn, said it was none of her business, and defended the independence of the Fed. But it illustrates, once again, just how sensitive investors are to this subject.

We are certainly of the opinion that, barring some unexpected growth shock, the next move for interest rates is upwards, but that this will follow some sort of tapering of central bank asset purchase programmes. As long as economic growth can be sustained - and it has strong momentum currently – then we don't think that risk asset markets will get into too much trouble, although we do expect progress to be slower and volatility to be more elevated.

I had great fun writing this. Even though much of the inspiration for the content is more than fifty years old, it is a reminder that, despite new technologies and the more widespread availability of information, investors' interests are not greatly different today. And the one thing that will be almost exactly the same is human nature, with booms, busts, speculation, greed and fear ever present. I'm already looking forward to my next trip to the attic, even if there's nothing up there worthy of a starring role on the Antiques Roadshow.

Last week's Economic Highlights

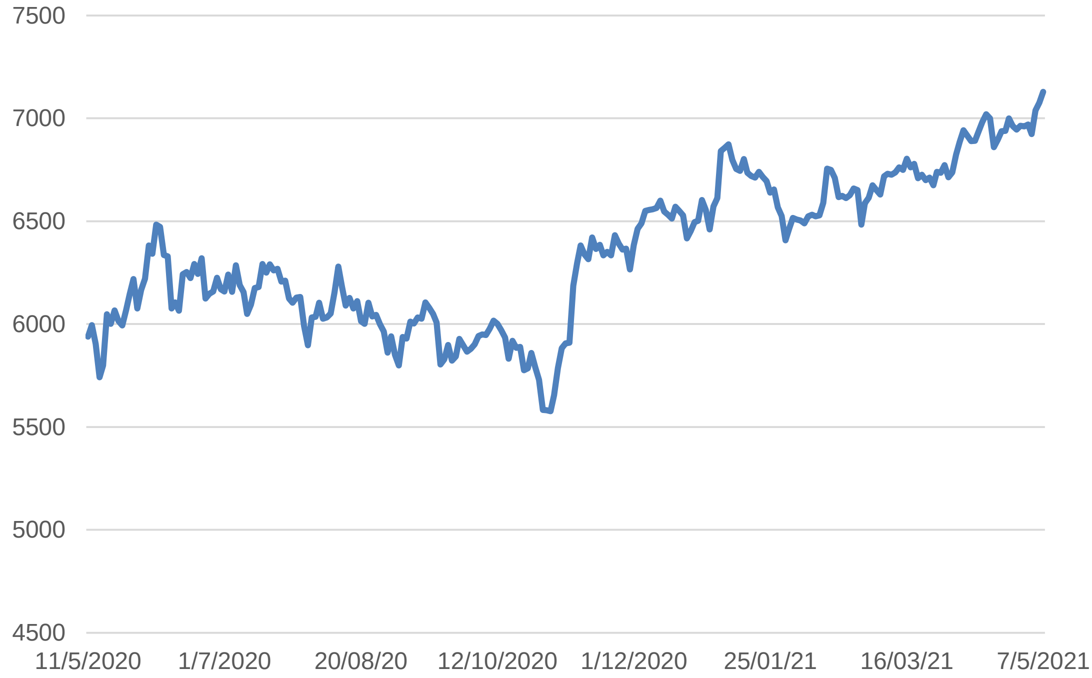
FTSE 100 Weekly Winners

Fresnillo PLC	9.7%
Imperial Brands PLC	9.0%
British American Tobacco p.l.c.	8.1%
Anglo American plc	7.6%
Standard Life Aberdeen	7.6%
Glencore plc	7.6%
J Sainsbury plc	6.7%

FTSE 100 Weekly Losers

Ocado Group PLC	-9.6%
AVEVA Group plc	-5.5%
Admiral Group plc	-5.3%
Scottish Mortgage Investment Trust Plc	-4.9%
Just Eat Takeaway.com N.V.	-4.7%
Flutter Entertainment Plc	-4.6%
London Stock Exchange Group plc	-4.0%

FTSE 100 Index, Past 12 months



Source: Factset

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