Weekly Digest
14 January 2019

Investec
Wealth & Investment

The weekly insight into world stock markets

(Un)happy Anniversaries

It was refreshing yesterday to hear a Radio 4 presenter say something along these lines: "our listeners have asked us not to spend hours broadcasting speculation about events where the outcome is so uncertain – and so we're not going to". The subject, almost inevitably, was Brexit, and I am minded to follow the same course of (in)action. It is not certain that tomorrow's vote, even if it actually takes place, will provide much further clarity, and all outcomes are still on the table, from the hardest, most chaotic of Brexits to no Brexit at all. From an investment perspective the risks and rewards are now more balanced, especially for the pound, which remains the key barometer of sentiment (with Housebuilder and Bank shares increasingly the main movers in the equity market). We have already recommended reining back explicit hedges against further sterling devaluation. Be assured that we have spent a lot of time thinking about this, but there's no new value to add today.

Which leaves me time to ponder on two notable, but little reported, anniversaries that have just passed. Twenty years ago, on 1st January 1999, the euro started trading. Ten years later, on 12th January 2009, the first bitcoin transaction took place, introducing the concept of blockchains and cryptocurrencies to the world. Both are still the subject of great amounts of criticism and uncertainty as to their future.

In today's world where so many things are the consequence of political ideologies and ill-thought-out compromises, it's worth remembering that the euro, despite becoming a major economic symbol, had its roots in politics. Closer ties between countries in Europe were seen as providing insurance against future hostilities. Many of the people who were in charge in the 1980s had either fought in or grown up during World War II, which nobody wanted to repeat. Yet there was still an underlying tension between France and Germany. France had long advocated a currency union, which Germany had resisted. A French Treasury minister once quipped: "We may have the nuclear bomb, but the Germans have the Deutschmark", referring to Germany's strong and stable currency, testament to its burgeoning economic power. Germany's desire to reunify the eastern and western parts of the country provided France with the opportunity to seal a deal – reunification for the single currency.

The main problem that has been identified with the euro project is that a currency union is flawed if there is no fiscal and/or banking union – and currently neither exist. The European Central Bank has done its best to paper over the cracks with Quantitative Easing and Targeted Longer-Term Refinancing Operations which provide almost endless cheap liquidity, but they do not address the underlying imbalances between countries. As we have seen recently with Italy, this can create great strains when one country feels that it is strait-jacketed into a currency, interest rate and budget regime which it feels is not appropriate to its own situation. One can argue that much of this problem is of Italy's making owing to its lack of productivity growth and general political incompetence over the past two decades. In the pre-euro days a routine devaluation of the lira would have restored competitiveness (although to the detriment of national purchasing power), but that route is no longer open. Leaving the euro is unimaginably difficult owing to the huge cross-border liabilities that have been built up by financial organisations who believed that the euro was eternal.

Essentially, unless there is an unprecedented convergence of economic fortunes between euro area members (or an unexpected pre-emptive shift towards fiscal union – but can you see "prudent" Germans opting to bail out "feckless" Italians?), more cracks are bound to appear, most probably during an economic downturn. So well done to the euro for surviving the infant and teenage years. Adulthood promises equally hard challenges. Although my personal preference is that we remain in the European Union, I have never supported joining the euro. If you thought the financial crisis was bad for the UK, it would have been spectacularly worse if the UK had been able to leverage up on even lower interest rates (and then been subject to the ECB's subsequent mismanagement of the aftermath).

At least the euro is a real currency that you can put in your pocket in the form of notes and coins. It is regulated and recognised by all financial institutions. Trading in it is seamless and cheap. The same cannot be said for bitcoin (and other Johnny-come-lately cryptocurrencies). I think I managed to avoid writing about bitcoin at all last year, a period during which it lost 73% of its value. In fact the last time I covered it in detail was 18th September 2017, when it was worth $3,521, against a current… $3,528! Our advice at the time was that it could not be considered an investment asset, and we still hold to that view. I cannot deny that the fact that it hit $19,500 in December 2017 allowed some canny speculators to make small fortunes, although very few will have exited at the top and many will have suffered large losses having been sucked in at the higher levels.

Although we continue to see the potential of the blockchain technology that underlies bitcoin, it remains very hard to see value creation in the currencies themselves. They have proved to be too volatile to be considered as stores of value or units of account, and the costs associated with using them preclude them being an efficient means of exchange. I was appalled to see a wealth manager quoted in the FT Wealth magazine last autumn advocating bitcoin as a viable diversifying asset. You still won't be finding them in our portfolios, although I'm sure there will be plenty of hype and fascinating stories in the next ten years.

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

Taylor Wimpey	11.1%
Ashtead Group	10.6%
Tesco	10.4%
Persimmon	9.8%
ITV	9.8%
Marks & Spencer	9.1%
Micro Focus International	8.2%

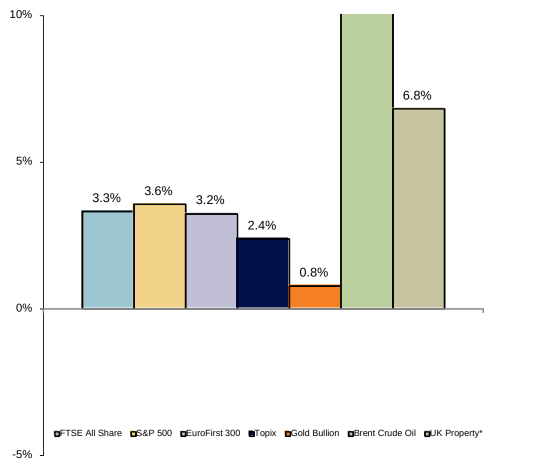
Source: FactSet

FTSE 100 Weekly Losers

AstraZeneca	-6.2%
BHP Group	-3.5%
Vodafone	-3.3%
Smurfit Kappa	-2.4%
Severn Trent	-1.9%
BT Group	-1.8%
Royal Mail	-1.7%

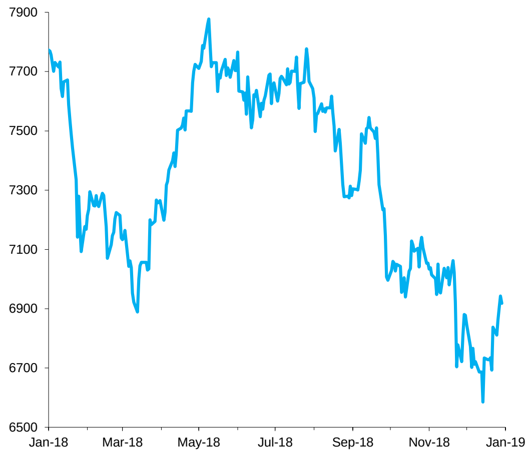
Source: FactSet

Year to Date Market Performance



Source: FactSet
*IPD Total Return to October 2018

FTSE 100 Index, Past 12 Months



Source: FactSet

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