



Ask Amanda

“Looking ahead, what can we expect from the current volatility in the stock markets, reduced oil prices and the fear of Brexit?”

These are questions I see circulating a lot on social media at the moment and can cause concern without some background information explaining the economic and political situation.

“ We have just returned from our annual Spectrum Conference. This year 30 advisers headed to the stunningly beautiful city of Venice.

My colleague Peter Brook, from the Cote d’Azur, has produced the following datasheet and I thought it worth sharing:

With two days set aside for the discussion of global markets and other financial changes and issues, our conference was very well timed. From the start of 2016, stock markets had fallen between 8 and 15% and Brent Crude Oil was down 20%.

So could we come back from this conference with a view on whether this highly volatile trend was to continue and was this really the end of the world? Well... yes we could.

We are very fortunate to be part of a company large enough to access the resources from some of the biggest and best names in our business and they all presented fairly similar views on where we are and where we might be going, and they can all be summarised by looking at 3 main trends and a few smaller issues:

OIL, CHINA, INTEREST RATES and then EMPLOYMENT and BREXIT... so with enormous thanks to companies like Blackrock, Henderson Global Investors, Jupiter, Kames Capital, Rathbones and Tilney Bestinvest, let’s try and look at how these might affect us all.

- If you believe that there is a global recession around the corner... then sell everything and stay in cash! – We don’t!
- Is this like 2008? NO, but we could talk ourselves into it! The Global Macro scene is not that bad.
- Markets will now move to looking at ‘growth’ rather than being ‘policy’ led like from 2009 to 2015. (E.g. Quantitative Easing ‘QE’ etc.)
- GDP growth is at its strongest since 2010.
- Divergence is increasing around the world (i.e. end of QE in US, but increase of QE in Europe).

THE MAIN ISSUES:

CHINA: The bulk of the slowdown is now behind us, in fact China have been doing exactly what we, as the developed world, have been asking them to do for the last few years... i.e. devaluing their currency and switching to a new ‘consumption based economy’ – this all makes good economic sense BUT their communication has been poor and the ‘fiddling’ in their stock markets has not been appreciated. The economic growth rate is stabilising and as the ‘new’ tech lead, consumer economy becomes greater therefore slowdown in the ‘old’ commodity heavy manufacturing economy will matter less to the overall rate. 4 – 6% GDP growth per year is realistic for the foreseeable future... it’s still a very good growth rate, especially for the biggest economy in the world.

When China was growing at 12%, it was 1/5th of the size it is now... the relative amount of GDP in real terms is significantly greater now than it was then... the headline rate, might be just that... a headline in a newspaper but the over-reaction to the inevitable slowdown has been pronounced.

OIL: massive sell off through 2015... Not due to a drop in demand but due to oversupply...

The break-even cost of extraction has dropped from \$110 per barrel in 2011 to \$34 per barrel now, so the US can afford lower prices for longer. Some countries must keep production high just to maintain some revenues; they can’t afford to stop, even at these low prices. ... This is becoming a ‘who blinks first’ situation and is all about power and geopolitics rather than normal market influences.

Low oil prices can help consumption-lead economies (New china, US, Europe etc).

INTEREST RATES: Not this year’s problem as rate changes don’t affect the economy for 12 to 24 months. The market is pricing in for at least two more US rate rises.... there is now less consensus opinion on whether this is now correct. Policy on rates is diverging across the world, US and UK increase, EU stable but with lots of QE and EM likely to decrease.

The best environment for equity market growth is when rates are rising AND growth is rising BUT rising interest rates can mean more stock market volatility as well.

OTHER ISSUES:

EMPLOYMENT: conditions are right for wage growth, especially in the US, where unemployment has fallen faster than expected. If wage growth comes through then individuals tend to spend rather than save (unlike companies) and this can lead to price inflation and further growth.

BREXIT: don’t believe the hype... if UK votes to leave the EU then there will still be 2 years of protracted negotiations as to how they leave. There are major concerns for the Finance Industry which is one of the UK’s biggest industries and cross border regulation AFTER leaving the EU could have very deep effects.

SOFT BREXIT or a HARD BREXIT: both lead to different scenarios playing out. Likely to be greater volatility in UK markets and GBP in the run up to the referendum but no specific trend either way.

OVERALL STRATEGY: CONCENSUS from the experts:

1. Still preference for allocation to EQUITIES
2. Probably add in more ALTERNATIVE INVESTMENTS or ABSOLUTE RETURN STRATEGIES over more in bonds.
3. EMERGING MARKETS not ready – JUST YET!!!
4. GOLD could be a good small hedge
5. USD to remain strong

So overall, as a member of the Spectrum Fund committee, an investor myself and an adviser to my clients, I feel that the world isn’t over and it isn’t 2008 again. There are good shoots of growth in many markets and even with the ‘slow down’ in China they are still the major engine for growth across the world. Many companies (and this is after all what we are interested in as investors) are healthy still (especially in Europe) and look to be reasonable value.

2016 is going to be volatile but we will make it through and there could be some surprises along the way.

Peter Brooke

You can ask us any questions you have, either via “Ask Amanda” or by attending our March, **Le Tour de Finance** roadshow in Poitiers.

**9th March 2016 at
Chateau Le Clos de la Ribaudiere.
10 Rue du Champ de Foire
86360, Chasseneuil du Poitou**

**The event starts at 10.00am and ends at 2.00pm
(see advert on P.47)**

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