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INVESTMENT MANAGEMENT & STOCKBROKING

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An American Horror Story

Despite historically being one of the most volatile months for financial markets, this October proved to be fairly uneventful. Brazil and emerging markets were notable bright spots, helped by higher commodity prices, but bourses across the developed world were broadly flat. The dollar's rise continued as favourable GDP growth numbers prompted talk of the Fed hiking interest rates, whilst prospects of a move by the Bank of England were pushed back further, despite higher inflation numbers. Of course, the main focus of attention has been the US Presidential election, and with just hours to go, the result is still on a knife edge.

With the vote occurring so close to Halloween, journalists have been quick to link the two events, (as highlighted by the *LA Times* here and here). The metaphors are all too obvious and overlook the real horror story that according to Fortune Magazine, US consumers spent $8.4 billion this season (up $1.5 billion on 2015) on costumes, confectionary, decorations and other paraphernalia. The Halloween greeting card industry itself is now worth a blood-curdling $390 million each year.

So to continue with the theme, should investors be terrified by a Trump victory? The short answer is probably not, for the simple reason that for all its prestige, the president is constrained by the balanced nature of the Constitution in the forms of Congress and the Supreme Court, making it very difficult for just one person to build walls, physical or otherwise. That said, his tendency to go off-script creates uncertainty and for that reason, we can only speculate as to how foreign policy will develop over the next four years or so. We suspect that if he wins, stocks would sell off initially à la Brexit, however once the shock subsided, we could see a similar bounce. Trump's 'pro-business' policies are in tune with what Wall Street wants, especially the drafted tax giveaway that would benefit the rich and most of corporate America; as part of a victory speech, expect this subject to be near the top of the list. The longer-term consequences should be a worry due to the increased borrowing, but the short-term impact on the S&P-500 would very likely be positive.

This is what investors really should be scared of. Kicking the can down the road, hoping that the debt ceiling, climate change or pension deficits, for example, will magically disappear over time, actually creates bigger problems in the future. This is the essence of *The Mandibles: A Family, 2029-2047*, Lionel Shriver's latest novel where the monster is an all too plausible image of America in total economic ruin, created by previous generations unable or unwilling to face up to the economic and social problems of their day. Stephen King has got nothing on Shriver here for creating haunting images and as the Spectator book review neatly put it, this is 'a scary, depressing and convincing horror story'.

Hedge fund billionaire Crispin Odey's monthly newsletters often read like horror stories too, and his most recent missive suggested that "We are now destined for a recession in the UK as well as inflation. It will be difficult for the stockmarket (sic) to remain above all of this," going on to say that the FTSE-100 "could fall by 80% and, provided profits did not fall, would be on a 13x P/E multiple". There isn't enough space to deal with the various points that Odey raises, but we struggle to understand the relevance of envisaging static profits when the world is in recession. We recall similar predictions in January 2015 that, so far at least, have proved wide of the mark.

That said, he raises fair points and at the heart of his analysis and strategy, seems to be a fear of the unknown, which leads to bets (and that is the correct term) against the market. The 'unknown' is chiefly the consequences of quantitative easing (QE) and zero/negative interest rates. Time will tell if he is correct and he has support. Bond guru Bill Gross in his recent newsletter, here, ends with the observation that "Investors/savers are now scrappin' like mongrel dogs for tidbits of return at the zero bound. This cannot end well."

But it might. The central opinion that Cassandras such as Odey, Marc Faber, Nouriel Roubini, share is that economic growth is not coming through strongly enough. However, recent evidence suggests otherwise with the US GDP growth rate hitting 2.9% in the third quarter, its fastest rate in two years. It is accelerating more than most analysts expected and helping to boost employment and drive earnings growth too.

Back to the race to the Whitehouse, and the other major issue to contend with is how the US dollar reacts to a Trump victory. Intuition suggests that it would be knocked hard, but if the market thinks that the world will be plunged into a Trump-led recession – and this can't be ruled out – then in fact the dollar could be supported by the perception that in the final analysis, the US is stronger (less weak) than most other currencies anyway. A quick word on gold – we wouldn't be surprised to see it move higher in the event that Clinton loses, but how can we tell that this isn't already in the price?

This all looks academic because at the time of writing, a day ahead of the vote, the bookmakers have Hillary favourite at 5-1 on to win, and Trump at 4-1 against. The bookies clearly got it wrong at Brexit and back then prices were even tighter at 9-1 on that we would remain. But in this topsy-turvy, post-truth world that we live in, maybe lightening can strike twice.

The very earliest that a result will be known is around 5.00am UK time on Wednesday 8th November, and by the time markets open at 8.00am, we should know. Ahead of then it feels very dangerous to hold a high cash position, because a relief rally could be meaningful. That said, the downside could be near 10% across most stock markets, presenting short-term opportunities. In which case keeping some powder dry feels like the best course of action.

The world is often a frightening place for investors and the media is keen to remind us, as laid out in this insightful BBC article. Yet, even with the seemingly relentless threats of post-QE collapse, the Russian military, ebola, Chinese debt, North Korean nuclear weapons and Middle East conflict, markets have not surrendered and have recently hit or flirted with all-time highs. Of course we have an eye over our shoulder and we have defences in place, but it seems futile waiting for a bogeyman that may never appear.

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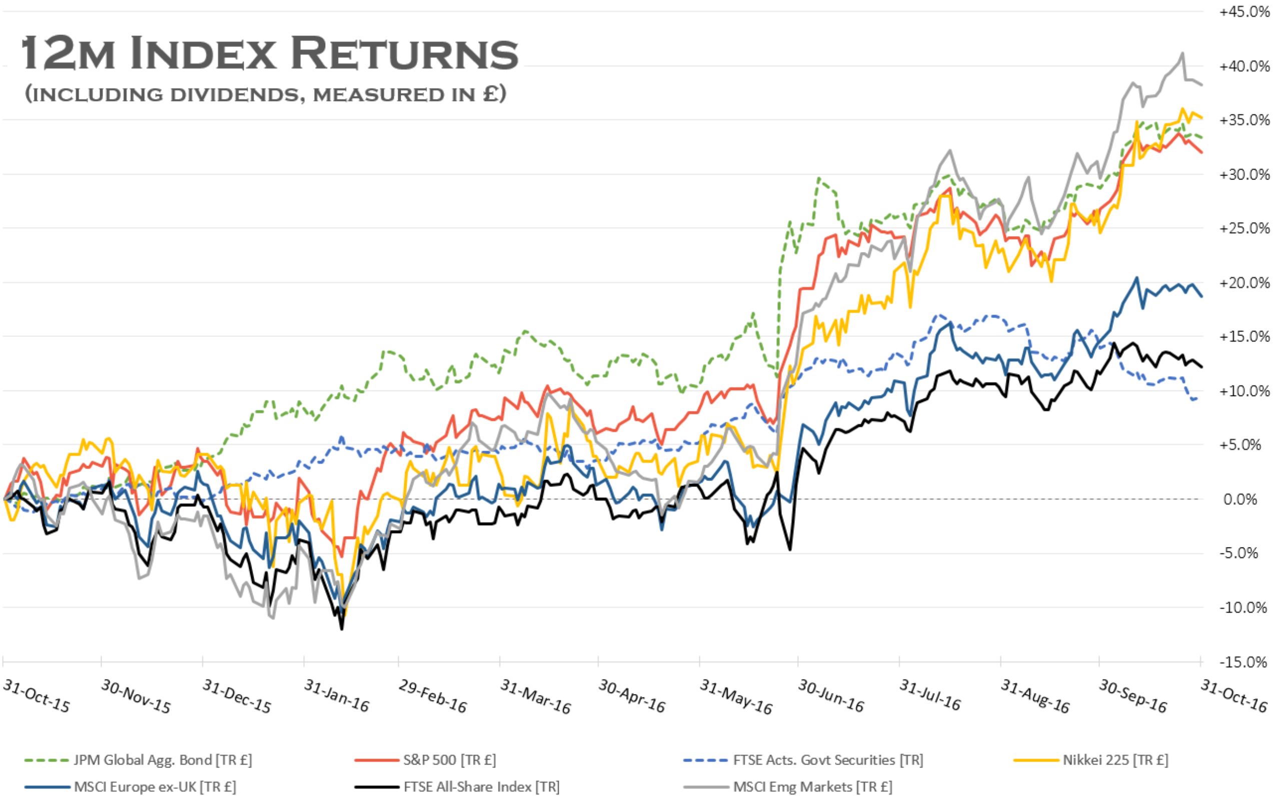
INDEX RETURNS

Index	Region/Asset Class	31-Oct-16	Monthly Change	1 Year Change	2 Year Change
UK 100	UK	6,954.22	+0.8%	+9.3%	+6.2%
UK Mid Cap	UK	506.71	-2.8%	+0.7%	+11.8%
UK Small Cap	UK	4,971.80	-0.1%	+8.1%	+14.7%
Dow Jones Ind Avg	USA	18,142.42	-0.9%	+2.7%	+4.3%
S&P 500 Index	USA	2,126.15	-1.9%	+2.3%	+5.4%
NASDAQ Comp.	USA	5,189.14	-2.3%	+2.7%	+12.1%
Nikkei 225	Japan	17,425.02	+5.9%	-8.7%	+6.2%
Euro Stoxx 50	Europe	3,055.25	+1.8%	-10.6%	-1.9%
CAC 40 Index	France	4,509.26	+1.4%	-7.9%	+6.5%
DAX Index	Germany	10,665.01	+1.5%	-1.7%	+14.3%
Milan Index	Italy	17,125.05	+4.4%	-23.7%	-13.4%
MSCI Emg Mkts (£)	Emg Mkts	486.09	+6.7%	+38.2%	+22.4%
IBOVESPA Index	Brazil	64,924.52	+11.2%	+41.5%	+18.8%
MICEX Index	Russia	1,989.64	+0.6%	+16.2%	+33.7%
S&P BSE SENSEX	India	27,930.21	+0.2%	+4.8%	+0.2%
Shanghai SE Comp.	China	3,100.49	+3.2%	-8.3%	+28.1%
Hang Seng	Hong Kong	22,934.54	-1.6%	+1.3%	-4.4%
Conventional Gilts	UK Gilts	3,507.56	-3.9%	+9.5%	+15.6%
JPM Glob Agg. Bond (£)	Global Bonds	857.53	+3.6%	+33.4%	+34.8%
WTI Crude	Oil	46.86	-2.9%	+0.6%	-41.8%
Gold Spot $/Oz	Commodities	1,277.30	-2.9%	+11.8%	+8.8%
£1 = US$	Currencies	1.22	-5.6%	-20.7%	-23.5%
£1 = €	Currencies	1.12	-3.4%	-20.5%	-12.7%
£1 = Yen	Currencies	128.32	-2.4%	-31.0%	-28.6%

12M INDEX RETURNS

(INCLUDING DIVIDENDS, MEASURED IN £)



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