RAYMOND JAMES

Searching for believers

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"Well, any good comeback needs some true believers" - John Boehner

Welcome to March, a time in the past when I have gone all Shakespearean in my written musings and quoted the famous words imagined uttered to Julius Caesar before his assassination. It looks as if the Ides of March (typically regarded as the fifteenth day of the month) will be just after a series of further Brexit related votes which could provide the greater clarity consumers, industrialists, politicians and investors seem to desire. As one economic survey, focused on the view of UK manufacturers, strikingly put it recently: 'The march of the makers has turned into a painful crawl, where only certainty about the Brexit way forward can ease the sector's pain'.

If only either political decisions or economic correlations could be so simple. Observers far away from the UK undoubtedly remain deeply perplexed by the continuing paralysis and impending deadlines. However, as we have seen with the bilateral trade discussions between the United States and China, deadlines can be moved... to the benefit of financial markets.

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February continued January's general upward performance movement with both UK and global equities rallying despite the ongoing Brexit outcome complexity and other signs of European malaise, including Germany almost falling into a recession and Italy officially entering one. The progress in the aforementioned bilateral trade discussions continue to matter multiple times more for global markets than continuing pan-European challenges, as befits the more significant at the margin contribution to worldwide 2019 economic growth rates. The impacts of a further slowdown in American and/or Chinese economic growth rates are sufficiently worrying to both sides to induce the more conciliatory spirit seen recently.

However, whilst global stock markets rallied almost across the board and mainstream sovereign fixed income did its best impression of a negatively correlated asset class, the largest monthly fund manager survey showed that the most favoured (versus historic neutral positioning) allocation was to... cash.

Now, we are all still recovering from the 'excitements' of 2018, when around 90% of asset classes produced a negative return. Cash - especially US dollar denominated cash - was a rare positive standout, even after adjusting for inflation, and it is natural that all investors, including experienced and large fund managers, feel a little more coy. However, if the most dangerous phrase in investing is that 'it is going to be different this time' then the most dangerous word is 'extrapolation'. My core 2019 strategic view remains that risk assets - primarily equities aided by the generally positive pick-up yield versus most fixed income alternatives - are to be embraced, given the scope for world trade compromises and allocation sentiment (as shown by the cash overweight positioning).

In short, global markets are still searching for believers. I am not sure if I fully agree with another assertion I read in recent weeks that 'good investing is 50% psychology, 48% history, 2% finance' but certainly the weight and impact of both fear and greed is hugely important for anyone involving themselves in the financial markets, especially over shorter time periods such as a few months or a single year. A bit of compromise progress here and there on some big issues both globally and locally can have a surprising impact, especially after a tough period of returns reality. This is how we started 2019 and two good and strong return months later we have not yet used up all our luck and good fortune. I would worry more about putting cash to work in an active and disciplined fashion when it becomes suitably consensus to do so, especially if globally balance aiding changes such as a lower US dollar, more fully kick in (as I anticipate over the next couple of quarters).

There is still space and time to believe. Call it a comeback, or just the way markets are, but I am not scared of the Ides of March or the immediate months beyond. Financial markets are seldom flawless but more often opportunistic and always fascinating. As The Bard himself noted 'If money go before, all ways do lie open".

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