STANFORD BROWN
Financial Advisers

Stanford Brown Monthly Top 5

August 2019

Stanford Brown's Top 5 key factors in Australia and around the world that are affecting investment markets. We aim to help investors cut through all the media noise and hype and understand what is really driving investment markets and portfolio returns.

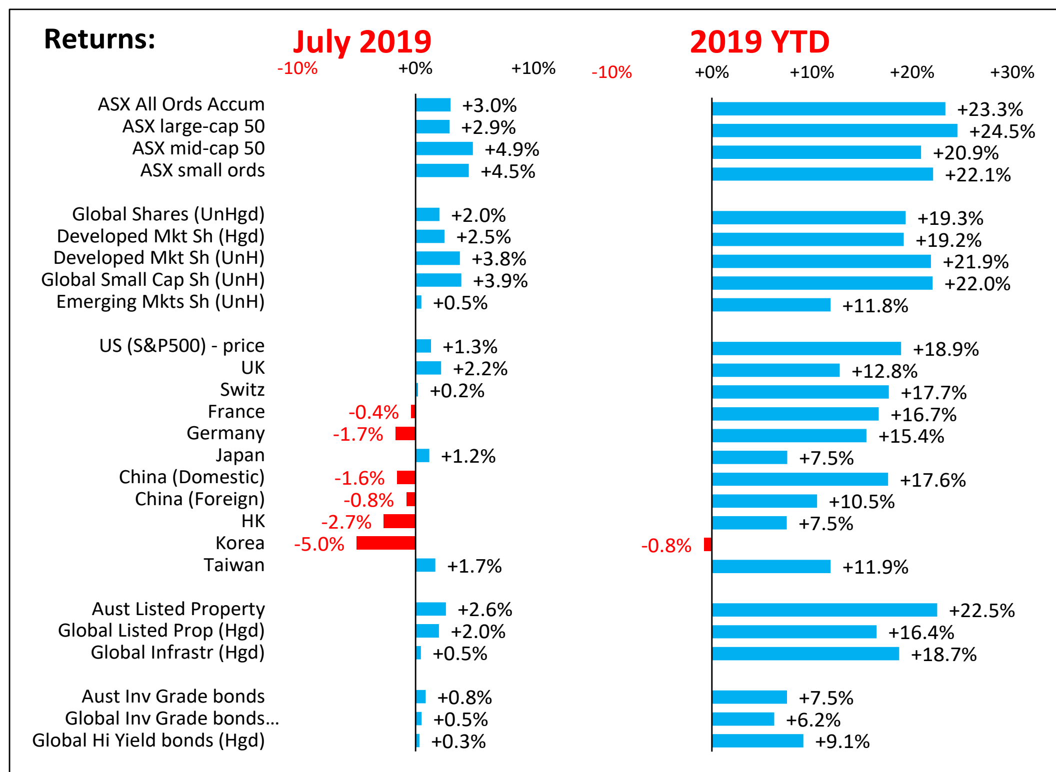
1 More good returns in July

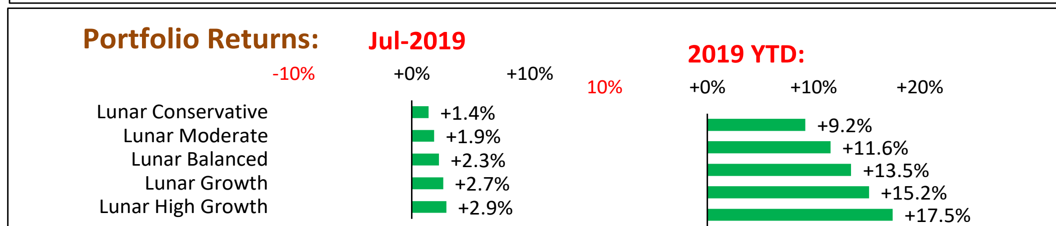
In July we had more good returns from the main types of investments in Australia and around the world. In our portfolios we are currently moderately bullish and over-weight Australian and developed market shares (favouring un-hedged over hedged as we are still a little bearish on the Aussie dollar). For Australian shares we are biased toward small and mid-sized companies. We also hold Australian listed property and infrastructure, but we are under-weight emerging markets, bonds and cash.

Australian shares returned +3% in July. The banks were lifted by NAB +7% and Macquarie +3%. Miners still lead banks so far this year, but they fell back a little in July as the surging iron ore price paused. BHP was down -1%, RIO -5%, FMG -8% (but has doubled this year).

For global shares - developed markets are still leading, while emerging markets are still lagging. Boris Johnson lifted the London market +2% in July and the US was also strong. Alphabet (Google) +12% for the month, Apple +8% (and up 35% this year). Un-hedged global shares (which we favour) beat hedged shares because the AUD fell another -1.7% against the US dollar in July, and -2.3% for the year to date.

On the other hand, emerging markets peaked in early 2018 shortly before we removed them from portfolios, and we haven't added them back since. Emerging markets suffered worse than developed markets in the 2018 sell-off (as they have in every past global sell-off) and they have also lagged the rest of the world in the 2019 rebound. They had another poor month in July with China and most other markets down or flat, although Taiwan Semiconductor (Taiwan), Alibaba and Tencent (Chinese but listed in New York and HK respectively) were relatively strong.





US events dominated global markets once again. The US economy slowed sharply in the June quarter: +2.2% pa growth in the year to June, down from +3.1% pa for the year to March. Strong consumer spending and government spending were offset by falling business investment, falling exports and rising imports. The weak data prompted the Fed to starting cutting rates, a big switch from the four rate hikes last year.

The July company reporting season for US companies has been good so far. June quarter profits are looking like posting a +6% gain on the March quarter results, and the 12 months to June 2019 profits +12% over the prior 12 months to June 2018. Dividends have also risen strongly, up +10% on the prior 12 months. US pricing is high, but it is being supported by good growth in profits, dividends and buy-backs.

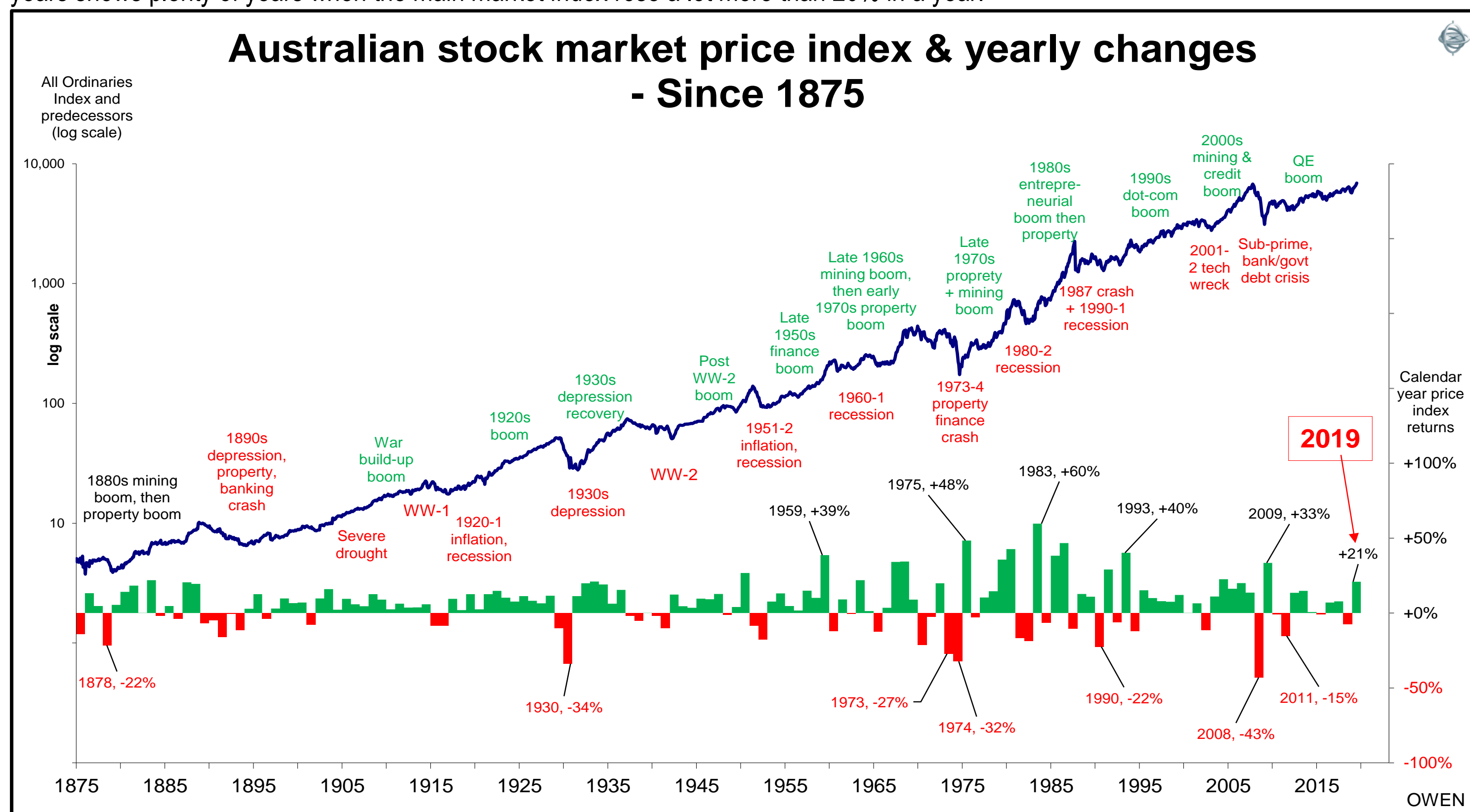
Bonds are also doing relatively well this year, as bond yields continue to decline in Australia and around the world.

All portfolios remain ahead of their long term goals and well ahead of their peer diversified multi-sector funds on a risk-adjusted return basis.

2 Australian shares finally ahead

The Australian share market achieved a milestone in the last week of July. The broad index (the All Ordinaries) finally climbed back to its pre-GFC 1st November 2017 peak of 6,853 before it fell 55% in the GFC. It has been a rather bumpy ride back to the top.

We were bearish and under-weight shares in portfolios during the late 2018 sell-off, but we increased allocations to shares earlier this year to capitalise on the rebound. Although we are over-weight shares this year and benefiting from the rally, there are always naysayers who are predicting an imminent fall. Surely the 20% gain this year is enough for one year! This chart of the annual growth over the past 140+ years shows plenty of years when the main market index rose a lot more than 20% in a year.



Some of these 20%+ years were during economic booms:

- +23% in 2004 and +20% in 2006 – in the 2003-7 China/credit boom
- +38% in 1985 and +47% in 1986 – in the mid-1980s take-over boom (Bond, Skase, Elliott, and fellow scoundrels)
- +38% in 1979 and +43% in 1980 – in the late 1970s building boom
- +27% in 1950 and +38% in 1959 – in the 1950s consumer finance boom
- +22% in 1963 then +37% in 1967, and +31% in 1968 – in the 1960s oil/gas/mining boom
- +22% in 1883, +21% in 1887 and +21% in 1888 - in the 1880s mining boom

Others were during economic slowdowns, recessions or depressions – which is when shares generally have their best years:

- +33% in 2009 in the GFC
- +29% in 1991 and +40% in 1993 – Paul Keating's 'recession we had to have'
- +60% in 1983 – in the 1981-3 recession
- +32% in 1972 – in the 1971-2 mining collapse recession
- +45% in 1975 - in the 1974-6 recession
- +21% in 1933 – in the 1930s depression

Many of these great years were rebounds after negative years (like 2009 and this year), but many others are back-to-back positive years.

As long as conditions remain favourable there is no reason to think that a 20% gain is unusual, or that it must necessarily snap back to a more normal 'average' year of 6.5%, which has been the long term average gain (before dividends) for our market.

'Average' years are actually very rare. Only 3% of all years have seen 'average' price gains of 6.5% for the broad index (1927, 1961, 1977 and 2001). The other 97% of years have been much more volatile. That's just what share prices do.

3 Stock Market Olympics – Australia limps home

In 2008-9 Australia didn't have a sub-prime problem, a housing collapse, or a banking crisis, and it was one of the few countries in the world to avoid an economic 'recession' thanks to China's stimulus. But the local stock market still fell 55% in the GFC, which was more than most other countries, and it has been rather slow to recover. Thirty other countries beat us in climbing back to their pre-GFC stock market highs.

More than six years ago I awarded the Gold Medal among the 'developed markets' to Denmark, which regained its pre-GFC peak in January 2013. US won Silver in March 2013 and UK won Bronze in February 2015. Denmark and the US have risen strongly since 2013 and are now around 90% ahead of their pre-GFC highs. Gold medallist Denmark still leads by a fraction. It had an even more severe GFC recession than the US, and has been barely out of recession ever since. Bronze medallist UK has stalled a little since the Brexit vote in 2016. It is still ahead of its pre-GFC high – just, but has since been over-taken by others, in particular New Zealand (yes, them again!).

Global Stock Markets -v- their All Time Highs

-100% -50% +0% +50% +100% +150% +200% +250% +300%

Venezuela, Argentina, Indonesia, Pakistan, Philippines, Turkey, India, Denmark, US, Sth Africa, Chile, Sri Lanka, NZ, Brazil, Hungary, Latvia, Mexico, Estonia, Israel, Egypt, Lithuania, Malaysia, Norway, Canada, UK, Sweden, Switzerland, Korea, Thailand, AUSTRALIA, Poland, HK, Taiwan, Germany, Singapore, Romania, Vietnam, Netherlands, France, Morocco, Belgium, Portugal, Slovakia, Ireland, Austria, Spain, Russia, Japan, Czech Rep, Finland, China (domestic), Kenya, Nigeria, Saudi Arabia, Italy, Croatia, Jordan, Luxembourg, Slovenia, Greece, Colombia, Cyprus

Venezuela + Argentina are high due to hyper-inflation

Green / orange bars = current level relative to ALL TIME pre-GFC high, which for most countries was in late 2007

Black bars = current level relative to 2007 high if all time high was before 2007

Medals for "developed" markets:

Denmark GOLD
US SILVER
NZ
Norway
Canada
UK BRONZE
Sweden
Switzerland
Australia
Germany
France
Spain
Japan
China
Italy

UK peaked in 1999
Sweden peaked in 2000
Thailand peaked in 1994
Taiwan peaked in 1990
Germany peaked in 2000
Netherlands peaked in 2000
France peaked in 2000
All Countries peaked in 2007 except those noted
Japan peaked in 1989
Finland peaked in 2000
Italy peaked in 2000
Greece peaked in 1999

OWEN

The chart shows the rankings of the 60+ stock markets I keep an eye on.

The green & orange bars show the current level of the main stock market index for each country relative to its all-time pre-GFC high. For most countries this was in mid-late 2007 at the top of the 2003-7 China / credit boom.

For some countries their all-time highs were reached in prior booms before the GFC, and for most of those (like the UK and most of Europe) it was back in the late-1990s 'dot-com' boom. The black bars for these countries show the current level relative to the 2007 high if the all-time high was before 2007.

For example, Germany (4 places below Australia on the chart) is currently 4% above its 2007 high (black bar) but it is still 12% below its all-time high in 2000 at the top of the dot-com boom (orange).

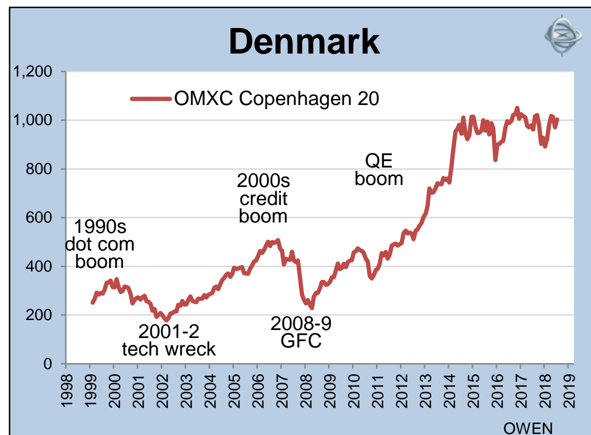
Japan is near the bottom case because of its astronomical stock market bubble in the 1980s from which it has never recovered. The Nikkei 225 index is +17% above its 2007 high but still -45% below its all-time high at the end of 1989, 30 years ago.

Since Denmark, the US and UK reached their pre-GFC highs six years ago, some other 'developed' markets have also raced past us – New Zealand, Norway, Canada, Sweden and Switzerland.

This study excludes the impact of dividends, inflation and exchange rates, and uses the broad price index in local currencies in each country. In this way it reflects how local investors saw their local share price index move over time in nominal terms, which is the way most people think about stock markets in their own country.

The main reason for Australia's relatively poor performance is company profitability. Company profits per share for the US market have more than doubled since 2007, but in Australia they are still 15% *lower* than their 2007 levels. Even if every Australian company miraculously doubled their current level of profits, they would still be 35% behind the US in terms of profit per share growth since 2007.

Gold medal: Denmark



In January 2013 Denmark became the first of the 'developed' country stock markets to reclaim and beat its pre-GFC high. It had peaked on 11 October 2007 at the top of the global credit bubble right before the GFC hit.

The Danish stock market had a similar experience to most other markets in recent decades. After surging in the late 1990s dot-com boom it collapsed in the 2001-2002 tech wreck, rose strongly from early 2003 to October 2007, plunged 50+% in the GFC, rebounded strongly in 2009, but fell back in the 2011 sovereign debt crisis, and then surged during the 2012-2013 'QE' rally. It has stalled over the past three years as it is the ultimate trader – with Viking roots, and would be hurt by global trade wars.

Denmark should not be a good place to do business. Consider these disadvantages:

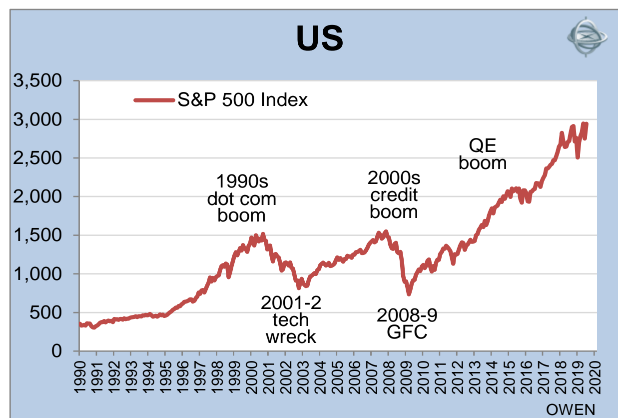
- an old and rapidly aging population
- very high dependency ratio (welfare recipients to workers)
- the world's highest minimum and average wage levels
- the highest pensions in the world (as a percentage of pre-retired incomes)
- the highest tax rates (top marginal tax rates above 60%, plus 25% VAT)
- high social security costs (social expenditure takes up a mammoth 30% of GDP)
- a huge government sector (the government employs more than one third of all workers)
- heavy unionisation
- mountains of stifling European regulations
- a fixed currency
- lack of natural resources
- a location stuck on the edge of a decaying Europe in structural decline, aging demographics, stagnant growth and political turmoil
- economic growth rate of only one third that of Australia since the GFC (real growth of 0.7% pa compared to Australia's 2.5% pa).

However it manages to be a world class high-tech manufacturer and exporter with the best performing stock market in the developed world.

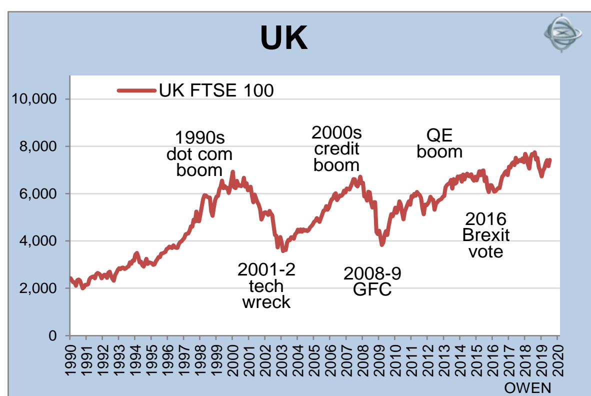
Silver medal: USA

The S&P 500 index peaked at 1,527 on 24 March 2000 at the height of the dot-com frenzy, and then just beat that level with a new high of 1,565 on 9 October 2007. It then promptly plunged in the GFC to a trough that was lower even than the bottom of the 2001-2002 'tech-wreck'. In March 2013 the S&P500 index finally recovered and exceeded its dot-com and 2007 highs.

Like Denmark, the US suffered a sharp and deep domestic contraction (the longest and deepest since the 1930s depression). The economy has only been saved from deflation and further contraction by the Federal Reserve's ultra-low interest rates and 'QE' asset buying programs, plus trillion dollar deficits. Unemployment levels reached 10% in the sub-prime crisis and economic growth is still relatively weak, but the stock market is soaring.



Bronze medal: UK



Like the US, the UK market also had an astronomical 'dot-com' boom in 1999-2000. The all-time peak for the FTSE-100 index was 6,930, reached on the last day of December in 1999. This was not even beaten in the great 2003-7 credit bubble, although it came within 3% of the 1999 high on 9 October 2007.

Finally on 24 February 2015 it finally reclaimed its 1999 peak.

The UK economy has been weak since the GFC. It suffered massive bank losses and nationalisations, high unemployment, weak consumer spending and sluggish business investment throughout the period, but share prices surged back. There was a brief pause in mid-2016 with the Brexit vote, but then share prices rose with the collapse of the Pound. It has lagged the US and other markets in the 2019 rebound due to the uncertainties from the failure to resolve the Brexit crisis.

4 Diversified gambling?

When we talk about returns from 'Australian shares' or the 'Australian stock market', what do we actually mean?

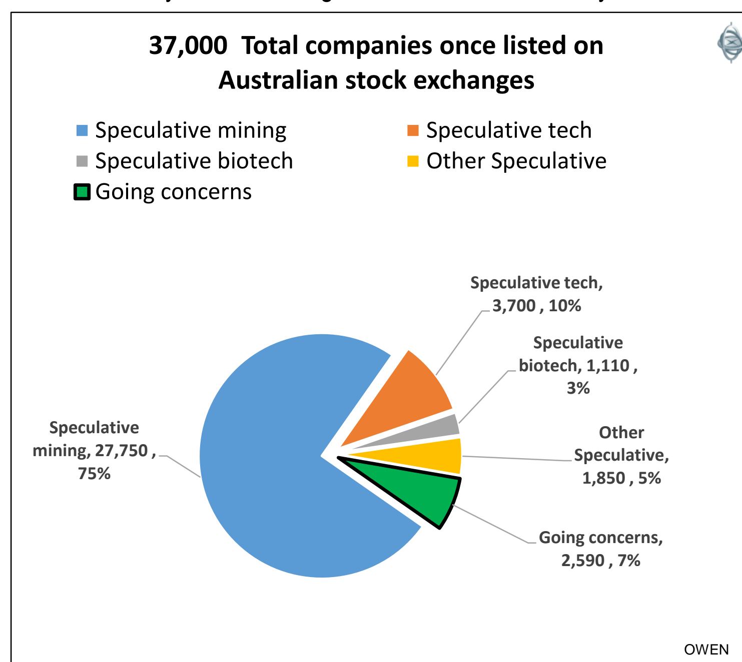
Australian stock markets have always consisted of a small number of 'investment grade' companies with real businesses, but the vast majority of companies are, and have always been, high risk speculative gambles - little more than a way for promoters and brokers to harvest money from the pockets of seemingly never-ending waves of newly minted speculators hoping to hit the jackpot, much like a casino.

The chances of finding a winner on stock exchanges in Australia has been around 1%. Not 1% beating the overall 'market index', I mean 1% just managing to survive and build a profitable business (less than half of those beat the index). That's a 99% failure rate. Here's why.

I estimate that there have been about 37,000 companies that have raised money from investors and listed on one or more of Australia's stock exchanges at some time or another since the early 1800s. Today there are only 2,300 companies left still listed on the ASX (6% of the total ever listed) and only 580 of those make any money. So what happened to the rest of them, and what happened to investors' money?

(In addition to the local companies that listed here, there have also been at least 3,000 Australian companies listed on the London market to harvest money from gullible Brits – for example 690 WA gold explorers listed in 1894-6 alone. Their success rate has been even lower).

There have been more than a dozen different organised stock exchanges in Australia over the years. What we know today as the national 'ASX' is an amalgamation of the stock exchanges of Sydney, Melbourne, Adelaide, Perth, Brisbane and Hobart in 1979. In addition there have also been several other thriving exchanges over time – mainly in mining booms – including Bendigo, Ballarat, Kalgoorlie, Charters Towers, Newcastle, and more. There were even four different stock exchanges in Melbourne during the 'Marvellous Melbourne' years in the late 1800s when Melbourne was arguably the richest city in the world per head of population. Each of the stock exchanges was owned by separate groups of brokers, all frantically finding and listing companies to attract money from over-eager investors in the boom years.



I estimate that at least 75% of all companies ever listed in Australia were speculative mining ventures. The vast majority of these raised money quickly in the mining boom of the day and then disappeared worthless. The money taken from investors was pocketed by the promoters and//or exhausted looking for riches that were never discovered, or never discovered in profitable quantities. The most famous mining bubble stock was Poseidon in the late 1960s nickel boom. It did indeed discover a large nickel reserve in WA but it ran out of money trying to exploit it. Most mining explorers found nothing.

Another 6,500 or so companies were other non-mining speculative ventures, including tech stocks, biotech or other ventures in all sorts of other industries. (By 'speculative' I mean no profits or dividends).

That leaves only around 7% of companies that have listed over the years (or around 2,500 companies) that had actual businesses with real customers and positive cash flows.

BHP was one of these. It was immensely profitable from the day it was listed in August 1885. It never even had to use the £18,000 cash raised from outside shareholders in the float.

Australia's first company and first bank – the Bank of New South Wales (now called Westpac) – started in 1817 and is still profitable (after a few near-death crises). Most of the largest companies still listed today were 'going concerns' with real businesses when they listed, and most are more than 100 years old (eg the big banks, BHP, RIO).

Companies that were mature 'going concerns' from their initial listing also includes the following categories:

- former government departments (eg. CommBank, Telstra, CSL, Qantas, Medibank);
- 'de-mutualisations' from private ownership (eg AMP, IAG, IOOF, MBF, NIB)
- 'spin-offs' from existing listed companies (eg South32, Paperlinx, BlueScope, One-Steel, Origin, Treasury Wines)

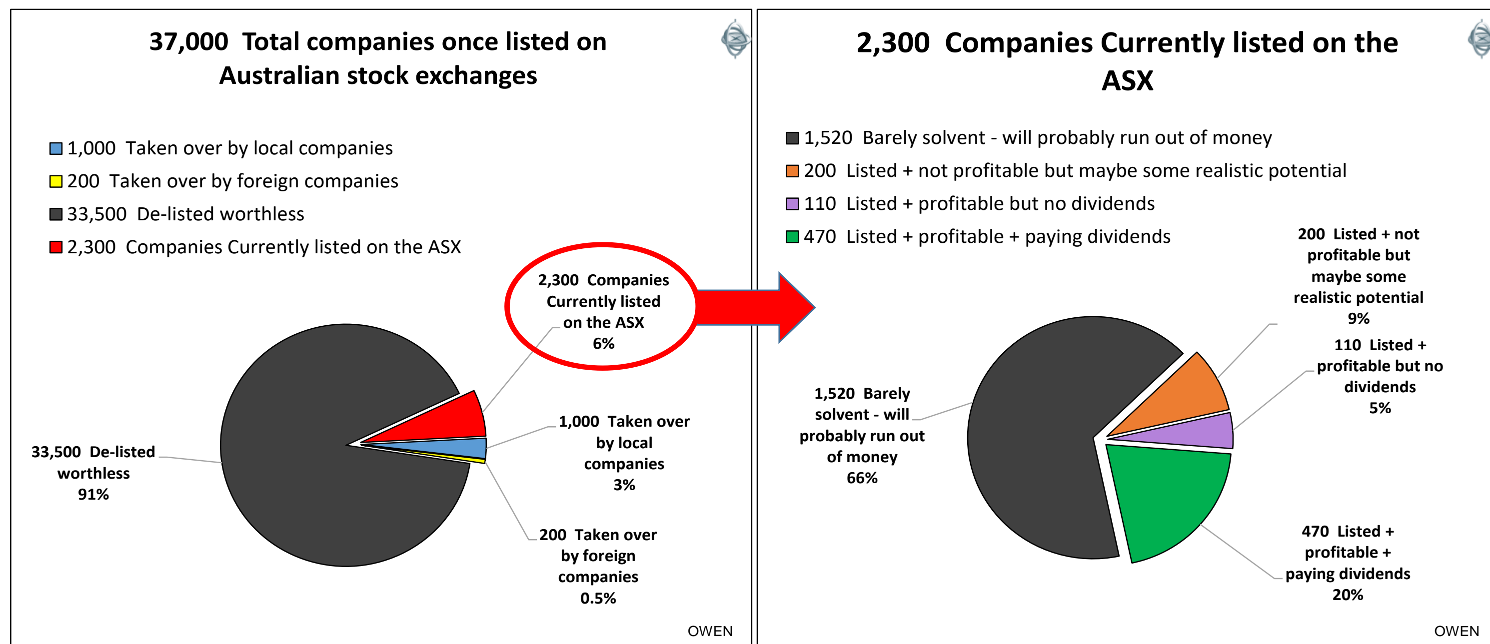
These were not small companies that grew into profitable business after listing - they were already mature businesses when they listed.

So, if 37,000 companies were listed and only 2,300 remain today, where did the other 94% of listed companies go?

Up to 1,000 of them (around 3%) were taken over by other local companies. Some of these generated real value for shareholders – for example BHP taking over Western Mining, and the 35 banks that amalgamated into the big-4 today. However the vast majority of companies in this category were mining explorers that had run out of money and were mopped up at very low prices by mining promoters with high hopes of dressing them up again to take another shot at the next round of gullible 'investors'. There have been variations on this theme – eg failed miners dressed up as 'dot-coms' for the late 1990s 'dot-com', then failed 'dot-coms' dressed up as miners in the 2003-7 mining boom, and now failed miners dressed up as 'fintechs'(eg Decimal Software, Bulletproof Group – both have disappeared again!).

There were also around 200 listed companies that were taken over by foreign companies. Examples include all of the big Aussie brewers, Optus, BRL Hardy, Alinta, DUET, Rinker, and Westfield.

That leaves 33,000 or so companies that disappeared. There were some colossal bankruptcies like Bond, Qintex, HIH, ABC Learning, Babcock & Brown, Allco, MFS, Timbercorp, etc, but most never saw the light of day - they simply ran out of money and de-listed worthless.



Now, looking at the currently still listed 2,300 'survivors' from the original 37,000 or so (in the right chart above):

- 470 companies (17% of the current list, or just 1.3% of the all companies that have been listed in Australia) are still listed, profitable and paying dividends. Although there are 2,300 listed companies in Australia, nearly half of their combined total profits and dividends come from just 6 companies – the 4 big banks, BHP and RIO – all more than 100 years old.
- Next there are another 110 companies today that are profitable but pay no dividends. Many these probably have at least a decent chance of survival and success.
- Next there are possibly another 200 listed companies (I am probably being generous here) that make losses and pay no dividends but they might have some realistic prospects for success. Nobody knows which ones they are, but there must be a hundred or so.

That leaves the remaining 65% of currently listed companies or around 1,500 in the current batch. These are barely solvent and will probably run out of money and suffer the same fate as the 33,000 or so other failures that disappeared worthless before them.

Why is this important? It is important in understanding the difference between **investing** (what we do here) and **speculating** (gambling).

It is also important for setting expectations about likely risks and returns. When we talk about the 'All Ordinaries index' or the 'the Australian stock market', or the 'Sydney Ordinaries', etc generating returns of 10% pa for the past 50 years or 100 years (which they have), we are talking about indexes of 'investment grade' companies only, which is a fraction of the total number of listed companies.

Even the broadest current index – the 'All Ordinaries Index' covers just 490 stocks or 20% of listed companies, but nearly half of its entire profits and dividends come from just 6 companies. In the early years the main indexes we use to measure returns also covered only a very small handful of the larger more mature companies. For example for most of 20th century the 'broad' Sydney Ordinaries index contained just 34 large, mature companies out of the thousands of companies listed. Likewise for Melbourne and the other exchanges.

BHP was not part of the stock market indexes in Adelaide, Melbourne or Sydney in the 1880s or 1890s, even though it was profitable and paid huge monthly (yes *monthly*) dividends. It only became respectable enough to be included in stock exchange indexes when it became a steel manufacturer in the 1900s – so its spectacular boom in the 1880s and bust in the 1890s is not captured in the index returns.

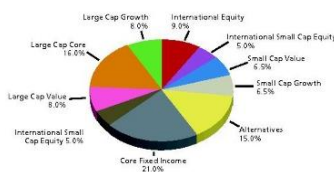
While the returns from the indexes of the tiny minority of 'investment grade' companies have been better than most other countries in the world, if we were to track down and measure what happened to investors' money in the other 95%+ of listed companies that were outside the stock exchange indexes it would be a vast sea of red ink, punctuated by the very rare huge jackpot for the few lucky winners.

The overwhelming majority of listed companies in any given era are speculative stocks with nothing but hope and hype. Almost all will disappear worthless. There are bound to be some that hit the jackpot and make a fortune – but that is pure speculation, not investing.

I often come across 'investors' who point to their portfolios of a dozen or so tiny speculative stocks and say: "*Look - I've got a diversified portfolio – lithium mining, windfarms, solar, rare earths, plus some biotechs and this fin-tech! Even if I don't hit the jackpot with any of them, I should get decent market returns from them if I hold them long enough!*"

In the words of Darryl Kerrigan in the classic Aussie movie 'The Castle':- "***Tell him he's dreamin'***…!"

We wish them well of course in their quest to hit the jackpot and strike it rich, but that's gambling, not investing.



5 Portfolio settings

At our July review following the end of June quarter we made no significant changes to portfolio positioning. We remain moderately bullish and over-weight Australian and developed market shares, as well as Australian listed property and global infrastructure; and under-weight emerging markets, bonds and cash.

This table summarises the main positions and highlights the dramatic differences from our stance this time last year before the big sell-off:

Asset class / sector	2018	2019	Current position
Australian shares	Aust Shares Underweight Neutral Overweight	Aust Shares Underweight Neutral Overweight	• Moderately bullish (but under-weight in the 2018 sell-off) • Miners & banks relatively cheap but the rest expensive • Housing crisis ending + iron ore windfall • Good dividend yields • Bias toward mid-sized & small companies
Global shares	Global Shares Underweight Neutral Overweight	Global Shares Underweight Neutral Overweight	• Moderately bullish (but under-weight in 2018 sell-off) • US shares expensive, but has the best companies • Rising profits, low interest rates, deficit spending
Emerging markets shares	Emerging Mkts Underweight Neutral Overweight	Emerging Mkts Underweight Neutral Overweight	• Under-weight still (nil holding – removed April 2018) • Suffered worse in 2018 and lagging in 2019 rebound • Chinese tech bubble bursting • China + north Asia hurt more by slowing China + trade war
Australian dollar (for hedging of global shares)	Aust Dollar Un-Hedged 50% Hgd Hedged	Aust Dollar Un-Hedged 50% Hgd Hedged	• Still a little bearish (ie expecting AUD to fall further) • So hedging on global shares is below 50% • Fed rate hikes on hold – likely rate cuts • RBA cuts likely to be faster than Fed cuts
Listed Property & Infrastructure	Listed Property + Infrastructure Underweight Neutral Overweight	Listed Property & Infrastructure Underweight Neutral Overweigh	• Neutral overall • Favour Australian over global listed property • Property & infrastructure supported by low / falling bond yields
Fixed rate bonds	Bonds Underweight Neutral Overweight	Bonds Underweight Neutral Overweight	• Under-weight overall • Bias to Australian over global bonds – beating global • Bias to Corporate over government bonds – corporate winning in the rebound as credit spreads narrow
Gold (in AUD)	AUD Gold Underweight Neutral Overweight	AUD Gold Underweight Neutral Overweight	• Added when under-weighting shares before the 2018 sell-off • Provided excellent buffer when shares fell heavily • Removed in 2019 as we are no longer under-weight shares
US dollar cash	US Dollar Cash Underweight Neutral Overweight	US Dollar Cash Underweight Neutral Overweight	• Added when under-weighting shares before the 2018 sell-off, when very bearish on the AUD • Provided excellent buffer when shares and AUD fell heavily • Removed in 2019 as we are no longer under-weight shares
Australian cash	Aust Cash Underweight Neutral Overweight	Aust Cash Underweight Neutral Overweight	• Under-weight • Generally under-weight cash in most conditions – except when interest rates & inflation are high and bearish on shares

So far, this year has seen strong above-average returns from every asset class (except cash), and July added to the gains. We will review portfolios settings again after the end of the September quarter, and we will keep you advised of any changes.

What lies ahead?

In this edition we focused mainly on share markets as that is where most of the opportunities and risks for investors lie. We were bearish last year and we significantly under-weighted shares in client portfolios, which protected them from most of the pain of the late 2018 sell-off. This year we have been much more positive and we continue to be moderately over-weight shares. From January the US Fed put further rate cuts on hold and made increasingly positive noises about reverting to rate cuts instead. The first cut arrived on the last day of July, ending the run of 9 rate hikes since December 2015.

China also had a turnaround in its policy approach early this year when it ditched last year's reluctance for stimulus and stepped up measures to support its slowing economy. The Chinese stimulus has been more muted this year, and been aimed at a variety of more subtle measures like tax cuts and business incentives rather than the big debt-funded infrastructure construction projects that were the main drivers of the last two bouts of stimulus. It has been fascinating watching Xi grapple with his intense Maoist dislike for business and resist his innate preference for big state-directed action, but he is wary that more big state spending sprees will probably just add to the already huge mountain of bad debts from previous rounds of state-directed projects. Although the Chinese economy continues to slow, the stimulus measures this year have still been enough to prop up demand for iron ore and coal for steel production, and this has flowed through to windfall revenue gains to Australian miners and government coffers.

In Australia, we have the RBA's renewed commitment this year to keep cutting interest rates until wages and price inflation rise. We also have the banking regulator APRA's easing of lending restrictions, and the Morrison government's re-election which put an end to the prospect of Labor's changes to franking credit refunds, negative gearing and capital gains tax. The resultant turnaround in the housing crisis, plus the tax cuts, will probably be enough to support consumer spending at least in the short term.

We expect these conditions to remain reasonably positive for the time being. Economies everywhere are slowing and trade war fears are still in the air, but the negative effects of slowing demand and spending are being offset by the positive effects of renewed stimulus measures – monetary (low and falling interest rates), fiscal (tax cuts and government deficit spending sprees), plus a host of other supportive measures in each of the major markets.

August is company reporting season here in Australia and we are expecting further windfall gains from the big iron ore miners, but these will be more or less offset by negative profit growth from the big banks facing soaring customer remediation payouts and compliance costs, declining margins and slow business lending growth, plus the odd bad debt or two from collapsed property developers. There is a limit to which the banks can keep fudging the numbers by fiddling with bad debt provisions as they have been for several years to dress up their results and boost their fat bonuses.

The largest impact on markets will continue to be Trump's trade war antics. Talks resume in Shanghai but the Trump team will be angry that the US dollar has been rising against the Chinese yuan as well as against the Yen and Euro. We are expecting Trump to widen the trade war into a currency war as well. It could be another multi-lateral agreement like the 1985 Plaza Accord, but it is probably more likely to be unilateral – for example Trump directing the Treasury or the Fed to sell US dollars to depress the dollar to assist US exporters and penalise imports. The problem is that they will need to find dollars to sell – either by printing new ones or issuing new debt. Either would involve messy battles with the Fed and Congress, and it will certainly be fascinating to watch.

Although this would be a natural next step for Trump, it will take time play out. Meanwhile we are still moderately bullish in our portfolio settings, but as always we remain on the look-out for possible sources of risk and are always willing to make further adjustments to protect investors and to capitalise on opportunities where warranted.

'Till next time, happy investing!

Ashley Owen, CFA
Chief Investment Officer
Stanford Brown

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