RAYMOND JAMES

Back to school

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"When people ask me if I went to film school I tell them, 'no, I went to films' " - Quentin Tarantino

I hope you enjoyed a good break over the summer holiday period, because there is a lot to think about over the final four months of 2019 and beyond.

In the unlikely event you avoided looking at financial markets in August... then you were very wise. A surprise tariff announcement by Donald Trump on the first day of the month set off a wave of market volatility, deepened by the decision of the Chinese authorities to depreciate the Chinese yuan to decade-plus lows and encouraging investors to seek out alternatives in both the fixed income and precious metals markets. The G7 summit in France, near the end of the month, provided some tentative hope of a broader entente cordiale - including a resumption of the bilateral trade talks between the United States and China. However many issues remain, including the application of some new tariffs from 1 September by both sides, despite the postponement of other trade distortions until mid-December. Meanwhile, President Trump continued to call out the chair of the Federal Reserve for his measured response in lowering interest rates, at seemingly every opportunity.

And all this before we get to the U.K. and Europe. In the latter, Italy saw its ruling populist coalition government break up, although - at the time of writing - indications were for the likely reformation of a government under an amended political party partnership. Suffice to say, such continuing political challenges across Europe hinder the creation of conditions that support an improved economic growth backdrop. This has been reflected in the continued compression of regional bond yields to typically deeper negative yield levels.

As for Brexit, whilst late August saw hopes of a breakthrough to avoid a 'no-deal' Brexit rise due to some positive diplomatic interactions, much ground still has to be covered, with the countdown to the current 31 October deadline getting closer. This proximity was brought into sharp relief in the final few days of the month with the announcement of a planned suspension of the U.K. Parliament.

We are in very strange times, potentially akin to a genuine constitutional crisis. One interpretation is that this is largely a tactic to force the Brexit issue. The country - and parliament - remains split on Brexit, but there is probably a majority for a solution that moves the U.K. beyond the current uncertainty and malaise, rather than prolong the debate into a second referendum, another time extension or even a scrapping of Brexit completely. Boris Johnson has to be careful about not splitting his own party and hence losing his fragile parliamentary majority. So whilst parliament will be suspended for five weeks - most of which will be taken up by the regular annual party conferences when parliament does not sit - the Prime Minister has been quick to give guarantees that his government is still trying to find a solution with the European Union and that a summit in mid-October offers the chance for a deal. The credibility of this position is the key, as any vote of no confidence which attracts sufficient support of the government's own members of parliament will lead to a general election and another bout of uncertainty, at a time of high uncertainty already. Much remains to be played for in early September and beyond.

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So how to invest in the back to school period? The reaction of U.K. assets to the excitements of August has been relatively grown-up across the equity, fixed income and foreign exchange markets, as much of this has been anticipated, thanks to the blanket political coverage of recent weeks and months. Multiple scenarios for Brexit still - amazingly - remain possible. My own personal view remains that a soft Brexit compromise is the obvious solution, especially if assisted by some slight shifts in position by the continuing European Union. This remains possible and will help draw a line under this debate - but leaves the specific day-to-day trade and diplomatic interactions between the U.K. and the European Union to be worked out, let alone the longer-term efforts and policies to boost pan-European economic growth levels and dynamism.

So progress can be made across the current key debates impacting financial markets but this will require policymakers to forge compromises to find ways forward.

Given investor caution and very compressed (if positive at all) cash on deposit levels and bond yields, the medium-term value remains with equities, especially outside the United States. Tarantino watched films rather than go to film school. In this back to school period it might feel painful, exacting or even tedious to go back, after a holiday, to watching financial markets, but it remains absolutely crucial in these properly active investing times.

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