



Investment Insight

Friday, 16 February 2018

The devil you don't know: On one of our regular investment research trips last week, we met with a significant number of leading London-based fund managers. While many don't manage domestic (i.e. UK) equities, most are keen to discuss the challenges facing the UK economy and, by extension, the UK stock market.

In this regard, there are several strong arguments favouring UK equities over some of the alternatives. However, two major concerns are foremost in the minds of UK investors: Brexit and Jeremy Corbyn. Despite the fact that Brexit hasn't happened yet, it's form unknown and its outcome unknowable, most are resignedly accepting of its inevitability, and reasonably confident of their ability, as professional investors, to navigate it. However, a fear far greater stalks their consciences: the prospects of Jeremy Corbyn in 10 Downing Street. In **The Inside Track** we reflect on their concerns.

Pics & shovels: Most investors are familiar with the rollercoaster ride that Bitcoin has been on in recent months. "Experts" are still divided as to whether Bitcoin and other cryptocurrencies will implode or mature and thrive. However, while speculators gamble on rapid enrichment by buying or selling cryptocurrencies, perhaps the real money is to be made not in the currencies but in the "pics and shovels" that power them. In **Pic of the Week** we decrypt!

Quoted...

"You can be a millionaire and your neighbour is a billionaire and you are not happy only because you live in the wrong neighbourhood. Maybe you want to move your house to where there is no billionaire and then you are the king of the road." —Jurgen Klopp, Manager – Liverpool FC

The Inside Track

The prospect of a Jeremy Corbyn led government in the UK strikes fear into the hearts of many UK fund managers.

Following her unsuccessful electoral gamble almost a year ago and weak Brexit performance, Teresa May's leadership appears to hang on by a thread. Currently reliant on Northern Ireland's Democratic Unionist Party to maintain a Commons majority and soldiering under an apparently divided, and certainly divisive, cabinet, the prospects of a new election are never far off. Given the level of dissatisfaction with the government's (mis)management of Brexit negotiations, such an election could quite conceivably usher in the premiership of Jeremy Corbyn. So why would this concern UK investors so much? The following extracts from Labour's manifesto represent some of the key concerns of investors; amongst other things, they will:

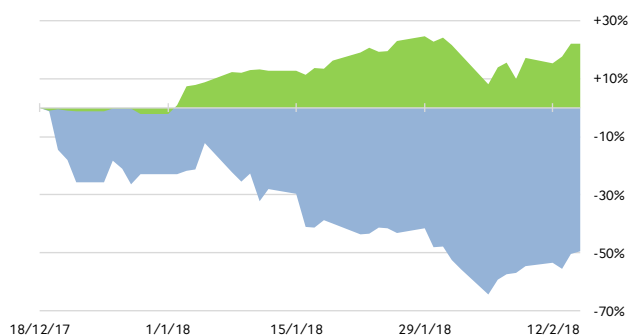
- Bring private rail companies back into public ownership;
- Regain control of energy supply networks through the alteration of operator license conditions;
- Reverse the privatisation of Royal Mail;
- Put in place a firm ring-fence between investment and retail banking;
- Extend existing Stamp Duty Reserve Tax to cover a wider range of assets;
- Introduce an immediate emergency price cap;
- Review the rules on union recognition so that more workers have the security of a union;
- Ban zero hours contracts;
- Propose four new public holidays;
- Raise the Minimum Wage to the level of the Living Wage;
- Roll out maximum pay ratios of 20:1 in the public sector and in companies bidding for public contracts;
- Increase the tax on private medical insurance premiums;
- [Require the] top 5 per cent of earners to contribute more in tax.

Regardless of political persuasions, the foregoing provides an indication as to why many UK investors are much more concerned about a far-left Corbyn-led government than they are about Brexit. For this reason, while most perceive value in UK equities, few are willing to take the plunge until greater certainty emerges.

Pic of the Week

Demand for graphics processing units (GPUs), typically used in high-performance gaming PCs, has skyrocketed due to high demand by cryptocurrency miners who "mine" the currencies by solving mathematical problems. The GPUs can significantly speed up the mining process. As a result, the price of these GPUs has rapidly increased as supply shortages develop. Indeed, as the chart illustrates, the fortunes of Bitcoin futures, which launched just before Christmas, and Nvidia, one of the leading GPU manufacturers, are in stark contrast. Maybe the real money is in the pics and shovels!

Nvidia vs Bitcoin futures



Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	-1.6%	+1.1%	-3.4%	+11.7%
US equities	-2.1%	+0.2%	-3.5%	+14.9%
European equities	-0.6%	+4.5%	-3.3%	+8.2%
EM equities	+1.3%	+12.3%	+1.3%	+5.8%
Irish equities	-0.5%	+2.9%	-4.5%	+12.8%
Commodities	-0.6%	-7.8%	-3.8%	-8.1%
Hedge funds	-0.3%	+1.8%	-0.3%	-0.8%

Currencies	Current	YTD Δ
EUR:USD	1.2482	+4.0%
EUR:GBP	0.8869	-0.2%
EUR:CNY	7.9138	+1.4%
GBP:USD	1.4074	+4.2%
Bitcoin	9,188	-36.6%

Commodities	Current	YTD Δ
Gold	1,353.84	+3.9%
Copper	6,962.00	-2.7%
Oil	64.34	-4.4%
Wheat	457.38	+7.2%

Week ahead: Key events

19/02 UK house Prices & Eurozone Construction Output
20/02 Eurozone Economic Sentiment Data & Consumer Confidence
21/02 Eurozone PMI & US Mortgage Applications
21/02 US Retail Sales & Manufacturing PMI
22/02 UK GDP & US Initial Jobless Claims
22/02 US Leading Indicators
23/02 Eurozone CPI

Central Bank rates

	<i>Current</i>
Eurozone	0.00%
USA	1.25%
UK	0.25%

Economic indicators

	<i>Bond yields</i>	<i>Inflation</i>	<i>GDP YoY</i>
Ireland	+1.2%	+0.2%	+7.2%
Germany	+0.8%	+1.6%	+2.8%
USA	+2.9%	+2.1%	+2.5%
China	+2.1%	+1.5%	+6.8%

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