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Global Market Strategy – June 2019

Trump tactics timed to perfection

For as finely balanced as the world economic situation is at present, the political environment could hardly be more disruptive.

President Donald Trump decided that with US stocks in early May near all time highs (US equity markets were up 13% this year alone to May 29th), US unemployment declining, wages increasing and consumer confidence rising, now was the time to announce the US could double tariffs against China, and would implement a succession of monthly tariff measures against Mexico if its closest neighbour fails to stop massive emigration to the US.

Unsurprisingly, stockmarkets have plunged. Trump and his advisors feel that the balance of trade with China is skewed unreasonably in China's favour. China has apparently more to lose from an ongoing trade war than the US. China's economic slowdown cannot withstand prolonged disruption. Equally, Mexico's export-dependent manufacturing sector and its fragile wider economy cannot cope with a lengthy dispute. If Trump is going to get belligerent, he may as well get it all out now, well ahead of another election in 17 months time, and while Americans generally are feeling wealthier and more confident than they have done for many years.

Leaving Trump's controversial climate opinions to one side, Americans appear to be satisfied with the actions of their president. Online news magazine thehill.com reports that according to the latest Harvard/Harris poll, the results of which were announced May 31st, 48% of Americans approve of the job Trump is doing, up 3% from the March survey. (The last time his approval rating reached 48% was in June 2017.) A record 62% approved of his approach to employment, and 59% approved of his handling of the economy. 51% of voters said the US economy is heading in the right direction, and 71% felt the economy was strong or very strong. Mark Penn, co-director of the Harvard/Harris survey, said that "every point of increase in the range 45 to 50 improves the possibility of reelection". With the UK in disarray, one wonders how a similar poll in the UK would turn out.

In the short term, Trump's tactics have pounded all sides of the market. Most alarmingly, the bond markets, already warning of the possibility of a recession with the inversion of the 3 month and 10 year US Treasury yield curve, have accentuated their nervousness by increased 10 year yield declines in Canadian, German, French, British, Swedish and Australian government debt. Declines in long term yields indicate at best a slowdown, and at worst when the line drawn between 3 month and 10 year yields inverts, a recession, with banks likely to be unwilling to lend to companies wanting to expand.

In addition to bond yields falling to record lows, gold at the end of May climbed to a two week high, oil lost 13% and the S&P500 fell for four consecutive weeks. Those invested in stocks are in a batten-down-the-hatches environment, although times like these present an opportunity for those drip-feeding into markets or those with cash to deploy.

Aside from what Trump is up to with China and now Mexico, Brexit trundles on. Theresa May resigned in May but apart from creating a stir on the day of the announcement and in the press the following day, the event is largely forgotten. Sterling rallied on optimism that Brexit might move forward with a Boris Johnson prime ministership but the Europeans have been quick to affirm that the deal negotiated with May will not be renegotiated. The UK economy and UK businesses may be threatened by the uncertainty of the Brexit landscape yet in the last two months one skilful fund manager has extracted returns of more than 10% from a concentrated portfolio of UK stocks.

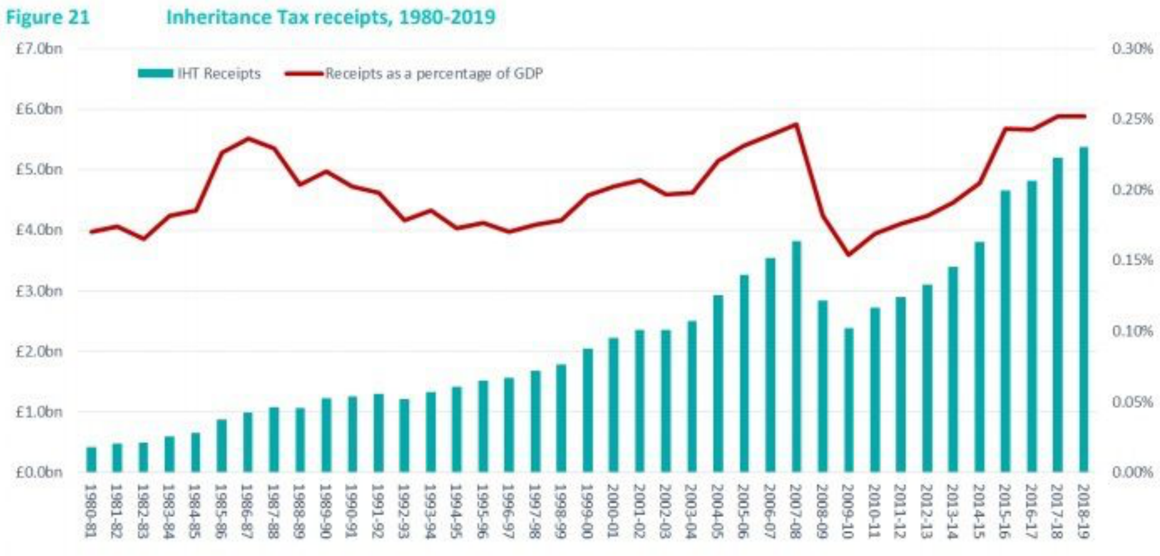
Investors may be spooked by the events of recent weeks but a sudden agreement reached between the US and China, and / or the US and Mexico, would likely take US stock prices back toward record highs, prompt a sale of US Treasuries, weaken the dollar and and provide a huge fillip to emerging markets, already given some reprieve by a weaker oil price. It is not worth exiting equities and trying to time a re-entry but it is worth sheltering ears to the sounds of the siren bears.

Her Majesty's Revenue & Customs (HMRC)'s inheritance tax receipts have seen an increase of around £160m in just a year to a record high of £5.4bn in the 2018/19 tax year, up 3.1% this March from £5.2bn in the previous fiscal year, the latest figures show.

According to the industry publication International Investment, inheritance tax saw a hike in March 2019, a 44.4% increase from the previous month but the government is at a loss for the reason behind it. "March 2019 is …particularly high though it is too early to determine the cause for this," HMRC has said.

The tax take is set to fall slightly this tax year due to the increase in the residence nil-rate-band (RNRB) to £150,000, however research from Big Window for Quilter shows that despite the residence nil rate band being in effect since 2017, just 41% of people are aware of this complicated part of the inheritance tax landscape and most of those cannot get to grips with the succession requirements necessary for it to fully apply, nor that the allowance is tapered for estates in excess of £2m (down to zero for those in excess of £2.7m).

Financial advisors find that people are unaware precisely how the annual gift exemption works or can be most usefully applied, nor similarly how regular gifting our of surplus taxable income works most effectively.



Source: International Investment (https://www.internationalinvestment.net/)

Favoured investment plays:

Nil risk:	**Cash**
Cautious risk:	AAA Corporate bonds
Balanced risk:	Managed / Multi-asset funds
Market risk:	**UK equity**
Adventurous risk:	**Asia, US equity,** European equity
Speculative risk:	**Technology, Healthcare, China, India, Other EM**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 14%, China 11%, Asia 11%, Pharmaceuticals 12%, Global Equity 15%, UK equities 11%, US equities 14%, Emerging Market equity 12%,

McLaren Asset Management SL & McLaren Wealth Management UK Limited
Telephone 0208 133 8070 Email: info@mclarenwealthmanagement.com