Axis Investment Management

Interim Bullets from the Chief Investment Officer, Thursday, November 28, 2019

Some Observations on the UK/EU landscape:

All 3 of the most likely Election outcomes (in our view) are expansive from a Government expenditure perspective, increase UK Debt (a lot...or even more than a lot) and are fully loaded with questionable goodies befitting of the wacky race that this Election has become. In order of likelihood: Conservative Majority; Conservative Minority-Led Government; Labour-led coalition.

Fool's Gold or a Brick? (at least you can use a brick...)

A Labour-led coalition wouldn't have the mandate to execute it's full nationalisation agenda but could well be much more moderate than it at first appears as most of the pledges are simple and accessible to most. Holders of Utilities should be a little nervous but the probability of them being able to unilaterally wield their full agenda is quite low. It's worthy of note that the only party that seems to have had real sympathy for Palestine has some pledges that haven't resonated with the electorate as yet, although that has a lot to do with the optics and press coverage (a touch more on that later).

Leaving aside the mechanics of Electoral pledges and which ones are likely to see the light of day, one can note that the word 'credit' is derived from Latin 'credo' - 'I believe'. I wouldn't buy debt from an Issuer that I thought would default, cook up the books or mislead. Voting is no different.

Where the current Conservative Cabinet is weak and at risk (rightly so...imho…) is none of them, inclusive of their Leader, seems to have worked out the concept of trust or honesty. Capital markets will most likely cheer a Tory win but in the end I do wonder if anything tenable, constructive and durable – in the long term, will come of it. So here's the menu, A Tory manifesto that looks nice enough and fronted by a Leader that seem to make things up as they go along - hence one might question whether any of it will come to pass...Or a Labour manifesto which will most likely get trimmed, edited and polished en route, presented by a Leader that some argue lacks the gravitas of a PM but does at least seem to be operating with some degree of honesty and transparency both currently and historically.

All that glisters is not Gold and the Tory plan might just be as much a work of fiction as the Great Rock 'n' Roll Swindle. The Labour plan may well have utility and merit but it currently lacks aerodynamics. It's well meaning plans for sweeping social change seem to be weighed down by some policies that are not currently appetising to important sections of the UK electorate, so useful like a brick and flies much like a brick. The unspoken issue for all sides: With just a touch of recession, all the spending pledges, from all sides, are called into serious question and most cease to be viable. A quick word on the Liberal Democrats and the Brexit Party...we expect both to disappoint expectations on seat and vote counts.

All that said, well ahead on probabilities are the Conservative permutations. A Labour Majority relies on a total wipe-out of the Conservatives in Scotland and a sizeable swing across double-digit seats across the UK. This looks unlikely and the uneventful Tory Manifesto avoided most banana skins. It's been observed that the UK Press doesn't seem to be acquitting itself graciously at the moment, with a very apparent skew and bias of coverage in favour of the incumbent. So, we are probably still with consensus, expecting a small Tory majority government.

Ceteris Paribus, Risk for a No-Deal Brexit is therefore still not zero by any stretch. The Tories could half heartedly trudge through a negotiation for the sake of optics and ultimately have enough seats to force through a No Deal Brexit, especially given the lurch to the far Right of late.

Where do we go now…?

We continue to apply the constancy of purpose that has guided us so far. We want to be paid to play and like the quiet life. We still avoid high P/Es, Unicorns or other mythical fads. That leads us into Telecoms and Insurers. In the recent short term, they have been a little volatile. However, their earnings outlooks and dividend profiles identify them as sensible and prudent places to be. Real Estate is suffering from weak momentum and even after accounting for a recent bounce, sentiment is still poor. However, in some cases, the NAV discounts place a few names in the sector into third place at Sector Level.

In the very long term, EM equities seem to present a good outlook but much more stock and situation specific, more on that in a forthcoming note.

FICC…

Tactically, we are positive on GBP, vs both the EUR and the USD. The risk-reward is asymmetric in our view but not awe inspiring. So, we are accumulating over time. As clouds clear, some reversion to mean levels should develop.

Our Commodity Tactical Bet. Silver. Principally Momentum and Technical. It is risky and flighty and hence we will continue to be actively trading this from both sides but with a forecast of in excess of USD 20/oz within 2 years.

Bonds….Why would anyone (aside from a Pension Fund) own bonds? As our Asset Allocation below illustrates, we are now at zero allocation to bonds. Over time, the bond book has run down through redemptions and bond calls. Proceeds have over time been re-invested into Real Estate and Equities. From a core perspective, we have no appetite for bonds at this time. Tactically, we will continue to use the Bund-Iti Spread, the US 10 and US 30 year Treasury Bond Futures as short term car parks – for trade positioning only.

Wednesday, November 27, 2019

An Update on our current Asset Allocation:

40% Top Tier, Large Equities, Value Bias
15% Commercial Property
15% Residential Property
30% Tactical Trading & Futures Hedging Strategies
0% Corporate Fixed Income (Investment Grade), GBP & USD, Short Duration

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