Psigma
Investment Management

# Brief View from Psigma

## JUNE 2019

**Tom Becket**
Chief Investment Officer

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Going forward there are still an array of issues that need to be resolved before we can sound the "all clear" for risk assets. From a headline perspective, economic growth around the world is slowing. Whilst calls for a "recession" might be premature, there is clear evidence of the global economy gliding down to lower structural rates of growth, which is totally in line with our long term forecasts. "Are recession risks real?", is the question we should be asking ourselves. Certainly they are higher than they have been for many years, with the cyclical factors of companies losing confidence, tariffs impacting business decisions mixing with the structural issues of heavy debt loads across the developed world and unhelpful demographic trends. Europe is the key example of these structural and cyclical issues and that is why growth there has stalled and asset markets in the region have underperformed. We remain highly sceptical about the economic outlook for Europe and have been very selective in our approach to choosing investments in the region.

The threat posed by the US-China trade war is the clear and present danger for investors and our view has been that while a deal will emerge, "Pandora's Box" has been opened and a new "Cold War" has broken out by the two leading global economies. This will both add to the economic uncertainty and undermine confidence after a long period of globalisation. These deliberations and the emergence of other tariff issues are a major factor behind our lower than consensus views on global economic growth.

The most recent move that we have taken within our client's portfolios has been to marginally reduce risk after a very strong start to the year for global asset markets. The recovery we have seen so far this year reflects the fact that asset markets became "oversold" at the end of 2018 and they have bounced back this year, aided in no small part by some soothing comments from central banks who have promised further support, with comments in recent days suggesting that policy loosening is imminent. This help might well prove necessary later this year, as most economic evidence we have seen over the last few months is hinting at a global economic slowdown. We hope that the downturn we are currently experiencing gives way to an improvement as we head through the year, but for now we continue to be very "open-minded" and our investment strategies remain balanced and diversified, reflecting a higher level of uncertainty both at home in the UK and across the global economy, as a whole.

Our view on the UK has not changed in recent months. The Brexit negotiations have proven to be every bit as difficult as we imagined they would be in the summer of 2016 and getting a deal across the line that is satisfactory to all parties is still proving extremely challenging three years after the UK's decision to leave. As yet it is impossible to predict a certain outcome on the negotiations, even if we believe that the eventual conclusion will be some form of "soft Brexit" with a deal being struck between the UK and the European Union. Where we can have continued certainty is our positioning in UK assets. At a time when we can have no certainty over the outlook for the UK economy we have put further emphasis on evaluating the prospective risks and rewards of each of the investments we own in our domestic market. Amongst our domestically facing equity exposure we have confidence that the valuations of such investments already discount a challenging future for consumer spending and business investment in the UK and offer plenty of potential for recovery in the coming years. Many of the investments we hold in the UK derive most of their profits from international markets, ensuring that they are relatively immune from any uncertainty in the UK. We also remain confident over the outlook for our various corporate bond investments we own in the UK and admire the fact that the vast majority of the companies whose bonds we own are cautiously positioned, ensuring that the risk of defaulting on their debt is low. At the same time we continue to work closely with the fund managers that we outsource our investments to and ensure that we are kept fully updated on any shifting views or investments in the UK.

**Tom Becket**
Chief Investment Officer

For further insights from our CIO Tom Becket on the topic of de-globalisation check out our latest video blog series on why The Investment World As We Know It Has Changed

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