



Feeling Lucky

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“The good of other times let people state; I think it lucky I was born so late” - Ovid

The traditional early September think piece centres on the natural reset that a generalised return to work (and for the younger generation, school) brings after the typically languid summer holiday period. As 2020 is clearly a very different style of year, let us rip up the normal script and ask the simpler question of ‘does the world feel lucky?’

I grant you, after the travails of the last six months, most people are feeling anything but lucky given the direct and indirect impacts of the COVID-19 pandemic and this is something we should never forget. However, just on the narrow perspective of the global financial markets, the hope quotient has progressively risen since the equity market lows of late March. August is usually a month of potential investment minefields as any event tends to be accentuated due to lower levels of liquidity. However, August 2020 saw the most quoted world index benchmark achieve its best eighth month of the year since 1986.

Inevitably there are a few reasons for this. The biggest innovation at the Jackson Hole Symposium (wonderfully described elsewhere as the ‘Glastonbury for central bankers’) was not the video delivery that anybody could access, but the shift of the U.S. Federal Reserve to average inflation rate targeting. In practical terms, this means a greater tolerance of periods of time with inflation above their two percent target level, to counterbalance the lengthy periods of recent time when inflation has been below their two percent target level. This should theoretically help support job creation but risks the return of a higher price level.

To borrow Hemmingway’s turn of phrase, inflation often happens ‘gradually and then suddenly’ and in a world of not just rising unemployment and mixed product demand but also evolving supply chains and pre-winter stockbuilding, it cannot be ignored. And this counts double at prevailing fixed-income yields, which across most geographies and classes offer precious little anti-inflation protection.

Still, global central banks remain voracious in their quantitative easing derived demand, which is fortunate as almost all governments around the world are intent on trying to finance eye-poppingly large budget deficits. As investors, we are taught not to ‘fight the Fed’ (and the balance sheets of the other major central banks) but no institution is infallible. Trying to finance large deficits for too long at negligible interest rates always ends in tears unless savings rates rise sharply. And as the paradox of thrift notes, this always causes problems for consumption centred economies such as our own.

But do not get too disheartened and start immediately dusting down the history books that show that September and October collectively, on average, are the worst two performing months of the year for the equity markets. There has been nothing average about 2020 so far. The key to countering difficult policymaking trade-offs around inflation or fiscal deficits that could easily overhang financial markets remains our old friend of human ingenuity.

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Whilst every death from the COVID-19 pandemic is a tragedy, it is noteworthy that even burgeoning second waves of infection in East Asia and across Europe have been better controlled and are having less of an impact in terms of both the human and economic cost as both business and individuals adjust. Whilst there is much to be done in terms of rebuilding the feel-good factor across all economic actors, virology researchers from multiple geographies and teams are trying to close in on a credible vaccine product. A feeling of optimism is always centred on a mix of practical realities and an anticipated future. There will be continuing shifts in both over the rest of 2020 and into 2021. The best shorthand guide to more faith in prospects remains not in soaring technology stocks per se but a broadening equity market seeing gains in more sectors and different geographies than just the United States. Investors feeling lucky and willing to fully back human ingenuity know where to look.

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