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Investment Letter: 27th May 2015

The tale of the tape is that global equities are up 7-ish and bonds down 2-ish year to mid-May: a 9-ish variance in favour of equities. This, most basic of summaries of the key asset allocation call between the frontline liquid asset classes, is, however, significant.

A 60-40 investment style, the acme of balanced investment, would therefore have yielded 3.4% to mid-May, applying these proportions to the above returns. If this can proxy as a sensible benchmark, then most investors will be happy enough with actual returns from their portfolios, which will, in many cases, be ahead of this.

Cash alone, if held in a winning currency and translated into a weaker currency, could be construed as a winning strategy: the dollar index is up 5.2% year-to-date. And although it has been popular to surmise that currencies are the key to a world that is split by reformers versus deformers, those prosecuting QE and those not, it has not exactly been the route to much bacon outside trades that favoured the dollar over the euro. With regards to the pound, the market got progressively more short sterling, whilst the canny Australian badger quietly dug the sett on which a blue victory was built. He can now enter through the front door at No.10 for some years to come.

The old saying "Never be a bear on England" proved true enough on this occasion and nobody danced a merrier jig than London's property agents.

Oil has led a merry dance with spot prices recovering over 20% this quarter. This has something in it for the reflationary camp and for nervous central bankers alike: higher oil provides an inflationary boost someway down the line.

The world's mega banks continue to be clobbered by fines for a series of individual malfeasances born of systemic cultural failings. In the banking context, the modern era of finance has proven to be a rickety ruse and the dysfunctions created by the prolonged and vindictive redress, are the progenitors of tomorrow's crises.

In our capitalist world, banks essentially act as "maturity transformers", offering their depositors' money back at call, whilst lending long to sustain the need of companies to invest and the desire of individuals to consume and own property. With consumers chock full of debt, this role has never been more critical, however, it is being interrupted by the requirement to ratchet up to ever higher capital levels.

Furthermore, we need to bear in mind, that financial markets are no longer deep. They are in fact shallow. The amount of inventory carried by key intermediaries such as banks and brokers has been severely curtailed. Our information suggests this curtailment is in the order of one fifth to one seventh of pre Global Financial Crisis levels. This fundamental change in market structure will

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only become evident during times of market stress. To date, we have seen only tangential evidence of this as QE and its consequent investment herding has acted to generally reduce measured volatility.

Ultra low interest rates will probably remain with us for the foreseeable future. The path to ultra low has delivered unrepeatable gains in the portfolios of long term savings and pension providers. The consequent dilemmas are multifold. With the basing out of long term yields, returns from bonds will dwindle considerably. The actuarial convention is to weigh toward bonds, the notionally less risky asset class, as working peoples' retirement dates approach. This is likely to create a poor set of outcomes, both for individual savers and their providers.

In the final shake down, Britain didn't want what the younger Miliband had to offer. Son of a Marxist, although he scared the City, he was little more than a left leaning social democrat. Paradoxically, there has never been a better time to be a true Marxist by way of explaining the economic and financial world we live in.

Once you accept that notions of economic equilibrium are a myth, it is a much shorter step to some form of updated Marxism.

The twin forces of capitalism mixed with social democracy are pushing us ever closer to Marxian outcomes. The political philosopher John Gray wrote as to how "Marx understood how capitalism destroys its own social base – the middle-class way of life."

Gulp.

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