

Fund Manager Commentary

Life, the Universe & Brexit.



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As per our recent commentary, volume and volatility has returned to the market. This is good for our fund as can be seen with further positive returns in both GBP and Euro share classes. The USD class saw a slight reversal of the gains made last month as USD appreciated against both Euro and GBP impacting the valuation of the funds' underlying Euro and GBP denominated assets. A fall back in USD anticipated towards the lead up to the mid term elections means we anticipate a recovery for the USD share class with this slight reversal.

This month we will see where the Brexit negotiations conclude. November 21st is the final deadline, although this is not the first final deadline we have had. It reminds me of a quote by Douglas Adams, of 'Hitchhikers Guide to the Galaxy' fame...

"I love deadlines. I like the whooshing sound they make as they fly by."

An agreement? Such a complex melting pot of diverse and irreconcilable views could possibly lead to no deal. Even if a deal is struck, the matter will not end on 21st November. There will be on-going arguments, wrangling, internal negotiations to get something that Parliament will vote through. We will have a Christmas re-run of the Brexit campaign, with all the familiar faces... perhaps a Brexit 2 'the sequel'. More posturing, more statements, more lucrative television interviews by the protagonists, all selflessly acting on behalf of voters. Perhaps this time next year there will be a further Brexit 3 sequel in the franchise.

At the core we have Leavers who wish to take back control of rights and laws, especially those who do not want any delay such as taking back fishing rights to rebuild the British fishing industry. Leavers stridently quote democracy: 'we must respect the vote where 52% voted to exit the EU'. But the major negotiating sticking point is the Irish border issue and the desire to maintain a 'soft border'.

It is ironic, therefore, that we are near the 100year anniversary of 12th December 1918 General Election which saw 75% of MPs returned from Ireland requesting Ireland to be separate from Britain, i.e. Home Rule for Ireland as a separate country. Perhaps if we had the same respect for democracy then, we might not have a democratic sticking point now.

What does this mean for pound sterling and markets in general. There appears to be lots of comments on how well negotiations are going, how we are 'almost there', just 'a little bit more to go'. But then, 90% of the Brexit negotiation was always clearly defined and accepted by both sides. It has always been 'almost there'; it has always been 'just a little bit more to go' from the very start. Which leads us to the real possibility of a no-deal Brexit. So, how do we position ourselves?

Firstly, posturing is likely to be positive for sterling until the last few days. Positive comments increase the negotiating momentum for a final push at the last minute for each side. Sterling will likely rise in this environment. Then secondly in the last few days there will be some hard posturing with a threat or two on both sides. This will see sterling fall in anticipation of no deal being made.

The next day, on November 22nd, we will wake up to another final deadline of 13th December when the EU leaders meet again for something. Markets on that 22nd November day? Sterling rises a bit in relief, falls a bit in disgust, goes sideways and then just looks disappointed.

Last week, while enjoying St Luke's little summer, basking in the late October sunshine, I was listening to some analyst on EU Brexit negotiations and gently dozed off. When I woke up, the pod cast was long since over, but the image in my mind over and over was that of Jean Claude Juncker at 22nd May 2015 summit, flamboyantly hugging and kissing people on a stage, only this time saying over and over...

"So Long, and Thanks for All the Fish."