September Newsletter

Down Ratley

RAYMOND JAMES | Exeter

No-deal fears spark a stockpiling stampede

As the intensity of fears of a no deal Brexit rise, it is clear that businesses are quietly going about their business and taking the necessary steps to keep trading. From steel to chocolate, from drugs to vinyl material, companies are putting plans in place to build up stocks of materials in case there is unrest at the ports

Therefore, one conclusion that could be drawn is that pre-Brexit hoarding has given the economy a boost.

And what if everything runs smoothly?

Once the deadline for Brexit passes the Centre for Economics and Business Research is forecasting a “mini recession” as British companies use up these stockpiles rather than order new supplies.

Yet through all this the Stock Market is relatively stable and this market stability prompted a question from one of our clients as to our view on what we should, as wealth managers, be doing with the portfolios.

It is worth sharing Duncan’s reply with you all!

I’m not sure my following comments are any more or less valid than anybody else’s but I hope at least that they will be helpful. They do reflect our philosophy.

- One could say we have no idea and neither does anyone else why the stock market is relatively stable at present. However, the stock market is rarely a snapshot of the current time. It is always factoring in views of the future, so whatever we think of the current uncertainty and political chaos, markets are taking a view on expected outcomes on Brexit. For what it’s worth, I still believe that a deal will be done because it is in Europe’s interest as well as the UK’s.

- As Sterling falls and rises this has benefits in some elements of the economy and some disadvantages. Markets constantly factor this in too and prices already reflect this as well as future expectations accordingly.

- In terms of our portfolios, we are very comfortable with where they are at present. We have previously positioned the portfolios towards a more global weighting, broadly almost 50% UK 50% Global.

  In fact, if you look at the growth element (equity and property) the UK exposure is now at around 25% of the total in our Balanced (50/50) Portfolio i.e. about half of our 50% Growth weighting. As such, we believe the portfolios have good diversification as far as protecting against Brexit. We are, though, actively Implementing one further fund switch in our portfolios as part of this quarter’s rebalancing and portfolio reviews which will mean a further small switch out of our UK dividend fund into a global dividend fund. This will mean a further reduction in UK equity/property exposure in the Balanced Portfolio to around 20%.

- At the end of the day the Global economy is still growing and is expected to grow and this should continue to benefit the portfolios in the long term.

- Any downturn in markets is a buying opportunity in our view and will be picked up in our regular rebalancing. We don't subscribe to the view that markets can be timed in terms of when to get in and out which we view more as betting. We are happy to leave that to the gamblers!

- Whatever happens, the world will continue and good businesses will find a way to sell their goods and services.

By all means give us a ring if you want to talk this through in any more detail.

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