

Inspire. Connect. Energise.

The art of the no-deal

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Wednesday, 13 November 2019



1. Plenty to worry about...but recession risks being pushed out

2. We should worry about the low return outlook

3. How to navigate?...Have a process

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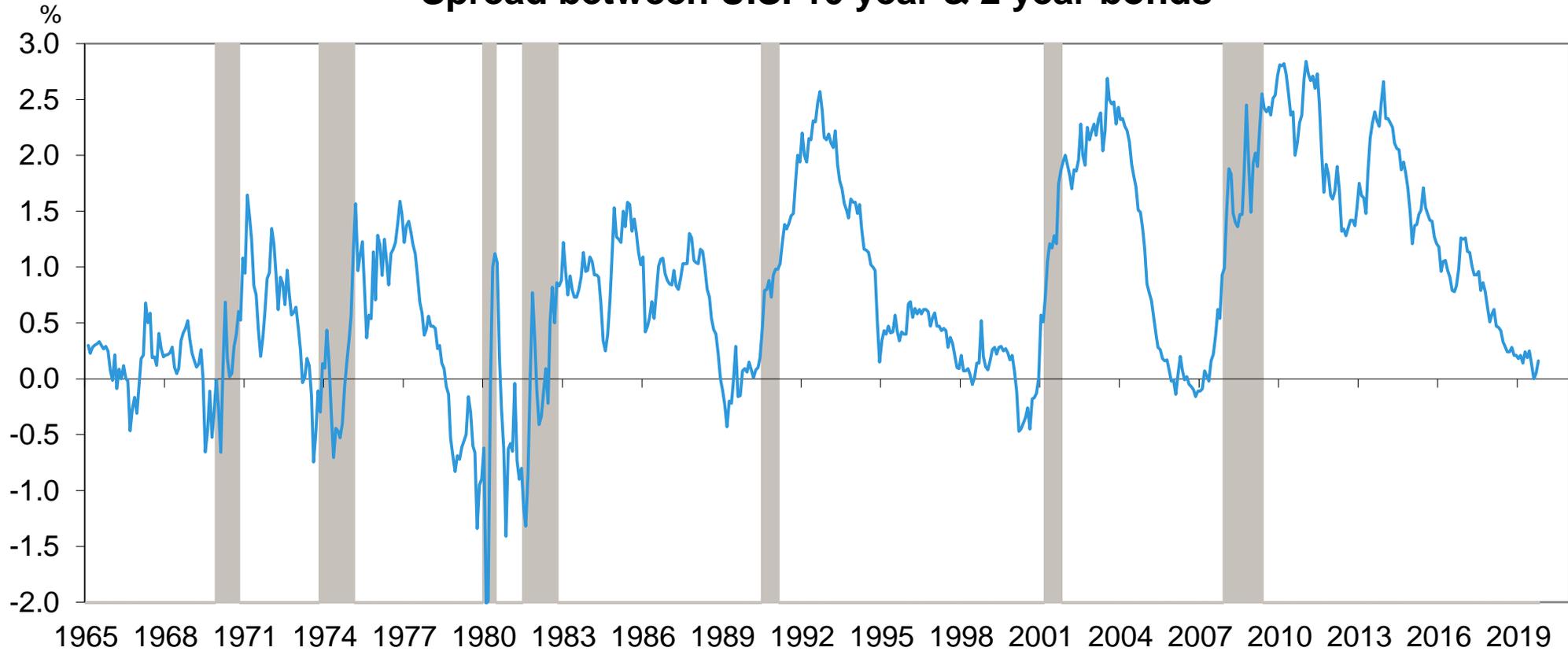
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Recession watch



No.5 Recession watch

Spread between U.S. 10 year & 2 year bonds



Source: Datastream, columns are NBER dated recessions, last observation 24 October 2019.

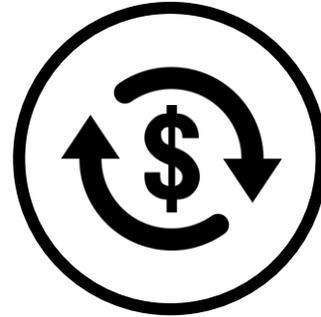
Scenarios

Trade is the swing factor



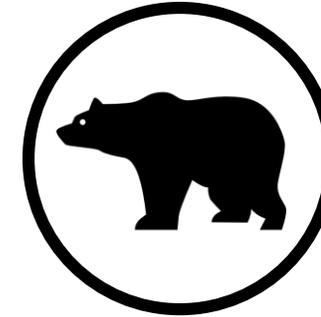
Bull (35%)

Substantial trade deal.
Uncertainty clears. Global
economy rebounds as
monetary stimulus kicks-in.
Fed tightening by 2021



Central (40%)

Mini-deal that puts
trade tensions on hold but
does not reverse tariffs.
Modest global
economic recovery



Bear (25%)

Trade war escalates.
The global economy dips
into a mild recession.
Double-digit decline
in EPS

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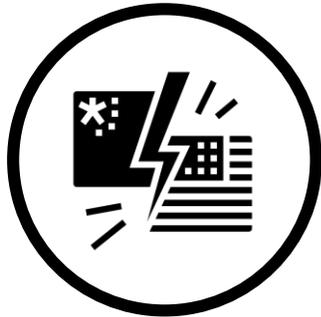
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China/U.S. tensions



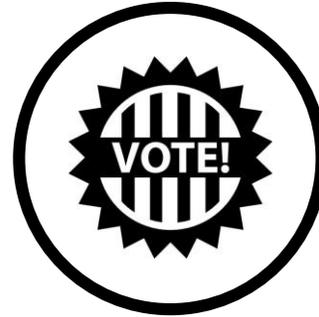
A grand bargain is unlikely

The Thucydides trap is real



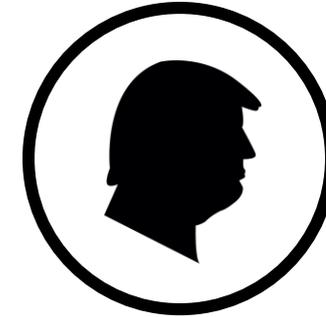
US vs China

Relations are
on a long-term
downtrend



2020 respite

The 2020 U.S.
elections will provide
a temporary respite



Trump or Warren?

China may prefer
President Trump to
President Warren

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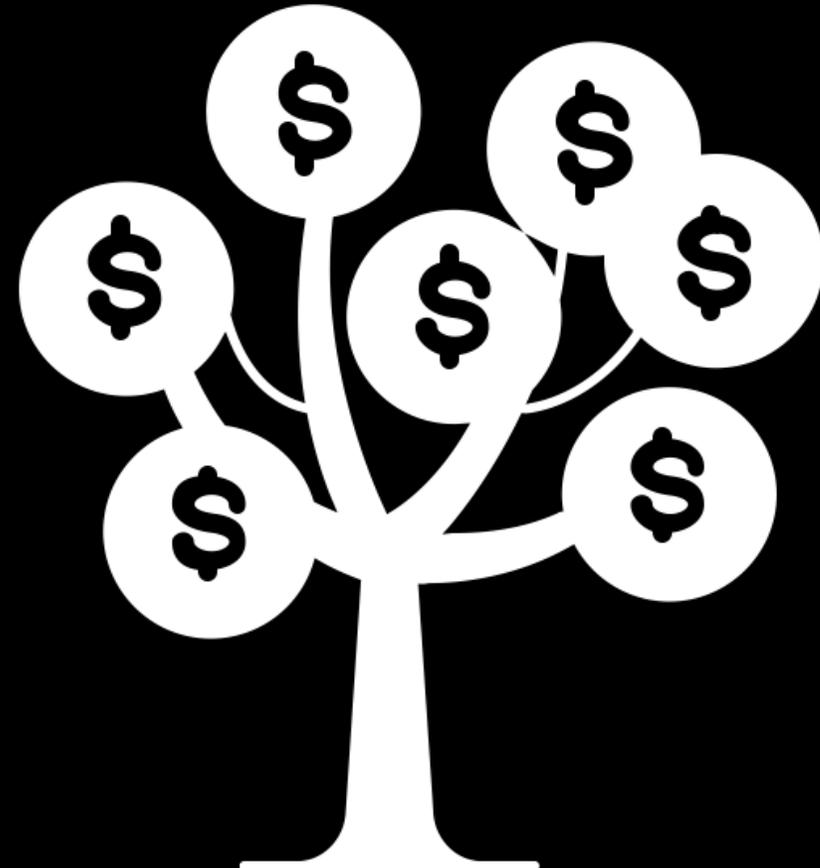
MMT



Modern Monetary Theory*

Borrowing is free, so governments should spend

*Magic Money Tree Theory



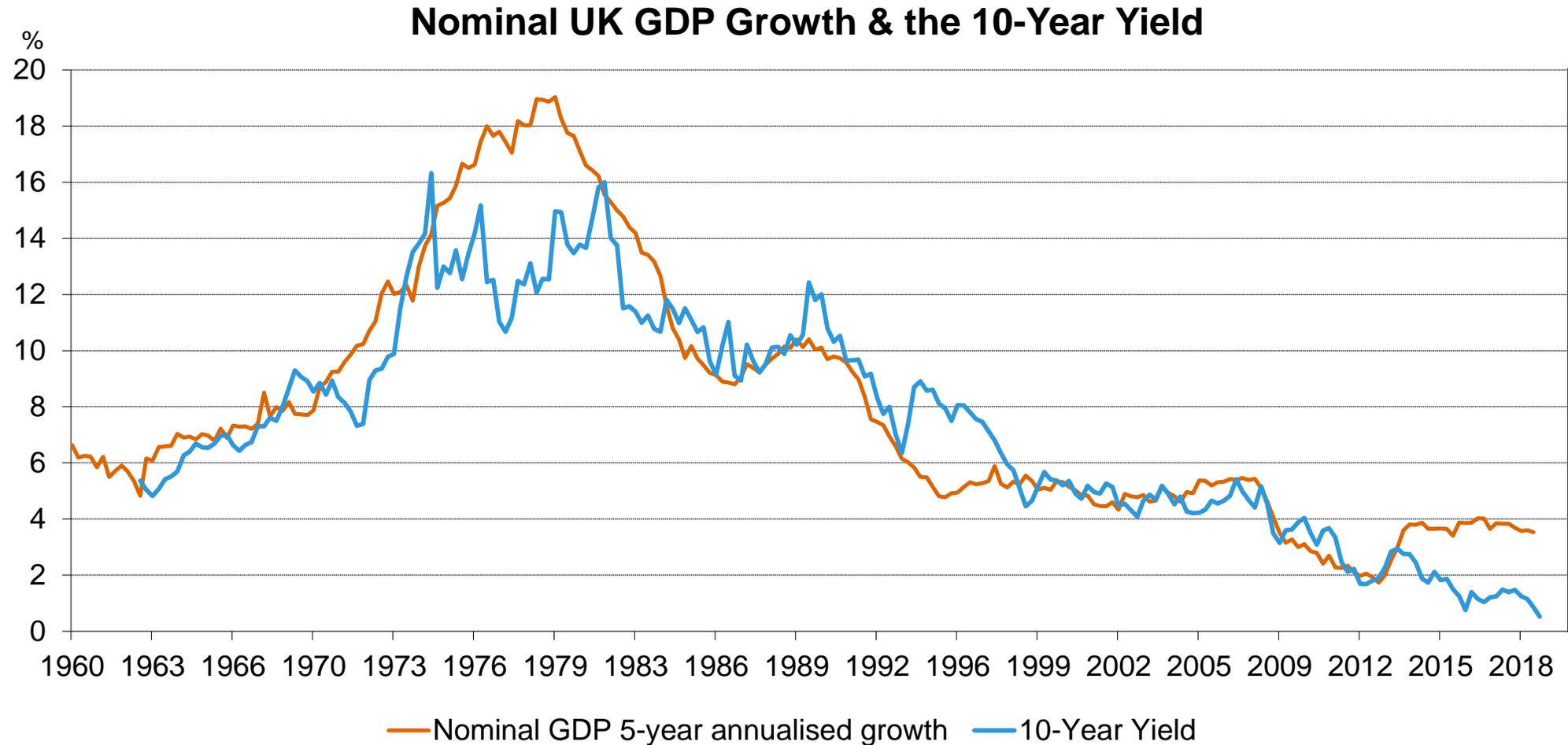
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Purgatory or Hell?



The risk free rate determines everything



Source: Datastream, columns are NBER dated recessions, last observation 24 October 2019.

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No-deal Brexit
is unlikely



Which is good for Sterling



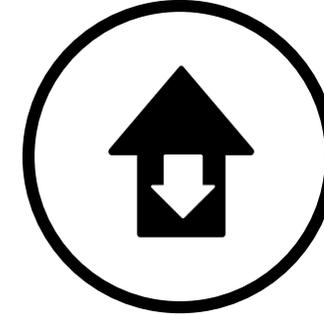
Sterling

Sterling is
still cheap



Equities

UK equities
are cheap



Gilts

Probably
seen the lows
in Gilts

Key takeaways

1. Recession risks pushing out to 2021 or 2022
2. Low interest rates mean low returns
3. Cycle, Value and Sentiment are very good guides

Simple action: Have a disciplined investment process

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MCR-00596