



Decisions, decisions

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“There are two seasons in Scotland: June and Winter” - Billy Connolly

I thought I would use Billy Connolly’s witticism about his homeland to highlight the essential debate in financial markets at the moment. During the last month, the UK’s most-quoted stock market index - helped by a rising oil price boosting energy sector shares - reached an all-time high. However, global trade tensions and European political risks dominated headlines. We may be entering June but for some observers we are on the cusp of a financial markets winter... and I think the new month will help answer many questions.

June tends to be an important month in political and diplomatic circles as it sits just before the more traditional summer holiday period. For UK and the broader European fraternity the most important date in the forward diary for a number of months has been the EU Summit in (hopefully sunny) Brussels starting on 28 June.

There are two reasons why this gathering has a particular importance - and maybe surprisingly Brexit is not one of them. Of course the UK’s exiting of the European Union will be discussed, but other events have rather superseded it. I am still sensing a pragmatic and ‘soft’ Brexit with a lengthy transition period which continues to support UK-based investments - and the Pound - looking cheap.

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And, to this end, I was rather pleased to see that the UK is no longer at the bottom of the monthly published multi-asset allocation sentiment chart. It is amazing what a little bit of performance can do.

Anyhow, back to Brussels. Unsurprisingly, the future direction for the European Union is absolutely front and centre. President Macron’s proposed changes to help make Europe more dynamic appear spot-on but, as discussed before, needs more than just a grudging approval from Chancellor Merkel of Germany. And it is more about just these two with shifting political sands in both Italy and Spain adding new challenges. The June summit will decisively prove this one way or another but I am not so worried about the shift in the southern European political landscape. There has been much bluster and hype in Italy particularly, but the historic precedent in Greece suggests that the compelling nature of ‘reforms for cash’ from the European powers can save the day and much more... especially as more cash is a-coming.

The newly unveiled 2021-2027 European Union budget shows a preference to allocate more funds to countries like Greece, Italy and

Spain. In order to build confidence, money talks and the European Union is in dire need of a bigger regional redistribution policy... just as other single-currency zones (such as the United States) has. Now all Macron and Merkel have to do is start to sell this to the aggrieved politicians and electorates around the rest of Europe. Any relative success here will boost flagging European markets and the euro.

However nothing exists in a vacuum, and the final June meetings to be aware of are a range of diplomatic channel talks between the trade representatives of all the great nations or regions of the world. President Trump continues to keep everyone guessing about subjects as diverse as a face-to-face meeting with the President of North Korea, the magnitude of Russian and Iranian economic sanctions and the extent of efforts - and tariff enactments - to focus on 'fair' rather than 'free' trade. Trade disruptions and retaliations are very rarely in anyone's longer-term interests but - as any game theory student will attest - a credibly firm negotiating position can give a country better payoffs. The challenge - for America specifically - is doing this at a time when they have deficits to finance... partially with capital flows from countries like China and Japan. In a financially interlinked world,

calm heads and cool analysis usually win out... and this keeps me hopeful, although the stakes today are high. Keep an eye out for more than just nice weather in June.

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