RAYMOND JAMES

Sizzle And Fizzle

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"Double, double, toil and trouble; fire burn and cauldron bubble" – William Shakespeare (Macbeth)

Shakespeare knew a thing or two about portents, from the soothsayers of ancient Rome to a gaggle of crones mixing up diabolical potions in a cave in the Scottish wilderness. Investors in the world's financial markets know all about the importance of the future of course, financial asset pricing being as much about prospects as being informed by the present. Ask a hundred investors back at the turn of the year whether with economic activity still subdued and inflationary pressures as sticky as they have subsequently been proved to be, it could be even remotely possible for stock markets as far-flung as those in Japan, Mumbai, the US and Europe to have hit a series of all-time highs and few, if any, would have predicted what has come to pass. Yet that is exactly what has happened. Hope is a dubious bedfellow and hardly the basis for rational analysis, yet May's darling buds blossomed in the warm glow of an anticipated soft economic landing and ebbing price pressures sufficient to encourage central banks to cut interest rates and by doing so kindle the fires under the simmering pot of favourable future investment returns.

Yet all is not well in the state of Denmark. To borrow a phrase from that other bard, he of Ayrshire, "The best laid plans o' mice and men gang aft agley". The dagger which investors see before them has proved to be inflation, or more specifically, the persistence of price pressures serving to inform headline inflation metrics. Even as the latter have meandered lower, a labour market close to full employment has ensured that wage settlements remain elevated. Adding to the evil brew, commodity prices have been on a persistently upward trajectory, in part the consequence of a dawning realisation that whilst the providers of artificial intelligence have carried all before them, a great leap forward is going to require energy and likely considerably more energy than prevailing infrastructure can deliver. Whilst newer, green, energy sources are very much in vogue, the transition from the fossil fuels of the past to the clean energy provision of the future does not come cost-free. Wind turbines require copper and solar power requires silver. It is unsurprising, therefore, that investors in broadly diversified portfolios have cottoned on to the view that it is usually better to own the shovels required by modern day prospectors than eternally, and thanklessly, sifting the sands.

Admittedly, rising commodity prices are coincident indicators of consumer price baskets typically dominated by the service sector, not leading ones. But not as far as sovereign bond markets are concerned it all adds up to the same thing, bond prices have fallen and yields have risen as fears regarding inflation's persistence have become increasingly embedded. And it is not just investors' thumbs that are pricking; senior officials across the developed world's central banks have taken heed and are taking every opportunity to remind financial markets that, barring the smallest of adjustments, embarking on a cycle of ever-lower interest rates is far from a done deal. Indeed, it is the downward lurch in the markets' previously Panglossian buy everything, everywhere all at once that prevailed at the turn of the year that has served to remove the bloom from the rose as we transition from spring to summer.

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And now investors have a further risk factor to consider as the political cycle converges with a still extremely subdued economic cycle. Of course, it was always well understood that

2024 would be a big year for elections, as many as 64 national plebiscites to be conducted the world over and above all in the United States. But as the process on the Atlantic Ocean's western shore heats up, a rain-soaked UK Prime Minister has confirmed that the UK's general election will be held on 4 July. Keir Starmer's opposition Labour Party has become far more centrist than was the case under the previous leader Jeremy Corbyn and with room for manoeuvre heavily circumscribed by the need to bring the UK's public finances under control the choice facing the UK electorate feels very much like that between two wings, but one bird, a position not lost on the financial markets. To the immediate geographical south politicians are gearing up for European parliamentary elections in early June and already the air is thick with the sound of motley political armies jeering and clashing swords as they prepare for battle. A lot lies at stake as Europe endlessly seeks definition in an uncertain world in which conflict both real and imagined rages in widely divergent theatres.

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These are challenging times for financial markets and if ever a case were to be made for broadly diversified investment portfolios it is surely now. Ultimately the fog of battle will clear and the way ahead become more obvious. Elections will come and go and in some cases a new and different path ahead may be forged. Markets are, however, endlessly resourceful and are well versed in adaptation to varying circumstances. It is this which keeps us constructive on the outlook for financial assets over the medium and longer terms. Ultimately, a burly camouflaged army will make its way, as foretold, from Birnam Wood to Dunsinane, putting right unnatural disorder and delivering greater serenity for the years ahead. There exist both short and long cycles and whilst the former post-pandemic environment is proving asynchronous and unlike anything that has gone before, we are but midway through a longer, less volatile upswing which has further to play out.