

# JUSTIN'S COMMENTARY

**SEVEN**   
Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



## THE FIRST SHAFTS OF LIGHT IN A BANKING DAWN?

As we come to the end of the bank reporting season it is interesting to put their results into better context. Since the financial crisis of 2008 quite rightly they have been through a deservedly torrid time. For instance consider the RBS fiasco, where the taxpayer for some stupid reason bailed out the RBS shareholders (they are the ones who are supposed to take the risk), and it's still a struggling financial giant flailing around on the road to recovery. However, maybe at last we are seeing some underlying signs of recovery. Certainly Lloyds and Barclays are showing that despite the never ending regulatory claim upon them, they seem to be heading in the right direction. It was always, in my view, going to take at least a decade for a return to a more 'normal' banking sector, but of course by then 'normal' will look like a very different world. The technology has already started to have an impact, new competitors have also started to enter the market, and the economy has moved on from the battered days of the financial crash.

Their new leaders are not the bragging bankers of the old period where you saw the likes of Bob Diamond pay himself in his final year over £20 million. Which is quite a sum for trashing not just the share price, but also the profits, the dividend and most importantly the trusted, valuable and historic brand. His arrogance was so perfectly illustrated when interrogated by the Treasury Select Committee in 2012. He obviously thought he was being clever, we all saw arrogant foolish showing off in front of the politicians.

In the meantime the banks will have to prove themselves to show that they really have shed their old skins. The question is, are they still the same reptile underneath it? The politicians will still treat them as an earnings cash cow for any vague policy that crosses their brains, so the banks should have the clear aim to get themselves off the front page and make themselves as dull as possible and return to their vital role as the financial plumbing of the UK economy. Gone are the adventurous (or was it piratical) days of the investment bankers linked with the main commercial banks; and no doubt we will be seeing further headlines of job losses in these withering divisions. It's not that investment banking will die altogether but it will evolve into specialist houses and may even return to that almost Victorian term of merchant banking. At least it might give them an opportunity for some more responsible rebranding!

However, banking has changed and we are seeing an improvement in the old banks and for the better as they return to the world of dull but respectable banking and finally realise that investment banking and commercial clearing banking are fundamentally different. They are different businesses and have different risks and above all different cultures.

## Looking against the popular Euro Trend

So the Eurozone has been the basket case and the US has been the role model - well that is the populist view from the tabloids. Indeed the Americans have pressed the accelerator whilst the Europeans have dithered in a financial quagmire. Well that is partially true. After all the Eurozone economies have in many cases been an operational mess and will continue to be so until they learn and adopt the rules and disciplines required to run a single currency union. And yes the Americans did very successfully press the financial accelerator, but that is not the entire story.

If you look at the most recent financial data coming out of the US and put them against those from the Eurozone, the story in fact appears to be reversing. The latest set from Euroland seem to be the strongest since March last year, whilst heading in the opposite direction we see that the US statistics look like being the weakest since July 2012.

What is interesting is that such positive euro data is coming just as the European Central Bank is girding its loins for launch of its Quantitative Easing programme (but please don't call it that because you will annoy Mrs Merkel); so this could potentially bode well for the progress of their core economies and hopefully the progress will be reflected in the continuing rise in their markets.

### **Chinese Numbers**

So it's that time again for the National People's Congress in China to convene. This mostly seems to mean people in identikit black suits applaud and laud each other for another great year in the People's Republic. The Palace watchers will be looking to see not only who is there but rather who is not and has been culled in the past year. Additionally we will hearing the growth figures which will 'astonishingly' be almost identical to their predictions of just over 7%.

The level of interest in these numbers is understandable, but the reality is that they are very likely to be best guesses rather than anything more precise. However, that is okay as it is the trend that we should be looking at and anything around that number will provide some reassurance. This at some stage will then translate into a return to a greater demand for commodities and at that stage not only will those Australian miners breathe a sigh of relief but then we are likely to see the final push of the FTSE100 through the 7,000 barrier.

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**And finally...**a Canadian legislator Pat Martin recently offered up one of the most original excuses ever heard for hurriedly running out of the House of Commons during a vote.

Martin, who belongs to the official opposition New Democrats, bolted out of the house as members of Parliament began to rise one by one to vote. He later blamed his departure on an unwise purchase at a local store. It seemed that he had somewhat hurriedly purchased new cheap pair of underpants - but unfortunately they were too tight.

"They had men's underwear on for half price and I bought a bunch that was clearly too small for me. I find it difficult to sit for any length of time" he told the chamber to guffaws and applause from fellow legislators.

Have a good week.

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