

JUSTIN'S WEEKLY COMMENTARY

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 20 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



THIS WEEK – NEXT YEAR...

I have to say that I am sick to death of all the doom-mongers and depressants that seem to be continuously preaching to us at the moment. From the tales of our economic woes through to the geo-political arguments that rage around the world, all of this will no doubt be highlighted as “breaking news” by our 24 hour gloom-seeking media. Now I am not in a state of denial that we have some very serious and major issues to address, any of which, if managed badly (a not impossible thought with our current array of inexperienced politicians) could become significantly worse, but I do believe that we have to put things into greater perspective. Thus at the turn of the year, now I think is a good time to paint such a more realistic and pragmatic picture.

Firstly let me assure you that my attitude is not one brought on by just a feeling of euphoric goodwill caused by the festive season and, as yet, I have not imbibed significantly of any festive liquors (although please spare me from any of that ghastly mulled wine – which, by the way, is just an excuse for the French to dispose of some dreadful grape extraction that failed to qualify even as vinegar with a cinnamon stick stuck in it – give me Austrian anti freeze any day).

To start with therefore let us take a global view. The world economy is not a disaster area as some would have you believe; rather, in fact, it is doing quite well. With growth at something over 3% this year but slowing next year potentially to over 2%, this is still perfectly respectable. We, of course, are seeing a lower, slower world, but it is in everyone's interest, from Brussels to Beijing, from New York to New Delhi, to ensure that both the growing and the economic flattening areas of the world help each other out. They are in a symbiotic relationship and need each other – and that is good news.

So let's start not with our New Year but that of the Chinese. Shortly we will be celebrating the Year of the Dragon which, far from the dangerous beast of western myth and legend, is in fact a far more creative and positive force. In truth the Dragon is seen as a deliverer of good fortune and the master of authority - something I think we could probably all benefit from at the moment.

Well let's briefly look at some of these areas and their problems. The Eurozone growth has been weakening, but in fact the figures from Germany and some of the other stronger economies have not been bad at all - and are certainly looking better than ourselves. As for the USA, well they of course still seem to be in denial about their own debt and deficit issues, and are likely to remain so until after all their elections next November. However, we have been seeing some traction in their economic figures, with even the consumer showing a little perkiness despite the housing and confidence figures. Some US manufacturing figures have also been showing some surprises and, although still weak, even unemployment levels have improved a little. Within this, the corporates themselves have generally been doing quite well, with lower debt, rising cash, on target profits and rising dividends – even the outlook – whilst not necessarily sunny, has not been seen to be disastrous. What has been lacking though has been the confidence to persuade them to re-invest their cash - and that will take some further work.

This coming year is likely to at least provide us with some vital decisions. We will have three presidential elections to be decided in France, Russia and the USA, as well a change of leadership in China - which of course doesn't have to deal with anything as boring as a popular election. We would hope therefore that as a result we will have a set of leaders at least with a mandate to start getting things done.

As China has been seeing its domestic slowdown, it needs a recuperating western consumer to start buying more "stuff". Thus we will be seeing further action to promote growth as they continue to use their mounting reserves to get things moving again. This will ripple out as expenditure and will no doubt impact on infrastructure spending and will be more interesting for European consumer brands if more is done to encourage domestic Chinese popular spending.

However, much will depend on which wing of the Communist party holds sway after the "elections" - the more progressive pragmatists opening up the economy, or the more security focused "right" wingers who are flexing their military and authoritarian muscles both on international areas of dispute (including the South China Sea, with the Spratley and Paracell islands disputes amongst others) and the eastern version of the Arab Spring as the technologically astute Chinese youngsters seek to air their views, frustrations and opinions.

China is still growing, albeit slower than before and no doubt we will be seeing in the new year further action by them to try and get the economy boosted again (if only to ensure political and social stability is maintained!). This may well be coinciding with their own New Year at the end of January and if, as currently thought, it might become more domestically focused, then this could be better news for Europe (as opposed to the US) because we have got handbags! Well, more to the point, fashionable brands which are always in demand in the East and will be even more so if the Chinese consumer is encouraged to spend more on themselves. So a direction to us all – go set up an iconic British Brand and sell it now. I wonder if there is any demand for red braces and socks.

So what of the UK?

What we have to remember is that we have been through a ten year boom which of course, as ever with such cycles, is now balanced out with ten years of lean. The good news is that we are already three years into the lean period, but we still have some way to go and some major issues to overcome.

In fact we have a great deal to look forward to but the bad news is that we are bound to have some unpleasant surprises as well. From the Queen's Jubilee celebrations through the UEFA cup, to the Olympics and Paralympics, all armchair athletes are going to be thoroughly exhausted by the time we get to September. There will no doubt be arguments over costs and benefits from these events, to which my current view is "balderdash" – just get on and enjoy them.

All this, though, will at least provide us all with an excellent line of distractions from what is probably going to be a fairly tiresome year in terms of economic statistics - which will no doubt be spun by some to try to drive us into a state of depression and despair.

So let's try and negate some of this straight away. Yes, unemployment has been rising and this has to be addressed, but this still means that 92% of the working population is working. This is by any measure a large proportion. They are working, paying tax and spending money – most will continue to do so.

Next year we will establish probably in excess of 400,000 new companies - which is a very respectable run rate – and, if properly directed and encouraged, those coming out of the public sector could be in a good position to become entrepreneurs themselves – so long as the government puts together the right joined up new start package.

Although we may not be booming I am not coming across many companies that are failing at the moment. What they tend to say is that it's not easy but, like the majority of smaller businesses, they have adjusted to changes – because they have had to – that's what you do! In fact I am quite regularly seeing some great success stories and some even bringing manufacturing back to the UK. Oh yes, and just remember when next time someone says we don't manufacture anything anymore – we are either the 7th or 8th largest manufacturer in the world, and it accounts for over two million of our workforce as opposed to the one million in financial services. Just as an aside to this, one example of our successful high end engineering global strength for the UK has been Formula One and all its related development and industrial linkages. Most of the F1 Teams seem to have some link to the area around Oxfordshire and probably involve some 250,000 employees in one form or another.

Financial services are still a strong provider for us and despite everything being labelled as "the City" it is in fact spread throughout the UK. Although the media seem to implicate all financial services with the banking crisis, it is still a very successful and valuable sector, and one in which we are known as a global leader.

To this we can add pharmaceutical development, our universities, all the creative industries from music to advertising and actually you find that we have a great list of valuable and developing industries that we should be proud of.

So are we doomed? Absolutely not. Damaged maybe, but damage can be repaired.

There are many "ifs" for next year, but if the Eurozone find a means of managing their currency more credibly, and if the Americans can find a way through their political deadlock, that one crucial word can start to be introduced again - if only in pianissimo - confidence. Albeit from a very low level, any base level of confidence will be reflected in many of the equity markets that have been suppressed in value, not from corporate weakness of results and profits, but from a fundamental lack of credible political leadership and policies.

If we were to see some inspirational leadership, then the breath of the Oriental Dragon might just make this year a lot more encouraging than many currently assume. If, however, our political bosses are bland and ineffectual, then prepare for the more deadly Occidental Dragon - complete with breath of fire and no doubt some appalling halitosis. Personally I am with the Chinese Dragon.

Happy New Year!

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