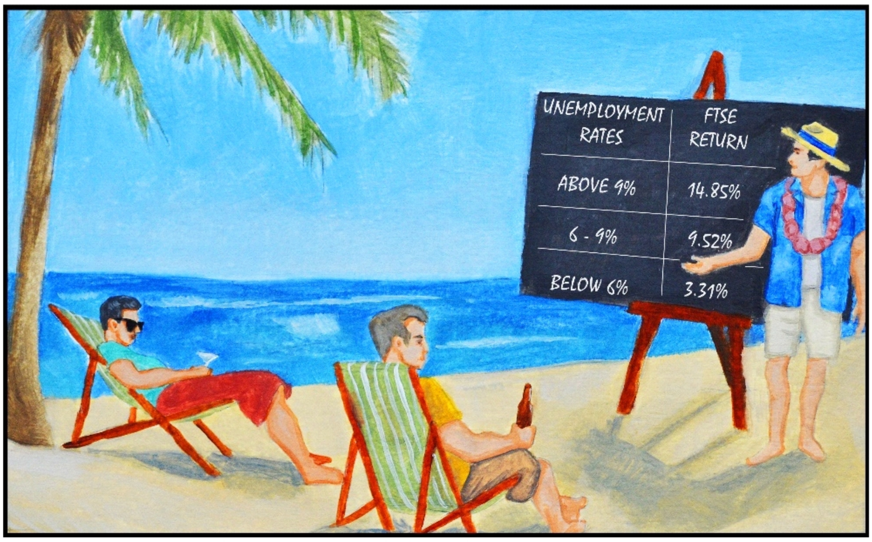
MVAM Newsletter

'Does the Golden Age of Employment Equal a Golden Age for returns?' October 2017



"UNEMPLOYED INVESTORS CONFERENCE"

Source: MVAM, Bloomberg, and our great cartoonist Archie Campbell

Incredible isn't it. Unemployment hits a 40 year low in the UK at 4.3%. Across the world unemployment is falling too, with rates of 4.4% in the US, 5.6% in Germany.

Hearing these record breaking UK figures as my daughter passed her GCSE's - exams for 16-year old's in the UK, I recounted, as fathers tend to do, what it was like when I "passed" my exams at the same age. Unemployment was above 10% in the UK and closer to 20% where I lived. Inflation was over 20% and interest rates were 17%! Incredible figures now and incredible figures then. It makes you wonder what the current moaning about the economy is all about?

So, as we have said before, we live in the good times. Enjoy. But, as investors, we need to see if we can draw conclusions by looking at how markets react to an economy moving from a negative extreme to a positive extreme. Two big questions arise:
Are low unemployment rates good for stock market returns?

Have we created, as former UK chancellor, Gordon Brown, famously put it an economy of "no more boom and bust" or are we at a positive extreme with the only one way to go from here?

Well the first point seems easily answered - see the table at the top. From matching returns against unemployment rates, it appears that periods of low unemployment equate to weaker returns and vice-versa. This may seem counter-intuitive, but reflects how investors feel at the time. When unemployment is high, things are bad, so companies are rated lowly. When things are running well, investors pay up, companies are more highly valued. You pay a high price for a rosy scenario as they say.

Onto our second question. Is the cycle about to turn or has the economic cycle been banished? The answer here is a bit more finger in the wind than the first. Globalisation has undoubtedly helped economies become less prone to inflation caused by wages. But while "one swallow doesn't make a summer" rising interest rates from the US, and soon the UK, coupled with a pick-up in inflation and those eye-popping employment figures does suggest there is good reason to believe the economic cycle remains alive and is at turning point!

What to do with investments then? Well remain alert. Returns over the next twelve months may not be as strong as recent returns. And if the turn in the cycle gains momentum we would expect returns in the long-term bull markets of property and bonds to particularly suffer. Equity markets are likely to swing around a bit more too.

All that suggests being nimble, being able to invest in companies that you believe in and being ready to take investors assets into cash at times is likely to be the best way forward over the next twelve months. Where better to do that than with a small active investment management firm that knows its clients. Any ideas where you could find one of them……?

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