

UP IN SMOKE!

Regular readers will know I was in the U.K last week getting a firsthand view of Brexit (more on that later), and equity markets globally celebrated by having a very strong up week!!

The strong gains were also perhaps helped by the European Central Bank vowing more stimulus by cutting their borrowing rates (despite many bond yields being negative already), China waiving some tariffs on farm goods along with an overall easing of trade wares fears. Add ongoing expectations of interest rate cuts in the US and, all in all, investors were in a stock buying mood.

Smaller US companies led the way – the Russell 2000 gained almost 5%, but all the major indexes and most sectors had good gains. Offshore markets also did well with Japan leading the pack up 3.72%. The easing of trade tension caused gold to fall just over 1% and, despite a “successful” OPEC meeting, West Texan Crude fell 3% and Brent over 2%.

The weekend drone attack on Saudi Arabia’s major oil field and processing plant could derail all this. We have all seen the news showing huge clouds of black smoke billowing over the burning facility. For how long will supply be disrupted remains to be seen, **but the more worrying issue is Iran’s role in all this and the risk of future military escalation.** As I write, oil is trading at \$60 a barrel and the pundits are already warning of a recession – quite happily forgetting that the price of oil was much higher over the last two years and no one lamented then that the price would cause economic woes. **The fact is that there has been too much oil around, hence the falling price in 2019, until the weekend attack.**

Further investigation on how this attack was implemented, analysis of the potential for repeat strikes and this week’s political and stock market action may give clues of what lies ahead for the balance of the year.

Now onto to Brexit. First, very noticeable was whereas US television media is all Trump focused with a minor nod to the rest of the world, naturally enough in England the reverse is true, PM Boris is the headline whipping boy. Second, no one even seems to understand what all the implications could be depending on what road is finally followed. And like the media here, sensationalism leads the way. Big headline news was how Boris Johnson could perhaps go to jail and how he misled the Queen – the basis for all that was the Scottish Supreme Court stating his actions of prorogating parliament was illegal. However, most legal consensus was this court has no standing in the matter, but nevertheless it got huge publicity. So did the heads of major retailers announcing that a “Hard Brexit” would lead to massive food and drug shortages. It was only in the body of the articles where the words “may” or “possible” appeared.

And the man in the street? Most that I talked to had some concern, but life goes on and so does the British pound and stock market, both moving higher last week.

Bottom line: on both side sides of the Atlantic it is going to be an interesting week.