RAYMOND JAMES

Financial markets: never easy but always fascinating

Chris Bailey, *European Strategist, Raymond James Investment Services*

"There are only two kinds of people who are really fascinating - people who know absolutely everything, and people who know absolutely nothing" - Oscar Wilde

Thinking about everyone's favourite subject, it was striking to read that a well-known UK consumer confidence index indicator released in the last few days was flat for the third month in a row, with an accompanying write-up that included the comment that 'despite political carry-on in the Westminster bubble with the clock ticking on Britain's eventual departure from the EU, consumers are holding firm and remain unshaken by the daily headlines of turmoil and intrigue'. Too right that there is a real and breathing UK economy still out there... and that the ongoing Brexit debate does not need to exclusively define the UK economy and its prospects.

However, tell this to investors around the world. Despite my best efforts to shunt it to the second half of any presentation that I give, it invariably becomes a point of discussion way before then. Meanwhile in the broader market, April has been another month of the UK (closely followed by the eurozone) being at the bottom of current allocations by global fund managers - versus their historic norms - showing (as if we needed to know it) that there are few current believers.

Still, the climb up this wall of worry continued in the last month, despite fears that the new effective Brexit discussion date finale of 31 October may lead to a spooky surprise - and also herald in an electoral ghost from past polling in the form of a likely participation in late May's European Parliamentary elections. And looking across the pan-European indices (within which UK shares are a material component), financials led the way, followed by industrial and technology sector names, whilst healthcare lagged. Meanwhile in the fixed income world, Greek bonds (positively) traded at levels not seen in over a decade. In combination these sector and asset class shifts do not particularly sound like a classic heavily out-of-favour market.

This is a very typical financial market set-up however. Markets make the most progress either when everyone believes... or nobody believes. This is due to the importance and role of investor psychology and associated flows (in or out) of money. In short, the uptapped buying power into pan-European equities from global investors moving to a more neutral positioning is prospectively what keeps me still excited about the region. And for climbing the wall of worry to evolve into a broader consensus of excitement, we are going to have to see some progress on all our favourite subjects including Brexit, European Union politics and - from a global perspective - bilateral trade talks between China and the United States. All very plausible for a bunch of different reasons between now and the core summer holiday period... but all prone to delay and uncertainty too.

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I mentioned a number of different sectors above and it is striking that early indications from the pan-European quarterly earnings season have been quite positive versus expectations. Similar to the UK consumer confidence survey quoted above, companies are finding that in lieu of political certainty and decisive action, they have no choice but to help themselves, especially if they are active in international markets. Whilst we wait for politicians to step up, higher on average dividend yields across the pan-European markets compared to other developed market peers is another reason to stay patient... and see if a contrarian play becomes a consensus one. Stranger things have happened in the financial markets in the rundown to the summer months.

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