Investment Views

May 2021

A Law Unto Themselves

On April 20th, after less than a day's deliberation, a US jury found Derek Chauvin guilty of the murder of George Floyd. The former Minneapolis police officer faces up to forty years behind bars.

Three days before the verdict a Californian Senator, Maxine Waters, called on protestors to become "more confrontational" if Chauvin was acquitted, stating that anything less than a murder conviction was unacceptable. The defence team used the comments to move for a mistrial. Although the sitting Judge refused the motion, he noted that the "abhorrent" comments could lead to the trial being over turned on appeal. Even President Biden could not wait for due process telling reporters, pre-verdict, that he had rung the Floyd family to say that he was "praying for the right verdict". The exasperated Judge called on officials to stop commenting on the trial, "especially in a manner that is disrespectful to the rule of law".

After the anti-establishment 'Trumpian' years, front running a verdict for political means seems like a minor misdemeanour. However, it perpetuates a trend of growing disregard for the independent rule of law that is the bedrock of modern societies.

After decades of relative geopolitical calm and growing global prosperity, many have forgotten the fundamental role of an impartial legal system. Political ambivalence leaves populations open to the siren call of those that seek to challenge legal conventions for their own purpose, eroding society's resilience to periods of stress. As Thomas More noted in "A Man for all Seasons", "This country is planted thick with laws from coast to coast - Man's laws, not God's – and if you cut them down – d'you really think you could stand upright in the winds that would blow then? Yes I'd give the devil the benefit of the law, for my own safety's sake".

In the world of investment, this reality plays out in the role of "Big Tech". Unlike traditional publishers, the digital platforms (Facebook, Twitter, YouTube et al) do not take legal responsibility for the opinions and behaviour that flow through their channels. They are exempt under Section 230 of the 1996 Communications Decency Act, with content policed on a largely voluntary basis. Furthermore, they seek to attract and retain users by curating the flow of content, reducing dissent or plurality from feeds; 'sticky' engagement boosts advertising rates and revenues.

This behaviour gives oxygen and community to extremes, kettling the disaffected into like-minded groups that the moderate majority fear to offend; the so-called 'cancel culture'. This leaves the legal system vulnerable to challenge as it stands in the way of groups that find unity in unregulated social media forums. This dynamic is particularly evident amongst the growing number of politically and economically disenfranchised; the young and less well-off were disproportionately impacted by the covid crisis.

The platforms also weaponise political malfeasants. Whether it is private sector actors (like Cambridge Analytica) or governments (Putin and his "bots"), malleable social media can be hijacked and pressed into action to distort and influence. Trust in the rule of law is an obvious casualty. Unchecked this leads to a dark, dystopian future.

That said, these same tools can be a force for good, with oppressed groups finding a similarly effective voice. The #MeToo movement and the Arab Spring are good examples, whilst a well-run WhatsApp group is the trade union of today. Furthermore, the growing clamour for regulation finally seems to have coherent political support, with the arrival of Team Biden adding vital US backbone to the rather haphazard EU efforts. Ironically, Trump was the catalyst. Having hidden behind section 230, rejecting responsibility for their platform content, the moves by Facebook and Twitter to exclude "The Donald" for inciting violence proved otherwise. This overt challenge to political power has shocked both sides of the Washington divide and drew opprobrium from overseas; Chancellor Merkel noted that it is "problematic that the President's accounts have been permanently suspended".

The Chinese authorities have also seized the nettle, as Alibaba, Tencent, Meituan and others are brought to heel by a vigorous anti-trust initiative and a rapidly evolving regulatory framework. As Gavekal noted, on April 13th the State Administrator of Market Regulation called in 34 major internet platforms and threatened them with punishment if they did not correct any business illegalities within a month.

The concurrent focus on more effective taxation of Big Tech's global activities is the other side of the coin, addressing the financial muscle that underpins their business models. Having structured their affairs to park profits in low tax jurisdictions (in line with many multi-nationals), there is now a collective will to impose a minimum tax on overseas profits. During April, OECD tax director Pascal Saint-Amans noted that a global agreement on international business taxation, expected by October, will set a corporate minimum tax rate of c. 15%. Whilst this is below the US proposal of 21%, it will be a significant change; in 2019, Amazon paid £6.3m of corporation tax on £13.55bn of sales in the UK, a rate of 0.05%.

We do not seek to damn Big Tech and the social media platforms; the positive side of the ledger is long. Rather we observe that after a period of unrestricted growth, characterized by monopoly power and outsized margins, Governments and Regulators are finally catching up and will now work with the incumbents to better balance free speech, societal needs and shareholder profits. In the West, change will probably take years due to the legislative mechanics but the Chinese example, unfettered by such democratic niceties, illuminates the path ahead.

We are also not predicting the demise of the major tech firms; indeed, the increased regulatory burden may initially reinforce the competitive moats that they already enjoy. However, over time, it will make the oligopolistic incumbents more vulnerable to competition, eroding both their growth and margin advantage. This will create volatility as many are priced for perfection; by way of an example, in the two years to December 2020, the Apple share price rose nearly 3.5 times whilst its earnings per share only rose 22%.

Our thesis is that some of the past winner will fade in favor of rising stars, in the same way that IBM ceded primacy to Microsoft and had to reinvent itself to stay relevant. Many of the challengers will emanate from the blockchain sector, a technological development as seismic as the coming of the internet age. We've made our first investments in this space; more will surely follow.

Murray Walker RIP

Murray Walker, for so long the voice of British Motorsport, died on March 13th aged 97. Inheriting his love of all things motorised from his father, a champion motorbike racer, Murray initially had a successful career in advertising after serving in the army during World War 2. He notably coined the famous jingle "Opal Fruits, made to make your mouth water".

He then teamed up with his father to commentate on motorbike racing for the BBC before graduating to Formula One in the 1970s. He formed an unlikely on-air partnership with James Hunt; the Champion driver's laconic style was a counterfoil to Murray's over-excited commentary. The sheer pace of his delivery often led to gaffes; we share a few.

"With half the race gone...there is half the race still to go"
"There are 7 winners of the Monaco Grand Prix on the grid today and 4 of them are Michael Schumacher"
"Nigel Mansell is slowing down now, he is taking it easy. Oh no he isn't! It's a new lap record"
"The car out in front is unique, apart for the one behind it, which is identical"
"There's nothing wrong with the car, except it's on fire!"
"Do my eyes deceive me? Is Ayrton Senna's Lotus sounding rough?"

Policy Matrix Summary

The matrix below is a summary of our current outlook for the various equity, bond and commodity markets that we monitor. We have changed the time frame from 6-12 months to 12-24 months, to better reflect our investment horizon. It shows areas where we are either positive or negative; for all other asset classes, we have a neutral view. It is not intended as anything other than a high level guide on where we stand at this time.

6-12 Month view	Overall	Equities	Bonds	Alternatives
+	Alternatives	Gold Miners China A Shares UK Small Companies Japan ESG & Impact funds FinTech & Blockchain	Inflation-linked, Emerging Market, China	Gold, Volatility Strategies
−	Bonds	European US Technology	UK European Japanese High Yield	

Market Performance

All performance numbers show % changes except for bond yields which show yield changes.

	30- Apr 21	-1 Mth	-3 Mth	-12 Mth
CURRENCIES (VS USD)				
GBP	1.3822	0.3%	0.8%	9.8%
CHF	1.0951	3.4%	-2.4%	5.7%
AUD	0.7716	1.6%	0.9%	18.5%
JPY	109.3100	-1.3%	4.4%	2.0%
EUR	1.2020	2.5%	-1.0%	9.7%
BOND YIELDS (10 yr)				
UK	0.84	0.00	0.52	0.61
US	1.63	-0.11	0.56	0.99
Germany	-0.20	0.09	0.32	0.39
Australia	1.75	-0.04	0.61	0.85
Japan	0.09	0.00	0.04	0.13
EQUITIES				
US. S&P 500 (USD)	4,181.17	5.2%	12.6%	43.6%
UK. FTSE 100 (GBP)	6,969.81	3.8%	8.8%	18.1%
FTSE Europe Ex UK (local)	313.02	1.7%	10.2%	30.9%
Japan. Topix (JPY)	1,898.24	-2.9%	4.9%	29.7%
China. Shanghai Comp (RMB)	3,446.86	0.1%	-1.0%	20.5%
HK. Hang Seng (HKD)	28,724.88	1.2%	1.6%	16.6%
Australia. All Ords (AUD)	7,290.70	3.9%	6.1%	30.2%
FTSE Asia Pac ex Japan	721.96	2.9%	2.3%	47.3%
FTSE World (USD)	826.02	4.4%	10.2%	44.1%
FTSE World (GBP)	884.50	4.1%	9.3%	31.2%
COMMODITIES				
Oil (WTI)	63.58	7.4%	23.1%	92.6%
Gold	1769.13	3.6%	-4.2%	4.9%

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