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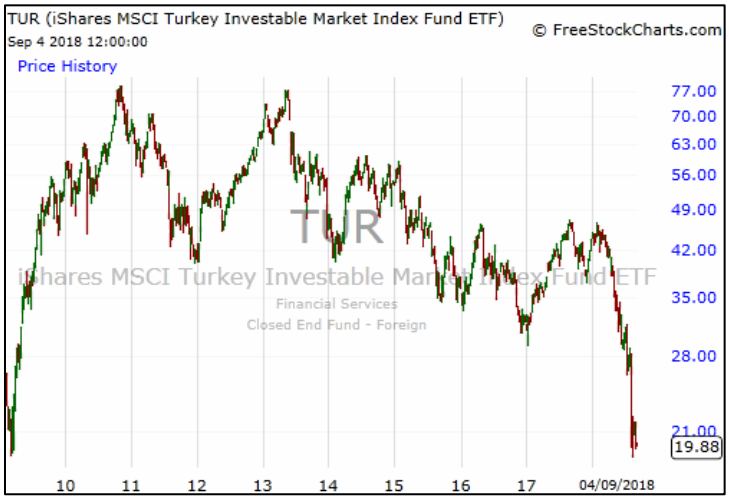
Market View

As the summer market doldrums pass traders are returning to their desks, where the to do list is getting longer and longer each day. The underlying market issues, that they hoped would quietly disappear when they were sitting on the beach, have not gone away. The common factor in most of these problems is Trump and his willingness to wage economic war regardless of what the collateral damage may be. The other big issue is Europe, Italy is approaching it's feared budget as anti-immigration fears stoke further gains for populist partys across the EU, even in long-time socialist Sweden. As investors, for us the worry isn't politics but a possible break-up of the euro currency project that would precipitate another very damaging credit crunch. For now though this remains a possibility rather than a probability as the EU has an uncanny ability to survive, nevertheless it needs careful watching, especially as Merkel's power diminishes. The immediate issues the markets have to deal with are Turkey, the Italian Budget and Trump's various trade wars, where for once we have had some good news.

Mexico

Trump seems to have bagged his first trade deal and hopes to extend it to Canada. The key elements certainly look dramatic: lifting car and truck rules-of-origin requirements to 75 percent to avoid import tariffs and a separate rule that 40 percent to 45 percent of content come from factories paying more than $16 an hour. The wage rule in particular is about twice what Mexican assembly-line workers make, and four times the average at parts companies. However, estimates suggest that about 70 percent of Mexico's current vehicle exports to the U.S. would be compliant under the new rules, with the remaining 30 percent getting a five-year phase-in period running through to 2024 according to the Mexican Economy Minister. Even those that fall short would only receive the usual tariff of 2.5% for cars. A level that most manufacturers would consider worth paying in return for Mexico's drastically cheaper labour costs. There is some debate over the $16 per hour wage rule as to how and to who it will apply but nevertheless this deal suggests that Canada and the EU should be able to negotiate a deal pretty easily, as despite all his bluster Trump's team has not sought to economically punish the Mexicans.

Turkey



Black Swans don't just appear, they slowly fade into view and the markets only recognise them for what they are until it is too late. Turkey under President Erdogan has been economically transformed. At one stage it was close to joining the EU and remains part of the EU Customs Union. But Erdogan has been steadily moving Turkey away from a secular democracy to a Putin-like autocracy with a more Islamic bias. The severe crackdown post the army's attempted coup swept up a US Pastor who has been in prison without charge for nearly 2 years. With the US Mid-Term Elections coming up Trump has taken the opportunity to fight the Pastor's cause. The impact of the US sanctions on both the Turkish Lira and the stock market have been significant. The long term consequences, if Trump continues his economic aggression, will also be severe. Inflation has already touched 18% and could easily spiral out of control. Turkey needs strong economic management, which is always difficult in an autocracy and cash. So far it has appealed to friends such as Qatar, (Iran is not in a position to help) and Russia. The last stop before the International Monetary Fund will be

China. For Europe this is potentially a big problem, with all the political issues across the EU a flood of Syrian immigrants from Turkish camps would not be welcome. Neither would the economic contagion, many European banks have lent heavily to Turkish banks and companies, losses at this stage would have a negative impact on an EU economy which is already facing headwinds from many directions.

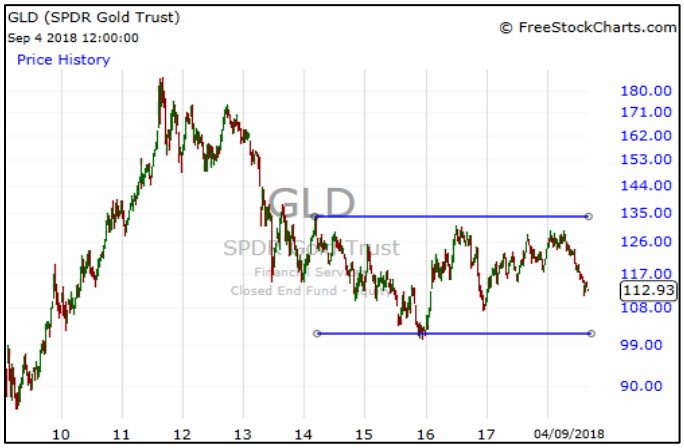
Trump and Impeachment

Trump, love him or loathe him, has kick-started the US economy into life, no Chief Executive wants to be left behind in the Trump boom, the tax cuts have helped, but it is the rolling-back of restrictive legislation that is fuelling the growth. Whilst it is very possible that he could be indicted it appears at present, just like Bill Clinton, he is unlikely to be Impeached. The power to do this lies in the US Senate. Whilst this is currently Republican it is expected to be Democratic post the Mid Term Elections. The possible size of the majority and the degree of swing towards the Democrats will be the defining factors. To be impeached requires a two thirds majority. At the moment it appears that is very unlikely to happen, it would require a big swing to the Democrats. But in current US politics who knows, it is also not impossible that his own party could turn against him?

5G

5G is short for 'fifth generation mobile networks and its set to be far faster than previous generations and could open up whole new uses including driverless cars and thus would be the "enabler" of the next Industrial Revolution. Some countries such as South Korea, China, Japan and the US are claiming they will launch 5G networks later this year or early 2019. In the UK however rollout isn't set to begin until 2020, according to the government's 5G strategy. This technology should unleash all the benefits (and costs) that connected vehicles and delivery services could offer. For the NHS, monitoring patients at home using wireless devices and prescriptions delivered in an hour by Amazon. Cars finding parking spaces for you and charging by the minute. However, all will require a reliable mobile signal, fine in the cities but what about the countryside?

Gold



With all the trade wars and political uncertainty around in the world you would assume that Gold, the classic safe haven, would be finding support amongst investors. As this chart shows the fact that it hasn't gives comfort to the Bulls that equity markets have further to run. But Gold is a strange thing, it is a trading asset not an investment as it pays no coupon or dividend. Fundamentally, it is used as a hedge when the US dollar is weak, and at the moment with the 10 year US Treasury Bond yielding 2.8% investors are happy to convert their spare cash into US Dollars. However, if they start to fear that the US Treasury Yields will rise further (thus generating capital losses) then at that point Gold should start to find favour.

Markets

September and October are often tough periods and markets are facing a myriad of geopolitical and trade pressures. Europe sits at the epicentre of risk with Italy, Turkey, Brexit and Merkel all possible major negatives for economic growth. Against this the US economy continues to boom and Trump will keep doing whatever is necessary to get his Blue Collar voters back to work regardless of the economic consequences elsewhere. As we write Brexit seems to be heading for the Canada style trade deal we highlighted last month, but will it pass through Parliament? Against all of this China and US could yet strike a trade deal; Mexico has shown that Trump wants headlines and sound bites rather than to inflict economic pain. Canada should be next and then China. But it is Europe and the near East we need to watch. For many commentators Europe can do no wrong, but the EU's economic structure is weak and flawed, it needs to move closer to full economic union sooner rather later. The danger is the

knock-on consequences from Italy and Turkey may just make that virtually impossible. Nevertheless, for the companies that make up the markets we actually invest in, profits continue to grow nicely. September 2018