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Just about still travelling hopefully

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"Travelling expands the mind rarely" Hans Christian Andersen

As seen in every classic fairytale, much lies behind the regular everyday façade presented in the first few pages of a story. During May, the UK stock market took over the monthly performance leadership from a French equity index, anticipating the (now confirmed) election of President Macron, despite the UK's own political vote looking to be a far closer event than most would have thought even a handful of weeks ago.

So, why this relative optimism, given financial markets dislike uncertainty? It certainly helps that regular surveys of global fund manager preferences has typically shown the Pound and UK assets near the bottom of the pile, versus historic allocation norms. Throw in some new election uncertainty and the Pound weakened a little, but did not plunge, and – amazingly for seasoned market watchers – talk about how a Hung Parliament on key issues like the Brexit negotiations may not be quite as bad as people think.

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Why this relative optimism, given financial markets dislike uncertainty?

The UK market – along with many peers around the world – are still in a 'travelling hopefully' phase. The outcome from the 8 June vote correctly matters for this island, but in the wider world it is insufficiently newsworthy to make a huge splash, certainly compared to the first tier match-up between other European leaders and President Trump at the recent G7 conflab in Italy.

Over the last couple of generations, one clear theme underpinning global financial markets has been the expansion of global trade flows. By definition, there are winners and losers from trade, but overall you get a better allocation of resources – a concept financial markets can happily buy into. The tone of late May's G7 meeting was poor, with both President Trump and Chancellor Merkel of Germany feeling the need to highlight areas of concern around co-operation, trade and NATO contributions. Probably, the summer holidays – and lowered levels of communication - cannot come soon enough on this front.

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Medium and longer duration fixed income instruments continued to see yield compression during May, despite continued thoughts that the Federal Reserve is on the cusp of another interest rate increase in June. This apparent contradiction reflects that the real debate that bond watchers are focused on – whether the US central bank starts to overtly contract the size of its balance sheet – is, again, a debate for next year.

Of course, in the fullness of time other central banks will have to consider the status of their own stimulus programmes, but – as is likely to be apparent in the debate around the Federal Reserve over the next year – just ripping around the central bank stimulus sticking plaster is likely to end in economic pain. This brings us nicely to the common theme that should bind all global leaders currently: the continued need for economic innovation and reform. From President Macron's hopes for a stronger France in a more dynamic Europe, to the Trump tax and infrastructure plans, and ongoing Chinese reform shifts towards a more service sector economy, the biggest hope in global financial markets today is that the world of 2018 and beyond can inspire. Whilst hopes persist and realities do not start to impact, markets will remain opportunistic. However, to evolve the words of Hans Christian Andersen above, ultimately 'travelling hopefully sustainably expands markets rarely'.

The time for the reality of action is getting closer.

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