



Insights, Tacit Thought | Weekly Investment Insights

Stay Focused on your Objective

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With the focus very much on short term issues in the UK and US, we believe investors are missing key longer-term implications being highlighted in government bond markets.

Government bond yields around the world have continued to fall even whilst economic growth has rebounded over the past decade. This puzzles most investors as the standard cyclical economic narrative is that increasing demand leads to rising prices and this in turn leads to rising interest rates to dampen this demand and control inflation/prices.

Over the past 30 years, investors have become accustomed to central banks 'managing' inflation and this leading to ever decreasing interest rates in the world. But what if this dynamic has not been driven by the genius of central bankers but more by wider global themes that are still at play? What if the real problem remains an oversupply of goods and services or a lack of demand? What if the ageing of populations is actually the problem as it leads to a lack of productivity? Ultimately, low growth leads to political tensions in a democratic political system.

Whatever the reasons, we are all in a world of near zero interest rates and increased political tensions. October is likely to be one of the most fraught periods for UK politics as the 31st October deadline nears for Brexit. Having said this, all of the recent turmoil has not stopped UK investors achieving very solid returns for 2019 to date.

The point we are trying to make is that news flow does not necessarily correlate with investment returns. Markets are discounting mechanisms and historically discount events six to twelve months in the advance. As an example, at this point last year the news flow around Amazon, Netflix and other technology companies was almost universally positive; their share prices since then have fallen on average 20%.

It is more important than ever to remain invested and not let the news flow drive an investment decision. An investor's long-term objective will not be met by holding cash unless they can accept a loss in value after inflation. Remaining invested is vital, whilst being selective in your investments is more important now than at other times in our living memory. As the economic environment (zero interest rates) is pointing to risks that many investors tend to ignore, at Tacit, we do not.

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