

Bremain

The last day of May has usually been a time to sharpen one's pencil to write a review of whatever what was to blame for the often recurring stock market phenomenon of sell-in-May-and-go-away. Not this year. There's almost nothing at all in the newswires for markets to get excited about. Indeed, even the keenest cricket fan might've been surprised to see the front cover of Tuesday's FT leading with England captain Alistair Cook becoming the youngest player to score 10,000 runs in test cricket. This takes nothing away from overtaking Indian batting legend Sachin Tendulkar, a mere five months older than Cook. There's nothing wrong with that at any level.

I digress. But when the next article is about Brussels urging light touch rules for the sharing economy, one wonders if it's worth reading on. The third front page article about hedge funds paying for private Brexit referendum exit polls, however, gives a clue to not only the content of the next several pages but also as to why there is so little going on in markets.

The fact is that, in May, UK stocks returned less than half a percent and Gilts fared little better. There was

more action in the currency markets. The Euro lost ground following a prolonged winning streak and the Japanese Yen also fell in May. But both owed most, if not all, of their moves to the rejuvenated US dollar which, if measured against a basket of global currencies, put in a low on the first day of May and has been strengthening almost every day since. This is unsurprising since expectations are rising again for the Federal Reserve to raise interest rates in July and markets understandably price for the possibility that maybe they really mean it this time.

Missing from this unexciting party is, of course, Sterling which enjoyed a strong run in May and, over 3 months, it has trumped even the US dollar, rising over 5%. The turn in fortunes from March matches that of the betting on the Brexit referendum, now filling the editorials, opinions and letters pages, and from which the currency undoubtedly takes its lead. In early March, the odds of Remaining were 1/3 and Leave 9/4. As of Tuesday, the odds had shortened far more in favour of Remain at 1/6 with Leave a more generous 7/2.

As I write, a new ICM poll released by The Guardian showed "Leave" in the lead for the first time. The FTSE and Sterling fell and the odds of staying in moved sharply to 1/4. If you're going to write about Brexit only 3 weeks before the vote, you had better write fast because the polls do matter. Forecasts for Sterling shift quickly on the back of them. UBS, Goldman Sachs and HSBC all warned on Tuesday of the possibility that Sterling could fall 15-20 percent in the event that the UK votes to leave the EU, citing the impact to GDP, foreign investment and the already large current account deficit.

Whether or not you believe the dire warnings, the point is that the forecasts are based on what Sterling, and the bond markets, are pricing for now. In the event that the UK remains in the EU, the resulting strength in Sterling, according to the same analysis, could be limited to a mere 5%, that is, similar to the bookies odds.

If this sounds less like investment than gambling, it's because it is. Even knowing where the betting odds are today is of only limited comfort when one considers the failure of polling ahead of the Scottish independence referendum in 2014 or the general election last year. The poll showing "Leave" should be scrutinised. A telephone poll made in the evening, for example, will capture a completely different demographic of one conducted over the internet in the middle of a working day.

The Brexit/Bremain vote looks closer than it has ever been and, with so much at stake, there's plenty of debate still to be had. The clash of facts and the sentimental is not confined to politics alone as they impact stock, bond and currency markets.

Bremain looks more likely than Brexit according to the bookies' odds, regardless of the latest single poll. But if "Bremain" does carry the day, the aftermath will require close watching. Can Prime Minister Cameron survive even if he wins? His party is fractured with half of his backbenchers voting against the party line and it's hard to see it all fitting back together nicely again. But it must be said that it would've been impossible for him to keep the party together if he hadn't held the referendum after winning the general election with a majority.

Nothing succeeds like success and, having "won" the Scottish referendum and Brexit, perhaps he will cling

on. The aftermath will be interesting for politics and ultimately for markets which will remain restless so long as there is neither a functioning government nor opposition.

However, we have weighed up the likely impact in shares, bonds, currencies and property, all of which make up the well diversified TAM client portfolios, and we have already seen how all the asset classes move as the polls have moved.

So what is going on in TAM portfolios?

We recently reduced exposure to property due to concerns over liquidity and the profits from that trade are being retained in higher cash positions as we look for the opportunity to invest in something other than shares, where we already have the weighting we consider appropriate.

Specifically we have hedged out some global currency exposure in order to make our strategy more neutral, as we feel that currency is likely to be more volatile than equity markets and, not wanting to "gamble", we have de-risked from this binary currency bet to a significant degree.

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