

"Default Crisis"; what default crisis?

Investors and commentators alike are understandably getting a little anxious over the current US shutdown and potential default. The media have latched on the affectionately named "drop dead" date of 17th October when the next Treasury payment is due although this would probably pass through even without a resolution in the meantime.

The market is actually much more concerned with the next payment date of 24th October. It stretches credulity to think we could get that far without a resolution but in a world where the improbable has become routine, the markets will inevitably keep factoring in the likelihood of a worst case scenario.

Having said that, we think markets are actually taking the stand off in their stride. A FTSE 100 index at 6,400 and 10-year Gilt yield of 2.70% doesn't tell us that there is a sense of crisis similar to that which

prevailed around the time of the Spanish bailout, for example.

If anything, in the short term, it would appear that markets are actually more concerned about missing out on a rally in anticipation of a resolution to the US shutdown. Furthermore, markets are already looking much further into 2014 than the 24 hour financial TV channels would have one believe and, in our view, there is plenty to be positive about for equities.

In the US, the 3rd quarter earnings season started this week and although we are in the early days there is room for positive surprises, particularly as expectations have been managed down by both CEOs and analysts as the whole Fed tapering debate got going. Incidentally, there are a few reasons now why bad news on the shutdown is good news for tapering. We may now find that taper talk gets pushed into being a 2014 story and considering Janet Yellen, with a dovish reputation, is taking over at the Federal Reserve. The flipside to extending stimulus and debt is that it raises serious questions about the long term state of the US, and global economy, but the reality is that this is not something the market is worried about today.

Our US investments are either those that follow specific themes or follow income strategies and employ investment processes that seek out companies with sustainable cash flows through market cycles and are typically in a position to not only fund dividends better than inflation, but to grow the dividend over time. So they are relatively defensive compared to the index and we have every reason to expect that they will provide a satisfactory return over time.

As we stated repeatedly over the last 18 months or so, we are positive on equities in the longer term and negative on bonds. We have consistently used periods of market stress to add to equities and the performance over that time has been exceptional.

Finally, there are no winners in a continued standoff in the US. Neither the Democrats nor Republicans come out of this well against a rising tide of anger from the public and unpaid government workers in particular. We don't think the US turkeys will vote for Christmas and if, as seems likely, there is a resolution within the next week or so, TAM client portfolios are well positioned to respond very

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