## Highlights and Lowlights: what caught our eye in September 2018

September saw equity markets fall early in the month before many clawed their way back to something like parity by month end. Major indices for the UK, US, Europe and Emerging Markets (EMs) showed returns within a range of -0.5% to +0.5% in local currency terms but there were outliers, with Japan rising 5.5% on the back of a weakening yen whilst India fell over 6%. With the rise in the Japanese market taking it to the highest level since 1991 and other markets around the world having touched highs in recent months, it is worth noting that 15 September 2018 was the tenth anniversary of the collapse of Lehman Brothers, a key event in the chronology of the Global Financial Crisis (GFC). Christine Lagard, Chief of the International Monetary Fund, marked the occasion by warning that, whilst the global financial system is much improved, it is "safer but not safe enough". She highlighted weak European banks and large, complex institutions perpetuating the 'too big to fail' problem but, with neither issue being news to investors, markets remain at elevated levels. However, within her comments what caught our attention was her comment that "Perhaps most worryingly of all, policy makers are facing substantial pressure from industry to roll back post-crisis regulations". The reality is that the "pressure" has translated into actions in some places, with President Trump relaxing regulations on smaller financial institutions in the US, with suggestions that he wants to go further. Inevitably, such actions have triggered warnings that politicians are ignoring the lessons learned during the GFC and, whilst only history will ever provide such an answer and de-regulation may provide a boost to some share prices in the short term, it is a risk that is potentially evolving and which investors need to assess carefully.

Aside from the Lehman's anniversary, September was a month in which developments within some long-running issues, such as US/China trade tensions, Italian political risk and Brexit, caught our eye. Few, if any, provided any great clarity on the eventual outcomes. However, the events may yet to prove to be important. As a first example, President Trump's enactment of tariffs on $200bn worth of Chinese imports to the US were no great surprise, as they were only what he had threatened previously, as were the retaliatory tariffs from Beijing. However, the fact that, late in the month, China cancelled trade talks with the US may be more significant, as they raise the possibility that China is digging in for the long haul, which could be a bad sign for global trade.

In a similar vein, whilst Brexit remains a complete 'known unknown', the EU's rejection of Theresa May's Brexit plan at the Salzburg summit may prove in hindsight to be a key moment. Its brutal manner has moved things politically, as a clearly angry May came out fighting after what she saw as a political mugging, accusing the EU of simply rejecting proposals without providing any credible alternatives. Whilst the Dutch Prime Minister called the summit an "accident" and the EU promised to keep working towards a deal, the rhetoric from several parts of the UK government has hardened and it is difficult to see how a deal is more likely. Furthermore, with May seen as potentially weakened by events, both wings of her own party are now openly squabbling, whilst the opposition Labour Party has now declared that its aim is to use the Brexit uncertainty to achieve a General Election as well as flirting with the idea of making a second referendum party policy. All of this means that a number of outcomes considered previously to be long shots are now less so, so arguably investors have even less clarity than ever.

On the last ongoing issue, Italy setting a budget that equates to a deficit of 2.4% of GDP, well above that allowed under EU rules, is not that much of a shock, as we commented last month on the fact that the League/Five Star Movement coalition was showing an appetite for confrontation. However, the decision represents a defeat for the Economy and Finance Minister, Giovanni Tria, and there are concerns that, should the budget be passed, he may resign. Of course, the budget has yet to go to the EU and, with their response likely to be far from positive, the final version cannot be known. However, with Tria being a respected figure amongst investors, his loss would be a blow to Italian assets, with the potential for 'spill over' into European asset process.

Finally, the month saw the SEC achieve possibly the fastest settlement ever of a market abuse case when they charged Tesla Chairman and CEO Elon Musk with securities fraud for sending a “false and misleading” tweet that he had the finance in place to take Tesla private before, within 48 hours, agreeing a $20m fine with both Musk and Tesla, and that Musk would step down as Chairman for the next 3 years. Tesla’s share price leapt on the news that the SEC would not follow through on their threat to bar Musk from all senior positions, recovering all of the 12% fall they suffered on the news of the original charge. However, whilst this was certainly a relief to Tesla and their investors, as well as Musk, such a settlement does little for any short sellers that felt the brunt of the spike in share price that followed the tweet, and it seems likely those law suits will continue. Therefore, whilst Musk has avoided the worst possible scenario, Tesla is likely to remain a much-watched stock, especially if Musk fails to curb his Trump-like ‘shoot from the hip’ tweeting.

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