



Knightsbridge
Wealth

update

Dear Friends and Colleagues,

As we go to press, global markets are becoming more jittery. That is to be expected. We've been living in an unreal world where the US stock-market seemed to finish each day on a new record high.

If I had told you in January that in 2020 that there would be some kind of unprecedented global pandemic, to which governments would act dramatically with great force and incompetence, that thousands would lose their lives, with America one of the hardest hit, that half the country would be wearing masks, schools closed, citizens would be locked down and city centres would be deserted, few would have believed it. Worse than that, restaurants, bars, theatres and sports arenas have all closed, the leisure industry has been decimated and the transportation industry has lost 80% of its passengers.

If I had told you that the disease began in China – some conspiracies say deliberately – and so US/China trade relations would grow even more strained and, at the same time, race riots, perhaps the worst America has ever known, would rear their ugly heads, leading to looting and violence, with some city centres destroyed altogether, you would picture a place in despair.

If I then told you that the S&P 500 – the stock market index that tracks the performance of 500 of America's largest companies, would break out to new, record highs, you would (quite rightly) say I needed my head examined. Yet that is where we are.

But markets don't reflect the wider economy. If ever you needed evidence that the stock-market and the economy are two very different beasts, 2020, in all its madness, has proved it. The economy has all but ground to a halt; GDP has shrunk. Yet, the stock-market is at new highs. How? The answer is simple: more buyers than

sellers. This trend in US stock-markets has been confounding people since March 2009 when the S&P was at 666. Today we are 3,440: five times higher.

Is the economy five times bigger? Of course not. Is the US citizen five times wealthier? No. But global governments have been busy printing money, and that money has to buy something. Governments are not going to stop printing money, so you may as well take advantage of that in your investment strategy, as part of a properly diversified portfolio.

So what can we expect next?

More often than not, new highs lead to more new highs. That is the nature of bull markets. When will the music stop? I wish I knew. It could be later today, but I doubt it. US president Donald Trump has an election to win, and new highs on the stock-market are a key part of his strategy.

In the UK, with only three months left, the chance of a trade deal with the EU seem more remote than ever. Britain appears to have reconciled itself to leaving without any kind of arrangement. Most of the EU is slowly coming to the same conclusion. The EU wants Britain to remain within its legal and regulatory control, while the UK wants to make its own laws, and set its own standards.

A no-deal Brexit might well turn Britain into an offshore hub, with a deregulated, low-tax model. Would that be such a terrible outcome? Much like Singapore for the rest of southeast Asia, a deregulated, entrepreneurial UK could funnel a lot of trade and investment into the rest of Europe while not being bound by its rules. Singapore and Hong Kong have done a lot to boost their whole regional economies. The UK could play the same role for the rest of Europe.

It should be in everyone's interests for the UK to be as successful as possible after it leaves the EU. The UK is one of the largest markets for the rest of Europe, so the richer it is, the more it will import, meaning EU companies will be able to grow more quickly as well.

In these challenging times, the quality of advice, service and active management from a well regulated firm has never been more important. The team at Knightsbridge Wealth are committed to help in every way possible and we look forward to working with you.

Our strategic partnership with UBS (Union Bank of Switzerland) gives the best of both worlds – personal service and the ability to react in a way that only a small firm can, partnered by one of the world's most prestigious brands.



Market Report



Bonds

Corporate Bonds look attractive

While longer-term rates could move gently higher given ongoing recovery from the pandemic-induced slowdown, any spikes would be short-lived due to the Fed's active management of interest rates and its balance sheet. This, along with low inflation, should prevent longer-term rates from rising quickly as the year progresses. US investment grade and Emerging Market sovereign bonds, issued in hard currency, still look attractive.

Corporate Bond issuance has grown strongly as companies seek to take advantage of low interest yields to refinance business and maturities of existing Bonds. Investor demand for this asset class is strong and unlikely to fade, likely to be helped by forceful purchases of corporate bonds from Central Banks.

Equities

UK looks good value

The picture still looks supportive for equities over the coming months. While the economy is running below potential, the data is improving, vaccine developments seem to be making progress, and better testing and treatment capacities mean full lockdowns are unlikely. Given high uncertainty, central banks and governments will likely stay in full stimulus mode. Earnings estimates have been cut dramatically and net earnings revisions have turned positive for global equities. Price-to-earnings ratios are stretched, but in a world of ultra-low rates, equities look more attractive than bonds. Geopolitics and a second virus wave remain key risks.

US equities have continued their remarkable run since late March. While there may appear to be a disconnect between the economy and the surge in stocks, the improvement in business activity, extraordinarily low interest rates, and progress on vaccine development suggest that the market is behaving reasonably.

Eurozone markets have started to catch up but remain noticeable laggards year-to-date. UK stocks offer attractive valuations, being a 30% discount to the MSCI All-Country World Index. Strongly negative earnings growth is likely this year, but expect a strong rebound next year driven by an economic bounce back and a higher oil price. The UK market has a high relative exposure to cyclical value sectors, such as energy and basic materials, which could benefit from a global recovery.

Commodities

Gold price peak

Commodity prices should push about 15% higher over the next 12 months. While all sectors are expected to rise, cyclical commodities are poised for the greatest gains, especially crude oil.

The rise in base metal indices has been driven mostly by copper. But the next move higher should be broader based. Both copper and nickel look most attractive, while aluminium prices at the London Metal Exchange could catch up with Chinese prices to some degree.

Oil

Production growth limited

OPEC and its allies have showed a great deal of unity, with strong discipline to keep production down, at the same time as oil demand has continued to recover. Oil inventories have started to drop due to an undersupplied market, and prices are too low to incentivize strong production growth in the US. This all means that the world is dependent on crude oil from

OPEC+. This increased pricing power, with US shale supply only coming back strongly when WTI crude prices rise above \$50 a barrel, sets the tone for Brent crude oil prices to reach \$55 a barrel early next year.

Hedge Funds

Useful source of stability

Hedge funds are a useful source of return and stability in a multi-asset portfolio, especially during times of market volatility. They can offer superior risk-return compared to many other asset classes and access to uncorrelated investment opportunities, which provides downside protection and diversification benefits.

With potentially heightened disruption and volatility ahead, investors should consider holdings in this asset class. The optimal way to invest (used by our investment partners) is via a diversified hedge fund portfolio across strategies and managers.

Foreign Exchange

Bearish on the Dollar

The US dollar is under pressure. US interest rates have collapsed and the Fed has supplied markets with an unprecedented supply of USD cash to alleviate funding issues, easing its policy stance more proactively than other central banks globally. Within the G10 currencies, there is medium to long-term upside potential in the Euro, in Sterling, the Canadian Dollar and Swiss Francs.

In the long term, the USD is likely to weaken further, albeit at a slower pace. US interest rates are still more attractive than EU ones and stronger global growth is needed for a stronger euro rally although the Euro is likely to continue its recent growth. Sterling offers a good alternative for investment.

Brazil drowns in debt

Brazil's democracy is tearing at the seams. The country has surpassed 120,000 coronavirus deaths, making it one of the world's worst-hit nations. The virus has deepened bitter political divisions. Embattled by Congressional opposition and Supreme Court probes, President Jair Bolsonaro's supporters have called for a military coup. That's unlikely, but political institutions, already discredited by massive corruption, are entering an advanced state of decay.

Bolsonaro's election victory in October 2018 triggered euphoria in the stock-market, with the benchmark Ibovespa index advancing 38% to January 2020. Yet shares then crashed a stomach-churning 43% as the pandemic hit. The market has since made up much of the lost ground, but is still down 12% for the year to date.

That is a noticeable underperformance compared with the emerging-market average, down about 2%.

Bolsonaro's first 18 months in office have been disappointing for the country's business community. Last year's pension changes aside, promised reforms have fallen by the wayside. Economic growth has remained anaemic. Yet recent weeks have seen investors' old ebullience return.

The likely cause is a proposed tax reform, which should simplify one of the world's most complicated systems. Brazilian businesses are thought to spend an average of 2,000 hours complying with tax obligations, 20 times longer than their UK counterparts. Another reason for the recent rally is that government stimulus

has turned out to be more generous than expected. A signature crisis measure has been a 600-real (£84) monthly stipend paid to workers in the hard-hit informal economy. The pandemic has forced the Finance Minister to run Brazil's biggest-ever budget deficit, predicted to be at least 11.5% of GDP this year.

The headwinds are considerable. With public-sector debt ballooning towards 100% of GDP, the state cannot afford generous fiscal support measures for much longer. Brazil has one of the weakest fiscal positions of any emerging economy. Proposed tax reforms are badly needed, but will be difficult to force through the legislature.

Dollar ripe for depreciation

Has the greenback reached a turning point? The US dollar index gained more than 10% between March 2018 and April 2020. The index measures the greenback's value against a basket of six major trading partners' currencies. Yet that trend has now gone into reverse, with the dollar falling by 4.4% in July, its worst monthly performance in nearly a decade. It is down by 9% from a mid-March high and has reached a two-year low.

The dollar's reversal will have broad implications. The strong dollar was driven by US interest rates, which were higher than those on offer in Europe or Japan. That encouraged yield-hungry investors to park cash in dollar assets. Yet the US Federal Reserve has now slashed rates to near-zero and quantitative easing has expanded its balance sheet by almost \$3trn in five months.

The dollar is still not particularly weak on a historical basis, remaining above its ten-year average valuation in trade-weighted terms. Yet something mysterious is afoot. Risk-averse investors have been crowding into safe havens such as bonds and gold, but the dollar, another traditional refuge, has been shunned.

What's more, US inflation expectations have risen recently even as stocks remain stuck. The explanation may be that markets are positioning for a regime shift in US monetary policy, with a Federal Reserve that tolerates – or indeed targets – higher inflation. That makes the greenback a less attractive asset than it once was.

The dollar's turnaround raises questions that go to the heart of the global financial system. Some 88% of deals in the \$6.6trn foreign exchange market involve the greenback. Investors are now questioning whether US institutions can withstand

a period of intense political polarisation. Donald Trump's recent suggestion that the election should be delayed hardly allayed fears of civil strife.

American political dysfunction compares unfavourably with Europe, which is taking unprecedented steps towards fiscal union. A rising euro has been a significant factor driving the dollar's recent fall. The macroeconomic picture is also unfavourable for the greenback, with the US running a current account deficit while the eurozone runs a surplus. All this suggests that an overvalued US dollar is ripe for a sharp devaluation.

Many will cheer a weaker dollar. It could spark a boom in emerging markets by providing cheaper financing costs for local businesses. A falling currency also bodes very well for American stocks because a weaker currency flatters the overseas earnings of US companies when translated into dollar terms.

UK house prices hit a new record high – can it last?

As you might have noticed, we're still in the grip of a pandemic, and we're nowhere near seeing the end of the resulting surge in unemployment and business disruption. So, of course, UK house prices have just hit a record high. The latest Halifax price index suggests that the average UK house price rose to a record high of £241,604 in July, up 3.8% on the same month last year.

What's driving the surge? Well, as with every other housing market commentator at the moment, Halifax is hedging its bets. The stamp duty holiday announced by chancellor Rishi Sunak has helped, obviously. And people who weren't able to move during the lockdown still want to move – creating a surprising spike now that lockdown has been relaxed. But the long-term outlook is cloudy, what with government support for the labour market set to drop off.

Meanwhile, property website Rightmove confirmed that reopening has so far been embraced enthusiastically. Apparently, property hunts were up 50% in June and July year-on-year. A fair bit of the traffic is being driven not just by those who had already intended to move, but by an increased number of home hunters who have decided to move following the experience of lockdown.

Now, how much of this is simply work-from-home tourism and escape-to-the-country daydreaming is another question. But clearly the (not entirely explicable) great British love of property hasn't been dented by the coronavirus.

So what does any of this mean for house prices in the longer run?

In the absence of higher interest rates, house prices won't crash, and any real shift in the make-up of prices will probably focus around a bit of a move from the city to the countryside. We'll see how this progresses as unemployment evolves over the coming months. But, on the interest-rate front, while there's a backlog of mortgages to process, they aren't getting any more expensive. Indeed, the average two-year fixed-rate home loan cost 2.07% at the end of last month, from 2.48% the year before.

First-time buyers might still struggle (Nationwide for example, is being wary about the amount of money you can borrow from the 'bank of mum and dad' these days). But all that means is that transactions might be lower than they otherwise would be. It doesn't necessarily result in lower prices, unfortunately.

Right now the real place to be looking is the rental market. In the big capital cities – London and Edinburgh – rents are flat or falling. This is in contrast to the rest of the UK. Rents in London have apparently fallen by 3% already this year, while in Edinburgh, the average rent is up by just 0.2%. That compares to average growth of around 2% for the UK as a whole. This is because there has been an influx of homes from the short-term lettings market after coronavirus hit the tourism industry. A lot of people who owned AirBnBs have put them on the market as longer-term rentals. So, how can UK house prices be at record highs right now?

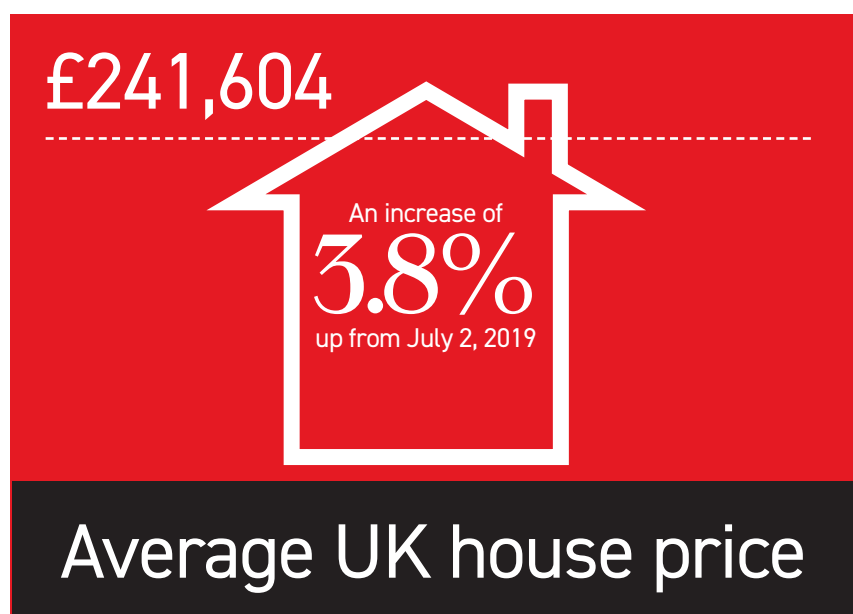
UK house prices are very expensive and it's no wonder that they cause so much social strain. That said, this makes it hard to appreciate that the market has actually seen pretty weak price growth for about five years or so now. That was when George Osborne, as chancellor,

put a serious dent in demand from small landlords by raising taxes on second home ownership. Demand from overseas investors also took a knock. All of this hit the London market particularly hard. It's quite possible that by the end of last year, those changes had mostly been digested by the market. The landlords who were going to get out had left, as had the overseas investors.

So come back to today, post-Covid. The overseas buyers who were put off by higher costs and Brexit are now more interested again, as it looks like the pound may have bottomed and they also have a deadline of next April before the cost of buying goes up even more (not to mention the surge in interest from Hong Kongers, for obvious reasons).

Die-hard landlords, meanwhile, still can't see better uses for their capital, what with record low interest rates. Throw the stamp duty cut into this mix, and you can see why interest from those sectors might have bounced. Then think about the other people who might be moving right now. There are those who are going ahead with transactions that were already agreed.

A fully-fledged house price crash is not on the cards.



Brexit latest

Negotiations between the UK and the EU on a post-transition trade deal are deadlocked. This is not particularly surprising, as it was always unlikely that an agreement would be reached until the last possible minute. While it may be disappointing for markets, the current state of affairs is, unfortunately, a reality of international negotiations. This is not the first time we've been here, and it certainly won't be the last. In what can only be seen as an attempt to inject new momentum into the negotiations, Downing Street is now insisting that a deal must be agreed on by the October European Council meeting. Johnson's government are also looking to pass legislation that overturns some of the existing requirements of the Withdrawal Agreement in order to prevent the establishment of a hard border between Northern Ireland and the rest of the UK.

As has been widely noted, the key sticking points in the negotiations seem to centre on state aid (the so-called Level Playing Field requirements) and fishing rights. The EU is continuing to push the UK to agree to a regime that would prevent EU companies from being undercut by UK competitors that enjoy looser state aid and more relaxed environmental standards. It has dropped its previous request for the UK to align dynamically to its rulebook, instead settling for a UK-derived rule-based framework. The UK has so far refused to publish its intentions in this area, although reports suggest that it will be forthcoming on these by the end of September. Without any foresight into how the UK intends to handle its state aid policy, it's hard to envision the EU agreeing to the tariff and quota-free trade deal in goods that the UK is hoping to strike.

On fisheries, the EU wants to maintain its existing access to UK waters. The UK has suggested that this position is not tenable, and it's looking to offer access on the basis of annually agreed quotas. The totemic significance of the fishing industry belies its economic importance both to the UK and to the EU. This issue alone could prevent a wider trade agreement from being struck.

The mood surrounding the negotiations has undoubtedly soured. As both negotiating teams have reached the limit of their mandates, progress from here on out will require political intervention at the heads-of-state level. With the UK due to exit the transition agreement at the end of the year, time is tight. There are a few key dates to watch over the coming weeks but knowing when politicians will step in to move the talks forward—or abandon them—is still a guessing game. Given the timelines involved, and the latest proffered deadline of the October European Council meeting, movement around this period is possible. However, we should be braced for talks to continue beyond this date. It is conceivable that negotiations could continue into November if a breakthrough seems in reach.

It is still more likely than not that a free trade deal will be agreed on. The political and economic incentives still favour compromise and a managed exit over economic disruption, especially at a time when both the UK and the EU economies are struggling to emerge from the deepest recession in living memory.

For Prime Minister Boris Johnson and his government, the political incentives for reaching a deal should not be underestimated. With the independence movement gathering momentum in Scotland, leaving the EU without a deal would likely embolden the Scottish National Party ahead of next May's Holyrood elections. Furthermore, the economic disruption from not signing a trade deal would produce uneven ripple effects across the economy; some industries would be hit much harder than others. And, unfortunately for Johnson and his government, many of those industries are based in his newly won former "red wall" constituencies.

If the UK and the EU cannot reach an agreement, the UK will likely face another unwelcome economic shock. Some have argued that the trade deal the UK is seeking with the EU is so thin that there is very little difference between it and reverting to WTO terms. In the context of the recession that the UK has just been through, the overall impact would likely be minimal. It's probably fair to argue that over the long term, say through 2030, the difference in how the UK economy would perform under the terms of the thin trade deal being sought versus under WTO terms of trade is relatively small. However, transitioning from the UK's current position to WTO terms on 1 January 2021 will entail significant economic disruption—all the more so because of the lack of preparedness for such an outcome by many firms across the UK.

Tariffs on UK exports are only one element of the story. The bigger disruption would likely come from the imposition of non-tariff barriers that would disrupt the flow of goods and, crucially, services. And on imports, the rise in tariffs on goods flowing from the EU into the UK, and the likelihood of a weaker pound, would likely push up inflation in the UK, crimping household incomes in real terms. These potential disruptions would not persist indefinitely, but it's likely that the UK would experience a short, sharp recession in the first quarter of next year if it were to leave the transition period without a deal. Growth would likely resume thereafter.

For policymakers, such a scenario would likely be met with further easing of monetary policy in order to prevent financial conditions from tightening. The prospect of negative interest rates in the UK would become very real under this scenario, as they would likely be one of the few tools left at the Bank of England's disposal to stimulate the economy.

Abenomics After Abe

The Japanese economy often serves as a signpost to the path ahead for other advanced economies, but rarely attracts foreign investors' attention. Prime Minister Abe Shinzo's resignation and Warren Buffet's investment in Tokyo-based trading houses changed that.

Abenomics' was the attempt, from 2013 onwards, to revitalise Japan's long-sluggish and deflation-prone economy with a 'three arrow' strategy of ultra-loose monetary policy, fiscal stimulus and structural reforms. The most long-lasting of these was the sustained programme of quantitative and qualitative easing by the Bank of Japan under its Abe-appointed governor, Haruhiko Kuroda (who will remain in post after Abe's departure). By 2018, after a five-year bond-buying spree, Japan's central bank had become the first among G7 nations (and only the second after Switzerland) to own assets worth more than the whole of the national economy.

Seven months into the pandemic, the world's third-largest economy managed to limit Covid-19 infections with a combination of disciplined mask-wearing and social distancing. While Japan's economy slowed sharply, the decline was less dramatic than in the US or Europe. The corporate sector looks healthy with a resilient labour market and strong policy support.

From an investor's perspective, a lot of important work has been done – hence many analysts think that a period of uncertainty would be a good chance to buy. Abe's attempts to overhaul the economy remained unfinished, but efforts to improve corporate governance have made a difference. More than 90% of listed firms have more than one independent director, compared with 20% in 2014. And cross-shareholdings between companies are now under 10% of market capitalisation, down from 30% plus in the 1990s. Meanwhile, little noticed even by professional investors, Japan's earnings-per-share growth has quietly beaten most global markets in dollar terms since Abe took office.

Corporate profit margins, which used to range between 2% and 4%, haven't dipped below 5% in the past five years, suggesting a break in profitability. Yet the market still looks comparatively cheap alongside global peers. Add on companies' habit of stockpiling cash, which helps them avoid dividend cuts or keep investing for growth in a crisis like this, and the bull case is clear.

One of the most common criticisms of Abe is that he never delivered on his promises of deep-seated structural reforms. He never did the most radical things, such as tearing up protections for salaried staff. But he did liberalise Japan's electricity market, open the country to Chinese tourists, cripple the agriculture lobby and sign two huge trade deals. Labour-market reforms aimed at attracting more women into the workplace have been modestly successful. And Abe also introduced important corporate governance reforms, combined with a new stewardship code, that have made Japanese investments far more attractive to foreign and institutional investors. From 2017-19, Japan attracted more private-equity investments than any other country.

Whilst corporate profits rose, and unemployment remained low, those profits never fed through into wage inflation sufficiently strongly to drive a sustained boost to consumer spending. Inflation remained stubbornly below the central bank's 2% target. Thus, on its own terms, Abenomics failed. Most notably, the anti-growth effects of raising the consumption tax from 5% to 10% outweighed the stimulus effect of great government spending. Yet, under Abe, both growth and employment improved, partly due to the weaker yen.

By late last year, however, Japan's economy was contracting due to slowing global trade and the brewing trade war between the US and China, which badly hit Japanese exports. With Japanese national debt at 150% of its GDP (the highest proportion of any developed economy), Abe once again turned to a rise in the consumption tax in the hope of tackling the debt and shoring up social programmes. The tax rise killed off spending, and then a vicious typhoon devastated central Japan, compounding the economic damage. By the time the Covid-19 pandemic took hold, Japan was already in recession.



Stocks ignore US-China split at their peril

"I had a great relationship with President Xi," US president Donald Trump told Fox Sports Radio. "I like him, but I don't feel the same way now." Washington and Beijing's troubled relationship has taken a turn for the worse recently, with the two sides clashing over everything from stock-market listings and tech to Hong Kong. Consulates have been closed and credit cards blocked. Hong Kong's leader Carrie Lam admitted this week that she has struggled to pay with plastic since she was targeted by US financial sanctions.

Ironically, trade is one of the few areas where the two countries still seem able to engage constructively. A cautious truce in January drew a line under a bitter two-year trade war. Scarred by recession, neither side appears inclined to resort to new tariff hikes for now.

A new digital iron curtain is falling over the world. The internet is increasingly divided into different tech spheres centred on US and Chinese software. American allies such as Britain and Australia have joined in with bans against Huawei's 5G technology. Yet this 'splinternet' is bad news for US tech giants too. They will have to rein in their global ambitions in a world where trading with both camps becomes nigh-on impossible. Global supply chains are also splitting apart. The chairman of Hon Hai, which assembles iPhones for Apple, declared last week that China's days as the 'world's factory' are done. The Taiwanese group has shifted production to southeast Asia to avoid US tariffs.

Yet unwinding all commercial ties would be prohibitively expensive. Unless either side can find a spare \$5trn to \$10trn to reconstruct their supply chains completely, then the US and Chinese economies will remain bound together for years to come. Talk of a new Cold War is historically illiterate. The US and the Soviet Union barely traded with each other; US-China bilateral trade in goods has fallen but is still likely to be \$450bn-\$500bn this year. Despite a pandemic and tariffs, that figure is only back to where it was in 2011. The United States and China are not in a cold war. They are in a bad marriage.

Once attuned to every development in the trade war drama, markets have become strangely blasé about worsening trans-Pacific relations. The rich valuations of tech giants such as Apple, which makes 15% of sales in China, will be far less plausible in a world that is segmented into incompatible tech spheres.



Crisis deepens in Lebanon

Lebanon's entire cabinet resigned recently as a result of public anger over an enormous explosion that killed more than 150 people, wounded 6,000 and left hundreds of thousands homeless. The explosion of 2,750 tonnes of ammonium nitrate, which had been stored in the Beirut port since 2014, despite warnings from a number of officials, has led to protests that have turned areas of downtown into battle zones between demonstrators and the security forces.

The country's problems run much deeper than a single disaster, however tragic. As well as leaving explosive chemicals lying around for the better part of a decade,

experiencing hyperinflation (the other is Venezuela), with prices rising at an annualised pace of almost 90% in June and food prices up 246.6%. The country imports more than 80% of its food.

In everyday life, some citizens have resorted to bargaining, with Facebook advertisements offering swaps of clothes for cooking oil and foodstuffs. Banks are dealing with a dollar shortage by imposing strict withdrawal limits – depositors are limited to accessing as little as \$200 per fortnight of their own money. Rapidly changing and unpredictable prices are another hallmark of hyperinflation.

line the pockets of corrupt politicians. In another sign of the dysfunction in Beirut, the IMF has so far been unable to offer an emergency credit line as politicians cannot even agree on how big the banking system's losses are. Enacting economic reform and sharing the financial losses fairly between banks, depositors and the state would require the sort of political will and broad-based legitimacy that the Lebanese leadership does not have.

Lebanon has suffered from decades of misrule, and most Lebanese are in little doubt that ultimate responsibility lies with the terrorist group Hezbollah. Indeed, Hezbollah has extended its hold over Lebanon to such an extent that it now exercises de facto control over the country's entire political system. As Iran bankrolls Hezbollah, this means that all the major decisions in the country are taken in accordance with Tehran's wishes. No worthwhile reform can be achieved until the country ends Hezbollah's stranglehold.

But the immediate priority is to help a shattered and battered country rebuild while staving off impending bankruptcy. Repairing the damage caused by the explosion will cost at least \$5bn, but Lebanon needs much more than that to stabilise the currency, reduce bureaucracy and make modern business again possible. It is heartening to see that France has taken the lead in building an international relief effort. Such an effort must make aid conditional on a cabinet appointed on technocratic competence and on international supervision of any funds.

Despite the talk of change, there is a real fear that once things have settled down the same power brokers will end up in charge. As a result, the most useful thing the international community can do today is to bypass Lebanon's government entirely, and direct its aid and practical support to local businesses as well as suspending trade barriers that impede exports. Such 'bottom-up' solutions will one day enable Lebanon to regain its entrepreneurial spirit.

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Lebanon's various governments have failed to agree on a budget for 11 years and have let its central bank run a Ponzi scheme to defend its unrealistic currency peg. It has also become reliant on aid, loans and remittances, spending far more than it collects in taxes. Appointing new faces from the out-of-touch elite who fiddle and extort while the economy burns will not be enough. The entire political system is in desperate need of reform.

The country's economic position is dire. The Institute of International Finance says that the Lebanese economy is on course to shrink by 24% this year. Unemployment has reached 35%. The Lebanese pound has lost 80% of its value against the US dollar since last October. Lebanon is one of two places in the world

In March, the Lebanese government defaulted on its debt for the first time ever. Lebanon is the third most indebted country in the world. Much government spending is wasted. The peace deal that ended the conflict was based on a system of "confessionalism", which ensured that the country's Christian, Sunni and Shia communities would enjoy political representation. The one-time warlords have carved out new fiefdoms for themselves and their cronies in the public sector. The percentage of public-sector jobs has leapt from 10% before the civil war to more than 25% today.

International partners have pledged \$300m in aid to Lebanon, but that is only a drop in the ocean. World leaders fear that more substantial help will only

South Africa faces storm

"The storm is upon us," says South African president Cyril Ramaphosa. Already in recession before the pandemic hit, South Africa has been the fifth-worst hit country in the world measured by the number of coronavirus cases. The International Monetary Fund has just approved an emergency \$4.3bn loan to Pretoria, its biggest pandemic-related disbursement yet.

South Africa's prompt April lockdown ushered in a period of "Ramaphoria", but there is widespread disillusion as a worsening situation has forced new curbs. The first confinement proved economically ruinous, with three million job losses, thanks in part to the closure of the tourism industry, the economy's biggest employer. The economy is forecast to contract by 12% this year. To top it all, new problems at electricity monopoly Eskom have brought yet more power cuts.

There was widespread hope that Ramaphosa would prove a reformist breath of fresh air after years of serious corruption under his predecessor, Jacob Zuma. South Africa has been badly served by its leaders of late; real GDP per person has fallen every year since 2015. Rigid labour markets and government debt are pressing concerns, but Ramaphosa is increasingly siding with the statist camp inside his own party, which talks of launching a government bank and pharmaceutical company. More than a fifth of the budget will go on paying debt interest this year. The OECD recently warned that the debt could exceed 100% of GDP by 2022 without consolidation, a dangerously high level for an emerging market.

The local stock-market has so far dodged the worst of the fallout. The benchmark FTSE/JSE Top 40 is up by 2% this year. The country's leading companies are insulated from the wider economy for a number of reasons. Firstly, over-regulation means that large, oligopolistic companies enjoy significant pricing power, cushioning them from the economic pain. Secondly, more than 60% of the JSE's Top 40 derives its revenue offshore, leaving local portfolios relatively underexposed to the local economy.

Above all, a recent rally has been juiced by soaring commodity prices. The materials sector accounts for 20% of the MSCI South Africa index, twice as much as on the equivalent UK index. On a cyclically-adjusted price/earnings ratio of 15.6, South African stocks are currently dearer than the British market. Yet, local companies will not be able to avoid their country's worsening economic problems forever. Investors should fasten their seatbelts.

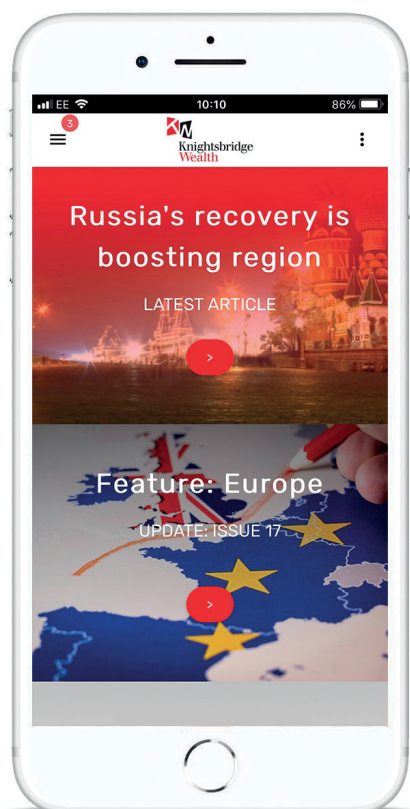


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Knightsbridge Wealth's senior team and support staff have over 200 years experience in the world's largest Banks



Alexander Wade

Alexander is one of the most experienced London advisers in the international market, specialising in this field over the last 20 years at HSBC, consistently recognised as one of its most accomplished advisers. He has over 24 years' experience in financial services. He is particularly interested in the Middle East market and understands the specific issues which are relevant there.



Stuart Poonawala

Stuart has worked in financial services since 1998. In 2003, he helped to found HSBC's specialist London arm advising international clients which quickly became one of the bank's most successful UK divisions. In 2009, he launched Kubera Wealth, our sister company, focussing on providing quality advice to the UK market.



Graeme Cowie

Graeme is responsible for building our professional connections with international lawyers and accountants, as well as co-ordinating our relationship with key fund managers at a number of international Private Banks and Discretionary Fund Managers. He has spent over 20 years in financial services and investment management, most recently spending more than six years at UBS where he led the Strategic Partnership team.



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Client Relationship
Manager



Caroline Lvy
Client Relationship
Manager



Kelly Kular
Personal Assistant
to the Partners



Daniel Hawes
Relationship Officer



Declan Doolan
Financial Planning
Manager



Heidi Witham
Paraplanner

update

Contact us

If you require further information about our services or would like to discuss your financial situation with us, then please call us on the number below, or send us an email about how and when we can contact you.

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