

Events

“As for saying there’s going to be no free lunch for Britain, we paid so much into the EU budget over the years, we pretty much bought the damned restaurant.”

- Iain Duncan Smith, February 2017.

The shift in sentiment has been profound. On 24th June 2016, Martin Wolf, the chief economics commentator for the *Financial Times*, wrote, in the immediate aftermath of the Brexit referendum, that

“Europe has lost its second-biggest and most outward-looking power. The hinge between the EU and the English-speaking powers has been snapped. This is probably the most disastrous single event in British history since the second world war.”

On 20th April 2017, Ambrose Evans-Pritchard for *The Daily Telegraph* was somewhat more sanguine about the political and economic outlook for the UK:

“Assuming that Theresa May wins a landslide victory on June 8, she will be the only leader of a major EU state with a crushing mandate and the backing of a unified parliamentary phalanx.

“All others will be in varying states of internal disarray. None will have a workable majority in parliament. Bitter disputes will continue to fester over the loss of democratic control over monetary union, whether or not Eurosceptic parties actually come to power.”

What a difference 10 months makes.

Those of the Martin Wolf camp will clearly struggle to process the comparative improvement in Britain’s political stability. That improvement will arguably be solidified by the effective extinguishing of any practical political opposition after the 8th of June. It seems virtually certain that the forthcoming UK election will be fought on just one issue: Brexit.

What Brexit means will be debated for years. From our perspective, nobody has come closer to parsing and articulating its significance than the English political philosopher John Gray. Here is his assessment from an outstanding piece in the [New Statesman](#) from November 2016:

“All that seemed solid in liberalism is melting into air. In Europe the EU struggled for over seven years to reach a trade deal with Canada, one of the most “European” countries in the

world; at the same time, banking crises are festering in Italy and Germany and the continuing migrant crisis continues to strengthen far-right parties. In Britain Jeremy Corbyn's strengthened hold over Labour following an ill-considered attempt to unseat him has reinforced a transformation in the party that reaches well beyond his position as leader.. A liberal order that seemed to be spreading across the globe after the end of the Cold War is fading from memory.. Faced with this shift, liberal opinion-formers have oscillated between insistent denial and apocalyptic foreboding..

“The liberal pageant is fading, yet liberals find it hard to get by without believing they are on what they like to think is the right side of history. The trouble is that they can only envision the future as a continuation of the recent past. This is so whether their liberalism comes from the right or the left.. an entire generation is finding its view of the world melting away under the impact of events..

“Popular revulsion against established elites has produced some curious responses. There is constant talk about reason being junked in an emotional rejection of experts, as was supposed to have happened in this year's EU referendum campaign. Yet the record hardly justifies any strong claims on behalf of those who claim special insight into economics or politics. Much of what has passed for expert knowledge consists of speculative or discredited theories, such as the sub-Keynesian ideas that support quantitative easing as a permanent regime and the notion that globalisation benefits everybody in the long run. When rattled liberals talk of the triumph of emotion over reason, what they mean is that voters are ignoring the intellectual detritus that has guided their leaders and are responding instead to facts and their own experiences.”

Sterling has every likelihood of continuing its recent rally on the foreign exchanges. Whatever happens in the UK, the EU has to survive a succession of political hammerblows in the months to come. From a valuation perspective, UK stocks do not look meaningfully overpriced either. Intriguingly, however, whereas the FTSE 100 sports a CAPE ratio of just 15 times – half that of the S&P 500, for example – the mid-cap FTSE 250 labours with a CAPE of 25 times, according to Sibilis Research. There may yet be merit in the haven of larger cap blue chips despite the atonal shift in the mood music for globalisation.

Abstaining from certain markets, notably the US, on the basis of apparent overvaluation has been something of a fool's errand since the creation of QE. The recent surge to pre-eminence by passive funds leaves a more disconcerting fear – that the next market correction will not be driven by untenable valuations but rather by a legion of fickle investors currently matched to hair-trigger liquidity. Whether driven by valuation or by capital flow arguments, while the UK stock market suddenly looks healthier, prospects for those in Asia still look altogether more defensible. That's without dwelling on the politics which, as the last year has shown, are now impossible to predict with any semblance of certainty.

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