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Forward, comrades, to the past !

"Digital currencies are a niche product that sometimes garners large headlines. But from the standpoint of analysis, the 'currency' or asset at the centre of some of these systems is not backed by other secure assets, has no intrinsic value, is not the liability of a regulated banking institution, and in leading cases, is not the liability of any institution at all."

- Randal Quarles, Federal Reserve official.

"To paraphrase: "I work for the Fed. We create money out of thin air. It has no intrinsic value. And I resent bitcoin's intrusion into our domain."

- Tweet by Deon Opperman, @deonopperman6, by way of response.

Credit to Morgan Stanley for having generated several thousand acres' worth of publicity for their research note last week that described the prospect of a Jeremy Corbyn government as "riskier than Brexit". Given that Morgan Stanley were also one of the larger lobbyists against Brexit, it is difficult to know quite how to take their advice, other than to treat it as *pari passu* with most other unsolicited Wall Street research, i.e. highly conflicted and self-serving. Mr Corbyn was certainly happy to take the fight back to Morgan Stanley. It's just a shame that this isn't a fight in which ***both*** sides can lose.

For anyone that remembers the mid-to-late 1970s and the *diktat* of a genuinely socialist Labour party throughout the UK, it is not exactly a period that sparkles like the Cullinan Diamond. Over 100 people died during the Fire Brigades Union national strike, for example, called in November 1977, when troops were called out to replace them, complete with Green Goddess vehicles not wholly fit for purpose given that they hailed from the 1950s. Having a Labour government forced to go cap-in-hand to the IMF for a loan of almost $4 billion was not exactly Britain's finest hour. The 'Winter of Discontent' of 1978-9, during which corpses went unburied, hospitals were blockaded by picket lines, and rubbish piled high in the streets, was not exactly 'Cool Britannia' – except in a purely narrow, meteorological sense.

Perhaps such instances seem strangely appealing to the generation of bored, nihilistic, thrill-hungry millennials who flocked to vote Labour at the last election, ignorant of or unbothered by the prospect of their imminent repetition.

Nevertheless, notwithstanding the dubious way in which Morgan Stanley framed their analysis (one might argue that, on past form, and on the evidence of their experience in 2008, Morgan Stanley are somewhat more dangerous to the UK economy than a once-in-a-lifetime opportunity to free ourselves from the EU bureaucracy, deregulate and lower taxes), they have a point. The threatened nationalisation of our utilities, mail services and rail transport will come at a cost. Labour believes it can defray some of that cost by way of raising taxes (both on corporations and "the rich" – a category of people the expanse of which might yet surprise many 2017 Labour voters), levying a surcharge on financial businesses, and imposing a financial transactions tax on shares, derivatives and bonds. Be careful, Labour, what you wish for.. President Kennedy, for example, introduced the Interest Equalisation Tax in the US in 1963 as a means to discourage foreign investment on the part of US citizens by taxing the purchase of foreign securities. One of its by-products was the creation of the Eurobond market – a multi-trillion dollar market that the City of London now dominates.

Another cost, of course, will be borne by investors in UK Gilts – a market we have long viewed as inherently uninvestable. 10 year Gilts currently yield roughly 1.26%, while inflation is running at 3%, and a Corbyn government would plausibly be associated with a further sell-off by sterling. As Morgan Stanley's Andrew Sheets puts it,

> Bond investors are [already] losing money faster in the UK than almost anywhere in the world.

And then there's the likely impact of an unashamedly Marxist government – or at least *duumvirate*, of Jeremy Corbyn and his current shadow chancellor, John McDonnell – on the UK stock market. Morgan Stanley highlight the threat to those companies whose earnings are generated entirely domestically on the basis that they have no place to hide, a list that includes Wetherspoons, Halfords, Sainsbury's, Stagecoach, Royal Mail and Greene King.

There are alternatives, of course, and they include a) avoiding the Gilt market like the plague, b) moderating one's exposure to sterling and c) diversifying into fundamentally more attractively priced – and less obviously politically risky – equity markets.

Although just 6% of the fund managers surveyed in the latest Barron's Magazine poll selected Japan as the market most likely to outperform over the next 12 months, nobody asked us for our opinion, which we share here freely. For the July – September quarter, Japan's economy grew by an annualised 1.4%; this marks Japan's longest growth streak in 16 years. Despite recently reaching a 26-year high, Japanese stocks remain cheaper than either US or European markets. As of late October, Japan's forward p/e ratio stood at 14.2x, versus 15.1x for Europe and 17.9x for the US. And although the Nikkei has risen by over 110% in recent years, it remains more than 40% below its peak of 38,918 of 1989. According to the UK Investment Association, just 3.6% of UK investors' equity assets are now invested there. Given these characteristics and that the Japanese market is under-owned both globally and locally, our commitment to value opportunities in Japan will remain for the foreseeable future, especially given the distinct lack of such compelling opportunities elsewhere in the developed markets. At the risk of stating the obvious, the UK is one of those markets whose appeal, such as it exists, courtesy of Messrs Corbyn and McDonnell, has just a whiff of the 1970s about it.

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