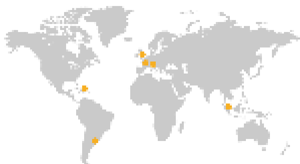

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Touchbutton

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Just how far can you kick a can down the road?

Just when investors were pretty sure that the music would be stopping soon and the punchbowl would be taken away, our gracious hosts in the form of central bankers have once again come to the rescue of stockmarkets worldwide.

A year ago, the US Federal Reserve was suggesting that US interest rates were perhaps three quarter-point increases adrift from equilibrium. By Christmas, this had softened to just one rise in rates. And now here we are in the summer of 2019, looking forward to the likelihood of a rate cut, possibly even of half a percent.

"The initial sugar rush... has long since worn off"

Why? We occupy a strange universe now, one where weak economic growth and a pathological fear of an economic depression lead to never ending easy money, which is good for asset prices, notwithstanding the febrile economic backdrop.

The initial sugar rush from way back has long since worn off, but we have become used to a glucose drip instead, and very nice it is too.

Can it last? The short answer must be: not for ever. The manoeuvring room of central banks is limited, especially in the UK and Europe, although in the US there is potentially more scope for larger cuts. At that point, the interest rate runway runs out. We either have escape velocity, or we are looking at helicopter money – a topic for a future edition.

And so, the can is being kicked, and it can and probably will roll down the road a while longer. In all of this, do not underestimate President Trump – or indeed Prime Minister Johnson.

"...the can is being kicked, and it can and probably will roll down the road a while longer."

Here we have two politicians most definitely not of the cookie cutter variety, who in their own unique ways will be anxious to remain in charge, and will pull a whole variety of levers to ensure that they do. We live in interesting times.

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Bordier & Cie (UK) PLC | **Specialist Investment Manager**

23 King Street | St James's | London SW1Y 6QY | t: +44 (0)20 7667 6600 | bordieruk.com

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