



## Sterling effort

**Some people follow equity indices on a daily basis as a simple way of gauging the health of the economy. Newspaper headlines scream about large rises and falls, which helps to build on the idea that equity indices are a reliable short-term indicator.**

But in reality, equity indices are never more than a haphazard *barometer* of the future, subject (rather like the weather), to any number of external influences that can affect the longer-term outcome.

A much more accurate *thermometer* of the nation's health is its currency. The baby boomer generation has witnessed the gradual decline of sterling through much of their lives, since the Bretton Woods agreement in 1944 effectively ended five hundred years of being the world's reserve currency.

**"It is hard to believe that during the US Civil War, a pound was worth US\$10"**

It is hard to believe that during the US Civil War, a pound was worth US\$10. By 1949 the pound had witnessed several devaluations, but was still worth US\$2.80. Since the 1980s, we have seen sterling broadly in a range of about US\$2 to almost US\$1.

Predicting the future direction of the pound in the coming year will continue to be as fraught with difficulty as forecasting the weather for the British Isles – a relatively small land mass surrounded by sea, and susceptible to a great many variables.

And so it goes for sterling. What we are witnessing in the short term is a day-by-day judgement by the foreign exchange markets of how Brexit is being played out.

**"And so it goes for sterling."**

A possible speedy resolution and consensus prompts a sterling rally; a hardening of entrenched positions and strong words from the European Union prompt a fall – it is as simple as that really.

If we see an election being called with any likelihood of a Labour majority, we must expect to see a short, sharp fall – possibly for once the exchange rate serving more as a *barometer* of how the world perceives what might happen next.

**"...we are living in a period of extraordinary events."**

We all know that we are living in a period of extraordinary events. Market pundits often talk exaggeratedly about uncharted waters, but this time we really are in unknown territory.

For our part, we continue to believe that managing portfolios with a substantial element in currencies other than sterling remains the prudent path for long-term investors.

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