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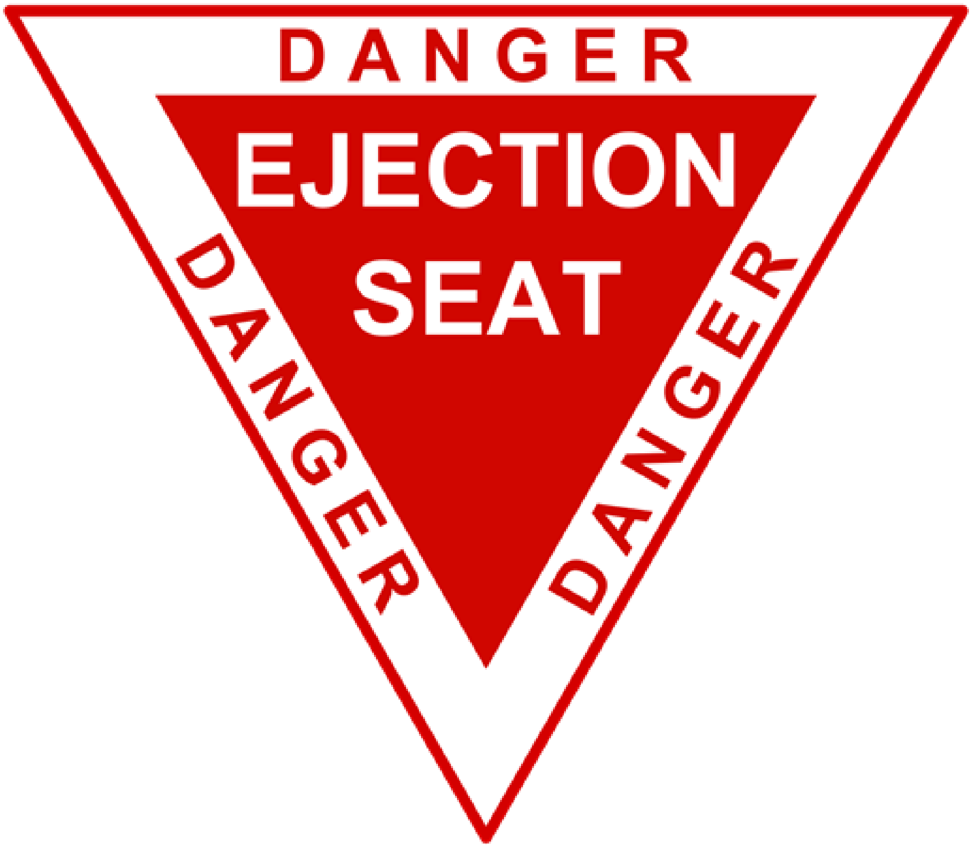
ATLANTIC CAPITAL MARKETS



Six Warning Signs

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Six warnings signs of an upcoming market correction

US: Election

Whatever your political persuasion we believe it is fair to label President Trump as a “moronic genius". In many ways he is clearly a moron, such as his often truly bizarre ramblings at Covid-19 press conferences, to include amongst others his praise of a doctor that pushed the use of Hydroxychloroquine, only then to rapidly backtrack when it became known that the same doctor has also made claims that vaccines have been made from extra terrestrial DNA and that cysts are the results of spirits having sex with people as they sleep. But he is also a genius as any one of these serious mistakes would have torpedoed any former President. How Trump manages to shake off these multiple PR disasters will be studied for decades, as so far he seems immune to them.

Currently Trump is forecasted to lose the election in November. Due to his particular psychology it is not sensible to forecast with confidence how he will behave during the transition. He is already publicly laying the groundwork to deny the election result when he loses. With any other President in history it is impossible to imagine the President declining to leave the White House after losing the election, but with this man can you be so sure?

Some in the US are already publicly expressing concern that Mr Trump might do precisely this and have suggested that the court disputes between Al Gore and President Bush around the Presidential election in 2000 will look like a side-show in comparison to what Mr Trump might get up to.

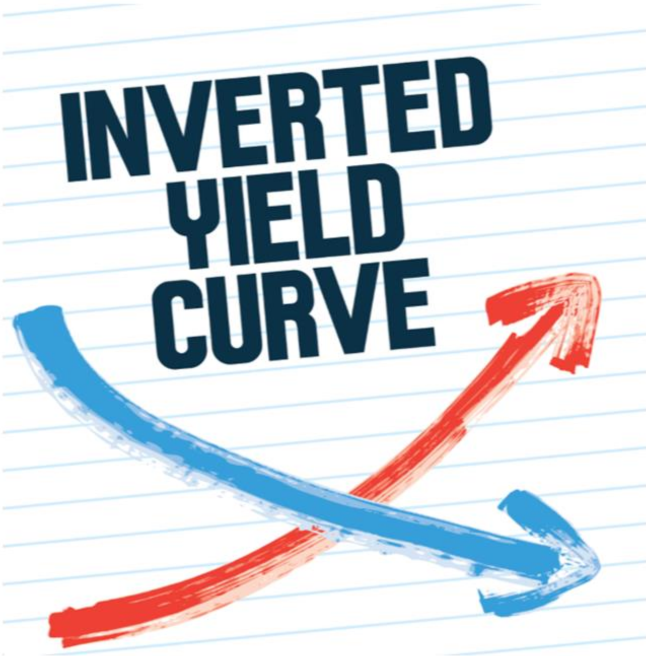
The election in the US is on Tuesday November 3, The president elect “normally” becomes the President on noon January 20 of the next year. Because of President Trump’s character there is a significant risk that this process will not be orderly, at the very least it is a virtual certainty that the transition will not be normal. This creates the potential for market volatility up to the election, and then up through to transition whenever that may finally occur.

UK: Hard Brexit

The UK officially left the EU on 31st January, 2020, and entered a transition period until 31 December 2020 to allow time for parties to organise new trade arrangements.

Boris Johnson acts much like a “Trump-lite”, as he also has managed to shake off issues that would have ended careers of most previous Prime Ministers. As a result it does look very likely that he feels he has the political capital to be able to use the excuse/reason of Covid-19 to walk into a hard Brexit at the end of this year.

The issues around a hard Brexit may be relatively minimal on the UK stock market for the long term. In the short term however it is highly likely that there will be near term supply crunches in numerous supply chains. This nervousness, particularly on any ongoing concerns about the US transition, could cause market volatility on UK shares as a result.



US: Inverted Yield Curve

Economics as a profession overall has an appalling track record in its forecasts. The profession is excellent at projecting intelligence and knowledge, but if any other industry was so woeful with its predictions serious questions would be asked, much of what an economist says sounds great at the time but ends up being little better than Alien DNA talk. There is only really one indicator that has proven to be extremely reliable in economic forecasting and that is an inverted yield curve.

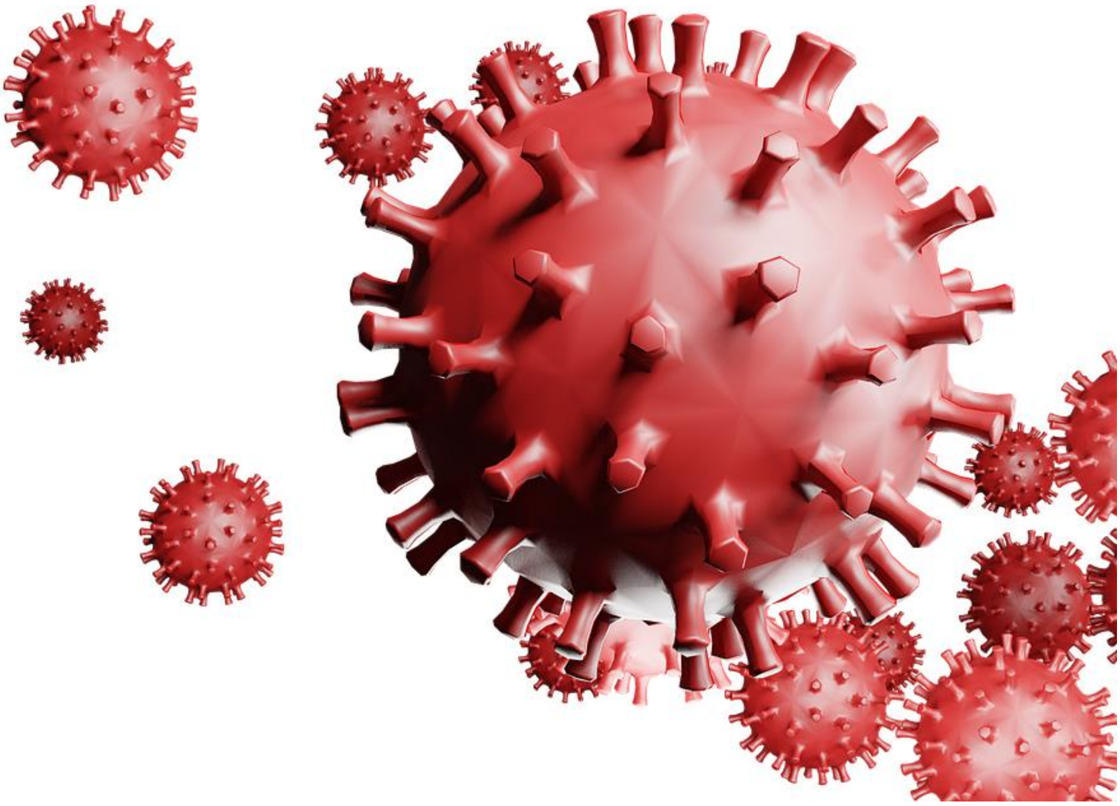
In normal situations it costs more to borrow for the long term than the short. However in times of serious market distress the normal yield curve can invert so that it does for a period become cheaper to borrow for the long term. This is clearly “wrong” and does not last for long as the market corrects this mis-pricing. Economists have shown that virtually every time for the past 100 years that the market becomes this distressed a recession follows within 12-18 months.

The US yield curve inverted late in October 2018, signalling that the US economy was due a 25-35% correction in the next 12-18 months, which is a standard market correction in a period of recession. The US markets came off around 35% in H1 2020, was this the expected recession crash, or ‘just’ Covid related? If the latter then the yield curve recession is yet to play out.

US: Buffet Indicator

Warren Buffet has flagged up an interesting bubble signal for the US markets. He highlighted that when the total market capitalisations of US companies is more than the GDP of the whole of the US then the stock market must be overvalued. When the value drops down to 70-80% of GDP it suggests US stocks are undervalued and should be bought.

Over the past 20 years the US market has crossed this 100% threshold three times, 2000, 2008 and now. Investors will recall that 2000 was followed with the Internet bubble crashing, 2008 was followed by the Subprime bubble bursting, the concerns are that the current levels are indicating that the Fed induced equity bubble is set to burst in 2021.



Global: Covid-19 Second Wave

Covid recently shut down the majority of the world's economy. Currently the situation appears broadly in check, however the major economies are now moving from summer to autumn and there are concerns that the Covid pandemic will surge back this winter. Will this expected second wave top the first wave? For example in the US will it “only” kill 50,000 people this winter, still more than the number of US deaths in the entire Vietnam War, or will the second wave top the total deaths of around 175,000 so far, taking the total death toll up above towards 400,000 and threatening to kill more Americans than were killed in the Second World War?

Currently the market is pricing in ‘only’ a smaller second peak this winter, due to the extremely high rates of transmission by this virus there is a risk that the markets are either mis-pricing the risks of a second wave, or mis-pricing the damage to economy that will result due to the social distancing measures that will have to be in place throughout the winter to avoid a higher spike second wave.

Global: Geopolitical Risks

The US lack of global leadership is emboldening actions from its traditional adversaires. Putin continues to allegedly murder his own citizens and political opponents, such as Litvinenko here in the UK, attempting to murder the Skripals here in the UK, and just recently in Russia with the poisoning of high profile critic, Alexei Navalny. Russia invaded Ukraine in 2014 to take back control of the Crimea in order to secure its Black Sea port, and did so with relatively little global protest.

In the current environment there are risks that the People's Republic of China will consider it timely to invade the Republic of China, known most commonly in the west as Taiwan. The communist party has long had ambitions to take control of the entirety of the Republic of China, which it failed to do with the Communist revolution in the mid 20th century. Any such event could be largely ignored by the international community, like Russia invading Ukraine, or it could be the catalyst to greatly escalate the China-US tensions. Which naturally could have serious repercussions on the global markets

ATLANTIC ALPHA

Alpha Accounts

We believe this is a summary of some of the potential risks facing the markets in the months ahead, as a result we are increasingly hearing from clients that they are looking to invest in a way that reduces the exposure to short term swings and news flows.

If this is true for you as well we believe we have the answer. Not only can you use CFD's to hedge your existing portfolio or simply capitalise on the downside but we have also responded to our clients concerns and launched Alpha Accounts. These accounts allow clients to create their own well balanced, market neutral portfolios. Meaning that much of the medium term market-led moves can be hedged away.

Which ever way you are looking, and whatever your outlook on the market, we have the tools to enable you to profit from the road ahead.

About Atlantic Capital Markets

We are a multi-Asset brokers offering clients the ability to buy the shares either in a traditional fashion with standard shares or taking advantage of leverage and purchase via a CFD.

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