

James and the Giant Peach

Former director of the FBI, James Comey, testified before the Senate Select Committee on Intelligence about Russian interference in the 2016 US presidential election. Financial markets were keenly interested to determine whether the President obstructed justice, and to weigh the risks of impeachment.

In a case of life imitating art, these events can be likened to a quirky little movie called *James and the Giant Peach*, or impeachment in this case. The movie James endured a wacky journey with this magical peach that existed in some sort of alternate reality. Sound familiar? Better still, James was a likeable hero who bravely stood up to his tyrant Aunties.

Back to real life, but no less wacky, James Comey stopped short of accusing Trump of obstructing justice, and hence the risk of impeachment was put off for another day.

Markets were worried that impeachment was a serious threat. Hence, risk assets such as stocks, commodities and the US dollar spot index all declined sharply early in the week. But true to recent form, markets quickly dismissed the risks and continued to rally.

Markets fall then recover over the week

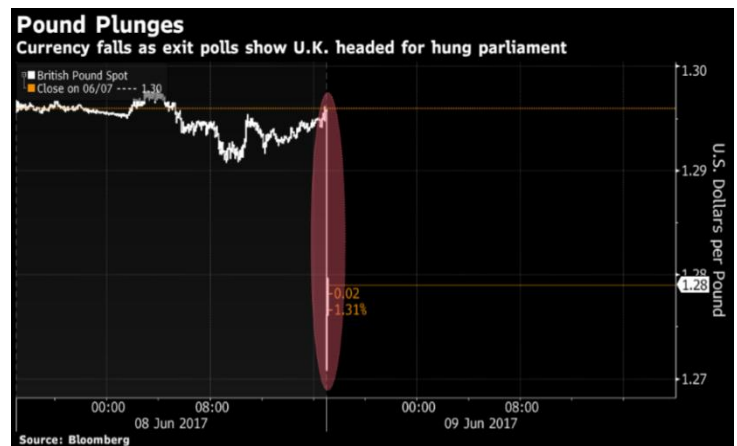


Source: Bloomberg

In contrast, the Aussie dollar found support alongside the Kiwi dollar despite the fact Australia's key commodity prices looked more than a little shaky.

Across the Atlantic, coincidentally the same journey that James and his magic peach took, and financial markets were unnerved by developments in the UK election.

At this very early stage, it appears the ruling Conservatives (Tories) were expected to win the election, but without a majority. Needless to say, Theresa May's decision to call an early election backfired dismally. Now the UK, and the financial markets, face the prospect of a hung parliament. Given the market's dislike for uncertainty, the British pound plummeted and the gold price gained.



Source: Bloomberg

Political events typically die down fairly quickly in the financial markets, as investors and analysts refocus on the important drivers such as supply and demand and earnings growth. However, an increasingly fractious political backdrop combined with a shift from monetary policies (zero rates and many trillions in bond buying programs) towards fiscal policies (infrastructure spending and pro growth agendas), means investors may need to keep a closer eye on politics and its impact upon the stability of investment returns.

"We've become, now, an oligarchy instead of a democracy. I think that's been the worst damage to the basic moral and ethical standards to the American political system that I've ever seen in my life."

~ Jimmy Carter