

Market comment 12th May – The Day of Reckoning Approaches

As the days have been lengthening, so markets have developed a rather different feel to that which had been established as spring blossomed, following a difficult start to the year. Shares in the UK touched an eight week low recently, with investors spooked by worsening economic data in the US (jobs growth there was way below expectations), growing evidence of the slowdown in China and seemingly rising expectations of Britain voting to leave the European Union.

It is the uncertainty that this later scenario generates that is of most concern. Arguably a slowing American economy could bring some benefits. Already pundits are acknowledging that there is now little likelihood of an interest rate rise there this year. Unfortunately, all this might achieve is delaying the day of reckoning in bond markets, as corporate debt levels continue to soar, but the betting on a June hike in rates is running at more than 12 to 1 against.

So perhaps the fact that the FTSE 100 Share Index is once again losing momentum should come as little surprise. With the in/out referendum little more than a month away, this particular piece of uncertainty will crystallise soon enough, though success for the Leave camp can only prolong the agony. Who knows how long it will take to establish a new order if we do leave or what other consequences might arise. Investors might feel supported by undemanding valuation levels, but there is little incentive to stick your neck out right now.

Already we are seeing slower growth at home as investment decisions are delayed until after the referendum. Indeed, there are indications that the Governor of the Bank of England is planning to cut interest rates if Brexit is the result. With the monthly meeting of the Bank's Monetary Policy Committee due shortly, along with the publication of its quarterly inflation report, there will be much to consider on the likely direction of interest rates. Meeting minutes will be particularly interesting as calls for a rate cut are growing.

Oil is in the news once again, with the price rising – in part due to the devastating fires in Canada's principal oil producing region. We also have confirmation that the giant Saudi Arabian state owned oil company – Saudi Aramco – is to float on the stock market here in London, as well as in Hong Kong and New York. Whether it will be worth as much as expected is a moot point, though, given the continuing excess of supply over demand

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