FT ADVISER

Aberdeen's Stout says central banks are beyond contempt

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By David Thorpe

Policies pursued by global central banks in recent years are "beyond contempt", according to Bruce Stout, who runs the £1.7bn Murray International Investment Trust.

Mr Stout has long been a critic of the policy of historically low interest rates and quantitative easing and said central banks have pumped up asset prices without delivering sustainable economic growth.

He once said central bank policy, while creating extra credit in the economy without boosting demand for credit, "is like bringing a horse to water, but you can't make it drink."

He described recent global economic data as "uninspiring" and said: "Slumping household savings combined with sharply rising consumer credit suggest global economic growth is poised to become increasingly vulnerable to fragile purchasing power.

"Should the cost of borrowing rise or real incomes decline further then excessive and unsustainable private consumption may abruptly halt."

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> *Jonathon Davis*

The fund manager's extreme caution on the outlook for the global economy has been a feature of the Murray International Investment Trust in recent years, and has led to extremes of performance, as the high conviction has been either extremely in favour, or out of favour, with the market.

The Murray International Investment Trust returned 50 per cent in 2016, double the return of the Association of Investment Companies (AIC) Global Equity Income sector.

But in 2015 the trust lost 15 per cent, when the sector average gain was 1.7 per cent.

In the decade since the financial crisis, the trust has returned 208 per cent, compared with 132 per cent for the sector average.

Mr Stout said: “The vicious cycle of negative real interest rates, escalating debt, expanding asset price inflation and erosion of dwindling savings remains rooted in global central bank's unwillingness to implement prudent interest-rate policies and irresponsibly encourage a financial environment swamped with excessive liquidity. Such actions remain beyond contempt.”

The trust has 82 per cent invested in equities, with the remainder in bonds and cash.

The largest equity exposure is to the Asia Pacific region, with a focus on technology companies.

Tom Walker, who runs the £226m Martin Currie Global Portfolio investment trust, is another investor who is wary of the outlook for global economic growth.

Commodity and mining companies have performed strongly, often an indicator the market expects economic growth to pick-up.

But Mr Walker said global inflation has moved downwards, while the yield on the US 10-year government bond has fallen, traditionally an indication that the market is pessimistic on global growth.

Mr Walker is avoiding companies in the mining sector, and remains keen on the investment case for Apple shares.

The fund manager said Apple is a company that can continue to grow, whatever the wider economic conditions, due to the loyalty customers have to the i-phone products.

Jonathon Davis, who runs Jonathon Davis Wealth Management in Hertford, said: “It’s hard enough trying to add value to portfolios but add the massive intervention of central planners and it is a nightmare.”

He said asset prices have been distorted by the interventions of central banks to the point that market participants don’t know in advance of a trade what price they can get for an asset.

Mr Davis said: “The era of central bank intervention though will slowly come to an end. Interest rates will eventually normalise.

"Quantitative easing will eventually go by the wayside. But it may be many years before this happens.

"The economy is not the markets but central banker intervention has been a dreadful negative on the economy and it could be decades before their effects fall to more than a minor issue.

"Without their interventions we could be in prosperity. Instead we remain in depression – as defined as an extended period of slow or no growth.”