

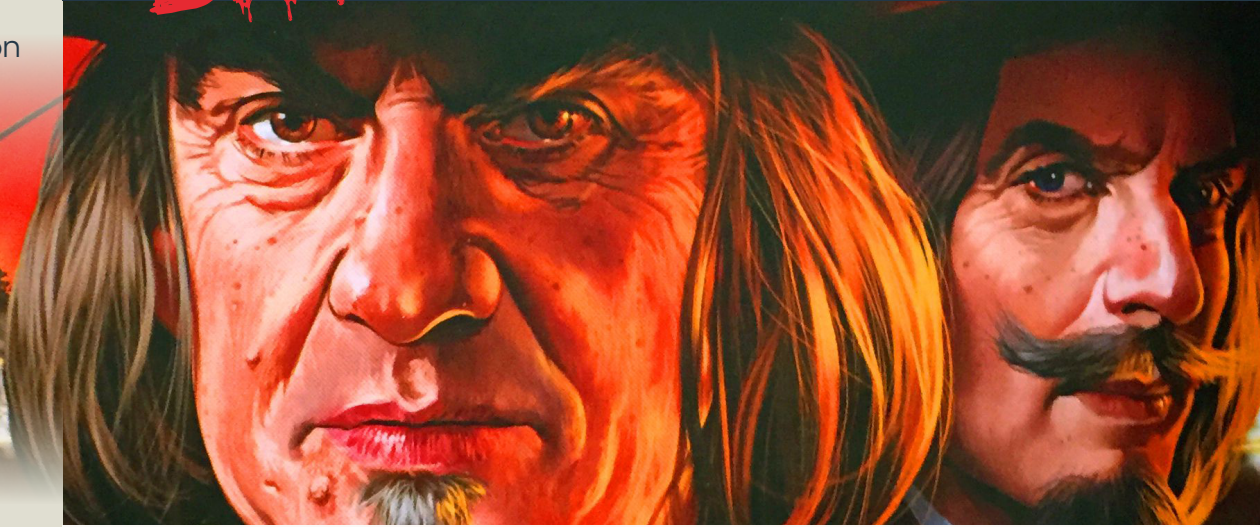


Australian Standfirst

August 2019 Edition

HARD BREXIT

The More Painful And Ruinous The Better...



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Prescience is an ambrosial gift for a select few, elusive for most and a fool's errand for the rest – the ability to pre-empt the future when plotting, planning or praying for geopolitical, financial or economic outcomes is beyond most of us.

But once in a blue moon an unalterable set of circumstances and events coalign and reveal a future to us that is predictable down to a specific day and visceral enough in its substance that it should be taken seriously by all.

Following Boris Johnson's recent accession and perspicuous imprimatur to deliver the ratification of the Withdrawal Agreement, dubbed Brexit, on or before the European Council's agreed, 31 October 2019 deadline, it became clear to those who know what follows that the more painful and ruinous Brexit becomes for the British, the better it is for all of us, including Britons, over the longer term.

And that is because if being part of the European Union is valuable, then members exiting must lose something and if they do not, then being a member of a costly and hyper-bureaucratic Union was nugatory to begin with.

In practical terms, if on Friday 1 November 2019 and onwards, there is little to no vex or detriment faced by Britons post separation, then it is foreseeable that remaining members of the Bloc will expeditiously reassess their own membership and as Germany is at the Bloc's core and are known for their steely motility (not to be confused with mobility), it is conjecturable to posit that Germany herself leaves the Bloc proactively next, or of course, any other member, whether she be Italy, Spain, Greece (anyone remember Grexit?) or other.

[Cite:- Greek exit need not be a tragedy](#) 5 June 2012

A Soft Brexit serves nobody.





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If Johnson's, "No Deal" Brexit – a.k.a. Hard Brexit – proceeds 31 October and persists with no realised downside for Britain or Britons and then becomes accepted as a Soft Brexit, then everyone loses and that is because those intransigent Brexiteers who pushed through this separation on the grounds of restoring local Sovereignty and Democratic representation, may celebrate for a moment as Pyrrhic victors over Europeans but when the Bloc itself dissolves as a probable consequence, Democracy will dry rot within Europe, across the Atlantic and spread further existential threats to every corner of the planet.

If Brexit becomes materially painful for Britons, financially ruinous in quarters, for Pound Sterling and economically vexatious along the peripheries of Scotland, Wales and Northern Ireland (let's not forget the very real Scottish independence referendum movement), then leaving meant that something valuable was lost or sacrificed and for those championing the European dream of a unified Democratic Europe, the future may then continue to get brighter.

However, if Brexit, post withdrawal, just becomes a spectre or only unevidenced bluster, hyperbole or bravado and nothing material changes at all – which is regrettably the most likely reality – then the concatenation of events that follows is dire by any barometer.

Unlike Donald Trump's 8 November 2016 Presidential Electoral victory, which was immediately identified by pundits as cause for dystopia, Brexit will be different and to juxtaposition the two would be a false equivalency.

Trump's victory was a surprise to everyone (including Trump) but it was obvious from the onset that culturally there may be consequences of a Trump regime but financially, it gave cause and a narrative, under the moniker of 'Trumponics' to international institutional market participants to drive a new proto-rally, which we correctly identified in November 2016 and one that would uplift the bellwether S&P500 towards 2300 points from the then base of ~2180 on or nearing March of the upcoming 2017.

[Cite:- The US sharemarket will fly higher sooner but watch out for later](#)
19 November 2016

Our reasoning at that time was simple; following the discombobulation caused during the Great Recession of 2007 – 2009 and subsequently with unconventional monetary experiments turning two centuries of economic theorem and financial markets practices on its head, the prime driver of developed markets up and until 2016 was that of Hedge Funds and despite the fancy rubrics these constituents claimed to have been being employing, the amassed majority of them ended up executing what's known in the vernacular as the "momentum" factor trade.

[Cite:- Will the instosdriven Donald Trump rally last long](#)
6 December 2016

When, metaphorically, the bottom fell out of the momentum trade in March 2016, institutional market participants scrambled to re-mark their trading books and irrespective of their efforts, failed to justify how other 'factors' were now being realised other than under the sheep's clothing of momentum.

This is why it was publicly acknowledged and universally accepted that Hedge Funds had their worst year of collective performance ever in 2016.





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[Cite:- Bloomberg: Rishaad Salamat, Yvonne Man & Stirling Larkin Discuss 2019 The Transition Year](#) 12 March 2019

But in Trump's shock triumph, institutional market participants desperately looking to find a new narrative to drive what became the one trick momentum factor pony, found instantly a new horse (pony?) to tie their carts too, Trumponics.

[Cite:- Trumponics gaining attention but its China that matters](#)
4 February 2017

[Cite:- The upside of paying attention to US bond markets](#) 12 July 2017

[Cite:- Surging S&P 500 high on list of investor concerns](#) 13 December 2017

And this singular momentum factor trade, has in effect, remained the one driving force behind developed markets since November 2016 and likely began on 19 June 2013, when, FOMC Chair Ben Bernanke, announced a tapering of some of the unconventional monetary mechanics implemented following the nadir of the Great Recession.

This period not only showed us that the momentum factor was preeminent, it also showed us it was being driven by automated systems, or 'bots', whether they be referred to as 'Algo', 'DMA', 'robo-', 'A.I. blackboxes' or any other number of appellations.

[Cite:- Rates riot behind the market correction](#) 29 August 2015

In all, Trumponics was and remains until today a markets narrative which has almost little to nothing to do with Donald Trump or his regime itself (that in itself should be concerning but a conversation for another day), whereas Brexit, is all about politics, realpolitik and anthropogenic concerns.

The tradecraft in being an attuned global financial markets participant is knowing not only when to assess an occasion on the merits or bases of its financial or economic meta but when to identify those times when suspension of that meta is a necessity and to acknowledge a challenge is solely political, social or humanitarian in its nature.

The tensy of Brexit is not new for the British and this story has been told before.

In 2002, a BBC poll named Oliver Cromwell one of the ten greatest Britons of all time, despite the fact he is seen as probably the most divisive figure ever across the British Isles.

Known for saying that, "*necessity has no law*", Cromwell became a principal figure within the English Civil Wars and although a Calvinist, believed deeply in the value of religious toleration, despite the fact Cromwell's victories at home and abroad helped underpin a sustained Puritan attitude of mind, both on the Isle and across the Atlantic in the burgeoning North American colonies.

Seen by Royalists as both a heretic and regicidal dictator (as the lead signatory of King Charles I's death warrant in 1649) and by Irish as a divisive genocidal tyrant (against Catholics), Cromwell personified the Anglo-Saxon incongruity of "cognitive dissonance", which is to attempt to hold





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“
They who stops
being better stops
being good.”

Oliver Cromwell



incompatible ideas simultaneously, desire them both but be frustrated that, that cannot be.

Cromwell embodied the very British nuanced contradiction of lauding sovereign independence above all else, whilst at the same time respecting the importance of culturally, spiritually (and in the context of Cromwell this refers to the religious sects) and socially engaging with the near-beyond, or to be specific, Europe.

Whilst Trump and Trumponics may be a manifestation and machination of a once in a seventy year supercycle:

[Cite:- Seismic Shifts In 2019](#) 16 January 2019

Brexit, is a continuation of an internal British wrangle going back millennia (likely since Julius Caesar's tête-à-tête with Vercingetorix, the Caesar's with Boudica, et al).

In toto, Brexit has a lot more to it than simply being a rebellious protest vote against those in Brussels but what is evidently clear is that its divide is rooted in a cultural cognitive dissonance and not an economic one.

Notwithstanding, Brexit has already had economic and financial consequences.

[Cite:- The Australian: Andrew Main & Stirling Larkin Discuss USA and Eurozone, UK, Scotland in 2015](#) 29 May 2015

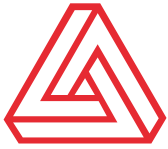
[Cite:- Why Brexit vote rattles international investors](#) 28 May 2016

[Cite:- Japan hit hardest in Brexit shock but remains an opportunity](#)
2 July 2016

If Brexit proceeds on 1 November, without any real observable deficits or pain being felt by Britons, then remaining members of the Bloc will begin their own introspections and whether for nuanced cultural or more explicit economic rationale (id est Greece and Grexit or Spain and Italy and public debt financing), others will seek a ratification of withdrawal, knowing, as the British had just demonstrated, exit terms with the European Council are not a prerequisite for leaving.

Comparing Trumponics and Brexit as similar causes may be a false equivalency, nevertheless their effects both represent a threat to the





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institutions of post War Democracy and the global hegemonic balance which has scholastically become accepted as Pax Americana.

In medieval warfare, a castle or fortresses wall was more than just an iconic landmark to take an Instagram photo alongside; these walls were literally the defensive lines with secondary walls buttressing those defences to ultimately protect the 'keeps', which were a strong central tower forming the heart of the castle or fortress.

When one defensive wall fell under attack by siege engines hurling barrages, the secondary wall obviously mattered, not only as the new line of defence but also so that when the first wall was breached the attackers would enter between the two walls, be confronted by another wall and potentially a moat and be not only trapped but bombarded into defeat or surrender.

This manoeuvre and area of entrapment came to be known in English as "a killing field".

If it is accepted, or at very least acknowledged that American Democratic norms and institutions are shifting and their global hegemonic position changing (outer wall) and that in Europe, who today still includes Britain as a member of one unified family espousing Democratic norms as paramount (secondary wall), then what happens on, around and after Britain's withdrawal from the European experiment matters greatly to us all.

More is at stake than simply Britain's or the Bloc's sovereignties – our collective 'keep' is that of Western Democracy as we have come to know it and it is under direct siege.

Behind the curtains, herculean forces are now in motion buttressing these defences, bombarding invaders and deploying countermeasures that are right in front of us but may have been missed by the majority.

With Trump consciously disarranging Pax Americana, running roughshod over the Executive branch of the Jeffersonian Democratic superstructure, tyrannising the legislative branch and stacking the judicial, to now bullying the implicitly independent Twelve Central Banks, collectively known as the US Federal Reserve, into shifting interest rates in the directions he decrees via Twitter (which they have, which shows nothing but servitude and subjugation), it is understandable that other powerful actors have decided to step up to the plate.

[Cite:- No to Universal Basic Income \(UBI\)](#) 3 July 2019

Who may siege American and European aegis is not difficult to identify.

[Cite:- US China trade wars are not the only problem for investors as tech fight looms](#) 9 April 2018

[Cite:- Taiwan's Looming Crisis Is A Much Bigger Threat Than Markets Realise](#) 20 June 2018

[Cite:- Defence Complex Investments](#) 4 July 2018

[Cite:- Chinese Internet Megatrend Going Global](#) 4 December 2018





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[Cite:- Taiwanese War & Markets Fallout](#) 30 January 2019

To be prescient about what those siege engines are, is also, right in front of those who are willing to look; even President Vladimir Putin articulated this in September 2017, when talking about the ascent of Artificial Intelligence, *"Whoever becomes the leader in this sphere will become the ruler of the world."*

[Cite:- Drones highflying investment offers an alternative](#) 26 March 2016

[Cite:- Looking for opportunity in meeting the challenges of cyber security](#) 10 September 2016

[Cite:- Equifax data breach a wakeup call for investors](#) 20 September 2017

Britain may be one of the instrumental progenitors of Western Democracy – thanks to the Great Charter, or Magna Carta of 1215 A.D. – but let us hope that in Brexit it does not become Democracies widowmaker.

Brexit matters, for as Cromwell declared, *"they who stops being better stops being good"*.



Yours,
Stirling Larkin
CIO, Australian Standfirst
Asset Management



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