PRESENTER: Well joining me now is David Vickers, senior portfolio manager for Russell Investments. So David let's start with the implications of Brexit on things like sterling UK equities and gilts, what are you seeing? DAVID VICKERS: I think the first thing to probably point out is that as a portfolio manager, being quite candid we have no more insight than the political commentators whose day job it is. But for us as a portfolio manager what the question is, it's about balancing the probabilities, and really working out what's priced into markets. Because quite frankly as we sit here today, there are four or five potential outcomes with an equal chance: we have another referendum, we have a delay, we potentially have another exit, and then we have the no deal hard exit. So it's very difficult actually to sit here and see which one of those is going to eventually play out because we're in the realms of personality and politics, both in the UK but also clearly within Europe. But what we can see and what we've always felt is that the main transmission mechanism for good or bad news depending what your view is on good or bad news around Brexit is through the exchange rates. We don't actually think that Brexit in isolation is a global event. It feels very personal to us clearly in the UK, as it should, but UK GDP is relatively limited. That said, it is essentially about trade, and those are the economic concerns and there are clearly are the trade conversations happening around the world, so it could be the straw that breaks the camel's back so to speak. But in isolation we don't see it as recessionary, a global recessionary worry. Perversely also with the stock market, and we've seen this a couple of times already, that if we get hard Brexit news or a no deal, sterling is the mechanism by which the pain is felt and that is good for the UK stock market because UK earnings, the FTSE, about 80% are overseas. And so actually it does sadly rather boost ones UK equity holdings if we have a hard Brexit scenario. So for us it's really all about sterling. And if you think about where we've travelled from which is about 1.70 before RS joined the referendum and to about 1.24 at its lows, again we think it's a case of slightly travelling and arriving. It feels today like the news is getting worse and its swirling and uncertainty is here but that's been the case for a very long time. So for us actually we're relatively positive on the outlook for sterling. Which means in our relative return accounts; we're neutral or little over. And in our absolute return accounts where we don't want to take currency positions, we are almost fully hedged. The reason being is that we think a lot of the bad news is priced in. That big fall has already taken place. But actually if you think about those four or five options I outlined, only one of them is a hard Brexit. And because the recent developments have seen parliament take a potentially greater hand in the outcome. And parliament does seem to be a bit more soft a Brexit or remain, then the hard Brexiteers actually the potential of a no deal hard Brexit has receded and so on probabilities, we do think sterling actually appreciates. But I think the bigger thing perhaps to note is that people often don't think about currency in their portfolios, they think about investing in US equities and European equities and the currency just comes with it. We actually think you should think about currency. And again in a political situation like we face today, if it's very hard to find conviction, you simply shouldn't take a bet. If you couldn't come to a conclusion as to whether you own commodities or not, you wouldn't put them in anyway. And so for us we always typically think where we don't have a view, you should hedge out most of that risk if the outcome is unknown. But we do think sterling is likely to continue to appreciate from here and we've already at the lows of 1.24 and we've moved to 1.31 as we speak today. PRESENTER: Well you mentioned global recession. This is a concern of a lot of investors, so is it on the cards? DAVID VICKERS: At some stage it has to be. Boom and bust has not been sold despite Gordon Brown's best efforts when he was in power. And I think people are probably a little sick and tired of hearing everyone talk about late cycle; the question is how late cycle. Are we nine o'clock or are we 10 to 12. Our instinct is we are closer to the end than the beginning. Global recession I think has been put on hold a little bit. Last year, we were fearful of a global recession late 2019, 2020, predicated on the fact that the US Federal Reserve was going to increase interest rates three times, possibly four and push us in to tight policy, restricted monetary policy to push down growth. Given what's just happened with economic data, given what’s just happened in the China and US trade disputes, we still think that recession is likely in 2020 but it’s been pushed back a bit, because the Federal Reserve has now gone on hold. The markets pricing no rate rises this year, we think probably one is likely but certainly not the three or four that were potentially on the cards earlier on. And Jay Powell and his Fed members have been on record and they’ve been a bit more dovish of late. So actually we think that pushes out the probability of recession but still 2020 is when we think potentially it might, because there has been a deterioration in economic data, quite significant deterioration recently, and that might just bring that a little bit forward despite rates having been pushed out some. PRESENTER: Looking at the global picture, a lot of people are focusing on what’s happening in China at the moment. What’s your outlook for China’s economy? DAVID VICKERS: Yes I think China has always been a source of worry for everyone. It’s an oversimplification but its growth has been predicated on lend and spend. So the government lends to local authorities and to government institutions who then spend. It doesn’t have the capital consumption, the personal consumption to make the economy more balanced like most other western economies or other economies more broadly. So it isn’t even balanced. However it is a control and command economy, so it can push some of these problems out a little further. If you think about where it’s come from, it’s come from arguably pre the global financial recession 15% economic growth. It’s now at 6. That’s an awfully big slowdown, expected but an awfully big slowdown which they’ve managed quite well. So we think there are problems in the economy but we think they are able to push them out. But I think what’s probably pertinent today is the kind of economy they’ve got they’ve got up an awful lot of debt. They stimulated their economy very aggressively in 2008 and 09 and again very aggressively in 2015. We don’t think they had the same capacity to fiscally stimulate their economy today despite the problems they’re having. So we would not suggest that China is a source of support for global growth as it perhaps has been in the past. PRESENTER: And moving over to the states, where next for Trump’s policy doctrine? DAVID VICKERS: It’s very difficult to get a handle on what his doctrine is, apart from tax cuts. The other big one that stands out is his policy around negotiation with maximum pressure. We saw that with NAFTA. We saw that with North Korea and clearly we’re seeing that with China. Other than that it’s very difficult to get a strong handle on perhaps where we go next because I think he’s even surprised his own policy and administration with his withdrawal from Syria for example. So he’s more difficult to get a handle on. I think what we’re focusing on the very short term is things that he is doing that are having an impact. And so the trade conversations with the US and China are very key to the future of the global economy and the immediacy of the health. Because what we saw in December in some of the economic data, certainly the ISM, the purchasing managed indices, was the biggest contraction that we have seen since 2008, since Lehman’s went under. It’s still an expansionary territory but it fell really quite aggressively and very quickly and much more quickly than people had appreciated. I think people thought the uncertainty would hit earnings and hit corporations in the economic data, but a little later on it’s come through a lot quicker. I think that’s meant that Trump would be more favourably predisposed to make a deal. What we do know he is the man of the art of the deal. He has elections looming in not the too distant future so I think a deal gets done and it comes to the table. I don’t possibly think it’s going to be the type of deal that perhaps the whole of his hawkish administration want. And indeed the Democrats wanted at some stage which is to think about intellectual property theft and transfer of IP. But I think in terms of the trade negotiations and the tariffs and the deficit I think there is a lot of signs that both the Chinese and the US are now starting to feel the pressure and so will come together to at least solve some of those problems. And we do think Trump wants to get that done, so in the immediacy that’s a watch point for us, but I think that’s where one needs to focus on Trump and the US administration at the moment. PRESENTER: Well finally considering we started the year relatively positively, what’s your outlook for the rest of the 2019? DAVID VICKERS: Moderately positive, but I have to say that if we think about where we’ve started, because we’re up about 6-or-so percent in equity market as we stand here today, high yield is up about 3%. But to put that into context, that is against 2018 numbers and particularly a Q4 2018, where all asset classes were down and the US fell peak to trough 19½% almost technically a bear market. So we've had a bounce but it's from a lower level. So markets are a bit more buoyant, but I think some of that is because we got oversold conditions. That said in broad terms, I think you want to ask the question have the drivers that pushed us down in that Q4 period gone away, so should we be more positive. And if I think of what drove us down, firstly it was we were overly-optimistic. The industry certainly in September was expecting grade economic growth, good earnings, resolution to trade etc. and we are now in a pessimistic mode – which is good. It's better to start pessimistically than optimistically, so that's a tick in the box. People were concerned about interest rate rises that we spoke about. Now they're off the cards a little bit for the short term, so tick in the box. People were concerned about economic data and that has not yet gone away, so we talked about the ISM numbers and some of the survey data coming up very weakly. To offset that slightly you had really strong payrolls and employment data to support that but that is a lagging indicator. So the watch point for us really going forward is does consumption data and capital expenditure data come down as well. Now is this really feeding through and continuing to manifest itself in a real way in the economy, we don't know, so a wait and see. And then finally earnings, well earnings and revisions have come down quite sharply but they were overly optimistic. They've come down to about 6% in the US which is a more normalised figure. So I think in the short term this pessimistic start allows the markets to build in to more optimism, but we do think 2019 is going to continue to be characterised by event risks and volatility the likes of which we've seen in 2018. But because we've started off a lower base, and off a pessimistic base, we actually think markets can make reasonably good headway as we go through towards the end of the year. But as I said with that 2020 recession potentially looming, there is a shorter runway than perhaps we've had before. PRESENTER: Super, David, thank you. DAVID VICKERS: Thank you very much.