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'Off The Naughty Step'

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The recent whirring revolving door and management ructions at Open AI (OAI) resulted from poorly constituted governance in a confused organisation with an impossible humanitarian mandate. The principal issue at stake between the techno-utopians and the techno-dystopians exposed a philosophical divide familiar to the Malthusians and Ricardians at the time of Britain's Corn Law debates in the early 19th Century and the Sierra Club and Chicago School debate over resource depletion a century later.

The surprise announcement of Sam Altman's departure from OAI, described by one witty analyst as "Control Altman Delete," wiped $50bn off Microsoft's market value. The episode highlighted the tech giant's haste in funding the Chat GPT company to gain a march in cloud computing and enterprise productivity, pouring in $13bn of investment without taking control.

However, CEO Satya Nadella made lemonade from his helping of lemons by agreeing to hire Altman and his cofounder Brockman directly to Microsoft. This checkmate move to secure the most rapidly adopted consumer product in history was a blinder, a task made easier by a balance sheet larger than most countries and access to almost unlimited computing power. Satya's intervention demonstrated to the dystopian effective altruists on the OAI Board that nothing is safer than large language models without access to computing power.

While Microsoft acted quickly to preserve its competitive position, this event's longer-term ramifications remain unclear. Chinese growth has tapped out, and internet adoption is maturing; the sluggish world economy needs a productivity boost. AI and robotics offer capitalism its next repository of cheap "labour." The question is, will our political masters permit it, and if so, how quickly can it be dispersed?

Last week saw one of the final set-piece political events from the UK government before the next general election with the Chancellor's Autumn Statement. There has been much media attention to its main giveaways (such as NI reductions and business investment incentives). But the absence of fundamental policy disagreement between the Conservative and Labour benches was notable in the subsequent debate.

This time next year, the UK will probably have a Labour government for the first time in fourteen years. As taxpayers, citizens, employers and employees, we each have a view on the impact this might have. However, from a global investor's perspective, the UK is likely to be seen as a paragon of smooth and effective governance, compared with the Downing Street clown car events of last Autumn, and the national elections due next year in Taiwan, India, Mexico and the United States.

Jeremy Hunt was always going to focus on Sunak's pledge to halve the UK's headline inflation rate, a low hurdle to clear and one already in the bag. But spare a thought for Argentina's newly elected, chainsaw-wielding president Milei, who must tackle inflation, running at 143% and a currency in freefall. He pledged to close (indeed blow up) the Argentine central bank and adopt the US dollar as legal tender in a desperate attempt to break Argentina's predilection for monetary excess.

Nobel economist Simon Kuznets said there are four types of economies in the world: developed, developing, Japan and Argentina, reflecting the reality that Argentina, which a hundred and twenty-five years ago one of the wealthiest nations on earth, has since 1946 become trapped in a permanent cycle of monetary mismanagement and economic crisis. While politically risky, Milei's plan makes sense. Durable goods (such as cars and houses) are already bought with dollar bills (Argentina has no residential mortgages). Indeed, estimates suggest that Argentinians hold more than $150bn in US currency, one in fifteen of all dollar bills in circulation.

Whatever you think of former Bank of England Governor Mark Carney comparing the UK economy last year to Argentina, Hunt's disbanding of his economic advisory panel (announced in the text of the Autumn Statement) indicates renewed confidence in the economy's financial standing. And the rising value of the Pound and moderating Gilt yields support this view. With positive real incomes, the UK consumer is in better health. Following the ONS upgrade to our post-Brexit GDP series, the UK falls squarely into the middle of the G7 pack for economic growth and ahead of most over the post-pandemic period.

Straws in the wind suggest that global investors might already be letting the UK off the naughty step. Nissan, previously a critic of the UK's decision to leave the EU, has just announced a $2bn investment in its Sunderland operations to underpin its bridgehead into the European market. CEO Makoto Uchida said he was baffled at how the British talk the country down: "I am quite surprised that people here in the UK are asking, 'Why the UK?' We have great people and great talent here." Meanwhile, US FMCG giant Mars has agreed to pay £534m to acquire UK-listed Hotel Chocolat, paying an astonishing 170% premium to the value afforded by beleaguered UK stock market investors immediately prior.

The world economy and its financial markets are challenged by de-globalisation and fiscally dominant governments with their overarching demand for debt. The inconvenient truth for doom-mongers is that the UK market is not uniquely poorly positioned to face such challenges. Neither does it need to risk the type of reform agenda that Argentina now faces. In this context, we consider that the UK market represents excellent value. It won't require the next generation of AI-powered investment tools for others to understand that the UK place on the investment naughty step is nearly over.

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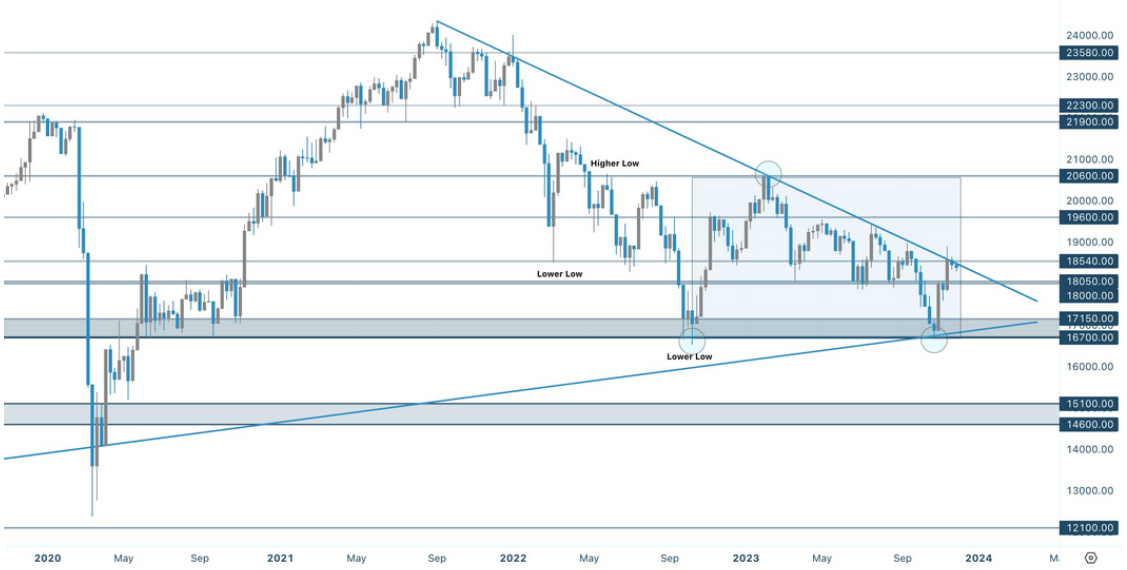
JACKSON'S CHART - FTSE250 (WEEKLY)
An analysis by Jackson Wray



Source: TradingView.com

EXPLANATION

Since September 2021, the FTSE250 has lost 25% of its value in a slow, choppy decline. This new downtrend led the index to break through multiple supports while printing lower lows and lower highs. A reversal support was found and subsequently confirmed at the 16,700-17,150 region, which was last held in 2020. Since this point, we have experienced wide-ranging, sideways price action, bouncing between several key levels along the way. This range is identified by a lack of continuation or reversal in the trend, printing an "equal lower high" at the lower high level and an "equal lower low" at the lower low level. In recent weeks, strength was found on this floor with an additional confluence in the diagonal trend line. As it stands, the index remains in this choppy range, and in the near term, all eyes must be on the diagonal trend-line resistance, which is currently being tested for a sixth time. If the UK does indeed make it off the "investment naughty step" and the FTSE 250 confirms the 16,700-17150 as the bottom with trend reversal, there is a lot of upside space to fill.

DISCLAIMERS

FURTHER READING & LISTENING

- Brexit Critic Nissan Shrugs Off Impact Of Leaving EU
- The Faltering Economy Of Argentina | Economics Explained
- What REALLY Happened At OpenAI? Everything We Know So Far
- Newly Elected President Javier Milei Wants To End Socialism And Save Argentina From Hyperinflation
- Decent Report Card For Jeremy Hunt Who Skirts Cynical Electioneering