Twin Peaks

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"Fire walk with me" *- David Lynch & Robert Engels*

The acclaimed American film director David Lynch passed away in January, perhaps the highest profile casualty around the time of the Los Angeles wildfires that destroyed 80 square miles of prime real estate, causing misery to many and imparting an economic cost yet to be established but ranging from anywhere between $50bn and $300bn, far exceeding the damage caused by hurricane Katrina. Lynch leaves behind an extraordinary canon of work; surreal, dream-like, confusing at times and often with disturbing undercurrents. The groundbreaking prolonged narrative thread of the 1990/91 television series Twin Peaks brought Lynch and co-writer Mark Frost into mainstream consciousness, accompanied throughout by Angelo Badalamenti's haunting score, a worthy soundtrack for that which has come to pass.

Financial markets are themselves a long-running narrative thread, the events of January proving a dramatic episode capping a prolonged build-up. It is often said that it's not what you know but what you don't know that counts for everything in the world of stocks, bonds and currencies and investors certainly received an ample helping of unknowns over a tumultuous month to see the new year in. President Trump's inauguration had, ever since his election victory in early November, always promised to generate upheaval to a hitherto shaky status quo. Wide-ranging promises made on the campaign trail are about to be revealed. No end of speculation surrounding trade, immigration, deregulation and taxation policies on top of pre-existing discussion regarding the outlook for growth and inflation extend far beyond US shores, serving to drive developed market bond yields to peaks unseen in years and numerous currencies, including sterling, into a blue (velvet) funk.

Forever wild at heart, stock markets proved far from immune to what the former US Secretary of Defence Donald Rumsfeld once described as "unknown unknowns". Rounding off a roller coaster year the US stock market as measured by the S&P 500 hit its apogee in early December before retreating into year-end and then rediscovering its footing to claim a new all-time high in January. Then, out of the blue, consternation as the go-go technology sector, the poster child for much-vaunted US exceptionalism, suffered a paroxysm in response to news that China's start-up DeepSeek artificial intelligence assistant had usurped OpenAI's ChatGPT to become the most downloaded free app in Apple's App Store. No matter, it seems, that the product refuses to tell users who the president of Taiwan is, the genie is out of the bottle. Shares in US AI tech names initially cratered in response to claims that DeepSeek's creators spent comparatively little 'training' the product unlike the vast sums required to do the same in the US.

Whether the tech dam has suffered an irreparable breach or merely a disruptive technological flesh wound only time will tell. Were it to become apparent that AI models can be developed with less high-end computing power than had previously been thought essential, that would require a significant rethink regarding not just the tech sector's pre-eminence but also investor enthusiasm for businesses at the sharp end of the need for an energy infrastructure overhaul.

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The travails besetting the so-called 'new economy' have been to the old economy's benefit. The stock markets of both Germany and the UK are replete with businesses whose commercial endeavours are focused on the latter, and both have performed strongly. Despite Germany's well publicised domestic political and economic woes, stocks have enjoyed a persistent tailwind. High-profile internationally recognised brands benefitting from the euro's weakness on the foreign exchanges, the ongoing resilience of the US economy and Beijing's periodic efforts to breathe life into a Chinese economy still reeling from the fall-out from the sprawling real estate sector's seemingly endless difficulties.

Having achieved an all-time high back in May last year, the index of the leading 100 companies listed on the London Stock Exchange has sprung back to life following an intervening period of torpor. A second peak has been achieved despite the difficulties experienced by the Labour administration and again thanks largely to the outward focus of heavily weighted constituents' business operations. The pound's weakness, particularly against the dollar, in response to elevated concerns regarding the parlous state of the country's public finances, concerns which resurfaced as gilt-edged yields spiked to multi-year highs, is a headache for the Chancellor but an accounting windfall for those companies translating sales and earnings derived overseas back into sterling.

Throughout all that has taken place over a busy month, central banks have generally taken a back seat. So often in the past the financial markets' deus ex machina has been cranked into proceedings to pour oil on troubled waters, restoring order and calm through necessary policy adjustments. Not this time. With the (inevitably) notable exception of the Bank of Japan, which did as it telegraphed it would and raised interest rates without, on this occasion, the ensuing turbulence across markets, senior officials at the world's largest institutions have largely stepped back from the fray. Without doubt their time in the spotlight will come again, a carefully calibrated interest rate response surely necessary as the Trump administration reveals its hand in the weeks and months ahead.

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If the events unfolding over a dramatic first month of the year tell investors anything it is surely to reaffirm the importance of portfolio diversification. Committing every egg to a single basket can and often does produce an unwelcome omelette! Spreading the risk that is the ever-present counterpart of investment returns has seldom felt so important. If January serves as a precursor for what might follow, investors will likely need to keep their wits sharply honed. Fortunately, experienced wealth managers can act as able guides through a murky forest, aware as they are at all times that the owls are often not what they seem!