Appian
Asset Management

The Nigel Farage Nightmare

Since its inception critics have lined up to pour derision on the "incomplete" integration of the European Union (EU). However, as is often the case in a time of economic or social crisis the EU has initiated moves in recent weeks to further this goal and it will have important consequences for investors and politicians alike. There have been three notable events that have confounded the EU's staunchest detractors.

Firstly, the European Commission has proposed a Covid-19 rescue fund. This fund, labelled the Recovery and Resilience fund (RRF) would amount to €750bn and is championed by European behemoths Germany and France. There are some significant aspects to this fund as it is presently being proposed (1) the size of the fund is unprecedented (2) the fund will be a combination of loans and more controversially grants and (3) the financing of the fund via the markets would be counter balanced by revenue raising measures that would encompass EU wide taxes (digital, plastic and carbon emissions are the most frequently referenced in media reports). As with many European schemes the structure is far from perfect. Some governments are concerned about their tax revenue losses whilst others are alarmed that grants are in essence undeserved bail outs. In addition, the criteria for distribution of the fund point to a goal that is less about alleviating the damage of the pandemic and more about encouraging desperately required structural changes in some economies. The RRF will necessitate unanimous approval from 27 European countries however, in spite of all these issues it is an intermediary step to joint bond issuance and greater fiscal integration – the lack of which is one of the more frequently perceived and referenced weaknesses of the EU.

Secondly, the ECB increased its Pandemic Emergency Purchase Programme (PEPP) by €600bn – considerably higher than even the most optimistic forecasts. Christine Lagarde, just as her predecessor Mario Draghi did, has placed the ECB front and centre in the defence of the continuing successful functioning of the Eurozone (note the chart reflecting the expanded size of the ECB's balance sheet). Investors have been convinced as reflected in the recent move in EURUSD.

ECB Balance sheet ($) Yardeni Research June 9th 2020

Thirdly, Germany announced a post Covid-19 fiscal package that amounts to €130bn (c. 4% of GDP). Germany has encountered significant condemnation in recent years for the surpluses it has generated and its reluctance to provide stimulus to its economy that would also have additional economic benefits for its neighbours. From the perspective of an Economist the package was an example of responsible and balanced fiscal policy. There were short term measures (a temporary 3% cut in the VAT rate and family payments of €300 per child) that will assist consumption in the short term and longer term measures (tax breaks for SME/Corporate investment and spending on transport and digital infrastructure) that will improve productivity and the country's potential growth rate. Notably, the German government also recognized its environmental responsibilities by providing subsidies for Electric Vehicle automobiles.

Perhaps unsurprisingly, the same opponents of the German surplus generation of recent years are now critical of the timing of their stimulus, as in their view it will create a greater divergence between the "haves and have nots" in the EU whilst the original ECB

QE program (not the PEPP program) has been challenged by the German Constitutional court. Public disapproval of the EU and its workings reflects a healthy democratic environment and there will remain individuals and parties who disavow the idea of a union of what might be perceived as disparate nationalities - yet they must recognise that this project has created the longest time period of peace in Europe and created one of three major economic powers in the global economy today.

Undoubtedly there are areas of concern with regards the European project. For us in Appian, Italian government debt levels remain a particular source of unease (although it will be in good company post the Pandemic with the OECD forecasting that its members will see debt levels move from 109% to 137%) and to borrow a Winston Churchill quote about Americans, European politicians tend "to do the right thing after they have tried everything else". Nevertheless the actions by European policymakers in recent weeks will assist in a faster than expected economic recovery and will make European assets more attractive much to the chagrin of those who believe that membership of this unique club bequeaths few economic benefits.

Appian AM NAV's Fund Prices 29-05-2020

NAV		**YTD**	**SI**	**QTD**
		%	**%**	**%**
AMAF	143.0353	-10.13%	43.04%	5.78%
AGDGF	164.1420	-23.43%	64.14%	8.91%
AGSCOF	139.9289	-25.27%	39.93%	15.04%
AIF	103.0517	-6.95%	3.05%	10.51%
AELF	103.3385	-0.36%	3.34%	-

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- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**