The third quarter has, to put it mildly, been a challenging one for holders of risk assets. Most large equity markets were down around 10%, and anything connected to China or commodities fared considerably worse. Fortuitously, we took a little risk off the table in August. Nevertheless, it has been a quarter of relentlessly depressing newsflow emanating from a variety of sources – China, the US economy, emerging markets, commodity producers. The list goes on.

The change in policy by the Bank of China which resulted in the devaluation of the Chinese renminbi is important, in that something that had been fixed in the global financial architecture has now become variable – and I suspect in most investors’ minds, variable with a downside skew. Potentially, the implications are many.

Overall, then, a gloomy environment. But if you look hard enough, and you can find some chinks of light.

What pieces of newsflow might encourage investors to see the glass as half full, rather than half empty? Here’s some reasons to be cheerful (albeit I admit they’re not nearly as catchy as Ian Dury’s lyrics).

- Much of the newsflow on the collapse in commodity prices has focused on the problems of the producers. What is often overlooked is that these falls are good news for consumers of these cheaper commodities whether they be corporate or consumer.
- Mergers and acquisition activity is rampant this year. This indicates that the executives and non-executives at AB InBev, contemplating one of the biggest deals in history, are pretty sanguine on the outlook for China, emerging markets and US interest rates.
- The downturn (or more accurately crisis) in some areas of the commodity world may result in swifter and firmer action by mining and oil executives than some investors currently expect. Whilst mine closures and production reductions don’t happen overnight, investor expectations can change quickly. A perception of a floor having been reached in commodity prices would provide considerable respite to both miners and the countries that accommodate them.
- The corporate sector remains in reasonable financial health. The global economy is still growing. For good companies, there are still opportunities for sales, profits and healthy prospects for dividends.
- The President of the European Central Bank, Mario Draghi, reiterates that he will “do what it takes” to engineer Eurozone recovery. I suspect that his counterparts in the UK, the US and Japan would pull their monetary levers a little harder if required.
- Money is cheaper than ever (for those who can borrow).
- Banks have three times the capital that they did seven years ago, and are more willing to lend than they have been.

While there is much debate on the outlook for US interest rates, the consensus view is that the US economy is in the midst of a sustained recovery. A strong US economy acts as a rising tide that will lift many boats – as the largest and most important economy in the world, continued US recovery will help many others.
We could go on. Indeed, it’s entirely possible to construct a broadly positive investment narrative – one that highlights: Japan’s continued monetary stimulus, allied to a credible restructuring story; America as the continued source of technological innovation, with a mobile workforce, great demographics and cheap energy; a stronger Europe with recovery led by Italy, Spain and Ireland.

All these are reasonable suggestions as to the sort of things might enthuse investors with a more positive mindset. There is undoubtedly much for investors to mull over – both positive and negative – as we tiptoe into the final quarter of 2015. We’ll see what comes – but in the meantime, some final reasons to be cheerful from the Bard of Upminster...

Too short to be haughty, too nutty to be naughty
Going on forty no electric shocks
The juice of a carrot, the smile of a parrot
A little drop of claret, anything that rocks

Richard Dunbar
Investment Solutions

The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.