

## Quarterly investment commentary – October 2019

It was once again a turbulent period for investors as trade wars and recession fears dented investor sentiment. Political concerns began to dominate market movements more so than any of the previous years, such as the Democrat-led impeachment inquiry into President Donald Trump and ongoing wrangling over Brexit. With the global economy continuing to show signs that it is losing momentum, central banks have once again stepped in with renewed stimulus measures to extend the current period of expansion.

Throughout 2019 the global economy has been experiencing a gradual slowdown. China's economic growth continues to slide and its trade dispute with the US is causing reverberations around the world. Europe is a mixed bag, with much of its fortunes being determined by Germany. Against this backdrop, the International Monetary Fund has revised its forecast for growth in 2019 down to 3.2%, from a previous estimate of 3.3%. It expects growth will rebound to 3.5% in 2020, although this is below its previous estimate of 3.6%.

During the third quarter, global stock markets generated mostly flat returns, having dipped in August and then rebounded in September. While US equities managed a small positive return, UK and Europe were flat. Meanwhile, Asia Pacific and the emerging markets were hit by the fallout from trade wars and a strengthening dollar. Japanese equities, meanwhile, generated solid returns over the quarter, owing in part to lower valuations attracting investor inflows.

### UK economic update

It is difficult to discuss the UK economy without mentioning Brexit and the uncertainty related to it. For instance, the purchasing managers' index released in September revealed the manufacturing sector was contracting because companies were reluctant to make capital investments as Brexit uncertainty continued. Similarly, while the labour market remained on a solid footing and wage growth has been strong, recent data has shown that companies have been holding off hiring new employees. Even so, the Office for National Statistics reported that gross domestic product (GDP) growth in July was stronger than expected, at 0.3%, easing fears that a recession was on its way.

The Bank of England has held interest rates steady at 0.75% since August 2018, but in September it stated that Brexit uncertainty meant the economy is performing below its potential. It signalled that if the uncertainty persists, a rate cut may be necessary to stimulate the economy. Against this backdrop, UK equity markets produced flat returns over the quarter.

### What's happened around the world?

#### Europe

Europe's economy continued to struggle. The decline in global trade caused by the US-China trade dispute and the threat of a no-deal Brexit resulted in a sharp drop in manufacturing output that nearly caused the eurozone economy to stall. A key driver of this was Germany's economy slowdown, which has accelerated in recent months. Business sentiment has been poor, while purchasing managers' indices show that the manufacturing sector is experiencing a major contraction. Car manufacturers were the worse hit by rising Chinese and US import tariffs. While activity in the eurozone remains in an expansion phase, it is at a slower pace. Against this backdrop, the European Central Bank cut interest rates and introduced a package of stimulus measures, which included €20bn of bond purchases per month.

European equity returns were mostly flat over the quarter. While markets dipped in August, they managed to rebound in September as investors gained greater confidence that the global economy was more stable than first believed.

## United States

The trade dispute between the US and China was the dominant storyline yet again, so much so that it stoked recession fears that reverberated across financial markets in August. Early in the quarter, economic data in the US was mixed and consensus estimates were on the downside. While the labour market remained in good health and consumer spending was strong, corporate earnings were somewhat lacklustre and business sentiment was equally negative. GDP growth for the second quarter came in at 2%, somewhat lower than the 3.1% seen in the first quarter, with strong retail sales offsetting weakness in the manufacturing sector.

In financial markets, US equities produced a small positive return, having dipped in August on fears of trade wars and recession, only to rebound on more positive news. Nevertheless, the US Federal Reserve cut interest rates on two occasions over the quarter to maintain the current period of expansion.

## Asia Pacific

Asia Pacific has tended to suffer more as the US-China trade dispute progresses, and the third quarter was no different. Hong Kong continued to be weak as demonstrations continued. Meanwhile, GDP growth in the second quarter was a disappointing 0.5% year on year and retail sales fell by 13% year on year in July.

In Japan, GDP growth for the second quarter was revised down to an annualised rate of 1.3%, significantly slower than the initial 1.8% estimate. It is expected that Japan's economic growth will remain sluggish in the near term given stagnant production and trade headwinds, while core consumer inflation remains stubbornly low at 0.5%. This has prompted the Bank of Japan to suggest it will ease monetary policy further as it attempts to bring inflation closer to its 2% target.

Equity markets in Asia Pacific were noticeably weak in the third quarter, having been hampered by a slower global economy, trade disputes and a strengthening US dollar. Japanese equities bucked this trend, however, and increased off the back of a weaker yen and more attractive valuations compared to other markets.

## Emerging Markets

Yet again the emerging markets experienced a difficult quarter. A major factor was a strengthening US dollar, which placed certain dollar-sensitive markets, such as Turkey and South Africa, as well as Argentina and Brazil, under pressure. China's economy continues to slow down, with lower domestic and international demand making an impact. Economic growth fell to a 30-year low of 6.2% in the second quarter and it is feared it could fall further, particularly given a slowdown in the manufacturing sector and the trade dispute with the US. Against this backdrop, the Chinese equity market generated negative returns over the quarter.

India, meanwhile, continued to see a sharp slowdown in its economy. Car sales saw a steep fall in the three months to August and there were significant layoffs at auto manufacturers, parts makers and distributors. To stimulate growth, India's central bank has cut interest rates four times in 2019 so far and the government has announced corporate tax cuts.

Against this backdrop, emerging market equities generated negative returns during the quarter.

## Outlook for the third quarter

More so than previous years, political developments are likely to be the primary influence on markets in the coming months. The outcome of the US-China trade dispute, as well as Brexit, rely on political leaders finding solutions and will have a profound effect on economies and financial markets.

Given that the global economy continues to slow down and the usual drivers of growth, such as the US, China, and Germany are all witnessing a deceleration, we are in the later stages of the economic cycle. Many central

banks are now seeking to stimulate growth with rate cuts and other measures, albeit with less firepower than was available prior to the previous downturn.

While the global economy faces plenty of headwinds, the current period of expansion still has some way to go. Against this backdrop, equity markets are likely to continue to grow, although they could be derailed by an escalation of trade tensions, a disorderly Brexit or a major deterioration of economic data.

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## Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 30th September 2019.

	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>4 years</b>	<b>5 years</b>	<b>10 years</b>
<b>FTSE All Share</b>	2.93%	8.96%	21.98%	42.50%	39.22%	121.56%
<b>FTSE USA</b>	9.11%	31.44%	50.28%	100.36%	111.36%	319.31%
<b>FTSE World Asia Pacific</b>	2.61%	14.23%	28.93%	75.09%	70.17%	132.95%
<b>FTSE World Europe ex. UK</b>	6.50%	8.65%	33.32%	61.49%	59.54%	114.89%

We've sourced these index figures, in sterling terms, from Financial Express to 30th September 2019. The indices mentioned above are measures of the markets they represent. For example, the FTSE All-Share Index represents 98-99% of the UK market. It is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

You shouldn't take past performance as a guide to future performance or as the main or sole reason for deciding to invest. It may have been achieved in a more favourable economic period that may not happen again, and tax conditions are unlikely to be the same. We don't guarantee the value of your investment and any income you take from it, both of which can go down as well as up.

### A long-term commitment

We believe it's important, where possible, to take a long-term view when investing. Looking back over the years, volatility has always been a feature of world stock markets, with each setback followed by a recovery – some taking longer than others. The usual way to deal with volatility is to invest for the medium to long term – a period of at least five to ten years.

It's important to find the right product and invest in the right funds, and this depends on your investment objectives and attitude to risk. If either has changed, your adviser will help you review your investment to make sure it continues to meet your needs. Although we don't give investment advice, we do offer a wide range of funds suitable for almost all investment objectives and attitudes to risk.

We strongly recommend you speak to your adviser before making any changes to your plan.