Quarterly investment commentary – January 2020

The worry entering the final quarter of 2019 was that markets would fall away further, with experts predicting a period of fading growth and perhaps even recession in some regions.

Instead, global equities climbed higher after a roller-coaster ride in October, driven by positive news around the US-China trade discussions, while US companies delivered better earnings results than many expected. Indeed the US index of the top 500 companies, the S&P 500, reached a record high in December.

In the UK, the pound soared following Boris Johnson's landslide general election victory in December, giving the Conservative party the biggest working majority of any party since 1987. Indeed the FTSE 250 - an index made up of smaller, more domestically focused UK companies – hit record highs as near-term political uncertainty reduced.

Elsewhere, economic conditions remained weak across the Eurozone, particularly in Germany. In December, new President of the European Central Bank (ECB) Christine Lagarde announced a strategic review of monetary policy, the first since 2003. The review will be wide-ranging, covering issues like climate change and inequality, meaning changes to monetary policy in the early stages of 2020 are unlikely.

UK update: Boris landslide and Brexit bounce

Q4 2019 will be remembered fondly by the Johnson Administration. Not only did he secure a landslide election victory for his party in December, Johnson also managed to twist the arms of EU leaders in October, to gain concessions on his predecessor Theresa May's Brexit deal. Changes to the deal were predominantly in relation to the Irish backstop, with Johnson agreeing that the UK would leave the EU customs union as planned, with a customs border likely to be inserted between Northern Ireland and the rest of the UK.

Sterling and domestic stocks rallied, particularly those in the banking sector. It wasn't all positive news this quarter however, with the annual growth rate for the UK at its lowest point since 2010. Data suggests growth could slow further, although this may improve now that some certainty on the political front is starting to emerge. Stocks in the FTSE 100 index lagged behind those in the FTSE 250, reflecting the reduced risks for the more domestically focused UK companies making up the 250 index.

What's happened around the world?

United States

The US economy is currently enjoying its longest period of growth on record, a period dating back to the end of the financial crisis last decade. And while that's not necessarily a reason in itself for the good times to stop, there are signs that the current period of relative success is nearing its conclusion. Having peaked in mid-2018, growth in the US has steadily slowed to a rate of 2.1% by October 2019, its lowest since 2017.

That aside, the mood was boosted in December with news from the US and China that a partial trade agreement had been agreed, with a deal due to be signed in early 2020. Whether such a deal is enough to prevent the US slipping into a mild recession next year, as per popular consensus, remains to be seen.

At the end of October, the Federal Reserve lowered the target range for its 'funds rate' - the benchmark interest rate at which banks lend excess reserves to each other - to 1.50 - 1.75%. In doing so the Fed hoped to help generate sustained economic activity, strong labour market conditions, while keeping inflation near the 2%

objective. The Fed has signalled that it has finished cutting rates for now, unless data deteriorates further going forwards.

Europe

European equities recovered after an early-October sell-off, as risks around the US-China trade dispute and the threat of a hard Brexit both reduced. Manufacturing companies recorded an increase in new orders for the second month in a row, but the service sector slowed while companies across the continent hired fewer people. Output from industrial companies declined to 5.3% for the year, its steepest rate of decline for 10 years.

Overall the European economy has grown marginally of late, with figures from Q3 confirming an increase of just 0.2%. Meanwhile Germany narrowly avoided recession after its economy grew by 0.1% for the same period. The German economy had shrunk in Q2 2019, and two consecutive quarters of contraction would have constituted a technical recession.

Asia Pacific

Japan’s economy experienced something of a roller-coaster ride for much of the 4th quarter. Retail sales soared in September ahead of a VAT-equivalent tax hike in October, before sales slumped thereafter, rather predictably. In general terms, Japanese equities struggled compared to their global counterparts, with businesses not helped by Typhoon Hagibis, the strongest typhoon the country has experienced in over 60 years.

Growth figures released in October revealed that the Chinese economy had grown by just 6% in the year to 30 September 2019, the slowest rate of growth on record. Generally the sentiment towards the Chinese economy was somewhat cautious, with companies lagging global equities.

Meanwhile, the central banks of Indonesia, Philippines and Singapore intervened with further assistance to their respective economies, while growth in both Thailand and Malaysia slowed. In November, Singapore confirmed a slight improvement to its economy, ensuring a technical recession there too was avoided.

Looking ahead…

With central banks around the world facing the task of trying to help their flagging economies, it may be time for investors to fasten seatbelts as we head into 2020. Trade disputes, political unrest and a slowdown in manufacturing companies globally are all factors as we enter the new year, with concerns that a mild recession may be approaching for the US economy, which would reverberate around the world.

Brexit is sure to dominate the domestic agenda once more, with the UK expected to leave the EU by the end of January. However, Boris Johnson’s insistence that the transition period - the time by which the UK should formally leave the EU - will not be extended beyond the end of 2020, means uncertainty remains..

Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 31st December 2019.

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	19.17%	7.88%	22.01%	42.45%	43.84%	118.28%
FTSE USA	25.81%	26.84%	40.64%	86.43%	98.05%	307.55%
FTSE World Asia Pacific	14.88%	6.61%	24.99%	58.46%	68.70%	132.66%
FTSE World Europe ex. UK	20.45%	9.06%	28.18%	53.42%	61.62%	115.34%

We've sourced these index figures, in sterling terms, from Financial Express to 31st December 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.