

## Quarterly investment commentary – January 2019

### Brexit bother, protest problems and troublesome trade: the 4th quarter of 2018

As a confusing year draws to a close, uncertainty abounds and global economies suffer...

2018's final quarter brought with it as many surprises as the first three. Most recently, Theresa May faced being replaced as Prime Minister after her Cabinet, for the most part, rejected her Brexit proposal. Still, however unlikely, she clung on, and continues to lead the way into the unknown.

The trade war that threatened to erupt between the US and China at the beginning of the year is now fully fledged, sending economies in the surrounding Asian nations into turmoil. Also causing chaos was a lone drone circling Gatwick's runway, sending flight schedules – and Christmas plans – into disarray.

As a hectic year draws to a close, we reflect on what the last three months have brought us and what we can look forward to in the New Year.

### 'Prepare for the worst' – retail continues to tumble

UK firms have been told to prepare for a 'No-Deal' Brexit following the PM's near miss in early December. In the wake of the vote to keep Ms. May as Prime Minister, it seems she's more determined than ever to carry forward a "hard Brexit", whatever it may truly mean for the country.

Just before Christmas, HMRC published an update containing advice on how businesses should aim to prepare for a no-deal scenario. A frightening prospect, certainly – though there is hope for us yet. Financial Secretary to the Treasury Mel Stride told BBC that, while "there is a call to action now", the prospect of a no-deal Brexit is "an unlikely event".

Meanwhile, retail continues to suffer, with large high street chains like Marks & Spencer and House of Fraser closing stores across the country. Despite a brief surge in consumption, predominantly pushed by Black Friday sales, November was described as the worst month for retailers "in living memory", according to founder and chief executive of Sports Direct Mark Ashley, who also owns House of Fraser and a hefty chunk of French Connection among others.

Recent ONS reports have found Mr. Ashley's claim to be something of an exaggeration, however – sales appeared to be up 5% from November 2017, and, in fact, higher than any November since the ONS began.

But his comment isn't completely off the mark. High street shops are feeling the brunt of competition with online retailers – whom, for the first time this year, have accounted for more than 20% of all sales.

### Euro falls amid French protests

The Brits aren't the only ones seemingly disillusioned with their government. French protests in response to President Emmanuel Macron's unpopular fuel taxes have resulted in a bearish market – and, ultimately, a drop in Euro value. The so-called "gilets jaunes" (yellow vests) have stormed French streets in protest of the fuel taxes and general higher living costs.

Two economic surveys carried out in France and Germany showed the euro has fallen 0.6 per cent to below the \$1.13 mark in recent weeks, as the protests take their toll. The survey, carried out by IHS Markit, showed the December composite figure of the French economy to be down at 49.3 – almost 5 lower than in November, signalling contraction rather than expansion.

“Having held up reasonably well throughout the initial months of Q4, latest flash data pointed to an outright contraction in France's private sector for the first time in two-and-a-half years, following the protests which have swept through the country in recent weeks,” said IHS Markit economist Eliot Kerr.

## Asian economies troubled by Trump

As the trade war between the US and China wages on, the economic impact continues to ricochet across other Asian nations. South Korea, which relies on the US for security and on China for economic growth, is among those suffering.

Back in October, the South Korean Government announced plans to provide funding to smaller companies and cut fuel taxes in a bid to boost employment. This, in turn, would help stabilise the slack economy.

“It is very unlikely that the economy and job conditions will improve any time soon,” former Finance Minister Kim Dong-yeon cautioned fellow ministers. Thus began the development of a strategy to push deregulation and support the country's flailing stock market.

Fast-forward two months and things don't seem to be improving, with incoming Finance Minister Hong Nam-ki stating: “Our economy's overall growth momentum appears to be weakening, although indicators are mixed between sluggish investment and employment and solid consumption and exports”. President Moon Jae-in announced the decision to replace Kim Dong-yeon with Hong in an attempt to build a more equitable economy. The efficacy of Hong's input is yet to be proven.

## Trump fed up with rising interest rates

On Tuesday 18th December, President Trump urged the Federal Reserve against raising interest rates, tweeting that he hoped they would “feel the market”, and not to “just go by meaningless numbers”. Two days later, the Fed raised the interest rate again, supported by officials at the US central bank.

Needless to say, Mr. Trump, who has repeatedly blamed the Fed for slacking markets, is less than pleased. However, Jerome Powell, the Fed's chairman, appointed by Trump himself, has spoken out in defence of the rise, claiming that pressure from the Trump Administration plays “no role whatsoever” in Fed decisions.

“We think this move was appropriate for what is a very healthy economy,” he said. “Policy at this point does not need to be accommodative.”

Unfortunately, the increase has had negative effects immediately on stock markets. The Dow and S&P fell by about 1.5 per cent, and the Nasdaq plummeted by 2 per cent. A disappointing close to the year...

## What can we expect next?

When it comes to the UK, it's hard to know what to expect in coming days, let alone the next few months, as recent developments have shown. Though we may lean towards Mel Stride's opinion on the possibility of a no-deal exit, perhaps we should have a flick through HMRC's advice booklet, just in case.

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## Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 31<sup>st</sup> December 2018.

	<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>	-9.47%	2.38%	19.54%	20.71%	22.13%	138.35%
<b>FTSE USA</b>	1.40%	13.09%	50.87%	61.25%	94.01%	287.55%
<b>FTSE World Asia Pacific</b>	-7.19%	8.80%	37.94%	46.85%	52.56%	142.20%
<b>FTSE World Europe ex. UK</b>	-9.45%	6.41%	27.37%	34.18%	34.39%	114.70%

We've sourced these index figures, in sterling terms, from Financial Express to 31<sup>st</sup> December 2018. 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.

### **January 2019**