Quarterly investment commentary – Q1 2018

UK and USA off to a slow start as Europe strides ahead

The UK economy begins to thaw after the Beast from the East's departure, while Europe steams ahead as economists predicted

Since the beginning of 2018 we've been subjected to a variety of shock occurrences, including bad weather, the plummet of crypto-currencies and what seems like the beginning of a cold war.

And while President Trump bellowed triumphantly last week that the US economy is "raging", and "at an all-time high", it seems that what he means is that it's creeping slowly along and, to quote Forbes, "isn't dead yet".

Britain's own economy is following closely behind, with construction at a new low following the Beast from the East and the Carillion crash.

UK off to a "beastly" start

If you haven't heard about the "Beast from the East" which swept through Britain and Ireland twice in a month, you must be living under a rock – and in this case, you'd be better off.

The storm, which covered much of Ireland in layers of snow thick enough to engulf complete cars, has had a detrimental effect on the UK economy in several areas.

Overall construction fell mightily in March – the biggest month-on-month fall since the 2016 announcement of the Brexit vote, it's been revealed. According to Reuters, The IHS Markit/CIPS UK Construction Purchasing Managers' Index (PMI) slumped to 47.0 from 51.4 in February.

And commercial construction was at its lowest since 2009.

Scotiabank economist Alan Clarke dubs the construction sector "the problem child of the UK GDP breakdown".

Retail also took a blustery hit, with supermarkets losing around £22 million during the storm, as food shop visits dropped by an average of 5% across the nation. It seemed people were more intent on staying fireside than on restocking their larders.

Over in Europe

The recovery of the eurozone in 2017 made a great job of paving an optimistic path for the European economy for this year.

It's following that path of positivity with gusto. At the end of January, it was revealed by Eurostat that the EU economy expanded by 2.5% in 2017 - the largest growth in a decade. Investec economist Ryan Djajasaputra attributes this growth to the eurozone's four chief economies: Italy, Spain, Germany and France.

Eastern European economies too are on the up, says Mr Djajasaputra. He stated that unemployment within the eurozone has finally hit pre-crisis levels, meaning a boom in confidence which has ricocheted around Europe.

And there may be more to come: Standard Chartered is forecasting eurozone growth of 2.2% in 2018 and a further 2% in 2019.

China's economy "balancing out"

"The Chinese economy is rebalancing at last," writes Martin Wolf for the Financial Times in April, going on to explain that a shift is being made away from "excessive reliance on debt-fuelled investment", due to a higher demand driven by consumption.

So far, so good.

But what everyone's wondering about is the digital trade war between America and China. Will we see America announce new tariffs targeting Chinese technology?

This decision was made to protect American economic power; it is estimated that Chinese companies own around 10% of the intellectual property essential in the development of 5G networks, which are set to take the world by storm later this year.

China has retaliated against America's new tariffs – which have been set at 25% and will be applied to 1,300 Chinese products – with some of their own.

Among the imports that Beijing have slapped with a new tax are orange juice, cars and soybeans. Beijing has set its own tax at 25% to match America's – but has condemned the decision made by the Trump administration as "unilateralistic and protectionist".

American matters

Despite three months of stock confusions around tech giants such as Facebook and Tesla, and the constant drone of trade war threats, Forbes reassures us that the US economy "is not dead yet."

At the end of 2017 it was revealed that the US economy had climbed by 2.5%, bringing Brazil and Mexico along with it, and it's considered that it will remain stable for the remainder of the year, despite a definite slow in momentum.

Growth in consumer spending is lower than the 1.2% expected for the first quarter, though Kevin Logan, an economist for HSBC, thinks it will pick up to about 3.2% in the second quarter.

This is largely down to the strong job market, which Mr Logan feels will contribute to higher consumer spending in the summer months as incomes rise and unemployment continues to dip.

What can we expect next?

While we can look forward to the Summer of Higher Consumption and hopefully, the recovery of the UK economy as the last snowflakes finally melt away, there remains the possibility we'll continue to see volatility in the stock market, particularly in the tech sector.

Facebook reportedly lost $50 billion in shares following the uncovering of Cambridge Analytica's suspicious files, and Amazon saw $30 billion chopped from its market capitalisation after Trump voiced his interest in "going after Amazon with antitrust or competition law".

Something tells us this isn't the end of the troubles in tech – we'll just have to wait and see what happens next.

Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 31st March 2018.

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	1.25%	23.48%	18.63%	26.43%	37.57%	90.58%
FTSE USA	1.76%	37.52%	43.26%	81.15%	101.66%	253.52%
FTSE World Asia Pacific	5.73%	42.32%	36.21%	63.12%	56.83%	131.03%
FTSE World Europe ex. UK	4.26%	33.32%	27.77%	37.32%	61.03%	85.60%

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

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