Quarterly investment commentary – 2nd Quarter 2018

Trump's trade tensions threaten economy

Mid-way through the year, countries continue to get to grips with the impendence of Brexit as threats of trade wars loom.

2018's second quarter has been as full of surprises as the first. The viciously cold weather's been replaced by an almighty heatwave, sending Britons in swimsuit-clad droves to parks and beaches throughout the UK. And it's not just the weather that's been getting fiery.

Relations between China and the US have, too, become heated, rumbling threats of a trade war. Immigration policies have been undergoing significant changes, retail giants have been closing their doors for a final time, and housing sales are slumping – fast.

Keeping spirits high are the consistently low unemployment rate and, of course, Wimbledon and the World Cup.

So, as we reach 2018's half-time, how exactly are we faring and what still lies in store?

UK tiptoes around Brexit

Large UK firms are running out of patience with Brexit talks, which, according to Airbus, BMW and the BBC, among others, are painfully slow and consistently indecisive, leaving the future of millions of workers in limbo.

The British Chamber of Commerce have issued a list of 23 urgent questions to be answered by the government in the run-up to Brexit – questions which have been thus far left unanswered. These involve customs, VAT and tariffs.

Director general of the BCC, Adam Marshall, said that it's "time for politicians to stop squabbling…and start putting the national economic interest first." In the 2nd quarter, BCC cut their prediction for UK economic growth in 2018 from 1.4% to 1.3% - the weakest growth since the financial crisis.

While workers of BMW and Airbus must wait to find out their fate, 7,000 retail workers have already been left jobless after the closure of UK retail giants such as Toys R Us and Maplin.

Other companies which are following suit as online shopping continues to grow are House of Fraser, Marks and Spencer and Carphone Warehouse, who'll be closing branches throughout the country in coming months.

…and as for Europe

It isn't just British companies and organisations that are suffering Brexit-based woes. Italy's leading agricultural organisation, Confagricoltura, is among those concerned about what the possible hard Brexit might mean for their future.

Italian farming communities currently receive around £3.5 billion per year. A so-called Soft Brexit will mean the UK can remain close and open to existing tariffs, laws and deals with other European countries. Faced with a hard Brexit, however, "every country will suffer," says Confagricoltura.

Also notable this quarter is Europe's first round of retaliatory taxes on a range of US goods, including bourbon whiskey, orange juice and motorbikes. This comes following the Trump administration's decision to add a 25% and 10% tariff to steel and aluminium, respectively, coming into the US.

True to form, President Trump hit back immediately via Twitter, threatening to stamp an extra 20% on all EU-imported cars. We're left wondering how far this one-way Twitter war may go.

Asian trade "Trumped"

Experts have warned that the ongoing trade war (or, perhaps more accurately, trade "spat") between the US and China could lead to a fall in Asia's fast-growing trade.

According to Citi data, Asia had the fastest trade volume growth in the world in 2017, at 6.7 percent and 9.6 percent for exports and imports, respectively. And trade activity has continued to boom over the last year, with bank business growth shooting up by a whopping 26 percent year on year.

Trade between China and the ASEAN region (Association of Southeast Asian Nations) has been driven by infrastructure needs, while between South Korea and India, it's electronic and automotive goods, and, of course, technology.

There are concerns, however, that such growth will be compromised by the tariff tit-for-tat between the US and China. If the trade tariffs suggested by President Trump should come into effect, this would damage tradelines between China and the US – but it would also have knock-on effects on the rest of Asia, J.P. Morgan has warned.

Looking on the bright side, it will likely push Asian countries to rely more heavily on each other, thus opening up new opportunities for some economies.

This is America

In the first quarter of 2018, it was warned that the US's healthy growth rate would soon reach a definite slow in momentum.

And despite Fox News this week declaring that Donald Trump's "birthday gift to America" was a "booming economy", the US Chamber of Commerce has strongly warned that Trump's handing of trade and imposition of tariffs will soon lead to an economic downturn.

Having praised Trump for his cutting of business taxes in December, Chamber President Tom Donohue has now stated: "The administration is threatening to undermine the economic progress it has worked so hard to achieve."

More positively, unemployment has fallen to an 18-year low at 3.8%. According to the Financial Times (FT), felons are now being recruited to fill jobs in the booming manufacturing industry, due to the ever-dwindling recruitment pool.

What can we expect next?

Over in the UK we can only hope that the tropical weather continues – and with it the boost in household consumption that's sprung from sunnier outlooks.

However, we, along with Airbus, BMW and countless other firms will have to continue to wait out Brexit plans. A UK government spokesperson has declared the determination to get a "good deal" with the EU, to "ensure trade remains as free and frictionless as possible."

But if the last few months has shown us anything it's that the path of world trade is going to be rocky, at best, for the foreseeable future.

Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 30th June 2018.

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	9.02%	28.78%	31.62%	35.05%	52.76%	111.17%
FTSE USA	12.74%	37.13%	66.47%	94.17%	115.39%	298.81%
FTSE World Asia Pacific	7.38%	35.24%	47.55%	61.92%	64.51%	138.37%
FTSE World Europe ex. UK	2.52%	32.30%	40.30%	41.86%	65.10%	102.45%

We've sourced these index figures, in sterling terms, from Financial Express to 30th June 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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