Quarterly investment commentary – Q4 2017

Global economy leaves 2017 on overall high

Question marks remain, but economy ends year with signs of slow recovery from years of ill-health.

More so than most, 2017 was a year of surprises, both financial and political. France toppled on the verge of another revolution early in the year, while Spain followed suit later on, and President Trump’s arrival was announced the world over.

Britain has struggled with increasingly steep inflation rates in response to a devalued Sterling and a dampened rate of productivity – likely, in part, a reflection of workers’ spirits in the wake of continued lower wages.

UK perspective

After a sharp fall in value as a result of the EU referendum, Sterling finally staged something amounting to a comeback in 2017’s fourth quarter, and is slowly fighting back on global stock exchanges.

At the end of December, it sat approximately 10% less than it was before the Brexit decision was announced. But at 1.35 to the dollar, it’s about 10% higher than it was at the beginning of January – and a little goes a long way.

A survey carried out and analysed by Reuters showed that UK businesses are feeling “upbeat” about 2018, after a comparatively healthy fourth quarter. The monthly IHS Markit/CIPS business survey suggests Britain’s economy grew between 0.4% and 0.5% in the final quarter, although the same survey shows the UK economy lags behind that of the euro zone by a sizable amount.

Reuters suggests that, despite withstanding the shock of the referendum in 2016 quite well, the steadily increasing inflation rate due to the weakened pound in 2017 is what’s damaging the economy and disheartening consumers.

The IHS Markit report had approximated a growth of 1.8% for 2017, higher than many forecasters had done. But this somewhat positive outcome is devalued by the fact that Brexit has excluded the UK from the global upswing enjoyed by other leading economies.

“Without Brexit, the UK economy would have expanded by at least 2.5% last year,” says Berenberg economist Kallum Pickering.

What's been happening in Europe?

One of the biggest surprises of 2017 was the recovery of the euro zone. The election of Donald Trump and the UK's choice to depart the EU sparked fears that other countries would follow suit in electing often-controversial, populist leaders. But February saw France's decision not to elect Marine Le Pen, and, soon after, the Netherlands rejected anti-EU, anti-immigration Geert Wilders as PM.

While this hasn't stopped Europe's economic growth roaring ahead, paving an optimistic path into 2018. ECB governor Maria Draghi warned that the euro zone's recovery still relies heavily on stimulus from the central bank.

Global productivity levels have remained subdued throughout the year, not least in the UK. Though Britain is certainly suffering the most, all the G7 nations are still feeling the brunt of the economic downturn in 2008. And, due to a number of things including higher employment rates, lower interest rates and poor inflation rates, the Office for National Statistics reckons real wages won't return to what they were before the recession until the mid-2020s.

China growth 'set to slow'

During the final quarter of 2017, China's industrial giants enjoyed a soaring production rate, as did 'old economy' firms in the commodity sector, according to surveys carried out by China Beige Book (CBB).

But the unexpectedly good growth in China's economy (6.9%) is not to last, CBB warns. A boom in construction led by a government "spending-spree" helped boost activity in the first three quarters, but a severe crackdown must now be put on debt risks which will no doubt weigh down on the economy.

"If you expect a noticeable slowdown in 2018, the first post-Congress returns support those expectations," CBB said, having analysed statistics from the fourth quarter.

Other crackdowns, on air pollution from factories and a crashing property market, will also contribute to a slowing in momentum across the Chinese economy for 2018.

Matters across the pond

In the wake of Trump's presidency victory, some worried his tax-cutting and spending plans would have less than desirable effects.

In reality, the impact of his fiscal changes have so far had a positive effect on the stock markets, which ended the year in a sprint to the finish line.

Cuts to corporate tax rates are expected to boost profits as well as returns to shareholders, making investment more appealing to large firms.

Outlook for 2018

As time ticks on towards the UK's eventual departure from the EU in just over a year, Britain's turbulent economy is sure to be the focus of widespread scrutiny.

While China is expected to continue slowing modestly (their growth will supposedly slow from 6.9% in the fourth quarter of 2017 to 6.1% by 2019) we can expect India, Russia and Brazil to continue rebounding from the economic weaknesses they've endured for years.

The continued strength of Wall Street will be a key factor in determining the outlook for 2018.

Market performance

This table shows how different indices, representing different geographical regions, have performed over various time periods to 31st December 2017.

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	13.10%	32.04%	33.34%	34.91%	62.98%	84.49%
FTSE USA	11.53%	48.78%	59.02%	91.34%	149.44%	234.53%
FTSE World Asia Pacific	17.24%	48.63%	58.24%	64.39%	84.60%	118.03%
FTSE World Europe ex. UK	17.53%	40.67%	48.19%	48.43%	85.81%	80.23%

We've sourced these index figures, in sterling terms, from Financial Express to 31st December 2017. 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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