Quarterly investment commentary – April 2019

Stock markets were buoyant in the first quarter as fears of global trade wars receded and the US Federal Reserve signalled it will hold off on further interest rate hikes. Nevertheless, slower global growth still looms over the horizon and this is being reflected in bond markets.

The global stock market sell-off that took place in late 2018 was driven largely by rising interest rates and growing concerns of an oncoming recession. While global economic data continues to deteriorate, equity markets bounced back after the US Federal Reserve held off raising interest rates and signalled it will take a more flexible approach that considers economic conditions.

Despite this, there are still concerns about slowing economic momentum in the US and an imminent global slowdown. In January, the International Monetary Fund revised its forecast for global growth in 2019 down to 3.5% from 3.7% due to slower momentum out of Germany, Italy and Turkey.

UK economic update

As was expected, Brexit was the major focus in the UK during the first quarter as Prime Minister Theresa May struggled to gain parliamentary approval of her European Union withdrawal agreement and the nature of Brexit remained uncertain. Stock markets performed well over the period, partly because investors became less affected by Brexit shocks and partly because they were spurred on by better than expected economic data.

For example, the labour market continued to show strength, with the Office for National Statistics reporting that the number of people in employment reached 32.7m people between November and January. The unemployment rate fell to 3.9%, the lowest since 1975 while wages grew at the fastest pace for a decade, at 3.4%.

Meanwhile, inflation fell below the Bank of England's 2% target for the first time in two years, with the consumer prices index (CPI) growing by 1.9% over the 12 months to February.

Inflation measures how much the price of goods, such as food and clothing, goes up over time. While the current level appears to be on target, that does not tell the full story. For example, prices for food, alcohol, transport and recreational and cultural goods went up at a faster pace over the past year than they did in the previous year. However, the extent of this was not reflected in the overall inflation rate because prices elsewhere went up more slowly, such as in clothing and footwear.

Despite all of this, UK economic growth remains at fairly subdued levels and it is not expected to accelerate. In the three months to the end of January 2019, gross domestic product (GDP) grew by just 0.2%, due in part to falling demand for UK manufactured goods around the world. Looking further ahead, the IMF forecasts UK growth at 1.5% in 2019 and 1.6% in 2020, in line with the slower growth rates expected in other advanced economies.

What's happened around the world?

Europe

Economic growth in Europe was weak during the first quarter, with manufacturing activity waning. The service sector showed some resilience but worries of a slowdown remain. Germany nearly fell into a technical recession (two consecutive quarters of negative growth) in the fourth quarter of 2018, although confidence has bounced back.

Growth forecast for the eurozone reflect expectations of slowing momentum in advance economies. The IMF expects growth will come in at 1.6% in 2019, slightly lower than the UK.

European equities rallied in line with other global markets as investors responded to lower interest rates and an easing of trade tensions.

United States

The US started the year during the longest government shutdown in history. The shutdown, combined with winter weather, may take a bite out of growth that was already slowing down. The economy grew at an annual rate of 2.6% in the fourth quarter of 2018, down from 3.4% in the third quarter.

Nevertheless, employment data remained robust and corporate earnings were solid; however, expectations for future earnings are falling.

Stock markets performed well over the quarter, retracing many of the losses seen in December. IT and industrial sectors were strong, while consumer discretionary and communications services grew at a slower rate.

Asia Pacific

Economies in Asia started to feel the pain from slower global growth and China's deceleration. Japan's economy proved sluggish over the quarter owing to lower demand for its exports in China, while both Korea and Taiwan also faced a slump in their export markets. The IMF predicts Japan will see economic growth of 1.1% in 2019, mildly better than the 0.9% it saw in 2018.

Stock markets across Asia Pacific benefited from positive investor sentiment. Equities in Japan, Taiwan and Thailand went up as fears of global trade tensions receded.

Emerging Markets

In China, the economy continues to slow down. While a damaging trade war with the US was averted, manufacturing activity weakened. The IMF forecasts growth of 6.2% in 2019, down from 6.6% last year.

Elsewhere, Brazil benefited from stronger domestic demand, while South Africa's economy stuttered. In India, the central bank cut interest rates by 25 bps to 6.25% in February, citing slower growth and lower inflation.

Stock markets were broadly positive. Nevertheless, there was some volatility in February as a stronger US dollar dented returns in Mexico, South Africa, Turkey and Brazil. In India, the stock market was also positive, although tensions with Pakistan caused some volatility.

Outlook for the second quarter

Much of what happens in the second quarter will depend on the trajectory of geopolitics and global growth. Front of mind will be the outcome of last-minute Brexit negotiations and whether the UK's departure will have a short or a long delay. Despite the uncertainty surrounding this, markets have taken a sanguine view of more recent developments.

At present we are in a growing but slowing global economy, with deteriorating economic data. Manufacturing activity is weakening and corporate earnings growth forecast in the US are falling. There is little doubt China will continue to be a major focal point as its economy slows down.

While there are expectations for slower growth ahead, the hope is that it will be a gradual deceleration supported by accommodative central bank policy. Lower interest rates should help to soften the blow and avoid a hard landing.

Market performance

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

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	6.36%	7.68%	31.32%	26.17%	34.47%	186.82%
FTSE USA	17.72%	19.79%	61.90%	68.65%	113.25%	380.45%
FTSE World Asia Pacific	1.41%	7.22%	44.33%	38.12%	65.42%	181.99%
FTSE World Europe ex. UK	11.34%	14.38%	52.85%	53.45%	83.96%	271.57%

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