Quarterly investment commentary – 3rd Quarter 2018

Deal or no deal? The question on everybody's lips

As Brexit inches ever closer, we look at the latest developments surrounding the question everyone's asking – deal or no deal?

It's now officially six months until the UK must depart the EU, and the question "deal or no deal?" is the dominating theme of dinner tables and news panels around the country.

And while on this side of the pond May battles against members of the Tory party in her push for a softer-than-expected Brexit, over in the US Trump has been making some significant new deals of his own.

Meanwhile, the trade war between China and the US rages on, with both countries heaping tariffs on one another's goods in a very expensive tit-for-tat.

May reaches a cheque-mate

The past three months have shown dissatisfaction among Brexiteers in regard to Theresa May's somewhat controversial Chequers plan – painstakingly devised in July – which she's hoping will mean a softer Brexit than expected.

The deal, which, in summation, keeps the UK comfortably close to the EU, includes a "common rulebook" for a free trade area, among other things.

But her plans have been met with trepidation and derision from other EU leaders – as well as members of her own cabinet. Boris Johnson notoriously resigned once the plans were drawn up, and Czech and Maltese leaders have suggested Britain hold a second referendum.

May explained to the BBC that, should the Chequers plan be dismissed, it would likely lead to "not having a deal". She also discussed the division within her party, insisting she will remain as Prime Minister for the foreseeable future.

"I'm in this for the long term," she said. "Not just for the Brexit deal but actually for the domestic agenda we are setting out."

Cheque-mate.

Budget backlash reverberates across EU

A prominent topic within the Eurozone at present is the Italian budget – and all the dramatics it brings with it. Italy is the third largest economy in the Eurozone following France and Germany, so its plans to spend 2.4% more than it'll make over the next three years, presented at Brussels this week, and came as a particularly big shock.

Aside from coming dangerously close to breaking EU rules, the target startled investors so much that bond prices soared, and the euro plummeted. Jean-Claude Juncker, President of the European Commission, has even voiced concerns that Italy will follow in the footsteps of Greece if they keep up such a rate of spending.

"We have to do everything we can to avoid a new Greece crisis," he said.

To round 2018's third quarter off nicely, though, Italy has agreed to reduce its budget deficit target to 2%.

US economy – and dairy production – on a new high

Across the pond, the US has outdone its forecast of 2.5% growth and climbed by a healthy 3% in the third quarter, despite battling two devastating hurricanes.

The hurricanes, which caused a notable drop in new employment, failed to stop the economy making a steady comeback – thanks to increased spending from consumers and businesses.

Anyone firmly plugged into the Twittersphere will know that the last three months have also seen Trump secure a new three-way agreement to reform NAFTA (the North American Free Trade Agreement) – which has been in place since 1994. Part of the new agreement, between the US, Mexico and Canada, states that 75% of all new cars must be produced in north America in order to cross borders duty-free, as well as 70% of steel and aluminium.

Furthermore, Canada will allow US dairy farmers 3.6% more access to its booming dairy market. While industry group Dairy Farmers of Canada has lamented the "sacrifice" of over 200,000 of their dairy farmers in the deal. Trump has tweeted that the outcome is "wonderful". So, Trump, got milk?

China stocks soar despite trade war worries

Throughout 2018, equity investors have been concerned about the impact the brewing trade war between China and the US will have on stock markets. Somewhat surprisingly though, the Chinese stock market has ploughed ahead, with the CSI 300 (an index of 300 of China's largest companies) rising 2% in September.

While Trump's piling on of tariffs on over $200bn of Chinese imports is an undeniable hit to Chinese business, the news has served the stock market well. This is primarily due to the timeline for tariff increases being outlined by the Trump administration: in September they started at 10%, and in January 2019 they will increase to 25%.

According to investment director at Aberdeen Standard Investments, Nicholas Choi, "certainty is what the market has been lacking."

"Now that we know that a deadline has been set for 25%, there is an opportunity to buy stocks," he explained to Financial Times (FT).

Furthermore, Chinese investors have admitted that the latest tariffs weren't nearly as severe as expected. Ben Luk of State Street Global Markets told the FT that, as they had expected Trump to levy tariffs at 25%, the fact they have begun at 10% is a much more positive outcome.

…and now for some good news

The third quarter saw the announcement that mixed-sex couples in England and Wales will now be able to choose a civil partnership over marriage. The decision means couples who don't want to be married will still have the same option of greater security. The news has prompted many a non-proposal throughout the country since its announcement.

One small step for couples, one huge step for equality.

Market performance

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

	1 year	2 years	3 years	4 years	5 years	10 years
FTSE All Share	5.87%	18.51%	38.45%	35.26%	43.50%	138.51%
FTSE USA	21.15%	39.34%	86.97%	98.43%	136.65%	322.92%
FTSE World Asia Pacific	11.32%	25.64%	70.63%	65.83%	69.62%	182.12%
FTSE World Europe ex. UK	2.01%	25.17%	51.63%	49.79%	59.09%	135.03%

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

October 2018

Zurich Assurance Ltd. Registered in England and Wales under company number 02456671.
Registered Office: The Grange, Bishops Cleeve, Cheltenham, GL52 8XX.

WD1173004

ZURICH®