Market Commentary for the Period 1st July 2018 – 30th September 2018

Global equities were mixed over the period. There were strong gains posted across Japanese and US equity markets, far surpassing others which were negative to near flat. In the US, Apple became the first company in history to reach $1 trillion in size, shortly followed by Amazon. While President Trump was making most of the headlines with ongoing disputes on trade, there was a raft of interest rate rises across a number of developed and emerging economies, but for very different reasons. There was much news around the people involved with the Brexit process, but little announced in terms of policy developments. Economic turmoil among multiple emerging countries caused volatility across financial markets, particularly within currency. Fixed income markets were negatively impacted by action and expectations on interest rates.

US equity markets delivered strong consistent returns over the period despite escalating tensions between the US and a number of countries. There was a mass of exchanges between President Trump and other countries around trade and implementation of tariffs. A joint statement was made with Europe outlining that they would work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods. US import tariffs on steel and aluminium imposed in March would however remain. A trade agreement was reached with Mexico with the provision that 75% of products must be made in the two countries to receive tax-free treatment, greater than in the existing deal.

The more volatile discussions were with China where Trump confirmed that the US would be imposing tariffs on around 6,000 items totalling around $200bn of Chinese exports. He threatened to increase this by the start of 2019 should the two countries fail to agree a deal. China retaliated with tariffs on around $60bn of US goods. Trump then responded heavily by threatening to raise tariffs on another $267bn of Chinese imports.

The US Federal Reserve hiked interest rates by 0.25% to 2.25% over the quarter as widely expected by the market. This was in recognition of a strengthening labour market and rising economic activity. They outlined their expectations to raise rates once more over the year and a further three increases over 2019. US second quarter GDP rose to 4.2% q/q annualised marking the highest growth rate in just under four years boosted largely by a rise in exports. Inflation fell to 2.7% y/y in August encouraged by a slowdown in fuel, gasoline and shelter costs. Unemployment remained unchanged at 3.9% in August, close to its 18-year low.

UK equity markets ended the period slightly in the red amid a number of developments around Brexit. David Davis resigned as Brexit Secretary commenting that he no longer believed in the plan for the UK's future relations with the EU. Boris Johnson also resigned shortly after, giving up his post as Foreign Secretary. EU Chief Negotiator Michel Barnier dismissed PM May's proposal on the governance of UK financial services firms' access to European markets. He later stressed that he was strongly opposed to her latest plans which were largely around UK customs. Barnier believed it was possible to have a deal in place within weeks if both sides were ‘realistic’ in their agreement. Mark Carney offered to maintain his position as Bank of England Governor in order to support a smooth Brexit which was endorsed by both the Prime Minister and the Chancellor. This followed comments he expressed that the possibility of a no-deal Brexit was uncomfortably high and highly undesirable.

The Bank of England raised interest rates by 0.25% to 0.75% at its August meeting by unanimous vote as widely expected by the market. In September the central bank reiterated that future increases would be at a gradual pace and to a limited extent. UK second quarter GDP rose to 0.4% q/q led in part by a rise in household consumption. Inflation rose to 2.7% y/y in August boosted by higher prices for transport, recreation & culture and food & non-alcoholic beverages. Unemployment remained at 4% in July, its joint-lowest rate since 1975, while the number of job vacancies hit a record high.

European equity markets posted marginally positive returns in a relatively quiet period for market data and newsflow. The European Central Bank maintained interest rates but confirmed that they would commence the reduction of stimulus at their most recent meeting. This would see the central banks monthly stimulus program cease by the end of 2018. European second quarter GDP remained at 0.4% q/q supported by an increase in fixed investment while net trade detracted from overall growth. Inflation fell to 2% y/y in August following softer price rises in services, energy, industrial goods and unprocessed food. Unemployment fell to 8.1% in August, the lowest rate since late 2008.

Japanese equity markets ended the quarter with significant returns following a surge towards the end of the period. The Bank of Japan maintained interest rates at their most recent meeting reiterating that they would remain extremely low for an extended period. Japanese second quarter GDP rose to 0.7% q/q boosted by business spending and a rebound in private consumption. Inflation rose to 1.3% y/y in August following a rise in food and transport prices. Unemployment fell to 2.4% in August while the number of jobs available to applicants remained at its highest level since 1974.

Emerging market equities were slightly negative over the period despite economic crises developing across multiple countries. Interest rates rose across a number of countries including India and Russia, both rising by 0.25% to 6.5% and 7.5% respectively. There were however more turbulent rate rises across others. Firstly, Argentina hiked rates by 15% to 60% to prop significant falls in the Peso currency. They also appealed for a bailout loan from the IMF to support the economy. The government then launched new austerity measures including a rise in tax on certain exports and abolishing a significant number of the nation’s government ministries.

Turkey raised interest rates by 6.25% to 24%. This was against the request of President Erdogan and followed a shock to the Turkish lira as well ongoing deterioration in their economy. The President implemented additional measures including calling on citizens to exchange their foreign currency and gold for the lira to support weakness, as well as ruling that property sales and rental agreements had to be made in lira.

There were heated exchanges between Trump and the President of Iran with Trump tweeting that another threat to the United States would lead to consequences the likes of which few throughout history have ever suffered before. This was in response to the Iranian President commenting that a war with Iran would be the mother of all wars. President Trump also targeted Russia with more sanctions including limiting certain US exports and restrictions on access to US financial services. This was following the poisoning of a former Russian agent in the UK earlier this year.

In fixed income markets, bond yields rose across a number of the larger developed economies having a negative impact on investment returns. This was influenced by interest rate rises in both the US and UK, as well as confirmation that the stimulus program in place by the European Central Bank would cease by the end of the year.

In Japan, while interest rate rises are not expected for some time, there was some speculation that the Bank of Japan would also tweak its stimulus program. Yields on UK, US and German 10 year bonds ended the quarter at 1.57%, 3.05% and 0.47% respectively.

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