## *Market Commentary*

**Market Commentary for the Period 1st July 2019 – 30th September 2019**

Global equity markets were lacklustre amid a period of mixed market events. The US and China implemented a number of tariffs as both sides failed to agree on trade. The proroguing of Parliament was ruled as unlawful by the Supreme Court as MPs returned to the Commons with the Brexit date approaching. Meanwhile interest rate cuts were implemented across a number of developed central banks and other stimulus measures were announced in both China and India. Fixed income markets were positively impacted by the rhetoric and execution of policy measures.

US equity markets were relatively flat over the period with the market recovering marginal losses experienced mid-quarter. President Trump announced he would be imposing new sanctions on Iran in response to them shooting down a US drone among other actions. These would target the office of the country's Supreme Leader Ali Khamenei to supposedly lock up billions more in assets. He met North Korean Supreme Leader Kim Jong-un marking the first US President meeting in North Korea since the end of the Korean War in 1953. Both agreed to restart denuclearization discussions and Trump offered an invite to the US. US Democrats later opened a formal impeachment inquiry into President Trump over allegations he pressured Ukrainian President Zelensky to investigate the family of former Vice President Joe Biden.

Trade negotiations between the US and China intensified as President Trump announced that while discussions were ongoing, the US would apply tariffs of 10% (later increased to 15%) on the remaining $300 billion of products coming from the country. China then announced tariffs of 5-10% on $75bn of US exports to take place in two batches from 1st September. Trump then retaliated by raising tariffs on around $250bn of Chinese imports from 25% to 30%. China's Ministry of Commerce confirmed that trade negotiations would resume at the beginning of October in Washington.

The Federal Reserve cut interest rates by 0.25% at their July meeting, marking the first cut since the financial crisis. They then proceeded with a further rate cut in September. This was following heightened concerns around the economic outlook, subdued inflation and ongoing trade tensions with China. Those advocating further rate cuts were left disappointed by Chairman Powell's comments that he did not view the move as the start of a lengthy series of rate cuts. US second quarter GDP fell to 2% q/q annualised following strong contributions from personal consumption with the overall growth forced lower by net trade after a plunge in exports. Business investment also declined for the first time in three years. Inflation fell to 1.7% y/y in August led by sharp falls in energy prices. Unemployment remained at 3.7% for the third month in a row in August.

UK equity markets ended the quarter flat amid high levels of political uncertainty. Boris Johnson was announced as the UK's Prime Minister after securing over 66% of votes by Conservative party members. He made the largest immediate changes to the cabinet in 60 years with 15 ministers either being sacked or resigning. He reiterated his commitment to leaving the EU on 31st October with, or without a deal. He sacked 21 members of the Conservative party for rebelling and announced he would bring forward a motion for an early general election, which was then twice turned down by MPs. The Queen granted his request to suspend Parliament from mid-September until her speech in mid-October which would hamper any attempts to block a no deal Brexit. The Supreme Court then ruled that the decision to suspend Parliament was unlawful in preventing Parliament carrying out its duties leading up to the Brexit deadline.

The Bank of England maintained interest rates over the period and by unanimous vote at their most recent meeting. The central bank reaffirmed their pledge to gradual and limited rate rises in the event of a smooth Brexit and greater clarity on the economy, however rate cuts were possible should other scenarios play out.

UK second quarter GDP contracted to -0.2% q/q largely due to the lack of capital expenditure and inventory purchases because of those purchases being made in the previous quarter as companies loaded up ahead of the original Brexit date. Inflation fell to 1.7% y/y in August marking the lowest rate since December 2016 led by falling costs for clothing and footwear. Unemployment fell back to 3.8% in July, its joint lowest rate since 1974. Wage growth in the UK rose by 4% y/y, the highest rate since mid-2008.

European equity markets were slightly positive with markets buoyed by stimulus measures announced by the central bank and the formation of a new Italian government. Italian League Party Leader Matteo Salvini called for a snap election due to differences with their coalition partners Five Star which could not be mended. The Five Star Party then entered a new coalition with the center-left Democratic Party to form a new Italian government with Giuseppe Conte remaining Prime Minister. Both parties reached a 26-point draft deal and committed to pass a budget within weeks. This was welcome news for both the Italian bond and stock market which rose following the announcement.

The European Central Bank cut its deposit rate to a record low -0.5% at its September meeting, meaning that banks would be further penalised for holding cash rather than lending it out. The bank also announced it would be restarting its quantitative easing by purchasing bonds at a monthly pace of €20bn from November. This was an attempt to boost growth and inflation amid global trade tensions and Brexit uncertainty. The central bank President repeatedly stressed that monetary policy was reaching its limits and pushed for governments to increase spending and borrowing to boost growth going forward. He will be stepping down at the end of October to make way for the new President and former IMF Chair Christine Lagarde.

European second quarter GDP fell to 0.2% q/q with positive household consumption and fixed investment offset by poor net trade figures. Inflation remained at 1% y/y in August, the joint lowest rate since November 2016 driven predominately by weaker energy prices. Unemployment fell to 7.4% in August, the lowest rate since May 2008.

Japanese equity markets delivered positive returns in a period of little change or newsflow. The Bank of Japan made no fundamental changes to policy over the quarter, although noted that global risks were heightening raising the possibility that they may lower interest rates further or carry out easing measures in the months to come. Japanese second quarter GDP fell to 0.3% q/q led in part by weaker net trade and lack of capital spending. Inflation fell to 0.3% y/y in August, a six month low dragged lower by fresh food, transport and medical costs. Unemployment remained at 2.2% in August, the joint lowest rate since October 1992.

Emerging markets experienced marginal declines following an ongoing dispute between the US and China, a surprising result in Argentinian primary elections and attacks on oil production facilities in Saudi Arabia.

The Chinese central bank allowed their currency to depreciate past a level they committed to remain below against the US dollar and last breached in 2008. This was not welcomed by the US given the weaker currency benefitting China due to their high level of exports which are worth more when converted back to their own currency. The bank proclaimed this was driven by unilateralism and trade protectionism measures and the imposition of tariff increases on China. President Trump labelled China as a currency manipulator and it was reported that Treasury Secretary Steven Mnuchin would engage with the IMF to eliminate the unfair competitive advantage created by China's latest actions. The central bank later cut their reserve requirement for the third time this year, lowering the amount of cash they are required to hold as capital.

Anti-government protests in Hong Kong intensified with the International Airport suspending flight check-ins and hundreds of flight cancellations. Others were encouraged to withdraw all cash from ATM's or convert local currencies to USD in protest. The protests originated from a bill introduced in April allowing people accused of crimes against mainland China to be extradited, giving China more control over Hong Kong. The Hong Kong Leader Carrie Lam later announced she would withdraw the extradition bill which had an immediate positive impact on the domestic stock market.

Conservative Argentine President Mauricio Macri suffered a large defeat in Argentina's primary elections with his left-wing rival Alberto Fernández taking a greater share of the votes. The presidential poll will be taken towards the end of October, although if there is no winner with 45%+ of the votes then this will be taken to the second round in November. Argentina's stock market index and currency suffered double-digit declines following the announcement. This was taking into consideration the significant increase in default risk on the possibility that the new President may try to renegotiate the country's debts with the IMF.

A record number of fires took place in Brazil, predominately in the Amazon region. Environmentalists pointed to lenient policies enacted by the President, encouraging farmers to clear parts of the rainforest for their cattle. G7 leaders immediately offered $22m aid to Brazil, but this was rejected by President Bolsonaro until French President Macron apologized for calling him a liar. Oil prices rose sharply following the news of drone attacks on critical oil production facilities in Saudi Arabia, knocking out 5.7 million barrels of daily crude production, reported as half their output. President Trump responded to the attacks by saying the US was 'locked and loaded'. The price of gold also rose over the period, as investors sought safety amid higher uncertainty. Finance Ministers in India announced that the government would be cutting the corporate tax rate for local businesses to an effective 25.2% from 30% having a positive impact on the Indian stock market.

Fixed income markets experienced a series of developments. Bond yields at various maturities reached all-time lows across developed markets including the 10-yr bond in both the UK and Germany, as well as 30-yr bond in the US which was lower than the interest rate set by the central bank for the first time in history. These market movements were driven by central banks across developed markets lowering or outlining their intention to lower interest rates to combat poor growth, lower inflation and elevated levels of uncertainty. Yields on UK, US and German 10 year bonds ended the quarter at 0.51%, 1.71% and -0.55% respectively.

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For issues relating to your financial planning, please contact your usual adviser.