Market Commentary for the Period 1st October 2019 – 31st December 2019

Global equities rose over the quarter propped primarily by loose monetary policy and later buoyed by news of some form of trade deal between the US and China. In the UK the general election result was market supportive following the Conservative majority. Fixed income markets were negatively impacted by rising yields with markets giving back some of the strong returns experienced earlier in the year.

Much market noise continued to centre around President Trump and his actions. Earlier in the period, the US Democrats opened a formal impeachment inquiry over allegations he pressured Ukrainian President Zelensky to investigate the family of former Vice President Joe Biden. This was then ruled by the House of Representatives leading him to become the third US president in history to be impeached. He may now face trial in the Senate as to whether he would remain in office. Although given that the Republicans control the Senate, it is very unlikely he would be removed.

The US imposed tariffs on $7.5bn worth of goods on the EU following approval from the World Trade Organisation. The European Commissioner for Trade left the door open to the EU levying retaliatory duties. President Trump and Chinese officials signed off on a 'phase one' trade deal meaning that the $156bn of tariffs imposed by the US would not go ahead. This was seen as softening tensions between the two countries with President Trump adding that they would begin negotiations on a phase two deal imminently, with the view of finalising before the US election scheduled for November 2020.

The UK suffered much political uncertainty over the fourth quarter. The Supreme Court ruled that the decision to suspend Parliament was unlawful in preventing Parliament carrying out its duties leading up to the Brexit deadline. Boris Johnsons deal with the EU was turned down by Parliament leading the EU to agree on a further deadline extension to end January 2020. It was then agreed the UK would hold a general election in mid-December dubbed the important election in a generation. The Conservative party emerged victorious winning 365 seats and securing a clear majority. The Labour party attained the lowest number of seats since 1935 and the Liberal Democrat Leader Jo Swinson lost her seat in Dunbartonshire East.

There was a noticeable reaction across markets on results day. Pound sterling rose relative to most currencies and domestically focused stocks rose significantly as well as utility providers following the removed threat of nationalization. This began to reverse just days later when it was reported that PM Johnson's revised withdrawal bill would include a block on the transition deal extending beyond 31st December 2020. This was later backed by MPs by an overwhelming majority. The markets concern was around renewed threats of a no-deal Brexit.

Across Europe the rising trend of right-wing and populist parties was quashed somewhat following developments in Italy and election results in both Switzerland and Spain. In Switzerland, although the right-wing Swiss People's Party won the most seats, this was only one-quarter of seats overall. In Spain, while the far-right Vox party gained a large number of seats, those fearing a majority vote were comforted by the centre-left Socialist Party winning most seats overall. One trend which has been gaining traction and media attention however is green parties acquiring more seats as the issue of climate change becomes more prevalent among voters.

In terms of monetary policy, the US Federal Reserve cut interest rates by 0.25% over the period, although signalled they had no intentions to cut further into next year at their December meeting. The committee mentioned the strength of the labour market and that household spending had been rising, while business investment and exports were weak.

In Europe, Christine Lagarde led her first meeting as President of the European Central Bank. She maintained interest rates and their outlook that rates would remain at their present or lower levels until the inflation outlook met their objectives, which looking at their projections wouldn't occur until past 2022. They felt the greatest risks to growth included geopolitics, rising protectionism and vulnerabilities in emerging economies.

The Bank of Japan echoed similar levels of pessimism observing weaker trade and business sentiment. This was enough for them to maintain record low interest rates and asset purchases to stimulate growth. Prime Minister Abe launched a Japanese fiscal stimulus package of $121bn to repair typhoon damage, upgrade infrastructure and invest in new technologies. This marked one of the largest fiscal spending package since the 08/09 financial crisis.

The Bank of England also maintained interest rates although two out of the nine members of the committee voted for a rate cut despite the reduced concerns in market conditions following the general election and de-escalation of US-China trade tensions. Their outlook on interest rates was more binary based on potential developments domestically and overseas. It was announced that FCA Chief Andrew Baily would take over from Mark Carney as the next bank Governor in March 2020.

There was an array of interest rate cuts across emerging economies over the period from central banks in India, China, Brazil, Turkey, Russia and Mexico. Policymakers rationalised their actions by citing cuts would help boost slowing economic growth, combat lower expected inflation and provide some buffer against greater market uncertainty. Most recent economic growth numbers were around multi-year lows and China experienced their lowest growth rate in over 27 years, although remained high relative to other countries. Given that China accounts for roughly one-fifth of economic growth globally, it is considered an essential data point to monitor.

Economic data more broadly was lacklustre. Growth across developed markets remained generally in line with previous quarters with many keeping a close eye on Germany having narrowly missed technical recession. Hong Kong did however enter recession following a large contraction. This was largely attributable to 5 months of anti-government protests with transport disruptions, many retail operators forcing to close and significant reduction in tourist numbers.

Manufacturing PMIs, a leading indicator for market conditions in the manufacturing sector, remained weak over the period with figures in contraction across developed economies UK, Europe and Japan. Conversely unemployment rates fell further below their multi-decade lows across key economies which has placed noticeable upward pressure on wage growth.

In fixed income markets, yields rose over much of the quarter having a negative impact on returns. This was as much about the market giving back some of the strong returns earlier in the year, than a view on the direction of interest rates, although comments from the US Federal Reserve were notably hawkish. Some inflationary pressures come through later in the period driven by multiple factors, having some upward pressure on yields.

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Contacts

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