INVESTOR INSIGHT

Autumn 2018 A look at the markets by **RSMR**

Welcome

Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

We hope you find this useful.

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The global economy: What's going on?

Division and dispute feed economic uncertainty

There is division between US economic growth and the rest of the world; division between the US and China over trade, division between the UK and Europe over Brexit and division through the rise of new European populist parties. All of these have, to some extent, influenced national economies and investors.

> "Division has been a major theme during the summer and looks set to dominate the global economy well into next year too"

As a result, the global economic picture is more uncertain than in recent reports. US economic growth, largely due to corporate tax cuts allowing companies to build greater profits, is surging ahead of the rest of the world's markets which are travelling more sedately.

Trump's government has continued to threaten global trade by imposing trade tariffs, particularly on China and Europe. This is leading to retaliation, creating greater uncertainty about the level of global growth. Other factors are sanctions placed on Iran, Turkey and Russia, weakening these economies and creating further destabilisation.

Adding to this is continuing acrimony about Brexit in the UK and Europe, while in Asia and emerging countries trade wars, and the strength of the US dollar have fuelled uncertainty, reflected in their weaker stock markets.

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The asset classes – a quick update

EQUITIES

Stock markets have reflected the 'two-tier' global economy – a booming US and slower rest of the world – and political uncertainty.

The main US markets have risen more than 10% with the Nasdaq up more than 20%. Meanwhile the rest, excluding emerging markets, have been flat or slightly positive.

The US economy is the strongest but others are growing, albeit marginally, and have positive commercial forecasts, so why the difference which is unusual for its size and timespan?

There's no easy answer. US tax cuts, share buybacks and the markets' focus on the technology sector are partly responsible, while worries affecting investor confidence are stronger in Europe and Asia than in the US where the domestic economy is a far larger part of gross domestic product (GDP).

The UK can't avoid Brexit as the markets fluctuate with every contrasting statement about what type of exit deal the UK can secure.

Asian markets have also had a more difficult quarter amid fears about a Chinese-US showdown. The effect of US tariffs on the region's global trade has also caused concern.

FIXED INTEREST

Fixed interest has been perplexing investors in recent years, as the 'bond bubble' has failed to burst as expected.

Interest rates have started to rise worldwide, led by the US, but with a long way to go to reach the heights of before the global crash, and increases are unlikely to reach those levels before economic activity weakens.

Emerging market debt produced good returns in 2017 but has recently been volatile due to perceived threats to Asia from US trade wars and a stronger dollar hitting valuations.

Some of the strongest performing managers have either taken more risk in lower grade bonds or diversified into other related investments.

However few investors expect sharp market changes and seem to accept the limited potential for making any gains at current rates and bid and asking prices.

PROPERTY

Two years after the UK EU referendum commercial property has delivered attractive returns.

In spite of widespread market gloom following the Brexit vote, it hardly made a dent in commercial property's medium-term performance and the basic strengths that provided market resilience then are largely in place today.

This year's return from commercial property has been around 5.3%, most of which has been income. In August it was 0.5% of the 0.6% total return.

Sector analysis suggests that retail property performed worst to the end of August, with capital values falling by -0.4%, the fifth consecutive monthly fall. Rental values also fell, by -0.1%.

Even so, property remains a sensible diversification asset as long as investors know it is not easy to make a quick profit.

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Global round-up

- Eurozone growth is expected to be more than 2% this year and will continue to benefit from expanding US and Asian economies.
- Argentina, Turkey and South Africa are all experiencing serious economic problems.
- Economic growth in India reached 8% per cent in June 2018.
- Chinese companies are enjoying tax cuts as the country supports business growth in its US trade dispute.
- Japan saw improved growth during the summer, reaching 1.9% year-on-year at the end of June.
- The US dollar's strength led to currency rises in countries with significant US debt, such as Turkey and Argentina.
- Asian markets had a difficult quarter amid fears over a Chinese slowdown.
- Debate over the Brexit outcome remains a major focus for the UK economy.
- Political uncertainty is heightened in Europe due to the rise of the populist movement, which is unnerving traditional parties.

> "Economic growth in India reached 8% in June 2018."

So, what's next?

The economic cycle is now very extended, making a recession of unknown magnitude more likely than continuing global growth. This does not mean that a recession is bound to happen in the next 12 months but some signs of US wage growth and higher-than-expected inflation in some countries may be the catalyst for change.

As ever, the performance of the global economy is closely aligned to political events. The deal that the UK eventually secures to leave the EU is likely to bring changes to both parties' economies and perhaps further afield, although whether these will be as dramatic, or far-reaching, as some of the political rhetoric has claimed remains to be seen.

Trade wars also continue to simmer and Asian markets suffer as fears grow over a potential Chinese slowdown. The effect of tariffs on global trade in the region has also caused concern, coupled with a strengthening US dollar, which always affects investor confidence in Asia.

The US economy's rapid growth is creating a worrying gap with the rest of the world.

Trade wars and isolationism are easier for the US to justify due to its large domestic economy but anything that badly affects global growth will eventually hit the US as well. Its administration must tread carefully – even if its leader is not known for subtlety in his negotiations!

" The US economy's rapid growth is creating a worrying gap with the rest of the world. "

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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