INVESTOR INSIGHT

Spring 2019 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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PORTFOLIO WEALTH MANAGEMENT

The global economy: What's going on?

Fed change of heart helps boost markets

In an unexpected about turn, investor negativity, which dominated the closing months of last year, bounced back in at the start of 2019, creating a very positive first quarter for markets.

This reversal is even more surprising as the reasons for 2018's falling market – a slowing global economy, particularly in China; US trade conflicts, political uncertainty, weak European data, and Brexit – are still in the news.

A key concern for investors last autumn was that the US Federal Reserve had indicated that interest rate rises would continue this year. This sapped confidence during an uncertain economic climate and markets fell.

But at the start of this year, the Fed appeared to have a change of heart and became more inclined towards keeping rates low, boosting investor confidence. While this is not the only factor behind the welcome re-bound, it certainly helped markets in the first quarter of 2019.

For the time being at least, last year's concerns affecting the markets have abated. There is more optimism about trade, with China clearly keen to do a deal with the US. With further immediate Fed interest rate rises on hold, markets are likely to see more stability in the first half of 2019 than during the second half of 2018.

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The asset classes – a quick update

EQUITIES

The global economy is slowing. International Monetary Fund (IMF) growth predictions are lower and recent Purchasing Manager Index (PMI) surveys suggest a widespread contraction, covering at least Europe and China.

The IMF forecast for UK economic growth has been downgraded to 1.2% for 2019 based largely on factors associated with Brexit.

The Citygroup Economic Surprise Index, which measures if individual economic data have underperformed, or outperformed, forecasts, is at its lowest level since 2013.

Last year's market falls were, as often happens, an overreaction to negative information and investors quickly identified opportunities in the falling valuations.

First quarter 2019 figures indicate a more positive environment with global equity markets averaging an 8% rise. Many managers are more positive, despite the economic challenges.

We are generally more cautious about markets, which are unpredictable, but recognise that there is still overall global economic growth led by an expanding US economy.

For the rest of this year, if there are no market shocks, equities could simply tread water or gradually move up rather than enter a period of negative returns as during 2018.

PROPERTY

Returns from the UK commercial property market remain only moderate compared to the last few years.

Continuing uncertainty about Brexit has led many investors to reduce, or sell out, their allocations to property investments, which has put pressure on actual property values.

A disorderly 'no deal' Brexit would have negative implications for the London property market. As a result, many UK fund managers are reducing, or avoiding, Central London properties, although they continue to be supported by overseas investors as relative currency moves are in their favour due to a weaker pound sterling.

Distribution, logistics and warehouse properties remain most popular due to customer demand for last-mile and same-day delivery and click and collect but this has also increased buying prices and led to lower returns.

Traditional high street retail continues to struggle with profit warnings and financial difficulties announced by an increasing number of companies, as Internet shopping increases in popularity, so fund managers need to be very selective.

Liquidity levels – the speed of buying and selling - within commercial property funds remain above average. This is a longer-term consequence of the EU referendum result and lower investor confidence in the property market. This may continue for some physical property funds, particularly with frustrations created by Brexit, which will affect returns for investors.

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Global round-up

- Growth expectations in China are between 5.5% and 6.5% which is falling but still well above most other economic regions.
- Estimates suggest the US government shutdown took away 0.13% of growth for each week that it lasted.
- Japanese growth in 2019 is expected to be around 0.5 to 1%.
- Weakening economic data from Germany show that it narrowly avoided falling into recession in quarter four 2018.
- Korea and Vietnam are gaining investor interest as manufacturing hubs.
- If Indian prime minster, Modi, is not returned in forthcoming elections it will have a short term negative effect on the Asian region and emerging markets.
- Both Brexit and Italy are areas of concern for investors.
- A favourable US-China trade agreement, even if it is an interim measure, can allow equities to rally further.
- China is still seeing strong domestic consumption with retail sales growth at around 10%.

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So, what's next?

Although the Fed's apparent change of heart about interest rates has been the greatest influence on more positive markets, concerns will return at some point this year, as the US economy will undoubtedly slow down.

China's economy - the second biggest - is already slowing and the country is keen to get a trade deal with the US.

A downturn in China is not great for the US economy – US manufacturing has been hit by steel tariffs which have increased production costs and reduced margins – so there may be an interim deal which would allow the market to rally further.

There are also some economic factors that, while not too significant in the short term, will become increasingly important to global growth.

One is how late in the economic cycle we are, what the eventual economic downturn will be like and which assets should be held to best negotiate it. Funds designed to protect during harder times have struggled in the last 12 months frustrating investors and shaking their confidence.

Apart from the effects of a 'no-deal' Brexit, with the UK leaving the EU on World Trade Organisation (WTO) rules, sterling assets have scope to rally, although Brexit has already caused significant short-term damage to the UK economy.

Some of last year's underperforming areas, such as Asia and emerging markets, have scope to continue to rally in the first half of 2019.

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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