INVESTOR INSIGHT

Winter 2018/19

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?

Investment calm evaporates as stock markets fall

Economists and fund managers have begun to believe that the benign investment climate, which followed the global financial crash a decade ago, is facing a number of headwinds.

This was reflected in the market falls in February 2018, setting the tone for the year, and was again evident in the final quarter.

Even the powerful US stock market remained only marginally positive, in sterling terms, after the Federal Reserve increased interest rates, leading to political and investor disharmony in December.

The negative year has not just been down to struggling equities. Research by global bank, Morgan Stanley, showed that up to mid-December 2018, 21 asset classes had negative returns during the year after a very positive 2017.

The investment climate changed due to a cocktail of economic hazards, including global political uncertainty, escalating trade disputes, China's economic slowdown and a strong US currency.

Added to this have been moves by central banks to withdraw support introduced after the financial crash by raising interest rates and reducing bond purchase schemes.

All this affected investor confidence and activity throughout 2018 and this is likely to continue for the time being as Brexit, international political uncertainty and trade disputes rumble on.

> "Economists have begun to believe that the benign investment climate is facing a number of headwinds."

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The asset classes – a quick update

EQUITIES

The year started strongly with US stocks 3% higher after the first week in January but February's stock market fall and the difficult final quarter, particularly December, sealed a very unsatisfactory year for world equity markets.

The tone was set early by increasing market volatility, which even some specialist funds could not withstand. This rippled through the US stock market and spread globally.

The UK economy contracted after a strong 2017, due to company concerns about Brexit, resulting in reduced inward investment and more contingency planning.

There have also been continuing issues for global tech stocks, starting with allegations about the behaviour of Facebook and Cambridge Analytica but affecting many US tech giants along the way.

The US dollar's continuing strength was a major global influence, as it is problematic for emerging markets with large dollar borrowings.

The background to this was US interest rate rises, which worried investors in October and added to concerns about similar hikes in 2019.

Asia, Europe and emerging markets proved the hardest to negotiate in 2018 and most regional stock markets struggled.

FIXED INTEREST

Regional imbalances and inconsistencies dominated fixed interest markets in 2018.

The US and UK increased rates, while individual national, often political, factors affected markets elsewhere.

In spite of rising interest rates in 2018, the US 10-year Treasury bond return remained positive for sterling investors.

High-yield investors had a better return over the year thanks mainly to the strength of the US market.

In the UK, where The Bank of England increased rates in August, Brexit uncertainty worsened as Theresa May's Withdrawal Agreement drew bitter criticism from all sides.

In a generally weakening global economy it is likely that there will be smaller returns from investments. Many investors are reportedly taking a longer-term view about portfolios with a weaker economic climate likely during the next 12 months.

Fixed interest has a mixed outlook for 2019 with more US rate rises likely and greater uncertainty elsewhere.

PROPERTY

Although UK commercial property has fallen from favour in recent years, it was among few asset classes to deliver positive returns in 2018, mostly from income.

There are still sensible reasons to include property in a broad investment portfolio for diversity and because of its relative independence from other assets. While liquidity can be an issue, if investors recognise the stability of yields and take a longer-term view, property can remain effective.

The UK commercial property market remains stable although returns have moderated from previous years.

Potential Brexit outcomes and negative associations are leading many UK fund managers to reduce, or avoid, central London property, although it still attracts strong overseas demand. Distribution, logistics or warehousing properties are still popular due to consumer demand for home, and same-day, deliveries and click-and-collect.

Retail continues to struggle with profit warnings and financial difficulties affecting Mothercare, Carpetright, Toys R Us, John Lewis and HMV, as internet shopping and streaming gain popularity, so fund managers need to be selective.

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Global round-up

- The UK economy is not in bad shape with resilience from global trading and strong financial services.
- The US continued to prosper in 2018 with economic growth of more than 3%.
- France's economy struggled more than expected in the last quarter as fuel protests undermined executives' business confidence.
- The recovery in Europe that attracted many investors in 2017 was surprisingly absent in 2018.
- The fall in Japan's GDP in the third quarter was attributed to the effect of natural disasters in 2018.
- China has seen growth slow to around 6%, much higher than the west but lower than recent years.
- Emerging markets were a major cause of losses for sterling investors in 2018 with greater volatility affecting returns.
- The diesel auto market slowdown led to Germany's economy shrinking in the third quarter.
- October's trade figures saw a pick-up in export growth for Singapore and Malaysia.

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So, what's next?

The global economy, the UK and international political landscapes are likely to remain more challenging than 12 months ago, and recovery in equity markets is likely to be kept below the highs of 2018.

In the UK, business concern about Brexit continues. There is still hope that a deal can be struck before the March deadline but the overwhelming rejection of Theresa May's Withdrawal Agreement has made the outcome unpredictable.

Global growth is predicted to be relatively robust in 2019 even though most commentators believe we have passed peak growth, and the next few years will see a gentle moderation and greater divergence across more countries.

Political uncertainty, trade wars and their possible escalation are a major worry for fund managers in 2019. While The International Monetary Fund says that trade war tariffs imposed so far have not had a significant effect on global growth, more could be bad news for financial markets.

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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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