INVESTMENT REVIEW – April 2019

The month of March saw some further progress in most stock markets in spite of renewed concerns over the level of global economic growth, to complete a robust quarter that provided a welcome recovery from the set-back in the last part of 2018. The key issues remain the strength of worldwide demand and earnings together with clarity on central bank policy, and an element of local politics.

Much of the focus for the global outlook is on the US, where attention is already turning to the next presidential elections for which Donald Trump's position has been helped by the judgment of the Mueller enquiry and the divisions for now on the Democrats' side. The Federal Reserve has now downgraded its forecast for growth in 2019 to 2.1% and it is this more subdued rate together with minimal inflationary pressures (at just 0.1% month on month in the latest data) that has enabled it to take a more patient approach on interest rates, with no expectation that it will continue to increase them this year. That might afford some relief to markets were they not concerned that the Fed might have to cut them instead to counter an economic slow-down. The yield curve has inverted, with rates on short-term three-month debt higher than those on longer-term ten-year bonds; this has usually but not always been a precursor of a recession, with a lag, and it has happened for the first time since 2007. There remain a number of contradictory indications: consumer demand continues to be robust but the number of new jobs added in February at 20,000 was well below the 180,000 expected and the 304,000 posted in January. The next recession in the US is not necessarily imminent, but may be close, and as in previous cycles markets can have a final flourish. At such times there is often a resurgence in corporate activity, as in the $43bn bid in the month by Fidelity National Information Services for the payment processor Worldpay, and a move by venture capitalists to tap the stock market, as in the IPO for Lyft which came above the initial price range; both transactions also reflect the dominance of new technology and the high prices it still commands.

In China, which has accounted for over a quarter of global growth in recent years, economic data has been more modest. This has come through the impact of trade wars, a topic which has faded from view, on an economy in which the authorities were already looking to control excess credit. Chinese exports were down by 21% in February, in part because of the timing of their new year, although the very latest data suggests a pick-up in manufacturing in March. The regime's latest stimulus may be more gradual and have less of an impact than previous ones; much will depend on the ability of the leaders of this command economy to manage its evolution in a complex world.

A slower rate of growth in China has also had an impact on exports from Japan and from other countries such as South Korea and Taiwan, although these countries retain their appeal. The drop in demand for new cars has affected the usually resilient German economy, where manufacturing has faded; expectations have shifted to the consumer, not least after a new pay deal for some one million workers in the public sector of about 8% over three years was agreed in early March. Bond yields in Germany turned negative and the European Central Bank has had to adjust its plans to tighten policy, helped by low inflation as elsewhere. Italy signed a deal with China that might boost investment and it is Spain that has been doing best, making the largest contribution to the increase in eurozone GDP in the fourth quarter of 2018, a year when it grew 2.5%; the country has an election on 28th April. In India as well the election takes place this month, and next, and a victory for Narendra Modi would prove a further boost to a significant emerging market, if one which offers less value than most.

Economic growth in the UK has slowed and now the Office of Budget Responsibility has reduced its forecast of real growth in 2019 to 1%, as revealed by the Chancellor of the Exchequer in what was an understandably anodyne spring statement given the uncertainty on the outlook. There is still a degree of complexity in assessing the range of possible outcomes and a degree of caution in respecting the ability of markets to confound expectations. An election is more likely, even if no politician seems ready to face the electorate. As the debates and parliamentary votes continue there might be a compromise and a welcome element of clarity in the coming days or weeks, although the whole process might yet drag on. We shall be flexible while anticipating and awaiting the final version of, if not the ultimate judgment of history on, the saga that has been Brexit.

In the UK the FTSE 100 made fair progress over the month to end up 2.9% at a level of 7279 which made for a return for the first quarter of 8.2%. The mid-sized companies in the FTSE 250 index did not manage a gain although the decline of 0.3% in March still left a gain of 9.2% in the year to date. The FTSE SmallCap index made 0.8% in the month if a more modest 5.6% over the quarter. For the FTSE All-Share the gains were 2.3% and 8.3% respectively, and those for the FTSE AIM All-Share similar at 0.8% and 6.8%.

In the US the S&P 500 index rose by 1.8% in the month, the more concentrated Dow Jones Industrial by a minimal 0.1% and the technology-oriented NASDAQ index by 2.6%. Smaller companies as represented by the Russell 2000 index fell by 2.3% in the month although were still up by 14.2% in the quarter, against a rise of 13.1% for the S&P.

In Europe the EURO STOXX 50 index rose by 1.9% in March to make 11.7% for the quarter, although gains in the Euromoney index of smaller companies were more modest at 0.2% and 5.6% respectively. In Japan the Nikkei 225 declined in the month by 0.8% to make a gain of 6% in 2019.

The MSCI Emerging Markets index in US$ managed a small increase of 0.7% in March and gained 9.6% over the quarter; the Chinese Shanghai index was notably strong. The MSCI Frontier Markets index rose 0.6% in the month and 6.2% in the quarter.

In the bond markets the UK 10-year gilt yield fell from 1.3% to 1.0% in March and the total return for the FTSE Gilts All Stocks index was 3.2% in the month. In the US 10-year yields dropped from 2.72% to 2.41%, and in Germany they finished the month down from 0.18% to -0.07%. The month saw a rise in most fixed interest indices.

Sterling fell back by 1.7% against the US$ in the month to close at a rate of $1.30:£ while against the euro it was off 0.4% at €1.16:£ if still higher by 4.5% over the quarter.

The price of Brent oil rallied further in March if with a more limited rise of 3% from $66 to $68 per barrel, while gas prices worldwide have been in decline in part due to the milder winter in the north. The price of gold ended the month 1.6% lower at $1292 per troy ounce. Metal prices were mostly softer, with palladium falling from its peak, as were the major agricultural commodities. The Vix index of volatility in the US fell further in the month and has now nearly halved in the year to date.

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