MARKET UPDATE

MAY 2019 MPU

April was another month of generally positive returns led by Equities, with an average return of 3.5% (MSCI World). Equities across all major geographies performed well but US equities, and particularly technology stocks, outperformed overall. Fixed Income returns were generally flat, with High Yield Bonds performing the best with a return of 1.39% and Gilts the worst performing at -1.68%.

Economic Intervention: Central Bank Policy

Markets continued to view Fed policy as the driving force behind stock market movements, with traders assessing and analysing every word from Fed Chair Powell or indeed his wider team. In itself this is nothing new, however it does seem that Powell is struggling to deliver a clear message. This same lack of clarity is a criticism which often levelled at our own central bank too. It is worth noting here that Powell, since taking on the position, has upped the number of Fed press conferences from 4 to 8 and pledged to speak in “plain English”. The “Powell Pivot” which saw him, seemingly abruptly, switch from a hawkish to dovish stance in the face of Q4’s falling equity market, has been replicated (albeit on a smaller scale) through inconsistencies in the Fed Chair’s comments. For example, last week inflation was described as “transitory”, despite Powell labelling inflation as “one of the major challenges of our time” only 6 weeks earlier. Whilst this seemingly clumsy narrative doesn’t worry us from our own positioning perspective (we are after all long-term investors), the market’s sensitivity to any, even remotely, hawkish/dovish comment is worth being aware of. Additionally, Powell’s continued failure to communicate effectively with markets and the media may increase the chance of a policy misstep. Anecdotally, when a particular trader was asked why he now watches Fed press conferences, he replied “because the guy makes mistakes”.

Economic Intervention: Trade Wars and Tariffs

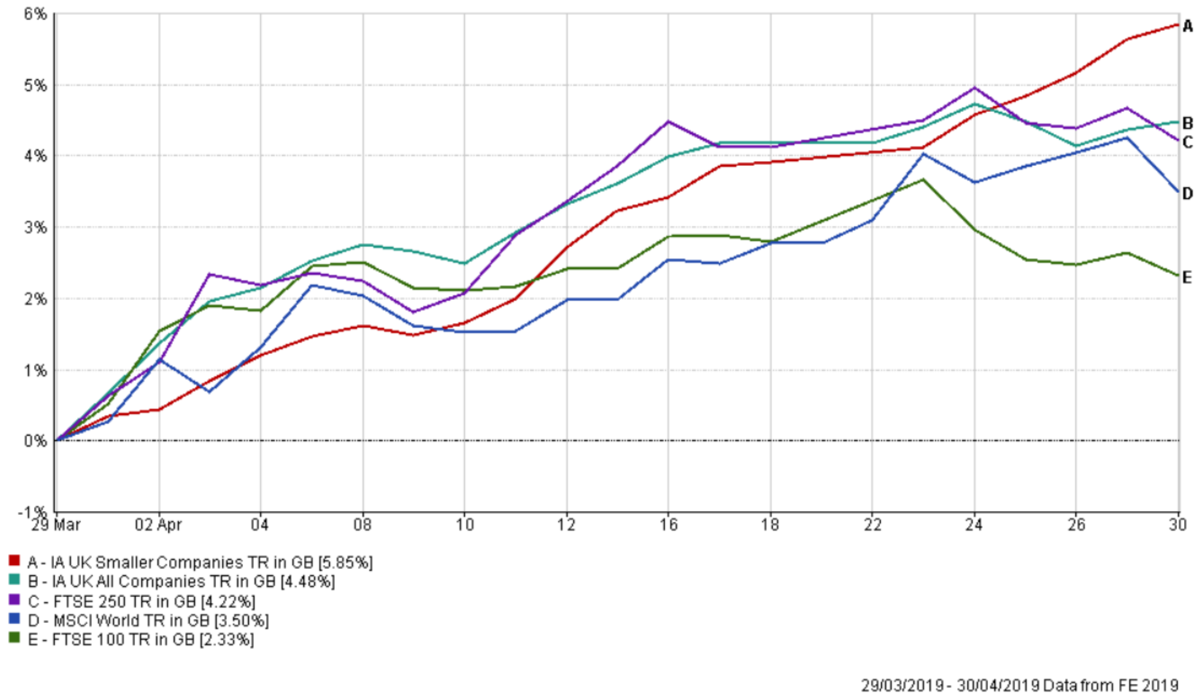
Our second example of this month’s interventionism is the continued trade war between the US and China. In previous iterations of the MPU we have commented that tariff discussions are likely to become an ongoing debate due to their popularity at home. President Trump added fuel to the fire over the weekend by tweeting several inflammatory comments. He suggested, in no uncertain terms, that he was unhappy with the speed of negotiations and threatened to double existing tariffs and introduce new ones. Chinese markets stalled on the back of these tweets, and US futures (markets were closed) saw circa 2% losses, though these were not realised in the open market. Interestingly, there seemed to be a degree of contagion as many futures fell, including the DAX and Nikkei. Additionally, the VIX (which measures US market expected volatility) rose by 14%.

Strong Performance from UK Domestics

On the UK front things have been generally quiet. Sterling remains flat relative to the Dollar and a wider basket of currencies. It is also worth noting that whilst the FTSE 100 (2.33%) has slightly lagged other global indices, the UK's domestic facing companies have performed extremely well with the IA UK Smaller Companies and FTSE 250 generating 5.85% and 4.22% respectively. Our UK managers remain positive on the outlook for UK stocks and shares and this is one area that still looks cheap on a relative basis.

UK Performance – Split by Market Cap

29/03/2019 – 30/04/2019



IMPORTANT INFORMATION

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