MARKET UPDATE

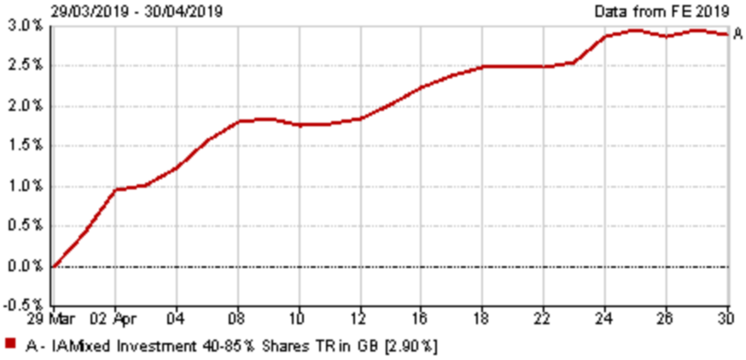
JUNE 2019 MPU

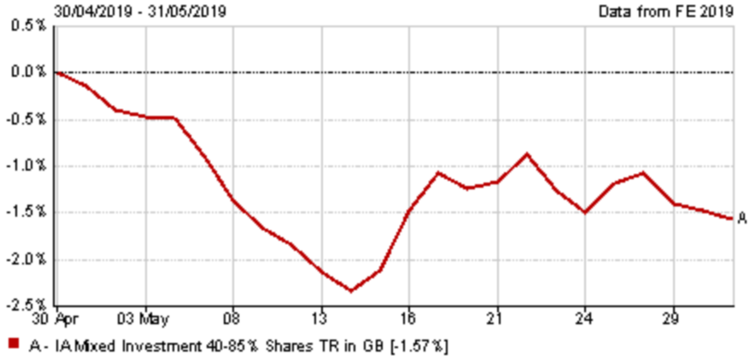
And Now for Something Completely Different…

As Q1 of 2019 was the reverse of Q4 2018, May was a reversal of April's Bond and Equity returns, however these returns varied extensively dependent on currency. Equities lost 2.5% (MSCI world) in Sterling but were down 5.7% in Dollar terms and 8.1% in Japanese Yen. This explains why much of the financial media, which tend to be US centric and therefore reporting in Dollars, were so animated about the losses in May. It's also a timely example of the importance of returns net of currency moves. The Pound/Dollar fall during the month has once again coincided with a broader equity sell-off and therefore cushioned the blow. As we have said many times before, the real pain could come if a market fall coincides with a period of Sterling appreciation. The Yen figure for May shows you what that could look like.

Balanced Managed Sector* performance – April 2019 Vs May 2019

**IA Mixed Investments 40-85% Shares*





The Report of My Death Was an Exaggeration

We have borrowed Mark Twain's famous quote here to refer to the death of the bond bull market, which is something we don't subscribe to. Globally, central banks and politicians are blindly driving interest rates and bond yields into the ground with excess liquidity, for which they mistakenly think the cure is more of the same. The result is, that on a relative to history basis, virtually the whole of the bond market looks expensive. The reality is, collective current central bank policy is dictating a very different outcome.

We were on record last year saying we expected German 10-year yields to go back negative and we certainly didn't buy into the ECB raising rates in 2019. At the time of writing, the German 10 Year Bund is yielding a mind boggling -0.2% and the ECB, far from raising rates, has been reduced to discussions about LTRO's and tiering the negative interest rates banks pay on their cash.

Run to the Hills

Returning to May's investment returns and we see overall asset classes behaving similarly to those of Q4 2018 - hence a similar outcome, especially ex the Sterling fall. The environment was genuinely risk-off, with investor money charging out of equities into the haven assets of Sovereign Bonds, Yen and Gold. The macro backdrop to this deteriorated during the month, with overall weaker economic data and Trump's trade war becoming more global and topped off with his, somewhat left field, Mexico tariff tweet on 31st May.

One of the reasons why the potential outcome of Trump's trade wars has scared the markets so much is he is now using tariffs as a legitimate weapon in relation to matters outside of the economy, such as tying tariffs into his immigration issues with Mexico. His de facto approach to almost anything is threats and so why would China or the EU do trade deals with someone who, if he decides he doesn't like something else, will likely threaten to invoke tariffs again?

World leaders now find themselves in a similar position to Fed Chairman Powell, and however much you acquiesce with Trump's demands, be it interest rate cuts, currency manipulation, immigration policy or supporting the Dow Jones, nothing will ever be enough.

Divinely Uninspired to a (not quite) Hellish Extent

It's difficult to look at any asset class at a core level and be bullish on it relative to its history, but underneath there are some areas which look more attractive than others. We still favour UK equities, and maybe surprisingly to some, the UK Smaller Companies' sector was one of the best performing equity sectors in April, as it has been for the last six months. We say surprisingly because Brexit news and wider political chaos in the UK can quickly create a narrative of the UK being un-investable and we feel this can blindside people to the longer-term opportunities.

On a relative basis we also remain more bullish on much of Asia and Emerging Markets and favour them over the US, which remains stubbornly expensive despite the recent pullback. Trump's tactics, such as they are, will create new allegiance and solutions to immunise against Trump tweets that could destroy their business case.

The Chinese are likely to continue stimulating their economy, and this will feed through - to some extent- to their partners and neighbours. The effects of stimulation are likely to suffer the inevitable law of diminishing returns but it's potentially a more positive environment than where the United States, and particularly Europe, find themselves.

If all markets suffer a sustained sell-off, then just as in Q4 2018, the ones which are the most expensive have the potential to fall the most.

IMPORTANT INFORMATION

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