MARKET UPDATE

SEPTEMBER 2019 MPU

“They were amazing times, they were the crazy times”

August 2019 was the best month for global bonds since 2008. In one way that’s actually pretty incredible, given that global bond yields were already collectively at their lowest level in history. The alternative view is that it was almost inevitable, because the same conditions persisted as previously, i.e. central banks and some very powerful politicians think the answer to slowing growth is to lower interest rates; indefinitely. The High Yield Emerging Market (Dollar-denominated) Index is a great example of this, yielding only 5.2%. Historically, you would have been asking for way more yield for an index which combines two areas which are high risk on their own but when put together are potentially toxic in multiple scenarios.

Going nowhere fast

Global equity markets got off to a very poor start in August and finished down for the month. This may sound severe, but trading volumes were thin (holidays) and lacked any real impetus. The backdrop remains the same; tweets about trade but no talks, Brexit, civil unrest in Hong Kong and impotent central bank policy. Overall, the MSCI World Index was down circa 1.5% which, given the lack of positive news, was perhaps better than should have been expected. If anything, the trade war situation has deteriorated but the real effects of increased uncertainty will likely be felt down the line. Corporates are becoming more reluctant to invest as uncertainty increases and their knowledge of future global supply chains diminishes. As is the case with Brexit, there will be winners and losers, but many might not be known for years to come.

But I wanna know for sure

So much for the uncertainty then, but what do we actually know right now? Well, to start with, the Global Purchasing Managers Index (PMI) is having its longest losing streak for at least twenty years. The index is important because it measures current market conditions, as viewed by purchasing managers. This cannot possibly be spun to read as anything other than a negative indicator on the global economy. It may well be that indices such as these are really frightening the central banks, especially the Fed. The US economy has so far been extremely resilient, despite a strong dollar, escalating trade wars and tariffs and a President who is making long term planning an increasingly perilous venture. President Trump knows very well that you don’t get re-elected when your economy is in recession, which is why he has beseeched the Fed to cut rates to 0% and restart QE. In a broader context, it’s very difficult to find an economy which contributes significantly to global GDP which is currently in the ascendency.

They think it's all over... it is now it's 43.5

As the Brexit debate rumbles on, we might just be getting to the end game. We say "might" because future politicians can always undo any deals done and we continue to believe it is the EU itself which will change most radically in the longer term. As to the state of our economy, Brexit uncertainty is undoubtedly effecting investment in UK plc both internally and externally, but we feel it's Germany, the powerhouse of the EU, which has the most complicated and deep-seated structural issues. As an exporter and a country heavily reliant on its automotive industry, the headwinds of rapidly falling car sales and trade wars are already leading to some awful manufacturing data, the September print being 43.5 (above 50 shows expansion, below 50 contraction). Whether or not Trump wins a second term, we believe the trade wars will continue indefinitely. What Trump has done is quicken the pace of new supply and demand dynamics, but they were coming anyway, nothing stays the same and that goes for economics too. From a pure investing point of view, we continue to benefit from a currency which reflects our current standing in the world, and that remains an advantage that most of our European neighbours don't possess. It is always worth mentioning again that many large companies in the FTSE 100 are truly global players. The outcome of these points is that the Brexit effect in investing terms is considerably more nuanced than many would suggest.

IMPORTANT INFORMATION

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