MARKET UPDATE

OCTOBER 2019 MPU

Ba de ya, dancing in September

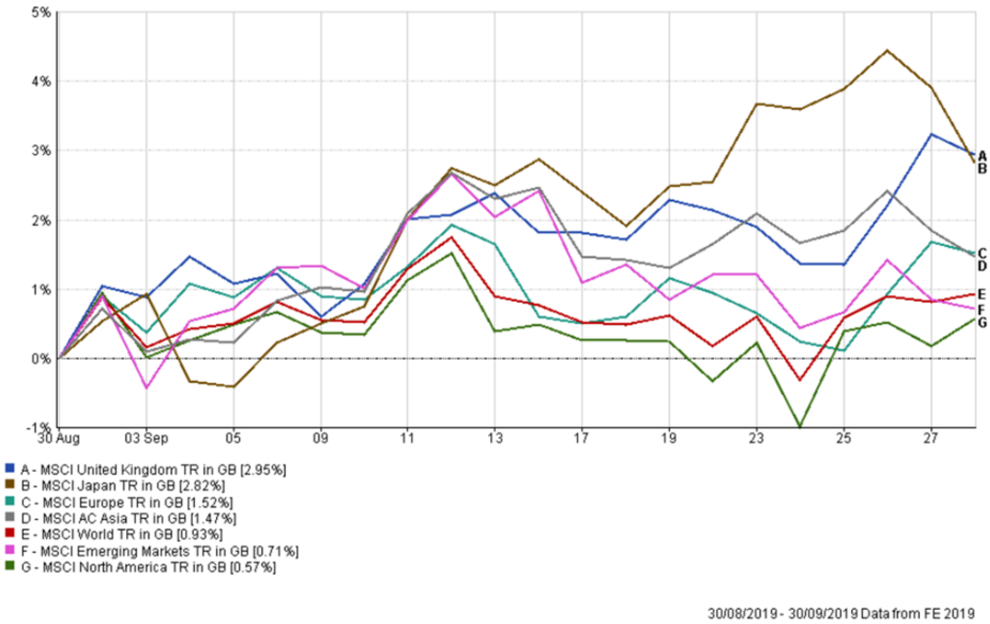
September was another good month for investors, as multi asset portfolios produced positive returns following a tougher August. This leaves the tally at 7 positive and 2 negative months for 2019 so far, with returns ranging between 7.71% and 11.82% (IA Sectors) year to date. Whilst you would be forgiven for thinking that September was therefore more of the same, that wasn't quite the case. In fact, many of the areas that had performed so well at the start of the year faltered on a relative basis in September, despite a generally rising market.

Rule Britannia!

The first example of this rotation is in the global equity space, whereby US equities moved from being the best performing geography in 2019 so far to the worst in September on the back of some very poor economic data, especially the manufacturing figures. Conversely, UK equities, which have been living through the political quagmire of Brexit, quietly outperformed other global equities. Whilst we don't proport to know the reasoning behind the change in UK sentiment evidenced in the market movements below, it's worth noting that the underperformance of the US could be more to do with a strengthening Pound/weakening Dollar. We need only cast our minds back to 2017 where Sterling consistently strengthened against the Dollar (8% over the year), causing US equities to languish at the bottom of the global equity table.

We have mentioned previously that we think UK equities look like a relatively good place to be from a valuation perspective over the medium term. However, we have rarely written about the benefits of investing in your home currency. Historically, this has been taken for granted, as UK investors traditionally had a hardwired overweight toward the UK. However, with seemingly better performance elsewhere, investors have increasingly moved their allocations away from blighty whilst perhaps inadvertently increasing their currency risk. With the Brexit debate rumbling on, this risk could be a very important one to consider in the future.

1 Month Equity Performance



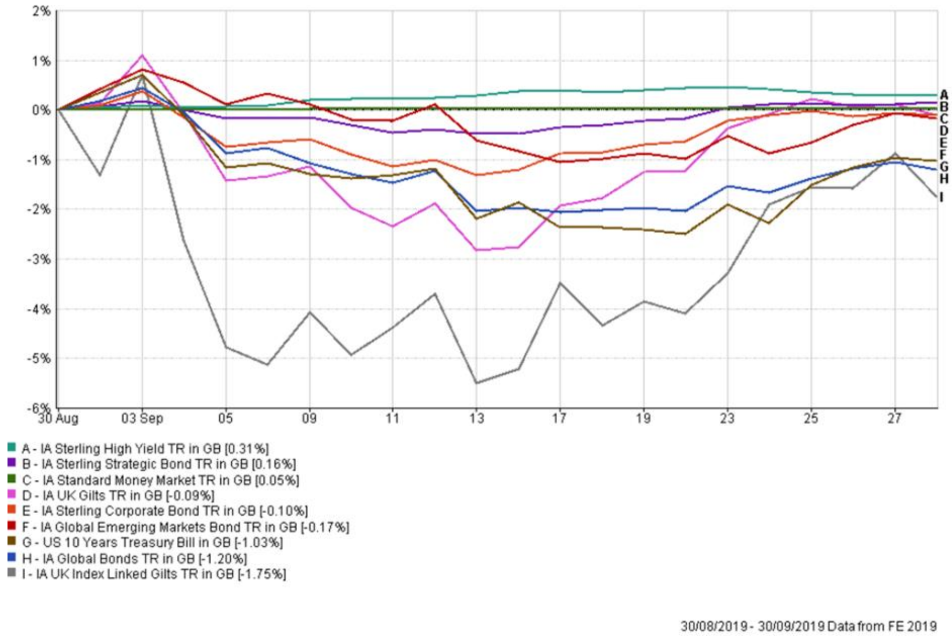
Japanese equites have also seen a short-term reversal in fortunes, having largely underperformed throughout 2019. Considering how far equity markets have come since January, many of these movements seem to come down to who has the least dirty or least expensive shirt.

Shifting Styles & the Least Dirty Shirt

The outperformance of Growth vs Value stocks has been well documented, but just as the worst performing geographies became the best performing geographies, so too was there a reversal in fortunes for these respective styles. We will be covering this in more detail in our annual Investment Days, but traditional growth funds that have been so popular over the past few years produced negative returns in September vs an average positive return of 2.72% for a value investor. As ever, we think there are risks to both sides and the way to play this isn't to try time the market but rather ensure that the portfolios are properly diversified.

It wasn't only equities that saw a reversal in the trends that have dominated 2019. Global bond yields, which had been contracting month on month since March of this year (IA Global Bond), pushed out in September. The result was significant intramonth losses on, primarily, government related fixed income securities. Whilst cash performed well, the standout fixed income instrument here was high yield bonds, which managed to produce marginally positive returns for the month (0.31%). This indicates to us that duration risk (interest rate sensitivity) is being judged more harshly than credit risk. Overall though, we still prefer to hold higher quality bonds at a low duration, and this position proved to offer very good risk-adjusted returns over the month. It is worth noting here that Trump continues to apply pressure on the Fed to impose more rate cuts and QE4 (like those lucky Europeans). So much like our equity position, things could continue for some time yet, but we are aware there is a chance that the Fed will ignore the US President if the data doesn't materially weaken again from here.

1 Month Fixed Income Performance



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