MARKET UPDATE

JANUARY 2020 MPU

Party all the Time

Given 2019's weak global economic backdrop, returns for the year were nothing short of incredible, especially for global tech stocks. Virtually every asset class and sub asset class performed strongly, culminating in the best multi asset returns since 2013. The fundamental reason for these returns was the same as it has been for many years now; super easy global monetary policies and debt expansion. We need only cast our minds back to Q4 2018 where the US market fell 20% on the back of the, now infamous, Powell Pivot and Fed policy reversal. That period of heightened volatility, drawdowns and fear driven momentum is likely representative of the fundamental state of markets, i.e. markets without excess central bank liquidity. The latest version of this liquidity is the Fed's response to the fear within the Repo market, which has led to 'non-QE' QE. During 2019 we saw considerable earnings multiple expansion for many stocks without much to back it up however, this was a year for momentum rather than fundamentals as markets continued to trade on the belief that central banks would bail out the markets if anything went wrong. In short, the Fed 'put' was back with a vengeance.

Take me to the next Phase, Baby

The issue that most often moved markets, outside of central bank intervention, was the, perhaps cynically, timed tweets and comments around trade deals. Over the course of the year it became evident that Trump and the Chinese couldn't get a meaningful trade deal through. An ingenious alternative was required, and thus we began to hear about a 'phase one' trade deal. This is like a proper trade deal but one that deals with everything but the contentious issues. Markets looked upon this fudge with relief as any deal looked to be a preferable alternative to trade wars, tariff negotiation and constant back and forth claims about who can afford to absorb what. In 2019, not only did we have the Fed put but we also had the Trump put, could it ever get any better than this?

The overwhelming evidence confirms that trade wars tend to be bad and difficult to win but, so far, the biggest loser seems to be Germany. The German economy is export driven and the last thing they needed on top of an injured, often self-inflicted, auto industry was a seemingly perpetual trade spat. Despite Germany's faltering economy, the stock market performed quite well. The Dax returned approximately 25% in Euro terms – not bad for a year almost totally bereft of positive economic surprises. Europe performed well for the year too, only second to the US, and we would expect it to outperform a broad basket of North American equities over the next couple of years, short of a major global pullback. Given the relatively low valuations of many European stocks versus their US counterparts, there is also potentially less downside risk in the event of a central bank misstep or a market moving geopolitical event.

In Space no one Can hear you Scream - Brexit.. Brexit.. Brexit.. Brexit..

The UK now has one of the strongest single party governments in Europe. It's not for us to say whether this is a good or a bad thing for society at large but the threat of a Corbyn led government, even in coalition, was an outcome that many in the business community feared. Now this has been completely removed, the outcome for Sterling and economic stability is unarguably more positive, at least in the short-term.

What hasn't gone away are the potential impacts of the, now seemingly inevitable, leaving of the EU. We have said for over three years now that the ramifications of the Brexit vote would run forever in some capacity and we haven't changed our view post the UK election. Inevitably, we will continue to touch on this subject throughout 2020 – probably on a monthly basis - but as we have virtually no new information, we will leave it here for now.

Looking at our portfolio positioning, we will continue to maintain our slight overweight to the UK equity market as many stocks, like those in wider Europe, look better value relative to other developed markets. As ever, the returns of UK equities are likely to be rag-dolled by currency, but we still find the UK an attractive place to invest.

Rip it up (and Start Again)

The first trading day of 2020 looked to carry on where we left off in 2019, with some investment banks already ruling out any chance of a US recession, rising inflation or anything that could lead equity markets lower. This script has already had to be revised following the Trump administration's assassination of the Iranian General Qassem Soleimani, the head of their elite Quds force. In keeping with what we have come to expect, it doesn't seem that America's allies were given prior notice and it certainly seemed to come as a shock to the markets. This, if for no other reason, means that we will be maintaining our gold allocation via several different funds as it correlates negatively with equities in times of global tension, especially when it's the fear of the unknown. Mr Trump, for better or worse, provides almost limitless potential for this kind of out of left field scenario.

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