Investment Commentary – January 2020

Twelve months ago we had just experienced the worst quarter of global stock market investment performance since the financial crisis of 2007-08. Fears of a global protectionist trade war between China and the United States, allied to worries about the prospect of a general economic slowdown and our own particular problems with the upheaval of exiting from the EU had seen equities plummet and wipe out the gains of the previous nine months.

Fortunes and sentiment can change quickly in financial markets however, and as 2019 dawned markets rallied. The FTSE World index then continued to made progress throughout the year, finishing 2019 up 22.8%. Perhaps this once again proves that the best time to invest is when fears and worries are at their highest, something that we will need to bear in mind as the gung-ho American President does his best to further destabilise the Middle East.

One feature of international markets which has not changed over the past year, and appears unlikely to in the near future, is the almost non-existent return that can be made from holding cash. In fact, being charged by a bank to deposit cash with them has now become reality for savers in some parts of Europe, such as Switzerland. This situation is a consequence of the prolonged period of record low interest rates. As interest rates have moved lower bond yields have moved accordingly and therefore the prices of these bonds have moved upwards. However, unless the whole world moves to a position of having negative interest rates it is difficult to see how the prices of fixed income investments, particularly government bonds, can make much further headway in the short to medium term.

Prior to last month's general election, with a Conservative majority government looking increasingly likely, we increased exposure to UK equities within our portfolios, with a particular bias to small and medium sized UK companies whose operations tend to be more domestically focused. This decision was made in anticipation of a bounce in the UK stock market should the Conservatives win a majority, and this did indeed materialise.

Contrary to the message delivered by the Conservatives during the recent General Election campaign, we are only at the beginnings of our exit from the EU. The clarity delivered by December's election result should, however, mean that we can continue to expect the UK stock market to fare better this year than others elsewhere around the globe.

Whilst a more stable political outlook in the UK should be beneficial, stock market returns at home and across the globe will still be dictated to a large extent by what happens in the USA. This year will see a Presidential election, with all the intrigue and bitterness that we have now come to expect from these. At the moment it seems as if the incumbent President is favourite to get re-elected and, whilst his politics are more divisive than any holder of that office in history, his fortunes and the result will likely be determined by the strength of the US economy: and here he seems to be on strong ground. Whilst growth may be slowing, unemployment is not rising, and nor is inflation. It also seems unlikely that for all of Donald Trump's posturing he will enter into a damaging trade war with China that could damage the US economy in the run-up to November's election.

Nevertheless, most economists would agree that the gains of 2019 have eaten into the likely returns available for the current year. Growth looks to be slowing and the one-off impact of tax cuts and cash buy-backs have already worked through the system. The outlook for 2020 is therefore for lower returns, but with fewer worries that progress will be blown off course.

This outlook for the United States is likely to be replicated across most major markets this year. We have already mentioned the UK, but for Europe as a whole we anticipate a gradual recovery in economic growth, even though Germany is hovering on the brink of a mini recession at present. The Emerging Markets of Asia have certainly been affected by the issues surrounding China, but if modest growth can be coupled with a satisfactory resolution of the China/ US protectionist conflict then valuations should permit further progress. As for Japan, we now believe that the relatively low valuations of their own market will lead to gains that warrant it being our most over-weight position within the portfolios.

In summary, we should not expect the coming year to be a repetition of 2019, where investors made money on nearly all types of assets, and stock markets enjoyed gains of 15-30%. Some of these gains represented a recovery from the final quarter of 2019, but the result is that stock market valuations are now sufficiently stretched for a consensus view to prevail that this will be a year of modest progress and benefit investors who hold a diversified portfolio that reduces volatility and excessive risk. These are the foremost aims of our investment strategy, and it is pleasing to note that, since commencement, all of our Managed Portfolios have shown capital value appreciation and are beating their respective benchmarks.

Yours sincerely

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