

November 2019

## Global Investment Commentary

### SUMMARY

During November the Bank of England (BoE) left the base rate unchanged, Christine Lagarde took up her Presidency of the European Central Bank (ECB) and with 12th December fast approaching, political party campaigning for the UK General Election got into full swing. Aside from these events, the agenda items remained much the same as for recent months. A definitive Brexit outcome is still unclear, the US and China are seemingly close to agreeing a partial trade deal and US equities continued to push even higher.

### Market Round Up

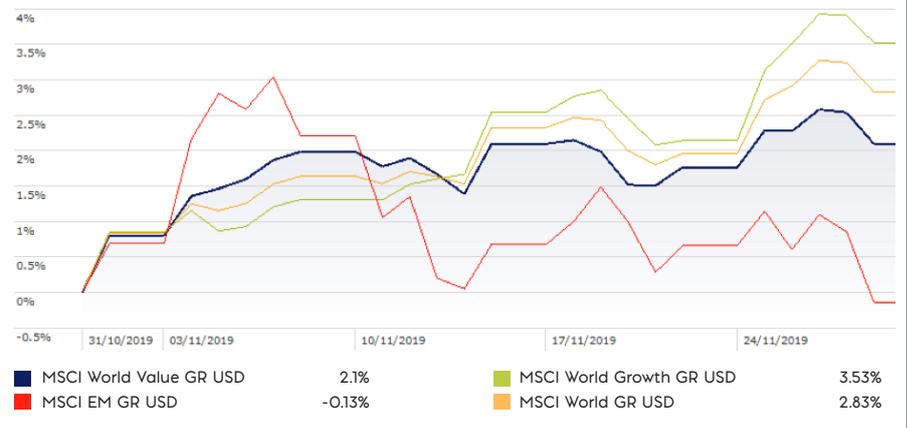
Despite numerous geopolitical risks, a common thread during this year, equities continued to make positive progress in November. The focus of attention in the UK was the imminent General Election on 12th December. This latest political chapter and the implications for Brexit are likely to remain at the forefront of the news for the foreseeable future.

The US and China continued with negotiations on a 'phase one' trade deal but unless agreement can be reached, or action deferred, tariffs are scheduled to increase in mid-December. Market sentiment seems to have become more optimistic, but one can't help but feel there's a potential twist ahead in this storyline.

Having been central cast members for much of the year, central banks (US, UK, ECB and Japan) took more of a back seat during November, with only the BoE meeting and deciding that there would be no change to the UK base rate.

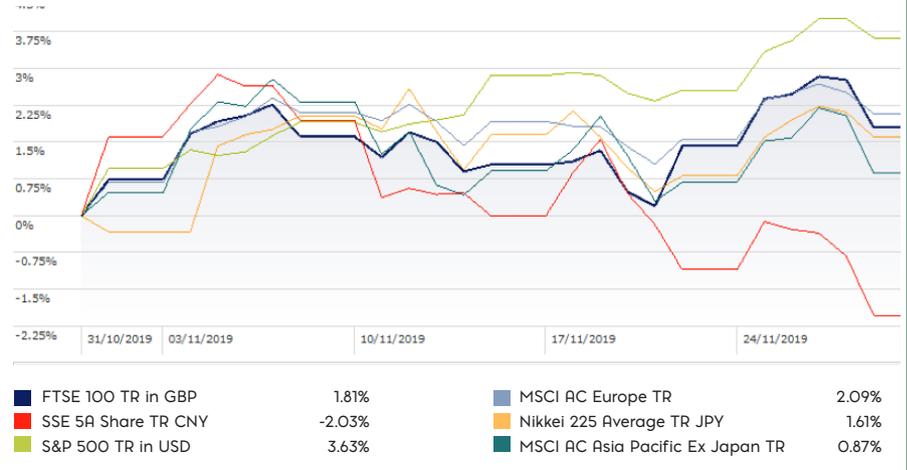
Developed markets (+2.83%) reversed last month's results by outperforming emerging markets (-0.13%), while growth stocks (+3.53%) continued to leave

### Developed Markets Vs Emerging Markets & Growth Vs Value - November



Source: FE 01/11/2019 - 30/11/2019

### Major Indices - November



Source: FE 01/11/2019 - 30/11/2019

their value counterparts (+2.10%) lagging.

The UK's FTSE 100 index rose by 1.81% during November while in

the US the S&P 500 continued its upward trajectory, increasing by 3.63%. European stocks also fared well, up 2.09%. Japan continued

to surprise with the Nikkei 225 rising by 1.61%, but in China the SSE 50 index retraced by -2.03%.

### UK - BoE votes to hold base rate in first split decision since June 2018

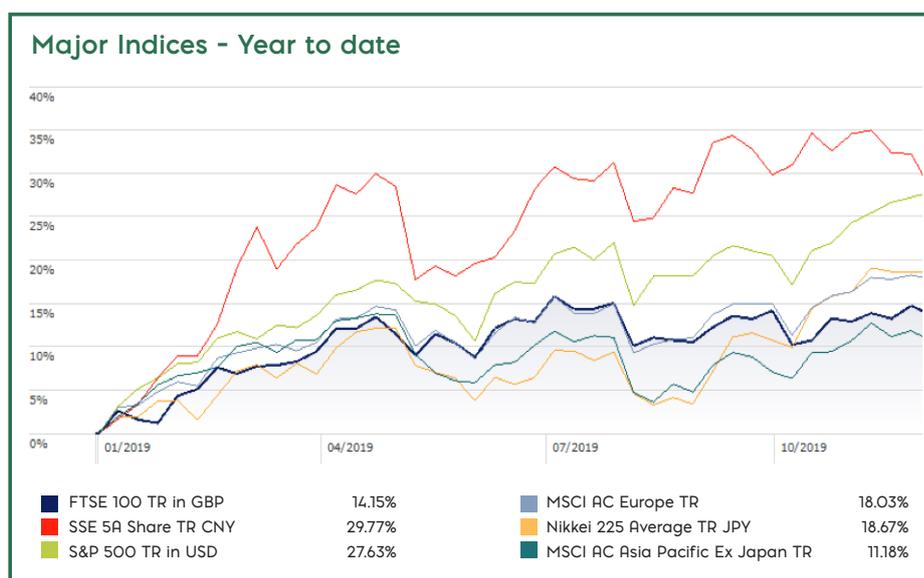
In light of the delay to the Brexit process and ahead of the General Election on 12th December, it was of no real surprise that the Bank of England (BoE) held base rate at 0.75%. However, two members of the Monetary Policy Committee (MPC) voted in favour of a reduction, making it the first split decision since June 2018.

Economic data for Q3 suggested the UK has returned to growth, although many of the fundamentals such as business investment and productivity remain weak. Brexit extension after Brexit extension and now a December General Election mean the BoE is likely to maintain its cautious approach and sit on its hands until some of the mist lifts.

November brought with it the campaign circus of the political parties, including a round of televised debates that could be compared, by less polite commentators, with a revamped version of the popular game show, 'Would I lie to you?'. With improved public finances and borrowing costs at lower levels, the main three parties have all touted their intention to deliver fiscal stimulus.

With regard to Brexit, millions of voters will head to the polls on December 12 for a snap General Election as a deeply divided country hopes it will pave the way for a resolution to Brexit.

On the currency front, sterling strengthened by more than 1% against the euro during November but stayed broadly flat against the US dollar.



Source: FE 01/01/2019 - 30/11/2019

### US - Fed Chair Jerome Powell: 'the current stance of monetary policy is likely to remain appropriate'

November saw the US earnings season close, with S&P 500 companies posting mostly flat earnings relative to Q3 of last year. The materials and energy sectors delivered the weakest reports, in keeping with year-to-date form. In the context of estimates already having been trimmed back, approximately 80% of all firms beat their earnings estimates for the quarter.

In a reversal of expectations, US GDP estimates for Q3 rose, meaning the pace of growth picked up slightly, despite predictions of a continued slowdown. Housing data saw a marked improvement, with new housing starts reaching their highest level since 2007. Additionally, mortgage default rates reached their lowest level since the mid 90s. However, despite the Fed's interest rate cuts, consumer confidence was weaker than expected. In comments to Congress, Fed Chair Jerome Powell said that 'the current stance of monetary policy is likely to remain appropriate'. This was read by markets as indicating only one

more interest rate cut in 2020. Both two-year and 10-year government bond yields moved marginally higher over the month.

There have been tentative signs of improvement in business sentiment. The November US Purchasing Managers' Index (PMI) pointed to a pickup in activity across both manufacturing and services. In particular, an increase in the employment elements of both sectors offered some encouragement that companies might not cut jobs as previously thought, despite pressure on profits. Optimism around a trade deal, combined with improving activity, filtered through to positive equity market returns in the US. The S&P 500 rose by 3.63% in total return terms, pushing its year-to-date return to over 27% and putting it on course for its best calendar year performance since 2013.

### Europe - a welcome shot in the arm for manufacturing sector

Christine Lagarde was welcomed into her new role as President of the ECB. Although she'll have to wait until 12th December to chair the first policy meeting, she has already made a few official appearances in front of attentive audiences. Choosing to focus

on general economic challenges and the effective impact that government intervention can make, she has thus far managed to avoid the potential pitfalls of announcing specific monetary policy.

The prospect of a US-China trade agreement provided a ray of hope and activity across the region mostly improved relative to the gloomier picture of previous months. Manufacturing in particular received a welcome shot in the arm as the important elements of the eurozone manufacturing PMI rose from October's numbers. Flash PMI business surveys rebounded while the consumer confidence reading also made a positive move.

Germany's Q3 GDP reading confirmed the country narrowly avoided a technical recession and a sigh of relief could almost be heard when the manufacturing PMI improved from previous low levels.

Despite positive noises around manufacturing, sentiment towards different business sectors varies. The employment component of the eurozone services survey has slowed suggesting the service sector is treading water.

That said, markets clearly embraced the positivity of the improvement to the manufacturing data, resulting

in the healthy equity gain (ex-UK) achieved during the month.

### China - Slowdown in growth, while other matters are delicately poised

In contrast to the eurozone, recent weak manufacturing data may well give rise to concerns for the Chinese authorities, compounded by the unimpressive consumer confidence numbers. Compared to the previous month's count of 5.8%, industrial production grew by a disappointing 4.7% on a year-on-year basis. Likewise, retail sales grew by 7.2% year on year, compared with a run rate of 8.5% in the first half of 2019.

To what extent and for how long the disturbances in Hong Kong continue will determine the scale of the negative influence on the region's economy. Coupled with the slowdown in China's growth, the concern for global investors is whether the protests, and US reaction to them, will disrupt the delicately poised trade negotiations.

### Summary

Markets and sentiment have been buoyed by the potential for progress on a US-China trade deal, while central banks have

largely been on the sidelines during November. Market pricing seems to be reflecting optimism while equity valuations have now risen to levels close to their long-run averages, and higher in the US. There is the possibility of a 'phase one' trade deal to justify this optimism, but there is still a fair amount of risk given the potential for the negotiations to fail. The good news is that manufacturing appears to be stabilising and continued central bank support should help further. The uncertain outlook continues to strengthen the argument for a balanced asset allocation. Focusing on quality across equities and credit could help reduce downside if investor optimism turns out to be unjustified, while still providing some upside if growth improves. Despite the low yields provided by traditional safe-haven assets, government bonds can still provide ballast in portfolios if growth fails to materialise.

## Economic Projections (30/11/2019)

### Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2019	2020	2021
UK	1.2	1.1	1.5
USA	2.3	1.8	1.9
Eurozone	1.1	1.0	1.3
Germany	0.5	0.7	1.2
France	1.3	1.2	1.3
Japan	0.9	0.3	0.8
China	6.1	5.9	5.7
India	6.0	5.6	6.4
Asia	5.3	5.2	5.3
Emerging Markets	4.4	4.5	4.7

Source: Bloomberg

## Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2019	2020	2021
UK	0.75	0.75	1.00
USA	1.75	1.60	1.70
Eurozone	0.00	0.00	0.00
Japan	-0.10	0.00	0.00
China	4.35	4.30	4.30
India	4.90	4.75	5.00

Source: Bloomberg

## Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2019	2020	2021
GBP/USD	1.29	1.35	1.39
EUR/GBP	0.86	0.86	0.85
EUR/USD	1.11	1.15	1.18
USD/JPY	108.00	105.00	105.50
EUR/JPY	119.00	121.00	124.00
USD/CNY	7.08	7.10	7.00
USD/INR	71.36	72.00	71.00

Source: Bloomberg

### Risk Warnings

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