AMR Financial Market Review

Winter Report January 2020

AMR
FINANCIAL MANAGEMENT

Review – Equities & Bonds

The third quarter started with equity markets continuing their rally, supported by better Sino-US trade relations, as the imposition of trade tariffs was halted pending restarted trade talks. Economic data was generally weaker, leading investors to anticipate looser monetary policy and the US Federal Reserve cut interest rates in July for the first of three times during the six-month period. UK listed multinationals initially performed well on weaker Sterling following the appointment of Boris Johnson as Prime Minister, seen as increasing the likelihood of a 'hard' Brexit. At the beginning of August, President Trump stunned markets by abruptly terminating the 'truce' in the trade war, accusing China of not buying enough US goods as agreed and imposing a range of tariffs on goods imported from China. This led to sharp falls in equity markets. Combined with global monetary easing this drove safe haven bond yields lower to unprecedented levels, with a record $17tn of debt globally trading at negative yields, that is, levels that would mean guaranteed capital losses by investors if held to redemption. Political unrest in Hong Kong added to investor nervousness in the region, which saw Asia equity indices underperform, with Emerging Markets also weaker following a sharp fall in the Argentine Peso and stock market following a surprise defeat of President Macri. Deteriorating economic data continued throughout September, in particular forward-looking data showing that the US manufacturing sector may be contracting, but equity markets rose as Sino-US trade relations improved as Trump postponed planned tariff increases in a goodwill gesture in advance of talks. The ECB loosened policy in its biggest stimulus measures for three years and the US Fed also cut rates again.

The fourth quarter began with markets weaker on global growth fears after a key US forward-looking manufacturing survey indicated a contraction, considered evidence that the trade war was impacting on the US economy. The US also imposed tariffs on some European exports in response to subsidies to Airbus. The Brexit saga continued with negotiators declaring that there was a workable deal which triggered a sharp rise in selected UK listed Brexit-sensitive stocks. Progress in the Sino-US trade war added to investor optimism as tariffs were again postponed following constructive talks, with Trump hailing a 'substantial Phase 1 deal'. The UK Parliament continued to thwart progress of the Brexit bill, resulting in an Election to break the impasse. Chinese GDP for Q3 of 6% was behind expectations, but countered by the announcement of additional stimulus through infrastructure investment. At the end of October, the Fed cut rates again, but signalled that the rate cutting cycle was now paused. November saw global equity markets test record highs as investors keenly watched progress in trade talks. Whilst a deal being actually signed in 2019 looked less likely, talks progressed constructively albeit with uncertainty that existing tariffs would be rolled back. Sterling rose sharply as the Brexit Party agreed not to stand against existing Conservative seats, giving the Conservative campaign a boost. Third Quarter corporate results from the US were generally ahead of expectations that tend to be carefully managed, but overall showed a modest decline in earnings. Despite the ongoing unrest in Hong Kong, leading Chinese e-commerce platform Alibaba launched a secondary listing on the local exchange to raise a further $11.9bn. December was dominated in the UK by the Election, with the Conservative poll lead growing which led to further increases in Sterling.

Key Indicators

Equity Market Indices	*31/12/19*	*28/06/19*	*% change six months*	*31/12/18*	*% change one year*
UK – FTSE 100	7542.44	7402.00	+ 1.9	6728.13	+ 12.1
UK – FT ALL Share	4196.47	4041.72	+ 3.8	3675.06	+ 14.2
UK – FT Mid 250	21883.42	19314.46	+ 13.3	17502.05	+ 25.0
UK FT Small Cap	5950.49	5566.97	+ 6.9	5177.21	+ 14.9
USA – Dow Jones	28538.44	26599.96	+ 7.3	23327.46	+ 22.3
USA – S&P 500	3230.78	2941.76	+ 9.8	2506.85	+ 28.9
USA – Nasdaq	8733.07	8006.24	+ 9.1	6329.96	+ 38.0
Japan – Nikkei 225	23656.02	21275.90	+ 11.2	20014.77	+ 18.2
Europe – FT Europe ex UK	225.11	209.57	+ 7.4	182.21	+ 23.5
Asia – FT Asia Pacific ex Japan (£)	635.89	633.06	+ 0.4	572.24	+ 11.1
Emerging – FT Emerging (£)	625.97	613.99	+ 2.0	556.75	+ 12.4
Global – FT AW World (£)	417.71	402.40	+ 3.9	350.34	+ 19.2
Currencies					
£ / $	1.3259	1.2693	+ 4.5	1.2757	+ 3.9
£ / Euro	1.1824	1.1164	+ 5.9	1.1121	+ 6.3
£ / Yen	143.08	136.99	+ 5.2	139.82	+ 3.0

Sources: FE Analytics and Refinitiv, returns shown in local currency unless otherwise stated, income withdrawn.

It is important to remember that the value of investments and the income from them can fall as well as rise. Past performance is not necessarily a guide to future performance. Investors may not get back the amount invested.

In a landmark moment, Saudi sovereign oil company Aramco listed shares on the New York exchange, raising a record $25bn and valuing the whole company at $2tn. Sino-US trade talks continued, with early uncertainty being followed by comments from Trump that they were close to a 'big deal' with China, a fact confirmed by announcements from US and Chinese negotiators that a deal had been agreed although no specifics were given. The decisive Conservative win in the Election was greeted by strong performances from UK stocks, particularly mid-caps, but sharp early rises by Sterling in the immediate aftermath of the result were eroded through December, as investors digested the task ahead that remained for UK and EU negotiators. The process to impeach President Trump began, though whilst considered highly unlikely to succeed, added to the feeling of further political uncertainty ahead in 2020.

Outlook

The second half of 2019 saw a continuation of the pivotal strategy change by the US Federal Reserve which acknowledged that the global economy is slowing and has responded by cutting rates. Other central banks followed suit, cutting interest rates and/or loosening monetary policy through other means. Whilst some central banks effectively moved interest rates to negative levels, this has generally been considered unhelpful for banks' ability to lend as it reduces profitability. Central bankers have therefore been commenting that monetary loosening is nearing the limits of its effectiveness and that there needs to be a response from Governments through fiscal policy. It is notable that China has used fiscal and monetary policy together with success, whilst in Japan there have been announcements of fiscal stimulus in conjunction with continued quantitative easing. We believe that it is likely that monetary policy will continue to remain accommodative whilst inflationary pressures and economic growth remain muted which should be positive for both equities and fixed interest. In addition, fiscal policy through increased government spending could also play an increasing part in the composition of economic growth. It is helpful for Governments that they are able to borrow for the long term at historically low rates, with these funds being used to invest in capital projects and infrastructure that will not only increase demand in their economies, but also increase their efficiency and productivity over time, thus improving prospects for global growth. In the meantime, the consumer remains a key driver of growth through spending and the outlook remains positive with historically high employment, rising wages and buoyant confidence. A significant uncertainty over global trade has been at least partially reduced through the Sino-US 'Phase 1 deal'. Whilst setbacks in ongoing negotiations are likely, corporate confidence should improve, increasing demand through investment. Technology remains an important theme, with opportunities for leading technology companies, but also for other companies embracing technology to improve their profitability. It is notable that a number of these leading companies are based in Asia, a region in which we remain optimistic on long term prospects.

Awareness of climate change and action on it has seen a step change in recent times and the corporate world will be affected; certain sectors will fall out of popularity from an investment perspective, whilst others will need to change their behaviour, for example the oil sector coming under pressure to invest more in renewables. The automotive sector has had to adjust to the rise of popularity of electric vehicles and stringent global emissions standards. There are other sectors and companies one might consider at risk in future, but also action on climate change will provide opportunities for companies to provide solutions, for example in areas as diverse as renewable energy infrastructure and recyclable packaging.

The US Presidential Election campaign has begun in earnest and Election years have historically been good for economic growth and stock market performance. However, with such a polarising figure as Donald Trump, the campaign will be contentious and whilst his re-election looks likely, surprises and uncertainty cannot be ruled out as the year progresses which will give rise to market volatility. In the UK, there is now a stable business-friendly government for the next five years which has removed a significant uncertainty in the minds of investors, hence UK stocks have rapidly recovered some of their underperformance suffered in the period since the Referendum and we believe that there remains an opportunity for further rerating. However, whilst the UK will now quickly exit from the EU, the terms of the relationship is still far from clear with those negotiations just beginning. The deadline of the end of 2020 looks ambitious albeit arbitrary, so we expect more 'cliff edges' to give rise to market uncertainty whilst negotiations continue.

We are therefore positive on prospects for equities in 2020, although after a strong 2019 and with continued political uncertainty, bouts of volatility are likely, which will provide opportunities for long term investors to add to holdings but also make a balanced approach with both growth-oriented and more defensive investments preferable. As always, we remain alert to developments which affect our views and will amend investment strategy accordingly.

Key Indicators

Equity Market Indices (£ Total Return)	% change six months	% change 2019	% change 2018	% change 2017	% change 2016	% change 2015	% change 2014
UK – FTSE All Share	+ 5.48	+ 19.17	– 9.47	+ 13.10	+ 16.75	+ 0.98	+ 1.18
UK – FTSE 100	+ 3.69	+ 17.32	– 8.73	+ 11.95	+ 19.07	– 1.32	+ 0.74
UK – FT Mid 250	+ 14.08	+ 28.88	– 13.25	+ 17.78	+ 6.66	+ 11.17	+ 3.66
UK – FT Small Cap	+ 8.64	+ 18.82	– 9.52	+ 18.15	+ 14.29	+ 9.17	+ 0.89
USA – Dow Jones IA	+ 3.97	+ 19.63	+ 1.83	+ 16.18	+ 37.85	+ 5.23	+ 16.08
US – S&P 500	+ 6.25	+ 25.65	+ 0.96	+ 10.62	+ 32.67	+ 6.58	+ 20.02
US – Nasdaq	+ 8.24	+ 31.42	+ 1.83	+ 20.01	+ 29.86	+ 13.16	+ 21.88
EU – FTSE Europe ex UK	+ 2.67	+ 20.19	– 9.83	+ 15.91	+ 20.03	+ 4.66	– 2.18
Japan – Nikkei 225	+ 6.68	+ 14.99	– 4.34	+ 12.64	+ 24.62	+ 13.29	+ 0.10
Asia – FT AW Asia Pac ex Japan	+ 1.82	+ 14.46	– 8.76	+ 23.04	+ 28.30	– 3.72	+ 9.80
Emerging – FT AW Emerging	+ 3.27	+ 15.48	– 7.96	+ 20.64	+ 34.96	– 10.61	+ 7.51
Global – FT AW World	+ 4.80	+ 21.64	– 3.95	+ 13.24	+ 28.82	+ 3.50	+ 10.71
Unit Trust Sectors (Retail, £ Total Return)							
Mixed Inv 0%-35% Shares	+ 2.26	+ 8.45	– 3.28	+ 4.51	+ 8.28	+ 0.20	+ 4.98
Mixed Inv 20%-60% Shares	+ 3.42	+ 11.64	– 5.15	+ 6.95	+ 9.90	+ 1.12	+ 4.82
Mixed Inv 40%-85% Shares	+ 4.40	+ 15.64	– 6.22	+ 9.78	+ 13.11	+ 2.31	+ 4.76
Flexible Investment	+ 4.34	+ 14.81	– 6.13	+ 10.61	+ 13.54	+ 2.04	+ 5.00
UK All Companies	+ 7.87	+ 21.64	– 10.98	+ 13.74	+ 10.71	+ 4.86	+ 0.46
Uk Equity Income	+ 8.29	+ 19.63	– 10.77	+ 11.05	+ 9.05	+ 5.18	+ 2.81
UK Smaller Companies	+ 12.11	+ 24.86	– 11.76	+ 26.63	+ 7.70	+ 14.68	– 1.89
Asia Pacific ex Japan	+ 1.75	+ 15.28	– 8.75	+ 24.45	+ 26.88	– 3.52	+ 9.74
Europe Excluding UK	+ 2.91	+ 19.93	– 12.62	+ 17.12	+ 16.32	+ 9.54	– 0.92
Global Emerging Markets	+ 2.69	+ 16.59	– 11.19	+ 24.47	+ 31.71	– 10.47	+ 2.37
Japan	+ 6.93	+ 16.79	– 11.77	+ 17.45	+ 23.88	+ 16.08	+ 0.66
North America	+ 4.99	+ 24.44	– 1.74	+ 9.47	+ 31.15	+ 4.64	+ 17.63
Global Equity Income	+ 4.22	+ 19.55	– 6.47	+ 11.07	+ 22.51	+ 2.11	+ 6.97
Global	+ 4.75	+ 21.54	– 6.04	+ 14.04	+ 22.27	+ 3.09	+ 6.99
Technology & Telecoms	+ 7.75	+ 29.31	+ 2.80	+ 23.83	+ 25.05	+ 8.15	+ 14.40
Property	– 0.85	– 0.41	+ 2.97	+ 6.34	+ 0.42	+ 7.28	+ 9.81
Targeted Absolute Return	+ 1.88	+ 4.56	– 2.91	+ 2.86	+ 0.02	+ 2.66	+ 3.01
Sterling Corporate Bond	+ 2.68	+ 8.64	– 2.34	+ 4.86	+ 8.55	– 0.41	+ 9.25
Sterling High Yield	+ 3.39	+ 11.08	– 3.82	+ 6.20	+ 9.81	– 0.45	+ 1.40
Sterling Strategic Bond	+ 2.59	+ 8.50	– 2.52	+ 4.63	+ 6.91	– 0.43	+ 5.76
Money Market	– 0.80	– 0.36	+ 0.36	+ 0.13	+ 0.25	+ 0.04	– 0.02
UK Gilts	+ 1.32	+ 6.37	+ 0.13	+ 1.48	+ 10.03	– 0.36	+ 12.62
UK Index-Linked Gilts	– 2.10	+ 5.42	– 0.66	+ 1.85	+ 21.64	– 1.32	+ 17.31
Global Bonds	– 0.21	+ 5.16	– 0.53	+ 1.55	+ 12.69	– 1.30	+ 4.08
Global Emerging Market Bond	+ 0.07	+ 10.55	– 2.70	+ 3.76	+ 23.95	– 3.71	+ 4.59

Sources: FE Analytics, returns in Sterling unless otherwise stated, net income reinvested.

AMR Financial Management Ltd

Independent Investment Managers and Financial Advisers

Directors

J B Bailey BA (Hons) Dip PFS
R M Bamford Dip PFS

Investment Director

R A Bill BA (Hons) MCSI IMC

Portfolio Managers

AMR Financial Management Ltd are the Managers and Advisers

Investment Department

R A Bill BA (Hons) MCSI IMC
R S J Oliver BA (Hons) IMC
L M Long

Issued By

AMR Financial Management Ltd
Registered in England 02753393

Registered Office

6 The Courtyard
London Road
Newbury RG14 1AX
Tel: 01635 521444
Fax: 01635 30777

Website

Visit us at www.amrinvest.co.uk

Regulator

AMR Financial Management Ltd is authorised and regulated by the Financial Conduct Authority.

Offices

6 The Courtyard
London Road
Newbury RG14 1AX
Tel: 01635 521444 / *Fax:* 01635 30777

Chiltern House
433 Luton Road
Harpenden AL5 3QE
Tel: 01582 461588 / *Fax:* 01582 760757