Alan Boswell Financial Planners

Market Update - January 2020

ALAN BOSWELL
Financial Planners

The UK's Conservative Party consolidated its power in a mid-December election—winning a majority of seats in the House of Commons and gaining approval for Prime Minister Boris Johnson's EU departure deal. The country is set to officially leave the EU at the end of January 2020, giving way to an 11-month transition period during which the UK and EU will negotiate the terms of their future relationship. Ursula von der Leyen, president of the European Commission, expressed concern in late December that the transition period may not be long enough and that an extension could be necessary; Johnson previously said he will not tolerate a longer transition period.

In Europe, there was a further slowdown in economic growth over 2019. However, in terms of European risk assets, the Europe ex-UK benchmark enjoyed an exceptional return in 2019 despite a still-significant disparity in economic growth between the US and the Continent.

One area that has impacted on recovery in Chinese economic growth is the running trade battle with the US. The agreement on a "phase-one" deal has helped to lower the temperature and halt the tariff escalations. If the truce holds through the 2020 US presidential election, China's economy may be able to build upon the tentative pick-up in growth that has begun to show up in the economic data.

In December, US President Donald Trump's administration finally secured bipartisan support in the House of Representatives for the US-Mexico-Canada Agreement) to replace the North American Free Trade Agreement — one year after the three countries' respective leaders signed the deal. This win for the administration came just one day after the House approved articles of impeachment against Trump — making him the third US president in history to be impeached.

Markets

Equity and fixed-income markets around the globe wrapped up the decade with above-average annual performance. Developed-market equities generally performed quite well for the 12-month period relative to historical averages; US shares performed very well, maintaining their dominance of the past decade. Although emerging-market equities lagged for the year and the decade, they outpaced their developed-market counterparts for the final quarter of 2019.

The riskiest segments of the fixed-income universe (high-yield bonds and emerging-market debt) along with US investment-grade corporates outperformed in 2019. Local-currency emerging-market debt performed well in the fourth quarter; however, over the last decade it lagged its hard-currency counterpart, as well as high yield and US investment-grade corporates.

Government bond rates declined over the full year across all maturities in the UK, eurozone and US. However, government bond rates climbed across the yield curve in the UK and eurozone during the fourth quarter. In the US, long-term rates rose but short-term rates fell during the three-month period, resulting in a steeper yield curve that all-but vanquished an inversion that began in late 2018.

Summary

Looking at the big picture for the year ahead, the US and global economies have the potential to continue growing, but at a sluggish pace. This should keep inflation under control and encourage central banks to remain accommodative. Quantitative easing also should help keep fixed-income yields relatively steady even as government deficit spending picks up.

Assuming a trade deal can be reached between the EU and UK, there is likely to be less Brexit uncertainty, although a no-deal Brexit remains a residual risk. As the year-end 2020 transition deadline nears, UK and European markets could experience renewed volatility if the negotiations appear to be foundering on irreconcilable differences.

Another stellar year for US equities in 2020 could be a source of concern rather than celebration. Equities and other risky assets are not well-correlated with the fundamentals in the short run. Investor expectations can change much more quickly and far more dramatically than the fundamentals. Indeed, as seen in the past two years, changes in investor expectations can sometimes completely negate the change in the fundamentals.

Please note the following:

All investments involve different degrees of risk. Please remember that past performance is not a guide to future performance. The value of units and shares and the income from them can go down as well as up and investors might not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall.

Where we have expressed views and opinions, these may change over time. None of the information mentioned in this document represents a specific portfolio or holding nor constitutes a recommendation to buy or sell.

Alan Boswell Financial Planners
Cedar House, 105 Carrow Road,
Norwich, NR1 1HP

T 01603 967967