Markets in a Minute...

Market commentary from Brewin Dolphin, Investment Adviser to the Guinness Multi-Asset Funds

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• December offered another reminder of the risk associated with equity market investing, as the asset class took another sharp leg lower. Equity components of portfolios will sit squarely in negative territory for the year and are likely to have tipped portfolio returns into the red for 2018.

• The catalyst for the challenges in stock markets is not the unfolding drama in Westminster, it is souring global growth expectations, higher US interest rates, and diminishing investor sentiment.

• US growth expectations will naturally retard as the year over year benefits from significant tax cuts fade from the calculation. Consider giving an employee a 10% pay rise in 2018 and then a 5% hike in 2019. This is very similar to what is happening with US fiscal policy. Budgetary programs are continuing to expand but at a slower pace. The outcome is lower growth but one that remains positive and above trend.

• Higher US interest rates have also proved a headwind for areas of the economy including housing. Falling longer term interest rates should see this sector enjoy at least some level of stabilisation in 2019, however.

• At the final monetary policy meeting of the year the US Federal Reserve declared its intent to slow its pace of interest rate hikes moving forward. This pragmatism reaffirms the 'Fed' are not on 'auto-pilot' and will become more accommodative should conditions require it.

• The US jobs market remains extremely positive and the corporate sector, whilst building leverage, remains in excellent shape to service interest payments. In aggregate recessionary risk remain extremely low in the US for the year ahead.

• Globally, economic conditions are less fertile. China is suffering under the weight of previous reform efforts as it tackles environmental degradation, corruption, and a shadow banking system.

• Such endeavours are both noble and sensible, but in the short term are damaging for economic activity. To manage these risks China has begun to deploy stimulants to the economy including tax cuts, lower interest rates and increased infrastructure spending. Early signals, however, suggest the scale of such programs are less than previous efforts.

• Given the European economy's closer ties to the Emerging World, versus the more closed nature of the American market, GDP for the region has also fallen away in 2018.

• Like the Fed, the ECB has communicated it will act more cautiously in moving away from its current rock bottom interest rate setting.

What we are doing?

• In terms of asset allocation action we have edged further towards Asian and Emerging Markets. The asset class is cheap but, above all else, should benefit from a falling dollar. It is this currency in which many of the countries and businesses have sourced funding.

• Timing is extremely difficult, but we continue to believe the scale of dollar borrowing embarked upon by the Trump administration paves the way for a secular dollar decline.

• Increased Chinese stimulus to help offset the reform drive will also prove helpful for the asset class, though sight of such a strategy is opaque.

• It has been, and may continue to be, a volatile and challenging period for equities. Global growth forecasts, however, have suffered only modest downgrades, and earnings are holding up well. In that respect equities have 'cheapened up' in recent months and look increasingly attractive as an asset class.

• Do not be lulled into believing the soap opera in no.10 is driving investment returns. This issue is complex and uncertain, and a swift, satisfying resolution appears out of reach. Capitulating on such worrying news flow, however, could prove a costly mistake.

"For every complex problem there is an answer that is clear, simple, and wrong"
H. L. Mencken, 1880-1956, US journalist and satirist

Period	FTSE 100	S&P 500	DJ Euro Stoxx	Topix	MSCI Asia ex Jap	MSCI Emerging Markets
1M	-3.48%	-8.98%	-4.02%	-7.25%	-2.84%	-2.75%
3M	-9.61%	-11.52%	-10.59%	-13.07%	-6.72%	-5.46%
6M	-10.24%	-3.58%	-9.65%	-9.13%	-7.01%	-5.27%
YTD	-8.78%	1.44%	-10.39%	-8.81%	-9.18%	-9.27%
1Y	-4.19%	1.67%	-10.30%	-8.81%	-9.13%	-9.22%
2Y	2.12%	12.81%	2.51%	5.41%	17.82%	14.11%
3Y	21.68%	50.73%	24.50%	31.31%	48.65%	52.20%
4Y	20.02%	61.59%	26.91%	52.95%	43.24%	37.44%
5Y	20.89%	95.30%	24.23%	57.48%	59.84%	43.26%

Data source: Bloomberg (performance numbers are all sterling based and gross of dividends)