AMR Financial Market Review

Winter Report January 2019

AMR FINANCIAL MANAGEMENT

Review – Equities & Bonds

Tariffs and trade talks dominated July, with investors also focused on the beginning of the Q2 earnings season. The oil price was sharply lower on concern that global GDP growth would be adversely affected by a trade war. Nonetheless, progress in trade talks led to European equities' strength in July, with good performances also from US and a recovery of losses in Emerging and Asian equities. The FTSE 100 made modest progress, capped by Commodity weakness, while sterling fixed income fell as positive comments from Carney all but cemented expectations of a rate rise in August. Q2 results were generally positive, although Facebook and Netflix shares fell sharply on disappointing outlooks. Economic data was generally supportive during the month, although China GDP showed signs of slowdown in some sectors. Emerging markets were sharply weaker in August with Turkey in crisis as the lira fell 25% on threats of swingeing tariffs from the US. Contagion spread to EU banks on potential exposure, and other Emerging indices also weakened with double digit falls in other Emerging Market currencies. The China/US trade war escalated during the month, with over $100bn of goods affected in aggregate. In contrast, the US stock market touched all-time highs in the longest bull market in history. Other indices were little changed over the month. Whitbread announced the sale of Costa Coffee to Coca Cola for nearly £4bn, well ahead of expectations and sending its shares sharply higher. The oil price rebounded on Russia sanction threats and concerns over constrained supply. September started with sharp falls in equities, before recovering after some positive economic and corporate data. The US announced tariffs on a further $200bn of Chinese goods, and the Chinese responded with $60bn tariffs on US goods. Weakness in Asia and Emerging Market shares continued, although the US market made new highs on positive data. The oil price rose strongly to a 4½ year high as OPEC stated that they saw no need to increase output despite Iran sanctions. Progress in the UK/EU exit negotiations was mixed, with Barnier declaring a deal was possible in six to eight weeks shortly before EU leaders rejected May's 'Chequers' proposals at the Salzburg summit, leading to outperformance by the multinational-heavy FTSE100 on sterling weakness. Towards the month end, the US Fed increased rates by another 0.25%. Fixed Income was lower on expectations of higher interest rates and inflationary pressures.

Equities and fixed income fell in October as the US 10 Year Treasury yield passed 3.25%, a 7 year high, following hawkish comments from the Federal Reserve as members sought to remove the accommodative stance. This adversely affected markets and despite stimulus from the Chinese authorities, Asian indices fell to 17 month lows. Also weighing on sentiment were a number of company profit warnings, particularly in the Technology sector, while political concerns surrounding the Italian budget deficit continued. Economic data showed a weaker picture in China and the EU leading to falls in the oil price along with other commodities. Markets recovered in late November, anticipating an easing of trade tensions between the US and China as the countries declared a 'truce' whilst further negotiations took place. Technology stocks however weakened following warnings on sales from Apple and others. The UK and the Eurozone were overshadowed by Brexit negotiations which had reached a pivotal stage, together with concerns over the Italian budget and generally poorly received third quarter results.

Key Indicators

Equity Market Indices	*31/12/18*	*30/06/18*	*% change six months*	*31/12/17*	*% change one year*
UK – FTSE 100	6728.13	7636.92	– 11.9	7687.77	– 12.5
UK – FT ALL Share	3675.06	4202.25	– 12.5	4221.82	– 13.0
UK – FT Mid 250	17502.05	20830.97	– 16.0	20726.26	– 15.6
UK FT Small Cap	5177.21	5876.82	– 11.9	5911.89	– 12.4
USA – Dow Jones	23327.46	24271.41	– 3.9	24719.22	– 5.6
USA – S&P 500	2506.85	2718.37	– 7.8	2673.61	– 6.2
USA – Nasdaq	6329.96	7040.80	– 10.1	6441.42	– 1.7
Japan – Nikkei 225	20014.77	22304.51	– 10.3	22764.94	– 12.1
Europe – FT Europe ex UK	182.21	203.19	– 10.3	209.99	– 13.2
Asia – FT Asia Pacific ex Japan (£)	572.24	621.46	– 7.9	644.37	– 11.2
Emerging – FT Emerging (£)	556.75	584.73	– 4.8	620.58	– 10.3
Global – FT AW World (£)	350.34	374.61	– 6.5	371.89	– 5.8
Currencies					
£ / $	1.27	1.32	– 3.5	1.35	– 5.8
£ / Euro	1.11	1.13	– 1.5	1.13	– 1.5
£ / Yen	139.68	146.20	– 4.5	152.11	– 8.2

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

December saw sharp falls in equity markets globally, with the US stock market suffering the worst month since 2008 due to investor concern that the Federal Reserve were raising rates too aggressively and ignoring the risks that weakness elsewhere in the global economy might be affecting the US. The beginning of a Trump-led US government shutdown added to negative sentiment. Despite relief in tensions between Italy and Brussels, European markets were also weaker on growth concerns, while Emerging markets and Asia proved relatively resilient due partly to lower valuations following falls earlier in the period. Fixed Income was mixed in the month, with safe haven bonds outperforming.

OUTLOOK

There were a number of concerns that were well known throughout 2018, but these factors came to a head in the final quarter of the year leading to widespread losses in all asset classes, making for a difficult environment even for well diversified portfolios. The phrases "healthy" or "much needed" corrections are often used after a prolonged period of market gains and yet when market falls occur, the media and investment community are frequently guilty of exaggerating their significance in the context of normal market movements over the long term. This is particularly the case currently after a period where volatility has been arguably suppressed by a global economy which had been growing sustainably but not in a way that was driving inflationary pressures, together with a supportive stance from Central Banks.

With the US economy on a firm footing, the US Federal Reserve began a well-flagged process of raising interest rates and then reducing the huge balance sheet accumulated during the process of 'Quantitative Easing' and it was generally expected that this might give rise to volatility as markets globally adjusted to higher interest rates, as was the case with the falls seen in Asian and Emerging Markets equities. However, it was politics that became the more significant factor and whilst it can normally be treated as short term 'noise', the nature of the recent political events has made them centre stage.

The key issue for markets was the US-China trade war which came at a difficult time for the Chinese economy, already going through a process of adjustment away from debt-fuelled growth and low value-added exports toward a more sustainable footing of domestic consumption of goods and services, together with exports of technology-led goods. This had led to slowing GDP growth, which was compounded by the ratcheting up of pressure from Trump's tariffs and tit for tat responses from China. This caused related effects, such as reduced Auto sector sales from Europe and the US, and more significantly from a US perspective, manifested in profit warnings from high-profile companies such as Apple. With it becoming evident that the trade war was having an adverse effect on the US economy, this precipitated a truce with the imposition of further tariffs postponed, while new trade terms are thrashed out. Whilst no new agreements have been formally reached at the time of writing, early signs are very encouraging. It is likely that companies will report continued weakness due to effects of events that have already happened, but there are grounds for optimism that the trade war may have peaked. In addition, the Chinese authorities have indicated that they will bring forward expansionary policies through new infrastructure projects and injecting liquidity into the economy through the banking system. This should be broadly positive for Asian equities which had been sold off indiscriminately, such that even companies who have reported no deterioration operationally have been subject to a sharp de-rating. Combined with the attractive long-term attributes of these markets which remain intact, we feel that this rather represents an attractive opportunity.

The UK stock market remains dominated by Brexit, with global investors shunning UK equities due to the political uncertainty to the extent that the valuation disparity between UK equities and global peers has rarely been wider. Domestic shares in particular are pricing in a poor performance of the UK economy and even multinational UK listed companies have underperformed despite positive data that has so far confounded the critics. With Brexit news developing as we write, consensus remains some form of transitional arrangement in which existing UK-EU trade relationships remain in place. With Sterling at multi-year lows and UK assets representing good value from a global investor perspective, there is scope for a recovery in both the currency and UK shares when investor confidence returns, following greater clarity on the UK's position and we remain optimistic on prospects but cognisant of short-term risks.

More broadly, whilst fears over global growth could diminish with resolution to the US/China trade dispute and decisive action from the Chinese authorities, the risks of more than a moderate slowdown in global growth may continue to trigger market volatility. Central Banks globally have responded to the softening global economy with a more dovish tone, most notably the US Federal Reserve chairman, Jay Powell, stating that it will remain sensitive to downside risks and patient on further rate rises. Markets are now pricing in fewer interest rate rises in 2019 which is positive for both Fixed Interest and Equities and should continue to be supportive.

Key Indicators

Equity Market Indices (£ Total Return)	% change six months	% change 2018	% change 2017	% change 2016	% change 2015	% change 2014	% change 2013
UK – FTSE All Share	– 10.98	– 9.47	+ 13.10	+ 16.75	+ 0.98	+ 1.18	+ 20.81
UK – FTSE 100	– 10.24	– 8.73	+ 11.95	+ 19.07	– 1.32	+ 0.74	+ 18.66
UK – FT Mid 250	– 14.86	– 13.25	+ 17.78	+ 6.66	+ 11.17	+ 3.66	+ 32.27
UK – FT Small Cap	– 10.42	– 9.52	+ 18.15	+ 14.29	+ 9.17	+ 0.89	+ 32.77
USA – Dow Jones IA	+ 0.44	+ 1.83	+ 16.18	+ 37.85	+ 5.23	+ 16.08	+ 26.31
US – S&P 500	– 3.73	+ 0.96	+ 10.62	+ 32.67	+ 6.58	+ 20.02	+ 29.10
US – Nasdaq	– 7.91	+ 1.83	+ 20.01	+ 29.86	+ 13.16	+ 21.88	+ 37.52
EU – FTSE Europe ex UK	– 11.67	– 12.62	+ 17.12	+ 16.32	+ 9.54	– 0.92	+ 26.00
Japan – Nikkei 225	– 6.31	– 4.12	+ 12.64	+ 24.62	+ 13.29	+ 0.10	+ 26.90
Asia – FT AW Asia Pac ex Japan	– 7.28	– 8.75	+ 24.45	+ 26.88	– 3.52	+ 9.74	+ 1.51
Emerging – FT AW Emerging	– 3.31	– 7.64	+ 21.06	+ 35.43	– 10.31	+ 7.87	– 5.29
Global – FT AW World	– 5.47	– 3.44	+ 13.84	+ 29.56	+ 4.04	+ 11.30	+ 21.03
Unit Trust Sectors (Retail, £ Total Return)							
Mixed Inv 0%-35% Shares	– 2.75	– 3.28	+ 4.51	+ 8.28	+ 0.20	+ 4.98	+ 4.17
Mixed Inv 20%-60% Shares	– 4.77	– 5.15	+ 6.95	+ 9.90	+ 1.12	+ 4.82	+ 8.57
Mixed Inv 40%-85% Shares	– 6.62	– 6.22	+ 9.78	+ 13.11	+ 2.31	+ 4.76	+ 13.77
Flexible Investment	– 6.60	– 6.13	+ 10.61	+ 13.54	+ 2.04	+ 5.00	+ 14.43
UK All Companies	– 13.35	– 10.98	+ 13.74	+ 10.71	+ 4.86	+ 0.46	+ 25.96
Uk Equity Income	– 12.20	– 10.77	+ 11.05	+ 9.05	+ 5.18	+ 2.81	+ 25.18
UK Smaller Companies	– 16.23	– 11.76	+ 26.63	+ 7.70	+ 14.68	– 1.89	+ 37.17
Asia Pacific ex Japan	– 7.28	– 8.75	+ 24.45	+ 26.88	– 3.52	+ 9.74	+ 1.51
Europe Excluding UK	– 11.67	– 12.62	+ 17.12	+ 16.32	+ 9.54	– 0.92	+ 26.00
Global Emerging Markets	– 6.03	– 11.19	+ 24.47	+ 31.71	– 10.47	+ 2.37	– 4.06
Japan	– 11.46	– 11.77	+ 17.45	+ 23.88	+ 16.08	+ 0.66	+ 26.20
North America	– 6.54	– 1.74	+ 9.47	+ 31.15	+ 4.64	+ 17.63	+ 30.41
Global Equity Income	– 6.03	– 6.47	+ 11.07	+ 22.51	+ 2.11	+ 6.97	+ 20.74
Global	– 8.06	– 6.04	+ 14.04	+ 22.27	+ 3.09	+ 6.99	+ 20.68
Technology & Telecoms	– 8.17	+ 2.80	+ 23.83	+ 25.05	+ 8.15	+ 14.40	+ 28.32
Property	– 5.07	– 3.33	+ 5.67	+ 5.54	+ 5.25	+ 12.01	+ 5.94
Targeted Absolute Return	– 2.22	– 2.91	+ 2.86	+ 0.02	+ 2.66	+ 3.01	+ 6.32
Sterling Corporate Bond	– 0.82	– 2.34	+ 4.86	+ 8.55	– 0.41	+ 9.25	+ 0.48
Sterling High Yield	– 2.43	– 3.82	+ 6.20	+ 9.81	– 0.45	+ 1.40	+ 6.49
Sterling Strategic Bond	– 1.01	– 2.52	+ 4.63	+ 6.91	– 0.43	+ 5.76	+ 3.32
Money Market	+ 0.24	+ 0.36	+ 0.13	+ 0.25	+ 0.04	– 0.02	+ 0.08
UK Gilts	– 0.42	+ 0.13	+ 1.48	+ 10.03	– 0.36	+ 12.62	– 4.96
UK Index-Linked Gilts	+ 0.53	– 0.66	+ 1.85	+ 21.64	– 1.32	+ 17.31	– 0.43
Global Bonds	+ 0.32	– 0.53	+ 1.55	+ 12.69	– 1.30	+ 4.08	– 2.86
Global Emerging Market Bond	+ 1.59	– 2.70	+ 3.76	+ 23.95	– 3.71	+ 4.59	– 9.58

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

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.

AMR Financial Management Ltd

Independent Investment Managers and Financial Advisers

Directors

J B Bailey BA (Hons) Dip PFS
R M Bamford Dip PFS
C R Lewis 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 2753393

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