Beckford · James

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July 2019
Portfolio Review

After a strong start to the year and the start of the holiday season, it might have been expected that financial markets would pause for breath in July. However the election of a new Tory leader, and hence Prime Minister in the UK, the lowering of interest rates by The Federal Reserve (the Fed) in the US for the first time in 11 years, and the European Central Bank (ECB) giving strong hints that an easing package is on the way, all helped developed market equities continue their solid run, returning positively over the month and outperforming their emerging market counterparts.

In the UK, the pound came under pressure during July following Johnson's appointment, as markets became increasingly jittery about the potential for the UK to leave the European Union without a deal. Johnson will be hoping that the threat of a no-deal exit will strengthen his hand in subsequent negotiations with the EU. Pricing of UK assets could yet reflect higher concerns of a disorderly exit ahead of the 31 October deadline, but the current configuration of parliament has regularly demonstrated that it is not willing to allow the UK to leave the EU without a deal. A no-deal exit therefore remains unlikely unless a general election or referendum were to provide a mandate for it. It is against this unstable political backdrop that cracks are appearing in the UK consumer outlook, with retail sales contracting for a third consecutive month in July.

July was a busy month for European leaders as nominations for many of the top jobs in Brussels were decided. Arguably the most important decision for investors was the nomination of Christine Lagarde to take over from Mario Draghi as ECB leader at the start of November. Lagarde was one of the more dovish options out of the potential candidates and has previously been vocal in her support for Draghi's accommodative stance on monetary policy. Given the ECB's struggles to normalise interest rates during this economic cycle, it is likely that Europe's response to the next downturn will require greater coordination between central bankers and politicians to support the economy. Lagarde's expertise in political negotiations may therefore have strengthened her case relative to other candidates with more traditional experience for such a role. Accordingly, confident in the knowledge that a successor is unlikely to reverse course, the ECB's Governing Council used its July meeting to send strong signals to the market that a stimulus package is coming. Interest rate cuts and new rounds of asset purchases are both being considered. Constructive talks between Italy and the European Commission around Rome's fiscal trajectory were a further plus for European investors. However, on the negative, manufacturing data from Germany, traditionally Europe's exporting powerhouse, continued its slide and business sentiment surveys have now declined to six-year lows.

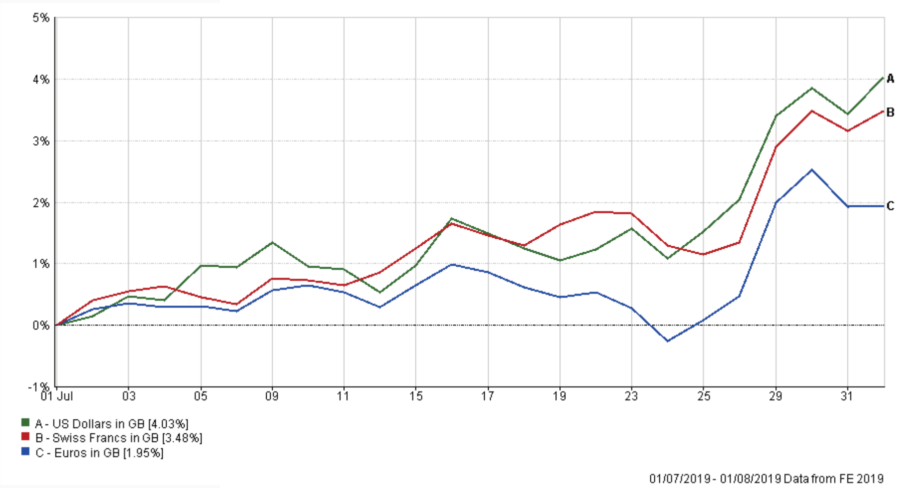
As mentioned, the Fed reduced US interest rates by 0.25%. The immediate market reaction implied that some investors had been hoping for more stimulus, and they were therefore disappointed by Fed chair Jerome Powell's suggestion that the move in interest rates did not signal the start of a "lengthy cutting cycle". Yet there is argument in favour of his position with a slowing, not stalling, economy with moderate domestic inflation not currently warranting a more aggressive action. The US-China trade war rages on. At one level, Donald Trump seemed to be currying favour with Xi Jinping in referring to the Hong Kong protests as “riots”, which gained positive responses from Chinese media. But the high-level trade talks in Shanghai lasted half a day and came to nothing, despite US Treasury Secretary Steve Mnuchin and Robert Lighthizer (Trump’s top trade negotiator) attending. Neither side foresaw a speedy resolution, but the tariff announcement shows how badly it all went. The threat to impose a 10% tariff on a new list of imports by September 1st has been met by much stronger responses from the Chinese. Both sides have become entrenched in their positions, with no movement to close the gaps.

Despite all this, political risks and economic disappointments have not yet sunk market sentiment.

Portfolios

As we saw in immediate post-referendum vote markets, the significant weakening in sterling resulted in a corresponding upsurge in overseas valuations, as seen in the graphs below.

Pricing Spread: Bid-Bid • **Data Frequency:** Daily • **Currency:** Pounds Sterling



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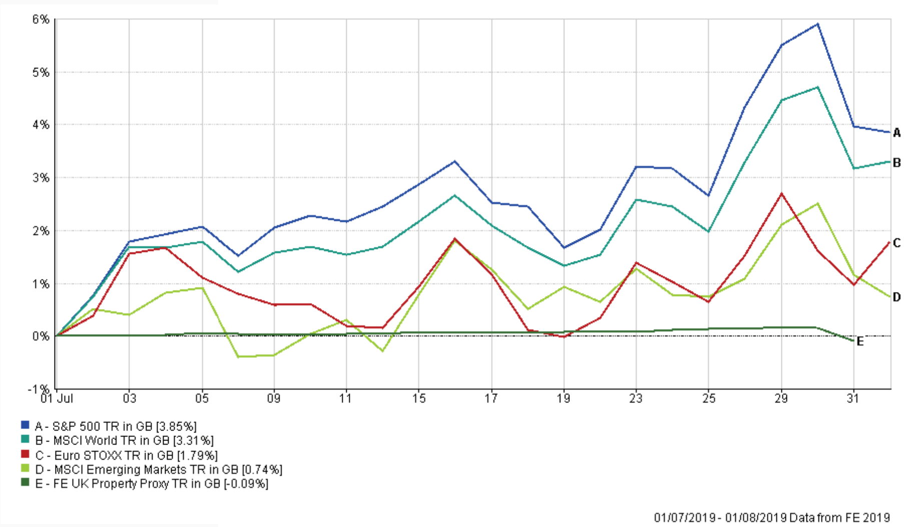

As a result, at the higher risk end of investments we saw fairly strong positive returns again in July as overseas equity exposure lifted portfolios.