Beckford · James

chartered financial planners

September 2019 Portfolio Review

Having written last month that the political landscape was changing almost daily, the events that have unfolded throughout September simply continued the theme, with much of the news providing somewhat of a distraction from other global news. However, those global developments may well carry far greater significance for near-term market returns than the latest disputes in Westminster and the three risks to markets have remained unchanged as we close the third quarter of 2019 namely: US/China Trade, US monetary policy and Brexit.

If we start in Europe however, following tentative signs of stabilisation in August, September's European forward-looking data last week painted an ever-cloudier outlook for German manufacturing and services data. Weakness was most notable within the German manufacturing sector, where activity is now at its lowest level since mid-2009. German industry is being hit by a combination of the Chinese slowdown, global trade disputes, Brexit and specific issues in the auto sector. The French economy is holding up somewhat better given its lower reliance on export activity, although it is notable that manufacturing weakness now appears to be spreading into services activity, both in France and more broadly across the euro area. The latest data provides some vindication for Mario Draghi's recent decision to announce a comprehensive stimulus package in an effort to boost growth across the eurozone and highlights the scale of the challenge ahead for incoming European Central Bank president Christine Lagarde.

In the US, consumer confidence dipped in September due to heightened trade tensions. Investors will be watching the US repo market very closely as The Federal Reserve recently stepped in to inject liquidity into the US banking system and its overnight funding support has increased from $75bn to $100bn. The spike in the rate at which banks borrow from one another could well be a sign of stress in the US or global financial system, as the Fed was unable to meet the short-term cash requirements of financial institutions. Many commentators put the episode down to quirks in the financial system but it was enough for the Fed to decide they needed to intervene, by injecting considerable amounts of liquidity through their open market operations.

On the US and China trade position, discussions are scheduled to re-start in October but are already complicated by President Trump, speaking at the UN, who said he 'wouldn't accept a bad trade deal'. Things have been further complicated by the announcement that the Democratic Party has begun a formal impeachment enquiry into the President. This may act as a distraction in trade discussions. Indeed, will the Chinese see this as further reason to sit tight in the hope they may have a different US President to deal with from 2021? Trump subsequently said that a trade deal could happen 'sooner than you think' adding that China wants 'to make a deal very badly'. However, is he trying to divert attention away from the impeachment story? Over the weekend, there were reports that Trump is considering de-listing Chinese companies as another way of limiting US investment into China.

Turning to Brexit, initial optimism faded as the EU said that the UK had only presented ‘potential components’ of an alternative to the Irish backstop and not a legally-operative solution. The Supreme Court then ruled unanimously that the decision by the PM Boris Johnson to advise the Queen to prorogue Parliament was unlawful. Boris Johnson clearly has no intention of resigning and yet the Labour party does not want a general election until no-deal Brexit is stopped. The EU would appear to want to avoid a no-deal Brexit given the weakening economic outlook across the eurozone. If Boris Johnson doesn’t deliver Brexit and there is a general election in November, he will be concerned that ‘Leave’ voters choose the Brexit party over the Conservatives and the ‘Boris bounce’ in recent polling may evaporate. Sterling edged back to $1.23 with the prospect of Brexit stalemate dragging on.

Coming into October last year, we saw a difficult last quarter. As we approach Q4 this year there are other distress signals in the economy. One of the most notable is the rise in company defaults and financial difficulties. A number of high-profile stories have emerged recently, from the collapse of holidaymaker Thomas Cook to WeWork’s IPO being put on ice (and, this week, their celebrity CEO Adam Neumann being fired). According to certain reports, even luxury car maker Aston Martin is facing severe problems, with rumours swirling of an upcoming default. Worse still is that these issues are playing out against a backdrop of less-than-stellar economic data. However, whilst the underlying economic troubles should not be overstated, nor should history repeat itself, they do suggest fragility, where a shock, financial or otherwise, could tip the balance into negative territory.

Portfolios

Component markets within the portfolios showed mixed returns over the month with Japanese equities leading the way. Vanguard Japan index was up 3.48% over the month whilst Jupiter European was down 4.23%. Some of these returns will be down to currency movement with Sterling strengthening against the Yen, US Dollar and Euro.