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December 2019 Portfolio Review

The end of the calendar year saw a decisive victory for the Conservative Party and the consequent "Boris bounce" in Sterling and equity markets, the latter holding on to gains far more than the former. The size of the majority does at least mean that markets can be confident of an operational government rather than the economic and political deadlock that has been characteristic of the last three years. The election success coupled with the positive news on US-China trade relations, meant that the geopolitical risks that dominated markets for much of 2019 faded in Q4, helping global equity markets to post gains. It might be reasonable to expect therefore, that the end of some areas of political uncertainty would lead to a quieter time for markets as negotiations proceeded in a more ordered way. But that would be all too easy and it was time for the US to supplant its China issues with Iran and North Korea.

The US drone airstrike that killed Qasem Soleimani was the biggest geopolitical act in months. It is hard to overstate how important a figure Soleimani was in Iran. He was accepted as Islamic Republic's second most powerful leader, ahead of President Rouhani and behind only the Ayatollah. This is a notable step up in tensions between Iran and the US and a significant increase in near-term global risks. In addition, North Korea became a focus because of Kim Jong Un's "deadline" for the US to change its sanctions policy, and with it, the implied threats of a return to nuclear weapon development. On the back of these threats, crude oil has jumped 4% and gold has rallied back close to its six-year peak. At current levels, oil prices do remain benign, but if Iran or sympathetic factions in other countries retaliate, then the impact on both inflation and growth could escalate rapidly.

In the UK, as mentioned, domestic politics drove UK asset prices following the landslide general election victory in December. The new government is set to use its large majority to take the UK out of the EU by 31 January 2020, entering a transition period when the next stage of negotiations will begin. UK equities performed relatively well and, within the market, domestically focused areas significantly outperformed as they responded very favourably to the reduction in near-term political uncertainty. These trends were further reflected in a very strong performance by small and mid-cap shares and a sharp recovery in sterling from the lows struck in the summer and reflected in a number of funds within the portfolio.

Eurozone equities notched up a strong advance in the final quarter of the year. Stocks were supported by some better economic data from Germany as well as the phase one trade deal agreed by the US and China and gains were led by sectors that generally fare well when the economy is strengthening, such as information technology, consumer discretionary and materials.

US equities made gains as trade uncertainty faded with the US and China's phase one trade deal announcement and economic data remaining stable. The trade deal, which is due to be signed in mid-January, means the planned new tariffs will not be imposed, while US tariffs imposed in September on $120 billion Chinese goods will be reduced by half. China has also agreed to increase purchases of US goods, with agricultural produce highlighted. The Federal Reserve cut interest rates once in the quarter before indicating that "the current stance of monetary policy is appropriate".

Turning to 2020, the central outlook of steady growth, a continuation of easy monetary policy and an easing in the US-China trade tensions bodes well for risk assets. There is unlikely to be such a generous boost to liquidity in 2020 as in 2019, nonetheless central banks are some way from raising rates and could ease if recovery was threatened. Inflation remains subdued so the Fed "put" can remain in play. As always there are many threats to the rosy scenario. So, for the present, all eyes are on an impeached president heading into an election year and needing victories which might help to get him re-elected. His policies and the reaction to them, can easily translate into market behaviour. Let's hope he, and the markets, stay calm.

Portfolios

General Election results and the China-US trade stand-off diminishing were two of the reasons that the stock markets and portfolios delivered an almost audible sigh of relief at the end of the year and a sense of undervaluation appeared to be released, in particular across UK mid-caps and smaller companies. The FTSE100 was up by 2.78%, All-Share up by 3.32% but the Emerging market index stepped up, ending the month 4.92% higher, albeit with some returns sanitised by currency gains in Sterling.

With the surge in UK stocks, the top fund in December across all portfolios was the Unicorn UK Ethical Income fund, rising 7.86%, closely followed by the Amati UK Smaller Companies portfolio which rose 7.48%. Of the top ten portfolio funds, nine were UK equity focused, predominantly income orientated funds which drove the income portfolio to the highest overall gross return for the month of approximately 2.6%.

More conservatively positioned portfolios were, as expected less, exposed to the news (either good or bad) and lower risk assets remained flat with the Growth V14 Risk 3/10 portfolio generating a modest positive return of approximately 0.6%.