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January 2020 Portfolio Review

So we have left; well at least 'consciously decoupled' from the EU. The UK surrendered its membership of the union and entered into an 11-month transition period where the economic relationship will remain largely the same but the UK will no longer take part in the political processes. The December general election did break the political deadlock which was holding-up Brexit but the risk of a no-deal outcome is not gone. During this period, both sides will negotiate the rules and parameters of the 'future relationship', including but not limited to the trade relationship. A broad outline was included in the Withdrawal Agreement and it will serve as the starting point for talks but there are already signs of hardening rhetoric on both sides. After the election result most could have expected UK equities to perform strongly, led by domestic stocks. However, performance remains patchy as the narrative moved on to the challenges of negotiating a trade deal. What is real and what is positioning remains to be seen.

The other important news for the UK this month was that the Bank of England (BoE) refrained from cutting interest rates by 0.25%, in the main against expectations. No change was a big decision for the Bank of England's Monetary Policy Committee and has led to a strengthening of Sterling, which is good news for those going on winter holidays abroad, but not as good for UK businesses whose goods and services have become more expensive in export markets. This strengthening softened later in the month reflecting UK-EU negotiation concerns as well as the Coronavirus outbreak but this in turn led to a strengthening of the FTSE 100 companies that benefit from overseas earnings. It was notable that the rate setters both in the UK and the US saw the global economy improving and becoming less fragile.

So while the BoE decision seemed to confirm the view that central banks may be becoming less supportive, the same could not be said about the US central bank's decision-making this week. Even though the US Federal Reserve (Fed) also kept rates on hold as expected, they did not, as was feared, cut back on the monetary support measures they had put in place last September. This response to a tightness in transactional cash levels had been widely attributed as one of the driving factors behind the stock market rally late last year, and therefore its removal was expected to cause some form of market upset. As it happened, the Fed acted responsibly and only signposted a reduction of this support for later in the year.

In Global terms, just as a number of leading indicators were beginning to show evidence of a global economic revival, uncertainty has been created by the Coronavirus outbreak in China. While the Chinese authorities have demonstrated their determination to deal with the economic implications of Coronavirus by announcing more stimulus measures, markets remain wary as images on social media starkly contrast to official news. The downward movement of stock markets around the world since the Coronavirus outbreak is a visible sign that investors suspect the restrictions that have been imposed to limit the spreading of the virus, will dampen economic activity for a while. The economic impact will depend upon how successfully the Coronavirus outbreak is contained. However, how do markets fully price in the risk, when there is limited visibility on how bad the outbreak could become and what will be the adverse impact on the Chinese economy? The economic impact may be harder to manage compared with the SARS epidemic in 2002-2003, when China was able to undertake greater stimulus measures to support its economy. The world is economically a smaller place than eighteen years ago and China is a key market for many western companies with many of its factories being more closely integrated into the global supply chain.

In Europe, German business confidence was unexpectedly more cautious than expected although the outlook for the key manufacturing sector continues to improve.

Portfolios – February 2020

Halfway through January the confident market sentiment appeared to be holding steady. With the general election behind us and the feeling of progress towards economic stability markets were generally in positive territory between 1% and 3%. However, as the fears grew around the impact of the Coronavirus from the East, emerging and far east markets started sink on fears of the economic impact, ending between 2% to 5% down over the month.

The S&P 500 remained fairly steady at +0.95% whilst UK equities also suffered, the FTSE100 falling just under 4% in the end.

Within portfolios, unsurprisingly, defensive holdings such as the Vanguard UK Inflation-Linked Gilt Index fund protected portfolios, especially at the more cautious end, with a positive return of just over 4%.

Interestingly Alquity's Indian Subcontinent fund topped the month's performers at just over 5%. Whilst the Equity index trackers moved with general equity trends, this was a month for active managers and particularly those in the ESG universe. Amongst the top ten funds for the month, 6 classified as ESG investments returning between 2.5% to 3.0% and helping the ESG portfolio to a positive return overall.

Even against the index downturns, the highest risk growth portfolio held returns to within -1.5% over the month testament to the active management exposure and supporting our view that wholly index based investment portfolio is not always best.

Please note - All returns rounded and quoted gross of ongoing fees.

As always, please contact your adviser at Beckford James with any questions, or call the Head Office on 01225 437 600.