WeekWatch

11 March 2019

Stock Take

Time, it seems, really is money after all. Saturday marked exactly ten years since global markets struck their mid-crisis low. In the ensuing decade, the S&P 500 has gained more than 300%, as central bankers, buybacks and improving sentiment have pushed markets ever upward. Companies in the US have bought back nearly $8 trillion of stock since 2009 – enough to buy every listed company in the UK, France, Germany, Italy, Spain and Sweden. Indeed, for many investors around the world, the past decade has been a reminder of the potential of equities.

Politics, many would argue, has not enjoyed such a happy time. With fewer than 20 days until the UK is due to leave the EU, the Irish backstop plan continues to divide opinion and hamper progress. Last week, the attorney general made his own bid for Brexit-negotiating glory in Brussels. The diplomatic sally failed and the prime minister is not expected to win this Tuesday's meaningful vote on her deal – a Bloomberg survey of bank strategists published last week showed May's deal has a 40% chance of passing by the end of March.

The Bank of England confirmed that UK banks will be able to borrow from it in euros as of this week, having activated a financial crisis-era 'swap line' – a temporary, reciprocal currency exchange agreement – with the ECB. It warned, however, of deep disruption for financial markets in the case of a no-deal Brexit. "We have seen recently just how much volatility Brexit is capable of generating in the UK, especially via sterling," said Andrew Shaw, Head of Investment Communications at St. James's Place. "While uncertainty remains, however, investors need to hold their nerve and remember that their investments are ultimately in companies – not politics."

Two of those companies – BMW and Toyota – warned last week that they could no longer commit to UK production in the event of a no-deal Brexit. Deeper concerns centred around negative employment and growth trends for the UK, but the Markit/CIPS business activity survey came in strong, even as business investment remained lacklustre. The Chancellor may well walk a tightrope in his Spring Statement this Wednesday. The decline in the deficit suggests a further dialling down of austerity, but political and economic uncertainty will probably set a cap on any generosity.

The FTSE 100 ended the week down, but was not alone. Fears over trade and growth continue to stalk markets, and the smallest developments can turn investor sentiment on a dime. (Football fans will note that Ajax's 4-1 victory on Tuesday over Real Madrid last week pushed Ajax's share price up 10%.) More momentously, this year's impressive rise for global equities owes some of its vim to a more dovish tone from the Federal Reserve (even if that tone was precipitated by worries over trade and growth).

Yet there was perhaps still greater focus on the ECB last week, as the eurozone's central bank confirmed that quantitative tightening was off the table and that new long-term refinancing operations were now in the mix. It painted an unattractive economic picture, pushing down the EURO STOXX 50. Not all indicators flashed negative, but 2018 growth was cut right down to 1.1%.

However, while the ECB might feel short on tools to address any imminent downturn, there may be reasons for hope. “All three of the eurozone’s largest economies have had, and are still having, quite specific issues, but these may well be wearing off as drivers of sentiment,” said Mark Holman of TwentyFour Asset Management, which co-manages the St. James’s Place Diversified Bond fund. “Holding European credit now while it is priced so much cheaper than the US does not actually feel so bad.”

After its worst December since 1931, the S&P 500 has registered its best start to a year since 1991, despite finishing the week down. Bloomberg data shows that markets are now convinced that Fed rate rises are on hold for the duration of 2019. There was an energy boost for US markets too, as Exxon Mobil and Chevron lifted their output predictions for the Permian Basin, epicentre of the US shale oil industry. (Brent crude slipped below $65 last week, partly in response to the expected rise in shale supply.) But if Donald Trump was pleased, the US trade deficit would have soured his mood – Wednesday figures showed the US trade deficit in goods at a new record in 2018, while Friday saw the weakest US jobs report in months.

The TOPIX in Japan, meanwhile, suffered a meandering descent over the five-day period, despite fourth quarter growth coming in strong at 0.5%, and household spending outpacing expectations. The Shanghai Composite index suffered on the final day of the week – but still ended the week up some 19% for the year. Last week, at the annual National People’s Congress in Beijing, the premier set a lower growth target of 6-6.5% for the year ahead.

TwentyFour is a fund manager for St. James's Place.