Market Update – June 2017

Share prices fall amid uncertainty following the General Election result

The strong run by UK shares came to an end in June as prices dropped by 2.5% over the month. Renewed uncertainty arose in the wake of the general election that resulted in a hung parliament. This represents a setback to Prime Minister Theresa May's plans for a 'hard' Brexit. Sterling fell by more than 2% against the US dollar in the morning after the result, before recovering some ground late in the month after Mrs May negotiated a confidence-and-supply deal with Northern Ireland's Democratic Unionist Party.

Although the Bank of England kept rates at historic lows in June, its Monetary Policy Committee was split over policy and outlook. Members voted 5–3 in favour of keeping rates on hold. Markets were clearly not positioned for such a narrow majority, as the FTSE 250[1] fell 2.1% – its worst one-day slump since last year's Brexit vote.

Measures of consumer confidence fell in June. The weaker consumer sentiment hit shares in retailers with clothing giant Next suffering its sharpest fall since the firm's profit warning in January. JD Sports also produced a poor trading update, which led to a 10% drop in its share price.

The share prices of the largest US companies ended June only a little ahead (in dollar terms) of where they started, while small-cap stocks outperformed. The small overall change in the major large-cap indices masked some considerable volatility. The Federal Reserve increased US interest rates for the second time this year. Explaining the decision, the central bank referred to the decline in US unemployment and said economic activity has been "rising moderately so far this year".

European equity markets were down over June. Belgium, Ireland and the Netherlands were the poorest performers, while Greece, Turkey and Hungary did comparatively well. The share prices of European energy companies fell in line with commodity prices, as the oil price slipped to fresh lows. Meanwhile, Italy's decision to use up to €17 billion of taxpayers' money to bail out two of its most troubled banks provided a welcome boost for financial stocks and the wider market.

Shares in Japanese companies outperformed those trading on other developed equity markets in June, despite some disappointing economic data. Chinese stocks were buoyed by news that A-shares (mainland-traded stocks that were previously relatively inaccessible to non-Chinese investors) would be included in the MSCI Emerging Markets Index[2].

The prospect of bond-buying programmes coming to an end in the Eurozone and the UK caused bond yields to surge dramatically higher in the final week of the month. The yield on the 10-year German bund finished June at 0.47%, with the 10-year gilt yield at 1.26%. The 10-year Treasury yield ended the month at 2.30%. Corporate bonds were once again in strong demand.

The UK property market has been more stable in recent months despite growing uncertainty over Brexit and what it will mean for investors. The industrial sector continues to outperform the other commercial sectors as relentless growth in online retail creates demand for logistics facilities, warehouses and distributions hubs.

Should I make any changes to my investments?

Everyone's circumstances are different and we aren't able to give you advice on what is appropriate for you. As always, if you are considering your own position, you should remember why you invested in the first place and consider the lifespan of your investments. Most importantly, you should seek financial advice before making any changes to your investments.

One way in which you can help reduce the impact of any market volatility is to spread your investments across different asset classes and regions. For more information about investing across different asset classes take a look at our An introduction to diversification in multi-asset funds guide.

Remember that before making any changes to your investments, you should seek financial advice. If you don't have a financial adviser, you can find one local to you by visiting find a financial adviser, which is responsible for promoting financial advice in the UK.

All figures quoted are in sterling terms to 30 June 2017 unless otherwise stated.

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