Market Update – September 2018

US and Japan drive global equities gains

The world's two largest economies, the United States and China, dominated events as a political showdown ended with the United States imposing $200 billion of trade tariffs on China, which retaliated with $60 billion of tariffs on US imports. Despite strained international relations, global equities achieved modest gains, buoyed by US shares and a strong performance from Japanese equities. The MSCI All World Composite Index rose by 0.5% (a gain of 0.1% in sterling) in September.

Brexit uncertainty remained a key factor for UK assets, while European shares and bonds were affected by worries over Italy's budget deficit and debt. Turkey was in the spotlight as it raised interest rates to 24% in an effort to combat soaring inflation and a sharp decline in the value of the lira against the dollar.

In emerging markets, major economic problems affecting Argentina, Venezuela and South Africa had a negative impact. The International Monetary Fund granted Argentina a loan of $57 billion, the biggest in its history, to tackle a currency crisis and rocketing inflation. The MSCI Emerging Markets Index fell by 1.2% (total returns in local currency) and by 0.9% in sterling.
Both the S&P 500 and the Dow Jones Industrial Average were propelled to record highs by a buoyant US economy and strong corporate earnings. The S&P 500 advanced by 0.5% in dollar terms (0.2% in sterling) and even regulatory worries, which sparked falls in major technology shares, failed to halt what is now the longest bull market in Wall Street history. The yield on US 10-Year Treasuries rose throughout September, breaching 3%.

UK shares gained, despite warnings from Bank of England Governor Mark Carney that failure to agree a Brexit deal could have serious consequences for the UK economy. The FTSE All-Share Index rose by 0.7% in terms of total returns. The FTSE 100 Index rose by 1.2% as the index includes a number of major exporters which benefit from dollar gains against the pound.
UK government bonds (gilts) and sterling experienced volatile trading over the month. Sterling fell sharply against the dollar on 21 September when Prime Minister Theresa May said Brexit talks had reached an impasse and the 10-year gilt yield fell three basis points to 1.56%.

September saw mixed indicators for global economic growth. The US economy grew by 4.2% in the second quarter, its fastest pace for almost four years. In Europe, meanwhile, the pace slowed and the European Central Bank (ECB) trimmed its growth forecasts for the 19-country Eurozone to 2.0% in 2018 and 1.8% in 2019. In the UK, revised quarterly data showed that the economy grew by just 0.5% in the first half, its weakest performance since 2011. This was partly offset by news of better-than-expected service sector activity in August. Services account for around 80% of the UK economy.

There was more evidence that central banks are adopting different interest rate policies. The US Federal Reserve increased interest rates to 2.25% in September, the third increase this year, while the ECB held rates steady. The Bank of England (BoE) also kept rates unchanged after an increase in August. The ECB, which is reducing its bond buying stimulus by 50% from October, indicated that Eurozone rates will remain steady through to the summer of 2019. The BoE suggested rates could rise if the economy strengthens. Factors affecting the BoE's next move will include the surprise jump in inflation to 2.7% in August.
Worries over Italy's strained finances, European banks' exposure to Italian debt, and a reduction in Eurozone growth forecasts all weighed on European equities, particularly Italian bank shares. Italy announced a plan to run a budget deficit of 2.4% for three

years, stoking concerns over its national debt, which is 131% of its gross domestic product, the second highest debt ratio in the Eurozone after Greece. The Euro STOXX 50 rose by 0.3% in euro terms (it fell 0.2% in sterling).

An appreciation in the dollar versus the yen helped Japanese equities, as many large exporters will see the value of their overseas sales increase due to the higher value of the dollar. Japan recently overtook China as the second-largest stock market after the United States. The Nikkei 225 Index rose by 5.5% in local currency terms (2.6% in sterling), its biggest monthly gain since October 2017. Japanese shares were boosted by an influx of foreign buyers, which helped drive the Nikkei to a 27-year high. Meanwhile, the FTSE Developed Asia Pacific ex Japan Index declined by 0.5% (0.6% in sterling terms).

Oil prices were the stand-out gainers among commodities. The benchmark Brent Crude price broke through $80 against a backdrop of falling production from key oil-producing nations, including Venezuela, as well as concerns over the effect of US sanctions against Iran on supply and OPEC’s willingness to increase output.

Sources: Financial Express

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 September 2018 unless otherwise stated.

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