Market Update – June 2018

Returns restrained as wary investors eye interest rates and trade talks

Global stock markets were choppy during June, due to increased tensions over trade and conflicting signals from major central banks. Although the net result was that stocks worldwide were little changed overall from the end of May to the end of June (nudging down 0.2% in US dollar terms and up 0.6% in sterling), there were considerable differences in how different countries' stock markets performed. For example, US and Japanese stocks rose while emerging-market, UK and European equities lagged.

Markets keep a close eye on the interest rates set by the world's central banks. In June, the US Federal Reserve (Fed) raised its rate for the seventh time since the end of 2015, to 1.75%-2%, and talked up the economy's prospects, which signalled to investors that a faster pace of rate increases is on the way. The European Central Bank, by contrast, said it would likely keep interest rates at their current level until at least mid-2019. The Bank of Japan also signalled it is likely to maintain its current low level of interest rates for the foreseeable future (meaning they'd continue to make it easy to borrow money). The divergence in global monetary policy helped make the US dollar stronger versus other currencies over the month.

The Bank of England voted to leave interest rates unchanged in June, but comments from Governor Mark Carney were interpreted to mean he may be in favour of higher rates, while Chief Economist Andy Haldane's shift to the group supporting a hike sent a "hawkish" signal that interest rates will be raised. But the impact of the Bank's discussions was lessened by renewed political concerns over Brexit as the month wore on, and doubts grew that the UK government could find a compromise over the customs regime and single-market access that would keep the governing Conservative party united. Sterling dropped over the course of the month, weakening the most against the US dollar. The benchmark FTSE 100 Index, which measures the performance of the 100 largest UK companies, underperformed against global peers, dropping 0.5% over the month (as did the FTSE All-Share, which includes all of the companies listed on the FTSE).

The stronger dollar saw shares in emerging markets fall in June. (Emerging markets are those whose economies are considered to still be developing, such as China, India or Brazil.) Investors tend to assume a stronger US dollar hurts emerging markets, because the debt those countries hold is often in US dollars, making their loans more expensive to repay. In addition, higher US rates appealed to investors who moved back from emerging markets back into "safer" US assets. In addition to these outside forces, emerging markets faced their own difficulties from within. Surprisingly weak manufacturing data from China in June underscored that Chinese authorities' campaign to reform the financial system may be having an impact on the real economy. The Trump administration's rhetoric over alleged abuses of the trade and investment regime by Chinese firms further dented confidence. The Chinese currency recorded its biggest monthly dip against the US dollar since 1994, although it gained for most of 2018 and the drop merely took the Chinese yuan back to its November 2017 level. Chinese stocks also endured a turbulent month; the mainland's benchmark CSI 300 Index dipped 7.7% (in Chinese yuan terms), while Hong Kong's Hang Seng dropped 5%.

Looking at bond markets, global government bonds were generally flat in June, although US yields rose on the Fed's interest rate hike and then dipped back as concerns over trade intensified. Bonds are investments that essentially act as loans, with the investor as the lender. Bonds pay a fixed rate of interest so a bond's yield increases as its price falls and vice-versa. Italian yields fell (prices rose) as the country's new government formed and concerns over near-term political risk eased. UK 10-year bonds, known as Gilts, followed US yields up and then back down again over the month, as the market digested conflicting inputs from the Bank of England and Brexit-related uncertainty.

On the other hand, credit spreads – the difference in yield between government bonds and non-government bonds that are considered lower-quality/higher-risk – generally widened over the month, in line with the overall softer, more risk-averse tone.
Oil prices rose over the month as the market looks ahead to reduced Iranian supply amid intensified US sanctions, while Venezuelan production has suffered interruptions. The meeting of the OPEC producers' cartel in Vienna in June left some uncertainty over whether supply would rise enough to curb further price increases. Prices of copper and steel drifted down, partly on signs of weakening activity in China. Global property had a strong month, with global property equities rising 2.5% in sterling terms.

Sources: Macrobond except equities (FE), metals prices (LME).

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 2018 unless otherwise stated.

The information contained in this article has been derived from sources which we consider to be reasonable and appropriate. It may also include our views and expectations, which cannot be taken as fact.

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