GLOBAL INVESTMENT MARKETS SHOW CAUTION AS CONCERN GROWS OVER SPREAD OF CORONAVIRUS

After an upbeat ending to the fourth and final quarter of 2019, in which most global equity indexes posted double-digit returns, global investment markets demonstrated less appetite for risk in the first month of the new year.

The outbreak of coronavirus emerged as a source of concern for investors, offsetting the optimism about the US-China trade deal, which had already been ‘priced in’ to markets (meaning that share prices had already reflected the news). At the time of writing (5th February) more than 24,000 people had been infected in mainland China, with dozens of confirmed cases also being reported across Asia, as well as isolated instances in North America, Europe, and Australia. Considering the cancellation of flights, conferences, and business travel, the economic impact of such a quarantine can be significant – hence a shift away from equities and to ‘safe haven’ assets, including bonds, the Japanese yen and US dollar.

Encouragingly, however, fears of a near-term recession appeared to lessen, with global economic data continuing to show signs of improvement and central banks – e.g. the US Federal Reserve (Fed) and the European Central Bank (ECB) – expected to further extend policies intended to encourage economic growth.

Overall for the month, US Treasury and euro bonds showed the largest returns. Equities generally were down, with the S&P 500 ending January much where it started, and emerging markets losing the most.

UK

Following a period of investor enthusiasm in December over the results of the general election, the possibility that the UK may still see a ‘hard Brexit’ returned. The UK has until the end of this year to negotiate a new free trade agreement with the EU, and the element of risk and uncertainty that remains led to a rocky month for sterling. On the positive side, the economic data released in January showed solid improvement in terms of employment growth and manufacturing numbers. Both the FTSE 100 and more domestically focused FTSE 250 indices lost 3.3% for the month.

US

The news of a ‘Phase One’ trade deal buoyed equity markets around the world in December, but as is often the case after the festive season, January brought with it a dose of cold reality. While the mid-month signing of the deal was certainly welcome, the fact remained that the tariffs that remain in place are significant, and the US and China trade representatives will have their work cut out in the next round of negotiations. Economic growth appeared to remain steady, with data released in January showing Q4 annualised GDP growth of 2.1%.

While manufacturing has been weak, the services sector and consumer sentiment remained positive, and corporate earnings for the quarter have been better than expected. The FTSE North America index was up 0.3% for the month in USD terms (0.7% in GBP).
EUROPE
Economic growth in the Eurozone remained sluggish but positive, with GDP coming in at 0.1%. Equities were down by 1.6%, as measured by the FTSE Developed Europe (excluding UK) index, especially those sectors most affected by interdependence with China. Inflation moved higher but remains well below the ECB’s target of 2%. Manufacturing data showed significant improvement in January (according to the Eurozone Markit Composite PMI data released on 5th February).

ASIA AND EMERGING MARKETS
Despite the initial enthusiasm over a US-China trade deal, Asian and emerging markets were down in January on fears of the economic impact of the coronavirus. The FTSE Japan index lost 1.2%, the FTSE Asia Pacific (excluding Japan) index fell by 3.2%, and the FTSE Emerging index was down by 4.1% in total returns sterling. As Chinese authorities delayed the reopening of factories after the lunar new-year holiday, the region saw a knock-on effect in manufacturing and subsequent commodity demand. Emerging economies were further hampered by currency weakness.

GLOBAL BONDS
In a more risk-averse market environment, yields on global government bonds generally fell (i.e. prices rose). Yields on corporate bonds also moved lower overall, although with the exception of UK corporates, they underperformed government bonds. The US Fed, the ECB, and the Bank of England all left interest rates unchanged and are not expected to make any significant rate changes in the near future.

COMMODITIES
The price of Brent crude oil fell 11.9% in January as demand weakened. Industrial metals and agricultural commodities also moved lower while on the positive side, gold and silver prices ended the month higher.

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