Market Update – June 2019

Financial markets boosted by the increasing chances of central bank rate cuts

Despite being dogged by ongoing political uncertainty, financial markets saw strong returns in June as expectations of central bank stimulus in the second half of the year boosted investor sentiment.

The politics that have so far dominated financial markets in 2019 continued with their familiar themes. Trade tensions were very much to the fore. At the beginning of June the chances of the US and China reaching an agreement on trade seemed remote, then US president Donald Trump dialled up the tension by threatening Mexico with tariffs of up to 25% on all its exports to the US if it failed to crack down on illegal migration.

The swift resolution to the dispute with Mexico provided a boost for US equity markets and the US/China relationship continued to thaw in the run up the G20 summit, held at the end of the month in Japan. The summit ended with a commitment from the US and China to freeze tariffs and restart trade negotiations.

The brighter outlook for international trade saw Chinese and US equities finish the month strongly, with the Chinese CSI 300 Index closing up 5.5% and the US S&P 500 Index closed up 6%, both figures are based on total returns in sterling.

The trade outlook was only part of the story for the US equity markets, as a change in the US Federal Reserve’s attitude to interest rates was just as significant. The US Fed held its main rate of interest at its June meeting. However, the consensus view amongst investors is now for two interest rate cuts in 2019 to offset a slowdown in economic growth and a downturn in consumer confidence. Expectations of more monetary stimulus helped boost share prices across the board.

European stock markets saw even stronger returns. The European Central Bank also kept its interest rates on hold at its June meeting, but towards the end of the month it signalled it was prepared to cut rates and restart its programme of buying government and corporate bonds to kick-start the Eurozone economy. ECB president Mario Draghi said slowing growth and stubbornly low inflation meant the bank would do everything in its mandate to move inflation towards its target level. This caused the euro to weaken against the dollar and provided support for equities. The Euro Stoxx 50 Index ended the month up 7.3%, based on total returns in sterling.

In the UK, the competition to take over from Theresa May as Prime Minister and leader of the Conservatives began in earnest and quickly narrowed the field to two candidates. Former Foreign Secretary Boris Johnson will face Jeremy Hunt, current holder of that post and former health secretary, in a series of hustings with the winner expected by the end of July.

The tone of the leadership race has seen the Conservative party harden its approach to Brexit, as both candidates appeared increasingly willing for the UK to leave the EU without a deal on 31st October. This has seen the pound fall to its lowest point against the dollar and euro this year.
The drop in sterling usually provides a boost to the FTSE 100 Index. Its constituent companies derive a large portion of their earnings overseas and a fall in the pound means these overseas earnings are worth more. The FTSE 100 did outperform the FTSE 250 Index over the course of the month, but both indices lagged behind European and US equity markets. The FTSE 100 ended the month up 4% and the FTSE 250 was up 2.9% on a total returns basis.

The prospect of central bank stimulus in the US and EU also provided a shot in the arm for bond markets. Speculation about central bank interest rate cuts makes government bond yields more attractive in comparison and has helped to push up demand. The ECB promise to restart its programme of buying bonds has also helped to boost demand for EU government debt. European government bonds were the best performers in fixed income. The IBOXX Euro Sovereign Bond All Maturities Index ended the month up 3.5%.

US Treasuries fared well, with the yield on 10-year Treasuries falling below 2% for the first time in more than two years. Bond yields move inversely to prices, so an increase in the price of bonds pushes down the yield.

The Bank of England currently has a different attitude towards interest rates. It also held rates at the June meeting of the Monetary Policy Committee, but governor Mark Carney warned that he expects the bank to raise interest rates to combat rising inflation. This saw UK government bonds increase only very slightly over the month, significantly lagging behind US and European equivalents.

In other markets, gold and oil also fared well this month. Growing political tensions in the Middle East saw the price of gold rise 8% to reach its highest value in five years. The worsening of relations between the US and Iran also exerted upward pressure on the oil price, although this was offset by fears that a slowdown in global economic growth is beginning to choke off some demand. The price of a barrel of Brent Crude ended the month at $64.74, almost $3 a barrel up on its starting value for June but still some way short of its 2019 high of $74 a barrel.
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 2019 unless otherwise stated.

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