Market Update – September 2019

Hopes for an improved trade outlook help boost equity markets in September

After posting negative returns for August, global equities generally staged a modest comeback in September, amid optimism for a resolution to the US/China trade dispute and the diminished prospects of a ‘hard Brexit’. The MSCI All-Country World Index, a measure of global stock market performance, gained 2.2% in local currencies and 0.9% in sterling.

It was a dramatic month for Prime Minister Boris Johnson, during which his attempt to suspend Parliament was ruled unlawful and MPs passed legislation to avoid leaving the EU without a deal. UK equities posted positive returns, reacting positively to the increased likelihood that a no-deal Brexit can be avoided. The large-cap FTSE 100 had a total return of 3.0% in sterling, while the FTSE 250 gained 3.1%.*

What will happen on the October 31 deadline, however, is still shrouded in uncertainty, and a general election looks increasingly likely by the end of the year. Whatever the outcome of an election or negotiations with the EU, the political situation remains tenuous and even if a deal is agreed in October, markets won’t have clarity on the future relationship between the UK and EU and how it will all affect Britain’s economy.

The UK’s second-quarter Gross Domestic Product (GDP, a common measure of a country’s economic growth) was -0.2%, making the one-year growth rate 1.3% (for the year ending 30 June 2019). It was the first time since the last quarter of 2012 that the UK had a negative quarterly GDP reading. Household spending remains strong and inflation is on target, amid a tight labour market. The Bank of England (BoE) indicated during the month that it would be likely to keep interest rates unchanged until some of the Brexit-related political and economic uncertainty has cleared.

The BoE’s central bank counterpart in the US, the Federal Reserve Bank, cut its target interest rate in September, for only the second time since the global financial crisis a decade ago. Economic data reported during the month indicated the US economy remained fairly strong, but investor nerves kept equity returns muted. Towards the end of the month, the announcement that the House of Representatives (one half of the US Congress) was opening an impeachment inquiry against Donald Trump knocked markets back, while the perceived threat that the US may limit investment in China renewed jitters around the long-running trade dispute. For September, the broad-based S&P 500 Index had a gain of 0.6% in sterling terms (or 1.8% in US dollars).

The European Central Bank also took a more accommodative stance, lowering its already-negative interest rate to -0.5% (from -0.4%) and announcing it would reinstate its bond purchase programme in an effort to stimulate the Eurozone’s economy and hit the inflation target. European equities had a positive month, with the STOXX Europe 50 returning 4.3% (total returns in euro, or 2.0% in sterling).

Emerging markets (whose economies are still considered to be developing) gained 1.2% when measured by local currencies, or 0.0% in sterling, an improvement from July and August. However, the third quarter overall was not a strong one for the emerging markets, which have significantly underperformed developed markets to date in 2019. The fallout from the ongoing trade dispute
between the US and China and a generally slowing global economy have had a disproportionately negative effect on developing economies.

Conversely, as investors supported the riskier end of the investment universe, government and corporate bonds – in the UK and elsewhere – had more restrained performance. The broad-based bond index, the Bloomberg Barclays Global Aggregate, was down for the month; the ICE BofAML UK Gilts All-Stocks Index (which tracks UK government bonds) was up 0.5% and the IBOXX UK Sterling Non-Gilts gained just 0.1%.

*Source: FE Analytics. All index returns are quoted in total returns sterling, unless otherwise specified.*
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 2019 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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Financial Services Register number 181655.