Realm Investment Management Market Update - April 2019

Markets recovered somewhat in the first quarter of 2019 following a severe sell-off in the final quarter of last year which was caused predominantly by fear that the trade war between the U.S. and China would escalate, that the Fed would increase interest rates further and by worries over a slowdown in global growth.

Below we look at some of the most important factors that investors are focused on and how they might have an impact on markets going forward.

Brexit

The Bank of England has kept U.K. interest rates on hold due to the Brexit uncertainty and mixed economic data. The latest deadline for us to leave the EU was 12th April, but this has been extended to 31st October which means the U.K. is likely to hold European Parliament elections in May. Thankfully, it also means the prospect of a no-deal Brexit has been averted. Theresa May is still promising an "orderly" exit and says that if the deal agreed with the EU was to be passed, the UK could leave the EU "as soon as possible".

The Pound

Of course, every twist and turn in the Brexit drama continues to translate into ups and downs for the Pound. "How" (even "if") the UK leaves the EU will send the Pound sharply one way or the other. We stick with our technical view for GBPUSD that price above 1.3130 is a strong position but below that level implies weakness. A fall in the Pound isn't necessarily a negative for UK investors as overseas investments will benefit from a fall in sterling relative to the local currency of the investment.

U.S. Interest Rates

With the U.S. being by far the most important global stock market, Fed announcements and the direction of U.S. interest rates is of great concern and has a real influence on the market. At the end of last year, the expectation was for higher interest rates in 2019 and this was seen as a negative for equity markets. However, the U.S. Fed surprised early in 2019 by saying they were now in a "wait and see" mode and the market now expects there will be no rate rises until late 2020 and may even reduce rates.

By "wait and see", the Fed mean they will be monitoring the economy closely and paying close attention to companies as they announce their first quarter earnings reports over the next few weeks. The first of which we have already seen in the banking sector, which have been positively received by the market. The outcome of these reports will be an important factor in terms of investor confidence. We see the U.S. as fairly valued right now and any upward revision would be an important element in allowing the markets to make further progress.

Global Growth

Data indicates that global growth is undoubtably slowing. The IMF recently cut their forecast for world economic growth along with the statement that the global economy is slowing more than expected. Even so, leading indicators do not suggest an imminent recession in the U.S.

U.S. / China Trade Dispute

The general view now is that there will be a resolution to the dispute. There's been posturing on both sides but there seems to be a desire for it to happen. The U.S. hardline stance was damaging business sentiment, and this has softened considerably over the last few weeks. Also, with Trump thinking ahead to the 2020 Presidential race, a meeting with Chinese President Xi and a "great deal" would provide a big positive for his campaign. A positive outcome is now the expectation of the market and it has to be said that an upset here probably wouldn't be received well.

Bonds

As mentioned above, following recent announcements from the Fed, markets now expect there will be no rate rises until late 2020 and may even reduce interest rates which strengthen the case for Bonds. Gilts have performed well this year, as have Index linked Bonds and Sterling Corporate Bonds. All of which are reflected in our current asset allocation.

Summary

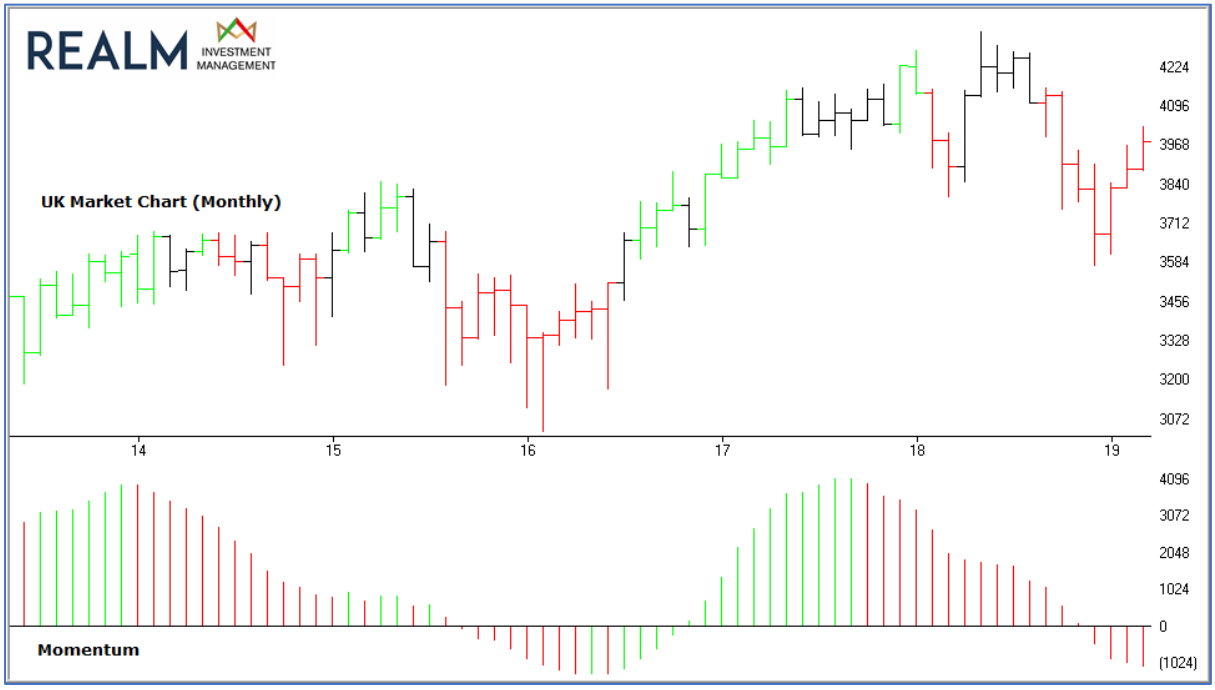
Despite the potential pitfalls cited above, market sentiment is improving and although there may be further challenges this year, we are optimistic. Markets have rallied and our weekly Breadth and Momentum indicators have picked up with positive readings for the U.K. and the U.S. Our Risk Barometers have also improved. Hopefully our indicators will also improve on the monthly timeframe and we include monthly versions of the charts below shown through end of March.

Finally, and to close this month's summary, let us reassure you that we will remain vigilant (as always), monitoring risks, and prudently making changes to our portfolios if we feel it necessary to do so.

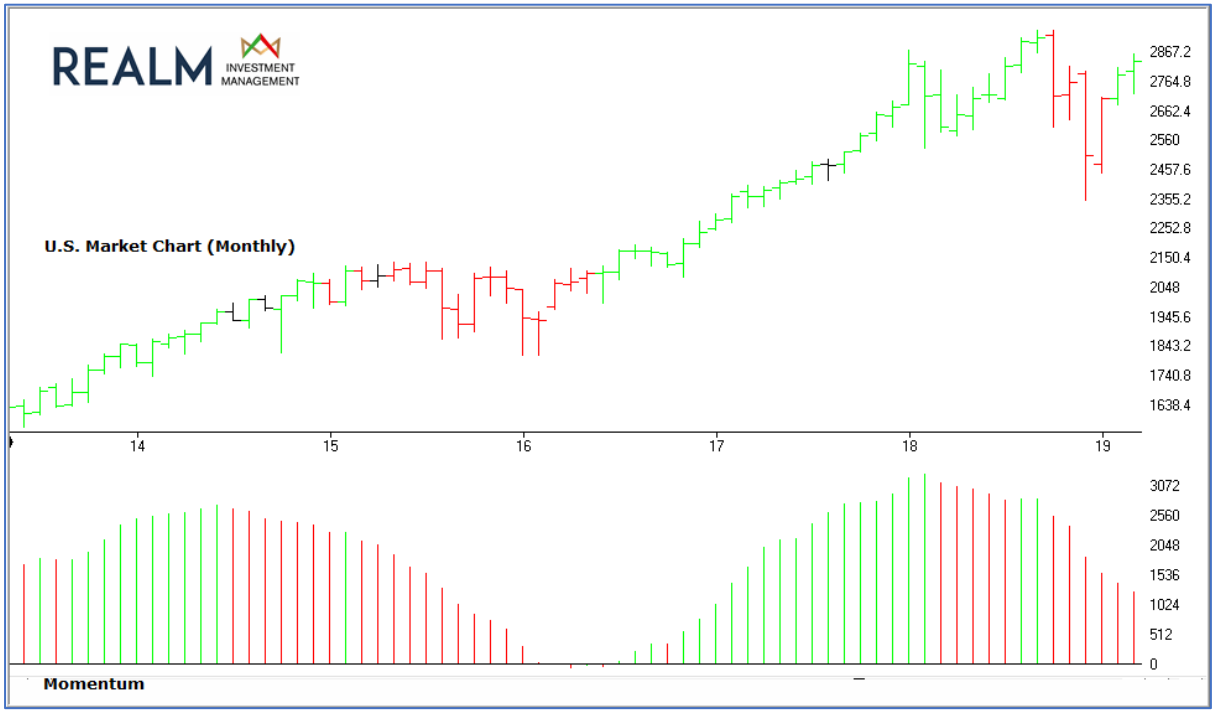
We hope you have found this latest update of interest. Thank you for reading.

CHARTS

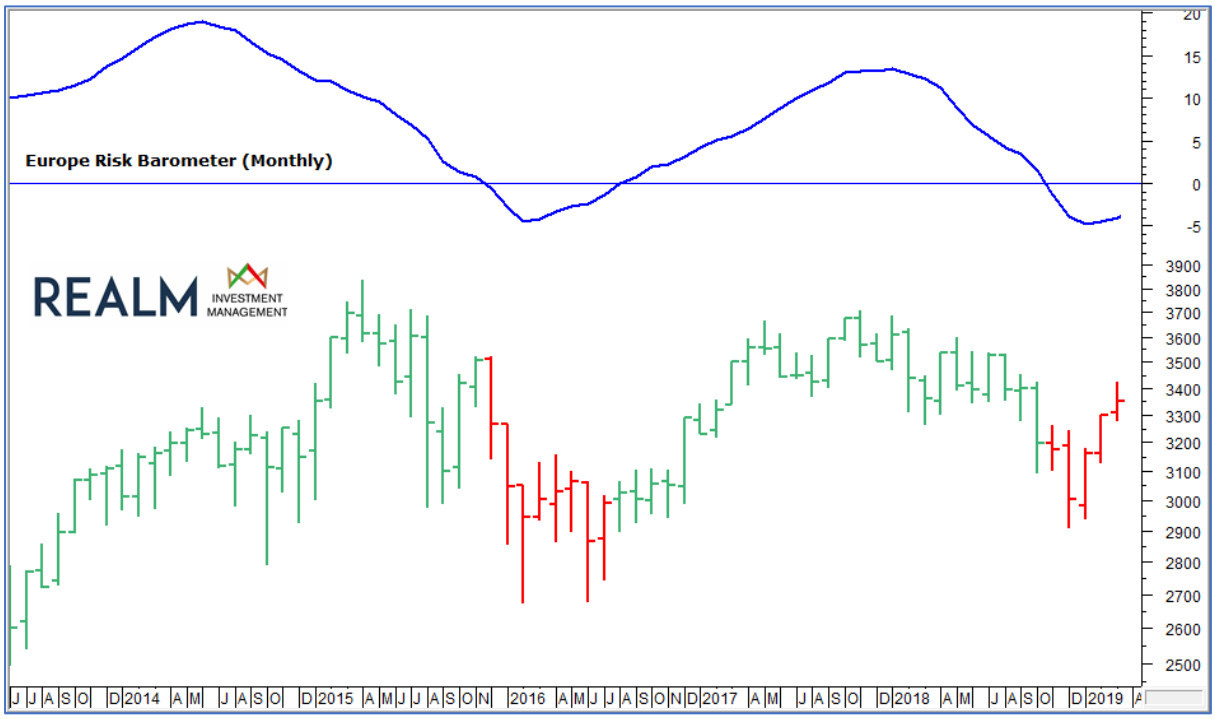
U.K. Market Chart



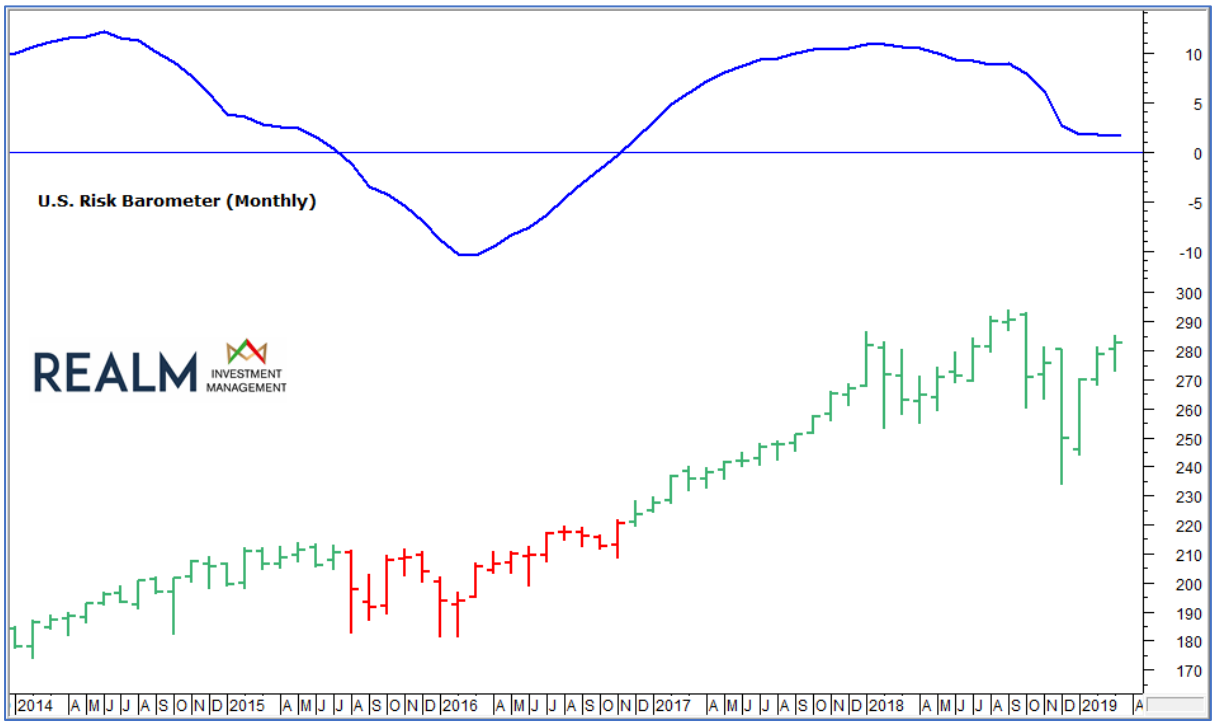
U.S. Market Chart



Europe Risk Barometer



U.S. Risk Barometer



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