Realm Investment Management Market Update - December 2019

THE GENERAL ELECTION AND BREXIT

As you know, we emailed you on the morning after the Election with an investment update following the landslide victory for Boris Johnson and his "Get Brexit Done" campaign. We also explained that as this was such a significant political event, we decided to delay our monthly update so we could take account of the investment market reaction to the outcome.

We wrote last month that "even if the outcome appears to be market negative, the fact that the UK could move to a less uncertain position may attract new buying interest and provide a boost for the market." We also wrote that if the "Conservatives win the election with an increased majority, markets would be relieved and the Pound and stocks would likely rally."

Immediately following the Election, the pound rose to its highest level since May 2018 and the Gilt market sold-off. UK stocks rallied, with the FTSE 100 breaking above 7418, a key technical level at its fourth attempt since August. Though in the last few days we have seen some of these early gains retrace as the markets come to realise that there is still much to negotiate on before we can agree a trade deal with our European partners.

As you may well know, U.K. equities have under-performed other global regions since the Brexit referendum. An optimistic view is that with the much-needed clarity that the election result brings, we could see a big improvement in that relative performance.

Now that the Conservatives have won a landslide victory, Parliament is expected to vote this Friday (20th December) to ratify the Brexit deal. Thereafter the focus will be on negotiating the U.K.'s future trading relationship with the E.U. Logic would imply that the progress of UK stocks will be closely linked to how well (or otherwise) Johnson's cabinet team can successfully negotiate with the Europeans over a future trade deal. A process which could become very complicated and following comments from Europe earlier this week, extremely protracted.

Our monthly UK Market Chart is shown below. On this longer-term timeframe, our Breadth indicator improved in November, from negative to neutral (black), and our Momentum indicator ticked up.

THE POUND

Prime Minister Johnson has insisted a new trade deal with the EU will be done by the end of 2020 and he will not want to see that deadline extended. EU officials have responded by stating that this will be difficult. On this development the Pound has given back the gains it made last week and GBPUSD is currently printing back below 1.32, an important technical level that we have discussed previously. We will be watching the Pound closely for signs of further weakness and will respond accordingly.

U.S.

There were signs in November of improved business sentiment with the US PMI (purchasing managers index) indicating increasing activity. That, along with a generally improving view that the U.S. and China will reach a 'phase one' trade deal, and an increase in M&A activity, helped lift U.S. stocks higher.

Our U.S. Market Chart through end of November is shown below. Again, this is a monthly, or longer-term view. Our U.S. Breadth Indicator turned positive (green) in November and our Momentum Indicator ticked higher again. You can see from the chart that the U.S. market is currently close to its high, underlining its strength relative to other regions. As the leading Stock market, the U.S. needs to be monitored closely for signs of weakness.

GLOBAL EQUITIES

Global equity markets were generally higher through November and into this month, mainly on hopes of a preliminary U.S./China trade deal,

although for UK investors gains were curtailed by strength in the Pound. Safe-haven assets like Global Bonds and Gold were flat or lower and there seems to be a growing optimism that global growth will start to improve again.

Eurozone equities rose, supported by some improving data from the manufacturing sector. Christine Lagarde took over as president of the European Central Bank.

In Japan the quarterly reporting season indicated that the recent slowdown in earnings may be coming to an end. As mentioned, we added a position in Japanese equities in November, having seen continued improvement in our relative strength ratings for the region over the last few months.

FIXED INTEREST

Bond markets reflected a risk-on view as government bond yields rose (and prices fell). Risk assets have been helped by continued stimulus from central banks although the U.S. Fed is keenly resisting pressure to cut interest rates again. With three cuts this year, indications are there will be no more in the foreseeable future. Jerome Powell, the Fed chair, stated that "the current stance of monetary policy is likely to remain appropriate". The market now expects just one more interest rate cut in 2020.

At its November meeting, the Bank of England left policy rates unchanged, although with the strength of the labour market there may be more calls in the future for a hike.

Christine Lagarde, the new president of the ECB (European Central Bank) has made little comment, so far, on future monetary policy, instead using her first major speech to urge governments to boost public investment.

SUMMARY

Whilst the main focus for global investment markets remains the U.S./China trade talks, here in the U.K. our stock market and currency will be greatly influenced by our own trade negotiations throughout the next year with the E.U.

Regarding the U.S./China negotiations, there is always a risk that these could fail, and markets will be disappointed, but there appears to be an expectation that a "phase one" deal can be reached soon. As we have written before, President Trump will not want to go into his campaign for re-election with a record of low growth and should a preliminary deal become a reality it could boost risk assets further.

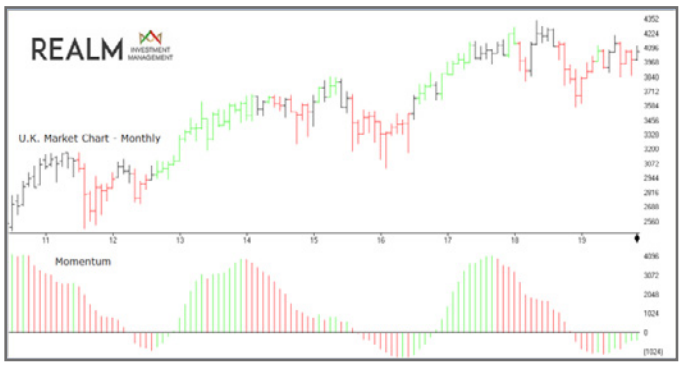
Continued support from central banks and improving global manufacturing data are helping the optimistic tone.

Lastly, when reviewing our Market Sentiment readings, there is little evidence to suggest that Stockmarkets are getting over-heated, which would indicate that there is still more room for investors to allocate to stocks.

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

Further weekly research can be found here.

U.K. MARKET CHART - MONTHLY



U.S. MARKET CHART - MONTHLY