



# Realm Investment Management

## Market Update - February 2020

January started off well for the markets, continuing the bull run of December on the back of promising economic surveys and recovering economic indicators. This was led by the U.S. which showed resilience and improvement, both in consumer and non-manufacturing corporate data. Manufacturing data remained weak. The general consensus was that the period of softness in the global economies was coming to an end and this was reinforced by good progress on the trade dispute between China and the U.S. where the "phase one" agreement was signed reducing tariffs on goods on both sides. The gains made in early January were given up in the second half of the month though, as the spread of coronavirus reduced the appetite for risk and investors sought "safer havens" like government bonds, the Yen and Gold.

### U.K.

The situation in the UK has held up well given the uncertainty which the Brexit decision caused for industry. Nevertheless, a pronounced weakness of corporate investment has taken place and the economy has been held up by surprisingly stable consumer demand. Whilst retail sales were slightly disappointing at Christmas (particularly for the high street) this could well have been caused by on-line competition which has slightly changed shoppers timing of purchases. The service sector is also worthy of note as it has held up well in January and did during all of 2019. Inflation has remained under control at just under 2% and the bank of England has indicated its flexibility in supporting the economy. Interest rates were kept on hold although the BoE is ready to cut them if the post-election bounce in confidence loses momentum.

The UK's official departure from the EU came at the end of the month and we now enter a transition period until the 31st December by when it is hoped a trade agreement will be signed. As the year develops, we will have to closely follow trends to see if they indicate any risk of a change in the shape and development of the economy.

Our monthly UK Market Chart is shown below. On this longer-term timeframe, our Breadth indicator turned negative (red) in January, but our Momentum indicator ticked up again.

### U.S.

The U.S. stock market was flat in January, again showing its relative strength compared to other regions which were generally down. The U.S. assassination of Iran's top general, Qassem Suleimani, at the beginning of January saw equity markets step back on fears the dispute would escalate but a subdued response from Iran and the signing of a "phase one" trade agreement between the U.S. and China saw equities rally back.

Employment figures remain good with unemployment continuing to fall in line with expectations or maybe just better than expectations. Inflation is rising due to tariffs, but the Fed considers this a temporary feature due to the trade war and feels this will naturally drop out as the year goes on and the tariffs are settled. We conclude that data has been promising and the US economy has remained robust, but earnings need to move ahead to justify current valuations which are high.

Our U.S. Market Chart through end of January is shown below. Again, this is a monthly, or longer-term view. Our U.S. Breadth Indicator turned neutral (black) from positive (green) in January but our Momentum Indicator ticked higher again. You can see from the chart that the U.S. market has been reaching new highs, 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

Asia, Emerging Markets and Japan Sectors were hit hardest in January as the spread of coronavirus gathered momentum and concerns increased over its impact on global growth. Not enough is known about the virus, but we do know that its economic effect has already caused manufacturing in China to weaken significantly. Chinese economic performance is already suffering with the consensus being that 0.4% has already been wiped out of GDP for the year. Energy demand is down by 25% in China and the price of oil has been badly affected. The virus has also had a significant negative impact on overseas companies operating in China.

European equity markets had a negative month as well, generally lower by about 1%. Companies with significant exposure to China were hardest hit. European employment data remains encouraging and inflation remains well below the ECB's target but ECB President Christine Lagarde warned that the "low interest rate and low inflation environment has significantly reduced the scope for the ECB and other central banks worldwide to ease monetary policy in the face of an economic downturn."

## FIXED INTEREST

Government yields fell in January as lower risk assets were sought by investors, and bond prices rose. Overall, U.S. economic data remained healthy and the Federal Reserve left rates unchanged (as did the European Central Bank and Bank of Japan). The Bank of England also kept rates unchanged and said it expects inflation to remain below target for the next two years. All our Bond Sectors were higher over the month.

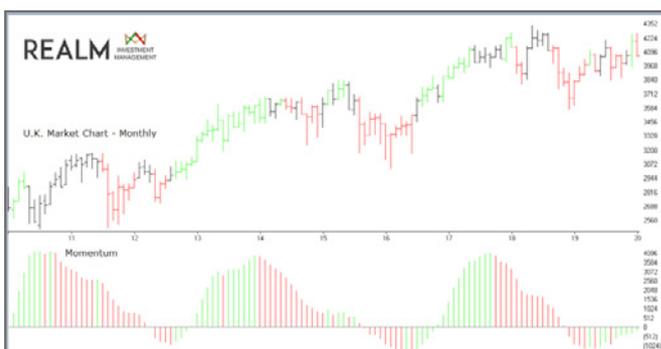
## SUMMARY

Economic data across regions continued to show signs of improvement and, with major central banks set to remain accommodative in the coming year, near-term recession fears appear to be subsiding. There will likely be volatility until a clearer effect of the coronavirus is forecast but if the situation stabilises and economics remain intact, there are likely to be further advances in markets. These will be in the manner of a rebound in discounted areas and further advances in growth areas such as technology which has so far ridden out the virus concerns well.

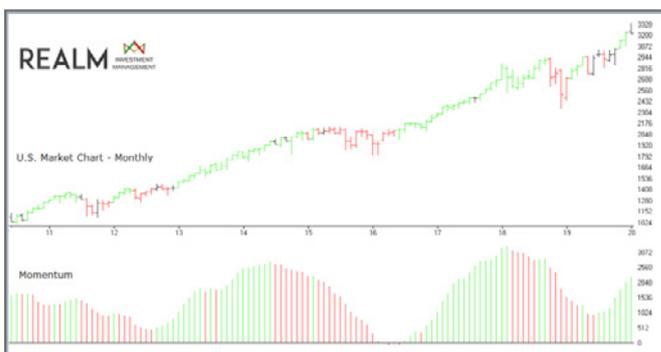
We hope you have found this latest update of interest. Thank you for reading.

Further weekly research can be found [here](#).

## U.K. MARKET CHART - MONTHLY



## U.S. MARKET CHART - MONTHLY



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