Realm Investment Management
Market Update - November 2019

In October, most regions held onto the equity gains that were made in September, with the U.S. once again back at its highs. U.K. equities under-performed, largely due to a strong rebound in the Pound due to diminishing fears about a no-deal Brexit. The International Monetary Fund has lowered its forecast for growth in the world economy to its lowest level for ten years with weakening manufacturing data and ongoing trade wars. This has prompted central banks support with the US Fed cutting interest rates for the third time this year.

For UK investors the general election and Brexit remain paramount. Globally, the focus is still on the U.S./China trade dispute. We focus on these issues below.

THE GENERAL ELECTION, THE POUND AND BREXIT

UK equities underperformed in October with the FTSE 100 down nearly 2%. This was largely due to a strong rally in the Pound which weighed on large-cap companies with high overseas earnings and the fact that international and institutional investors have been avoiding UK stocks because of uncertainty over Brexit and the political situation

Taking an optimistic view it is quite possible that the UK's political instability or the Brexit uncertainty, or both issues, will be resolved on 12th December and 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.

Regarding the election, the three most likely outcomes would be as follows:

Conservatives win the election with an increased majority. Markets would be relieved by this result and the Pound and stocks would likely rally. Mid and Small-caps would be expected to out-perform Large-caps.

A Labour election victory would usually be expected to receive a negative reaction from the markets. But this outcome would dramatically increase the odds that the UK will not leave the EU at all and it is possible that the Pound (and stocks) could even rally on this result. With sterling strength, UK Large-cap stocks would probably under-perform.

An outcome in which there is no party with a clear majority could be the one that markets respond to most negatively and although the Prime Minister has vowed not to extend Brexit beyond the new Jan 31st deadline, another hung parliament could see a further delay.

A relief rally, should it occur, may be short-lived anyway. The real problems for the UK may begin with the negotiating of permanent trade relationships with the EU and the rest of the world. Any hold-ups could give businesses new reasons to hold off on much-needed investment which may well dampen consumer demand, and the service industry. Although much of this has already happened, the fall in GDP which we have witnessed is likely to remain. i.e. there will be no immediate bounce back apart from maybe a short-term relief factor as borders and supply chains with Europe are re-established. Indeed, this is the one area that companies have already been able to plan for. Nevertheless, it need not be a disaster given that the UK is, by any measure, still in the top ten by size of GDP globally.

UK equity valuations are standing at a twenty per cent discount to other developed equity markets, in some cases almost half in terms of yield. Therefore, the risk is more than discounted. This is particularly the case in the FTSE 100 where above 70% of earnings are derived overseas. Our monthly UK Market Chart is shown below. On this longer-term timeframe, our Breadth indicator stayed negative (red bar) in October but our Price Momentum indicator, although still negative, did tick up again.

U.S.

US equities rallied in October as trade negotiations with China seemed to improve. This was a welcome development for markets, but we know that tensions between the two countries can escalate again very quickly. Moves to impeach the President continued, further adding to uncertainty. Data suggests that the US economy is losing momentum, but an imminent recession still seems unlikely. Weakness is most apparent in the manufacturing sector but there is now evidence this is spreading to the wider economy with consumer confidence falling in October and a slowing pace of job growth.

Our U.S. Market Chart through end of October is shown below. Again, this is a monthly, or longer-term view. Our U.S. Breadth Indicator remained neutral (black) in October and our Momentum Indicator ticked higher again. You can see from the chart that the U.S. market is currently close to its 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.

FIXED INTEREST.

In the U.K. the direction of interest rates remains uncertain and is still very dependent on Brexit. The UK 10-year yield was higher last month on increasing optimism over the outcome, but the bank of England is hamstrung on monetary policy and cannot move until it sees the real effect post-Brexit. Interest rates remain much higher than other developed countries and valuations of equities and gilts reflect this.

Generally, government bond yields rose in October and most Bond sectors fell. Corporate bonds outperformed government bonds with UK Gilts and particularly Index Linked Gilts, falling the most (we removed our Index Linked exposure in September). High Yield was a positive sector in October.

As mentioned, the U.S. Federal Reserve cut interest rates for a third time this year, but investors were disappointed by the Fed's indication that this would be the last cut for a while.

European government yields were also higher. Christine Lagarde took over the Presidency of the European Central Bank (ECB) from Mario Draghi. She has seemingly little ammunition left with which to stimulate the economy with QE running at 20 Billion Euros a month and interest rates at -0.5%.

SUMMARY

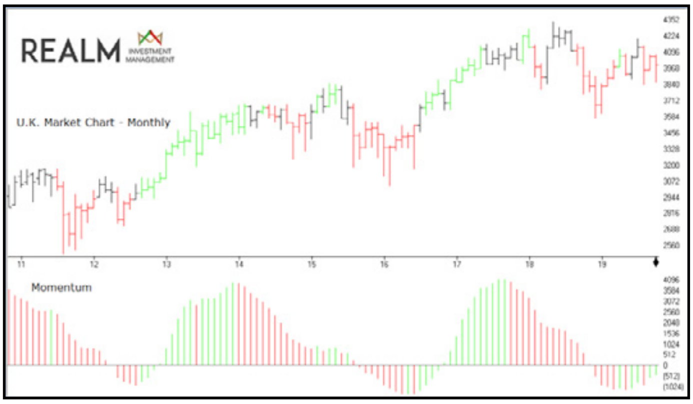
There remain many political and geopolitical tensions that could trigger a volatility event in the markets. At the same time our market sentiment indicators are measuring a very low expectation from investors that this will happen imminently with speculators currently betting heavily against such an event. That combination would normally be a warning sign to many analysts, but an overriding factor is the apparently improving situation between the U.S. and China.

The latest survey from BofA Merril Lynch, shows that the U.S./China trade war remains the biggest concern for fund managers. Global growth has been hampered by the dispute, as evidenced by the forecast of 3% from the IMF in October, the lowest rate in ten years. Maybe the recent efforts to agree a truce (for now) is a response to this and October saw the two countries agree the framework of a possible mini trade deal. President Trump will not want to go into his campaign for re-election with a record of low growth and should his "Phase One Trade Deal" become a reality it could trigger a further rally for 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



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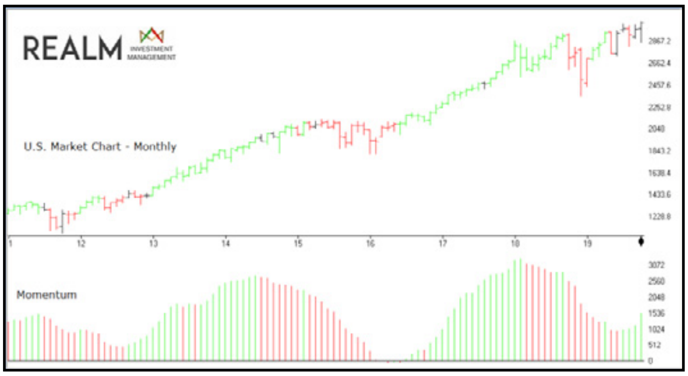

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