Realm Investment Management
Market Update - October 2019

Following weakness in August, September saw Stock Markets recover somewhat despite further concerns over trade wars and slowing global growth, political issues and ongoing uncertainty over Brexit. The FTSE100 was up more than 2% during September as were all major Global markets which gained through the month.

U.K. AND THE POUND

We are now just weeks away from the Brexit deadline and events are moving rapidly, making it difficult to make an appraisal for the month of September when compiling this update.

The Brexit deadlock continued through September. Parliament passed legislation that forces the government to seek an extension if a deal with the EU cannot be agreed. Boris Johnson suspended parliament, but this was subsequently ruled unlawful by the U.K. Supreme Court.

The Pound rallied from early September but started to weaken again late in the month. There was renewed hope that a deal could be reached when Johnson met the Ireland Taoiseach Leo Varadkar last week which triggered a strong rally in the Pound. We should expect more volatility in the Pound between now and the deadline as events unfold.

Our monthly UK Market Chart for September, shown below, does not look too favourable which is why we remain under-weight UK equities. On this longer-term timeframe, our Breadth indicator stayed negative (red bar) in September but our Price Momentum indicator, although still negative did tick up.

U.S.

The U.S./China trade dispute remained the primary risk factor for the markets through September. The impact of the dispute on the global economy became apparent with forecasts for growth moving lower, notably in Japan and Germany. Talks between the U.S. and China were renewed last week and ended with a partial trade accord which helped lift Stockmarkets.

On the political front there wasn't much good news for Donald Trump at home with the announcement of a formal impeachment inquiry, the claim is he has abused his power to help his re-election.

The US Federal Reserve (Fed) cut interest rates again in September citing "uncertainties" about future growth and saying that the cut was to shore up the economy. A disappointing jobs report showed that 130,000 jobs were added last month, compared to a poll by Reuters which showed economists had expected an increase of 158,000.

Our U.S. Market Chart for the month of September is shown below. Again, this is a longer-term view on the U.S. Stockmarket. You will note that the Breadth Indicator improved in September, turning neutral (black) from negative (red) 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 Global Stock market, the U.S. needs to be monitored closely for signs of weakness.

OVERSEAS EQUITIES

There was a clear rotation in September from Growth to Value stocks such as the energy and financial sectors which have been lagging the broader market. This was the biggest such shift since the financial crisis began and there is plenty of talk about a "sea change" but we would want to see more evidence that this theme can be sustained.

In our Relative Strength analysis, the U.S. remains strong justifying our ongoing overweight

position. Our general Global Markets sector along with Europe as a region have weakened but not enough to trigger any action yet.
The biggest improver in our analysis is Japan. We wrote last month that we had Japan "on watch as a potential area for investment should conditions improve". For the first time this year Japan has now moved high enough in our Relative Rankings to warrant our interest. We will take a position if Japan continues to strengthen and global markets generally pick up more from their August lows along with an improvement in our overall market indicators.

FIXED INTEREST

Nearly all Bond sectors declined in the early part of September as government bond yields rallied off their August lows in response to perceived signs that the global economy may be healthier than previously thought and the possibility of improvement in the US/China trade talks. However, Bonds reversed higher by mid-month as these themes seemed to fade.

The Policy Committee at the Bank of England voted unanimously to keep the base interest rate on hold but indicated that a rate cut could happen in the event of a no-deal exit from the EU.

As mentioned above, the U.S. Fed did cut interest rates further in September, attempting to shore up the economy as growth slows. Currently the market is anticipating three further cuts over the next two years.

With continuing signs of slowing growth in Europe, the departing leader of the ECB, Mario Draghi, announced a new stimulus package to support the EU economy including new quantitative easing measures.

As we have written in previous summaries "Bonds have rallied strongly this year and in a technical sense are overbought but we don't see any weakness yet". We continue to hold that view but will be monitoring bond sectors closely.

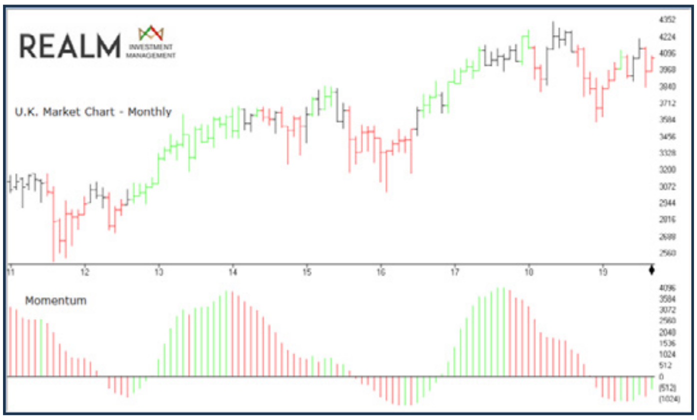
SUMMARY

As the reader will be only too well aware, there are plenty of issues that could stir or unsettle the markets, not least with the impending deadline for Brexit and the continuing U.S./China trade dispute adding further uncertainty to investment markets. As we move beyond these events, we believe investment markets will adapt thereby offering further opportunities to invest.

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