Winter 2020

market outlook.

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Marshall Zoing
EXCELLENCE IN WEALTH MANAGEMENT

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The UK Economy

UK equity markets and sterling are likely to see bouts of volatility throughout 2020 whilst the UK negotiates a new relationship with the EU.

UK GDP contracted by 0.3% during November 2019, as a result, Q4 GDP will at best stagnate as December's GDP needs to grow by around 0.2%, which looks unlikely given recent retail poor sales data and the fact household expenditure accounts for about 60% of UK GDP.

UK CPI inflation slowed again in December to 1.3% from 1.5%, although the Bank of England maintained interest rates at 0.75% in January 2020, thanks to a marked improvement in business sentiment.

Brexit and rearward looking hard economic data aside, thanks to the size of the Conservative Party majority, domestic fiscal policy is likely to support the UK economy through 2020.

The Japanese Economy

Japan's Prime Minister, Shinzo Abe, has confirmed that he will not stand in the next election in September 2021. This will leave a level of uncertainty and could impact sentiment, in terms of who will takeover, given all Japanese policy has been centred around 'Abenomics'.

Wage growth continues to be absent with low unemployment levels, so economy is still battling against inflation.

Coronavirus will have a significant impact on Japanese economic data as their main trading partner is China. The effects will be felt by imports/exports and tourism in the main, and this will need to be reviewed in the coming months as the virus is contained.

On a stock level, there are better value opportunities further down the Market Cap spectrum that look attractive on a valuation basis over the long term, and trade agreements with the US so far have been positive.

The Emerging Markets & Asia Economy

Over the period, trade with the US has been positive as Phase 1 has been agreed with China and this created a level of stability in the market after months of uncertainty.

Coronavirus has however been a dominant factor impacting area markets so far in 2020, with China restricting travel in and out of the country. They also closed markets for longer, following the Chinese New Year, in order to contain the virus and negative sentiment.

Brazil remains an area of interest as Bolsonaro has been attempting to push through progressive tax reforms, positive labour market changes and moves to tackle corruption in the country which will be a positive overall long term story.

It continues to be an incredibly attractive area, as data from the core areas does remain positive, with broad growth figures significantly higher than western economies.

The US Economy

Trade continues to be a predominant factor impacting the US market, however, relations have strengthened between the US and China with the start of the Phase 1 trade deal.

The Federal Reserve continues to be accommodative and will remain data dependent as they will review the overall impact of trade.

Impeachment proceedings are due to close shortly, with Trump likely to be acquitted, which could strengthen his position in upcoming elections.

US elections will be a main news story in 2020, so Trump may look to tread water on trade in the coming months, introducing an element of calm to the market, whilst data continues to be robust which is a positive for the region.

The European Economy

Christine Lagarde has set out framework for strategic review over the next year (the first in 16 years) and has stated that there is the potential to focus on fiscal stimulus for the area going forward.

The Italian election result was positive and has added an element of calm in the markets, despite initial concerns that the coalition would be plunged into disarray, following the resignation of Luigi Di Maio, who was leader of the ruling Five Star Movement.

Negotiations with Britain continue following their official exit from the EU, but focus for the area will centre around trade with the US over the coming months.

European markets performed strongly in 2019 despite negative sentiment and valuations continue to be attractive on a relative basis over the long term.

Fixed Interest

Valuations within Fixed Interest look expensive, however this is understandable given central banks globally remain supportive.

With government yields so low, corporate bonds are still relatively attractive for investors looking for yield.

2019 was a strong year for corporate bonds, this is perhaps not surprising given the “goldilocks” environment (low, but positive, growth, and subdued inflation) which are ideal conditions for corporate bonds.

However, overall conditions are not supportive of a prolonged allocation to this area when compared to equities, particularly with the glacial upward pace of rates.

If you would like to discuss this or any other aspect of your portfolio, please do not hesitate to contact us on **01423 501 401**, Monday to Friday 9am-5pm or you can email us at **info@mzltd.co.uk**

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