LGT Vestra Monthly Market Commentary in association with PIA Wealth Management

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It was a familiar story in equity markets over the last month, with heightened volatility in both directions. This time, it was largely driven by tougher rhetoric from Trump and concerns of a global trade war really coming to the fore. All major developed markets ticked down over the back end of June, before bouncing back at the start of the third quarter to reverse the bulk of the losses. Emerging markets, particularly China, have been hit harder by the recent trade war concerns, given their greater export dependence.

It has been an eventful month in the UK, with political concerns rearing their head once more. Theresa May's Chequers deal and white paper on Brexit appear to show a compromise way forward. This envisages a continued close relationship with the EU and a free trade area with a "Facilitated Customs Agreement" that would eliminate the need for custom checks. However, as with any compromise, both parties are unlikely to be entirely satisfied with it and we must wait for the EU's response before any deal is possible. The key Cabinet resignations of Brexit Secretary, David Davis, and Foreign Secretary, Boris Johnson, following the proposed deal have underlined the current divide within the Conservative party.

Politics aside, the Bank of England looks likely to hike interest rates in August, with three members of the Monetary Policy Committee voting for a rate increase, versus expectations of just two at the July meeting. At the time of writing, this is being priced in at 87%. The economic data in the UK has modestly improved, with manufacturing and services survey data considerably above their Q1 average. However, we expect the currency to be largely a function of the Brexit negotiations and domestic politics in the coming months. This is likely to have a knock-on effect to UK company earnings and the UK equity market as a whole.

In the US, economic data continues to come in at lofty levels and suggests a robust economic environment. For example, a weighted average of manufacturing and non-manufacturing survey data for June is consistent with the US economy growing at a rate of around 5% annualised. Nonfarm payrolls came in at a solid 213,000 for June, and the May number was revised upwards to 244,000. Average wage growth remains a touch subdued, unchanged at 2.7%, but the labour market looks broadly robust and expectations are for two more Federal Reserve hikes in 2018.

Donald Trump has now departed from his working visit to the UK, confirming that a trade deal between the UK and US is in fact possible, despite early reports to the contrary. Since his UK visit, he has met with Putin where he sided with Russia over US intelligence agencies regarding election meddling, before backtracking once again on US soil. The US tariffs against Chinese goods worth $34 billion came into effect this month, with China immediately responding with a retaliatory tariff of their own. With rumours of Trump lining up another round of sanctions, it seems as though the trade war has commenced. This is something that almost all commentators, politicians and economists continue to discourage.

In the Eurozone, economic data softened a touch at the start of the year but recent indicators suggest that this is not indicative of a sustained downturn in the region. The political situation seems to have cooled in Italy but we remain aware that there is potential for the new government to clash with the EU.
Once again, our view of the world is that heightened volatility is with us to stay, but that the economic environment remains broadly constructive for equity markets over the medium term.