LGT Vestra Monthly Market Commentary in association with PIA Wealth Management

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It has been another month of Brexit headlines in the UK, but they have had little market impact. Once again, US Federal Reserve (Fed) policy and trade tariffs have been more influential in financial markets. The Fed took a more dovish stance in March, indicating that interest rates are expected to be on hold for the rest of this year and that quantitative tightening would end in September. This reflected flatter expectations for the economy and concerns about international growth, particularly in China. The impact of Brexit on European economies was also mentioned. This action should sustain growth if the trade war is prolonged. On trade, there appeared to be raised hopes of a deal between the US and China. However, the US dispute with Europe appears more bogged down than ever. This has been held up by environmental issues following the US pulling out of the Paris accord. Tensions rose as President Trump threatened increased tariffs on European goods in a dispute about subsidies for Airbus. Europe responded by proposing increased tariffs on US goods. Whilst there appears some willingness to get a deal with China done soon, the European deal seems further away than ever.

With the Fed changing policy, bond yields fell and the yield curve has been flirting with going negative. That means ten year bonds yielding less than short rates. In the past this has often been followed by a recession. As a result, it is often seen as a recession predictor. However, quantitative easing has distorted the curve, possibly making this a less reliable indicator. The latest move may mean that the Fed have headed off a recession before it happened.

The Chinese government announced a stimulus package in March, and if a trade deal with the US is concluded, the prospects for growth in China will improve. This may have a knock on effect, supporting markets in the Asian region. Hence, we are turning more positive on Asia as a region. We have been hopeful that reforms in Japan will add value to the Japanese stock market but this has been slow to materialise. Japan's government has been buying bonds and equities for a long time and yet Japan has underperformed this year. A Japanese trade deal may be a lower priority for the US so we favour other Asian markets.

The European economy remains weak and the expectations for growth in Italy were revised down. The budget agreement for a reduced deficit in Italy depended on improving economic growth. This revision means that they are unlikely to meet their deficit reduction target and will once again be in dispute with the European Union later this year.

Brexit has now been delayed twice and could drag on to the end of October and beyond. Prime Minister May entered into talks with the Labour party to try and get a compromise agreed and these continue. In doing this she has alienated the right wing of her party. Without a cross-party approach, it is unlikely any deal can get through parliament. Kicking the can down the road once more continues the uncertainty for UK businesses. A no-deal Brexit appears unlikely but remains the default position. The votes in parliament and delay had little market impact. The UK market is dominated by overseas earners and for now, is more concerned about global growth than the vagaries of Brexit.

We believe that it is in the interests of both sides for the US and China to eventually agree a trade deal. This should be positive for global growth and the US and Asia in particular.