LGT Vestra Monthly Market Commentary in association with PIA Wealth Management

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Equity markets fell sharply in October recovering slightly towards the end of the month only for the lows to be tested again in November. Living in the UK, you would be forgiven for thinking that the latest sell off was Brexit related. However the moves in equity markets have been largely unrelated to any Brexit considerations. The growing US-China trade dispute, falling oil prices, rising interest rates and the Italian budget, have all caused more concern in global markets than Brexit. In addition to these macro factors, questions over Apple's order book initiated a sell-off in the tech sector.

The trade disputes initiated by President Trump and the resulting tit-for-tat tariffs are widely recognised as negative for global growth. However, the G20 summit, at the end of this month, will see President Trump meet Chinese President Xi. While a deal seems unlikely at this point, some progress on a framework for talks is possible. Trump wants to get re-elected in 2020 and will want to ensure that the strong US economy does not falter. US housing data has shown signs of weakening and investment has not been as strong as could have been hoped after the tax cuts. The mid-term election result may cramp his ability to increase government spending but a trade deal is within his powers. The US Federal Reserve did not raise rates in November but is expected to do so in December. If the US economy falters, then the speed of interest rate rises may be moderated.

The oil price rose earlier this year as supply looked tight and when sanctions were re-imposed on Iran, supply was constrained further. However, demand has softened a touch throughout the year as equity markets have seen some weakness. More recently, the US has temporarily allowed some countries to continue to receive oil from Iran and the unwind of speculative positions appears to have exaggerate the fall back in the oil price. We will have to watch the OPEC meeting on the 6th of December for guidance on future supply. In the meantime, inventories of oil have been rising which may constrain oil price rises in the short term.

The Italian budget was rejected by the European Union for a second time and Italian spreads have been rising in early November. There are however signs that the Italian government may be prepared to make concessions on its spending plans to avoid a fine. It is unlikely to reach a conclusion any time soon, as many commentators say that Italian deputy Prime Minister Salvini is trying to spark anti-EU sentiment ahead of May's European elections.

Finally, we come to the Brexit question which dominates debate at home and has caused significant swings in the currency of late. At an equity index level, this has had little impact but when we look through the index there have been some significant moves. An index of local UK stocks (greater than 70% of sales in the UK) outperformed when there was talk of a deal but as disapproving ministers resigned, it fell 5% relative to the FTSE All Share Index. The way forward for Mrs May as she tries to sell the deal to her colleagues and the country looks difficult and the outcome remains uncertain. However, those holding off from investing because they are concerned about the path of Brexit should keep in mind the following: If we crash out of the EU on WTO rules, the pound will fall and international earners in the UK index will benefit from this. Inflation will rise and cash sitting in the bank will have its spending power eroded with a negative real return. International investors have shunned the UK market and, on a positive deal, may return to the market. A 4.5% dividend yield and a price earnings ratio of only 12.5x on the FTSE All Share looks very good value, particularly when the ten year gilt yield is less than 1.4%.

As always, there are plenty of short term factors to concern investors but we believe that there are also many reasons to remain positive in the longer term.