



vestra



## **LGT Vestra Monthly Market Commentary in association with PIA Wealth Management**

**August / September 2018**

Against the background of the ongoing trade disputes, US equities continued to be strong over the past month and outperformed other developed markets. Politics are likely to continue dominating our thoughts in the coming months, with Brexit negotiations progressing and US mid-term elections on the horizon.

The US economy remains robust, with strong growth reflected in better than expected survey data, low unemployment and rising wages. As a result, a Federal Reserve rate hike in September is fully priced into markets, with a high probability of another hike in December. Following the tax cuts, capital returns to shareholders and wages have increased but so far, capital expenditure has not benefitted significantly. However, this may take longer to come through. There was a rare piece of positive news on trade in August, with the US announcing a new NAFTA agreement with Mexico. The NAFTA negotiations have now moved to Canada. Negotiations with China continued with Trump escalating tariffs and China retaliating and complaining to the World Trade Organization. US mid-terms will take place in early November and could prove very important if the Democrats are able to win control of the House. This would allow them to block proposals put forward by Republicans and also, could potentially see them launch impeachment proceedings against President Trump.

Looking to the UK, sterling remains sensitive to the Brexit headlines. Recent news from the EU's chief negotiator, Michel Barnier, and others have suggested an unprecedented deal may be done by November. However, detailed examinations of these comments reveal that many of the sticking points remain unresolved, particularly on the Irish border. Positive UK economic data and suggestions of progress towards a deal by mid-November pushed up the pound. This weighed on the UK equity market, given its significant exposure to overseas revenues. Brexit aside, unemployment remains low, wages are ticking up and GDP numbers for July are stronger than expected. Following the rate hike in August, no further rate rises in the UK are expected before the middle of the next year.

In the Eurozone, concerns over the new Italian government sticking to the EU's budget rules seem to have abated. The gap between Italian and German 10-year bond yields has fallen to 2.5% after reaching the widest spread in more than five years at 2.9%. Despite this, rating company Fitch revised their outlook on Italy to negative from stable. With regards to the currency and confidence crisis in Turkey, a tightening from the Turkish Central Bank has helped to regain the market's confidence.

Looking to other emerging economies, Argentina has been hit hard and a 50% fall in the Argentinian peso this year has helped to push the economy into a deep recession. Austerity measures by the government weren't enough to regain confidence so it has asked the International Monetary Fund (IMF) for an emergency bailout of \$50bn. Despite this and the world's highest interest rates of 60%, Argentina's crisis is getting worse as markets worry about potential for political backlash against the austerity programme.

On balance, the market view of LGT Vestra is unchanged. Increased volatility should be expected, due to political tensions and the escalating trade war. Although there are some signs of slowing, we feel that the global economy is still in a relatively good place and equity markets continue to look attractive relative to bonds.