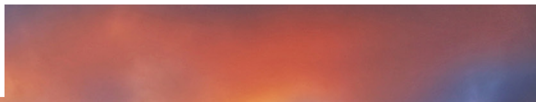
A Month in the Markets



JULY 2019

Market Overview

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During June, equity markets moved higher as global central banks signalled a shift to a more accommodative monetary policy. In the US, the S&P 500 hit a new all-time high on June 20th as US equities outperformed other developed markets. Emerging market equities also benefited from more positive investor sentiment.

At the end of the month, a broadly positive G20 summit saw President Donald Trump and President Xi Jinping agree to postpone further tariff escalation and restart negotiations. While the truce falls far short of a long term solution to the ongoing tensions between the world's two largest economies, it was taken positively by markets with equities posting a strong finish to the month.

Returns were broadly positive in global fixed income markets as interest rates benefited from the above-mentioned move to a more accommodative monetary policy. While the Federal Reserve (Fed) did not elect to cut interest rates at the June Federal Open Market Committee meeting, deteriorating staff economic projections and some choice language from Chair Jerome Powell at the press conference all but confirmed market expectations of an interest rate cut in July. Expectations were further reinforced by poor economic data from the US, Europe and China as the month concluded. At least for now, it appears the bond market and the equity market continue to disagree on the future path of global growth and inflation. In addition to the noise coming from the Fed, European Central Bank President Mario Draghi also indicated that European policy makers would not hesitate to cut interest rates in Europe should the macro economic environment worsen. Against this backdrop, European government bonds and emerging market debt were the strong outperformers, while credit and high yield bonds also posted strong performance.

In the UK, the race for leadership of The Conservative Party and next Prime Minister continued as the field was whittled down to two candidates, Boris Johnson and Jeremy Hunt. Despite political uncertainty and a continued deterioration in the macro economic backdrop, UK equities still posted positive returns over the month. UK government bonds underperformed global markets whilst UK credit posted strong positive performance in line with improved risk sentiment.

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