

December Market Commentary

November was a relatively disappointing month for world stock markets, with the majority of the markets we cover in this commentary losing ground in the month: however, the largest fall was just 3% so there were no real disasters. Pride of place went to the Dow Jones index in the US, which was up by 4% in the month as the President toured the Far East, intent on doing ever more trade deals.

The big event in the UK was Philip Hammond's first Autumn Budget, but of rather more long-term significance might have been the launch of yet another missile by North Korea. The government in Pyongyang said that the ICBM brought "the whole of the USA" within range: back from the Far East, Donald Trump said that he "would take care of it". The rest of the world watched on and worried...

UK

As above, 22nd November brought us the Chancellor's Autumn Budget as he pledged to "grasp the opportunities of Brexit" and build an economy "fit for the future". In truth, there were no major announcements except the abolition of stamp duty for the majority of first-time buyers. You are never going to get a dramatic speech from Philip Hammond, but he sat down after an hour with his job far more secure than when he had started speaking.

If you were looking for bad news in the speech you could certainly find it in the downgrading of UK growth forecasts, with the Office for Budget Responsibility sharply cutting back its forecast. This was despite all three sectors of the economy – manufacturing, construction and the service sector – all reporting strong growth in October.

Another feature of the Chancellor's speech had been the continuing emphasis on the UK's poor productivity, and during the month the CBI produced a report suggesting that 'embracing everyday tech' could boost the UK economy by £100bn. With management consultants McKinsey publishing a report suggesting that robots and artificial intelligence could take 800m jobs worldwide by 2030, some UK firms may need to 'embrace everyday tech' rather quickly.

As ever, there was the usual mixture of good news and bad news for the economy. The UK's trade gap – the difference between what we import and what we export – widened to £9.5bn, and the number of people in work declined slightly to 32m. However, unemployment fell by another 59,000 to 1.42m to leave the unemployment rate at 4.3%, the lowest since 1975.

UK inflation stayed unchanged at 3%. The Bank of England said it was likely to remain at that level (and hence above the level of pay rises) but in his Budget speech the Chancellor said it "would quickly decline". You pays your money...

Despite touching a new record high of 7,560 at the beginning of November, the FTSE-100 index of leading shares ended the month down 2% at 7,327. With a month to go, this has been a lacklustre year for the UK stock market, with the FTSE up by just 3% since the beginning of the year. There was better news for the pound, which rose by 2% against the dollar to close November at \$1.3486.

BREXIT

So, do we have a deal? After another month of wrangling and press speculation, it appears that a deal may have been reached on the UK's 'divorce settlement' with the EU. Depending on which paper you read, the figure is anywhere between €40bn and €60bn but the consensus seems to be somewhere in the middle. The BBC reported that it 'understands' a figure of €50bn (£44bn) has been agreed on, as Theresa May finally managed to secure the agreement of dissenters in the Cabinet. Whether a more-sceptical public can quickly be brought inside remains to be seen.

In September, the Prime Minister had said that the UK was willing to pay around €20bn but that figure was always likely to be increased, and hopefully the European summit in December will now see serious talks start on the nature of Britain's future trading relationship with the EU. But there's 'many a slip twixt cup and lip' as your Grandma used to say, and with neither Theresa May nor Angela Merkel having a particularly strong grip on power, there is still plenty of potential for the negotiations to become re-negotiations.

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EUROPE

The big story in Europe was political, not economic, as talks on forming a coalition government in Germany collapsed, leaving Angela Merkel facing her biggest challenge in 12 years as leader.

The free-market liberal FDP pulled out of the coalition talks after four weeks of negotiations with Merkel's CDU/CSU bloc and the Green party. The FDP leader, Christian Linder, said that there was "no basis of trust" between them. With the German President saying that he will now hold talks with all parties, it is thought that Angela Merkel would prefer another election – in the hope of securing a working majority – to the prospect of leading a minority government. But with nothing having changed in Germany since the original poll in September, the danger must be that another election would lead to more gains for the right-wing Alternative fur Deutschland party, and an even more fragmented parliament.

And while the politicians failed to reach an agreement, the German stock market slid back, dropping by 2% in November to end the month at 13,024. The index in France – where new President, Emmanuel Macron, continues to see his approval ratings slide – was down by a similar amount, closing at 5,373.

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US

We have covered the President's trip to the Far East below, but before he went he confirmed the expected appointment of Jerome Powell as the next Chairman of the Federal Reserve Bank, replacing Janet Yellen. Analysts regard Powell as the status-quo candidate, someone who is likely to continue the current policy of gradually raising interest rates.

Meanwhile, Facebook was continuing its policy of not-so-gradually raising profits, as it brought in more than \$10bn in advertising in the third quarter of the year, leading to profits of \$4.7bn for the same period – up 80% on the same period for the previous year.

There was also good news for Apple as queues formed around the world for the latest iPhone X – just £999 to get an edge-to-edge screen if you are interested – and there are suggestions that if the phone is a success it could make Apple the world's first trillion-dollar company.

But the news for the wider US economy was less good, with figures for October showing jobs growth had fallen short of the forecasts. Although the economy added 261,000 jobs in the month, economists had been predicting a higher figure after Hurricanes Irma and Harvey had depressed payroll growth in September. However, the number was enough to push the US unemployment rate down to 4.1% – the lowest figures since 2000.

On Wall Street it was another good month for the Dow Jones index, which was up 4% to 24,272. Whatever the rest of the world think, the US stock market certainly likes the President: it is now up by more than 20% for the year as a whole.

FAR EAST

The good news for the Far East in November was that President Trump came to visit, spending 12 days in the region and apparently doing \$300bn of trade deals, including the first major investment by a Chinese energy firm in the US.

Having accused China of pretty much everything except the assassination of JFK during the election campaign, the President struck a much more conciliatory tone on this trip, saying that he did not blame China for unfair trade with the US, and recognised that China had been "working hard" to benefit its people.

Meanwhile, the Chinese people had rather more pressing concerns – spending money online on Singles' Day (roughly the Chinese equivalent of Black Friday and Cyber Monday). Showing the rest of the world how it should be done Alibaba – China's answer to Amazon – recorded Singles' Day sales of \$25.4bn (just over £19bn) and clocked up its first \$1bn within two minutes of Singles' Day starting.

Across the China Sea, the Japanese economy was enjoying its longest growth streak since 2001, having now expanded for seven quarters in a row. The latest figures confirmed that gross domestic product had expanded by 1.4% for the quarter ending in September. This comes after four continuous years of economic stimulus from the government, with an increased demand for Japanese exports offsetting a slowdown in domestic demand.

On the Far Eastern stock markets, it was a case of 'two up and two down' in November. The Japanese Nikkei Dow index rose 3% to 22,725 and the Hong Kong index was up by a similar amount to 29,177 – although, at one point during the month it had broken through the 30,000 barrier for the first time since November 2007.

The Chinese and South Korean markets both went in the opposite direction, and both were down by 2% in the month, falling to 3,318 and 2,476 respectively.

EMERGING MARKETS

November was a relatively quiet month for the major emerging markets, which we cover in this commentary. The Russian stock market fared best, rising 2% in the month to close at 2,101 whilst the Brazilian market dropped 3% to 71,971. Stuck in the middle was the Indian stock market, which fell by just 64 points to 33,149 – unchanged in percentage terms.

The real drama though, was happening in Venezuela, where the country with the largest proven oil reserves in the world finally ran out of money and defaulted on its sovereign debt. While a tragedy unfolded for the country's citizens – with the socialist government advising them to eat their pet rabbits for food – a temporary deal was agreed with Russia, allowing Venezuela to re-structure \$3.15bn of debt. But with the country owing an estimated \$140bn to foreign creditors, the outlook for ordinary Venezuelan citizens looks unremittingly bleak.

AND FINALLY

Long-time readers of the 'And finally' section may remember one of our true heroes, Joaquin Garcia, the Spanish civil servant who failed to show up for work for six years without anyone at the Spanish water board noticing. Poor old Joaquin's dereliction of duty was only discovered when he turned up to collect an award for 'two decades of loyal and dedicated service' and his boss realised that he hadn't seen him for six years.

Joaquin – an engineer whose job was to supervise a waste water treatment plant – is now enjoying his retirement, but at last he has company on this section's roll of honour.

Step forward Tom Colella, a 60 year old electrician in Perth, Australia, who was sacked after playing golf – instead of working – 140 times over the last two years. But all credit to Tom, who relied on a 180 year old scientific discovery for his jaunts to the golf course. A 'Faraday cage' – named after English scientist Michael Faraday – dates back to 1836 and is a device that can block electromagnetic fields.

Tom set up a Faraday cage by hiding his personal digital assistant inside an empty foil packet of Twisties – the Australian equivalent of cheese puffs. The result was that Tom's employer couldn't track his location, and Tom was off to the golf course. Until some spoilsport sent his boss an anonymous letter...

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