Eva

WEALTH MANAGEMENT FOR WOMEN

May Market Commentary

It looked for a long time that the main headline for this commentary would be the opening salvos in a trade war between China and the USA. The International Monetary Fund published a bullish report on world trade, saying that global growth will hit a 7 year high of 3.9% this year – giving a stark warning at the same time that trade risked being 'torn apart' by a protracted trade war.

But then came the news of North Korean leader Kim Jong-un's, historic visit to South Korea and his meeting with President Moon Jae-in. There followed a bromance which would have been impossible just a few months ago, and a commitment to rid the Korean peninsula of nuclear weapons. The meeting would have been unthinkable at the beginning of the year when North Korea was boasting of being able to reach the US mainland with its rockets: now Pyongyang says it will invite US observers to witness the shutdown of its nuclear site in May.

By the end of the month even the China/US threats and counter-threats seemed to have receded a little and most of the major stock markets which we cover made up losses suffered early in the month on fears of a trade war. There was, however, one significant fly in the ointment as the price of oil continued to climb: Brent crude went past $72 a barrel in light of the continuing troubles in Syria and the instability in the region.

UK

Let's start the UK section with some really good news: 2017 was a record year for the UK wine industry, as figures showed 64% more bottles of UK-made wine reached the market than in 2016. The Wine and Spirit Association said the industry was reaping the benefits of 'huge' investment over the last decade.

…But if April brought good news for wine, it brought yet more bad news for retail as the wet Easter proved a washout for the UK high street, following the bad weather which kept shoppers at home in March. Carpetright announced the closure of 92 stores – and you have to think that the merger of Asda and Sainsbury's, announced at the end of the month, will ultimately lead to store closures and job losses. There have been plenty of warm words from both sides but it is hard to see that the merger can be good for jobs or, in the long term, for consumers as the number of big supermarket groups in the UK reduces from four to three.

We have commented above on the IMF forecast for world trade: that same forecast included a prediction that UK growth this year would be 0.1% higher than originally thought at 1.6%. HSBC also predicted that UK exports would rise this year by their fastest rate since 2011.

Other numbers for the UK made mixed reading: a slowdown in construction and the effects of the 'Beast from the East' meant that UK growth in the first quarter of the year was just 0.1% - the lowest figure since 2012. Mortgage lending was also down, as figures for March showed it falling 2.3% to £20.5bn.

There were some positive figures: wages finally climbed above inflation as the year long squeeze on pay showed signs of ending earlier than expected, and unemployment fell to 4.2% - its lowest level since 1975. And London was voted the world's top financial centre, finally climbing above New York for the first time in five years.

The vote was presumably taken without reference to TSB: April ended with TSB taking the phrase 'banking chaos' to a whole new level. The bank upgraded its systems – inevitably in order 'to improve customer service' – and ended up seemingly giving customers access to anyone's account except their own.

Fortunately, there was no such chaos for the FTSE 100 index of leading shares. After some lacklustre months, it rose 6% in April to end the month at 7,509. As so often happens, the pound went in the opposite direction, falling 2% to end the month trading at $1.3754.

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BREXIT

Throughout April, the debate raged about whether the UK should stay in some sort of customs union with the EU after March next year. Doing so would avoid a 'hard border' between Northern Ireland and Eire – but would severely limit the UK's ability to do trade deals with countries outside the EU.

It would, sadly, be possible to write an entire 2,500-word commentary on the various models of customs union – or partnerships – that are currently being discussed: we will attempt to do it in less than 200.

The first option – favoured by the Brexit supporters and known in Whitehall as 'Max Fac' (short for Maximum Facilitation) would see the UK and EU agree to minimise all checks, using smart technology and building on best practice from around the world (for example, the USA and Canada do not have a customs union). This means that there would be a border between the UK and the EU, but it would be as light touch as possible.

The second option is a hybrid model – the Customs Partnership – which rests on the EU recognising UK customs checks as equivalent to their own, so that goods entering the EU at say, Rotterdam, could in theory travel on to the EU without further checks.

This appears to be Theresa May's favoured option, but has been described by hard right Tory Jacob Rees-Mogg, as 'cretinous' while the International Trade Secretary Liam Fox, has come out firmly against any form of customs union. With eleven months to go until March 2019, the debate will undoubtedly rumble on: but we have reached the 200 word limit, we promised. Don't worry, the politicians will undoubtedly still be discussing it next month…

EUROPE

April was a busy month for French President Emmanuel Macron, who made a high-profile visit to Washington and, earlier in the month, made a speech in Strasbourg calling for ever-closer union between the EU's member states and, as the EU faced up to the loss of the UK's contribution, more tax and revenue raising powers for the EU.

Many commentators perceived this as Macron's bid for the de facto leadership of the EU, with German Chancellor Angela Merkel widely seen to be in a weaker position following her eventual coalition agreement with the Social Democrats. German dominance no longer a safe bet, ran a headline in City AM.

Away from the corridors of power and in the banking halls, the European Central Bank announced it would leave interest rates unchanged, despite the pace of growth in the Eurozone starting to slow. There was bad news from Deutsche Bank, which announced 'significant' job cuts as it scaled back its corporate and investment banking operations. Christian Sewing, the new CEO of Germany's biggest lender, said that the cuts were 'painful but unavoidable' as the bank reported a sharp drop in first quarter corporate and investment banking revenues.

Fortunately, there was no pain on the German stock market, as the DAX climbed 4% in the month to end April at 12,612. The French stock market had an even better month as it rose 7% to 5,520 – and there was even good news from Greece, with the Athens stock market up 10% to 858.

US

All the attention at the beginning of the month focused on the war of words – and potential trade war – between the US and China. It ended with the historic meeting in Korea and South Korean President Moon Jae-in suggesting that Donald Trump be awarded the Nobel Peace Prize.

Away from that potential plaudit, the US President had some troubling numbers to contend with. The US trade deficit widened in February to $57.6bn (£42bn) and there are suggestions that the US could have a trade deficit of a trillion dollars a year by 2020.

Jobs growth slowed in March, with just 103,000 jobs created in the month, and there were disappointing figures for the first quarter, as annualised growth slowed to 2.3%. Those figures are unlikely to be helped by suggestions that the US could get as many as four interest rate rises this year, as the Federal Reserve pursues a more aggressive line in a bid to keep inflation under control.

April was, however, a good month for both Alphabet (the parent company of Google) and Amazon as their sales and profits surged ahead. But it was a lot less fun for Facebook's Mark Zuckerberg: he endured an uncomfortable month as he apologised for his company's massive data breach at a Congressional hearing. Not a good month for Wells Fargo either, as the bank was fined a record $1bn (£730m) for failing to resolve investigations into car insurance and mortgage lending breaches.

What did the Dow Jones index make of it all? Virtually nothing. Having opened the month at 24,103, the Dow closed April up just 60 points at 24,163.

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FAR EAST

The news from the Korean border rather overshadowed China's news in the month – specifically that the country had seen its economy grow at 6.8% in the first quarter, ahead of the government's growth target for the year of 'around 6.5%' - although obviously, this figure would be under pressure from a prolonged trade war with the US.

In Chinese company news, Didi Chuxing, China's equivalent of Uber, the world's largest ride-hailing app and currently reckoned to be worth nearly £40bn, announced modest plans for world-wide expansion.

The Economist Intelligence Unit published an interesting article, listing the countries which were most ready for the robotics revolution: South Korea headed the list, with Japan and Singapore joining it in the top four. (The UK was in 8th place, just ahead of the USA.)

Obviously, the news of the détente between North and South Korea had a positive influence on the region's stock markets. Only China – perhaps still worrying about a possible trade war – saw its stock market fall during the month, with the Shanghai Composite down 3% at 3,082. Hong Kong went in the opposite direction, up 2% to 30,808 and the South Korean market rose 3% to 2,515. Japan, free of the worry of North Korean missiles flying over its islands, saw the Nikkei Dow rise 5% to close April at 22,468.

EMERGING MARKETS

US sanctions hit Russian shares said a BBC headline in the middle of the month, reporting that sanctions imposed by the US had hit the shares of companies controlled by Russian oligarchs, 'as the Russian stock market tumbled in the wake of the sanctions.' This followed the diplomatic crisis sparked by the poisoning of former spy Sergei Skripal and his daughter, and President Trump's threats of tariffs on aluminium and steel.

Well, sanctions or no sanctions the Russian stock market had recovered by the end of month, closing April up 2% at 2,307. There was an even better performance from the Indian stock market, up 7% in April to end the month at 35,160 – and Brazil completed our Emerging Markets hat-trick as the market there rose 1% to close at 86,115...

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