Market Commentary

After strong returns in June, global equity markets continued their positive momentum in July – albeit at a more gradual pace as global growth concerns weighed on investor sentiment. In local currency terms, UK equities were amongst the strongest performers over the month, supported by positive company results and sterling weakness, the latter of which was driven by an increased probability of a ‘no deal’ Brexit following the appointment of Boris Johnson as Prime Minister. US equities were also positive in July despite a strong month for the US dollar, while Asian and Emerging Market equities lagged.

Fixed income markets also continued their positive momentum in July linked to the more dovish outlook from global Central banks. In commodity markets, precious metals continued to outperform as a defensive asset class amidst global growth fears, disinflationary pressures and ongoing trade tensions.

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In the latest chart of the month, we highlight the slowdown in US industrial momentum.

PMI data, which is derived from forward-looking business survey data, is often used by economists and the market to gauge expected activity from industry sectors. Any measure above 50 is expansionary i.e. positive, while readings below 50 suggest contraction i.e. negative.

As the chart highlights, the data are suggesting that activity is stalling, with leading indicators suggesting that this trend will continue, at least in the short term, while global growth fears and trade tensions with the likes of China persist.

In light of these concerns, we have decided to take some profits from equity markets within our centrally managed portfolios and have reduced our equity weights to more of a neutral position.
At its June meeting, the Asset Allocation Committee decided to make no changes to equity exposures and to make minor changes to fixed income within the centrally managed funds. The committee decided to reduce UK corporate bond exposure, given the susceptibility to rate normalisation, in favour of ultra-short US treasuries – partly as an element of Brexit insurance whilst also offering a positive real yield.

In terms of outlook, volatile trade negotiations and politics continue to impact sentiment and business outlooks. The potential for significant disruption to the global supply chain if trade conditions deteriorate should not be underestimated. However, in the meantime markets and businesses appear adapted to a muddle-through scenario as negotiations stabilise, which remains our base case.

At the same time, the consumer remains strong, especially in the US and Europe, benefiting from a return to meaningful real wage growth.

The return of dovish monetary policy is also adding to the market relief, with the market anticipating a ‘Powell Put’ should trade talks fail. Markets appear to be overestimating the current appetite and scale for Fed intervention, with even short-dated bonds potentially susceptible to rate normalisation.
UK, US and Europe

- US equities continued their positive momentum in July – albeit at a more gradual pace, and reached fresh highs as the domestic economy continued to outperform. On a total return basis, the MSCI USA index returned +1.5% in local currency terms and +5.5% in sterling terms over the month. At the sector level, there were broad gains over the month, with the financials, communication services and technology sectors leading the way in terms of contributions to returns. On the individual stock level, there were notably positive returns from Apple, Google and Microsoft, which all reported positive revenue growth in the month. There were also solid returns from most of the large US banks such as Bank of America and JP Morgan Chase, linked to positive earnings announcements.

- July was also a positive month for UK equities supported by a notably weak month for the pound caused by the increased probability of a 'no deal' Brexit as Boris Johnson became Prime Minister. UK large-caps (+2.2%) again outperformed the more domestically focused mid-caps (+1.3%) and smaller companies (-0.5%) over the month. At the sector level, there were positive contributions to returns from the healthcare, consumer discretionary, consumer staples and industrials sectors. The healthcare sector was notably strong over the month linked to positive results from both AstraZeneca and GlaxoSmithKline. After outperforming last month, the materials sector and miners were weaker in July, alongside UK financials, which were the two main detractors to returns over the month.

- After previously outperforming, European equities were the laggards amongst developed market equities in July, as the forward-looking PMI output measures fell (manufacturing PMI fell to its lowest in six years) and European Central Bank President Mario Draghi failed to deliver a dovish enough message to the market on the outlook for monetary policy. On a total return basis, the MSCI Europe ex UK index returned +0.3% in local currency terms and +1.9% for sterling investors over the month. The Greek stock market (+4.3%) was notably strong over the month following the election success of the conservative New Democracy Party. At the sector level, European financials were the notable laggards over the month, offsetting positive returns from the consumer staples sector linked to strong returns from the likes of Nestle and Anheuser-Busch InBev.
Asia, Japan & the Emerging Markets

- Asian and Emerging Market equities lagged developed markets in July, with trade tensions, growth fears and ongoing protests in Hong Kong weighing on returns. The headline MSCI AC Asia Pacific ex Japan and MSCI Emerging Markets indices generated total returns of -1.3% and -1.1% respectively in local currency terms over the month. For sterling investors this resulted in returns of +2.6% and +2.8% respectively.

- In local currency terms, Indian equities (-5.4%) were the notable laggards over the month linked to weaker company and domestic data, while Brazilian and Russian equities were up +0.8% and +1.7% respectively. Chinese equities were also weak as second-quarter GDP growth slowed to a 27-year low, which is within the Government’s 6-6.5% target but again highlighted the waning growth momentum that is driving further policy stimulus. The mainland Shanghai Composite index returned -0.7% and Hong Kong’s Hang Seng index returned -2.3% in local currency terms.

- Japanese equities were marginally positive in July as the Bank of Japan left already low rates unchanged and maintained asset purchases against a backdrop of continued weakness in domestic economic data. The MSCI Japan index returned +0.9% in local currency terms and +4.1% for sterling investors.

Asian & Emerging Markets, Percentage Growth, Total Return

![Graph showing percentage growth and total return for Asian & Emerging Markets from February to July.](source: FactSet)
Fixed income

- After strong returns from fixed income markets over the second quarter linked to increasingly dovish rhetoric from global Central banks, July was another positive month for total returns. In government bond markets, UK gilts outperformed (+2.1%), followed by German bunds (+0.9%) and US Treasuries (-0.1%) in local currency terms.
- July was also a positive month for credit markets, particularly UK corporates, which delivered total returns of +2.2% for investors. The ICE BofAML Global High Yield index returned +0.2% in local currency terms (USD).
Currencies

- In currency markets, July was a notably weak month for sterling, which fell to multi-year lows, as the odds of a ‘no deal’ Brexit increased following the appointment of Boris Johnson as Prime Minister. In sterling terms, the euro was up +1.6%, the Japanese yen was up +3.1% and the US dollar was up +3.9%.

- After a weaker month in June, the US dollar rebounded despite expectations of a rate cut by the US Federal Reserve, as the domestic economy continued to outperform. In US dollar terms, the euro was down -2.2%, the Japanese yen was down -0.8% and the broader trade weighted US dollar index returned +2.5%.

![Currency Returns relative to GBP, Percentage Growth](Image)
Commodities

- Commodity markets were marginally negative over the month of July, largely reflecting uncertainty over future US/Sino trade relations and a stronger month for the US dollar. The two headline indices, the Bloomberg Commodity and the S&P GSCI, returned -0.7% and -0.2% on a total return basis in US dollar terms over the month. In sterling terms, this resulted in returns of +3.2% and +3.7% respectively.

- At the sub-sector level, precious metals (+2.2%) were the notable outperformers in July, maintaining their positive momentum on a more dovish outlook from the US Federal Reserve and heightened geopolitical tensions. Silver prices were particularly strong over the month, as investors took a shine to the less-expensive precious metal, which had previously lagged gold because of its closer links to global growth and manufacturing.

- Elsewhere, July was also a positive month for industrial metals (+0.6%) as a rally in nickel future prices, linked to supply disruptions in Indonesia and speculation that demand will increase from electric vehicles, offset lower copper prices. The energy sub-sector was flat over the month despite heightened tensions in the Middle East.

Commodities Performance 1-31 July 2019

Source: FactSet
Property

- June was another weak month for commercial property capital returns (-0.3%), which again detracted from the stable income returns for the sector (+0.4%).

- This was the eighth successive month of negative capital returns for UK commercial property, with marginal gains from the industrial sector not enough to offset continued weakness in the retail sector.

- Overall, for the second quarter and first half of 2019, the IPD UK Property index delivered total returns to investors of +0.6% and +1.1% respectively.

*Index data is released mid-month and therefore figures are only available with a one month lag.
Datasheet – latest market returns to the 31 July, percentage returns for major asset class indices.

<table>
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<th>Asset Class</th>
<th>1 month</th>
<th>3 month</th>
<th>6 month</th>
<th>2018-19</th>
<th>2017-18</th>
<th>2016-17</th>
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Source: Lipper (to 31 July in GBP. Currency movements are vs. sterling).
Important information

The value of your investments, and the income derived from them, can go down as well as up, and you can get back less than you originally invested. Any indication of past performance or quoted yields is not an indicator of future returns. Before investing in funds, please check the specific risk factors on the key features document or refer to our risk warning notice, as some funds can be high-risk or complex, or can be susceptible to risks particular to the geographical area or industry sector in which they invest. Gold, technology and other focused funds can suffer as the underlying stocks can be more volatile and less liquid. Underlying investments in emerging markets are generally less well regulated than the UK. There is an increased chance of political and economic instability and the market(s) can be less liquid.

The property market can be illiquid; consequently, there can be times when investors will be unable to sell their holdings. Property valuations are subjective and a matter of judgement.

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