Weekly Digest
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The weekly insight into world stock markets

Investec
Wealth & Investment

# Wannabe

The Spice Girls burst onto the pop scene in 1996 with the song Wannabe, which featured the line "Tell me what you want, what you really really want". Maybe as a prelude to their upcoming tour they should dance into the Houses of Parliament and ask our MPs* that very question, because, after last week's votes, all we know is what they don't want – no "May Deal", no "No Deal", no departure on March 29th, and no second referendum. A week might well be a long time in politics, but evidently not long enough to bring the Brexit saga to any sort of conclusion. This week we are potentially faced with "Meaningful Vote 3" – or possibly no vote at all if Mrs May feels that another defeat is on the cards. If she can whip up enough support, the betting points towards a short delay and then departure at the end of May (the month, that is, not the PM); if not, an extension of up to two years is mooted. So a range of outcomes large enough to drive a campaign bus through, which hardly makes for short-term clarity.

(*I'm not quite sure when the trend started, but I note that journalists and political commentators now increasingly refer to elected politicians as "lawmakers", which, for me at least, conjures images of pistol-toting, Stetson-wearing sheriffs from the Wild West.)

Even so, the pound, our trusty "Brexit barometer", continues to trade in a manner that suggests the diminishing probability of a catastrophic (in the market's eyes) "No Deal". There are also signs that investors are being drawn back towards shares with a greater UK focus. The more global FTSE 100 Index (75% overseas revenues) has produced a total return of 9.2% so far in 2019; the Mid-250 Index (50% overseas) has returned 11.5%. Admittedly Small Caps have lagged (+6.8%), perhaps awaiting more evidence. Citigroup's strategists make some interesting observations about UK shares, notably that on a dividend yield basis relative to Gilt yields they have only once been cheaper: during the First World War. Of course, that could equally be telling us that there is little value in the government bond market, but it does continue to suggest that longer-term investors will be better off in equities than bonds. Their analysis also highlights potential value relative to both US and European equities, although one must always take relative profitability and market composition into account.
Movements in the pound are also affecting the performance league tables for global indices. In local currency terms the UK looks like a laggard this year, but in common currency terms there is little to choose between the UK, the US and Europe. The key outliers are Japan and China. The former has underperformed thanks to weak economic data and disappointing company earnings, with a weaker Yen not providing its traditional boost to exporters; China, on the other hand, has shown the rest of the world a clean pair of heels, with the CSI 300 Index up almost 28% this year. Some of this is in anticipation of higher weightings for China's shares in key global indices, but much of the move acknowledges that the "hard landing" that was being increasingly priced in last year is not imminent. Indeed, if anything hopes are rising that stimulus measures are going to bear fruit soon. The market has also been supported by the country's army of private investors, who tend to play the stock market much as others might enter a bookmakers, and so we acknowledge that China's share indices will continue to be more volatile than others.

Quite a lot has happened since John Haynes and I set out on January 23rd on our Vision 2019 tour of the UK in which we set out the firm's views for the year ahead, not least of which is the fact that global equities, measured in dollars, are up 6.3%. That makes it slightly harder to bang the drum so hard on buying shares. Having said that, the shifts in global monetary policy have been positive over the period, with both the US Federal Reserve and the European Central Bank confirming a "wait and see" attitude. US/China trade talks grind on, but with the growing expectation of a positive outcome. Citigroup's Global Economic Surprise Index has rallied and fallen back again, but at least we now no longer have the poisonous cocktail of disappointing economic data and the threat of tighter monetary policy that sent markets into a tailspin last year. Indeed, signs of a more general economic upturn into the spring would be unequivocally good news for markets, assuming that central banks continue to stand back until the autumn.

The other big adjustment that investors have had to make in the last six months is on company earnings. At the beginning of the fourth quarter, expectations for global earnings growth in 2019 were set at 10% (on Citigroup consensus estimates). Now they are running at 5% (using the same series, although I have seen top-down forecasts just either side of zero). At least there is no major earnings recession currently expected, which suggests that dividends, the least volatile component of investor returns, will remain well supported. Interestingly, forecast earnings growth for 2020 is now 10.6%, up from 9.3%. I have written in the past about how analysts tend to initiate their forecasts for any single year looking for around 10% growth, and then revise (usually down) accordingly. 10.6% growth is very much business as usual, and certainly takes no account of the possibility of a US recession, which there is no shortage of economists predicting. That, in a US election year, looks like it will be the key call for 2020. The current US expansion will be the longest in history if it extends past July. Viva Forever??

**John Wyn-Evans**
Head of Investment Strategy

## FTSE 100 Weekly Winners

| | |
|---|---|
| Standard Life Aberdeen | 11.1% |
| Schroders | 8.0% |
| EasyJet | 7.8% |
| Paddy Power Betfair | 7.6% |
| Prudential | 7.1% |
| St. James's Place | 6.7% |
| Evraz | 6.7% |

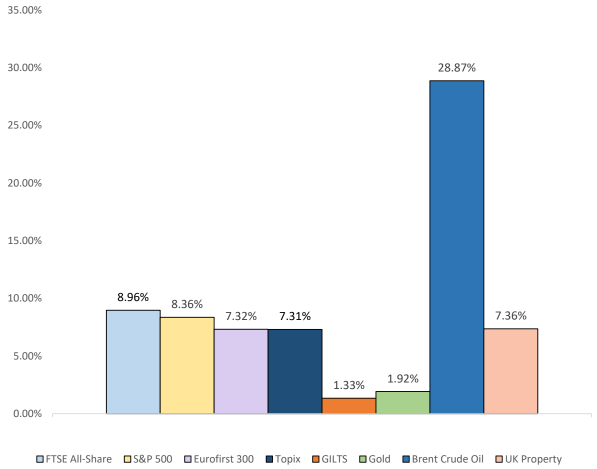
Source: FactSet

## FTSE 100 Weekly Losers

| | |
|---|---|
| GVC Holdings | -7.2% |
| Anglo American | -2.4% |
| Just Eat | -2.2% |
| Intertek | -1.8% |
| Rentokil | -1.8% |
| DCC | -1.8% |
| WM Morrison Supermarket | -7.3% |

Source: FactSet

## Year to Date Market Performance




Source: FactSet
*IPD Total Return to January 2019

## FTSE 100 Index, Past 12 Months


Source: FactSet



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