Weekly Digest

19 March 2018

The weekly insight into world stock markets

Tiggernomics

This week we return to more domestic matters, with a look back at last week's Spring Statement, the new "not a budget" delivered by Chancellor Philip Hammond. The statement was most notable for Mr Hammond's invocation of the character Tigger from the Winnie the Pooh stories, particularly because the Chancellor's personality is viewed as being anything but tiggerish – he's more Eeyore, which is often how cartoonists like to portray him. Indeed, it was hard to see in the details exactly what he was getting so excited about. Some improvement in the government's fiscal position is evident, it's true, but we're still a long way from the balanced budget that it has aspired to.

Let's look at some specific numbers. There was a small upgrade to overall economic growth this year, with the Gross Domestic Product (GDP) forecast for 2018 rising from 1.4% to 1.5%. (These numbers are generated by the Office of Budget Responsibility, which is supposed to deliver a more objective opinion than might have been calculated in the past by the government itself). However, that's about as good as it gets for now, with the next three years' growth from 2019 to 2021 pitched at 1.3%, 1.3% and 1.4% respectively. Hardly boom times. This lacklustre performance looks even worse when compared to what's going elsewhere in the world. Back at the beginning of 2016, the consensus forecast on Bloomberg for UK GDP growth in 2018 was 2.1%, exactly the same as that for the United States. US growth is currently forecast to be 2.7% this year, and even if some of that is down to Mr Trump's profligacy, there is evidence that more widespread growth trends have been supporting the forecasts. This can be seen in the fact, for example, that the euro zone's expected growth rate for this year has risen from 1.5% to 2.3% over the same period. Even Japan has seen its forecast growth rise from 0.6% to 1.3%. The UK has slowed down while the rest of the world has been accelerating.

It's hard not to blame a decent portion of this shortfall on the result of the Brexit referendum. Economists' forecasts plummeted in the summer of 2016, and finally bottomed out around the time of last autumn's party conference season, which coincided with the low point of confidence in Mrs May's government. Growth has been held back by the uncertain climate for investment in the UK, and also by the squeeze to real wages brought on by higher prices as a result of the pound's devaluation. Latterly the housing market, traditionally a big driver of the UK economy, has also been stalling as the Bank of England raised interest rates and threatened more to come. While even the most ardent Remainer must acknowledge that the UK economy did not suffer the catastrophic outcomes that were predicted, the similarly passionate Brexiteer should also admit that the UK economy would be growing faster now were it not for the uncertainty. Unfortunately this clash of ideologies tends not to let facts get in the way of campaigning, and in today's world of increased political polarisation, balance is rarely encountered.

So lacklustre growth appears to lie ahead. The better news was on the fiscal position, although the Chancellor was not tempted into any giveaways. An expected annual deficit of £45.2 billion in the tax year about to end is a bit less than last year but still more that 2% of GDP. The forecasts do not see the deficit falling below 1% of GDP until 2023, although it's hard to see austerity remaining in place for that long because another general election is guaranteed to take place before then. Given the current global political climate it is very hard to see a hair-shirt campaign bearing much fruit. However, this must also be put in the context of the size of the overall deficit, which is forecast to peak in the next tax year at 85.6% of GDP. Such a high number is not what one would expect to see at the back end of a long peace-time growth cycle, which emphasises both the lingering effects of financial crisis and the lack of ammunition the government will have to deal with future problems.

Another interesting wrinkle was that the OBR downplayed the recent signs of an improvement in Productivity, pointing out that these had been the result of fewer hours worked rather than greater output for the same man hours. It's a fair point. One can't expect the economy to shrink to greatness.

Where does this leave us from an investment perspective? For now, despite the Chancellor's upbeat delivery, there is no reason to shift. We remain underweight UK equities because we see better opportunities elsewhere at this stage of the cycle. We are mindful, though, that the UK is pretty much the most hated major equity market in the world currently, so it might pay to seek out value from a contrarian perspective, especially if overseas earnings are being undervalued. In the Gilt market, the low growth, steadily shrinking fiscal deficit, an expected fall in inflation from its recent peak and the fact that the Bank of England is not yet ready to sell any of its holdings accumulated under Quantitative Easing all suggests relative calm, although we still view a 1.5% yield on the 10-year Gilt as miserly, and, despite recent strength, sterling remains vulnerable to political upset. As ever, bond markets globally will take their main cue from the US Federal Reserve, and so this week's meeting in Washington, the first to be chaired by Jay Powell, will generate even more headlines than usual. Finally, the first Warner Brothers Studio was on Sunset Boulevard. This week, for which song did Andrew Lloyd Webber win an Oscar in 1996?

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

Antofagasta	8.2%
easyJet	6.1%
Glencore	4.2%
Prudential	3.6%
Pearson	3.2%
Informa	3.1%
AstraZeneca	1.7%

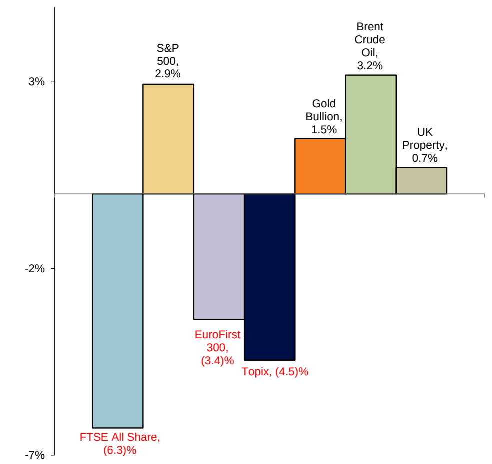
Source: FactSet

FTSE 100 Weekly Losers

Wm Morrison Supermarkets	-7.4%
Micro Focus International	-6.8%
Imperial brands	-5.3%
Just Eat	-4.9%
BT Group	-4.8%
G4S	-4.2%
Hammerson	-4.0%

Source: FactSet

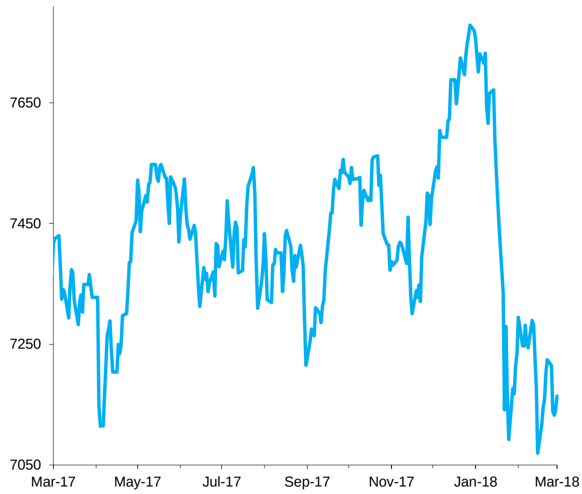
Year to Date Market Performance



*Lagged to latest UK IPD Total Return All Property Index (Jan 2018)

Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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