Weekly Digest
5 November 2018

Investec
Wealth & Investment

The weekly insight into world stock markets

Home and Away

I am very much aware that I spend little time writing specifically about the UK, at least other than in the context of the dreaded “B” word. This is despite the fact that the benchmark position for a medium risk balanced portfolio is a 30% weighting in UK equities and close to 20% in Sterling Fixed Income. There is also some exposure to domestic Real Estate and Infrastructure, so the health of the UK economy is important to our investments. However, as I often point out, around 70% of the revenues of companies listed in the widely referenced FTSE100 Index are generated overseas, so the underlying profits are much more influenced by the ebb and flow of the US, Chinese or European economies, for example.

The UK markets are also subject to the shifts in global investors’ appetite for risk, taking their cue most mornings from the movements in Asia overnight, which themselves are subject to what happened on Wall Street the previous day. Owing to that large chunk of overseas earnings, it is the swings in the pound’s fortunes that can generate more volatility in UK equities relative to other markets, and those, currently, tend to be a function of politics.

Back in the days when the FTSE 100 was more representative of the UK economy, last week’s Budget would have been a much bigger affair for markets, but it does remain one of the major political set pieces on the Parliamentary calendar, with all the theatre of the Chancellor’s red briefcase, the tension of a potential rise in the price of a gin and tonic at the Commons Bar, and whether or not one needs to make a dash to the petrol station to fill up the tank before duty rises at midnight. The current Chancellor, “Spreadsheet Phil” Hammond, is not generally considered to be the most flamboyant character to have held the post, but he put in what was mostly deemed to be a pretty good performance last Monday. He was certainly “on message” as far as the party politics were concerned, falling in with the Prime Minister’s promise to end austerity. Indeed, in some corners he was judged to have fired the first shots in the next election campaign, particularly with an unexpected rise in personal tax allowances.

One thing that has certainly worked in his favour is the revenue situation, with the government’s tax income persistently overshooting forecasts this year. Notably, the Office for Budget Responsibility raised its growth forecast for the economy for 2019 from 1.3% to 1.6%, but it then sees just 1.4% growth in the following two years, which is rather less than the Bank of England’s forecast of 1.7% confirmed in last week’s Inflation Report. Reacting to the budget, the Institute for Fiscal Studies was less than impressed with the fact that the books will not be brought back into balance within the foreseeable future and that the overall deficit will remain high – still over 74% net debt to GDP in 2024, and that doesn’t assume any sort of recession in the meantime. Standard & Poor’s, one of the agencies that rates government debt, was quick to highlight the risks to all the forecasts if there is a “no deal” Brexit.

All in all, Hammond played a difficult hand about as well as he could have done. GDP growth is mired below 2%, with the risks seemingly to the downside; productivity growth remains elusive; public services have already been cut to the bone; and the starting point for the deficit is a lot higher than one would want. But the card that the Government will keep on playing (and it has worked on numerous occasions in the past) is that however bad things might look, they will only become a darned sight worse under a Labour government. That particular experiment might yet be conducted in the next few years, and is an investment risk that we have our eye on.

Another one of Hammond’s surprise packages was a digital services tax to be imposed on the revenues of (mainly) US-based internet giants. This was welcomed in many quarters as an overdue response to the fact that such companies seem to get away with paying extremely low levels of tax thanks to canny interpretation of the laws. Not surprisingly, it was immediately rebuffed by various parties in the United States, and there were unspecific threats of retaliation. This is another example of the more inward-looking policies that are part of the reaction to some of the more unpalatable effects of globalisation.

Which leads me to the “Away” part of this week’s Digest. Leading the charge when it comes to “getting one’s fair share” is the United States under Donald Trump, and tomorrow’s mid-term Congressional elections are seen as something of a referendum on his first two years in office. There are three realistic outcomes. The bookmakers’ favourite is that the Democrats win back the House of Representatives and the Republicans hold the Senate. Markets should not baulk at that: it is expected, and would mean that overall policy would remain stuck for the rest of this presidential term. A “blue wave”, in which Democrats took both houses would be a negative shock (and mathematically implausible given the seats being contested), leading to greater tension between Capitol Hill and the White House, with the added spice of possible impeachment proceedings. A Republican double-whammy is harder to call. Two years of Trump have been good for American markets, but less so for the rest of us. If he were to “double down” on policy, backed by (what he would see as) a strong mandate, who knows what he might disrupt next. I will follow up on the outcome next week.

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

Melrose	16.2%
BT Group	15.3%
Antofagasta	11.0%
Standard Chartered	10.8%
Taylor Wimpey	10.6%
Barratt Developments	10.2%
Just Eat	10.1%

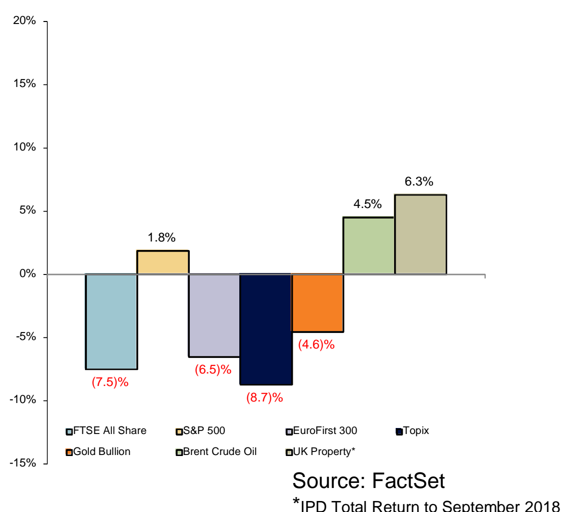
Source: FactSet

FTSE 100 Weekly Losers

British American Tobacco	-7.6%
Reckitt Benckiser	-5.2%
John Wood Group	-4.0%
Fresnillo	-3.1%
Imperial Brands	-2.9%
Rolls-Royce Holdings	-2.5%
Diageo	-2.3%

Source: FactSet

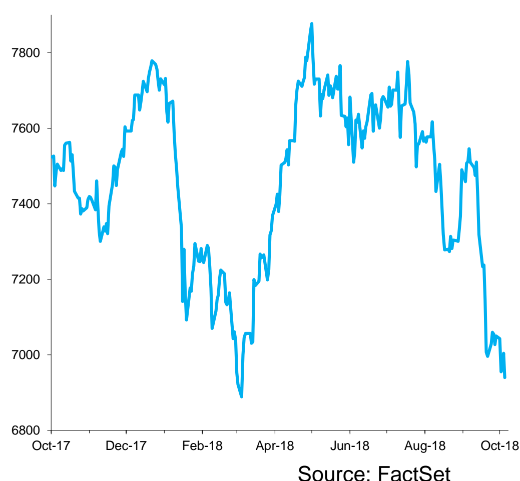
Year to Date Market Performance



Source: FactSet

*IPD Total Return to September 2018

FTSE 100 Index, Past 12 Months



Source: FactSet

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