January 2019

Enhance
Monthly Market Update

A quiet wind down to Christmas? Everyone leaving their offices early and not much happening in the second half of the month?

Nothing could be further from the truth. December was one of the most eventful months of the year and while there was some good news, it was eclipsed by falling stock markets as global markets had their worst year since 2008. As we have said many times, saving and investing is for the long term – years like this one will inevitably occur from time to time.

The month started with the leaders of the G20 nations meeting in Argentina, where Donald Trump and Xi Jinping agreed a temporary truce in their trade war. Then it looked like all bets might be off – and then the end of the month brought what was described as a 'long and cordial' telephone conversation between the two, leading to hopes that 2019 might see an early end to the respective tariffs and the threat to world trade.

Meanwhile, Theresa May survived a vote of no confidence, Angela Merkel's successor emerged and Emmanuel Macron continued to plumb the depths of unpopularity.

...And sadly, not enough people went shopping on the UK high street. In a harbinger of what may be a very difficult year in 2019, HMV has already called in the administrators.

2018 was certainly a very difficult year for the virtual currency Bitcoin. Having started the year hovering around £10,000 the currency lost 70% of its value in 2018, closing December at £2,891.

Let us have a look at all the news – good and bad – in more detail.

UK

2018 in the UK started with the government's 'go-to' contractor Carillion going bust with debts of £1.5bn and owing money to 30,000 small businesses, who were told to expect 1p in the pound. Could it end the same way? December saw Interserve struggling with £500m of debt and seeking a second rescue deal as it contemplated looking for new investment or selling part of its business.

For now the company remains with us, as does the UK high street but, according to a Sports Direct boss, Mike Ashley, it won't be for much longer. He told a House of Commons Select Committee that the "high street will be gone by 2030" as he called for an online sales tax to protect it.

Sadly, you get the feeling that Mr Ashley is rather calling for a tax to protect the horse and buggy economy against the motor car. Always inevitably the Christmas reports from the high street were gloomy, with the Boxing Day sales footfall down 4.5% on last year.

Retail sales were, however, up by more than expected in November – helped by Black Friday promotions – but with a report for the government saying that Britain has 'twice as many shops as it needs' expect the problems at HMV to be the rule rather than the exception in the next 12 months.

Was there any good news in December? In truth, it was in short supply – the Office for National Statistics confirmed that growth in the economy for the three months to October – the period immediately after the World Cup boost – was 0.4% and wages continued to rise. The figures for October showed wages rising at 3.3%, the fastest rate for a decade.

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...And for the second year in succession the UK came top of Forbes' 'Best Country to do Business' poll, which ranks countries on 15 different factors. Second and third were Sweden and Hong Kong.

But December ended with more gloomy news as growth in the service sector slid to its lowest level since July 2016, house price growth was at its lowest for six years and Gatwick Airport was brought to a standstill by a drone – although this didn't stop French airport group, Vinci, from buying the airport for £5.8bn.

Like all major world stock markets, the FT-SE 100 index of leading shares was down in December, falling by 4% to 6,728. The FTSE started the year at 7,688, meaning that it fell by more than 12% in the year. The pound ended the year at $1.2746, virtually unchanged in December but down 6% for the year as a whole.

Brexit

On New Year's Day there were just 88 days to go until the UK – in theory – leaves the European Union. In contrast the Referendum which saw the victory for 'Leave' was 941 days ago.

December was notable for plenty of drama in the House of Commons as Theresa May survived a vote of no confidence by 200 votes to 117, meaning that she cannot now be challenged as party leader before December 2019. Her New Year message contained yet another plea for MPs to support the deal she has negotiated, but with the US Ambassador warning that such a deal makes Donald Trump's offer of a 'quick, massive trade deal' impossible, Brexiteers are unlikely to be placated.

Unsurprisingly, the Government is now belatedly preparing for the possibility of a 'no deal' exit, with business organisations roundly criticising the lack of preparations. But should business really be surprised? If there is one thing you can rely on with politicians, it is their complete lack of business acumen.

Presumably, though, we will know more by this time next month with December's 'meaningful vote' in the Commons now scheduled for the week commencing 14th January – when there will be just 74 days to go to 29 March...

Europe

The big news in Europe was the *gilets jaunes* (yellow jackets or yellow vests) as the protesters took to the streets to demonstrate against the rising cost of living, climate-change inspired fuel increases and the President's seeming lack of concern about the lives of ordinary people. Goodness me, Emmanuel Macron spent a trifling €30,000 (£27,000) on make-up and haircuts in his first three months as President – of course he understands the concerns of 'ordinary people'.

Eventually the President caved in, buying off the protesters with measures which could well send France's budget deficit to 3.5% of GDP (and possibly to 4% in the event of a recession). This is well ahead of the EU's limit of 3% and put the squabble with the Italian government over a deficit of 2.4% into perspective. That 'squabble' has now been settled with a compromise and the Italian parliament has passed the revised budget – but the coalition government in Italy still wants to kick-start its stagnant economy, and cannot have failed to notice the latitude given to France.

France also announced the introduction of a 'tech tax' on companies such as Amazon and Apple, as Europe-wide plans for such a tax faltered, with Ireland and the Nordic countries (notable beneficiaries of the tech giants) objecting.

Across the border in Germany, Angela Merkel's eventual successor emerged as Annegret Kramp-Karrenbauer (commonly known as AKK or 'mini-Merkel') who took over as leader of the CDU and will almost certainly become the next German Chancellor.

All of this was set against a backdrop of slowing economic growth in the Eurozone, with the Purchasing Managers' Index showing growth at a four year low and the economy in France starting to contract. The European Central Bank also finally brought its €2.5tn (£2.25tn) financial stimulus package to and end, and interest rates remained at 0% in the Eurozone.

Unsurprisingly, both the German and French stock markets had poor months in December. The German DAX index was down by 6% to 10,559 and the French index by 5% to 4,731 – meaning that the markets respectively ended down 18% and 11% for the year as a whole.

USA

As we have noted above, December opened with Donald Trump at the G20 Summit in Argentina, agreeing a temporary truce with Chinese leader Xi Jinping. Sadly, that was about the only temporary truce the 49th President agreed in December as he fell out with both the Chairman of the Federal Reserve Bank and a large swathe of American politicians.

The Fed – worried about inflation – raised US interest rates to 2.25% to 2.5%. This was the highest level for a decade and was one of the reasons for December's global fall in stock markets. Trump and Federal Reserve chairman Jerome Powell (who the President only appointed in November 2017) then had a very public falling out about the rate rise, which did little to calm world markets.

The President then fell out with the Democrats in the Senate, threatening a 'very long shutdown' of the US government if they refused to fund his $5.7bn (£4.5bn) plans for a border wall with Mexico. Shutdowns of the US government are nothing new, but coming on top of the row with the Federal Reserve this added to the general stock market unease and meant that the normal 'Santa rally' (the US stock market usually goes up around Christmas) became the 'Santa rout' with the Dow Jones index falling 6.8% in one week and facing its worst December since 1931.

Inevitably, this had a severe knock on effect on other worlds stock markets – as we ate our Christmas dinner the Japanese market was falling 5% in a single day.

The Dow Jones index did stage a brief post-Christmas rally as Mastercard data showed holiday retail sales up by 5.1%, the best level for six years. It ultimately closed the year at 23,327 having fallen by 9% in December. For the year as a whole the Dow was down by 6%.

Far East

The big story in the Far East during December – apart from the fall-out from events in the US – was the Chinese telecoms maker Huawei.

The company has now overtaken Apple to become the world's 2nd biggest maker of smartphones, but there are real concerns about its ties to the Chinese state and possible involvement in espionage, especially as it is manufacturing equipment for so many 5G networks around the world.

The month started with the company's finance chief Meng Wanzhou being arrested in Canada and facing possible extradition to the US over fraud charges – which, of course, brought the inevitable threat of reprisals against Apple and other US companies.

With Huawei holding the lion's share of the world's 5G contracts, the concerns will run throughout 2019, no doubt. UK Defence Secretary Gavin Williamson is the latest person to voice his fears. Meanwhile, Huawei shrugged its corporate shoulders as chairman Guo Ping said that revenues would hit $108.5bn (£85.7bn) this year, up 21% on the previous year.

If Huawei was on the expansion trail, so was China as a whole. Ever-hungry for natural resources the country is apparently now describing itself as a 'near-Arctic' power and taking a keen interest in investing in Greenland – home to a strategically important US base at Thule, in the far north of the country. What could possibly go wrong?

The short-term answer to that question was Far Eastern stock markets which, unsurprisingly, were all down in December. China's Shanghai Composite index fell 4% to 2,494 while the Hong Kong market was down just 2% at 25,846. The South Korean index was down 3% at 2,041 and, having fallen 5% in one day, Japan's Nikkei Dow index was down 10% for the month, ending at 20,015.

The figures for the full year make even worse reading – China leads the way with a fall of 25% on 2018, with South Korea down 17%, Hong Kong down 14% and Japan down 12%.

Emerging Markets

Finally, we come to the one bright spot for the month of December. None of the three major emerging markets we cover were up in December, but they did avoid the heavy losses some other markets suffered, and all three were up for the year as a whole.

The Indian stock market fell very slightly in the month, but was unchanged in percentage terms as it closed the year at 36,068 for a gain of 6% in 2018. The Russian stock market dropped back by just 1% in the year to close at 2,369 and was up by 12% for the year.

Pride of place, though, goes to Brazil, which has just seen new president Jair Bolsonaro – dubbed the 'Trump of the Tropics' – sworn in on New Year's Day. Despite falling 2% in December, the stock market ended the year 15% up at 87,887.

And finally...

It was revealed that inflation is not running at close to 2% as we all thought – at least, not inflation for the super-rich, as measured by the inflation 'basket' of Coutts, the Queen's bankers. This inflation basket contains not washing-up liquid and toilet rolls but Charbonnel et Walker chocolates, native oysters and whisky (among other delicacies). Sadly, continued increasing demand from China's emerging middle class has pushed up the price of oysters by 21% this year, and the overall rate of inflation for the super-rich is up by 5.9%.

Meanwhile, December saw a Scottish fish and chip shop do its bit to tackle the national problem of obesity by serving a deep fried Christmas dinner.

Dunkeld Fish Bar in Perthshire says its turkey goujons, battered Brussel sprouts and carrot and parsnip fritters are already a big hit with customers, with the specialist supper costing a mere £10. The meal is completed by a giant pig-in-a blanket (a battered, foot-long sausage) and a deep fried mince pie. Surprisingly, the meal was not included in Coutts' inflation basket.

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