March
2019

Enhance

Monthly Market Update

February was another month when all the important news seem to happen in the last week of the month.

President Trump delivered the annual State of the Union address on 6 February and announced a second meeting with North Korea's Kim Jong-un. The two duly met up in North Korea three weeks later, only for the talks to break down without agreement, as the US refused North Korea's demands for sanctions relief.

Meanwhile back in the US Michael Cohen, the President's former lawyer, was testifying to Congress and claiming that the leader of the free world is a "racist, conman and a cheat." With Trump already having confirmed that he will run for President again in 2020, the Democrats must have been licking their lips…

While there was no agreement with North Korea, it does appear that the US and China may gradually be inching towards a settlement of their trade dispute, with the US delaying the imposition of further tariffs as the President stated that the two countries are "very, very close to a deal."

India and Pakistan are, unfortunately, about as far from an agreement as it is possible to be. Tensions have escalated over the disputed region of Kashmir, with India striking at what it claims was a militant camp in Pakistan, which retaliated by shooting down two Indian jets, before releasing an Indian pilot on 1 March.

So plenty of tension, discord and disharmony in the world. Thank goodness the Brexit negotiations are running so smoothly… Or perhaps not. With under a month to go until the UK is due to leave the European Union we are no further forward than we were this time last month. So great is the confusion that – according to the Spectator – even the Prime Minister was unsure of which way to vote on one of the many amendments tabled in parliament.

What of world stock markets in the month? As you might expect, the indications that the US/China trade war would end were good news for all the leading world stock markets, and it was no surprise to see China's Shanghai Composite index leading the way. Let's look at all the details…

UK

It says much for the parlous nature of the UK high street that in fairly short order it may be time to add a formal section to this Bulletin entitled 'UK retail gloom'.

The month began with Oddbins calling in the receivers, Debenhams bringing forward its programme of store closures and Thomas Cook revealing £60m of losses. True, retail sales did bounce back in January thanks to widespread sales but by the middle of the month an article in BBC was openly speculating on whether our high streets would become 'ghost towns.'

Would an online sales tax save the high street? That seems to be the route the Chancellor is determined to go down, but I doubt that it will be effective – any more than a tax on the Model T Ford would have saved the horse and buggy economy. The simple fact is that shopping online is simpler, quicker, more convenient and very often cheaper than the high street.

But if January brought bad news for the high street it brought even worse news for the UK car industry, as Nissan moved production of the X-Trail away from Sunderland and back to Japan, and Honda confirmed that its Swindon plant would close in 2022.

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However, it is important to accept that these problems in the car industry are not confined to the UK. The German car industry, for example, will face enormous problems in the future as the three fundamentals on which the car industry has been based all come under attack. For a century we have taken it for granted that cars need a driver and that they are privately owned and powered by the internal combustion engine. Suddenly, none of that applies any more.

Let us try and find some good news amid the gloom. UK growth was forecast to be 1.4% in the coming year: yes, that is the lowest for six years, but it is well ahead of Germany and the rest of the Eurozone. Inflation in January fell to a two year low of 1.8% and figures from the Office for National Statistics showed that 2018 ended with 444,000 more people in work than a year previously, and 60,000 fewer people reliant on zero-hours contracts. And with inflation falling, real wages were up again.

If you want more good news then Government borrowing fell to its lowest level since 2001 as income from taxes beat spending by £14.9bn in January. And investment in the UK's artificial intelligence sector was equal to AI investment in the rest of Europe combined.

The FTSE 100 index of leading shares decided to side with the optimists, and ended January up 2% at 7,075. The pound was also up against the dollar, rising by 1% to close January at $1.3262.

Brexit

So here we are: On the 29 March the UK is due to leave the European Union. Is that likely to happen? According to the bookmakers, who seem to be at least as well informed as the politicians, it is likely that Article 50 will be extended beyond 29 March but that the UK will eventually leave the EU with some sort of deal.

Of course, extending Article 50 needs the consent of the other members of the EU. Contrary to what the media might suggest, it is not simply reliant on the machinations in parliament and whichever group has the Prime Minister's ear that day.

But it is by no means certain that Europe will agree to an extension. There are plenty of suggestions that Europe is as poorly prepared for 'no deal' as the UK is, but could a country like Holland – which clearly wants to attract British business post-Brexit – block an extension? And then President Macron has spoken of refusing to grant an extension unless the UK has some 'clearly different' proposals.

Meanwhile Labour has committed itself to backing a second referendum and Theresa May has yet again kicked the can down the road, delaying any further meaningful vote in the Commons to 12 March. She is presumably hoping to use the time pressure and the threat of a long delay to win enough support from staunch Brexiteers to get her Withdrawal Agreement through parliament.

By the next Bulletin it will all be settled. Will there be a short delay to Brexit or will the UK have left the EU with no deal almost by accident? Given the rollercoaster ride that is Westminster politics, the latter is by no means impossible.

Europe

If the UK news was the usual mixture of good and bad in February, for Europe it was almost unremittingly bad, especially if you were a French shopper. The month started with a new law – designed to prevent shops selling big brands at cost price – forcing many shops to put their prices up.

Rather more seriously, investor confidence in the Eurozone fell to a four year low and the EU downgraded its forecast for German growth. In fact, Germany narrowly avoided a recession (defined as two consecutive quarters of negative growth) when figures from the Federal Statistics Office showed growth of 0% in the fourth quarter of 2018.

But with Eurozone industrial production in December falling by 0.9% there was little to cheer European finance ministers, especially as speculation continues to mount that several 'zombie banks' (look no further than Italy) are being saved from collapse only thanks to the continued intervention of the European Central Bank.

For now, though, the news on the major European stock markets was good, no doubt helped by the thaw in relations between the US and China. The German DAX index rose 3% in the month to 11,516 whilst the French stock market did even better, ending February up 5% at 5,241.

USA

February got off to a good start in the US as figures showed that the economy had added 304,000 jobs in January, way ahead of economists' expectations of 165,000 jobs.

As we have discussed above, the President announced – and subsequently had – his meeting with Kim Jong-un and moves were made towards ending the trade dispute with China. Donald Trump even appeared to take a more conciliatory tone with regard to Chinese telecoms company Huawei, having previously signed an order prohibiting the purchase of their equipment for 5G networks in the US.

In company news Google announced a total investment of $13bn (just under £10bn) as it builds data centres and offices across the US, which will ultimately create 10,000 jobs. Amazon, though, changed its mind, cancelling its planned headquarters building in New York in the face of opposition from local residents.

We may be seeing the beginning of the end for private car ownership and Uber is certainly at the forefront of that movement – but that doesn't mean the company makes a profit. Uber revealed that losses in 2018 had 'narrowed' to the frankly trivial amount of $1.8bn (£1.36bn).

Meanwhile shops that once did make a profit were facing the same retail gloom in the US as in the UK, as retail sales fell at their fastest rate for ten years in December. The Christmas shopping bonanza simply failed to happen in shopping malls across America.

The Dow Jones index, though, was in buoyant mood, and ended the month up 4% at 25,916.

Far East

The big news in the region was, of course, that the US/China trade dispute looks like it might be coming to an end. Will that counteract the slowdown in the Chinese economy, which is having ripple effects across most of the world's economies?

The current slowdown is the biggest China has seen in 30 years: traditionally, the answer to a slowdown in China has been 'build stuff'. Now it appears that the emphasis might be shifting to 'buy stuff' as domestic consumption takes over from state backed investment as the main driver of growth. The government duly unveiled a series of stimulus measures to try and manage the slowdown.

President Xi Jinping has spoken of the switch to domestic consumption being 'a struggle', while several economists have pointed out that China's goal is no longer growth, but stability.

Across in Japan Nissan sharply downgraded its profit forecasts in the light of falling sales in Europe and compensation due to its former chairman Carlos Ghosn, who continues to await trial on fraud charges.

As you would expect, February was an excellent month for China's Shanghai Composite Index, which soared 14% to 2,941. The other markets, though, behaved far more sedately, with Japan rising 3% to 21,385 while the Hong Kong market was up by 2% to 28,633. The South Korean market was down by just ten points – unchanged in percentage terms – at 2,195.

Emerging Markets

In contrast to the good news reported above, all the three major emerging markets we cover in this report ended February slightly down on the month.

We have already covered the growing tensions between India and Pakistan. In February those tensions did not appear to unduly worry the Indian stock market, which drifted down just 1% to close the month at 35,867.

In Russia Vladimir Putin responded to the US move to abandon post-Cold War limits on missile building by doing exactly the same. He also announced that Russia would be disconnecting itself from the world wide web to test how the country's own internet service, Runet, would function in the event of a cyber-attack. The Russian stock market didn't seem unduly worried by the possibility and, like India, fell by just 1% in the month to 2,485.

The Brazilian market was also down in February – by 2% to 95,584 – although this did follow a very good performance in January. The big news here was a proposal by new President Jair Bolsonaro to revamp the country's pension system, a move that has long been considered essential to boost the growth of South America's biggest economy.

And finally...

We have had some vintage months for the 'And finally' section of this Bulletin of late, but in February the world was a depressingly sensible place. Even the British Government came to its senses, as it cancelled the ferry contract it had awarded to a company which didn't own any ships. It's so easy to overlook these minor details...

...And also quite easy to trip over your laces if you are wearing the new Nike self-tying shoes. Apparently Nike have made a trainer (billed as the 'footwear of the future') which is both self-lacing and self-tying. The Adapt BB – far too cheap at $350 (£268) – launched in February and is controlled by an Android app.

But users were quick to point out that the app only synced with one shoe. One reviewer expressed his frustration on Google: 'The software update had an error and now my right shoe won't charge or turn on! To spend $350 on a pair of shoes and have it not work is embarrassing.'

Of course one of the things you really do have to work at is marriage. And one couple in Kuwait did work at it, for a full three minutes.

As the couple were leaving the courthouse after the wedding the bride tripped over (although there are no reports that she was wearing self-tying trainers...) At this her loving husband called her 'stupi'. Not surprisingly, the bride instantly demanded that the wedding be called off and – after considering what he'd seen – the judge issued an annulment just three minutes after he'd married them.

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