LONGLEY
ASSET MANAGEMENT

44 Clarendon Drive
London SW15 1AE
020 7294 7326
www.lamasset.com

Global Market Overview – January 2020

The strong performance of financial markets in 2019 might seem at odds with the generally bearish investor sentiment that prevailed during the year. The backdrop was clearly one of uncertainty, with ongoing political instability and worries about a possible recession leading many investors to seek out more cautious strategies – this was a costly mistake as markets performed very well across all asset classes.

There were a number of catalysts for the good returns. As the year progressed, it became clear that much of the rhetoric from politicians was not going to be backed up by any action, and although most risk assets started 2019 at compelling prices following the severe sell-off at the end of 2018, the key driver for the strong returns was the reversal in central bank monetary policy, with many of the major central banks cutting interest rates during the year.

As we enter the new decade, many of the questions that investors have battled with remain unanswered, such as whether we are approaching the end of this economic cycle, or whether politics would continue to suppress growth. The recent phase-one trade agreement between the US and China has removed some uncertainty and the stronger Chinese currency is a positive for many emerging market economies, but it remains difficult to gauge whether this will lead to stronger earnings growth, which remains a key driver of longer-term equity returns.

The battle between the US and China, together with the political tensions in the eurozone and the UK, has meant that global equities have traded sideways over the past two years. The US market has, however, risen strongly in recent months from its 2018 peak – primarily due to the dominance of its technology stocks. Currently the S&P 500's price to earnings ratio is above its long-term average whereas, in contrast, non-US equity markets sit well below their long-term averages.

An important aspect of 2020 will be how investors navigate the divergence in equity valuations between the regions. Many anticipate a rotation away from the perceived more expensive US shares towards cheaper global markets such as the UK and emerging countries. Indeed we may see a global recovery that favours the emerging economies as US activity moderates ahead of the presidential election later this year.

Interest rate policy was the driver in 2019 and it would be unwise to expect a repeat performance this year. Accordingly we probably need to see a continued fall in the perceptions of risk to drive asset prices much higher from here. The risk premium is, however, already low in many asset classes and for some fixed interest markets it is already significantly compressed. The possibility of a higher risk premium in bond markets should not be dismissed, and which would lead to falling prices in this asset class – especially if we see government fiscal stimulus as is currently anticipated from Japan and the UK, and possibly from the eurozone.

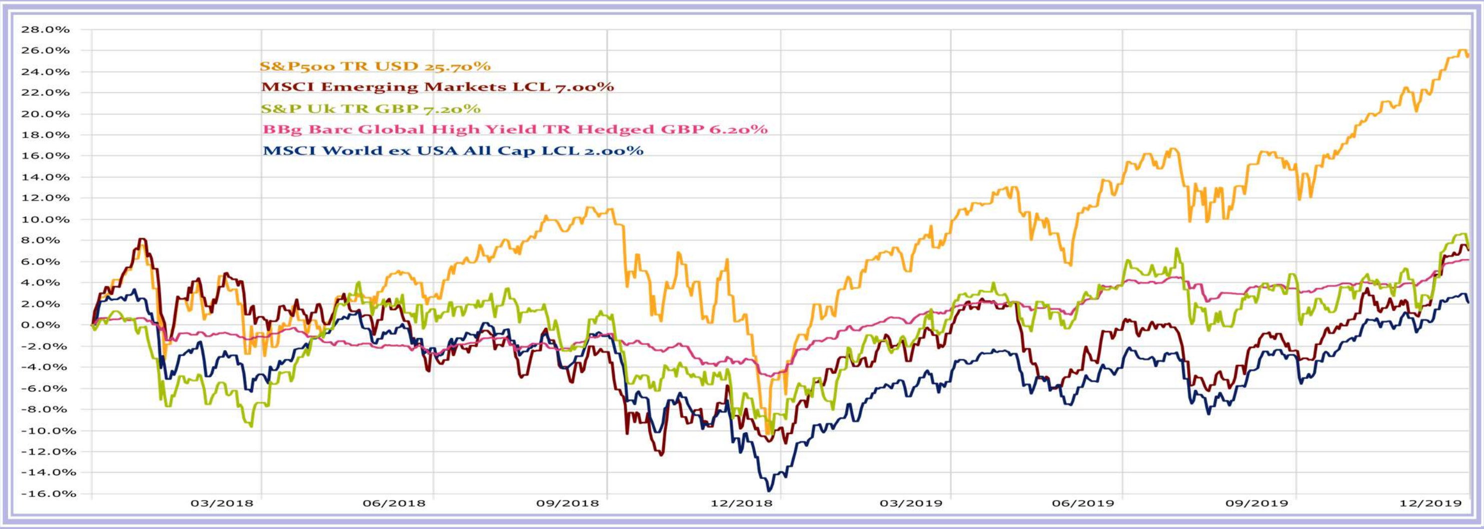
Fiscal stimulus could provide a useful boost to markets, and equities are already currently priced in anticipation of an extended economic cycle that restores double-digit earnings growth, but this clearly leaves potential for a market correction if earnings disappoint. Nevertheless, despite this and the strong performance of 2019, equity markets generally still look attractive relative to their historic averages and certainly when compared to alternatives.

In summary, we anticipate slow and steady growth. This, coupled with robust labour markets and little possibility of a recession, means we continue to favour equities over bonds as we enter 2020. We have, however, where appropriate, been repositioning away from the areas that are most sensitive to economic activity.

Melissa Longley FCSI
Chartered Wealth Manager
CEO and Chief Investment Officer
Email: melissa.longley@lamasset.com

Paul Stevens FCSI
Chartered Wealth Manager
Investment Manager
Email: paul.stevens@lamasset.com

Two years to end December 2019 – percentage Total Return



Index, Benchmark and Exchange Traded Fund percentage growth to end December 2019

	Currency	3 Months	6 Months	12 Months	3 Years
Bonds					
BBgBarc Global High Yield TR	GBP Hedged	2.62	2.32	11.13	13.77
ICE B of A Global Corporate TR	GBP Hedged	0.43	2.79	10.61	12.79
UK Equities					
iShares 100 UK Equity Index Acc	GBP	2.53	3.51	16.85	18.92
iShares MSCI UK Small Cap ETF Acc	GBP	10.89	13.17	29.22	31.43
S&P UK TR	GBP	2.53	3.37	17.18	19.89
US Equities					
S&P 500 TR	GBP	1.46	6.56	26.41	42.87
S&P 500 TR	USD	9.07	10.92	31.49	53.17
NASDAQ 100 TR	USD	12.99	14.45	39.46	85.54
European Equities					
iShares STOXX Europe 600	GBP	6.17	8.94	27.75	26.01
MSCI AC Europe GR	Various	4.72	6.86	24.70	28.17
Japanese Equities					
Nikkei 225 Average TR	Yen	8.93	12.30	20.72	31.40
Asian and Emerging Equities					
Morningstar Asia GR	GBP	2.01	4.44	13.69	27.05
iShares Core MSCI Emerging Markets ETF	GBP	11.54	6.77	17.50	37.10
MSCI Emerging Markets GR	Various	9.63	7.51	18.52	40.15
Global Equities					
MSCI World All Cap PR	Various	7.26	8.21	24.63	30.76
MSCI World ex USA All Cap PR	Various	5.16	6.37	18.55	15.24
Commodities					
S&P GSCI Crude Oil Spot	USD	12.93	4.43	34.46	13.66
S&P GSCI Copper Spot	USD	7.88	2.91	3.36	11.54
S&P GSCI Gold Spot	USD	3.41	7.74	18.87	32.25
Global Real Estate					
S&P Global Property TR	USD	3.36	6.95	22.96	32.76
Asset Risk Consultants Private Client Indices*					
ARC Cautious PCI TR	GBP	0.40	1.80	7.58	8.32
ARC Balanced Asset PCI TR	GBP	1.19	2.84	11.33	12.73
ARC Steady Growth PCI TR	GBP	1.88	3.49	14.44	18.14
ARC Equity Risk PCI TR	GBP	2.58	4.01	17.27	22.14
ARC Cautious PCI TR	USD	2.32	3.21	9.92	12.94
ARC Balanced Asset PCI TR	USD	4.05	4.66	14.17	19.15
ARC Steady Growth PCI TR	USD	5.39	5.66	17.61	26.02
ARC Equity Risk PCI TR	USD	7.06	7.06	23.13	35.78

Important Information
Source for graphs, economic and market data: Morningstar Direct.
*Asset Risk Consultants' data contains estimated numbers. TR is Total Return. PR is Price Return. GR is Gross Return.