gemini asset management

marketmatters

October 2019

Review of markets over the third quarter of 2019

After a difficult summer for risk assets, investors returned from their holidays in a bullish mood and drove equities higher in September, leaving global equities broadly flat for the quarter. The quarter was marked by a continued slowdown in the global economic data, offset by further stimulus measures by central banks in the US and Europe.

In the US, the Federal Reserve (Fed) cut interest rates in July and September in an attempt to prolong the economic expansion in the face of a slowdown in the pace of growth and hiring. While the US economy continued to add jobs, the pace of the growth has slowed meaningfully, and consumer confidence also declined from its elevated levels. US equities delivered 1.7% over the quarter in US dollar terms.

Of course, the trade war also continued to play a prominent role in financial headlines throughout the quarter. As things currently stand, further tariffs are due to come into place by the end of the year unless renewed talks between the US and China make enough progress. Failure to prevent further tariffs could hurt the global economy, so it's set to be another quarter of carefully monitoring the developments on trade.

In local currency terms Japan led the way in quarter 3 as can be seen on the chart below.

World Stock Market Returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	3Q 2019
MSCI Asia ex Japan 67.2%	MSCI Asia ex Japan 15.6%	US S&P 500 2.1%	Japan TOPIX 20.9%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE 100 19.1%	MSCI Asia ex Japan 35.9%	US S&P 500 -4.4%	MSCI Europe ex UK 21.1%	Japan TOPIX 3.4%
MSCI EM 62.8%	US S&P 500 15.1%	UK FTSE 100 -2.2%	MSCI Europe ex UK 20.0%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 31.0%	UK FTSE 100 -8.7%	US S&P 500 20.6%	MSCI Europe ex UK 2.5%
MSCI Europe ex UK 29.0%	MSCI EM 14.4%	MSCI Europe ex UK -12.1%	MSCI Asia ex Japan 19.7%	MSCI Europe ex UK 24.2%	MSCI Asia ex Japan 7.7%	US S&P 500 1.4%	MSCI EM 10.1%	Japan TOPIX 22.2%	MSCI EM -9.7%	UK FTSE 100 14.3%	US S&P 500 1.7%
UK FTSE 100 27.3%	UK FTSE 100 12.6%	MSCI EM -12.5%	MSCI EM 17.4%	UK FTSE 100 18.7%	MSCI Europe ex UK 7.4%	UK FTSE 100 -1.3%	MSCI Asia ex Japan 6.4%	US S&P 500 21.8%	MSCI Europe ex UK -10.6%	Japan TOPIX 8.8%	UK FTSE 100 1.0%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -14.6%	US S&P 500 16.0%	MSCI Asia ex Japan 6.2%	MSCI EM 5.6%	MSCI Asia ex Japan -5.3%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI Asia ex Japan -12.0%	MSCI EM 8.1%	MSCI EM -1.9%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	Japan TOPIX -17.0%	UK FTSE 100 10.0%	MSCI EM 3.8%	UK FTSE 100 0.7%	MSCI EM -5.4%	Japan TOPIX 0.3%	UK FTSE 100 11.9%	Japan TOPIX -16.0%	MSCI Asia ex Japan 7.3%	MSCI Asia ex Japan -3.3%

Source: FactSet, FTSE, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency. Past performance is not a reliable indicator of current and future results. Data as of 30 September 2019.

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In Europe, the European Central Bank (ECB) responded to the weaker economic outlook by cutting interest rates further into negative territory, restarting quantitative easing and committing to continue with asset purchases until it achieves its inflation target. While those asset purchases may have a limited effect on their own, if combined with fiscal stimulus from the economies that can afford it, they could help to support growth. But the timing of any fiscal stimulus from Europe remains uncertain.

The ECB's policy easing has come against a backdrop of weakening growth, with the business surveys for September painting a picture of an economy that continues to slow, particularly in the manufacturing sector. With growth pushing in one direction and monetary stimulus pushing in the other, European equities delivered 2.5% over the quarter.

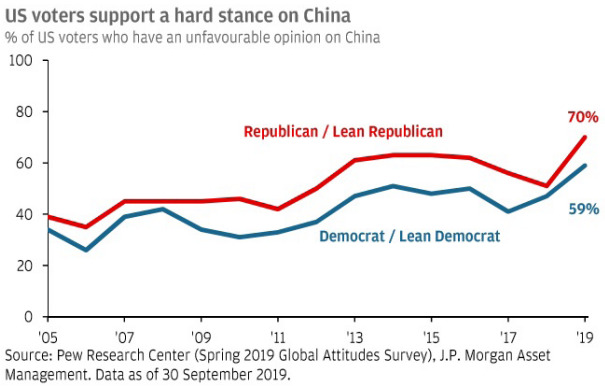
In the UK, the seemingly never-ending Brexit saga dragged on, with parliament passing legislation that will force the government to ask for an extension if it can't agree a deal with the EU. This sent sterling higher, before the prime minister suspended parliament, only for the suspension to be ruled unlawful. So, no let-up in the drama, with a highly unpredictable election remaining the most likely outcome if a deal cannot be reached in the coming weeks. UK equities delivered a modest 1.0% over the quarter, although it should be noted that year to date the FTSE 100 has still delivered an excellent return against this uncertain backdrop.

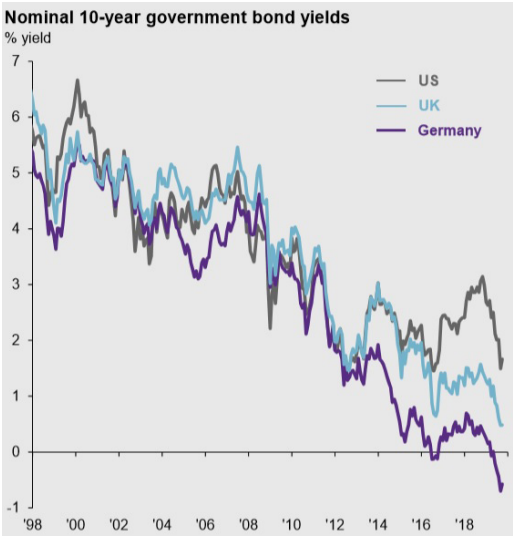
The Bank of England remained on hold as Brexit uncertainty continued to cloud the outlook for the UK economy. With wage growth at 4%, policymakers are conscious that if global and Brexit-related risks subside they may still need to raise interest rates, whereas if the downside risks highlighted by some of the business surveys materialise, they will need to follow the Fed and lower interest rates. UK government bonds (often the go to asset in times of equity uncertainty in the UK) delivered 6.7% over the quarter.

In Japan, the consumption tax hike has just come into place, posing a risk to an economy that is already feeling the effects of the global slowdown in manufacturing. Faced with these risks, Japanese consumer confidence continued to decline this quarter. The Bank of Japan also resisted the temptation to join in the easing game but said it would review the outlook at its next meeting, perhaps hinting at further easing to come. Japanese equities delivered 3.4% over the quarter.

China's economy continued to slow, with industrial production growing at 4.4%, down from around 7% at the start of 2018. Retail sales also slowed, to 7.5% from close to 10% in early 2018. However, with growth still comfortably above that in the US, and given that the US economy is also slowing as a result of the trade dispute and there is a US election next year, it's far from clear that China will concede to US demands on trade. Emerging markets delivered a negative return of -1.9% over the quarter.

Staying with the trade war and US businesses are signalling that the tensions are adversely impacting them. The Institute for Supply Management manufacturing survey for September weakened to 47.8 which is its lowest level in over ten years. Continued uncertainty is causing US businesses to delay their plans to invest in new projects or equipment, as highlighted by the decline in capital expenditure intention surveys this year. Businesses hoping for a structural resolution to the trade dispute in the near- term may be disappointed. Surveys suggest that a tough stance towards China has broad support across both Republican and Democrat voters as shown on the chart to the right.





Helped by central bank easing and rising concerns about the global growth outlook, it was another good quarter for government bonds, albeit with a temporary sell-off in early September. Remembering the inverse relationship between prices and yields, the chart shows how the decline in government bond yields this year has thus far resulted in some very respectable returns form these fixed income instruments. You can see that German Bund yields remain well in negative territory at -0.54%

In addition to that shown on the chart US Treasuries delivered 2.4% in the third quarter and the ten-year yield now hovers at around 1.58% which is almost 1.7 percentage points lower than at this point a year ago. Global Investment grade credit delivered 1.2%,US high yield 1.3% and Euro high yield returned 0.9%.

Source: JP Morgan Asset Management Guide to the Markets September 2019

Local Government Bond Returns

2013	2014	2015	2016	2017	2018	YTD	3Q 2019
Spain 11.3%	Spain 17.0%	Italy 4.9%	UK 10.7%	US 2.5%	Spain 2.6%	Italy 14.4%	Italy 8.5%
Italy 7.4%	Italy 15.7%	Spain 1.7%	Spain 4.2%	UK 1.9%	Germany 2.3%	UK 12.1%	UK 6.7%
Japan 2.2%	UK 14.1%	Global 1.3%	Germany 4.1%	Global 1.3%	Japan 1.1%	Spain 11.0%	Global 2.8%
Global -0.4%	Germany 10.5%	Japan 1.3%	Japan 3.6%	Spain 1.1%	Global 1.0%	US 8.1%	US 2.6%
Germany -2.3%	Global 8.5%	UK 1.2%	Global 2.9%	Italy 0.8%	US 0.8%	Global 8.0%	Spain 2.2%
US -3.4%	US 6.1%	US 0.9%	US 1.1%	Japan 0.2%	UK 0.6%	Germany 6.5%	Germany 2.2%
UK -4.2%	Japan 4.8%	Germany 0.4%	Italy 0.8%	Germany -1.4%	Italy -1.4%	Japan 3.4%	Japan 0.4%

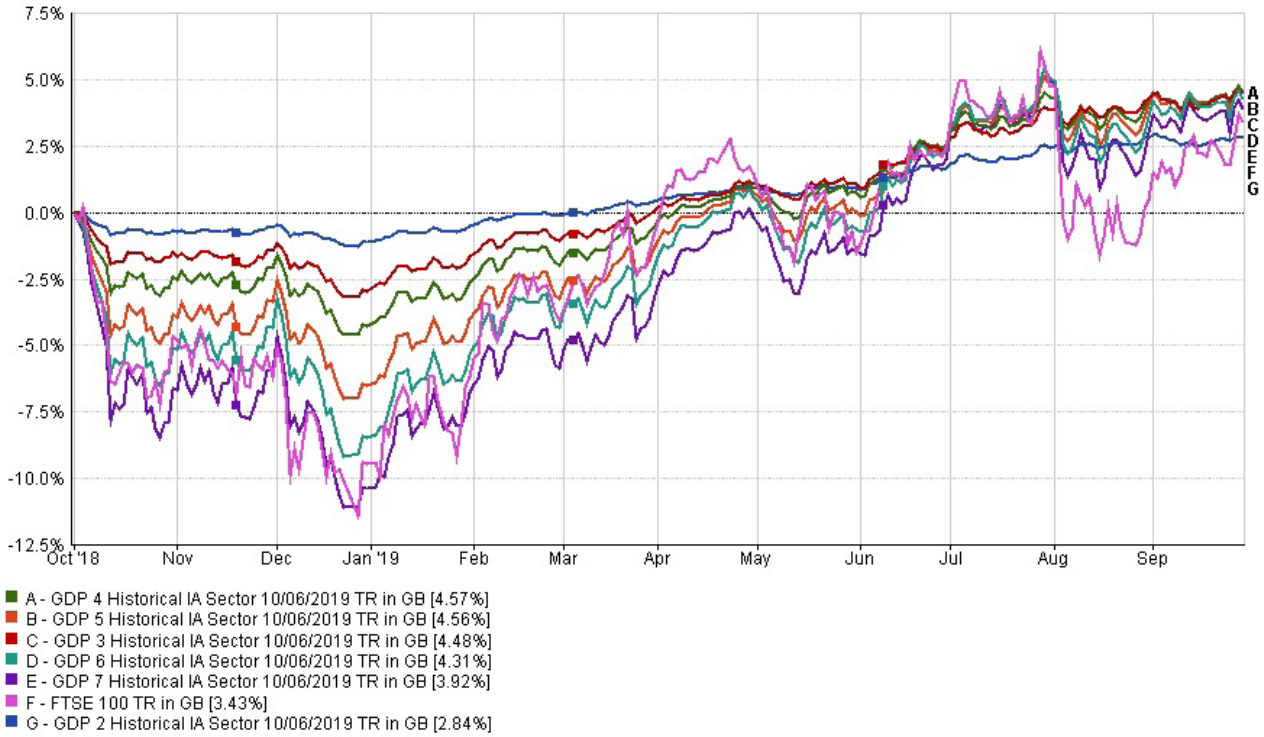
Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. All indices are J.P. Morgan GBIs (Government Bond Indices). All indices are total return in local currency. Past performance is not a reliable indicator of current and future results. Data as of 30 September 2019.

Overall, the global economy faces several unpredictable risks.

- Will the trade war escalate?
- Will a UK election lead to a no-deal Brexit?
- Will the recent tension in the Middle East escalate and cause another spike in the oil price?
- Will companies respond to slowing growth and profits by cutting jobs?

Portfolio Performance

The charts below show performance of our discretionary risk rated portfolios over the course of the last 1 and 5 years. The charts are based upon our existing discretionary models looking back and so only take into account the asset allocation and fund changes made since March 2017 i.e. since the models were created. The data beyond this therefore presumes investment in the same funds and asset allocations as of March 2017. The charts compare performance against the FTSE 100 in order to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of our portfolios with an equity index such as the FTSE 100 is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.



Source: Financial Express Analytics data 01/10/2018 to 30/09/2019. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

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Asset Allocation and Fund Review

The investment committee reviewed the existing asset allocation models in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner.

As a result of this there were **no changes** to the asset allocation models or the funds we are invested in during the third quarter.

Secure Client Login

Our Secure Client login portal allows the investment team to act swiftly with regard the reporting and fund switching process. An increasing number of clients are signing up for this service.

If you have not already registered and would like to do so, please do not hesitate to email us at **investment.team@gemini-wm.com** and we will set you up for this facility.

We continue to welcome client feedback of this service. You can use one of the two email addresses on the Client Login portal to contact us, alternatively please contact Gemini's Investment Analyst, Tom Morgan, on 0121 354 2700