INVESTMENT MARKET UPDATE

October 2019

Canaccord Genuity
Wealth Management

Looking for the positives in markets

There's an old market saying, "if it's in the press, it's in the price". It's all too easy to get swept up in the moment and to think that the news flow we see around us right now sets the tone for tomorrow, rather than gets reflected in prices today.

And today's headlines are certainly causing global markets to be awash with fear right now. Did Iran and/or its proxies just blow up some key Saudi Arabian oil infrastructure? Did the US House of Representatives just start impeachment proceedings against President Trump? Have recent manufacturing indices been shockingly weak across the board? Is the US economic growth engine sputtering as well now? Did we really see an inversion of the US yield curve (normally a reliable recession indicator) only six weeks ago? Was the British Prime Minister found guilty of illegally proroguing parliament? Has President Trump escalated his trade war with Europe, while simultaneously threatening the withdrawal of access to US capital markets for internationally quoted Chinese companies? Are the riots in Hong Kong getting worse?

Politically, economically and financially, the world feels a scary place right now. And that equals all-round nervousness for investors. Equity markets over the last few days have fallen away and given up all the gains they had made in September. The major US and UK indices have both fallen by 5% over the last fortnight, Europe and Japan have dropped by slightly less, along with emerging markets, but the mood is sombre. Bond yields have fallen as investors have sought refuge in safe-haven assets. The UK 10-year Gilt yield has dropped from around 0.7% to below 0.5%, and the US equivalent from around 1.8% to nearly 1.4%.

So, what is there to make us feel positive about markets?

Rather than get swept away by the negative news flow, let's look at some of the positives – particularly what the central banks are doing.

The European Central Bank followed the US Federal Reserve (Fed) and cut rates last month and resumed its quantitative easing (QE) programme to support markets. It seems likely

> *Looking back, it certainly didn't 'feel' right to buy the market on 3 March 2009 when it seemed like the financial world was about to end. But this was in fact the best time to buy the UK equity market in the last 12 years.*

> *These central bank measures mean more liquidity hunting for risk assets, and for the time being we're confident equity markets will be higher in a year's time than they are today.*

that the Fed will cut rates again at its October meeting in a fortnight's time. This is even with the positives of very low unemployment and some incipient signs of wage inflation. Over here, the tone from the Bank of England is increasingly dovish, and many expect it to reverse at least one of the two 0.25% increases it put through last year.

And looking back, it certainly didn't 'feel' right to buy the market on 3 March 2009 when it seemed like the financial world was about to end; RBS was 45 minutes from insolvency and the global economy was in meltdown. But as we recall the saying, "if it's in the press, it's in the price", this was in fact the best time to buy the UK equity market in the last 12 years. In the 10 months to 31 December 2009, UK-listed shares generated a total return, including dividends, of around 60% from their lows. Over the 10.5 years since, they have risen only by a further 100%.

While we're not in the depths of early 2009 today – not by a very long shot - worldwide monetary and fiscal responses continue to support markets, and ultimately, as another saying goes, 'don't fight the Fed'. These central bank measures mean more liquidity hunting for risk assets, and for the time being we're confident equity markets will be higher in a year's time than they are today.

Measured market optimism with insurance policies in case things get worse

Having said that, it's always important not to keep all your eggs in one basket. So, although we retain a full weighting towards equities and have equity-related exposures in both the fixed interest and alternatives assets, we must acknowledge the severity of the multiple threats facing markets today.

Therefore, in our most recent asset allocation moves, we added further to our position in gold, to take advantage of a small recent pull-back in the price. Gold has a good track record as a safe-haven investment at times of market stress, and there are some fundamental drivers to underpin it as well.

We also added to our fixed interest allocation - even at these very low yields – through a strategic bond fund manager focused on international bonds. We still dislike fixed interest assets, but we are also mindful of what we saw 15 years ago in Japanese government bonds (JGBs). Back at the end of 2005, the yield on the 10-year JGB was about 1.5%, and many observers wrote at the time that this low absolute level couldn't in any way represent good value. Today they sit at minus 0.2% and have risen in an almost straight line at 2.2% per year. Given the very sluggish nature of Japanese inflation, this has meant a real, inflation-adjusted return of 1.8% per year. Not a huge amount, but not bad for a Japanese investor, especially given the very low volatility of this return stream.

In conclusion, we understand the nervousness besetting asset markets at the moment and have taken out a couple of insurance policies just in case things get even worse from here. But overall, we remain well-exposed to risk assets in general. If we see a sharper pull-back in equities from here, all else being equal, we are more likely to add to exposure than reduce it.

This article was written for you by Richard Champion, our Deputy Chief Investment Officer, UK.

Our investment views as at October 2019

The view in this table refers to our balanced, risk profile 5 model portfolio. This risk profile has a benchmark with 57.5% in equities, 35% in bonds, 5% in alternatives and 2.5% in cash.

Indicative positioning of £ 'balanced' portfolio.

Asset class positioning	--	-	=	+	++	Outlook	
Alternatives				■		→	Gold and infrastructure are more attractive than hedge funds.
Bonds (Govt)	■					↓	Government bonds are becoming increasingly unattractive all over the world.
Bonds (Other)				■		→	Greater returns appear to be available for strategic bond managers, but the additional risks taken to achieve them needs to be monitored.
Commodities					■	→	Bears watching industrial metals due to weaker US dollar and reduced supply. We are positive on gold, which is starting to break out.
Convertible bonds					■	↑	Convertibles offer a good mix between the defensive characteristics of bonds, while retaining exposure to equity upside.
Equities			■			↑	Equity markets should continue to be supported by solid investment fundamentals. Trade tensions could have an impact in the near term.
Property (Direct)			■			→	Income, rather than capital growth, should be viewed as the primary reason for investment, given rising bond yields.
Cash				■		→	Cash levels have been increased slightly.

Equity allocation	--	-	=	+	++	Outlook	
Emerging markets					■	↑	Emerging markets have underperformed this year and are not helped by a stronger US dollar. India is still a secular long-term play.
Europe	■					↓	Economic growth still challenged but may have bottomed. European Central Bank (ECB) liquidity infusion will help.
Far East			■			↑	China and global trade are key to the region's outlook. Trade issues are causing concern.
Japan				■		↑	Stock market offers value and sectors of corporate Japan are in good shape. Leveraged to world growth but challenged by trade issues.
North America		■				→	Economic and earnings momentum remains superior to other developed regions.
Sector specific					■	↑	Healthcare and technology remain long-term themes, although exposure reduced. Recent introduction of listed infrastructure.
UK	■					↓	Economic fundamentals are not compelling and Brexit concerns remain. Underweight has, however, been reduced and stockpicking is good.

Currency allocation	--	-	=	+	++	Outlook	
US dollar				■		↓	US Federal Reserve rate cuts have not dented US dollar strength, as growth is still higher in the US.
Euro	■					→	Upside could be capped by Brexit concerns and by any escalation of Italian debt concerns.
Sterling		■				→	Sterling's prospects remain heavily dependent upon the Brexit outcome and hence the outlook is binary.

'=' Weighting within 1% of benchmark. '+ / -' Weighting between 1% to 5% away from benchmark.
'- - / + +' Weighting in excess of 5% away from benchmark.

How can we help?

T: +44 20 7523 4500

E: CGWM_UK@canaccord.com

Offices nationwide and in the Crown Dependencies

Blackpool
Guernsey
Isle of Man
Jersey
Lancaster
Llandudno
London
Norwich
Nottingham
Southampton
Worcester
York

canaccordgenuity.com

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments described in this brochure may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

Past performance is not a reliable indicator of future performance. Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect may be unfavourable as well as favourable.

This document is for information only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This has no regard for the specific investment objectives, financial situation or needs of any specific investor. All opinions and estimates included in this document are subject to change without notice.

Canaccord Genuity Wealth Management (CGWM) is the trading name of Canaccord Genuity Financial Planning Limited (CGFPL), Canaccord Genuity Wealth Limited (CGWL), CG McCarthy Taylor Limited (CGMCTL), CG Wealth Planning Limited (CGWPL) and Canaccord Genuity Wealth (International) Limited (CGWIL). They are all wholly owned subsidiaries of Canaccord Genuity Group Inc. CGFPL, CGWL, CGMCTL and CGWPL are authorised and regulated by the Financial Conduct Authority (registered numbers 154608, 194927, 184658 and 594155).

CGFPL, CGWL, CGMCTL and CGWPL have their registered office at 41 Lothbury, London, EC2R 7AE. CGFPL, CGWL, CGMCTL and CGWPL are registered in England & Wales no. 02762351, 03739694, 03489824 and 08284862.

CGWIL is licensed and regulated by the Guernsey Financial Services Commission, the Isle of Man Financial Services Authority and the Jersey Financial Services Commission. CGWIL is registered in Guernsey no. 22761 and has its registered office at Trafalgar Court, Admiral Park, St. Peter Port, GY1 2JA.

CGWL and CGWIL are members of the London Stock Exchange and CGWIL is also a member of The International Stock Exchange (TISE).

CGWM does not make any warranties, expressed or implied, that the products, securities or services mentioned are available in your jurisdiction. Accordingly, if it is prohibited to advertise or make the products, securities or services available in your jurisdiction, or to you (by reason of nationality, residence or otherwise) then such products, securities or services are not directed at you.

The products and services offered by CGWM in the UK may differ from those offered by other Canaccord Genuity Group Inc. offices.

cg/Canaccord Genuity
Wealth Management