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Global Market Strategy – November 2019

December 12 UK election to determine UK equities' direction – it's not a foregone conclusion

Three days after the 90th anniversary of the 1929 Stockmarket crash, and with a current bull market of the longest ever duration, many are now questioning whether we are on the verge of another crash.

In 1929 there was an exuberant air following the 'roaring twenties'. People were taking on too much debt, including the purchase of stocks on margin, ie borrowing from brokers to leverage their positions. When the US stockmarket peaked on September 3rd 1929, it didn't reach that level again for 25 years, on November 23rd 1954.

Following the Global Financial Crisis in 2008/09, economies around the world are now regulated more tightly and people are generally wary of taking on too much debt, despite record low interest rates, because they worry their job is not secure. Companies are careful not to over-gear because they recognise European unemployment is high and global growth is slow. The global economy is thus caught in a vicious circle: not enough corporate investment for fear of slow growth; slow growth because of a lack of commitment and investment by corporates. It's a big conundrum for the International Monetary Fund (IMF) which warned that corporate debt exacerbated by the borrowing of cheap money to finance share buy-backs could be considered at risk if there were another major economic downturn. The upside of the atmosphere of concern is there is not yet any exuberance.

Canaccord Genuity actually believe the US market could rise another 10% in short time, following the US's gradual emergence from a manufacturing recession. Tony Dwyer, their Chief Market Strategist, says, "We're on offence". He told CNBC this week he sees the S&P500 rising to 3350 from its current level of 3030 by the end of the first half of 2020. He points to trepidation holding back the market without reason. Baron's Big Money Poll (a means of gaging sentiment in the market by polling the world's leading money managers) on October 28th saw only 27% of money managers bullish for the coming year, down from 49% in the Spring, and down from 56% one year ago. The poll has only ever been below 38% bulls in 1999, 2005 and 2016 and on each occasion the market rallied 10% in the ensuing 6-12 months.

Josh Brown of Ritholtz Wealth Management says much what has been holding back the market is being removed. Credit from US regional banks to small businesses and individuals has increased to its highest level in over a year, and the share prices of the regional banks have responded: many are up as much as 30% since the Christmas Eve low.

Brown also points to the industrial sector. Everyone is worried about manufacturing but the chart for US industrials, the XLI, is at the peak of a horizontal channel which has been in place since February (below). Of course the chart could continue to trade sideways but if it does break out, that would be a major positive indicator for the market more widely to move higher.

XLI Industrial Select Sector ETF, 1 year (Source: BigCharts.com)

"Tens minus Twos", the 10 year US Treasury versus the 2 year, was inverted in August and is usually a harbinger for a recession 18 months later, but it has been steepening since August and is now at a positive 20 basis point differential.

Earlier this week Google made a new 52 week high. Apple has added $90bn in market capitalisation during October alone (up 11.71% since September 30th). US small caps have been rallying furiously (US semi-conductors are up 47% year to date), and the MSCI All Country World Index (ACWI) has quietly risen over 18% this year. It's not difficult to see why Canaccord is bullish.

This week US stock markets touched all time highs because corporate earnings announcements for the last quarter have been better than expected. Sentiment since the end of the the last quarter had been too bearish.

Other reasons to be optimistic for a year end rally for US markets: volatility in the market is low at present; traditionally November/ December are strong months for equity investment when earnings are decent; the Fed is easing and not tightening, as it was this time last year.

As far as the UK is concerned, it's a different matter. The UK enters an election phase which, unless the Conservatives appear certain victors, will keep UK equities on the back foot. While the US market has been hitting fresh all-time highs, the UK's main market which momentarily hit 7697 on July 30th, has retreated steadily to hover continually since August 15th in the 7200-7350 range. Since November 1st 2016 FTSE100 has moved essentially between 6280 to 7400. The only good thing about that is the dividend yield has averaged 4%.

The UK mid-cap sector over the last year has told a better story. The FTSE250 is up 3 times as much as the FTSE100 (7.6% vs 2.4%), and with an average dividend around 3%. The more nimble smaller company sector has seen the low interest rate environment as an opportunity for investment in the future and investors have sometimes followed. One mid to small-cap fund manager has lifted returns for his investors 17% over the last 12 months. UK based businesses have seen the headwind of sterling's quick appreciation in the last 3 weeks but this comparative strength presents investors with an opportunity to buy a position in the more appealing US market at a slightly more reasonable level. That said, the UK has been downtrodden for too long in the wake of Cameron's referendum, and once the election result is clear, both UK stocks and the UK currency should rally equally strongly.

A word on Wills. Too many people are looking to cut costs on the writing of their Will by turning to do-it-yourself sites. The UK's Daily Mail and The Times newspapers found that while DIY Will writing can save money in their making, they can cost the very people intended to benefit an absolute fortune if they are not compiled, signed, witnessed and attested in a particular manner. Pay for a professionally drafted Will and your loved ones will get what you paid for! Lasting Powers of Attorney, both Health and Wellbeing, and Property and Financial, should be drawn up at the same time as the Will, no matter the age of the testator.

Favoured investment plays:

Nil risk:	
Cautious risk:	Cash
Balanced risk:	Managed / Multi-asset funds, Corporate bonds
Market risk:	**UK equity**
Adventurous risk:	**Asia, US equity**, **European equity**
Speculative risk:	**Technology, Healthcare, China, India, Other EM, Gold/Silver**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 20%, China 6%, Asia 13%, Global Equity 38%, UK equities 6%, US equities 4%, Emerging Market equity 7%, Precious metals 2%, Cash 4%

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