REVIEW OF 2019 – OUTLOOK FOR 2020

The table below sets out the quarterly open and closing values for the FTSE All-Share Index as well as the highs and lows in each quarter to highlight the changes for 2019.

Quarter	Open	Close	High	Low	Return year to date
January – March	3675	3978	4020	3675	8.24%
April – June	3978	4056	4115	3923	10.37%
July – September	4056	4069	4186	3865	10.72%
October - December	4069	4196	4247	3893	14.17%

2019, despite some periods of volatility between the highs and the lows within each quarter, delivered a double digit return which is always to be welcomed. However, for those who remember 2018, which ended on a -12.54% loss, 2019 was starting from a low base. What this serves to illustrate is that investors would do well not to overreact to short term gains or losses in respect of their portfolio allocations and to rather focus on time in the market as opposed to timing the market.

So, what has changed?

For the UK, it now has a working majority government enabling it to implement its program, including Brexit, which for markets at least starts to give them greater clarity for the moment. The initial effect has already seen a positive response from UK equities, although this might be more of a relief rally rather than being an indicator for the UK market in 2020. The year will, in our view, be a difficult one for equities because the government has tied itself to complete an EU trade deal by the 31st December 2020 and so markets will be very much linked to the progress of those talks, both good and bad.

Meanwhile, trade talks with US and China rumble on. Most commentators expect this to become the new "Cold War", as in periods of calm, small agreements in relation to trade, but no overall binding trade agreement for many years to come. Over recent months both parties have softened their stance, which is to be welcomed, but may be short lived. The key issues of trade imbalance and US intellectual property rights remain no closer to being resolved. For the US, clearly 2020 is an election year and so anything is possible from the current incumbent, but for equities this is often viewed as being positive for valuations. The US economic data remains broadly positive and although growth is expected to be slower, most commentators agree that they should avoid a technical recession.

Germany, the powerhouse for the EU, has not escaped the fallout of Trump's trade war and as an exporting nation, its car industry has been the biggest loser. In the context of the wider EU, Germany is coming under increasing pressure to spend its budget surplus in order to stimulate growth which it is culturally opposed to. It remains to be seen what impact Christine Legarde's leadership of the EU Central Bank will have on the regions' economies. Despite these challenges, there remain pockets of value in certain regions and sectors.

The fortunes of the Far East and Asia remain linked to the trade war between the US and China, although the longer this continues individual countries will focus increasingly on stimulating domestic demand alongside exports.

Emerging markets remain a favoured region among some investors, leaving aside the strength of the US Dollar, they haven't performed as expected despite a favourable environment. This is due to country specific reasons, which include political factors, weak commodity prices or underdeveloped domestic markets and demand. This requires being more selective when investing in these areas.

Global inflation remains below target, despite the best efforts of central banks, which is a key driver for interest rates. It may be that we start to see a debate about whether the 2% target remains relevant in the current environment because, as it stands, rates look set to remain where they are with the US likely to cut further in 2020. What this means for fixed interest is that capital values remain vulnerable should there be a change in direction for interest rates.

The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
Index-linked Gilts: UK, US	Index-linked Gilts: Global	High Yield Bonds (for income)
Investment-Grade Bonds	Equities: China, Far East, Emerging Markets, Japan	Equities (large cap): Europe, Asia ex China
Equities (large cap): UK (growth), US	Equities (small cap): UK, US	Equities (small cap): Europe
Property	Commodities	Specialist Equities: e.g. Infrastructure, Agriculture
Gold		

*Neutral means that, whilst we support the asset class, we do not generally want to adopt an overweight position

As predicted, periods of volatility became a feature of 2019 and we see little change for the year ahead given that all the issues which contributed to this still remain. However, as we saw in 2019, the returns were good for those who remained invested and we see no reason not to continue this approach into 2020.

2nd January 2020