

Global Market Correction

October was a brutal month for investors, with a simultaneous rise in bond yields and sharp correction in equity markets.

In plain English, this means the value of both bonds and equities headed the same way down. However, as severe and unexpected as the declines feels, it actually was not that out of the ordinary. Stock markets have experienced several worse down turns since 2010, but have all recovered.

The reason for the down turn in bond and equity markets has been largely due to the action-packed Trump presidency. In addition, a sharp rise in the US 10-year bonds, sparked the market reactions, driven by fears that the Federal Reserve will keep raising rates apace, perhaps faster than the American economy can take.

Rising interest rates is perceived to be the largest risk to global stock markets; however, general thinking is that the Federal Reserve will ease up as economic data dictates. US inflation has slipped back toward the targeted 2% and appears to be more controlled. There is no concern about an economic slump or recession on the horizon.



Political matters in Europe still remain a worry to equity markets. We are all aware of the Brexit affect due to the publicity that this political matter gets, but largely ignored are the other political factors weighing heavy on the EU and consequently the markets. Contrary to the propaganda, there are major concerns about the Eurozone debt, as Debt to GDP ratio for some EU members remains high and concerning. For example, Greece's ratio remains at 180%, whilst Portugal's ratio is still 125%.

Despite this concerned factor to the EU, their biggest problem is Italy with Italy's populist Euro sceptic coalition and the proposed Italian budget, denounced by the EU and in response, the Italian government is not willing to amend, and is prepared to proceed without the EU's ratification. Italy's Debt to GDP ratio is currently 133%.

This affects all of the Eurozone, as seen in the third quarter of 2018, where economic growth fell to a four year low of just 0.2%, dragged down by uncertainty and stagnation in Italy.

This Italian standoff with the EU, the Debt to GDP ratios, along with the US Federal Reserve interest rate policy, and Trump's presidential economic war on the international stage remain concerns and very much affects the current equity and bond markets. Such concerns have been priced into the global equity markets now, and we, including our investment management partners, consider that no further down turns will occur and that the markets will gradually appreciate. 2018 has not been a year for investment returns; however, patience is key to this, and 2019 will be more rewarding.

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Information valid at 14th November 2018.

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