

Market review September 2018

An outlook of worldwide markets

For financial advisers only

Now that we're in one of the longest recorded bull runs in the history of the US, Andrew Milligan, Head of Global Strategy at Aberdeen Standard Investments, discusses what's driving the US stock market and what's causing emerging markets to blow hot and cold. He also considers the key challenges and opportunities facing investors in the lead up to Brexit.

Bull run for US stocks breaks new records

North American markets continue to go from strength to strength and reached record highs in the month of August. But why is the US stock market performing so well?

At present, there are two main drivers of US share prices. The first is cyclical. The US economy was growing quite strongly into 2017, but this year it's benefitted significantly from the wave of tax cuts and spending increases proposed by President Trump. In the second quarter, overall activity was over 7% higher than it was a year earlier and that's helped US companies achieve profits growth of 17% more than this time last year – even more including all the tax benefits. In a world of slow or slowing growth the US certainly stands out.

The second driver is technology. The tech and communications sectors make up 25-30% of the US stock market, that's similar to parts of Asia but much higher than in Europe, the UK or Japan.

The growing importance of tech companies is abundantly clear. Just a few weeks ago, Apple became the first firm to have a market capitalisation (the total market value of a company's outstanding shares) of \$1 trillion shortly followed by Amazon who has also hit the milestone. To put this in context, the market cap of the FTSE100 index in dollars is under \$3 trillion.

US and Mexico reach a trade agreement

Markets were indeed cheered by the announcement that Mexico and the US had reached preliminary agreement on a revised trade treaty – the North American Free Trade Agreement (NAFTA). After weeks and months of negative press about possible trade wars, this was welcome news.

However, as they say, the proof of the pudding is in the eating. There were fewer details than investors would have liked to see, and the details that were revealed were more supportive of the US than the Mexican economy – it's clear President Trump is trying to bring jobs back home.

Investors would be more reassured if the US managed to reach an agreement with Canada too, and trade tensions with China were put on hold. But, at the time of writing, that remains up in the air.

Emerging markets - in crisis or beginning to stabilise?

Firstly it's important to differentiate between the few high profile emerging market countries that are in trouble, like Argentina and Turkey, and the other economies where the fundamentals such as balance of payments, overseas debt and central bank policy-making are much more solid.

That being said, in recent months we've seen the baby thrown out with the bath water as many investors have sold funds due to concerns about a small group of emerging markets with large debts or governments unable to push through difficult decisions. Argentina, Brazil, South Africa, Turkey and Venezuela are top the list.

There's now a view that the valuations of many emerging markets are more attractive, that's why we've seen a little more stability in July and August. For this value to be released though, we'll need to see a catalyst such as a major change of view by the US central bank, a stimulus package in China or a pull back by President Trump on trade war talk. These are the sorts of triggers to bear in mind.

What's next for markets?

As we approach the autumn, US, European and even some emerging markets look poised to rally but we can't say the same for the UK. We expect the UK stock market to continue to

lag behind the others. This is mainly due to uncertainty around the value of the pound and the outlook for Brexit and UK politics.

For now, at Aberdeen Standard Investments, we're more optimistic about other global equity markets.

Brexit draws closer

Brexit has mattered and will continue to matter but it's vital to recognise that the UK's relationship with the EU is not the be-all and end-all, as some newspaper columnists and politicians would have you believe.

There are much more significant risks and opportunities investors should be aware of. For example is there a US recession or a Chinese debt crisis on the horizon?

And when it comes to opportunities, there are major developments in areas such as artificial intelligence, machine learnings, robotics and autonomous vehicles. These have the capacity to be game changers. Looking at fast growing small cap stocks might be a way of taking advantage of this disruption.

For an in-depth look at what's happening in global markets, read the Aberdeen Standard Investments Global Outlook September 2018

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