Standard Life

April market review 2018

An outlook on worldwide markets

For financial advisers only

This month Andrew Milligan Head of Global Strategy at Aberdeen Standard Investments considers how markets are responding to President Trump's trade tariffs and whether the emerging market recovery has stalled. He also looks at what the Brexit outlook might mean for sterling and what Facebook's data breach means for investors and the digital economy.

All quiet on the Trump trade front

Financial markets were quite shocked when President Trump started tweeting much more robustly on the topic of trade tariffs. Investors are well aware of the potential risks of a trade war – it's the last thing the world economy needs. But, like many of us, they've learned to adjust, helped by more moderate comments from other members of the White House administration.

Additionally, statements from Chinese, US and European officials have definitely taken the heat out of the situation in recent weeks. But as with any brush fire, it could burst into life again at a moment's notice.

Has the emerging market recovery stalled?

Emerging markets performed well until the sell-off at the end of January, and haven't recovered much since. On the other hand, some of the developed markets have recovered better. There are several factors that may be causing this divergence:

- The rise in the US dollar – after range trading for much of 2018, the trade-weighted dollar index has moved up in recent weeks
- Worries about new US tariffs and trade rules at a time when activity has slowed in Europe and a lesser extent China; in other words investors are worrying about export destinations for emerging market companies
- The tech sector, which is an important (over 25%) part of the emerging market indices, hasn't had a great year – valuations were stretched and regulatory concerns caused many investors to reassess their positions

We remain positive on the outlook for emerging markets within our equity and debt portfolios, on the grounds that the strength of the US economy as the tax cuts come through will benefit many emerging market exporters. There are indeed imbalances in a number of emerging market economies, but they're well recognised.

A more positive Brexit outlook?

Investors are keen to know how much the pound is also being affected by Brexit. The short answer is – that depends on your timescales. In the short term, yes, sterling did rise against the US dollar. That was partly as investors took a more positive stance towards the UK/EU negotiations and partly because the UK economy looked a little stronger than expected. However, a mixture of reassessment of the outlook for interest rates and some negative headlines about problems with the Irish border have taken the gloss off the pound.

Looking ahead, we still warn that the pound could be rather volatile against the dollar and euro. And remember that volatility in the stock market affects overseas profits when they're translated into pounds at better or worse exchange rates. On top of the Irish border issue, there are complicated EU/UK talks on transition agreements which really should be completed by October, and then a mass of legislation which needs to be voted on in Brussels and Westminster by spring 2019. So there's still a political and legislative mountain to climb. Our portfolios generally hold other currencies than sterling, ones where economic fundamentals rather than political uncertainties are more important as drivers.

Facebook's fall from grace

Facebook's data breach and Mark Zuckerburg's congressional inquiry have dominated the headlines in recent weeks. And it looks more likely that the US will implement more stringent privacy laws, similar to the introduction of GDPR in the UK and Europe. But what does that mean for investors, tech companies and the digital economy?

Truth be told, it's too soon to tell. Many people noted that the US Senate didn't appear to understand social media very well when it held its inquiry with Mark Zuckerberg. So will any new legislation be well drafted?

It's true the share price of Facebook did fall but it's still up very robustly since the start of 2017.It will be important to look at the degree of regulation on a case-by-case basis. And while there are concerns about other aspects such as slower sales of smartphones from Apple and other major suppliers, the fact is the demand for other products and for cloud computing goes from strength to strength. All in all, an investor will need to undertake some very deep research and be very stock-specific about what they include or exclude in a portfolio. We remain overweight in Alphabet, which includes Google.

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

The information in this blog should not be regarded as financial advice. Please remember that the value of your investment can go down as well as up and may be worth less than you paid in.

Information is based on our understanding in May 2018.

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