Market review June 2018

An outlook of worldwide markets

For financial advisers only

As we move into the second half of the year, Andrew Milligan, Head of Global Strategy at Aberdeen Standard Investments, discusses what's driving markets including the global response to President Trump's twitter feed, whether we're beginning to see a decoupling of developed and emerging markets. He also considers trade tariffs, rising oil prices and if the Bank of England will finally raise UK interest rates.

Trump's twitter feed sends shock waves around the globe

President Trump continues to follow through on all his campaign promises and, quite rightly, investors are concerned about the potential implications of his actions.

Operation 'Make America Great Again' involves a whole series of steps: on tariffs, on military policy, on relations with its allies, on controlling technological flows and on tackling immigration. Financial markets are trying to understand the impact of these multiple changes on a whole range of affected companies so that they can price shares correctly. This is a task made even trickier by the 140 character limitation of a tweet which doesn't allow much room for the all-important details.

The uncertainty caused by President Trump's tweets is one of the reasons why day-to-day volatility in financial markets is higher in 2018 than in 2017. On days when investors focus on the strong economy and company profits we see share prices rise, and when politics dominate the headlines we see many investors retreat to the sidelines.

What trade tariffs and higher oil prices mean for markets

US tariffs on a range of imports have now been put into place, other counties are deciding how to retaliate, the US dollar is higher, and oil prices have risen. What does all this mean for markets?

There are some complicated drivers at work here. The tariff proposals from the US, EU and China are not yet large enough to have a material effect on the world economy – but they certainly affect investor sentiment, while at a company level they can be important. For instance, you may have read that Harley Davidson has decided to move some of its production from the US to Europe to get around some of the tariff implications.

Oil prices have risen for a multitude of reasons. These include:

- US pressures on supply from Iran
- supply disruption in other countries such as Libya
- continued demand from some of the major economies.

We know what this can mean at the petrol pump, so dampening demand for a range of consumer stocks, but from a market perspective it is interesting to see that the FTSE® 100 index is broadly flat year-to-date. Where we do see the effects more clearly is the sector level, for example oil-related companies are generally out-performing industrial stocks.

Emerging markets and the decoupling debate

As we move into the second half of the year developed markets have recovered while emerging markets are falling back which raises the question – are the two beginning to decouple?

It's true that developed equity markets are broadly flat year-to-date, while some of the major emerging markets are under pressure, quite seriously in countries such as China. However, we believe both are responding to similar threats and pressures.

Global economic growth is actually quite strong going into the summer, but investors are concerned about such issues as the protectionist news coming out from America, the rise in the US dollar, US interest rates and global oil prices. All of these put pressures on the weaker emerging economies as do a series of high profile political risks, such as the situations in Italy or Turkey. It comes as no surprise that when investors are cautious they keep money at home, or withdraw it from countries they consider less safe.

UK interest rate rise - will they, won't they?

The Bank of England has once again signalled there could be an interest rate rise in August. And while we've had mixed messages from the Bank of England so far this year, we believe the probability of an August rate rise is high – but as this is largely priced in already so the impact on the economy should be low.

At Aberdeen Standard Investments, our fixed income team continuously monitor these issues. They note that the bond markets are currently pricing in about a 65% probability of the Monetary Policy Committee (MPC) raising rates at its August MPC meeting, with three rate hikes priced in over the next three years. So inflation surprises and an aggressive MPC response would be needed to surprise the markets.

The global outlook

At a big picture level, its clear most companies and economies are in much better shape than they were back in 2007, before the last crisis. And at Aberdeen Standard Investments, our economists believe that global growth should be quite solid in 2018 and 2019. Unless politicians or policy makers make some major errors, then it won't be until 2020, when the fiscal stimulus falls away, that things become more risky. Meanwhile, we prefer riskier to more defensive assets in our portfolios.

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

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Information is based on our understanding in July 2018.

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