ROYAL LONDON

CLIENT MARKET **COMMENTARY**

30 August 2019

TRADE WARS

We're now more than 12 months into potentially the biggest risk to the current Global economy and we seem further from a resolution than ever before. In the last two weeks alone, we've seen China slap tariffs on $75bn on US goods and the US retaliate with tariffs on $300bn on Chinese imports. Donald Trump has also ordered US firms operating in China to move their businesses back to the US, something he has absolutely no authority to do and these companies are unlikely to comply with. This political posturing on both sides has seen consumer sales fall in both countries as companies simply pass on these additional import costs to the end customer.

WHAT IS A YIELD CURVE INVERSION, AND WHAT DOES THIS MEAN FOR MARKETS?

A yield is the interest rate at which a Government lends money to investors to purchase their Bonds. Historically, longer term Bonds attract a higher yield than shorter term ones as money is tied up for longer. However, earlier this month, the 2yr Bond in the US was offering a higher yield than a 10yr Bond for the first time since 2008. This is seen as a sign of an upcoming recession as investors move their money from more adventurous stockmarket investments to so-called 'safer' investments such as Bonds. However, it's not all doom-and-gloom as markets grow for a further 14 months on average between the yield curve inverting and the start of a recession.

DEAL OR NO DEAL?

In what increasingly seems to resemble a bad Channel 4 game show, we're still no closer to finding out what's in that final Brexit box. Previous contestants have come and gone at an alarming rate without being able to get the better of the person at the other end of the phone. We now have Boris Johnson sitting in the hot-seat as he attempts to broker a deal with the EU. It's become clear that MPs don't want the existing Withdrawal Agreement negotiated by Theresa May or a No Deal, however the EU won't budge on the current agreement, so there appears to be an impasse. This currently makes No Deal the most likely scenario as the default option once we reach the 31st of October. Other options available include holding a General Election to alter the make-up of MPs voting on a deal in Parliament, or holding a second referendum.

OUR VIEW

The market is predicting a low level of growth, but we do believe there are some reasons for positivity. We continue to be supportive of stocks but remain mindful of the potential risks in the current market. The main risks still come from Brexit uncertainty in the UK and the potential of trade talks between the US and China collapsing completely. We also believe the US Federal Reserve will cut interest rates at least once more between now and the end of the year which should benefit Global markets.

INVESTING WITH US

Our key goal is to deliver good outcomes for our customers. We do this by following our core beliefs:

- **Pensions are long term investments**

While it can be hard to watch large market drops, especially if the value of your savings is falling, it's important to remember that investing for retirement is a long term game. It's very normal for an economy to go through phases of expansion and contraction.

In fact, over the long run there is a recession every five to ten years. We think of these cycles in terms of waves of growth and inflation, and consider which investments do best when growth is strong or weak, and when inflation is falling or rising. Our investment experts analyse and understand where we are in that cycle and which types of investments we should be investing in within the portfolio mix. This is called the short term view and we do this on a day to day basis so that we can try to maximise returns and avoid some of the losses.

Falling markets can be buying opportunities, particularly when you are planning to invest for a long time period. We see the current market falls as potential buying opportunities for equities. The multi asset portfolios are currently holding slightly more equities than average, having bought on the recent dips. We're also holding more corporate and high yield bonds.

- **Greater diversification**

We believe that investing in a wide range of asset classes will result in more consistent performance across a wide range of economic conditions. This spread of different investments helps to reduce the risk of having all your eggs in one basket.

The Governed Portfolios are designed for investors who are saving into a pension and aim to maximise returns above inflation within a defined risk framework and term to retirement.

The Governed Retirement Income Portfolios (GRIPs) are designed for customers who are taking money out of their pension on a regular basis and aim to maximise returns above inflation to support sustainable, regular income withdrawals for a range of risk profiles. The portfolios hold a wide range of investments, including company shares, property, bonds, commodities and cash in order to help them meet their objectives.

- **Governance**

We believe that all investment options should be monitored on a regular basis, and this is a core part of what we do for our customers. All the portfolios are monitored on an ongoing basis by our experts to ensure they deliver in line with their objectives. You can keep an eye on how your investments are performing using our online service.

If you are in any doubt about the suitability of any particular type of investment, you should seek professional financial advice. Advisers may charge for providing such advice and should confirm any costs beforehand.

For more information please speak to your Financial Adviser

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