

# INVESTMENT UPDATE

Covering January 2020

**The investment New Year has proved to be rather more eventful than perhaps many of us would have preferred. The positive sentiment that followed the US and China Phase 1 trade deal was tested almost immediately - briefly (as it turned out) by tensions between the US and Iran following the US air strike that killed a top Iranian military commander, and then in mid-January by the outbreak in Wuhan, China of the pneumonia-like illness caused by the Corona virus.**

While the SARS outbreak in 2003 had a mortality rate of around 10%, as I write this, there are approaching 25,000 confirmed cases worldwide, and 492 deaths; this is a significantly lower mortality rate of 2%. Moreover, reports are emerging that UK scientists had made a 'significant breakthrough' in their work on a coronavirus vaccine, while a team of researchers at Zhejiang University had found certain drugs could inhibit the virus.

While it remains difficult to predict the global economic impact of the disease - symptoms cannot be identified for two weeks - it is clear in China at least the 'lockdown', travel bans etc are having a short-term impact as people stay in their homes. Potential weaker global growth saw oil prices drop by 12%.

Corona virus aside, the US economy continues to produce sparkling corporate results, with Q4 2019 numbers showing earnings and sales growing strongly. Unsurprisingly therefore, at its January

meeting the US Federal Reserve elected to leave the interest rates that determine bank lending rates and the cost of credit for borrowers unchanged at 1.5 - 1.75%. In dollar terms, the S&P500 was virtually unchanged during the month.

European markets were down 1% in local currency terms. Growth remains weak although manufacturing data improved significantly; as trade improves on the US/China deal, those companies should benefit. As with their peers in the US, the European Central Bank, under the new leadership of Christine Lagarde, kept interest rates unchanged.

The FTSE All Share index was down 3.25% over the month, despite some encouraging economic data. The purchasing managers' index, which reflects the manufacturing and service companies' activity, rose to a level that indicates a general expectation of improvement in new orders, factory output, employment and so on. Notably, the UK has now set out on its journey toward new trade agreements, as we left the European Union on the 31st January. It will be a huge effort to complete these negotiations before the end of 2020, and it is likely therefore that from time to time during the coming year, the threat of a "hard" Brexit may reappear as speculation on the projected outcomes intensifies.

Perhaps in the light of that, and despite expectations of an interest rate cut, the Bank of England kept rates on hold but downgraded economic and inflation forecasts. However, many commentators

agree that shares in UK companies look very attractive, having lagged behind every major stock market over the past 5 years and now yielding well over 4%.

It should also be understood that shocks to the system like the virus outbreak generally lead to increasing prices for so-called 'defensive assets' like bonds, and this proved to be the case through January. UK Gilts rose by over 3.5%, while the equivalent securities in the US Europe, and Asia saw similarly positive returns.

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## Risks:

**Cash:** The physical value of cash should never go down and a published rate of interest is added to the capital at set intermittent periods. Inflation could run higher than the interest received, therefore the value of the capital held makes a loss in real terms. Charges for investment products such as pensions may be higher than the interest received and therefore eroding capital.

**Bonds:** This is effectively a loan to a company or government and an interest payment is paid from the borrower to the lender during the life of the bond. At the end of the term, all the original money is repaid to the lender.

A default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of the securities life.

**Property:** Returns are driven by the property value and rental income. As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. Property valuation is a matter of judgement by an independent Valuer, therefore it is generally a matter of opinion rather than fact.

**Equities:** Also known as Stocks and Shares. Each investor participates in a share of the ownership in a company. The risks are that equities can fall if a company fails to perform or the sector in which it operates underperforms due to lowering demand, policy change or recession. If a company folds, the investor may not receive their money back.

**Hedging:** A method of reducing unnecessary or unintended risk, similar to an insurance policy.