VAM
DISCRETIONARY
FUNDS

Market Update
30 October 2018

Brexit border

Markets

- Global equity market performance was negative across the board, as sell-offs continue. In GBP terms, the UK fell the least at -1.71%, followed by Emerging Markets (-1.81%), Europe (-2.01%), the US (-2.17%) and then Japan (-3.07%).
- Bond prices gained amidst equity weakness. UK Gilts and corporate bonds had strong positive returns of +1.63% and +1.09% respectively. In local terms, European government bonds rose +0.77% and US government bonds rose +0.64%.
- GBP depreciated vs EUR, USD and JPY by 0.84%, 1.90% and -2.44% respectively.
- In USD terms, the oil price fell -2.21% and gold rose by +0.49%.

Macro

- The UK National Audit office produced a report, outlining the implications of a UK border after Brexit. The report explained that the infrastructure needed to allow a functional border would be impossible to have in time for 29th March 2019. The UK will have until the end of 2020 to solve the border issue, provided the UK reaches a withdrawal agreement with the EU. However, if there is no deal, businesses and individuals may feel the impact of a sub-optimal border as well as non-tariff barriers to trade, the magnitude of which remains unclear.
- Eurozone PMIs fell in October, signalling weaker momentum for the region to start the fourth quarter. The flash composite figure fell to a 25-month low of 52.7 down from 54.1, due to a weakening of internationally-exposed manufacturing, perhaps due to global trade tensions. The services measure also softened, perhaps indicating that weakness in manufacturing is spilling over to the broader economy.
- Ahead of the November midterms, the governing Republicans received a boost as buoyant consumer spending propelled US economic growth beyond analyst expectations for Q3. GDP rose at an annualised rate of 3.5%, above expectations of 3.3%, supporting the case for further interest rate rises. However, inventory growth, which boosted GDP, is likely to reverse in future quarters, and business and residential investment were weaker. While wage inflation may weigh on US margins, strong nominal growth should translate to strong earnings growth.

Source: Close Brothers Asset Management

View of the Manager

- Global growth remains resilient but the Manager sees evidence of the recovery being less synchronised. It expects earnings growth to remain positive and inflation to cause gradual interest rate rises.
- Despite elevated geopolitical risk, the Manager believes this is an environment favouring equities over bonds.
- Within its regional equity allocation, the Manager is cautious on UK equities and favours those regions most attractively positioned to benefit from the improvement in the global growth dynamic.

Performance to 26/10/2018	1 Week	YTD
Equity GBP Total Return %		
UK	-1.71	-6.62
Europe	-2.01	-7.37
US	-2.17	7.62
Japan	-3.07	-4.28
Emerging Markets	-1.81	-12.30
Bonds Local Total Return %		
UK Gov	1.63	-0.10
UK Corp	1.09	-1.21
EUR Gov	0.77	-0.51
US Gov	0.64	-1.73
Currency %		
GBP vs USD	-1.90	-5.07
GBP vs EUR	-0.84	-0.08
GBP vs JPY	-2.44	-5.69
Commodities USD %		
Oil	-2.21	11.87
Gold	0.49	-4.43

Source: Bloomberg Finance L.P., Morningstar, data as at 29/10/2018.