Market Review

2 December 2019

Review of markets over November 2019

Equities continued to rally in November - a relatively consistent feature of markets in 2019, despite the multitude of geopolitical risks that investors have faced this year. The negotiations between the US and China on a 'phase one' trade deal are yet to arrive at a conclusion, but there has at least been an absence of any further escalation in tariffs. Tariffs are currently scheduled to increase on 15 December, unless a deal is reached or the deadline is pushed back. However, hopes of a deal appear to have buoyed sentiment. In the UK, the spotlight has shifted to the upcoming general election on 12 December. So politics is likely to remain front and centre of investors' minds as the year draws to a close.

With central bank easing a key factor in market returns so far this year, investors didn't get much new information from the major central banks (US, UK, eurozone, Japan) in November. Only the Bank of England (BoE) held a meeting last month, and it made no change to its policy rate. Developed market equities outperformed emerging market equities, with the S&P 500 ending the month as the best performing major equity index. Bond yields moved marginally higher and so the global government and investment grade bond index (Global Agg.) lost 0.8% over the month.

Exhibit 1: Asset class and style returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	November 2019
MSCI EM 79.0%	Small cap 26.6%	Global Agg 5.6%	Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 30.3%	Growth 3.5%
Small cap 44.8%	Global REITS 22.8%	Global REITS 2.3%	MSCI EM 18.6%	Value 27.5%	Growth 6.6%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	Global REITS 24.7%	Small cap 3.3%
Growth 33.9%	MSCI EM 19.2%	Value -4.9%	Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	DM Equities 24.6%	DM Equities 2.8%
Global REITS 32.6%	Cmdty 16.8%	DM Equities -5.0%	Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Small cap 22.5%	Value 2.1%
DM Equities 30.8%	Growth 14.9%	Growth -5.1%	DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 19.1%	MSCI EM -0.1%
Value 27.7%	DM Equities 12.3%	Small cap -8.7%	Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.3%	MSCI EM 10.6%	Global Agg -0.8%
Cmdty 18.9%	Value 9.8%	Cmdty -13.3%	Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Global Agg 6.2%	Global REITS -1.2%
Global Agg 6.9%	Global Agg 5.5%	MSCI EM -18.2%	Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Cmdty 2.5%	Cmdty -2.6%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2019.

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US

In the US, there have been tentative signs of improvement in business sentiment. The November US purchasing managers' index (PMI) pointed to a pickup in activity across both manufacturing and services. In particular, an increase in the employment components of both surveys offered some encouragement that companies might not cut jobs despite the pressure on profits. Optimism around a trade deal, combined with improving activity, filtered through to positive equity market returns in the US. The S&P 500 rose by 3.6% in total return terms, pushing its year-to-date return to over 25% and putting it on course for its best calendar year performance since 2013.

Earnings season came to a close, with S&P 500 companies reporting broadly flat earnings relative to the third quarter of last year. As in previous quarters this year, the materials and energy sectors delivered the weakest numbers, with meaningful contractions in earnings. Overall, around 80% of companies beat earnings estimates for the quarter – albeit estimates that had been lowered throughout the year.

The latest estimate of third-quarter US GDP rose, so the pace of growth actually picked up slightly, despite expectations for a continued slowdown. The resiliency in growth might be attributed to easing from the Federal Reserve (Fed). Housing data has improved markedly, with new housing permits reaching their highest level since 2007, while mortgage delinquency rates reached their lowest level since 1995. Despite the Fed's interest rate cuts, consumer confidence was weaker than expected. In comments to Congress, Fed chair Jerome Powell said that "the current stance of monetary policy is likely to remain appropriate". Consequently, the market now expects only one more interest rate cut from the Fed in 2020. Both two-year and 10-year government bond yields moved marginally higher over the month and so US Treasuries lost 0.3% in November.

Exhibit 2: World stock market returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	November 2019
MSCI EM 79.0%	MSCI Asia ex Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex Japan 42.1%	US S&P 500 -4.4%	US S&P 500 27.6%	US S&P 500 3.6%
MSCI Asia ex Japan 72.5%	MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex UK 25.9%	MSCI Europe ex UK 2.5%
UK FTSE All-Share 30.1%	US S&P 500 15.1%	MSCI Europe ex UK -12.1%	MSCI Europe ex UK 20.0%	MSCI Europe ex UK 24.2%	MSCI Europe ex UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex UK -10.6%	Japan TOPIX 16.4%	UK FTSE All-Share 2.2%
MSCI Europe ex UK 29.0%	UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex Japan -14.1%	UK FTSE All-Share 15.3%	Japan TOPIX 1.9%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex Japan -8.9%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI EM -14.2%	MSCI Asia ex Japan 11.1%	MSCI Asia ex Japan 0.2%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	MSCI EM 10.6%	MSCI EM -0.1%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2019.

EUROZONE

Activity in Europe was mostly better than in previous months, with the perceived easing in trade tensions perhaps playing a role. The latest eurozone consumer confidence reading improved, while the November flash PMI business surveys rebounded. In particular, there was better news across the manufacturing sector, as all of the major components of the eurozone manufacturing PMI rose compared to the previous month's level. The improvement in the German manufacturing PMI from a low level is encouraging, while the third-quarter GDP reading confirmed that Germany narrowly avoided a technical recession. Although some rebound in manufacturing surveys appears to be underway, overall business sentiment is still somewhat mixed. The service sector is still moderating, evidenced by the slowdown in the eurozone services survey and its employment component. Overall, though, markets focused on the improvement in the manufacturing data and Europe ex-UK equities gained a healthy 2.5% over the month.

The European Central Bank (ECB) welcomed its new president, Christine Lagarde. Lagarde will have to wait till 12 December for her first policy meeting, but has already made a few official speeches. So far, she has avoided any firm statements on monetary policy, and instead has centred her comments on big-picture challenges to the global economy and what governments can do to boost the effectiveness of monetary policy. Bond yields broadly rose slightly across Europe, leading the euro government bond index to fall 0.9%.

Exhibit 3: Fixed income sector returns

2013	2014	2015	2016	2017	2018	YTD	November 2019
Euro HY 8.8%	Euro Gov. 13.1%	Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 12.3%	Euro HY 1.1%
US HY 7.4%	EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 12.0%	US HY 0.3%
Euro Gov. 2.2%	Euro HY 5.5%	US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 10.6%	EM Debt -0.2%
Global IG 0.3%	US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 9.5%	Global IG -0.2%
US Treas. -2.7%	Global IL 3.4%	Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Euro Gov. 7.8%	US Treas. -0.3%
Global IL -3.2%	Global IG 3.1%	US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 7.5%	Euro Gov. -0.9%
EM Debt -6.6%	US HY 2.5%	Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Global IL 7.3%	Global IL -0.9%

Source: Bloomberg Barclays, BofA/Merrill Lynch, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2019.

CHINA

In China, the authorities may be concerned by the recent weak manufacturing and consumer data. Industrial production and retail sales both disappointed relative to expectations. Industrial production grew by 4.7% year on year compared to the previous month's reading of 5.8%, while retail sales grew 7.2% year on year, compared with a pace closer to 8.5% in the first half of 2019.

The ongoing protests in Hong Kong will continue to hinder the region's economy, along with the slowdown in Chinese growth and the ongoing trade uncertainty. What would be more concerning for global investors is if the situation in Hong Kong disrupts the US-China trade negotiations. Emerging market equities ended the month down 0.1%, underperforming developed market indices.

Exhibit 4: Fixed income government bond returns

2012	2013	2014	2015	2016	2017	2018	YTD	November 2019
Italy 20.5%	Spain 11.1%	Spain 15.9%	Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 11.0%	US -0.3%
Spain 5.4%	Italy 7.2%	Italy 15.2%	Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	UK 8.8%	Germany -0.3%
Germany 5.0%	Japan 2.1%	UK 14.6%	Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	Spain 8.6%	Japan -0.4%
UK 2.9%	Germany -1.7%	Germany 9.0%	US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 7.5%	UK -0.9%
US 2.0%	US -2.7%	US 5.1%	UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.0%	Global -1.1%
Global 2.0%	UK -4.2%	Japan 4.5%	Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 4.3%	Spain -1.2%
Japan 1.7%	Global -4.3%	Global -1.0%	Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 2.0%	Italy -2.0%

Source: Bloomberg Barclays, Refinitiv Datatsream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2019.

UK

In the UK, the BoE left policy rates unchanged at its November meeting, though there were two dissenters calling for higher interest rates, largely due to the strength of the labour market in the UK. However, data in November suggested there are some signs of weakness, with 3Q GDP growth and wage growth coming in below consensus expectations. The challenge for the BoE is that they cannot yet be sure of the outcome of Brexit, although the election may provide greater clarity.

The UK political parties have been campaigning throughout November. The main three parties all want to deliver fiscal stimulus, with public finances having improved and borrowing costs at low levels. On Brexit, the Conservative party are trying to capture the leave vote, while the Liberal Democrats are firmly campaigning to remain in the EU. The Labour Party are looking to negotiate their own softer deal to leave the EU and put that back to the public in a referendum, with remain as the other option on the ballot. Sterling strengthened versus the euro by over 1% and stayed broadly flat versus the dollar.

CONCLUSION

Asset markets have been buoyed by the potential for progress on a trade deal, while central banks have largely been on the sidelines in November. Market pricing seems to be reflecting optimism that growth will reaccelerate. Equity valuations have now risen to levels close to their long-run averages, and higher in the US, while credit spreads remain low. There is the possibility of a 'phase one' trade deal to justify this optimism, but there is still a fair amount of risk given the potential for the negotiations to fail. The good news is that manufacturing appears to be stabilising, and continued central bank support should help. These two-way risks argue for a balanced asset allocation. Focusing on quality across equities and credit could help reduce downside if investor optimism turns out to be unjustified, while still providing some upside if growth improves. Despite the low yields provided by traditional safe haven assets, government bonds can still provide ballast in portfolios if growth fails to reaccelerate. Meanwhile, investors who need a higher but still relatively defensive income might also want to consider global infrastructure investments.

Exhibit 5: Index returns for November 2019 (%)

INDEX	GBP	USD	JPY	EUR	LOC
Equities (MSCI)					
MSCI World Index	2.9	2.8	4.2	4.0	3.2
MSCI USA	3.8	3.8	5.1	5.0	3.8
MSCI Europe ex-UK	1.5	1.4	2.8	2.6	2.5
MSCI United Kingdom	1.8	1.7	3.0	2.9	1.8
MSCI Japan	0.6	0.6	1.9	1.8	1.9
MSCI AC Asia ex-JP	0.3	0.2	1.6	1.4	0.6
MSCI EM Latin America	-4.1	-4.1	-2.9	-3.0	0.2
MSCI EM (Emerging Markets)	-0.1	-0.1	1.2	1.1	0.6
Bonds					
Bloomberg Barclays Global Aggregate	-0.7	-0.8	0.5	0.4	n/a
Bloomberg Barclays US Aggregate	0.0	-0.1	1.2	1.1	-0.1
Bloomberg Barclays Japan Aggregate	-1.6	-1.6	-0.3	-0.5	-0.3
Bloomberg Barclays UK Aggregate	-0.7	-0.7	0.6	0.5	-0.7
Bloomberg Barclays Euro Aggregate	-1.7	-1.8	-0.5	-0.6	-0.6
Currencies					
Sterling	n/a	0.0	1.3	1.2	n/a
US dollar	0.0	n/a	1.3	1.2	n/a
Yen	-1.3	-1.3	n/a	-0.1	n/a
Euro	-1.1	-1.2	0.1	n/a	n/a

Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 30 November 2019.

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