MARKET INSIGHTS

# Market Review

2 January 2020

## Review of markets over 2019

Last Christmas, the markets gave investors a fright. This year, to save us from tears, the central banks gave us something special. Equity markets delivered fantastic returns in 2019. The MSCI World Index was up 28%, led by US equities (+31%), with European equities (+27%) in hot pursuit. Despite this roaring return from equities, government bonds also delivered good returns.

From the beginning of the year to September, government bonds reacted as one would expect to weaker economic data, with bond yields broadly tracking the manufacturing surveys lower. The surprise was not the strong performance of government bonds but the strong rebound in equities against this backdrop of deteriorating data.

### Exhibit 1: Asset class and style returns

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Q4 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 34.1% | MSCI EM 11.9% |
| 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% | DM Equities 28.4% | Small cap 9.9% |
| 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% | Small cap 26.8% | Growth 9.8% |
| 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% | Global REITS 24.4% | DM Equities 8.7% |
| 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 22.7% | Value 7.5% |
| 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 18.9% | Cmdty 4.4% |
| 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% | Cmdty 7.7% | Global REITS 1.1% |
| 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% | Global Agg 6.8% | Global Agg 0.5% |

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 31 December 2019.


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After the sharp falls in equities during the fourth quarter of 2018, the first four months of 2019 brought a strong rebound, as central banks signalled that rather than raise interest rates they would provide yet more stimulus to try to keep the economic expansion intact. Equities clearly believed the central banks would succeed.

Then, from the end of April to the end of September, global equities broadly traded sideways with some bumps in the road, as investors digested the ebbs and flows in the trade negotiations between the US and China, and the continued deterioration in macroeconomic indicators.

Remarkably, by the end of September, the 20+ year Treasury index was up 20%, while the MSCI World was up 18%. The flood of central bank liquidity had lifted all boats. Such strong returns for both traditional risk-off and risk-on assets, at the same time, is unusual. By the time October began, both the bulls and the bears had been very well fed.

## Exhibit 2: World stock market returns

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Q4 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 31.5% | MSCI EM 11.9% |
| 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 27.5% | MSCI Asia ex-Japan 11.9% |
| 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% | UK FTSE All-Share 19.2% | US S&P 500 9.1% |
| 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% | MSCI EM 18.9% | Japan TOPIX 8.6% |
| 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 18.5% | MSCI Europe ex-UK 5.3% |
| 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% | Japan TOPIX 18.1% | UK FTSE All-Share 4.2% |

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 31 December 2019.

However, the fourth quarter has decided the year in favour of the bulls. Global equities rose 9% in the last three months of the year, while developed market government bonds gave up some of their gains.

Several factors helped drive equities and bond yields higher in the final quarter. First of all, the US and eurozone manufacturing business surveys picked up slightly from September, although they remain weak. Second, the service sector business surveys in the US and Europe also picked up. Most importantly, despite headlines involving large job cuts at some companies in Europe, overall employment has held up well, and in the US over 200,000 jobs were added in November. The pick up in the service sectors, and the resilience of overall employment to the weakness in manufacturing, has helped restore market confidence that a recession is not imminent.

The fourth quarter also saw two significant political risks avoided, at least for now. US tariffs on China were scheduled to increase on 15 December but a phase one trade deal avoided that outcome and provided a significant relief for equity markets. The fact that the US also didn't impose tariffs on European Union auto exports also helped support equities. How long the trade peace will last is anyone's guess but the market ended the quarter cheered by the fact the worst case scenario for trade had, at least for now, been avoided.

The large majority for the Conservative Party in the UK election in December removed the threat of nationalisation for some utility companies. The utility sector in the UK rallied 6% following the election result. In addition, the election meant that the UK could pass a European Union withdrawal bill, activating a transition period during which little will change, until the end of 2020. The combination of these election implications helped lift UK stocks and sterling over the quarter. However, sterling's initial rally after the election result soon faded when it was announced that it would be made law that there would be no extension to the transition period beyond the end of 2020, giving the UK government a very short period of time to agree a free trade deal that avoids a hard Brexit.

## Exhibit 3: Fixed income sector returns

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Q4 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 14.4% | US HY 2.6% |
| 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 14.4% | EM Debt 2.1% |
| 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 11.5% | Euro HY 2.1% |
| 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 10.7% | Global IG 1.8% |
| US Treas. -2.7% | Global IL 3.4% | Global IG -3.6% | Global IL 3.9% | Euro HY 6.1% | Euro HY -3.6% | Global IL 8.0% | Global IL 0.0% |
| 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. 6.9% | US Treas. -0.8% |
| EM Debt -6.6% | US HY 2.5% | Global IL -5.0% | US Treas. 1.0% | Euro Gov. 0.2% | EM Debt -4.6% | Euro Gov. 6.8% | Euro Gov. -3.0% |

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.

The fourth quarter was also notable for personnel changes at key central banks with Christine Lagarde taking over from Mario Draghi at the European Central Bank (ECB) and Andrew Bailey being announced as Mark Carney's successor at the Bank of England. In terms of policy action, both the Federal Reserve and the ECB started to expand their balance sheets again and the Fed cut interest rates for the third time this year.

So it's been a great year to be invested, almost irrespective of what you were invested in. Next year is unlikely to be so indiscriminate and such high returns are likely to be harder to come by. If the global economy reaccelerates, equities should rise, although higher starting valuations might limit the extent of the upside. In this scenario, government bond yields should also move higher, rather than fall as they did in 2019.

## Exhibit 4: Fixed income government bond returns

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Q4 2019 |
|---|---|---|---|---|---|---|---|---|
| Italy 20.5% | Spain 11.1% | Spain 15.9% | Italy 4.8% | UK 10.7% | Global 7.5% | Spain 2.5% | Italy 10.6% | Global -0.1% |
| Spain 5.4% | Italy 7.2% | Italy 15.2% | Spain 1.7% | Spain 4.1% | US 2.3% | Germany 1.9% | Spain 8.3% | US -0.8% |
| Germany 5.0% | Japan 2.1% | UK 14.6% | Japan 1.2% | Germany 3.4% | UK 2.0% | Japan 1.0% | UK 7.1% | Japan -1.2% |
| UK 2.9% | Germany -1.7% | Germany 9.0% | US 0.8% | Japan 3.2% | Spain 1.1% | US 0.9% | US 6.9% | Spain -2.1% |
| US 2.0% | US -2.7% | US 5.1% | UK 0.5% | Global 1.7% | Italy 0.8% | UK 0.5% | Global 5.6% | Germany -2.9% |
| Global 2.0% | UK -4.2% | Japan 4.5% | Germany 0.4% | US 1.0% | Japan 0.2% | Global -0.7% | Germany 3.1% | Italy -3.1% |
| Japan 1.7% | Global -4.3% | Global -1.0% | Global -3.7% | Italy 0.8% | Germany -1.0% | Italy -1.3% | Japan 1.7% | UK -4.2% |

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 31 December 2019.

However, if growth continues to slow and profit pressures cause companies to cut jobs, then 2020 could be another good year for government bonds, and a more challenging year for equities and credit. Either way, with the Brexit trade negotiations and the US election to contend with, 2020 certainly won't be a quiet one, with plenty of uncertainty likely to linger.

While 2019 shows that uncertainty doesn't have to be the enemy of investors, to navigate this prolonged political uncertainty amid a late cycle economic backdrop will be no easy task. As we start the year, we continue to think a broadly neutral, balanced portfolio of equities, government bonds and defensive alternatives, still makes sense until both the economic and political outlook is clearer. For more detail, please see our 2020 outlook.

Happy New Year.

## Exhibit 5: Index returns for December 2019 (%)

| INDEX | GBP | USD | JPY | EUR | LOC |
|---|---|---|---|---|---|
| **Equities (MSCI)** | | | | | |
| MSCI World Index | 0.6 | 3.0 | 2.2 | 1.2 | 2.3 |
| MSCI USA | 0.5 | 2.9 | 2.1 | 1.1 | 2.9 |
| MSCI Europe ex-UK | 1.0 | 3.5 | 2.7 | 1.6 | 1.3 |
| MSCI United Kingdom | 2.7 | 5.2 | 4.3 | 3.3 | 2.7 |
| MSCI Japan | -0.3 | 2.1 | 1.3 | 0.3 | 1.3 |
| MSCI AC Asia ex-JP | 4.2 | 6.7 | 5.9 | 4.8 | 5.7 |
| MSCI EM Latin America | 7.8 | 10.4 | 9.6 | 8.5 | 5.4 |
| MSCI EM (Emerging Markets) | 5.0 | 7.5 | 6.7 | 5.6 | 5.8 |
| **Bonds** | | | | | |
| Bloomberg Barclays Global Aggregate | -1.8 | 0.6 | -0.2 | -1.2 | |
| Bloomberg Barclays US Aggregate | -2.4 | -0.1 | -0.8 | -1.8 | -0.1 |
| Bloomberg Barclays Japan Aggregate | -1.9 | 0.5 | -0.3 | -1.3 | -0.3 |
| Bloomberg Barclays UK Aggregate | -1.2 | 1.2 | 0.4 | -0.6 | -1.2 |
| Bloomberg Barclays Euro Aggregate | -1.3 | 1.1 | 0.3 | -0.7 | -0.7 |
| **Currencies** | | | | | |
| Sterling | | 2.4 | 1.8 | 0.8 | n/a |
| US dollar | -2.4 | | -0.8 | -1.8 | n/a |
| Yen | -1.7 | 0.8 | | -1.0 | n/a |
| Euro | -0.8 | 1.8 | 1.0 | | 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 31 December 2019.

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