

## **Tim Timotheou from Quilter Cheviot – His Views**

We view the recent market falls as temporary rather than a cause of longer term concerns. Our views are formed after considering a wide and varied range of research material of which below is just one of many examples received yesterday from JP Morgan. They concur with our views that recent volatility should prove to be a short-term readjustment to new economic cycles such as the end of Quantitative Easing, particularly in the USA.

Closer to home, there are of course other issues for Mrs May and the UK to contend with in terms of our relationship with Europe. However, we are again encouraged by the amount of recent interest that major overseas companies have taken in purchasing UK quoted businesses. These include not one but two bids from the USA for Sky TV for over £30bn, and a Japanese purchase of Shire Pharmaceuticals for well over £40bn. In addition, Coca Cola are to pay Whitbread shareholders some £4bn for the Costa coffee business whilst UK quoted insurance broker Jardine Lloyd Thompson is also to be acquired for over £4bn by yet another US firm.

What these transactions confirm to us is that large overseas businesses see attractive long-term potential in UK plc and see the current political backdrop as a short-term issue. Moreover, in stock market terms, these are takeovers for cash consideration and once the transactions are completed, institutional shareholders will need to seek to reinvest in Equity markets.

For these reasons we are asking clients not to take any alarmist changes of direction but to remain with their long-term objectives.

## A wobble without a cause

Karen Ward | 15 October 2018



Karen Ward  
Chief Market  
Strategist EMEA

Global equity markets had a meaningful wobble last week. The S&P 500 equity price index fell 4.1%, MSCI Europe fell 4.6% and the FTSE All-share fell by 4.4%. But we're reluctant to read too much into this particular bout of volatility—for two key reasons. First, a market move of this kind isn't unusual. Since 1980, the years when the S&P 500 has delivered a positive full-year return have seen an average maximum drawdown of 11%. 2017, with its lack of volatility, was actually the outlier and has perhaps warped our sense of how "normal" markets function. Second, even after considerable ex-post head scratching, it didn't obviously result from either economic or geopolitical news.

It's true that the US 10-year hit 3.25% in the days immediately before the fall in global equity markets. But this was a sign of economic strength because it was, in fact, the real rate that rose. Had it been an inflation scare or a dramatic reassessment of the outlook for Federal Reserve (Fed) policy, we may have had a bit more sympathy for the idea that the Fed was going to have to think sooner rather than later about ending the economic cycle. But the fact that real rates are rising tells us bond investors are less worried about the long-term outlook for US growth. Hardly a reason for equity investors to run for cover.

So was this spike in volatility caused by increased concerns about a trade war? These are still rumbling on, but there was no clear impetus for increased fear last week. Investors are looking for guidance as to whether the tariffs will dent earnings when S&P companies report in the coming weeks, but there were few actual political headlines on the subject. Indeed, if anything, reports last week suggested that the US will not label China a "currency manipulator" despite the 6% decline in the renminbi against the dollar this year.

At this stage, we are relatively happy to discount the abrupt moves last week as more noise than signal. Such bumps in the road will be more frequent given that we are in the later stages of the economic and market cycle—and investors should be considering how to improve the resilience of their portfolios.

We still believe the most likely catalyst to the next full bear market will be the Fed. And while the Fed no longer has its foot so heavily on the accelerator, it is still some way from hitting the brake. It would therefore make sense for investors to similarly adjust their approach to their portfolios. Pedal to the metal is no longer such a good idea. But neither is an emergency stop.