

# Market Update

Week 44: 29 October 2018



## Global Market Movements

- Quite common

The FTSE 100 index peaked at 7,877 late in May. It now stands 11.9% lower at 6,940. (That drawdown reduces a little to just over 10.0% if you account for dividend payments over the period). The MSCI World index, heavily skewed by the US stock market, peaked much later in September and now stands 9.3% lower.

Those movements amount to little more than a necessary correction – an adjustment to what we perceive to be a mis-match between the likely outlook for short term interest rates as defined by the Federal Reserve on the one hand and the capital markets on the other hand. It's difficult to tell how far that adjustment has progressed because the spike in volatility has had the more immediate effect of driving demand for safer assets. Gilts, on average, are up 3.1% since mid-October when stock wobbles turned to stock topples. That demand has forced yields lower clouding the view from the bond market a little. That, in turn, will correct when the market for stocks settles.

It is worth saying that we do not consider current market conditions to be abnormal in any way. Market movements in the order of 10.0% are common. Indeed, we expect one of those at some point on an annual basis and consider calm vigilance and little more to be the optimal response.

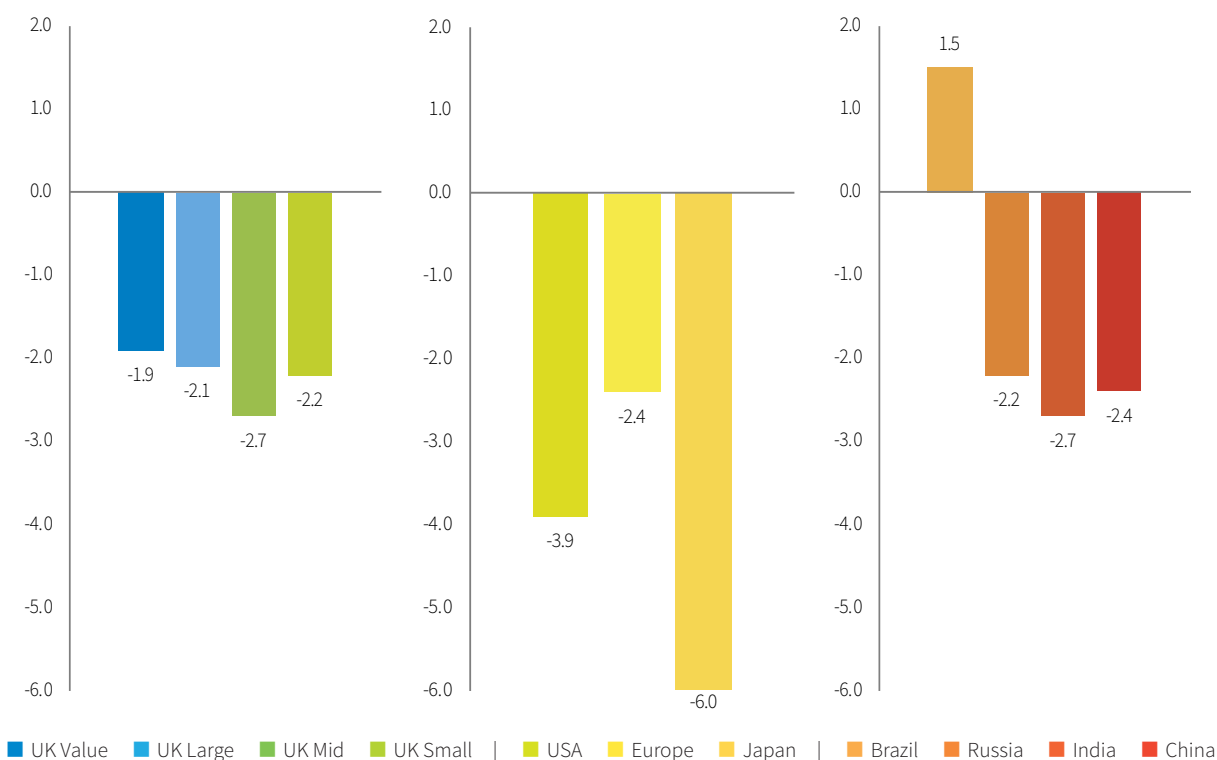
As it stands, we don't expect the markets to bounce back emphatically from where we are today – that is to say that we'd be surprised if we saw the stock market run riot, scaling new highs before the year is out. Like we said, this is (or more likely 'has been') a much needed adjustment.

Valuations remain elevated. The cyclically-adjusted P/E ratio (the Shiller P/E) stands at 30.0 (down from 33.0 in January). That's around the level it was before the Great Depression (1929) and is much higher than it was before Black Monday (1989) and the Great Recession (2008). High valuations are a headwind.



# Last Week

## In Markets



## Other Developments

### Monetary Policy and Volatility

To further elaborate on the previous point and potential headwinds for markets, Monetary policy too is a headwind, but it's a mild headwind.

The Federal Reserve's published 'projection material' outlines another quarter of a per cent rise in December followed by another three small increases next year. Furthermore, those increases will be appropriate insofar as inflation remains close to the target rate (2.0%) in the context of a healthy economy.

That being the case, we see little reason for investors to change course at this point.

The CBOE Volatility Index (better known as VIX) has risen to 24.0, well-above its long-term average and the AAI survey of American investors is reading 'unusually low levels' of optimism among respondents. Beyond that, the average discount to net asset value for UK listed investment trusts has increased by 24% (from 2.9% to 3.6%) during the course of October.

The turmoil surrounding GAM Holding AG deepened Tuesday as the Swiss money manager said investors pulled more than 20% of assets from its funds following the suspension of a star bond manager this summer.

Assets in GAM's investment management business fell to 66.8 billion Swiss francs (\$67.1 billion) by the end of September, down from 84.4 billion Swiss francs three months earlier.

Overall assets under management at the firm, including its large private labeling business, fell 10% to 146.1 billion francs. Shares sank 20% in late morning trading.

Wall Street Journal  
23 October 2018

## This Week

### Monday

UK budget

US personal spending

Japan employment situation

### Tuesday

France GDP

Germany unemployment

Eurozone GDP and consumer sentiment

US housing data

Japan industrial production

Australia consumer price index

China manufacturing PMI

### Wednesday

Japan monetary policy

Germany retail sales

Italy unemployment

Eurozone consumer price index

South Korea foreign trade and inflation

Brazil monetary policy

### Thursday








US jobless claims

UK monetary policy

### Friday

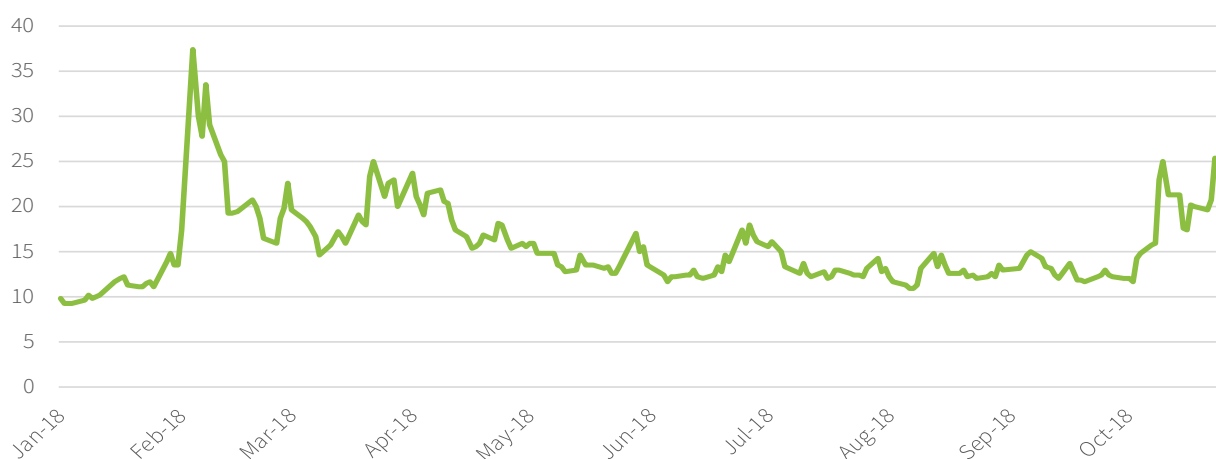
US employment situation

# Market Dashboard

	Bank Base Rate	- 0.75%
	Inflation (Y-o-Y)	- 2.4%
	Unemployment Rate	- 4.0%
	Wage Growth	- 2.7%
	House Prices	- £214,922
	3 Month Trade (£B)	- -2.8
	GDP (Y-o-Y)	- 1.3%

Market Data <span>▲▼</span>	
Equity Index Levels	
FTSE 100	▼ 6,940
S&P 500	▼ 2,659
Stoxx Euro 600	▼ 352
Nikkei 225	▼ 21,185
Bond Yields	
10 year UK Gilt	▼ 1.25
10 year US Treasury	▼ 3.01
10 year German Bund	▼ 0.36
10 year Japanese GB	▼ 0.11
Commodity Prices (\$)	
Brent Crude	▼ 77.7
Gold Bullion (per t oz)	▲ 1,235

## CBOE Volatility Index (VIX)



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