Positive Wealth Creation Ltd

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Positive Wealth Creation Ltd is authorised & regulated by the Financial Conduct Authority: 481182.

February 2020 Investment Commentary

Expect the unexpected: At the start of the year we had not heard of the Coronavirus. Financial markets hate the unknown and the extent of the impact on the Chinese economy and global trade is unknown, but a fall in year on year Chinese GDP growth seems certain. It comes as no surprise that the Official Chinese Purchase Managers Index (PMI) for manufacturing declined in January 2020. Deleveraging and dealing with bad debt continues to be required, as does an easing of tensions in Hong Kong.

The decisive UK general election result means that the UK has left the European Union. The EU-UK trade deal needs to be negotiated by the end of 2020 to avoid a hard trade exit. This needs to be watched carefully as it may lead to volatility if negotiations falter or fail. In the meantime, the Conservative manifesto will be implemented. An initial bounce of business and consumer optimism may re-inflate the economy after a lacklustre 2019.

However, UK investors must not overlook macroeconomic conditions in the USA, as well as the US Presidential election in November. Historically, US market volatility has been higher in election years. The US Federal Reserve has cut US interest rates, owing to weaker than expected economic growth. Looser monetary policy needs to aid stagnating corporate profits to support share prices. Trump may need a successful outcome to ongoing US-China trade negotiations as part of a successful re-election. Nevertheless, all it takes is an incendiary tweet from Trump to lead to market convulsions.

Index / Asset Class	Return Period	Change
FTSE 100 (UK shares)	Year to 31 January 2020	**4.6%**

FTSE 100

7600
7400
7200
7000
6800
6600

Jan Mar May Jul Sep Nov 2020

Index / Asset Class	Return Period	Change
FTSE 100	Rise from post financial crisis trough (6 March 2009)	**108%**

FTSE 100	Fall from most recent peak (22 May 2018)	**-7.5%**
S&P 500 (US shares)	Year to 31 January 2020	**19.4%**
Nikkei 225 (Japanese shares)	Year to 31 January 2020	**11.6%**
Hang Seng (Hong Kong shares)	Year to 31 January 2020	**-6.7%**
UK CPI (inflation)	Year to December 2020	**1.4%**
UK GDP (economic growth)	Q3 2019	**0.4%**
UK 10 year Gilt	Yield change year to 31 January 2020	**-27.9%***
UK 10 year Gilt	Yield change month to 31 January 2020	**4.8%***
Residential Property (Nationwide House Price Index)	Year to January 2020	**1.9%**
Residential Property (Nationwide House Price Index)	Rise from pre financial crisis peak October 2007	**16.0%**
Gold	Fall from peak September 2011 to 31 January 2020	**-17.0%**

Eurozone: The European Central Bank (ECB) continues to provide support to the Eurozone economy as it has re-started its version of Quantitative Easing from November 2019. The new ECB President is Christine Lagarde, former head of the International Monetary Fund.

2019's macroeconomic conditions of falling interest rates and lower inflation were ideal for Fixed Interest securities such as **gilts and Corporate Bonds. High yield bonds** have low default rates and their progress is linked more to the economic cycle.

Time in the market, rather than timing the market, is often the key to successful long-term investing. **If you sell today, then when do you buy back?** We believe investments should be held for the medium to long-term. Portfolios are generally spread and so not overexposed to one asset class. Falls and rises are part of investing and falls only turn into losses if you sell out. If you remain a medium to long term investor, whose attitude to risk and circumstances have not changed **it is not advisable generally to alter a diversified portfolio because of short term volatility:**

- JP Morgan published data on returns from the FTSE All Share from the beginning of 1999 to the end of 2018, which shows the effect of short term volatility.
- The effect of missing out on the **ten best days** in the market is that **returns are cut by two thirds from 5.1% per annum to 1.7% per annum.** Missing the best thirty days makes returns negative at -2.1%.
- In particular, JP Morgan found that six of the best days in the market occurred within two weeks of the ten worst days.
- Therefore, consistently timing the market whether out or in is incredibly difficult. Nobel Laureate William Sharpe found that 'market timers' must be right **82%** of the time to match the return realised by long term investors.
- This underpins our belief that investments should be held for the medium to long-term. Since 1899 the UK stockmarket has outperformed cash in 75% of five year periods and 90% of ten year periods.

*An increase in yield means a fall in capital.

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