Marlborough Group

January 2020

Global Investment Commentary

SUMMARY

Following the positive returns of 2019, markets began the new decade in a good mood, before volatility picked up towards the end of the month. Concerns over the coronavirus outbreak dampened down the stock market optimism that followed the signing of a phase one trade deal between the US and China. Markets were less perturbed by the brief flare-up in tensions between the US and Iran, which de-escalated swiftly. Economic data across regions continued to show signs of improvement and, with major central banks set to remain accommodative in the coming year, short-term recession fears appear to be subsiding.

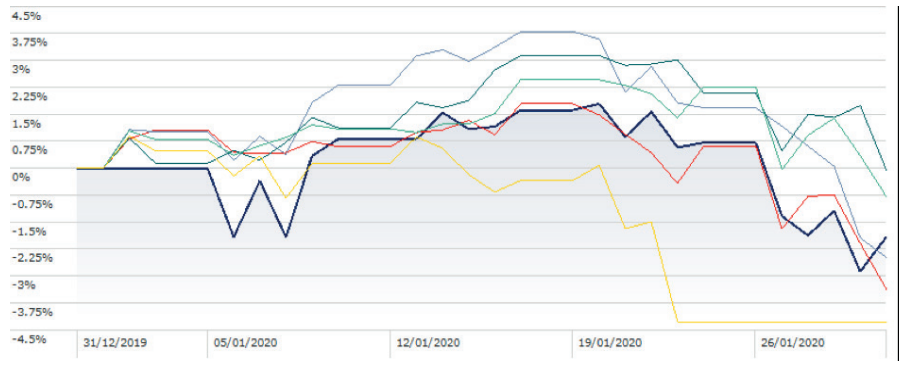
With the heightened volatility, traditional safe-haven assets performed well in January. The US dollar and Japanese yen both appreciated and government bonds outperformed equity markets - UK Gilts, US Treasuries and Euro government bonds returned 3.82%, 2.44% and 2.35% respectively. In a month where equities were broadly down, the S&P 500 continued to perform better than most markets and finished virtually flat (-0.04%) for the month. Emerging market equities were most affected by the coronavirus outbreak and fell 4.66% in US dollar terms.

UK

The UK officially exited the EU on 31 January 2020. Those hoping that this signals the curtain call for this long Brexit performance will surely be left disappointed. The UK and EU will now need to negotiate a new free trade agreement during the 11 months of transition. As a result, talk and risk of a hard Brexit are likely to persist to some degree, and may intensify by mid-year.

Economic data deteriorated notably ahead of the December election, but there has been some rebound in the subsequent data. Total UK employment was estimated to be at a record high in the three months to November. The flash purchasing managers' index releases for January, the first major data points since the election, pointed to a sharp improvement in both manufacturing and services, with the composite rising from 49.3 to 53.3.

Major Equity Indices - January 2020



Investment Name	Value	Investment Name	Value
Nikkei 225 Average TR JPY	-1.9%	MSCI AC Europe Ex GR EUR	-0.78%
S&P 500 TR in USD	-0.04%	MSCI AC Asia Pacific Ex Japan TR	-2.47%
FTSE 100 TR in GBP	-3.35%	SSE 50 A Share TR CNY	-4.27%

Source: FE

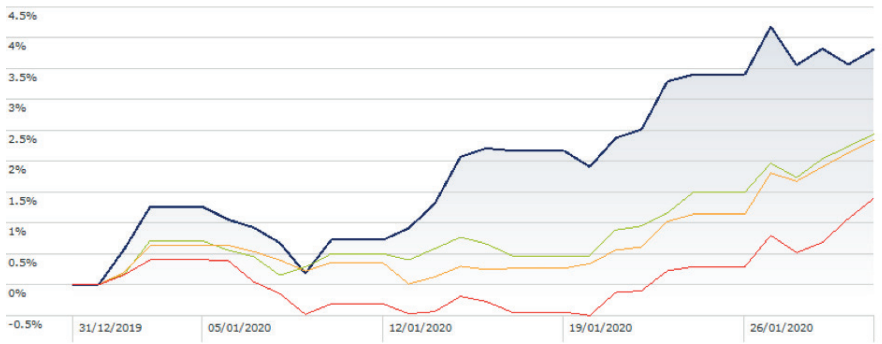
UK Employment

This was enough for the Bank of England to decide that interest rates should remain on hold. It would seem likely that interest rates will continue to be held at 0.75% as the downside risks to global growth fade and the domestic economy shows positive signs.

US

The signing of a phase one trade deal between the US and China on 15 January was welcome news, representing a thawing in tensions, but it is important to remember that significant tariffs will remain in place and that the structural issues to be tackled in

Government Bond Indices - January 2020



Investment Name	Value	Investment Name	Value
BBgBarc Sterling Agg Govt T	3.82%	BBgBarc US Treasury TR USD	2.44%
BBgBarc Global Treasury TR	1.4%	BBgBarc Euro Agg Govt TR E	2.35%

Source: FE

the next phase are not likely to be resolved easily. The phase one agreement means the US will suspend its next planned round of tariffs, as well as cutting the existing tariff rates on around USD 110 billion of Chinese imports from 15% to 7.5%. In exchange, China has committed to boost its imports from the US by around USD 200 billion over the next two years. It will also allow US companies greater access to its markets for financial services, enforce intellectual property protections and be more transparent in its currency management practices.

The key now will be to watch upcoming economic data releases to see whether global businesses feel empowered by the deal to restore investment plans that were postponed in 2019. A vigorous bounce back in activity may be hindered by ongoing trade concerns and uncertainty caused by the US presidential election in November, which are likely to keep firms hesitant.

The US economy grew at an annualised pace of 2.1% in the final quarter of 2019 and broadly remains on solid footing. Manufacturing remains weak, with the December release of the Institute for Supply Management's (ISM) manufacturing survey showing that the sector continues to contract. However, the services side of the economy remains resilient and the ISM non-manufacturing survey picked up 1.1 points to 55.0 in December. Meanwhile, sentiment among consumers, whose spending is the bedrock of the US economy, is still in good shape, with confidence rising significantly in January.

With the economy evolving broadly in line with the Federal Reserve's forecast of moderate economic growth and a strong labour market, the decision to keep the key interest rate unchanged at the January meeting came as no surprise to markets.

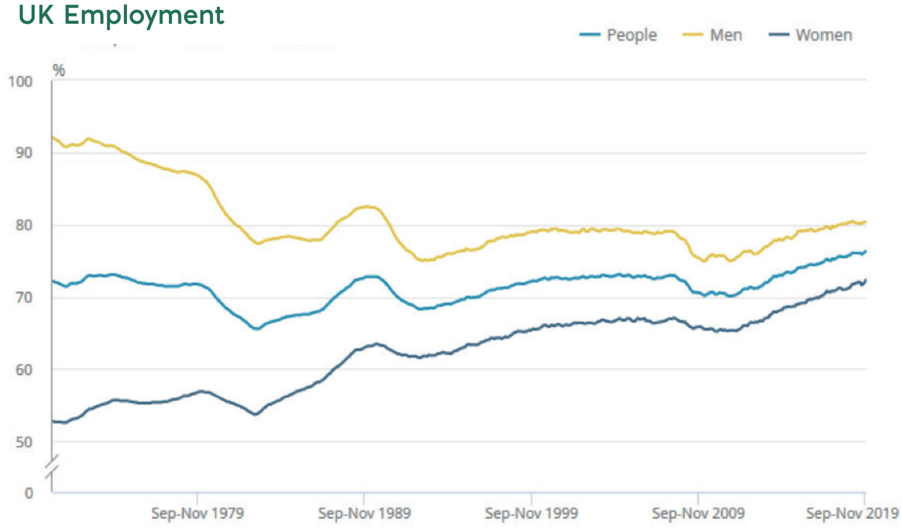
Eurozone

Growth in the eurozone remains positive but tepid, at 0.1% in the final quarter of 2019. The consumer remains supported by a healthy labour market - unemployment in the region fell 0.1% in December to 7.4%.

More encouragingly, the manufacturing side of the economy showed a significant rebound. Should international trade improve on the back of the phase one US-China trade deal, then the manufacturing hubs of Germany and Italy, which both have about a fifth of their employment in manufacturing, stand to benefit.

Christine Lagarde's second meeting in charge of the European Central Bank (ECB) was a low-key affair. Policy rates were left unchanged, but, more significantly, a comprehensive review of monetary policy strategy was announced. The review will include an assessment of the monetary policy toolkit, including its effectiveness and potential side effects and how the ECB approaches price stability and environmental sustainability. Whether the review will conclude that negative interest rates should be reversed remains to be seen.

UK Employment



Source: Office for National Statistics - Labour Force Survey

Lagarde also reiterated her call for more fiscal stimulus, particularly from countries that are more able to borrow than others, saying good fiscal support would give much more effect to the region's monetary policy.

China

January saw the outbreak of the latest coronavirus, originating in Wuhan, China. At the time of writing, more than 28,000 people have contracted the disease, with 560 confirmed fatalities. In comparison, the SARS outbreak of 2003 infected over 8,000 people, with 774 deaths. Increased travel over the Lunar New Year celebrations is likely to have aided the spread of the coronavirus and 26 countries outside of China have now reported cases.

As we are still in the early stages of the outbreak, and given the incubation period of up to 14 days (before symptoms present), it is hard to gauge exactly how the situation will develop and the subsequent economic impact. It is likely that this will be a near-term drag on growth in China and its neighbours, as infrastructure networks shut down and more people remain at home. A concerted policy response from the Chinese authorities seems likely, which may assist a recovery in the coming quarters. The prospect of a weaker global economy in the near term and associated weaker demand for oil led to an 11.9% fall in the price of Brent crude oil over the month.

The outbreak comes at a time when economic data suggests that the Chinese economy is stabilising in response to accommodative monetary and fiscal policy. China grew at 6% year on year in the fourth quarter of 2019. December retail sales continued to grow at 8% year on year, while industrial production also picked up.

Conclusion

The outbreak of a coronavirus and a brief flare-up in US-Iranian tensions in January have served as a timely reminder that as well as positioning for the risks on the horizon, what we might call the 'known unknowns', investors also need to prepare their portfolios to be able to weather the 'unknown unknowns'. This is best achieved through a broad approach to portfolio diversification across and within fixed income, equities and alternative assets.

Economic projections (31/01/2020)

Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2019 (actual)	2020	2021
UK	1.10	1.10	1.50
USA	2.30	1.80	1.90
Eurozone	1.20	1.00	1.30
Germany	0.60	0.60	1.20
France	1.30	1.20	1.30
Japan	1.00	0.50	0.80
China	6.10	5.80	5.80
India	6.10	5.00	6.00
Asia	5.40	5.10	5.30
Emerging Markets	4.40	4.40	4.70

Source: Bloomberg

Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2019 (actual)	2020	2021
UK	0.75	0.70	0.85
USA	1.75	1.60	1.65
Eurozone	0.00	0.00	0.00
Japan	-0.10	-0.10	0.00
China	4.35	4.30	4.20
India	5.15	4.90	5.10

Source: Bloomberg

Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2019 (actual)	2020	2021
GBP/USD	1.33	1.35	1.41
EUR/GBP	0.85	0.85	0.84
EUR/USD	1.12	1.15	1.18
USD/JPY	108.61	107.00	105.00
EUR/JPY	121.77	122.00	123.50
USD/CNY	6.96	6.90	7.00
USD/INR	71.38	71.90	69.80

Source: Bloomberg

Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. Tax treatment depends on individual circumstances and may change in the future.

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