Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary – July 2019

Buoyant Equity and Bond Markets so far this year

When I reported three months ago, I said that there had been an astonishing rise in most of the major global equity markets in the first quarter of 2019. That trend in equities has pretty much continued, but bond markets have performed strongly as well in the second quarter of 2019. So your portfolio will have appreciated materially since its value at the end of 2018. You may well recall that equities, especially in the USA, fell sharply in December amid growing pessimism about the health of the global economy. At the time of writing this report, the appreciation of your portfolio since December 2018 has been amazing, by about £180million to £2.38billion. This represents an uplift in percentage terms of almost 8%.

Economic growth and Central Banks

The global economy is still growing – but not as robustly as forecast at the end of last year. For example the World Bank recently reduced its forecast of growth in 2019 from above 3% to below it, citing the “trade war” between the USA and China as a significant factor.

The dramatic change since the last quarter of 2018 to now is the attitude of the US Federal Reserve (“the Fed”) and other major Central Banks (e.g. the European Central Bank and the Bank of Japan). Previously, the Fed had been expected to raise short term interest rates in 2019 and to continue their policy of winding down the programme of Quantitative Easing whereby they sold back to the market some modest parts of their holdings of US Treasury Bonds. Faced with deteriorating global economic prospects and a scary fall in equity markets in late December, they abruptly reversed their policies and indicated a willingness to cut interest rates if circumstances demanded. They also reined in the sale of US Treasury Bonds. The other Central Banks have followed suit.

The result was a surge in virtually all equity markets around the world. Business confidence, though, has deteriorated. The most obvious cause is the continuing fraught trade negotiations between the USA and China – which on a pessimistic reading could lead to an all-out trade war. That, in my view, is not likely because the USA and China are so inter-dependent. But the risk undoubtedly exists and would certainly spook the markets. To date, markets have largely shrugged off the more pessimistic possible outcomes. In the UK, business sentiment has been strongly influenced by the Brexit impasse and the shenanigans in the Houses of Parliament.

So, in summary, the USA continues to grow at a respectable pace of over 2%, buoyed up by robust consumers' expenditure. Europe is scarcely growing with several countries, e.g. Italy, actually in recession. Germany and France are barely growing. It looks as if the UK is finally contracting, albeit temporarily, as destocking post the March 2019 Brexit "false deadline" takes hold, especially affecting the motor industry. Nonetheless, the UK economy should recover to grow at around 1% per annum during the rest of 2019.

Equity Markets

The rise in markets this year has not been driven by improving economic fundamentals but largely by the conviction of investors that Central Banks will do their upmost to prevent a significant global economic slowdown by boosting global liquidity. That liquidity will hold equity markets up. As ever, they remain susceptible to shocks, both economic and political; sharp one day or one week falls are inevitable. But I continue to believe that falls in the range 5% to 10% will bring in the buyers. Cash flow to institutional investors must find a home somewhere. There are few practical alternatives to equities.

Conclusion

Peter Jones
24 June 2019

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

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