A look back at 2019:
A STRONG YEAR WITH TRICKY UNDERCURRENCES

So my name's Jonathan Sparks, I'm the Chief Market Strategist for the UK and Channel Islands and I'm going to give a quick review of the year in the financial markets. So on the face of it it's actually been an impressive year with most asset prices making strong gains but actually there's more under the surface here.

So the market started actually with a relief rally and this was because the federal reserve changed tack from raising rates to actually signalling they would cut rates. And the reason for this is because global growth had slowed down and this was on the back of trade tension between China and the US.

The rally in markets continued into May and then again there was another shock and this was because the US administration announced further tariffs on Chinese goods imports to the US and so the market naturally looked to the federal reserve for a policy response. And the federal reserve obliged by actually cutting rates in July and then they did two further cuts later in the year. So the markets basically oscillated between fears over tariffs between the US and China and then the policy response helping markets recover by the federal reserve cutting rates.

Actually counter intuitively almost the economy that suffered the most from this has actually been Europe because this has led, the frictions between the US and China, has led to a reduction in global trade and economies like Germany are very sensitive to that because they're such large exporters. And so you've seen actually a real weakness in Europe and this has been compounded of course by the UK which has had negotiations over Brexit and what that has done is led to a level of very high uncertainty in the business environment so businesses are reluctant to invest.

Yet, while global trade has remained weak on the plus side the consumer has remained very strong. And the reason why is because unemployment is still very low particularly in the US and in the UK where you've got unemployment rates actually the lowest since the 60s or 70s. And actually what you've seen is low inflation but wages still increasing and actually wages are increasing more than inflation giving the consumer real spending power. And therefore we like these areas where you're seeing this extra consumer spending.

With rates so low investors are naturally going to look for higher incomes or higher returns elsewhere. For example in German government bonds you're getting negative interest rates. So what do investors do? They've either gone to companies that have strong growth potential so there'll be some tech stocks or they're looking for companies that are resilient in the face of slowing growth or perhaps have a high dividend to compensate for the lack of income you're getting elsewhere. So these sectors have done well this year.

In recent weeks there's been hopes that actually the US and China will agree some kind of partial trade deal and this will be hopefully good for growth and therefore good for asset prices. But we do still see a gradual slowdown in many economies so for next year we're positioned a little bit more conservatively. We still like though some of these structural trends, some of the thematics because there's still a lot going on in terms of technology, sustainability and actually in the consumer sector. So there still are some exciting ideas out there.

If you're interested in hearing our views for the year ahead please look out for our Investment Outlook publication or register for one of our Investment Outlook events.