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Flash stats

Q3 2019

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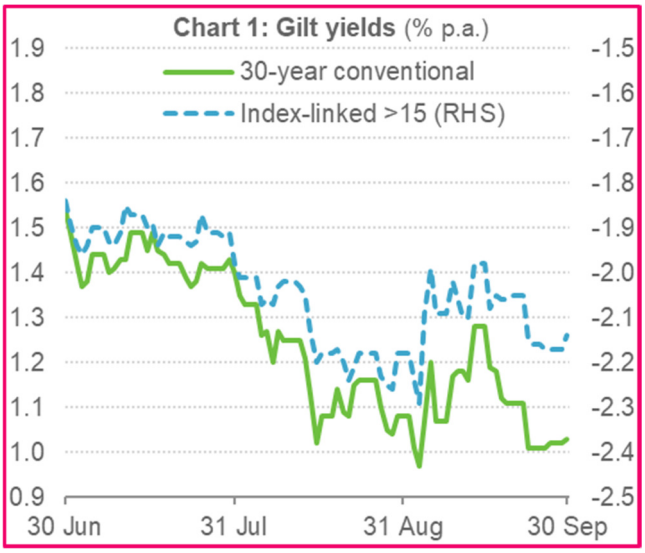
Despite volatility in the face of ongoing trade disputes and softening economic data, global equity markets ended the quarter marginally higher, while sovereign bond yields continued to drift lower.

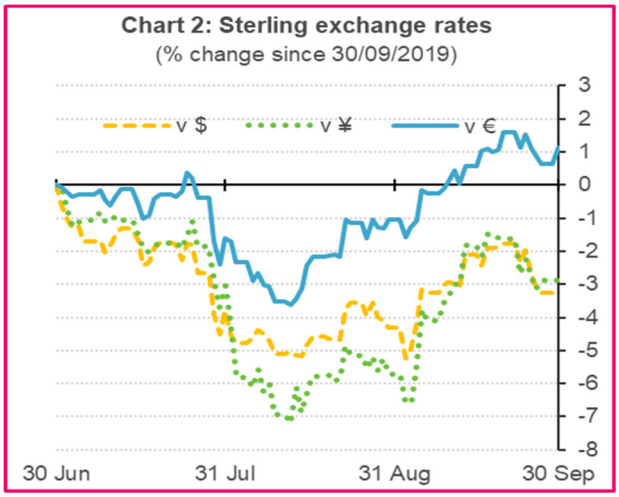
Sterling returns (%) to 30 September 2019

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	3.5	7.8	Gilts (All)	*FTSE*	6.2	13.4
UK	*FTSE 100*	1.0	3.2	Index-linked (All)	*FTSE*	7.8	18.4
	FTSE All-Share	1.3	2.7	Corporates (All)	*iBoxx*	3.7	11.0
US	*S&P 500*	5.0	10.3	**MODEL UK PENSION FUNDS**			
Japan	*TOPIX*	6.4	-0.3	70% equity		3.2	7.5
Europe ex UK	*FTSE Dev Europe*	1.5	6.2	50% equity		3.6	8.8
Emerging	*FTSE Emerging*	-0.5	7.1	30% equity		4.1	10.0

- The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, continue to impact global growth – consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.
- UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment.
- While the US economy has continued to outperform its developed market peers, its manufacturing PMI fell to its lowest level since June 2009 in September. The equivalent measure for Germany also continued to fall, reaching its lowest level in a decade.
- Inflation pressures remain elusive despite real wage growth on the back of low unemployment. This has given central banks room to manoeuvre, with the Federal Reserve cutting rates again in September and the ECB reducing rates further into negative territory.



- Sovereign bond yields continued to drift lower with US and UK 10-year nominal yields both falling around 0.35% p.a. over the quarter, while equivalent German bund yields slipped 0.24% p.a. Implied inflation fell at longer maturities (Chart 1), but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation.
- Credit spreads were little changed over the quarter across markets with little regional diversification. Total returns in fixed rate markets were bolstered by underlying rate moves.
- Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.



- Sterling appreciated against the Euro but fell against the US Dollar and Japanese Yen as both benefited from their safe-haven status (Chart 2).
- The global equity market momentum of the first half of the year ended abruptly in early Q3, as the Federal Reserve lowered expectations for future rate cuts. This was later compounded by the announcement of additional tariffs from both the US & China, as well as weakening manufacturing data in Europe & Asia. Despite a period of volatility, global equities ended the period in marginally positive territory in local currency terms, while sterling-denominated returns were increased by the currency's continued depreciation (Chart 3).
- Cyclical sectors such as basic materials, oil & gas and industrials underperformed the more defensive sectors on fears of an economic slowdown (Chart 4).
- Property has delivered total returns of 0.5% over the quarter to end of August and 1.6% year to date. Marginally positive rental growth and return from income compensated for capital declines.