

# Market commentary

Bringing you our outlook  
on worldwide markets





# What's happening where?

## An outlook on worldwide markets

We recently spoke to **Andrew Milligan, Head of Global Strategy at Standard Life Investments**. Here's what he had to say on the UK economy and ongoing Brexit negotiations, what the German election means for markets and investors, and what low wage growth means for household incomes and financial markets.

### Market noise - should we listen?

“Over the last couple of weeks all major markets have experienced rather more ups and downs. I'm often asked to what extent this is the result of headlines such as Trump's reaction to Charlottesville or the acts of terrorism throughout Europe. But the real question is - are the markets just reacting to noise or are there fundamental reasons for concern?

It comes as no surprise to us that equity markets have found it harder to make progress. Some shares are overvalued and we're also between the release of second and third quarter earnings reports from companies, both in the US and globally.

Political news, such as the North Korea situation and events in the White House, have encouraged some short term profit-taking. **Despite this, we remain positive about the outlook for equity markets, as we continue to expect profits to grow for the rest of this year and into 2018 on the back of a decent, even healthy, expansion in the world economy.**”



### German election, markets and investors

“Although the German elections approach as at the end of September, for now the financial markets aren't paying a huge amount of attention to them - in contrast to the Italian vote next spring. It's true that Angela Merkel suffered a recent drop in popularity but her party remains well ahead of Martin Schulz's Social Democratic Party of Germany (SPD).

Opinion polls suggest that it will be another coalition government in Germany, with little likelihood of major changes in either domestic or European policy. On the other hand, there's potential for the Italian elections in spring 2018 to lead to a populist or right wing government. This could certainly result in policy changes - or perhaps a stalemate involving a large number of parties in an unstable coalition. We can already see that Italian bond markets are beginning to react to opinion polls again.”

### Brexit negotiations - what do they mean for the UK economy?

“Brexit negotiations have begun and entered a complex stage - this was made very clear by the number of position papers which the UK government has put out over the summer. Meetings with European Union (EU) officials will no doubt continue to attract newspaper headlines, which may then encourage short-term volatility for the pound against other currencies. No early agreement remains likely; **this supports our view that the UK economy will continue to grow slowly - a view which is steadily being priced into the domestic sectors of the UK stockmarket.**

This slowdown reflects two trends - the lower pound has kept inflation higher, affecting household spending power, while weaker business confidence has had an adverse impact on investment. It will take time for these trends to reverse. Meanwhile, we're still monitoring the potential risks of a breakdown or failure in the complex Brexit discussions - politics remain difficult to forecast!

Other factors are also causing uncertainty about the outlook for the UK economy:

- ▶ Employment is growing but wages remain flat.
- ▶ While the services sector is assessing the impact of Brexit on cross-border regulation and locations, manufacturing exports are well supported by the lower pound.
- ▶ Higher inflation has been hurting consumers' real incomes so households have been borrowing or running down their savings to compensate. How much longer can this continue?

The mixed signals from the Bank of England's Monetary Policy Committee (MPC) about where next for interest rates sum up the situation. We continue to expect slow growth in the UK into 2018, which is one reason why we are looking more closely at companies in overseas markets, or UK companies which can benefit from strong exports growth or have sizeable overseas operations.”

### Where can investors find value?

Many analysts have remarked that currently none of the asset classes look cheap on the surface with only a few exceptions such as some of the emerging market economies. As a result finding relative value is not easy.

**At Standard Life Investments we favour the US, European and some Asian equity markets over and above Japan and the UK. In fixed income markets we continue to look for yield opportunities, so we prefer emerging market debt and some high yielding bonds to standard government bond markets.**

The fact that we're now neutral in asset classes that we previously liked, such as commercial property or investment grade corporate bonds, just goes to show how important valuation signals are within our house view process at present.

**Please talk to your financial adviser for more information.**



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