Market Commentary – 07th November 2018

A blue 'rip-tide' sweeps across the US political sphere, as Trump brands the mid-terms a 'tremendous success'.

The US mid-term elections dominated headlines this week, as political tensions intensified in the run up to a hotly contested mid-term election. After a long night at the polling stations, results were mixed, with both sides claiming the result as a victory. The Democrats gained control of the House of Representatives after gaining a number of Republican-controlled seats, whereas the Republicans further strengthened their control of the Senate, with the incumbent party winning seats in the Senate for only the 5th time in the last 105 years.

Despite not quite achieving the 'blue wave' the Democrats had hoped; the result is likely to have significant implications on markets over both the near and long term. A Democratic majority in the House of Representatives is likely to restrict President Trump's ability to steer his agenda through Congress going forward, leaving the Republicans unable to change fiscal policy before 2020. This has reduced market expectations for rate increases in the near term, resulting in a boost to equity markets, creating a rally in US and European equities, with the S&P opening 1% up, and all major European Indices up on the back of the results. As a result of the mid-terms, here are our views on the asset class implications:

Equities

US equities typically perform well following midterm elections, historically resulting in lower volatility and higher returns, however a boost in equities will likely be constrained by continuing political uncertainty on both domestic and global political issues, with continued US-China tensions and the enforcement of new harsher sanctions on Iran and new sanctions on Russia on the horizon. Despite market movements today, low risk-adjusted equity returns are still expected over the medium term.

Taking a sector view, certain sectors are likely to benefit as a result of the mid-term results. Financial stocks are likely to benefit from a political grid lock in Congress, allowing regulators time to advance efforts to moderate the level of regulation on the sector. Infrastructure stocks are also likely to experience favourable conditions in the medium term, as this is a key issue that Democrats are likely to work with Republicans on going forward, with the US's lagging infrastructure likely to become a key point in the 2020 presidential election. Pharmaceutical stocks may also gain if political stalemate reduces the threat of drug pricing restrictions over the next 2 years. Technology stocks however have been disappointing and continue to disappoint since the October correction.

Bonds

A Democratic majority in the House of Representatives is expected to have a minimal impact on US treasuries in the medium term, as we expect the boost in equities to be moderated by global political uncertainty. For this reason, treasuries are expected to continue to trade with a bearish bias, as previous expectations for significantly tighter financial conditions are reduced. Corporate bonds are also expected to see little change in medium term outlook, however less stimulus is likely to put more pressure on non-investment grade credit in the long term, with a move towards higher quality bonds expected.

Currencies

A divided congress rises expectations for an acceleration of dollar weakening in 2019, given reduced expectations for economic stimulus in the future. Currencies with historically strong correlation with the US dollar such as the Brazilian real, Turkish lira and Indonesian rupiah are expected to strengthen as a result of a weaker dollar.

Overall, the mid-terms have not changed our outlook or asset allocation. US economic data continues to be overwhelmingly positive, and the US economy is showing no signs of weakening as a result of these elections. While the fundamentals remain supportive, we continue to see opportunities for substantial returns from our US exposure.

For anyone who wants further data to substantiate the position please review the attached Global Economic News Document.

Model Portfolios & Indices

Over the last week we have seen most of the main global indices rebound from the lows experienced in October, with the US continuing to be the main driver of global growth. Markets were held back by political uncertainty in the lead up to the mid-term elections, new economic sanctions announcements and a continuing trade wars with China, but benefitted from strong performance of materials stocks, continued strong earnings data, and a recovery of US small cap stocks.

European stocks recovered after a weak October as an easing of global trade tensions and a rise in US markets improved investor sentiment, with main performers being luxury retailers and basic resources. UK markets remained subdued due to Brexit-related political uncertainty and a stronger pound.

Portfolios benefitted from an uptick in markets and a return to more normal market conditions this week, with all portfolios regaining ground. There is now evidence that markets are recovering following a light sell off in markets. Despite a difficult period for our portfolios, our outlook remains unchanged and we expect further growth in 2018. Global growth remains strong, and we remain confident in our asset allocation. We remain fully invested and strongly positioned to both capture gains and protect from potential market declines at this late stage of the cycle.

Global Indices Performance - YTD to close 06th November 2018				
Indices & Country		As at close YTD 30th October 2018	As at close YTD 06th November 2018	Indices Variance Change %
Indices	Country			
S&P 500	USA	0.34%	3.06%	2.72%
Dow Jones Ind Avg.	USA	0.63%	3.70%	3.07%
NASDAQ	USA	6.47%	9.26%	2.79%
Stoxx 600	Europe top 600	-8.65%	-6.84%	1.81%
FTSE 100	UK Top 100	-8.48%	-8.42%	0.06%
FTSE 250	UK Top 250	-9.74%	-7.92%	1.82%
DAX	Germany	-12.62%	-11.10%	1.52%
CAC	France	-6.29%	-4.47%	1.82%
IBEX	Spain	-12.32%	-10.50%	1.82%
FTSE MIB	Italy	-13.06%	-11.83%	1.23%
NIKKEI 225	Japan	-5.74%	-2.71%	3.03%
S&P ASX 200	Australia	-4.29%	-3.13%	1.16%
CSI 300	China	-22.84%	-19.54%	3.30%
Hang Seng	Hong Kong	-17.83%	-12.69%	5.14%
Source - Reuters 07/11/2018 - Data to close 06/11/2018				

OCM Portfolios - YTD to close 06th November 2018								
Portfolio	Benchmark	2018 YTD Return to Close 30th October 2018	2018 YTD Return to Close 06th November 2018	Change	1 Month Performance	3 Months Performance	6 Months Performance	12 Months Performance
OBI Active 3	AFI Cautious	-3.18%	-3.08%	0.10%	-1.95%	-3.35%	-2.48%	-3.12%
OBI Active 4	AFI Cautious	-3.46%	-3.31%	0.15%	-2.22%	-3.66%	-2.60%	-3.48%
OBI Active 5	AFI Cautious	-3.57%	-3.36%	0.21%	-2.55%	-4.10%	-2.58%	-3.49%
Benchmark = AFI Cautious		-2.11%	-1.71%	0.40%	-2.30%	-3.71%	-1.28%	-1.64%
OBI Active 6	AFI Balanced	-3.77%	-3.53%	0.24%	-2.89%	-4.61%	-2.73%	-3.67%
OBI Active 7	AFI Balanced	-3.76%	-3.48%	0.28%	-3.16%	-4.96%	-2.59%	-3.56%
OBI Active 8	AFI Balanced	-4.11%	-3.81%	0.30%	-3.51%	-5.49%	-2.75%	-3.77%
Benchmark = AFI Balanced		-3.49%	-2.62%	0.87%	-3.31%	-5.32%	-2.38%	-2.38%
Source - FE Analytics 07/11/2018 - Data to close 06/11/2018								
Performance has been detailed on a Gross Return calculation, which is before fees and charges after the fund manager's charges								

Important Information

The data above will not directly correlate to the indices as there is always a delay in pricing because the US markets close significantly later than the European markets and the Asian markets. The data set above reflects the last close and much of the days movements will not yet be reflected in the portfolios due to pricing delays. You cannot therefore directly correlate indices to the portfolios. The value of investments may fluctuate in price or value and you may get back less than the amount originally invested. Past performance is not a guarantee of future performance. Performance figures quoted include the fund manager charges but exclude other fees such as adviser, custodian, switch and/or discretionary investment management fees. Unless otherwise instructed and accrued, income is reinvested into the portfolio.

This Day in History

On this day in 1492 (I know, a very long time ago), the Ensisheim meteorite is a stony meteorite that fell on November 7, 1492 in a wheat field outside the walled town of Ensisheim in then Alsace, Further Austria. The meteorite can still be seen in Ensisheim's museum, the sixteenth-century Musée de la Régence.

As always have a wonderful week and stay safe.

VBW

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