



Q2 2019 REVIEW: STOCK REBOUND CONTINUES

Equity markets posted strong returns over Q2 2019, reversing a May sell off. All asset classes are beating cash in sterling terms year-to-date after a miserable 2018 (table 1) but UK property is slowing.

The equity market sell-off in May came as talks broke down between the US and China and President Trump threatened Mexico with tariffs if they failed to take steps to limit immigration. Global stock indices rebounded to post their strongest June on record as Trump cancelled Mexican tariffs and the US Federal Reserve (Fed) joined the European Central Bank (ECB) affirming their stance towards policy easing. The drop in interest rate expectations helped sovereign bonds to notch up another strong quarter despite the rally in stocks (chart 1). US and European equities outperformed over the quarter while Japanese stocks continued to lag (chart 2).

We added to our bond exposure throughout the quarter and increased our equity allocation during the market panic in May, before taking some profit towards the end of the quarter. Please see our [current multi asset positioning](#) blog post for the latest information on our active strategies.

Table 1: Sterling-based annual returns from major asset classes 2007-2019 YTD

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
1	EM Stocks +37.4%	Gilts +12.8%	EM Stocks +62.5%	EM Stocks +23.6%	Gilts +15.6%	EM Stocks +12.8%	Global Stocks +21.2%	Property +19.5%	Property +13.9%	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +16.6%
2	Commodities +14.3%	Cash +5.7%	UK Stocks +30.1%	Commodities +20.5%	Property +8.1%	UK Stocks +12.3%	UK Stocks +20.8%	Gilts +13.9%	Global Stocks +4.4%	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +13.0%
3	Global Stocks +11.2%	Multi Asset -10.4%	Global Stocks +20.6%	Global Stocks +17.2%	Multi Asset +1.6%	Global Stocks +12.1%	Property +11.0%	Global Stocks +12.2%	Multi Asset +1.8%	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +12.0%
4	Cash +6.0%	Commodities -10.9%	Multi Asset +12.6%	Property +14.7%	Cash +0.6%	Multi Asset +7.1%	Multi Asset +7.3%	EM Stocks +7.9%	UK Stocks +1.0%	UK Stocks +16.8%	Property +11.2%	Multi Asset -1.2%	Multi Asset +6.5%
5	Multi Asset +5.5%	Global Stocks -18.5%	Commodities +5.9%	UK Stocks +14.5%	UK Stocks -3.5%	Gilts +2.7%	Cash +0.5%	Multi Asset +6.5%	Gilts +0.6%	Multi Asset +12.1%	Multi Asset +6.3%	Global Stocks -3.1%	Commodities +5.2%
6	UK Stocks +5.3%	Property -22.6%	Property +1.9%	Multi Asset +11.7%	Global Stocks -6.9%	Property +2.3%	Gilts -3.9%	UK Stocks +1.2%	Cash +0.5%	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Gilts +4.7%
7	Gilts +5.3%	UK Stocks -29.9%	Cash +1.0%	Gilts +7.2%	Commodities -12.7%	Cash +0.6%	EM Stocks -5.3%	Cash +0.5%	EM Stocks -10.3%	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +1.0%
8	Property -5.4%	EM Stocks -34.8%	Gilts -1.2%	Cash +0.6%	EM Stocks -18.4%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%	Commodities -20.3%	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.4%

Chart 1: Global stocks and bonds

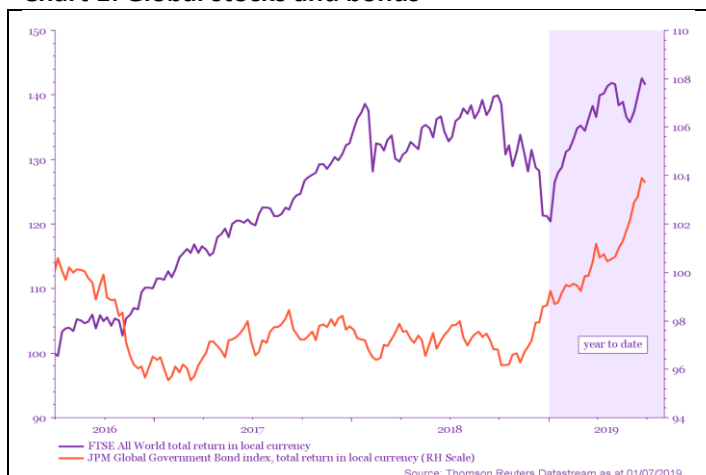
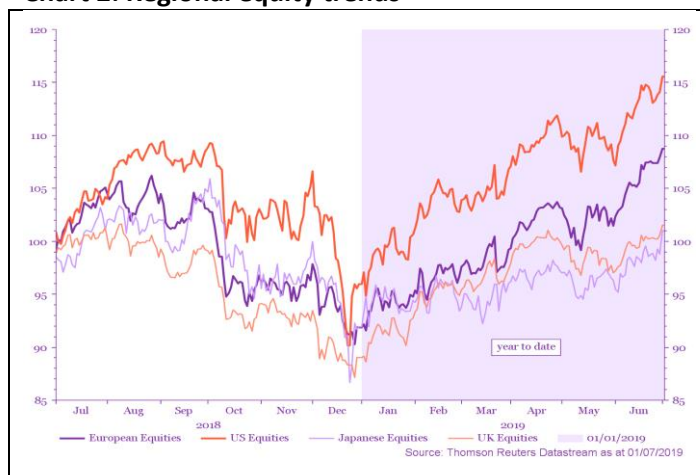


Chart 2: Regional equity trends



Source: RLAM, DataStream as of March 2019; Property Return as of May 2019. Multi Asset returns are based on the benchmark returns of Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund.



MARKETS: STOCKS REVERSE MAY SELL-OFF

- Global stocks bounced back from a sharp May sell off to post further gains and continue their stellar start to the year.
- European and US stocks outperformed. Japanese equities continued to underperform, falling over the quarter.
- Global sovereign yields continued to drift lower as the ECB and Fed confirmed their easier policy.
- Gold surged with other safe haven assets amid the May sell-off and continued its rally as the Fed indicated readiness to cut and US real bond yields fell.

As of 29-Jun-19

FX	1 GBP buys	Q2 (vs GBP)	YTD
USD	1.27	2.7	0.4
EUR	1.12	4.1	-0.3
CHF	1.24	4.6	1.1
JPY	136.9	5.5	2.1
AUD	1.81	1.6	0.1
CAD	1.66	4.7	4.5

CB rates	Rate (%)	chg in Q2 (%)	YTD (%)
Fed	2.50	0.00	0.00
BoE	0.75	0.00	0.00
ECB	-0.40	0.00	0.00
BoJ	-0.08	-0.02	-0.02

Bond Yield	Yield (%)	chg in Q2 (bps)	YTD chg (bps)
US 10 Year	2.01	-40	-68
UK 10 Year	0.83	-17	-44
EU 10 Year	-0.33	-26	-57
JP 10 Year	-0.16	-8	-16

Multi Asset	Local Currency	GBP		
	Q2	YTD	Q2	YTD
UK Stocks	3.3	13.0	3.3	13.0
Global ex UK Stocks	3.4	16.2	6.4	16.6
Gilts	1.3	4.7	1.3	4.7
UK Cash	0.2	0.4	0.2	0.4
UK Property	0.5	1.0	0.5	1.0
Commodities	-1.2	5.1	1.2	5.2

Equity Regions	Local Currency	GBP		
	Q2	YTD	Q2	YTD
UK	3.3	13.0	3.3	13.0
North America	4.2	18.6	6.8	18.9
Europe ex UK	4.7	17.8	8.8	17.5
Japan	-2.2	5.5	2.9	7.5
Pacific ex Japan	3.9	13.6	5.7	13.1
Emerging Markets	0.7	11.0	3.8	12.0

Global Equity Sectors	Local Currency	GBP		
	Q2	YTD	Q2	YTD
Consumer Discretionary	4.0	18.3	7.1	18.6
Industrials	4.0	19.0	7.2	19.3
Financials	5.7	14.5	8.6	15.0
Consumer Staples	2.7	14.6	5.5	15.0
Utilities	2.5	12.6	5.3	12.9
Healthcare	1.1	9.6	3.8	9.8
Energy	-1.2	12.3	1.5	13.4
Materials	3.4	14.9	6.4	15.6
Communication Services	2.4	8.6	5.6	9.2
Information Technology	5.2	25.4	7.9	25.4

Bonds	Local Currency	GBP		
	Q2	YTD	Q2	YTD
Conventional Gilts	1.3	4.7	1.3	4.7
Index Linked Gilts	1.9	7.9	1.9	7.9
GBP Credit	2.0	6.1	2.0	6.1
Global High Yield	2.7	9.7	2.3	8.7

Commodities	Local Currency	GBP		
	Q2	YTD	Q2	YTD
Energy	-4.6	10.6	-2.3	10.7
Agriculture	4.5	1.2	7.0	1.3
Industrial Metals	-7.2	4.7	-5.0	4.8
Precious Metals	7.1	7.2	9.7	7.2

Note: Standard indices sourced from DataStream and Bloomberg; Property data as of May 2019.

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