State Street Multi-Asset Funds

Back in Time

STATE STREET GLOBAL ADVISORS

- Phase 1 signals progress in the right direction.
- Trade tensions easing could benefit global trading partners.
- Europe markets suppressed by slowing growth and political uncertainty – could be a surprising benefactor.

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Just like Marty McFly, it feels like we are going back to the future with the latest in the US China trade negotiations. In the short term, European markets could be a surprising benefactor.

The latest proposal in the US/China trade negotiations is to have a phased roll back of the trade tariffs between the two that will effectively take us back to the start.

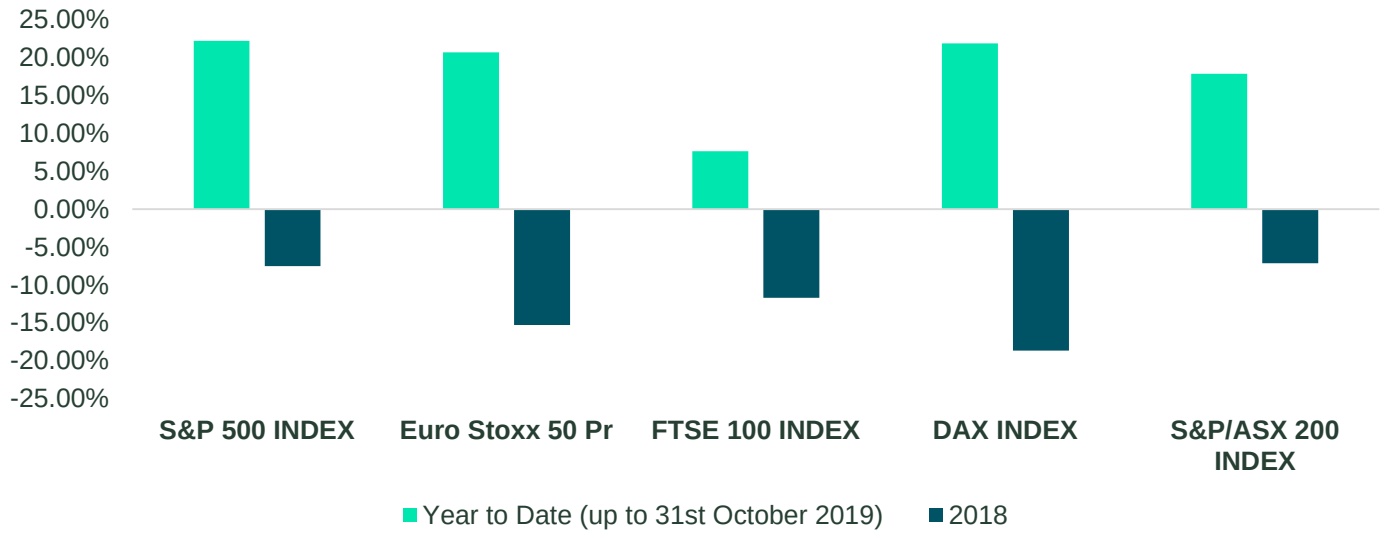
China's Ministry of Commerce spokesman Gao Feng said, "top negotiators had serious, constructive discussions and agreed to remove the additional tariffs in phases as progress is made on the agreement".[1] Kelly Anne Conway, senior White House adviser, also said President Donald Trump is "anxious" to sign the deal.

The recent progress provides signs of potential de-escalation in the trade war that has had far further reaching impacts than to just the two main protagonists. The RBA has been clear in its statements throughout this year that trade tensions were having global impacts. Repeatedly citing concerns around slowing global growth and the impact on the domestic economy.
However, the latest respite provides some positive news and a surprising benefactor, in the short term at least, could be an unusual suspect in the form of Europe.

Thus far through 2019, developed markets have posted strong returns across the board. The headwinds they faced though 2018 have begun to dissipate and most have recovered from the 2018 drawdowns. However, given their relative weakness and the extended hang over from Brexit, European markets have been slower to recover.

[1] Business Insider (https://www.businessinsider.com.au/trade-war-china-and-us-agree-to-roll-back-tariffs-gao-feng-says-2019-11)

Figure 1: **Equity Market Returns**



Source: SSGA, Bloomberg Finance L.P., as of 31 October 2019.
Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

As a result, European markets may be well positioned for further upside and benefit from the change in sentiment and momentum. In fact, European markets could be a key beneficiary of the progress being made around trade and tariffs. Having already been battered and bruised from Brexit and other European political uncertainties, Europe could be poised for some upside surprise. Markets seem to be gravitating to the positive news stories and the Phase 1 US China deal could be another one for Europe, given its status as one of the top two trading partners for both.

Figure 2: **Top Trading Partners Measured by Merchandise Exports**

Top Trading Partners:	**1st**	**2nd**	**3rd**	**4th**	**5th**
China	United States	Europe	Hong Kong	Japan	Korea, Peoples republic of
United States	Europe	Canada	Mexico	China	Japan
European Union	United States	China	Switzerland	Tukey	Russia

Source: World Trade Organisation, as of 31 October 2019

However, before getting carried away, while the outlook is looking brighter than before for Europe, a lot of the risks that Europe faced have merely fallen into the background and could abruptly re-appear. In the very short term at least, there seems to be some reasons to be a bit more optimistic but plenty of reason not to get carried away.

Portfolio positioning and performance[2]

October saw global equity markets largely post positive returns after concerns surrounding Brexit, the US/ China trade war and slowing global growth abated allowing equity markets to push higher. The ongoing dovish evolution in global monetary policy coupled with the view that the global growth trajectory is a slowdown rather than a path into recession provides a positive backdrop for global equities but the trade war continues to be pivotal. During the month, global equity markets were largely positive with the Japanese market (MSCI Japan Net total return local) posting another very strong return, up 4.9% for the month. Other regional equity indices also posted gains with the US (MSCI US Net total return local) up 2.1% whilst Europe (MSCI Europe Net total return local) was up a marginal 0.4%. Emerging markets (MSCI EM Index Net total return local) which has lagged developed markets in 2019 was one of the best performers in October, up a strong 4.2%. 2019 has been a very strong year in local equity markets (S&P/ASX 200 Net total return) but posted a negative -0.4% in October, only the second negative monthly return for the year. Over the year, it is up a very strong 22.1%. Local based fixed income returns again saw negative monthly returns in October with Australian government bonds down for the month after yields moved higher in line with the positive sentiment in global markets. Our investments in Emerging markets bonds was marginally positive for the month and is positive since the start of the year. Elsewhere in our alternative investments, we saw a pullback in returns for the month which detracted from our performance across the portfolio. Looking into our average positioning across the portfolio for the month of October, the Growth assets allocations have been approximately 62% for the State Street Multi-Asset Builder Fund. Our exposure preferences in October was a small underweight in global equities relative to fixed income. Performance wise, our diversified exposures across equities, fixed income and alternatives saw the fund deliver a marginally negative return in October.

[2] Bloomberg Finance, L.P. SSGA as at 31 October 2019. Past performance is not a reliable indicator of future performance. This information should not be considered a recommendation to buy or sell any security or sector shown. It is not known whether the securities or sectors shown will be profitable in the future. Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

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