State Street Multi-Asset Funds

Should I Stay or Should I Go?

STATE STREET GLOBAL ADVISORS

- Europe agree but parliament put the deal on hold
- Per Benn Act, PM sends letter for extension but refuses to sign it. Boris still pushing to leave by October 31st

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Given the last few weeks, you would think that Boris Johnson may be asking himself whether he should stay or go. However, after three and a half years of uncertainty, Johnson has promised to deliver Brexit with the conservative party adopting the slogan “Get Brexit done”. Johnson doesn’t seem to be phased by the latest Supreme Court ruling and has taunted the opposition to call for a vote of no confidence to remove him. The Labour party though would prefer to see him fail to deliver on his promises before trying to assume control.

We continue to believe that we are heading for a 4Q election to decide the way forward. Despite getting agreement from Europe on the amended terms of the deal, he has been temporarily scuppered by parliament. That has forced him to send a letter requesting an extension per the requirements of the Benn Act, although he did not include his signature on the request. He also accompanied it with his own letter suggesting Europe deny the request to put the onus back on parliament to approve the deal. Previously the prime minister had told the BBC’s The Andrew Marr Show that Britain can still leave the bloc on 31 October despite the passing of the Benn Act and it appears he still believes he can lead the UK out of Europe by that deadline.

So what’s the deal with Europe?

The main sticking point for many Conservative MPs and the DUP (Democratic Unionist Party) was the Irish backstop.

The critical issue for many MP’s being the potential for the UK to be trapped in murky waters and partially stuck in the EU's customs union and preventing the country from striking trade deals with other countries. This key issue is what eventually led to Theresa May's resignation and Boris Johnson taking over as PM.

The new deal provided a compromise, although like all compromises not everyone is happy with the new proposed deal. Although the vast majority of the deal is similar to that proposed by Theresa May, the significant change is that it replaces the backstop with a new customs arrangement.

The plan that Europe agreed to has the whole of the UK leave the customs union leaving the UK to be free to sign and implement its own trade agreements with countries around the world. A key point of the deal, which addresses the Northern Ireland backstop issue, is that Northern Ireland will remain an entry point into the EU's customs zone. Products from the UK that remained in Northern Ireland would be exempt from any tariffs (although tariffs will be initially charged and then rebated on products that remained in Northern Ireland). Northern Ireland would continue to follow EU regulations for agrifood and industrial goods. After four years, the Northern Ireland Assembly would have the opportunity to vote on whether Northern Ireland should continue the arrangement, importantly taking the decision out of the hands of Westminster or Brussels.

While the deal has been accepted in Brussels, it failed to get passed by the UK parliament; instead MPs voted for an amendment which withheld approval until legislation implementing it had been passed.
While Brussels contemplate the request for an extension, Boris Johnson will now be frantically working behind the scenes to introduce the legislation needed to implement his deal in Parliament before the end of the month. Despite mixed opinions of Boris Johnson, he has progressed talks on a deal further than we have seen over the last three years but despite getting agreement from Europe he may still be thwarted at home. However, as we have learned it is easy to underestimate Boris Johnson and there may be a few more twists and turns as the political playing field continues to evolve.

Portfolio positioning and performance[1]

September saw global markets recover after concerns surrounding the US/ China trade war and slowing global growth abated allowing markets to recover from the negative returns seen in August. During the month, global equity markets largely recovered with the Japanese market (MSCI Japan Net total return local) posting very strong returns, up 5.9% for the month. Other regional equity indices also posted gains with the US (MSCI US Net total return local) up 1.7% whilst Europe (MSCI Europe Net total return local) was up a strong 3.1%. Emerging markets (MSCI EM Index Net total return local) which was one of the worst performers in August recovered and was up 1.9% in September. 2019 has been a very strong year in local equity markets (S&P/ASX 200 Net total return) with August being the only negative month we have seen for the year. In September, we saw a return to positive markets with the index returning 1.8%. Over the last 12 months, local equity markets are up a very strong 22.6%. Local based fixed income returns saw marginally negative returns in September with Australian government bonds down for the month after yields moved higher with the market digesting the very strong returns seen in the sector over the last 12 months. 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 September, the Growth asset allocations have been approximately 50% for the State Street Multi-Asset Builder Fund. Our exposure preferences in September were again an overweight in global equities relative to fixed income. Performance wise, our diversified exposures across equities, fixed income and alternatives saw the fund deliver a marginally positive return in September.

[1] Bloomberg Finance, L.P. SSGA as at 30 September 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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