View from the Dome

Newsletter, August 2019

The US and China continue to face off over trade… but how worried should investors be?

MiFID II: Is this mumbo jumbo or should I be paying attention?

World markets update

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The US and China continue to face off over trade... but how worried should investors be?

A year after US President Donald Trump finally followed up on threats to slap sweeping tariffs on Chinese goods over what he claimed were unfair trading practices, Washington and Beijing remain locked in a trade stand-off – despite the odd truce here and there – which is threatening the global economy.

But while economic data has suggested China is beginning to feel the pinch from the tariffs on hundreds of billions of USD of its exports, local stocks have proved extremely resilient, delivering healthy returns in an often volatile environment, raising questions about how worried investors should be about the trade war between the world's two largest economies.

Healthy gains

Since the start of this year the MSCI China GR index has risen 12.5%[*] (as of 31.7.2019) while the main local benchmark, the Shanghai Composite index, is up 17.6% over the same period[**]. Chinese shares have been among the best performing in the world over the first half of 2019.

This is a stark turnaround from 2018 when Chinese equities were the worst performers in Asia. Over the course of last year the Shanghai Composite index lost 24% as investor sentiment was repeatedly dented by the worsening dispute between the world's two biggest economies.

**MSCI data July 2019*
***Morningstar data, July 2019*

Even special measures implemented to try and reassure markets, such as cutting bank reserves, failed to help.

But, say analysts, even though the trade dispute has continued to drag on this year and, at some points, looked as if it was spiralling into an irreversible all-out trade war, investors have managed to shrug-off the negative news and have been buying up Chinese shares.

After the falls last year, Chinese stocks began to pick up as valuations fell. Eventually, they became too cheap for investors to ignore.

At the same time, global index providers have added Chinese shares to their indices, giving local stock markets a huge boost. Both the FTSE and MSCI have added tens of billions of USD worth of Chinese shares to their Emerging Markets indices. For example, in June this year the total market capitalization of China A Shares included in the FTSE Emerging Index stood at 59 billion USD, with a further 295 billion USD planned to be added by March 2019.

Other factors have helped too. The Chinese government has implemented a series of measures in the last year to combat the potential effects of the trade dispute, including pumping hundreds of billions of dollars into infrastructure spending and slashing taxes for firms while the central bank has cut reserve requirements to boost lending.

These measures have, at least, helped in terms of lifting sentiment on equity markets.

Not all good news

However, it would be wrong to suggest that the Chinese economy is in rude health. While growth levels remain significantly higher than many developed markets, and certainly well above that in the US, data seems to confirm the economy is slowing down.

Industrial production growth in May was the weakest since 2002, exports and imports were down in June and second quarter growth came in at 6.2%, which was down from 6.4% in the previous quarter. Second quarter growth of 6.2% is also the slowest rate of quarterly expansion since 1992.

> *"...with economic data demonstrating little or no on-the-ground impact, once again it has been shown that it is wise to invest when the headlines are gloomiest."*
>
> *SunQie Tan*
> *Investment Analyst at Cogent Asset Management Ltd*
> *Portfolio Manager and Investment Advisor for Cornhill's WIOF China Performance Fund*

How much of this is down to the effects of the trade war and how much is simply a natural cooling off of the Chinese economy after years of breakneck growth is a matter of debate among experts.

But the trade dispute is undoubtedly having some effect and government officials have admitted the economy is under pressure.

In a statement given as the latest GDP growth figures were released in July, the country's National Bureau of Statistics warned the "economy is still in a complex and grave situation... global growth has slowed and external uncertainties are on the rise."

And there is unlikely to be a major turn around in Chinese economic fortunes any time soon. Forecasts for China's economy from major institutions, such as the World Bank, are for a deceleration this year. Meanwhile, a Reuters poll of analysts in July had many predicting growth this year at 6.2%, down from 6.8% last year, and dropping further still to 6.0% next year.

Chinese Premier Li Keqiang has said the government is targeting growth between 6% and 6.5% this year, down on last year's figure.

Unpredictable

Few analysts believe that the trade war is likely to come to a happy, or even smooth, end anytime soon and sentiment could easily turn sour very quickly.

Chinese markets lost heavily in May as tensions escalated after Washington announced it was raising tariffs on 200 billion USD of Chinese goods. Beijing hit straight back with higher tariffs on 60 billion USD of imports from the US, after which President Trump ordered Chinese tech giant Huawei be put on a trade blacklist.

Indeed, President Trump remains unpredictable on trade policy, some would say on all policy, but as far as trade is concerned he does have a track record of going back on apparent agreements with Beijing soon after striking them. At last year's G20 summit in Argentina President Trump and Chinese leader Xi Jinping agreed to a truce in the trade dispute, only for Washington to impose tariffs a few months later.

June was the first full month in which higher tariffs applied on 200 billion USD of Chinese goods. After a meeting between President Trump and President Xi at this year's G20 summit in Japan, both sides announced they would restart negotiations.

Any hopes though of a longer-term lull in the conflict or even progress were dashed just a month later when President Trump announced plans for new tariffs on 300 billion USD of Chinese goods, essentially putting a levy on all Chinese imports into the US.

Beijing is threatening counter measures and stocks across the world took a sharp dive in the wake of the news.

SunQie Tan, Investment Analyst at Cogent Asset Management Ltd, the portfolio manager and investment advisor for Cornhill's WIOF China Performance Fund, warns that "while the direct impact [of the trade dispute] on China's GDP and inflation is expected to be limited, a further escalation in the trade conflict threatens the outlook."

Gaining despite the gloom

However, according to some, the effects of the trade dispute on the Chinese economy are being overplayed.

Tan explains: "Whilst the media focus on the political drama of tit-for-tat trade tariffs between the US and China, it should be noted that the direct impact on China's GDP and inflation is expected to be limited.

"Both the US and China are enormous economies. Whilst the value of trade affected is large and headline grabbing, the domestic economy and trade with other nations cushions the impact."

At the same time, much recent data has actually painted a relatively positive picture of the Chinese economy – May industrial production increased 5.0% and urban fixed asset investment has expanded 5.6% YTD. The manufacturing Purchasing Managers' Index (PMI) reading contracted slightly in May and stabilized in June, but the contraction was only slight.

House prices in 70 large- and medium-sized cities in China continue to rise, and consumer price inflation increased just 0.1% from the previous month in April.

Negative headlines are not always something investors need worry about, points out Tan.

Despite the ongoing turbulence around seemingly every trade war headline, the WIOF China Performance Fund YTD has gained 15.7% (USD I Class as of 31.7.2019).

Tan says that careful stock selection is behind the positive performance with the fund benefitting from some outsized gains in selected counters in the industrials, IT and materials sectors – namely ASIA CEMENT CHINA HOLDINGS, TAIWAN SURFACE MOUNTING TECH, and UNITED INTEGRATION SERVICE which have seen gains of 150%, 84% and 75% respectively over the period.

As he points out: “Global headlines have created negative sentiment relating to China. However, with economic data demonstrating little or no on-the-ground impact, once again it has been shown that it is wise to invest when the headlines are gloomiest.”

To find out more about our WIOF China Performance Fund or any of our other Cornhill funds or products please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

A Timeline of the Sino-US trade war

Current status – Washington has imposed tariffs on 250 billion USD worth of Chinese products and is threatening levies on a further 300 billion USD. Beijing has imposed tariffs on 110 billion USD worth of US products and is threatening to implement measures that would affect US businesses in China.

August 1, 2019 – President Trump announces plans for new tariffs on 300 billion USD of Chinese goods, essentially putting a levy on all Chinese goods entering the country.

June 29, 2019 – President Trump and President Xi Jinping agree to restart the stalled trade talks. But no timetable is announced for the talks and current tariffs remain in place.

May 31, 2019 – China announces tit-for-tat list of 'unreliable entities' including foreign enterprises, organizations, and individuals acting against the interests of Chinese companies. A day later China raises tariffs on 60 billion USD worth of products, putting into effect previously announced tariffs ranging from 10% to 25% for various goods.

May 16, 2019 – Washington blacklists Huawei, putting it on an 'entity list' which effectively bans US firms from trading with the tech company.

May 13, 2019 – China announces it will raise tariffs on 60 billion USD worth of US goods from June 1. This is in response to the US hikes days earlier.

May 10, 2019 – US announces tariff hikes from 10% to 25% on 200 billion USD worth of Chinese goods.

May 5, 2019 – President Trump threatens tariff hike on 200 billion USD worth of Chinese products.

December 2, 2018 – Beijing and Washington agree a temporary truce at the G20 Summit in Buenos Aires in a bid to de-escalate tensions. Both sides said they would hold off on hiking tariffs or imposing new levies for 90 days.

September 24, 2018 – Both Beijing and Washington implement more tariffs - US imposes tariffs on 200 billion USD worth of Chinese goods and China imposes tariffs on 60 billion USD worth of US goods.

July 6, 2018 – Washington implements first China-specific tariffs with 25% levy on Chinese goods worth 34 billion USD. China slaps 25% tariff on US products worth 34 billion USD.

May 20, 2018 - Both sides agree to a truce after China says it will buy more US products. Truce lasts nine days before Washington puts tariffs back in place.

May 3-7, 2018 - Trade talks in Beijing end without agreement.

April 16, 2018 - US firms banned from trading with Chinese tech company ZTE after Department of Commerce claims ZTE broke US sanctions.

April 2, 2018 - China retaliates with tariffs on 3 billion USD worth of goods.

March 23, 2018 - US imposes tariffs on steel and aluminium imports.

February 7, 2018 - US puts 30% tariff on all solar panel imports and a 20% percent tariff on washing machine imports.

May 2, 2016 - During presidential campaigning, Donald Trump claims that China has been "raping" the US and perpetrating "the greatest theft in the history of the world." ■

MiFID II: Is this mumbo jumbo or should I be paying attention?

If you've ever had a conversation with a Cornhill Sales Manager, you've probably heard the phrase 'Cornhill is MiFID II regulated'… but what is 'MiFID' and what does it actually mean to be 'MiFID II regulated'? Recently we spent some time with Andrea Skrovinova, a Corporate Lawyer with Cornhill's legal team, to try and find out more about MiFID, it's history and what it means for advisers and their clients.

The term 'MiFID' is an acronym and literally stands for Markets in Financial Instruments Directive. Essentially it is a European Union law which forms the cornerstone of financial regulation within the EU. The stated aim of MiFID is 'for all EU member states to share a common, robust regulatory framework that protects investors'.

European Integration

For those unfamiliar with the European Union, it is a group of European countries that operate as a cohesive economic and political block. It was born out of a desire to integrate Europe following the end of World War II with the specific aim of putting an end to the frequent and bloody wars between European neighbours. The six founding members were Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Over the following years other countries joined: Denmark, Ireland and the UK (1973); Greece (1981); Spain and Portugal (1986).

With the reunification of Germany and the collapse of Communism across central and eastern Europe in the late eighties and early nineties, Europeans became even closer neighbours. In response the European Union as we know it today, along with the Single Market framework, was formally created in 1993 with the signing of the Maastricht Treaty. The Treaty set out the 'four freedoms' upon which the EU is built: freedom of movement of goods, services, people and money.

Fast forward to today and EU membership currently sits at 28 member states – soon to be 27 following Brexit – whose citizens and their goods, services and money can move freely between member states without having their passports checked at the border.

With European integration and the introduction of such wide-ranging freedoms of movement, the idea of a common regulatory framework to protect the interests of investors and their activities in financial markets was a natural progression. The EU's first regulatory framework was known as the Investment Services Directive (1993).

MiFID I

The Investment Services Directive was eventually replaced in November 2007 with the first Markets in Financial Instruments Directive[1], MiFID I. And whilst the original MiFID legislation achieved some of the intended outcomes – namely creating a single market for investment services and activities, improving the competitiveness in EU markets, lowering prices and expanding choices for investors, reducing systemic risk and increasing investor protections – the 2008 Financial Crisis exposed weaknesses in MiFID's overall structure.

One of those weaknesses was the fact that MiFID I overlooked the regulatory approach to firms operating in a third country, that is with their registered office outside of the EU but selling products or providing services to people within the EU, and simply left it to member states to deal with on an ad hoc basis. This meant that it was possible for firms operating outside of the EU to have a competitive advantage over firms operating within the EU because of the easier regulatory conditions.

MiFID II... and MiFIR

Following the financial crisis, work began on the second Markets in Financial Instruments Directive – MiFID II. While in development the LIBOR and FX Fix scandals provided signposts for further enhancements. In 2014 MiFID II and its 'sister' legislation MiFIR (Markets in Financial Instruments Regulation) were adopted by the EU Parliament with an effective date of 3 January 2018 reflecting the long lead time firms would need to prepare and implement all the systems and processes required to align their operating and reporting practices with the new regulations.

[1]*Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC*

MiFID II and MiFIR are closely aligned so you will often hear them mentioned together, even interchangeably. This is because much of the content of MiFIR is an updated version of the reporting rules around executions that first appeared in MiFID I.

The eagle-eyed will have spotted that one is a 'Directive' while the other is a 'Regulation'. What is the difference? A Directive is made into law by being transposed into the national laws of each member state. A Regulation on the other hand is directly effective without the need for transposition.

The MiFID basics

At this point we ask Andrea to explain the basic overriding aims of the MiFID legislation, the concepts that underlie the regulation and to expand a little on the specific improvements MiFID II has introduced.

Andrea had this to say: "In general MiFID has always been about protecting the investor. All the elements of MiFID work together to deliver what the EU refers to as 'harmonized regulation'. Basically, this means putting in place a consistent or common regulatory framework across all financial markets within the EU in order to ensure that investment markets are resilient, transparent and user-friendly and to ensure that investors receive the appropriate level of protections at all stages of the investment process."

"Let's take a quick look at some of the elements that made up the original MiFID legislation. These are the ideas and concepts that are central to MiFID and to some extent we take them for granted now but for some of your readers it might be useful. We can view MiFID II as an evolutionary step in the development of these themes:

- **The MiFID passport,**
  Firms covered by MiFID are authorized and regulated in their 'home state' (which broadly means the country where they have their registered office). Once authorized, a firm can use its MiFID passport to provide services to customers in other EU member states. The services are regulated by the regulator in the firm's 'home state'.

  Prior to MiFID firms had to comply with the regulations of the member state in which the service was delivered. Another point to note here is that prior to MiFID, the EU was focused on the idea of what it termed 'mutual recognition' between member states and their regulators; whereas now the focus is very much on ensuring that there is consistency of regulation across all EU member states. The EU term for this is 'maximum harmonisation' and it is one of the cornerstones of MiFID regulation.

- **Client categorization requirements,**
  MiFID requires firms to categorise the clients they are providing services to. Clients will be categorized as either professional or retail with each categorization having varying levels of protection. A firm must have clear procedures in place to firstly categorise a client correctly but also to assess the client's suitability for each investment product or service they are sold. This works in conjunction with any advice given to the client rather than replacing it. From this requirement you can see that 'investor protections' are not always about compensation. Requiring a firm to categorise a client forces the firm to inherently asses the client's suitability early in the sales process to ensure that the client is only offered suitable products or services.

- **Client order handling requirements,** Firms are required to capture certain information when accepting client orders. The information captured is used to ensure that a firm is acting in the best interest of the client.

- **Pre- and post-trade transparency requirements,** Firms must make information, such as the bid-offer spread options available to the client pre-trade as well as publish the price, volume and time of all trades post-transaction. MiFID II extends these requirements across all asset classes thus shining a light on previously unlit instruments.

  By making transaction data more readily available and removing the barriers between trading venues and providers of clearing services the new legislation makes the market place more transparent which will lead to more competition as users can see what charges are applied and when.

- **Best execution,** The original MiFID legislation required investment firms to take 'all reasonable steps' to ensure that clients receive the best possible result when executing transactions on behalf of the client. MiFID II increases this requirement stating firms must now take 'all sufficient steps' to ensure the best outcome.

  Just for reference, 'best execution' is not limited to the execution price but also involves other factors such as cost, speed, likelihood of execution and likelihood of settlement.

"So these are some of the basic elements that MiFID covers, and for some I've hinted at the tweaks or improvements to existing elements introduced by MiFID II. As you read through them you can see that they are all designed for the benefit of the investor, whether it be protection or transparency or forcing a product supplier to document what they done and why they have done it."

The evolution of MiFID II

Andrea adds: "Overall I would say that the main objectives of MiFID II are to continue the pursuit of harmonized regulation across EU financial markets, increase the levels of competition between EU financial markets, strengthen investor protections, and, naturally, strengthen supervisory powers."

To meet these objectives MiFID II has taken a wide range of what were best practice initiatives and turned them into explicit requirements for firms that wish to access EU markets. One example is the appointment of a single officer to protect investor interests from inside the firm.

Andrea explains another example: "Product Governance is one area where what was once called best practice is now a requirement. MiFID II now requires investment firms that create products – we call them 'manufacturers' – they are now required to identify their target market at a 'sufficient granular level' to avoid the inclusion of investors for whom the product is not compatible. They must also analyse any charging structures within their products and regularly review existing products to identify crucial events that may affect the potential risk or return expectations.

"But wait, there's more. Manufacturers must also take care to ensure that distributors of their products have sufficient understanding of the products and that these distributors have in place suitable product approval processes when selling to their own identified target markets.

This means distributors are now required to ensure that the products they promote and their intended distribution strategies are consistent with the identified target market. They must also conduct regular product reviews to ensure the continued consistency of the product and the distribution strategy."

Andrea continues: "Although we have only touched briefly on a couple of MiFID II-specific areas today, hopefully you now understand that MiFID II is all-encompassing; it literally sets out what is expected across every aspect of the financial markets – from product manufacturing to client acquisition to market execution right through to corporate governance. When I describe MiFID II as 'wide-ranging' I really believe it is an apt description. And this should provide huge comfort to clients and potential investors.

"And when you place MiFID II and MiFIR in context with other EU legislation such as GDPR (General Data Protection Regulation) it is easy to see that the EU is definitely following through on its vision of a transparent market with clear rights and protections for EU citizens."

The MiFID II challenge for firms outside Europe

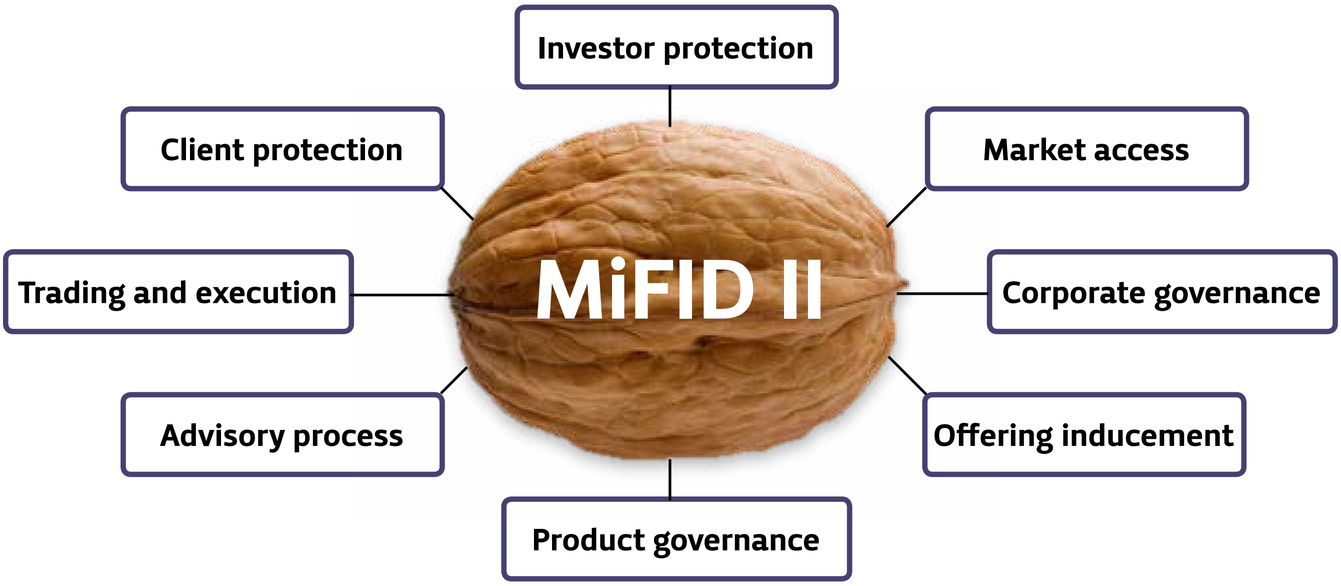
Because the majority of Cornhill's broker relationships are based outside of the EU, we naturally asked Andrea what the impact on our partners might be.

"Generally speaking, MiFID II only applies to investment firms that have a physical presence in Europe and that operate under a MiFID permission and are regulated by a European member state regulator," she says.

"Having said that and given the fact that MiFID II is widely regarded as one of the most far reaching pieces of legislation to come out of Europe in many years, and the fact that it clearly places the investor at the heart of its construction, Europe is certainly leading the world in this respect. Given these factors I think that any non-EU investment firms that manage European mandates or compete for European client assets will face competitive pressure as clients come to expect the level of transparency and protection that they receive via investment firms in Europe."

To find out more about MiFID, MiFID II, MiFIR or Cornhill products in general please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

MiFID in a nutshell



- Markets in Financial Instruments Directive came into force in 2007 (MiFID I)
- Primary goals were to foster harmonized functioning of financial markets, increase competition between trading venues and enhance investor protection
- As an EU Directive it required transposition into national laws
- Following the global financial crisis, the EU reviewed the MiFID framework before issuing MiFID II and its sister legislation MiFIR:
  - » MiFID II is a revised version of MiFID I effective from January 2018 through national laws
  - » Markets in Financial Instruments Regulation (MiFIR) is a Regulation that is directly effective without national transposition, ensuring the implementation of 'maximum harmonisation'
- Directive and Regulation have fewer exemptions and the original scope of MiFID has been expanded to cover a larger group of companies and financial products.

WORLD MARKETS UPDATE

General

July proved to be a positive, if ultimately disappointing, month for global equity markets. June had provided markets with a much-needed dose of optimism as trade tensions between the US and China eased and that largely positive sentiment remained as July got underway. Central bank policy was firmly in focus, with investors certain of a US rate cut but speculating over its size and significance, while the European Central Bank (ECB) sent out more signals it was ready to move to help Europe's economy.

Global stock market returns were muted overall with performance mixed across regions. Developed markets, which closed higher, outperformed their emerging market peers which ended in negative territory. Asian markets saw the worst of it with some posting notable losses as trade worries returned later in the month and as global growth and domestic economic concerns continued to weigh.

The month ended with some disappointment though – the ECB left its policy settings unchanged (although easing sometime soon still appears highly likely), tweets from US President Donald Trump criticising China over its approach to negotiations fuelled trade worries, and the US Federal Reserve confused markets with a 0.25% rate cut it said was merely a "mid-cycle adjustment to policy" and not the start of a longer cycle of rate reductions.

US

S&P 500	1.4%	Dow Jones	1.1%
MSCI USA	1.5%	NASDAQ	2.2%

In the US, equities registered gains, buoyed in part by some positive corporate releases as the second quarter earnings season got underway. Markets eyed the Federal Reserve closely, speculating on the coming rate cut. It was a bit of a disappointment though when it came, not so much in size – the cut was 0.25% - but subsequent comments from Federal Reserve officials suggesting this was not the start of, as many had hoped, a longer easing cycle. This dented performance at the end of the month, as did growing trade worries with Washington and Beijing again at loggerheads over stalled negotiations.

Domestic data was mixed. While second quarter US GDP growth was better than expected at 2.1%, it was still well down on 3.1% in the previous quarter, and although the July flash composite purchasing managers' index (PMI) reading was marginally up at 51.6, it included the weakest manufacturing reading since 2009. However, unemployment is still very low, consumer sentiment is close to record highs and consumer spending is up.

After a brief and uneasy truce between Beijing and Washington, the trade dispute appears to be largely back to where it was a few months ago, and this is likely to be the major market sentiment driver going forward. It will also be interesting to see where Federal Reserve policy goes from here with trade tensions escalating and increasing calls for, not least from the US President, and market expectations of, more and bigger cuts before the end of the year.

Europe

MSCI EMU	0.2%	DAX	-1.7%
FTSE 250	1.3%	CAC 40	-0.3%

Eurozone equities, as proxied by the MSCI EMU index, finished July almost unchanged having been dragged back in the last few days of the month with trade fears re-ignited by a series of tweets from the US President attacking China over its approach to trade talks. With the reporting season under way, strong results from specific counters helped individual sectors to a good month. Technology and consumer staples led the way in July. Meanwhile, although there was disappointment for some when the European Central Bank (ECB) left rates unchanged at the end of the month, the bank has sent out strong signals that monetary easing is almost certainly on the way. A rate cut in September and some form of quantitative easing before the end of the year is now widely expected. This comes amid more signs of weak growth – Eurozone GDP grew at 0.2% q-o-q in the second quarter of the year compared to 0.4% in the previous quarter. Headline inflation came in at 1.1% in July, which was down from 1.3% in June. However, unemployment dropped in June from May to stand at 7.5% and retail sales were well above expectations at 1.1% in June, up from -0.6% in the previous month.

UK stocks, as proxied by the FTSE 100, had a positive month, rising on the back of a weakening GBP as a no-deal Brexit appeared to become more likely. Markets see the prospect of a UK disorderly exit from the EU as increasingly likely since the election of Boris Johnson as Conservative party leader and Prime Minister. Johnson had repeatedly said Britain will be leaving the EU on October 31 with or without a deal and with Downing Street demanding a new withdrawal agreement and Brussels reiterating previous statements that no new deal will be on offer, the likelihood of the UK crashing out of the bloc appears to be rising every day. Brexit headlines can be expected to drive UK market sentiment in the next few months – and possibly beyond depending on what ultimately happens at the end of October.

Asia

MSCI Asia ex-Japan	-1.7%	Shanghai Composite	-1.6%
MSCI ASEAN	-1.0%	Nikkei 225	1.2%
		SENSEX	-4.6%

Asian markets fared poorly in the month, with most losing ground. The start of July had seen cautious optimism over the US-China trade dispute as tensions had appeared to ease somewhat. But this faded and by the end of the month trade worries were once again weighing heavily on sentiment. The MSCI Asia ex-Japan GR index lost 1.7% and the MSCI Japan index was flat.

In Japan, the effects of the global economic slowdown and trade disruption are being felt by local companies and some mixed corporate earnings at home affected market performance. Meanwhile, data readings highlighted how the Sino-US trade dispute is impacting the Japanese economy - core machinery orders, a leading indicator for capital spending over a three- to six-month period, posted the largest contraction in eight months in May.

Intra-regional trade conflicts also weighed on another key Asian market in July. South Korean equities saw some large falls with markets fretting over the country's deepening trade dispute with Japan. Indeed, the Korean central bank cut rates for the first time in three years during the month amid an increasingly gloomy outlook for the Korean economy. ASEAN markets were down overall, reacting to growing trade pessimism and local economic concerns. However, performance was mixed across the region: equities in Singapore, whose economy is very sensitive to developments in the trade war between Washington and Beijing, finished the month marginally lower, while Thai and Malaysian stocks were also down. But there were gains in the Philippines and in Indonesia.

Indian markets tracked lower, hurt by a disappointing budget, some lacklustre corporate reports and economic concerns. The new state budget contained plans for a levy on the super-rich with taxes hiked on annual earnings of more than approximately USD287,000. The proposal spooked foreign investors – who sold heavily in the month, taking USD1.8bn from Indian equity markets in the month – as the tax would affect many foreign portfolio investors (FPIs). Economic news provided little cheer to investors either as the International Monetary Fund (IMF) said it was cutting its annual growth forecast for India to 7% in 2019 and 7.2% in 2020 due to weakening domestic demand.

In China, mainland markets ended July in negative territory. Data was mixed with growth readings showing a continuing slowdown but some positive signs in other areas, such as industrial production. Elsewhere, there were losses for stocks in Hong Kong amid continuing trade worries and increasingly violent clashes between police and pro-democracy protestors, but the market in Taiwan outperformed its regional peers, with some recovery seen in the tech sector. However, with export orders falling 5.8% y-o-y in May, it looks like Taiwan's external sector will remain plagued by weak demand in the coming months.

Africa

MSCI Africa	-2.0%	FTSE/JSE	-3.3%
MSCI South Africa	-2.8%	NSE	-7.5%
MSCI Kenya	-1.7%		

African equities were down for the month with the MSCI FM Africa GR index finishing 2.0% lower. Among the major markets, there was some very poor performance in Nigeria – the MSCI Nigeria GR index lost 11.6% – as investors remain frustrated over a lack of policy direction in the country. It was only right at the end of July, that, months after being re-elected to office, President Muhammadu Buhari finally drew up a list of ministers to his cabinet for parliamentary approval. Foreign investors have bemoaned a lack of real clarity on policy for months and local analysts see this uncertainty and investor reluctance lingering into the current quarter until it becomes clear what progress is likely to be made on reforms. Meanwhile, economic growth in the country remains sluggish and the central bank has moved to try to raise bank lending to help boost the economy.

Shares tracked lower in South Africa too, affected by increasingly risk-off sentiment on emerging markets amid trade and global growth worries. Meanwhile, the country looks likely to drop further into sub-investment territory after global ratings agency Fitch cut its outlook on South African debt to negative. The group kept its rating for the country's debt at junk BB+, but a negative outlook is usually taken by markets as an indication that the next move will be a downgrade. The move came as the government announced a further USD 4.2 billion bailout of state-owned power monopoly Eksom. The government's financial help for the company is expected to widen the budget deficit for this fiscal year to 6.3% of GDP, according to Fitch. This is up on a forecast of 4.5% of GDP in February.

Latin America

MSCI Latin America	0.1%	FBOVESPA	0.8%
MSCI Brazil	2.9%	IPC	-5.3%
MSCI Argentina	-1.2%		

Overall Latin American markets, as proxied by the MSCI Latin America EM GR index, were flat over July. However, most regional markets finished in negative territory with only Brazilian equities delivering positive returns. The gains on the Brazilian market came as a key financial reform moved forward with the approval in the lower house of parliament of a bill overhauling the country's pension system. Meanwhile, the central bank cut rates to a record low of 6%, indicating that it is prepared to do what it can to help Brazil's faltering economy.

Elsewhere in the region, Mexican stocks struggled. During the month, Finance Minister Carlos Urzua, who is seen by markets as generally fiscally prudent, resigned, citing differences with left-leaning anti-establishment president Andres Manuel Lopez Obrador's administration on economic policy. This has worried some investors who now fear Mexico could soon see its credit rating downgraded. In Peru, where the economy is facing a slowdown amid global economic weakness and falling mining investment, President Martin Vizcarra has proposed early general elections next year as he looks to break an impasse with lawmakers over political reforms he wants to push through. There are concerns that this could drive uncertainty and lead to investment decisions being halted, unnerving markets.

Meanwhile, the economy of Latin America and the Caribbean will expand just 0.5% in 2019, according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). This is down on an earlier estimate of 1.3% because of lower than expected growth in the region's biggest economies, Brazil and Mexico, the UN body said.

To find out more please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

Cornhill Sales Diary

Welcome to the Cornhill Sales Diary... here we outline the upcoming movements of our Sales team. If you would like to meet with any of them while they are in your region, please drop them a line.

IN ASIA

this month...

Richard James

Regional Manager Asia

Covering Malaysia, Indonesia, Japan, Singapore, Hong Kong, China

richard.james@1cornhill.com

August

Su	Mo	Tu	We	Th	Fr	Sa
28	29	30	31	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Richard will spend 19-21 August in Hong Kong; with the rest of the month in Malaysia

IN THE MIDDLE EAST, AFRICA AND ASIA

this month…

Simon Smith

Regional Director

Middle East, Africa and India

simon.smith@1cornhill.com

August

Su	Mo	Tu	We	Th	Fr	Sa
28	29	30	31	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	~~19~~	~~20~~	~~21~~	22	23	24
25	26	27	28	29	30	31

From 18 August Simon will be travelling through India, UAE and East Africa

David Oliver

Regional Manager Africa

Covering South Africa, Botswana, Zimbabwe and Mauritius

david.oliver@1cornhill.com

August

Su	Mo	Tu	We	Th	Fr	Sa
28	29	30	31	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Between now and the end of the month David will be in Botswana for 3 days and Mauritius for 4 days. In early September he will visit Zimbabwe.