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*“Fashion is a form of ugliness so intolerable that we have to alter it every six months” - Oscar Wilde*

With ‘fast fashion’ being so prevalent in today’s world, perhaps we should not be surprised that Oscar Wilde’s dictum looks a little slow as the world only racked up four successively positive months before a reversal. May 2019 will not go down in the financial market almanacs as anything other than a shabby month, with the regional pan-European share index falling around 5% and more than reversing any gains seen earlier in the quarter. Broadly speaking, this performance pattern in May - supplemented by the compression of sovereign bond yields - was repeated all over the world.

The major catalyst was a sharp deterioration in the bilateral trade relations between the United States and China, an outcome made worse by the apparent proximity of a deal between the two countries in the weeks before which had financial markets buoyed markets year-to-date. It is not even clear today what the precise sequence of events behind the breakdown of discussions were with both sides - unsurprisingly - blaming the other. However the inflaming of tensions which has manifested itself in new tariff impositions by both the

American and the Chinese administrations on each other’s exports, induced a clear divide in sector performances between defensive and trade-sensitive sectors. In most markets, areas such as the Materials sector led the way down, while the Health Care and Utilities sectors outperformed.

Any student of world trade trends over time knows that the ‘tit for tat’ retaliatory trade tariff measures apparent during much of the 1930s both deepened and prolonged economic challenges at that time. Certainly such insights from economic history remain applicable to today’s global economy and may well actually occur more quickly and more powerfully due to higher levels of trade, interdependence and integrated supply chains. It is not unreasonable to conclude that the direction in the tone of global trade discussions will correlate with the broad movement of financial markets.

Naturally, both political leaders and trade negotiators are well aware of all this, a point reiterated by a need for President Trump to avoid an overt economic slowdown to maximise his chance of getting re-elected in November 2020. Meanwhile in China, slower economic growth rates can be offset by more stimulus efforts and this has been apparent over the past few months. However, such a focus threatens progress with the country’s all-critical domestic reform and change programme which is attempting to improve the efficiency, dynamism and longer-term growth potential of the Chinese economy. The incentives to ultimately strike a trade deal sufficient - at least - to keep bilateral relations on an even keel for the next year or so are still apparent. As always though in diplomatic poker, when playing for high stakes in the area of world trade, cool heads from policymakers are essential otherwise further financial market volatility is likely. All eyes are on the likely next opportunity for face-to-face talks for both sides at the G20 conference in Osaka, Japan in late June.

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May was also a month of political change and events across Europe, however neither the European Parliamentary election results nor the effective kicking-off of the race to be the next UK Prime Minister were wholly unexpected. Such debates will have their own specific influence on regional and global markets in due course later in the year but - at least from the perspective of financial markets over the next few weeks - it is all about those bilateral US-China trade relations in terms of setting the tone. Here is hoping that recent market fashions do not become a discernible trend.

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