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Rotation should be a beautiful word for investors

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"In cognitively demanding fields, there are no naturals. Nobody walks into an operating room straight out of a surgical rotation and does world-class neurosurgery" - Malcolm Gladwell

October historically has always been a big month for investors. In my formative years back in the 1980s during one October, there was a major market crash (and weirdly simultaneously in the U.K. an extreme weather event in southern England), meanwhile those interested in older historical events will recall the events of October 1929 and the infamous capital market events back then. A lot has happened in the month of October that has just passed and whilst it is unlikely the history books will remember the tenth month of 2019 assertively, for investors thinking about prospects over the next year, it may have been critical.

We have to start with the world trade discussions between the United States and China. The meeting in Washington D.C. was far from dramatic but did at least postpone some of the mooted tariff increases which had caused such global market volatility in the first half of August. At the risk of repeating words that I have written a number of times already this year, it seems to me that the rationale for the high profile Presidents of both countries to back a deal is very clear. After all, an overt trade war is one of the quickest ways to hurt an economy, stymie reform efforts (China) or win an election (the United States).

So a little bit of progress on this important issue - which should be supplemented by at least one further meeting before the end of the year - set the tone for a good October where it was easier to say which global equity markets did not make progress, given the magnitude that did make gains. You will note I said 'equity markets' because by far the most interesting insight from October's capital markets were that equities notably outperformed fixed income markets. And supplementing this outperformance was that the leadership of most global equity markets changed too.

Shorter-term performance trends have been brewing up a little since mid-August and they have been favouring on average sectors and shares that have been a little bit more cyclical and hence previously out-of-favour. A lowering of world trade angst naturally helps such thoughts, even if the mood music around economic growth forecast reductions by well-known supranational institutions and yet another interest rate cut by the Federal Reserve is not so good. And this is the most fascinating aspect of October's performance: portfolio managers around the world are now having to think whether a broader mixture of shares beyond areas such as technology and bond proxy areas is a wise diversification or not.

And actually it is beyond sectors and shares. A backdrop of trade progress is unsurprisingly better for countries and regions that are more exposed to the global economy. On this basis, step forward the pan-European markets and Asia including - naturally - China. Also noteworthy during October was the rollover in the value of the U.S. Dollar. If you are looking for a catalyst that helps further entrench rotation towards particular sectors and markets... then keep watching the value of the world's largest reserve currency.

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Naturally there are many influences on a currency, not just the trade backdrop and even economic performance but other factors such as politics too. Now, which currency had its best monthly performance against the U.S. Dollar for over a decade during October? Well that would be the Pound, the currency of a nation where a December general election has been announced for the first time since 1923.

If rotation could be a beautiful word for global investors, then politics has been a complex one for investors into the U.K. markets in recent years. The end of the year may be approaching but there are a few twists and turns left for investors in 2019 yet.

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