

March 2019 quarter end review update

The table below sets out the quarterly open and closing values for the FTSE All-Share Index as well as the highs and lows in each quarter to highlight the changes year to date.

Quarter	Open	Close	High	Low	Return year to date
January – March	3675	3978	4020	3675	8.24%

So, why have markets improved?

The sharp correction in the last quarter affected markets across the board, which inevitably results in most asset classes being punished even where the underlying data would suggest otherwise. Once the dust has settled following a sharp correction, the quality assets are then purchased at a discount to their true value, leading to markets “improving”. In addition, the lack of alternatives to equities “forces” professional investors back into the market.

The issues which dominated 2018 remain.

The trade war between the US and China, despite the mood music, has not yet reached a conclusion.

Brexit ... continues to frustrate the UK market.

European growth is fragile, with Germany as an exporting nation suffering from slow global growth.

Asia, and to a lesser extent, Emerging Markets are struggling as a result of slower growth in China.

Against this backdrop, markets are lacking direction because they are being distracted by political issues rather than focusing on economic data, which is completely unpredictable. However, 2019 does provide deadlines for both Brexit and, to a lesser extent, the US with regard to resolving the trade war with China due to the 2020 presidential elections. Whatever the outcomes, our view is that markets will welcome greater certainty.

On the broader picture, there is no doubting that global growth is slowing, with the current bull market (albeit with periods of volatility) being the longest in post war history. This will add to the current volatility with investors looking to data indicating when the slow growth will or could become negative.

As an aside, commercial property funds are struggling on two fronts. One is the drop in demand for retail space, leading to either vacancies or renegotiated and lower rental agreements. The second is a slowdown in demand, leading to write downs on valuations. We mention this because it is often seen as a leading indicator of a global slowdown, although this must be tempered by the impact of technology i.e. retail is suffering because of online shopping, but corporations no longer have to be in the heart of a city to be effective.

Against this background, the most effective way to manage the risk as well as providing the opportunity for growth, is to continue to adopt a diversified broad based allocation between the asset classes.

The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
Index-linked Gilts: UK, US	Index-linked Gilts: Global	High Yield Bonds (for income)
Investment-Grade Bonds	Equities: China, Far East, Emerging Markets, Japan	Equities (large cap): Europe, Asia ex China
Equities (large cap): UK, US	Equities (small cap): UK, US	Equities (small cap): Europe
Property	Commodities	Specialist Equities: e.g. Infrastructure, Agriculture
Gold		

*Neutral means that, whilst we support the asset class, we do not generally want to adopt an overweight position

The underlying message against the current backdrop is that we expect markets to be more prone to correction than they have been in the recent past, but the current low interest rate environment remains favourable for most asset classes.



31st March 2019