June 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%
April – June	3978	4056	4115	3923	10.37%

The last quarter was volatile, with May seeing a 2.5% fall over the month hence the old adage of "sell in May and go away". However, in reality, life is rarely that black and white as June saw markets recover all of the losses from the previous month ending at a higher level than in May.

Markets were unsettled by escalating trade tensions between the US and China in May, as well as Trump reverting to his usual mode of communication (tweeting) that he intended to broaden the trade tariffs to include Mexico. Unsurprisingly, markets reacted negatively to the unexpected news, as this raised concerns as to who might be next.

By the beginning of June, Trump had rescinded the imposition of tariffs on Mexico and markets were becoming convinced that the Federal Reserve would cut interest rates later this year, all of which were seen as positive for equity valuations. The concern is that markets assume more than one rate cut and price that into valuations, which if this doesn't happen will result in downward pressure.

The US has recently seen the start of campaigning for 2020, with Trump wanting a second term. Generally, markets tend to drift upwards in the run up to the election, because the incumbent will want the best economic background, hence pressure on the Federal Reserve to cut rates.

In the UK, politics dominate with Theresa May resigning as Prime Minister and signaling the start of campaigning for her replacement all of whom that remain are pledged to leaving the EU either by the 31st October or soon thereafter. If nothing else, this ideally provides some degree of certainty with the ability to properly plan. As to how markets will react, it rather depends on who finishes first.

The broader economic data for the UK remains positive – interest rates are on hold, growth forecast at 1.6%, consumer spending increasing and unemployment at its lowest since 1974. However, corporate results are mixed, as witnessed by Vodafone cutting their dividend by 40%, whilst BT maintain theirs despite a fall in full year profits.

Politics is also dominating Europe with Italy in direct conflict with the EU over their budget and France still unable to successfully implement its planned reforms. As an exporting trading block, it is also suffering from a slowdown in China as well as there being an element of trade tariffs on the periphery. This has caused the EU Central Bank to announce that it would cut interest rates in order to stimulate growth if necessary. As a consequence, the Euro fell which will strengthen exports.

Asia and Emerging Markets are suffering as a result of slower growth in China, but they are showing themselves to be more resilient than was the case in the past as domestic demand increases and they look to other markets.

Against this backdrop, markets at best are looking to maintain value pending the resolution of the current political uncertainty predominantly in the US, China, EU and UK. Given there are so many moving parts, the uncertainty is likely to continue for an extended period with market volatility continuing to be very much the order of the day.

We are mindful that for client portfolios we continue to seek out the most appropriate allocation between the asset classes to manage risk and provide diversification as well as the opportunity for growth. The recommended funds are as a result of our research process, which removes individual choice and instead requires each fund to meet or surpass predetermined criteria. This is reviewed bi-annually by our Investment Committee, which meets monthly. This reduces the risk of selecting funds based on the track record of the fund manager or simply the fund's short term performance without looking at consistency of return in relation to the volatility of the fund.

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

28th June 2019