MARKET UPDATE

April 2018

Despite the positive trajectory of markets in April, volatility remained at more elevated, but arguably more normal levels. Investors have a great deal to consider at present when constructing portfolios, ranging from concerns about the move from Quantitative Easing to Quantitative Tightening across the globe, to the spectre of trade tariffs between the US and China. Despite this, we continue to see a robust global economy, albeit with some signs of cooling, along with corporate earnings that remain supportive, with the majority of Q1 reports in the US beating analyst estimates.

US BOND MARKET MOVES CAPTURE HEADLINES

The US 10 year Treasury yield crossed the 3% yield level in April for the first time in four years. Many market commentators had highlighted this as a key psychological level which could trigger some deterioration of risk appetite, and concerns that this would begin to impact corporate America and stock market valuations. Despite the noise created by this rather arbitrary level (we have seen previous psychological levels broken in recent times only for there to be a new one to focus on!), the Fed has remained steadfastly focused on the economic data from the US, particularly core inflation and wage growth. There was recent concern about the flattening of the yield curve in the US (where the difference between the longer-term yields and shorter-term yields reduces) which could lead to a curve inversion (where the shorter-dated yields are higher than the longer-dated yields) which typically presages a recession. It is worth noting that a yield curve can be flat for some time without inverting, so this is not necessarily the harbinger of doom.

EUROPE COOLS OFF

We noted that there had been some signs of cooling in economic data some of which has come from Europe, which enjoyed a stellar year in 2017. It was always going to be difficult for Europe to continue at such a pace, especially as the Euro was stronger in Q1, but the region is still growing and the recovery and expansion looks well-entrenched. The Citi Eurozone Economic Surprise Index, which looks at whether data is better or worse than expectations, has seen a large fall this year so far, but, if you excuse the pun, this is not all that surprising given that expectations were very high. Despite this recent deterioration in sentiment and data, Europe remains firmly in expansion mode but still has some choppy waters, both politically and with monetary policy, to navigate. We believe that the continent continues to offer attractive opportunities but, as ever, selectivity remains key given that valuations are not as cheap, on either a relative or absolute basis, as they were around 18 months ago.

UK CONSUMER PRESSURE IMPACTS Q1 GDP

The UK also experienced its own deterioration of data as GDP growth came in at only 0.1% for the first quarter of the year. Some pointed to the impacts of the particularly severe weather we experienced during Q1 as being the key cause of this. However, the Office for National Statistics (ONS) refuted this claim, stating that the weather had limited impact as the negative effects felt by retail and construction were largely offset by energy supply increases and online shopping. Economists have pointed to consumer focused industries showing the greatest signs of deterioration and perhaps this weak data will pour cold water on the suggestions of another 0.25% rate hike from the Bank of England in May. One bright spot was that inflation reduced slightly in the month due to the strengthening of sterling, which has alleviated some of the pressure on real wage growth. As we noted in our last Investment Review, it is difficult to know what is, and should be, in the price for UK equities given the uncertainties ahead of us. The valuations appear optically attractive but the UK is a difficult place to have high conviction to allocate capital at present, relative to other areas across the globe.

Despite the very apparent risks and the way the market is reacting in a much more pronounced way to news flow, we believe that there remains opportunity for attractive returns, but that active management and selectivity will be vital in both capturing returns and navigating the more volatile times ahead. Although we believe that the returns are available, investors will have to accept higher volatility than they have been used to for the last 2 years. As ever, we will maintain our focus on delivering attractive risk-adjusted returns to our clients.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

*5 Years to 15/3/2018.(last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

BAM figures take into account normal dealing costs but not Beckett fees. Source: FE Analytics – Total Return. IA: Investment Association