MARKET UPDATE

May 2018

Many markets have experienced a volatile first half of the year so far and May, whilst generally positive for most major regions, did not deliver universally positive returns. Europe and Emerging Market indices finished the month in negative territory. All BAM model portfolio strategies finished the month positively, although our exposure to these regions was a short term drag on performance.

WORRY LIST GROWS

There is a growing list of worries for investors including a strong dollar and oil price. Partly as a result of a strong dollar, as well as a well mapped US rate rise trajectory, Indonesia and a number of other emerging market countries like Turkey responded by increasing their own interest rates. Turkey, however, also had to do something to try and combat double digit inflation and halt the dramatic slide of the Turkish Lira which accelerated after President Erdogan's comments that he would take more control of monetary policy and that high interest rates are "the mother and father of all evil", insisting on prioritising growth as part of his re-election campaign. Compounding Turkey's problems was the rise in oil prices because it is an importer. The fall in the Lira is good for any Brits heading there on holiday this summer, not so good for any holders of Turkish debt. The cost of holiday spending in Europe will be similar to last summer, even with the recent flare up in European politics. In Italy, we've had an election which was won by populists, then a coalition rejected by the country's president, a snap election loomed and then we had another coalition attempt in order to avoid another election – all in the space of a week. Will Italy become "Quitaly"? It looks unlikely, but cannot be ruled out.

US EXPANSION LONG IN THE TOOTH

Wednesday 30th May was the 34th day of 2018 in which the S&P 500 index moved by at least 1% up or down (just under 33% of all trading days so far.) 2017 only had eight such days or 3%. The US economic expansion, meanwhile, is now 107 months old. This makes it the second longest of the previous eight expansions since 1959 (source: Artemis). There is much debate on how much longer it can continue and, as the worry list grows, markets may take fright. John Authers commented in the FT recently on research from Bespoke Investment which supported the theory that we are moving to a return of an "all-or-nothing" US stock market. An 'all-or-nothing' day is when as many as 400 of the 500 S&P stocks move in the same direction. There were none of these days for several years in the early 1990s. Surprisingly, the incidence of 'all-or-nothing' days does not overlap directly with volatility, although there is some relation. Now they are coming back, apparently linked to the rise of ETF trading. Last year shows up as an extreme anomaly because volatility was so low, but they claim all-or-nothing days are back. We believe it's a case of late cycle, but no end of cycle just yet. Economic data suggests that the US is still amongst the strongest economies globally and the Fed is by far the furthest ahead in tightening.

OIL THE PARTY POOPER?

The oil price could be the 'party pooper' to synchronised global growth as we have already seen pressure in countries with a high dependency on oil imports. There are many dynamics at play: Venezuelan supply issues and Iranian sanctions have been a dominant driver behind the oil price rising of late, but then we have an OPEC meeting in June which could dampen it. Although the latest UK inflation (CPI) 12-month rate was 2.4%, down from 2.5% in March, rising prices for motor fuels produced the greatest upward effect (source: ONS). Longer term, we see the deflationary forces of technology disruption over time. Your smartphone is actually a super computer more powerful than the most advanced computers of the early 1990s. If the ipad 2 had been released in 1988 it would have been the most powerful computer in the world and would have remained in the top 5 until 1994 (source: visualcapitalist.com).

It might be tempting to follow the old stock market adage "Sell in May and go away, and come back on St Legers Day." - a horserace in September. We have not done that. We know from experience that markets are unpredictable; we are investing client assets for the long term not for the next few months. The makeup of the strategies and recent performance reflects appropriate balancing of risk and reward.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

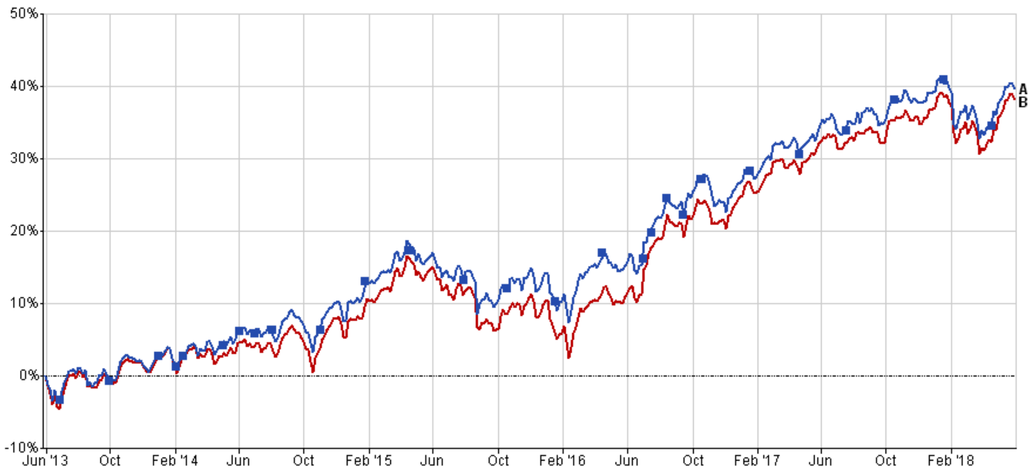
A - Defensive Mixed Assets 17/04/2018 TR in GB [20.62%]
B - UK Consumer Price + 2% TR in GB [18.81%]

*5 Years to 13/4/2018.(last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

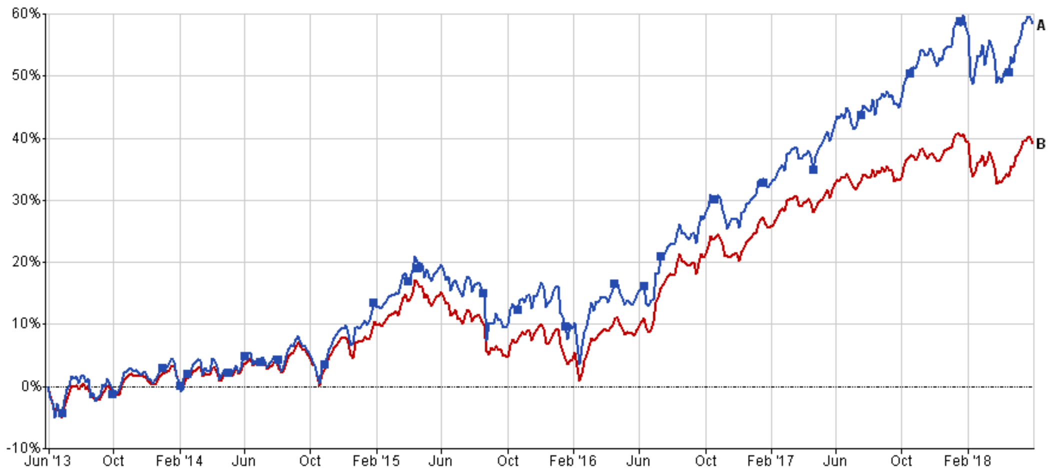
A - IA Mixed Investment 20-60% Shares TR in GB [26.73%]
B - Defensive Balanced Mixed Assets 17/04/2018 TR in GB [25.21%]

BALANCED MIXED ASSETS MODEL



A - Balanced Mixed Assets 17/04/2018 TR in GB [39.68%]
B - IA Mixed Investment 40-85% Shares TR in GB [38.18%]

FOCUSED GROWTH MIXED ASSETS MODEL



A - Focused Growth Mixed Assets 17/04/2018 TR in GB [58.56%]
B - IA Flexible Investment TR in GB [39.24%]

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