Beckford · James

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2017 April
Portfolio Review

Whilst on the surface it appeared opportunistic of Theresa May to call a snap election on June 8, after polls showed the Tory party with a big lead ahead of Labour, the decision also serves to remove a number of potential economic obstacles that could have proved tricky. Predictably, most of the media have focused on the short-term potential for the Conservatives to increase their parliamentary majority and strengthen the mandate for May's government to improve her negotiating position with the EU, as well as her own Eurosceptic firebrands, in the Brexit negotiations.

But a potentially more important consideration is how a parliamentary reset this year removes some time pressure points beyond 2019, which could have made the Brexit negotiations much more difficult. Previously, the next general elections were scheduled for 2020 leaving the prospect of re-election pressures, just 1 year after formal Brexit and most probably while many transitional negotiations could still be ongoing, made it very difficult to see how both side could possibly reach mutually beneficial 'divorce' terms. A 2022 election date introduces considerable stress relief.

In Europe itself, the first round of the French presidential election coming exceedingly close to pollsters' forecasts seemed to be an almost bigger relief to stock and bond markets than to the political class. With the pro-EU candidate Emmanuel Macron winning the first round and now a general expectation that he will win the presidency in the second round on May 7, European political risk has reduced very significantly.

The consequent stock market surge may have been a relief rally triggered by the election result, however in a less buoyant mood, economic growth rates in the US and the UK halved during the first quarter, the oil price fell below the important $50 mark, president Trump's first 100 days in office ended without much to show for except confusion and his announcement of a highly unrealistic tax reform.

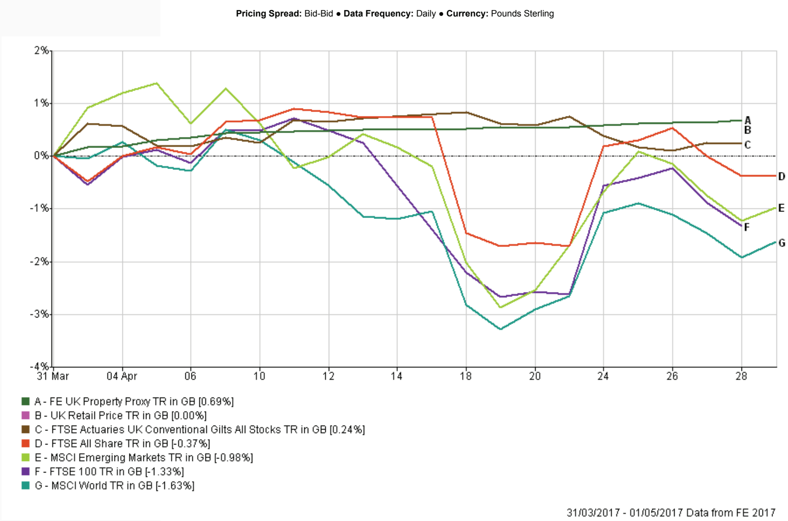
Uncertainty remains across the globe despite the confidence seen in consumer surveys, and the political volatility has far greater impact than in previous decades as populist parties and unconventional policies are more common and have greater influence. There is now a sense that America is retreating from its global role and that there is the potential for tensions to erupt, together with threats to free trade through protectionism. If America / China tensions rose China could change tack and support North Korea.

Monetary policy divergence continues, with Europe and Japan keeping expansionary policies in place, in contrast to the US, which is likely to support a stronger US currency. The US is also moving to a policy mix of looser fiscal policy and tighter monetary policy which would also generally result in currency strength. Potential political problems in Europe are also likely to keep a check on a significant Euro rally until elections are out of the way.

Inflation has started to rise in most Western economies and this would normally start to threaten bond yields but as we have seen in the last quarter, despite US rates rising in March, yields have not followed suit and in fact have declined in the last few weeks from recent highs. The traditional economic levers are working differently in this environment and are less easy to interpret. Another point to note is the length of the US bull market which on the 15th March 2017 was the longest on record, surpassing the 1921-29 bull market. If broad valuations are satisfactory this would be less of a concern, but long bull markets can breed complacency. The quarter has seen a more positive environment for global growth and this has been reflected in market levels and consumer confidence, but markets are high and many company valuations in Western markets need improving earnings to justify such levels. There remain many challenging issues to overcome in 2017 both politically and economically.

Portfolios

At first sight, April was a complex month as leading indices generally withdrew from previous gains.



Interestingly, over the month, the lead return came from the Beckford James Income Portfolio returning approximately 0.82% gross. In comparison with some of the more adventurous equity portfolios this was a significant return given the relative equity content. As you will see below two funds, in particular, drove this unexpected return.

Over 12 months the higher risk Beckford James 10V11 growth portfolio has led the way generating returns of closer to 23.47% gross. The US exposure and higher international equity content has reaped rewards here, with many holdings benefiting from the currency play.

The Unicorn UK Income fund returned 7.76% gross in April, with the Miton UK Multi-Cap Income fund following closely in generating 4.27%. The resurgence in mid and small cap UK equities benefited these funds over the month especially, and associated investors. This return was especially pleasing given the slight negative return of the UK Equity Income index.

Perhaps not surprisingly, the lowest return came from the US based equity funds as the dollar weakened almost 3% against sterling in the short term.

Again, something highlighted generally by this month's movements was the benefit of combining of active and index fund management. While most index funds mimicked the negative returns of their respective indices, many active managers within the portfolios were positioned to counter.