July 2017
Portfolio Review

Most markets finished flat in July but at the same time behaved much as expected in being a bit choppy. Q2 corporate results in the US and Europe were in the main much better than expected but stock markets were unimpressed. Further, with bond markets settling somewhat, currency markets and US politics are considered the blame. The US Dollar weakened noticeably against the EURO, as president Trump's Tweets reach an ever-higher pitch of personal attack and insult – without achieving the slightest progress in terms of his policy initiatives.

As noted above, Markets have continued to be supported by good results from the US reporting season with about 80% of S&P 500 companies so far announcing results ahead of expectation. A good example is industrial bell-weather Caterpillar which raised forecast guidance for heavy machine sales for construction in China and mining and oil related activities in the USA. Markets were also supported by comments from the IMF about the global growth outlook. The world economy is projected to grow at 3.5% in 2017 and 3.6% in 2018 with the growth for India and China increased. Markets were dragged back by the tobacco sector following an announcement from the FDA in the USA seeking to reduce the nicotine levels in new products being developed. North Korea test fired another missile ramping up the rhetoric with Donald Trump another notch.

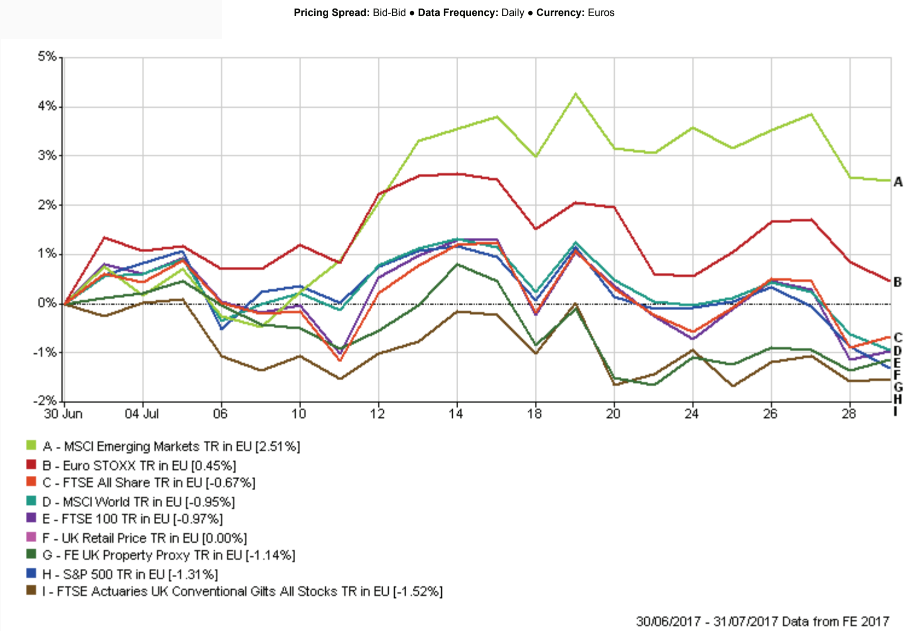
However, the International Monetary Fund (IMF) warned the European Central Bank (ECB) against a premature end of its QE stimulus programme, saying their needs to be more sign of inflation along with the region's economic recovery. Interestingly, last week marked the five-year anniversary of ECB President Mario Draghi's famous 'Whatever it takes' speech. One economist estimates that in the last three years the ECB has acquired €2.25trillion of securities under its QE programme! However, the ECB did help avert a European financial crisis but only time will tell if massive asset purchases, negative interest rates and bond yields was a price worth paying.

In the UK, a more resilient than expected economic performance in the second half of 2016 following the Brexit vote, appears to be followed by a softer first half of 2017. Following economic growth of 0.2% in the first quarter, growth in the second quarter was 0.3%.

In terms of Brexit news, there are suggestions that 'sufficient agreement' on withdrawal issues will not be reached ahead of the EU summit in October. However, Chancellor Philip Hammond has told UK businesses that he wants to negotiate a 'standstill' transition to keep much of the status quo followed by an 'implementation' period, with a target to complete by 2022. How this goes down with the PM and those who voted for Brexit only time will tell but will make for a lively Conservative party conference in early October. At least the chances of a 'no deal' Brexit is reducing which should relieve the equity market and companies somewhat.

Portfolios

The leading benchmark indices over July were the MSCI Emerging Markets and the Euro STOXX, rising 4.4% and 2.3% respectively. The UK Gilt All Stocks Index continued to languish remaining relatively flat for the month and maintaining a 12 month return at circa -2.5%. The one month data is shown below,



As the Euro continued to strengthen against sterling, in an otherwise relatively flat market, this gave a boost to European funds as returns were repriced back to £. As a result, Jupiter European fund provided some of the better developed market returns amidst a ‘top ten’ which was mainly populated by emerging markets funds.

July also showed a strong case for not only active management, but also an ‘ethical’ stance. The leading 10 funds out of a total of 52 currently within portfolios were actively managed, with 4 of those being ethical funds. The lead performer over the month was the Alquity Indian Subcontinent fund giving a gross return of 5.86%.

Portfolio Update

Income and Ethical Portfolios have recently been updated, and we have completed an update of the Growth and Income & Growth portfolios to the latest versions. Some of the new funds are not currently available on all platforms and we have asked the major providers to resolve. This process can take a few weeks but please be alert for the update invitation due shortly.