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May 2017
Portfolio Review

It doesn't seem like 12 months since the UK was preparing to make a decision in the long-awaited EU membership referendum. Now we have another vote in just over a week's time in our general election. As we write, the polls are close but the recent track record of predictions over the EU referendum and the US election means it's not over till it's over! However, the possibility of a 'grey swan' event has increased dramatically with the latest polling showing gains for the Labour party. A hung parliament would see sterling 'fall hard' against the dollar as well as leaving the UK in a much more difficult position for Brexit negotiations.

Around the globe, data flow continues to present a mixed picture. There are signs that Chinese economic growth is slowing in response to tightening credit availability, as the authorities clamp down on China's extensive shadow banking sector. While China in Q1 was still growing at one of its fastest rates in some years, growth in the UK and the US had already meaningfully slowed.

With an element of political uncertainty disappearing, the Eurozone on the other hand, has finally entered a period of better growth rates, having been stuck for so long in a slow growth rut. Japan has shown similar signs of accelerating growth, and, given the savings surpluses of the Japanese population and their considerable domestic demand potential, the country finds itself in a similar position to Europe. However, compared to the US, both regions are more deeply integrated into global trade. Should China slow as expected and the US not re-accelerate, then the falling demand for Japan's and Europe's exports would constitute a considerable headwind to the current positive growth impetus.

Unfortunately, this means that the highly encouraging synchronised global growth scenario we observed during the first quarter of the year has probably ended. This is not to say that this slowdown in growth will lead to a contraction of growth and recession. What it does mean, however, is that the overall growth prospects for 2017 have been reduced to just a slight improvement over 2016.

This matters, because capital markets value investable assets on a forward looking outlook, rather than looking back. On this basis, equity market valuations – particularly in the US and the UK – look potentially toppy and thus vulnerable to any indications that are worse than simply moderating previously overly optimistic expectations.

Over the coming 3-6 months, stock markets will most likely struggle to reach much higher valuation levels than they have already achieved; and there is a chance of a short sharp selloff, not dissimilar to January last year. The longer term case for the coming 12 months however, remains one of more resilient global growth and gradual monetary policy normalisation.

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Portfolios

Again, the 'currency' story continued during May as FX movements heavily influenced investment returns; the fall in sterling being a major part of the rise in the FTSE 100.

Amongst the best performers in the active funds constituent within portfolios was the Jupiter European fund with gross, sterling return of 6.51%. Rebased back to Euros, the return was 2.91%, showing the effect the strengthening in the Euro had.

Also amongst the highest monthly returns was the Lindsell Train UK Equity fund generating a gross return of 5.43%. Whilst this is unsurprising given the performance of UK equities over the month, what was pleasing was the fund's outperformance against the UK index trackers.

Equally, the Jupiter European fund had also outperformed the HSBC European Index fund. Rising markets are often cited as the period where active funds don't represent good value, however, both funds have demonstrated their ability to add 'alpha' in both rising and falling markets adding strength to the argument to combine both active and index funds in portfolio construction.