Beckford · James

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April 2018
Portfolio Review

Despite the clement weather, it was a less sunny month for politicians on both sides of the Atlantic. In the UK, Theresa May's government came under fire from all sides for the Windrush scandal, in which people resident in Britain for 50 years were threatened with deportation. Meanwhile, President Macron of France talked of a "fascination with illiberalism" and "a certain European civil war". In the US, President Trump faced flak from James Comey, the ousted director of the FBI, while Trump's attorney was in court after files were seized in an FBI raid on his office. All of this played out against a backdrop of tense relations with Russia, which was angered by the Western powers' strike on Syrian chemical facilities.

Geopolitical risks continue to hinge on US politics, but the "direct diplomacy" style of 'Trumplomacy' appears to have yielded some result in getting Trump's geopolitical adversaries to the negotiation table. Progress in Korea and in trade negotiations with China appear to prove Trump's tactics. Unfortunately, from here onwards strategy, negotiating skills and detailed knowledge will determine success or failure. For the time being there is relief that the Middle East tensions have not led to hostilities between Iran and Israel or any other hostilities but again we await the outcome of the Trump policy.

The Q1 GDP reading for the UK has reinforced the view for many that the UK's economy is mirroring much the same stagnation as the government's Brexit negotiation progress. This is not entirely the result of the unsatisfactory Brexit position, but has just as much to do with the sudden slowing of the rest of the EU, which had recently counter-balanced the lack of UK domestic demand. In any event, a rate rise in May by the Bank of England is now looking unlikely.

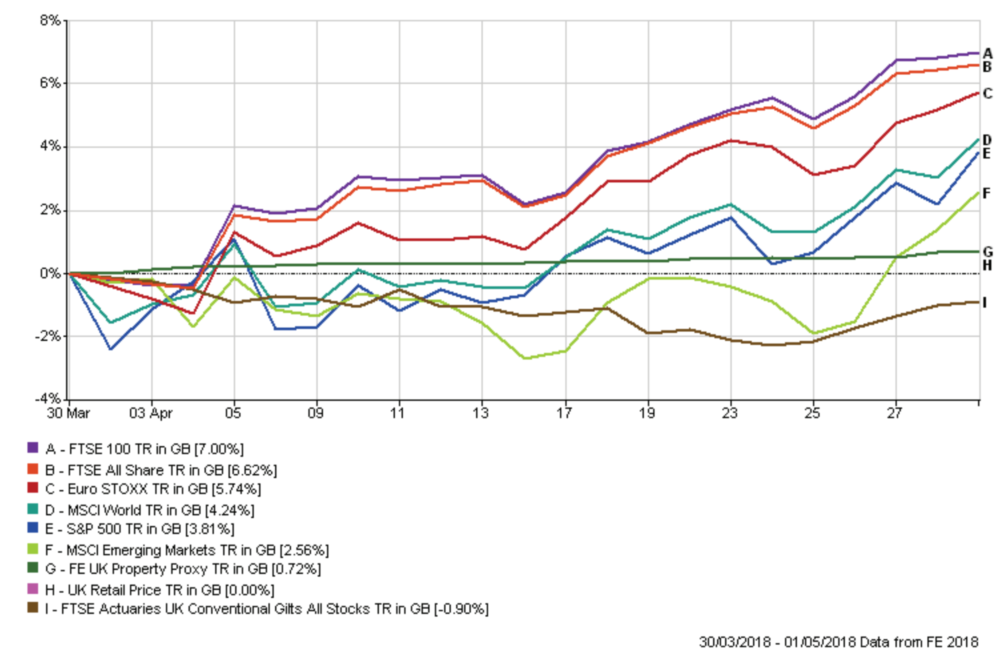
The ongoing Q1 corporate earnings results announcements are pointing to the strongest annual growth in corporate profits that many can remember yet stocks fell on the good news. The most widespread explanation was that company executives appeared to suggest it may be unreasonable to expect that profit growth could go any higher than this for the rest of the 2018. The term 'highwater mark' quarter made the round and thus fear of 'cycle peak' and 'end of cycle' was back. On the basis that further strong results announced later in the week were greeted with rising stock prices, points to a different underlying reason: rising yields and a rising exchange rate for the US$ in their wake.

That stock markets overall nudged upwards over the month is also welcome because it allows valuation levels to consolidate and indicates that January's exuberance may indeed have been shaken out by the return of normal levels of equity volatility since February. The current consolidation phase in equity valuations should be welcomed because it helps to rebuild the earnings base of share prices, while preventing overheating market conditions.

Portfolios – April 2018

On a portfolio level, April started shakily as geopolitical tensions heightened with the US announcing fresh sanctions target several Russian oligarchs, though the tone subsided rapidly as the month ran on and even Kim Jong-Un's new found interest in neighbourly conversation helped fuel a rebound in risk assets.

Coinciding with the strengthening of the Dollar, this translated to a strong positive month, with riskier portfolios providing the higher returns. Overall, the spread of returns for growth portfolios was between approximately 1.4% gross for lower risk growth portfolios and 3.5% gross for the higher risk. However, it was the Income Portfolio the led the charge for the month giving a gross return of just under 4.7%. UK High Yielding equities had benefited from the currency movements as well as the risk-on appetite (graph 1).



The leading fund for the month was the Majedie UK Income fund returning just over 9.5%. Also populating the top ten funds was the Smith & Williamson UK Equity Income fund returning 7.3%. Driven by the strong currency movements, the Natixis H2O MultiReturns fund was again a leader returning just over 7%.

April gave a welcome boost to portfolios given the lacklustre preceding 6 month period.