June 2018
Portfolio Review

Since the start of the year, heightening political and geopolitical tension has pushed up levels of volatility, though June itself was quite benign. The month brought a divergence in monetary policy between the US and eurozone. On 13th June, the US Federal Reserve (Fed) raised interest rates and alongside an upbeat assessment of the economy, delivered a more hawkish message by increasing its projections on future rate hikes. The following day the European Central bank (ECB) announced it would taper in September and cease net asset purchases by the end of December 2018. However, in a dovish surprise it said key ECB interest rates would "remain at present levels at least through the summer of 2019". ECB President Draghi refused to be drawn on when "summer" began or ended, but it is clear that he has no intention of moving away from ultra-low (negative) policy rates for at least a year.

Donald Trump's administration imposed tariffs of 25% on $34 billion worth of Chinese imports and China retaliated in kind. At these volumes, the tariffs are currently not expected to have materially negative consequences to the wider economy. But there is a widespread fear that they are only the opening salvo to a tit-for-tat trade war that would have no winners. The UK faces similar uncertainties over the direction of Brexit. However, the UK Prime Minister appears keen to avert damage to the UK's economy and is trying to unite her cabinet behind a comprehensive negotiating strategy – even if that means losing some of her most dogmatic cabinet members.

Stock markets took the political noise in their stride and given that Trump's trade war politics and Brexit negotiations are highly unpredictable and have little influence over the shorter term corporate earnings and the Global economy at large, there was more focus on future interest rate movements, changes in the cost of capital around the world and the likely rate of corporate earnings growth for the past quarter.

The fact that US stock market returns are leading others has as much to do with the strengthening of the US$, driven by the repatriation of large volumes of US multinationals' overseas earnings in the wake of the tax reform. This appears to have also provided a boost to US stocks, as many of the tech companies elected to use some of the cash to buy back shares.

While such effects cannot last, the positive momentum of the US economy is far more likely to carry on into the second half of the year. Similarly, the latest updates from across Europe suggest that the distinct economic slowdown in the first quarter of the year was only temporary and either a counter-reaction to overheating in Q4 2017 or weather and sickness related – but most likely a combination of both. This paints a more positive picture for the economic environment during the second half of the year.

However, a note of caution, as returns may remain sluggish. While improving corporate profits would normally be expected to see markets trend upwards, this could be disrupted by a number of things:

higher costs of capital through rate rises, the reversal of QE and the prospect of Trump's deliberate disruption to global trade flows. In such a scenario, investors are less willing to project current earnings conditions into the future, which results at least in a temporary ceiling to market levels and at worst increased levels of volatility, as every piece of news is scrutinised for the medium-term impact it might have on the future direction of the economy.

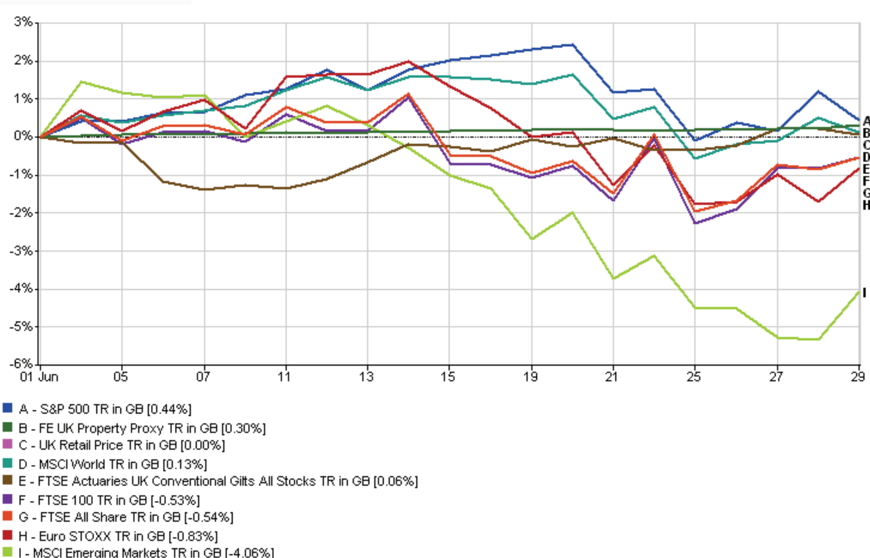
Over the coming months, we will therefore have to watch and observe political change just as much if not more than the economic data flow, even though political action tends to impact the economy only over the much longer term – if at all.

Portfolios

The impact on Beckford James portfolios throughout June was fairly flat, though ultimately suffering slightly as renewed trade sanction threats between China and the US rumbled towards the end of the month.

It was a mixed bag of funds leading the portfolio returns with no sector clearly in favour, however, as has been the case for many months, currencies played a significant role, and the H2O MultiReturns fund delivered the highest return at just over 4.5%, recovering a significant tranche of the losses registered in May.

Weakness in emerging markets, including India, hampered the higher risk portfolios a little (see graph). Again, although the European markets saw a decline, the stock picking nature of the Jupiter fund within Growth portfolios bucked the trend generating a healthy 0.98% positive gross return.



The value of units can fall as well as rise.
Past performance should not be seen as an indication of future performance

From the 19th June onwards, the process of reweighting portfolios to Version 13 commenced. During the period of rebalance some elements of portfolios may have been held in cash pending purchase of new fund units, partially designed to introduce more stability to the absolute return section of portfolios.

In general, the gross portfolio returns varied between circa -0.18% for the income portfolio to -0.51% for the ethical portfolio for the month, with other portfolios sitting in between. Given the current climate of uncertainty around the strengthening oil price, movement towards targeted Brexit negotiations and East/West trade posturing, a fairly uneventful month was reasonably welcome.