# Beckford · James

*chartered financial planners*

## *2017*
## *Portfolio Review*

So an eventful month! Theresa May lost a majority - and almost every seat she targeted for a personal visit - but still came out as Prime Minister. Jeremy Corbyn closed a 17% polling gap but couldn't convert that approval into a Parliamentary majority. A disaster? Well maybe not.

The way the UK public delivered its message might actually lead to a softer Brexit route, with the "no deal is better than a bad deal" approach certainly no longer a winning formula. This should be better for the UK economy, if the market's verdict of the past 12 months' is anything to go by. On the other hand the UK's government has certainly come out of this gamble weaker, not stronger and that cannot be an improvement to where we have been.

As so often over the past 2 years, markets reacted surprisingly sanguine to the political earthquake. £-Sterling fell as one would expect when political uncertainty rises, but with around 1.5% no further than it had done just after May's announcement of the election back in April. For the UK economy and capital markets it seems the verdict is 'no better or worse' than back in March. Clearly, the hung parliament outcome is a missed opportunity for more political stability or even strong majorities to address some of the UK's structural problems and Brexit challenges, but no disaster compared to where we were anyway.

Leaving the election behind, we turn to the more "stable" topic of the British summer! In almost perfect alignment with the turn of the weather, capital markets turned distinctly soggy over the past week. It all seems to have started at an ECB forum in Portugal, where Mr Draghi made comments to the effect that ECB policy is working, Europe's economy is recovering and the threat of deflation is lifting. This was seen by traders as a reason to begin withdrawing extreme monetary stimulus in the form of negative deposit rates and Quantitative Easing (the ECB is currently buying €60 billion of government and corporate bonds every month). The yield on the German 10-year Bund shot up from 0.24% to 0.46%, and the euro gained a cent against the dollar. European equity indices fell 2.5%, and the ripples spread out across global markets. The last thing central bankers want to do is shock markets with unexpected policy changes. Therefore it was not entirely surprising that within twenty-four hours the ECB's press office was leaking comments that markets had not considered the caveats in the details of Draghi's speech and that there was no current intention to tighten policy; he was just laying the ground for future discussions about the possibility of tightening policy. The situation is exacerbated by the fact that there are mixed policy messages coming out of the Bank of England – the last two weeks have something of a hokey-cokey developing in terms of Monetary Policy Committee members contradicting each other – and the Federal Reserve continues to plot a path for interest rates that is steeper than predicted by the futures market.

The result disoriented markets and saw both equity and bond markets falling in tandem; another taper-tantrum? Usually as one of them falls, the other one rises; the very reason why the combination of the 2 asset classes lowers overall investment risk in portfolios so effectively.


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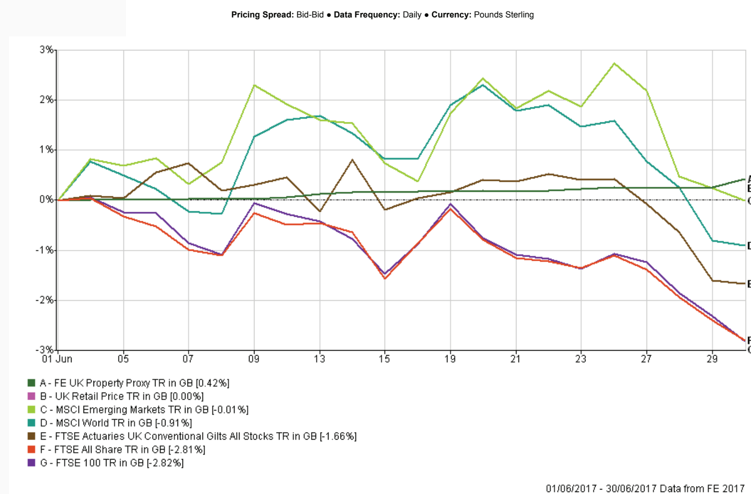
It would be wrong to assume markets were not expecting tightening monetary conditions in the foreseeable future and so the reason for them being spooked is, just as back in 2013 (the last taper-tantrum when the US announced a tightening of monetary policy), the fear that central banks may be acting hasty and thereby commit a policy error over the shorter term. This is because against the backdrop of improving economic growth (except for stagnating Britain), there are various early indicators that suggest that there may be another growth-blip over the summer and autumn. Tighter monetary policy would be the wrong policy and stagflation the unenviable result.

Markets are again possibly overreacting because they are trading at extended valuations and are aware of it. The seemingly concerted 'miscommunication' by the central bankers may well have been a test-balloon to assess by how much they can get the markets to increase the cost of credit yields themselves without the central banks then actually having to raise rates or change their existing QE tapering plans. We suspect the bond markets will see the ruse fairly quickly and stabilise, while equity markets will continue to focus on further economic data flow, to assess by how much the expected growth blip may dent their corporate earnings expectations. We therefore expect equity markets to remain volatile.




**Portfolios**

The US Dollar touched an eight-month low against a basket of currencies and $ earners dragged the UK equity market back in the latter stages (see graph below). Against this backdrop, the lead performance over June came from the H2O Multi-Returns fund, primarily a currency based which gave a positive, gross return of 2.89%.

Also bucking the trend was the Unicorn Mastertrust fund which maintains a top quartile record in its peer group. As a predominantly UK equity based fund, generating a gross return of 0.61% where the FTSE All-Share fell c2.5% was particularly strong for the June period.

June was certainly a period for active funds. As the last week in the month forced losses upon most index tracking funds, 4 out of the top 5 funds were actively managed.

The lead performance overall, and perhaps surprisingly given the movements in equity markets, was the Growth V11 Risk 10/10 portfolio giving a gross return of -0.59%. Being primarily UK equity based, the Income Portfolio V8 suffered to the greater extent.