# Beckford · James

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## *August 2017 Portfolio Review*

Well the geo-political landscape appears to have storm clouds on the horizon while for the present there does at least seem to be some positive economic news. How much the former may soon affect the latter we will have to wait and see.

North Korea has fired missiles across Japan before but last week's test across North Japan marked another step up in potential danger, particularly when followed by an internal nuclear bomb test. The war of words that is unfolding between the UK and the EU over Brexit and the floods in the US and in the eastern area of the Indian subcontinent are all further issues of concern.

Regarding the latter, any disaster (such as the floods) has impacts on an economy which are difficult to gauge. Assets are destroyed and work is difficult for a period. Then there's a bounce back (which amounts to a drawdown in savings) as the rebuilding takes place, with the initial phase often pushing activity up sharply. It's the second phase of rebuilding that matters. If the people don't have enough personal savings or they don't get enough help, the affected area and the people therein suffer for a long period as their capital assets are much less productive.

In the US, this may be the event that galvanises support for Trump to spend on infrastructure as promised last year. Certainly, his administration is trying to tie it to the passing of the raising of the debt ceiling. The calculus is that members of congress will not want to be seen voting for more misery in Texas.

Further, his administration is may be progressing the tax proposals. There have been comments from his camp playing down the extent of reform, while Trump has been relatively quiet (in his own terms), and the floods will require funding, it seems that the administration is getting bipartisan backing for a program of tax cuts aimed at the "middle classes". Whilst the date of the packages release has been pushed back, this could also be seen as a sign of a better working relationship with congress.

The biggest help comes from an improving economy. The US employment report was a little disappointing, with the unemployment rate rising 0.1% to 4.4%, but the Purchasing Manager Survey from the Institute of Supply Managers was resoundingly positive, with the headline manufacturing survey climbing back to 58.8.

It's not just businesses that are confident. Consumption is showing signs of climbing back to strong levels. The weekly Redbook data (a measure of retail sales) has hit 4% year-on-year growth after being in the doldrums.

This underpins hopes for growth through the rest of the year, and puts a base under US equities. Revenues should be robust although there is the possibility that valuations will cheapen as bond yields rise. Equities may end up trading flat from here.

One of the boosts for the US domestic economy has come from the weak US dollar. That weakness coincided with the perception that the Trump administration lacked ability to get its agenda through, especially in the area of business tax and regulation reform.

However, better confidence in the US should stem the fall in the dollar. Having spiked above $1.20/€, the dollar has shown a bit of life and we may be in for a rally.

In terms of business confidence and the currency, there's a similar thing happening in the UK. The UK version of the manufacturing purchasing managers' survey was strong bouncing back unexpectedly to 56.9.

The same however cannot be said for UK politics. The proverbial fly in the ointment for domestic UK assets is possibly Brexit uncertainty and that £-Sterling hit a new low in its external value to other leading currencies. This can be interpreted as a vote of no confidence of markets for the near-term future of the UK's economic progress relative to the rest of the world. However, it may be that the Brexit negotiations are actually not as important to the UK's near-term growth outcomes, and that sterling is the key thing. The drop means that growth is now coming through because of sterling's weakness which should stabilise sterling without the need for better perceptions of the government.

One final note, gold remains surprisingly strong (in US dollar terms). If the dollar starts to strengthen, on balance the gold price should start to fall back from recent levels. Sometimes though, gold can be a signal of other problems so, although we do not include it directly in the portfolios, we'll remain interested in its progress.

**Portfolios**
The political and climatic conditions precipitated a turbulent month, however risk came through as risk assets (in Sterling terms) surged. The Emerging Markets index in particular, rose just over 4.5% followed by the European and US equity markets rising approximately 2.5%. However there were a few retreats throughout the month on all fronts as the missiles flew and Harvey blew…

Midway through the month, the leading UK indices (the FTSE100 and All-Share) looked to remain flat but had an upturn in the last few days to deliver a positive return of approximately 1.5%.

Against this backdrop, all portfolios returned positive figures, with the risk 10 growth portfolio giving the highest gross return of just under 1.9%.

With the slight uptick in volatility and the uncertainty around the climate, our latest portfolio updates have focused on a small shift in assets from index tracking funds to active management, and to diversify the returns by introducing more income-based returns into growth portfolios.