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January 2019 Portfolio Review

The first month of 2019 is over already and the new year has brought quite a turnaround for investors compared to the last month of 2018. Global equity markets have recovered to the tune of 7%, but other asset classes have also done as well. Brexit continues to dominate headlines in the UK and there is some concern the UK has missed out on some of the rises but there is a case to be made for the opposite being true. Sterling has risen on the back of optimism for a softer Brexit amongst international investors and this increase in the pound's purchasing power abroad makes up the difference. Although Theresa May's Brexit deal was crushed by the Commons, the reaction of the market suggests that this outcome was already priced in. Sterling moved up towards $1.29, but the dividend yield on the FTSE 100 relative to the Gilt yield currently stands at its highest level for 30 years.

The capital market turnaround has as much to do with global liquidity conditions easing as last year's sell-off had all the trademarks of a liquidity squeeze. This week the US Federal Reserve central bank indicated that they would be likely to refrain from further interest rises for the time being. They even went further than markets had hoped and hinted that they may scale down the rate at which they are reducing their balance sheet and thereby the US$ in circulation through quantitative tightening (QT).

The announcement quelled concerns that the US Fed was not about to commit a policy error with continued rate rises when the US economy was clearly slowing and thus reducing the risk of inflationary pressures from economic overheating. However, the hint that they may also slow down the reversal of quantitative easing (QE), if required, got capital market commentators and analysts very excited. Ultimately, however there is a danger that this leads to irresponsible risk taking by overly confident investors which causes asset bubbles and much more severe collapses of part or all of the financial markets. The Global Financial Crisis of 2008/2009 (GFC) and the commodity market collapse of 2014/2015 are cited as validations.

The weak economic data from China initially overshadowed the global growth outlook, but this was more than countered by hopes of progress on trade talks between the US and China.

China's Vice Premier Liu is visiting the US for continued trade talks at the end of January. The Wall Street Journal reported that US Treasury Secretary Steve Mnuchin proposed easing tariffs on China – a report that was quickly denied by the Treasury Department. There was also a story that China intends to offer a path to eliminate the US trade deficit by increasing imports for six years by $1trillion. However, this has been followed by reports over the weekend by Bloomberg that there has been little progress in trade talks, particularly on the all-important issue of the theft of intellectual property. It was also reported that the US is investigating Chinese technology giant Huawei for 'stealing trade secrets' from American business partners. This news comes as the Trump administration is pressing China to act on technology theft or face additional trade tariffs.

In the UK, are Global investors implicitly assuming that a 'no deal' Brexit is less of a threat, with a delay to Article 50 and ultimately a softer Brexit looking more likely? If so, getting from here to there will not be straightforward. Will the EU want to budge? The Irish Foreign Minister said that the Withdrawal

Agreement was not open for renegotiation with the backstop an essential part. On getting consensus in the Commons, does that drive a softer Brexit?

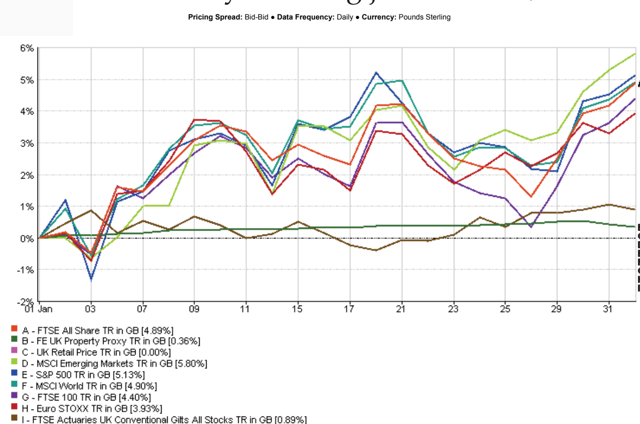
In Europe, German economic growth was confirmed at 1.5% in 2018, its slowest rate for five years. Growth is estimated to have been 0.2% in the fourth quarter, so not quite in recession. President of the European Central bank (ECB) Mario Draghi said that while there is a Euro-area slowdown which is greater than expected, the region is not heading into recession with labour markets remaining strong. However, given global economic uncertainty he sought to re-assure investors by saying that a significant amount of monetary stimulus is required to support the build-up of domestic price pressures.

So, before anyone gets too carried away with market optimism, the US central bank intervention could prove quite temporary, should the main economic concerns of trade tensions between the US and China and a disorderly Brexit come to pass.

But, Trump's optimistic announcements that a breakthrough in the US Sino trade negotiations are imminent could be a first sign that there may indeed be light at the end of the tunnel. The UK parliament's ability to unite behind a proposal rather than a rejection could be interpreted as another positive. The muted market reaction to either tells us that 'the Market' foresees more pain before there may be gain. For the moment we welcome the FTSE100 back above the 7,000 index mark, but caution investors not to overinterpret January's positivity as the likely market trajectory for all of 2019.

Portfolios

The start of the year recovery has certainly offset the negative investment returns at the tail end of 2018. Emerging markets showed marked recovery climbing just over 5.5% and other equity indices followed suit.



The actively managed funds capitalised on the turn in fortunes as Premier's Global Infrastructure Income fund led returns at just under 10% for the month, partially driven by its exposure to China. The leading ten funds all returned in excess of 5% for the month with only seven funds across the whole portfolio range covering 63 funds showing negative figures.

Gross portfolio returns were positive across the board for January with the higher equity content growth portfolios leading returns at between c3.5% to 3.7%. The ethical portfolio with some greater overseas exposure also performed well giving a gross return of c3.5%.