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February 2019 Portfolio Review

The first couple of months of the year have seen Equity markets experience a welcome respite after a difficult end to 2018. Both developed and emerging market equities gained, boosted by signals from the US Federal Reserve (Fed) that it would be more patient with further rate rises, as well as by improving rhetoric towards China from the White House. It is probable that President Trump will look for a trade settlement with China, and on this basis, he was more willing to play hardball with North Korea, although both sides were keen to dampen fears that the failure of these negotiations could return us to the geopolitical tensions of a year ago.

The Federal Open Market Committee (FOMC) commented that quantitative tightening (QT) 'should proceed in a way that supports…maximum employment and stable prices'. It also emphasised the importance of being flexible in managing this process. This softening helped to calm markets which had grown increasingly uncomfortable with the speed and level of this tightening towards the end of last year.

Brexit uncertainty continued to dominate the headlines in the UK. A series of votes took place in order to establish a potential way forward for the Brexit negotiations that could command the support of a majority of members of parliament (MPs). The result of these votes showed two things. Firstly, that there is a majority in parliament against a no-deal scenario. And secondly, that there is a majority of MPs who would support May's deal if she can re-negotiate the Irish border backstop. If she is able to obtain these concessions from the EU around the backstop, then it is likely that a version of her deal could pass in parliament. Despite the political gridlock the UK labour market remains healthy and Sterling appreciated on the back of a seeming desire to avoid a no deal Brexit, unemployment falling to 4% and wage inflation picking up to 3.4% year on year. These latter points suggesting that, were a no-deal Brexit to be taken off the table, the underlying strength of the labour market may justify moderately higher interest rates, as long as global growth holds up.

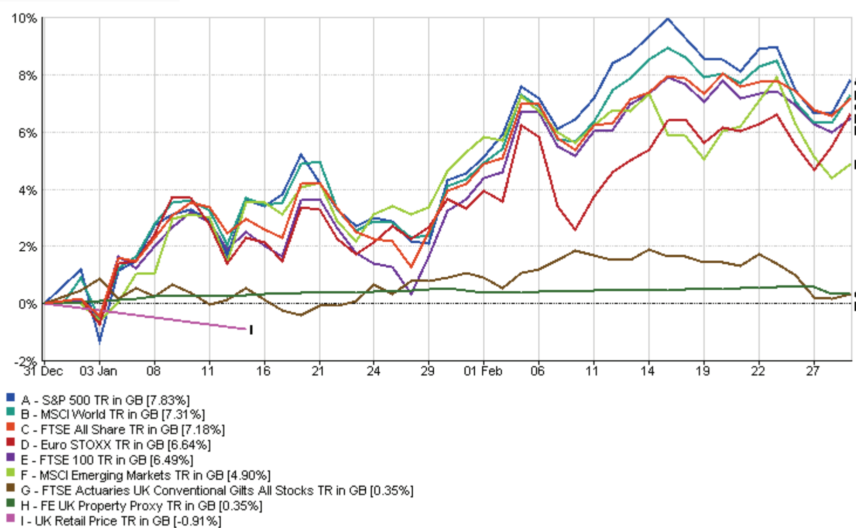
Europe itself has been caught in the crossfire of the trade war and has also been hurt by the fall in demand from China. Despite the minor improvement in some of the political uncertainties, concerns over the persistence of slowing growth in the eurozone were still prevalent. The European Central Bank (ECB) made reference to the unexpected nature of the persistence of the factors that have contributed to the slowdown in growth. The ECB also said the risks surrounding the euro area growth outlook have moved to the downside. One positive for Europe was that the unemployment rate for November fell to 7.9%. Domestic demand in Europe has remained fairly resilient despite the external factors that have threatened its progression.

Ultimately, the Fed's move to a more dovish stance regarding its rate guidance has helped to ease the market's fears about rates getting too tight at a time when the pace of global growth looks to be slowing. Further, the rhetoric from the US administration towards China has softened the trade tensions that have hurt not only China, but also Europe and now look to be biting in the US. Any deal would be a welcome relief for markets, but the US and China are still some way from striking a deal, so political uncertainty

remains a headwind, while recent macroeconomic data releases continue to send mixed signals about the outlook for the global economy.

Portfolios

The upturn in equities since the start of 2019 have driven a reasonable recovery in all portfolios, with the US market leading up around 7.8% and closely followed by FTSE All Share, which is up circa 7%, but with some significant market volatility prevailing, as shown below,



On a positive note, the portfolios have not only captured the upside but have done so with lower than market volatility. The higher risk portfolio has risen approximately 5.8% gross whilst the lower risk portfolio circa 2.6%; this while retaining a volatility rating lower than the FTSE Actuaries UK Conventional Gilts All Stocks Index over 12 months. We believe this is key to maintaining investor confidence by aiming to minimise shocks in the short term.

It has been interesting to see the funds leading the returns over the month. In February, two of the actively managed ethical funds generated gross returns in excess of 4%, as nine out of the leading ten funds were actively managed across predominantly UK and US equities. The two leaders were the Janus Henderson Global Sustainable Equity fund and the Liontrust Sustainable Future Absolute Growth fund. In both cases, US exposure drove returns and helped to push the Ethical portfolio to the highest performance for the month with a gross return of c£1.8%.