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April 2019
Portfolio Review

April saw the fog lift a little on the debate of what is actually supporting/driving markets. There was some concern as to whether the start of year recovery from the disappointing results of last quarter of 2018, was simply a function of continued central-bank support. This seems to have been somewhat dissipated by a more rational argument based on the expectation of continued economic expansion, albeit at a slow rate, rather than sliding towards the possible spectre of a looming recession. Whilst many first quarter corporate earnings were not great, as long as the medium term outlook remains optimistic or as mentioned above, central banks continue to deliver stimulus if needed, the outlook looks cautiously positive.

Markets held their nerve even as there was increasing reason to believe that central-bank support would not be forthcoming. This was based on better than expected economic growth in European and US markets and the Bank of England's Mark Carney suggesting that capital markets were mistaken and only pricing in a single rate rise in the next two years. But with bond returns remaining low, even slower earnings growth will keep valuations in line with historical averages.

In the UK, to add to PM Theresa May's Brexit and Party challenges, Nicola Sturgeon has said she wants to hold a second referendum on Scottish independence by 2021 if the country is taken out of the EU. The PM did however gain some breathing space with senior Conservatives ruling out changing rules to allow an early leadership challenge, but they have asked for more clarity about how long she will remain in office. However, grassroot Conservative members are hugely frustrated at the handling of Brexit and the drubbing in the local elections, not to mention a certain Mr Farage and his Brexit party, point to tenure decisions changing on an almost daily basis.

There were encouraging updates from the US earnings season and solid first quarter US economic growth saw a new closing high for the US S&P 500 share index. White House advisor Larry Kudlow was the latest official to note that the US and China are closing in on a trade agreement. Trade talks are set to resume with hopes that a draft agreement will be in place by the end of May. The US economy grew by 3.2% in the first quarter, easing the growing fears of a slowdown. On the other hand, consumer spending did slow to 1.2% on an annualised basis. The data suggests that the Federal Reserve's patient monetary policy stance seems appropriate.

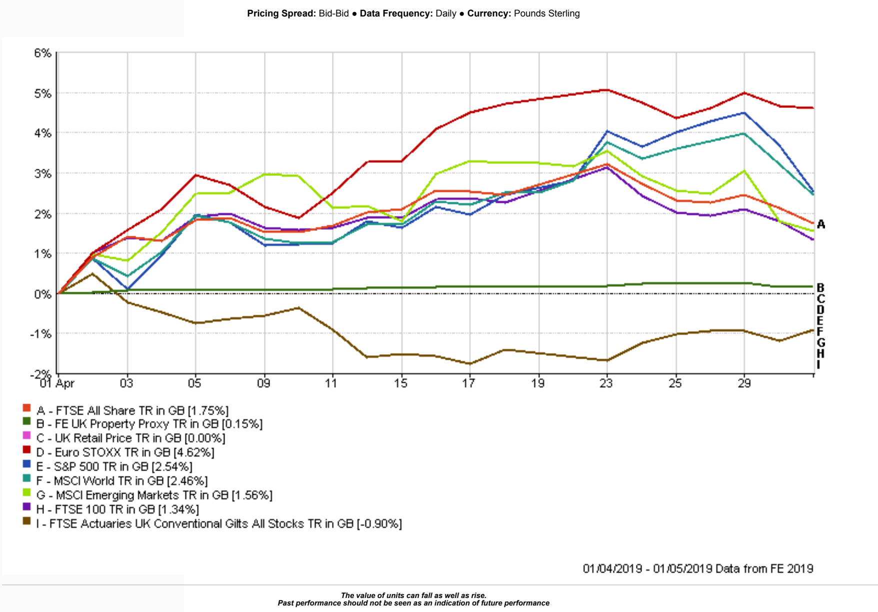
The US and EU trade dispute remains outstanding which, together with continued 'soft' economic data, this time from Germany, was reflected in the Euro dropping to its lowest level against the US Dollar since mid-2017. German business sentiment dipped slightly which probably should not come as a surprise given Brexit and US/EU trade tariff uncertainty. In Spain, the governing socialist party won the country's third election in four years but have fallen short of a majority. However, the far-right party Vox is set to enter the Spanish parliament with over 10% of the votes.

Asian markets were spooked by weak economic data from South Korea and questions over China's commitment to further economic stimulus measures. South Korea's economic growth shrank in the first quarter of 2019 with the biggest quarterly contraction since the financial crisis, while exports declined for the fourth month in a row. Meanwhile, the Bank of Japan updated its monetary policy guidance confirming that interest rates will remain 'extremely low at least through early 2020'.

Portfolios

Given the return of some volatility, ongoing commentary on the subject of Brexit and global geo-political risks it's understandable that investors sometimes feel inclined towards cash as a safe option. However, over April, portfolio returns were positive across the board ranging from a gross return of c1% for lower risk portfolios up to just under 3% for the ethical portfolio.

Again indices showed favour towards risk assets with Larger European companies and the US market leading returns, as shown below.



Capturing the upside and leading portfolio returns for the month were the Janus Henderson Global Sustainable Equity portfolio with a gross return of just over 7% and the Natixis H2O Multi-Returns fund just under 7%.

Negative returns only came from five funds across the board, mostly sitting in the lower risk space of gilts and fixed interest. India also stepped back exhibiting the increased volatility seen of late around the election. One of the absolute return funds managed by Merian also fell by c3.5% and is on "watch".