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May 2019
Portfolio Review

A sanguine month all things considered? Probably the best Market comment for the month of May must be, that the UK is so uncertain about the continuing uncertainty that everyone is simply carrying on! Bearing in mind the uncertainties that surfaced, it was no surprise that there was some reaction with Government bonds rallying and equity markets falling, particularly overseas. This was, in part because investors no longer expect a return to meaningful global economic growth during 2019, but also, in the UK the probability of a hard Brexit has supposedly surged because The Brexit Party won the most votes in the UK's European elections.

Looking at the latter point first, Theresa May's resignation as prime minister, means a leadership election for a new Conservative party leader will now begin but to what conclusion? Speculation is rising that an advocate of a no-deal Brexit may win the contest. But, should such a victor pursue this policy, they are likely to run into a similar problem as their predecessor. Due to the parliamentary arithmetic, Parliament is still likely to seize control of the process and prevent a no-deal exit, if necessary. Alternatively, were they to try to achieve no-deal by going back to the people, either via a referendum or an election, current polling suggests that opinion amongst the British people remains fragmented and that there is no majority for a no-deal Brexit. The deep divisions among Parliament and voters suggest that a no-deal Brexit continues to look unlikely and a new PM will still struggle to form a majority in favour of any option.

In the US, Markets were hit by a surprise acceleration of the trade war, after US President Donald Trump unveiled tariffs on all Mexican goods in an attempt to stop illegal immigration across the border. The fear is that Trump's trade wars will have a similar effect to last year's market correction, where rising bond yields might have caused a wave of corporate defaults (which did not happen), but which could still put an end to the extended prevailing economic cycle and cause a slump in global trade volumes. There are confused messages with indications that both sides of the bigger trade issue - US and China – are both digging their heels in and preparing for a drawn-out economic conflict. On the other hand there are various indicators that tell us they remain open to a negotiated solution. This would also be strongly supported by rational assumptions, for instance that Trump can only continue dreaming of a 2020 re-election if he does not drive the US economy into the ground in the meantime. With a relatively slow rate of underlying growth, the world economy is vulnerable to shocks and analysis sees the risks as being skewed to the downside, with the greatest being a US recession in 2020 or a further deterioration in the trade wars.

Elsewhere, 900 million voters have given the incumbent prime minister a landslide victory. Modi remains the most popular politician in India and his campaign on national security, counter-terrorism and Indian nationalism were key to achieving such an outstanding result unseen in three decades. The victory significantly boosts investor sentiment in Indian financial markets, as a substantial amount of fog on the policy horizon has cleared. Modi 2.0 has become a synonym for policy continuity, political stability and decisive leadership.

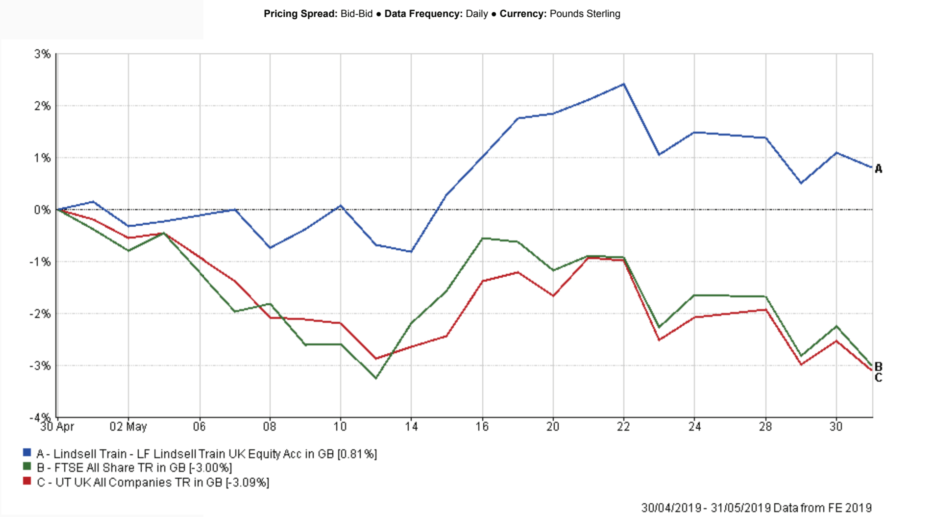
Despite a stronger euro vs. the US dollar, the majority of Euro Area stock indices declined as the increasing growth concerns, amplified by the sustained trade tensions, weighed on investor sentiment: the Spanish index lost 0.8%, German DAX was down by 1.5%, the French CAC40 decreased by 1.9%, while the Italian benchmark declined by 3.1%.

Portfolios

As trade war concerns continued to weigh on confidence, the year's leading market (the US) had a bad month with the S&P500 dropping over 3%. Other equity markets followed suit with the UK and European indices down a shade under 3% and emerging markets declining over 4%.

Needless to say, riskier assets in portfolios did drop a bit, however, cautious investors were well protected as the lowest risk portfolios ended the month almost flat. In the case of higher risk portfolios, falls were held to within 2% given some notable trend-bucking performances by active managers.

Greatest returns came from the Alquity Indian Subcontinent fund as the Indian election results brought some element of stability back to markets. Of the more mainstream funds, Jupiter's European fund produced a positive gross return of 1.14% and the introduction of the Troy Asset Management Trojan fund was rewarded with a positive return of 0.94%. Of greater importance due to its weighting in portfolios was the positive return attained by the Lindsell Train UK Equity fund at 0.81% against a general trend of -3%, as shown below.



The value of units can fall as well as rise.
Past performance should not be seen as an indication of future performance

(Please note past performance is not a guide to future returns).