

Manager's Quarterly Review Quarter Four 2018

	Q4 2018 Stats	Return	Level
Equity	MSCI AW Index	-12.67%	455
	S&P 500 Index	-13.52%	2,506
	MSCI EM Index	-7.60%	965
	MSCI CH Index	-10.68%	71
	FTSE 100 Index	-9.61%	6,728
Debt	BBARC GA Index	1.20%	478
	US G2Y Yield	-11.74%	2.48%
	US G10Y Yield	-12.31%	2.68%
	UK G30Y Yield	-5.96%	3.01%
Infrastructure	S&P GI Index	-5.11%	2,289

Returns calculation: Total returns

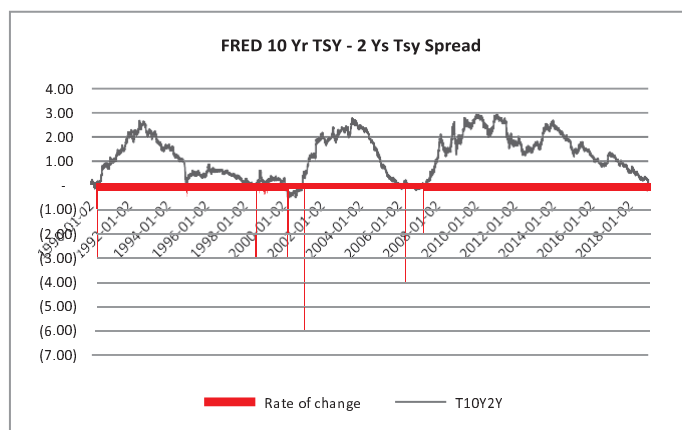
(Source: Bloomberg)

Geo-political developments remained a major theme in Q4 2018 along with the trajectory of US interest rates and the health of the global economy - we expect these themes to continue to dominate the headlines during 2019. The year ended in the red for all 4 major regions: the US, the UK, Europe and China.

There is no doubt that the risks to the global economy are on the rise. We have seen volatility seeping back into the system with a vengeance as the unwinding of QE and normalisation of monetary policy continues in the US and is also now underway in Europe. Brexit remains a major issue and the US-China trade war has started taking its toll on both growth in China and further afield.

Increased nervousness in the market over the festive season produced some spikes in volatility on lower volume. This can be attributed to the tightening of monetary policy by Federal Reserve and the debate over further tightening over the remainder of 2019. The Fed hiked the funds target range by 25bp in December, to between 2.25% and 2.50%. This may lead to an inversion of the treasury

yield curve. The current 10-2Year spread is observed at 0.20% with the lowest reading of 0.11% during the month of December.



(Source: Federal Reserve Bank)

Given the ongoing trade issues, the effect of fiscal stimulus fading away, the impact of monetary tightening and the recent budgetary deadlock, we expect a sharp slowdown in the US growth rate in the later half of 2019. We discussed the US total debt and deficit dilemma expected in 2019 in our last commentary. Suffice to say, with GDP growth set to slow later in the year and the debt burden troublesome, the chances of a hard landing for the US economy in 2020 are certainly increasing.

Equities in the UK performed poorly in Q4 despite a depreciation of sterling against dollar (\$1.26) that would normally provide a boost to the FTSE100 index (nearly 70% of earnings from FTSE companies come from overseas). As we near the Brexit date in March 2019 and with still no clear support for the Prime Minister's plan, investors have become increasingly nervous.

At the time of writing, the Brexit vote is imminent (mid-January) with the chances of the Prime Minister's plan obtaining parliamentary approval still looking slim. As

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they say, a week is a long time in Politics but without some way around the current Northern Ireland border impasse progress, looks unlikely. Still, the uncertainty that has gripped the UK markets for some considerable time is coming to a head and with the protective yield on the market around 4.7%, we see some real value appearing for those investors prepared to take a medium-term view.

Chinese GDP growth is showing signs of fatigue with the revised consensus for 2019 now in the region of 6.20% to 6.30%. Against this backdrop, the PBOC looks set to continue with an expansionary monetary policy, keeping repo rates low and an accommodative balance sheet.

The recent truce agreed by Xi and Trump will help to avert a sharp slowdown in trade activity, but this is contingent on a deal being finally negotiated. China is also facing domestic headwinds from property and credit growth. This increases the downside risk for the Chinese economy.

Leading indicators for the US and UK are still showing positive readings, whilst for China the manufacturing PMI recorded a negative (below 50) reading at the end of December, adding weight to the further prospect of monetary and possibly fiscal policy stimulus to keep domestic Chinese growth checked.

Emerging Markets continued to suffer in Q4 and have started on a weak note in the first few trading days of 2019. The US-China trade war is having an impact on the secondary tier in the value chain and the stronger dollar has not helped.

As noted previously, emerging markets central banks, particularly in Asia, do have monetary tools at hand to address the slow down and given the pullbacks we do see some real longer-term value appearing.

Given the uncertainties and benefitting from our proprietary investment process, we de-risked our portfolios during the final quarter and as the table below reveals our global multi-asset portfolios have performed relatively well against a difficult backdrop in Q4.

Performance	2018	Q4 2018
AB1	-1.85	-4.10
AB2	-2.46	-5.79
AB3	-2.41	-7.12
AB4	-2.59	-8.40
AB5	-3.19	-8.84
AB6	-3.33	-8.35

(Source: Morningstar, Data as at 31/12/2018)

Indeed, our riskiest portfolio was down 8.35% during the quarter compared to FTSE100 index that lost 9.61%. All our portfolios kept comfortably within the volatility brackets – underlining our Risk First approach.

We do not align Alpha Beta portfolios with the IA multi-asset sectors, but it is interesting to see how they performed by comparison over 1 year.

IA Sector	2018 Performance
Mixed investment 0-35% in shares	-3.40%
Mixed Investment 20-60% in shares	-5.11
Mixed investment 40-85% in shares	-6.09%
Global	-5.72%

(Source: Morningstar, Data 08.01.19)

Looking ahead, we will carry out further defensive moves if we anticipate further weakness during the next quarter. For now, we expect to see some modest recovery in markets in Q1 with institutional pension fund investors providing some support given the recent weakness and the decent valuations now on offer in many markets.

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