INVESTOR INSIGHT

A look at the markets by RSMR

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April 2018 Welcome

Welcome to this latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

We hope you find this useful.

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The global economy: What's going on?

Goldilocks effect ended by Princess and the Pea

What we called a 'Goldilocks effect' for investors, where a synchronised global economic recovery created benign, 'neither too hot, nor too cold' conditions, might have come to an end in the first quarter of 2018.

If this is shown to be the case, it may have started with a 'Princess and The Pea' scenario where investors reacted sharply to unexpected, but marginal, US wage inflation data.

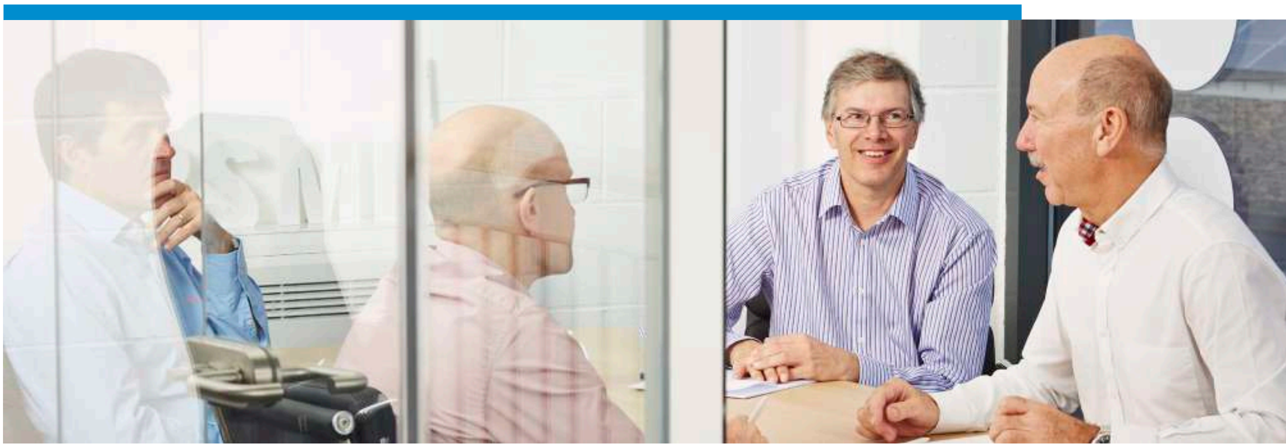
> "…no significant developments to indicate changes in the pace or trajectory of global growth"

At the start of 2018, the markets responded strongly to positive global growth predictions, but corrected quickly with the US announcement. This probably indicates increased market volatility in 2018.

If so, it is likely to be part of global money supply and interest rate management finally returning to normal after the financial crash a decade ago and a healthy resetting of markets.

So far, this year has already seen rate rise forecasts, inflation fears and new trade tariffs which have increased volatility effectively deferred from 2017 when fewer rates rises restrained volatility and returns.

There are however no significant developments to indicate changes in the pace or trajectory of global growth.



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The asset classes – a quick update

EQUITIES

The start of 2018 saw investors more confident about global growth and supporting stock markets around the globe.

This changed in mid-February when a sudden leap in volatility appeared to be based on investor trepidation rather than economic data when the US wage data created market jitters.

Although the basic economic data had not changed, the blip was, for some investors, a sign that there would be increased volatility in 2018 after a benign 2017.

March saw more fluctuations with investor concerns that US and China trade wars would cause markets to fall further around the globe, and worries about US technology stocks. Most markets ended March in the red for the first time in two years. Only time will tell if 2017's benign conditions will return.

The weakest markets have been those that have trailed for other reasons, such as the UK with Brexit, and political issues in India.

US equities rose through the technology sector which, until March, remained robust despite market falls with FAANG stocks (Facebook, Apple, Amazon, Netflix, and Alphabet's Google) attracting investors but recent government scrutiny in the US and Europe, and issues around data controls, led to an end-of-quarter fall.

FIXED INTEREST

The fluctuating returns from fixed interest markets have continued to confuse investors during the first quarter of 2018.

In a period of stronger economic growth and rising rates, many economists have predicted the end of the current bond bull market and the longer-term forecast for fixed interest is poor compared to global growth rates.

The narrow gap between government and corporate debt rates across all market sectors suggests there is little room for fixed interest to deliver real returns.

In 2017 rising income returns were healthy for corporate bondholders but there is far less scope to repeat this in 2018.

Pockets of value include emerging market debt, which has been more volatile than its western counterparts but is now judged to be more stable due to its looser link to the US dollar and stronger economic positions.

Fixed interest assets should not be dismissed because of likely global interest rate rises, as they can still be safer than many others if stress returns to global markets.

PROPERTY

Although property has fallen from favour in recent years, it can play a role within a diversified portfolio if investors take a longer-term view.

The popularity of e-commerce has led to increasing demand for well-located fulfilment centres and smaller distribution units. Strong competition to occupy these has led to an improvement in landlords' expected lease terms.

In retail, secondary assets – those not deemed top-class by location or specification – face the greatest difficulties as weak tenant demand leads to more empty units and fewer shoppers.

The basics of the market remain reasonably good. Distribution, logistics and warehouses are particularly popular due to demand for the most convenient means of delivery or in-store collection.

The global REIT/property securities market is sensitive to interest rate movements. A close watch will be required as further US rate rises are expected but not necessarily fully priced into market values.

Overall, property still has a viable role within a diversified portfolio; especially in the low interest rate/bond yield environment investors currently face.

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Global round-up

- Asian equity markets do not appear overvalued but gains are likely to be lower and more volatile.
- China's ambitious One Belt One Road (OBOR) drive for geo-economic integration means the rest of Asia can also benefit.
- The acceleration of European expansion is an underlying positive for the UK economy.
- Progress towards lifting inflation in Japan remains slow.
- China's soaring stock market made it among the best performing emerging markets in 2017.
- India is the world's fastest-expanding economy with growth running at 7.2% a year.
- There are hopes in the Philippines that the government will drive forward infrastructure projects.
- Escalating trade tensions may cause shorter term volatility in markets.
- Malaysia's economy seems to be improving after weakness caused by political instability.
- Consumer sentiment is starting to improve in Indonesia after a period of dull growth.

> "...China's drive for geo-economic integration means the rest of Asia can also benefit"

So, what's next?

The 'Goldilocks period' potentially ended in early 2018 after investors took fright at data which would not have created much concern a year ago.

There is clearly an increase in sensitivity but market falls were eased by strong economy-wide data including that, for the fourth quarter of 2017, the annual rate of Eurozone GDP growth rose to 2.7%, while in the US, it was around 2.5%.

The case for continued global economic growth remains intact alongside more volatile global stock markets.

However, it also seems clear that loose monetary policy is coming to an end in most western markets as they move from quantitative easing to enhance cash flow, to quantitative tightening to restrict it through interest rate rises. The most watched market outside the US is Europe and the European Central Bank.

Monetary tightening must be managed carefully as global growth, while stronger, is subject to mood swings.

A volatile first quarter might be behind us, but the environment remains challenging as more sensitive investors assess trading risks and opportunities in equities and bonds during 2018.

> "The case for continued global economic growth remains intact alongside more volatile global stock markets."

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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