

Think Tank 2018: plus ça change, plus c'est la même chose

Weekly Digest

8 October 2018

– James Klempster, CFA

Just over a week ago the curtain came down on our seventeenth Think Tank event in London. We were delighted to be joined by a hundred or so delegates, speakers and colleagues representing six of the world's seven continents. As well as a vital source of insight and information, I like to use the time during the conference to reflect on the general themes that arise during the formal and informal sessions. The event afforded the opportunity to speak to a large number of our partners and strategy providers at the same time and this provided a unique global temperature test regarding the challenges faced by market participants of all types.

During the investment sessions I was taken by how many times the conversation (whether led by the speakers themselves or by questions from delegates) led back to concerns around the timing of the next global recession. This is a notoriously difficult feat, as Nobel Prize winning Economist Paul Samuelson noted in 1966: "The stock market has forecast nine of the last five recessions". Nevertheless it is reflective of a circumspect mood amongst market participants. This is, perhaps, to be expected given we are now ten years into an equity market bull run and while developed economies do not look particularly unstable, they risk being buffeted by the impending first net reduction in global liquidity from Central Banks post the financial crisis. Uncertainty generally brings with it volatility and as Glyn Owen, our Investment Director concluded: "Stay invested, be prepared to ride out the bumps and avoid the temptation to time the next recession". We believe our Outcome Based Investment philosophy and proven process will insulate clients from the worst of the market's excesses whilst providing access to upside opportunities.

The other major area of uncertainty relates more directly to advisers' business models. It is clear that from Jakarta to Johannesburg, Mexico City to Manchester, the advice environment is a difficult one. This is for a number of reasons, not least because in a large number of jurisdictions the regulatory challenges faced by advisory businesses are increasing. This combined with increased threats from low touch sources of 'advice' such as Robo or guided architecture models, time poor clients and continuing fee pressures mean that for a firm to prosper it must be nimble and intelligent in their approach to these challenges. It is interesting to note that these pressures are, in the main, universal in nature and as a result we believe we at Momentum, with our unique expertise of working with advisers across the globe, are perfectly placed to work with our adviser base to identify and implement ways of work and investment portfolios that are a match for the multitude of challenges that advisers face.

We believe that an Outcome Based Investment philosophy and process makes perfect sense given these different challenges. Our approach puts the investment needs of clients first and our open approach and service paradigm provides a wealth of information that enables clients and advisers to stay the course. We believe that by simplifying the investment element of the advice process we help advisers to better serve their clients and to build longevity into relationships and business plans. I know that some of the delegates who have come to every single one of our Think Tank events will testify to this.

The Marketplace

- Brent crude hits another four year high, closes the week up 1.7% at \$84
- Gold finished the week up 0.7% at 1201.5 per ounce
- Treasury yields rise as equity markets fell
- Risk assets fall led by FAANG stocks declining 2.9% last week

Market Focus

US

- The Dow Jones index finished the week flat at 26447 after hitting a new high last Wednesday
- Amazon raises wages for all US and UK employees, their share price closed -1.6% on the day of the announcement
- The VIX volatility index rose above 15 (up 2.6 pts) last week
- The S&P 500 index finished the week down 1% at 2885.6
- The September ADP employment print, which measures non-farm private sector employment was 230K vs 184K expected. ISM non-manufacturing print was 61.6 vs 58 expected. Headline payroll numbers came in below expectations at 121K. Take away is that the jobless rate has hit a 48 year low
- 10 year treasury yields surged to 3.2% as the largest sell off since July 2011 took hold last Wednesday

UK

- Theresa May promised to 'end austerity' as early as next year in a relatively upbeat party conference speech. She also received cautious backing from Boris Johnson who many had thought may have launched a leadership bid

- The yield on 10 year UK gilts rose to a two year high of 1.7% as optimism grows that a brexit deal can be reached within the next couple of weeks
- The FTSE 100 index was down 2.6% at 7318.5

Europe

- The Eurostoxx 50 was down 1.6% closing the week at 3345.5
- Italy now seen as the major risk to global markets with an 'unsustainable' deficit target of 2.4% of GDP and high bond yields in danger of creating a debt spiral
- Emmanuel Macron is planning a major reboot of his presidency of France with a cabinet shake-up and sweeping reform of the benefit system and a consolidated effort to lower the unemployment rate to ~7% from its current level of 9%

Asia / Rest of The World

- In Brazil, the far-right candidate Jair Bolsonaro has one the first round of the presidential elections. This had a positive effect on markets there
- China tightens fiscal policy for the fourth time this year. Equity markets fell heavily (around 3%) as trading resumes after a week of closure – the tech sector was hit heavily partly around the emerging scandal of 'spy chips' discovered in supplied sent to Apple amongst others
- The Nikkei 225 index fell 1.4% to 23783.7
- The Hang Seng index fell 4% to 26,572

Asset Class/Region	Currency	Currency returns			
		Week ending 5 Oct. 2018	Month to date	YTD 2018	12 months
Developed Market Equities					
United States	USD	-1.0%	-1.0%	9.0%	14.6%
United Kingdom	GBP	-2.4%	-2.4%	-1.5%	1.3%
Continental Europe	EUR	-1.8%	-1.8%	-0.9%	-2.4%
Japan	JPY	-1.4%	-1.4%	0.6%	8.8%
Asia Pacific (ex Japan)	USD	-4.8%	-4.8%	-10.0%	-4.2%
Australia	AUD	-0.3%	-0.3%	5.5%	14.2%
Global	USD	-1.5%	-1.5%	3.9%	8.7%
Emerging markets equities					
Emerging Europe	USD	-3.4%	-3.4%	-9.5%	-5.0%
Emerging Asia	USD	-5.4%	-5.4%	-11.9%	-6.4%
Emerging Latin America	USD	2.2%	2.2%	-4.9%	-9.7%
BRICs	USD	-4.1%	-4.1%	-12.3%	-9.3%
MENA countries	USD	0.6%	0.6%	7.8%	7.0%
South Africa	USD	-7.8%	-7.8%	-27.9%	-14.2%
India	USD	-7.7%	-7.7%	-14.6%	-7.1%
Global emerging markets	USD	-4.5%	-4.5%	-11.8%	-7.1%
Bonds					
US Treasuries	USD	-0.9%	-0.9%	-2.7%	-2.5%
US Treasuries (inflation protected)	USD	-1.1%	-1.1%	-2.1%	-0.6%
US Corporate (investment grade)	USD	-1.1%	-1.1%	-3.4%	-2.3%
US High Yield	USD	-0.4%	-0.4%	2.1%	2.4%
UK Gilts	GBP	-1.4%	-1.4%	-2.9%	-0.4%
UK Corporate (investment grade)	GBP	-0.8%	-0.8%	-3.0%	-0.7%
Euro Government Bonds	EUR	-0.8%	-0.8%	-1.4%	-0.8%
Euro Corporate (investment grade)	EUR	-0.3%	-0.3%	-0.9%	-0.4%
Euro High Yield	EUR	0.0%	0.0%	-0.1%	0.5%
Japanese Government	JPY	-0.2%	-0.2%	-0.7%	-0.4%
Australian Government	AUD	-0.2%	-0.2%	2.2%	3.5%
Global Government Bonds	USD	-1.1%	-1.1%	-3.7%	-2.2%
Global Bonds	USD	-1.1%	-1.1%	-3.5%	-2.0%
Global Convertible Bonds	USD	-1.7%	-1.7%	-1.6%	-1.6%
Emerging Market Bonds	USD	-1.9%	-1.9%	-6.5%	-6.9%

Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	-3.1%	-3.1%	-1.8%	-1.4%
Australian Property Securities	AUD	-1.8%	-1.8%	-0.3%	7.9%
Asia Property Securities	USD	-3.7%	-3.7%	-9.5%	-6.5%
Global Property Securities	USD	-3.3%	-3.3%	-5.3%	-2.3%
Currencies					
Euro	USD	-0.9%	-0.9%	-4.2%	-1.7%
UK Pound Sterling	USD	0.4%	0.4%	-3.2%	-0.3%
Japanese Yen	USD	-0.1%	-0.1%	-0.9%	-0.8%
Australian Dollar	USD	-2.6%	-2.6%	-9.8%	-9.7%
South African Rand	USD	-4.3%	-4.3%	-16.4%	-7.9%
Swiss Franc	USD	-1.6%	-1.6%	-1.8%	-1.3%
Chinese Yuan	USD	0.0%	0.0%	-5.2%	-3.3%
Commodities & Alternatives					
Commodities	USD	1.8%	1.8%	6.3%	12.9%
Agricultural Commodities	USD	2.7%	2.7%	-2.5%	-3.2%
Oil	USD	1.7%	1.7%	25.9%	47.6%
Gold	USD	0.7%	0.7%	-8.0%	-5.6%
Hedge funds	USD	-0.2%	-0.2%	-1.4%	-0.4%

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