MMWealth
Chartered Financial Planners

Keeping you informed matters

Economic review

October 2018

Chartered
Financial
Planners

MMWealth
Chartered Financial Planners

Outlook

The current outlook is reasonably benign; low inflation, stable growth, modestly rising wages. The interest rate outlook suggests a gentle upward path led by the US with rates peaking at around 3-3.5% in the developed world. However, significant political risks remain.

The IMF and OECD released assessments of the global economy over the summer and in both cases reaffirmed their expectation that the world economy will expand by close to 4% in 2018 and 2019.

Some economies are demonstrating clear positive momentum, not least the US, where the current, already long expansion is, if anything, gaining momentum. However, in the UK, Europe and Japan, expectations are being revised down (politics are vital here).

In Asia and Latin America the picture is very mixed. China is likely to see growth average 6 - 6.5% per annum for the foreseeable future. Whilst high this is much lower than the double digits recorded pre-crisis. There are specific risks inherent in the economies of Indonesia and Argentina. During the Asian crisis of 1997/8 the Indonesian Rupiah fell from 2,000 to the US Dollar (US$) to 14,000 almost overnight. After 20 years the exchange rate has failed to recover. Whilst the economy has grown, persistent trade deficits and weak foreign exchange reserves have negated that progress.

Argentina rarely seems to be out of crisis mode but here again the currency has halved in value in the last 12 months, inflation is at 30% and interest rates have recently been hiked to 60% in an attempt to support the Peso.

It is very important to have a clear understanding of the risks entailed in Emerging Market investment. That said, the economies of Hong Kong, Singapore, Malaysia and Thailand have learned lessons from previous downturns and have built very substantial reserves; in the cases of Hong Kong and Singapore in excess of 100% of annual GDP.

In Latin America, the Brazilian economy appears to be emerging from the politically induced recessions of recent years. In Mexico some progress is being made with Donald Trump in respect of recalibrating the North American Free Trade Agreement.

The catalyst as always lies in the US, the Oval Office and the US$. The US$ accounts for 60% of world trade; by contrast the Renminbi, the Chinese currency, accounts for just 1%.

Largely due to the policy mix promoted by Barack Obama and Ben Bernanke, the US economy recovered much more quickly and completely from the financial crisis than other developed market economies. In many ways the recent $1 trillion tax cut provided by Donald Trump has poured petrol onto an already heated economy.

US growth is currently running at 3% and may even reach Trump's target of 4%. Unemployment is reaching lows not seen since the turn of the century and at 4% is widely considered to be below the rate at which inflation begins to take off.

It is also thought that whilst the US Federal Reserve (the Fed) has an inflation target of 2%, it will permit a temporary overshoot to allow a real debt adjustment to take place. However, there is an influential school of thought that suggests a 2% inflation target is realistically, too low.

As the scale of the US recovery has unfolded, the Federal Reserve has responded with a gentle policy tightening cycle that is likely to peak, according to the Fed at around 3.5% in 2020. This tightening cycle has strengthened the US$ on international foreign exchanges. From the low point in 2008, the US$ has risen by 35% against a basket of trade partners.

So the outlook remains positive, albeit with the usual late cycle gyrations that we have experienced before. The political picture globally continues to be fluid and will inevitably impact on global growth.

Key facts about the world

United Kingdom

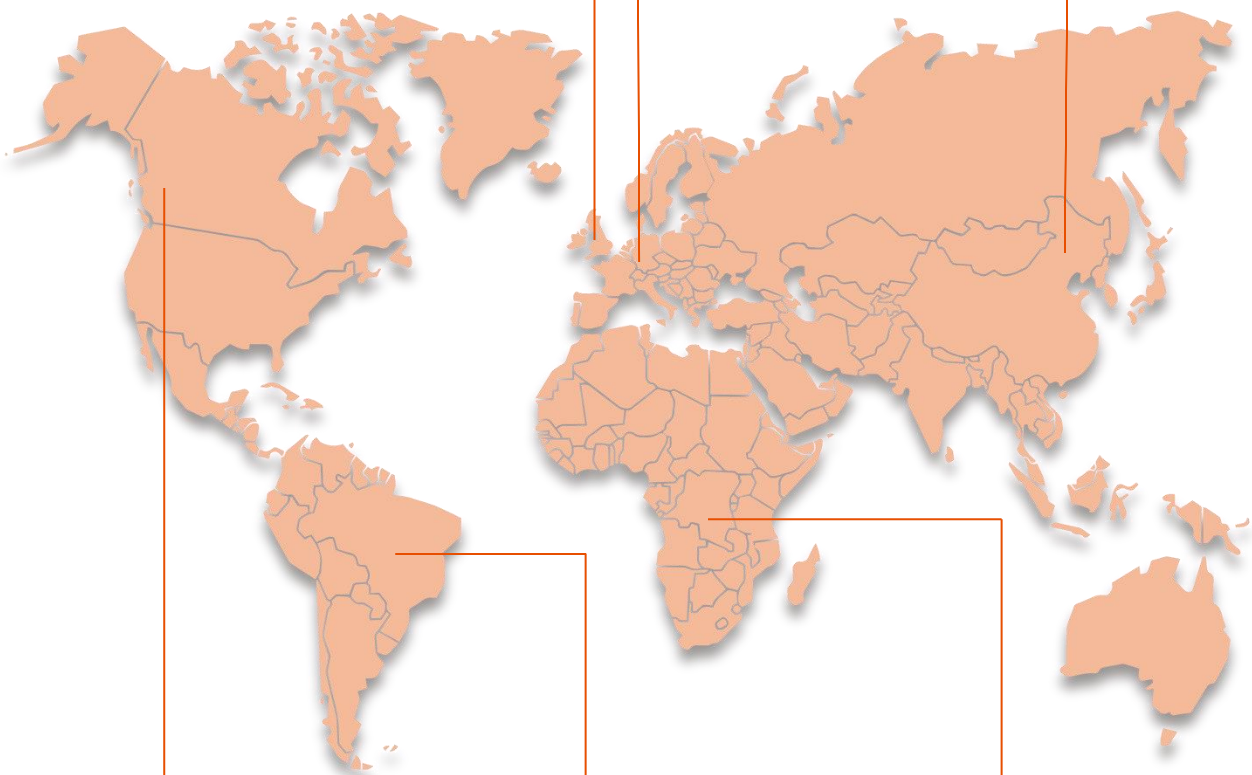
- Brexit remains the overarching key to the outlook
- Growth continues to lag most others
- Interest rates rose but are unlikely to rise much further

Europe

- Italy's new populist government is testing the status quo
- Economic growth is being hampered by politics
- The ECB will not be raising interest rates for at least another year

Asia

- Trade tensions between China and the US
- The Indian currency has fallen due to its reliance on imports of oil as the oil price has risen
- The Japanese Prime Minister won a vote of no confidence



North America

- The US is the first developed economy to have interest rates above inflation
- The US$ creates issues for the global economy
- Mid term elections may alter the balance of power in Congress

South America

- Brazil is undergoing another election following ongoing political scandals
- Mexico and the US have signed a new free trade agreement
- Argentina has accepted an IMF bail out

Africa

- The political situation in Iran and Turkey has increased risks in the short term
- South Africa continues to suffer with political scandals
- The rising oil price has emboldened oil producing countries to flex their political power

MMWealth
Chartered Financial Planners

Q3 Performance Review

US and Japanese equities offset losses in Emerging Markets

- US equity returns were strongest
- Japanese equities also provided strong positive returns
- Emerging Markets continued to suffer as a strong US$ led to currency weakness
- Short duration high yield bonds and property provided positive returns with very low volatility

The third quarter saw a rise in volatility driven primarily by rising interest rates in the US and a strengthening US$. The impact of this rise was most acute in the Emerging Markets as a strong US$ led to falls in the currencies of emerging economies from India to Brazil which resulted in volatility as it did earlier this year. Having said this, our strategies provided flat to modest returns for investors.

The performance of our strategies was again led by our US equity exposure. Our holding in the Loomis Sayles US Equity Leaders fund delivered 8.26% as the US$ strengthened and the fund's positioning in technology and consumer brands drove returns.

We have an overweight position in Japan as the equity market remains cheap relative to other markets and our core holding in Man GLG Japan Core Alpha returned 5.73% as the rising interest rates in the US contributed to investors focusing on financials which are a large proportion of the funds current positioning.

As stated above, Emerging Market and Asian exposures fell as the stronger US$ led to a repricing in these markets.

Fixed interest markets were mixed with credit providing the best returns. The best performing fixed interest fund again was the AXA US Short Duration holding which returned just over 1%. Property exposure continued to help returns as the economic environment remains benign. The SLI UK Real Estate fund added just shy of 2%.

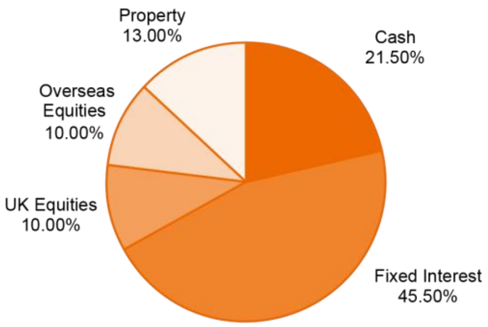
Within the Ethical strategies our overweight positioning in the US through the Janus Henderson Global Sustainable Equity and WHEB Sustainability funds drove returns. The strategic underweight position for Emerging Markets limited losses during this period of increased volatility.

SECTOR	3 months	1 year to 30/09/18	1 year to 30/09/17	1 year to 30/09/16	1 year to 30/09/15	1 year to 30/09/14	5 years (annualised)
IA OE North America	7.39	19.65	14.52	30.99	3.06	15.54	16.41
IA OE Property	5.38	7.22	3.01	12.94	8.10	7.65	7.51
IA OE Japan	3.77	12.60	13.30	33.37	4.00	-0.54	11.97
IA OE High Yield	1.89	1.09	7.70	9.81	-1.10	5.97	4.62
IA OE Europe ex. UK	1.60	1.91	21.95	19.22	3.57	4.08	9.82
IA OE Corporate Bond	-0.21	0.13	0.79	12.97	3.36	7.22	4.79
IA OE UK Small Companies	-0.41	10.49	25.21	8.16	11.82	7.65	12.49
IA OE UK All Companies	-1.17	5.64	13.67	12.00	2.09	6.27	7.85
IA OE Emerging Markets	-1.19	-1.47	17.59	37.53	-13.57	3.81	7.41
IA OE UK Index Linked Gilts	-1.20	1.31	-6.83	28.59	10.04	8.43	7.69
IA OE UK Equity Income	-1.32	3.47	10.84	11.54	4.11	8.04	7.55
IA OE Asia Pacific ex. Japan	-1.51	3.67	15.62	37.32	-7.39	7.13	10.30

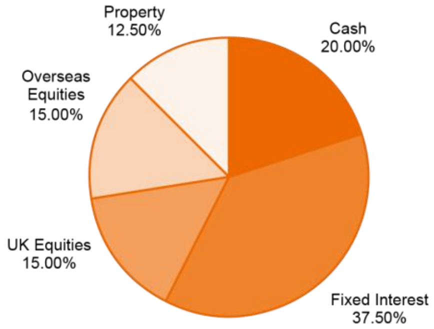
Source: Morningstar, bid-bid pricing. Net income reinvested. Past performance is not a reliable indicator of future results.

The positioning of our core strategies

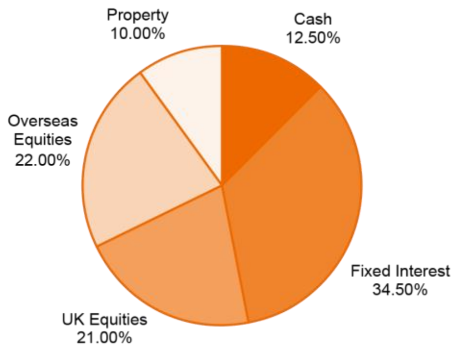
Very Conservative



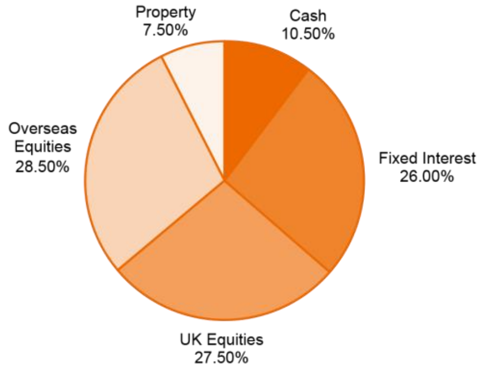
Conservative



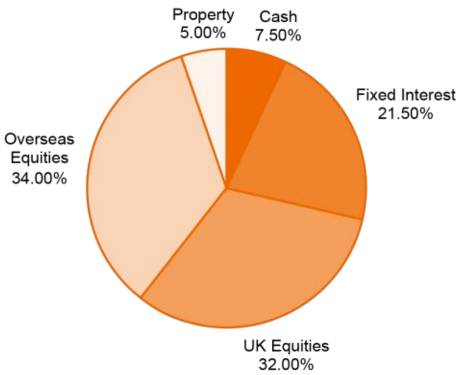
Cautious



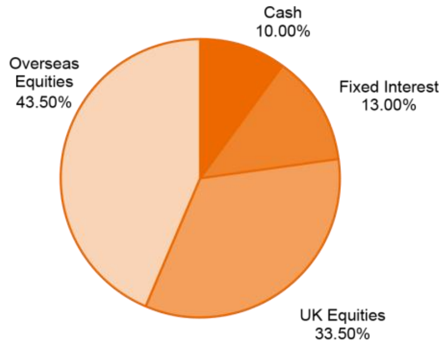
Balanced



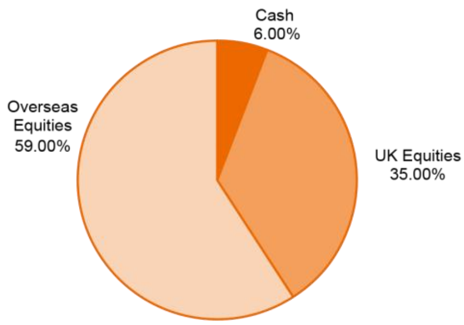
Growth



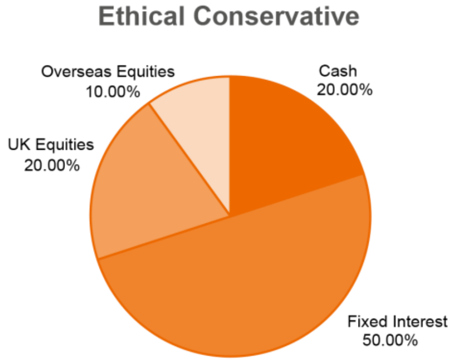
High Growth

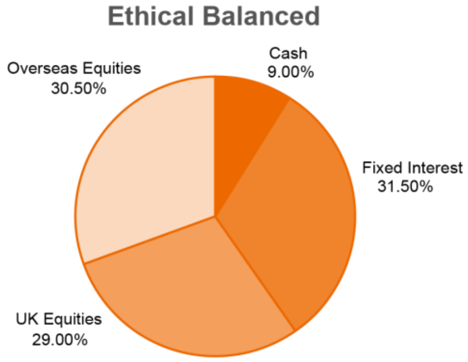


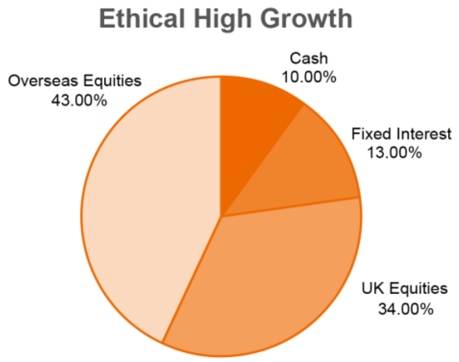
Adventurous



The positioning of our ethical strategies







MMWealth
Chartered Financial Planners

Disclaimer

Opinions constitute our judgment as of this date and are subject to change without warning. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance is not a reliable indicator of future results and forecasts are not a reliable indicator of future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment, nor does it constitute a personal recommendation.

MM Wealth Ltd Wellbrook Court, Girton, Cambridge CB3 0NA 01223 233331 info@mmwealth.co.uk