SG WEALTH MANAGEMENT
Impartial, accountable and trusted

Investment Commentary October 2017

Incorporating
Stan Gaskin Ltd
Financial Advisers

This document is designed to provide clients of SG Wealth Management and Stan Gaskin Ltd background information into our latest opinions on investment matters, covering the economic background environment and how we are positioning clients' portfolios with this in mind. *Your attention is drawn to the risk wording and caveats at the end of the document.*

Comparative Market Data – to end September 2017

The following table shows the performance of different global markets over recent months and years:

Market Index	1m	3m	6m	1yr	3yr	5yr	10yr
FTSE 100	-0.67	1.82	2.84	11.20	24.94	54.80	66.24
FTSE 250	0.65	3.51	6.57	14.27	40.19	93.67	138.58
FTSE Small Cap (ex IT)	1.07	3.48	6.44	17.77	41.88	117.04	93.42
FTSE World	-1.95	1.72	2.23	15.43	52.67	103.43	139.43
FTSE World Europe ex UK	-1.04	3.61	8.95	22.70	46.84	100.13	84.97
Hang Seng	-4.89	5.10	9.29	18.22	61.29	90.39	117.93
MSCI Emerging Markets	-4.34	4.46	6.86	18.57	39.48	46.33	73.09
Nikkei 225 in GB	-2.70	-1.80	-0.68	7.79	48.20	90.91	88.16
S&P 500	-2.01	1.00	0.08	14.13	61.33	126.69	191.57
FTSE Actuaries UK Conventional Gilts All Stocks	-2.58	-0.45	-1.73	-3.56	17.54	20.44	79.03
UK Retail Price	0.15	1.03	2.15	3.85	6.79	12.65	32.26
LIBOR GBP 1 Month	0.02	0.06	0.13	0.26	1.24	2.23	10.92
ARC Sterling Equity Risk PCI TR in GB	-1.00	1.49	3.34	10.78	27.72	54.78	69.32
ARC Sterling Steady Growth PCI TR in GB	-0.90	1.29	2.75	8.89	24.22	45.65	61.68
ARC Sterling Balanced Asset PCI TR in GB	-0.90	0.99	2.02	6.44	18.03	34.20	51.67
ARC Sterling Cautious PCI TR in GB	-0.90	0.49	1.28	3.83	11.68	21.43	41.57
Bank Of England Base Rate TR in GB	0.02	0.06	0.12	0.25	1.21	2.23	10.76

Data source: Financial Express Analytics. Cumulative gross total return, rebased to GBP, to 30/09/2017.

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Quarterly Market Commentary – written as at end September 2017

The third quarter of 2017 was a rather positive one for equity markets globally, buoyed by the overall global economy remaining in somewhat of a "Goldilocks" zone, i.e. not too hot and not too cold. Generally positive economic data is showing reasonable growth with unemployment in many developed economies being towards all-time lows although wage inflation remains subdued.

This economic strength has led central bankers to sound more hawkish tones with their language over the period, guiding markets towards tighter monetary policy ahead with a continued reduction of quantitative easing ("QE") and moves to increase Interest rates. The US economy has led Developed Markets in the recovery from the global credit crisis and the US Federal Reserve has been earliest in starting rate hikes, back in December 2015 and since then has risen rates 3 more times including twice this year. Operations were recently announced to start the unwinding of the Fed balance sheet from the effects of QE, initially at a rate of $10bn a month. The Bank of England have also talked up the potential of a rate rise, as soon as November, with the ECB in Europe also indicating its intentions to start to taper QE soon.

Whilst this mood music is a reflection on confidence of the current economic position, we are aware that the risk that this change in monetary policy could cause. We view the US economy as late cycle, and history teaches that periods of rate hiking and central bank balance sheet reduction tends to bring about the end of the economic cycle with a recession. Whilst recessions tend to cause periods of significant stock market volatility and falls, paradoxically in the late cycle period prior to recessions, equities can be the best place to invest as it is often the strongest performing asset class.

Clearly without the benefit of a crystal ball, or successful time machine technology (as yet), the length of this economic cycle is impossible to call, although given the cautious and gradual nature of central bank policy, and the current health in corporate earnings in the meantime it seems this phase could last for a while yet. However with a more cautionary medium term economic outlook it seems prudent to retain some defensive characteristics within our portfolios.

The US equity market experienced strong returns over the quarter with the S&P500 rising around 4% thanks to a strong corporate results season. These returns was supported by the positive data from the rise in manufacturing and promises of tax reforms potentially coming to fruition and were despite the mounting tensions with North Korea and the natural disasters in the southern states. Moreover, a weakened dollar has also helped push the rise in the equity markets which was also beneficial for exports. The weak dollar and stronger pound towards the end of the period did help erode some of these returns for Sterling investors, as highlighted by the performance numbers on the earlier table which are in Sterling, as opposed to local currency, terms.

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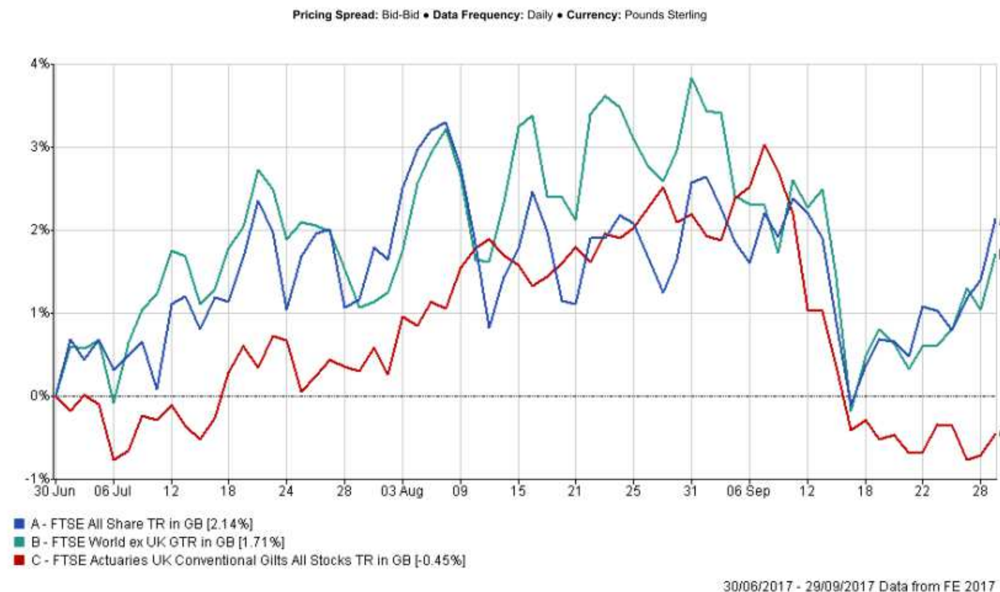
Equity and Bond market returns – in GBP



In Europe we continue to see an improving economic picture with falling unemployment helping consumption and manufacturing. Major political hurdles have been overcome this year, with a renewed strengthening of enthusiasm for the EU in many countries, albeit with surprising success for the far right in the recent German elections. However political hurdles still need to be overcome, with an election due in coming months in Italy, and Spain currently grappling with the awkward issue of how to deal with the Catalonian independence movement. Notwithstanding this, the broad-based economic recovery in Europe, which still has potentially some way to go, leads us to favour the area from an investment standpoint.

Japan too had a positive period on the back of rising exports (by 18%) thanks to a flat yen against a weak dollar as well as the stable political environment despite the recent snap-election, which has worked well for Prime Minister Abe. This positive picture continued in Asia where Chinese equity markets rose on the back of GDP growth maintaining pace from 1st quarter. Hong Kong, Taiwan and South Korea also witnessed strong growth in markets thanks to rising global demand for Blue Chip and Tech industries despite the tensions with North Korea.

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Emerging market equities sustained their robust returns in Q3 thanks to rising commodity prices and the weakened dollar. Russia and South America benefited particularly from a rise in Oil and manufacturing as well as a stable political landscape.

In the UK we continue to live in uncertain times with the lack of clarity in Brexit negotiations feeding into broader political dissatisfaction. Whether Labour under Jeremy Corbyn can ultimately capitalise on this remains to be seen, however the political uncertainty looks set to continue to dent consumer and business confidence. Further currency led inflation continues to rise in the UK (3% at present) which has increased the pressure on wage growth along with an all-time low unemployment rate.

In spite of the current political climate within the UK, the Bank of England has recently hinted of a rate rise later this year with possibly further increases next year depending on whether wage growth responds favourably to the rising employment rate. This change in monetary tone has increased the value of sterling this quarter. Currency looks set to continue to be volatile during coming times as the political, economic and monetary policy landscape shifts, and this will continue to have a reasonable impact on returns to UK investors.

Generally the economic outlook at present remains positive globally and markets continue to focus on the positive aspects of the current global landscape despite the uncertain political ground. As we see an increase in tightening of monetary policy, bond markets will feel pressure with rising yields eroding values of fixed income investments. This has been seen already by looking at the broad based UK Gilt Index (FTSE Actuaries UK Conventional Gilts All Stocks) returning -3.6% over the last 12 months. We continue to favour more flexible approaches for our bond investments that can avoid some of the dangers of a rising rate environment, whilst continuing to provide the diversification benefits that fixed interest offers from equity based investments.

With a mixed outlook over the medium-term portfolio diversification continues to be important, in our view in order to strike a balance between participating in the attractive returns from assets that are on offer in the short-term whilst remaining cognisant of the potential for the dynamics to change in the future.

Risk Warnings and Other Important Information

We hope that this document is helpful in explaining the background to investment decisions that are being made within the portfolios of our clients. Please bear in mind the following important points:

- Any past performance is not guaranteed and not necessarily a guide to future returns. The value of investments and the income they produce can be affected by a number of factors and can go down as well as up, and the value you get back may be less than your initial investment.
- Opinions are those of SG Wealth Management Ltd and Stan Gaskin Ltd at the time of writing and are subject to change. They are based upon our investment research and philosophy and there are no guarantees of any particular outcome.
- It is important that your investment portfolio is regularly reviewed to ensure it continues to be appropriate for your circumstances, needs and underlying economic conditions. We will do this with you as part of an ongoing client agreement.
- Investors should not construe this document as specific advice and we take no responsibility for the outcome of any individuals taking actions personally (i.e. not via SG Wealth Management or Stan Gaskin Ltd) based upon the contents of this, or other published investment documents
- All figures quoted are bid-bid, total return, source FE Analytics, unless otherwise specified. Charts and tables shown reflect market returns in Sterling currency whereas in the commentary market returns quoted reflect local currency returns unless specified.

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