Investment Commentary April 2019

This document is designed to provide clients of SG Wealth Management Ltd with background information on our latest opinions on investment matters, covering the economic 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 March 2019

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	3.29	9.49	-1.07	7.69	33.11	34.11	170.18
FTSE 250	-0.11	9.75	-4.87	0.97	22.59	34.50	293.64
FTSE Small Cap (ex IT)	0.68	5.14	-7.54	-3.09	18.6	27.03	317.62
FTSE World Europe ex UK	2.57	7.98	-3.79	2.57	36.74	40.85	176.11
FTSE World	3.31	9.56	-2.38	11.09	51.42	79.88	263.5
MSCI Emerging Markets	2.93	7.44	1.79	-0.32	49.56	53.27	159.08
Hang Seng	3.70	10.00	4.99	7.66	70.19	99.69	229.85
Nikkei 225	1.80	2.89	-9.71	2.24	41.73	70.25	156.68
S&P 500	4.01	10.91	-1.95	17.17	58.4	108.17	352.53
FTSE British Government All Stocks	3.20	3.38	5.37	3.71	11.09	30.66	62.54
ARC Sterling Equity Risk PCI*	2.30	7.89	-2.00	5.92	28.34	35.36	139.39
ARC Sterling Steady Growth PCI*	2.00	6.42	-1.64	4.68	22.78	30.61	110.82
ARC Sterling Balanced Asset PCI*	1.50	4.56	-1.57	2.41	15.12	21.61	78.89
ARC Sterling Cautious PCI*	1.00	2.62	-0.98	0.94	8.82	13.8	47.45
Bank Of England Base Rate	0.06	0.18	0.37	0.66	1.35	2.37	4.96

Figure 1 Data source: Financial Express Analytics. Cumulative gross total return (%), rebased to GBP, to 31/03/2019.
**These indices have been added to the above table as comparators for our risk adjusted model portfolios.*

Quarterly Market Commentary – written as at end March 2019

Investors turned into 2019 reeling from the worst quarter (and year) for stock market returns since the Great Financial Crisis of 2008-9, however as we close the first quarter of the year the losses from Q4 2018 have largely been recouped.

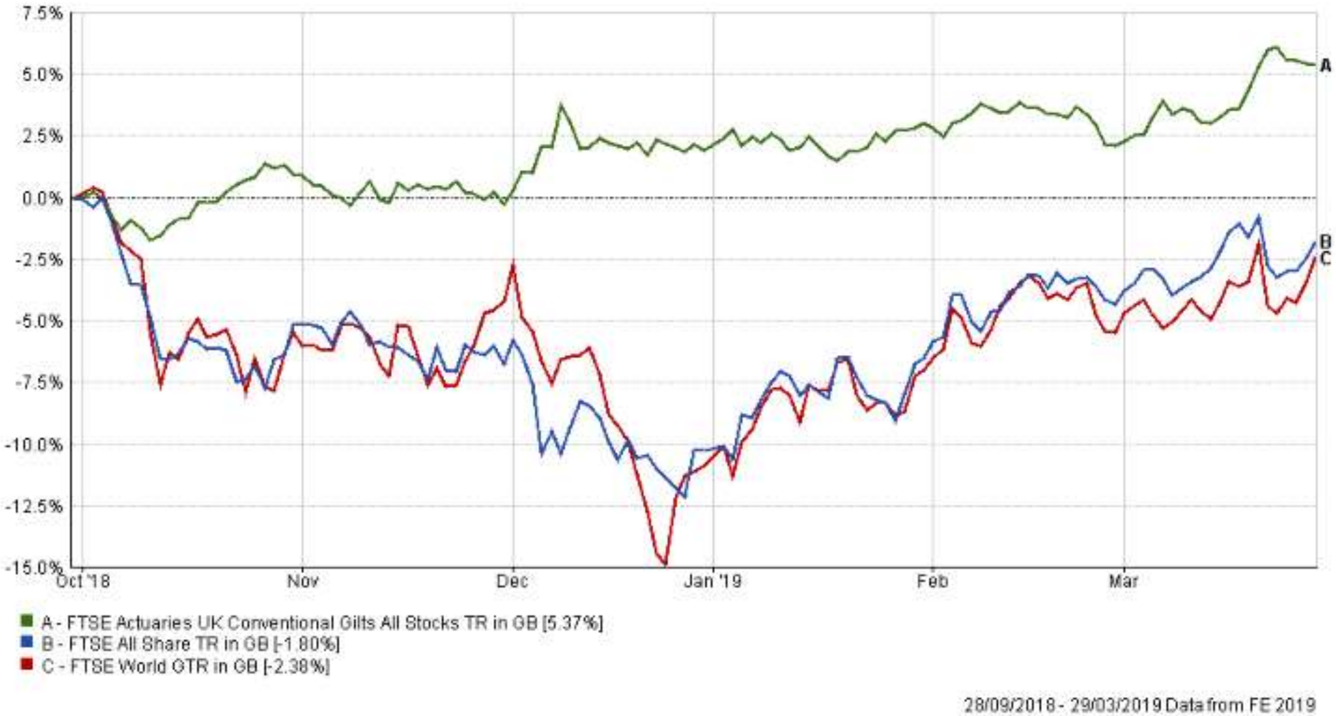

Figure 1 – equity and bond returns Q4 2018 & Q1 2019

Our investment commentary last quarter reflected on the issues causing the decline in all types of markets last year, namely US monetary policy, global trade, a slowing China and geopolitical uncertainty in Europe and beyond. We also alluded to the potential for some of these issues to start to look less challenging through the coming year and to a certain extent our predictions for positive change have materialised, spring-boarding the sharp stock market recovery we have seen.

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The tone of the Federal Reserve had already began to soften as 2018 drew to a close, and this dovish attitude has continued through into 2019. As recently as 6 months ago the market was pricing in another two US interest rate hikes during 2019, on the back of the four we saw in 2018 and three we witnessed in 2017. However at the time of writing the next move the market is now pricing from the Fed is a cut to interest rates in 2019 as well as ceasing Quantitative Tightening later in the year. Similarly the European Central Bank, which had previously indicated it may start to raise rates this summer is now not anticipated to take any action until next year at the earliest.

This sign of patience from central banks has been warmly received by markets, also buoyed by an improvement of the prospects for global trade. Some progress seems to have been made recently in discussions between the US and China, and authorities have been cautious to increase tariffs further due to the impact on the global economy and stock markets, for which we know President Trump has a keen eye. Despite a thawing of relations, a good degree of underlying tension is likely to remain as ultimately the US and China are competitors in a number of important industries, not least in technology. Furthermore there is a risk that the glare of Trump's "America First" policy may swing from the East towards a more confrontational trade policy with Europe at some stage.

The speed of the recovery of markets due to the reduction in these two major risks of monetary policy and trade has been reassuring, however for market values to continue to be lifted from here we will need to see signs that the noticeable slowdown from last year in economic growth starts to reverse.

Economic data continues to be mixed, with the most noticeable weakness in the manufacturing and export sectors, particularly in the Eurozone and in some emerging markets. Whilst the aforementioned trade conflicts had some impact on this, the slowdown in the Chinese economy due to their own tightening domestic policy has also had a big impact. However authorities in China have started to ease fiscal and monetary policy which may reaccelerate growth and demand worldwide.

Labour markets have held up well so far with unemployment in the developed world continuing to decline and wage growth picking up gradually. Hopefully this will continue to buoy up consumer confidence which can lift the manufacturing sector and negate weakening business confidence. In the UK this combination of low unemployment and rising wages (3.4% year on year wage growth in January) twinned with boosted inventories has kept growth in positive territory despite the Brexit related uncertainty which has weakened business confidence significantly.

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The question for the business community in this country is how long will the wait go on until there is any sort of clarity over the UK's trading position with Europe. At the time of writing the initial deadline of 29th March has been and gone, the next deadline of 12th April is imminent, but the 22nd May and 30th June are also milestones to which the can may be kicked (or beyond!). All the while businesses continue to absorb additional planning expense and delay investment decisions.

Both currency and stock markets thus far however seem to be relatively calm over the passing Brexit deadlines. Whilst still the default option, the risk of a "No Deal" Brexit seems to be discounted by markets at present, with MPs also clearly rejecting this course of action. One would think that regardless how frustrated the EU get with the UK's political deadlock they would be not be keen to inflict the self-harm that a Hard Brexit would cause to both the EU and the UK in the short-term.

It appears that Brexit is also causing a change in the UK's political landscape, with Theresa May promising to stand down if her deal was passed to allow another Prime Minister to lead the next phase of negotiations. At this stage one also would not rule out additional public votes to either confirm acceptance of any deal, or potentially to try and create a majority in parliament by holding a General Election.

Over the quarter we have also had news of a number of other high profile resignations. In the fund management community talent often moves around the square mile and this causes us to reassess our views on any funds we hold where managers change. Over the quarter we had news that Alex Darwall will be handing over the reins of the Jupiter European fund later in the year to concentrate on his investment trust. James Zimmerman is returning to New York so will say goodbye to the Jupiter UK Smaller Companies Fund. Schroders Japanese market veteran Andrew Rose will be retiring at the end of June and handing his Tokyo fund over to Masaki Taketsume. We also heard that James Elliot will be leaving JP Morgan where he was involved with the Global Macro Opportunities Fund in order to start a new role at Investec.

All of these funds are held across a number of our client portfolios and our researchers are working hard to understand the implications of any changes that are taking place, and will evaluate whether these need to trigger any changes to our investment positioning. This is enabled for the majority of clients by our discretionary investment powers which will allow us to easily implement any portfolio alterations that we see fit – power that may be very useful in these uncertain times!

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 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) 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 shown reflect market returns converted to GBP currency.
- Where quoted, returns from SG Wealth model portfolio performance figures shown include all fund costs and an additional 0.54% annual charge to represent our discretionary investment charges of 0.24% (including VAT) and a hypothetical 0.30% platform custody charge. In practice, charges applied to clients' portfolios will vary as will timings of fund changes and rebalances. The cost of our ongoing Financial Review/Wealth Management Service is not included in these returns figures.

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