Investment Commentary July 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 June 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	3.97	3.33	13.14	1.56	29.11	34.28	154.56
FTSE 250	2.87	2.94	12.97	-3.82	29.91	41.90	244.99
FTSE Small Cap (ex IT)	-2.27	0.93	6.12	-8.63	24.77	30.31	217.54
FTSE World Europe ex UK	6.38	8.81	17.49	7.93	42.79	53.11	173.50
FTSE World	5.55	6.53	16.71	10.44	48.38	86.85	264.39
MSCI Emerging Markets	5.21	3.01	10.67	4.99	42.34	51.91	127.57
Hang Seng	6.05	2.80	13.08	6.83	58.93	96.87	182.97
Nikkei 225	3.07	5.53	8.58	1.73	36.62	77.26	147.58
S&P 500	5.97	6.63	18.26	13.85	53.58	116.67	379.12
FTSE British Government All Stocks	0.16	1.31	4.74	4.90	6.00	30.96	66.88
ARC Sterling Equity Risk PCI*	3.70	3.86	12.17	3.50	28.84	39.07	132.40
ARC Sterling Steady Growth PCI*	3.00	3.28	10.09	3.08	23.73	33.46	107.04
ARC Sterling Balanced Asset PCI*	2.20	2.50	7.77	2.27	16.45	23.88	77.57
ARC Sterling Cautious PCI*	1.40	1.70	5.16	1.87	10.05	15.48	48.25
Bank Of England Base Rate	0.06	0.19	0.37	0.72	1.42	2.43	5.02

Figure 1 Data source: Financial Express Analytics. Cumulative gross total return (%), rebased to GBP, to 30/06/2019.
**These indices have been added to the above table as comparators for our risk adjusted model portfolios.*

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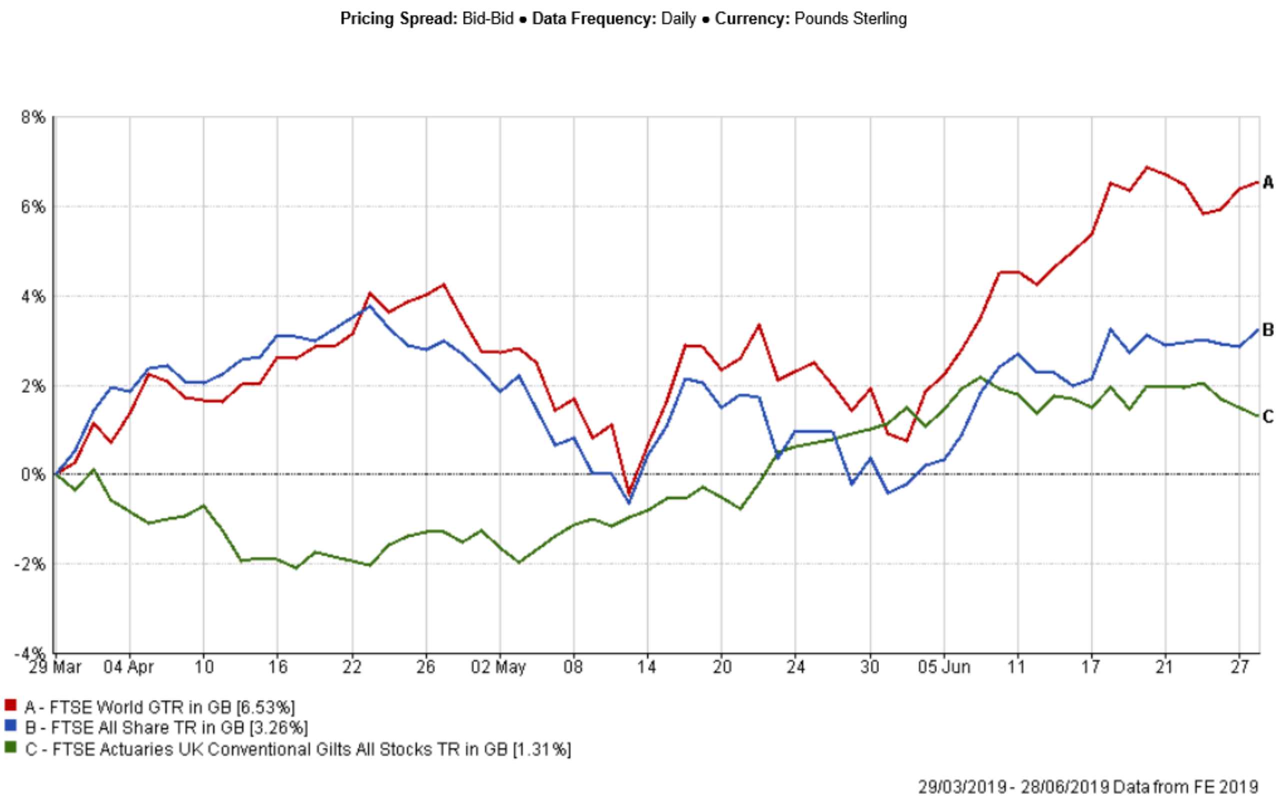
Quarterly Market Commentary – written as at end June 2019

The second quarter of the year delivered further strong returns for stock markets and other risk assets, as well as (perhaps counterintuitively) also seeing healthy performance from traditional safe haven assets. This was witnessed with the backdrop of generally deteriorating global economic data causing investors to wonder what is going on.



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The same theme that ran through our recent previous commentaries continued to influence the direction of travel for markets, namely central banks' responses to the global economic and political signals.

As we have previously commented, we continue to see reasonable economic growth but the pace of this is slowing and, whilst the signs are not necessarily there that this deceleration will stutter out into a recession imminently, commentators are questioning how long this period of expansion can continue for. Traditional economic risks, such as inflation, seem broadly under control however political risk to the economy is clearly at elevated levels. Whether it's Trump in the States and his disputes with China, Iran and everywhere else, the muddle that is Brexit closer to home, or more general impacts of populism around the world, the uncertainty and volatility of politics is increasingly impacting investment markets.

Global trade volumes are still reeling from the impact of the trade dispute between the US & China and other (albeit less sizeable) disputes between countries. The US has imposed tariffs on c$250 bn of Chinese goods and has proposed an additional similar amount, with China acting in a retaliatory fashion. The impact on manufacturers, particularly exporters, has been significant with business confidence and investment intention surveys generally ebbing to levels not seen for several years.

Whether a deal can be arranged to bring a satisfactory end to the dispute remains to be seen, with the prospects seemingly changing at regular intervals, helping to gyrate markets. The roots of the dispute are not just around manufactured imports, but also Intellectual Property ownership and the perceived state sponsorship of big Chinese Technology companies to help them achieve global dominance. These latter issues would appear more problematic in their long-term resolution.

There is also the risk that Trump's attention may turn elsewhere, for example towards the Eurozone from where tariffs on car imports have been proposed to potentially rise from 2.5% to 25%.

Whilst business confidence is reeling against such an unpredictable backdrop, the consumer is generally holding up OK, with unemployment low, cost of debt still relatively cheap and wages rising. The concern would be if the deterioration in business confidence and the pressure of rising wages started leading to job cuts.

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The sentiment around trade was particularly negative during May which triggered an increase in volatility and equity markets falling at the start of the month. However either side of this markets were generally strong, which was mainly due to the rhetoric coming from central banks. The tone of statements from central banks continued to turn away from the hawkish sounds of rate rises and balance sheet reduction from last year, towards looking at more accommodative and looser monetary policy once again. Last September the market was expecting a further 0.5% of interest rate rises in the US during 2019 (on the back of nine 0.25% rises since late 2015) whereas now the expectation is that we will see rates cut by 0.5% later this year.

Whilst the US is leading the way with monetary policy, other central banks have also adopted a more dovish stance of late, with even the European Central Bank (ECB) suggesting that further accommodative policy in Europe - where rates are negative already - could be forthcoming to counter the economic slowdown.

With the prospects of falling interest rates, and potentially more Quantitative Easing, we have seen bond yields fall back again - which means their prices are going up, providing positive capital growth for fixed interest investors. Equity markets and other risk assets have also benefited from these signals that central banks are prepared to use further monetary firepower to extend the economic cycle. Our concern would be that using up ammunition now to counter a slowing economy would leave little in reserve in the future and, if the world starts to look more recessionary, this could prolong the effects of any downturn compared to the sharp recovery in markets out of the Great Financial Crisis that we saw back in 2009.

China has also embarked on a programme of stimulus to their economy to counter the impacts of trade disputes. In keeping with their rebalancing of their economy they have targeted their increasingly urbanising population through a programme of tax cuts to boost domestic consumption. The Chinese and other Asian (particularly Indian) consumers have the scale and the potential to urbanise further and be a huge driver of future global growth.

In the UK the political situation becomes further desperate and farcical by the day. The Conservative leadership election appears to be a shoe-in for Boris Johnson who will pick up the baton of trying to resolve the impasse in both parliament and in the wider UK population. Whether a satisfactory deal can be achieved before the 31st October deadline or whether a Halloween no-deal crash out of the EU materialises remains to be seen. The risk of no-deal is higher than ever before and these are high stakes games with all outcomes still on the table. A general election later in the year still also remains a possibility. No doubt sterling will bear the brunt of domestic political volatility and we will be watching the currency markets closely as they can have a strong bearing on portfolio returns in the short-term.

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Whilst the political situation at home and abroad remains so unsettled and uncertain it feels right to retain a fair degree of caution in our portfolio composition. Investors should expect some volatility in reaction to the news-flow ahead. Markets dislike uncertainty so it is also worth bearing in mind that, as clarity on various issues emerges, markets could gain confidence one way or another. We are also reassured of the willingness of central banks around the world to continue to stimulate the economy with monetary policy.

In these interesting and challenging times it is always sensible to take the long-term view in assessing investment returns, whilst being aware of investors' specific short-term needs and objectives to ensure portfolios are positioned appropriately. As ever we would encourage clients to discuss their own circumstances with their wealth managers regularly so we can advise you correctly going forward.

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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