Financial Planners Chartered

Positive Wealth Creation Ltd

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May 2019 Investment Commentary

2018 was a volatile year, the final quarter particularly so. Whilst in the UK it is easy to blame Brexit for uncertainty, markets have been led by macroeconomic conditions in the USA. Donald Trump's loose fiscal policy, which has resulted in increased US Government Debt at a time of solid economic growth, was expected to cause US interest rates to continue to rise. However, the US Federal Reserve has indicated that no further US interest rate rises are expected in 2019. This will aid corporate profits, supporting share prices. In addition, fears about the US-China trading relationship have diminished. However, balance sheet normalisation, known as Quantitative Tightening means that monetary tightening is continuing. Ten of the last thirteen rate rise cycles have ended in a US recession.

The Bank of England expects there to be further gentle interest rate rises over time after August 2018's increase to 0.75%. Nevertheless, interest rates for savers remain lower than UK inflation.

Index / Asset Class	Return Period	Change
FTSE 100 (UK shares)	Year to 30 April 2019	**-1.2%**

FTSE 100	Rise from post financial crisis trough (3,506 on 6 March 2009)	**112%**
FTSE 100	Fall from most recent peak (7,877 on 22 May 2018)	**-5.8%**
S&P 500 (US shares)	Year to 30 April 2019	**11.5%**
Nikkei 225 (Japanese shares)	Year to 30 April 2019	**-0.9%**
Hang Seng (Hong Kong shares)	Year to 30 April 2019	**-3.6%**
UK CPI (inflation)	Year to March 2019	**1.9%**
UK GDP (economic growth)	Q4 2018	**0.2%**
UK 10 year Gilt	Yield change year to 30 April 2019	**-15.7%***
UK 10 year Gilt	Yield change month to 30 April 2019	**18.0%***

	(1.18% presently)	
Commercial Property (IPD UK Monthly Property Index)	Year to 31 March 2019	**5.5%**
Commercial Property (IPD UK Monthly Property Index)	Rise since pre financial crisis peak (942 June 2007)	**68.6%**
Residential Property (Nationwide House Price Index)	Year to April 2019	**0.9%**
Residential Property (Nationwide House Price Index)	Rise from pre financial crisis peak (£186,044 October 2007)	**15.5%**
Gold	Fall from peak to 30 April 2019 ($1,901 September 2011)	**-32.6%**

China: The Official Chinese Purchase Managers Index (PMI) has returned to expansion following three months of contraction from falling export orders resulting from tariffs. Deleveraging and dealing with bad debt continues to be required.

Eurozone: The European Central Bank continues to provide support, although its version of Quantitative Easing finished at the end of 2018. There will be a new Bank Governor later this year, who may or may not re-confirm Mario Draghi's statement from July 2012: ***"Within our mandate, the European Central Bank is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough."***

The recent macroeconomic conditions of rising interest rates and above target inflation in 2018 were not ideal for Fixed Interest securities such as **gilts and Corporate Bonds.** Therefore, returns have been weaker from these assets. **High yield bonds** have low default rates and their progress is linked more to the economic cycle.

Time in the market, rather than timing the market, is often the key to successful long-term investing. **If you sell today, then when do you buy back?** We believe investments should be held for the medium to long-term. Portfolios are generally spread and so not overexposed to one asset class. Falls and rises are part of investing and falls only turn into losses if you sell out. If you remain a medium to long term investor, whose attitude to risk and circumstances have not changed **it is not advisable generally to alter a diversified portfolio because of short term volatility:**

- JP Morgan has published data on returns from the FTSE All Share from the beginning of 1999 to the end of 2018, which shows the effect of short term volatility.
- The effect of missing out on the **ten best days** in the market is that **returns are cut by two thirds from 5.1% per annum to 1.7% per annum.** Missing the best thirty days makes returns negative at -2.1%.
- In particular, JP Morgan found that six of the best days in the market occurred within two weeks of the ten worst days.
- Therefore, consistently timing the market whether out or in is incredibly difficult. Nobel Laureate William Sharpe found that 'market timers' must be right **82%** of the time to match the return realised by long term investors.
- This underpins our belief that investments should be held for the medium to long-term. Since 1899 the UK stockmarket has outperformed cash in 75% of five year periods and 90% of ten year periods.

*An increase in yield means a fall in capital.

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