Canaccord Genuity Wealth Management

March/April 2019

Investment
market update

Is the world still a good place to invest?

For those who kept their nerve during Q4 2018 and did not sell equities, the sharp rebound in Q1 this year came as a vindication and welcome relief.

Markets worried about many problems from September last year (US interest rates, global economic slowdown, the US vs. China trade war etc) and this led to an overdone risk off bout in Q4. Markets bounced back at the start of 2019 without any news to propel them. They rallied further when the Federal Reserve (Fed) pivoted on its interest rate policy and President Trump promised a trade deal with China.

The markets however, have gone even further, anticipating a global economic rebound which may take some time to happen. In fact, this quarter's returns may have borrowed somewhat from the expected growth in the second half of the year and hence we feel a little uncomfortable about chasing them. While we don't disagree that things are moving positively in the right direction, we don't necessarily think they will be smooth running:

- **Interest rates and economic growth** - The Fed's interest rate policy is helping the US economy but investors have fully discounted its effects by now. This leaves growth as a market driver. It may take some time before we start noticing a recovery from the worldwide slowdown that started in mid-2018. Markets could hence live without a safety net for a while. We'd rather see new policy or economic tailwinds before getting too bullish.
- **China vs. US** - There is no doubt that President Trump wants to give voters another tax break by getting rid of the trade tariffs which have been borne entirely by US consumers. Likewise, the Chinese leadership is trying to stimulate its slowing economy and would love nothing better than being able to trade freely all over the world. The markets, though, may still be too sanguine about the upcoming US-China deal. The devil may be in the detail.

Being mildly cynical, you could say that the US presidential election in November 2020 almost guarantees that the US economy will be doing well between now and then. Clearly, President Trump does not hold all the cards, with the House of Representatives in the hands of the opposing Democrats, but he can still pull levers that favour his re-election.

We still feel comfortable that there are good days ahead for equity investors, but whenever markets get ahead of themselves, it is only prudent to take a few chips

"We still feel comfortable that there are good days ahead for equity investors, but whenever markets get ahead of themselves, it is only prudent to take a few chips off."

off. That's what we did during the quarter in our portfolios and we're trying to keep some powder dry for the moment until it's really worth adding back to risk.

How will Brexit affect sterling and UK stocks?

As we get closer to the final furlong on Brexit (whether 12 April or 22 May - as we write we do not yet know which deadline will apply), it is worth reflecting on UK investments. In terms of currency, the backdrop is simple - sterling will like a soft Brexit and push up if we head in that direction and vice versa for a hard Brexit. The large weight of foreign earnings in the FTSE will almost guarantee an inverse reaction of equities to sterling.

Within UK companies themselves, there are distinctions to make:

- Small companies tend to be more domestic and are less affected by the pound rising or falling
- Some businesses have prepared very well for various Brexit outcomes (buying or setting up subsidiaries in the EU, rearranging supply chains to avoid Channel crossings, or investing domestically or on other continents)
- Other firms have not prepared and been more complacent.

The task of the equity analyst is to tell them apart. We are reluctant to place a big bet on UK equities until the political fog clears up, and until then, we find that selective stockpicking makes more sense.

In conclusion, we don't have the end of the cycle in sight and look forward to enjoying some more good quarters ahead, but any market that soars almost regardless of events, announcements and fundamentals, does require a bit of prudence, which is what we are currently exercising.

> **"We are reluctant to place a big bet on UK equities until the political fog clears up, and until then... selective stockpicking makes more sense."**

This article was written for you by Michel Perera, our Chief Investment Officer.

Our investment views as at March 2019

The view in this table refers to our balanced, risk profile 5 model portfolio. This risk profile has a benchmark with 57.5% in equities, 35% in bonds, 5% in alternatives and 2.5% in cash.

Indicative positioning of £ 'balanced' portfolio.

Asset class positioning	--	-	=	+	++	Outlook	
Alternatives				■		→	Viewed as a way of moderating portfolio risk at a time of high volatility in equity markets and rising bond yields.
Bonds (Govt)	■					↓	Yields in the UK and US have fallen, but the overall risk and return profile remains unattractive.
Bonds (Other)	■					→	Greater returns appear to be available for strategic bond managers, but the additional risks taken to achieve them need to be monitored.
Commodities			■			→	Bears watching due to weaker US dollar and reduced supply.
Convertible bonds				■		↑	Convertibles offer a good mix between the defensive characteristics of bonds, while retaining exposure to equity upside.
Equities				■		↑	Equity markets should continue to be supported by solid economic fundamentals, despite political uncertainty and recent turbulence.
Property (Direct)			■			→	Income, rather than capital growth, should be viewed as the primary reason for investment, given rising bond yields.
Cash			■			→	Cash levels have been increased slightly.

Equity allocation	--	-	=	+	++	Outlook	
Emerging markets					■	↑	Emerging markets have outperformed since the end of October 2018, which is an encouraging sign. US dollar weakness will assist.
Europe		■				↓	Political and trade risks have risen at a time when economic growth has been lacklustre. Other regions have greater attractions.
Far East				■		↑	Valuations appear cheap; China and global trade are key to the region's outlook. Chinese debt levels and housing bubble are a concern.
Japan				■		↑	Stock market offers value and some sectors of corporate Japan are in good shape. Macro data slowly improving. Leveraged to world growth.
North America				■		→	Economic and earnings momentum remains superior to other developed regions.
Sector specific					■	↑	Healthcare and technology remain long-term themes. May consider further thematic opportunities.
UK	■					↓	Economic fundamentals are not compelling and political and Brexit concerns are pronounced. There will come a time to buy the market.

Currency allocation	--	-	=	+	++	Outlook	
US dollar				■		↓	With the US Federal Reserve seemingly on pause for a while, the US dollar could evidence some weakness.
Euro		■				→	Upside could be capped by Brexit concerns and by any escalation of Italian debt concerns.
Sterling	■					→	Sterling's prospects remain heavily dependent upon the Brexit outcome and hence the outlook is binary.

'=' Weighting within 1% of benchmark. '+ / -' Weighting between 1% to 5% away from benchmark. '- - / + +' Weighting in excess of 5% away from benchmark.

How can we help?

United Kingdom

T: +44 20 7523 4500
E: CGWM_UK@canaccord.com

Offices nationwide

Blackpool	**London**	**Lancaster**
Llandudno	**Worcester**	**Norwich**
Nottingham	**York**	

Offices in the Crown Dependencies

Guernsey	**Isle of Man**	**Jersey**
T: +44 1481 733 900	**T: +44 1624 690 100**	**T: +44 1534 708 090**

E: CGWM_Offshore@canaccord.com

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments described in this brochure may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect may be unfavourable as well as favourable.

This document is for information only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This has no regard for the specific investment objectives, financial situation or needs of any specific investor. All opinions and estimates included in this document are subject to change without notice.

Canaccord Genuity Wealth Management (CGWM) is the trading name of Canaccord Genuity Financial Planning Limited (CGFPL), Canaccord Genuity Wealth Limited (CGWL), Hargreave Hale Limited (HHL) and Canaccord Genuity Wealth (International) Limited (CGWIL). They are all wholly owned subsidiaries of Canaccord Genuity Group Inc.

CGFPL, CGWL and HHL are authorised and regulated by the Financial Conduct Authority (registered numbers 154608, 194927 and 209741). CGFPL and CGWL have their registered office at 41 Lothbury, London, EC2R 7AE. HHL has its registered office at Talisman House, Boardmans Way, Blackpool, FY4 5FY. CGWL, CGFPL and HHL are registered in England & Wales no. 02762351, 03739694 and 03146580.CGWIL is licensed and regulated by the Guernsey Financial Services Commission, the Isle of Man Financial Services Authority and the Jersey Financial Services Commission. CGWIL is registered in Guernsey no. 22761 and has its registered office at Trafalgar Court, Admiral Park, St. Peter Port, GY1 2JA.CGWL, CGWIL and HHL are members of The London Stock Exchange and CGWIL is also a member of The International Stock Exchange.

CGWM does not make any warranties, expressed or implied, that the products, securities or services mentioned are available in your jurisdiction. Accordingly, if it is prohibited to advertise or make the products, securities or services available in your jurisdiction, or to you (by reason of nationality, residence or otherwise) then such products, securities or services are not directed at you.

The products and services offered by CGWM in the UK may differ from those offered by other Canaccord Genuity Group Inc. offices.

canaccordgenuity.com

cg Canaccord Genuity Wealth Management