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Points of View

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After a roller coaster start to the year, markets seemed relatively tame in April with only Japan and Asia Pacific ex-Japan producing sterling returns for the month outside the range +1.5% to -1.5%*.

The spread of returns, year to date, narrowed somewhat as those markets that performed most strongly in the first quarter of the year, Emerging Market Equities and Gilts, saw some profit taking while the underperformers, Japanese and UK Equities, produced the best returns for the month.

First readings for economic growth over the first quarter of 2016 were "soft", even taking into account the usual seasonal drop between Q4 and Q1. UK growth slowed to just 0.3% from 0.7% at the end of last year, while the pace of expansion in the US slackened to 0.5% from 1.4%. However, this deceleration was not as sharp as some of the worries swirling through markets in January had predicted, so markets were not too perturbed.

Sterling Corporate Bonds were the best performers among the Fixed Interest sub asset groups, returning 0.69%. Global bonds eked out a very small positive return while Gilts and Index Linked Gilts gave back some of their earlier performance. However these four rank 2-5 in the list of best performing asset types for the year to date, behind Emerging Market Equities.

UK

Commentary in the UK centred on the question of whether voters would agree to leave the European Union or not at the June 23rd referendum. The FT has been tracking the polls and produces a chart found at <https://ig.ft.com/sites/brexit-polling/> which shows a stronger vote by those to remain than the average. However regular updates of the polling figures does show the "Leave" campaign closing the gap, albeit that bookmakers are actually pricing in a lower chance of an exit vote now than they were back in November 2015.

All this uncertainty has left corporate management teams understandably reluctant to commit to any long term investments – be it in capital assets or human resources. Perhaps surprisingly given this backdrop, the UK Equity market actually rose 1.5% and sterling strengthened against both the dollar and the euro.

US

The North American market rose slightly in dollar terms over the month but the fall in value of the dollar relative to sterling meant UK investors actually received a return of -1.1%. The economic news was more or less in line with expectations, although towards the end of the month, data on employment, consumer confidence and manufacturing all looked somewhat weaker than the market had been hoping for.

Nevertheless, several members of the US Federal Reserve went out of their way to warn that the market was under-pricing the chance of an interest rate hike at their June meeting. Their assessment must be that the US is more resilient than the most recent batch of data implies.

Europe

Europe has finally produced better growth figures than the UK or US, albeit at a time when growth has stumbled in the latter. Consumer confidence does seem to be improving – suggesting that Europeans either fear no ill-effects from a UK exit from the European Union or are simply unaware that it could possibly happen. For the ECB, trying to loosen monetary policy to stimulate growth, it must be rather frustrating to find the exchange rate rising and acting as a brake on export potential while encouraging the import of goods from elsewhere.

Japan

Japan was hit by the Kumamoto Earthquake in the middle of the month, leaving nearly 200,000 people displaced and sheltering in evacuation centres and consequently causing a sharp slowdown in manufacturing in that area. The market has been the worst performer of the year, falling more than 13% in its own currency – but the counterintuitive strength of the Yen has supported returns for UK investors there, limiting year to date losses to just 1.6% and boosting its returns for April to 2.7%, better than any other market. This was despite significant selling by international investors over the month, judging by data on ETF flows, although there seems to be some countervailing support from the Bank of Japan. Businesses have responded to the radical move by the Bank of Japan to adopt a negative interest rate policy by reducing the level of inflation they expect, which hampers Abe's plans to bounce the economy out of its low growth, low inflation phase using monetary policy. The next step must be to improve corporate governance, something fund managers say appears, at last, to be underway. Demographics are not helping though, with the 35th consecutive year of falling numbers of children recently recorded.

Emerging markets

Perhaps the biggest news of the month in Emerging Markets was the first Argentine bond issue since the 2002 \$100 billion default. This opens the way to major reforms now that the capital markets have essentially re-opened. Improved sentiment towards Latin America generally (and a near 20% increase in the oil price, despite Saudi Arabia and Iran being unable to agree supply restrictions) boosted Brazil's monthly equity market return to over 8% despite the travails of its President.

Returns in Asia were the weakest of the lot, despite ongoing improvements in Chinese data that have caused those New Year worries about a sharp slowdown to recede rapidly.

* All performance data quoted in this article is derived from FE Analytics

First published on 6th May by Emily Booth of Parmenion Investment Management.

Last week BHS, the well-known British high street store, announced that it was going into administration with over 11,000 staff facing the threat of redundancy.

The demise of BHS has been largely blamed on the company's inability to embrace new technology quickly enough, and its outdated product range. Put simply, BHS got left behind by its customers and overtaken by its competitors.

Whilst we could tut with disapproval at BHS management for not being dynamic enough in their approach to business, we also have to admit that many of us get caught up in a BHS syndrome. It's often too easy to get stuck in a rut of doing things or behaving in a certain way, without moving forward regularly reviewing the things which are most valuable to us.

It is often the things that we don't deal with on a daily basis which are the most vulnerable. We may update our mobile phone every couple of years but many people don't maintain the same rejuvenating approach to financial planning, despite the fact that money held in a pension can be worth considerably more than a smart handheld device.

What often happens is that over the years people accumulate pots of money. They can be odd pension pots from a variety of employers, which were opened 20 or 30 years ago, but have not been closely looked at since. They could be personal pension schemes which are outdated and costly in their fee structure, or are invested in funds which are no longer suitable. With forgotten pension schemes the dangerous assumption is that someone somewhere will be taking care of that important money and that the fund will grow as imagined and all will be OK. The same applies to some old savings accounts, dormant PEPs or premium bonds which have accumulated very little return.

Pension saving and investing products have moved on. There are more investment choices than ever before, and pension schemes have become cheaper and more efficient to administer in recent years. It is really important to regularly review your financial plans, to engage in how your money is working for you and where appropriate make the most of new financial products available.

A good Financial Adviser will be able to review your existing arrangements and advise you how to best move forward. They will also ensure that your investments are set up tax efficiently. The aim is to know that your finances are on track and that the products you are investing into are working towards reaching your long term goals. It is about treating your money as a small business, which needs careful management and ongoing reviews to ensure it progresses towards its goal.

For those approaching retirement, new pension freedoms now allow more flexibility on how you can draw an income, presenting many new options as to how you enter into retirement.

If you would like to speak to an adviser about reviewing your current investment and pension savings plans, or if you would like to discuss your options at retirement, please contact Finura Partners today.

First published on 28th April 2016 by Sanlam UK.

Throughout the recent era of ultra low base rates, fixed interest investors have had the ongoing prospect of an interest rate rise to consider.

As an asset class, bonds are attractive for their relative stability and safety within a diversified portfolio, but facing a potential rate rise, there is the worry that lower risk clients (with a comparatively larger portion of their portfolio invested in bonds) may book losses. But the possible impact of higher rates on bond values is not the whole story. Bonds may also suffer if liquidity in fixed interest markets dries up because rates begin to rise.

Liquidity is demonstrated by a willing seller quickly being matched with a willing buyer, without their trade swinging the quoted price significantly and so creating enhanced levels of volatility. Liquidity is critical to the stability of financial markets, as we learned in 2008, when fears of contagion sucked all willingness to buy out of the market, and we saw prices tumbling. Over the years which followed the Great Financial Crisis we have become familiar with the process of Quantitative Easing (QE), to the point that it seems to have become accepted as a 'go to' tool when attempting to boost flagging economies. QE intends to swamp the market with liquidity, drive up asset prices, and create a knock on jump in consumer confidence and so an increase in economic activity, from spending.

Liquidity runs on the momentum of confidence and for the time being all is well. But ironically it might be this mass injection of money under QE which may create a problem of illiquidity in bond markets. If the underpin of bond values which QE provides is withdrawn or if markets expect it to go, the number of participants leaving the market may have a spiralling effect, leading to a very sudden drop in prices.

Our picture of the constraints on liquidity is that there is a complex situation. QE has certainly been a contributor by taking a large chunk of supply out of the

market. 'Lower for longer' rates have also pushed investors into higher yielding, higher risk investments. This can create a crowding effect, again leading to lower liquidity and a substantial premium being paid for 'liquid' assets, in turn pushing down yields. A reshaping of the investment banking industry with the introduction of new regulations has also been a factor. The more stringent capital requirements introduced after the Credit Crunch, coupled with less appetite for risk, has changed the way that bond markets function, resulting in fewer trading venues and less freedom for traders to buy and sell, especially in large deals.

What can be done about this? Some of the larger mutual funds are side-stepping the liquidity issue by using synthetic securities (derivatives) to gain exposure to the underlying credit quality of companies, without having to own the physical bond. This introduces risks of a different nature which whilst they may be well managed, investors should not ignore. Our research endeavour at Parmenion is focussed on maintaining a high quality dialogue with the bond fund managers we choose and a tough programme of initial and ongoing due diligence.

Investing in the bond market is not as simple as buying a savings certificate. It is a dynamic process. Recent bouts of volatility have reminded investors they cannot be complacent. Liquidity is a concern and in the event of a rate rise, a sudden rush to sell would test the depth of the market. We are reassured that regulators and central banks have identified this risk but we remain alert.

First published on 29th April 2016 by Harry Garrett of Parmenion Investment Management.

The number of blows to the property market over the last year or so has been impressive: a huge hike in stamp duty, with additional woes for buy-to-let investors and second home buyers; a Mortgage Market Review to provide more boxes to tick and exclude good buyers from the market; an overhaul of 'non-dom' taxation and an extra tax for 'enveloped' dwellings.

Stamp duty

The Stamp Duty Land Tax (SDLT) reforms have been the major headline. At the lower end of the market it reduced stamp duty levels, graduating them so that there are no longer slabs where the rate suddenly increased.

For any buyers over £1 million, moving has become very expensive: on a £6 million purchase the stamp duty costs for a first home will be about £633,750. You can't borrow this so it is a straight hit on capital. It's a significant hit too – the stamp duty on the purchase would be equivalent to four years' rent on the same property.

The implication of this is that the time horizon for buying has been pushed out and speculators and developers, those coming to London with a four or five year time frame, are now excluded from the market.

Law of diminishing returns

What is not clear is the motivation behind this. If it's revenue generation then it has not worked as turnover is down at the upper end – about 30% – and SDLT receipts correspondingly reduced. This is the Laffer curve in action – where increased taxation reaches a point where the amount of tax raised actually goes down.

Property (and capital in general) is going to be in all governments' sights as it doesn't move and is often owned by those that don't vote. But a transaction tax must be the worst type of property taxation as it is a tax on mobility – and lack of labour mobility is the big disadvantage of an economy built around home ownership. This applies

at all levels of the market – even more at the lower end where there isn't the spare capital to pay it.

Contradictory messages

The government's property strategy (if there is one) seems to be different at each end of the market and surrounded with contradictory messages. At the lower end they have made it quite clear that owning is good and renting is bad: increased taxation on buy-to-let investors is bound to decrease the rental housing stock and the Right-to-Buy policy is set to do untold damage to the good work that housing associations do to provide affordable rents. The trouble is that the very people that are having the rental option taken away are the same people for whom buying is neither sensible nor possible: they don't have the earning profile to qualify for loans that the Mortgage Market Review has made more difficult to obtain. We have already seen how the message at the other end of the market is quite the opposite.

Currencies

Other drivers over the last year have been currency movements and the collapsing oil price. Any US dollar purchaser (and this includes US dollar proxies such as the HK dollar) have seen their potential purchase get considerably cheaper and we are seeing active interest here. In the case of the Middle Eastern buyers however, the falling oil price has trumped any currency advantage and some of the big investors in London property have become sellers. Russians, with the double whammy of the rouble and oil, are not surprisingly thin on the ground. It is in some of the new

developments that currency stresses may become apparent. Most are funded by an initial deposit (sometimes as low as 5%) and stage payments as the project gets built out. For Malaysian or Indonesian investors, what was seen as a call option on the London market has become distinctly unattractive as the plunge in the ringgit and rupiah has made the next stage payment between 20% and 30% more expensive.

A crowded secondary market and strong indications of oversupply must have many of these investors considering their alternatives.

Country renaissance

While London has visibly rocked under the taxation blows being rained on it, the country market has seen something of a renaissance. This is rather curious as, on the face of it, the same pain is being suffered as in London. There are a couple of possible reasons for this. The first is the valuation gap between London and the country, which widened to a chasm after the financial crisis broke in 2008. What this did was to put a break on many natural migrations out of London as sellers were reluctant to make a move that might be only one-way; they were frightened that if they traded out of London they may never be able to return. The price movement is now the other way. This same gap gives London sellers more willingness with which to pay the increased tax on a purchase that is nearly always long term; they are thinking 20 years ahead and with that sort of time horizon, family drivers take front seat and transaction costs are easier to swallow.

Inflection point

If all this sounds like doom and gloom, it is not meant to. London remains, for all the reasons too well rehearsed to be repeated here, a city to which the world is still beating a path. But an almost uninterrupted bull market over more than 20 years creates speculative froth – and that is being blown off at the moment by a mixture of world events and a chancellor in need of readily available cash. Last year saw all of this, but at the same time sellers seemed to think that nothing had changed and

that premiums rather than discounts were the order of the day. The good news is that buyer's and seller's pricing aspirations are becoming more aligned. It is at the inflexion point that the market stalls. We think we are beyond that now.

Please note: This article is for information purposes only. Readers should seek specialist advice for their own circumstances.

GLOSSARY

Call option: an option to buy assets at an agreed price on or before a particular date.

Ringgit and rupiah: Malaysian and Indonesian currencies.

Secondary market: A market where investors purchase securities/assets from other investors rather than from issuing companies themselves (primary insurance).

Laffer curve: Shows the relationship between tax rates and tax revenue by governments.

Right-to-buy scheme: Helps eligible council and housing association tenants in England to buy their home with a discount.

Buy-to-let: Purchasing a property with the intention of letting it out.

First published on 10th April 2016 by Charlie Ellingworth, Property Vision of Cazenove Capital Management.



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