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Monthly summary | Investment companies

June 2018

Economic & Political Roundup

A collation of recent insights on markets and economies taken from the comments made by chairmen and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

The noise hides a supportive economic environment. Volatility was once again the principle feature of markets in May. This was largely due to heightened political risk. The Trump administration's unpopular moves on global trade, North Korea and Iran created high levels of uncertainty in equity markets and a fall in bond yields. Italy's new populist government also worried investors.

However, the noise is hiding the fact that the global macroeconomic backdrop is relatively benign, with inflation momentarily in check and company results still positive. Therefore, despite the noise, developed equity markets rose in May. Emerging markets delivered negative returns as riskier assets were avoided during the month.

Global

Geo-political risk is but one of the concerns for global investors. Others include inflation and overvaluation.

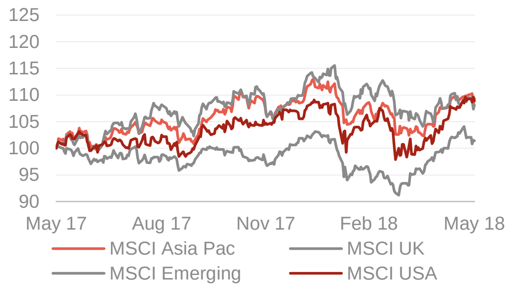
Fiona McBain, chairman of Scottish Mortgage, makes that point, and writes in the company's report that undue focus on the headline topics 12 months ago might have led an investor to miss the importance of the extraordinary operational growth which was taking place at a number of the world's largest companies.David Stewart and Will Wyatt of Caledonia Investments sum up nicely what the other global and flexible investment companies think. Many investors remain mindful of the continuing political and economic uncertainty, despite the strong

Exchange Rate	31/05/18	Chg. on month %
GBP / USD	1.33	-3.5
USD / EUR	0.86	3.7
USD / JPY	108.82	-0.2
USD / CHF	0.99	-0.2
USD / CNY	6.41	1.2

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/05/17 to 31/05/18



Source: Bloomberg, Marten & Co

	31/05/18	Chg. on month %
Oil (Brent)	77.59	4.0
Gold	1298.51	-1.9
US Tsy 10 yr yield	2.8586	-3.3
UK Gilt 10 yr yield	1.23	-14.9
Bund 10 yr yield	0.338	-40.6

Source: Bloomberg, Marten & Co

Global (continued)

growth seen across global stock markets. In the UK, the mechanics and implications of Brexit are unresolved, whilst higher inflation and the potential for higher borrowing costs is likely to impact consumer spending. In the US, the Federal Reserve has been increasing interest rates and has begun the process of quantitative tightening. US Treasury yields have risen accordingly, which has historically been a warning for equity investors. The chairman of British Empire Securities Susan Noble commented that volatility returned to equity markets in 2018 after a long period of relative calm and suggests that this may continue.

United Kingdom

Brexit hangs over the UK economy and sterling fluctuations cause problems

The chairman of Invesco Perpetual UK Smaller Companies, Ian Barby notes that, whilst UK equity returns have been positive, the twin issues of Brexit and the direction of interest rates hang over the market and are likely to do so for some time to come. The fund managers of Invesco Perpetual UK Smaller Companies agree but also point out that market set-backs, such as the one we saw in February, inevitably sap investor confidence but can provide interesting opportunities for long term investors.

Also reporting this month is Perpetual Income & Growth. Its portfolio manager Mark Barnet shares many views of his fund manager colleagues. He adds that the UK stock market is not expensively valued on an historical basis as demonstrated by a price earnings multiple of circa 14 times for the current year. This represents a discount to other major stock markets and is clearly indicative of the Brexit discount applied indiscriminately to UK quoted companies. He believes that, the most significant area of opportunity is within the sectors that offer direct exposure to the UK economy, notably financials, consumer cyclicals and real estate

James Goldstone of Keystone senses a different mood in the market. He sees a turn towards more value investing, a less antagonistic climate in the Brexit negotiations and the long-awaited turning point in UK disposable incomes. The latter two have combined to strengthen the pound and prompt a reassessment of the UK market's position relative to international peers.

The investment team at Schroders, who run the Schroder Income Growth portfolio, strike a measured tone but point out that the UK economy continues to fare better than the majority of forecasters predicted in the aftermath of the decision to leave the EU. Thomas Moore, the portfolio manager of Standard Life Equity Income sees the market levels as "elevated". However, there remains a wide divergence in valuations, partly as a result of the uncertain economic and political backdrop. Steven Bates, chairman of F&C Capital & Income strikes a more positive note. He suggests that there are bound to be a number of economic and political challenges to negotiate in the coming months, but even if there are short-term problems, history suggests that with a reasonably long-term perspective the UK should be able to negotiate them satisfactorily.

Angela Lascelles of OLIM, the managers of Value and Income Trust, believes that the valuation of UK quoted equities, on an average yield more than twice the yield on long dated gilts, offers a reasonable balance between macro-economic and political risks, and attractive income returns. Chairman of Shires Income, Robert Talbut, writes that markets are likely to be sensitive to any further restrictions on global trade and, in the UK, the progression of Brexit negotiations. After strong synchronised global growth through 2017, there are some signs that momentum has lessened in 2018 and how this evolves will be important to the outlook for equity markets.

In addition to many of the points raised above, Glen Suarez, chairman of Edinburgh Investment Trust writes that, as well as finding value in the UK, they are also looking at companies here that are focused on global growth.

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Asia

Investors are dealing with volatility and US dollar strength but Asian companies remain robust.

Equities have rebounded as quickly as they had been sold off, reports Allan McKenzie, the chairman of Edinburgh Dragon, but believes that volatility could remain elevated as major central banks move towards normalising monetary policy. He also expresses concern about the impact of a possible US "trade war" and over-tightening of interest rates by China. He points out however, that Asia is in good shape and he is optimistic for the future. The investment managers of Schroders Oriental Income agree and, from a stock picking point of view, are not worried about the outlook for the companies in their portfolio for the rest of the year.

The investment managers of JPMorgan Asian note the points made by Allan McKenzie and add that foreign investors' asset allocations to Asia have and will continue to support the region. As in other markets, the managers express their concern about strength of the US as a risk.

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Europe

There is volatility in Europe also, but here too it exposes opportunities

"Over the six months to the end of March, numerous events have conspired to reintroduce volatility to stock markets, which had seen little for some time" reports Michael MacPhee, chairman of the European Investment Trust and he says that this can unearth investment opportunities. Craig Armour, investment manager for the company, goes on to say that the prospects for economic and corporate earnings growth in Europe remain positive, although trade friction between the US and China could act as a brake on growth.

The opinions of the chairman and investment managers of Baring Fund Managers' Baring Emerging Europe differ from that of the European Investment Trust. His comments chime with the comments offered by the chairmen and investment managers of Asian companies: that the threat of protectionism and rising interest rates in the developed world are a concern.

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North America

President Trump's tax cuts and increased fiscal spending will no doubt stimulate US economic growth for at least the next two years

North Atlantic Smaller Companies' chairman, Peregrine Moncreiffe, offers some helpful insights into the US economy. Quantitative easing is complete and interest rates and inflationary pressures are both rising, not least because wages are finally increasing in real terms as the labour market starts to meet capacity limitations. Equity markets have performed well but are now looking expensive in valuation terms

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Japan

Japan is an island of relative calm and consistency

Both the chairmen of Aberdeen Japan and JPMorgan Japanese agree that Japan has a degree of stability about it, in terms of politics and the performance of the economy. The chairman of JPMorgan Japanese, Andrew Fleming notes that any global economic downturn will have an impact on Japan given its cyclical characteristics. Neil Gaskell, chairman of Aberdeen Japan points out that, Prime Minister Shinzo Abe has been under a bit of pressure in recent times and this may dent his government's ability to reform. Andrew Fleming, however, suspects that if Abe is replaced, reform will continue without him. The investment managers of both companies expect higher degrees of market volatility and growing susceptibility to World events.

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Country Specialists: Asia Pacific

US Trade Sanctions will have Global repercussions but less for Thailand than elsewhere

Nicholas Smith, the chairman of Aberdeen New Thai Investment Trust, thinks (as do many), that an escalation of retaliatory measures in response to President Trump's 'America First' policy could have global repercussions. However, he points out that intra-regional trade in Asia continues to make great strides, supported by growing populations and rising disposable incomes. Over 60% of Thailand's exports go to its regional neighbours. This should shield the Kingdom to some extent from any deterioration in demand for its products from further afield. The Thai currency, the Baht has strengthened to a four-year high against the US Dollar and this is causing some concern.

John Misselbrook, chairman of JPMorgan Chinese, reports that, in spite of increased volatility in markets and concerns over escalating trade friction with US, the outlook for Greater China equities remains positive in the current economic environment, supported by the Chinese government's continuing structural reforms. The fund managers remain positive about the stability, reforms and changes being brought in the 13th National People's Congress session held in March.

"India's economy has been growing more rapidly this year than it did in 2017, but the headwind of high valuations has meant that the stock market has made no progress" writes Richard Burns, chairman of JPMorgan Indian. The fund managers remain cautious about the Indian equity market, not least as the country is entering an election cycle. They point out that "…while forecasting election outcomes is fraught with risks, we can safely predict increased volatility".

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Debt

Fund managers in the debt sector sound a cautious note

The (current) portfolio managers of Invesco Perpetual Enhanced Income state that they remain cautious. Despite rising over the past six months, bond yields remain low in historical terms and continue to price in little room for disappointment in terms of earnings and economic data.

The portfolio manager of Chenavari Toro Income Fund notes that investor flows into fixed income and corporate bonds have slowed right down and he expects volatility to return.

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Property

Twelve months ago, the outlook for property as a pro-cyclical asset class with a core income driver was positive – less so today

Hugh Seaborn, chairman of TR Property Investment Trust, has toned down his opinion of property over the last 12 months. He is still positive, but property investors have to be more vigilant. This is because the differences between well performing tenants and poorly performing tenants is widening. Marcus Phayre-Mudge, fund manager for the company has noticed how quickly property investors are "spooked" by changes in market conditions or news flow. He sees a clear Brexit drag and is more confident at this point on the outlook for European property.

Global trade wars, geopolitical upheaval or Brexit are unlikely to impact REITS without Retail

Medical REITS, MedicX and Assura, Warehouse REIT and long lease specialist LXi all feel that they will not be greatly impacted by Global trade wars, geopolitical upheaval or Brexit. However, companies such as Drum Income Plus REIT, NewRiver REIT and LondonMetric warn of the exposure to cyclical sectors such as retail. Bryan Sherriff of Drum Income Plus REIT writes that regional markets remain in good health, as is investment volume and demand. Allan Lockhart, chief executive of NewRiver REIT reports that, in their view, the headwinds experienced by the retail market in recent months will continue, and it is likely that in the near-term there will be further retailer consolidation, particularly in the department store, mid-market fashion and casual dining sub-sectors of the market. NewRiver says that it has deliberately limited its exposure to these sub-sectors, which it says are under significant structural pressure due to changing consumer habits.

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Infrastructure

The sector remains under pressure

Ian Russell, chairman of HICL Infrastructure, and the investment manager of Ecofin Global Utilities and Infrastructure both comment on the underperformance of the sector and how it has attracted less investor interest than other areas of the market that are believed to be less risky, such as utilities. Ian Russell of HICL Infrastructure believes that, in light of the current UK political environment, the outlook for private investment in new UK infrastructure projects remains muted and he says that the Private Public Partnership (PPP) model is misunderstood. Both companies favour infrastructure in Europe and, in HICL's case, North America. Ecofin believes that many utility and infrastructure companies will increase their dividends faster than the market expects. With uncertainty about the outlook for economic growth and markets likely to increase over the coming months, Ecofin believes that the utility and infrastructure sectors should provide investors with good returns on a total return basis over the longer-term.

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Private Equity

The outlook for the private equity sector remains positive

The outlook for private equity remains positive but it depends on what the exposure any company, listed or otherwise, may have to global economics. Michael Bunbury, chairman of HarbourVest Global Private Equity, writes that markets have been extraordinarily strong since their nadir in March 2009 and inflation has been subdued. Business conditions in many economies generally remain benign.

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Biotechnology & Healthcare

The outlook for biotech remains positive. Healthcare remains out of favour

Andrew Joy, chairman of Biotech Growth, writes that the outlook remains positive, thanks to current low valuations, continued M&A activity, strong innovation and a favourable regulatory environment.

The investment managers of Polar Capital Global Healthcare comment that, following the failure to repeal Obamacare, the healthcare sector remains out of favour. The political outlook in the US remains unpredictable.

Both companies comment on larger biotechnology companies. Polar Capital believe it is important to focus on company fundamentals and in particular on companies with high cash balances. Biotech Growth expect that the relative underperformance of major capitalisation biotechnology stocks within the sector and of the biotechnology sector against the wider market have both reached close to their limits.

Contents

Global

(compare Global funds **here**)

Fiona McBain, chairman, Scottish Mortgage Investment Trust

In considering the outlook at the start of this financial year, my predecessor John Scott noted, "a number of political risks, from President Trump's unpredictable approach to policy making, to questions over North Korea's true intentions, to the escalation of the troubles in the Middle East…". Sadly, those political risks remain the same today. However the task of the Board also remains the same, as John noted: "to consider the outlook in the context of the portfolio of Scottish Mortgage..."

To have been unduly focused on the headline topics 12 months ago might have led an investor to miss the importance of the extraordinary operational growth which was taking place at a number of the world's largest companies.

The Board believes the following areas to be amongst the most relevant considerations:

1. The continual rise and development of China, in particular of its world leading digital economy
2. The spread across all industries of the gathering and computer-facilitated use of data
3. The structural shifts in the global healthcare industry and the industrialisation of biology
4. The long run shift in much of the transportation infrastructure to electric and autonomous vehicles.
5. Shifts in energy generation to renewable sources and the proliferation of energy storage solutions for domestic and commercial use.
6. Greater social, political and regulatory scrutiny of large corporations.

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David Stewart, Chairman and Will Wyatt, Chief Executive, Caledonia Investments: We remain mindful of the continuing political and economic uncertainty, despite the strong growth seen across global stock markets. In the UK, the mechanics and implications of Brexit are unresolved, whilst higher inflation and the potential for higher borrowing costs is likely to impact consumer spending. In the US, the Federal Reserve has been increasing interest rates and has begun the process of quantitative tightening. US Treasury yields have risen accordingly, which has historically been a warning for equity investors.

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Susan Noble, chairman, British Empire Securities: Volatility returned to equity markets in 2018 after a long period of relative calm. Markets remain unpredictable, at least in part reflecting a more difficult political background as companies and markets seek to understand the potential effects on world trade of the threat of protectionism. The reduction and eventual end of quantitative easing, and the corresponding reduction in the supply of "cheap" money, is also making markets more volatile.

Flexible investment

(compare Flexible investment funds **here**)

Richard Gubbins, chairman, Henderson Alternative Strategies: The sharp global equity market setback during February and March provided a timely reminder to investors that valuations are at historically high levels and are vulnerable to any significant increase in concerns over global growth. It is also the case that the global economy is, albeit only slowly, moving into a rising interest rate environment.

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Graham Meek, chairman, Capital Gearing Trust: Twelve months ago we cautioned of a difficult year ahead for securing positive investment returns. “For the twelve months ahead it may be that merely preserving the gains of previous years will be viewed as success”. It is hard to be any more upbeat at present. 10 year interest rates are edging higher in the USA and monetary accommodation seems poised to give way to retrenchment - rarely good for equity or fixed interest markets. The erratic progress of the Brexit negotiations and a stuttering domestic economy overshadow London financial markets.

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United Kingdom

(compare UK funds **here**)

Ian Barby, chairman, Invesco Perpetual UK Smaller Companies Investment Trust,: The year under review saw largely positive market results, despite continued political uncertainty. The portfolio manager’s report that follows discusses these in more detail. Continued uncertainty around Brexit and the possibility of further interest rate increases are likely to have an impact on markets for some time to come.

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Jonathan Brown, portfolio manager, Robin West, deputy portfolio manager, Invesco Perpetual UK Smaller Companies Investment Trust: The recent bout of increased volatility appears to have been prompted by the fear of interest rates rising more quickly than originally anticipated. While this can be seen as an indication that economies have finally rehabilitated themselves following the financial crisis a decade ago, there is little doubt that unprecedented central bank policies employed over the period have inflated asset prices. The valuation extremes reached in the bond market are the clearest example of this, although the effect of normalising monetary policy will be felt more widely. It should be noted however, that inflation has so far only increased modestly in developed economies. Additionally, the high level of debt at both a personal and government level has made economies much more sensitive to the cost of debt, so it seems unlikely that central banks will raise rates quickly.

The UK economy has slowed since the decision to leave the EU, albeit faring somewhat better, for the time being, than the more gloomy predictions. Much of this is down to increased import costs putting pressure on household budgets and company margins. The uncertainty around the UK’s future trading arrangements has also had a negative impact on corporate investment. This stands in contrast to most other major economies, which have seen accelerating growth over the same period. There are bright spots however. UK export performance has improved, helped by the depreciation of sterling and by increased economic activity in our major trading partners. We remain hopeful that an emerging clarity of a view on our post Brexit trading arrangements will re-invigorate business investment and allow the country to participate in the improved economic conditions seen elsewhere.

Market set-backs inevitably sap investor confidence but can provide interesting opportunities for long term investors. Equity valuations have returned to their long term average and the dividend yield provided by the UK smaller companies sector remains attractive when compared with UK government bonds.

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James Goldstone, portfolio manager, Keystone Investment Trust: The recent bout of volatility has been followed by a change in leadership in equity markets. Although the FTSE All-Share Index has recovered over half of the losses sustained in the early February sell-off, the mood in the market now feels quite different.

The last few years have seen a dramatic divergence in the performance of certain styles and sectors. Global value stocks reached multi-decade lows relative to global growth stocks and this was compounded in the UK market in the wake of the EU referendum as we witnessed an equally extreme decline in domestically focused stocks relative to exporters.

The global position could be said to have reversed for a number of reasons, but the sharp move higher in US interest rates (both 3 month Libor and 10 year rates are up significantly) and the issues affecting the US tech sector (President Trump publicly criticising Amazon, the well documented data privacy issues affecting Facebook, Tesla production misses, amongst others) are two that stand out as having driven the shift in market sentiment seen across asset classes and sectors.

At the same time a less antagonistic climate in the Brexit negotiations and the long awaited turning point in UK disposable incomes have combined to strengthen the pound and prompt a reassessment of the UK market's position relative to international peers.

Whilst it is too early to call a definitive end to such a long-established low growth, low inflation and low interest rate regime and to the equity market phenomena that have followed in its wake, it doesn't feel a stretch to say that this is the closest markets have been to a turning point since the financial crisis.

The portfolio has been positioned for the anticipated recovery in value stocks, especially in UK domestic cyclicals, and has limited exposure to the parts of the market that have seen valuations expand the most in recent years. I am therefore cautiously optimistic in light of recent developments.

As ever though, risk abounds. The current list of things to worry about includes, but is not limited to: signs of cyclical weakness in global leading indicators, numerous geopolitical uncertainties, China credit, governments that remain horribly geared, challenges to the US dollar's reserve status, threats to global trade, and the prospect of QE reversal and higher interest rates, which may have unpredictable consequences, especially for emerging markets.

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Ian Barby, chairman, Schroder Income Growth: The prospects for dividends remain significantly influenced by currency movements. During a period when the pound is stronger, income earned outside the UK is reduced in sterling terms by currency appreciation. This has been particularly so in the first half of the current year, which anyway represents a seasonal low point in the timing of dividend payments. Forecasting currency movements is a difficult business as outcomes rely on a range of different factors both at home and abroad.

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Investment manager, Schroder Income Growth: The global economy has started 2018 on the same strong footing that it ended 2017, with US fiscal stimulus expected to provide further support. Given the relatively late stage of the cycle, this growth brings the risk of an increase in inflationary pressures. We expect the 'Goldilocks' environment of synchronised growth and muted inflation that was the theme of last year to give way to a more reflationary one in 2018. As a consequence, we expect a continued slowdown in the growth in global liquidity. This is expected to turn into an outright contraction in 2019. We also expect to see further interest rate rises from both the Federal Reserve and the Bank of England during 2018.

It is clearly a positive that economies no longer require the same level of monetary support. However, the shift from the loose conditions that provided a positive tailwind over the last nine years may present challenges, particularly with the high debt pervading the global economy.

In anticipation of both rising interest rates and inflation, global bond yields rose in the early part of 2018. This was one of the main triggers that led to the market volatility of the first quarter. Periods of elevated volatility do present opportunities for us, but we are conscious that there is still a considerable amount of optimism baked into global markets, so we continue to proceed with caution and are selective in looking for new opportunities.

UK domestic outlook

The UK economy continues to fare better than the majority of forecasters predicted in the aftermath of the decision to leave the EU. We have seen upward revisions to growth figures, which are now closer to 2% a year than 1.5% - not brilliant, but certainly not disastrous.

Unemployment at 4.3% is matching the lowest level since 1975. Regular wage growth continues a steady upward trend. Consumer Price Inflation in February also dropped below 3% for the first time since August 2017. This suggests that the 2017 price increases from the depreciation of sterling have started to wane. As a result, real wage growth is now at its least negative since March 2017, and is expected to turn positive later in the year. This provides a boost to household spending power, and companies that serve the UK consumer should be among the main beneficiaries. Given that inflation is expected to remain above the Bank of England's 2% target for a while though, expectations are for another interest rate rise in May.

Despite this, uncertainty about the UK's relationship with the EU has left many international investors nervous about investing in UK companies. One poll showed that UK stocks were the least popular among global fund managers. As a result of this nervousness, the valuation of the UK market looks attractive relative to other major markets. Shares of domestic stocks in particular are trading at their biggest discount to exporters and to the overall market since the financial crisis of 2008/09.

Pay close attention to the strength of the balance sheets, since high debt can quickly become a burden when profits fall.

The valuation opportunity, combined with the relatively weak level of sterling, makes many UK companies look attractive to international buyers, factors that have given rise to a pick-up in corporate activity. There have been a number of high profile takeover approaches for UK businesses, the majority from overseas predators, as well as a number of stakes by activist investors. Activity like this supports our view that there is a significant relative valuation opportunity in the UK market at present.

Further US rate rises

President Trump's fiscal stimulus is expected to provide further support to global growth, albeit leading to a worsening US budget deficit and raising the risk of the economy overheating. New Federal Reserve Chair Jerome Powell announced that the committee had pushed up its growth and inflation forecasts and increased its expected path for interest rates. In addition, as the European economic recovery continues, the European Central Bank is likely to end its programme of quantitative easing in September 2018, before raising interest rates in 2019.

Whereas stronger US demand should feed through into stronger trade and better growth elsewhere, President Trump's proposed trade tariffs threaten to derail this. Trade tariffs could bring about elevated global political tension in 2018, particularly with China.

Dividend outlook

The equity market as a whole derives around two fifths of its income from companies, which declare their dividends in overseas currencies. Dividend income in the periods to February and August 2017 was boosted by the weakness in the exchange rate in 2016. However sterling has strengthened since early 2017, particularly against the US dollar, and this strength, if sustained, will negatively impact income from international UK equities. Sterling also has a direct bearing on the rate of UK inflation.

The likely shape of Brexit negotiations could also influence the exchange rate. This may lead to further sterling strength in a 'soft/good Brexit' which would result in stronger UK growth but reduce dividend income from international companies. Alternatively a 'hard/bad Brexit' would lead to a fall in sterling which would be negative for UK economic activity but which would benefit dividends from companies whose dividends are declared in US dollars or euros.

Dividend pay-out ratios remain somewhat higher than historical averages and whilst companies' earnings are increasing it is likely that dividend increases will lag the increases in earnings in order to rebalance pay-out ratios. Additionally special dividends have run at high levels recently and whilst there was a partial moderation from the peak in 2016, we would not be surprised to see this continue.

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Thomas Moore, portfolio manager, Standard Life Equity Income: While market levels are elevated, there remains a wide divergence in valuations, partly as a result of the uncertain economic and political backdrop.

Our highest conviction stock-specific insights are currently most abundant within the Financials and Consumer sectors where we see potential for significant valuation recovery. These sectors have been spurned by many investors due to their heavy geographical bias to the UK domestic economy. While there remains uncertainty, particularly on the pace of interest rate hikes, the outlook for the UK economy appears more resilient than many commentators had expected immediately after the EU referendum. The rebound in Sterling since late- 2016 has dampened earnings growth among large-cap stocks that are most dependent on overseas earnings. It has also helped to reduce imported inflation, curbing consumer price inflation at a time of improving wage growth. Political risk remains elevated, but we are aware that it is quite consensual to have a cautious view on UK equities, particularly those with a domestic bias, providing investors focused on the stock-level with a rich hunting ground of opportunities.

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Steven Bates, chairman, F&C Capital & Income: A background of rising interest rates and bond yields is a more difficult environment for equities. However, this is certainly not to say that equities will make no progress or go backwards as valuations still appear attractive when compared to bonds or cash and are not at overly stretched levels in absolute terms either.

Earnings and dividend progression from the stock market will be important and although the current economic cycle of growth has been running a long time by historic standards, the recovery from the Global Financial Crisis has been rather muted and therefore might be expected to continue at least a while longer. There are bound to be a number of economic and political challenges to negotiate in the coming months, but even if there are short-term problems, history suggests that with a reasonably long-term perspective we should be able to negotiate them satisfactorily.

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Angela Lascelles, OLIM Limited, Value and Income Trust: After the euphoria at the beginning of 2018, when rising global synchronised growth was dominating investment thinking, sentiment abruptly turned negative, after the release of data in the US which showed a marked move up in pay growth in January, which was followed by the warnings on further increases in interest rates in both America and the UK. More recent indications that Germany's economic growth is slowing in 2018, after its buoyant performance in 2017, suggest that global growth may not be as fast as expected at the beginning of the year. The UK has the extra concern about the terms of Brexit, though there will be a prolonged transition period afterwards to finalise trading agreements. Recent reports suggest that the Government is making progress in agreeing principles with our EU counterparts.

During April, when this report was written, the pound recovered almost all of its post Brexit fall against the dollar. This would have been helpful in lessening the inflationary pressures on consumers, and would have encouraged the Bank of England to soften its intentions towards further raises of interest rates. Dividends declared in dollars on UK quoted companies would suffer the translation effect of the recovery in the pound and reduce the overall yield on UK equity investments. Against the euro, the pound is continuing to recover modestly and is close to the level of March 2017, though still well below the pre-Brexit level. With all these factors in mind, we believe that the valuation of UK quoted equities, on an average yield more than twice the yield on long dated gilts, offers a reasonable balance between macro-economic and political risks and the attractive income returns.

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Robert Talbut, chairman, Shires Income: Following a period of low volatility and strong performance from equity markets, there is greater uncertainty as to their future direction in the year ahead. With a positive economic backdrop, interest rates are expected to rise again this year across developed markets, however central banks will have to proceed carefully so as not to upset economic growth as they seek to move to a more normalised interest rate environment. However, it must be acknowledged that just as the instigation of unconventional monetary stimulus has had a materially positive effect upon all financial markets since the financial crisis, its removal, albeit gradually, brings some uncertainty over the impact. Markets are also likely to be sensitive to any further restrictions on global trade and, in the UK, the progression of Brexit negotiations.

Overall, after pretty strong synchronised global growth through 2017, there are some signs that momentum has lessened in 2018 and how this evolves will be important to the outlook for equity markets. Although equity valuations are not stretched by historic standards, they do now appear more finely balanced following their recent strong performance, and are therefore likely to be more sensitive to unexpected economic or political events.

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Mark Barnett, portfolio manager, Perpetual Income & Growth: The performance of the UK stock market will remain heavily influenced in the near term by the combination of two key variables: the movements in sterling relative to the US dollar, being a reflection of the Brexit negotiations in Brussels; and the continued vacillations in sentiment to both the domestic economy and the fragile political scene.

The UK stock market is not expensively valued on an historical basis as demonstrated by a price earnings multiple of circa 14 times for the current year. This represents a discount to other major stock markets and is clearly indicative of the Brexit discount applied indiscriminately to UK quoted companies. The most significant area of opportunity is within the sectors that offer direct exposure to the UK economy, notably financials, consumer cyclicals and real estate.

As a continuation of the trend in recent quarters, there has been plenty of negative commentary about the UK economy, in particular regarding the spike in headline inflation post the EU referendum and the impact on real wage growth. This trend has started to reverse and, given the tightness in the labour market, should result in an acceleration of real wages over the coming quarters. However, the market still expects to hear disappointing news about the domestic economy. This mood of pessimism has already had the effect of reducing domestic share prices. We expect that an acceleration in real wages will therefore come as a significant positive surprise to the market, and that domestic share prices will improve as a result.

It is noteworthy on that front that there has been a pick-up in corporate activity and take over proposals to UK companies. For example, the widening discounts of the real estate sector have prompted approaches, including a recently unsuccessful bid proposal to Hammerson by French competitor Klepierre. Activist investors have taken advantage of depressed share prices to take stakes in large cap companies to encourage changes in corporate strategy.

Recent market swings have favoured momentum style investing, with an ever-increasing disparity between valuation and fundamentals becoming clear. The current environment is supporting premium valuations for growth or disruptively innovative companies.

Within this context, attractive opportunities continue to appear in areas which would traditionally be seen as uncorrelated to the wider market and economy. When assessing these opportunities, it is important to understand the risk associated with the relative attractiveness of the returns. These opportunities encompass a wide range of sectors including Lloyd's insurers and alternative lending businesses. Whilst these opportunities may lag the broader stock market when momentum seems to outweigh valuation, as the first quarter of 2018 has demonstrated, these investments can continue to deliver returns irrespective of the performance of the market.

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Glen Suarez, chairman, Edinburgh Investment Trust: In the short term, stock market performance tends to be influenced by liquidity conditions but over the longer term, both liquidity conditions and stock markets are driven by market fundamentals. The UK markets, in particular, given the large number of global and emerging as well as domestic stocks listed here, are affected by a range of global and local fundamentals.

Today, these fundamentals are harder to assess than they have been for a long time. The UK faces considerable uncertainty relating to Brexit which is holding back domestic investment, and GDP growth has slowed: in the first quarter of 2018 GDP growth was just 0.1%, falling short of the estimate of 0.4% and implying that GDP growth may struggle to reach 1.5% for 2018. The Office for Budget Responsibility, which makes official forecasts for the Government, believes that annual UK GDP growth will remain under 2.0% in each of the next five years: if anything like this occurs, it will be the worst five-year period for UK GDP growth since 1875-1879. Even so the portfolio manager believes that there is considerable value in the UK as the market has oversold some good quality UK companies; you should note that the portfolio also contains significant positions that are geared to global growth. On the other hand, the market believes that the US is approaching full capacity – reported unemployment levels there have reached lows not previously seen since the 1970s – and is now expecting higher inflation and higher interest rates. The Federal Reserve expects US GDP growth to remain strong in 2018 and 2019 and the IMF expects global GDP growth to accelerate to 3.9% in 2018 and remain strong in 2019. These developments have led investors to switch funds from the UK to the international markets, substantially de-rating UK domestic companies.

Longer term, there are a number of important issues that may also affect growth and the performance of markets.

Over the past 30 years, three important developments have enabled the return on financial assets to be higher than GDP growth almost everywhere, despite the crises we have had to endure: first, the growth in the size of labour force in relation to population as the baby boomer generation entered the workforce. This has led to falling dependency ratios throughout the developed world and has allowed Governments to cut corporate taxes sharply and firms to reduce pension payments; second, integration of global markets, and of China in particular, has enabled global trade to grow faster than global GDP. This in turn has enabled more profitable reallocation of capital globally and higher returns to corporate investment, especially for those companies able to globalise their operations; and third, (and almost certainly related to the above two factors) a long term fall in inflation and interest rates has prompted a hunt for yield which made some kinds of financial assets very attractive to investors.

These trends are now abating: with a few exceptions, labour forces are expected to grow more slowly (or even decline) relative to the overall population, raising dependency costs and increasing pressure for higher taxes to pay for pensions, health and social care; global trade growth is under pressure as the US – the lynchpin of the global trading system – seeks to limit its trade deficits through tariffs, renegotiation of the North American Free Trade Agreement and a shift to operating through bilateral as opposed to multilateral institutions like the World Trade Organisation; and finally, markets have begun to price long term rises in interest rates, with the US 10 year Treasury bond now yielding almost 3%. It is of course possible that technology in the form of robots and artificial intelligence and new trading patterns will increase productivity, but these will come with social and political disruption.

Asia

(compare Asian funds **here**)

Allan McKenzie, chairman, Edinburgh Dragon: Equities have rebounded as quickly as they had been sold off, but volatility could remain elevated as major central banks move towards normalising monetary policy. The US Federal Reserve is on track for more rate hikes to curb resurgent inflation. Monetary conditions in Asia are tightening as well, with China, Korea and Malaysia looking to curtail credit growth; bond yields have already reflected the prospect of tighter liquidity. Plans by the US to impose tariffs on steel, aluminium, and Chinese imports have also fuelled concerns about the prospect of a global trade war. Another worry is if Beijing overtightens controls on debt, causing a sharper than expected slowdown.

Still there are reasons to remain optimistic. Asia is in good shape. Exports are rising on the back of the global economic upturn. Consumption and demand are recovering in most parts of the region, which bodes well for your Company's consumer holdings. Inflation remains generally subdued. The region is expected to remain a major driver of global growth, propelled by China and India. Meanwhile, corporate fundamentals are solid, with improving sales and cost efficiency providing support to earnings growth. Buoyancy in global growth has led to the beginning of a recovery in capital expenditures, as companies boost investment to keep up with demand. Earnings forecasts for this year point to continued momentum and valuations, as a whole, appear reasonable.

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Richard Titherington, Ayaz Ebrahim, investment managers, JPMorgan Asian: Volatility has returned to equity markets, due in large part to rising trade tensions, concerns about the pace of rate hikes in the US, and, in some cases, company-specific headlines that have undermined the leadership of the large-cap new economy stocks. However, most of this risk is rather exogenous in nature and the investment case for Asian equities remains intact, supported by a favourable macroeconomic environment, robust earnings growth and attractive valuation relative to the major peers. Last but not least, incremental flows should also benefit Asian equities from an allocation perspective.

While inflation finally started to show signs of picking up in selected countries in Asia, economic momentum is still positive, underlined by growing regional exports, robust manufacturing activity and improving consumer sentiment. These factors all pointed towards a healthy backdrop for Asian economic growth ahead, even if headline indicators have softened slightly as we enter the second year of a growth recovery trend. With low-teens earnings growth expectations and valuations trading at just above the 10-year average (as measured by 12-month forward price to earnings), one could argue that Asia's late arrival to the global recovery indicates the possibility of a catch-up in trade, given the strong relative growth story that used to favour the US and is now increasingly shifting towards Asia.

In terms of risk in the Asian economy, the market is more vulnerable to shocks such as an unexpected US dollar rally, potential spill-over from a further correction in US equities, or downside surprises in global economic indicators. The tariff measures announced by the US have been met with a response in kind from China, and the potential for escalation of trade frictions is real, with negative consequences for the global economy and equity valuations. We remain hopeful that such moves simply force the US and China to the bargaining table, and a negotiation resolution is most likely in our view. For Asia in particular, we continue to monitor China's transition to a service-oriented economy and the government's execution of supply side reforms, upcoming elections in India and ASEAN countries, inflation expectations and indications of further monetary tightening, as well as interest rate trajectories.

The longer-term story remains excellent, with economic growth supporting an expanding middle class of consumers and also the companies who sell to them. Increasingly in Asia we find franchises which are driven by the attractive internal dynamics in the region and which are not simply proxies for global economic activity. Further we find an ever-expanding cohort of Asian companies which are world leaders in their respective sectors. In aggregate we believe corporate governance is improving - albeit with the necessity for investors of remaining very selective. Despite these positive factors valuations are materially cheaper than those in much of the West

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Investment manager, Schroders Oriental Income: The second half of the financial year has continued in a similar vein to the close of the first six months. Geopolitical concerns feature largely; while US-China trade tensions take centre stage, with political uncertainty in Europe (Italy, UK EU negotiations), Russian sanctions and the fate of the Iran nuclear deal are all adding to risk aversion.

Perhaps more fundamental are the signs of tightening dollar liquidity. Concern over the direction of Federal Reserve policy has been exacerbated by the recent US fiscal package which implies significant loosening of policy at a time when the economy is already growing strongly. Meanwhile, economic indicators elsewhere (notably Europe) appear to have softened, giving a less co-ordinated pattern of global expansion.

The final piece in the jigsaw is the recent reversal in dollar weakness. In the short-term, this has been supportive to the Company's net asset value in sterling terms, but may presage downward pressures on Asian stock markets. We have already seen a degree of currency and bond weakness in the more vulnerable markets; these are mainly outside Asia such as Brazil and South Africa, but signs of it spreading to less resilient Asian markets such as Indonesia, Thailand and India need to be monitored.

While not wishing to sound complacent, we are not unduly pessimistic for the balance of the year. Although some countries are more vulnerable to a tightening of global liquidity than others, overall the external balances across Asia are reasonably strong, partly thanks to the degree of effective tightening in policy that followed the "Taper Tantrum" of Spring 2013.

This financial strength is (with inevitable exceptions) also true of the general state of Asian corporate balance sheets, not least the companies to which the Company's portfolio is primarily exposed. This should provide some resilience in the face of interest rate rises, but also provides some re-assurance as to the sustainability of dividends, even as viewed by the characteristically conservative eyes of Asian management and major shareholders.

Furthermore, if rising interest rates are a function of stronger global activity, then Asian economies andcompanies remain well placed to benefit given currently disciplined capital spending and competitive capacity. This of course pre-supposes that the era of generally free and open trade is not nearing an inglorious and painful end. Resolution will require pragmatism and compromise from the US and China; should it, as we believe, result in more accessible Chinese domestic markets, that is a win-win for all concerned, not least entrepreneurial regional companies.

More broadly, the fortunes of China weigh heavily on regional sentiment. It is clear that the Beijing authorities are keen to dampen credit growth in aggregate, and make what growth there is less dependent on the opaque and poorly regulated "alternative" funding sources outside the banking system. The multiple of credit growth to nominal growth in China has been lower for the longest period since the credit explosion in the wake of the Global Financial Crisis. Should they succeed in engineering a relatively soft landing, we would view this as very positive for the region as a whole. There are risks, which cause us to continue avoiding sectors and companies very geared into the "old" commodity and investment- heavy growth model.

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Europe

(compare European funds **here** and Emerging Europe funds **here**)

Frances Daley, chairman, Baring Emerging Europe: We remain convinced about the merits of investing in Emerging Europe which we believe continues to offer growth prospects at a reasonable price. It would be a brave person who tried to predict what happens next in Russia and Turkish politics but to a large extent we believe this uncertainty is already priced into the market in the form of an elevated risk premium. Meanwhile the fall out from a depreciating Ruble or the imposition of sanctions can sometimes be positive for individual companies, such as those with dollar revenues who benefit from a lower Ruble cost base, or those which benefit from import substitution. This underlines the need for careful stock picking and opens up opportunities to acquire decent assets at low prices. We need to keep our nerve, try ignore the politics and concentrate on what is going on at the corporate level, remembering that we have been here before.

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Matthias Siller, Maria Szczesna and Adnan El-Araby, Baring Fund Managers Baring Emerging Europe: We continue to view valuations on Emerging European stock markets to be attractive, supported further by a nascent stage cyclical economic recovery in Russia and solid household consumption growth in Central European economies. We believe these factors will aid to further support Emerging European equities by insulating these economies to the ongoing protectionist posturing in global politics. Encouragingly, we continue to observe a substantial and diverse pipeline of Initial Public Offerings reported on Emerging European stock markets following years of subdued activity. While this activity can often be viewed as a cautionary sign of peaking stock markets, it is our belief that the attractive valuations we observe regionally will help realistic expectations prevail. Further, improving corporate governance standards and the ongoing trend toward re-domiciling offshore listings, have supported liquidity on local markets and have served to generate international interest within the region.

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Michael MacPhee, chairman, The European Investment Trust: Over the six months under review, numerous events have conspired to reintroduce volatility to stock markets, which had seen little for some time. Prospects for our holdings have typically varied rather less than their share prices. This creates opportunities for investment managers with a disciplined valuation framework.

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Craig Armour, investment manager, The European Investment Trust: The prospects for economic and corporate earnings growth in Europe remain positive, although trade friction between the US and China could act as a brake on growth. The withdrawal of economic stimulus and the distortion created by cheap money should bring a clearer focus on absolute valuations. In this context, the recent return of volatility in equity markets is a good sign for a valuation-conscious investor.

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North America

(compare North American Smaller Companies funds **here**)

Peregrine Moncreiffe, chairman, North Atlantic Smaller Companies: In the US quantitative easing is firmly behind us; interest rates and inflationary pressures are both rising, not least because wages are finally increasing in real terms as the labour market starts to meet capacity limitations. President Trump's tax cuts and increased fiscal spending will no doubt stimulate US economic growth for at least the next two years. Domestic corporate profits are also expected to rise substantially in 2018. I would, however, contend that this is reflected in the near 33% rise in US equities since Trump's election with the Standard & Poor's Composite Index now trading in excess of 17 times projected 2018 earnings (22 times historic).

US equity markets since the beginning of February have shown increased volatility, not least because of a significant decline in US Treasury 10 year bonds with most experts now expecting three or four rises in US short term rates over the next twelve months. Investors who have been chasing yield in equity markets may well think twice during 2018.

The UK economy continues to expand, although the rate of growth is modest as consumer debt reaches levels which are more commonly associated with the top of an economic cycle. However, there seems little sign of excess with growth in house prices in particular moderate.

Inflation has almost certainly peaked in the short term as the recovery in sterling against the US dollar should offset rising real wages.

Corporate profits for major companies face a difficult period due to the headwinds of a weak US dollar. Domestic companies taken as a whole should fare better.

The latest financial directives agreed by Brussels and Westminster will have a significant impact on the type of company in which the Trust invests in that it is likely to reduce both coverage and liquidity in smaller capital companies. Already one major investor is eliminating all exposure to companies with a market capitalisation of less than £100m. I believe this will create considerable opportunities over the next few years.

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Japan

(compare Japan funds **here**)

Andrew Fleming, chairman, JPMorgan Japanese: While the global economic growth cycle continues to be strong, Japanese companies, and by extension the stock market, should continue to perform well. The post-2008/09 Global Financial Crisis economic recovery if maintained to the middle of next year will be a post-World War II record.

Any economic downturn will have an impact on Japan given its cyclical characteristics. One of the consistent features, however, of the Managers' and Chairman's Statements in recent years has been to highlight the emergence of companies with new business models and exciting growth prospects.

Japan has had a high degree of political stability in recent years as evidenced by the longevity of Shinzo Abe as prime minister. His policy of 'Abenomics' and alignment with the Bank of Japan have been important in implementing a reformist agenda and easy-monetary policies. Prime Minister Abe's position has recently come under pressure, which has in the short-term impacted sentiment, but we believe that, even if he was replaced, the reform agenda would continue and there would be continuity of policy at the Bank of Japan where Governor Kuroda has recently been reappointed for a further four-year term.

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Nicholas Weindling, Shoichi Mizusawa, Investment Managers, JPMorgan Japanese: The Japanese market is more cyclical than many other developed markets and can be impacted by global economic developments, both positively and negatively. Currently there are concerns about a potential trade war between the United States and China as well as a somewhat stronger yen.

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Neil Gaskell, chairman, Aberdeen Japan Investment Trust: After a strong 2017 and the calm that global markets have featured for some time, markets corrected, and volatility returned in early 2018. It is likely that more normal volatility can be expected for the rest of the year ahead as global synchronisation of economies and markets weakens.

In Japan, the Yen's strength remains a perennial concern for the export sector, while Prime Minister Abe's support has weakened in recent months which may dent his ability to push through less-palatable policies. One positive outcome of the recent market correction is that it brought company fundamentals back into focus, instead of the relatively indiscriminate buying experienced in 2017 when investment flows into Japan were particularly strong. The companies in the portfolio have considerable financial resources which should provide a buffer if the macro-economy worsens faster than expected. These companies know that potentially game-changing events like the trade issues between China and the US also present opportunities. Given their flexibility and nimbleness, these holdings should be able to take advantage of shifting market dynamics through product innovation and basic research and development.

Although the pace of corporate governance reform has been slow, progress has been positive and the changing mind-set is likely to remain long after Prime Minister Abe. The overall picture may appear rather uncertain in the short to medium term.

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Kabushiki Kaisha, investment manager, Aberdeen Japan Investment Trust: We expect to see more volatility, as macroeconomic conditions normalise and global growth moderates. The developing trade war between the US and its trading partners, as well as rising geopolitical tensions in the region and elsewhere could put more upward pressure on the yen, a safe-haven asset, further dampening the prospects of Japan's export sector.

That said, the investment case for Japan remains compelling, as companies are backed by a healthy domestic economy and improving corporate fundamentals. Monetary policy will stay accommodative as the Bank of Japan strives to attain its inflation target. The still-tight labour market and rising material costs could squeeze margins, but they could also prompt companies to be leaner and focus on their most profitable businesses. Despite conservative earnings forecasts to reflect the challenges ahead, their balance sheets and cash flows are robust, and dividend payouts have been sustainable. We have also seen encouraging signs in corporate governance reform, as companies slowly increase the levels of independence and diversity of their boards.

Other countries in Asia Pacific

(compare Country Specialists: Asia Pacific **here**)

Nicholas Smith, chairman, Aberdeen New Thai Investment Trust: An escalation of retaliatory measures in response to President Trump's 'America First' policy could have global repercussions. However, it is worth remembering that intra-regional trade in Asia continues to make great strides, supported by growing populations and rising disposable incomes. Over 60% of Thailand's exports go to its regional neighbours. This should shield the kingdom to some extent from any deterioration in demand for its products from further afield.

Meanwhile, the Baht's strengthening to a four-year high against the US Dollar is causing some concern. But on a trade-weighted basis against other major currencies, the appreciation is less severe, so this has not affected Thailand's competitiveness. Indeed, a manufacturing sector recovery in Asia and globally, notwithstanding the potential for more US trade barriers, should provide greater impetus for Thai exports in 2018.

There is also scope for a more broad-based recovery in the new year. Private investment should increase, given the improving business sentiment. Public infrastructure spending should also pick up, as projects that were awarded in the previous year enter the construction phase. Aiding the process is the government's Eastern Economic Corridor ("EEC") plan, which is expected to benefit provinces in that region with much needed development. Foreign investment has been pouring into the EEC, notably from Japan, Singapore, China and Hong Kong. Over time, the influx of investment should translate into more jobs, better wage growth and higher consumer spending.

We should not, however, turn a blind eye to challenges that persist in the local economy. Besides having to digitalise operations, the banking sector is still struggling with non-performing loans, asset quality issues and pressures on fee income. Loan approvals remain strict and rejection rates elevated because of high household debt. On the positive side, local banks are not in distress and balance sheets remain healthy in general.

On the political front, the military government has allowed election-related activities, including the registration of new political parties, for the first time since it came into power in 2014. This boosts hopes that a general election will indeed take place by I remain confident about Thailand's prospects, and so does your Manager. The underlying holdings in your Company's portfolio are fundamentally sound, with robust business models, prudent management and healthy balance sheets that have underpinned dividends. This should allow them to tap the country's longer-term growth potential, as well as weather any challenges that may arise. Earnings are improving but with share prices appearing elevated, a market correction could help bring valuations to more sensible levels, while refocusing investors on the fundamentals. Amid this, the disciplined and meticulous stock-picking approach favoured by your Manager remains more valuable than ever. Periods of market turbulence provide rich opportunities to increase its exposure to these kind of companies at attractive valuations.

In addition, many Thai companies have growing operations overseas and are expanding into other markets that offer exciting opportunities like Cambodia, Indonesia, Myanmar, Philippines and Vietnam. Some of these markets may be at an early stage in their development and lack the necessary depth and liquidity required by many investors.

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John Misselbrook, chairman, JPMorgan Chinese IT: In spite of increased volatility in markets and concerns over escalating trade friction with US, the outlook for Greater China equities remains positive in the current economic environment supported by the Chinese government's continuing structural reforms.

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Howard Wang, Rebecca Jiang, investment team, JPMorgan Chinese IT, The 13th National People's Congress session held in March confirmed the objective of delivering better quality, sustainable growth. At the same time the party continued to centralise power by integrating various levels of government. This is seen as broadly positive for investors as it should maintain economic stability whilst enabling the consumer and service oriented 'New China' continue to grow.

The anticipated inclusion of China A-shares in the MSCI Indices effective June 2018 is seen as a key step in the overall liberalization process of China's capital markets. Foreign investor participation should increase over time and help to diversify the investment landscape as well as rebalance the investment horizon.

In spite of the market volatility amid concerns over escalating trade tensions we remain positive on Greater China equities given the macro economic outlook and the Chinese government's continued structural reforms. The increased emphasis on the domestic demand and a consumer led recovery leading to less dependence on export growth should minimize the adverse effects of any further trade escalations with the US as well as the risks of higher inflation and slower global growth.

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Richard Burns, chairman, JPMorgan Indian: India's economy has been growing more rapidly this year than it did in 2017, but the headwind of high valuations has meant that the stock market has made no progress. This state of affairs may well persist in the months ahead. Nevertheless, I continue to believe that India is a market with considerable appeal for a long-term investor, given its great human potential and huge scope for improving its economic performance.

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Rukhshad Shroff, Raj Nair, investment managers, JPMorgan Indian: We expect the next year to be a period of increased uncertainty and volatility in India and the market is not cheap. Since Mr Modi came to power the market has risen significantly more than underlying corporate earnings. Equities have been rerated, not only because of the important macro reforms that are underway but also because investors have expected a recovery in the pace of economic growth and corporate profits. However, as the challenges in the banking sector illustrate, this recovery may be long, complicated and painful. The prospect of a rising oil price does not bode well for macro fundamentals such as the current account and fiscal deficit, the Rupee and possibly interest rates. Finally, we are in an important election cycle - several state polls, leading to national elections in less than twelve months. The chances of an outright BJP majority are reducing. And while forecasting election outcomes is fraught with risks, we can safely predict increased volatility.

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Debt

(compare Debt funds **here**)

Paul Read, Paul Causer, Rhys Davies, portfolio managers, Invesco Perpetual Enhanced Income: Overall, we remain cautious; despite rising over the past six months, bond yields remain low in historical terms and continue to price in little room for disappointment in terms of earnings and economic data. In our view, this means the market remains vulnerable to correction.

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Chenavari Credit Partners LLP, portfolio manager, Chenavari Toro Income Fund, Following strong macro fundamentals in 2017, developed market-growth has moderated in Q1 2018 alongside the mounting risk of protectionism, tightening monetary policies and renewed concerns over the length of the global expansion cycle.

In Europe, even though March data was disappointing, growth is still tracking at a decent annualised 2.5%, still benefiting from an expansionary monetary policy. Not only is the Euro area much less advanced than the US in this business cycle, but there is also significantly more spare capacity resulting in muted inflationary pressures with core inflation stuck around 1%. Consequently, although QE is likely to end this year, monetary policy should remain accommodative with the ECB reluctant to normalise interest rates any time soon.

Moving on to markets, the sell-off in Q1 translated into a negative -0.64% performance for the ICE BofAML Euro High Yield index and could be the evidence of the paradigm shift expected for 2018. The lack of inflows in fixed income/credit products (even notable outflows in High Yield) and the perception that the central bank backstop is weakening are creating a vulnerable picture which could be exacerbated by any negative headlines. Market volatility is anticipated to return this year, especially within the weakest segments of the credit market such as High Yield.

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Property

(compare Property: Direct – UK funds **here**)

Hugh Seaborn, chairman, TR Property Investment Trust:

In November I noted that we remained positive about the merits of property as an income generating asset class and that we were focused on high quality businesses with strong recurring cashflows. Six months on, that statement remains valid but subject to heightened vigilance. The level of divergence between those businesses with growth prospects and those without continues to widen and the advantage of being able to consistently reduce the cost of debt is coming to an end.

Real estate continues to provide an income advantage particularly when compared to prevailing bond yields.

Earnings in the first few months of the current financial year have been robust. The most significant factor in the strong earnings growth seen over the last two years has been the impact of weakening Sterling. With a stable currency any increase in earnings (when measured in Sterling) will be from growth in the underlying dividends and we therefore expect to return to longer term normal growth rates. Once again, I would caution that having benefited from weakening currency, there will be a negative impact on revenue when this reverses and Sterling strengthens.

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Marcus Phayre-Mudge, fund manager, TR Property Investment Trust: A year ago my outlook projection was positive based on the fact that property is a pro-cyclical asset class with a core income driver. As economic growth returns market rents rise, subject to the levels of supply of available property. We also expected bond yields to rise as Europe began the process of normalising base rates. In the Interim in November, I highlighted that only those markets with rental growth would outperform rising bond yields and we therefore expected the divergence in performance between property companies exposed to markets with growth and the rest to widen even further and that has been the case.

The last quarter of the financial year proved investors are quickly spooked if monetary tightening expectations are brought forward faster than expected. However, in the last few weeks we have had sight of the Q1 economic data as well as central bank commentary from both the Bank of England and the European Central Bank. Both are again erring on the side of caution amidst signs of a slowing in the rate of growth, although it remains positive. This deceleration has been most abrupt in the UK as it moved from the top of the European growth table to the bottom (with only Italy below us) such is the 'Brexit drag' with investment and consumer confidence weakening. Our one year outlook for the UK remains jaundiced by the political back drop and the range of negotiated outcomes is still too broad to provide effective probabilities. We remain wary particularly for London offices and retail. Our additional exposure over the year has been to alternatives and longer dated indexed income from a variety of property types. This is set to continue.

Across Europe we have an opportunity to remain more optimistic, particularly given Mr Draghi's recent dovish remarks. Here we continue to focus on those sectors with the strongest rental growth prospects and we believe that the divergence in performance will persist. We continue to avoid businesses which appear attractively priced but which ultimately have weaker (or potentially negative) earnings growth. Economic growth across the region remains robust. Office rents are rising in every dominant city across the Continent, in stark contrast to Central London.

Two final investment themes to highlight. M&A activity has increased over the last year. Real estate can of course be owned publicly or privately (way more in the latter). Private companies can afford higher debt levels away from public market scrutiny and we may well find that, fuelled by the ongoing availability of cheap leverage, we see more businesses taken private. The acquisition targets are likely to be those cheaper and higher yielding businesses.

Whilst I have highlighted the political backdrop, particularly in the UK, we also consider the lack of progress in the development of a banking union across the Eurozone as a potential existential issue. The European Union still has much more harmonisation to complete amongst the remaining 27 countries and the initial further reform impetus of the Macron presidency appears to have met with resistance from the German Chancellor and her Finance Minister. Such issues as the ongoing indebtedness of Greece and the Italian banks' bad debts continue to simmer in the background. The ECB's careful and cautious progress in moving from quantitative easing to monetary tightening is proceeding at an appropriate pace and real estate continues to look attractive against long duration fixed income alternatives.

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Helen Mahy CBE, chairman, MedicX: Our asset class continued to face a prolonged period where rental uplifts remained, on average, lower than inflation and sector property yields continued to tighten as competition for assets remained fierce. Over this period, commentators highlighted political uncertainty and an increasing likelihood of higher interest rates in the near future.

Since 2006, primary healthcare has become a firmly established asset class for institutional capital, demonstrating consistently attractive returns, with a benchmark ten year track record of 9.4% per annum total return. Over that same period, UK yields have tightened and are now around 4.25 - 4.75%, considerably lower than those of approximately 6.0% available [*in 2006*]. Looking ahead, we expect competition for assets to remain strong with yields remaining at these new levels. There are signs of rents beginning to increase on new schemes as a consequence of both rising land costs and higher build costs.

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Neil Kirton, chairman Warehouse REIT: The warehouse sector continues to perform strongly and we believe the growth drivers are structural rather than cyclical. Market expectations are for rents to rise by 3.5% per annum, for all industrial assets between 2018 and 2022, according to RealFor, but our expectation is that rental growth will be stronger still in the part of the market we are focused on, driven by a significant supply demand imbalance and there are good prospects to outperform market expectation through active asset management. We see no sign of any change in these favourable dynamics but remain alert to the potential for geopolitical or financial events to affect sentiment.

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Jonathan Murphy, CEO, Assura: The political agenda continues to be dominated by Brexit, but in its 70th anniversary year, the NHS is one of the few domestic issues managing to secure meaningful debate. The Prime Minister has publicly accepted the need for a long-term funding settlement for the health service, and MPs from all parties are working together on potential solutions. Assura firmly believes in the NHS. Regardless of the politics, the fundamentals for primary care estate will remain steadfast: to reduce pressure on hospitals, improve access to general practice and help the people who rely on health services the most to reach them closer to home. GP surgery buildings and primary care premises must be fit for the future.

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Bryan Sherriff, Drum Income Plus REIT: Following three consecutive months of no movement in the Savills prime yield series, February saw a hardening of 2bps and the average yield reach 4.50%, it now stands just 19bps from the previous peak of 4.31% in 2007. This was driven by an inward movement of prime yields for the logistics sector which now stand at 4.25%, the lowest level ever experienced. Due to continued strong interest from investors in the M25 office sector we expect the average prime yield to see continued downward pressure into 2018.

Whilst the dominance of overseas investors is well documented, it has been pleasing to note that UK institutions have increased their purchases, accounting for £10.5bn of transactions in 2017, up from £8.2bn in 2016 and higher than the long term average of £10bn. All eyes will now turn towards global macroeconomic factors such as global interest rate rises, Brexit negotiations, US trade tariffs and other geopolitical issues such as North Korea and Russia and how they will impact the markets. With the Bank of England also suggesting that rates are expected to rise this could alter the spread between commercial real estate and risk free rate with UK 10 year gilts currently trading at 1.5%.

Regional markets remain in good health. The attraction of the regional towns and cities to both occupiers and investors continued in 2017 and DRIP REIT finds the regional commercial property markets to be in good health and increased tenant demand has been visible, although in some instances letting decisions are taking longer to execute. Office supply in regional markets remains low, with occupier take-up continuing to reduce availability, particularly of Grade A space, which should be a positive for occupier demand and rental growth in good quality secondary space.

Overall investment volumes in UK commercial property (including London) in 2017 were significantly higher than in 2016, with an increasing share taken by regional markets. Data for the office market suggests that regional offices continue to represent attractive yield compared with London, and that regional secondary office yields have room to tighten further versus prime.

As a result of investor demand, the average yield spreads between the regional and London offices has continued to narrow, but remains wider than it was before recovery took hold in the London market in 2009, and is similar to the longer-term average. As London recovered, the spread of secondary over prime yields narrowed steadily, while the recovery in the regions was later to take hold such that the regional spread of secondary over prime yields remains wide despite more recent tightening.

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Allan Lockhart, chief executive, NewRiver REIT: In our view, the headwinds experienced by the retail market in recent months will continue, and it is likely that in the near-term there will be further retailer consolidation, particularly in the department store, mid-market fashion and casual dining sub-sectors of the market. These sub-sectors are under significant structural pressure due to changing consumer habits. Retail real estate capital values too will remain under pressure, reflecting the impact of further CVAs and negative sentiment towards the sector.

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Andrew Jones, chief executive, LondonMetric: We remain highly nervous on the outlook for the retail sector with the tectonic plates shifting so materially that it's now a very difficult sector to navigate and deliver superior returns. For the best space in the best locations, this is cyclical; for the majority it is permanent disruption and for the weakest it will be highly problematic.

Conversely, distribution remains structurally supported by the fundamental changes in consumer shopping patterns with attractive demand/supply tension, especially for urban logistics where rental growth is strongest. This is providing reliable, sustainable and consistent rental income.

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William Hill, chairman, Ediston Property Investment Company: Whilst there are no immediate signs of property markets taking a step back, there is more volatility and nervousness in public markets. We believe delivering asset management strategies will be key to driving performance, in both capital and income terms.

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Infrastructure

(compare infrastructure funds **here**)

Ian Russell, chairman, HICL Infrastructure Company: In light of the current UK political environment, the outlook for private investment in new UK infrastructure projects remains muted in the Company's target market segments. With some notable recent exceptions, deal flow within the secondary market in the UK has also been light and is expected to remain so. The Board welcomes the comments of the Infrastructure and Projects Authority to the Public Accounts Committee's Private Finance Initiatives inquiry regarding the need for real data to demonstrate the value for money of PPP projects. The Directors believe that the value of the PPP model is underestimated, even amongst key stakeholders that benefit most from its transfer of risk to the private sector. Empirical evidence may help to address this, particularly if it captures a holistic measure of resources and expertise that the private sector brings to bear for the duration of PPP projects.

The Board and the Investment Adviser continue to see opportunities in Europe and North America within HICL's target market segments (PPP projects, regulated assets and demand-based assets).

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Investment manager, Ecofin Global Utilities and Infrastructure Trust; The global utilities sector has underperformed the broader equity markets for the past year and relative valuations of many companies in the global sector are very low by historical standards. These low valuations are, we believe, largely attributable to investors favouring cyclical companies, which benefit from strong economic growth, over companies they perceive as defensive, such as utilities.

The current low valuations in the sector prevail at a time when the fundamentals of the sector are improving and corporate activity is on the increase. We forecast that earnings will increase by 8% per annum in our sectors in Europe over the next 3 years, higher than the market average; that rate will be closer to 6% per annum in the US which will, in all likelihood, be lower than the market's tax reform fuelled growth in the near-term.

Many diversified multi-utilities - particularly in Europe - are restructuring their businesses to focus on core activities. Companies are also showing more financial discipline and free cash flows are increasing across the sector. As a result, we believe that many utility and infrastructure companies will increase their dividends faster than the market expects. With uncertainty about the outlook for economic growth and markets likely to increase over the coming months, we believe that the utility and infrastructure sectors should provide investors with good returns on a total return basis over the longer-term.

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Private Equity

(compare private equity funds **here**)

Michael Bunbury, chairman, HarbourVest Global Private Equity: Listed markets have been extraordinarily strong since their nadir in March 2009 and inflation has been subdued. Business conditions in many economies generally remain benign. However, it is my view that investors in most risk assets, and that includes all forms of equity shares, whether listed or not, should not expect such strong performance over the next nine years as has been delivered in the last nine. Interest rates in many developed economies look set to rise. At some point in the future the business cycle will reassert itself. Meanwhile the principal risks to the world's economy and to markets would appear to be political, both at a geopolitical scale and, in some countries, unpredictable current and future political leadership.

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Biotechnology & Healthcare

(compare biotech and healthcare funds **here**)

Andrew Joy, Chairman, Biotech Growth: Despite continued volatility in the sector, our Portfolio Manager expects the outlook to remain positive, given current low valuations, continued merger and acquisition activity, strong innovation, and a favourable regulatory environment. They expect that the relative underperformance of major capitalisation biotechnology stocks within the sector and of the biotechnology sector against the wider market have both reached close to their limit.

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Daniel Mahony, Gareth Powell and James Douglas, investment managers, Polar Capital Global Healthcare: We had expected last year's failed efforts by the Republican Party to repeal Obamacare to be a clearing event but the healthcare sector has remained out of favour with generalist investors. The political outlook in the US remains unpredictable, not least because of the prospect of intervention by President Trump's administration on certain aspects of drug pricing. The upcoming mid-term elections also create uncertainty about the balance of power in the U.S. Congress.

Within the large cap pharmaceutical sub-sector, and we include many of the large biotechnology companies in this group, we think it is important to focus on company fundamentals. While many of these companies have a lot of cash we struggle to identify many companies with strong underlying growth drivers. In many cases, legacy portfolios are either coming under pricing pressure from health insurers or are close to loss of patent exclusivity.

As a result, we expect to see further M&A over the course of the year with large companies looking to buy innovation. In addition, we would not be surprised to see another large pharmaceutical deal announced - Takeda's recommended offer for Shire, should it prove to be successful, may not be the largest deal announcement we see this year.

The healthcare sector, however, is more than just large drug companies. Within the biotechnology sector we continue to see a lot of cutting-edge innovation and note that a number of European companies currently have attractive risk/reward profiles for investors.

Our preferred sub-sectors are life sciences tools, healthcare equipment and managed healthcare. Our recent meetings with companies in the life sciences tools sector suggest that business is improving across all customer segments. This is a sub-sector that is more exposed to the cyclicality of the broader economy and an improving economic environment bodes well for revenue growth this year.

There is currently a strong new product cycle in healthcare equipment - a number of large companies are delivering strong top -line growth, and we see the potential for upgrades to earnings expectations. Within managed healthcare, concerns that a bad flu season would have a negative impact on results in the first quarter are beginning to dissipate. The revenue growth outlook remains positive for companies in this sub-sector while the use of technology improves their ability to manage costs and risks.

Despite the headwinds for the pharmaceutical industry, healthcare continues to be a growth sector. The sector looks undervalued, on a relative and absolute basis, and the ongoing structural change continues to create a number of opportunities across all sub-sectors of healthcare.

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Other

Dr. Myma Belo-Osagie, chairperson, Africa Opportunity: 2018 promises to be a good year. Kenya's economy will enter a recuperative phase, as its new government tackles its growing debt burden. Ghana, Cote d'Ivoire, Senegal, and Egypt are expected to enjoy strong economic growth in 2018. The rising crescendo of trade war threats is a worry.

QuotedData

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IMPORTANT INFORMATION