

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

Global trade tensions continued to exercise the minds of global investors, not helped by the currency crisis in Turkey. The US was the only one of the major markets that delivered positive performance, together with the ASEAN markets of Thailand, Taiwan, South Korea and Philippines. Other emerging markets and other global markets delivered negative returns over the month.

Global

Although the global economic outlook appears relatively benign, there are many reasons for chairmen and managers to be cautious.

The chairmen and investment managers of global companies were very much in agreement that the outlook for the foreseeable future is dominated by some relatively intransigent issues. These include (in no particular order) the direction of US interest rates, US trade policy, US mid-term elections, emerging market currency weakness, Brexit and geopolitics in general. Patrick Gifford, chairman of Invesco Perpetual Select, refers to many of these issues as “non-binary”.

There is consensus that Brexit negotiations will get over the line, despite those who Harry Henderson, chairman of Witan, describes as “zealots” on both sides. Harry Henderson goes on to say that economic growth and modest inflation, with modest although rising interest rates, would ordinarily be positive for equities. However, he thinks that, relative to bonds, equities are still fairly valued, whereas others, including the Lord Rothschild, Scott Wolle, portfolio manager of the Balanced Risk Allocation Portfolio of Invesco Perpetual Select and Kevin Carter, chairman of Murray International, feel that valuations are at record highs.

Exchange Rate	31/08/18	Change on month %
GBP / USD	1.2960	(1.3)
USD / EUR	0.8620	+0.9
USD / JPY	111.03	(0.0)
USD / CHF	0.9689	(2.0)
USD / CNY	6.8315	+0.2

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/08/2017 to 31/08/2018



Source: Bloomberg, Marten & Co

	31/08/18	Change on month %
Oil (Brent)	74.97	+3.3
Gold	1221.45	(1.7)
US Tsy 10 yr yield	2.9728	(3.8)
UK Gilt 10 yr yield	1.343	+6.3
Bund 10 yr yield	0.444	(26.8)

Source: Bloomberg, Marten & Co

Global (continued)

Lord Rothschild of RIT Capital states that “... we continue to believe that this is not an appropriate time to add to risk. Current stock market valuations remain high by historical standards, inflated by years of low interest rates and the policy of quantitative easing which is now coming to an end.” Nick Mustoe, portfolio manager of the Global Equity Income Share Portfolio of Invesco Perpetual Select makes the point that tough trade talk is more the norm, but it is now hitting market sentiment in that it could slow global economic growth. He goes on to write that this and whilst there are some warning signs of the potential for more difficult economic conditions, he believes the global economic outlook is benign, with modest economic growth and few signs of significant inflationary pressure.



United Kingdom

The Brexit negotiations are less antagonistic but concerns remain

Brexit and the US trade stance remain the main topics of the chairmen and managers of UK investment companies in their commentaries. All point to the damage that the uncertainty of the negotiations may be doing to the British consumer or British companies. Jamie Cayzer-Colvin, chairman of Henderson Smaller Companies, and Allister Langlands, chairman of Standard Life UK Smaller Companies, highlight the extra complication added by the weak position of the minority Conservative government where there is a tug of war between Brexiteers and Remainers. That said, the tone of the negotiations is seen as a less antagonistic, as noted by James Goldstone, manager of the UK Equity Portfolio of Invesco Perpetual Select. He also notes the return of growth of UK disposable incomes and better progress with Brussels, leading to a strengthening of the pound and prompt a reassessment of the UK market by overseas investors. Whilst it is too early to call an end to low growth, low inflation and low interest rates, he thinks that this may be a turning point.

Gervais Williams and Martin Turner, the investment managers of The Diverse Income Trust, write on the impact customs borders might have in the UK. They suggest that, however it is done, it will eventually turn out to be similar to trading with other countries outside Europe and the negative impact on UK PLC will eventually be absorbed. Jamie Cayzer-Colvin, chairman of Henderson Smaller Companies, senses weakness in UK markets. There are fears of job losses at companies that may be affected by Brexit, and the footfall on high streets declining but he comments on bright spots also, such as unemployment at its lowest level since 1975, wages at last increasing, and UK corporate profits hitting record high in 2017.



Asia

Continued volatility given current political posturing, inflation and protectionism

The only Asian-focused company to report in August was Aberdeen Asian Income. The chairman of the company, Charles Clarke, wrote that Asian markets may continue their run of volatility given current political posturing, inflation and protectionism. He believes that China's economy, however, remains robust. He went on to comment that tightening monetary policy in the US has compelled Asian central banks to respond to external pressures on local currencies and rising oil prices, and that governments are taking the opportunity to engage in reforms intended to support local economies.



Economic growth in the US remains positive in the US and interest rates rises are likely to continue

North America

JPMorgan American was the only US company to release its report last month. Dr Kevin Carter, the chair of the company, noted that US economy has continued to grow and that this had supported corporate profits. Companies had also benefited from the tax cuts passed by Congress late last year. Sounding a note of caution, Dr Carter drew our attention to the fact that the present expansion cycle is very long lived, and this is likewise true for the stock market cycle it has supported. The Federal Reserve has been slowly raising short term interest rates and as expected this is having an effect on broader capital markets.

After the Brazilian election, major fiscal reforms are needed

Latin America

Whilst economic activity in Brazil is improving slowly, Howard Myles, the chairman, of JPMorgan Brazil expects the increased volatility seen in recent months to continue in the near term, as markets react to economic and political developments. The investment managers suggest that, although disappointing recent macro trends have been of some concern, they continue to believe that the primary drivers of the market this year will be the gradual recovery of the Brazilian economy, with increased levels of consumer consumption and corporate investment. Carolan Dobson, chairman of BlackRock Latin American agrees, adding that much will hinge on the outcome of the forthcoming election in October. She states that the outlook for the Latin American region remains uncertain for the second half of 2018 but sees evidence to support cautious optimism. Will Landers, investment manager of BlackRock Latin American adds that they continue to be wary of Chile and have become more cautious on Peru given disappointing growth figures. They are also watching inflation in Argentina and the effectiveness of government measures to stabilise the currency.

Investors searching for yield have pushed up asset prices

Infrastructure - Renewable Energy

For Helen Mahy CBE, chairman of The Renewables Infrastructure Group, sustained high demand for infrastructure investments from income hungry investors has meant that renewable infrastructure assets have become more expensive. In the UK, new project development has been mainly in the offshore wind market which is where the government has concentrated its subsidy allocations.

2019 January deals will be renewed at similar terms to those that were achieved during 2018

Insurance & Reinsurance

Looking forward to the January 2019 renewals season and writing before Hurricane Florence took shape, James Keyes, chairman of CATCo Reinsurance Opportunities Fund, notes that the traditional reinsurance market and ILS funds are expected to experience further rate declines, in the absence of major catastrophic loss activity during the last half of 2018. However, the company expects the 2019 January deals will be renewed at similar terms to those that were achieved during 2018.

Property

Logistics is a key beneficiary of the growth of e-commerce, as the UK high street continues to change

Tritax Big Box REIT's chairman, Richard Jewson, sees logistics as a growth area, as technical innovation in the form of e-commerce drives demand. In contrast, as he points out, "*this is affecting fortunes on the high street with a number of well-publicised retailers having succumbed to a challenging trading environment*". Despite the depreciation of sterling having made imports more expensive, Richard Jewson feels that Brexit does not yet appear to be affecting occupier demand. Market rental growth remains ahead of underlying inflation and he believed this will continue in the near term. Rupert Barclay, chairman of Impact Healthcare REIT also writes on Brexit, from the point of view of healthcare property but sees a good future for the sub-sector. Melvyn Eglenton, chairman of Hansteen sees a continued beneficial backdrop, with solid occupational demand in the UK with very limited supply.



Debt

Rate rises are expected in most developed markets as GDP growth remains positive in the US

Stuart Edwards, portfolio manager of the managed liquidity share portfolio for Invesco Perpetual Select, notes that the BoE has consistently guided the market that any tightening of monetary policy will be gradual and limited and he anticipates that this approach will continue. William Frewen, chairman of NB Global Floating Rate Income Fund, believes that, in a rising interest rate environment, the outlook for the remainder of 2018 is favourable for short-duration asset classes such as senior secured floating rate loans. While specific timing is impossible to predict, William Frewen expects to see further rate rises in the US towards the end of the year. The investment managers of that fund see continued strong GDP growth in the U.S. and expect three or four rate hikes over the next 12 months.



Private Equity

Private equity valuations remain high and have not corrected

Tim Breedon, the chairman of APAX Global Alpha agrees with many in this month's roundup that public market sentiment has been influenced by increased protectionism and the tariff "tit-for-tat" of major economies. Private equity valuations, however, do not appear to have corrected yet and remain at high levels. Hamish Mair, manager of F&C Private Equity Trust, agrees with this. The manager of APAX Global Alpha sees the global macroeconomic picture as positive. Growth rates in most economies are up on previous years and unemployment is approaching multi-decade lows in several economies, including some of the largest. They caveat this however, pointing to the return of protectionism, which might dampen the outlook and introduce further volatility. Regarding Brexit, the managers see the UK set on course for a Norwegian-style future relationship with the EU, which would, in their opinion, be positive.



Hedge Funds

There are positive characteristics in the broader global economic environment. The risk of a US recession in the near-term is low

Marc Antoine Autheman, the chairman of Third Point Offshore, quotes the investment manager as seeing several positive characteristics in the broader global economic environment. Among others, these include growth in the US remaining stable or increasing modestly, due to government fiscal stimulus, and continued evidence of stable inflation, in the near-term. The investment manager also believes the risk of a recession in the near-term is low and several positive tailwinds, including fiscal stimulus

in the US, should result in equity markets continuing to appreciate, albeit at a slower pace when compared to 2017.

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Commodities & Natural Resources

OPEC and Russia have increased production. Heightened trade tensions will have an impact on business confidence

At this point last year, the price of WTI was struggling to breach \$50 per barrel, notes Richard Hayden, the chairman of Riverstone Energy, as the market remained well supplied, despite robust demand and production decreases within OPEC. Since then, prices have risen by 50%, to levels not seen since 2014. He believes the market has changed and OPEC and Russia are now in the process of increasing production in an attempt to alleviate upwards pressure on prices. Ian Cockerill, the chairman of BlackRock World Mining Trust, thinks higher levels of uncertainty will be a key theme for the remainder of 2018. US-China economic tensions have increased significantly and a further sharp escalation in retaliatory tariffs globally could act as a brake on economic expansion. The investment managers of BlackRock World Mining Trust comment on the heightened trade tensions and the impact this would have on business confidence

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Global

(compare Global funds [here](#))

Patrick Gifford, chairman Invesco Perpetual Select: *“It is a tale told by an idiot, full of sound and fury, signifying nothing”.* The quotation from Macbeth was appropriate for our last financial year. There is a strong possibility that political events will have more actual impact during this year. A Brexit settlement will be reached, the US will have mid-term elections and serious discriminatory tariffs may be imposed. The problem is that one is merely guessing at the likely outcome of non-binary issues. However, it does still appear to be in both the UK and the EU’s interest to avoid the “No-deal” scenario. The US elections are most likely to see a swing away from the Republican party in line with mid-term tradition though whether control of Congress will change is unclear. One can only hope that the realisation will dawn on the US government that a trade war is at least as harmful to the US as to its trading partners.

Economically it still seems likely that there is reasonable momentum in the current acceleration of growth worldwide and that we should therefore expect further upward movements in short term interest rates. However, in the likely absence of a concerted investment effort to thwart climate change, the underlying deflationary trends should mean that rates and inflation remain relatively subdued compared to previous cycles. It is, however, very difficult to judge whether this expansion will end with a bang or a whimper or when either will happen.

On the regulatory front it is worth noting that MiFID II threatens to be a case of “be careful what you wish for”. The changes that it is causing in the structure of the investment industry are far-reaching and their consequences for both the industry and securities markets may not be benign.

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Nick Mustoe, manager, Global Equity Income Share Portfolio, Invesco Perpetual Select: Tough trade talk is nothing new for 2018, but there is a sense that stress is ratcheting up between the US and its trading partners, particularly China. This could take its toll on markets amid concerns that global trade restrictions could curb global economic growth. Notwithstanding this risk, and whilst there are some warning signs of the potential for more difficult economic conditions ahead (a flattening US yield curve for example), we consider the global economic outlook at present to be relatively benign, with modest economic growth and few signs of significant inflationary pressure.

From a valuation and income perspective we continue to favour Europe and Asia over the US. Nine years into an economic and stock market recovery, it gets harder to find attractively valued companies. We believe some opportunities remain, though these are primarily in the sectors unloved by investors such as energy, telecoms, financials and indeed certain stocks reliant on the UK domestic economy as the Brexit cloud looms larger.

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Scott Wolle, manager, Balanced Risk Allocation Portfolio, Invesco Perpetual Select: At the date of this report there are two main issues in focus. The first is the impact of higher US interest rate expectations. These have been fuelled by the US Federal Reserve’s (Fed’s) statements, in which officials seem committed to a course of additional rate hikes, and by the ongoing reduction of the Fed balance sheet, which results in quantitative tightening. This combination has caused havoc across several emerging market currency and equity markets, leaving investors on edge. Further

compounding the problem is the second issue, which is the ongoing war of words between the Trump administration and multiple trading partners, which seems to be leading inexorably toward one or more trade wars. These fears have already begun to weigh on economic activity, as evidenced by slowing manufacturing purchasing managers' index data across several regions. An unsatisfactory conclusion to either of these issues could spur a bout of risk-off behaviour among market participants.

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The Lord Rothschild, chairman, RIT Capital Partners: Many of the world's economies have enjoyed a broad-based acceleration not seen since the aftermath of the financial crisis of 2008, with as many as 120 countries seeing stronger growth last year. Advanced economies and the corporate sector continue to do well, particularly in the US with full employment, growth of around 2%, and with its corporate sector likely to show profit growth in excess of 20% in the second quarter of the year. Emerging markets in Asia, including China and India, are expected to grow strongly at around 6.5% in 2018/19.

However, we continue to believe that this is not an appropriate time to add to risk. Current stock market valuations remain high by historical standards, inflated by years of low interest rates and the policy of quantitative easing which is now coming to an end.

The cycle is in its tenth positive year, the longest on record. We are now seeing some areas of weaker growth emerge; indeed the IMF has recently predicted some slowdown. The problems confronting the Eurozone are of concern - both political and economic - given the potentially destructive levels of debt in a number of countries. The likelihood of trade wars has increased tension and the impact on equities has been marked; for example, by early July the Shanghai Composite Index had dropped some 22% from its peak in January. Problems are likely to continue in emerging markets, compounded by rising interest rates and the US Fed's monetary policy which has drained global dollar liquidity. We have already seen the impact on the Turkish and Argentinian currencies. We remain concerned about geo-political problems including Brexit, North Korea and the Middle East, at a time when populism is spreading globally.

The resolution of these problems in this unpredictable era will surely be difficult. In 9/11 and in the 2008 financial crisis, the powers of the world worked together with a common approach. Co-operation today is proving much more difficult. This puts at risk the post-war economic and security order.

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Harry Henderson, chairman, Witan: The economic backdrop mid-year shows relatively strong growth in the US and moderate growth elsewhere, with inflation higher than a year ago but not seemingly accelerating. In isolation, these are positive conditions for global equities.

The main global uncertainties of oil prices and trade policy are both compounded by their connection with unpredictable policy formation emanating from Washington. If the headlines about trade tariffs ultimately prove to be a form of negotiation by foghorn, the fears that tariffs will raise inflation, disrupt global supply chains and deter investment will recede. Similarly, if other oil producers can replace the lost production from Iran and others, the drag on growth from higher oil prices will peak and may reverse.

In the UK, the Brexit process appears to be inching erratically towards a limited separation that maintains important industrial links with an extended transition period for changes in other areas. As the end-point for negotiations looms closer, economic

considerations appear to be pushing policy in a more pragmatic direction, despite the protests of zealots on both sides of the Channel.

2018 appears to mark a general turning point in global monetary policy, although tightening remains gradual. The US is steadily raising rates, the UK raised rates in August, having deferred a move from May, and a number of emerging markets have increased rates in response to higher US rates and upward pressure on inflation due to oil prices. However, the ECB appears set to keep rates low for another year, while Japan continues to target near-zero interest rates.

The combination of gradually rising interest rates and reducing central bank demand for bonds is a slow-burn fuse for bond markets, given their dependence on central bank buying since 2009. Consequently, the risks appear to lie in the direction of higher yields.

Equities remain relatively lowly valued compared with bonds and absolute valuations have moderated due to the rise in corporate earnings in 2018. If the reason for rising rates is that the world economy is moving out of the convalescent ward towards greater health, higher rates are more reassuring than otherwise. The main proviso is the avoidance of recession, whether caused by rates rising too high due to central bank misjudgement or because of a trade war initiated by the US.

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Kevin Carter, chairman, Murray International: I have previously openly cautioned on the difficulties inherent in the current financial landscape and the risks associated with attempting to reverse over a decade of unorthodox economic policies. The United States Federal Reserve is raising interest rates against a backdrop of record indebtedness and this will pose significant challenges for governments and households globally. Nearly ten years into a business cycle, during which the unorthodox policy of quantitative easing has dominated, adjusting monetary policy safely will likely prove tough to achieve. For financial markets currently close to record high valuations and increasingly accustomed to only upward momentum, the likelihood of slower growth and lower corporate profits remains largely ignored, at least for now.

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United Kingdom

(compare UK funds [here](#))

James Goldstone, manager, UK Equity Portfolio, Invesco Perpetual Select: The recent bout of volatility has been followed by a change in leadership in equity markets. By the end of the period the All-Share Index had recovered over half of the losses sustained in the early February sell-off and the mood in the market now feels quite different: the last few years have seen a dramatic divergence in performance of certain styles and sectors. “Global Value” stocks reached multi-decade relative lows 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 previously loved US tech sector (President Trump publicly criticising Amazon which may portend government intervention to limit its increasing dominance in numerous markets, the well documented data privacy

issues affecting Facebook, production misses at Tesla, amongst others) are the two that stand out as having driven widespread asset class and sector rotation.

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.

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 does not feel a stretch to say that this is the closest markets have been to a turning point since the financial crisis.

As ever though, risk abounds. The current list of things to worry about includes, but is not limited to: UK political risk with Labour waiting in the wings as the Conservative Party attempts to coalesce around a common vision for Brexit, signs of cyclical weakness in global leading indicators, broad geopolitical uncertainties not least the escalating frictions in global trade, China credit, governments that remain significantly indebted, challenges to the US dollar's reserve status, the withdrawal and reversal of quantitative easing and of course higher interest rates, which may have unpredictable consequences, particularly in certain emerging markets.

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Michael Wrobel, chairman, The Diverse Income Trust: Going forward, the underlying prospects for dividend growth appear more constrained. Few economies have regained their past growth rates, in spite of the ultra-low interest rates following the Global Financial Crisis in 2008. This may explain why dividend cover, a measure of the margin of safety of future dividends, has fallen to relatively low levels over the last decade. Furthermore, the governmental consensus around globalisation is now coming to an end as the political agenda has changed, and all the while the recovery of the US dollar is starting to sap the easy liquidity of markets.

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Gervais Williams and Martin Turner, investment managers, The Diverse Income Trust : At this stage, the Government plans that the Brexit/EU agreement will be effected via a transitional arrangement, where the UK border with the EU continues with customs arrangements largely unchanged until the end of 2020. If this proves to be the case, we believe there would be very little adverse impact prior to the end of 2020, and maybe beyond.

Over the longer term, a KPMG report on the non-tariff barriers in the EU estimated that wider border checks may cost between 0.4% and 1.9% of the value of traded goods. HMRC expects the longer-term EU border costs to be about 1%, although some others estimate it could be higher. Overall, it is assumed that there will be some additional cost for some stocks at the time of an orderly withdrawal from the EU.

There is a chance that the current political process becomes derailed prior to the end of March 2019, and the UK exits the EU without a transitional arrangement. The abrupt imposition of a national border between the UK and the EU countries would add much greater costs to cross-border trade if this were to occur immediately. In addition, it is likely that the passage of goods could be delayed, possibly for weeks.

Ultimately, the new border will operate in the same way that UK businesses trade with countries outside the EU, with costs eventually around those cited above. It is worth noting that a number of companies have little or no EU trade and thus will be largely unaffected. Others have subsidiaries that will still be in the ongoing EU, so they may

find ways of delivering their EU goods and services through these operations. We will remain alert to the possibility that a few businesses may have some added advantages when the EU border changes are introduced.

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Jamie Cayzer-Colvin, chairman, Henderson Smaller Companies: Last year I wrote that two events had dominated, Brexit and Trump. Not much has changed in twelve months. Rarely a day goes past without Brexit and Trump commanding the news. There is genuine concern about the Brexit outcome and the potential fallout of the US entering into a period of trade wars with the rest of the world. However, global markets have continued to grow, companies have posted strong earnings growth and equity markets have remained robust. In some respects, the UK market feels less strong, with fears of job losses at companies that may be affected by Brexit, household names such as BT, M&S and RBS undergoing major changes in order to survive, and the footfall on high streets declining. But there is plenty of good news too: unemployment is at its lowest level since 1975, wages are at last increasing, and UK corporate profits hit a record high in 2017.

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Neil Hermonn, investment manager, Henderson Smaller Companies: The UK economy is showing anaemic growth. Brexit negotiations stumble on, with intermittent progress. The date for the UK leaving the European Union is looming into view. There is clearly a range of outcomes but what deal the UK will end up with is, at this point, unclear. Extra complication is added by the weak position of the minority Conservative Government led by Theresa May who is struggling to deal with the conflicting demands of her MPs on Brexit.

This political uncertainty has made UK consumers cautious. Although unemployment is historically low, net disposable income growth has been constrained by the rising cost of living. Weakness in consumer spending and low consumer confidence is demonstrated by a moribund second hand housing market and weak sales of high ticket items such as cars, carpets and double glazing.

Outside the UK, economic conditions have improved, particularly in the US and Europe. Escalating trade tensions do provide a threat to this. The recent rises in US interest rates have flagged to investors that loose global monetary conditions are reversing. However, the 'normalisation' of monetary policy will probably be a slow and measured process.

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William Meadon, Callum Abbot, investment managers, JPMorgan Claverhouse: Subsequent to the end of the period, Theresa May has unveiled the White Paper that will form the basis of negotiations on the relationship of the UK and EU after the planned exit in March 2019. The paper outlines staying close to the single market on goods guided by a set of common rules, with the intention to avoid a hard Irish border. It is proposed that the UK will follow EU law but not be directly affected by the European Courts and freedom of movement will end. Mutual recognition on services is not being sought after but given this is by far the largest constituent (circa 80%) of the UK economy, it is essential favourable terms are secured in the negotiations.

The White Paper has led to turmoil in the Conservative party as Brexiteers and Remainers have both aired grievances, with two pro-Brexit cabinet members resigning. However, Prime Minister May has not yet had a serious threat to her leadership as her party is acutely aware that a Conservative implosion could lead to losing power altogether.

The actual details are still far from decided and in fact it still remains to be seen if the EU believe this White Paper is a viable starting point to begin negotiations. As throughout the Brexit process uncertainty remains.

Globally, the escalation of trade wars, primarily between China and the US, is concerning. This threatens to destabilise global economic growth and could lead to investors becoming more risk averse. However, there is still time for tensions to be defused.

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Allister Langlands, chairman, Standard Life UK Smaller Companies: Last year I wrote of three events that had been largely unforeseen and which would be expected to have a significant bearing on the macro-economic landscape. Twelve months later, two of those issues, the Brexit negotiations and the decisions of Donald Trump, continue to influence market movements and the geopolitical backdrop. The remaining challenge identified last year, that of the UK being run by a minority government, does seem to have been less problematic than we had anticipated, but the evolving Brexit negotiations still have the ability to test that.

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Harry Nimmo, investment manager, Standard Life UK Smaller Companies: The two over-arching issues going forward are Brexit and the threat of trade wars. Bad outcomes in both cases could cause mayhem far beyond the realm of British smaller companies. Investors thus continue to favour better quality, growing companies with strong business momentum.

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Asia

(compare Asian funds [here](#))

Charles Clarke, chairman, Aberdeen Asian Income Fund: Asian markets are expected to remain volatile given political posturing, inflation and protectionism that are clouding the horizon. Against this backdrop, China's economy remains largely robust. Improving consumer sentiment in the second-largest economy in the world, as well as across the Asia region, provides some buffer for earnings growth, and therefore dividend payouts, against trade-related disruptions.

Tightening monetary policy in the US has compelled Asian central banks to respond to external pressures on local currencies and rising oil prices. Meanwhile, governments are taking the opportunity to engage in reforms that will strengthen their economies in the longer term, which should help calm volatility and make the region more tempting for foreign investors.

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North America

(compare North American funds [here](#))

Dr Kevin Carter, chair, JPMorgan American: The US economy has continued to grow well over the reporting period, supporting company profits, which have also benefited from the corporate tax cuts passed by Congress late last year. However, as intimated in my recent statements, we need to recognise that this present expansion cycle is very long lived, and this is likewise true for the stock market cycle it has supported. The Federal Reserve has been slowly raising short term interest rates and as expected this is having an effect on broader capital markets.

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Davina Walter, chairman, JPMorgan US Smaller Companies: There is no doubt that US markets are looking 'fairly valued' and therefore forecasting the outlook has become as challenging as predicting what the next utterance from the President will be on his Twitter account.

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Latin America

(compare Latin America funds [here](#))

Howard Myles, chairman, JPMorgan Brazil: Whilst economic activity in Brazil is improving slowly, the increased volatility seen in recent months is expected to continue in the near term, as markets react to economic and political developments.

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Luis Carrillo, Sophie Bosch De Hood, managers, JPMorgan Brazil: Although disappointing recent macro trends have been of some concern, we continue to believe that the primary drivers of the market this year will be the gradual recovery of the Brazilian economy, with increased levels of consumer consumption and corporate investment, as well as the presidential elections. In these circumstances, market volatility may offer opportunities to add to quality names at attractive valuations. Expectations for a strong reform program seem to be low at the current time; however, we believe the next administration will be forced by circumstances, at a minimum, to enact social security and tax reform in 2019. Rising commodity prices have been supportive of commodity exporting markets and companies, and we continue to monitor our exposure to these sectors from a risk perspective.

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Carolyn Dobson, chairman, BlackRock Latin American: The outlook for the Latin American region remains uncertain in the second half of 2018. Despite this, there are reasons to be cautiously optimistic. The landslide election victory in Mexico for the presidency and congress, along with positive news on trade negotiations with the US, holds promise for a more stable political environment. In the region's largest economy, Brazil, much will hinge on the outcome of the forthcoming election in October, and the ability of the new administration to tackle the much needed fiscal reform, and in particular to put state pension spending on a firmer footing.

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Will Landers, investment manager, BlackRock Latin American: Brazilian risk assets are likely to remain volatile through the election. Meanwhile, after a landslide victory for the presidency and congress, all eyes remain on how much of AMLO [*Andrés Manuel López Obrador*]'s campaign rhetoric will flow through into practice. We expect a less controversial administration initially with a more tempered agenda. We continue to be underweight Chile due to rich valuations and lack of free-float liquidity, and have become more cautious on Peru given disappointing growth figures. We are keeping a close eye on Argentine inflation and the effectiveness of government measures to stabilize the currency; we have initiated a position in Colombia given higher oil prices, which will reduce fiscal concerns.

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Infrastructure - Renewable Energy

(compare Infrastructure - Renewable Energy funds [here](#))

Helen Mahy CBE, chairman, The Renewables Infrastructure Group: Yield focused investors worldwide continue to sustain high demand for infrastructure investments with renewables being a major subsector of the asset class. Whilst this is positive for asset valuations, securing new investments at sensible prices is challenging in this competitive market.

In the UK, new project development has been mainly in the offshore market which is where the government has concentrated its subsidy allocations. Outside of the UK, onshore wind and solar PV developments continue at pace. Utility scale batteries are reducing in cost and we expect to see further investment opportunities in this sector in due course.

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Reinsurance

(compare Sector Specialists: Insurance & Reinsurance [here](#))

James Keyes, chairman, CATCo Reinsurance Opportunities Fund: Looking forward to the January 2019 renewals, the traditional reinsurance market and ILS funds are expected to experience further rate declines, in the absence of major catastrophic loss activity during the last half of 2018. However, the Company expects the 2019 January deals will be renewed at similar terms to those that were achieved during 2018.

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Property

(compare Property: Direct – UK funds [here](#))

Richard Jewson, chairman, Tritax Big Box REIT: Changing dynamics in the logistics market, in particular technical innovation in the form of e-commerce, is affecting fortunes on the high street with a number of well-publicised retailers having succumbed to a challenging trading environment.

Despite the depreciation of Sterling having made imports more expensive, we feel that Brexit does not yet appear to be affecting occupier demand for Big Box space significantly. We expect to see continued healthy occupier requirements for well-located logistics buildings which enable occupiers to remain competitive by delivering economies of scale benefits, cost savings and improved operational efficiencies.

Market rental growth remains ahead of underlying inflation and we believe that trend will continue in the near term. This supports the continued strong investment demand for UK logistics assets which produced further yield compression in the first half of this year.

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Rupert Barclay, chairman, Impact Healthcare REIT: It is impossible to predict the outcome of Brexit. Looking further ahead, the fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to relieve the pressure on adult social care and hospitals. Residential care homes will be an important part of the solution over the coming years.

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Melvyn Egglenton, chairman, Hansteen: We continue to enjoy a beneficial backdrop to our business. Occupational demand is solid with very limited supply in all our regions. Rents and capital values are growing but not yet at a stage where any new meaningful supply is even on the horizon.

The investment case for urban multi-let industrials is stronger than ever and increasingly well understood. As a result, we continue to see new capital looking to invest.

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Debt

(compare Sector Specialist – Debt funds [here](#))

Stuart Edwards, manager, Managed Liquidity Share Portfolio, Invesco Perpetual Select: The BoE has consistently guided the market that any tightening of monetary policy will be gradual and limited and we anticipate that this approach will continue.

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William Frewen, chairman, NB Global Floating Rate Income Fund: We believe that the outlook for the remainder of 2018 is favourable for short-duration asset classes such as senior secured floating rate loans. [There is a] broadly expected rising interest rate outlook in major economies. That scenario over the coming years is of a measured continuation in Federal Reserve interest rate increases in the United States, a gradual lifting of the Bank of England base rate in the U.K., noting the rate rise by the Bank of England in August 2018, and the signalled imminent but gradual start of quantitative tightening by the European Central Bank in the Eurozone. While specific timing is impossible to predict, we expect to see further rate rises in 2018 in the U.S. towards the end of the year.

Commensurate with policymakers' stated gradual and measured approach to interest rate increases, the Investment Manager believes that default rates will remain below historical levels and that credit quality is expected to remain favourable with the

exception of some identifiable areas, such as within the commodity sector. Furthermore, the constraints put on lending banks by regulators through the Interagency Guidance on Leveraged Lending should continue to limit excess leverage in new issuance. These positive tailwinds come with the caveat of significant political uncertainty in several key markets. Such factors, which include potential disruption in global trade relations and the outcome of the U.K.'s Brexit negotiations, have the potential to derail positive momentum and could lead to increased volatility across global markets.

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The managers, NB Global Floating Rate Income Fund: Against a backdrop of continued strong GDP growth in the U.S. and three or four expected rate hikes over the next 12 months, our outlook for the loan market remains positive. Companies continue to report strong cash flow growth, which has allowed them to generate strong free cash flow and keep leverage at reasonable levels. We continue to believe that loans remain compelling given the combination of attractive income, short duration and low volatility.

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Tim Scholefield, chairman, City Merchants High Yield Trust: The cautious tone to markets reflected a number of factors. Concerns over the pace of economic growth in the UK and in Europe, rising political tensions and the prospect of an end to the exceptionally favourable monetary stimulus maintained since the financial crisis of 2008 all provided significant headwinds for high yield securities in the first six months of the year.

Looking forward over the remainder of the year and into 2019 we have seen some positive developments within credit markets in recent months, notably signs of a shift in the balance of influence away from issuers and back to investors. We are also encouraged by recent evidence that global economic activity appears to be growing at a healthy clip, despite the worrying rise in political and trade tensions. In the UK, activity has rebounded from the slowdown in the first months of the year, and there are indications that growth has stabilised within the Euro bloc.

Nevertheless, the Board believes a note of caution continues to be appropriate. Credit spreads remain low by historical standards, global trade tensions seem likely to continue to rise, and central banks have barely begun the process of unwinding the policy of Quantitative Easing. Brexit remains very much a 'wild card', and will no doubt continue to dominate the political landscape for the foreseeable future.

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Rhys Davies, Paul Read and Paul Causer, portfolio managers, City Merchants High Yield Trust: The rise in euro denominated credit spreads over the past six months has brought some value back into the European high yield bond market.

That said, credit spreads are low by historical comparison and are only back to levels of late 2016. Furthermore, the market faces significant headwinds including: political uncertainty in Italy, the removal of the ECB stimulus at the end of the year, disruptions to global trade and the ongoing uncertainty surrounding Brexit. On the other hand, companies have been able to lock in very favourable borrowing costs. As a result, despite the likelihood for interest rates to rise, we would expect, all else being equal, default rates to remain low in the months ahead.

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Private Equity

(compare Private Equity funds [here](#))

Tim Breedon CBE, chairman, APAX Global Alpha: Public market sentiment has been influenced by increased protectionism and the tariff "tit-for-tat" of major economies. Unsurprisingly this has manifested itself in jittery equity markets, in particular in those economies and sectors most exposed to exports. Volatility has also spilled over into bond markets where credit spreads have widened. Private Equity valuations however do not appear to have corrected yet and remain at high levels.

Credit markets may offer a better risk-reward profile than they have in the past couple of years, in light of higher rates and widening credit spreads. Investments in public equity will need to take into account greater market volatility arising from increased political and macroeconomic risks.

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The managers, APAX Global Alpha: At face value, the global macroeconomic picture looks very positive. Growth rates in most economies are up on previous years and unemployment is approaching multi-decade lows in several economies, including some of the largest. Consensus forecasts see the trends continuing in the mid-term, marking this as one of the largest post-war expansions. The forecasters' central scenario is still for global growth to be above long-term trends with economies testing capacity limits.

However, the return of protectionism has not only reintroduced volatility in the capital markets but could also have significant effects on the global growth outlook. In fact, some non-US metrics may already be starting to show the impact of this shift in expectations and sentiment. For example, the Eurozone manufacturing index PMI fell to an 18-month low of 54.9 in June, down from 55.5 in May. While this is still expansionary, it shows that industrial companies are feeling a change for the negative. The US ISM Manufacturing Index came in at 60.2 in June after May's 58.7. This was the second highest reading since 2004, reflecting the ongoing robustness of the US economy fuelled by a huge fiscal impulse. Nevertheless, trade disputes are likely to negatively affect the US eventually and in addition there will be an enormous US fiscal deficit to address at some point. The Chinese PMI is also not showing any slowdown but this appears to be more due to the mid-term momentum carrying over from 2017 rather than actual industrial strength. China and Germany are arguably the two countries with the most to lose if the tariff war escalates. In addition to the tariff row, there are lingering conflicts and political uncertainties, such as those concerning Iran, Korea and Brexit.

Regarding Brexit, the UK finally seems to have set course for a Norwegian-style future relationship with the EU. This in our view is a good decision for its economy, which if executed would provide a working model for continued trade flows and economic collaboration. Yet we believe there are still significant risks to the path taken. First, there is clearly resistance within parts of the British political establishment which could scupper the strategic direction. Second, the EU might not agree to the UK's proposal as it could be viewed as "cherry picking". Third, coordinating the UK's and the EU's positions and the need of approval in 28 legislative systems, creates enormous process risk in an already short timeline. A hard Brexit therefore still remains a possibility and indeed a default position if there is no deal agreed in time.

What does this mean for investments? Making a call on the economic health for the next two years is harder than six months ago, as the outcome appears dependent on "man-made" factors rather than traditional economic drivers. That said, political risks

affect different sectors and different asset classes with varying degrees of severity and picking the "right" investment areas in the coming quarters could become a particularly rewarding exercise.

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Hamish Mair, Investment Manager, F&C Private Equity Trust: It is clear that the private equity market is very active across Europe and further afield. The recurrent topic of comment is whether pricing levels, which appear to be high historically, will be sustained and whether this poses a longer-term threat to private equity returns. Price rises of this type are usually self-correcting with the first indicator being a reduction in the volume of deals. There is some evidence that this first stage is happening as deal volumes appear to have peaked last year. The headline price at which deals are done is only part of the picture as increasingly managers make add-on acquisitions to their initial 'platform' investments usually at lower prices bringing their 'in price' down significantly.

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Hedge funds

(compare Sector Specialist: Hedge funds [here](#))

Marc Antoine Autheman, chairman, Third Point Offshore: The manager remains constructive on market performance and the current portfolio through year end primarily due to several positive characteristics in the broader global economic environment. Among others, these include growth in the US remaining stable or increasing modestly due to government fiscal stimulus and continued evidence of stable inflation in the near-term.

The manager believes the risk of a recession in the near-term is low and several positive tailwinds including fiscal stimulus in the United States should result in equity markets continuing to appreciate, albeit at a slower pace when compared to 2017.

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Commodities & Natural Resources

(compare Sector Specialist: Commodities & Natural Resources funds [here](#))

Richard Hayden, chairman, Riverstone Energy: What a difference a year makes. At this point last year, the price of WTI was struggling to breach \$50 per barrel, as the market remained stubbornly well supplied despite robust demand and production decreases within OPEC. This dynamic has now reversed, with prices gaining 50 per cent. over the last twelve months to reach levels not seen since 2014. In a clear indication of how much the market has changed, OPEC and Russia are now in the process of increasing production in an attempt to alleviate upwards pressure on prices.

The success of this strategy depends on a number of variables which will play out over the coming months. OPEC's ability to rapidly increase production is subject to the amount of spare capacity, which predominately resides with Saudi Arabia, Kuwait and the United Arab Emirates. This will need to compensate for production declines elsewhere now that global inventories have declined below their five year average. Iran

remains a wildcard, with the Trump Administration restoring sanctions which could disrupt a substantial portion of Iran's 3.8 million barrels per day of production. Geopolitical instability continues to result in supply shocks in Libya and Venezuela, with the latter experiencing the lowest level of drilling activity in decades.

North America has the potential to meet global shortfalls. U.S. oil production has grown rapidly - from less than 6 million barrels per day in 2010 to a record of 11 million barrels per day in July. However, signs are beginning to appear that shale's ability to continually grow production could be challenged. This is due to the reversal of several features responsible for its rapid growth, such as the exhaustion of "core" drilling locations, limits in productivity enhancements, service cost inflation and increasing levels of capital discipline by the industry.

We are also witnessing instances in which the long-cycle nature of infrastructure, which requires a payback spanning a decade or more, has failed to keep pace with the short-cycle production of shale wells. This dynamic has become evident in the Permian region, as oil and associated gas production has more than doubled since the oil market collapse in 2014. Meanwhile, a lack of takeaway capacity has pushed pipelines to their physical limits. As a result, the differential between commodity prices at Permian hubs has widened considerably against their national benchmarks.

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Ian Cockerill, chairman, BlackRock World Mining Trust: Higher levels of uncertainty will be a key theme for the remainder of 2018. US-China economic tensions have increased significantly and a further sharp escalation in retaliatory tariffs globally could act as a brake on economic expansion. The unprecedented monetary policy accommodation of recent years is also now ending with the US Federal Reserve pushing on with normalisation and the European Central Bank set to wind down its asset purchases by the end of this year.

Against this, global economic data has remained healthy and valuations in the mining sector remain competitive relative to broader equity markets. Free cash flow in the sector is also close to the highest it has ever been and we expect the focus on financial prudence, particularly among the largest globally diversified miners, to continue in a generally supportive price environment. Consequently, despite recent market volatility and the positive performance in the sector over the past couple of years, we remain cautiously optimistic on the outlook, as companies are better positioned to withstand commodity price volatility.

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Evy Hambro and Olivia Markham, investment managers, BlackRock World Mining Trust: Like last year, it is disappointing to have seen the gains made at the start of the year given back so quickly, especially as companies are now carrying levels of gearing well below historical measures. We remain positive on mining equities as they continue to report high margins, low levels of cost inflation and well above average levels of free cash flow generation. However, we are also well aware of the risks to this outlook both from heightened trade tensions and the impact this would have on business confidence, as well as investor pressure on companies to invest for the sake of volume growth. It is essential that companies remain disciplined or they run the risk of derailing a rotation of investor capital back into the mining sector. Should share prices be impacted by these risks, we remain ready to increase our exposure to the sector as it is our expectation that this will be limited in scale due to strong corporate balance sheets.

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QuotedData

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