The immutables

We have argued for several years that the global economy is fundamentally dull. Inflation is low and is most unlikely to change, bar some short-term distortions from energy prices. Global economic growth is similarly uninteresting: it is low, but positive. This is open to greater debate in the short-term and there are a good number of respected commentators and economists currently predicting a recession. We hope it is not sitting on the fence too much to say that yes, this is possible. It is unlikely, in our view, but certainly possible. That, though, misses the point. This is not a major economic downturn, it is a fluctuation in the prolonged cycle, caused by short-term, tariff-induced unease.

Our point, however, is that long-term low economic growth and low inflation are very solid backdrops for both equities and bonds. Despite the occasionally deafening noise from Brexit, the trade wars, the oil price, China, Hong Kong, Europe and the man in the moon, this remains the case.

The noise also matters. UK domestic assets are unloved by international investors and priced at a considerable discount. This will partly correct as and when the UK's departure from the EU is finally given a gate number, but there are big issues to be resolved before we have confidence this will last. The existential challenges to our constitution and the working relationship between the executive, legislature, judiciary and monarchy make a material difference. The current prime minister is pushing the boundaries as never before.

We have hopefully stressed throughout the period since the 2016 Referendum that it is not our place to have views on the rights or wrongs of Brexit. Our job is rather to understand the risks and opportunities, especially from the perspective of international investors. It is they who generally determine how assets perform over the shorter-term. As we write, we are more confused than at any time in the post Referendum period. Given our previous levels of bewilderment, this is quite an achievement.

The role of Brexit in this is irrelevant; it is about precedent in the power of the executive. Power relative to the legislature, via prorogation, and relative to the law. Brexit is the reddest of herrings in this regard. For the international investor, this matters. It is an issue of trust and confidence. If one invests into UK assets, what confidence can one have that the government (the executive) will abide by the constitution and the law. Could Jeremy Corbyn prorogue parliament to ease the nationalization of the utilities, for example?

This year we have been guilty in placing too much trust in the likelihood that these cheap UK assets would return to favour. Their time will come and we have already seen a number of share prices react very positively to suggestions that the UK and European Union might agree a deal (any deal). That remains the situation. It would be very much for the better if the tensions in the constitution were not further stretched in achieving this. If there is one thing of which we can be sure, it is that this is, regrettably, not the last time that we shall have to write about this interminable issue.

We have made a number of changes to our Model Portfolios. The most important of these reflect our wish to have a smaller bias in our equity exposure to 'value', and also a failure of patience with two of our so-called Absolute Return Funds: Jupiter Absolute Return and Merian GEAR. The frustratingly consistent failure of both these funds to deliver the performance we had hoped has led to both being shown the exit across the range of Models. As well as increasing our exposure to quality and growth styles, we have raised our exposure to gold. This has the dual effect of enhancing our downside protection and raising our exposure to the US dollar.

We have taken the opportunity to implement a small number of other fine tunings of the Portfolios. All of these are detailed below:

In our **Cautious (0-40% Equity) Model Portfolio** we reduced our absolute return weighting by selling our positions in Jupiter Absolute Return and Merian Global Equity Absolute Return. Further to this we trimmed weightings in GAM UK Equity Income, Man GLG Undervalued Assets and BMO Property Growth & Income. We introduced new positions in Investec UK Alpha, Church House Tenax Absolute Return Strategies, Levendi Thornbridge Defined Return and RM Alternative Income. Also, we increased our allocation to gold via our holding in ETFS Physical Gold.

In our **Cautious (0-40% Equity) Higher Income Model Portfolio** we sold our position in Jupiter Absolute Return. We also reduced our property exposure by trimming our allocation to BMO Property Growth & Income. We introduced new positions in Church House Tenax Absolute Return Strategies, RM Alternative Income and ETFS Physical Gold.

We didn’t make any changes to the underlying holdings in our **Cautious (0-40% Equity) Sustainable World Model Portfolio** this quarter, however we did rebalance the portfolio.

In our **Moderate (40-60% Equity) Model Portfolio** we sold our position in Jupiter Absolute Return. We also trimmed our positions in iShares UK Gilts 0-5yr ETF, JO Hambro UK Dynamic, GAM UK Equity Income and Janus Henderson UK Absolute Return. We introduced a new position in Levendi Defined Return, whilst adding to our existing positions in Investec UK Alpha, Artemis US Select, WHEB Sustainability and ETFS Physical Gold.

In our **Moderate (40-60% Equity) Higher Income Model Portfolio** we trimmed our positions in Royal London Short Duration Global High Yield Bond, Aviva Strategic Bond and BMO Property Growth & Income. We introduced new positions in RM Alternative Income and ETFS Physical Gold, whilst adding to our existing position in M&G Emerging Markets Bond.

In our **Moderate (40-60% Equity) Sustainable World Model Portfolio** we trimmed our positions in EdenTree Amity Sterling Bond, Rathbone Ethical Bond, Liontrust Sustainable Future UK Growth, EdenTree Amity UK, Janus Henderson UK Responsible Income and Troy Trojan Ethical Income. We introduced a new position in Royal London Sustainable Leaders Trust, whilst adding to existing positions in EdenTree Amity International and Janus Henderson Global Sustainable Equity.

In our **Adventurous (60-80% Equity) Model Portfolio** we sold our positions in Threadneedle High Yield Bond, Polar Capital UK Value Opportunies and Schroder Asian Alpha Plus, whilst trimming our exisiting position in Merian Gold & Silver. We introduced new positions in Polar Capital Biotechnology, Liontrust Sustainable Future UK Growth and Fidelity Asia Pacific Opportunities.

In our **Adventurous (60-80% Equity) Higher Income Model Portfolio** we trimmed our positions in Man GLG UK Income, GAM UK Equity Income, Schroder Income Maximiser, JO Hambro UK Dynamic, BMO Property Growth & Income and Sarasin Global Real Estate Equity.

We didn’t make any changes to the underlying holdings in our **Adventurous (60-80% Equity) Sustainable World Model Portfolio** this quarter, however we did rebalance the portfolio.

In our **Equity Risk (80-100% Equity) Model Portfolio** we sold our position in Polar Capital UK Value Opportunities. We also reduced our postion in Schroder Asian Alpha Plus. Further to this we introduced a new position in Liontrust Sustainable Future UK Growth, whilst adding to our existing position in Fidelity Asia Pacific Opportunities.

In our **Equity Risk (80-100% Equity) Higher Income Model Portfolio** we trimmed our positions in Man GLG UK Income, GAM UK Equity Income, JO Hambro UK Dynamic, Schroder Income Maximiser and BMO Property Growth & Income. We also introduced new positions in Henderson UK Responsible Income and RM Alternative Income.

In our **Equity Risk (80-100% Equity) Sustainable World Model Portfolio** we sold our position in Premier Ethical. We also introduced a new position in Hermes Impact Opportunities.

Jim Wood-Smith

Chief Investment Officer, Private Clients

Important Information

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