

VAM

DISCRETIONARY

FUNDS

## Monthly Investment Review and Outlook

Month in review - December 2018

### Markets

It was a poor month for equities. December was a particularly bad month for the US and Japan with losses of -8.7% and -6.8% respectively. In GBP terms, Emerging Markets fell -1.7%. The UK and Europe also declined -3.8% and -4.8% respectively.

UK bonds gained after the prior month's losses. Gilts rose 2.4% and corporate bonds gained +1.4%. In the US and Europe, bonds rallied in local currency terms, gaining +2.1% and +0.9% respectively.

GBP remained stable versus USD, but weakened versus EUR (-1.3%) and versus JPY (-3.4%).

In USD terms, oil continued to decline sharply, falling -10.8%, while gold strengthened a further +5%.

### Investment Outlook

The fourth quarter ended much as it began – a challenging environment for risk assets. The combination of higher US interest rates and a slowing of growth momentum has undermined stocks, with concerns that trade tensions will cause activity to slow further.

Investors have also been concerned about the outlook for corporate earnings due to trade friction. However, on the whole, earnings have met or beaten expectations.

The Manager recognises that a tighter liquidity environment and more moderate outlook for growth, coupled with ongoing political risk in the forms of trade friction especially, could cause continued market volatility.

However, in the current economic climate, the Manager still believes that shares can continue to outperform bonds, although it expects more modest returns and higher volatility than 2017. Security selection – being in the right companies delivering strong earnings – will continue to be a key driver of performance.

At a regional equity level, the Manager favours the US, Europe, Japan and select Emerging Markets. It remains underweight the UK, where uncertainty remains high. In fixed income, high quality, short duration assets are at the core of its strategy.

As ever, the Manager remains well-diversified across asset classes, regions and sectors, and it continues to maintain a small allocation to alternatives for diversification.

Source: Close Brothers Asset Management

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