

VAM

DISCRETIONARY

FUNDS

Monthly Investment Review and Outlook

Month in review - November 2018

Markets

It was a mixed month for equities, with regional performance diverging. In GBP terms, Emerging Markets rallied +4.5%, and the US and Japan gained +2.1% and +1.1% respectively. In contrast, the UK declined -1.7% and Europe fell -0.8%.

UK bonds unwound the prior month's gains. Gilts declined -1.3% and corporate bonds fell -1.9%. In the US and Europe, bonds rallied in local currency terms, gaining +0.9% and +0.6% respectively.

GBP weakened modestly versus USD (-0.1%) and EUR (-0.2%), but strengthened versus JPY (+0.4%).

In USD terms, oil continued to decline sharply, falling -22.0%, while gold strengthened a further +0.2%.

Investment Outlook

The fourth quarter has, so far, been challenging for risk assets. Interest rates have risen sharply in recent months, putting valuations under pressure. Secondly, outside the US, there has been some slowing in growth momentum, 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 the Manager's 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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