# S4W SEPTEMBER 2018

## OUR REVIEW OF KEY EVENTS DURING AUGUST & SEPTEMBER

27/09/2018

### GLOBAL FINANCIAL NEWS

The threat to escalate the Sino/US trade war was carried out this summer with Trump's $200bn of tariffs coming into play. China's retaliation was as expected, markets seem to expect global trade flows to shift in response. The issue should be seen in inflation fairly quickly. Pressure from oil prices could also start to be a factor with the Brent Crude price now back up to levels last seen in November 2014. Ten-year US Treasury yields have climbed back to over 3% in recent days as a result and last night the Fed raised its short-term interest rate to a range of 2-2.25%. A Bank of America Merrill Lynch survey of Investment Managers reports that investors are now concerned about slower growth with the average cash balance of 5.1% compared with a 10-year average of 4.5%.

### DOMESTIC NEWS

It is party conference season and the Labour Party are beginning to coax a Brexit strategy out of the ashes of a wasted summer. The pitch is not just to the Party faithful but to the growing numbers who like neither the Government's plans for Brexit nor their handling of it. The worry for markets is the accompanying Labour Party policies which will hit corporate earnings. In our discussions about Brexit with UK Fund Managers, they remain confident that they can identify companies that will grow under most scenarios. What they really worry about is a Corbyn Government. Mrs May battled with the EU and was foiled at the recent summit and the unresolved substantive issues remain unchanged from the weekend at Chequers when the current plan was agreed. On the economic front we had an unexpected rise in inflation to 2.7%. The Bank of England Monetary Policy Committee had voted unanimously in August to keep rates at 0.75%. Markets are currently pricing in a 55% chance of a rate hike in May 2019.

### MARKETS

Despite the noise surrounding global trade, equity markets had a relatively good summer with the global index showing gains of just over 2.5% in the period. The best performer by far was the US whilst European and Asian markets were flat. Investors in Japan were rewarded with a strong rally, but the Emerging markets picture remained poor and the UK extended its losses. Global Emerging markets have been in a bear market for most of this year and whilst the strong dollar and higher oil price are undoubted negatives, the selloff has not differentiated between those which have learned the lessons of the last financial crisis and those that have not. Whilst the headwinds remain cause for concern, it is likely that, in the event of a market correction, Emerging Markets will lead on the upside as they have on the downside.

### INHERITANCE TAX

HMRC has updated its guidance on the residential nil rate band for Inheritance Tax (RNRB). An estate will be entitled to an *additional* £125,000 per person of RNRB in 2018/19. By April 2020 this will be worth £175,000 per individual, meaning that IHT may only apply to estates worth over £1m from this date. The criteria to meet this additional relief include:

- the person dies on or after 6th April 2017
- the person owns a home, or a share of one, so that it's included in their estate
- their direct descendants such as children or grandchildren inherit the home, or a share of it
- For estates valued at more than £2 million, the additional threshold (and any transferred additional threshold) will be gradually withdrawn or tapered away

## CURRENT STRATEGY

We started the year with a cautious tone and nothing to date has changed our opinion that the turn in the global interest rate cycle and the natural end to very long period of economic expansion warrants a cautious outlook. Particularly in the UK where domestic issues may serve to exacerbate any external shocks. We have continued to lower the risk profile of our model portfolios. However, we believe that the long-term benefits of stock market investment, with the prospect of capital gains and compound dividend growth, provide the best source of risk adjusted returns for the long-term investor. The old adage of "Time not timing" is particularly true at the moment.

## FORECASTING BREXIT?

The great Sir Winston Churchill had many an apposite comment about the British. But will he be right about this one?

"The British never draw a line without blurring it." 1948

***Sir Winston Churchill (1874 – 1965)***

FTSE 100 >7,511.49| DOW >26,385.28 | HANG SENG >27,715.67| GOLD > $1,199.25 | £1= $1.31 | £1 = €1.12



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