



MPS and Volare market update and portfolio positioning

The last month has seen continued volatility in equity markets. Concerns have been focused on Brexit, US/China trade policy, US interest rates and the state of the global economy going into next year. The S&P 500 has traded a 6% range over the last two months after the October falls. In the UK, the FTSE 100 made a new low for the year. The pound fell, meanwhile government bonds rallied.

Brexit has been the main talking point for the British press but for equity markets, US/China trade has been more influential. Mrs May tried to sell the deal on offer from the EU to parliament without success and she is going back to the EU to try and get something more acceptable. She saw off a challenge to her leadership and, unless she resigns, she cannot be challenged again for another year. Of the numerous scenarios around Brexit, the change of Tory leader has been rejected for now. However, the path forward remains unclear. Following a vote in parliament, MPs will have the last say on how we leave the EU and there is no majority for a "hard Brexit" falling back on World Trade Organisation terms. The seemingly never ending uncertainty is now carrying on into January, leaving the UK equity market as amongst the least loved in developed markets as international investors are deterred. When rumours suggesting a deal on Brexit emerged, the pound rallied; it has however since fallen back since the deal ran into trouble. The Gilt market has pushed higher on the back of the uncertainty supported by a flight to safety. Ten-year yields have fallen from 1.7% to 1.2% and we now see less value here and are turning more cautious on the outlook for UK bonds. The fall in the pound will add to inflation so we are less wary of inflation-linked bonds.

Trade has been the main swing factor in international markets. The meeting between Mr Trump and Chinese President Xi appeared to go well with a 90-day moratorium on new tariffs. However, there was no written statement. After an initially positive reaction, with no confirmation on the details, equity markets turned negative as doubt emerged. This was not helped by the arrest of the Chief Financial Officer of Huawei in Canada on a US extradition request and accusations of breaking sanctions on Iran. Despite this, there does seem to have been some give from the Chinese on tariffs and tighter regulation on intellectual property. The US is demanding more but with Chinese growth slowing and Trump wanting to get re-elected in 2020 we expect that a deal will eventually be forthcoming.

The Federal Reserve ("Fed") had been expected to raise interest rates in December and three or four times next year. However, the rhetoric from the Fed has moderated somewhat in the last month. It takes as much as two years for rate rises to impact on the economy and it is now three years since the first rate increase in this cycle. There are concerns that trade disputes are impacting growth and as a result we expect the Fed to slow the speed of rate rises. We continue to expect a rate rise in December but the market is now only pricing one or two rate hikes next year. We will be watching the December Fed meeting with interest.

We have been more cautious on European equity markets for some time, despite the apparently attractive valuations. While there seems to be some sign of progress on the Italian budget, the "yellow vests" protests in France give us concern regarding the future of economic reforms both in France and elsewhere should these protests spread.

Since the start of December the MPS Investment Committee (IC) has met twice to discuss the market environment and the construction of the portfolios. In early December, we decided to add more funds (Fidelity Global Dividend and Stewart Asia Pacific Leaders) to the portfolios. This decision was taken in order to increase the number of underlying companies, regions and sectors within the portfolios but also to reduce the single fund risk that is greater in this period of heightened volatility. In our mid month IC we decided to keep the portfolios unchanged.

As we go into the New Year we expect markets to remain volatile as markets swing on the words of central bankers and politicians. However, we believe that valuations are not stretched in equity markets and we should look through short term volatility for longer term gains. In a world where interest rates are likely to be higher in the long-term, we need to be more careful with the use of bonds in balancing portfolios.

Key market data (as at 30/11/18)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return)								
FTSE All-Share (GBP)	3823.3	-1.6	-6.1	-7.7	-1.5	22.6	30.3	-4.1
S&P 500 (USD)	2760.2	2.0	-4.4	3.0	6.3	41.1	69.9	-0.6
Euro Stoxx 50 (EUR)	3173.1	-0.7	-6.3	-6.4	-8.7	-1.9	17.7	-9.9
Nikkei 225 (JPY)	22351.1	2.0	-1.5	1.7	0.3	19.9	56.5	-1.5
MSCI World (USD)	2041.4	1.1	-5.8	-1.7	0.1	27.7	38.7	-6.2
MSCI AC Asia Pacific ex Japan (USD)	491.9	4.5	-7.5	-11.1	-8.7	29.9	19.1	-17.0
MSCI Emerging Markets (USD)	994.7	4.1	-5.5	-9.9	-9.1	31.0	10.4	-19.0
10 year bond yields								
UK	1.36	-0.07	-0.06	0.13	0.03	-0.46	-1.48	-0.15
US	2.99	-0.16	0.13	0.13	0.58	0.78	0.19	0.28
Germany	0.31	-0.07	-0.01	-0.03	-0.05	-0.16	-1.43	-0.38
Japan	0.09	-0.04	-0.02	0.05	0.05	-0.22	-0.53	0.01
Commodities (USD)								
Gold	1220.5	0.5	1.6	-6.0	-4.3	14.6	0.1	-9.3
Oil	58.71	-22.2	-24.2	-24.3	-7.6	31.6	-47.3	-15.0
Currency								
GBP-USD	1.27	-0.13	-1.63	-4.13	-5.74	-15.32	-22.05	-10.16
GBP-EUR	1.13	-0.15	0.88	-0.91	-0.82	-20.93	-6.71	-1.43
EUR-USD	1.13	0.04	-2.46	-3.22	-4.93	7.12	-16.43	-8.84
USD-JPY	113.57	0.56	2.29	4.37	0.92	-7.75	10.33	4.01

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

MPS Performance and volatility as at 30 November 2018

	Target*			Five year annualised	
	Volatility %	Return % pa	Maximum Loss %	Volatility %	Return %
Defensive	2 to 4.75	3 to 4.5	-5.0	3.46	5.00
Cautious	4 to 7	4.5 to 6	-9.1	4.06	5.70
Balanced	5 to 9	5.2 to 7.5	-13.5	5.55	6.81
Growth	8 to 13	6 to 8	-19.0	6.56	7.81
Adventurous	10 to 16	7 to 10	-25.0	7.37	8.61

*Where targets are given, these are for indication purposes only; the actual figures achieved could be more or less than the ranges given.

Quarterly figures are net of underlying fund costs but gross of all other charges. Other charges include the LGT Vestra discretionary management fee, the platform custody charge, all adviser charges and where applicable any transaction costs (e.g. ptm / trading charges)

MPS and Volare fund positioning as at 17 December 2018

	Defensive	Cautious	Balanced	Growth	Adventurous	Strategic Income
Fixed Income	36	27	18	10	0	39
Jupiter Strategic Bond	8	7	5			7
M&G Strategic Corporate Bond						6
L&G All Stocks Index Linked Gilt Index	5	4	4	3		
Invesco Perpetual Monthly Income Plus	8	6	6	5		7
AXA US Short Duration High Yield Bond	8	5				7
PIMCO Low Duration Real Return	7	5	3	2		6
Invesco Perpetual Corporate Bond						6
UK Equities	8	14	22	26	28	19
Old Mutual UK Smaller Companies			3	4	6	
Marlborough Multi Cap Income						4
Schroder Income Maximiser						5
Threadneedle UK Equity Income						4
Schroder Income	4	4	7	7	7	
RWC Enhanced Income						6
CF Lindsell Train UK Equity	4	5	6	8	7	
L&G FTSE 100 Index Trust		5	6	7	8	
International Equities	15	20	38	46	57	25
<i>Europe</i>	<i>0</i>	<i>0</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>3</i>
Blackrock European Dynamic			3	4	5	
Blackrock Continental European Income						3
<i>North America</i>	<i>4</i>	<i>4</i>	<i>10</i>	<i>11</i>	<i>14</i>	
Morgan Stanley US Advantage	4	4	7	7	9	
Schroder US Mid Cap			3	4	5	
<i>Asia Pacific & EM</i>	<i>0</i>	<i>3</i>	<i>11</i>	<i>12</i>	<i>19</i>	<i>5</i>
Blackrock Asia Special Situations		0	2	2	3	
Stewart Asia Pacific Leaders		3	2	2	2	
Schroder Asian Income Maximiser						5
Baillie Gifford Japanese			3			
Baillie Gifford Japanese Smaller Companies				3	8	
Jupiter India			2	2	2	
RWC Global Emerging Markets			2	3	4	
<i>Global</i>	<i>11</i>	<i>13</i>	<i>14</i>	<i>19</i>	<i>22</i>	<i>17</i>
Fundsmith	6	6	7	8	7	
River & Mercantile World Recovery Fund				3	5	
Artemis Global Income	5	3	4	2	2	8
Fidelity Global Dividend		4	3	6	5	9
L&G Technology Index Trust					3	
Alternatives	34	32	18	16	10	14
<i>Absolute Return</i>	<i>34</i>	<i>32</i>	<i>18</i>	<i>12</i>	<i>7</i>	<i>8</i>
Old Mutual Global Equity Absolute Return	5	5	3	5		
Threadneedle Credit Opps	8	7	4			
Artemis US Absolute Return	7	6	3			
JP Morgan Global Macro Opportunities	4	6	4	7	7	3
Troy Trojan X	4	4	4			
Invesco Perpetual Global Targeted Income						5
Winton Absolute Return	6	4				
<i>Property/Infrastructure</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>4</i>	<i>3</i>	<i>6</i>
Lazard Global Listed Infrastructure				4	3	6
Cash	7	7	4	2	2	3
TOTAL	100	100	100	100	100	100

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