



January market background

A U-turn from the Federal Reserve caps a month of recovery for risk assets

Whilst not entirely a mirror image of December, the month of January was dominated by a broad based recovery in risk appetite across the globe catalysed, unsurprisingly, by a shift in central bank policy. The US Federal Reserve used its January meeting to signal a 'long pause' in their program of interest rate rises and even left the door open for cuts further down the line. In addition, comments on the pace of balance sheet reduction were interpreted as ending the current 'quantitative tightening' sooner than expected, providing additional support for rapidly recovering investor sentiment. The pound also benefitted from this shift to a more 'glass half full' mindset, rallying +3% against the dollar and the euro as the most recent parliamentary actions were seen as reducing the chances of a disorderly Brexit.

The outlook has improved, but the sustainability of January's recovery is dependent on multiple other factors

In our last report we suggested that given a rough -20% de-rating in equity markets over 2018, it wouldn't take much of a change in tone to spark a rally from what looked like very oversold levels. In the end, the actions of the Federal Reserve went much further than most observers expected and are substantive enough to give a serious boost to the overall outlook for 2019. However to know if this January recovery really is sustainable, we will also need to see an improvement in several other indicators, the most important of which are related to the economic outlook in developed nations.

Looking back, one of the more obvious factors which fuelled the weak and messy ending to 2018, was the combined impact of a slowing global economy and deteriorating credit quality in the corporate bond market. This recent shift in Federal Reserve policy will relieve some of the pressure in both areas, but we will also need to see a stabilisation in lead economic indicators and progress in the tortuous US-Sino trade negotiations, before we can believe that the current bounce can develop into a more sustainable rally. As we write, there are reasonable grounds for optimism in both areas, and we only need to look back to 2016 for a similar period when poor sentiment and strong central bank reaction came just at the point when the real economy was already exiting its soft patch.

Closer to home, where the Brexit process remains as complex and opaque as ever, we still need a series of difficult hurdles to be jumped before a more rational investing environment can return. Despite having a good month, sterling still retains the potential to move very significantly up or down from here, depending on news flow - something which we think remains foolish to try to predict in advance. At the margin we are incrementally more positive, in line with the foreign exchange markets view, but not enough to make meaningful changes to your portfolios. We will continue to monitor events daily and suspect that March 29th is unlikely to be the distinct end point that many hope for, but we shall see.

Portfolio performance

Portfolios returned between +1.1% to +1.5% for the month driven by across the board gains in equity managers. The strongest recoveries were in the more value focused managers and sterling-hedged overseas positions (e.g. Neptune Japan). Infrastructure positions were very strong as their relatively high dividend yields attracted some aggressive bargain hunting. The drags on performance came from less equity sensitive strategies, such as UK index-linked gilts and from unhedged overseas positions, which lagged a little on sterling's recovery.



EQUITIES	Negative	Neutral	Positive
UK Equities			•
European Equities		•	
US Equities			•
Japanese Equities			•
Asian/EM Equities		•	
Equity Market Neutral		•	
Equity Hedged Strategies			•
Private Equity			•
FIXED INCOME	Negative	Neutral	Positive
Gilts		•	
Investment Grade Bonds		•	
High Yield Bonds		•	
Fixed Income Multi Strategy			•
OTHER ALTERNATIVES	Negative	Neutral	Positive
Global Macro Trading			•
Commodities		•	
Real Estate	•		

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