SALTUS
Investment Managers

February market background

A cascade of dovishness from central banks underpins another recovery month for risk assets

February was another month during which the actions of the world's central banks had the defining impact on market returns. Expectations for a year of tightening monetary policy evaporated swiftly, as slowing economic momentum forced virtually every central bank of consequence to back away from their original plans and adopt more accommodative stances. Global bond markets duly rallied on the postponement of interest rate rises, with equity markets following on behind. February ended up being a re-run of January, with a broad range of assets continuing their recovery from the rather messy end to 2018.

The outlook is improving but one important factor is still missing

Given the screeching U-turn in global interest rate policy it is no surprise that the outlook for the year has improved, but as we wrote last month, some other factors need to become clearer before we can feel confident that an uptrend is back in place. One additional support did arrive during the month from Sino-US trade negotiations, where the mood music has unambiguously shifted to the positive. With the caveat that US government policy can be somewhat erratic under the current administration, this looks to be a major geopolitical risk that has a reasonable chance of melting away from investor mindsets. On top of the central bank actions just witnessed, there are now some solid foundations upon which this rally can build.

However, there remains one important missing ingredient in this improving set of circumstances – the fact that positive economic momentum is still largely absent across the globe. This is an important point, because without the return of profit momentum, equity markets are unlikely to hold at current levels. The reduction in trade tensions and the more dovish policy stances will undoubtedly act to firm up sentiment, but a return to 'positive surprises' in output data is still needed to take us higher from here, but this is not a given. Investor sentiment as a consequence will likely remain hesitant until enough evidence has accumulated to establish that the latest growth scare has now passed and we suspect that will take time – several months or quarters at least.

Another factor to consider in assessing the outlook is how an improvement in economic conditions could then catalyse central banks into another reversal, whereby policy resumes its tightening path in an investment world that is clearly a little nervous about its ability to cope with higher rates. We suspect the sum of all these possibilities is a gradual uptrend in markets, punctuated with sharp bouts of volatility. That is an environment we should still be able to make money in, but we will have to be on our toes.

Portfolio performance

Portfolios returned between +0.2% and +0.9% for the month depending on mandate. Unsurprisingly the strongest contributors were the equity managers, particularly the global ones who caught the broad based improvement in risk appetite. Asian and US exposures performed the best, with UK positions not far behind, helped by steadily firming Brexit sentiment. It was a similar story in credit related investments, which also benefitted from the improving outlook, as well as falling benchmark yields. As with your equity investments, it was the credit managers with a global reach, such as Hermes Unconstrained, that performed particularly well in the month and also year to date.

Weaker performance came from the safe haven assets such as gold and government bond positions. There are also a few managers that have generally been more defensive in their outlook coming into the year and consequently have had more modest positive returns than the headline indices. Given that these same managers also performed substantially better than those indices during the aggressive sell off last quarter, we don't regard this as too much of an issue. Steady rather than 'roller coaster' returns are what we are looking for. Finally, the year to date rally in the pound continued during February, which shaved a little performance off unhedged overseas positions.

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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