April 2018
Issue No. 7

HOTTINGER

GROUP

Family Office of the Year 2017
City of London Wealth Management Awards

GLOBAL INSIGHT

Overview

- Our **feature article** takes a look at the opportunities in agriculture — from field to fork — in a world with a rapidly expanding population and rising disposable incomes.
- The number of mouths to feed will grow by about 70 million each year over the next 32 years, and disposable income in developing economies will double by 2030.
- For many consumers this increase in wealth allows an improvement in diet, changes that affect the entire food supply chain.
- In our **Macro View**, we assess the threat of a global trade war between the United States and China, as well as other risks emanating from the United States, such as late-cycle fiscal stimulus and rising corporate debt levels.
- Excitement in Europe has cooled somewhat this year, reflected by the release of important indicators in the first quarter pointing to a slowdown.
- The UK economy continues to perform poorly against the strong global economy, but the likelihood of a softer Brexit has eased business concerns.
- In the **Investment Outlook**, we think that the return of volatility has cast a doubt in the minds of investors regarding the potential for drawdowns as central banks remove support for markets.
- Despite the S&P 500 breaking below its 200-day moving average in February and March, equity markets have recovered on each occasion to continue a remarkable rally.
- We remain in favour of equities rather than fixed income, but are wary of the uncertain future.

Markets retrace in Q1 2018

Source: Bloomberg, HIM

Inside this issue

Economic Highlights

- The euro area expanded by 2.7% in Q4 2017
- Inflation falls below 3% in the UK for first time in six months
- 25% of US listed corporates have an interest cover ratio less than 1
- India regains title of world's fastest growing economy — expanding at over 7%

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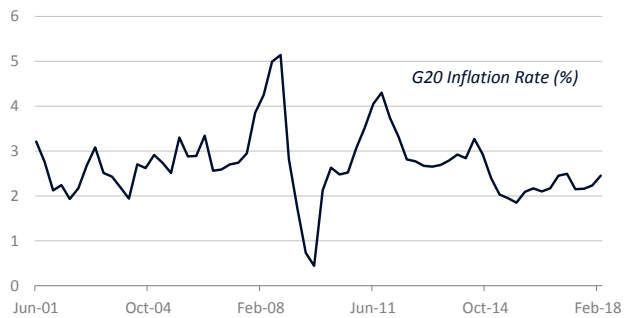
Based upon information available up to and including 18th April 2018

Key Issues in Charts

World inflation remains low and stable



Source: Bloomberg, HIM

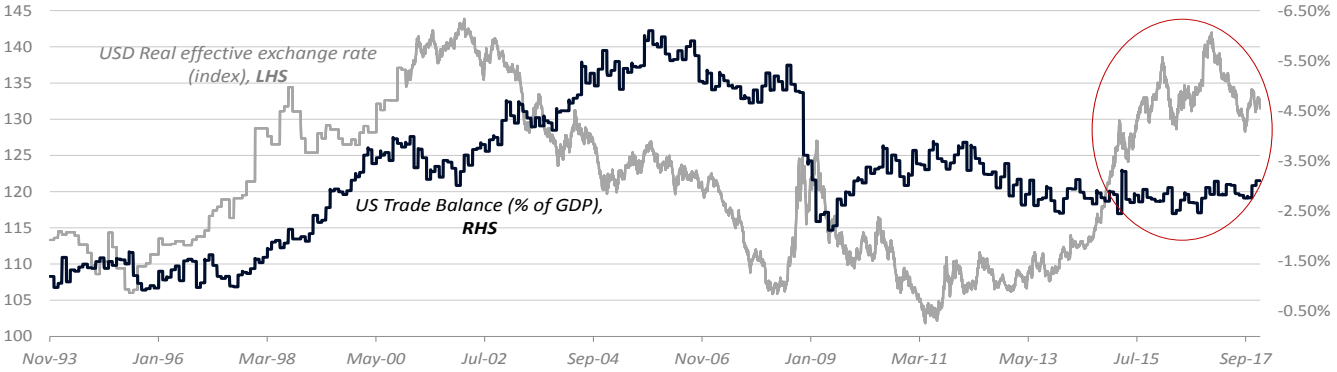
- Headline inflation remains below 2% in the United States and Europe and below 4% in many developing economies.
- Many emerging G20 countries are developing their domestic economies and institutions. Domestic central banks have been better able to control inflation.
- As local currency debt issuance increases, central banks are targeting inflation rather than their exchange rate with the dollar and the Federal Reserve's monetary policy.
- Spare capacity in many developing economies means that central banks may moderate the pace of policy tightening.

US T-Bills outperform stock dividends

- In Q1 2018, the yield on 1-year US Treasury Bills rose above the 12-month trailing dividend yield of the S&P500.
- This, in our view, signals a potential rotation away from equities into bonds, which could pick up in H2 2018.
- Historically low bond yields in the last ten years have pushed traditional fixed income investors into equity markets for income.
- This process could easily reverse if the yield on short-dated bonds remains above dividend yields.

Source: Bloomberg, HIM

The US trade balance could continue to grow despite Trump's tariff tantrum



Source: Bloomberg, HIM

- The United States has a long history of running trade deficits with the rest of the world, but since 2000 they have been elevated. The ascendency of China as a global economic superpower and Mexico's membership in a free-trade area (NAFTA) with America have caused the US trade deficit to increase
- While the dollar weakened on a trade-weighted basis in 2017, it is still at an elevated level and is likely to strengthen if the Federal Reserve aggressively raises interest rates.This would weaken the competitiveness of US industry and make it more likely that the US trade deficit will widen rather than weaken, despite President Trump's aggressive tariffs on imports.

From field to fork, the future of food looks bright

By **Henry Boucher**, Deputy Chief Investment Officer at **Sarasin and Partners**.

As part of the ongoing trade spat, Chinese government officials recently announced $50bn of tariffs on 106 different US goods. Given President Trump's support from the farming community it was not surprising that agriculture was one of the main industries to be targeted by the Chinese. The key area of focus was soybean imports from the US, which was hit by a 25% tariff. China is the largest destination for US soybeans and it had an immediate impact with soybean contracts falling 4%.

Other agricultural goods impacted include sorghum, wheat, corn, beef, and orange juice which have also seen price falls. As a result, US farmer income and confidence in the market are now set to fall which will make it challenging for some of the largest North American agriculture companies.

So how concerned should we be, and are tariffs on some US grain exports the most important factor affecting the food chain at the moment? To focus on a single incident is to ignore the raft of long-term, subtle but inexorable trends that affect the global food chain.

You can think of these trends using the metaphor of the "boiling frog": it was a Victorian theory that suggested that if a frog is placed in boiling water it will immediately jump out, but if it is placed in cold water that is slowly heated, it won't recognise the danger and will ultimately be boiled. We have not tried this experimentally, but it is very evident that people often find it difficult to recognise or react to very gradual changes.

The first frog-trend affecting the food chain is the gradual increase in the world population, from 7.6 billion people today to around 9.8 billion by 2050. This means that the number of mouths to feed will grow by about 70 million each year over the next 32 years. Most of this growth is coming from large developing countries such as India and Nigeria (China's population, though very big at over 1.4 billion, is not growing).

The second trend driving the consumption of food is the gradual improvement in incomes and standards of living across the world. As a result, we are seeing the greatest ever increase in consumer demand. In 2012, consumers in developing countries spent $12 trillion; by 2025 this figure is expected to reach $30 trillion.

For many consumers this increase in wealth allows an improvement in diet – meat and fish are consumed more regularly, new fruits and vegetables are introduced, demand for processed and branded food rises and eating out at restaurants becomes more popular. This increase in the value of diets leads to higher returns for food processors and retailers and also increased volume demand for those companies involved in food production.

This change in diet affects the entire food chain. A 1kg increase in pork consumption, for example, requires 4kg of grain to produce it. By 2050, arable production will likely need to rise by 70% from 2010 levels.

"In 2012, consumers in developing countries spent $12 trillion; by 2025 this figure is expected to reach $30 trillion."

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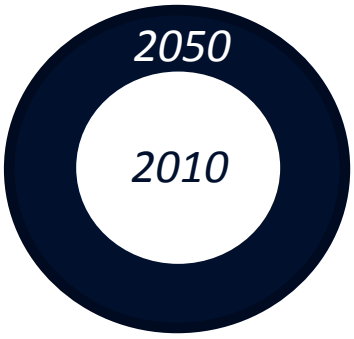


"By 2050, arable production will likely need to rise by 70% from 2010 levels."

The trends driving food and agriculture cover a wide range of industries – all the way from 'field to fork'. These include land and farm inputs, equipment, traders, producers, processors and retailers. This diversity of opportunities allows our specialists to find companies that are best positioned to benefit from this powerful theme over the long term.

A good example of this potential can be seen in Indonesia. According to the dominant chocolate producer, only 35 million people in a population of 240 million can currently afford to buy the most basic chocolate bar (called the 'Top' bar), which retails at around 5 US cents.

A small improvement in people's incomes would have a dramatic effect on the sales of products like this. A doubling of market size, to over 60 million regular consumers, could be achievable within a few years.

At the same time, there are also frog-trends affecting the supply of food. As we see more evidence of Climate Change, there is increasingly little doubt that heatwaves are much more common than they used to be, monsoon and other rainfall patterns are changing and the average temperature is rising. Anecdotally, farmers around the world will nearly always relate stories of how growing conditions have changed in a generation.

The scale of changes in land use also tends to slide under the radar. According to the UN Food and Agriculture Organisation (FAO) the UK has lost around 15% of its arable land since 1970 due to building development.

We can, however, take comfort that some of the risks to food production are gradually diminishing due to the introduction of better farming techniques and in particular through the rapid build-out of new infrastructure. Insufficient infrastructure hampers all stages of the food and agriculture value chain in many emerging markets. This ranges from impeding farmer access to seeds and fertilisers, through to losses in transport on poorly maintained roads, to a lack of storage both on the farm and in the home – in India it is estimated that up to 19 million tonnes of grain are currently stored in the open, exposed to sun and monsoon rains and at risk of rotting.

"Analysis of the wider trends in the food industry reveals a very powerful economic theme."

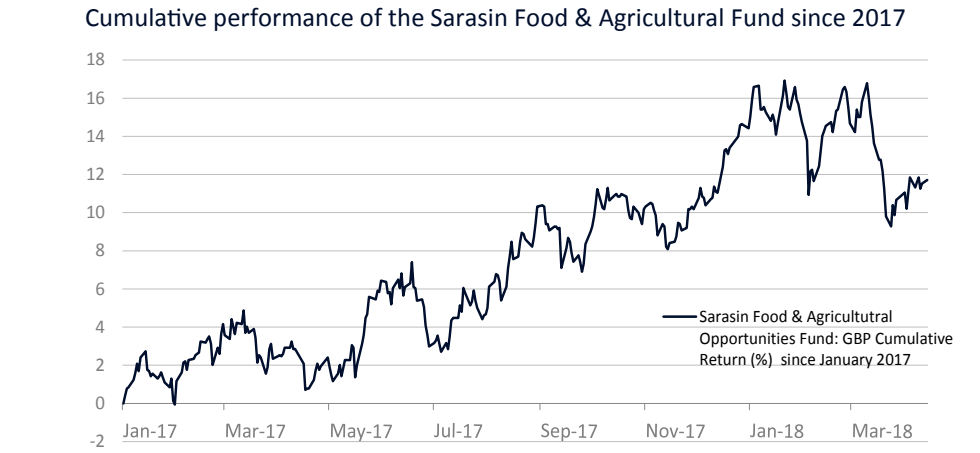
The gradual improvement in emerging market infrastructure is the final major frog-trend driving the food chain. But as well as new roads, new electricity supplies can have the most remarkable impact. A fridge requires a stable electricity supply and a fridge makes an enormous difference to what food people buy and how much they spend. It allows a consumer to store perishable items and succumb to the temptations of meats, dairy products and fizzy drinks. It opens up a cornucopia of choice and a whole new world of potential sales and profits for the suppliers of food.

In Africa, electricity grids in several countries like Ghana are stabilising and fridge sales are rising, this is allowing supermarkets like South Africa's Shoprite to grow their footprint and access new consumers. In short, a fridge multiplies the economic value of the food chain many times.

So analysis of the wider trends in the food industry reveals a very powerful economic theme. The short-term, tariff-driven volatility of food prices may be

challenging in the short-term, but the boiling frog trends also point to a more substantial economic impact on the food chain, which is the increasing value of the food being sold as diets change.

Sarasin has been investing in food and agriculture since 2005 as part of their thematic investment process. As a result, they have the experience and expertise to find companies in this field that can achieve attractive levels of growth through a variety of factors.



These include market positioning, pricing power, technological leadership, access to capital and control of resources. Sarasin Food & Agriculture Opportunities was created to give investors direct access to our research, and to the investment potential of this powerful global theme.

Henry Boucher is Deputy Chief Investment Officer at Sarasin and Partners, and manages the Sarasin Food & Agriculture Opportunities Fund.

Macro View

"From a macroeconomic perspective it seems like a strange time to start a trade war."

It was only a matter of time until U.S. President Donald Trump put some flesh on the bones of his America First agenda. Yet from a macroeconomic perspective it seems like a strange time to start a 'trade war'. The world economy is still purring, with growth above 2% in most developed economies and above 3% in many developing economies. Unemployment in the G7 is at 40-year lows, and inflation remains low and benign.

Q1 2018 has largely been about the United States. We see many threats to the global economy — not just on free trade, but on fiscal policy and excessive corporate debt — issuing from the place that since the end of the second world war has been the guardian of global free trade and economic stability. So it is on the US (and China) that we place our attention this quarter.

United States and China — A trade war

Trump has spent many decades bemoaning the U.S. trade deficit, first with Japan in the 1980s and today with China. In 2017, the US recorded a record $375bn bilateral trade deficit with China. In the first quarter of this year, we finally saw his rhetoric turn to action. In January, the White House slapped tariffs of 30% on imported solar panels and 20% on washing machines. In February, the administration proposed to tax steel imports at 25% and aluminium at 10%. In early April, at the time of writing, the US prepared a 25% levy on 1,300 Chinese goods; China responded in kind, proposing tariffs on US aeroplanes and soybeans.

"The Smoot-Hawley tariffs in the 1930s are thought to have prolonged the Great Depression. The present dangers are clear."

What to make of it all? Since the tariff measures against China were ostensibly motivated by an investigation by the Department of Commerce into Chinese intellectual property theft, there is a chance they merely represent a negotiating tactic. In many cases, the White House has offered temporary exemptions to a number of its trading partners, particularly its EU and NATO military allies, but not yet China. The US wants Europe to spend more on defence, but it wants China to commit to fair trade.

There is also an historical awareness that trade wars are a lose-lose situation. The Smoot-Hawley tariffs in the 1930s — with which the US placed average levies of 60% on over 20,000 imported goods — are thought to have prolonged the Great Depression. The present dangers are clear.

In our age of globalisation, supply chains are increasingly complex, meaning that bilateral trade balances are misleading. Apple's iPhones, for example, are designed in California and contain components that are manufactured in Japan and Korea. But as they are assembled in and exported from China, the whole value of the phones count as Chinese exports, even though much of the valuable work was done by American workers and the revenues flow to an American company.

Likewise, America's $151bn (2017) trade deficit with the EU in automobiles obscures the fact that a number of German car manufacturers build cars in the US for export to China. Protectionism is both less justified than the basic figures suggest yet more damaging.

The threat of a global trade war is magnified by the weakness of the World Trade Organisation (WTO). The WTO is the global body that could push back against the US, but the White House is actively impeding its work. The government is blocking new appointments to the WTO's appellate body, which deals with trade disputes between countries, under the belief that the body has consistently acted against US interests.

There is hope that the worst can be avoided. None of the proposed measured are yet in effect. China is also taking steps to reorient its economy from one that relies on investment and exports to one that is powered by domestic consumption. As Chinese incomes rise and social welfare expands, it is plausible that China could become a major importing country. And who would be the likely beneficiaries? The US and Europe.

"The US budget deficit in 2019 is expected to top $1 trillion."

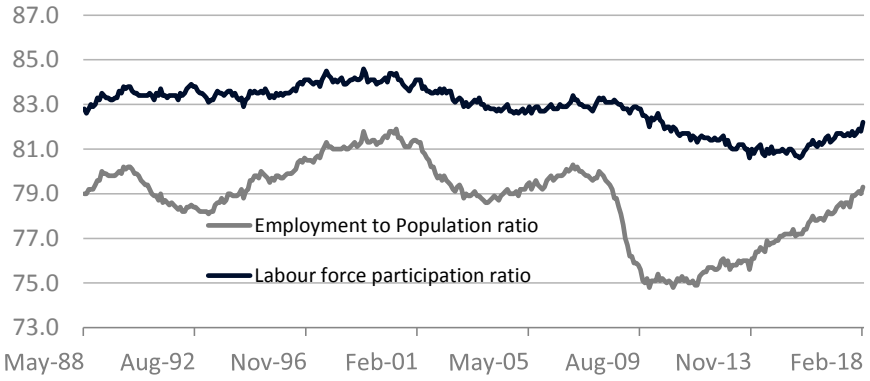
United States — Other risks

We see two other risks emanating from the US: the dangers from a late-cycle fiscal stimulus and the build up of significant amounts of corporate debt in corners of the US economy. Following corporate tax cuts and promises of large increases in defense spending, the US budget deficit in 2019 is expected to top $1 trillion. At the same time, unemployment is at levels approaching those at the time of the 1970s *Great Inflation*.

Such an increase in government debt at this stage of the economic cycle is unprecedented and presents an inflation risk.

Discouraged workers in the US are returning to the labour force, which could ease wage and price pressures.

US labour force participation is rising as discouraged workers return to work



Source: Bloomberg, HIM

Whether the economy overheats and inflation accelerates depends on the labour market, as we have said previously. For Trump's stimulus to be contained, the US needs to continue its trend of inducing people who left the labour market during the last recession to come back. This has happened to a significant extent over the last two years, and goes some way in explaining why wage pressures have yet to emerge despite low levels of official unemployment. If there is a pool of discouraged workers, who are not counted as unemployed and who could still be tempted back into the labour force, then Trump's fiscal stimulus could be more benign.

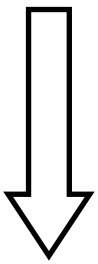
"25% of non-resource based US companies have an interest cover ratio of less than 1."

Further, the U.S. Treasury will be issuing a large supply of bonds at a time when central banks are beginning to normalise and tighten their monetary policies. The risk is that Treasury yields and short-term interest rates will need to rise much faster than expected, catching markets by surprise and bringing forward the next economic recession. New Federal Reserve Chairman Jay Powell is already preparing the market for a faster pace of policy normalisation, but even that may not be enough if the economy overheats.

Rising rates pose risks through a further channel — by raising debt servicing costs for US companies. Since the Great Recession, many corporates across the economy have taken advantage of low rates and levered on debt. Corporate borrowing has happened to such an extent that 25% of non-resource based US companies now have an interest cover ratio of less than 1. This means that their annual profits are lower than their annual interest bills. That this is the case with interest rates still low and the economy doing well is alarming, and suggests that many of these firms will struggle to handle materially higher interest rates when they come through. The analogy to the US sub-prime mortgage market in the mid-2000s is uncomfortable but not entirely unreasonable.

Europe — The end of euphoria?

The big story from H2 2017 was the return of Europe. The return of consumer and business confidence seemed to coincide with the election of the pro-Europe Emmanuel Macron as President of France. By the end of the year, the euro area was growing at an annualised rate of 2.7% a year and attention started to turn to the ECB, whose monetary policies, along with Japan's, remained the easiest in the world. All important inflation was surely not far away.



10%

Eurozone Composite PMI
January: ***58.8***
March: ***55.2***

Excitement has cooled somewhat since, reflected by the release of important indicators in the first quarter. The euro area's composite PMI, a measure of activity in businesses across the economy, has fallen significantly since the start of the year. At 55.2, the indicator is still consistent with annualised growth at 2.5%+. We need to see much more evidence before calling over the great European recovery.

The fundamentals in Europe still point to strong activity: very high capacity utilisation, record low unemployment and widespread skill shortages. Mean-

while, monetary policy remains supportive. At the ECB, Mario Draghi has been very reluctant to announce a significant change in the bank's monetary stance, only hinting that only a material pick up in inflation may cause a change in policy later in the year.

Until at least September, the ECB will continue buying €30bn in bonds per month. The ECB has been insistent in explaining that tighter monetary policy will consist first in reducing the size of its balance sheet — which means selling bonds back into the market or not rolling them over — before starting a more potent series of interest rate rises. Inflation can appear quite rapidly in Europe, which explains why markets have a hair-trigger attitude to the information coming out of the ECB; they are trying to detect any signs of overheating.

"European policymakers need to use this golden period to complete the euro area's banking and fiscal union."

It would be reasonable to say that the euro area is two-to-three years behind the US in its economic cycle and can look forward to elevated growth for some time. European banks look much safer and investment is elevated.

The risks are political. Policymakers need to use this golden period to complete the euro area's banking and fiscal union, and that means bringing together richer northern European states with poorer countries in the southern periphery. The spread of populist politics in recent years has arguably made the gulf between these groups wider. The recent Italian election, in which eurosceptic populists won over half of the seats in the parliament, doesn't help. Until this conflict is resolved, long-term risks will remain in the euro area.

United Kingdom — Brexit fog lifting?

Since the middle of 2016, Brexit has cast a shadow over the UK. The EU and the UK has agreed terms for a transition period lasting until the end of 2020 that consists in the UK largely maintaining the benefits and costs of EU membership but losing a say in the governance of the club. There are still uncertainties over the long-term nature of the UK's relationship with the EU, which needs to be settled before the Withdrawal Agreement can be finalised.

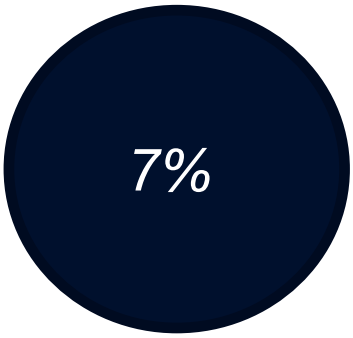
The uncertainties are fundamental and relate to whether the UK prefers to diverge from the EU regulatory system after 2020 or maintain a close relationship; that has centred on whether the UK wishes to remain a member of the EU's free-trading institutions. There are questions over the place of Northern Ireland in the UK, and the location of any hard border between the UK and the rest of Europe. This is still a significant area of dispute in the UK Parliament and could easily lead to instability later in the year when the Withdrawal Agreement needs to be approved.

"High inflation has caused a slowdown in consumer spending, while uncertainty over Brexit has led to weaker levels of investment by firms."

The UK economy has performed poorly measured against the backdrop of a strong global economy and a resurgent Europe. High inflation has caused a slowdown in consumer spending, while uncertainty over Brexit has led to

weaker levels of investment by firms. Growth is likely to remain within the 1.2-1.5% annualised rate that the country generated through 2017.

There are signs that things may improve. Wages are rising and inflation is falling. A consensus is emerging on Brexit that should lead to a softer exit, one that is less damaging to business in the short-term. However, we will watch closely the next steps from the Bank of England, which has put it on record that they will be less permissive towards above-target inflation. We expect rate rises in May and November this year, but if they come at a time when inflation is already falling fast, they could lead to unintended damage to the wider economy as the cost of credit rises.



India is now the world's fastest growing economy, returning 7% expansion in Q4 2017 (annualised).

Emerging markets are strong but face risks too

The upturn in commodity prices combined with a weak dollar is providing ideal conditions in which resource-rich emerging markets can expand. Yet remarkably, inflation remains below 5% in many jurisdictions, including India, which is growing at a rapid clip.

However, many emerging economies face risks from the US-China trade war. In Asia ex-China, the economies most exposed to the US-China trade war are Taiwan, Malaysia, Korea and Thailand, whose manufacturing supply chains are tightly integrated with both countries. Meanwhile, South Africa, Russia and Turkey are particularly exposed to US steel and aluminium tariffs and are less likely to get exemptions from Donald Trump.

"The upturn in commodity prices combined with a weak dollar is providing ideal conditions in which resource-rich emerging markets can expand."

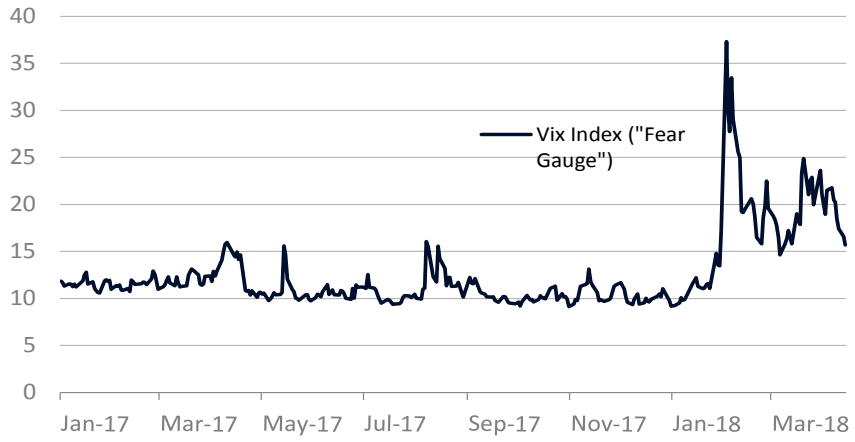
Conclusion

It is usually said that central banks are the cause of the end of most economic booms. There's certainly a risk of that. This time, however, we could see the origins of the next downturn being political. Common sense would suggest that the current protectionist threat from the US will not amount to much more than bluster and rhetoric. But these are hardly normal times.

Investment Outlook

The calendar year 2017 represented one of the least volatile periods in financial market history, when buying the dips in stock markets was a winning strategy. Correlations were high so buying the index rarely lost out to active stock picking. The Chicago Board Options Exchange S&P500 Volatility Index known as the VIX index and often referred to by journalists as Wall Street's "Fear Gauge", averaged 11.10 during 2017 compared to an average of 17.25 over the 1st quarter of 2018 with a high of 37.32.

February and March saw a significant spike in market volatility



Source: Bloomberg, HIM

The S&P 500 experienced a 'correction event' in February, falling by over 10%. But markets have since bounced back.

In February, equity markets were stung by the return of volatility particularly during what is now referred to as the "tariff tantrum". An escalating trade war between China and the US has affected market sentiment enough to leave most equity markets in negative territory at quarter-end for the first time since the 1st quarter of 2016. The significant bout of increased volatility also managed to break a couple of "smart beta" volatility trading passive investments. In the middle of last year we wrote a blog (still available on the website) outlining some of the concerns we have about the levels of passive, index hugging investments that now exist in the market place. The increasing volume of passive investment as a percentage of total investment will reduce the percentage of long only, traditional, active investors that hold companies and markets to account.

The record activity in M&A requiring debt refinancing over the next quarter also left corporate debt markets at a loss at March-end in both global investment grade and high yield where spreads over government bonds are already at very tight levels.

The return of volatility is also recognition that global central banks have started scaling back quantitative easing that has provided a safety net of monetary support under financial markets for at least the last five years so is unlikely going forward to be compatible with extended valuations in risk assets.

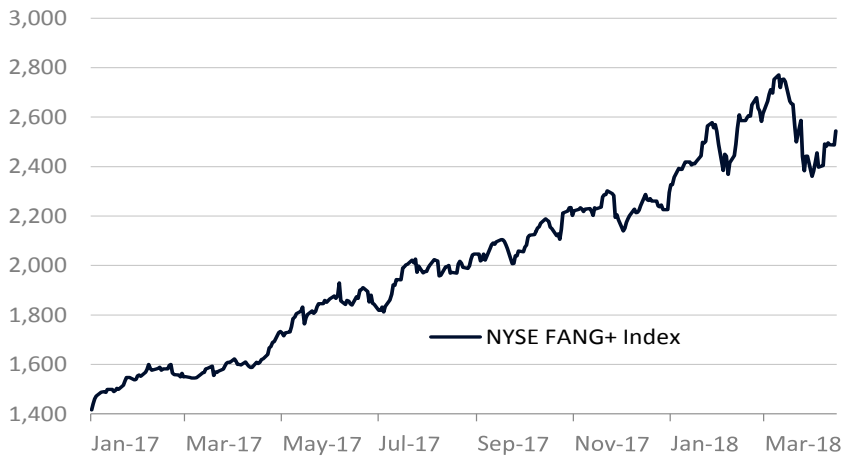
The return of volatility coincides with the withdrawal of substantial support for markets from central banks.

President Trump's fiscal stimulus has strengthened inflation fears, leading many to speculate whether enough interest rate hikes have been priced in. Despite this, US Treasuries have struggled to break 3%.

Furthermore the policies of the Trump administration that were hailed as adding further stimulus to an already stimulated economy have led to the return of inflation fears as underlined by comments by the incoming President of the US Federal Reserve, Jerome Powell, leading to speculation that there were not enough US rate hikes priced into markets. As one would expect the immediate reaction in the US Treasury market was to adjust for higher rates, just before the equity volatility hit, thereby breaking the long held trading range in ten year notes, that largely kept the bull market phase alive, to move into a higher range of 2.65% to 2.95% although — significantly — not challenging the psychological level of 3% that may see investors showing buying interest.

However, by the end of the quarter the yield to maturity had retraced to 2.74% unable to maintain the upwards adjustment, perhaps due to the lack of follow through in inflation as yet; perhaps the demand for bonds brought about by the demographic trend of baby-boomers reaching retirement; or perhaps the threat of higher inflation, higher rates and protectionist policies had already begun to affect global growth.

Market turbulence has taken some of the edge off leading US tech stocks



Source: Bloomberg, HIM

US tech stocks took a big hit during the period of volatility in February and March, yet they remain strongly up on the year.

Following a fierce start to the year by equity markets the return of volatility certainly caused a bump in the road but it is notable that equity markets were on aggregate still only marginally weaker at quarter-end, ranging from Japan struggling with a strong currency (-5.76% in local currency terms) to MSCI Emerging Markets Index benefitting from a weak dollar (+1.07% in USD terms). The disruptive technologies represented by the FAANGs (Facebook, Amazon, Apple, Netflix, and Google) have led the exceptional equity index returns since 2016, worrying many about the narrow dispersion of equity returns during the calmer days of 2017 that has led to the valuation fears during 2018. The NYSE FAANG+ Index rallied 24% during the first 10 weeks of the year before suffering a correction of nearly 12% into quarter-end. However, this retracement

probably masks the fact that the index is still up around 10% on the year!

During the 10-year bull-run for US equities, the upward momentum has been broken on a number of occasions, most notably during the summer of 2010, the second half of 2011 and more recently the first quarter of 2016. Despite the S&P 500 breaking below its 200-day moving average – a short term measure of a break in momentum – equity markets have recovered on each occasion to continue this remarkable rally. The return of volatility in 2018 means pull backs of 10% or even 20% in equity markets may become normal again but whether markets can continue to extend further could depend on the upcoming quarterly earnings season. US tax reforms and synchronised global growth have expectations running high, but the uncertainties that have clouded the horizon during the first quarter mean that the guidance given by companies in their reports could have a significant effect on further upside momentum.

"Despite the S&P 500 breaking below its 200-day moving average, equity markets have recovered on each occasion to continue this remarkable rally."

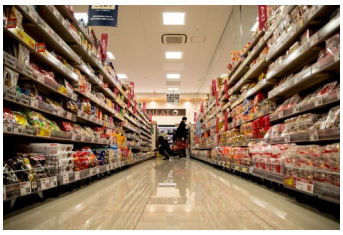
From a currency perspective it is interesting to note that despite the fact that US Treasury bond yields are higher and much more attractive than other developed market government bonds, the US dollar is weaker so far this year by 2.33% vs the dollar index trade-weighted basket of currencies. Furthermore, the higher inflation and weaker economic growth fears that have spooked other asset classes have done very little to strengthen the world's reserve currency. One argument suggests that geo-political risk could be the reason, with the Trump trade-war rhetoric causing tension in global trade and deterring dollar investors. Another potential reason could be the historic inverse relationship with the oil price which has risen 5.08% this year on the back of strong global growth.

Interestingly, the USD vs GBP has seen the pound strengthen 4% in 2018 even though sterling strength vs. Euro is nearer 1%. Recent Bank of England suggestions that monetary policy may need to tighten in May and November is probably the cause of relative sterling strength rather than any optimism over Brex-

"The USD vs GBP has seen the pound strengthen 4% in 2018 even though sterling strength vs. Euro is nearer 1%."

The pound's dollar strength is offset by its euro weakness

Source: Bloomberg, Deutsche Bank



"Higher interest rates would have negative effects for consumer staples, tobacco and building companies."

it negotiations. Measured on a trade-weighted basis, there still appears to be a post-referendum discount on sterling.

The FTSE All-share index has been one of the poorer performing stock markets this year, losing 4.75% during the first quarter. UK markets are not helped by the mixture of over exposure to mining, oil and gas, and pharmaceutical sectors with high dividend paying value stocks underperforming traditional growth sectors. Higher interest rates would also have negative effects for consumer staples, tobacco and building companies, all with heavy weightings in the index.

The mounting trade war which is beginning to look inevitable based on the verbal tit for tat threats between China and the US will also affect export-led economies such as Germany, Asia and, to an extent, Japan. European equities finished the quarter down 3% while the effects of safe haven status on the strength of the yen does not help Japanese equities.

There is no doubt that the return of volatility has cast a little doubt in the minds of investors regarding the potential for drawdowns which has sharpened the focus of those that have been pushed into asset classes outside of their normal comfort zones in search of income depressed by quantitative easing in bond markets. The unusually calm and profitable conditions of 2017 have encouraged excessive risk taking amongst certain market participants. The "TINA" trade (There is No Alternative to Equities) so prevalent in 2017 remains largely in place and the return to normal levels of volatility is likely to persist. The question is whether the markets can consolidate before moving forward or whether we are moving into a period of global economic and financial market turbulence. Fears of inflation, the removal of QE, interest rates tightening more than expected, increases in protectionism through trade tariffs, and geo-political shocks all have the potential to affect global trade and economic growth. We know valuations of both equities and bonds are extended so it is likely that the middle of 2018 will be an inflection point but at this time the future remains cloudy.

"We remain in favour of equities rather than fixed income but we are wary of the uncertain future."

We remain in favour of equities rather than fixed income but we are wary of the uncertain future. To this end we have been exploring themes such as agriculture that have a growth trajectory higher and longer term than global growth prospects and we are also looking at alternative equity strategies that may offer more downside protection than traditional funds. It is also likely that cash will become an active investment decision as we look to preserve capital during periods of unpredictability.

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