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Market Bulletin 13 December 2018

Dear Client,

We are writing you this brief update on Portfolio strategy as markets have been very volatile since you received your 30 September reports. Hopefully, they will finish the year in the more positive mood of the past few days and, who knows, perhaps manage the “traditional” Christmas rally!

As you know, we have been cautious all year, reducing your equity exposure to a 5% underweight position in January and reducing it by a further 5% on a small rally at the end of November. As a result, your portfolio is now 10% below its “neutral” equity weighting, while we ride out the current volatile phase.

There are plenty of narratives found in the financial press about the reasons for the negative market sentiment, ranging from the US vs China trade dispute, Brexit, Italian budget spat with the EU, and on and on. All of these carry kernels of truth. In our view however, the predominant driver of the market dislocations this year is the change in global liquidity. Central banks, after many years of extraordinarily loose monetary policy and quantitative easing, are returning to more conventional monetary policy which includes a gradual increase of interest rates in the US and a sharp reduction in asset purchases by all major Central banks. As this increases the “risk free rate”, asset prices are searching for a new equilibrium while more speculative, leveraged positions are unwound. This painful process could continue for a while before markets regain their footing.

We currently see no evidence of widespread overvaluation, such as during the year 2000 tech bubble, nor of debt excesses such as before the 2008 financial crisis. And in spite of a negative geo political environment, the global economy is actually quite healthy. So once the current volatility abates, there will be many attractive investment opportunities.

Wishing you and your family a very happy Holiday period.

As ever, please contact us should you have any questions with regards to your portfolio.

Sincerely,
ISGAM Portfolio Management