THOMAS MILLER INVESTMENT

Investment Commentary

February 2019

Falling growth forecasts reflect economic realities

■ In our January commentary, we stated that our assessment of the economic data led us to anticipate further deceleration in the momentum of economic activity in 2019. Reflecting the reality of a weakening economic outlook, over the past month a range of public and private economic forecasters have reduced their projections for economic growth in the year ahead.

■ Assessing global economic prospects, the World Bank recently stated that "International trade and investment are moderating, trade tensions remain elevated, and financing conditions are tightening. Amid recent episodes of financial stress, growth in emerging market and developing economies has lost momentum and is projected to stall at 4.2 percent this year, with a weaker-than-expected rebound in commodity exporters accompanied by deceleration in commodity importers. Downside risks have become more acute. Financial market pressures and trade tensions could escalate, denting global activity."

■ Likewise, central banks including the US Federal Reserve (Fed) and the UK Bank of England have lowered growth forecasts for their respective economies, while the European Commission also recently revised down its estimate for the economic growth rate across the Euro-zone in 2019.

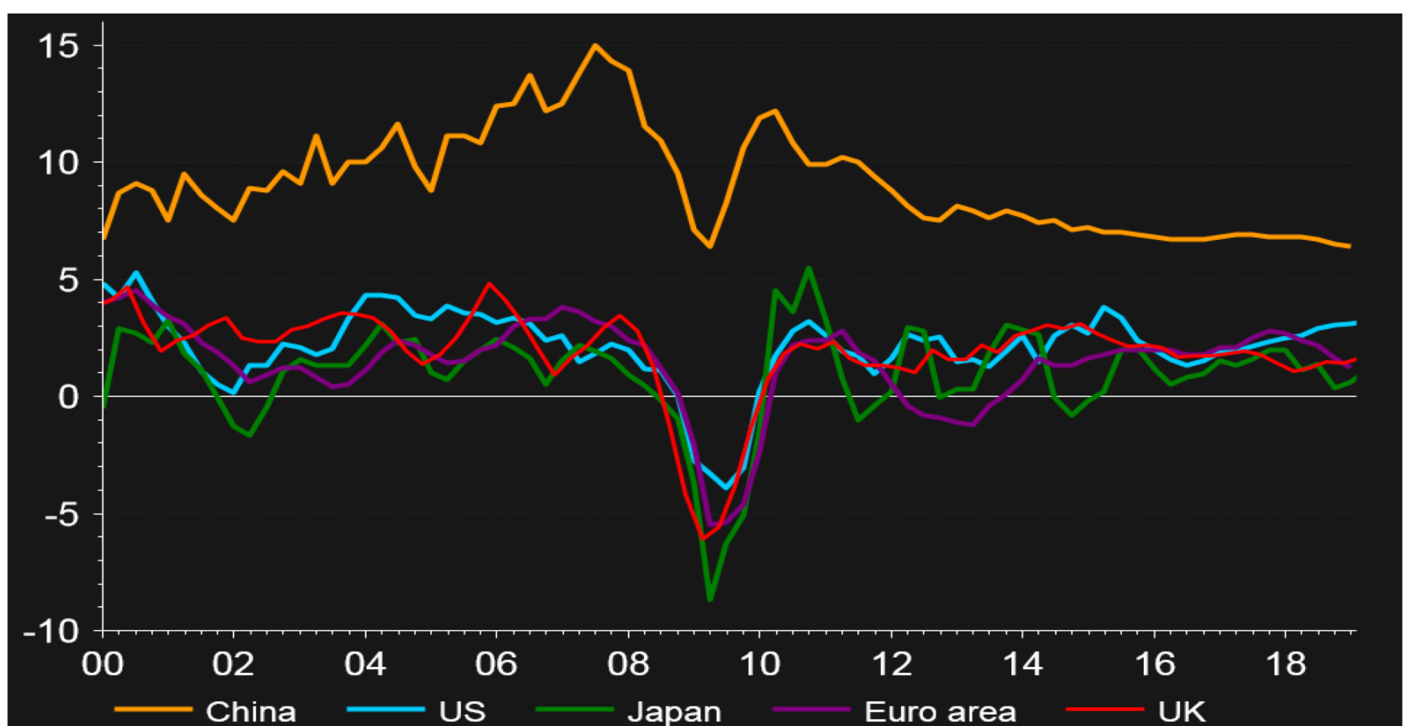
■ At this point, there is no reason to expect that the ongoing slowdown will turn into something more sinister. However, that depends to a large extent on the absence of negative shocks in the year ahead. As we noted in our last commentary, there is currently no shortage of potential sources of such negative shocks, with potential sources of downside risks ranging from Brexit negotiations between the UK and the EU to trade talks between the US and China. The elevated level of policy uncertainty only serves to increase the challenges facing investors in the current environment.

■ To guard against the risks to growth in the US, following its reduction of both GDP growth and core inflation estimates for 2019, the Fed has softened its stance on monetary policy. For instance, in recent weeks central bank officials have guided investors to expect a much less aggressive policy stance in 2019 than they indicated only a few months ago. It seems likely that this sort of policy flexibility will be required by other major central banks in order to ensure that the global growth slowdown does not become more protracted.

Financial markets & investment strategy summary

■ Somewhat reminiscent of the performance at the start of last year, financial markets have begun 2019 in buoyant fashion. So far this year emerging markets have led the rally, with gains of about 8.8% for the MSCI EM index in January (in US Dollar terms). In the US, the S&P 500 index delivered total returns of just under 8% for the month. In local currency terms, the EURO STOXX 50 index

Chart 1: GDP, four-quarter percentage changes



Source: Thomson Reuters Datastream/Fathom Consulting

gained about 5.5%, while the UK's FTSE 100 index and Japan's Nikkei 225 recorded gains of 3.8% and 3.6% respectively.

- In the fixed income markets, while returns have been positive across the board, the gains have been concentrated in the riskier segments of the market. Over the month, high yield bonds (as proxied by the 'JNK' ETF) returned 5.2% while investment grade corporates (as proxied by the 'LQD' ETF) returned 3.4%. On the other hand, US Treasuries delivered much lower returns in the 0.3% to 0.7% range, depending on the maturity. Commodity markets were also strong over the period, with gains of over 3% on gold and over 17% for WTI Crude Oil. Finally, in the currency markets, the key trend was of US dollar weakness, with notable gains for sterling on the back of more positive news flow on Brexit.

- Looking to the year ahead, financial market volatility is likely to remain elevated as investors weigh the changing balance of risks. From a fundamental standpoint, the primary concern for investors will be whether the ongoing global economic slowdown morphs into something more sinister, with important implications for corporate earnings and monetary policy.

- In this regard, the Fed's recent dovish turn has been welcomed by investors as it reduces the risk of a policy-induced downturn in economic growth. However, while that risk has declined in the US, it remains elevated in the Euro-zone and UK where the withdrawal–albeit gradual–of monetary stimulus present headwinds to growth.

- Across multi-asset portfolios, we remain positioned close to longer-term asset allocation weightings across the major asset classes and major currency pairs.

Abi Oladimeji
Chief Investment Officer

ASSET ALLOCATION

TMI ASSET ALLOCATION SCORECARD (as at 6 February 2019)

	United States	United Kingdom	Euro-Zone ex UK	Asia ex Japan	Japan	Emerging Markets
Equities (overall)	0/–					
Equity allocation by Region	0	0	0	0	0	0
Bonds (overall)	0					
Agency/ Supra	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	0
High Yield bonds	0	0	0	0	0	0
Govt guaranteed bonds	0	0	0	0	0	0
Index-linked bonds	0	0	0	0	0	0
Alternatives	0					
Cash	0/+					

The scorecard above represents our current tactical asset allocation position relative to portfolio benchmark. 0 = neutral, + = overweight, - = underweight.

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