June 2015

A collation of recent insights on markets and economies taken from the comments made by Chairmen and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

In this month's roundup:

Global (thoughts from Capital Gearing, Caledonia, Scottish Investment Trust, BlackRock Income Strategies, Scottish Mortgage)

UK (thoughts from Investors Capital, JPMorgan Income & Capital, River & Mercantile Micro Cap., Standard Life Equity Income, Keystone, Schroder Income Growth)

Europe (thoughts from Jupiter European Smaller Companies)

Germany (thoughts from Sirius Real Estate)

Emerging Europe (thoughts from Baring Emerging Europe)

India (thoughts from JPMorgan Indian)

Japan (thoughts from Aberdeen Japan)

Latin America (thoughts from Aberdeen Latin American Income)

Frontier Markets (thoughts from BlackRock Frontier Markets)

Africa (thoughts from Africa Opportunity Fund)

Healthcare (thoughts from Polar Capital Global Healthcare)

Utilities (thoughts from Ecofin Water & Power Opportunities)

Debt (thoughts from Invesco Perpetual Enhanced Income, Blackstone / GSO Loan Financing, Carador Income Fund, TwentyFour Select Monthly Income)

Property (thoughts from TR Property, Great Portland Estates)

Global *(compare Global funds here)*

The phrase 'new normal' is bandied around to describe a world where growth is subdued for a prolonged period, interest rates will stay low and inflation is modest or absent. There is, however, nothing remotely normal about current asset prices that have arisen from the distortions caused by QE. At the time of writing, about $2.5 trillion worth of bonds carry a negative nominal yield; that is not optimism, it is a sign of distress. Furthermore, these low rates are priced to continue, the one year real rate of interest in the US in four years' time is expected by the market to be less than 0.4%. This is around a quarter of the rate that would be expected in a normalised economy.

In fact, this implicit forecast may prove to be correct, at least directionally. The consensus among economic policy makers is very doveish. A long shadow has been cast from 1937, when policy is believed to have been tightened too soon, plunging the US economy back into depression. As a result, short interest rates, which on any historical criteria should already be higher in both the US and the UK look set to remain accommodative until very late in the cycle. Early signs of inflation or wage pressure will be tolerated.

Against this background of distorted short and long term interest rates, equities have been able to grind higher. In fact, the connection has been quite direct as companies borrow to buy in their own stock - by far the largest source of demand for equities in the US. That points to the likely catalyst to correct the elevated levels of equities. Either disappointing earnings, reducing the earnings yield, or increasing yields on debt would put pressure on the validity of the exercise. Certainly, any 'normal' level of interest rates would wholly undermine it. In the meantime, companies are distributing through dividends and buybacks all the returns that they make; an unprecedented situation that is not sustainable over time, though clearly can continue in the short term. Importantly, the maintenance of record profit margins in the US seems inconsistent with the economic growth rates implied by current bond rates; the same general comment is true of the UK and Europe, though in the latter case it is more a matter of the recovery in profits discounted in current prices.

Valuations of all financial assets, equities as well as bonds, would require discount rates of zero percent in real terms to justify current levels. In such circumstances, the key driver of asset allocation is to ensure that such an appalling return is not locked in for a long time. In other words, duration needs to be short.

In the UK, a Conservative election victory may yield better growth in the short term as confidence is boosted. Indeed, domestic demand is growing strongly, but the weakness of our neighbours and the strength of Sterling are holding back exports and industrial production. With more austerity to come in 2016, the economy may moderate and that combined with fears of an EU referendum, and an alarming current account deficit, may put pressure on the pound. From A R Laing and R P A Spiller, Capital Gearing Trust

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The European Central Bank has taken over the baton of quantitative easing from The Federal Reserve and Bank of England. Interest rates in developed economies are being held at artificially low rates, in some cases the quite extraordinary situation exists where customers are charged for leaving money on deposit, and it looks as though they will stay low for quite some time yet. The combination of these two policies drove asset prices up, bond yields to new lows and stock markets to new highs. Strong currency movements are also a side effect of such policies. Corporate profits, and in particular margins, remain healthy and the economies of both the US and UK seem to be on a steady, if unspectacular, growth trajectory. Asia is more difficult to assess, which is reflected in markets which are more reasonably priced.

Although the UK General Election is now behind us, we still face uncertain times with a US presidential election due next year. From Rod Kent, Chairman, and Will Wyatt, Chief Executive, Caledonia Investments

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Six years into the current bull market, the key positive supports to equity markets remain the relative yield attractions of equities versus other asset classes, and the anecdotal evidence that global fund managers lack conviction and hold high levels of cash. What is clear is that there is a lot of margin of safety around dividends but little around valuations in global equity markets in aggregate. From Alan Porter, manager, Scottish Investment Trust

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Ever since the global financial crisis, central banks have been cutting interest rates and employing techniques designed to reduce the longer-term cost of borrowing (i.e. Quantitative Easing, or QE). The result of this has been to push not only interest rates to zero but also push long-term bond yields to very low levels too. We only need to look as far as Germany to witness the extreme impact of QE. Short-dated German government bonds have negative interest rates, and since taking on the Company we have seen yields on 10-year German government bonds fall to just 0.05%. This has spread to other segments of the market, reducing the yield on corporate bonds - often the asset class of choice for investors seeking income - to historically low levels.

As Bob Dylan wrote in 1964 though, "The Times They Are A-Changin", because at some point this year at least one of the main central banks will raise interest rates. This is most likely in the US, given that the unemployment rate has dropped sharply to just 5.4%, but is an outside possibility here in the UK too, as our jobless rate is only slightly higher at 5.5%. "So what?" you may ask, "isn't this good news for people seeking higher income yields?" In some ways yes, particularly if we are in a world in which economies are strong enough to allow us to revert to more normal levels of interest rates. The flip-side, however, is the degree of uncertainty this brings. When yields rise bond prices fall, creating unwanted volatility for investors.

When Dylan was penning his lyrics some 50 years ago, US interest rates were also at very low levels and already heading higher. This was a precursor to a prolonged bear market in bonds which saw yields peak at around 14% in the mid-1980's and the US stock market going sideways for 20 years, as inflation took hold, driven by the oil crises of the 1970's. Some argue that the amount of money that has been pumped into the global economy over the last 6 years by central banks will also lead to inflation and a bear market for bonds, but I'm not convinced this is the case. For a start, it's difficult to believe that oil prices will return to anywhere near their previous highs given plentiful supply, and technological advances in areas such as robotics mean that labour market dynamics should exert much less pressure on inflation now than in the past.

Further, many investors are forced buyers of bonds due to regulatory changes, meaning there is steady demand in a world in which supply of very high quality debt has shrunk significantly.

What is true, however, is that for a market that has become used to interest rates only moving one way, the change in direction is bound to create a degree of nervousness, and this could well make itself felt in more frequent periods of volatility within markets.

So how are times changing? Whilst our outlook is less dramatic than the lyrics of Dylan's '60s anthem, we do see some greater episodes of market volatility on the horizon. Interest rate rises, elections, the strong dollar and oil market price falls will have an impact on the corporate sector and we are monitoring these developments carefully. Periods of volatility can lead to changes in the way asset classes behave in relation to each other, and therefore require a careful understanding and monitoring of the risks we take to generate profits.

We are aware that 'crowding' around some popular investment themes has become extreme, which has the potential to cause volatility when investors collectively rush to the exits. In such periods, the fundamentals backing an investment can remain strong, but we can experience some pain as 'hot money' becomes the dominant driver of asset prices. Recently, we have seen this in the Eurozone as government bond markets sold-off aggressively.

At the time of writing, the UK election has just been decided with David Cameron securing a slim majority. Every pre-election poll and prediction has been wrong, with the Conservative Party victory totally unexpected. The immediate reaction has been positive for UK risk assets but the medium term outlook will be more challenging. From Adam Ryan, manager of BlackRock Income Strategies

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We would suggest that three new sets of issues will be crucial in the next five years.

Will major and accelerating improvements in core technologies lead to progress in healthcare, energy and transportation analogous to those in information technology in recent years? Or will secular stagnation and limited productivity gains dominate? These questions are already inherent in our thoughts above. Our current answers are markedly more optimistic than those espoused by most practitioners and commentators.

Which companies will prove to have the greatest profitability resilience and longevity? There has long been a presumption in markets that some industries are the epitome of steady earnings and cash flow growth whilst also offering the prospect of enduring as businesses for decades if not centuries. The allure of such stocks has been particularly great since 2008-09 as investors have sought low volatility so determinedly. There has been an equal and opposite horror of companies that historically and industrially have been perceived to be volatile, cyclical or subject to competitive boom and bust.

Our hypothesis is that the years ahead may prove to be very different. It seems to us that several industries, such as healthcare, oil majors and utilities, which have been havens of stability may face dramatic change. Global brands may follow national grocers into a margin storm. At the same time all too many traditional quoted companies have failed to reinvest in their businesses in order to produce earnings to the satisfaction of the financial industry. As aggressive unquoted enterprises and founder run competitors with less pressure to generate immediate earnings become ever more prominent, the complacent incumbents will be under serious pressure. Equally we believe that the long-term ambitions and visions, network strengths, low capital requirements, technological strength and sheer intelligence of the aggressors may mean that their longevity is more akin to that of General Electric than that of Socks.com. Future vulnerabilities will have little in common with the dictates of risk models.

Corporations, states and citizens. Who wins? Since the late 1970's capital has enjoyed ideological and practical dominance over labour. Almost everywhere and almost regardless of political labels the state has encouraged and endorsed this situation. It is unclear whether this pattern will remain intact in the coming decade. Many strains are already apparent. From concern over marked inequality in the developed world to rising wages in China the compact seems under threat. At the same time relations between most states and many corporations has been frayed by battles over tax versus globalisation, and security versus freedom of expression. It is unclear to us where the arguments and economics will settle or whether the populaces of the world prefer the offerings of consumer and electronic capitalism to the paternalism and resources of the state. This is not just an issue for the West. Iran's future will be a fascinating if unusual example of such evolving controversies whilst a revolution in China might prove the most important possibility of all. From James Anderson, manager, Scottish Mortgage

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UK *(compare UK funds here)*

The post-crisis financial landscape has been characterised by a subdued global economic recovery, persistently low inflation together with a high degree of policy support from central banks around the world. Looking to the year ahead a number of challenges remain, not least the economic and political difficulties affecting the Eurozone, an uncertain growth outlook in China and the heightened level of global geopolitical risk. Against that background it is encouraging that the corporate sector remains in good financial health. With interest rates close to record low levels, the upturn in merger and acquisition activity is likely to remain supportive of equity markets. From Iain McLaren, Chairman, Investors Capital Trust

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Prospects for equity markets remain positive, with quantitative easing, low interest rates and the unexpected decline in the oil price all providing grounds for economic optimism. The FTSE 100 Index has recently passed through its highest point yet, exceeding its previous record in 1999 by close to 100 points. There are, inevitably, contrary pressures, including uncertainty about tensions in Eastern Europe and the Middle East, which continue to worry markets.

The UK General Election result, whilst raising concerns about the UK's position within the European Union, should be judged in the context of the preponderance of overseas operations within companies. From Sir Laurence Magnus, Chairman JPMorgan Income & Capital

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Equity market volatility could rise during 2015 due to the impact of the monetary policy decisions of the major developed central banks, particularly the potential policy tightening by the US Federal Reserve later this year. However, in the short term the UK equity market has reacted positively to a decisive result in the UK General Election.

The UK economy continues to grow in a non-inflationary way and UK job growth has been impressive; real wage growth has started to pick up, which is a promising trend.

The recent dramatic fall in the oil price should be a net positive for economic growth. The cost of production for companies will benefit and lower petrol and heating bills will be akin to a significant tax cut for UK consumers.

UK companies are generally in strong financial health and for the more domestic plays, 2015 earnings prospects are encouraging particularly in light of the positive outlook for economic growth. Given the continuing robustness of many UK-focused company balance sheets and managements' focus on cash flow generation, their ability to increase dividend payouts is likely to continue. From Sarah Emly and John Baker, investment Managers, JPMorgan Income & Capital

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In what has been dubbed a surprisingly emphatic UK Election result, the market has moved from a period of considerable uncertainty to one where there is firm basis of reference for evaluating the prospects for the UK economy. Recent periods have shown that the UK is undergoing a broad based recovery across many parts of the Nation, with strengthening employment and real wages. Whilst GDP remains below long term trend levels this remains a healthy backdrop against which high quality UK firms can drive growth in their businesses. From Andrew Chapman, Chairman, River & Mercantile Micro Cap.

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The UK remains amongst the top performing economies in Europe. GDP growth for Q4 was upgraded to 3% indicating strong momentum. Further strength in employment, leading to tentative real wage growth, is boosting consumers, whilst exporters will be cheering the improving market conditions in Continental Europe as the large Quantitative Easing programme boosts confidence in the territory. The balanced approach of accommodative monetary policy and supply side fiscal reform, has assisted the UK to a sustained phase of above trend growth. A surprisingly emphatic result in the UK General Election means investors can expect more of the same over the next five years - a welcome reduction in uncertainty. It is perhaps this uncertainty that has left the small and micro end of the UK market rising less than mid-caps so far this year, resulting in a valuation gap opening up which was last seen in 2009. With an unusual combination of low valuations for micro-cap stocks against a robust UK economic backdrop, the prospect for long term attractive returns is very promising. From Philip Rodrigs, Portfolio Manager, River & Mercantile Micro cap

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The Company continues to favour consumer facing areas of the market, in anticipation of a sharp pick-up in domestic consumer demand resulting from a lower cost of living, higher employment levels and rising real wages. We view the lower oil price as a source of economic stimulus, lending a helping hand to the consumer and corporate earnings.

We see some grounds for caution for the wider UK market. In addition to ongoing geopolitical risk, the UK market may continue to suffer from mixed earnings momentum at the sector level, with ongoing earnings downgrades afflicting such sectors as Mining and Oil & Gas, which make up a significant proportion of the index. Furthermore, record low bond yields have lifted the share prices of many bond-like sectors. These sectors appear to have become crowded with yield-seeking investors which has led to valuations that have become stretched in relation to underlying fundamentals. This situation has the potential to reverse quickly should a reversal in bond yields drive out the same investors. From Thomas Moore, Standard Life Investments, manager of Standard Life Equity Income

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The recent performance of the UK equity market has seen further strong positive returns, with the FTSE All-Share Index recently hitting a new all-time high, which makes the near term outlook more subdued. The continued rerating of equities primarily as a result of the policies of central banks has resulted in boosting asset values to the point where the market looks more fully valued than for many years. This high level of valuation coupled with a low level of earnings growth is the primary risk to the current level of share prices.

Furthermore, the increased probability of a change in monetary policy from the US central bank represents a more difficult back drop for government bond markets which will inevitably have a knock-on impact into equities. The unexpected outright Conservative victory in the general election was positive for business and for UK plc. Importantly, it removes the uncertainty that would have surrounded a hung parliament and fears of anti-business legislation.

However, as a result of this outcome two new political risks have risen to prominence. First, the risk surrounding the successful integration of the Scottish Nationalist Party (SNP) into the UK parliamentary system and second, the longer term risk relating to the EU "in-out" referendum in 2017. The latter will certainly have an impact on financial markets and the domestic economy in due course. From Mark Barnett, Portfolio Manager, Keystone

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The European Central Bank's quantitative easing plans, which involve the purchase of EUR1 trillion in bonds, has underpinned the gains in the UK and European equity markets so far in 2015. We anticipate greater volatility for the remainder of the year as markets come to terms with a potential rise in US interest rates. Market sentiment has shifted significantly from the pessimism felt at the end of last year and this makes us somewhat more cautious about the months ahead. The timing of the US interest rate rise is likely to affect the UK market as in the past equities have typically been weak around the time of the first US rate rise. That said, there then tends to be a recovery as long as the economic backdrop supports improved earnings growth.

Following the March meeting of the Federal Open Market Committee, the timing of the first US interest rate hike remains difficult to call. On the one hand, the labour market will probably continue to tighten - we expect unemployment to drop further as activity picks up again after the recent soft patch. On the other, there have been concerns about low headline inflation and the risk of contagion to emerging markets from higher US rates. However, low headline inflation is a consequence of low energy prices, which we see as positive for the economy, while contagion risks are always present and will continue to build even if rates never rise. The US dollar has strengthened significantly, which has put downward pressure on US economic activity but boosted UK corporate profits derived from US operations.

Geopolitical concerns - including the conflict in Syria and tensions between the West and Russia relating to Ukraine - continue to weigh on sentiment, albeit to a lesser degree than last year. Meanwhile, at home, commentators are expecting May's general election to be the closest in the UK since 1973. Regardless of the result, the focus will be on reducing the budget deficit, either through further austerity measures or tax rises. We expect the UK economic recovery to moderate as a result.

With still no sign of profits growth, share valuations sit a little above long-term averages on profits-based measures. The stock market has ascribed high valuations to companies with perceived secure and dependable profit streams and, more recently, has re-rated companies with cyclical exposure following the ECB's stimulatory moves. The absence of earnings growth also means that the short-term prospect for dividend growth relies largely on the US dollar holding onto its recent gains. Some of this will be offset by the weak Euro, but there is a direct translation impact from the large number of UK companies with US dollar profits. From Schroder Investment Management Limited, managers of Schroder Income Growth

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Europe *(compare European funds here)*

For the first time in four years Eurozone companies are receiving upgrades to analyst earnings forecasts, according to UBS. Whereas the high energy exposure of the UK market has negatively impacted earnings and Switzerland has had to contend with currency revaluation, Eurozone companies have benefited from improving leading indicators, a lower oil price and a more competitive currency. That the earnings upgrade momentum is being driven by cyclical sectors provides support for the portfolio's positioning. Moreover, the latest ECB Bank Lending Survey points to a 2% - 3% credit impulse to GDP. Following growth of 0.9% in 2014, Euroland GDP is forecast by Deutsche Bank to accelerate to 1.5% this year and next, led by Germany, Spain and Ireland, with growth in non-Euroland Sweden forecast at closer to 3.0%.

Smaller companies in Europe are in good shape with strong balance sheets and an improving earnings outlook. The revival of the European IPO market can expect to be complemented by an increase in merger and acquisition activity. Whilst smaller company valuations are in-line with their long term average price/book multiple, following a year when large companies enjoyed meaningful outperformance, smaller companies are now trading towards the lower end of their relative valuation range. From Jim Campbell and Francesco Conte, Investment Managers, Jupiter European Smaller Companies

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Germany

Market conditions in the German economy continue to improve and we believe that the SME sector in particular is in a strong position when compared to the previous twelve months. Gross domestic product, capital investment and exports have all increased in the three months from December 2014. The weaker euro exchange rate continues to lift German exports and with the oil price declining, energy costs have fallen sharply. This has provided a significant boost to the German SME sector.

The European Central Bank recently launched an outright quantitative easing programme to stave off deflation, keep interest rates low and to weaken the euro. As a consequence long term Eurozone government bond yields, a proxy for the cost of capital, haves declined significantly. Small-to-medium sized German businesses now have more access to cheaper capital and so are more inclined to invest in expanding their businesses. From Sirius Real Estate

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Emerging Europe

It is easy to throw in the towel on an investment which has given its supporters as torrid a time as has Emerging Europe. In our view that would be a mistake. The dominant influence of geo-politics has obscured the fact that while business conditions are not easy, a cadre of highly credible, well managed companies exists throughout the region. At the bargain prices which prevail today, it is these which will deliver exciting returns when the influence of politics wanes and conditions return to something more like normal. From Steven Bates, Chairman, Baring Emerging Europe

The last six months have put Emerging European equities to the test, and, for the first time in seven years, there was a sense of genuine panic when the fall in the oil price and the Russian rouble threatened to get out of hand.

It is encouraging to see that corporate governance keeps improving in the region, and remains in the focus of shareholders and management alike, with a number of companies surprising positively in terms of operational performance and dividend distribution. We also welcome the upbeat start into the New Year by Russian stocks, helped by good news with regards to the conflict in Ukraine. While this confrontation is far from being resolved it was encouraging to see diplomatic efforts bearing tangible results.

As we look forward from here, it is our belief that Emerging European equities offer an attractive combination of deeply discounted share price valuations, healthy earnings growth prospects and bottom-up investment opportunities, which, in our view should attract growing interest in the asset class as well as providing potential for long-term investment gains in the future. From Baring Fund Managers Limited, managers of Baring Emerging Europe

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India

In the near term, the recent correction could continue as activity levels in the economy continue to remain sluggish. This is likely to lead to earnings forecasts trending lower, while valuations have re-rated following the strong performance over the past year. However, from a longer term perspective, the cyclical outlook for the economy, and therefore the outlook for equities, remains favourable. The next leg of the rally is likely be driven by a recovery in earnings. Our research suggests a wide dispersion in corporate fundamentals, valuations and risks. Therefore, we continue to believe that a bottom-up approach is required and likely to reap rewards.

While on a three to four year view, the outlook remains compelling, the path will be paved with a number of challenges and sources of volatility. The continued strength of the US dollar and the likely normalisation of US interest rates are both headwinds for emerging markets equities. Fund flows, into equities and more recently into bonds, have materially increased India's global linkages. The RBI's monetary policy decisions will not solely be based on domestic factors. If the gap between Mr. Modi's willingness and ability to engineer key reforms widens, this could impact market sentiment negatively.

On balance, over the long run, we believe that the current growth cycle and a more stable and energised government should win out over the global macro economic challenges. From Rukhshad Shroff and Raj Nair, Investment Managers, JPMorgan Indian

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Japan *(compare Japanese funds here)*

Japanese equities have continued to rise, as recent policy provides further support to the market over the short term; for a sustained rally, however, fundamentals need to improve. Meanwhile, the Abe government has been working towards further reforms, but progress has been limited to lower-hanging fruit, such as trade liberalisation, rather than politically sensitive areas, including addressing structural short-comings. The central bank has indicated that the economy is on a moderate recovery track. We are more cautious and would await more concrete signs of growth.

Despite the weak macro conditions, earnings revisions are trending upwards when the reverse is true for most of the world. Encouragingly, this is driven by not just Yen weakness. Companies are using their cash more efficiently by increasing buybacks and acquisitions, whilst a lower corporate tax rate is also helping. In addition, the growing focus on generating shareholder value as part of efforts to improve corporate governance is a step in the right direction. From Aberdeen Asset Managers Kabushiki Kaisha, Investment Manager, Aberdeen Japan Trust

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Latin America *(compare latin american funds here)*

Market sentiment is unlikely to improve significantly in the immediate future. For now, accommodative monetary policy by major central banks should support asset prices. But risk appetite will be limited by the uncertainty surrounding the US Federal Reserve's policy normalisation; given the strength of the dollar, assumptions that interest rate hikes would begin in the middle of the year are now being called into question. China's deepening slowdown could be a further source of worry for resource-rich exporting Latin American nations.

There are also domestic issues to contend with. In Brazil, president Dilma Rousseff is looking increasingly embattled, with dissatisfaction over the floundering economy and the corruption scandal culminating recently in mass demonstrations and calls for her impeachment. While spending cuts and tax hikes are likely to weigh on consumer sentiment in the near term, good fiscal discipline is vital to laying the foundation for healthier economic growth and renewed investor confidence. Mexico's government has made commendable progress in implementing groundbreaking reforms in the telecommunications and oil sectors. Yet, the administration's credibility has been dented by its handling of a property scandal involving the president and a government contractor. Chile, too, was tainted by corruption allegations. Both governments have proposed anti-graft initiatives; whether these will be enough to restore voter confidence remains unclear.

But, all that said, there still remains cause for optimism for the long-term. Concerted government efforts at reform should underpin longer-term growth prospects. On the corporate front, earnings growth may remain subdued in the near term. However, well-run companies are focusing on maintaining margins and market share, which should position them for an eventual rebound. From Richard Prosser, Chairman, Aberdeen Latin American Income

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Until there is clarity on the timing of the US Federal Reserve's impending rate hike, Latin American markets, like those elsewhere, are expected to remain jittery. The dollar's continued strength, partly in anticipation of higher borrowing costs in the US, could put regional currencies under further pressure at a time when commodity-exporting nations are suffering from the loss of oil revenues and falling Chinese demand. Mexico has trimmed its 2015 budget spending and lowered its growth forecast after the sharp fall in oil prices hurt public finances. Brazil is grappling with a weak economy, as the government raises taxes and cuts spending to balance the books. Continued monetary tightening, designed to curb inflation and stem declines in the currency, is expected to crimp consumer spending.

Valuations are attractive and supportive of an eventual re-rating once profitability recovers. In addition, structural themes underpinning the region's growth dynamics are still present: the growing middle class, healthier international currency reserves and relatively low levels of government debt. Numerous reforms being rolled out in Colombia, Chile and Mexico offer cause for some optimism too, even if implementing them may be long and fraught. These elements should be supportive of the region's long-term growth, although financial markets currently seem more fixated on short-term challenges. From Aberdeen Asset Managers Limited, managers of Aberdeen Latin American Income fund

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Frontier markets *(compare emerging market funds here)*

Against a backdrop of continuing concerns over global growth, tensions in the Middle East and Ukraine and falling oil prices, valuations look increasingly attractive across many of the Frontier Market countries. In Nigeria, the results of the recent Presidential elections create a positive environment for change and the country has tremendous long term potential. Countries as diverse as Pakistan and Morocco are reaping the benefits of improved fiscal discipline and we are hopeful that the framework agreement between the international community and Iran will be a step towards greater stability in the Middle East.

Overall, we believe that Frontier Markets continue to represent a compelling investment opportunity for long term investors. An ability to access investments in countries which in many cases exhibit fast growing economies, strong demographic profiles, low government debt and substantial commodity endowments provide a range of exciting investment opportunities. In addition, the low correlation of Frontier Markets with both Emerging and Developed Markets in our view also offer compelling portfolio diversification benefits. From Audley Twiston-Davies, Chairman, BlackRock Frontier Markets

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Performance of Frontier Markets has been strong over the previous three years, and importantly has been accompanied by strong corporate earnings growth across the universe, such that valuations are attractive, especially given the recent sell off.

We note the current trend for political normalisation within Frontier Markets. Following Pakistan and Sri Lanka, Nigeria is the most recent Frontier Market country to have surprised investors with a peaceful, democratic transition of power to the opposition in recent elections. While many challenges remain, not least the war in the north east of the country, a currency that appears overvalued and ongoing corruption concerns, the opportunity for positive change with genuinely new leadership is considerable. We note that the entire market capitalisation of the Nigerian Stock Exchange is circa US$45 billion (GBP30 billion), a mere fraction of the country's official GDP and a sum roughly equal to one mid-tier UK FTSE 100/S&P 500 corporate. Within Nigeria we believe that the banking sector has tremendous long term potential and trades at inexpensive relative and absolute valuations.

Elsewhere, the framework agreement between the international community and Iran is positive, despite many complicated technical details which still need to be dealt with before June 2015. The Iranian stock market has thus far been un-investable because of sanctions. This surprisingly large and liquid market could well feature in portfolios if sanctions were lifted. The Vietnamese regulator is considering measures to lift foreign ownership restrictions in the equity market which will allow greater foreign participation. Regulation changes in Saudi Arabia which intends to open its markets to foreign investors in 2015 are also of note, as it will likely mean that MSCI will consider the country for index inclusion. From Sam Vecht and Emily Fletcher, Managers, BlackRock Frontier Markets

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Africa

2015 promises to be a challenging year for African investors. The gross export proceeds of Africa, as a primary commodity-exporting continent, are set to decline sharply in tandem with its deteriorating terms of trade. The oil price and iron-ore price collapses of 2014, continuing in 2015, are emblematic of the loss of export earnings. Even if Nigeria's loss as an oil exporter is Botswana's gain, the tightening financial conditions in the United States of America will be felt on African shores. Gradually, but inexorably, many African central banks will raise interest rates, dampening the performance of their capital markets. Three notable exceptions should be the central banks in francophone Sub-Saharan Africa which follow the monetary policy of the European Union, North African countries like Morocco which strive to keep their currencies competitive with the Euro, and net oil importing countries like Egypt and Kenya that are also not major commodity exporters to China. [*Our*] investment approach in this environment will be to focus even more on identifying goods and services for which African consumers are willing to spend scarce US Dollars or their local currency equivalent, regardless of domestic political or economic conditions. Sectors which have been dominated by the state, but are opening up to private sector participants are of especial interest. Many of those sectors were viewed as "natural monopolies" that have evolved into havens of inefficiency, subsidies, and losses. Pent-up and unsatisfied demand of African companies and consumers has been the inevitable outcome in those havens.

The peaceful and successful conclusion of Nigeria's presidential elections of March 28, 2015 is a cause for great celebration. As the largest economy in Africa, with the biggest population and faced with delivering meaningful economic growth to its ethnically and religiously diverse population, it serves as a light-house illuminating Africa's political trajectory. The peaceful transfer of power from President Jonathan to President-elect Buhari is positive for Nigeria because it affirms the supremacy of the Nigerian electorate, the Rule of Law, and Nigeria's constitution. In memorable contrast to former Ivorian president, Laurent Gbagbo, President Jonathan's congratulatory call to President-elect Buhari was a statesmanlike gesture that augurs well for Nigeria's future. Yet, the rejection of incumbency by Nigerian voters continues a trend that is becoming more common in Africa. Ghana has changed its parliamentary majority twice in 2000 and 2008. Senegal denied former President Abdoulaye Wade a third term in 2012, replacing him with current President Macky Sall. Most recently in December of 2014 Mauritian voters threw out their former Prime Minister - Navin Ramgoolam - in a landslide to express their displeasure at constitutional proposals to increase the powers of the Mauritius presidency in preparation for his occupying that office. AOF's view is that the institutional and legal setting in which investment decisions are made becomes more durable and predictable with repeated experiences of peaceful transfers of power in experienced democracies. Today, the dominant powers in each Sub-Saharan Africa region are all tested democracies, entrenching relatively predictable and peaceful environments for the conduct of commerce and investments. From Dr. Myma Belo-Osagie, Chairperson, Africa Opportunity Fund

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Healthcare *(compare healthcare funds here)*

Our outlook on the broad healthcare sector remains positive - healthcare reform is clearly driving volumes and utilisation in the United States. We currently advocate a two-pronged investment strategy for healthcare that focuses on the consolidators and the innovators - these are the companies that will decrease the cost and increase the quality of healthcare, respectively. We believe that the healthcare sector is approaching an era of major structural change and that some companies are much better positioned than others to profit from the growth driver of an ageing population.

We have begun to see more evidence supporting our view that a period of disruptive change in healthcare has begun - this is a key driver of the consolidation trend that we have seen across the healthcare sector over the last year. We recognise that disruptive change can result in major winners and major losers and so our focus is to identify those companies with services or products that provide better and/or more cost-effective care for patients.

Our original investment thesis on the pharmaceutical sector has largely played out as we had expected - the patent cliff is now behind most companies and price to earnings (P/E) multiples have expanded back to the long-term historical average for the sector. We think it is now clear that the drug industry is not destined to go out of business - the valuations in 2009/10 suggested that this was a distinct possibility. The sector is certainly not as cheap as it was five years ago, and dividend yields have fallen, but a steady flow of positive clinical data and drug approvals provide clear evidence that R&D pipelines are improving.

Investing in the pharmaceutical sector is now about identifying those companies with the best growth prospects. The challenge is to identify those companies where the pipeline and growth prospects are underestimated by the market. Healthcare looks to be well positioned compared to many other sectors in terms of both growth prospects and current valuation. From Dr Daniel Mahony and Gareth Powell, Polar Capital LLP, managers of Polar Capital Global Healthcare

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Utilities

The International Monetary Fund published its semi-annual outlook for the world economy in April 2015 forecasting world growth of 3.5% in 2015 as compared to 3.4% in 2014. It characterised the outlook for growth as "moderate but uneven" and forecast an acceleration of growth in the advanced economies and a slowing of growth in the developing economies this year. While the legacy of high levels of debt continues to restrain spending and growth, the IMF believes that the macroeconomic risks to its forecasts have decreased somewhat over the past six months due to the stimulative effect of the fall in the oil price, exchange rate depreciation in the Euro area and Japan - which should make their exports more competitive - and signs of economic recovery in the Euro area. Geopolitical risks, however, such as conflicts in the Middle East and Ukraine and the possibility of an intensifying crisis in Greece, continue to pose risks to financial markets.

While the universe of [*utility*] companies is very large in the United States, valuations are higher than in Europe, particularly for the shares of regulated, 'bond like' utilities which have enjoyed a period of out-performance as investors have sought yield. The valuations of these companies are at risk should US interest rates rise later in the year. There are still large infrastructure needs to be met as US power companies replace coal generation - which is coming under ever more restrictive regulation - with gas-fired power plants and renewables. Integrated utilities buiilding renewable energy generating plant should be able to participate in economic growth but have underperformed with the oil price fall - even though they may have little or no direct exposure to the oil price - and investors' recent preference for higher yielding regulated utilities. With state renewable energy standards to be met, attractive federal tax treatment of renewables and a declining long-term cost curve due to technological improvements, the renewable sector is emerging as an attractive growth sector in its own right.

In Europe, we expect the combination of quantitative easing by the European Central Bank, a depreciating currency and low oil prices to act as a stimulus to growth. In the utility sector, however, power prices remain low and the growth of renewable energy generation is challenging the business models of many utilities. As a consequence, the legislative and regulatory environment in which Continental European utilities, especially, operate is likely to change, corporate activity is likely to increase and managements' strategies are becoming a critical differentiating factor in company performance. In the United Kingdom, the investible universe is small although reserve margins in the power industry are very low by historical standards which should support power prices.

Japan, too, has embarked on a programme of quantitative easing which should stimulate growth and its traditional utility companies are attractive on valuation grounds. In China, the renewable energy sector continues to grow with strong government support and its world class equipment manufacturers are rapidly gaining market share.

The outlook is for more far-reaching structural changes in the global utilities, infrastructure and energy industries against a background of very large investment requirements. The structural changes are driven by a number of factors including the decline of traditional, coal-fired electricity generation due to environmental considerations, the growth in the use of natural gas and liquefied natural gas (LNG) for electricity generation and heating globally and the dramatic increase in the renewable energy sector, albeit from a small base. In the United States, the energy revolution brought about by the exploitation of unconventional, shale-based reserves of oil and gas is having a profound effect on the energy and utilities industries. These changes are driving enormous new investments in energy transportation and interconnection - both in North America and Europe - such as gas pipelines to supply electricity generators and electricity transmission networks to link renewable energy generators to consumers. These changes - along with a resumption of economic growth - are seeing an increase in corporate activity and restructurings, the introduction of new capital market instruments and wide variations in the performance of individual companies. From Ecofin Limited, Investment Manager, Ecofin Water & Power Opportunities

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Debt *(compare debt funds here)*

The high yield bond market has continued to deliver positive returns in recent quarters. The very high levels of supply we have seen in Europe so far this year have been difficult for the market to digest. Nevertheless, the demand for income remains a very powerful driver of returns and QE in Europe will likely only heighten this demand. From a valuation perspective the market is now, in our opinion, pretty much fully valued. Yields and spreads are very low by historical standards. From Paul

Read/Paul Causer and Rhys Davies, managers of Invesco Perpetual Enhanced Income

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In the short to medium term, we expect that the U.S. loan market will continue to offer strong relative value opportunities. Despite a better base of stronger macroeconomic fundamentals, U.S. credit markets have experienced more mark to market and return volatility. We believe the primary drivers of this volatility are turbulent retail fund flows, as mutual funds and ETF's sell to meet redemptions and continued pressure in the energy sector due to materially lower oil prices. This presents an attractive opportunity.

The CLO outlook for 2015 is good with forecasts for CLO issuance ranging from EUR15bn to EUR25bn. Although CLOs are not included in the ECB asset backed security programme, we anticipate that they should benefit from a general spread tightening across fixed income markets. We believe financing costs in the CLO market will continue to remain attractive to CLO income note investors and support demand for the asset class.

We expect loan market technicals to remain strong in the short-term and ramping CLO's should support secondary levels. 2015 forecasts for new-issue loan supply range from EUR65bn to EUR110bn, which bodes well for balancing technical and maintaining attractive yield levels. We believe that ECB policy will remain ultra-accommodative, continuing to support credit and providing a liquidity injection that supports risk premiums. Defaults should remain low in the near-term as low borrowing costs should continue to support earnings. European growth rates are likely to remain low, with some upside provided by a weaker euro and lower oil prices helping to boost consumption.

Credit quality in the new issue loan market remains strong relative to the 2006/2007 peak, as measured by several commonly measured ratios reported by Standard & Poors Leveraged Commentary & Data on a rolling 12 month basis. Senior secured leverage, as measured by Senior Debt / EBITDA is 4.2x, with total leverage on average of 5.0x in 2014. The prior peak total leverage was 5.95x in 2007. For new issue loans to support leveraged buyouts, the total equity contributed by a private equity sponsor is 46% of capitalisation in the 12 months ended December 2014. This compares with just 33% in 2007. Despite the relatively benign credit environment we consider it is important to maintain discipline. From Blackstone / GSO Debt Funds Management Europe Limited, managers of Blacktone/GSO Loan Financing

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With the recent revision of U.S. Q3 GDP to 5%, as well as the increase in US real GDP based on the "advance" estimate, and the likelihood that lower energy costs will lead to further gains in consumer spending and corporate profits (at least outside of the energy sector), the Federal Reserve's resolve to begin raising interest rates by mid-2015 seems to be strengthened. Furthermore, it appears as though the US economy has further "decoupled" from the rest of the world, as many economists have pointed out. While many concerns regarding the US economy remain, particularly around structural employment issues and wage growth, there are signs that further improvements are coming. We look forward to continuing improvements broadly in the U.S. and some recovery of energy prices. Over the course of the year as market participants begin to focus in on the nearer-term reality of Fed action on rates, we would expect returns on loans to improve, driven by positive flows back to the asset class and away from core fixed income.

With this economic backdrop, we believe the U.S. remains in a benign default environment, excluding the oil and gas sector, and this should continue to benefit

CLO Income Note cashflows. In particular, the widening in loan spreads seen in late 2014 should provide a benefit to the weighted average spread of the loan portfolios underlying our CLOs. On oil and gas exposure, a sustained low oil price beyond late 2015 will lead to a material increase in defaults in the sector. From GSO / Blackstone Debt Funds Management LLC as managers of Carador Income Fund

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The Portfolio Manager recognises that the recovery in the established economies, following the credit crisis, will be slow and challenging. The political uncertainty in Greece could still damage the EU if contagion spread to other anti-austerity parties across the region. Ultimately, the ECB's determination to ensure the survival of the Euro system and the extent of the QE programme should be the biggest driver of markets over the medium term, which will be positive for credit spreads. However, political and geopolitical uncertainties are expected to create periods of market volatility. From TwentyFour Asset Management LLP, managers of TwentyFour Select Monthly Income

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Property *(compare property funds here)*

In last year's Outlook I stated that the building blocks for continuing performance from this sector were firmly in place in certain areas of our markets. The improving economic fundamentals in these regions have indeed translated into tenant demand and rental growth, in turn augmenting further investor appetite. This has been particularly the case in the UK together with core cities in Germany and Sweden.

With property returns increasingly being driven by property fundamentals, more investors in more markets are anticipating rental growth and treating acquisitions as growth assets. Property benefits from low interest rates and whilst we may well see the beginning of a rate tightening cycle in the UK in the next twelve months, rates in their historical context will still be low.

The stark differences between the UK's GDP forecasts and those of the Eurozone set out as recently as in last November's Interim Report look set to fade, potentially faster than anticipated, as currency depreciation and determined unorthodox monetary stimuli impact across Continental Europe. Our concerns focus on asset pricing as the capital flood into European property and property equities has resulted in substantial price appreciation. Such rapid price appreciation merely strengthens [*our managers'*] conviction that it is only rental growth which will support pricing in the medium term, and gives them concern that some companies may find it difficult to support current valuations.

Whilst rental growth may take some time to appear more broadly across markets, investors should take real encouragement from two vitally important characteristics of this current environment - the source of capital being deployed and the lack of speculative development. The appreciation in asset prices this year has not been driven by rising levels of debt, but by equity investors seeking income and foreign investors buying Euro denominated assets. Listed property companies across Europe (with the exception of Sweden) are not increasing their debt levels even as asset values rise. We expect them to continue to refinance, taking full advantage of competitive pricing, but the majority have hopefully learnt some lessons from 2008.

Income producing assets have appreciated far more than development opportunities. Speculative finance is still a rare commodity. The lack of this type of finance naturally restricts development and reinforces our view that current asset pricing whilst sharply up from a year ago is sustainable. We expect this risk aversion towards non income producing assets to continue and for this development cycle to remain somewhat muted, and the Company will be positioned accordingly. From Caroline Burton, Chairman, TR Property

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The ultra-low and indeed, in some instances, negative bond yield environment across the Eurozone fostered by the ECB's bond buying stimulus drives an unprecedented hunt for yield. It also reduces the cost of capital leading to asset value inflation in Continental Europe. Our view is that the ECB will ensure that the programme continues until they are very comfortable that the benefits are being felt in the wider real economy. However, as should be clear from the tone of this report we prefer companies that are close to, or experiencing real rental growth in their portfolios. Asset prices stimulated by central bank intervention need to eventually find an underpinning from occupier demand and we watch closely for appropriate data points. Importantly the lack of new construction and reluctance of banks to fund speculative development continues to reassure us that improving economic fundamentals which deliver tenant demand will translate into rental growth promptly.

At the time of going to print the Conservatives had, against almost universal expectation, won a slim majority at the UK General Election. Whilst this certainty is good news for business in general it does bring renewed focus on the possibility of an EU referendum in 2017. The ability of the single currency to deal with its immense structural issues will remain a central theme for investor sentiment and the immediacy of the Greek debt renegotiation reminds us of the complexities. We expect the European Central Bank's monetary policy to remain accommodating.

Meanwhile in the UK, the expectation of the commencement of an upward rate cycle may weigh on short term asset appreciation in the UK. However we think that quite quickly commercial property investors will adapt to the new environment where modest increases in the base rate will be the appropriate response of the central bank to an economy growing faster than its neighbours. Combined with so little new development over the last 7 years ongoing tenant demand will be good news for rental growth. From Marcus Phayre-Mudge, Fund Manager, TR Property

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London is thriving with a population of nearly nine million people, generating 22% of UK GDP and with the largest GDP of any city in Europe. With the outlook for the UK economy remaining positive, with consensus estimates forecasting steady GDP growth of 2.0-2.5% over the next few years, London is expected to continue to punch above its weight with Oxford Economics forecasting annual growth of 3.4% over the next five years, making it Europe's fastest growing major city. Moreover, confidence and employment intention indicators across London's businesses show that they remain in growth mode.

With London's population forecast to grow to more than ten million by 2030, Oxford Economics has also revised upwards its forecasts for London employment to 6.0 million, growth of 8.3% over the next five years and expect more than 256,650 of new office jobs to be created in London. In addition, London's position as one of only a handful of true global cities continues to strengthen, attracting international capital for real estate investment as well as occupiers seeking access to its deep pool of talented labour.

Notwithstanding these positive prospects, the UK economic recovery has been slower than in recent cycles and with UK inflation materially below the long-run average, interest rates remain at very low levels, albeit they are expected to increase in the medium-term. Uncertainties around the economic outlook persist given, amongst others, uncertainty relating to a possible referendum on our EU membership, Eurozone deflation and Grexit risk, along with moderating economic growth in the USA and China. Unfortunately we also have a heightened risk of terrorism in London.

On the demand side, improved business confidence is feeding into business expansion and, in turn, healthy tenant demand for new space. For the year ended March 2015, central London take-up was 15.2 million sq ft, exceeding both the preceding 12 months and the ten year annual average of 12.5 million sq ft. This trend is expected to continue with office-based employment in inner London, a key driver of demand for office space, expected to increase by an average of 2% p.a. over the coming five years. Moreover, this take-up has been from a broad range of industries, including creative businesses (25%), banking and finance (23%) and business services (15%). As a result, the central London availability rate has fallen to 4.9%, its lowest level since 2007.

On the supply side, although development completions across central London are rising, this is from a low base. Across the central London office market as a whole, development completions in the year to 31 March 2015 were 5.1 million sq ft, up from 4.5 million sq ft in the preceding 12 months. However, in the core of the West End completions totalled only 0.8 million sq ft in the year. This supply shortage has meant that pre-lets continue to represent around 20% of central London office take-up.

Looking ahead, we expect to see a pick-up in the speculative development pipeline as developers respond to stronger occupier demand levels and the prospect of rental growth. However, the significant barriers to development in the West End combined with the lead time between development starts and completions means that we expect it will take several years for any meaningful amount of new space to be delivered. These barriers increasingly include a shortage of contractor capacity which is both reducing market access to new entrants or those developers without meaningful pipelines of work and supporting construction cost inflation. Whilst construction costs are rising from a relatively low base, the major cost consultants are forecasting annual cost inflation of 4-7% over the coming years for commercial schemes.

Over the year to 31 March 2015, West End office take-up was 4.4 million sq ft, up 7.0% on the preceding year, while availability has reduced to 3.7 million sq ft. Vacancy rates remain low at 2.4% with grade A space vacancy estimated by CBRE to be only 1.8%.

Across the West End, CBRE has reported that prime office rental values rose by around 11.9% over the year. Looking ahead, rents are forecast by CBRE to show strong growth, with North of Oxford Street prime office rents expected to show the strongest rental growth in the core West End of 19% over the next two years following the completion of new developments.

The West End retail market has continued to witness very strong rental growth. Over the last year, strong demand for retail space has maintained a near zero vacancy, with significant leasing activity supporting prime rental values.

Over the year to 31 March 2015, City office take-up was 6.7 million sq ft, up 19.0% on the preceding year, while availability has reduced to 3.9 million sq ft. Although higher than in the West End, vacancy rates remain low at 4.2% with grade A space vacancy estimated by CBRE to be only 3.3%. CBRE has also reported that City prime rental values were up 11.1% during the period.

Midtown and Southwark continue to witness significant leasing activity, driven largely by demand for new space from the TMT sector. This has supported strong rental growth of 12.5% and 15.0% respectively for the year, with prime office rents of GBP67.50 and GBP57.50 per sq ft respectively at

The upturn in central London take-up over the past 12 months has been driven by strengthening occupier confidence which has delivered office rental growth ahead of our expectations. We expect this trend to continue in 2015 as the economy grows.

With the imbalance between improving occupational demand and restricted supply favouring the landlord, we can expect further rental growth. Independent forecaster PMA is predicting healthy rental growth in both the West End and the City office markets over the medium-term.

Following a record year with GBP19.9 billion of central London office investment transactions to 31 December 2013, activity has remained buoyant with GBP18.5 billion of deals in 2014. The small decrease in activity reflects the continued shortage of stock available on the market to buy rather than diminished purchasing appetite amongst a growing pool of buyers. Overseas investors continue to be the largest buyer constituency, accounting for 69% of transactions, with Asian buyers again the largest regional international investor. Healthy investment activity has continued with GBP3.7 billion of deals in the quarter to 31 March 2015 and it is interesting to note that UK buyers represented 43% of the total.

In the West End, 2014 was a record year with GBP6.3 billion of investment transactions. Volumes fell in the quarter to 31 March 2015 with GBP1.0 billion of deals compared to GBP1.8 billion in the prior quarter.

Strong competition for limited stock has driven investment yields for office properties lower with prime yields in the West End and City of 3.65% and 4.25% respectively at 31 March 2015, according to CBRE. Prime retail yields in the West End are currently 2.25%.

The excess of equity capital to invest over commercial property available to buy across central London remains high (estimated at GBP40 billion versus GBP2 billion respectively). Moreover, with bond yields at near record lows and instances of negative yields in the Eurozone, the increased availability of real estate debt funding and investors' increased willingness to move up the risk curve means that competition for stock remains intense, narrowing the yield spread between prime and secondary. In the near-term, we expect yields to remain firm, and as expectations of interest rate increases in the UK continue to be pushed back, the real yield spread remains above the long-term average. For the medium-term, we maintain our view that yields will increase as rental growth is captured.

Yield compression tends to drive capital value growth early in the cycle, although its contribution has been more sustained this cycle given elevated liquidity levels due to quantitative easing and unprecedentedly loose monetary policy. Over the next few years, we expect that rental growth will continue to increase and will become the principal driver of capital growth across the central London commercial real estate market. From Great Portland Estates