Monthly summary | Investment companies

November 2016

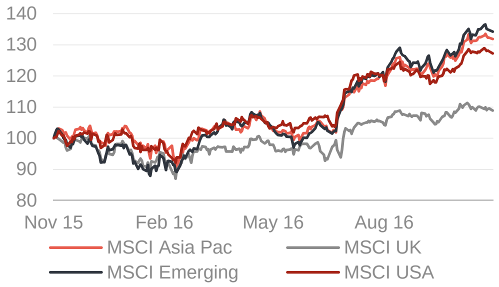
Economic & Political Roundup

A collation of recent insights on markets and economies taken from the comments made by chairmen and investment managers of investment companies – please 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.

Exchange Rate	31/10/16	Chg. on month %
USD / GBP	1.2242	(5.6)
USD / EUR	0.9107	2.3
USD / JPY	104.82	3.4
USD / CHF	0.989	1.8
USD / CNY	6.7758	1.6

MSCI Indices rebased to 100

Time period 02/11/15 to 31/10/16



Source: Bloomberg and Marten & Co

	31/10/16	Chg. on month %
Oil (Brent)	48.3	(1.5)
Gold	1277.2	(2.9)
US Tsy 10 yr yield	1.8255	14.5
UK Gilt 10 yr yield	1.245	66.9
Bund 10 yr yield	0.161	n/m

Roundup

Sterling took another lurch downwards during October yet the UK market barely moved as worries about a potential hit to the UK economy from Brexit outweighed the translational benefit of a weak pound on the UK index. Nervousness was particularly acute in the UK gilt market, which saw a sharp spike in yields and the dollar strengthened against most currencies. Emerging markets had a good month, driven, in part, by a stronger Brazilian stock market.

UK

Nervousness abounds but weak sterling and low interest rates are supportive.

Sir Laurence Magnus, chairman of JPMorgan Income & Capital, has a long list of reasons why investors might be nervous in the current environment. He concludes by saying that, taken together with increasing concern that some central banks are close to exhausting their ability to stimulate markets, it is not surprising that the outlook is unclear. The managers of that fund expect returns to be volatile but think the UK stock market may continue to perform well if, as is likely, sterling remains weak and interest rates remain low. Michael Quicke, chairman of JPMorgan Smaller Companies makes the same point. The managers of that fund say they are less concerned with short-term issues that long-term ones. They highlight the uncertainty created by Brexit and wonder whether this will impact on investment by companies.

Asia

Domestic growth is attractive but beware the chance of rising interest rates

Kate Bolsover, chairman of Fidelity Asian Values, points out that countries such as India, Indonesia and the Philippines can and are generating domestic growth despite the travails of the developed world. Nigel Cayzer, chairman of Aberdeen Asian Smaller Companies, highlights ASEAN's 625 million consumers. He thinks their purchasing power will continue as a driver for growth in years to come. The managers of Scottish Oriental Smaller Companies are concerned about the possibility of rising interest rates and the effect this could have on equity markets.

Europe

Many investors seem to place reliance on further stimulus to keep the economy going but some are pondering what may happen when QE ends and inflation ticks up

Carol Ferguson, chairman of BlackRock Greater European, expects volatile markets as Brexit unfolds. The managers of that fund say European companies can offer significant value as the ECB works to keep the European economy growing. Audley Twiston-Davies, chairman of TR European Growth, says a more expansionary fiscal policy in much of the world should be helpful. The managers of that fund wonder whether we are approaching the end of quantitative easing. They think "quality growth" and "yield" trades are overcrowded. Tim Stevenson, manager of Henderson EuroTrust, says it remains a difficult and complex world, with the contradictions of ever lower bond yields potentially causing strains in the bond markets if and when inflation starts to increase in Europe.

Japan

Signs of change in Japan?

Sarah Whitley, manager of Baillie Gifford Japan, says Japan is beginning to re-examine many attitudes from worker immigration to the role of women in the workforce.

Latin America

Transition underway in Latin American economies

Richard Prosser, chairman of Aberdeen Latin American Income, thinks currency weakness has helped to absorb some of the hit to Latin American economies from weak commodity prices and governments seem to be prioritising investment in non-commodity sectors. The managers of that fund say an improving political climate has resulted in an increased focus on structural reforms, particularly reducing debt and increasing productivity. They think this bodes well, albeit that countries may have to endure necessary, and painful, adjustments over the short term.

Commodities and natural resources

Prospect for gold appreciation on global political worries

Malcolm Burne, chairman of Golden Prospect Precious Metals, believes the fundamentals of the gold market remain extremely solid and there is scope for further price appreciation on worries about global politics.

Debt

Low yields may not reflect Brexit risks

Axa Investment Managers, managers of Volta Finance, see US default rates climbing to 3% but no increase in default rates in Europe. Ian Francis, manager of CQS New City High Yield, is concerned that markets aren't pricing in the uncertainty created by Brexit negotiations. Christopher Waldron, chairman of UK Mortgages, points out that bond yields fell to record lows in the UK after the August interest rate cut which puts further pressure on income-seeking investors. The managers of that fund think this could have a positive effect on the pricing of funding for securitisations.

Other sectors

We also have commentary on the market for debt funding for the property market from ICG Longbow, on the UK and European property market from Redefine International and on Vietnam from VinaCapital Vietnam Opportunities.

Contents

United Kingdom

(compare UK funds **here**)

Sir Laurence Magnus, chairman, JPMorgan Income & Capital: There is anxiety surrounding the longer term impact of the 'Brexit' vote on the UK economy, with many significant unanswered questions regarding the terms of the UK's future access to European markets. The extent to which stock markets around the world can sustain their current levels without substantial central bank support is also a cause for concern.

Although investors have had to contend with considerable uncertainty since the financial crash in 2008, there are some particularly major issues worrying market commentators as they look to the months ahead. These include the 'Brexit' negotiations, political developments in Continental Europe (with elections due in France, Germany and Italy and continuing financial instability in Greece), tension between Russia and NATO, the war in the Middle East, the forthcoming presidential election in the USA and the continuing threats from terrorism. Taken together with increasing concern that some central banks are close to exhausting their ability to stimulate markets, it is not surprising that the outlook is unclear.

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Sarah Emly and John Baker, managers, JPMorgan Income & Capital: The UK stock market is currently riding high on the back of low interest rates and a cheap currency. Underlying risks are, however, increasing. Developed markets growth rates continue to disappoint and monetary policy is largely exhausted. The UK's decision to leave the EU only heightens the risks of an economic slowdown. Unpicking 40 years of EU trade agreements will be a long, tortuous and costly process and the success or otherwise of such negotiations will not become apparent for some years yet.

The Bank of England's Monetary Policy Committee (MPC) is sufficiently worried that it has recently cut base rates to just 25bps and the new Chancellor, Philip Hammond, has wasted no time in abandoning his predecessor's target to run a fiscal surplus by 2020. The "fiscal reset" in the Autumn Statement could be significant, particularly as there is a worrying amount of anecdotal evidence that many businesses are already holding back on investment.

However, even though the economic outlook is likely to remain uncertain for some considerable time yet, the UK stock market may continue to perform well if, as is likely, sterling remains weak and interest rates remain low. We continue to prefer equities with good and growing dividends to low yielding bonds although overall investment returns are likely to remain volatile until the investment skies start to clear.

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Michael Quicke OBE, chairman, JPMorgan Smaller Companies: We are in a period of significant economic and political uncertainty. Unprecedented levels of central bank support have failed to bring strong economic growth to many countries, and the absence of growth has resulted in political upsets both domestically and internationally. In this environment, we should expect markets to remain volatile, although very low interest rates help support the valuation of equities.

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Georgina Brittain and Katen Patel, managers, JPMorgan Smaller Companies: After the dramatic decline at the end of June, immediately after the EU Referendum result, the UK stock market rallied somewhat in July. Post our July year end, the UK stock market has bounced strongly - as of 13th October 2016, the FTSE Small Cap Index is up 4.3%, having rebounded 17.4% since the post-Referendum low. While part of this has been due to a recovery in some over-sold share prices post the vote, we have also seen a welcome return to a greater focus on company fundamentals, rather than the global macro concerns that dominated stock markets in the first half of 2016.

There are three clear reasons for this rally. First, the Bank of England acted rapidly in August to counteract the potential damage to growth that the referendum outcome may cause. It cut interest rates to 0.25%, while leaving the possibility of further cuts to come and also expanded its asset purchase scheme. Secondly, the resignation of the Prime Minister, and the ensuing political instability within the Conservative party that followed, were swiftly and decisively resolved with the appointment of Theresa May as the new Prime Minister. Thirdly, while it is only three months since the EU vote, so far, fears of an immediate collapse in both consumer confidence and economic activity have not materialised.

The forecasts for growth both this year and particularly in 2017 have been cut, but both the Bank of England and the majority of economists now forecast that the UK will not enter a recession. Consensus GDP growth estimates are now 1.7% for 2016 and an anaemic, but positive 0.7% for 2017. This is due to the improvement seen in the economic data in August post the immediate collapse in a number of industry and consumer surveys in July.

Following the more encouraging recent economic data, our concern is less with the short term issues facing the UK, but rather focuses on the longer term. What will Brexit look like? When will it take place? What effect will this have on employment levels and hence consumer confidence? If sterling stays at the current level, how strong will the inflationary impact be? We are also concerned that the companies we invest in face a period of uncertainty which may last for many years. This may have an impact on their future investment plans, and hence future growth.

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Asia

(compare Asian ex Japan funds here)

Kate Bolsover, chairman, Fidelity Asian Values: Asia remains very attractive on a number of measures versus the developed world - be it from a fundamental perspective or from a valuation view point.

Domestic-driven countries, such as India, Indonesia and the Philippines, will be better-placed because of their lower exposure to the UK and Europe. Their higher growth rates and ongoing reforms will make them attractive to investors in a low-growth world. In India, a stable and business-friendly government continues to focus on improving economic fundamentals and boosting growth in the medium term. The introduction of major tax reforms is likely to boost efficiencies, lower the cost of business and potentially transform the country's manufacturing base with expected productivity gains. A focus on reforms, infrastructure development and investment supports the corporate earnings outlook for Indonesia. The Philippines is also benefitting from a new leadership that seems to be pro-growth and pro-reforms.

Given that Asia has more than 17,000 listed companies, the opportunity to find hidden gems is immense.

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Nigel Cayzer, chairman, Aberdeen Asian Smaller Companies: There has been a lot of speculation about the prospect of reforms across Asian economies over the past few years, and we are now starting to see these come through, which will have a positive impact over the longer term. The most notable was in India, where a nationwide goods and services tax legislation was finally voted through after many years of indecision. The Reserve Bank of India also confirmed that India's economy will remain in safe hands, as the current deputy governor, Urjit Patel, has been named as the successor to the outgoing Raghuram Rajan. Elsewhere, Indonesia approved a tax amnesty scheme to help fund its infrastructure programme, while President Joko Widodo reshuffled his cabinet, bringing in a well-respected Finance Minister which has added further credibility to his Parliament. In Thailand, Prime Minister Prayuth Chan-ocha has reiterated his commitment to elections next year as part of his roadmap to democracy although the recent death of the much respected and revered King Bhumibol Adulyadej may affect or delay this process and the Philippines voted for change with a new President Rodrigo Duterte.

Against this backdrop, the prospects for smaller companies in Asia continue to look bright, especially when compared with the problems surrounding both the economies and the politics of Europe. Demographic trends remain favourable, especially in South Asian countries where there is a thriving youth population as well as increasing levels of wealth and technology penetration. The 10 nation Association of Southeast Asian Nations, ASEAN, has 625 million consumers excluding China and their purchasing power will continue as a driver for growth in years to come.

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Vinay Agarwal, Martin Lau and Scott McNab, managers, Scottish Oriental Smaller Companies: Little has changed in our outlook for Asian markets, which remains uncertain. Despite the increasing prevalence of negative interest rates in developed markets, global growth remains muted. This lack of growth has resulted in challenging export conditions for Asian corporates. Low, and particularly negative, interest rates are likely to have many unforeseen consequences, but for now there are few inflationary pressures. If anything, the build-up of debt may become deflationary if cash flows are directed towards debt repayment. While inflation remains muted, interest rate cuts are more likely than increases in Asia as central banks look to stimulate domestic economies and avoid currency strength.

Valuations are high compared to history but interest rates are as low as they have ever been. It is possible to make a case for the rationality of such valuations when using these record low interest rates in a discounted cash flow model or indeed comparing the dividend yields to what can be earned on cash deposited in a savings account. Our concern remains that interest rates may return to their long term historic average. When this happens, in the absence of anything other than strong growth, equities will look less attractive than they do now. The difficulty is that we have little ability to forecast what central bankers might do and when.

The longer-term case for investing in Asia remains unchanged with the region's attractive demographics and expanding middle class providing the structural growth that is missing in the developed world.

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Europe

(compare European funds **here**)

Carol Ferguson, chairman, BlackRock Greater European: The United Kingdom's vote to leave the European Union (EU) has increased market anxiety over Europe's future and we should expect an ongoing period of market volatility as the implications of a major country leaving the EU are digested.

We are also facing some key events in the coming months, including the Italian referendum on their constitution at the end of the year, the U.S. elections in November, as well as several general elections in European countries in 2017.

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Vincent Devlin and Sam Vecht, managers, BlackRock Greater European: Our outlook remains cautiously positive for the market. Given the low overall growth rate and relatively full valuation of the market when compared with historical levels, we believe that an active approach to stock selection is key to generating returns in the present climate. Low volatility and low trading volume characterised markets over the summer and mixed economic data underscored the uncertain global growth outlook. European companies can offer significant value at present, with the spread between dividend yields and corporate bond yields at an all-time high. The accommodative policy from the European Central Bank continues to keep the growth of the economy in place, with plenty of room for further recovery in earnings in the coming years.

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Audley Twiston-Davies. chairman, TR European Growth: Another year of crisis, another reasonable year for European equity markets. Not least in the smaller company arena. Despite the headlines the global economy remains robust.

Clarity around the UK relationship with Europe would be a help, but no doubt there will continue to be politically driven areas of concern that the market will focus on. However, the suggestion of more expansionary fiscal policy in much of the world should be helpful and should drive global growth. We are optimistic there continues to be substantial investment opportunity in Europe.

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Ollie Beckett and Rory Stokes, managers, TR European Growth: We have lurched from one "crisis" to another in the last financial year. It began with the Chinese yuan currency devaluation, then moved on to concerns about junk debt in the energy sector, January's global growth scare, June's UK referendum and now fears of Italian banking non-performing loans (NPLs). So far, all these predicted catastrophes for the global stock markets have fallen short. In a world of competing 24-hour news channels we all need to learn to live with the never-ending drama of "breaking news".

A backdrop of uncertainty and muted global economic growth has meant investors have sought the comfort blanket of so-called "high quality reliable growth" companies. Investors have paid ever-higher prices for consumer staples and medical technology companies, despite limited growth. We will not assume ever-lower discount rates (the minimum interest rate set by the ECB in Europe), predicated on the hope that inflation never returns.

The most recent crisis has been the UK referendum, where the majority chose to leave the European Union. It is far too early to tell what the impact of that historic event will have on our area of investment, Continental Europe. The UK Prime Minister says "Brexit means Brexit" but we do not yet know what this means. The UK economy is slowing, but how prolonged and deep will that slowdown be?

We will also have to see what the political impact of Brexit will be on the European Union. We do not think it will lead to the collapse of the European Union, as many suggested leading up to the vote on 23 June. It may lead to even closer ties amongst many European nations. Certainly the status quo does not seem viable, particularly once some of the key political figures leave the stage. A new European Union will emerge in the coming years.

A key question with very serious investment implications is - are we nearing the end of the era of quantative easing? Arguably, it saved the day in the dark days post the financial crisis. Yet it has not really delivered sustained economic growth. It has led to corporate underinvestment and investors scavenging for yield with ever-increasing desperation. This is unlikely to unwind quickly and we will continue to own companies that can grow and deliver healthy income. However, again, we will not overpay for yield. It is a very crowded trade, (with a lot of interest from other investors).

It is looking increasingly likely that governments around the world will turn to fiscal policy with higher government spending and lower taxes to try and deliver that elusive sustained economic growth. Europe is unlikely to lead the way, but there are European companies that can benefit from this transition.

Despite the global news flow the two economic superpowers, the United States and China, are showing improving economic data. If this continues, then global GDP will grow. Ultimately, the European smaller companies investment space has historically been a leveraged play on that global growth. If the strong Chinese economy persists then the German Mittelstand will benefit. There is a risk that the US economy slows into the Presidential election in early November, as the electorate becomes fixated by the strange reality show before them. That aside, we do not think the global economic outlook is as gloomy as many portend.

Numerous investors seem to have given up on European equities, having been ground down by political news flow and terrorist attacks. Now is not the time to run away. We see a lot of interesting value opportunities outside the crowded trades of "quality growth" and "yield".

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Tim Stevenson, manager, Henderson EuroTrust: Each year for the last few years, I have referred to the ever longer list of worries facing markets. This year is no exception. The outcome of the EU referendum undoubtedly increases the level of uncertainty throughout Europe. There are likely to be further periods of waning confidence in the Euro, with critical voices emanating from the UK as well as from within the Euro area itself. As I have mentioned in the past, the UK press tends to have an overwhelmingly pro-British / anti-European view, and, in my opinion, that bias understates the economic recovery in Europe and over-estimates the resilience of the UK. The weakness in Sterling over the last twelve months does indicate that currency traders share some concern about the UK's vulnerability. The UK Government meanwhile seems willing to use the competitive devaluation tool.

Notwithstanding those comments, there is growing frustration at low growth in Europe, and high unemployment in many countries. Recent trends have nevertheless been better, with unemployment declining in those areas worst affected. Industrial production and retail sales are improving and government debt is stabilising or even declining. Bearing in mind my long-held view that we are stuck in an environment of low growth, there is at least some solace in looking at a small trend of improvement - the glass is as half full as it is half empty.

The next eighteen months will see a number of political uncertainties, including the presidential elections in the USA. However, the elections in France will be stressful and criticism of Chancellor Merkel is increasing as well. Before that, the referendum called on electoral reform in Italy (which makes complete sense) risks being hijacked and turned into a referendum on Prime Minister Renzi.

There continues to be an underlying tension in the markets, which has continued for some years but at some stage may reach a level which could cause a sharp correction. That tension is the ever lower interest rates as the ECB holds rates at a negative level, forcing many ten year bond yields to fall into negative territory, balanced against investors looking for any place to gain an income. These lower interest rates are supporting a large part of the market, as companies that can reliably compound their earnings and dividends do just that and get revalued, while some areas such as banks look ever weaker. If governments decide to move down a more fiscally expansive route (bearing in mind that many are better positioned than a few years ago, albeit a "less bad" rather than a "good" situation), then bond prices may decline as interest rates start to rise, even by a small amount. This may have repercussions on the equity market, but I believe these are manageable and ultimately positive.

I continue to believe that economic growth will remain slow on a worldwide basis. Emerging Markets are also growing at slower rates than in the past. Low inflation/no inflation has meant that pricing power is dependent on innovation or scarcity. With extremely low or even negative interest rates, merger and acquisition activity is already picking up, and companies are (at the risk of generalising) redirecting more cash to shareholders and less to investment. There is good and bad in this, but this is the world we live in.

I suspect that we will be hearing more on fiscal expansion and hear of governments trying to stimulate economic growth more dynamically, as far as their finances permit. With crucial elections in Germany and France, political uncertainty in Spain and a significant referendum on electoral reform in Italy, politics will inevitably play a role in the year ahead. With inflation likely to rise sharply in the UK over the next year, we are alert to the risk that Sterling may rally if the Bank of England decides that rates must rise.

It remains a difficult and complex world, with the contradictions of ever lower bond yields potentially causing strains in the bond markets if and when inflation starts to increase in Europe.

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Japan

(compare Japanese funds **here**)

Sarah Whitley, manager, Baillie Gifford Japan: Although commentators are almost universally disappointed that Abenomics has not achieved its target of stimulating rapid growth in the Japanese economy, some policies are driving changes that provide a positive investment environment for many of the growth companies that we own. In one case, changes in regulations relating to bio technology have brought

Japanese scientists back to Japan from America to list their company. The stronger yen has had a negative impact on reported profits. However, employment has increased in Japan, wages are rising as the labour shortage deepens and Japan is beginning to re-examine many attitudes from worker immigration to the role of women in the workforce. The number of inbound tourists reached the 2020 target of 20m in 2015 and the aim is now for 40m tourists annually by the Tokyo Olympics..

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Latin America

(compare Latin American funds **here**)

Richard Prosser, chairman, Aberdeen Latin American Income: Latin American markets posted an impressive performance over the 12 months compared to the broader emerging markets. It is, however, premature to declare an all-clear looking ahead. Volatility is likely to persist with the Manager urging caution ahead of several key events that could swing sentiment. Among them are the US Federal Reserve's next rate hike and the result of the US presidential elections in November, which could have a significant impact on Mexico because of the countries' economic linkages.

On the political front, leadership changes in Brazil, Argentina and Peru that promised business-friendly reforms should continue to bode well for their respective markets. While investor confidence has improved, these countries cannot afford to be complacent and must be prepared to stay the course if they want to keep the momentum going. Meanwhile, the participation of Chile, Mexico and Peru in the Trans-Pacific Partnership is also a positive development over the longer term, as trade barriers are lowered.

Against this backdrop, the Manager is cautiously optimistic over the region's outlook. Most importantly, the investment case in the region remains intact. Demographics, especially a burgeoning middle class, continue to serve as the compelling growth engine that drives the possibilities for businesses in Latin America. Meanwhile, currency depreciation has helped to absorb the commodities-driven terms of trade shock, and policymakers show a timely shift in focus towards public and private investments in non-commodity sectors.

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Aberdeen Asset Managers Limited, managers of Aberdeen Latin American Income: Latin American equities are likely to remain volatile. Uncertainty persists over the timing of the next US rate hike and the potential repercussions for the rest of the world. Oil prices are likely to hover around current levels, given the global glut. Weak copper prices are hurting Chile, a major copper exporter, and monetary policy easing may be needed to support growth. Encouragingly, president Bachelet appears to be prioritising reform to improve both productivity and the wider economy.

In Brazil, confidence appears to be returning after months of political flux, although president Temer has the arduous task of pushing much-needed fiscal reforms through Congress, as he attempts to rein in a widening budget deficit. Mexico, closely tied to the fortunes of the US, has seen its currency plumb new depths on concerns over an unfavourable result from the US presidential elections in November. Its economy is also feeling the impact of declining exports and a slowdown in services.

Inflation should continue to moderate in the region, allowing the central banks to start monetary easing next year. Absent a major shock to currencies, the current environment of low global yields continues to be very supportive for inflows into Latin American local bond markets.

That said, an improving political climate across Latin America has resulted in an increased focus on structural reforms, particularly reducing debt and increasing productivity. This augurs well for the long-term economic potential and fundamentals for the region, albeit with necessary, and painful, adjustments over the short term.

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Vietnam

(compare Asian single country funds **here**)

Steven Bates, chairman, VinaCapital Vietnam Opportunity: Vietnam's economy has shown remarkable strength in the face of the significant headwinds that have affected many emerging and frontier economies. In 2015, Vietnam's 6.7% GDP growth was amongst the highest in the world, and while 2016 growth is shaping up to be slightly lower than this, the country nonetheless remains resilient. Much of the slower growth can be attributed to a severe drought that has affected large parts of Vietnam and hurt agricultural production. Manufacturing, driven by foreign direct investment, continues to grow and propel the economy forward. Fundamentally, Vietnam's macroeconomic indicators continue to give investors confidence that the country is on a path to sustained growth which is increasingly hard to find even in South East Asia. This has helped propel the stock market to significant gains, although it continues to sit at a valuation discount to regional peers.

Despite these positive developments, we join the chorus of foreign investors who would like to see more meaningful progress on addressing the growing fiscal deficit and on accelerating the process of privatisation. The latter in particular offers investors the greatest potential as a number of non-strategic, major enterprises remain under government ownership. We are heartened that the new government has continued or accelerated the reforms started by its predecessor. Initial concerns amongst some observers that the new guard would be less committed to change at this point seem unfounded. This bodes well for the country.

So great has Vietnam's development been in recent years that a few analysts have suggested that Vietnam could "graduate" from frontier status to emerging market status in the near term. Although we believe such a move remains unlikely in the short run, what is clear is that the opportunities for significant investment gains remain abundant.

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Andy Ho, Managing Director, VinaCapital Investment Management Ltd, managers of VinaCapital Vietnam Opportunity: Growth in the first half of 2016 slipped with GDP growth only reaching 5.5% (annualised), leaving the prospect of achieving the targeted growth of 6.7% set by the Vietnamese government for 2016 at risk. Several reasons explain this deceleration including continued weakness in demand from China and developed markets, and the lingering effects of El Niño that resulted in severe drought conditions affecting agricultural output. Consequently, we have lowered our in-house GDP forecast to between 6.0% and 6.3% for 2016.

Macroeconomic results that have come in post financial year-end have been for the most part positive. We expect the government's target of 6.7% set at the beginning of the year to be over-ambitious and factors such as strong FDI commitments, a positive balance of trade, and credit expansion may not be sufficient to fully offset the widening fiscal deficit and a reduction in budget revenues as a result of persistently low oil prices.

Today, oil revenues contribute less than 5% of the government's budget revenues, a far cry from the 15% levels when oil was trading above USD100 per barrel over the 2014-2015 period. While low commodity prices have been beneficial to help keep inflation levels at multi-year lows, this dwindling contribution to revenues has not been offset by other sources in a meaningful way. In fact, in recent years Vietnam's ratio of budget revenues as a percentage of GDP has been declining in contrast with an uptrend in other regional countries, and the deficit as a percentage of GDP has been rising against a downtrend in the region. In 2015 the public debt to GDP ratio reached 60.3% and in 2016 is forecast to be 64.9%, a worrisome level given that the National Assembly of Vietnam have laws in place to restrict public debt from exceeding 65%. Finally, given the need for the Government to continue its impressive programme of fiscal spending to develop key infrastructure projects throughout the country, there does not appear to be any viable solution to reduce this widening deficit.

Commodities & natural resources

(compare commodities and natural resources funds **here**)

Malcolm Burne, chairman, Golden Prospect Precious Metals: As I consistently outlined in my last few statements we were close to a new bull market in gold and precious metals and I remain of the view that we are still only in the early stages of a classic run in gold over the next couple of years as nervous investors struggle to come to terms with financially and politically confused economies. The global geopolitical climate, the procrastinating Fed and its US ,monetary policies and the Chinese flagging growth story still dominate the financial media and quality money from professional investors is responding by increasing asset allocations to gold. Central bank buying also continues to be very strong.

Recent short term trends have seen a pull back or correction as gold breached a key technical support level and there are hawkish comments by Fed officials about rate hikes.

However it should not be long before the upward swing resumes as the fundamentals remain extremely solid with most of the usual boxes still ticked.

It is extremely unlikely that golds safe haven status will be seriously challenged during a time of global uncertainty on both political and economic fronts. In fact Goldman Sachs, so often behind the market comment and punditry that creates so much volatility, is now arguing that gold has become THE political hedge. And another big named investment bank has claimed that gold will be $1,850 if Trump becomes President.

Gold is perhaps the story of the stock market this year. Conferences are full, gold miners are raising fresh capital across the board and public recognition of the role that gold can play is at a high.

Ignoring the present short term lull in Chinese buying and ETF accumulations in the third quarter, demand will continue to outstrip supply forecasts, industry hedging is beginning to reappear and companies are raising money for renewed exploration. The M&A space is hotting up as the majors are absorbing some the mid-tier producers and promising developers.

As we move forward the fed rate dilemma and the US election will dictate gold's further renaissance and Europe's alarming debt crisis and in parts its negative interest rate moves will add to the uncertainty that gold is responding to. Currency wars and China's worrying borrowing ratios add to the drama.

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Debt

(compare Debt funds **here**)

Axa Investment Managers Paris, managers of Volta Finance: Early in 2016, credit and equity markets saw rising volatility and saw sharp falls in the first few months of 2016 and then again, for a few days, after the Brexit vote. Our view, which is now largely shared by most market participants and priced in, is that we are going to continue seeing an increase in the pace of defaults in US High Yield (both high yield bonds and loans). We expect this to be due mainly to the Oil & Gas and Energy sectors, although some other sectors are going to contribute to the increase (including retail for example). However we expect the increase in default rate to remain modest (probably towards the historical average of defaults in the US loan market, around 3% on a twelve-month rolling basis). For the same period we do not foresee any significant increase in the default rate in the European loan market, which we expect to maintain a default rate below the historical average.

There are a number of well documented risks facing the global economy and global capital markets, including over-extended credit conditions in China, Brexit, geopolitical issues in the Middle East, and the Eastern Europe situation, but we do not expect, at the time of writing, these uncertainties to impact the way developed economies are growing.

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Ian Francis, New City Investment Managers, manager of CQS New City High Yield: The new Prime Minister is currently getting all departments and Ministers ready for the difficult negotiations ahead before enacting Article 50 of the Lisbon treaty. These negotiations will need to be carried out with all the expertise of a chess grand master thinking many moves ahead and covering all possible options, in order to leave Britain in the strongest possible position in a couple of year's time when we actually leave the European Union.

At the time of writing the equity and bond markets have rallied strongly, back to the pre Brexit level. We believe that this is potentially dangerous as it leaves a lot of room for disappointment when negotiations do finally get under way, probably early next year. When all commentators and the media in general will focus on the detail in the long and drawn out process, we await this process with great interest.

In these very low interest rate and QE fuelled times the quest for income by all investment managers is making the scope for new opportunities more limited than, for example, 2009, but they are out there, not every day or every week but often enough.

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Christopher Waldron, chairman, UK Mortgages: Concerns over the negotiation of the UK's exit from the European Union, global growth and the timing of monetary policy tightening in the US have made for a cautious investment background. The August interest rate cut by the Bank of England and its continuing policy of Quantitative Easing have seen bond yields in the UK fall to record lows, increasing the pressure on investors seeking reliable sources of income.

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TwentyFour Asset Management, managers of UK Mortgages: The recent post-Brexit vote turmoil has seen significant intervention by the Bank of England. This has been introduced for multiple reasons, one of which is the concern that banks will rein in lending as a result of the uncertainty.

An ancillary benefit to the Bank of England's action is that the deployment of further and wider quantitative easing is making yield a scarcer commodity for investors to find. As such it can reasonably be expected that the cost of funding for future securitisations could become cheaper.

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Jack Perry, chairman, ICG Longbow: the effect of a UK vote to leave the EU was likely to lead to uncertainty in both the wider economy and property markets, and in the short period since the referendum, this has proven to be the case. However, the underlying property markets have shown signs of stabilisation following an initial shock.

The reduction in Bank of England Base Rate and fall in the benchmark Sterling five-year swap rate gives comfort that the Group's borrowers should be able to refinance into a benign interest rate environment as the residual loan terms continue to shorten, but only reinforces the fact that reinvesting loan proceeds at the same risk and return profile as the existing portfolio is not possible.

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ICG Longbow: Transaction volumes in the investment market fell during Q2 2016 to GBP9.8 billion, according to Lambert Smith Hampton, representing an 18% reduction from Q1 2016. We believe this can largely be attributed to a 'reversion to the mean' after two record years in 2014 and 2015 rather than the uncertainty caused by the referendum announcement (particularly in Q2 2016). Volumes in H1 2016 were ahead of the equivalent period in 2013, for example, and broadly in line with the 10-year average.

Although the UK's referendum result was unexpected for many in the property industry, in general investor reaction has been sanguine with few instances of sales at distressed levels. This is due in part to the gating of open-ended property funds post-referendum (following a surge in redemption requests), which has allowed the affected funds sufficient time to conduct orderly sales processes to generate liquidity. Many funds have now re-opened for redemptions, with others announcing they are shortly to do so.

The MSCI Index highlights a 17 basis point outward shift in property equivalent yields in July, implying a capital value fall of 2.8% month-on-month following a 0.3% drop in June. This fall was seen across all main sectors, whilst certain markets showed greater capital value falls (e.g. City of London showed a 4.2% reduction). Overall, whilst transactional evidence is thin, we view the market as going through a modest adjustment rather than a sizeable correction, and certainly do not foresee a 2008-style crash. In certain sectors, most notably City offices, this adjustment may have been forthcoming anyway given pricing had in some instances reached very frothy levels.

Looking forward, the fall in Bank Rate, coupled with the revised long-term interest rate outlook and generally favourable supply dynamics, should serve to underpin demand (and consequently value) for commercial property, as investors are attracted by property yields offering what is now a historically wide premium over gilts of circa 4% per annum.

The annual De Montfort University real estate lending survey was released during the period, showing that for year ending December 2015, aggregate value of outstanding debt secured by UK commercial property stood at GBP168.4 billion; a year-on-year increase of 1.9%.

Activity in the property finance markets experienced a notable slowdown in the first half of 2016, following a significant period of growth during 2014 and 2015. The principal reason for this was the reduced level of transactional activity in direct property markets, driven by the twin effects of investor nervousness about pricing levels, and uncertainty as to the outcome (and latterly the effect) of the Brexit vote.

The Investment Manager also observed a general widening of lending margins continuing into H1 2016, after having reached a low point in the summer of 2015. Following the Brexit vote, margins on senior debt have further increased by 25 - 50 basis points in general, albeit it is still too early to determine whether this is a temporary rise or will prove to be enduring. The effect of margin increases on borrowers has however been more than offset by reductions in both the Bank Rate and the benchmark five year swap, such that in many cases all-in interest rates are now lower than pre-referendum levels.

Although economic and property market conditions are likely to be subject to some uncertainty in the short to medium term, the Group's investment portfolio has entered this period from a position of strength driven by its senior, secured exposure at defensive LTV levels with strong interest cover. Furthermore, given that the property profile is outside of some of the prime, mainly central London markets, we believe that any negative impact on commercial property valuations will be mitigated by the current attractive yield premium over gilts.

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Property

(compare UK property funds **here**)

Mike Watters, chief executive, Redefine International:

UK

The EU referendum result has had a significant impact on the real estate investment market with transaction volumes down materially immediately following the outcome. The uncertainty created by the result is likely to have a negative impact on near term economic growth as investment decisions are postponed. However, the resultant prospect of continued low interest rates and bond yields, as well as demand from foreign capital following the depreciation of Sterling, should offer encouraging support for the investment market.

The UK Retail landscape continues to undergo significant structural change. Internet retailing is now estimated to capture 14 per cent of total retail sales and is forecast to reach 17 per cent by 2020. At the same time, established retailers and previously pure play internet retailers have recognised the importance of having both a physical and an online retail presence. As a result, larger retailers are targeting fewer stores but which are strategically located.

UK commercial: Charing Cross Road is due to benefit from the planned opening of the Tottenham Court Road Crossrail station in Spring 2017 while London's Southbank is witnessing significant change with many occupiers being priced out of Central London or the West End. Outside London, regional markets have experienced strong rental growth for most of 2016, however this appears to have slowed recently with supply shortages easing in key markets and demand moderating.

The distribution and industrial sectors present opportunities for rental growth potential. Demand from occupiers is being supported by retailers' requirements to create efficient distribution networks with increasingly diverse occupational demand. The sector is also starting to show signs of supply shortages in certain parts of the market.

UK Hotels: London witnessed a strong increase in supply during 2016 with approximately 7,000 rooms forecast to open by the end of the year with more than half of these within the limited service sector. Despite this, aggregate demand has outperformed supply albeit certain locations and segments have come under pressure as they adjust to new room openings. There has been a significant depreciation in Sterling which is expected to support tourism. Recent economic indicators also suggest that the UK economy has performed ahead of expectations immediately after the EU referendum which should support improved trading. We believe that the outlook for limited service branded hotels remains supportive of income growth. Average daily rates and revenue per available room ("RevPAR") in London are forecast, by PwC, to increase 2.2 per cent per annum and 2.3 per cent respectively by the end of 2016.

Europe

Economic recovery in Germany is expected to continue in 2017, albeit slowly. Growth is forecast to exceed that of the wider Eurozone supported by improving employment figures and rising incomes. This trend is being reflected in improved year-on-year retail sales growth which stood at 2.6 per cent in June 2016. Demand from international retailers remained robust with the food and beverage sector also showing positive demand from operators. Investment market activity has remained strong, supported by a significant amount of investment capital and a relatively limited supply of good quality assets. Similar trends to those witnessed in the UK are becoming apparent including increased investment activity outside of the traditional "Big 5" German cities as well as increased investment into logistics and alternative sectors.

QuotedData

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