

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 – 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.

Roundup

The tit-for-tat imposition of tariffs on imports by the US, EU and China unnerved markets in June. Emerging markets were particularly weak, the MSCI Emerging Market Index fell by 3.9% over the month. Chinese markets were hit by falls in the value of large, highly-rated technology stocks. In Europe, nerves were set on edge in May by the Italian political situation. This seems to have resulted in a flight to German bunds, whose yields fell sharply over the month.

Global

Uncertainty persists but some investors believe that it is uncovering opportunities.

The managers of global and multi-asset funds all appear to agree that the world economy has come to the final phase of the economic cycle that followed the global financial crisis of 2008. Many see the macroeconomic environment as very hard to call; rising interest rates, high valuations, political risks are creating uncertainty. The managers of Capital Gearing Trust warn that equities and bonds currently trade at such high valuations that medium term returns are likely to be lower than those enjoyed historically, and in a number of cases negative after adjusting for inflation.

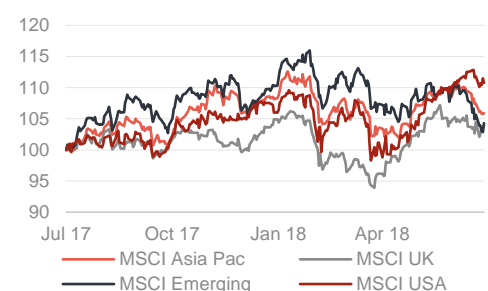
James Ferguson, chairman of Monks, raises elevated valuations as one of the chief concerns currently facing markets. On the other hand, there appears to be an abundance of growth opportunities from across a range of economies and new and fast changing technologies. (continued overleaf)

Exchange Rate	30/06/18	Change on month %
GBP / USD	1.3207	(0.7)
USD / EUR	0.8558	+0.1
USD / JPY	110.76	+1.8
USD / CHF	0.9906	+0.5
USD / CNY	6.621	+3.3

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 30/06/17 to 30/06/18



Source: Bloomberg, Marten & Co

	30/06/18	Change on month %
Oil (Brent)	79.44	2.4
Gold	1252.6	(3.5)
US Tsy 10 yr yield	2.8601	0.1
UK Gilt 10 yr yield	1.278	3.9
Bund 10 yr yield	0.300	(11.2)

Source: Bloomberg, Marten & Co

Global (continued)

James Long, chairman of Aberdeen Diversified Income and Growth Trust, agrees adding that, although valuation levels tend to drive equity market returns over the medium to long term (3 to 10 years), in the short term (less than 12 months) macroeconomic conditions can be the more important driver. The investment management team of Personal Assets Trust write that, notwithstanding the recent market falls, investor confidence remains high, sentiment strong and the economic outlook stable. They stress that the problem is that valuations by historical standards are even higher while geopolitical risks and the threat of greater protectionism have increased.

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United Kingdom

Brexit still hangs over the UK economy and high valuations hang over the market

Most of the chairmen of UK Equity companies that reported in June, commented on Brexit. Roger Cuming, chairman of Montanaro UK Smaller Companies, believes that there are currently more reasons for caution than usual but agrees with the sentiment expressed by many that, long term, there are opportunities in under-recognised quality growth companies. Robert Robertson, chairman of Lowland, expects the UK economy to continue to grow, albeit more slowly than Europe or the US. There are, he writes, commentators who believe it will slow further due to concerns about Brexit, which may limit the free movement of goods and people. However, he stresses, as do many in this report, the importance of seeing the macroeconomic picture as a back drop to the business of investing in individual companies, rather than the overarching factor.

The investment managers of BlackRock Income & Growth see the outlook for the UK economy is more uncertain given ongoing Brexit negotiations in contrast to the growth seen elsewhere. However, they believe these Brexit fears have created the opportunity to own high quality franchises at attractive valuations. They point out that the UK is a hugely international market and that it is supported by very strong corporate governance, shareholder interaction, regulation, tax and accounting laws and transparency. This makes the UK market attractive for investing in high quality companies with both domestic and international exposure.

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Asia

Cautious optimism from Asian investors, despite looming trade wars

The chairman and investment managers that reported in June all sound a note of cautious optimism. Politically, there is increasing stability in the region, although issues that have yet to be addressed, such as China's actions in the South China Sea, remain. Whilst there is concern about the possible trade war with the US, many commentators point to the robust nature of corporate earnings and the domestic growth story that remains in Asia. Unlike other companies in this report, Ian Hargreaves, who is the manager of Invesco Asia Trust, doesn't see the valuation of Asian companies as stretched. The managers of Aberdeen New Dawn say that, while the global economy continues to expand at a steady pace, the risks to inflation from the imposition of trade tariffs, higher interest rates, and rising commodity prices are creating uncertainties for Asian markets in the near term. However, Nicholas Smith, chairman of Schroder AsiaPacific Fund, writes that he accepts that there are undeniable challenges to all equity investments at the moment, but is struck when talking with their managers by how excited they are by the opportunities at an individual stock level.

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Although European economic growth is not accelerating, it remains at a healthy level.

Europe

Two JPMorgan funds reported in June; JPMorgan European Smaller Companies and JPMorgan European. The views of the management teams are unsurprisingly similar.

The managers of JPMorgan European Smaller Companies pose the question that, with persistent fears surrounding the pace of central bank tightening and its potentially negative impact on economic growth, there is uncertainty as to whether we have reached the end of the bull market or if this is a correction within a rising market. They believe that this cycle should be different as the deflationary effect of technological progress across all industries should contain inflationary pressures. This is supported by the fact that, while many companies are warning of rising input costs, unit labour costs in the US are not rising. They suggest that, if correct, this should limit ten-year bond yields to below their long-term average, the level at which interest rates have historically began to have a negative impact on asset prices. Although economic growth is no longer accelerating, due to the rise in bond yields, it remains at a healthy level.

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North America

A benign US economic growth scenario needs watching for signs of overheating

Andrew Bell, chairman of Gabelli Value Plus+, paints a somewhat benign picture of the US economy. Early enthusiasm in 2018 gave way to concerns of rising inflation, which might in turn prompt central banks to increase interest rates by more than expected. Nevertheless, so far there are only limited signs that the benign period of low inflation is under threat. Simon Miller, chairman of Blackrock North American Income, notes that most leading economic indicators show continuing strength in the U.S. economy. This is supported by tax cuts and government expenditure plans. However, he also sees risks from rising inflation and increased tensions in trade relations, together with possible interest rate hikes.

The base case of the managers of Blackrock North American Income is for a continuation of the current U.S. economic expansion. However, they are monitoring inflation and interest rates for signs of economic overheating. These factors can potentially pull forward the end of the current business cycle more quickly. They are also watching U.S. protectionism regarding global trade and tariffs. However, as do many, they do not see the trade actions implemented so far as derailing the benign economic and market backdrop, although further escalation could impact investor sentiment and expectations for economic growth.

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Japan

Japanese monetary policy remains supportive of economic growth

Harry Wells, chairman of CC Japan Income & Growth believes, that Japanese monetary policy remains supportive of economic growth while interest rates in Japan are likely to remain near zero, against a background of persistently low inflation.

Alan Clifton, chairman of JPMorgan Japan Smaller Companies, notes that expectations for GDP growth in Japan remain high with improving demand, both domestically and from overseas. The economy shows little evidence of strain. The key risks for Japan are geo-political tensions, potential trade protectionism in the US and a faster than expected slowdown in China. The investment managers believe that global economic growth will continue to expand at a healthy rate.

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Emerging market participants are watching development of US protectionism very closely

Emerging Markets

Chetan Sehgal, manager of Templeton Emerging Markets, believes that emerging-market economies look poised for further growth. He gives the International Monetary Fund estimate of 4.9% GDP growth for emerging markets in 2018 as an example (up from 4.7% in 2017). They are also watching how the US trade protectionist policy plays out and its impact on the synchronised global growth that has lifted stock markets. Templeton Emerging Markets are upbeat about Asia, the investment opportunities present in markets from China to Indonesia, and see more opportunities in Brazil and South Africa.

Sounding a note of caution, Mark Hadsley-Chaplin, chairman of Aberdeen Emerging Markets, notes that further interest rate rises are expected in the US in 2018, and the implications of this, the strength of the US Dollar, as well as a number of ongoing political tensions could have an impact on equity markets. He expects economic growth across emerging markets to be slow but should remain at a reasonable level. Inflation is, in general, manageable despite the increase in energy prices. In China, economic growth remains above 6% and the most recent news from both China and Korea suggests that President Trump's appetite for international contretemps may be less than feared, and that his unorthodox methods may actually reap diplomatic dividends as he creates a dialogue where others have feared to tread.

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India

There are challenges for the Indian economy

Richard Burns, the chairman of JPMorgan Indian, notes that India's economy has been growing more rapidly in 2018 than it did in 2017. The investment managers of Aberdeen New India believe that the country faces several challenges in the near term. Inflation, while still under control, could accelerate, which would translate into cost pressures that erode companies' profits, and possible rate-hikes by the central bank. Global concerns of faster monetary policy normalisation and an intensifying trade war could also hurt sentiment. Elections, due no later than May 2019, are adding to the uncertainty.

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China

Even the lowest estimates of China's forecast economic growth are more than developed markets

Even the lowest estimates of China's forecast economic growth are in excess of the developed markets in the West, writes Nicholas Bull, chairman, Fidelity China Special Situations. Dale Nichols, the portfolio manager, is also highly positive. He notes however, that challenges remain, with debt growth still outpacing overall growth in the economy. He expects the pace of economic growth to slow due to the impact of reform and efforts to slow credit growth.

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Russia

Geopolitical tensions persist whilst the Russian economy continues to grow

The chairman of JPMorgan Russian Securities, Gill Nott, comments that despite the geopolitical tensions that surround it, the Russian economy continues to grow. The managers, Oleg I. Biryulyov and Habib Saikaly agree, noting that the country has an improving domestic economy, backed by earnings growth, lower level of inflation and rising commodity prices. Additionally, the domestic political outlook is stable following recent presidential elections.

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The retail sector continues to bite; Brexit makes clarity less easy

Property

David Hunter, independent chairman of Custodian REIT reports that the economic conditions in the UK property market have slowed them down in their day to day activity. However, Nicholas Thompson, chairman of Picton Property Income, maintains a positive outlook, as from an economic perspective, they are focused away from the retail market on industrial sectors, where there is growth. Mark Burton, chairman of AEW UK REIT, comments that prospects continue to be dominated by Brexit negotiations, although it seems that some progress has been made towards arriving at a trade deal. The ultimate outcome remains unknown, and it remains difficult to assess the impact on the UK commercial property market.

With regards to the European property sector, Sir Julian Berney, chairman of Schroder European Real Estate, reports growth in European industrial and retail property, supported by positive economic activity

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Solar readies itself for subsidy free generation

Infrastructure - Renewable Energy

Kevin Lyon, chairman of NextEnergy Solar Fund, comments that when subsidies dried up for renewables in the UK, there was a slowdown in activity in the solar industry. This looks set to change. Solar is one of the fastest growing sectors driven by falling costs and the need for low or no carbon energy generation is required. The industry is now positioning itself for a new phase in which subsidy-free solar assets will be built in the UK. John Laing Environmental Assets notes that it will take some time for the exact details of arrangements post-exit from the EU to emerge. However, government policy commitments for clean energy continue in the UK and climate change remains one of the important areas of focus, not only for the UK, but globally. As an EU member, the UK is required to generate 15% of its energy from renewables by 2020 under the European Union's Renewable Energy Directive.

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Global

(compare Global funds [here](#))

Graham Meek, chairman, Capital Gearing Trust: Twelve months ago we cautioned of a difficult year ahead for securing positive investment returns. *“For the twelve months ahead, it may be that merely preserving the gains of previous years will be viewed as success”*. It is hard to be any more upbeat at present. 10-year interest rates are edging higher in the USA and monetary accommodation seems poised to give way to retrenchment - rarely good for equity or fixed interest markets. The erratic progress of the Brexit negotiations and a stuttering domestic economy overshadow London financial markets.

Wealth preservation remains both the aim and the challenge in the year ahead. Nonetheless there remains the medium to longer term potential for higher returns when the valuation of risk assets returns to more attractive levels.

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Peter Spiller, Alastair Laing and Christopher Clothier, investment managers, Capital Gearing Trust: 2018 marked the 150th anniversary of the first investment trust launch. In 1868 the idea of establishing a company, whose sole objective was to purchase a diversified pool of financial assets, was a cutting-edge development. It pioneered an industry that has served investors well; performance of closed-ended funds has been notably better than that of open-ended funds, over almost any meaningful time period.

Interestingly, investment trusts in the nineteenth century seem to have held plenty of bonds as well as equities, much like multi-asset funds today. In the twentieth century, exchange controls, high inflation and high rates of tax put paid to such an asset allocation; equities were the only game in town, that flexibility perhaps suggesting that active management worked effectively. It was also good news for investors because in the twentieth century, equities produced excellent returns, around 6% above inflation.

In our judgement, the most successful investment funds going forward will be those that take advantage of the new opportunities that have opened up over the last 35 years; thus, having an asset allocation that looks more like those that prevailed in the 19th century than the later part of the 20th. Obviously, investment funds are once again free from exchange controls and there are numerous opportunities to invest in either specific overseas markets or to use the expertise of fund managers to analyse where the best opportunities lie through a global fund.

More recently entire new asset classes have sprung up in the closed-ended sector. Hedge funds and private equity were not available 35 years ago, although investors should be aware of complexity and high fees of both classes. Infrastructure funds in PPI, solar & wind power assets; loan funds; and property, both traditional and niche, all provide opportunities for diversification of equity risk and of income.

In our opinion, the most significant newcomer to the universe of potential investments is the index-linked government bond market. This market offers some protection from what looks like the main threat to savings over the next few years, namely resurgent inflation. And with the absence of exchange controls, the TIPS market is easily accessible and is far better value than UK inflation linked bonds.

So generalist funds, which can pick and choose from all these choices look an attractive home for long term savers. Forecasting short term movements in the price of any asset class, especially equities, is a fool's game. However, in the long run, values do revert

powerfully towards the mean and therefore an asset allocation that is overweight good value assets, and underweight poor value, should produce higher returns with modest volatility.

Conditions for making substantial capital gains are now far less propitious than 36 years ago. Equities and bonds currently trade at such high valuations that medium term returns are likely to be lower than those enjoyed historically, and in a number of cases negative after adjusting for inflation. An objective of merely preserving value sounds modest. However, if it is achieved whilst asset prices are normalising it will represent a significant achievement and lay the foundation for potentially more exciting returns in the future.

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Investment managers, Personal Assets Trust: Notwithstanding the recent market falls, investor confidence remains high, sentiment strong and the economic outlook stable. The problem is that valuations by historical standards are even higher while geopolitical risks and the threat of greater protectionism have increased. Trends that fostered globalisation appear to be in reverse. Record debt levels may paradoxically prove deflationary, unless we see fiscal irresponsibility (the tax reform introduced in the US this year may be a precursor) lead to the higher inflation required to inflate it away. After years of stimulus, investors today are unfamiliar with the challenge of rising interest rates and our concern is that there is a lack of realisation of the risks being taken so late into this prolonged economic cycle.

Nine years into a bull market, our concern is that diversification through equities, bonds, property and other 'alternatives', such as private equity, may not protect investors as well as in previous cycles. Valuations now cause us to question the efficacy of the traditional 'barbell' balanced fund of bonds and equities which provided attractive risk-adjusted returns for more than a generation. In contrast to conventional bonds we prefer index-linked and gold as a counterweight to equities and our allocation to risk assets remains low. We are optimistic this will in due course give us the investment opportunities we have been waiting for. Recent share price falls offer the prospect for better value ahead. As the old market adage goes, "you make money when you buy, not when you sell".

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James Ferguson, chairman, Monks Investment Trust: The chief concerns facing markets currently are elevated valuations, the uncertain impact of rising interest rates and an apparent return of volatility. On the other hand, there appears to be an abundance of growth opportunities from across a range of economies and new and fast changing technologies. It is our managers' belief that investors generally dwell too much on the macro environment and not enough on individual company prospects, which typically drive most long-term value creation. They report a wide range of new investment opportunities, well diversified by geography and by industry, trading on still reasonable levels of valuation.

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Charles Plowden, Spencer Adair and Malcolm MacColl, investment managers, Monks Investment Trust: We remain generally enthusiastic about global growth, notably from Asian consumer demand and across a range of technological advances driven by the use of data in areas such as health, media, transport and trade. In the West we see the impact of the greater use of mobile devices on a daily basis, yet in China and other Emerging Markets the momentum is even greater, supported by the positive tailwind of strong demographics, supportive governments and a huge wealth

gap. In less than one generation many of these countries could catch up with western living standards which is a mouth-watering prospect for a growth investor.

It is instructive to look back over the last three financial years. In the first the global equity market was virtually unchanged (up 0.5%), in the second with the tailwind of a major sterling depreciation it rose at its strongest rate for many years (31%) and in the most recent year we saw a steadier appreciation (8%) which is close to the long-term historic average return. This shows that markets can be volatile and often respond in the short run to politics, economics and newspaper headlines, in contrast to company fundamentals which have proven less volatile and which have been the primary driver of portfolio performance.

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Richard Ramsay, chairman, Seneca Global Income & Growth Trust: This time last year, a (snap) General Election was imminent making my 'Outlook' even more difficult than usual. Its result was unexpected by most and has caused concern and uncertainty for many. Brexit looms inexorably closer though its form remains unclear, causing yet more concern and uncertainty. An old proverb goes 'it is difficult to make predictions, especially about the future'!

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Investment managers, Seneca Global Income & Growth Trust: It is nearly ten years since the global financial crisis and the current cycle is becoming long in the tooth. To some extent, this cycle should be longer than average, given the severity of the 2009 downturn - the worse the damage, the longer the recovery time. However, the global economy appears to have finally reached escape velocity and is now starting to show signs of entering the final stage of the cycle.

Unemployment is close to or nearing 50-year lows across the developed world. Rising inflation will result. Having said that, there may be reasons why the final phase of the cycle may also be extended. In the US, the participation rate remains very low so improving job prospects may persuade those who had perhaps reluctantly left the workforce to return. This has the effect of dampening wage pressures more than might otherwise be the case. In Japan, another trend is in evidence. The female participation rate is rising sharply, as the government encourages Japanese women to join the workforce. This too has the effect of increasing employment without there being a commensurate impact on wages, thus extending the cycle.

Furthermore, although flatter than they were, yield curves in developed countries are still steep. Bear markets and downturns do not tend to start until cash represents a viable alternative either to investment in the stock market or in new business capacity. In other words, until yield curves are inverted, following a period of monetary tightening. Although the US has been increasing interest rates for more than two years now, it has been doing so slowly. Elsewhere, the UK has raised rates just once, while Europe and Japan have yet to get started.

So, we think there is scope for the global economy to continue to grow for a little while longer, which should provide support for risky assets such as equities and high yield bonds. It will also mean that inflation pressures are likely to continue to rise which will be negative for safe haven bonds but positive for energy and industrial metals, as well as a host of other so-called real assets.

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James M Long, chairman, Aberdeen Diversified Income and Growth Trust: Although valuation levels tend to drive equity market returns over the medium to long

term (3 to 10 years), in the short term (less than 12 months) macroeconomic conditions can be the more important driver. High equity market valuations, which have prevailed for some time, will eventually lead to low (and possibly negative) equity returns for a protracted period. For much of 2017, the favourable global economic backdrop benefited equities, but the first quarter of 2018 saw a return to pessimism, reflecting concerns over trade wars and the normalisation of monetary policy in the United States and elsewhere.

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Harry Wells, chairman, Establishment Investment Trust: While the strength of global recovery has led to encouraging corporate earnings revisions in Asia, supporting higher equity valuations, the outlook remains dominated by the actions of the US Federal Reserve in determining monetary policy and interest rates. Liquidity plays a major role in determining the level of equity markets and, if the Fed attempts to normalise policy after a decade of unprecedented monetary expansion in a way that miscalculates the strength of the recovery, this will exert inevitable pressure on asset prices. The intention appears to be to increase interest rates by three or four times during 2018 with a reduction in the Federal Reserve's balance sheet by about US\$1 trillion over the next two years. If this proves excessive, we can expect a radical about turn; a sort of 'Grand Old Duke of York' policy of marching up to the top of hill and marching down again. A stronger US dollar and higher interest rates tend to unsettle Asian markets and to exacerbate the credit issues of weaker, emerging market, off shore corporates and Governments, as evidenced by recent developments in Argentina.

Against this, inter Asian trade and consumption trends appear robust, and the Chinese Government's agenda to tackle credit problems and overcapacity, while rolling out sizeable infrastructure programmes, remains on track. Geopolitically, a rapprochement with North Korea is a potentially ground-breaking development. Conversely, the Middle East is still a cauldron, which could boil over to further boost strengthening oil prices.

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James Will, chairman, The Scottish Investment Trust: I have previously discussed the bewilderment with which the establishment greeted the Brexit vote, the election of Donald Trump and the unexpected result in the UK 'snap' general election. There was perhaps an element of a 'Marie Antoinette' thought process that failed to appreciate that large sections of the population felt trapped in a disadvantaged economic situation.

Politicians around the world seem to have got the message that if they wish to gain or retain a grip on power, the benefits of economic growth must fall to a greater proportion of the population. With President Trump in the vanguard, governments are dropping ambitions to balance budgets as fiscal largesse is always popular with the recipients. Much comment has been made about the jump in US 10-year bond yields to over 3%. Some are fearful that the breach of this arbitrary number represents a loss of confidence in the government's finances and the start of an inflationary cycle.

Perhaps more significant for the short-term prospects of markets is the increase in the US 2-year Treasury Note yield to 2.5%, prompted by the anticipated trajectory of interest rate increases from the US Federal Reserve. Given that this rate was near zero around five years ago, it does not seem an unreasonable rate of return at which to 'park' money that would previously have been forced into other asset classes in search of a return.

As ever, there are a number of potential flashpoints that could potentially destabilise markets, or indeed boost them if satisfactorily resolved. US relations with North Korea and Iran appear to have moved in opposite directions but US relations with China are

probably most important to the global economy. Closer to home, the Brexit negotiations continue to make noisy but slow progress.

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Alasdair McKinnon, investment manager, The Scottish Investment Trust: In my last review, I noted that there were signs of complacency with regard to investor attitude to risk, with symptoms of excess in cryptocurrency get-rich-quick schemes and the investor infatuation with technology stocks which were considered to have bullet-proof prospects. The cryptocurrencies, such as Bitcoin, boomed further (it was the topic of conversation over Christmas) but unravelled spectacularly in January. A cryptocurrency may seem irrelevant to an equity investor, but they represent a proxy for the ease of financial conditions and a willingness to suspend disbelief in search of a speculative return.

The data scandal involving Facebook and Cambridge Analytica shook the entire technology matrix. Expectations remain too high in this area and the threats from politicians, regulators and disrupted incumbents continue to be brushed off. We have minimal exposure to this area.

Oil stocks have been generally unpopular since the oil price crash of 2014. Expectations remain low but have increased recently as the oil price has risen. We continue to think that the balance between risk and reward in this area remains favourable.

If one of the main contributing factors to the financial crisis of 2008/9 was excessive debt, 10 years of cheap money has not aided this situation as debts have increased. The time-tested solution to an excessive debt burden has been either default or currency debasement (inflation), with the latter infinitely more palatable. It's unlikely that the recent rise in bond yields represents a tipping point but we continue to monitor this.

Generally speaking, the spread of valuations across the market is wide.

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Anthony Townsend, chairman, F&C Global Smaller Companies: Current economic momentum is supportive for markets heading into the new year but as usual, there are many uncertainties looking forward at the macro level both on a global and more local level. Rising bond market yields as Central Bank support from markets is withdrawn is something that could undermine equities, as could further moves on the tariffs front. The lack of clarity surrounding the UK government's negotiating position and objectives in relation to the future customs arrangements with the EU clearly remains a concern as we approach the formal exit in less than a year.

While political risk remains elevated and at some stage a market setback is always possible, the Board remains optimistic for the medium term.

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Alec Letchfield, manager, Hansa Trust: In many ways the apparent change in market sentiment was in fact a return to normality. The combination of strong market performance and extremely low volatility, as seen in 2017, was an aberration and it would have been even more unusual had such a holy grail persisted into 2018. Even so, the factors underlying this change in sentiment are important and potentially significant for the future direction of stock markets.

First and foremost, inflation ticked up in the US. The actual rise was in fact de minimis being some one tenth above market expectations at 1.8% year-on-year, but there were further indications such as annual wage growth of 2.8% in January, being the strongest

it had been for almost a decade. This was important because it reminded investors that inflation is not dead. Having seen inflation surprise markets on the downside for many years - through a cocktail of cheap imported goods from the emerging economies, online retailing creating price transparency and cyclical factors generating excess capacity - the economic backdrop is now tightening to a point where inflation may well re-enter the system. Low levels of unemployment fuelling wage-price inflation, cyclical economic indicators again being at levels normally associated with rising prices and, as discussed below, global trade wars may signal the end of globalisation and US hegemony as we know it. Importantly, with central bankers prone to extrapolating past dominant trends into the future any change in such trends can have disproportionately large effects. Indeed, many commentators fear central bankers are already behind the curve and may be forced into a period of higher interest rates to bring inflation back under control, laying the seeds of the next recession and bear market.

As intimated above, following many years of stability the prospect of a global trade war has reared its ugly head. Donald Trump, having boosted markets at the end of 2017 with a sizeable fiscal stimulus, proceeded to knock investors off kilter by announcing tariffs on c. \$60bn worth of Chinese imports. At this stage the impact looks fairly limited in view of the industries targeted and, so far, the muted response from China. It is, though, likely to be a concern that hangs over markets for some time. Trump had placed the Chinese trade surplus at the centre of his election campaign and it is still unclear as to how far he wishes to convert the rhetoric into action. Equally, whilst the Chinese have to date been measured in their response, further escalation on the part of Trump will likely result in increasingly robust responses by those worst affected. Ultimately all parties tend to be losers from trade wars, which have a nasty habit of spiralling out of control.

At the sector level we also saw change. Most bull markets are characterised by one or two dominant sectors which drive overall market performance initially, but ultimately play a central role in its subsequent collapse. The technology sector has clearly been pivotal in the current cycle with the rise of the FAANGs (Facebook, Amazon, Apple, Netflix and Google/Alphabet) in the US and Alibaba, Tencent, JD.com and Baidu in Asia. Again, they started the year robustly but, as with the broader market, came under pressure as the quarter progressed. Underlying this fall was not excessive valuations, as rising profitability matched strong share price performance in many cases but fears over increasing regulation. Clearly the well-publicised mismanagement of data at Facebook was at the epicentre of the current storm, but the real problems run much deeper than this. Many of these companies have come to dominate their marketplaces in ways which are different from conventional bricks and mortar monopolies. Regulators have struggled to control the new business models of these firms and have even encouraged them in some instances, to a point where they increasingly have the ability to abuse their market power. Ultimately though as instances of market abuse become more prevalent they either attract the attention of the regulator or the taxman with potentially disastrous results.

It is worth pausing at this point. Often volatility late in a cycle can be just normal late cycle choppiness reflecting higher valuations and a lower margin of safety. Occasionally though it represents something more sinister and begs the question as to whether or not we are in the early stages of a regime change.

On the face of it this would appear not to be the case. As highlighted in the past, recessions and bear markets go hand-in-hand with declining economies, one of the main causes of stock market weakness. For the year ahead, we do not foresee a recession. Growth if anything is expected to be a little higher in 2018 versus 2017 and has received a helpful boost from the Trump tax cuts. What perhaps have changed, however, are market expectations. Unlike in 2017 when economies surprised on the

upside, expectations are now high and economic lead indicators are at the upper end of their ranges. This makes significant upside surprises unlikely and indeed makes the economy more vulnerable to disappointment.

Company profitability is following a similar path to economic growth. Having disappointed for much of the current cycle, 2017 was notable in that we started to see positive surprises coming through in earnings numbers. 2018 is expected to follow this trend with analyst profit expectations for the year actually seeing upgrades, a very rare event! Whilst this is optically positive for stock markets, when profit expectations are very high the potential for disappointment rises and, indeed, the market reaction to any such disappointments is amplified.

The policy backdrop is equally conflicting. Global monetary policy is still incredibly accommodative. Europe and Japan are still engaged in substantial bond purchase programmes and interest rates everywhere in the developed markets are anchored at historically low levels. However, stock markets are concerned with change and with the US tentatively raising rates investors will view this as the thin end of the wedge, which likely signals further tightening of monetary policy. As ever the picture is a little more nuanced on closer inspection. Typically, the first interest rate rises are seen positively, reflecting the fact that growth is starting to come through, propelling stock prices higher. There is a point, however, when interest rates start to bite, dampening growth and often catalysing the next recession. The challenge this time round is that investors are not clear as to the level of this tipping point. It is likely that it is lower than in past cycles due to the severity of the global credit crunch, but we're just not sure how low. Ultimately this is why investors were so unnerved by the recent uptick in inflation and its potential ramifications for future interest rates.

So, how do we pull this tangled web together within portfolios? From a timing and valuation perspective it is tempting to be rather cautious. The current cycle, which is nearing ten years, is undoubtedly longer than most historic cycles and valuations are above their historic averages. These though tend to be rather weak indicators of future performance. The longevity of the current cycle likely reflects the depth of the last downturn and stock markets generally do not die of old age. Equally, whilst valuations are higher than average, which reduces the long-term returns one would expect to see if buying at current levels, valuations are not particularly reliable indicators of near-term market returns. Our view is that if the stock market were to fall from current levels the weakness would be modest and relatively short-lived. It is more normal for market valuations to become increasingly stretched, often seeing melt-ups at the end, before the subsequent collapse.

The challenge here is to determine at what point should one jump off the roller-coaster? We watch a variety of indicators which have successfully called past market turning points, for example: inverting bond yield curves, signs of excess and exuberance and rising M&A. In reality, though, calling turning points is fraught with difficulty and a much more reliable means of preserving capital is to progressively reduce one's risk exposure into strength. This is our plan for the year ahead.

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Nick Greenwood, investment manager, Miton Global Opportunities: The recent bout of volatility has been followed by a change in leadership in equity markets. Although the FTSE All-Share Index has recovered over half of the losses sustained in the early February sell-off, the mood in the market now feels quite different.

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Rachel Beagles, chairman, Securities Trust of Scotland: The last nine years have produced the second longest bull market in history. As the economic cycle matures,

and central banks try to normalise monetary conditions following the unprecedented accommodative period of the last 10 years, it is inevitable that uncertainty over the pace of economic growth and future direction of markets is likely to increase. This provides opportunities for the unconstrained stock picker with a global opportunity set and a disciplined investment approach.

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Mark Whitehead, investment manager, Securities Trust of Scotland: As we enter the third quarter of 2018, the prolonged period of suppressed volatility is long forgotten. Perhaps the most worrying recent development, amongst populist and geopolitical tensions bubbling up once again, is the threat of an escalating trade war between the US and its main trading partners, China and Europe. This has the potential to become damaging to corporate earnings for those that depend on a high level of foreign sales, which could quickly infect investment and lower future growth.

Absent of this, the market also has to come to terms with a slowdown in relative earnings growth, after an explosive start to the year. 2018 estimated consensus earnings growth for the S&P 500 looks to be around 15%, a remarkably strong figure. However, one must take into consideration that as much as half of this heady growth number has been driven by analysts' interpretation of the boost to profitability attributed to the reduction in the US corporate tax rate. It is far from certain how corporations have been using this windfall. Some could have lowered prices of goods and products to increase sales growth at the expense of profitability. Others may have increased wages and capital investments. We have also seen companies paying down indebted balance sheets. It is likely that the reality may well be a mixture of these practices, which may not be all that good for future profitability, and markets may have already begun to discount this.

We have been surprised by the sharp slump in European leading economic indicators of late, but do not feel we are quite at the end of the economic cycle just yet. Many of the banks and industrial companies we have been speaking to recently have been highlighting confidence in the activity they are seeing in their own businesses. But we cannot ignore the fact that leading indicators such as the purchasing managers index (PMI), an indicator of the economic health of the manufacturing sector, may have peaked on a global basis. This, combined with the fact that the US Treasury yield curve is beginning to flatten, points to a worrying slowdown in activity that could be in anticipation of the onset of recession during the next year or so. Central bankers will therefore have to balance tightened monetary and fiscal policy over the coming quarters with allowing sufficient growth to continue; if they tighten too hard and fast it could choke off activity quickly.

To us, this is an excellent time to favour global equity income as an investment style. Investing in companies with robust balance sheets, exhibiting structural long-term growth, allied to sensible capital allocation and the provision of a superior dividend growth rate, presents exceptional value compared with other asset classes today.

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United Kingdom

(compare UK funds [here](#))

Robert Robertson, chairman, Lowland: We expect the UK economy to continue to grow, albeit more slowly than Europe or the US. There are commentators who believe

it will slow further due to concerns about Brexit, which may limit the free movement of goods and people. However, economic growth does not determine the direction of individual companies' share prices; rather, the driver is their operational performance and their equity valuation. The latter factor has moved into attractive territory.

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Roger Cuming, chairman, Montanaro UK Smaller Companies Investment Trust:

Currently, there are more reasons for caution than usual: for example, rising inflation - combined with the limited ability of governments worldwide to continue with quantitative easing indefinitely - could lead to higher interest rates and bond yields, perhaps undermining equity valuations. There are fears over trade wars and concerns over the excessive debt levels of countries, corporates and individuals. In the UK, Brexit uncertainties and slowing GDP growth have led overseas investors to reduce UK weightings in portfolios to low levels. For the long-term investor, this might represent an opportunity as these are rebuilt over time.

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Investment managers, Gresham House Strategic: While we continue to believe equity markets are expensive compared to historic ranges, which suggests that equity indices as a whole are likely to generate lower returns from this point, opportunities remain and the UK is attractively positioned on a value basis relative to other economies and markets.

We maintain the view that there is a compelling argument for investors to be switching out of over-owned and highly valued 'growth' and 'momentum' stocks into 'value' investments that have been overlooked for much of the past 11 years. The general trend has remained strongly in favour of growth stocks this year. Smaller companies have continued to face barriers to access capital and these inefficiencies in the market have helped create attractive opportunities. We expect this to continue to be the case in the medium term. We believe the changes brought about by MiFID II will increase the size of this opportunity.

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James Barnes, chairman, Dunedin Smaller Companies Investment Trust: Despite recent stock market volatility, prospects for the global economy are still generally supportive, with a combination of improving growth, subdued inflation, and gradual central bank tightening continuing to support equity markets. The unsettling impact of a number of geo-political uncertainties remain to the fore, however, and are likely to continue to exercise the minds of investors.

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Jonathan Cartwright, chairman, BlackRock Income & Growth Investment Trust:

The UK government continues its Brexit negotiations with the EU. There has been an acceleration in UK wage growth in recent months, which is now outpacing inflation, and the labour market has strengthened with levels of employment hitting a record high. The Bank of England's (BOE) Monetary Policy Committee also resolved to raise the UK base rate of interest from 0.25% to 0.50% last November, the first rate rise in over a decade. Inflation appears to have peaked in late 2017 with CPI at 2.4% as at 30 April 2018 and the BOE has indicated that it expects inflation to continue to fall towards its 2% target. The combination of low inflation, low unemployment and increasing earnings should contribute to continuing UK economic growth.

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Adam Avigdori and David Goldman, investment managers, BlackRock Income & Growth Investment Trust: The outlook for the UK economy is more uncertain given ongoing Brexit negotiations in contrast to the growth seen elsewhere. However, we believe these Brexit fears have provided us with the opportunity to own high quality franchises at attractive valuations. The UK is a hugely international market that is supported by very strong corporate governance, shareholder interaction, regulation, tax and accounting laws and transparency. This makes the UK market attractive for investing in high quality companies with both domestic and international exposure.

We continue to like cash generative consumer staple companies, especially those exposed to the emerging market consumer given the improvement in the trading backdrop in key markets. These companies often generate substantial cash flow which allows them to invest in innovation, marketing and distribution to ensure the longevity of their brands while also paying attractive and growing dividends to shareholders. We have also sought exposure to infrastructure and construction spend, both in the UK and overseas. US and European construction and infrastructure spend remains well below long-term averages and initiatives to boost this spend features prominently in politicians' manifestos. However, as the last few months have demonstrated, it is crucial to be selective when investing in these industries and to focus on the strong operators that provide a differentiated service and that boast a strong balance sheet.

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Eric Sanderson, chairman, Schroder UK Mid Cap Fund: What is apparent is that large swathes of the UK corporate sector are facing challenges to their business model. Whatever the cause of the disruption - the internet, Brexit, the regulatory environment, new competition, etc - it is creating both losers and winners. Historically the mid cap sector has produced companies with the flexibility and skills to adapt to a changing environment.

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Asia

(compare Asian funds [here](#))

Harry Wells, chairman, Martin Currie Asia Unconstrained Trust: 2018 began with rising expectations, driven by synchronised global economic recovery hopes, strong upward momentum in corporate earnings revisions and euphoric readings on sentiment indicators. The IMF still expects global growth of 3.9% in 2018. Although fundamental data across the G10 economies remains strong, some recent data indicators have shown softening trends. The S&P 500 reached a record high of 2,872.87 on 26 January 2018 (up 7.5% from year-end 2017), but higher US wage growth reported in early February then saw world equity markets correct sharply on fears of resurging inflation and the prospect of a steepening interest rate trajectory. Trade war anxiety has heightened since March as America announced tariffs on Chinese steel and aluminium imports. The subsequent retaliation by China raised further concerns over protectionism. In fact, the proposed tariff increases affect only a small proportion of China exports. President Trump appears to be targeting China's digital economy and his bark may be worse than his bite, given his reported policy reversal to re-join the Trans Pacific Trade Partnership. The President has a point in attempting to halt the infringement of intellectual copyright and there is some logic in trying to redress the trade balance. Still, the Americans may end up shooting themselves in the foot by

picking fights with trade partners, as tariffs push up input and product prices, affecting both corporate margins and the consumer.

Fortunately, the US is not the only source of global demand. Inter-Asian trade is growing, and consumption is rising on a secular trend, reflecting a rise in disposable income. For example, Chinese per capita incomes are on track to double between 2012 and 2020. Asian corporate earnings are now forecast to grow by approximately 13% this year. Regional equities still look attractive on the basis of reasonable valuations, after factoring in these growth expectations. However, a significant increase in US bond yields, as a corollary of the perception of increased inflation, could be a wrecking ball. The more the US Federal Reserve raises rates and shrinks its balance sheet, it is apparently planning a near 25% reduction over the next two years, the more asset prices are potentially at risk. Offshore US-dollar denominated debt has ballooned during quantitative easing, so increased interest rates and a strengthening US dollar would pressure emerging markets, including weaker Asian corporate credits. However, if the Fed miscalculates, they may be forced to perform a volte face to support markets.

Geopolitically, it is encouraging to see that relations with North Korea appear to be improving, with diplomacy replacing bellicose rhetoric and missile tests. Still, China continues to extend its sphere of influence around the region including the South China Sea and its relations with Taiwan have soured recently. The impasse over the Iran nuclear deal has serious implications for Middle Eastern stability and the oil price. Regardless of these concerns, volatility should generally present our investment manager with opportunities to buy equities cheaply, in cases where they hold strong conviction for future growth prospects. I anticipate that these opportunities may have a strong bias towards domestic consumption within the Asian region.

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Andrew Graham, investment manager, Martin Currie Asia Unconstrained Trust:

Our major macro concern is the potential unwinding of the exceptional global monetary environment, characterised by quantitative easing (QE), which has prevailed for the past several years. Today we are only in the early stages of what is a significant directional shift. I am sure that central banks will attempt to make this as shock free a process as possible. However, as QE has been inflationary for share and bond prices, so it begs the question of what a reversal will bring. More volatility? Well, perhaps. We certainly had a taste of that in February of this year. Equally, the cost of capital assumptions must also rise which, other things being equal, will depress valuation multiples. These will also likely be more challenging times for high yield markets and the subprime borrowers who rely on them. Default rates at highly-leveraged firms have almost certainly been suppressed during QE, so now is not the time to be complacent.

Given the steady rise of US dollar LIBOR rates since the summer (the 12-month rate based on the US dollar has moved from just over 1.7% in August to over 2.7% at the time of writing), it's worth considering what the new range for LIBOR might be under a more "normalized" global monetary environment. Having been less than 1.5% for much of the period since 2009, will the 12-month rate settle in a 3-4% range? Could it be higher? I really don't know. What I do know is that there has been a large accumulation of debt by consumers and businesses around the world since the Global Financial Crisis; so, if a key benchmark interest rate (LIBOR) which influences the prices of trillions of dollars of loans, as well as financial and derivative products, jumps by nearly 60% in less than a year and remains elevated for an extended period, someone, somewhere is going to feel the impact.

Unfortunately, rising interest rates and higher volatility are not great bedfellows when it comes to leveraged investment strategies, especially those that have done very well out of a low interest rate and low volatility environment. This is an extremely complex

area. However, if a recent Bloomberg article is to be believed, there is over US\$2 trillion in strategies that have some sort of reliance on the persistence of such a low volatility and low interest rate backdrop. This means there must also be a chance that risk models, in a period of persistently higher volatility coupled with rising interest rates, force these strategies to unwind positions.

Of more immediate concern perhaps is the trade dispute between the USA and China. While one certainly should not be ignoring this, there are other things to worry about as noted above.

On the ground in Asia, business conditions are quite good overall. After last year's strong earnings growth with Asia ex Japan earnings increasing by an impressive 27% YoY (Source: Factset) the current market consensus on 2018 earnings is for a further 13% YoY growth. As we are now in the second year of this earnings recovery, it is natural that the scale and pace of upward estimate revisions by investment analysts should ease, which we have seen in recent weeks.

Against this backdrop of continued earnings expansion, valuations do not appear stretched: the prospective price to earnings ratio ("PER") for Asia ex Japan, based on the current 2018 consensus estimate, sits at 12.7x which is still only 9% above its 10-year average and implies a price/ earnings to growth ("PEG") ratio of less than 1.0, while the prospective price to book ratio ("PBR"), at 1.54x, is below its 10-year average (9% below). Given that return on equity (ROE) continues to improve in Asia, there certainly appears to be a valuation disconnect here that argues for continued exposure to the region and underlines its appeal relative to other regional markets. The economic environment today is supportive of further earnings growth and while the double-digit rate expected by analysts is certainly not fanciful, I am reminded that the long-term average earnings growth rate for the region has been about 6%.

There are also some secular dynamics at play that are truly positive for Asia. Asia's population of 3.7 billion (excluding Japan) is forecast to grow to 4.1 billion by the end of 2020, which would be four times the population size of the G7 countries. Looking even longer term, a recent report from the Carnegie Institute suggested that of the next 1 billion people who will enter the global middle-class cohort (currently approximately 3.2 billion people), nearly 90% will be living in Asia. At the same time, rapid technological innovation is lowering the cost and increasing the availability of goods and services to hundreds of millions of people across the region, while increasing urbanisation and the growth of intra-Asian trade is ushering in a new cycle of infrastructure investment.

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Nicholas Smith, chairman, Schroders AsiaPacific Fund: While there are undeniable challenges to all equity investments at the moment, I am struck when talking with our managers by how excited they are by the opportunities at an individual stock level. Asia has changed so much since the Company's launch: the growth in the number and range of listed companies has brought wider diversity to investment choice; corporate sectors have matured, with improving shareholder focus; there is considerable commercial innovation under way; and Asia's young population is very open to the new ideas that this encourages.

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Investment managers, Schroders AsiaPacific Fund: Geopolitical concerns feature largely; while US-China trade tensions take centre stage, political uncertainty in Europe (Italy, UK EU negotiations), Russian sanctions and the fate of the Iran nuclear deal are all adding to risk aversion.

Perhaps more fundamental is the signs of tightening dollar liquidity. Concern over the direction of Federal Reserve policy has been exacerbated by the recent US fiscal package which implies significant loosening of policy at a time when the US economy is already growing strongly. Meanwhile, economic indicators elsewhere (notably Europe) appear to have softened, giving a less co-ordinated pattern of global expansion.

The final piece in the jigsaw is the recent reversal in dollar weakness. [This] may presage downward pressures on Asian stock markets. We have already seen a degree of currency and bond weakness in the more vulnerable markets; these are mainly outside Asia such as Brazil and South Africa, but signs of it spreading to less resilient Asian markets such as Indonesia, Thailand and India need to be monitored.

While not wishing to sound complacent, we are not unduly pessimistic for the balance of the year. Although some countries are more vulnerable to a tightening of global liquidity than others, overall the external balances across Asia are reasonably strong, partly thanks to the degree of effective tightening in policy that followed the "Taper Tantrum" of Spring 2013.

This financial strength is (with inevitable exceptions) also true of the general state of Asian corporate balance sheets, not least the companies to which the Company's portfolio is primarily exposed. This should provide some resilience in the face of interest rate rises, but also provides some re-assurance as to the sustainability of earnings, cash flows and dividends.

Furthermore, if rising interest rates are a function of stronger global activity, then Asian economies and companies remain well placed to benefit given currently disciplined capital spending and competitive capacity. This of course pre-supposes that the era of generally free and open trade is not nearing an inglorious and painful end. Resolution of current trade disputes between New York and Beijing will require pragmatism and compromise from both sides; should it, as we believe, result in more accessible Chinese domestic markets, that is a win-win for all concerned, not least entrepreneurial regional companies.

More broadly, the fortunes of China weigh heavily on regional sentiment. It is clear that the Beijing authorities are keen to dampen credit growth in aggregate and make what growth there is less dependent on the opaque and poorly regulated "alternative" funding sources outside the banking system. The multiple of credit growth to nominal growth in China has been lower for the longest period since the credit explosion in the wake of the Global Financial Crisis. Should they succeed in engineering a relatively soft landing, we would view this as very positive for the region as a whole. There are risks, and these condition us to continue to avoid sectors and companies very geared into the "old" commodity- and investment-heavy growth model

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David Shearer, chairman, Aberdeen New Dawn: Having gone through a period of rising equity markets with low volatility, there are a number of reasons for adopting a cautious outlook for markets in the year ahead.

However, the fundamental reasons for investing in Asia remain strong. Intra-regional trade continues to develop, supported by expanding populations and higher disposable incomes. This should help offset the impact on the region from any deterioration in demand for its exports. In India there are encouraging signs of a recovery in consumer demand following the impact of demonetisation and the goods and services tax rollout. More importantly, the government has shown a willingness to take hard decisions that will benefit the economy over the longer term. In China, recent data suggests the

authorities are managing the fine balance between maintaining growth and reducing financial risk.

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Investment managers, Aberdeen New Dawn: While the global economy continues to expand at a steady pace, the risks to inflation from the imposition of trade tariffs, higher interest rates, and rising commodity prices are creating uncertainties for Asian markets in the near term. In addition, the forthcoming general elections in India and Indonesia could have ramifications for the region given the significance of these two economies. However, the underlying fundamentals and longer-term prospects for the region remain undiminished. Asia's growth still exceeds all other regions', with India as Asia's fastest-growing economy. Although growth in China is expected to moderate this year, it remains well above those achieved by other developing economies and its government has been prudent in limiting debt levels and strengthening its legislative framework. At the corporate level, earnings continue to rebound across the region, and forecasts for the coming months point to continued momentum. Valuations, as a whole, still appear reasonable in view of projected earnings growth.

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Ian Hargreaves, manager, Invesco Asia Trust: As we look ahead to this year, it seems less likely that Asia can repeat the positive earnings surprise which have occurred over the last 12 months. At the macro level, global lead indicators of economic activity have peaked and, with further interest rate rises in the pipeline and the prospect of quantitative tightening in the US, further deceleration appears the probable outcome. This in turn suggests that we have seen the best of the export recovery in Asia which has been an important driver of the better growth trends in the region. In addition, China is expected to see slower growth as 2018 progresses. The key targets of current Chinese economic policy are a reduction in financial risk by shrinking the shadow banking system, the imposition of greater fiscal discipline on local governments and improved environmental protection through the closure of industrial plants that do not meet tighter pollution standards. While these initiatives are positive for the sustainability of growth in the long term, they are not compatible with sustaining GDP growth at close to 7%. Putting these factors together suggests a less supportive environment for corporate revenue growth and, in turn, a reduced probability of positive earnings surprises, particularly now that sell-side analysts forecasts are more optimistic than they were 12 months ago. The more recent lowering of earnings expectations supports this view.

After a correction in markets since the start of the year, Asian market valuations look reasonable in a historical context. Both the trailing price-to-book and the forward price-to-earnings ratios are in line with their averages over the last 15 years. Asia remains on an attractive discount of 25% on an earnings basis compared to the MSCI World. This suggests that investors are being offered an attractive equity risk premium for investing in Asia relative to other equity markets. Moreover, our back-testing of historical returns from the current price-to-book level suggest mid-to-high single digit compound returns are possible over a five year view. Realistically, however, the combination of greater earnings uncertainty, tighter monetary policy in key geographies and higher geopolitical ambiguity seem to make a valuation re-rating in Asia more difficult in the short term. The recent worsening of trade tensions between the US and China provides a good example of this. While it is to be hoped that this situation does not escalate to the point of seriously disrupting global supply chains, it is understandable that equity markets should begin to price in this risk.

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Europe

(compare European funds [here](#))

Carolán Dobson, chairman, JPMorgan European Smaller Companies: Equity markets have been very strong for many years now and just the length of this uptrend causes some concern. However, equity market valuations for European smaller companies are at similar levels to 2005, economic growth is healthy and company profits growth is encouraging although interest rates have started to rise in the US.

Stock selection looks even more critical than usual as we move into the later parts of this economic cycle.

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Francesco Conte, Edward Greaves, investment managers, JPMorgan European Smaller Companies: With persistent fears surrounding the pace of central bank tightening and its potentially negative impact on economic growth, there is uncertainty as to whether we have reached the end of the bull market or if this is a correction within a rising market. From previous cycles, it is normal at this phase of the expansion for markets to have such fears. We still believe that this cycle should be different as the deflationary effect of technological progress across all industries should contain inflationary pressures. This is supported by the fact that, while many companies are warning of rising input costs, unit labour costs in the US are not rising. If we are correct, this should limit ten year bond yields to below their long term average, the level at which interest rates have historically began to have a negative impact on asset prices.

Although economic growth is no longer accelerating due to the rise in bond yields, it remains at a healthy level. While this could potentially be derailed by a trade war, at present neither China nor the US seem inclined to escalate it, precisely because they both know how much there is to lose on all sides.

Large cap valuations are lower than their average since 1990 and small cap valuations are at similar levels to 2005, offering no immediate cause for concern. As was the case in 2005, we are experiencing very strong double digit earnings growth which is expected to continue both this year and next.

In summary, this period feels very analogous to 2005. From a stock selection perspective, periods where we move from early to late cycle are characterised by changes in market leadership. Assuming we are correct in our analysis, a challenge this year will be identifying companies appropriate for a more mature phase of the cycle.

However, the current political environment in Italy is complicating matters somewhat as the populist 5-Star and League have successfully formed a government. While both have toned down their anti-EU rhetoric, we have nevertheless decided to reduce the portfolio's Italian exposure to underweight and lower gearing further until the new government's policies are clearer.

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Stephen Macklow-Smith, Alexander Fitzalan Howard, Michael Barakos and Thomas Buckingham, managers, JPMorgan European Investment Trust: As we look into 2018 and further we believe that the picture remains encouraging for European equities. There is another year of growth in earnings in prospect, and to our mind valuation is still attractive, especially relative to bonds and cash, where yields remain extremely low. Furthermore, despite the growth in earnings last year, the valuation of

the market actually fell slightly, so there is room for valuations to rise as the cycle matures.

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North America

(compare North American funds [here](#))

Andrew Bell, chairman, Gabelli Value Plus+: Although markets started 2018 with a spring in their step, with solid economic growth in place worldwide and corporate earnings demonstrating rapid growth, this gave way to a more negative mood in late January. Initially, this was due to some economic releases suggesting that inflation could be rising, which might prompt central banks to increase interest rates by more than expected, thereby either negatively impacting growth or undermining equity valuations. Nevertheless, so far there are only limited signs that the benign period of low inflation is under threat.

However, just as markets were becoming more relaxed on this front the U.S. Administration announced a series of possible protectionist measures and tariffs, which led investors to fear that the global recovery might be brought to an end by a trade war associated with reciprocal measures restricting international trade. The initial U.S. announcements have since been tempered and are now being portrayed as a negotiating ploy to obtain concessions from trading partners, particularly China. At the time of writing, the end-game of this process is not clear, while the tweet-punctuated whimsicality of the U.S. leadership continues to keep markets guessing.

Fundamentally, the corporate sector can be seen as building value in 2018, measured by growth in earnings and investment plans. This positive driver is contending with worries about valuation (as well as the trade-driven concerns about the sustainability of the economic upturn) to produce more volatile conditions and a correction in values. This argues for a selective approach to equity investment, which should play to the strengths of active managers. If this proves to be a better year for Main Street (i.e. the economy) than Wall Street (after several years when markets were more buoyant than the economy) it is possible that investors will focus anew on the more cyclical "value" stocks in the market, after a decade of value underperformance.

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Simon Miller, chairman, Blackrock North American Income Trust: Most leading indicators show continuing strength in the U.S. economy. This is supported by tax cuts and government expenditure plans. However, rising inflation and increased tensions in trade relations, together with possible interest rate hikes, could lead to pressure on valuations and the Portfolio Managers continue to be aware of the inherent risks attached to the bull market which has existed since 2009.

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Tony DeSpirito, Franco Tapia and David Zhao, managers, Blackrock North American Income Trust: Our investment outlook, which is based on an amalgamation of our company specific research, aligns closely with the observations we have expressed over the past year. First, we believe the opportunity for investors lies in the persistence of today's positive economic backdrop being a catalyst for additional corporate earnings growth. Stimulus from U.S. tax reform and the recently passed federal budget help in this regard, and the prospect for reduced regulation is a

potentially underappreciated tailwind as well. Second, we believe more moderate return expectations are prudent given elevated U.S. equity market valuations. Price-to-earnings ratios are unlikely to continue expanding, in our view, and it can be reasonably deduced that the pressure on companies to demonstrate meaningful earnings growth is high.

Although our base case is for a continuation of the current U.S. economic expansion, there are also several key risks to our investment outlook. For example, we continue to monitor the trajectory of inflation and interest rates for signs of economic overheating, as these factors can potentially pull forward the end of the current business cycle more quickly. The rise of U.S. protectionism in regards to global trade and tariffs also bears monitoring. We view the trade actions implemented so far as unlikely to derail the benign economic and market backdrop, although further escalation could impact investor sentiment and expectations for economic growth.

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Japan

(compare Japan funds [here](#))

Harry Wells, chairman, CC Japan Income & Growth Trust: Despite winning a resounding victory in the October 2017 General Election, Prime Minister Abe's administration became embroiled in the Moritomo elementary school funding scandal which has resulted in a drop in his popularity and concerns over the sustainability of his reform programme. Nevertheless, Japanese monetary policy remains supportive of economic growth with interest rates in Japan likely to remain near zero, against a background of persistently low inflation. Given that US interest rates and monetary policy are likely to tighten over the coming year, the yen has tended to weaken against the US\$, even if the cross - rate with sterling has been relatively stable, hovering around Y150= £1.

On the international front, risks remain. Clearly, protectionist rhetoric from President Trump in assailing trade negotiations with China, accompanied by tit for tat tariff proposals, has created major uncertainty. Happily, Japan's trade surplus with the USA is much reduced and the supply chain, for instance with components for automobile manufacturing, has largely shifted onshore to North America. While diplomatic efforts to improve relations between North and South Korea and the West is a welcome development for Japan, a deteriorating Middle Eastern situation has seen the oil price rise significantly over the last few months. A resurgent oil price is a negative for the Japanese current account and corporate margins.

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Richard Aston, investment manager, CC Japan Income & Growth Trust: The aggregate shareholder returns generated by Japanese companies hit a fourth consecutive annual record in fiscal year 2017 and we believe the trend is set to continue. Despite the favourable improvements in shareholder return in recent years in Japan, the most recent data shows that the total net cash amount accumulated on balance sheets and the number of companies in this position continues to rise. The aggregate payout ratio for the market remains low by international standards and although there are many companies where a notable improvement is visible, at an aggregate level there is considerable scope for improvement.

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Alan Clifton, chairman, JPMorgan Japan Smaller Companies: Expectations for GDP growth in Japan remain high with improving demand, both domestically and from overseas. The economy shows little evidence of strain. Despite some disappointing recent data releases, the country's fundamental economic drivers continue to be healthy. Japanese equities are relatively cheap and the environment for earnings is positive, which suggests room for further upside. The Bank of Japan seems likely to continue its stimulative yield curve control policy in the near term amid consistently low levels of inflation. The key risks for Japan are geo-political tensions, potential trade protectionism in the US and a faster than expected slowdown in China.

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Shoichi Mizusawa, Eiji Saito, Naohiro Ozawa and Michiko Sakai, managers, JPMorgan Japan Smaller Companies: The outlook for Japanese equities remains positive. We believe that global economic growth will continue to expand at a healthy rate. The lack of inflationary pressure suggests that the risk of aggressive tightening in monetary policies around the world, including in the US, is low. Although the Japanese equity market has performed well, since this is largely attributable to earnings growth, valuations remain attractive.

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Global Emerging Markets

(compare Global Emerging Markets [here](#))

Chetan Sehgal, lead portfolio manager, Templeton Emerging Markets Investment Trust: We believe that prospects for emerging markets remain sound despite the recent increase in volatility. Emerging markets have historically bounced back from external shocks, and they displayed a healthy resilience amidst choppy trading in early 2018. We still see strong tailwinds underpinning emerging-market equities even as we are mindful of the challenges that may arise.

Importantly, emerging-market economies look poised for further growth. The International Monetary Fund is estimating 4.9% GDP growth for emerging markets in 2018, up from 4.7% in 2017(a). Oil exporters were particularly bolstered by higher oil prices and we expect the upturn to continue, even if it may not be smooth. We are mindful of the fact that protectionist trade actions taken by the United States have cast a shadow over the synchronised global growth that has lifted stock markets. However, the long-term outcome of these political manoeuvres remains to be seen. The scope and strength of international trade flows should not be underestimated, as the growth in intra-Asia trade over the years shows, reducing the importance of the US and other developed markets to emerging markets.

We are upbeat about Asia and the investment opportunities present in markets from China to Indonesia. We believe that the outlook for China is stable as the leadership continues to strive for a balance between economic growth and structural reforms. The recent elimination of term limits on the Chinese presidency suggests that President Xi Jinping could seek to serve beyond the end of his second term in 2022. This development could be generally positive over the short to medium term as top leadership would remain stable and major government policies could be more consistent. But, structurally, this is a significant shift from the concept of "collective leadership" in the Chinese Communist Party and could raise the risk of policy errors in the absence of checks and balances. This is an area that we will closely monitor over the longer term.

Similarly, we see investment opportunities in countries like Brazil and South Africa, where reform momentum is encouraging. Brazil continues to face some challenges, including high unemployment and uncertainty ahead of a presidential election in October 2018. However, the country emerged from a prolonged recession in mid-2017 and we are largely confident in the prospects for corporate earnings growth amidst an improving business climate.

Meanwhile, several trends bode well for emerging markets, such as technology. Emerging markets companies have embraced the use of technology and importantly have also become global innovators in many areas, ranging from e-commerce to mobile banking, robotics, autonomous vehicles and more. E-commerce, for example, continues to gain new customers and a greater share of wallets as companies come up with ways to improve shoppers' experiences. Amidst this progress, the IT sector has yielded many investment opportunities in internet-related firms, hardware makers, semiconductor companies and other enterprises, many of which are based in South Korea, Taiwan and China. We expect more opportunities to emerge as the digital revolution continues.

Rising wealth in emerging markets is another secular driver. We expect demand for basic goods and services to continue growing as household incomes head higher, and this could benefit companies ranging from consumer goods manufacturers to food retailers. And as consumers meet their basic needs, aspirational wants are likely to follow. This "premiumisation" trend could boost demand for higher-end items such as luxury cars or services such as entertainment and wealth management. We also find emerging markets equities attractive as we expect earnings to improve further, while valuations remain at a discount to those in developed markets. Sustained earnings growth should prompt valuations to return to a more normal level.

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Mark Hadsley-Chaplin, chairman, Aberdeen Emerging Markets Investment

Company: Following strong returns from emerging markets over the past two years, a degree of caution is perhaps warranted. Further interest rate rises are expected in the US this year, and the implications of this, the strength of the US Dollar, as well as a number of ongoing political tensions could have an impact on equity markets. Although economic growth across emerging markets is likely to slow, it should remain at a reasonable level and the longer-term investment case remains strong.

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Investment managers, Aberdeen Emerging Markets Investment Company: After two years of strong gains, emerging market investors have naturally begun to question the sustainability of the current upswing.

The normalisation of monetary policy in the US, a logically resurgent dollar, and the impact of this on the more fragile emerging economies and currencies (those with weak external positions and running fiscal deficits - Turkey, Indonesia, Philippines, Brazil) are the key topics of debate. Upcoming elections in Mexico, Turkey and Brazil, as well as the deteriorating relationship between Russia and the West, present additional geopolitical risks. For now at least, investors are focused on these negatives whilst ignoring the positives.

At times such as these, we prefer to revisit the fundamentals rather than to react to headlines. When we do so, we conclude that the long term case for emerging markets remains strong. Economic growth is likely to slow, but remain at a reasonable level. Inflation is, in general, manageable despite the increase in energy prices, while external balances, with a handful of exceptions, are healthy. In China, economic growth remains above 6% and the most recent news from both China and Korea suggests that

President Trump's appetite for international contretemps may be less than feared, and that his unorthodox methods may actually reap diplomatic dividends

Much has been made of the recent rally in the US dollar, and the headwind it is purported to present for emerging markets. The last two years contradict the wildly over-simplified view of the dollar's relationship with emerging market returns - the dollar weighted index has declined 1% over this period, while emerging markets have returned 45% in dollar terms. We find predictions of the path of the dollar a spurious reason to sell or reduce one's emerging market equity exposure.

On a range of metrics, emerging market currencies continue to appear undervalued. This has undoubtedly helped in the delivery of strong earnings growth, which has been sufficient to prevent valuations rising as markets have rallied. Even after a close to 50% rally, emerging markets trade on a trailing 14.5 times earnings and 1.8 times book value. Both measures reflect a 25% discount to developed markets (Source: MSCI, 30/04/18) and are in line with the long-term history of the asset class, something that cannot be said of many other asset classes globally.

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India

(compare Country Specialists - Asia Pacific [here](#))

Richard Burns, chairman, JPMorgan Indian: India's economy has been growing more rapidly this year than it did in 2017, but the headwind of high valuations has meant that the stock market has made no progress. This state of affairs may well persist in the months ahead. Nevertheless, I continue to believe that India is a market with considerable appeal for a long term investor, given its great human potential and huge scope for improving its economic performance.

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Rukhshad Shroff and Raj Nair, investment managers, JPMorgan Indian: We expect the next year to be a period of increased uncertainty and volatility in India and the market is not cheap. Since Mr Modi came to power the market has risen significantly more than underlying corporate earnings. Equities have been rerated, not only because of the important macro reforms that are underway but also because investors have expected a recovery in the pace of economic growth and corporate profits. However, as the challenges in the banking sector illustrate, this recovery may be long, complicated and painful. The prospect of a rising oil price does not bode well for macro fundamentals such as the current account and fiscal deficit, the Rupee and possibly interest rates. Finally, we are in an important election cycle - several state polls, leading to national elections in less than twelve months. The chances of an outright BJP majority are reducing. And while forecasting election outcomes is fraught with risks, we can safely predict increased volatility.

Investment managers, Aberdeen New India, India faces several challenges in the near term. Inflation, while still under control, could accelerate, which would translate into cost pressures that erode companies' profits, and possible rate-hikes by the central bank. Probes into the banking sector and measures taken by authorities might continue to weigh on the market, while bad debts remain an impediment to sustained credit growth. Global concerns of faster monetary policy normalisation and an intensifying trade war could also hurt sentiment. Elections due no later than May 2019 add a further dimension of uncertainty but, on available evidence, Mr Modi seems set fair.

However, increased market volatility will compel investors to re-focus on fundamentals, and moderate previously-excessive valuations. Earnings also seem to be turning around, and the picture could improve further if the economy continues to rebound and the incipient consumer-demand recovery gains strength. From a broader perspective, the recent reforms will benefit the country's economic standing and business environment over the long term. The government's continued focus on infrastructure upgrading will lend further support to stocks across sectors. India's domestically-focused economy also gives it a degree of insulation from any rising external market volatility. As such, India remains an attractive investment destination. The market is one of the region's best, with a growing pool of businesses with compelling prospects, solid fundamentals and improving governance standards.

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China

(compare Country Specialists: Asia Pacific [here](#))

Dale Nichols, portfolio manager, Fidelity China Special Situations: I remain highly encouraged by the long-term prospects for the Chinese equity market. The secular drivers of growing consumption, rising wealth and technological change remain as compelling as ever.

Challenges remain with the debt growth still outpacing overall growth in the economy. While the Chinese government increasingly appears to be taking steps to tackle this situation it is essential that it continues to make progress, implementing an effective package of reforms in areas such as shadow banking. I expect the pace of economic growth to slow due to the impact of reform and efforts to slow credit growth.

However, this is less of an issue for companies benefiting from the structural growth trends discussed above. In both the public and private markets, I continue to see activity with companies displaying creativity, innovation and entrepreneurship to capitalise on these shifts. I remain confident in the very rich opportunity the Chinese market continues to afford.

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Russia

(compare Country Specialists: Europe [here](#))

Gill Nott, chairman, JPMorgan Russian Securities: It has been a difficult six months for investors in Russia. When I wrote my Chairman's statement last January I referred to the political risk, but I do not think that anyone would have anticipated the extent to which relationships between the West and Russia deteriorated over the next few months. However, what I said at that time about the economy in Russia continuing to grow remains true.

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Oleg I. Biryulyov, Habib Saikaly, investment managers, JPMorgan Russian Securities: The most recent reminder of the risks in this market came in the form of a new round of Russia sanctions announced in April, largely covering companies

associated with oligarch Oleg Deripaska. The new sanctions were a surprise to the market in timing and in substance. However, we believe that their impact will be transitory. To us, they are a reminder of the importance of assessing the complete set of risks associated with a particular investment (in emerging markets or elsewhere) and of the importance of diversification. We believe well-managed, profitable companies in Russia - will overcome short-term pressures and outperform over time.

While this has had an impact on the broader market, we have held a constructive view on Russian equities based on: (a) orthodox economic policies which have contained fiscal deficits and inflation; (b) a gradual recovery in domestic demand which is supporting corporate earnings; and (c) valuation support from rising dividend payouts and a high dividend yield (which is now above 6%).

An improving domestic economy, backed by earnings growth and rising commodity prices, is supportive for Russian equities, with potential upside coming from stronger investments and the recovery of domestic consumption. The lower level of inflation gives the Central Bank room to support more rate cuts in the next 12-18 months. Additionally, the domestic political outlook is stable following recent presidential elections, although we would expect to see some rotation of specialists in the government and presidential administration.

We continue to believe that Russian equity valuations are supportive for investors who are willing to accept the current level of country risk.

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Property

(compare Property: Direct – UK funds [here](#))

David Hunter, independent chairman, Custodian REIT: Through 2017 and into the first quarter of 2018 the market has been characterised by a very restricted supply of investment opportunities and a significant level of demand from a range of investors. Market demand has polarised, moving away from high street retail and focusing on industrial/logistics assets and properties let on long leases, particularly those with rents indexed to inflation. We believe the market is over-pricing some assets and we have taken a cautious approach to acquisitions. Current market dynamics look likely to persist and maintain the status quo for the rest of the year.

Notwithstanding our cautious approach to investment in the current market we believe that value can still be found with a disciplined approach to deployment with the strength of the occupational market representing an exciting opportunity. Rental growth at lease renewal and rent review remains robust.

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Nicholas Thompson, chairman, Picton Property Income: We maintain a positive outlook for a number of reasons. From a top-down perspective, the portfolio remains well positioned with its overweight industrial, underweight retail bias. Our ability to invest across geographies and sectors within the UK and reshape the portfolio according to market conditions, is beneficial and, as the results have shown, can deliver attractive returns.

Looking at the portfolio in detail, occupancy is at a high level and we have a number of exciting initiatives planned that should further enhance our asset base and grow income, capturing the inherent reversionary potential.

Subject to shareholder approval, we will be converting to a UK REIT alongside which we will be simplifying our corporate structure, with a view to improving efficiency and profitability.

Notwithstanding the risks associated with current economic conditions and the Brexit transition in particular, we believe these are exciting times.

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Mark Burton, chairman, AEW UK REIT: In the wider economic environment, prospects continue to be dominated by Brexit negotiations, although it seems that some progress has been made towards arriving at a trade deal. The ultimate outcome remains unknown, and it remains difficult to assess the impact on the UK commercial property market. For some businesses it seems this lack of clarity is making it difficult to plan and invest, and it is hoped that negotiations during the remainder of 2018 should bring about more certainty. We have no central London exposure, where it is anticipated Brexit will have the most significant impact.

In April 2018, Q1 2018 growth was reported at 0.1% by the Office of National Statistics ('ONS'), well below the expected 0.3% and the weakest quarterly growth since 2012. This could trigger a downward revision for the full year 2018 growth forecasts, following on from a weak performance in 2017. UK growth for 2017 was reported at 1.8% by the ONS, the weakest performance of the UK economy in five years, due to a sharp rise in inflation squeezing household spending power.

This left the UK falling behind other major economies, such as the US and Germany, which grew by 2.3% and 2.5% respectively, as the global recovery begins to gather pace. The strength of the global economy, and the competitive value of the pound, should boost growth in export-oriented sectors. However, consumers continue to be squeezed by high inflation, while uncertainty surrounding Brexit is deterring business investment.

The 2017 figures demonstrate the impact on household budgets, with spending growing by 1.7%, which is the slowest rate of annual growth since 2012. This came as a result of inflation outpacing wage growth, driven by the post-Brexit fall in Sterling. However for the three months to February 2018, ONS figures reported wage inflation (including bonuses) of 2.8%, which exceeded cost inflation as the consumer price index ('CPIH') dipped to 2.5% in February 2018.

Many thought that this, coupled with low unemployment levels, would allow the Bank of England ('BoE') to make a second interest rate rise in May 2018, following a rise of 0.25% in November 2017, which was the first increase in a decade. However, the recent slowdown in economic growth has delayed any such increase, although it is anticipated that the BoE could raise interest rates once or twice during the remainder of 2018 and 2019. It is thought that the pace of rate rises will remain gradual and, with growth now slowing, the prospect of higher interest rates and inflation driven by growth should not be seen as a serious threat. Therefore we anticipate interest rates to remain stable and supportive of the prospects for UK growth.

UK Real Estate Outlook

Despite the economic pressures, we think that the property sector is set for another strong year, primarily due to its relative high yield compared with other sectors. The property market continues to show healthy spreads over 10 year government bond yields, and is still in the advantageous position of offering one of the highest yields from traditional asset classes.

One of the main risks to the real estate market outlook will be the possibility of a 'Hard Brexit'. Although a relatively favourable end trading relationship is anticipated, with a transition period likely to last until December 2020 following the UK's exit from the EU in 2019, we still do not have a comprehensive agreement on the UK's long-term future with the EU and there remains a risk that the UK could leave without a trade deal. The outlook should become clearer during the remainder of 2018, but in the event that the future trading relationship includes barriers to trade, the real estate occupier market could weaken.

The wider political landscape in the UK also contains risks, both in terms of political leadership and policy, and specifically for the real estate sector, which could face increased taxation and regulation. The November 2017 Budget proposed measures to end capital gains tax exemption for overseas investors in commercial property from 2019, which could lead to some moderation in overseas investment.

Sector Outlook - Retail

It has been well documented that the retail sector has weakened in many areas and this has been reflected in financial difficulties for many well-known high street names such as New Look and Toys R Us. While we remain cautious on the retail sector, mispriced opportunities can still be found.

Sector Outlook - Industrial

The industrial sector remains robust and it represents the largest proportion of our portfolio with 42%. We generally focus on assets with low capital value in locations with good accessibility from the national motorway network. In general, with the exception of large regional logistics units, industrial values have not yet reached levels which support the cost of new development, creating a tension between supply and demand often resulting in significant rental growth. Total returns for the industrials market were 19.6% for 2017 (IPD) and rental growth was 5.3%, more than double the all-property average.

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Managers, Civitas Social Housing: The need for increased levels of housing of all types and tenures continues to be a prominent issue for all political parties. The government has recently set a new target to provide 300,000 new homes each year and is investigating various initiatives to achieve this, with current supply being well behind this target.

The current shortfall in housing provision is felt acutely within the specialist areas of care, with the result that good quality properties that are established to provide healthcare in the community are today in significant and growing demand and likely to remain so for many years to come.

Against this background the market to acquire Specialist supported housing remains robust with a range of both private and public buyers seeking to purchase properties and with an element of upward pressure on pricing as a result.

The issues identified earlier in the year by First Priority Housing Association have emphasised further the importance of ensuring that counterparty, transaction and lease structures are robust and sustainable.

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James Agar, investment manager, Ground Rents Income Fund: The rate of inflation has fallen back from December's recent high to 3.3% in the 12 months to May 2018, despite surging oil prices due to tensions in the Middle East following US

President Donald Trump's extrication from the Iran nuclear deal. RPI is still well ahead of the five-year rolling average of 2.4% and will help contribute to the Group's ground rent income. The Group therefore remains able to generate secure, index-linked revenues, which continue to be collected in line with expectation.

Even though inflation remains above the Bank of England's target, the Monetary Policy Committee ('MPC') decided against an interest rate rise in May following disappointing economic data in the first quarter of 2018. Consumers remain under pressure as real wage growth is currently only marginally positive, savers' returns on cash is negligible and London house prices have softened. The poor data is, however, widely being seen as a blip due to the recent bad weather, and, if the economy were to bounce back, then the MPC may consider a rate rise as soon as August.

It is also worth remembering that the price and dividend yield of the Company's shares are determined in part by competing financial instruments that seek to provide a secure stream of income, such as Government and investment-grade corporate bonds. As an example, tightening financial conditions and the above-mentioned consideration of a rise in the Bank of England base interest rate has seen the redemption yield on two and 10-year gilts increase respectively by 66 and 43 basis points to 0.7% and 1.4% over the last six months. As can be seen from the two changes, the spread between the yields has also flattened, meaning investors are being compensated less for the risk of investing in longer-dated income.

While the MPC may be considering a rate rise before the autumn, we still believe interest rates look set to stay low over the long term, with gilt and bond yields following a similar trend.

The income premium for ground rents over these comparably-defensive instruments continues to look attractive, given ground rents' secure, upward-only-reviewing income streams.

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Robert Whiteman, chairman, Residential Secure Income: A well-publicised lack of availability and affordability of housing in large parts of the UK which is attracting increasing policy focus. Local Authorities are becoming more active in the delivery of housing using a variety of structures, with private sources of capital required to help to unlock and facilitate the delivery of more housing. Growing imbalance between the availability and affordability of UK social housing should mean that demand for this accommodation remains high (according to The House of Commons Library research briefing paper 'Tackling the under-supply of housing in England' issued on 31 May 2018).

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European Property

(compare Property Direct – Europe [here](#))

Sir Julian Berney Bt., chairman, Schroder European Real Estate Investment Trust: The Eurozone has enjoyed its strongest period of growth during the last 10 years with Schrodors forecasting that Eurozone GDP will grow by 2-2.5% through 2018-2019. Investment is increasing, while unemployment continues to fall with consumer spending increases. The acceleration in world trade means that external demand in the form of exports should continue to grow. While stronger growth will feed through to higher inflation, Schrodors expects it to remain at around 1.5% p.a. over the next couple of

years, with the result that the ECB is unlikely to raise interest rates before 2019. The main downside risk is a trade war which would hurt the export-orientated Eurozone.

Offices

The economic momentum continues to drive strong demand in most European office markets and vacancy, particularly for modern space in central locations, continues to erode. At the same time, the supply pipeline for the next two years remains muted and new supply is often pre-let. This in turn continues to filter through to broad-based rental growth not just in CBD locations, but also in other established and well-connected office locations.

Retail

While consumer spending is rising, much of the growth is generated online with varying effects on the various physical retail formats and sectors. The food sector remains resilient to online sales and the trend away from big hypermarkets to smaller supermarkets, convenience stores and organic food stores continues. Retail warehouses that sell bulky goods or DIY products seem also relatively immune. On the other hand, fashion sees the biggest pressure from online sales. Several smaller chains have fallen into insolvency and major retailers such as H&M and Inditex are closing stores and investing heavily in their websites and logistics. Yet for these brands prime high street unit shops, or a presence in dominant shopping centres, is key for branding and marketing.

Logistics/warehousing

In many respects the industrial sector resembles the office market. Logistics take-up in continental Europe hit a new record in 2017, reflecting the cyclical recovery in demand from manufacturers and third party logistics firms (3PLs) and the rapid structural growth in online retail. Although development is increasing, the vast majority of schemes are being built on a pre-let "build to suit" basis and vacancy in most locations remains low. Prime logistics rents increased by 3% on average last year (source: CBRE).

Investment market: Retail was the one sector where liquidity declined last year. The value of retail investment deals in Continental Europe was 16% lower in 2017 than 2016 (source: RCA). Conversely, office and industrial deals increased while, in the search for yield, investment alternatives such as hotels increased, too.

Looking forward, the investment market is likely to remain highly competitive in 2018. While the gap between prime real estate and government bond yields has narrowed since 2015 to around 3.0%, it still looks attractive given the favourable outlook for rental and income growth in most sectors. "

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Infrastructure

(compare infrastructure funds [here](#))

Robert Jennings, chairman, Sequoia Economic Infrastructure Income Fund: Global capital markets have been volatile over most of the Company's three year of operations, resulting from the Brexit vote, uncertainty in US politics, the rise of populist political movements in Europe, and heightened tensions in East Asia and the Middle East. Many of these risks continue to be present, but it is in such periods of volatility that the stability of infrastructure debt has historically demonstrated its real value to

investors. However, even the infrastructure market is not immune from periods of volatility, as seen with the recent collapse of Carillion.

The gradual global unwinding of quantitative easing is likely to increase central bank base rates and the yield on debt investments.

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Infrastructure - Renewable Energy

(compare Infrastructure - Renewable Energy [here](#))

Kevin Lyon, chairman, NextEnergy Solar Fund: In the UK, following the end of the Renewable Obligation Certificate regime era on 1 April 2017, the activity in the solar industry declined very significantly. Few new solar plants have been built relative to the preceding three years and the industry is now positioning itself for a new phase in which subsidy-free solar assets will be built in the country.

The unit cost to install solar plants continues to decrease each year and this has made subsidy-free developments a real and viable option. Electricity generated from new solar projects is becoming competitive with electricity generated from certain carbon-emitting technologies such as coal and natural gas. We expect this trend to continue to shift in favour of solar.

Globally, solar power was the fastest growing source of new energy generation installed last year. During 2017 new solar capacity overtook the net growth of coal capacity, previously the largest new source of power generation. International commitments to reduce carbon emissions generated by the electricity sector were reaffirmed and are expected to accelerate. There are more than 100 global cities now mostly powered by renewable energy, a doubling since 2015. There is increasing commitment and ambition to displace the use of fossil fuels with the sole use of renewable energy; cities such as Burlington, Vermont; Reykjavik, Iceland; and Basel, Switzerland are now powered 100% by renewable energy. In the UK we have seen the launch of UK100, a network of local government leaders, targeting 100% clean energy by 2050. Driven by its investment, declining operating costs, speed of deployment and consistency in performance, the solar sector continues to be the primary beneficiary of the global movement to renewable energy.

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John Laing Environmental Assets: Whilst it will take some time for the exact details of arrangements post-exit from the EU to emerge, government policy commitments for clean energy continue in the UK and climate change remains one of the important areas of focus, not only for the UK, but globally. The UK has ambitious domestic targets, with the Climate Change Act of 2008 establishing a target to reduce its emissions by at least 80% from 1990 levels by 2050. The Act established a system of five-yearly carbon budgets, the fifth of which was formally approved by Parliament in 2016 and aims to limit annual emissions to an average of 57% below 1990 levels by 2032.

As an EU member, the UK is required to generate 15% of its energy from renewables by 2020 under the European Union's Renewable Energy Directive. Although by leaving the EU the UK may no longer be obliged to meet these targets or any successor targets (unless agreed as part of any secession agreement), the renewables projects required to meet the 2020 target have already been largely built or are expected to be commissioned. In respect of longer-term commitments, the Climate Change Act's

ambitious carbon reduction targets will require a substantial and continued contribution from renewables.

Short-term electricity prices have remained robust and we have taken advantage of this by locking-in fixed prices across a number of our projects. However, the longer-term outlook for electricity prices has softened, informed in part by the low prices bid into auctions for new plants seeking subsidies throughout Europe. In the UK, the most recent Contract for Difference ("CFD") auction for offshore wind delivered the lowest bid strike price of £57.50/MWh, significantly lower than the lowest price in the previous auction in 2015 of £114/MWh. This winter was also the first delivery year for the Capacity Market ("CM"), aimed at ensuring security of electricity supply by providing a payment for reliable sources of capacity, alongside electricity revenues, to ensure the delivery of electricity when needed.

Despite this backdrop, we see no indication that the pricing of assets is softening in core UK markets, and competition remains fierce.

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Biotechnology & Healthcare

(compare biotech and healthcare funds [here](#))

Sven H. Borho and Trevor M. Polischuk, managers, Worldwide Healthcare:

Global Pharmaceuticals - Overall, we view the fundamentals of the global pharmaceutical companies as positive, albeit unevenly distributed. Valuation, as mentioned, remains undemanding with price to earnings ratios towards the low end of the historical range for the group. Innovation remains strong with a number of data read outs and new drug launches expected in 2018. Earnings growth rates, however, are somewhat disparate, ranging from low single digits to high teens as patent expirations, pipelines, and new product are somewhat dissimilar from company to company.

Biotechnology - We expect the outlook for the biotechnology sector for the Company's next financial year to remain positive, given low valuations, continued M&A activity, strong innovation, and a favourable regulatory environment."

Specialty Pharmaceuticals - In the reported financial year, concerns over pricing for branded drug franchises remained a notable overhang for specialty pharmaceutical companies and has hampered performance of a majority of sector participants. In addition, U.S. political rhetoric, potential new U.S. government policies/initiatives and aggressive formulary management by third-party payors has not been helpful. That said, we continue to believe that several companies in this sector are well-positioned and primed for outperformance. For this select group, current valuation reflects worst-case scenarios with regards to franchise pricing power but ignores potential contributions from meaningful proprietary pipeline programmes/compounds poised to emerge as valuable growth drivers in the not-to-distant future.

In Europe, we remain constructive on a select group of companies benefiting from improving trends, new launch cycles, and increased M&A. Some companies should benefit from newly-installed management teams implementing fresh, more effective strategies that enhance shareholder value over time. We expect M&A to remain a dominant theme, as companies continue to pursue creative business combinations driven by potential revenue, operating and tax synergies.

Generic Pharmaceuticals - We anticipate that significant consolidation of the U.S. generic market will enable a more stable and favourable U.S. pricing environment, however this could take considerable time as sector leverage remains high. Furthermore, we believe segments of the industry have been permanently scarred, leaving acquisition premiums impaired indefinitely.

As anticipated, players with greater geographic reach have benefited from solid performance in key EU and Asian markets, which has provided some offset to weaker US performance. In these markets, pricing erosion remains moderate and in line with expectations, in stark contrast to conditions observed by many US-focused participants. Some sizable markets (Italy, Spain) still offer solid growth potential as generic utilisation continues to ramp up from modest levels. Throughout Asia, economic expansion, favourable demographics, supportive governmental policies, and other contributing factors continue to drive robust generic utilisation.

Medical Devices - Looking ahead to the second half of calendar 2018, we expect this positive fundamental backdrop to persist and for companies to lay the groundwork for revenue growth acceleration into 2019 and beyond, while also benefitting on the bottom line from U.S. tax reform. M&A should continue at a steady pace, with several large companies boasting ample firepower for tuck-ins and others ripe for portfolio optimisation and divestitures.

We continue to favour companies that can sustainably deliver premium organic revenue growth through exposure to underpenetrated high growth markets such as transcatheter heart valves, surgical robotics, spinal cord stimulation devices, extremities implants, and left atrial appendage closure technologies. Our investments reflect a preference for companies that have demonstrated strong growth and are poised for further growth inflections with new product launches and/or indication expansions in the second half of 2018 and 2019.

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Commodities & Natural Resources

Robert Crayford and Keith Watson, investment managers, Geiger Counter: We remain optimistic about the improving backdrop for the uranium price and believe deep value offered by equity investments in the sector offers significant investor opportunity. This has begun to gain recognition as illustrated by the premium attributed to the physically backed uranium ETF, Uranium Participation, which has been able to raise equity in order to acquire material. At the time of writing proceeds from the proposed IPO of Yellow Cake will be used to acquire U3O8 locking up a substantial amount of material and further tightening the market.

The Solactive Global Uranium Index (Global X Uranium ETF) announced that it is reweighting its constituents from 100% Uranium equities to ~50%, with the remaining constituents constituting companies such as Barrick Gold, Rio Tinto and BHP, which weighed on the sector in March, although will officially complete in July. This saw technical selling of positions such as Nexgen, which hit a recent low on the last day of the month and Geiger Counter used this as an opportunity to add. We believe this was undertaken following a request from the URA equity ETF which had outgrown the underlying liquidity, following significant inflows since the late-2016 production cuts announced by Kazakhstan and latterly by Cameco. Geiger Counter now stands out as the purist as play from a uranium focused equity fund.

Cameco's December announcement to place its McArthur River mine into care and maintenance in 2018 removed around 14Mlb, equivalent to nearly 8% of forecast uranium production for the year, having a significant impact on spot prices. Following the earlier 5Mlb per annum production cuts announced by Kazakhstan's state mining company Kazatomprom, in January the market returned to balance and as a result the uranium price rose sharply from US\$20/lb to US\$26/lb in December. Prices did, however, retrace as Kazatomprom revealed its cuts would not be deepened around the turn of the year, which weighed on sentiment. In addition, two US uranium miners filed a joint petition to the US Department of Commerce seeking industry protection from cheap imports in particular of "state subsidised" product from Russia, Kazakhstan and Uzbekistan prompting utilities to step away from the market as they wait to see what, if any, policy changes are forthcoming.

Without high prices, output cuts by Kazakhstan and most recently Cameco seem unlikely to be reversed, as currently forecast by some industry commentators. Major supply adjustments that have taken place in the uranium market seem likely to continue helping to drive this dynamic, as high-priced legacy contracts run-off and unprofitable operations close. With the market rebalancing incremental output cuts should soak up the overhang of excess inventory and lift pricing.

At the same time the re-election of the pro-nuclear Abe government in Japan has coincided with a pick-up in momentum of reactor restarts in the region prompting utilities such as Kansai to resell LNG, an alternative fuel used to generate power in the region. Importantly Abe has backed the role of nuclear power and reiterated proposals for it to have a 20-22% share of the market by 2030. Japanese generating capacity is reaching more meaningful levels, currently 5.5GW, and globally nuclear power output has latterly been evident following the joint 232 Petition filed by UR-Energy and Energy Fuels could see a recovered to pre-Fukushima levels at over 2,500TWh. China's continues its nuclear power development programme, which is integral to its "blue sky" policy with 19 reactors currently under construction while other regions such as India and Saudi Arabia are also rolling out significant new capacity. Increasing marginal demand for enriched fuel will help reduce secondary supply from underfeeding as spare enrichment capacity is utilised, removing another source of excess U3O8. In the short term clarification of US policy may remove the temporary buyers' strike which has return of utility buying later in the year.

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