ASSET CLASS & MARKET REVIEW

Escalating trade tensions took the news cycle by storm. President Donald Trump made the initial move in what many in what many investors feared could turn into a trade war by announcing tariffs on steel and aluminium imports.

More tariffs followed on $50 billion of Chinese goods, which led to tit-for-tat retaliations from Beijing on $3 billion of U.S. imports. Shortly after the initial tariffs were announced, Gary Cohn, Trump's top economic advisor and one of the so--called "globalists," resigned. His departure jarred markets as concern rose that the administration would lean toward more protectionist policies.

Despite the barrage of geopolitical headlines, stable economic fundamentals kept major central banks on course to on course to normalise policy.

In the U.S., the Federal Reserve lifted its target rate range by another quarter-point to 1.50%.1.75% and released its economic projections. While the Fed's "median dot" rate forecast continued to indicate a total of three rate increases this year, it projected a slightly year, it projected a slightly steeper path for its policy rate in 2019.2020. Growth and inflation forecasts were also higher,
but only in the near term given the transitory impact of recently announced tax cuts and fiscal spending.

Even with an upbeat outlook from the Fed, the market's inflation concerns subsided somewhat with the most recent employment report: the data indicated more measured wage growth, along with potentially more-slack in the labour market based on a surprisingly high number of jobs added.

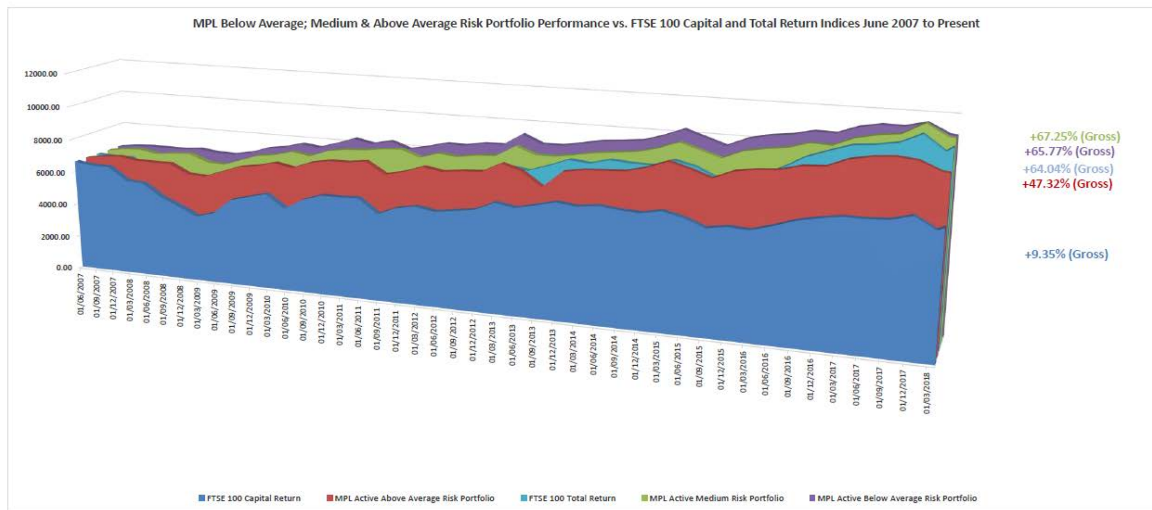
Global equity bourses experienced stormy conditions in March. Just as February's heightened volatility appeared to be subsiding early in the month, a "tariff tantrum" gripped stocks after the Trump administration proposed levies on steel and aluminium as well as certain Chinese imports. China's announcement of retaliatory tariffs pushed the decline in U.S. equities into "sell-off" territory, with the S&P 500 Index posting its worst week in over two years (and its first negative quarterly return since 2015).

While risk asset performance was challenged, traditional safe-haven assets, including U.S. Treasuries and developed market sovereign bonds rallied, and most interest rates fell. U.S. equity market volatility was exacerbated by prospects for greater regulatory scrutiny in the technology sector: The Federal Trade Commission (FTC) announced it had opened a Commission (FTC) announced it had opened an investigation into Facebook's data privacy practices, causing the FANG+, an index of 10 global technology firms, to suffer its largest one-day decline. In commodity markets, crude oil prices were supported by growing demand and favourable inventory data as well as geopolitical tensions in the Middle East.

The following chart shows the impact of the current turbulence upon MPL's client portfolios in the short term versus the UK FTSE 100, with the pullback in valuations evident on the right-hand side of the chart.

MPL PORTFOLIOS VERSUS TO FTSE 100 TOTAL RETURN INDEX

June 2007 to Present



Faced with short term weak equity market conditions, the MPL Investment team acted as follows:

Fixed Interest

Following the increase in volatility in February we reduced holdings in the UK corporate bond sector, selling down holdings of the Threadneedle UK Corporate Bond Fund, to take advantage of Global equity market weakness which we believe will stabilise as we move into this quarter's earnings season.

This sector may come under pressure going forward, if the UK Bank of England Policy committee (MPC) decide to increase interest rates, which would impact UK corporate fixed interest as yields on these bonds would have to increase in response, with a corresponding fall in the capital value of these bonds.

Global Equity

The continued poor performance of the Invesco Perpetual Income fund in the UK equity sector, also prompted the MPL investment team to sell this holding and for the short term at least, reduce exposure to the UK equity market ahead of Brexit.

The proceeds of the UK corporate bond and UK equity income sales, have been reallocated into the European, South East Asian, and Emerging Equity markets. As the growth prospects as well as valuations for companies in these regions, are more attractive, (with slightly less risk attached) than those in the UK at present.

Hence the recent global market pullback has given us an opportunity to purchase the First State Asia and Fidelity Asia funds covering growth stocks in South East Asia. The Carmignac Emerging and Franklin Templeton Emerging Smaller funds have been purchased to gain exposure to Large cash generative companies in Emerging economies in the case of the Carmignac fund, and mid-to-small cap growth orientated companies in emerging nations in the case of Franklin Templeton Emerging.

Whilst these conditions have been unnerving for some, we still believe that the earnings environment of the entities the MPL Investment team have invested into on behalf of our clients, remains favourable.

However, whilst this position remains positive, it will be influenced significantly by the growth rate of global economic expansion which may well have peaked. This will be a major factor to observe as we approach the final two quarter of 2018.