## Market Review

The recovery in global markets from the correction experienced in the first quarter has continued at a pace in the second quarter, with many sectors being driven higher by enhanced earnings being reported by companies in the last quarter. This positive news had the additional effect of at least partly brushing off some of the concerns regarding a potential trade war between the United States and China.

These positive earnings in quarter 2 coincided with a sharp increase in the US Dollar versus Sterling as the Bank of England's Monetary Policy Committee elected to not increase the UK base rate as had been widely expected and indeed trailed by the Bank itself, ahead of the May meeting. Meanwhile ongoing infighting within the Conservative government further raised uncertainties over the progress and direction of the Brexit negotiations.

Sections of the portfolio benefitting from these events include those areas exposed to the United States economy, including sectors such as Technology and Biotechnology as well as UK equity holdings with exposure to US consumer and business markets, where exposure to the US Dollar helped. Additionally, the continuing resurgence in the price of crude oil and some strength in commodities prices – given the ongoing global growth scenario – aided many equity values with exposure to these various sectors.

The FTSE-100 in particular has a high concentration of companies deriving substantial percentages of their overall revenues from the oil, energy and commodities sectors, which also benefit from their significant US Dollar exposures, the relative strength of the Dollar versus Sterling giving these stocks and the valuations a boost.

## Emerging Market Equities

The reverse side of this Dollar strength coin however was the emerging markets exposure, which was negatively impacted by the strength of the US Dollar. It is a commonly held generalisation that because emerging markets are often exposed to high levels of US Dollar- denominated debt, any significant increase in the value of the US Dollar against the currencies of these emerging nations results in equally significant increases in the costs of servicing these Dollar debt obligations. This effectively weakens the balance sheets of the nations in question and reduces earnings growth estimates of those companies trading within these countries. This generalised belief amongst global investors ultimately leads to a reduction in valuation in this sector of the portfolio during times of Dollar strength.

Whilst emerging market equities remain out of favour at present, we continue to believe that equity valuations in this area remain attractive. Indeed, the generalisations discussed above do not apply to every emerging market nation, and nor do they apply to every company within any of the emerging nation economies concerned. Thus, in cases where companies have little to no debt, and which are experiencing growing earnings derived from global exposures and revenues, these companies will continue to thrive in this environment and should be rewarded once the overall sector returns to favour.

## European Equities

Another area of the portfolio negatively impacted in the last quarter was European Equities.

This was occasioned by the latest bout of socio-political and hence financial uncertainty in Italy, which unsettled sentiment towards the Euro-area economy as a whole given it could have Continent-wide ramifications. This, along with the increase in bonds yields seen in the first quarter, continued to blight an already unsettled European banking sector.

## Portfolios

In light of the recovery in global financial markets in general in quarter two, the decision was taken by the MPL investment team to reduce exposure to, and thus take some profits in areas of the portfolio which, (a) which contain holdings now valued in line with their forecast earnings expectations; and which (b) have a relatively high exposure to the US Dollar.

In so doing, our aim was also to reduce the overall equity exposure within our portfolios, thereby reducing the degree of sensitivity or Beta of our portfolios to the UK equity markets, this ahead of the summer months where volatility in this market can spike significantly due to the low levels of stock trading over this period.

In reducing the overall level of beta, or volatility, we have added a holding in Japanese small to mid-capitalisation equities into the portfolios, as valuations in this market remain attractive when compared to their equivalents in both the US and Europe. Central Bank policy within Japan also remains accommodative for companies within this region and indeed Quantitative Easing remains in place there.

In addition, exposure within the portfolios to the Yen will help them to weather any of the potential headwinds of Brexit as we approach the exit date of 19th March 2019, as Japan's currency is widely considered to offer a safe haven in times of geopolitical uncertainty.

Meanwhile, we look ahead to the US earnings season which is getting under way now, and anticipate that it will be characterised by companies there generally continuing to at least meet revenue and earnings expectations.

One concern however is that whilst these earnings expectations may be met or in fact beaten, US markets are already at quite a high watermark in respect of earnings. Hence the key to whether the upward trend in valuations remains in place for many of these companies and indeed global markets in general, will be the tone and indicated direction of the forward guidance provided by these companies as they report, particularly in respect of 'trade war' concerns.

If this guidance is less bullish than previously or than is currently expected, then volatility will likely return to markets and valuations will have to be adjusted accordingly.

**Tax Packs 2017-2018**

Tax year 2017-2018 Consolidated Tax Certificates displaying Income Received, and Capital Gains Reports are now available for viewing / downloading on the MPL Online Portal. Please note that these are only relevant to 'unwrapped' accounts, that is to non-pension, non-Isa, and non-bond portfolios.

As a reminder, the log-in procedure and route to access the tax packs is as follows:

MPL Portal Login address: **https://mplonline.thirdplatformservices.co.uk**

Enter Username – please note this is case-sensitive

Then enter Password – please note this is case-sensitive

This then takes you to Access Code – this is NOT case sensitive: select the 3 characters as directed by the Access Code Screen

Successful entering of the above three codes will then allow access to the system.

Having accessed the system:

Where you maintain more than one portfolio with MPL, select the ‘Investment Account’ portfolio, which is the General Investment Account, to which the tax packs will apply;

Having selected this account, click on ‘Document Library’ at the top of the page on the blue line; this will load all documents posted to the account, in date order;

The Consolidated Tax Certificate showing all income receivable over the tax year is dated 08 June 2018, and the Capital Gains Tax Report is dated 01 June 2018;

The documents can then be selected and downloaded.