INTELLIGENTMONEY

IM OPTIMUM GLOBAL GROWTH & INCOME

FACTSHEET – JANUARY 2020

INVESTMENT OBJECTIVE

This portfolio aims to provide a combination of income and global stock market growth by investing in a reduced exposure to global equities together with a larger exposure to gilts and fixed interest bonds and other assets (property and gold, for example).

INVESTMENT MANAGEMENT

Julian Penniston-Hill:

As Intelligent Money's Chief Executive, Julian is responsible for all investment management oversight, strategy and asset allocation modelling of our IM Optimum Portfolios.

Julian has 25 years of financial services experience having previously been Investment Management Director at Willis Owen, where he was responsible for generating and retaining £1bn of funds.

Tim Horrocks:

Tim is responsible for implementing this strategy and running the day-to-day investment management of the assets held within our IM Optimum Portfolios on behalf of Quilter Cheviot, which he joined in 1999.

He has 25 years of financial services experience and is a Chartered Fellow of the Institute for Securities & Investment and a Chartered Wealth Manager.

HISTORIC PERFORMANCE

	Cumulative Performance				Annualised
Portfolio	1yr	3yr	5yr	10yr	10yr
IM Optimum Global Growth & Income	**15.2%**	**20.8%**	**47.0%**	**125.3%**	**8.46%**

Please note that these returns include all third party fees but not Intelligent Money's fee. This is the same way that platforms provide historic data and therefore enables you to compare returns on a like for like basis. The value of investments, and the income from them, can go down as well as up and past performance is no guarantee of future returns. You may not recover what you invest. Where live performance data is not available for certain time periods we have used data provided to us by Quilter Cheviot to demonstrate what the historic performance of the underlying assets held within each portfolio would have delivered. All underlying assets are denominated in GBP.

ASSET ALLOCATION/GEOGRAPHICAL LOCATION

MARKET COMMENTARY

Global shares returned 3% in December and 9% over the final quarter although this was largely eroded by an 8% rise in sterling to $1.33 for UK-based investors. While the decisive Conservative election victory helped the FTSE 100 gain 196 points last month to 7,542, the total return of 3% (including dividends) lagged trade-related rallies in the US, Japan and Asia (9%) and the eurozone (5%).

Despite periods of extreme volatility, 2019 was one of the best years for equity returns in three decades with Wall Street closing at an all-time high. An early rally spurred by the Federal Reserve's pivot towards looser monetary policy was followed by a lengthy consolidation as slowing global growth raised fears of recession and the US/China tariff war escalated. A potential 'Phase 1' trade deal alongside further support from the Federal Reserve and European Central Bank led to a strong fourth quarter as investors looked beyond flat corporate earnings and Brexit uncertainties.

In local currency terms, global equities returned 28% – over 30% in the US and 27% in the eurozone. Returns of around 20% in the UK and Japan were more modest although the domestically focused FTSE 250 mid-cap index gained 29%. Asia and emerging markets faced global trade headwinds but still returned around 16% for sterling investors.

Despite a rollercoaster year, UK gilts returned around 6% – well ahead of inflation at 1.5% (CPI). Yields on conventional gilts – predominately influenced by global markets rather than Brexit – dipped to 0.35% in early September before rising to 0.84% or 0.4% below where they were at the start of 2019. Index-linked breakeven rates fell sharply after the election while corporate bond spreads (the difference between government and company borrowing costs) fell.

Commercial property declined an estimated 3% with increasing structural challenges for retail property detracting from more stable returns from the industrial and office sectors. Measures by OPEC and other oil exporters to limit shipments boosted Brent crude 30% to $66. Gold rose nearly 20% to $1,517 reflecting safe-haven buying fuelled by geopolitical tensions and renewed quantitative easing.

An increasingly uncertain economic backdrop during the year reflected the 'normalisation' of US interest rates, tension between the US and China and fears that the yield curve inversion signalled an end to the current expansion. The change to Federal Reserve policy – interest rates were cut three times between late July and 30 October to 1.5% and its balance sheet expanded – combined with a strong labour market and robust consumer spending avoided a US recession.

However, 2019 global growth of 2.6% was below expectations in both the advanced economies (1.7%) and emerging markets (3.9%). Manufacturing orientated economies were hardest hit with the eurozone and Japan expanding 1% while prolonged Brexit uncertainty reduced UK GDP growth to a similar level – the lowest for a decade. China held up reasonably well at 6% as the transition to a self-reliant economy makes it less dependent on exports. Most Asian economies – particularly India which also faced political challenges – experienced slower growth despite production being reallocated away from China to avoid higher tariffs.

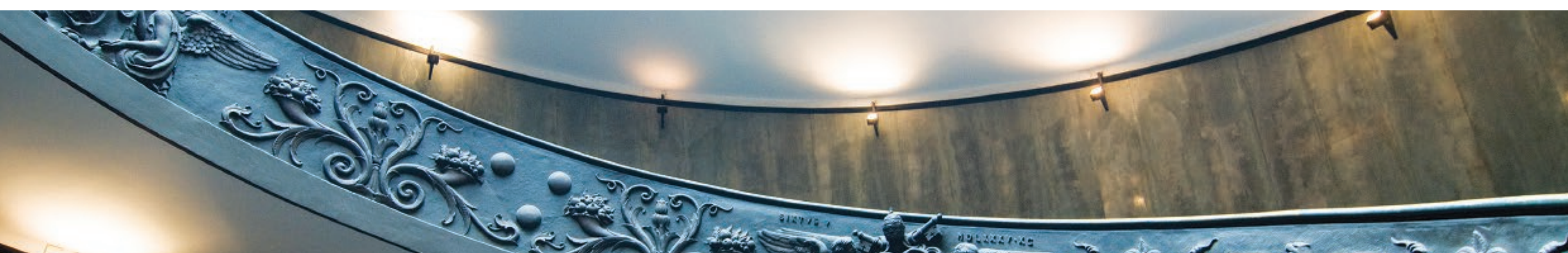
Business surveys towards the end of the year suggested that the widespread decline in global manufacturing was starting to stabilise, although a meaningful cyclical upturn appeared unlikely unless trade tariffs were rolled back. Given unemployment at near record low levels, wage rises have been surprisingly contained and, while 1.4% industrialised world inflation (CPI) was slightly higher than expected, it remained well within the 2% targeted by central banks. This allowed accommodative monetary policy to be maintained or expanded and all the major economies ended 2019 with negative real interest rates. However, another year of nominal rates close to zero means politicians are under increasing pressure to implement new fiscal measures in order to avoid stagnation.

The Brexit impasse led to December's general election where the Conservative party gained a sizeable majority. Despite a collapse in new investment and falling exports, consumer spending has been underpinned by a strong labour market with record numbers in employment. Interest rates remain unchanged at 0.75%. Short sterling positions were unwound in the fourth quarter but Boris Johnson has been quick to rule out extending the transition timetable beyond the end of 2020, leaving the government little time to negotiate a new trade agreement with the EU. Continuing trade uncertainty and the lack of new initiatives since the 2016 referendum suggests that the government will use its majority to expand fiscal policy and rebalance the economy to minimise the fallout from Brexit.

Global corporate profits were unchanged in 2019 with modest increases in the US and eurozone offset by declines in the UK, Japan, Asia and emerging markets. However, many companies – notably healthcare, pharmaceuticals, financials and software that also benefitted from share buybacks – increased earnings with the detractors narrowly concentrated in the energy, materials and telecoms sectors. Those demonstrating consistent "growth" characteristics again outperformed cheap "value" companies, despite some signs of rotation at the end of the year. Dividend growth – rather than high yield – was also a winning characteristic.

Assuming the US and China sign a 'Phase 1' trade deal on 15 January, the decade long economic cycle should continue with GDP growth stabilising around current levels. However, the deal is unlikely to remove uncertainty as it is expected to include only a limited rollback of existing tariffs and a "snap-back" clause. Meanwhile, US fiscal policy will act as a slight drag and the Federal Reserve will again be under pressure to cut rates.

It is difficult to envisage fiscal or monetary policy in the eurozone, Japan or elsewhere doing more than taking up the slack from a slowing US economy, particularly as debt to GDP levels are back to their 2017 peaks. With global trade remaining muted, an emerging market upturn also appears unlikely despite signs of stabilisation in China. This backdrop provides limited scope for a significant acceleration in global profits although a sequential improvement should support modest equity gains. While the forward earnings valuation is not extreme, there is little room for the impending results season to disappoint. We continue to favour international earnings while acknowledging that the UK market – which is dependent on a successful Brexit and has a number of index heavyweights facing structural challenges – appears good value.



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