ForresterHyde
CHARTERED FINANCIAL PLANNERS

Investment Outlook

Winter 2019

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"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves" - Peter Lynch, American Investor

Key Points - Introduction

- UK Inflation falls to 1.52% - Average earnings rise by 3.60% in the year to September.

Key Points - UK

- Third Quarter Growth of 0.3% puts the UK ahead of its Eurozone neighbours.

Introduction

IMF estimates suggest Germany's gross national debt will fall below its pre-crisis level at 58.6% of GDP. The UK still struggles with a debt burden of 86.6% of GDP against 43.9% in 2007. At home the main economic indicators look good. Unemployment is at a record low, inflation has fallen to 1.5% down from 1.7% in September whilst average earnings rose by 3.6% in the year to September – household incomes are now outstripping living costs by more than 2%. To avoid recession monetary policy has been forced to compensate by encouraging growth in consumer demand, cutting interest rates to their lowest level in 40 years. Two core weaknesses remain at the heart of an increasingly poor economic performance, declining business investment and zero productivity growth.

After ten years of austerity, the Tories have woken up to the need to generate fiscal expansion and in a recent speech Sajid Javid outlined how he might set about loosening the Exchequers purse strings. However, greater capital spending has to be productive otherwise it merely increases debt.

An Election looms, with political parties promising increased spending in an attempt to secure votes. Bookmakers have the Conservative Party winning an outright majority which may bring Brexit closure and allow Parliament to refocus on domestic issues.

UK Equity

From Q4 2019 we are dropping the Man GLG Undervalued Assets Fund, introduced from December 2013. We retain conviction in the process and Fund Manager, Henry Dixon, but prefer his UK Income version of the Fund, which we introduced in place of Neil Woodford from Q1 2018.

During Q3 2019 the Schroder Recovery Fund grew by 5.61% against a 2.98% sector average (01/09/2019-15/11/2019).

The big lesson for Equity investors in general has to be the importance of diversifying style exposure. Our investors are exposed to five separate Fund Managers in the UK, each with their own style.

An increase in exports narrowed the trade deficit by £5bn to £6.4bn in the third quarter (source: ONS). The services surplus widened by £4bn to £26.8bn while the goods deficit narrowed by £1bn to £33.2bn. Consumption also helped to lift growth, with household spending up by 0.4% and Government consumption rising by 0.3%. Third quarter growth of 0.3% puts the UK ahead of its Eurozone neighbours. Manufacturing output in the third quarter was flat having fallen by 2.8% in the second quarter of no economic interest, except to Undertakers, where the number of people who died in the UK in the nine months to September fell from 455,000, 2018 to 432,000, 2019.

Parliament's inability to resolve Brexit has extended the period of uncertainty and negatively impacted inward investment into the UK. Markets have rallied on the prospect of a trade war truce and in light of political uncertainty, aka Corbyn. We have reduced exposure to the UK, taking profit since Q3 and reducing exposure.

We remain negative and further underweight to benchmark.

Key Points - US

- With a November Presidential Election we anticipate the Administration focusing on growth.

Key Points - Europe

- The ECB has exhausted its monetary ammunition.

US Equity

The US jobs market is resilient, non-farm payrolls grew by 136,000 in September and a further 128,000 in October. Wages rose 3% year-on-year in October. Unemployment and wage growth were in line with forecast. Wall Street extended gains on the back of this data with the S&P500 closing at a new record, 3,066.91. The Dow Jones Industrial Index was up 1.1% at 27,347.36.

Notwithstanding, Federal Board Chairman, Jerome Powell, announced a 0.25% cut in the benchmark rate, the third and probably final cut this year. Despite the economy at effectively full employment, Powell worries the economy is slowing, which reports from the Manufacturing Sector suggest is the case.

Morgan Stanley Analysts said consumer spending on interest rate sensitive goods such as cars and appliances rose 14.6% in the six months to August, accounting for 40% of the rise in consumer spending. Mortgage interest rates have fallen by 1% to 3.75% in the past 12 months (conventional 30 year fixed rate loan). The upshot, a surge in mortgage lending to $700bn in the July-September quarter, this has positively impacted the share price of house builders.

Non-financial Corporate debt increased by $10tn, an increase of $1.2tn in the past two years and 60% above pre-crisis, 2008 levels. The Wall Street Journal reports the level of corporate debt relative to the economy now stands at a record 47%.

Chinese Companies continue to invest heavily in Silicon Valley, with real concern that investors are de facto agents of the Communist Government. China's Deputy Consul-General in San Francisco, Ren Faqiang, is reported as saying "Given the imbalance of advantage in the current relationship, China's desire to maintain the status quo should come as no surprise".

Denial of access to US capital markets and to intellectual property should prove more effective as a trade weapon than tariffs – but not enough to persuade President Xi drop his plan to use subsidies, cheap credit and intellectual property theft to propel China to dominance.

There is a Presidential Election in November 2020 and we anticipate the current administration will increasingly focus on generating growth. We expect to see more constructive trade dialogue which should reduce headwinds that currently restrain global growth.

We are overweight benchmark as our Polar Capital Global Insurance Fund is US centric.

European Equity

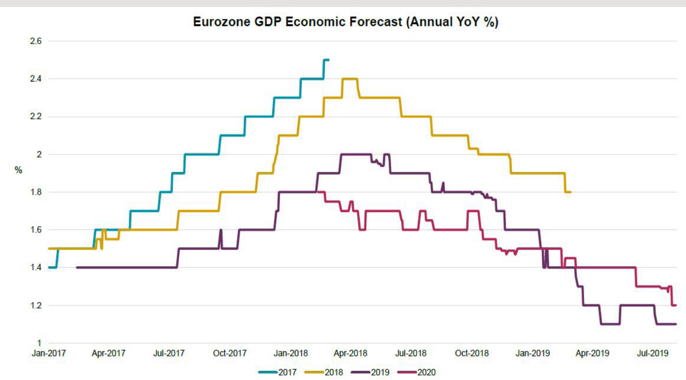
Christine Lagarde has succeeded Mario Draghi as President of the ECB. She faces two issues. Failure to persuade National Governments to promote regional growth and secondly, the fact that the ECB has exhausted its monetary ammunition. The ECB have cut interest rates into negative territory, injected €2.6tn into the member countries' economies through QE, yet inflation at 0.7% is stubbornly below the ECB's 2% target.

Ms Lagarde will need to renegotiate the ECB's self-imposed QE limits, which restrict Bond purchases to one third of any Member State's market. Under the planned €20bn a month rate of purchase, she will be at the limit by the end of next year. Her big challenge is persuading Eurozone Governments to borrow to invest. Ms Lagarde may point out to Angela Merkel that low rates and QE have contributed to a reduction in German borrowing costs since 2012, handing Germany a GDP windfall of 1.2% annually.

We remain negative and further underweight to benchmark.

European growth forecasts are very low, even in the recent historical context

Source: Bloomberg,



Key Points - Japan

- Visitor numbers to Japan have increased dramatically boosting the travel and hospitality sectors.

Japanese Equity

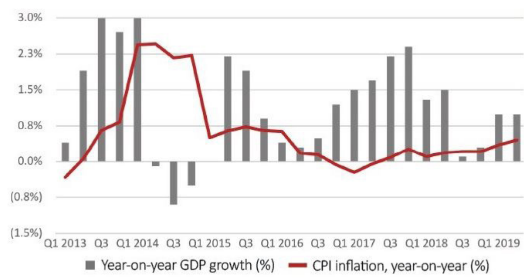
Last quarter we moved to negative on the basis of global trade concerns. Since Prime Minister Shinzo Abe was elected in December 2012, the Nikkei 225 Index has climbed by 126% in Sterling terms compared to a 30% gain in the FTSE All Share Index.

Notwithstanding, the Nikkei 225 still trades 44% below its all-time peak of 38,916, achieved on 29 December 1989. The Nikkei has been boosted by Abe's programme of monetary and fiscal stimulus as well as by social, economic and corporate reform.

Economic growth continues to be patchy and inflation remains stubbornly below the Bank of Japan 2% target.

Growth and inflation have been uneven at best, even during the abenomics era

Source: Refintiv data, FRED - St Louis Federal Reserve database, AJ Bell



Visitor numbers to Japan have increased dramatically from 8 million in 2012 to 31 million in 2018, with the 2020 Olympics expected to further increase the number above 40 million.

This has boosted the Japanese travel and hospitality sectors. Japan remains behind the curve in areas such as cashless transactions and internet shopping. As it catches up with Europe and the US, Japanese firms are well positioned to take advantage.

We are negative to benchmark and remain so.

Key Points - EM

- 50% of global manufacturing and 25% of global trade is driven by the US and China.

Emerging Markets

Taiwan is home to a democratically elected President who has no interest in unifying with China. Unrest in Hong Kong sparked by the Chinese Communist Party reviving its interest in socialism, attacking the "selfishness" of the tycoons they used to praise, the US trade war and economic slowdown at home all signal a difficult road ahead for President Xi.

Xi has been decisive on foreign policy, buoyed by a stronger military and weaker America. He has sought to exploit America's initial reticence to push back. At home he has refused to name a successor and cowed all opponents with the most far-reaching anti-corruption campaign. In Taipei, political leaders worry that Xi wants to cement his legacy and bring Taiwan back under Chinese rule.

In the Middle East Mohammed Bin Zayed, the Crown Prince of Abu Dhabi and The Emirates, is moving away from reliance on friendship with the US and Saudi Arabia and has turned East to China, linking with Xi Jinping's new Silk Road initiative. China is building a $2.46bn trading zone in the UAE that Beijing hopes will form an economic alliance that excludes the West. Iran is a vital source of oil for China, the closer the UAE move to China the more likely it is Iran will lose out.

In 2014 the oil price collapsed and US sanctions shocked Russian markets. Since then the Central Bank of Russia has built credibility and now has room to engage in monetary easing, to invest in infrastructure and boost growth. The Central Bank has reserves in the event of another crisis.

In summary, 50% of global manufacturing and 25% of global trade is driven by the US and China. The importance of the trade war cannot be dismissed in relation to EM Equities. The Chinese domestic market is burgeoning with an expanding middle class. Russia and India offer potential. Whilst the Indian economy is slowing it continues to offer the opportunity for growth driven by strong demographics and entrepreneurship.

Unlike the developed world, we see opportunity in EM driven by an expanding middle class with rising disposable income, seeking professional services, banking, insurance, loans, as well as consumer products, cars and appliances.

We remain positive.

Key Points - Alternatives

- The Legg Mason Rare infrastructure Fund introduced in September 2019 has outperformed against the broader markets in Q3.

Alternatives

Because the Polar Capital Global Insurance Fund is US centric we retain, but consider it as part of our US Sector allocation, at the same time we have trimmed exposure to the LF Miton US Opportunities Fund.

In the Alternatives sector we retain the JPM Global Macro Opportunities Fund which has disappointed in Q3 and we are in discussion with the Manager to understand what steps they are taking to remedy.

The Legg Mason Rare Infrastructure Fund introduced in September 2019 has outperformed against the broader markets in Q3, returning 2.32% (03/09/2019 - 15/11/2019). On a regional basis the US and Canada were the top contributors. In Western Europe the UK electric utility SSE also performed strongly.

The investment strategy of this fund is the excess return on which RARE's stock ranking system is based. The RARE income strategy also uses yield quality as a secondary measure.

We are positive to a zero benchmark.

Key Points - Property

- The benefits of a core Property Fund are length of income and stability of valuations.

Property

The BMO UK Property Fund has no exposure to Shopping Centres and a low weighting of just 6% in High Street Retail. The yield on the Portfolio is currently 5.02%. The benefits of investing in a Core Property Fund are length of income and stability of valuations. BMO in line with other forecasters are predicting a positive return in each of the next four years, assuming a Brexit deal is struck.

Guy Glover, the Fund Manager, anticipates a bounce back in this sector once we have a Brexit resolution. This fund is weighted 35% Industrials, 33% Regional Offices.

We remain positive to a zero benchmark.

Key Points - Fixed Interest

- We are introducing the Vanguard Global Credit Fund to further diversify risk and improve credit quality.

Fixed Interest

Since September, Bond Fund Managers have encountered increased volatility. Equity markets welcome good news, but not Bond Funds and this has driven markets lower and reversed gains achieved over previous months. The US – China trade impasse, has not materialised as markets feared and at home the likelihood of a 'no deal' Brexit has receded. The Fed lowered US interest rates for the third time this year, but not by enough to satisfy Trump.

Japan restarted QE and we have a new President of the ECB in succession to Mario Draghi. All this has led to a reversal of the inverted yield curves we saw during the summer which were seen as a harbinger of global recession. 10 year Government Bond yields which act inversely to their price have risen in the last month; in the UK by 8bps to 0.78%, in the US by 18bps to 1.9% and in Germany by 16bps, but despite this 10 year Bunds remain in negative territory at -0.28%.

We continue to monitor the Portfolios our Investors hold to ensure Managers maintain credit quality. We have witnessed an increase in Cash positions as Managers take profit ahead of a buying opportunity.

We are proactive in our approach and in an effort to further diversify risk we are introducing the Vanguard Global Credit Fund. We have met with Managers of this Fund which we are adding after extensive research in this sector.

The fund launched in September 2017 and now stands at $103m, with an OCF of 0.35%.

Investment decisions are made on the back of analysis from global markets, USA, Europe, Asia and Australia. The fund provides access to a diversified portfolio of global credit bonds, and whilst priced in US Dollars, the currency is hedged allowing access to the US and other local markets without currency risk.

We remain negative to benchmark despite adding the Vanguard Fund.

Key Points - Conclusion

- EU seeks further increase in its budget to 1.11% of the EU's Gross National Income.

Conclusion

The EU Commission has proposed to further increase its budget to 1.11% of the EU's Gross National Income (GNI) to plug the financial hole that will be left if and when the UK exits. This would increase Germany's budget contribution from €15bn (2020) to more than €33bn by 2027. Five net contributors: Germany, the Netherlands, Austria, Denmark and Sweden have demanded a pot no larger than 1% of GNI and are fighting to retain their rebates post-Brexit. France stands to gain from plans to scrap rebates for the so called "Frugal Five", which cap their contributions to prevent 'excessive' payments. Poland is among the biggest net recipients, rising from a net of €10bn in 2020 to €12bn in 2027. The most sensitive negotiations over Eastern Europe and Farm subsidies have only just begun.

In the US, Trump faces Impeachment ahead of the 2020 Presidential election. President Xi, having secured his own uncontested position will shed few tears for his trade adversary.

Boris has called an Election on 12 December 2019 in an attempt to break the Brexit impasse . In the last issue of Outlook we restated our view that in this period of uncertainty our primary responsibility is capital preservation.

When we next publish Outlook in the Spring of 2020 we may have certainty and a clearer picture of the future for UK plc.

Fund Panel Update

FH Core

Allocation Increased | Allocation Decreased | Fund Added | Fund Removed

Fund Name	Adventurous	Assertive	Balanced	Cautious	Conservative
Allianz Gilt Yield			1	1	1
Baillie Gifford Strategic Bond					-1
BlackRock Emerging Markets	1				
Franklin UK Equity Income			-2	-1	-1
JPM Global Macro Opportunities	-1				
L&G Global Inflation Linked Bond					-1
Legg Mason Global Infrastructure (H)	1				
LF Miton EU Opportunities	3	2	-4		
LF Miton US Opportunities	-1	-1	-1	-1	
Liontrust Special Situations		-1		-1	-1
Man GLG UK Income	3	3			
Man GLG Undervalued Assets	-3	-3			
Polar Capital Global Insurance					-1
Rathbone Strategic Bond				-1	-2
Threadneedle European Select	-3	-3	3		
Vanguard Global Credit Bond (H)		3	3	3	6

Funds Introduced

Vanguard Global Credit Bond Hedged (H) - Vanguard currently have over £4.1 trillion in assets under management globally and are the pioneers of index investing. The Vanguard Global Credit Bond Fund seeks to provide a moderate and sustainable level of current income by investing in a diversified portfolio of global credit bonds, an asset class that has historically provided strong risk-adjusted returns. This strategy seeks to generate alpha through bottom-up credit analysis, weighting most of their focus towards investment grade debt. Their approach incorporates a broad spectrum of insights from a range of specialist teams providing our portfolios with a low cost, diverse and quality global debt exposure.

FH Passive Plus

Allocation Increased | Allocation Decreased | Fund Added | Fund Removed

Fund Name	Cautious	Balanced	Assertive
Fidelity Index Emerging Markets			1
Fidelity Index Japan	-1	-1	
Fidelity Index US	-1	-1	-1
iShares 100 UK Equity Index	-1	-1	
iShares Overseas Corporate Bond Index	2	2	3
Janus Henderson Strategic Bond	1		
JPM Global Macro Opportunities		-1	-3
Royal London Cash Plus	1	1	
Natixis H2O MultiReturns		1	
Vanguard FTSE UK Equity Income Index	-1		

Performance

Portfolio	1 Year %	3 Year %
Forrester-Hyde Adventurous Model Portfolio	9.86	28.47
Forrester-Hyde Assertive Model Portfolio	9.31	23.98
Forrester-Hyde Balanced Model Portfolio	8.46	18.90
Forrester-Hyde Cautious Model Portfolio	7.27	13.60
Forrester-Hyde Conservative Model Portfolio	5.83	10.57

Portfolio	1 Year %	3 Year %
Forrester-Hyde Passive Plus Assertive Model Portfolio	9.74	24.64
Forrester-Hyde Passive Plus Balanced Model Portfolio	9.00	20.76
Forrester-Hyde Passive Plus Cautious Model Portfolio	7.89	17.14

Asset Class	1 Year %	3 Year %
Euro STOXX 50	15.72	30.15
FTSE 100	8.61	21.99
FTSE Actuaries UK Conventional Gilts All Stocks	9.10	12.19
IBOXX UK Sterling Corporate All Maturities	10.57	15.70
MSCI Emerging Markets	8.43	28.24
MSCI World	13.87	36.41
Nikkei 225	10.30	26.87
S&P 500	14.87	43.27

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