TAM FOCUS PORTFOLIOS

QUARTERLY COMMENTARY : **Q4 2017**

tamfocus

MARKET *Review*

Equity markets were strong over the quarter, with US equities leading the way, up approximately 7%, whilst government debt strengthened despite central banks in the UK and US raising interest rates by a quarter point. The pound continued to strengthen against the US dollar, whilst remaining relatively stable against the Euro. The currency found some strength after the UK managed to secure a first phase deal on its exit from the EU in early December, allowing Brexit negotiations to progress to the second phase of talks.

In Europe, the ECB announced that it would begin to cut asset purchases in 2018, easing the economy off several years of stimulus. While this signalled confidence in Europe's growing economy, the political landscape was a gloomier picture, as pro-independence parties in Catalan won the majority vote.

In Japan, Prime Minister Abe won the majority in the snap election, beginning his historic third term at the helm of the Japanese economy. Markets reacted positively to the news, which indicated that Abe had a stronger mandate from the country to continue pursuing his economic reform agenda, coined Abenomics.

The largest tax overhaul in the last 30 years was voted through the Senate in the US, which will see tax rates fall to 20% for US corporations. The Federal Reserve followed the Bank of England in raising interest rates by a quarter point in their December meeting, whilst indicating another three hikes are likely in 2018.

Despite some emerging markets giving back part of their earlier advances, they continued to benefit from pro-growth reform packages, de-leveraging and meaningful increases in corporate capital expenditure, with the Asian economies continuing to be the global growth leaders.

PERFORMANCE REVIEW

	PORTFOLIO	BENCHMARK	RELATIVE
Cautious	1.64	2.46[1]	(0.84)
Balanced	1.61	2.87[2]	(1.26)
Growth	2.26	3.42[3]	(1.16)
Adventurous	2.44	3.84[4]	(1.40)

Source: TAM Asset Management Ltd. The above performance data relates to the period 1st October – 31st December 2017. Benchmark is FTSE All-Share Index + Cash (1 Month Libor). Benchmark proportions vary according to risk profile, as per the following breakdown of index and cash proportions respectively: 1) 35% + 65% 2) 50% + 50% 3) 70% + 30% 4) 85% + 15%.

Contributors to performance largely derived from the portfolios' exposure to Emerging Market equities, despite the slight pullback seen following the Federal Reserve's decision to raise interest rates in December. On the fixed income side, our high quality corporate debt funds outperformed their benchmark over the quarter.

The portfolios' European equity exposure detracted from performance, with the region giving back some of its recent gains as investors locked in their profits. The US equity position also detracted from performance, as growth stocks continued to lead returns and the US dollar remained subdued.

PORTFOLIO POSITIONING

There were minimal changes made to Focus portfolios over the quarter. The main change implemented in the models was a switch of strategies within our European equity allocation. We believe the new position will benefit more from the ongoing growth and inflationary recovery which we have begun to see take hold in Europe, as well as the tighter monetary conditions which we anticipate will lead to a re-pricing of the more value-orientated stocks.

OUTLOOK AND STRATEGY

For the foreseeable future, we expect the UK's political unrest to continue to dominate the nation's headlines, as well as the direction of the pound. Once a figure is nailed down for the Brexit bill, we expect to see the progress of negotiations pick up, which could cause the pound to find a little more short-term strength. Domestically, with consumer spending slowing, a cabinet in disarray and the pound remaining depressed, we see no real pick up in core GDP growth over the next six months.

Within Emerging Markets, contingent on no large scale macroeconomic shocks, such as a rise in geopolitical or trade tensions, we expect to see a continuation of broad economic recovery and corporate earnings upgrades. In Europe, despite the recent volatility from the prospect of another round of German elections, and risk of a populist win in the upcoming Italian elections, we believe the broad recovery in Europe will prove one of the standout growth stories in 2018.

Whilst President Trump has under-delivered on policy reform over 2017, we believe the recent progress on tax reform could mark a turning point. We expect the reforms to be passed, after which Trump will begin to tackle the other topics on his agenda, such as infrastructure and deregulation. Despite the toppy valuations, economic indicators in the US suggest 2018 should see another steady year for growth and corporate earnings.

Overall, it seems as if the global economy will be carrying much of its recent momentum into 2018, albeit a slightly lower level of growth than we had in 2017. While 2017 may have been the year for growth stocks across the world, the US tech giants led the way; we are not convinced that the market will continue to be as narrowly led by these stocks going forward. This may lead the way for value investing in 2018 and we believe our portfolios are well positioned to benefit from this.

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