TAM FOCUS PORTFOLIOS
QUARTERLY COMMENTARY : **Q4 2018**

tamfocus

MARKET *Review*

The final quarter was a volatile one for equity and debt markets globally, ending what was the worst year for global stock markets since 2008 as almost every major asset class fell heavily.

Although there was no clear catalyst for the market movements at the start of the quarter which saw the S&P 500 index falling almost 10% from its peak, several factors contributed including investors' concerns that US corporate profits had peaked, ongoing US-China trade war tensions and worries over US interest rates rising faster than expected, hampering economic growth.

While markets regained some ground mid-quarter as equities got a boost from positive trade talks between the US and China, volatility persisted, with equity markets generally ending the quarter weaker after a highly volatile December. The general risk-off sentiment which prevailed over much of the quarter contributed to the strong performance of haven assets such as government debt, gold and the yen.

The UK continued to experience its own domestic issues relating to Brexit. Theresa May managed to overcome a vote of no confidence after postponing the parliamentary vote on her proposed Brexit deal in December. Despite being secure for another twelve months, May was forced to concede that she would not be leading the Tories into the next general election.

Finally, European equities were once again among the weakest performing asset classes over Q4, with ECB President Mario Draghi expressing concerns over risks to the European recovery worsening and downgrading growth forecasts for the next two years. Similarly, Emerging Market (EM) equities cemented their decline for the year, with sentiment remaining fragile in the fourth quarter.

PERFORMANCE REVIEW

The performance data below relates to the period 1st October – 31st December 2018.

	PORTFOLIO	BENCHMARK	RELATIVE
Defensive	(2.43)	(0.51)[1]	(1.92)
Cautious	(4.31)	(3.03)[2]	(1.28)
Balanced	(6.69)	(4.89)[3]	(1.79)
Growth	(8.94)	(7.35)[4]	(1.59)
Adventurous	(10.23)	(9.16)[5]	(1.07)

Notes on Benchmarks: FTSE All-Share Index + FTSE UK Gilts All Stocks Index in the following proportions: 1) 15% + 85% 2) 35% + 65% 3) 50% + 50% 4) 70% + 30% 5) 85% + 15%
Source: TAM Asset Management Ltd.

With a broad decline in global markets, there were few contributors to performance, which mainly included investments in safe haven assets such as gold and government debt and defensive equity investments including large-cap, value-driven UK equities. Our global emerging markets fund was the largest contributor to performance, holding up well through the volatility over the quarter.

There were several detractors in Q4, most notably coming from Japan, Europe, the US and small/mid-cap UK equities. Japanese equity funds underperformed the most as Japanese equities continued to see-saw on ongoing trade and global growth concerns.

PORTFOLIO ACTIVITY

We built up the defensive aspects of the portfolios by increasing the allocation to UK government debt and gold investments, whilst reducing our allocation to corporate bonds due to liquidity concerns as we approach the end of the market cycle and possibly further periods of market stress.

OUTLOOK AND STRATEGY

Q4 of 2018 has certainly set the scene for a return to volatility, as it has become likely that a synchronised slowdown in global growth will continue in the year ahead. While the volatility experienced in the last quarter was more sentiment driven as opposed to being caused by deteriorating economic fundamentals, we do not expect markets to continue grinding higher as they did in the first half of the year. The pull back of global monetary easing which propped markets up for so long will undoubtedly have repercussions as markets adjust to tighter financial conditions.

Nonetheless, there are still opportunities to be had. We are positive on EM assets where the valuation gap relative to developed markets has widened, although this is largely reliant on the US dollar weakening from here, which is our base case. In contrast, our outlook for European equities has deteriorated as we see a range of geopolitical issues skewing risk to the downside in the months ahead.

Although several binary geopolitical risks remain, positive outcomes such as relief on Brexit and the US-China trade war could contribute to a short-term leg higher in equities driven by a snap back in risk appetite as we approach the end of the market cycle.

We will continue to build our defensive positioning in terms of asset class, sector and style to improve the portfolios' resilience. We will remain underweight the domestic market as we find opportunities in the broader global market and will continue to hold higher than usual cash positions, allowing us to be nimble enough to swiftly and efficiently take advantage of opportunities as they present themselves.

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