LGT Vestra Snapshot

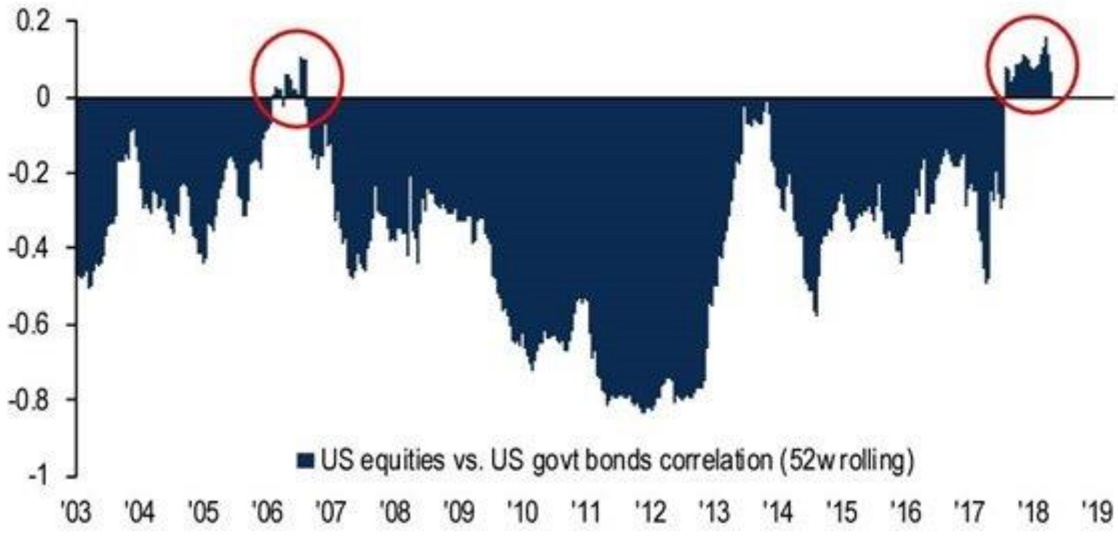
What we have learnt from recent market volatility

14 November 2018

The market sells off was driven by very similar catalysts to those we saw in Q1:

- Concerns that the US interest rate cycle may have to 'normalise' faster than markets are pricing in
- This impacted both risk assets like equities, as well as bonds
- During October we saw positive correlation between bond and equities in a period of market stress (but this trend has been seen in government bonds since the start of 2018)

Chart 3: Positive correlation between SPY & TLT since Feb'18



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

Interestingly, small cap stocks sold off more than large cap stocks when compared to the sell off that happened in Q1, however there has been a corresponding rebound in prices of these small cap stocks since the falls seen in October. The sell off in October across the board looks to have been a general equalisation of valuations. As such the bond proxies also suffered a bigger correction as did highly valued technology stocks.

One of the investment sectors that performed relatively well during the sell off in October was UK value stocks, which benefitted funds such as Schroder Income and our infrastructure holding which benefitted from the strength of UK utilities and satellites over the period. In the portfolios we ensure proper diversification at a sub-asset class level, for example in the UK equity portion of portfolios we hold defensive funds alongside value strategies which helps protect capital in periods of market stress.

During the market sell off in which equity markets experienced drawdowns of 10%, the absolute return funds in the portfolios provided downside protection were JPM Global Macro Opps, Troy Trojan and Artemis US Absolute Return. The systematic strategies that we utilise in portfolios such as Merian GEARs and Winton Absolute Return Futures were not able to provide the positive performance the previously mentioned funds did because of a distinct lack of a trend. In a market environment that is continually down-trending, these types of strategies are more likely to provide the ballast to portfolios. This demonstrates the importance of diversification, even at a sub-asset classes level that is essential in managing portfolios across the cycle.

The market has risen since the lows seen in October due to a fall in the oil price (moderating concerns over a rise in inflation), the results of the mid-term elections in which Trump lost control of the House, meaning his ability to make progress on changes to legislation is now somewhat hampered in comparison to before and the expectation that share buyback programmes are going to be kicked started as the earnings US winds down.

However, as liquidity tightens, we should expect moves like ones seen during October repeat itself, implying increasing volatility of all asset classes.

Below is some performance analysis of the MPS portfolios against IA sectors. As all financial advisers using the MPS portfolios will know, there are no official benchmarks for the LGT Vestra MPS portfolios, however the MPS team are more than happy to run performance comparisons on FE Analytics for you. Alternatively, the ARC reports are helpful documents to use for performance comparison versus the peer group.

	01/01/2018 09/11/2018
Group/Investment	Return (Cumulative)
LGT Vestra Defensive	0.12
LGT Vestra Cautious	-0.20
LGT Vestra Balanced	-1.85
LGT Vestra Growth	-1.93
LGT Vestra Adventurous	-2.19
Mixed Investment 40-85% Shares	
IA OE Mixed Investment 40-85% Shares	-1.98
Mixed Investment 20-60% Shares	
IA OE Mixed Investment 20-60% Shares	-2.17
Mixed Investment 0-35% Shares	
IA OE Mixed Investment 0-35% Shares	-1.97