LGT Vestra Snapshot

The state of play

29 August 2018

As the current market enters its 9th year without a major correction, we have been receiving an increased number of requests as to whether now is the right time to sell down client portfolios to cash. While we cannot comment on each individual client circumstance, we do have a view on the wider market and our portfolio positioning.

The way we view the equity market at the moment is broadly positive. We believe that the sharp movement in the stock market in February was just a short-term blip, exacerbated by mechanical selling and that the broader environment for equities is in fact quite positive. Looking abroad, in the US we have seen very strong earnings numbers in the recent end of quarter with many companies beating expectations. In Japan, we believe that the market is not fully pricing in the future impact of corporate reforms, capex spending intentions and inflation we expect to see. In Europe and the UK the PMI numbers continue to surprise on the upside, even if they have shown some signs of reverting back to a more normalised level of moderate-to-strong economic growth (low 50s). In the UK, any sterling weakness should be compensated by the FTSE moving upwards meaning that there is a natural hedge within our large cap UK holdings. Two areas of weakness recently, Emerging Markets and Asia, have really suffered from Trump's tough rhetoric on trade. If Trump can come to an agreement when he meets with Chinese Premier Xi Jinping in November, then one could see a sharp relief rally. The news of a revised agreement between Mexico and US over the weekend is a good start. In fact, if we were to see Emerging Markets sell off anymore, we may even add to our position given the attractive valuations following the recent sell off. However, we continue to keep an eye on the situation in Turkey, Argentina and also the political situation in Italy to ensure that the situation does not spread into other emerging economies.

From the perspective of the MPS, by looking at the macro economic environment and the underlying asset classes and funds, we move our asset allocation dynamically to capture pockets of opportunity and try to reduce risk when required. An example of this is that we have recently taken some risk of the table ourselves, reducing the BlackRock European Dynamic fund and adding to cash so that our allocation to cash now sits at circa 4%. We have done this to take some profits on the holding and in light of the potential for trade war escalation between the US and Europe. We have also been increasing our exposure to active managers over passive funds as we feel that they are better placed to ride their way through choppy waters (we have recently switched out of Vanguard US Equity Index into Morgan Stanley US Advantage).

Furthermore, we hold a basket of absolute return funds that we use to add ballast to the portfolio because they are broadly uncorrelated to the wider equity market and also the rest of our portfolio. By holding this diversified portfolio with some alternative investments and having the capacity to construct a portfolio that is not benchmark constrained (i.e. if needs be we can hold a high cash weighting), we believe that we can produce long term performance that falls within the specified target bands.

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