Monthly Commentary 5th May 2017

April was a good month for many markets. Global equities were up about 1%, with Europe ex-UK and Emerging Markets the strongest, while the UK market fell by almost 2%. The latter had more to do with currency strength as sterling appreciated strongly. The bond markets were up modestly, while the USD index and oil fell.

With equity markets being close to their highs, many of our clients are asking if it's time to sell while the going is good. They fear that markets will capitulate and that "selling in May and going away" might indeed be a good warning to heed. Indeed there is much to worry about, ranging from doubts about whether Trump can indeed implement his market-friendly policies to uncertainty on Brexit negotiations to China's increasing total debt to multiple (and serious) geopolitical concerns, to elevated market valuations, to increasing interest rates to…

Our answers are much the same.

Firstly, there are indeed many concerns that can derail the markets. But there always have been and always will be. It is only in hindsight that we look at the past and see benign periods when "anyone could make money". As we have repeatedly stated, markets need a wall of worry in order to advance.

Secondly, we do not know what can happen in the future. This is the reason that we are obliged by our regulator to have a risk profile for each client. Otherwise, if we could indeed predict market direction, we would be fully invested as markets are rising and be all in cash when they are falling. This is called investing nirvana, but this is as sure to exist as snow falling in Singapore. The idea of risk profiling is that clients can decide how much of the market upside they can partake in and what their tolerance to losses is when markets fall.

This does not mean we have no opinion. If we expect equity markets to keep rising in the short/medium term, we would have an "overweight" position in equities based on the client's risk profile. For example, if the client is "Balanced", with 50% strategic equity exposure, we would let that exposure rise to as much as 55% or even 60%. But we would certainly not become fully invested in equities in order to match our bullish forecasts.

The reason is that if we are wrong and markets head south, the client losses would be far more than their mandate to us would have allowed.

So where do we stand now, and why?
We are bullish on equities for many reasons. Below are some:

- **Global growth on the up and up**. For the first time in a long time there is a broad-based global economic upswing as America, Europe, Asia and Emerging Markets are all growing, with the aggregate growth expected to be close to 3.5% in 2017. This is good news for consumer spending. Markets only fall when they foresee a recession.
- **Modest inflation, low-to-modest oil prices**. Strong growth has still not resulted in much higher inflation, while the deflationary scare has receded. With inflation numbers well within most Central Bank's comfort levels and with oil prices still much lower than they were a few years ago the backdrop is positive.
- **Strong earnings growth**. This is probably the most important point. Markets are primarily driven by corporate earnings growth and the evidence here is pleasing. In the US, the UK, Europe and EMs companies are expected to grow their earnings by double-digit numbers. This is great news. Of course the starting valuations also figure in this equation but we do not believe they are excessive enough to prevent equities from marching higher.
- **Central banks still vigilant**. Monetary policy is still accommodative in Europe and Japan, while in the US the tightening cycle is being well telegraphed and agreeable to the markets. Central banks seem to prefer to err on the side of caution and have indicated they would rather risk higher inflation than to kill growth.
- **Unemployment falling**. In almost all regions unemployment continues to fall. This can only be good for consumer confidence.
- **Sentiment not bubbly**. Institutional investors in the US are still neutral when it comes to equities. This indicates that doubts exist, a sentiment we like to see. Otherwise if everyone was bullish, they would be accordingly positioned and there would be no one left to buy.

We could list quite a few more positives. Of course there is always the possibility that markets can have a reality check and fall anywhere from 5% to 10% or more without asking anyone. All in all however, we believe that such a scenario would only be a pause in the continuing bull market.

The Elgin Analysts' Team