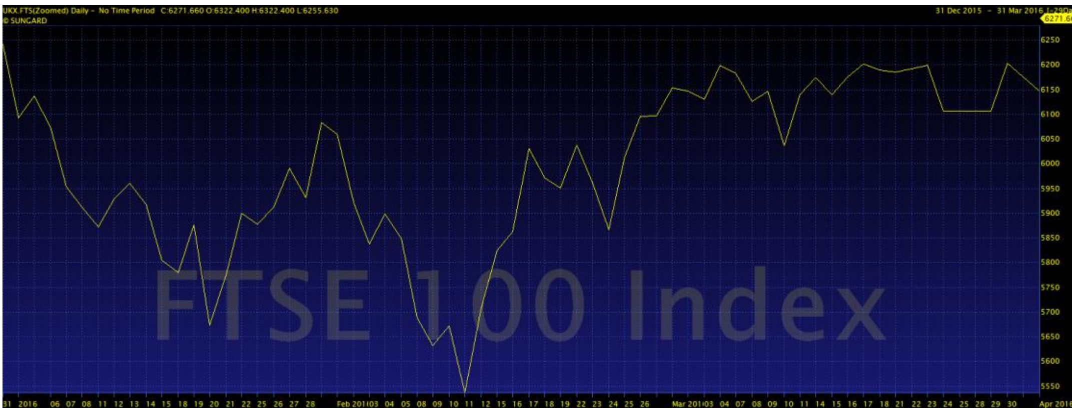
HANSON

Q1 2016

As most will have observed, the First Quarter of 2016 was extremely volatile. However, the UK (FTSE 100 +0.07% TR) & US (S&P 500 +1.35% TR) Equity Markets recouped their intra-quarter losses. Whereas Europe (MSCI Europe -6.86% TR) and Japan (-12.77% TR) showed significiant losses. UK Conventional Gilts prospered amongst this volatility (All Stocks +4.92% TR).

The charts below are Capital Only Returns (excluding dividends/coupons), whereas index returns quoted above are Total Return (TR) including dividends/coupons.

FTSE 100:



S&P 500:

DJ Euro Stoxx 50 (Europe-UK):

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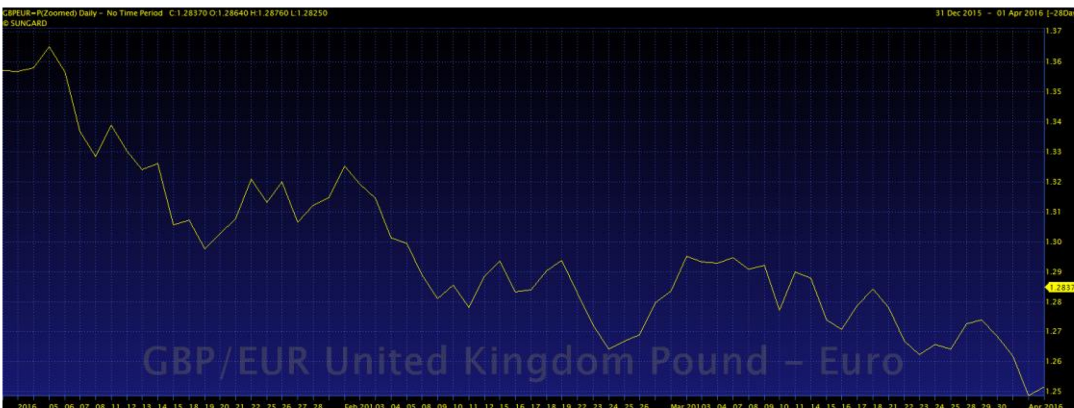
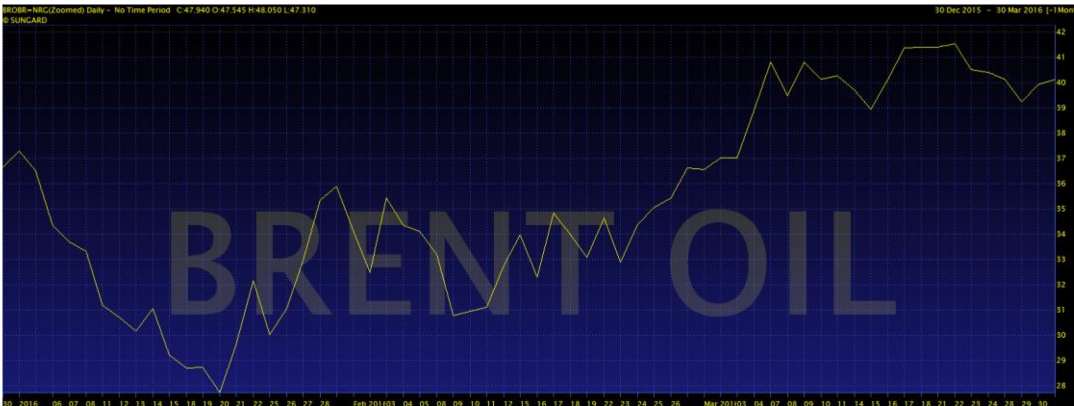
Equity Markets were dragged dramatically lower at the end of January on fears of a second continental European banking crisis after rumours of a E7bn capital hole at Germany's largest lender, Deutsche Bank (see chart below). These fears quickly dissipated after the bank's management moved to reassure the market. However, the bad debt situation in a number of European countries has yet to be fully addressed, especially in Germany and Italy.

Safe haven assets, such as UK Gilts, benefitted from this panic. The chart below shows the Yield to Maturity (YTM) of 5% Treasury 2025. The YTM is the Gross Annual Return an investor would receive if the Gilt is held to redemption. This fell beneath 1.2% per annum at the height of the panic. Gilts remain historically expensive (the price moves inversely to the yield) and are at threat should the Bank of England ever start to raise UK Interest Rates.

During the quarter Brexit worries further eroded the value of GBP versus most major currencies. Those travelling abroad for winter holidays will have felt this most acutely. However, this also had the effect of flattering the returns of most non-GBP assets. GBP:EUR

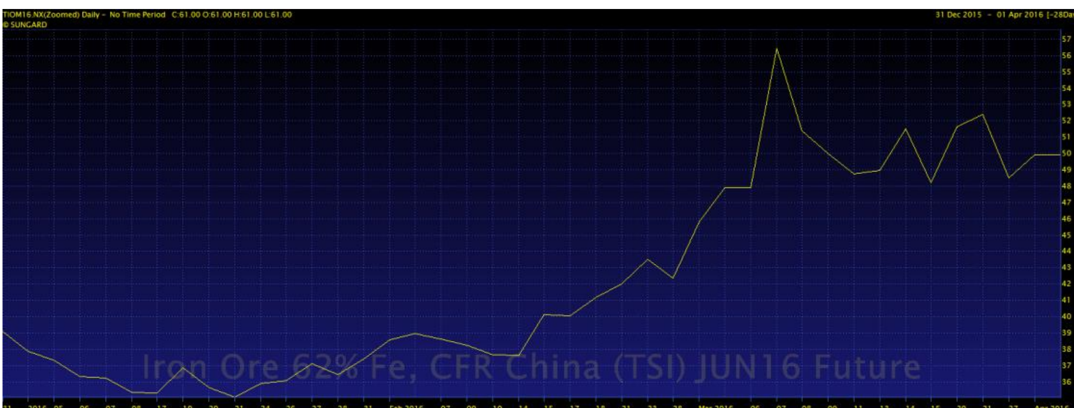


Whilst investors concentrated on the turmoil in Equity Markets, commodity prices began to recover from their recent lows. Brent Oil, which had fallen below $30 per barrel recovered to over $40.



This lead to stabilisation of the oil majors such as Royal Dutch Shell B (below).

At the same time other commodity prices, especially Iron Ore (below), strengthened dramatically as Chinese demand picked up.



Of the UK Mining Majors, the impact on Anglo American (next page) was most marked.

Outlook

Whilst the outlook for Global Growth has weakened (the IMF has pared back its 2016 forecast from 3.4% to 3.2%), there is no evidence of impending recession in most major economies in 2016 or 2017:

IMF (Apr 2016)	2014	2015	2016	2017
World	3.4%	3.1%	3.2%	3.5%
US	2.4%	2.5%	2.4%	2.5%
UK	2.9%	2.2%	1.9%	2.2%
Euro Area	0.9%	1.5%	1.5%	1.6%
Germany	1.7%	1.5%	1.5%	1.6%
France	0.2%	1.1%	1.1%	1.3%
Italy	-0.4%	0.8%	1.0%	1.1%
Spain	1.4%	3.2%	2.6%	2.3%
Japan	0.0%	0.6%	0.5%	-0.1%
Emerging Markets	4.6%	4.0%	4.1%	4.6%
China	7.3%	6.9%	6.5%	6.2%
India	7.3%	7.3%	7.5%	7.5%
Asia	6.8%	6.6%	4.8%	5.1%
Russia	0.6%	-3.7%	-1.8%	0.8%
Emerging Europe	2.8%	3.4%	3.5%	3.3%
Latin America	1.3%	-0.3%	-0.5%	1.5%
Brazil	0.0%	-3.8%	-3.8%	0.0%
Mexico	2.3%	2.5%	2.4%	2.9%
MENA	2.8%	2.5%	3.1%	3.5%
Saudi Arabia	3.6%	3.4%	1.2%	1.9%
Sub-Saharan Africa	5.0%	3.5%	3.0%	4.0%
Nigeria	6.3%	3.0%	2.3%	3.5%
South Africa	1.5%	1.3%	0.6%	1.2%

However, a number of resource-focused economies/regions, such Russia (oil-focused) and Brazil (mineral-focused) are in recession and others, such as Saudi Arabia and Africa, have seen their growth forecasts tempered dramatically. Despite the noise about China, it is still forecast to grow at over 6% in both 2016 & 2017.

Returning to the UK economy - real, manufactured or imagined Brexit fears appear to have temporarily impacted growth (as well as hitting the currency). As always, equity markets hate uncertainty, which will persist until the vote on 23rd June. The polls put the campaigns at neck & neck, whereas the bookies (usually a more accurate indicator) have the chance of Brexit at under 30%. We would expect Sterling to strengthen should the vote be to remain in the EU. We may hedge some of our US exposure in order to protect against strengthen of GBP.

We expect Equities in the US, UK and Europe to make steady, if unspectacular, progress. The Eurozone and Japan should benefit from further Quantitative Easing.

The FTSE 100, with its exposure to Oil & Gas and Mining Majors, could well remain more volatile than the Mid & Small Cap segments.

Gilts and high quality corporate bonds remain expensive and, as previously mentioned, at threat should UK interest rates rise from their historic lows. We prefer Infrastructure investments as a bond proxy.

Commercial property should continue to deliver adequate yield returns, but we do not see much scope for further capital uplift. It remains a low volatility asset class, which is mostly down to its quarterly re-valuation as opposed to daily pricing of equities.

We continue to see the investment case for Absolute Return assets. However, the goliath in the sector, Standard Life's Global Absolute Return Fund (£26.2bn) has had poor recent returns. We are screening for additional funds within the sector.

'Sell in May'

Despite a relatively dull outlook, we are poised to take some risk off the table in May as a prudent measure in the face of the Brexit vote and US elections. We may well add tactically to Absolute Return, Commercial Property and Strategic Bonds in order to reduce volatility in the short term.

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