Weekly Digest
18 December 2017
The weekly insight into world stock markets

Investec Wealth & Investment

"Try again. Fail again. Fail better."

When I was at school I received this Maths report: "Exam mark: 123 out of 125; Position: 1=; Comment: Could do better". Literally that was true, although I felt miffed at the time. In retrospect I can see either that my teacher had a sense of humour beyond the reach of my teenage intellect, or that he really thought me capable of flawless calculations. The one thing we can be pretty sure about when it comes to investing is that a 100% success rate is impossible over any realistic investment period. Traders are wont to say that as long as they get 51% of their calls right they will be successful, which is a catchy pitch, but fails to stand up to serious scrutiny, as much depends upon, for example, how trades are sized and how long winning and losing trades are run.

In the wealth management industry, success is judged against various benchmarks. Wealth managers are measured against each other by a company called Asset Risk Consultants, to whom most companies supply portfolio data. Clients can also measure their portfolio's performance against agreed benchmarks, such as the yield on cash plus a defined target, inflation plus a certain return, a particular index or a specific strategic allocation benchmark. There is no "right" stick against which to measure ourselves. As I never tire of pointing out, much is dependent upon the needs and circumstances of the individual client. What I can say is that, generally, we remain happy with the value that we add to client portfolios relative to the various chosen benchmarks. It is almost inevitable that we will make a wrong call at some point, but that makes us even more vigilant when it comes to trying to mitigate risk.

Every January we present our main thoughts for the year ahead, even if the turning of the calendar to a new year rarely means that we change our opinions radically. Still, it's a useful focusing exercise, and it also gives us something to be accountable for. In my broking days I would revisit my Top 10 stocks for the year in December, pat myself on the back for the successes and try to learn something from my failures, mindful of the words of Bill Gates, founder of Microsoft: "Success is a lousy teacher because it makes us think we cannot fail". Oh, yes, we can! Maybe the words of Samuel Beckett are even more appropriate: "Try again. Fail again. Fail better".

So how was 2017 for us? Our messages at the start of the year encompassed economics, politics and investment strategy. Our key economic view was that the global economy would continue to improve. The US would be solid, as would Europe as it put the euro crisis further behind it with a better capitalised banking system and falling unemployment. China held no great concerns for us. Overall we are very happy with the outcome. In fact, if anything, growth has come in somewhat better than we expected. Fears of recessions or new crises were a long way wide of the mark.

On the political front, we were of the opinion that non-mainstream or far-right parties would fail to secure any sort of mandate in European elections, even if they did manage to gain a greater percentage of the vote and persuade centrist parties to adopt a more radical stance. This played out much as we had anticipated, allowing us to take advantage of pre-election jitters, especially in France. Where we were less on the mark was in our opinion of Donald Trump, who ended up having a much less negative influence than we might have expected. Some of this was down to a diluting of his more extreme plans once he had achieved the key goal of taking office, but some of it was down to his own incompetence. For example, his dogged pursuit of early healthcare reforms, which basically amounted to an attempt to purge the system of Obama's legacy, was misguided and ate into any political capital he had taken with him into the White House. The good news is that he was unable to disrupt the underlying momentum of the economy.

We were taken by surprise by both the election in the UK and its outcome, but it's difficult to calculate how much of the UK's economic sluggishness is down to the government's travails and how much down to Brexit-related uncertainty (although they are, to a degree, intertwined). In aggregate, we witnessed more surprises in the political arena, but they failed to have a great impact on investment returns. Maybe we should spend less time worrying about politics!

On the investment side, which is obviously the most important, our hit rate was better. We believed that equities would outperform bonds, which they have done in spades. Our regional preference was for Europe, Japan and Emerging Markets (with a bias towards Asian consumer economies), with underweight positions in the US and UK. When we measure the returns for those markets in sterling (as opposed to local currencies, because we tend not to hedge currency exposure), we were correct on all counts. However, we did expect to see more volatility emerge this year, and that has failed to happen. We continue to fear that higher volatility (most probably triggered by too aggressive monetary tightening or some unforecastable exogenous shock) could be highly disruptive to markets for a short period, but also believe that could provide opportunities to purchase preferred assets more cheaply.

Weekly Digest takes a break now until January 8th. I wish you all a Merry Christmas and Prosperous 2018, and thank-you for reading.

Finally, Walsall is the English football league team that is nicknamed the Saddlers. This week, what was the middle name of the author Jerome K Jerome?

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

Mondi	7.3%
Hargreaves Lansdown	6.6%
BHP Billiton	5.8%
Glencore	5.0%
TUI AG	4.8%
Rio Tinto	4.5%
Antofagasta	4.1%

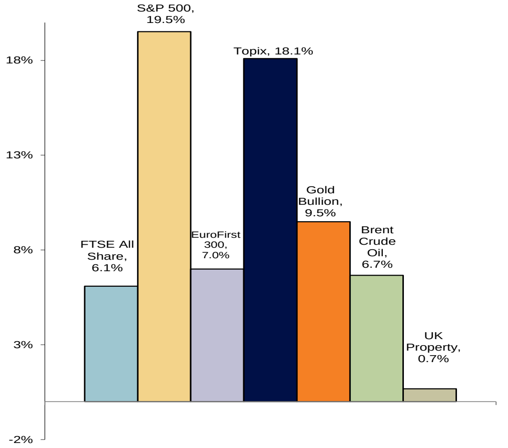
Source: FactSet

FTSE 100 Weekly Losers

Ashtead Group	-6.2%
Next	-5.3%
Marks and Spencer Group	-4.8%
Centrica	-4.2%
CRH	-3.7%
NMC Health	-3.5%
J Sainsbury	-3.5%

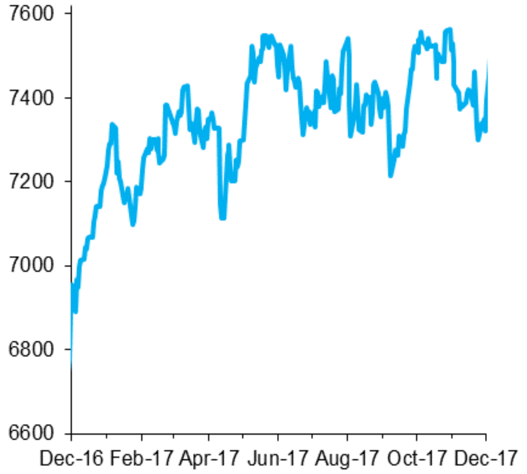
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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