ESTATE CAPITAL INVESTMENT PORTFOLIOS
OUTLOOK

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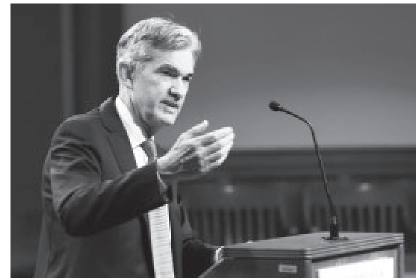

While we were compiling the research for our 30th Edition portfolios last November, we were concerned about several factors that were unsettling world markets.

On the back of some outstanding growth figures for 2018, Jerome Powell the Chairman of the US Federal Reserve praised the economic success and stated that the Fed intended to raise US interest rates once in December 2018 and a further three times in 2019. Each rate rise was expected to be a 0.25% increase. World markets reacted badly to the news that borrowing costs would rise and heavily corrected in October. At the same time, President Trump escalated the trade dispute with China by imposing even higher and more extensive tariffs on Chinese imported goods. The impact of a full-blown trade war was a serious threat to global growth. In Europe, the chances of a disruptive UK exit from the EU had become real and the Italian coalition government was seeking to push through an illegal budget against the rules of the EU. With the world economy slowing anyway, these threats were ones that we took seriously and therefore sought to defend our portfolios to a greater extent than usual.

Only a few months later and much has changed in the investment landscape. Jerome Powell had recognised that he had sought to over tighten money supply and subsequently announced that the Fed will not raise interest rates this year and will also end their bond selling Quantitative Tightening (QT) programme in September 2019. Clearly, Powell now thinks he made a policy error in trying to control inflation more that the economy needed. Many economic historians will say that 'bull markets do not die of old age; the Fed kills them'. This is a reference to past growth periods when early interest rate rises caused the end of a bull run. The Fed nearly did it again.

The trade dispute between the US and China has become more of a truce, in order to allow a period for negotiation. So far, it would seem these negotiations have progressed but as yet, have not avoided any escalation in tariffs.

China was not expecting to be fighting a US trade war while its economy was slowing significantly, hence the authorities in Beijing have launched a number of stimulus packages to boost growth. Some taxes and VAT have been reduced to encourage spending. Banks have had their lending criteria eased to promote borrowing and the government has launched a new infrastructure spending programme. This stimulus has seen the Chinese economy improve and is starting to affect the Asian and emerging markets positively.

The Italian government reached a settlement with the EU over its proposed budget deficit of 2.4% and settled for 2% deficit which is within EU budgetary rules. This issue however may return to threaten European bond markets again in October when the Italian budget is next debated and agreed. The success of the Northern League (Liga) in the recent

European Elections will likely spur the coalition to further challenge the EU.

A no deal Brexit is very much back on the agenda of the MP's contesting the Conservative Party Leadership. However, our next Prime Minister will be faced with the same issues and problems encountered by Teresa May. The new Prime Minister may with 'honeymoon support' get a revised Withdrawal Agreement or a managed exit through the House of Commons and avoid a further delay to Brexit, but this is still a huge challenge with the House still opposed to a no deal.

The form of no deal that could gain sufficient support to bring the Conservative Party and the DUP together, is an agreement with the EU to leave on WTO terms but at the same time invoke Article 24 so that both the UK and EU can continue to operate on a free tariff basis until a final trade deal is concluded. These trade negotiations taking into consideration a permanent solution for the current backstop arrangement for Northern Ireland. Article 24 of the WTO General Agreement on Tariffs and Trade (GATT) has a clause that allows nations to request a free trade agreement while they negotiate the terms of the final deal.

With the concerns of Q4 diminishing, world markets have responded very positively so far in 2019. The year to date returns on leading stock markets have been impressive. Major global equities have delivered significant returns. From 2nd January to 5th June, the FTSE 100 is up 7.4% the S&P 500 is up 11.8%, the Hang Seng up 7.0% and the Nikkei 225 up 6.2%. This rebound after the heavy losses in October and December is attributed to the Fed ending its rate rise policy, the trade truce and Chinese stimulus.

So, what can we expect going forward? Despite strong total returns since January, allowing markets to hit new all-time highs, there is still a sense of uncertainty. Global growth is behind trend, even if PMI data has been predominately positive. While growth is slowing, low inflation and low interest rates are still supportive.

Europe is perhaps the economy that now looks the weakest and it has fewer controls over its fortunes. The Eurozone and Japan are still battling with inflation that is well below target. Only the USA has inflation that is on target and has wage growth that is rising, but even here a pick-up in inflation in the near term looks unlikely.

This lack of growth-led inflation has pushed the major central banks toward supportive monetary policies. The starkest was the full reversal by the Fed from a 0.25% rise in December and three more 0.25% rises in 2019 to a policy of no further rate rises this year and the end of QT by September. We may have hit the high point in US interest rates and any expected rate cut will be supportive of growth and limit the chances of a major US slowdown.

In Europe, the ECB ended its Quantitative Easing (QE) programme in December and in March it announced further target lending. The ECB did want to raise interest rates up from the current

-0.4%, but it is now expected that interest rates will remain unchanged until 2020. With the Eurozone weakening, the next rate change may be to again lower interest rates. As rates are already negative, this will have a limited impact on economic activity. There is some good news however, with Europe witnessing growth in jobs, wages and household spending.

The sense of uncertainty comes from the fact that the balance in global economies sits in an uneasy equilibrium, calling for caution, even if the policy environment is supportive of risk assets. This uneasy equilibrium can lead to volatility returning to markets which we witnessed in late May and early June.

The US annual inflation rate rose to 1.9% in March and 2% in April up from a two-and-a-half-year low of 1.5% in February. There is a chance that the US economy will witness higher than expected inflation due to very good wage growth and consumer demand. Still, inflation will have to pick up substantially from the current rate of 2% to get the Fed reconsidering its rate rise policy. Our expectations are of a rate cut before any rate rises.

Europe remains the most vulnerable region. The uncertainty of Brexit has hit investment levels. There are concerns about the sustainability of the Italian public finances and its banking sector. The political success of populist and nationalist parties in May's European Elections has shaken up politics in Europe. Added to these issues are the ECB's bloated balance sheet and negative interest rates which limit the policy flexibility to support the Eurozone in a time of difficulty.

The ongoing Brexit delays and uncertainty has led to investors steering away from the UK even if the FTSE 100 has so far this year risen by 7.4% to the 5th June. Valuations are attractive and dividends are strong. Investment growth is likely to improve and we can expect markets to be comfortable with a Brexit deal even if it is delayed, but not a hard Brexit.

With interest rates low and now on hold, the bond markets look more appealing. However, government gilts are still expensive on a cost to yield basis. The principle reasons to hold gilts are for a protection from a worsening economic environment and for asset diversity. However, there are better options in the fixed interest market. The most notable are global high yield and investment grade bonds. Corporate fundamentals still look reasonable and margins are currently good, but these may be put under pressure with higher wage costs. Default rates are expected to rise marginally in 2019 but only back to their historical averages.

Since QE, the correlation between equity and bond returns has grown closer. Last year's sell- offs in equity markets was accompanied by poor bond returns. The usual negative correlation between equity and bonds is not assured, so therefore we will hold gilts as a diversifying asset.

Late cycle, but not end of cycle.

There are ongoing concerns about the likelihood of a global recession due to the length of this bull run, slowing economic growth and high levels of global debt. However, looking forward there is cause for some cautious optimism.

The price of oil remains relatively cheap at US$63.29pb which is in part attributable to strong supply by OPEC, the USA and Russia but also due to some weaker demand. The enforcement of the Iranian oil sanction waivers has now come into force and therefore supply is expected to tighten potentially increasing oil prices. Oil has risen from US$50.47pb at Christmas to US$63.29 in early June. The trend post-waiver, is likely to be upwards with analysts suggesting no higher than US$80pb. If this is the case, then inflationary pressures from oil will be modest so allowing rising wages to be a growth factor for consumption.

We are hopeful that the USA and China will move closer towards a trade deal. While this may end up being less comprehensive than the Americans would want, the removal of heavy import tariffs will reduce costs, protect profit margins and contain inflation.

A US-China trade deal may not be all good news for some regions such as Japan and Europe. Part of the original agreement involved greater purchases of US products by China at a level of US$1tn over the next 6 years. If China buys more products from the US it will hit purchases elsewhere. While a trade war may eventually ease, we expect the on-going technology war to continue with restrictions over market access and sanctions on Chinese companies.

Investors' concerns have moved from the US-China trade wars to the slowing of growth. Given the slowdown in activity particularly in Europe and the recent inversion of the US yield curve, this is not surprising. A yield curve inversion has been a reliable predictor of recession in the past. The recent easing of monetary policy by the Fed has helped markets recover so far this year. There is now an expectation that the next rate change will be a reduction which will further support both the credit and equity markets. Growing demand from China as part of any future trade deal and lower interest rates could potentially help to avert any recession. We expect Donald Trump to put a lot more pressure on the Fed to stimulate the economy particularly in 2020, his election year.

In the near-term, growth in the American equity markets is expected, but looking further to the end of 2019 and into 2020, there remains a concern that growth will slow in the US as the Trump tax

reforms start to fade. US corporate profit margins are expected to fall after a peak in Q3 2019 due to the rising costs of labour. It is possible that the US labour market will keep growing with even greater numbers in the work force. In May, the US employment rate was 60.6 % with 3.6% unemployed. This will add upward pressure on wage growth and inflation boosting the economy.

Trade across Asia fell in QI as Chinese manufacturers grappled with the impact of additional US tariffs on US$250 billion of Chinese imports. Chinese exports fell by 21% in February 2019 as compared to February 2018. However, the outlook for China is certainly improving following its stimulus package. Hopefully this improvement can push through to the whole global economy. The pickup in credit in China is not likely to feed through until the autumn.

The Eurozone faces perhaps the most uncertainty. In addition to reduced investment due Brexit, Italy's financial issues and the current raise of populist parties, the slowing of growth has also hit exports and particularly German exports. To illustrate this, the German manufacturing confidence index, the Purchase Managers Index (PMI) has fallen in 14 out of 15 months to the end of March.

The economic data points to the global economy in 'late cycle' but not end of cycle. Investment managers are predicting that developed market GDP growth will slow from 2.2% in 2018 to 1.7% in 2019, which is a downgrade on previous forecasts while emerging markets are forecast to enjoy good but lower growth, falling from 5.1% in 2018 to 4.8% in 2019. Only India, Brazil and South Africa are expected to beat their 2018 figures.

The International Monetary Fund (IMF) chief economist Gita Gopinath feels the world is at a 'delicate moment' as there are many downside risks. The IMF are not predicting a global recession and in fact suggest that the world will grow by 3.3% in 2019 and 3.6% in 2020, but again these are downgrades on past predictions.

With a late cycle global economy, there are a number of risk factors: including further Federal Reserve policy errors, an economic slowdown, wage growth leading to higher inflation, excess corporate debt levels and a sovereign credit problem.

The new dovish policy of the major central banks will aid the conditions for the cycle to continue further, but this alone is insufficient to revive global growth. The overall picture suggests the global industrial slowdown is continuing. Markets are reasonably happy but nervous and investors need to understand this.

Some recession indicators have flashed.

On 22nd March, the US Treasury yield curve inverted, causing concern in financial markets and acting as a warning to investors. This movement could imply that US bond market investors believe that the Fed made a policy error by over tightening. A yield curve inversion has in the past been a predictor of recession.

An inversion of a yield curve occurs when the yields on a 10-year US Treasury note fall below the yield for a 3-month US treasury bill. In normal circumstances, the longer the investment term the higher the yield expectations as investors tie their money up for longer. If the interest paid on short duration bonds is higher than on long duration bonds, this indicates that central banks are expected to cut interest rates due to weak economic conditions.

The yield curve does have some history of false signals. Other measures of economic activity that cover a wide range of data do not point to a US recession at this time. It could be argued that the unprecedented levels of quantitative easing and low levels of interest rates have complicated the yield curve by distorting traditional curve dynamics. Some economists suggest an inverted yield curve in these post QE times may just be a signal that we have hit peak interest rates which are now most likely to fall in the near term. The yield curve inversion may be the result of a weaker economic outlook and not a predictor of a recession within the year.

Despite these views, the inversion of the yield curve was a key trigger for Citigroup to issue a recession warning for the USA. The bank advised clients to start winding down their exposure to risk asset. This was something we started to action back in January. Citigroup asserted that the Federal Reserve policy of interest rate rises and Quantitative Tightening (QT) was too heavy and that the recent announcement to end rate rises and QT was too late as the economy had already been affected by a slowdown. The bank expects global equities to carry on rising over the summer months, peaking in July, with the US falling into recession at the end of 2019. Wall St has in the past rallied a further 11% after a yield curve inversion and there are indicators that markets will show growth not least on the back of China's stimulus plans.

Bank of America has also stated that it expects US equities to reach a high in Q3 or Q4 of this year before the combined pressure of corporate debt,

wage costs and policy inaction from the central banks will hit market confidence. Bank of America's economic indicator system issued a buy signal in January which has, after the reversal of the Fed's monetary policy, proved to be accurate. Both Citigroup and Bank of America suggest rotating equity into bonds as the year moves forward. We are implementing this strategy now in this rebalance by increasing our bond holdings.

US non-financial companies have increased their corporate debt levels from US$2.5tn to US$6.5tn in the past nine years mainly to buy back stock from shareholders and therefore lift stock prices. Large numbers of corporations have credit ratings of BBB which stand in investment grade but only just above non-investment grade bond status. Any US recessionary shock could easily see these corporations' bonds fall in status from investment grade into high-yield, non-investment grade, prompting a heavy sell-off as well as a price reduction due to lack of liquidity in the bond markets.

Another potential indicator of recession is a slowdown in labour markets as fewer jobs are created. According to the US Bureau of Labor Statistics (BLS) job creation in the US has been very strong with increases in pay role numbers by 56,000 in February, 153,000 in March, 224,000 in April, but a disappointing 75,000 in May. While May's figures were well below the 185,000 expected, this represents a record 104 consecutive months that new jobs have been added to the US economy. Unemployment stands at 3.6% in May which is the lowest jobless rate since December 1969. These healthy numbers should go some way to dampen near term recession fears

Consumers confidence is also an important factor. The Federal Reserve has indicated that it does not intend to raise interest rates again in 2019 so the cost of borrowing will not increase and therefore should not impact consumer spending levels. However, interest rates on credit card repayments are the highest they have been for a decade and US car finance and mortgage offers have declined. It is quite possible that consumer confidence dipped after the Q4 dip in equity markets, the impact of additional tariff costs on Chinese imports, and the general waning of Donald Trump's December 2017 tax cuts. These concerns are easing, but if the US consumer started to tire, the global economy would feel it and follow. US consumers account for 17% of world GDP growth, more than any other single factor.

The Federal Reserve has downgraded its forecast for economic growth to 1.8% in 2019 while unemployment is predicted to stay at 3.7%. Interestingly, the minutes of the March Federal Reserve Open Markets Committee (FOMC) meeting

showed that the Fed does not expect a recession in the USA in the next few years. This view was not shared by the International Monetary Fund (IMF) who feel that the global economy is vulnerable to record corporate borrowing, a Eurozone sovereign bond crisis and high debt levels in China, which is in so many ways the engine of global growth.

In May, the IHS Markit US economic momentum gauge fell to its lowest level since September 2009 as American manufacturers were hit by the fading fiscal stimulus and damaging trade disputes between US and China, Europe and Mexico. There is now evidence of US manufacturing order books declining.

Analysts are pointing to the inversion of the US treasury yield curve as a prediction of recessionary pressure and have called upon the Fed to cut interest rates early as well as ending quantitative tightening now rather than in September to improve liquidity in markets. Both these measures could avoid a downturn. Deutsche Bank is predicting an 85% chance of a US rate cut, while JP Morgan expects two rate cuts in the next six months.

Despite these calls, the May meeting of the Federal Reserve Open Markets Committee (FOMC) continued to give no indication of making an early intervention. This led to a market fall as investors had already priced in a rate cut this year. Analysts believe that the Fed does need to respond to a developing new reality sooner than later in order to stave off recession. We are now expecting the Fed to support the US economy with at least one rate cut this summer.

The Federal Reserve has downgraded its forecast for economic growth to 1.8% in 2019 while unemployment is predicted to stay at 3.7%.

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The US China trade dispute could become a permanent feature of the global economy.

President Trump changed the tone and direction of the on-going US China trade negotiations when he accused China of reneging on the terms of the draft trade agreement. In doing so he quickly reinstated a 25% tariff on US$200bn of Chinese goods ranging from chemicals to consumer goods like seafood, luggage and electronics coming into the USA. The sticking point seems to be a late decision by President Xi Jinping to reject Washington's demands that China change its laws that constrain American business.

While there is realistic optimism over a trade deal, there have been a number of public spats along the way resulting in stock market jitters. For example, the accusation by US chief negotiator Robert Lighthizer, that China was seeking to substantively change the text of the agreement when it was nearing its final stage, saw the Shanghai Composite index fall 5.6% that day

Liu He, China's chief negotiator said just before the 10th round of talks that 'increasing tariffs will not solve problems, won't benefit China or the United States and nor will it benefit the global economy'.

The basic economics of the trade relationship between the US and China is that China sold US$539bn of goods to the US in 2018 which is 23% of all exports, while America sold US$120bn to China which is only 7% of US exports. On this basis China has most to lose from a trade war.

China had signalled moves to protect intellectual property, open its markets to American businesses and end direct cash subsidies to Chinese companies. The Trump administration wanted these agreements written into Chinese law, but for China this would be an uncomfortable concession that they then could not wriggle out off. China opposed the US requests to change their laws on cybersecurity, counter terrorism, and foreign investment. Some of China's current legislation requires foreign companies to share sensitive information with the Chinese authorities and also requires them to use Chinese approved equipment and Chinese made equipment which US officials fear could be a security risk.

Investment markets, which had been expecting a truce and a resolution, have taken a setback. The talks have reached an impasse with the escalation of renewed tariff rates on both sides. Firstly, 25% on US$200 on Chinese goods and then a retaliatory

Chinese tariff on US$60bn of US agriculture and food imports. US soybean farmers have been particularly badly hit as 33% of US soybeans are exported to China. The US agriculture index was down 20.3% year on year to the end of April. In order to protect the farmers, President Trump is planning a US$16bn farming support package.

There are some fears that China may retaliate further, having been measured in its initial response to Trumps actions. China could, for example, sell-off US Treasury Bonds. China holds US$3.1tn of foreign currency reserves and is the USA's largest net creditor. Any heavy selling would drain global liquidity and devalue the US$. This however would have the impact of increasing the value of Chinese goods, while decreasing the cost of US imported goods.

A simpler approach would be a restriction on the rare earth metals and lithium which China has vast control over that are essential to the technology and defence sectors. China could also start dumping their overproduced goods into world markets, particularly into Europe. This would hurt EU inflation targets and as a counter measure the EU could raise import tariffs on Chinese goods. Such a global tariff war would be enough to push already sensitive stock markets into a correction.

It is quite possible that the US-China trade dispute could become a permanent feature of the global economy as this strategic battle for global dominance between the world's two largest economies and military powers plays out. We remain hopeful that a face to face meeting between Xi Jinping and Donald Trump at the G20 summit in Osaka, Japan on 28th and 29th June will provide a break through.

A trade summit between Presidents Trump and Xi in order to sign a comprehensive trade agreement would be a historic moment and one of great benefit to the world's stock markets. However, we remain cautious on there being an early agreement to this trade dispute.

Big Tech is continuing on a role.

The US economy has delivered strong growth in Q1 with annual GDP growth hitting 3.2% which is well above the expected forecasts with some analysts predicting only 2% growth. These lower growth predictions were due to the long government shut down which do not appear to have adversely affected the economy.

Much of the market volatility in late 2018 was driven by concerns that the US economic cycle would begin to weaken in 2019. However, the key data is now showing signs of continued strength. The US employment report issued by the US Bureau of Labor Statistics (BLS) showed higher than expected job growth over the first 4 months of the year.

The BLS reported average hourly wages increased by 0.7% in Q1 to 2.8% for year-on-year growth and that the quality of jobs has improved. Wage growth is also ahead of the CPI rate of inflation that stands at 1.9% meaning real increases in take home pay. Both of these factors are positive for consumer confidence and the durability of the current recovery through 2019.

Wage growth is potentially inflationary and also hits corporate profit margins. This may have an impact on equity markets if profit growth is limited. Increased job participation helps improve labour mobility and productivity.

The pace of economic activity, job creation and the potential for productivity gains reduce the chance of an economic downturn. Risks still remain due to the possibility of a prolonged strategic conflict with China over trade, higher oil prices and higher than expected inflation over the summer and autumn.

The Q1 earnings season went better than expected with 80% of the companies in the S&P 500 index posting earnings ahead of analyst forecasts. For example, US banking giants JP Morgan and Wells Fargo both published results well above expectations. Despite analysts writing down profits ahead of a global slowdown, the S&P hit 2900 points on 15th April recovering all of Q4 2018 losses.

The giant technology companies have had an incredible stock market run and QI profit season. Amazon benefitted from a huge rise in profits, making US$3.6bn in Q1 alone. Microsoft reported record results with profits of US$8bn on revenue of US$30bn. Facebook, which has recently fallen from grace, still posted a 26% rise in revenue. There is speculation that both Facebook and Amazon may pay their first ever dividend to shareholders this year. Clearly big tech is continuing on a role.

This is significant to stock markets particularly when these mega companies start to pay out attractive dividends. Dividends have not been a priority for the tech sector in the past but big tech now has the capacity to pay out US$ billions to shareholders over the next decade. As dividends are a major contributor to stock market growth, this could prove to be a major boost for the tech sector allowing it to rival traditional allocation to the oil and pharmaceutical sectors renowned for dividend payment.

There are expectations that US corporate profits will peak in Q3 2019 and then decline in line with weaker growth but not fall into recession.

Increased job participation helps improve labour mobility and productivity.

A record 32.7 million people are in work.

Against a backdrop of prolonged uncertainty over Brexit, the UK economy still expanded in Q1 by 0.5% as nearly all major sectors added to national GDP growth. UK GDP grew by 2% year-on-year despite the distractions. Business investment has fallen in the past 12 months but consumer spending has been solid due to strong job and income growth. PWC have suggested that if the UK withdrawal from the EU can be resolved in an orderly way, there is likely to be a recovery in business investment leading to a further boost to UK growth in this year and next. PWC are predicting a dip in growth to 1.1% in 2019 but rising to 1.6% in 2020.

According to the Office of National Statistics (ONS) a record 32.7 million people were in work in the UK which is a rise of 457,000 in the year to the end of May. Equally satisfying is the fact that the quality of jobs are predominantly full-time positions. Unemployment fell by 115,000 in the year to March with a current unemployment rate of 3.9% which is the lowest since 1975. Wages grew by 3.4% while prices rose by 2.1% over the same period. The UK work force is therefore enjoying wages rising at a faster rate than inflation, meaning family finances are improving.

Historically, families save money that provides the pool of capital that allows banks to lend to homebuyers and businesses. In recent years, households have borrowed more than they saved, aiding the economy through spending. Household borrowing did fall through 2018 as income improved and savings increased from 3.9% in 2017 to 4.2% in 2018. So far in 2019 more money has been deposited in savings accounts as the housing market remains flat due to Brexit uncertainty. Consumer credit growth has slowed to 6.5% year on year, which is the slowest rate of credit growth since 2015.

While some economists feared that Brexit could restrict new vacancy rates, the ONS found that there were 852,000 unfilled vacancies in the country which is a new record high.

Now that the deadline for Britain to leave the EU has been extended to 31st October 2019, a little breathing room has been created for companies to re-assess their plans. The medium-term outlook for the UK will be influenced by Brexit but in the near-term despite delayed investment plans, data seems to have improved helped by over production and stock piling of goods. GDP growth in Q1 was 0.5% with a resurgence in manufacturing playing a lead role. With a pick-up in activity, the Manufacturing PMI index for the UK stood at 53.1 in April. This confidence index was the second highest of all 45 countries that participate in the Markit survey. However, by May this confidence factor had fallen under the sensitive 50 points mark to 49.4 as manufacturers found difficulty winning new orders due to stock piling.

In May, the Bank of England (BoE) raised its GDP growth forecast to 1.5% this year, up from 1.2% in February. The BoE have kept interest rates at 0.75% and is expecting only one rate rise by 2021. Many economists suggest that once Brexit uncertainty is lifted, the UK economy is likely to accelerate. This is also a view shared by Warren Buffett, the world's most famous investor.

The short-lived improvement in UK manufacturing did look a little at odds with trends in other regions of the world. The reason for the boost was the levels of stockpiling going on just in case of a hard Brexit. Companies have been hoarding ahead of any disruption to supply or export. The excessive stock piling will inevitably lead to a slowdown in production which looks to have started. However, the solid growth rates in Q1 provides support that the UK is well placed to cope with whatever Brexit may bring.

With 32.7 million people in employment, the treasury is enjoying significant tax revenue. This has been very good news for our national borrowing deficit. In 2009 the deficit stood at 10% of GDP and now stands at 1.3% and likely to fall further. The UK has done well in reducing public debt deficit and compared to many G20 nations is better placed to support the economy if needed.

A major downside of the UK economy is the decline of the High St and particularly shopping centres. This has led to business failures such as Debenhams and a high number of profit warnings from FTSE listed retailer. Profit warnings were issued by 89 retailers in Q1 up 20% on the same quarter last year.

With 32.7 million people in employment, the treasury is enjoying significant tax revenue.

German car manufacturing has been hit by lower demand, trade disputes and Brexit unknowns.

There are concerns about the growth prospect for the Eurozone as the region delivered a disappointing performance in 2018. The Eurozone ended the year with a GDP growth rate of 1.8% the lowest for 4 years. This was driven by a decline in German car production, emissions testing, US tariffs on steel and aluminium, weaker demand from China, uncertainty over the impact of Brexit and Italy falling into recession. Only Spain demonstrated robust growth. Despite the low growth rates, employment levels grew, so that across the continent unemployment stands at a 10-year low of 7.6%. The forecasts for 2019 are 1.2% for both growth and inflation.

Factories in Germany, France and Italy are suffering as manufacturing output shrunk. Falling global demand is now leaving factories with stockpiles of unsold goods which could lead to cut backs in production and redundancies. The May IHS Markit Manufacturing PMI confidence index for Germany fell to 44.3, France to 50.6 and Italy 49.7, the lowest ratings for 6 years.

A sense of weakening economic confidence hit German factory output in Q1 with a 1.8% decline in trade volumes, the first decline in over 9 years. The less export dependent businesses appear to have fared better, especially the professional services sector and construction. While manufacturing may be having a hard time, the rest of the German economy seems to have stabilised. The German jobs market is in good health with only 3.2% unemployed, one of the lowest in the world.

Goldman Sachs has suggested that concerns over Germany's economy are overblown. However, the German Institute for Economic Research has downgraded forecasts for 2019's GDP from 1.9% to 0.8%. These downgrades were due to deteriorations in the global economy. German car manufacturing has been hit by lower demand, tariff increases, trade disputes and Brexit unknowns. However, this could improve in the near term with the impact of China's stimulus, a resolution to trade tensions and if a no deal Brexit avoided. In the medium-term, the figures could be hit by a new round of US tariffs.

Italy averted a recession in the first three months of 2019 with an expansion of GDP of 0.1%. The new coalition government admits that growth this year will likely be 0.2%. Relationships between Rome and Brussels were tested last October when the M5S Liga coalition government sought to pass a budget outside EU rules. The standoff was resolves when Rome agreed a 2% not 2.4% deficit. However, there is now an expectation that Italy will over shoot its budget and be back to test the EU resolve this coming October if not before. Analysts at Swiss Banking Group UBS are cautious about investing in Italian assets due to rising debt and little growth, but much the same can be said for France.

Mario where is your big bazooka?

There are concerns that if Europe falls into a recessionary phase, the European Central Bank (ECB) may not have the firepower to support the economy to the extent it may need to. The ECB shut down its QE bond purchasing programme last December under pressure from Germany and other northern European countries concerned about the return of inflation after a much-needed growth spurt in 2018. German 10-year Bunds are currently in negative yield territory at -0.2%. This shows the extent that investors will accept poor returns in order to find a safe haven for their cash. The spreads on the equivalent 10-year Italian Bond have risen 256 basis points or 2.76%.

Much of recent Eurozone growth has come from the ECB quantitative easing programme (QE). The ECB was purchasing €80bn of bonds each month to place cash into the economy. The slowing of the Eurozone economy coincides with the ending of the QE programme in December. This clearly suggests that the programme has ended too early. With interest rates already at -0.4% where can the ECB go to re-stimulate growth?

The end of QE means that there is now no longer a buyer of last resort standing behind Eurozone debt markets and particularly the Italian bond market. The ECB is not allowed to buy the bonds of a country that is in distress without the support of the Bundestag.

Germany may relent on renewing the QE programme if a downturn hits the Eurozone economy. With bonds now trading at negative yields there is a limit to the impact of bond purchasing.

Mario Draghi, the President of the ECB, has few options to support the Eurozone. The monetary union is composed of countries with vastly differing levels of debt and no common budget or borrowing. The Euro exposes the weaker states to high currency values and the stronger states to low interest rates.

The end of European QE means that Italy is without a major buyer of its bonds. A sudden lack of confidence could cause a spike in bond yields hitting the capital ratios of the Italian banks holding Italian national debt. A co-ordinated and massive stimulus package is restricted by the EU Stability Pact which may be the one thing that the EU will need to do if the ECB is impotent.

The International Monetary Fund (IMF) chief Ms Christine Lagarde is concerned about the lack of monetary, fiscal and banking union in the Eurozone. She sees it as vulnerable to external shocks or another financial crisis. Ms Lagarde has called for a single market in finance in order to give a Pan-European guarantee on bank deposits. Something Germany will not support.

Brexit is not Europe's main problem.

While we in the UK have been obsessing with Brexit, the real concern in Europe goes virtually unreported. The EU has a problem with Italy.

Last year there was a standoff between Brussels and Rome over the Italian government's plans for a budget that was so expensive that it took the Italian deficit to 2.4% of GDP. The Five Star Movement (M5S) and Northern League (Liga) coalition government wanted to end Italian austerity. The standoff was resolved when Rome cut the deficit forecast from 2.4% to 2% to fall in line with EU rules. This calmed the markets temporarily after bond spreads moved to 300 basis points between Italian and German 10-year bonds.

The risk that the more productive northern European countries will continually be required to bail out their poorer, less productive neighbours has come to a head again in the recent European Parliamentary elections when more populists and nationalist parties prospered at the expense of the mainstream.

The European Commission is aware that Italy's public debt is 132% of GDP far above the 60% limit the EU rules require. The EU have now started excessive debt procedures (EDP) against Italy. Therefore, without taking debt reducing measures the coalition government may be facing an EU fine of €3bn. We expect this be resolved by a form of compromise.

The 2011-12 Greek crisis was contained as the ECB was strong. It could cut rates and buy up bonds. Greece was only 2% of Eurozone GDP so it was a relatively small rescue. Now the ECB is at its limits. The balance sheet for Euro bonds is greater than the Feds and interest rates are at negative levels. Italy is the third largest Eurozone economy and has large sovereign debt liabilities.

Many investment analysts and economists view the eurozone as the single biggest danger to global financial stability. With Italy very close to recession and a populist coalition government seeing to reinstate its 2.4% deficit forecast is concerning. Italian public debt is 132% of national GDP and Italian Banks hold €360bn of this debt. The IMF is concerned that the Italian deficit could hit 3.5% violating the 3% limit in the stability and growth pact that holds the Eurozone together.

Italy is not the only eurozone country with debt issues. France looks set to take over from Italy as the fourth most indebted country in the world. Statistics published for 2018 show France with total public debt of €2.31bn, will soon take over Italy with public debt of €2.36bn in the leader board of debt.

The USA, China and Japan are the leaders.

The primary difference between France, Italy and the other heavily indebted countries is that they do not have their own currency. Both France and Italy borrow money from foreigners dominated in a currency that they cannot control. Some analysts predict that this cocktail of high debt is likely to end in a debt crisis.

The recent concessions made to the yellow vested Gilet Jaunes by President Macron will mean that the French deficit of €80bn will be higher this year than it was in 2018. Italy ran a €37bn deficit even with the populist M5S Liga coalition in power and wanting to end austerity.

Italy has a higher debt to GDP ratio at 132.2% compared to France's 98.4% while Greece still hold the highest debt to GDP at 181%. The difference between Greece and France or Italy is that Greece is not big enough to cause a debt crisis but France and Italy are. There are reasons to be concerned, particularly as the French deficit is heavily funded by overseas money. The amount of French government debt held abroad is 56% compared to 34% in Italy as the Italians own more of the debt themselves. French tax rates are high as state spending accounts for 56% of GDP in France while 46% of GDP is collected in taxes. The OECD tax take average is 34%.

The recent Gilet Jaunes protests and rallies showed that the French are sick of high taxes as the protests were initially against a modest rise in diesel duty. If France cannot tax more but still spends more, what future is there for its debt management particularly as they cannot print their own money. Emmanuel Macron will be long gone from the Elysee Palace when that day comes.

Many investment analysts and economists view the eurozone as the single biggest danger to global financial stability.

Investors are hoping that China will rescue world growth.

World markets were uplifted when China officially posted year-on-year growth of 6.4% for Q1 ahead of the expected 6.3%.

In March, China saw an 8.5% increase in industrial production and an 8.7% rise in retail sales. This indicates that the recent stimulus package, launched as a result of a downturn in 2018 over US tariffs on Chinese exports to the US, had a positive impact. The Beijing government cut personal income taxes, VAT and corporate taxes, while banks have been encouraged to lend more to smaller businesses. China also invested further into infrastructure projects, most notably the construction of 3,200 km of high-speed rail lines.

Chinese authorities have reacted to the potential slowing of growth and the impact of the trade war with a financial stimulus package. Chinese bank reserve requirements have been reduced from 14% to 12%. A cut in VAT from 16% to 13% on locally manufactured goods has helped domestic consumption. China is expected to officially grow by 6.2% this year having achieved Q1 year-on-year growth of 6.4%.

Concerns remain that repeated stimulus packages will add to the already massive public debt now standing at 47.6% GDP. Many analysts are concerned that the official growth figures produced by Beijing do not represent the true economic growth of the country as indicated by other proxy measures. To be fair to Beijing, these recent targeted measures are not designed to inflate debt but encourage domestic consumption.

Investors are hoping that China will improve world growth and also boost Europe. This optimism may continue with a summer rally in equity markets but the reality of a global slowdown and high levels of debt will ultimately reappear.

As far as the Chinese stimulus package is concerned, Beijing saw credit growth of US$430bn in March and business tax cuts which amounted to US$300bn. While this is a significant boost, based upon independent assessment, the Chinese economy is expected to achieve a growth rate closer to 4.5% year-on-year in Q2. This is far less than the officially published figures of 6.4% in both Q4 2018 and Q1 2019. Such real growth is less than the world has become to rely upon.

China's pace of technological innovation, international importance and growing economy is hard to stop.

The world's two largest economies have imposed tariffs on US$ billions worth of one another exported goods over the past year. The US is accusing China of stealing intellectual property from American firms, limiting access to Chinese markets for US business and of assisting domestic companies through subsidies and other support. President Trump also wants China to buy more US goods to help balance the heavy trade deficit and to level the playing field for corporate access.

The heart of the problem is that China is closing the gap with the US to be the world's most powerful economy. The threat of tariffs by Trump will likely continue as a negotiating tool to challenge China's growing international influence and its government support for globally strategic industries. However, China's pace of technological innovation, international importance and growing economy will be hard to stop.

The countries have been in negotiations since a trade truce was agreed last December. So far nothing has been agreed and there have been some mixed and conflicting messages over the progress of the talks. Anything but a meaningful agreement on trade will hurt the global economy and both sides know this.

There are four main areas of trade arrangements that are under discussion:

Firstly, The US wants China to purchase more US goods to reduce the trade deficit. China will likely agree to this as it can simply redirect purchasing from another market to the USA. This is likely to impact upon Europe and Japan.

Secondly, The US wants China to open up its domestic companies to outside competition and ownership. China could make some concessions here to increase foreign investment. The Chinese government could raise limits on foreign ownership of Chinese companies to 51% or higher. The ongoing issue of intellectual property theft from US companies in China is an continuing source of contention.

Thirdly, the US wants China to change its economic model which is at odds with global free trade. China's large, state directed economy is in conflict with international trading systems, creating oversupply and pricing concerns. This occurs increasingly in high-end value-added areas. This fundamental change to the way China is run is a non-starter in these negotiations.

Fourthly, the US wants China to improve compliance, monitoring and enforcement of regulations after decades of false promises and disregard of World Trade Organisation (WTO) rules. China wants to be a world leader and to have the Yuan established as a reserve currency, but it consistently does not comply with WTO rulings. China sees these rulings as impeding its sovereignty and therefore it has become a real sticking point.

The WTO officiates over trade disputes between nations. It has suggested that any failure in these negotiations and the resulting heavy and comprehensive increases of import duties on Chinese goods entering the US would have a massive impact on the global economy. This would spill out into other countries and hit international trade cooperation.

Emerging Markets

The Indian general election saw the return of Prime Minister Modi.

There have been two major factors aiding emerging markets in recent months. The Chinese stimulus package which has spilled out into greater Asia and that US interest rates have hit a high, stabilising the value of the US$. These factors have allayed the concerns analysts had about the region. The IMF are now estimating a 4.8% GDP growth in emerging markets this year.

India has been affected by global trade frictions however growth in India is expected to exceed 7% with a decline in inflation to below 3%. This has given the Reserve Bank of India (RBI) room to cut interest rates to 6.5%. The Indian general election saw the return of sitting Prime Minister Modi to office. This will keep India on a pro-business agenda. This could be a boost to a stock market that has been erratic over the past year.

Japan

Japan's growth forecast has been downgraded.

Japan is another country to have its growth forecast for 2019 downgraded in recent months. The Japanese economy is now expected to grow by 0.9% this year despite the Bank of Japan (BoJ) on-going fiscal and monetary stimulus programme. Japan's public sector deficit is around 4% which is the second highest, after the US, across all developed countries. However, the BoJ has announced a cut in its short-term interest rates following weakness in inflation, which is a key measure of growth in Japan.

Prime Minister Shinzo Abe is continuing with his reform measures, accelerating better corporate governance, improving dividend pay-outs and returning capital to investors.

The forecasts for earnings growth in Japan's Nikkei 225 index have edged down over recent months, but the main stock market has shown good returns with the Nikkei 225 up 6.2% so far in 2019.

US$10tn of sovereign credit had yields below zero.

Equity markets recovered sharply in the first five months of 2019 leading to the S&P 500 index hitting a new all-time high in early May. This rebound is attributed to the heavy sell off in Q4 and the Fed ending its rate rising and QT policies. This equity recovery spurred a rally in the gilt market with yields falling as investors priced in lower interest rates.

This loose monetary environment, at a time when growth expectations are weak, is encouraging for corporate bonds, hence our maintenance of high yield and investment grade credit. We remain underweight in government bonds.

The inversion of the US Treasury Bond yield curve on the 22nd March did not last for long and while it is seen as a potential indicator of a recession, equities can continue to perform after an inversion if interest rates are expected to fall.

Most of the bond markets adjustments occurred in March when the Fed moved from forecasting three interest rate rises to none and the end of QT. A fall in bond yields created a capital gain in gilts and bonds. Gilts rose by 2% while corporate bonds increased by 3% in Q1. Longer term bonds and index linked gilts performed better because of their extended duration. With inflationary pressures falling, corporate bond yields are looking more attractive.

The easing of monetary conditions saw UK gilt yields fall and German 10-year Bunds return to negative yields. At the end of Q1, an estimated US$ 10tn of sovereign credit had yields below zero meaning investors are paying money to governments to hold their capital.

With interest rates in the US set within the 2.25% - 2.5% range for the time being, the bond market can reassert itself. Over the past decade, declining yields through interest rate reductions have resulted in capital growth having contributed a greater proportion of overall return as compared to yield. In the past year, this proportion has reversed with rising yields.

We see a slowing, but still growing, global economy providing support for bond markets. The interest rate pause from the Fed may be an extended one that puts no pressure on yields or price. We will therefore increase our short-duration corporate bond and extended duration investment-grade bond exposure.

Governments have bought 650 tonnes of gold bullion.

It is at times of uncertainty over global growth, corporate earnings growth, high indebtedness and political uncertainty that gold has some relevance to a mixed asset portfolio.

A key element in the rise of the price of gold was a marked increase in the level of purchases by the world's central banks. Since the financial crisis, governments have been buying up 350 tonnes of gold a year, but last year that increased to 650 tonnes, the highest level of gold bullion purchases for fifty years. This reflects the desire to rebalance reserves given the dramatic rise in sovereign bonds since quantitative easing was introduced.

While gold production in 2018 was the highest on record, its production only grew by 1% due to the limited supply and rarity of new gold discoveries which could increase the price of gold going forward. The strength of the global economy and US$ value are other factors influencing the gold price.

Will worldwide crude oil prices average US$65pb this year?

Last November the US imposed sanctions on Iran's oil, shipping, ship building and banking sectors as a reaction to Iran not fully abiding by its nuclear proliferation deal with the West.

Washington clamped down on oil sales and placed heavy sanctions on any company purchasing oil from Iran. However, in order to avoid an oil shortage and subsequent price spike, the eight leading buyers of Iranian oil were given temporary waivers in order to find alternative supplies. These included China, Japan, India, South Korea, Taiwan, Turkey, Italy and Greece. Three of these eight, namely Greece, Italy and Taiwan, have stopped importing Iranian oil. Japan and South Korea have now virtually stopped purchasing Iranian Oil. However, India, Turkey and China are resisting the sanctions.

The US announced in April that it was ending the waivers it issued to China, India, South Korea, Japan and Turkey for the ongoing purchase of oil from Iran. This decision is aimed at bring Iran's oil production to zero and therefore deny the Iranian government its main source of revenue. The original sanction has led to a sharp downturn in Iran's economy, devaluing the currency and quadrupling the country's rate of annual inflation. President Trumps decision not to renew any waivers shows he wants to shut down Iran and bring them back to the negotiating table.

While these sanctions are in force, the world supply of oil needs to meet demand. The US has increased its own oil production while Saudi Arabia and the UAE have increased theirs in order to cover the reductions in supply. Brent crude oil has risen had a volatile year. Last October the price of oil stood at US$86.3 per barrel, fell to US$50.5pb at Christmas, only to rise to US$74.6 in late April. This rise was in part due to OPEC and Russia cutting production by 1.2 million barrels per day in December. Despite the reduced oil supply, analyst are not expecting oil to rise over US$80pb in the near term. According to the Short-term Energy Outlook by the U.S. Energy Information Administration, worldwide crude oil prices could average US$65pb in 2019 and US$62pb in 2020. At the beginning of June crude oil stood at US$63.5pb.

It is against this background that we have set out our portfolio recommendations.

10th June 2019

PORTFOLIO SELECTIONS

We see global growth slowing as this prolonged business cycle keeps running. The US continues to outperform other markets with emerging markets and Asia being supported by the recent fiscal and monetary stimulus in China. Global monetary policy is expected to remain loose as the Fed is expected to cuts interest rates this year as well as ending quantitative tightening (QT). We expect interest rates in the Eurozone to remain negative. This on-going low interest rate position supports equity investment.

Equities have performed very well so far this year, as the main concerns hitting markets back in Q4 2018 have eased. Some suggest the global economy is back in the 'Goldilocks' position of not too hot to create inflation but not too cold to depress growth.

Inflationary pressures in the US have reduced from last year with CPI coming in at 1.9% in March, which is 1% lower than it was in the summer of 2018 when the Fed was rising interest rates each quarter. With the Fed stepping back on interest rate rises, markets have moved higher.

The Purchase Managers Index (PMI) of global confidence has been in the green, indicating a generally confident outlook. Only countries affected by China's slowdown were in the red, namely, Germany, Italy, Japan, South Korea and Taiwan. China's outlook has now improved and should aid other Asian economies. A slowing global economy is now starting to have an impact upon PMI confidence levels.

A possible threat to growth is the potential rise in oil prices due to OPEC's production cuts and the Iranian sanctions coming fully into force with the end of the waivers. If oil does move up to US$80pb, this could add inflationary pressures and hit consumer spending. However, analysts are predicting an average oil price of US$65pb this year.

The on-going dispute between US and China over trade and tariffs is still not resolved and could spill out into an extended period of protectionism. Both sides and the rest of the world have a lot to gain and lose here. We hope a resolution is forthcoming before markets get nervous.

Another headwind is the potential squeeze on profit margins due to lack of pricing power in a low inflation world with rising wage and energy costs. Analysts are expecting a 6% rise in US profits this year, but reducing to 4% in 2020. Previous bull markets have been supported by healthy profit and earnings per share growth. We are mindful of future pressure on margins and the impact this has on the growth of stock values.

However, we are feeling a little more confident than we did last December in that the global economy can remain in a late-cycle phase for longer and avoid a recession in 2019 and possibly 2020. There are no signs of the US economy overheating or inflationary pressures in the US so monetary conditions should remain. The Chinese stimulus will feed through to improve the global outlook. Risk assets can perform well late in the cycle but are, as we have witnessed in Q4, prone to volatility. All of this underscores our view of balancing risk and reward through a diversified portfolio of mixed assets.

Again, opinion does differ on the prospects for 2019. There are analysts who see strong economic fundamentals such as good corporate earnings,

high employment, low inflation and low interest rates, supporting global growth for at least the next year. Others see slowing economic growth and protectionism through tariff wars as being issues that could tip the global economy into an early recession. We remain cautious.

In January 2018, we first started underweighting bonds and introduced an overweight in cash. Then in June 2018 and January 2019, we progressed this position further as US interest rates increased. Through the year we harvested the growth in funds when available but protected portfolios from the worst of the stock market losses in Q4 2018. Our portfolios were far more robust in limiting losses as compared to the national benchmarks that we measure our performance against. We did however fell behind these benchmarks in Q1 when a higher equity exposure would have improved returns.

We are now a little more confident with the general outlook and have reduced our overweight cash holdings, increased our fixed interest holdings, and generally maintained our underweight positions in equity. We are more comfortable with fixed interest assets since the Fed ended its rate rising policy and now expected to cut rates. We see short duration bonds and global inflation linked bonds as a counterweight to our main equity exposure in the UK, US, Asia and emerging markets.

We have maintained our US positions but moved some of the focus from growth stocks to value stocks. We have slightly extended our overall China, Asia and emerging markets holdings due to the level of Chinese stimulus, low interest rates, low inflation and slightly weaker US$ values. Growth in China is likely to come through in Q2 and Q3. We have low expectations in Europe and have sold our direct holdings. We are now only exposed to European assets through global funds.

We are very conscience that the Brexit Withdrawal Agreement may yet have a difficult path ahead. Despite this uncertainty, UK stocks look attractive as they are undervalued and offer good longer-term prospects, particularly the high dividend paying UK multi-nationals with global reach. We have slightly increased our otherwise underweight UK holdings due to the value UK equity now offers, but remain mindful of the chance of a disruptive Brexit later this year.

We have maintained our full geographic and sector diversification by retaining holdings in healthcare, infrastructure, technology, insurance, financials, gold and global commercial property. This diversification along with a style move to some value focused funds will aid portfolio stability and growth.

We have continued with our exposure to gold and gold mining stocks but no more than 2% in any one portfolio. Gold remains a volatile asset but has performed very well in the past year. While the US$ is strong, inflation growth is at acceptable levels, and there are no near-term serious stock market corrections expected, then it is not worth holding a great deal more at this stage.

As far as fixed interest holdings are concerned, we have focused on short duration global high yield bonds, US Treasuries, global inflation-linked bonds and extended duration investment grade corporate bonds. We have therefore selected bond managers who accommodate this focus. Our bond holdings have risen now that interest rates are not likely to

rise at the expense of cash. Our overweight cash holdings were only intended to be temporary until volatility and interest rates stabilised. We are holding a significant position in short duration global corporate bonds, extended duration investment grade bonds and US treasuries as an improvement on cash but without raising risk significantly.

We have again seen our UK bricks and mortar property funds add expensive entry charges for new investment at a time when property values are stretched and performance flat lining. It is therefore time to reduce our direct UK property holdings and move to global property securities instead.

In Edition 30, we took the decision to reduce the overall risk content of each portfolio's underlying assets. This de-risking strategy was temporary and in early March we moved some cash back into risk assets in order to fully participate in the equity market recovery. Overall, our portfolios were far more robust in limiting losses in Q4 as compared to the national benchmarks we measure our performance against, but fell behind these benchmarks in Q1 when higher equity exposure would have improver returns. Our recent performance has however been very much back on track.

As far as this 31st Edition is concerned, we have increased our fixed interest holdings through reducing cash and have maintained an underweight position in equity. We are still maintaining relatively defensive positions. We hope you are in agreement and comfortable with our actions.

As of 7th June 2019, the best performing funds held in our portfolios over the past 12 months have been;

Polar Capital Global Insurance	20.37%
Lindsell Train Global Equity	17.99%
First State Global Listed Infrastructure	16.61%
Fundsmith Equity	16.56%
iShares Global Property Securities Index	12.91%

All of these funds have a common theme and that is investment into the US economy this year.

As of 7th June 2019, the poorest performing funds held within our portfolios over the past 12 months have been;

Merian Gold and Silver	-15.72%
Janus Henderson China Opportunities	-12.69%
Lindsell Train Japanese Equity	-8.84%
Fidelity China Focus	-7.84%
Baillie Gifford Japanese Smaller Companies	-6.34%

These funds have performed poorly due to the decline in economic activity in China, the impact of trade wars, high US$ value, borrowing costs and the heavy correction in asset values in October and December. Gold has had a very good six months despite the one year figures.

As far as the 31st Edition of our portfolios are concerned, twelve new funds have entered our selections while fifteen funds have either been dropped or substituted. The main change has bee the addition of more fixed interest funds and the removal of any European assets and UK property holdings.

The funds removed are: -	TER
Janus Henderson UK Property	1.11%
Threadneedle UK Property	0.81%
JPM US Select	0.81%
Artemis Strategic Bond	0.74%
Schroder Asian Income	0.95%
Schroder High Yield Opportunities	0.80%
Schroder Income	1.01%
Legg Mason IF Japan Equity	1.31%
Aberdeen European High Yield	1.03%
Merian Gold and Silver	1.36%
First State Asian Focus	1.00%
Polar Capital Global Technology	2.14%
Blackrock Continental European Income	0.11%
Ishares Continental European Equity Index	1.10%
Fidelity China Focus	1.09%

The funds added are: -	TER
Fidelity Asian Dividend	1.04%
Janus Henderson Strategic Bond	1.00%
AXA US Short Duration High Yield	1.03%
M&G Emerging Markets Bond	0.99%
T. Rowe Price US Large Cap Growth	1.10%
JPM Asia	1.54%
Baillie Gifford Emerging Markets Growth	0.90%
M&G Global Macro Bond	0.97%
Vanguard UK Long Duration Gilt Index	0.16%
Janus Henderson Long Dated Credit	0.62%
Royal London Corporate Bond	0.52%
Standard Life UK Smaller Companies	1.02%

Our asset allocation for all portfolios has retained a somewhat underweight defensive position on risk assets but compared to edition 30 we have largely maintained our equity holdings, increased our fixed interest bond holdings but reduced cash and property. Our high level of diversity is maintained across asset, sector and region.

We are pleased to report that at the time of writing, our nine portfolios have performed well as compared against the relevant national Investment Association (IA) benchmarks. The relative performance is measured over six time periods, 6 months, 1 year, 2 years, 3 years, 4 years and 5 years. Collectively our portfolios outperformed their respective benchmarks on 45 out of 52 occasions which is an 87% competency. We are disappointed by this figure as it is one of our poorest. The main reason being, we did hold an overweight in cash to protect portfolio values which partially hit our performance when compared to the recovering benchmarks.

Our performance is reported on our website **www.estatecapital.co.uk**

The Estate Capital Investment Portfolios

The Estate Capital Investment Portfolios now offer nine risk related investment strategies designed for medium to long-term investors seeking capital growth and income from a portfolio of leading investment funds. The individual funds that make up our diversified portfolios are selected on the quality of the fund manager and both the quality and consistency of past performance.

There is a wide range of asset classes across global markets available to investors. Our portfolios bring together a diversity of global equities, fixed interest securities, cash deposits, commodities, precious metals, infrastructure and property. The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Our asset allocation is built using a fully modelled asset allocation tool. This system is powered by research from actuaries Willis Towers Watson and investment data from Financial Express.

This modelling system offers us great accuracy to build and test the most efficient blend of assets for our nine model portfolios. Each new edition of our portfolios is published on our website with fact sheets, performance figures, risk ratings and range of returns.

We benchmark and publish our portfolio performance against the most relevant national averages and are happy to say that our selections have enjoyed an enviable track record.

The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Cumulative Portfolio Performance from 10th June 2019

Below are the past five year's gross investment returns for each of our portfolios from 10th June 2019

Portfolio	*6 months*	*1 year*	*2 years*	*3 years*	*4 years*	*5 years*
Defensive	3.86%	2.00%	5.75%	13.89%	15.29%	20.18%
Cautious	4.86%	2.87%	7.85%	20.62%	24.07%	31.82%
Conservative Income	4.62%	0.61%	3.87%	18.18%	19.00%	24.40%
Conservative Alpha	5.81%	2.95%	10.78%	26.26%	30.33%	40.71%
Balanced Beta	5.42%	2.65%	7.08%	27.37%	28.38%	38.60%
Balanced Income	4.93%	0.60%	3.80%	21.47%		
Balanced Alpha	6.45%	2.14%	10.15%	33.46%	38.18%	48.92%
Speculative Beta	6.15%	2.53%	7.97%	34.65%	34.70%	44.42%
Speculative Alpha	7.13%	2.75%	11.75%	40.45%	42.79%	57.08%

Discrete Portfolio Performance from 10th June 2019

Below are the gross investment returns for each of our portfolios for each 12 month period over the last five years from 10th June 2019

Portfolio	*2019*	*2018*	*2017*	*2016*	*2015*
Defensive	1.62%	3.56%	7.92%	-0.59%	5.93%
Cautious	2.43%	4.76%	12.54%	-0.10%	8.58%
Conservative Income	-0.20%	2.85%	14.34%	-1.83%	6.97%
Conservative Alpha	2.47%	7.69%	13.88%	1.48%	9.54%
Balanced Beta	1.67%	4.42%	19.82%	-2.86%	10.76%
Balanced Income	-0.33%	2.72%	17.57%		
Balanced Alpha	1.21%	8.42%	21.54%	-0.11%	11.31%
Speculative Beta	1.28%	5.59%	24.96%	-3.85%	11.26%
Speculative Alpha	1.78%	9.57%	25.44%	-2.57%	15.09%

The value of investments can fall as well as rise. Past performance is not a guide to future performance. Investors may not get back the money invested. Cumulative and discrete performance charts show % growth from 10th June 2014 to 7th June 2019 calculated using bid prices with income re-invested into the fund net of tax.

Asset Allocation June 2019 - Edition 31

Portfolio	Risk	Money Markets	Fixed Interest	Property	UK Equity	US Equity	Europe Equity	Asian Equity	Japan Equity	Global Equity	Other Assets
Defensive	2	25%	42%	8%	7%	10%	2%	4%	0%	2%	0%
Cautious	3	20%	48%	5%	5%	11%	2%	7%	1%	1%	0%
Conservative Income	4	14%	40%	8%	18%	8%	2%	7%	2%	1%	0%
Conservative Alpha	4	17%	40%	4%	6%	17%	2%	10%	1%	3%	0%
Balanced Beta	5	13%	39%	8%	7%	18%	2%	10%	1%	2%	0%
Balanced Income	6	12%	34%	8%	20%	11%	2%	8%	3%	2%	0%
Balanced Alpha	6	12%	31%	7%	8%	20%	3%	13%	2%	4%	0%
Speculative Beta	7	9%	28%	8%	11%	22%	2%	14%	2%	4%	0%
Speculative Alpha	8	10%	21%	8%	12%	24%	3%	15%	3%	4%	0%

Perspective Range of Return & Volatility

Portfolio	Risk	Return	High	Low
Defensive	2	2.98%	11.14%	-5.18%
Cautious	3	3.97%	17.97%	-10.03%
Conservative Income	4	4.63%	22.07%	-12.81%
Conservative Alpha	4	4.63%	22.07%	-12.81%
Balanced Beta	5	5.16%	26.03%	-15.72%
Balanced Income	6	5.16%	26.03%	-15.72%
Balanced Alpha	6	5.89%	30.20%	-18.43%
Speculative Beta	7	5.89%	30.20%	-18.43%
Speculative Alpha	8	6.46%	34.22%	-21.29%

Investment Ratios

Portfolio	Risk	Beta	Alpha	Sharpe Ratio	Info Ratio
Defensive	2	0.77	1.13	0.28	0.12
Cautious	3	0.94	2.53	0.80	1.48
Conservative Income	4	0.87	0.71	0.44	0.04
Conservative Alpha	4	0.78	3.53	1.02	1.16
Balanced Beta	5	0.99	2.86	0.90	1.36
Balanced Income	6	0.99	0.93	0.56	0.80
Balanced Alpha	6	0.81	3.53	1.07	0.79
Speculative Beta	7	0.87	3.17	1.00	0.79
Speculative Alpha	8	0.95	4.15	1.17	1.52

Estate Capital makes FT Financial Adviser Top 100 financial advisers list for 2018.

We are delighted to announce that Estate Capital has made the FT Adviser Top 100 Financial Advisers list for 2018. This list sets out to showcase some of the best financial advisers in the UK. The list is, as expected dominated by large national corporations including stockbrokers, wealth management divisions of banks and insurance companies. Estate Capital making the list is quite an achievement.

The list takes into consideration the range of investment strategies, new business levels, client satisfaction and how highly qualified the advisers are. Estate Capital was the only Welsh business to make the list.

We have worked a long time and put a great deal of effort into gaining this level of national recognition. We must thank our loyal clients and staff for all their support.

Maximise your returns with a level of risk you're entirely comfortable with.

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