VAM DISCRETIONARY FUNDS

Market Update
26 April 2016

Period in review – GBP Sterling appreciates and dilutes returns

Equity markets were generally negative for the last week in GBP terms, with Emerging Markets and the US giving back some of the gains they have had over the year. Europe was flat, with markets seemingly nonchalant about the ECB interest rate decision. This was a boon for the Financials sector which, posted positive returns in all regions. Energy, once again, generated positive returns, along with the Healthcare sector. IT has underperformed across all regions, and was the only negative sector in the European market. Pound Sterling was positive (1.4% against the Dollar YTD, 2.0% against the Euro and 4.3% against the Yen) appreciating against the other currencies and reducing returns denominated in foreign currencies. In local currency terms, US equities gained 0.5%, European equities gained 1.8% and Emerging Market equities lost 0.1%, while Japanese equities gained 3.4%. Currency impact was quite noticeable this week. Fixed Income was negative over the week, with Emerging Market bonds still the highest performer YTD, though with the current volatility in markets, the risk associated with them is high.

Regional Highlights

UK – Carney speaks to Parliament

Bank of England Governor, Mark Carney, was speaking to members of Britain's parliament on Tuesday about the country's membership of the European Union and the outlook for its economy. Whilst not implicitly picking a side in the Brexit debate, several comments made implied that he does lean on the side of the remain camp. He said the impact of Brexit on London would depend on the relationship it negotiated, however, it "makes it less likely that London would retain its position as it currently is". With an attempt to appeal to members' fears of a recession, he said Brexit's impact on the UK deficit "is that it will become more expensive to fund that deficit...and it may mean that for a period the UK economy cannot run as large a current account deficit which means that...there would be less activity in the economy". The UK GDP forecast for 2017 was maintained at 2.2% whilst 2018 was lowered from 2.2% to 2.1%. Inflation expectations are expected to average 0.9% this year, 1.7% next year and 1.9% in 2018, providing the BOE scope to increase interest rates early in 2017.

Europe – ECB holds rates unchanged

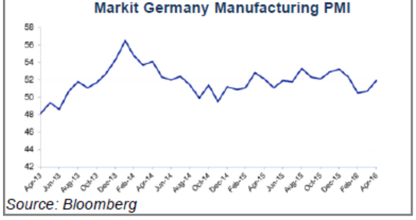
On Thursday, the Governing Council of the ECB decided to, once again, hold interest rates unchanged again at 0.00%. Monthly purchases under the asset purchase programme will be expanded to €80 billion, as agreed in the March meeting. The European Commission Confidence Indicator was better than previous surveys, however at -9.3, it is still negative and does not paint a rosy picture of EU growth.

Eurozone PMIs came in at 53.0 vs Q1 figures of 53.2, however, the change was too small to indicate a slowdown in GDP growth. Hope for growth in Q2 is bolstered by German PMIs, which showed that although the PMI decreased from last months 54.0, it was still an indicator of growth and coupled with output prices increasing, employment and new order figures also rising, Germany can drag the rest of the Eurozone with it into positive territory.

US – Jobs market improves

US jobless claims fell to 247,000 vs a forecast of 265,000. These figures were the lowest since November 1973 and have remained below 300,000 for 59 straight weeks. This is important as Economists view 300,000 as a threshold to symbolise a robust labour market. The reduced jobless claims show that companies are utilising more workers, however without the corresponding increase in output, it indicates weak productivity, possibly caused by using less skilled workers in a case of quantity over quality. This is still important as increased employment can help draw the US economy out of the recent slowdown. The Index of US leading economic indicators increased less than forecast in March, pointing to slow, but not slowing, growth in the coming quarters. "Financial conditions, as well as expected improvements in manufacturing, should support a modest growth environment in 2016" says Ataman Ozyildrim, director of business cycles and growth research.

Fig.1: Germany PMI



Source: Bloomberg

German PMI bounced back up since February, following an upward trend that suggest increasing growth in Q2 and Q3, leading to support for the EU economy.

Fig. 2: Costs of Brexit?

Source: HM Treasury

Analysis of Brexit vote shows possible cost to UK households of Leave vote prevailing after 15 years.

Investment Perspectives

After Draghi brought out the big guns last month, he was never realistically going to up the ante further on monetary easing in April. The modest recovery in the Eurozone's economic fortune placed the ECB on somewhat firmer footing ahead of the decision. Lending conditions have improved in the bloc, business confidence seems to be climbing and unemployment is falling. That is not to say the recovery is entrenched by any means. Deflationary pressures remain prominent, the Euro has been strengthening and the impact of the forthcoming EU referendum in Britain will, no doubt, cause some uncertainty.

The door is certainly not closed for further monetary stimulus, but given market scepticism about its long term efficacy, it is likely Draghi will keep any further measures back for moments of future turmoil.

Nancy Curtin, CIO

Asset class performance

	Week	YTD
Equities (total return in £)		
US	-0.57%	5.51%
UK	-0.47%	2.51%
Europe	0.01%	1.90%
EM. Markets	-1.24%	9.48%
Japan	-0.48%	2.31%
Fixed Income (total return in £)		
Gilts	-1.33%	3.55%
UK Non Gilts	-0.54%	3.01%
Global Bonds	-2.54%	8.08%
Emerging Market Bonds	-0.98%	14.89%
Currencies		
GBP/USD rate	1.42%	-2.26%
GBP/EUR rate	2.01%	-5.40%
GBP/JPY rate	4.25%	-9.13%
USD/JPY rate	2.79%	-7.01%
EUR/USD rate	-0.55%	3.31%
Commodities (total return in £)		
Gold	-1.23%	18.93%
Oil	4.59%	18.01%
Metals	3.37%	11.25%

VAM DISCRETIONARY FUNDS

Market Update

Takeaway Comment for the Week

HM Treasury analysis shows a vote for Britain to leave the EU would leave Britain permanently poorer by £4,300 per household per year.

Considering three existing alternatives it established that annual GDP loss per household after 15 years are:

1) £2,600, and 3.4%-4.3% worse off in GDP output in the case of membership of the European Economic area, like Norway.
2) £4,300, and 4.6%-7.8% worse off in GDP output in the case of a negotiated bilateral agreement like Switzerland, Turkey or Canada.
3) £5,200, and 5.4%-9.5% worse off in GDP output in the case of membership of the World Trade Organisation (like Russia or Brazil).

Macro of the Week: Stronger policy mix needed to fight subdued growth

The global economy continues to expand modestly. Global growth, however, has been subdued for a long time and the outlook has weakened, somewhat, since October. Although recent developments point to improvements in sentiment and give rise to increased potential growth, it is important to note there are still many persistent risks waiting to derail the global upturn in growth.

Recoveries in many advanced economies are restrained by a combination of weak demand, low productivity growth and remaining crisis legacies. Activity in Emerging Markets and developing economies has cooled down, although it still accounts for the bulk of world growth. It is still constrained by lower commodity prices which have adversely affected exporters.

Downside risks to the global economic outlook, geopolitical tensions, refugee crises and the shock of a potential UK exit from the European Union pose spillover risks. In response, policy is needed to combat this:

Growth-friendly Fiscal Policy

Fiscal strategies should be used to strengthen growth, job creation and confidence and support the economy. It should do this by ensuring debt as a share of GDP is on a sustainable path. Tax policy needs to be as growth-friendly as possible, prioritising spending in favour of high quality investment.

Accomodative Monetary Policy

Should continue in advanced economies where output gaps are negative and inflation is below target. Monetary policy, by itself, cannot achieve balanced and sustainable growth, and must be accompanied by other supportive policies. In emerging market economies, monetary policy will be needed to address the impact of weaker currencies on inflation. Exchange rate flexibility should be used to cushion the impact of external shocks where feasible.

Structural Reforms

Need to be advanced, benefiting from synergies with other policies to support demand. Structural reforms should be appropriately prioritised and sequenced in each country. Commodity exporters and low-income developing countries should implement policies to promote economic diversification.

Global Cooperation

Needed on several fronts, including ensuring a well-functioning international monetary system; reinvigorating global trade integration; combating corruption and improving governance; addressing international tax issues including transparency; coping with challenges of non-economic origin including those pertaining to refugees; and consistently implementing and completing the financial regulatory reform agenda - including policies to transform the shadow banking sector into a stable source of market-based finance.

Equity Research

"We are entering the Q1 2016 earnings season which will give us some insight into how economies are performing. The US started first and about half of the S&P 500 have reported. Overall, companies have beaten analyst forecasts on both earnings and sales, especially in the consumer, energy and basic materials sectors. The latter two had very depressed earnings expectations. We'll report back when the bulk of reports are in."

Robert Alster, Head of Equity Research