

Calm seas ahead?

Having weathered the storms of the past two years can we look forward to the calm waters ahead.

2015 and 2016 have been challenging years full of unexpected events and market shocks. European woes have continually weighed on markets from the Greek bail-out to more recently the Italian referendum. A continuation of loose monetary policy in Europe, the UK and Japan has been at odds with the tightening we now see in the US. A collapse in the oil price, and other commodities has far reaching consequences across the globe. Political risk has been front and centre of every market commentary with Brexit and the Trump election victory most recently in our minds.

With many of the major speed bumps now behind us, economic forecast and market sentiment have begun to improve and risk assets (primarily equities) have risen to new levels. However, as we read daily headlines declaring the US stock market hitting all-time highs, we need to step back and put this into a longer-term context. We must remember, for example, that only last month, the US stock market stood at the same level it was two years ago as we were entering 2015 full of expectation. Over the past 24 months, the US market has been down over 18% from where we are now. Indeed, the S&P had the

worst start to the year in history back in January and many headlines called for a repeat of the 2008 crash or worse as fears that China's economy was heading for a crisis caused a full-blown panic that sent the S&P down over ten percent in the first 28 trading days of the year. Even the Royal Bank of Scotland warned investors to 'sell everything' and expect a cataclysmic year for the stock market.

TAM is pragmatic when it comes to investment strategy. We move between a focus on capital preservation (or in other words try not to lose too much) when markets are risky and capital growth, (or trying to generate strong returns) when we have more clarity in markets and investment opportunity. Over the past two years we have been more focused on protecting our clients' portfolios, than on aggressively growing them and potentially sustaining large losses. We have reduced or hedged risks within portfolio using many mechanisms whether that was holding higher cash levels, hedging currency risk in anticipation of Brexit, or lower equity exposure prior to the US elections. Where there has been uncertainty we have attempted to bring certainty to clients' portfolios. Unfortunately, there is often a cost to following this strategy, and you can sacrifice much of the potential upside in the market that you would have be rewarded if you had thrown caution to the wind and 'bet' (and I use this word deliberately) clients' wealth on the outcome of any speculative event. This is something TAM does not do, now, nor over the past decade.

What we believe, after having lived through it many times over the past years, is that if you can preserve client's capital during the challenging periods, they are positioned to fully benefit when the good times arrive. The most extreme evidence of this was in 2008 when equity markets fell in some cases over fifty percent and TAM quickly de-risked portfolios contain loses to single digits. Let us not forget if you lose 50% you need to make 100% just to get back to where you were.

Making little return or seeing modest losses over any period is frustrating and not why we typically invest. However, we must always understand the investment horizon applicable to our chosen strategy. Every TAM portfolio has quoted investment horizons (in years) which represents a length of time historically shown to always allow a portfolio to meet its investment objectives.This time frame can be a short as three years for a more defensive portfolio and as long as over seven years for more aggressive ones. What analysis has shown us however, is the longer we see low returns the greater the potential for a strong recovery typically becomes.

The way forward

We may not have realised it at the time but everything changed in the November. Whilst Trump was given only the merest outside chance of winning the US election, he did and the world will never be the same. Whilst we are yet to hear any solid political policy we can anticipate much now the Republicans have a near-free hand. We can expect significant tax-reform, infrastructure initiatives and even a repatriation tax holiday in the new year. Even starting with Brexit in June, political change have had an immediate impact markets and will have a real impact on growth and inflation in 2017.

In the US, which still remains the economic engine of the world, growth is improving with GBP registered

at 3.2% in the past quarter, US companies have emerged from a two-year earnings recession and most importantly the labour market is showing robust growth. Donald Trump has already indicated that his goal is to stimulate real growth above 4.0%. Whether these optimistic forecasts become reality or not expect market euphoria for the next couple of years.

We believe that there are foundations for strong economic growth which result in particular strong equity markets. The market moves over the past six-month should continuing and may even accelerate through 2017. We have already realigned our portfolios to benefit from this opportunity and will make further asset allocation changes as we enter 2017. To create a property diversified strategic portfolio many asset classes must be considered. Briefly we expect strong equity growth, a resurgence in absolute return focused funds as managers adapt to a new paradigm. Commodity markets may become interesting again as growth returns. The least attractive asset class will be fixed income. We have come to the end of a multi decade bull run for fixed income and with further interest rates in the US a potential prelude to other central banks following suite, we will remain underweight with a strategic focus when opportunities present themselves.

Whilst we will never throw caution to the wind we see great opportunity in 2017 and plan to ensure our clients benefit fully over the coming years.

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