

The year that never was (April 2013 - March 2014)

On the face of it, there was a lot going on during the year. Global markets dealt with a US government shut down, Federal Reserve tapering, Chinese economic slowdown and an emerging market rout. Closer to home, we had the never ending eurozone saga to deal with and, just in case anyone was getting a little bored with it all, it's all kicked off in Ukraine and we have the alarming prospect of a new "war" being seriously discussed for the first time in decades.

There are reasons to be cheerful however. Cheap money is still sloshing around the system, and looks set to increase with the Bank of Japan and European Central Bank getting busy with the monetary taps. Unemployment is falling in the US and UK and inflation appears to be rather benign everywhere. A bit too benign in the eurozone but bad news here is good news and nothing a bit of negative interest rates can't fix if you believe ECB president, Mario Draghi.

And yet, if you ask yourself what markets have done in this stew of gloom and euphoria, you'll find the answer is….absolutely nothing. The 1-year performance of the TAM balanced benchmark, made up of 50% UK equities and 50% Gilts, shows the return was a perfectly round number, yes 0%. If it felt like a

cracking good 12 months, there's precious little evidence to support it unless you were a TAM client who, benchmarked against the same mandate, made 6.5% on average. This performance was particularly pleasing since it was achieved with less volatility than the market itself. But it was not fertile ground for inflation beating returns and good asset selection was key.

Over the year, as expected, equities were more volatile than bonds. The FTSE 100 Index hit 6,800 in May 2013 but quickly fell to nearly 6,000 in response to Fed tapering and a Chinese economic slowdown. The index reached 6,800 again in February 2014, reflecting a level of confidence which has eased somewhat in the last month.

Gilts and bonds, on the other hand, performed very differently. Doubt over the health of the UK economy reached its nadir in April last year, pushing the 10-year Gilt yield down to just 1.5%. But it rose to 2.7% in the summer months as bonds fell and equities staggered back, and has been stuck there ever since. Indeed, the narrow range in which Gilts trade, has made trying to time that market a futile exercise. A 0.1% change seems to be cause for comment these days. So, in short, equities made a small return over 12 months which was offset by a fall in Gilts – the year that never was!

There may be a catalyst for change as the US earnings season gets underway and our eyes fall on Alcoa, the largest aluminium producer in the world and always the first company to report. Traditionally considered a bellwether of the US economy (think coke cans, aerospace and tin foil), it was good to see them reporting stronger than expected numbers. But there's a way to go yet and profits need to be seen in all areas of the economy and particularly in technology.

As a minimum, the equity markets need strong company earnings to deliver in 2014 to support current valuations which many believe are priced for perfection. For equities to move materially higher, and for bond yields to break from their narrow trading ranges, a strong rebound in economic data is what is really needed. Watch this space.

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