



QUARTERLY REVIEW PREPARED FOR

Oxfordshire Council Pension Fund

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## PENSION FUND COMMITTEE – 23 JUNE 2017

### OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

#### Report by the Independent Financial Adviser

#### Economy

1. The UK economy grew by just 0.3% in the first quarter of 2017, after growing by 0.7% in the final quarter of 2016, as consumer demand slowed. Meanwhile the rate of UK inflation continues to rise as the effect of the weaker pound comes through into prices. Growth in the Eurozone continues to improve.

(In the table below, bracketed figures show the forecasts made in February)

Consensus real growth (%)						Consumer prices latest (%)
	2014	2015	2016	2017E	2018E	
<b>UK</b>	+2.8	+2.3	+2.0	+1.6 (+1.2)	+1.2	<b>+2.7(CPI)</b>
<b>USA</b>	+2.4	+2.4	+1.6	+2.2 (+2.3)	+2.5	+ 2.4
<b>Eurozone</b>	+0.8	+1.5	+1.6	+1.7 (+1.4)	+1.5	+ 1.9
<b>Japan</b>	+0.3	+0.6	+0.9	+1.3 (+1.1)	+1.1	+0.2
<b>China</b>	+7.4	+6.9	+6.7	+6.6 (+6.4)	+6.2	+0.9

[Source of estimates: The Economist, May 6<sup>th</sup>, 2017]

2. In the UK Budget in March, the forecast for GDP growth in 2017 was raised to 2.0%, but lowered in the four subsequent years to an average of 1.8%. Estimates of public sector borrowing in the next four years were slightly lower than those forecast last November, but still accounting for 1% of GDP in 2019-20. The most eye-catching Budget proposal – to increase National Insurance contributions for the self-employed – was later dropped in the face of Conservative opposition.
3. On March 29<sup>th</sup>, the Prime Minister triggered Article 50, setting in motion the process for the UK's withdrawal from the EU, and three weeks later she called a General Election for June 8<sup>th</sup>, ostensibly to strengthen her hand in negotiations with the EU.
4. On March 15<sup>th</sup> the Federal Reserve raised US interest rates by 0.25% (having previously raised them in December 2016), and indicated that two further rises were likely in 2017. The Bank of England does not expect to increase UK interest rates for at least a year.

5. The early months of Donald Trump's presidency were not short of incident; his plan to halt immigration from seven countries was blocked by the courts, and his bill to repeal 'Obamacare' was withdrawn when it became clear that Republican opposition would prevent approval by the House of Representatives. This will in turn delay the passage of his tax plans, possibly until the autumn, and the accompanying incentives for infrastructure investment will also be delayed.
6. In Europe, attention was focused on elections in Holland and France. In March the Holland's Prime Minister Mark Rutte appeared to have repelled the advance of the far-right Geert Wilders, but recent difficulties in forming a coalition have made the position more uncertain. In France the second round of the Presidential Election pitted Emmanuel Macron against Marine Le Pen, neither of them representing mainstream parties. Mr Macron won the run-off convincingly, but his freedom of manoeuvre as President will depend on the outcome of the parliamentary elections in June.

## Markets

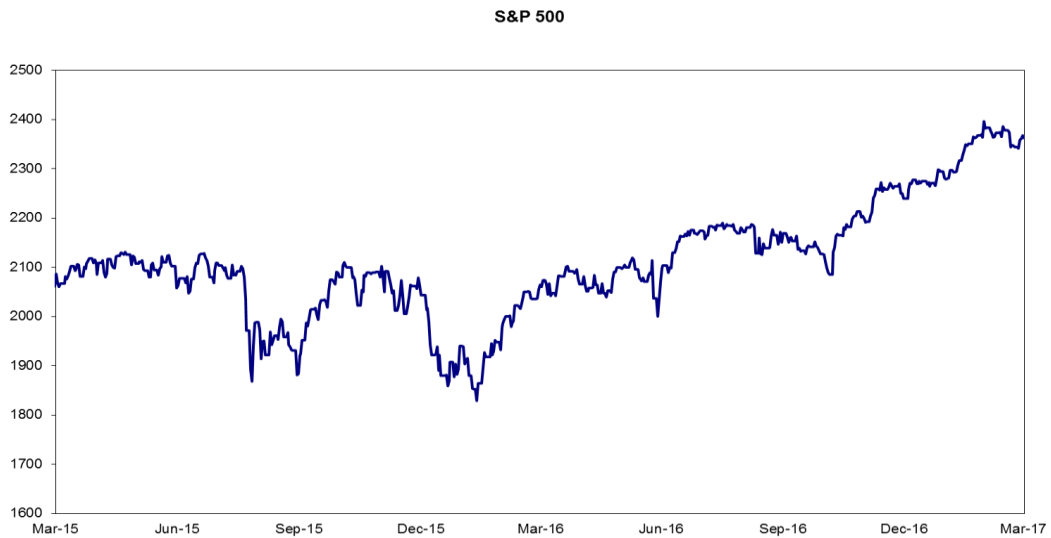
### Equities

7. Global Equities registered solid gains for the 6<sup>th</sup> successive quarter, giving a cumulative rise of 42% in the All-World Index (in £) in the 18 months to end-March. The backdrop of low interest rates, and sizeable quantitative easing programmes in Europe and Japan, has continued to boost equities. The main UK and US market indices have recently attained all-time highs.

	<b>Capital return (in £, %) to 31.3.17</b>		
<b>Weight %</b>	Region	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>+5.1</b>	<b>+29.7</b>
55.5	FTSE All-World North America	+4.3	+32.1
8.2	FTSE All-World Japan	+2.7	+30.0
11.9	FTSE All-World Asia Pacific ex Japan	+10.7	+32.5
15.6	FTSE All-World Europe (ex-UK)	+6.3	+24.0
6.1	FTSE All-World UK	+2.6	+18.4
9.2	FTSE All-World Emerging Markets	+8.5	+31.5

[Source: FTSE All-World Review, March 2017]

8. US Equities have risen slowly but steadily since autumn 2015.



9. All sectors, with the exception of Oil & Gas gained ground in the quarter. Within the Financials sector, Banks have been particularly strong, partly on hopes that the US Administration will relax some of the regulations imposed after the crisis of 2007/08.

<b>Capital return (in £, %) to 31.3.17</b>		
<b>Industry Group</b>	<b>3 months</b>	<b>12 months</b>
Basic Materials	+6.5	+41.7
Technology	+11.3	+41.4
Financials	+3.8	+35.9
Industrials	+5.8	+33.1
<b>FTSE All-World</b>	<b>+5.1</b>	<b>+29.7</b>
Oil & Gas	-5.3	+29.0
Consumer Goods	+6.9	+23.3
Consumer Services	+5.2	+22.8
Health Care	+6.2	+22.5
Utilities	+5.1	+17.3
Telecommunications	+0.2	+12.0

[Source: FTSE All-World Review, March 2017]

10. In the **UK equity market**, the medium- and small-cap sections outpaced the large-caps during the quarter, but the FTSE 100 Index has still been stronger than the All-Share Index over the past year.

<b>(Capital only%, to 31.3.17)</b>	<b>3 months</b>	<b>12 months</b>
<b>FTSE 100</b>	<b>+2.5</b>	<b>+18.6</b>
<b>FTSE 250</b>	<b>+4.9</b>	<b>+12.1</b>
<b>FTSE Small Cap</b>	<b>+5.6</b>	<b>+19.5</b>
<b>FTSE All-Share</b>	<b>+3.0</b>	<b>+17.5</b>

[Source: Financial Times]

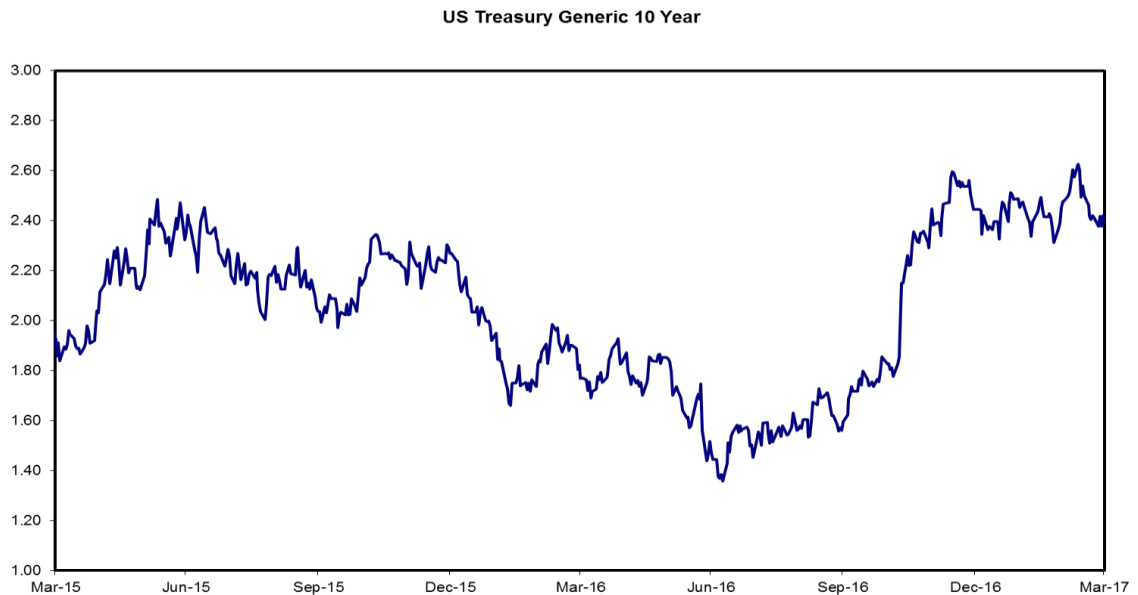
### Bonds

11. The main **Government bond** yields were little changed during the quarter, although within Europe the gap between French and German bonds widened on uncertainty about the outcome of the French Presidential Election.

<b>10-year government bond yields (%)</b>					
	<b>Dec 13</b>	<b>Dec 2014</b>	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>Mar 2017</b>
<b>US</b>	3.03	2.17	2.27	2.46	2.41
<b>UK</b>	3.04	1.76	1.96	1.24	1.22
<b>Germany</b>	1.94	0.54	0.63	0.11	0.33
<b>Japan</b>	0.74	0.33	0.27	0.04	0.07

[Source: Financial Times]

12. After its sharp rise on the election of Donald Trump, the US 10-year bond yield has traded in a narrow range around 2.4%.



### Currencies

13. After trading at close to \$1.25 during the first quarter, the pound has risen to the \$1.29 level since the announcement of the UK General Election.

	31.3.16	31.12.16	31.3.17	£ move (%)	
				3m	12m
\$ per £	1.437	1.236	1.251	+1.2	-12.9
€ per £	1.261	1.172	1.189	+1.5	- 5.7
¥ per £	161.5	144.1	139.3	-3.3	-13.7

[Source: Financial Times]

### Commodities

14. The Oil price, as measured by Brent Crude, has stayed within the \$50-55 range, with occasional upward moves when the oil-producers appear to be close to agreement on limiting output. The price of Copper was stable, while Gold gained nearly 9% during the quarter, bringing it back to its March 2016 level of \$1240 oz (see graph below).



## Property

15. The first quarter saw a slight revival in **UK Property**, with positive (albeit small) capital returns from each of the three main sectors. The 12-month returns, however, show that in Retail and Office the falls in capital values were offset by the income returns.

	<b>3-month</b>	<b>12-month</b>
<b>All Property</b>	<b>+ 2.3%</b>	<b>+ 3.8%</b>
<b>Retail</b>	<b>+ 1.8%</b>	<b>+ 2.3%</b>
<b>Office</b>	<b>+ 1.8%</b>	<b>+ 1.4%</b>
<b>Industrial</b>	<b>+ 3.8%</b>	<b>+ 9.4%</b>

**[IPD Monthly Index of total returns, March 2017]**

## **Outlook**

16. With equity markets having taken the surprise outcomes of the EU Referendum and the US Presidential Election in their stride, it is tempting to downplay the degree of influence exercised on markets by political events. This, however, would be too sanguine a view to take. Whether prompted by the various elections taking place in Europe, the course of President Trump's domestic and foreign policy or the Syrian conflict, we must expect some

disruption to the smooth upward path which equities have travelled in the past year.

17. After the UK General Election has taken place, attention will focus once more on the Brexit negotiations with the EU and their impact on the UK economy and corporate sector.
18. With further increases in US short-term interest rates predicted for 2017 and 2018, yields on medium-dated US government bonds seem unlikely to fall from their present levels. Any signs of a slowdown in the pace of quantitative easing in Europe or Japan could also have an adverse effect those bond markets.

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**May 17<sup>th</sup>, 2017**

[All graphs supplied by Legal & General Investment Management]