

September 2017

Market Bulletin

Downton & Ali Associates



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This update comes to you from Schrodgers, managers of the Omnis UK Equity Fund:

It was a quarter for emerging markets and commodities, as a combination of robust economic recovery and low inflation drove the outperformance in these assets.

The trend was helped by a weak dollar with investors responding to signs of strength in activity outside the US, particularly in the eurozone. Overall, risk assets (such as equities) performed well, although sovereign bonds did well until the last month of the quarter when a more hawkish tilt from the US Federal Reserve (Fed) caused yields to rise.

As a house, Schrodgers' asset allocation remains biased toward equities and emerging markets and we are generally short duration in our bond portfolios. This is largely based on a continuation of the "goldilocks" macro environment where growth is healthy, but not too strong to trigger inflation. Interest rates are likely to rise further in the US but we believe that the Fed will proceed cautiously and not reach the levels projected in its famous dot-plot of rate forecasts.

On a more cautious note, we do see the liquidity environment shifting significantly in 2018 as the Fed reduces its balance sheet and the European Central Bank (ECB) starts to taper its quantitative easing programme.

Although the Bank of Japan will continue with an ultra-loose monetary stance, we question whether this can be seen as a replacement for Fed or ECB asset purchases.

The recovery in global activity remains intact while inflation appears to have peaked following the stabilisation in energy costs. We continue to forecast global growth at 3% this year after 2.6% in 2016, but have trimmed our inflation forecast to 2.3% from 2.4%. The combination of steady growth and low inflation means we remain in a goldilocks environment where activity is neither too hot nor too cold to cause a significant acceleration in inflation.

On the growth side, the US forecast is unchanged for 2017 while an upgrade to the eurozone is accompanied by a stronger forecast for China and the wider emerging markets. In this respect, Europe is picking up the baton from a cooling US.

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On inflation, we have reduced our forecasts across the board to reflect a lower oil price profile and subdued core readings. Looking ahead to 2018, global growth is expected to remain stable at 3% with modest downgrades to the US, offset by upgrades to the eurozone and emerging markets.

Past performance is no guide to future performance and may not be repeated. The value of your investment, and any income derived from it, may go down as well as up and you may not get back the full amount invested.

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Downton & Ali Associates
59 Dartford Business Park Victoria Road
Dartford
DA1 5FS

T 02030210075
info@downtonandali.co.uk
www.downtonandali.co.uk