Market Bulletin

This month's market update comes from Woodford Investment Management, Manager of the Omnis Income & Growth Fund.

From an equity investment perspective, the world looked a risky place as we entered 2016 and these risks have already weighed heavily on financial markets in the first few weeks of the year. January's extreme weakness persisted until the middle of February, before stocks staged a tentative and lopsided recovery.

As has so often been the case recently, flows have proved more important than fundamentals in this rally, with another rotation out of so-called 'defensive' parts of the market and into commodity-related stocks. Accordingly, in the first quarter's results season, the market has shown a tendency to be remarkably inconsistent in how it responds to positive (and indeed negative) fundamental news. This sort of dislocation can occur in the short term, but fundamentals always reassert themselves over time.

Meanwhile, growing fears that June's referendum might lead to the UK leaving the European Union, have caused the pound to weaken sharply. This isn't the only risk that is affecting investor sentiment currently, however. There are plenty more. Among them are concerns about the slowing Chinese economy, the ensuing continued declines in the price of oil and commodity prices and concerns about tightening global liquidity following the Federal Reserve's first interest rate increase in nearly ten years late in 2015.

Moreover, the recent market volatility represents a growing concern amongst market participants that policymakers globally are failing to fully understand the nature of today's economic problems and are therefore prescribing the wrong policy settings. Policymakers have been behind the curve ever since the financial crisis and investors appear to be increasingly concerned that rates can't go low enough to maintain growth.

All of this matters at the macroeconomic level and its impact has been and will continue to be felt by all companies to some degree. But some businesses are much more vulnerable to the economic headwinds than others.

Last year was a year of capital risk, with a significant difference between the best performing stocks on the UK stock market and the worst. 2016 already appears to be one of dividend risk, with dividend cuts already announced from several high profile mining companies, banks and industrials. We expect this theme to continue over the coming months, as the economic headwinds weigh increasingly on the operational performance of cyclical businesses. Income investors will therefore need to tread carefully.

Carl Summers Financial Services
1 Abbey Court High Street
Newport Shropshire
TF10 7BW

T **01952-815930**
E **info@summersheaney.co.uk**
www.summersheaney.co.uk

CARL SUMMERS
FINANCIAL SERVICES