An update from Carl Summers Financial Services - August 2016

Carl Summers Financial Services

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Market Bulletin

This month’s market update comes from Columbia Threadneedle.

We continue to live in a world of extraordinary monetary policy, where investors are no longer surprised by central bank easing and, indeed, have come to expect it. Thus the equity market rally continued into August, buoyed in the UK by the widely expected announcement of a Bank of England (BoE) base rate cut to 0.25% – the lowest it has been in the Bank’s 322-year history – along with the expansion of quantitative easing. That made for a package of complementary measures that is impactful for the UK economy.

Bond yields have fallen very sharply, supported by easy monetary policy across Europe and Japan, which in turn is underpinning yielding assets, whether that be equities or credit; with the BoE’s quantitative easing propelling yet another strong rally across core government bonds.

Recent data showing a resumption of strong jobs creation has underpinned the outlook for the US economy, and there is growth coming through in the US, albeit at lower levels than we might have seen historically. We know the Fed is looking to normalise monetary policy and raise interest rates, but its ability to do that is somewhat hampered by the aforementioned monetary policy conditions elsewhere, which may hold the Fed back in the short term. We continue to expect one rate rise this year and two in 2017.

Globally, divergent monetary policy is going to be a major influence on asset classes, with investors having ever fewer places to go in their quest for yielding assets. In my view, this will continue to be the dominant theme in the global economy for the coming months and maybe years.

Gold aside, commodities stand out as one asset class that has yet to see an uplift. We see commodities as a useful portfolio diversifier and are mindful of its ‘catch-up’ potential.

There are compelling reasons for a more favourable outlook. The key drivers of a commodity bull market are a drop in production coupled with increased demand. Since 2012 there has been a dramatic change in capital expenditure among mining companies, with capex falling by nearly 90% in four years. Against such a drop in demand, supply had to fall – but this has taken time.

In our view, we are not at the point where the supply/demand dynamic is rebalancing across commodity sectors, including the base metals market.To that end we are adding to our commodity exposure and are most constructive on precious metals, minor industrial metals such as lead, zinc and nickel, and oil.

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Please call us on 01952-815930.

Past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you originally invested

For information only. Always seek our professional advice before acting.

The information contained is correct as at the date of the article. This market bulletin does not constitute investment advice and is not intended to state, indicate or imply that current or past results are indicative of future results or expectations.

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