Gavin Haynes
Managing Director

Market Update. What goes up...

Following a prolonged period of low volatility, this week we are seeing a sell-off across global equity (and bond) markets.

Below is a summary of our current views and the broad strategies we're employing.

What is causing the sell-off?
There has been no single event that has fundamentally changed the investment backdrop. The catalyst appears to have been investors becoming increasingly concerned over increasing interest rates in the United States.

Higher interest rates generally result in tighter financial conditions which leads to slower economic growth. President Trump has done little to calm sentiment by commenting that the number of interest rate rises being implemented mean that the Federal Reserve Governor has "gone crazy"!

What investments have been hit hardest?
Whilst the sell-off has been widespread and indiscriminate, it has particularly centred on areas of the stockmarket that have seen the strongest returns, with technology shares seeing some of the greatest falls (most Whitechurch portfolios have little exposure to this area). Because concerns over rising interest rates have precipitated this nervousness, bond markets have also sold off, meaning it has been difficult to avoid losses irrespective of investment strategy.

Should investors be worried?
At present, the sell-off is best viewed as a healthy correction. Whilst no-one likes to see short-term falls in their investments, we have been saying for some time that the lack of volatility has led to a worrying level of complacency. An increase in negative sentiment is healthy and we have seen a rise in cash levels raised by professional investors. This is a good contrarian indicator, in our view.

At the time of writing, the UK stockmarket is trading more than 10% lower than the peak reached in the Spring, leading to more attractive valuations.

We do not try to second guess short-term market movements, but the less demanding valuations will provide opportunities for those who can invest without being fixated on short-term market fluctuations.

We are cognisant not to be over-confident. We cannot be certain that a combination of rising rates and a trade war will not see a fundamental slowdown in the global economy. Therefore, it is prudent to have a well-diversified portfolio across different regions and asset classes combined with 'insurance' positions to cover different scenarios.

Keep calm and carry on
Whilst we are not in the habit of calling central bankers crazy for raising interest rates, our view remains that any interest rate increases are likely to be cursory going forward, due to a lack of sustained inflationary pressure and fragile economic growth outside of the United States.

As a result of low interest rates, our strategic view remains focused on the belief that there is value to be had in several areas of global stockmarkets and other assets, compared to the miserly return that is provided by holding money in cash.

Risks posed by short-term uncertainty will be managed through diversification (not second guessing unpredictable events and sentiment). We believe that a well-diversified portfolio can provide cash beating opportunities in a number of areas for those prepared to ignore short-term noise, focus on valuations and take a long-term perspective.

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