THE LEGAL BROKERAGE QUARTERLY INVESTMENT REVIEW

FEBRUARY 2016

Confident driving through the muddy patches

With fears of falling markets being aired as 2016 begins, it might be tempting to join the pity party. But, as David Wheilden explains, the mature markets can weather some inevitable storms of returning growth, and keeping a steady hand on the wheel until the rain eases will gaurd against a wash-out.

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“The cold welcome we received when we returned to work at the beginning of January was not only a blast of more seasonal weather but also further volatility in world investment markets. We seemed to have picked up in January exactly where we left off in December with worries about a slowing Chinese economy, the falling oil price and rising interest rates at the fore. The downward spiral of a slowdown in China causing further falls in the oil price – and precipitating a slowdown of Western economies which in turn causes a slowdown in China and so on – is still occupying the front row in the markets' field of vision.

The slowdown in China is of greater concern to the Emerging Markets as it is likely to have more of an impact there than the larger, more mature, developed economies. So not, in any way, wishing to simply ignore the issue, I feel we should look at the prospects for the rest of the world first before throwing ourselves off the proverbial cliff.

FALLING OIL PRICES CAN HELP MANY

Unless of course your business is that of extracting oil from the ground and refining it, we do not believe that a falling oil price is necessarily such bad news for the global economy. A lower oil price actually helps businesses increase their profits by lowering their costs and acts as a pay increase for workers as they have to spend less on fuel, heating etc. (on the assumption that the price falls are passed on of course!). As an example, having been vociferous in their demands for help when the price of oil was $140/barrel the haulage industry has been extremely quiet as if falls through the $28/barrel level. For the vast majority therefore, a substantially lower oil price is positive, as it cuts business costs and leaves more money in individual's pockets.

LIFTING INTEREST RATES ARE A POSITIVE SIGN

After months or even years of debate, the American Central Bank finally raised interest rates in December marking an end to "zero cost" borrowing. This is being seen as good news as it shows that the American economy is in reasonably good shape and the Bank feels it can accommodate rising (albeit very slowly) interest rates without too much trouble. Financial markets have become very settled with very low worldwide interest rates and they are going to have to get used to higher rates as the months pass. The slowdown and even removal of Quantitive Easing will leave economies to manage on their own two feet and this will no doubt provide some shocks and bumps through the year. The task for the Central Bankers will be to raise interest rates at a pace that does not derail the growth that exists in the global economy, this is a very fine line to tread and will require no little skill or judgement. The inevitable bumps and shocks, although unsettling at the point at which they occur, will no doubt provide your fund managers with buying opportunities for the medium term.

CAUTIOUS RETURNS MAY BE GOOD NEWS

Looking ahead into this year we feel it will be the more developed markets that will provide us with decent returns rather than the Emerging Markets. The growth may be a little more staid and slow moving but we feel this is a better bet than the possibilities available at the more volatile end of the spectrum. It may well be that in 2016 we end up with relatively dull returns as it may be a year of avoiding pitfalls, for which the losses are exaggerated, than for betting aggressively on the next best thing. This may appear somewhat defensive but as the

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global economy struggles to move away from a recovery stage into an expansion stage we feel it is prudent to be prepared to conserve the value in investments in these difficult times rather than gamble on more optimistic opportunities.

In no sense is it all doom and gloom and we do believe we will achieve reasonable returns this year but I think it fair to say they are unlikely to be spectacular, more steady and decent. Once the concern over the falling oil price abates and we see that the more developed economies can swallow slowly rising rates we do see better times ahead for markets in general. It is rarely possible to stay out of the market until the perfect moment as positive sentiment returns, therefore we continue to believe that it is right to knuckle down and drive through the muddy patches so that we catch all of the upward swing when it comes.

This article is the opinion of David Wheildon, Director of The Legal Brokerage.