asset management
McLaren

10 years, 2004 - 2014
International Perspective, Independent Advice

Global Market Strategy – April 2015

Take a long term view - over 80s are growing five times faster than the overall population …

Hugh Hendry is a fund manager at Eclectica. He is renowned for having forthright views about where economic policy from central bankers is driving us, and how economic conditions and the markets will unfold. His views are listened to, and sought, since they have an uncanny knack of being correct, and he has made much money from his astute crystal ball analysis, both for himself and for his investors… until 2013. During 2012/13, Mr Hendry came unstuck, convinced that central bank policy of 'easy money' was leading to equity valuations being built on sand and that those who helped drive equities higher would meet their greedy doom, so he desisted from participating, which hurt his performance considerably.

A year ago however, he gave up the fight and reversed his positions, sold most of his safe haven positions, unwound his 'shorts' (hedge fund speak for selling the market forward in the belief prices would fall), and bought into equities (he went 'long', believing equity prices would rise), and as a result performance has been much better in the last twelve months.

The question now is, is the equity rally complete? The dollar has risen an incredible 25% in the last six months, and the dollar index has risen to 100, some 20% higher than a level reckoned to be 'fair value'. The dollar's strength has now put Janet Yellen of the Federal Reserve in a quandary. She may want to raise US interest rates later this year, if only to signal to the market that the Fed is not going to 'encourage' equity investment forever. The problem now is that if the US raises rates at all during a period when virtually every other central bank is lowering theirs in order to try to make their economy more competitive, even more money will flow into the US dollar and into US equities in order to find yield.

US equities are already expensive, not overpriced perhaps, but earnings will be hurt if US exporters are finding orders are suffering badly from their high-value currency. As we come in to the US earnings season, there are few communicators talking with any optimism.

BlackRock last month stated their view that the US is now too expensive. They are however, very positive about European equities, fuelled as they are by QE, money coming from Asia, profits being transferred from the US and by an increasing feeling that many European countries are beginning to turn themselves around after years of austerity. Any worry of a 'Grexit' from the EU is ill-founded, since Greece represents just 0.1% of the MSCI European Index.

Apart from a danger to equity prices of a rising dollar, there is also concern that commodity stocks will be hit harder than they have been from a China slowdown. This will have a knock-on effect on the FTSE100 which is heavily weighted toward commodity and bank stocks. Emerging market stocks could also suffer further, since if capital is going into the US greenback, EM currencies will be adversely affected. In the immediate future then, equities look troubled, but it is likely to be short term, especially if a turnaround in Europe is more than wishful thinking.

So if we should be wary of equities in the short term, which sector is a better alternative? US 10 year Treasuries are currently 1.84%, UK 10 year gilts 1.59%, German 10 year Bund 0.20%. Barring a geopolitical event, gold is stuck in a range between $1150-1250 and is simply too volatile for most investors, and property, while a great long term investment, carries illiquidity, void period and interest rate risk. There is no fail-safe option for investors anymore, and bearing in mind that for a couple aged 65, there is a one in four chance of one them reaching the age of 97, there is a need for investors to take a much longer term view of their investment time horizon. We shall have to be more trusting of the long term growth trend of asset-backed investment, accepting as part of the occupational hazard of daily living that the assets in which we invest will ebb and flow in value. Britain has made its biggest change to pensions legislation for 100 years by allowing pension funds to cascade down the generations, rather than, as hitherto, dying with the owner, or the owner's spouse. If that's not an argument for taking a long term view on asset-backed investment, then what is?

Favoured investment plays:

Nil risk:	USD & GBP cash (in preference to Euro cash)
Cautious risk:	Structured / AAA Corporate / Government bonds (short duration)
Balanced risk:	Managed funds
Market risk:	**UK, European**, US equity
Adventurous risk:	**US / Asia** / Global Real Estate, **Japan** equity
Speculative risk:	**Timber, China,** India, Africa & Middle East, **European Telecoms,** Emerging Markets

April 7th 2015

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (US) 21%, US equity 2%, US smaller cos 1%, UK equity 10%, UK smaller cos 6%, Iberia 2%, European equity 10%, European Telecoms 4%, Latin America 2%, Japan 8%, Asia 14%, China 4%, Timber 2%, Precious Metals 1%, Energy 6%, Pharmaceuticals 7%

q23

McLaren Asset Management, S.L. & McLaren Wealth Management, EAFI, S.L. Regus Business Centre, Ricardo Soriano 72, 29601 Marbella, (Malaga), Spain