McLaren
wealth & asset management

International Perspective & Independent Advice   Since 2004

Global Market Strategy – July 2018

- ***China market into bear territory***
- ***Indian disillusionment with Narendra Modi***
- ***Oil and a Stronger Dollar impact equity markets***

Markets have gone into reverse of late. A trade war, higher oil prices, Brexit, Italy, and slower growth reports in **China** have sent shivers through equities.

Earnings in the US for the last quarter may have been at record levels but China and their Asian neighbours are now the centre of attention for growth-seeking investors, and China has gone into bear territory, falling 22% since the highs of January.

Shanghai Composite, 1 year (Source: BigCharts.com)

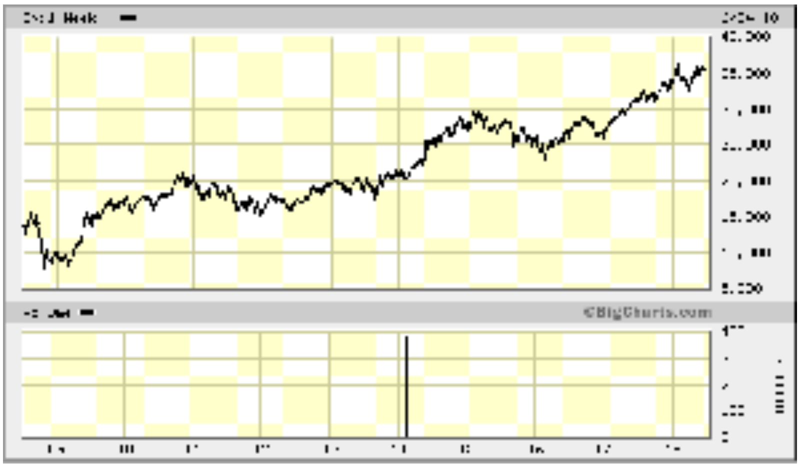
China is undeniably on a wave of expansion but is considered vulnerable because it's indebtedness is now 250% of gross domestic product. While on the one hand a crackdown on shadow banking and greater scrutiny on the viability of lending for local government and public investment projects is a good thing because of the obvious benefits of exercising constraint, a heavier hand on the tiller is a worry for those looking for exponential growth.

Chinese authorities have shown in recent years that they will rein in excessive growth, notably in 2015/16 when they moved to quash a sudden take-off in the property market. They haven't mastered the art of preemptive action, so investors have experienced the pain of a sudden correction in the Chinese stockmarket, but these corrections are healthy washouts of speculation and provide opportunity for the canny long term investor. To anyone with a regular savings plan, pension or otherwise, the volatility of the China market is manna from heaven. China is a strong market with huge growth prospects. It is also an emerging market and investors should expect to suffer volatility if they view it as a speculative trade rather than a long term growth story. As legendary octogenarian emerging market investor Mark Mobius said in May, "China isn't set for a hard or soft landing, it's going to continue flying".

India too is struggling in this environment of higher oil prices (they import 80% of their oil need) but there is something of an underlying mood of resignation that growth and reform plans announced four years ago are falling short. When Narendra Modi swept to power in May 2014 on optimism that he was definitively pro-business and would sweep aside much of the bureaucracy that holds India back, investment into India surged. Like China, India is a long term growth story, with half the population under the age of 25, and a growing middle income density. The country is trying to cope with the twin major Modi initiatives of a draconian cash ban (86% of banknotes were abruptly cancelled in a drive to eradicate black money) and a new tax system. Perhaps the weight of these changes is the reason for a tone of disillusionment and the feeling Modi will have a battle on his hands to get re-elected in 12 months time.

Modi will point to a stockmarket which has been on a steady upward trajectory in the last 10 years and now trades on a PE of 20. He will be proud of India being the fastest growing large economy in the world, and that the IMF and Moody's are both projecting India's growth rate being between 7-8% over the next two years. However, while this is healthy by global standards, it is short of the double digit figures needed to bring its per capita annual income above a current level of just $1,709 nearer to China's $8,123 (according to the World Bank) - humbling figures indeed. A 20 PE makes India expensive at present but a double digit growth rate will make it more reasonable.

Emerging Markets (EM) saw fund withdrawals totalling more than $12bn in May, as the US dollar gained value, making EM currencies weaker. Momentum behind the dollar due to greater expectation of higher US interest rates, global trade tension and higher oil prices is now probably two thirds of the way to exhaustion so an increase in EM exposure in the very near future could be a wise move. Of seven leading emerging markets (ignoring the too-hot-to-handle Russia and Turkey), China is the cheapest, trading on a PE of just under 14. India is the most expensive.



Indian Sensex, 12 months (Source: BigCharts.com)

Rathbones commissioned a survey in May of 1000 UK investors and 500 'high net worth' (HNW) investors to determine their view of property as an investment, now that the dust has settled on the British government's 3% stamp duty surcharge on property purchases other than the Principal Private Residence, coupled with the commencement of the withdrawal of tax relief on mortgage interest costs.

For many years many Britons have viewed property as a preferable investment to a pension, perhaps not realising the twin consequence of capital gains tax on investment property, and ultimately, inheritance tax. Pension freedoms of 2014/15 and government action to quell the exponential rise of property prices have changed that view. 51% of those surveyed by the Office for National Statistics felt a pension was a better retirement solution for retirement than property, however the survey unveiled the following additional information:

- Of those surveyed, 25% of HNW investors currently own at least one investment property but only 7% of them plan to increase their property portfolio in the current environment
- 25% of HNW investors also admitted to accruing their wealth through their past property investment

(HNW investors in the UK are defined as those either earning a minimum of £100,000 gross per annum and/or have assets valued at £250,000 over and above their principal private residence.)

Separately, research by the National Landlords Association found in January that 20% of its members planned to sell an investment property during the course of 2018.

Rathbones commented, "Not only are [property] returns being impacted by an increased rate of tax but they can also be viewed as high risk investments due to a lack of diversification [and illiquidity]. Property investments require a large amount of capital to be held in one single asset and landlords often hold a number of properties within one region."

Favoured investment plays:

Nil risk:	Cash
Cautious risk:	AAA Corporate bonds
Balanced risk:	Managed / Multi-asset funds / Long-Short Absolute Return funds
Market risk:	**UK,** European equity
Adventurous risk:	**Japan, Asia,** US equity, **UK**/European/**US mid & smaller company sector**
Speculative risk:	Water, **Technology, China,** India, Other EM

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 39%, Global Equity 16%, US smaller cos 3%, (Other) US equity 8%, India 4%, China 4%, (Other) Asia 10%, Pharmaceuticals 15%, Cash 1%

Important information: This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The price of shares and the income from them may fall as well as rise. Past performance is no guarantee of future returns and investors may not get back the full amount invested, particularly in the early years. Exchange rates may also cause the value of underlying overseas investments to go down or up. Investments in emerging markets and hedge funds can be more volatile and the risk to capital is greater. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Some quoted analysis is a resume of data supplied to McLaren Asset Management by some of the world's leading investment houses and although McLaren Asset Management has given its opinion as to how the data can be interpreted, investment should not be embarked upon without full analysis of the risks involved and a careful study of the sales prospectus, where applicable.

McLaren Asset Management SL & McLaren Wealth Management UK Limited
Telephone 0208 133 8070 Email: info@mclarenwealthmanagement.com