Preferred

Investment Market Review & Outlook

Issue 2 - 2016

We are pleased to provide you with our latest Investment Market Review.

January 2016 brought an unwelcome surprise in stock markets as double-digit losses were sustained across the globe. Recovering commodity prices have dragged indices up close to where we began the year, but with the EU referendum looming, what are the prospects for the months ahead?

Investment Committee

Mark Denley | **Craig Hilton** | **David Ellis** | **Michael Bretherick** | **Simon Rees** | **Tom Sparke** | **Barry Lee** | **Bill Redmayne**

Helimedix

The Gibbs Denley Charity of the Year 2016

Global stock markets ensured that New Year celebrations were cut short with the worst start to a calendar year in decades. One of the main causes of this was oil, which has since risen substantially and taken risk assets with it.

Market Review & Outlook – April 2016

2015/16	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth (%)*
October	0.7	-0.1	5.2	
November	1.1	0.1	5.1	Q4 +0.5
December	1.2	0.2	5.1	
January	1.3	0.3	5.1	
February	1.3	0.3	-	Q1 +0.5†
March	-	-	-	

**Based on percentage change on previous quarter* *†British Chambers of Commerce Estimate, March 2016*

Economy

George Osborne's Budget in March was not without controversy, with the major talking points for investors being cuts to growth targets, the new 'Lifetime ISA', reductions in tax for corporations, lower Capital Gains Tax (CGT), and an increased threshold for higher-rate tax-payers.

Sterling has fallen considerably this year as a result of uncertainty regarding the results of the EU referendum in June, concerns for UK growth, and domestic and geopolitical uncertainty. We expect this volatility in the currency to remain, with potential for further weakness, especially amid expectations that the referendum may be decided by a small margin.

Recent market volatility has pushed back interest rate expectations both in the UK and US so our conservative predictions may have to be pared back further. Federal Reserve Chair Janet Yellen stated in her most recent address that two (rather than the four previously stated) interest rate increases may be expected for this year - we remain sceptical.

Both Europe and Japan have ventured into new eras of negative interest rates, with the former's announcement receiving a warmer welcome than the latter's. While this policy is designed to encourage banks to lend more and discourage cash deposits, it is not good for their returns. However, we do not currently expect institutions to pass this burden on to their customers.

What does this mean for your investments?

Fixed Interest

Gilts (UK Government Bonds) have been one of the few strong performers so far this year and their resilience is fortified by persistent geopolitical concerns. With interest rate rises seemingly some time away, there is less risk in these assets from one point of view. However, we remain of the opinion that the path for Gilt prices turns downward as their value remains close to record high levels and their yields (which are inversely related to the price) are very low.

Our exposure to fixed income remains focussed on lower-risk, high-quality, shorter-dated bonds and non-traditional assets which should not be negatively affected by equity market strength or rising interest rates. In addition to what we view as the unattractive characteristics of UK sovereign bonds, we would be further concerned about whether Gilt investors would maintain their positions if they were downgraded as a result of the UK's exit from the EU, which ratings agencies Moody's and Standard & Poors have warned may be a consequence. In comparison, a similar US government bond provides a higher yield and potentially greater protection.

While we can only expect a modest return from bonds, volatility should remain contained in this area and we can pick up good levels of income from high quality UK and global companies at relatively low risk levels.

Equities

Major equity markets continued to follow the path of oil over the quarter, an unusual phenomenon considering the two factors are normally quite independent from one another. This positive correlation is likely to break down as oil prices have moderated to less extreme valuations, and stocks are likely to look elsewhere for direction.

Returns have been led by defensive assets and we have been pleased with the performance of our lower risk equity holdings. The funds we hold that have a moderate aim, and especially those with the capability to profit from falling markets (known as 'long-short' equity funds), will be especially valuable to us in the remainder of this year and beyond.

Our move in January to moderate our position on the Sterling-Euro currency relationship (from a wholly hedged Euro to a 50:50 split) has proved valuable as the Pound has deteriorated at a significantly faster rate than the Euro so far this year, despite the European Central Bank's (ECB) extended stimulus. We continue to like the look of many European assets and believe that the considerable additional assistance from the central bank will lead to higher valuations in the future.

We have maintained our view that Japan is in recovery, and assets there do seem to be good value, but this has been a difficult position so far this year. Negative interest rates were perceived badly by the market and our Yen-hedged assets have suffered from investors flocking into the currency as a 'safe-haven'.

While it still looks more likely that the UK electorate vote to stay in the EU, we remain vigilant of surprises as attitudes can alter swiftly and we will continue to select genuinely defensive assets where appropriate.

Property

Commercial property has been a valuable bolt-hole for investors sheltering from the volatility in equity and bond markets. We have benefitted from high returns from these assets over recent years and, although the potential for 'bricks and mortar' may be beginning to diminish slightly, we should still garner mid to high single digit percentage returns here. Our most pressing concern regarding this sector lies in the 'liquidity' (the ability to buy and sell easily) of the individual holdings, as trading physical buildings can be time-consuming and expensive. We do not see this as an imminent problem but we may look to reduce our exposure this year as it will be prudent to relinquish such holdings before difficulties emerge.

The performance of our exposure to property-related equities has moved largely with markets in 2016 thus far, but was excellent in 2015 and we firmly believe this can be repeated this year. We are looking at further opportunities in low-risk property-based investments which may be a valuable addition to our models.

Commodities

Further capitulation in oil's value was one of the main catalysts for the poor start to the year in stock markets and, though there has been some retracement, it remains around 10% below its December price. Just as we were spared some of the downside in commodities due to minimising exposure to these assets, we have also missed part of the rebound in recent weeks, but we believe this position is sensible against a backdrop of slowing demand for raw materials.

As we have alluded to in the past, we believe the longer-term upshot of cheaper oil will be highly positive for consumers on a global scale and signs of this are evident already in the US with discretionary spending increasing.

Gold has enjoyed considerable appreciation as many investors perceive it to be the ultimate safety net in times of crisis. We prefer not to speculate on this asset at present as the factors driving its price rise look to be largely temporary.

Continued over.

Conclusion & Outlook

We remain mindful that the potential for elevated levels of volatility in stock markets is high as the EU referendum and US presidential election are added to global concerns. Short-term issues include oil price-swings, slower Chinese growth and currency depreciation, geopolitical tensions, global terrorism, and Eurozone membership.

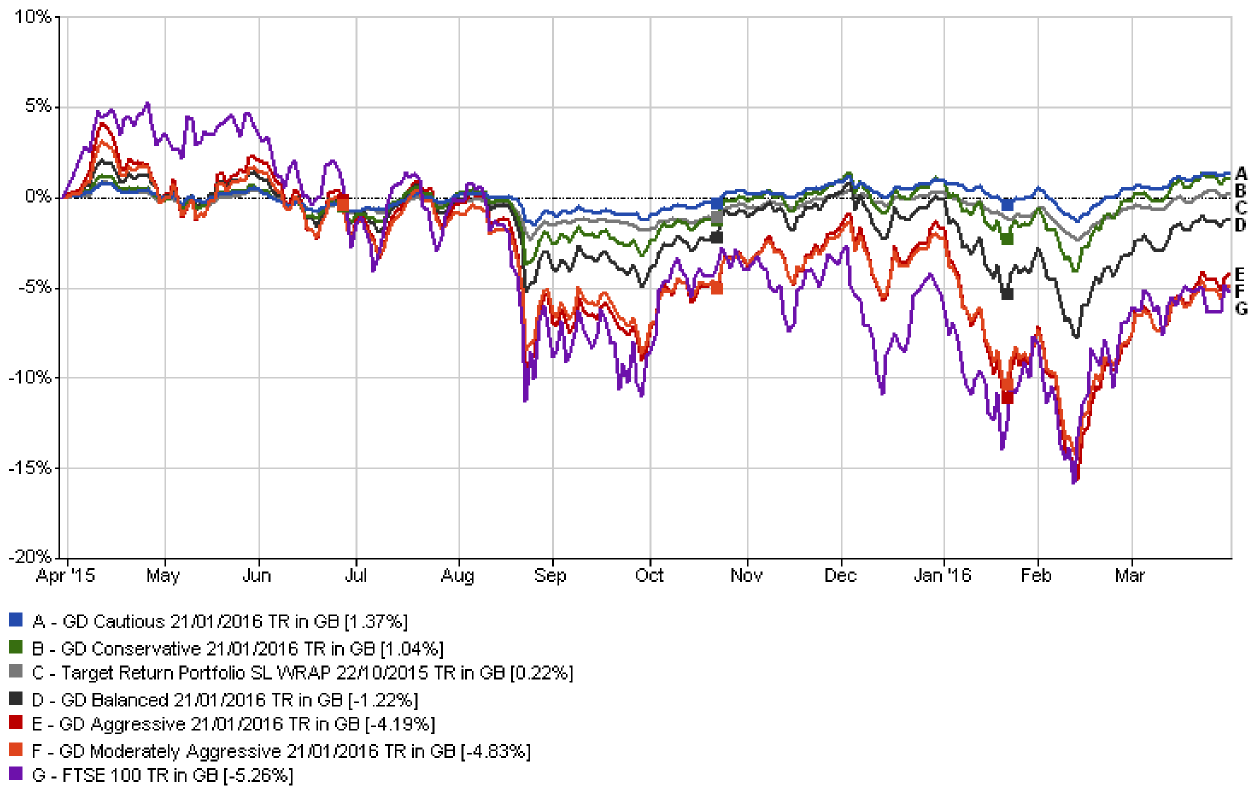
We believe global growth will be muted this year, as will corporate earnings in most major Western economies, so returns may be harder to find. We are optimistic that we can cross panicky periods with a prudent approach, as we have done in the past, and do not anticipate having to contend with rising interest rates for some time.

For the most part, we are not relying on a skittish market to generate our returns and have positioned capital where we believe growth will be more fruitful, but we will not chase performance where risk is too high.

The new tax year is upon us and we are hopeful it will begin more positively than the calendar year did! As ever, please do contact us if you have any queries about how we manage your investments.

Gibbs Denley Investment Committee
April 2016

One-Year Performance of Gibbs Denley Investment Models



31/03/2015 - 31/03/2016 Data from FE 2016

GibbsDenley
Insurance • Financial Services

Cambridge Crystal House, Buckingway Business Park, Swavesey, Cambridge. CB24 4UL
Tel: 01954 233650 Fax: 01954 232379 Email: info@gibbsdenley.co.uk Web: www.gibbsdenley.co.uk

Bury St. Edmunds 17, Angel Hill, Bury St Edmunds, Suffolk. IP33 1UZ
Tel: 01284 722600 Fax: 01284 750009 Email: info@gibbsdenley.co.uk Web: www.gibbsdenley.co.uk

Chelmsford Hurst House 131-133 New London Road, Chelmsford, CM2 0QT
Tel: 01245 290702 Email: efm@elliott-financial.co.uk Web: www.elliott-financial.co.uk