Automatically generated using Asset TV AI and Amazon Web Services.
It may contain errors and omissions.

Hello. Welcome. You watching Asset TV's Year in Review. Master Class with me, Jenny Ellis. Well, Trump's trade. Will brexit uncertainty, volatility, returning to market? And when will the bull run? And these are some of the questions that investors have been asking themselves over the last twelve months. But coming to twenty nineteen, will we be seeing more of the same? Well, I have a fantastic panel with me today to discuss. They are Stephen Andrew, fund manager of the Amun JI episode Income Funds, Energy Investments, Neil Dwayne Global Stretches Aliens Global Investors and Julian Chillingworth, chief investment officer Raft bones. Right, Steve, I'm going to start with you. What would you say is defined twenty eighteen for you. Fear volatility. That's just me personally. The markets have bean fixated on a variety of different issues. It's the disparate nature of those issues that has been quite critical for me. Really way. We've seen the price moves in the market to the shark volatility in the market. Lady at the door of a variety of different topics, you mentioned most of them in your opener there. For me, the most important aspect of this has been the rise in US bond yields. So at the start of the year, we saw a continuation of the sell off in the U. S. Yield curve. At the short end of a two year. Yields rose pretty rapidly in those first opening weeks of twenty eighteen. And that, for me, was the critical point at which the market then said, Well, hang on a sec. I thought we were lower for longer. I thought we had a ceiling on our interest rate expectations, and some of those valuations of equities then begin to come under a little bit of strain. Since then, a lot of its just being noise. A lot of it's been stuff that you just cannot get to grips with, and it's been very, very, very short. So it's been an interesting in volatile year, one that has been full of opportunities that I haven't really paid off yet. I can for you, Neil the same. A lot of fear and a lot of noise I would, I would actually say, because a lot of the mood in the market is driven by the U. S. Until the last couple of weeks, I have not seen the fear. We haven't seen many of the out flows, except maybe in the in the U. K. Where people have been come increasingly fearful of the politics around the UK and brexit itself. For me, I would've sat here your ongoing painted a constructive view of the global economy not a booming view, but a solid view of the UK thie global economy. And therefore I'm perplexed that every other asset class in the world is down except for us equities, because you would have expected Asia to have done fine Europe to have done fine, a bit more less muted than maybe two thousand seventeen in terms of returns. But I would never have expected to sit here in the middle of December, showing every asset class down apart from thirty stocks in the U. S. So it's been that sort of concentration of It's like there's a world out there that I don't recognize because the underlying economy still OK on one key area. German government bonds best performing major asset class. So I'm happy with the negative real yield German government bonds up seven percent this year that is caution. Gillian. As for me, a year of change, it was always going to be in my book quite a volatile year because you were seeing a change in terms of the battle was being passed from a period of very loose monetary policy to one where you saw the U. S. Leading the tightening. And obviously we're talking about Europe tightening later on, but also I just as a slightly human society, I write a morning meeting note every morning. My notes started the year talking about monetary policy. They started talking about earnings, tax cuts, etcetera. For the last four months, all I've talked about his politics on DH. Quite frankly, that has been sent to stage. And that's the way in which list this year has really changed. Well, you can certainly agree that politics has been moving markets more than ever before. But, Steve, you said it's just noise. So you're not to concern, for instance, the trade war that's been dominating the headlines for you. This isn't a concern. To say it's not a concern is is too flippant. Of course, it would be a concern if we were to plot a path towards significant tariffs being imposed this time next year by China on the U. S. By the U. S. On China. So if we have double digit important export tariffs being imposed that threatens to Krim corporate earnings, which ultimately is what we're interested in is equity investors. Then, of course, we should be concerned with that. Given where valuations currently are, though, we're already priced for a good deal of upset for a good deal of misery. And so in the context of where the price level is for global equity assets in particular, I would say that the trade, the trade war, the tariff risk is it occupies a small part of that. But Julian you there's a lot of noise about terrorists being on more tariffs on Europe and European autos. Thiss will have an impact on sentiment and especially Germany. So, considering this, what is your outlook for you? I mean, I think the auto tariff argument of range's is interesting. This morning, for instance, Trump declared that he thought the Chinese were about to cut tariffs, and that was great for making America great again. We'll wait out here on the tweet, but I think my concern is that if his attention turns back to Europe and he's already summoned the heads of the European auto industry two weeks ago to discuss manufacturing Mohr autos in the States. And if that doesn't happen, I think he will again try and rattle the saber around the European auto sector, which is not good news. German industry generally, and not good news for the small, medium sized companies in Germany. So I think it's something we need to keep an eye on on again in uncertain times and pressure on economies, particular European economies, then that's one more negative, I think, for the German economy, I would just add, Germany is the most sensitive to the health of the global economy. Fifty percent of GDP is export, so anything that looks like it's a small spanner. You know, I think we're actually we're already seeing it in in Q three in terms of industria production and on new orders. But I think when we then throw in the spanner of Brexit and potentially the issue that eighty billion euros of cars could suddenly end up in a car park in Cali for a while, you can see that that becomes a huge employment resource issue for for Germany, France and in Italy, as well as the supply chain issues. I mean, it was interesting. A few weeks ago, BMW announced. The mini car plant in Oxford is going to go on it's summer holiday in April. Whether whether you can have a summer holiday in April in the UK I'm not quite sure it's interesting, interesting complexion terms, but the fact is, they're sitting there saying, We're just gonna take a month off and we're gonna come back in May and find out what Brexit looks like. I think that type of disruption is something from an economic perspective will only be to see what it looks like when we when we get there, we are going to come on to Brexit. There's no avoiding it. But before we go there, you were telling me earlier that when it comes, trade wars, people are missing the bigger picture. And actually you're saying a Cold War when it comes to the U. S. Thinking that China's cheating on intellectual property. Just explain that. Yes, I think what we've seen under underneath the Trump Trade Headlines has actually been Washington itself, deciding along with now, as we've seen Australia, the UK and Japan beginning to feel that China's cheating on intellectual property and the abuse of patents that we've all had enough. Andi I think what happened in the summer with the closure of tea to access to American technology made Beijing realised that they cannot rely on American technology either. So I fear in the next ten or twenty years, if Jack Moore was right about this trade war lasting twenty years, it's not a trade war. It's a tech war. And therefore, for investors, the business model of American companies has been invented in Silicon Valley, making in Asia. That's not gonna work anymore, particularly you rely on manufacturing or assembly in China or China and its friends. But if Beijing is also not going to rely on American technology, they're not going to share what they have with America either. So we could end up with two competing ecosystems. I think for the global equity investor, thirty five percent of the Nasdaq is tech thirty five percent of Asian equities attack. You're going to have to think very carefully about the winners and losers, both politically and in terms of supply chain because I fear even someone like a Singapore will be forced to choose. Can you serve China, or can you serve America? What can you do? Both? I'm nervous that you're going to be able to do both the way I'm listening to what America saying at the moment, you're seeing that currently mein the one way situation. Okay, the CFO high profile. But on the same day, Petey a CZ, we probably all noticed, decided they weren't going to use one way technology in their fortune because they were concerned about effectively snooping. So I think to this point, this is a long, drawn out campaign. People like Peter Navarro, who advised Trump, are very much on this, and they're the people who are pulling the strings on this. I mean, this isn't really a Donald Trump initiative. He's being told exactly which way to go on this. And he's just a mouth. Please, and I think we're going to see a lot more of this. I guess from the point of view of investors, then it's It's as much about yes, following the developments of these things because they're very important, but also what's in the price already being compensated for my being compensated for the nature of these risks and given their nature, how might I be able to position myself against what the market already knows? Do I know things that the market doesn't very unusual? In fact, completely rare? In my case, I can never know anything the market doesn't know. So reflecting on what's in the price already and where the probability distributions around that. So how probable is it that we get a deterioration in those relationships over any meaningful investment horizon needs? So we need to really make sure that we're bringing it right back to price on what I'm being compensated for as much as trying to guess where things are going well, that's a good time to bring in Saxo Banks. What if they called them outrageous predictions for twenty nineteen because trying to think what's going to happen now is virtually impossible? If you'd asked after three years ago saying Donald Trump being in power, Brexit happening, we would've all thought these would have made the outrageous predictions. S. So what do you foresee then, as the Black Swan's for next year? Firstly, it's very honest of them to say outrageous predictions. Prediction should always have the word outrageous before them, because the very nature of the future is the range of uncertainty on the only certainty is that we will be surprised by things and so trying tow home in on the more plausible surprises It's it's for entertainment, and it is. It's amusing and entertaining, but I'm really not sure that as an investor it has validity is a framework. What I would say is from an investment standpoint in terms of where the risks are currently look for where the markets sure about stuff, look for where the market's already got a good deal in the price and one place would be gills. So you look at guilts and say, Well, where is the market currently expecting UK interest rates to be? This looks like it's very close to zero forever for UK rates. Where's your propensity for surprised that? So I would say losing money in your guilt holding can be very, very surprising and very easy for people in twenty nineteen and the other would be sterling. Interestingly, Sterling has moved a long way. Things pretty cheap relative to just about every other foreign currency out there. And if you've done pretty well out of that as an investor looking overseas and diversifying a global portfolio, you may want to think about hedging back some of that exposure because it just leaves you vulnerable to moves in the foreign exchange market, which are genuinely surprised that genuinely a risk we can't really think much about, So I'd say, Look at the price level, see what's in the price. There's scope for surprise will be there. Yeah, well, now your thoughts on this and also what do you think could derail things in Twentynine? Yes. I mean, I think when I think about risks and opportunity, that one risk I look at from a global economic perspective, and I've said this for last two or three years. Is something going wrong in the Middle East? I see nothing that reassures me that we couldn't come in any morning and find the oil one hundred thirty. And error has been made somewhere in the Middle East, not necessarily by the Saudis. Are the Iranians to somebody, makes a bad decision and on things kick off. So I think a risk every fund manager and every client can stress test their portfolio is the risk of higher oil. We've been there before. We know what it looks like. We know who the winners and losers are. And if you don't like the look of your portfolio under that scenario, I think you therefore have toe at least calibrate what you think the chances of that type of risk is. And is it worth you considering some type of some type of hedge for that? When I think about the opportunities, I very much agree with Steven. I think there's what we've seen in two thousand eighteen. A lot of things have been shot for arguably no good reason yet, and I think valuations will become important in a world where interest rates arising, where U. S dollar liquidity is falling, and therefore where that the ability to leverage and go with the flow that we've seen in the last four five years is coming to an end. And so I said, I'm looking at the unfashionable end of the galaxy, thinking of my Hitchhiker's Guide to the Galaxy sort of history. I would therefore think about not wanting to be economically sensitive, so my master. My most outrageous. A position in the portfolios I'm running now is long gold Because I want to be history of a weak dollar. I want to be a beneficiary of maybe a week, a week or economy globally on DH that would want me to stay away from equities in the short term. I think gold is a nice hedge against a change in policy in the next twelve to eighteen months. Julian Thesis from you. Yeah, I think the market is worrying about recession in the states, so probably I Okay. Well, yes. Okay. I want Brexit. No way. That's the two go hand in hand quite pregnant s o. I think that that is probably something that the market should be worrying less about. I don't really think the market is factoring in the break up of the URA wear debating before we came on about what was happening in France and Italy on I think it's becoming more and more concerning that. Politics is definitely not great in terms of either country currently. So you could well see that come back onto the people's radar screen next year on DH. I also think that people rather, I think are rather too relaxed, in my opinion, about the Chinese economy pulling through. And could you question, See the financial system in China come under pressure on the political partitions, having toe pump more money, which is another thing to think about, So there's quite a lot toe worry about next year on DH. Generally, the finally is quite keen on the concept of quantitative tightening as opposed to quantity zing, and I think that are taken will overplay their hand there as well. Yeah, just going back to what you mentioned just before a lot of people pricing in a recession in the States in twenty, nineteen, twenty twenty. What sort of signals do you look for when looking towards that? Well, I mean, the market has, in the last six weeks got completely fixated with the statement of The Yorker on Obviously, we will literally debating this just day and I have to say, in my career, which is quite long, I have not come across this two and three to five years before as being a predictive won the two and ten on the slope on the tune ten and two ten inverts, then that is concerning. But history would tell you that if it does, Imbert, it takes upwards of the year. Two eighteen months for the economy really, to go into recession on equity markets have historically actually performed very well in that period. So I think you you don't want to get too fearful of that station onto your thing about pricing in an opportunity that could be a great opportunity, and the market will sell off as well. My only concern, you know, I've run generally equity portfolios for thirty years is even. I now know about the inversion deal. So my concern is that if we all know we've got ten months to get out, I will get out in month nine. I mean, Stephen will want to get out in a month. Eight. You wanna get on one seven? So the reflectivity of the market is the moment inverts people going ahead. In my opinion, they're going to head for the hills far faster than they ever had. And also, we don't have a typical end of cycle rush. We haven't got high inflation, We haven't got tight labor markets. We haven't got a pay rise. Is that traditionally have happened. At the end of that, we've got the most a normal economic cycle that we are coming to the end ofthe. And therefore I don't think the playbook for me is necessarily the same as it's been in the more classic cycles of that. But I would say to you, that's their lives, their cheese in it, because if people press the X button on the economy continues to actually perform reasonably well, then they will get sucked back in. My concern is the leverage to sell out that the wealth effect. If we lose it, I think, would hit confidence. So my my concern would be the market Going down could be the self fulfilling part this time, rather than the economy get down and then the market tracks it. But you're the earnings. I think you are lacking proper, fundamental evidence to be to be really be worried about the U. S. Economy on generally speak the global economy as well in terms of the the point at which you are in the cycle. For those that liked to kind of try and date these things, it seems to me the predominant driver of their fear is the calendar because it's been going a while. Well, it's been going awhile, and therefore it needs toe things. Need Teo come to a close on with the yield curve? Well, the Fed's been going a little while on

DH. Long dated yields have stayed between three and three and a bit. So you've had a flattening in the yield curve, and then it looks like it may on day today. You may get an inversion or not. There's never Bean a, Zordon said. Never really a great predictor off recession, that anyone could be used. And, of course, there hasn't because that's not how things work in the world is a constantly changing and dynamic place. When you look at it, look for the internal imbalances that you might want to try and spot where there's vulnerabilities. In the global economy, you don't really find very compelling evidence. Salisbury. It's fine. You can build a story if you like. You can say I want to be pessimistic. Go and find me some data. What? I want to be optimistic, which is what your brain does anyway, so you can do all of those things to your heart's desire. But the facts are on a kind of just on a plain, old, objective basis. Do not support being fearful in this way. And this is why I have returned to the fearful point when we're overpaying for the insurance policy of the government bond. We're overpaying for the certainty, even though it's a certainty of a real loss on the capital. We're overpaying for that relative to the you're in love on the equity risk premium to that, you're getting quite substantial upside to your equities. So I think one of the greater risk just to kind of bring us back to the risk thing. The greater risk for twenty nineteen is there is a realization that equity's a pretty nicely priced and you end up with an observation of the U. S. Economy, which not with a kind of three percent handle on its unemployment rate. But it ends up with two percent handle on its unemployment. On the question becomes, we only get some sort of inflation here, and then you might have a different, completely different dialogue. I would also argue what I haven't been in New York last week. What I think we have to remember is if the president doesn't wish to be a one term president, given the one we were morning last week, he knows he can't fight in twenty twenty with the recession. And so he will want to see what he can want to fight the Fed. And we know he's already out there. But he will want to fight the slate. And I would argue there are parts of the U. S economy like housing that are slowing down, but they're not. Then they didn't really speed up that much. But the things they're five there, the Super six or five or seven percent rather have going up. Yeah, on DH. Therefore, I think, in so far as yesterday's meeting, as we're discussing in the White House with the Democrats, wasn't a great start, I could easily see him at some point realizing he needs to do a deal on health care or infrastructure. Spend. That maybe gives us a chance that the U. S surprise on the upside on lasts a bit longer. And then to your point. We may then get sucked in. That might be the sucker punch of getting sucked in, but Trump knows he needs to fight in a non recessionary environment. Otherwise, he won't get the keys. We don't need looking at market behavior. I'm looking at the price, behavior and thinking, What's going to make this market go? We don't need a catalyst. We don't need a change in the facts because the facts are actually very supportive. Globally earnings trends have been supportive of ongoing expansion. None of this caution that has stepped in and its politics that have just come in and smack everyone around the back of the head has something that we should now have an opinion on be fearful of worry about the implications. Okay, So I want to move back across the palm now and talking about vulnerabilities in markets. Let's touch on, Brexit. We can't avoid it. Julian. You have what is called. Is it the Brexit tree? Tell me about the different scenarios you're thinking about, Especially it's d day for trade made today's way. We've been having a if you're wrong, just like because obviously, we're a wealth manager. We thought that we needed Teo layout. How for our clocks? They should be looking at Rex is we drew a schematic for them that looked at the various percentage and we have say, in precisely predicted the percentage or various outcomes. So the outcomes that we've obviously Max Oh, a hard brexit crashing out, which which I think has lessened in the last because of the grief amendment, has lessened a great deal in the last few weeks. So we're giving a much lower percentage priorities that obviously, the grief Plan B gives the option for a second referendum, which, if Theresa May remains in power and her brexit deal is turned down, I think that percentage rises quite dramatically. And then the final branch out of that particular would be obviously some form of in quotes, Norwegian style deal which people are talking about, which I struggle with all sorts of reasons, from practicality, point of view. But politicians into a latched on to this and it may be some may try and run with the local since chance to that and then finally just to finish on whether she gets the deal through or not. Currently if she remains in office and that's a big question. But by a PM tonight, we will know then we've given effectively, currently a fifty fifty chance that she gets it because, as we know, with voting confidence tonight, we'll see what happens. But according to Paddy Power, were talking earlier. Actually, Corbin is has the best chance of being the next PM How much ever you know how much you price again when it comes to a Labour government. I think there's two hard facts. Toe. First of all, because the Parliament act, he requires a two thirds majority to break the Parliament act in in Parliament on DH. Currently, as the numbers stack out, he would struggle to achieve that. So a general election is less likely. I'm sure he will also, if Theresa May's ousted the a government of national unity card as well, which I have say's that interesting one combination of Jeremy Corbyn and the GOP together but way should see whether that one flies, But I don't think that's like a general election. I think we got us a low percentage chance, and that's reflected by opinion polls as well. Incidentally, the opinion poll that still, for all her travails, Theresa May is still substantially ahead of Jeremy Corbyn, When when people are asked, who do you think makes the best prime minister? If we're looking for a kind of fact based evidence that says one particular branch of Julian's Tree is more plausible than the other, that wouldn't support that fact wouldn't support another general election is Joon's already, said Norwood. Its support, even the outcome of that general election being accorded Corbin administration, which is perhaps not surprising given where equity assets surprised assets have moved pretty much in line with global equity assets. So it's something that there's there's not really a UK specific specific. It has been guilt and sterling. The equity market per se, is just reflecting that general anxiety that everyone else seems to have if there was another load of anxiety because there was an administration on the doorstep of number ten but had already said perfectly openly. But they have a platform that his anti capital. You have a bit more of a risk premium into your equity assets, if that being priced in more aggressively on, I would argue for everyone in this audience, including the four of us, the work we've done with a lot of our clients and a lot of the polling work that we listen to, the country is still divided. It's still effectively fifty fifty. So so we're all unhappy with this situation. The last two years have been a very poor quality debate about the issues, even the phrase crashing out I don't like because I've never seen the evidence that we would actually crash out. And I don't include the Bank of England's analysis is anything that has any credibility whatsoever. And so therefore I sit there and I question whether a second referendum, another general election, really will move the country into a different position because we're still fifty fifty. I think the clearest thing is we don't know there's things way need to divide the whole Brexit thing. We divide into short term and long term as investors. What do we care about? We care about the long term. What's the disposition of the administration of the ruling administration in what has been the disposition over the past pretty much quarter of a century has been global trade goods but five varying degrees. So global trade is a good thing in general. So what's the answer to my pertinent question about Brexit is to say, What extent does the UK is global trading position? Change on a ten year lance is probably not much unless you get a different ideology coming in. And that's where the administration steps into. The UK has been the reject bin of asset managers for Global Esserman. Sometime. Julian, this's going to set to continue. We shall see. I mean, we've hinted already. I mean sterling on a number of grounds on analyzing it on parity in various other work we've done looks extraordinary. Cheap. It is very cheap on, you know, you can construct quite a sensible case to say that's selling against the dollar should be close to the one forty one twenty five. And so I think that that for an overseas in MR is an attractive option on DH. Secondly, UK domestic UK names are again cheapen. Unless you are very bearish about of to your point about crashing out and the UK economy, then they probably look inexpensive. But Certainty is is what's required. Who's going to be a number ten point? The fact that if the market is showing certainty about something and it is it's showing that it's certain about the misery of some of these things, you should probably stand the other side of it. Well, this seems like a good time to bring in a question that was sent in earlier by league guardhouse. So let's have a listen to what he has to ask. The average active managers benefited from overweight to small and mid caps for many years. What do you see the rest of this approach now? Julian wanted to take that. Yeah, I mean, I think that the problem we've been seeing it way, too obviously quite a recent exposure school cap names, and we run a small to mid cap fund as well. I we're seeing it in in the fact that has been Mohr pressure coming on certain areas off the market in terms of company results on DH outcomes has been pressure on balance sheets in certain areas as well. So it's been a much for volatile area to invest in last six months. Andi, I think more of the same as companies get grip with probably slow global economy next year. Onda, obviously, in certain areas, the domestic economy that they operate in the U. K. Has been very tough for them. If they're close to consumer, if they're in leisure, in retail, et cetera, it's been really tough. And a lot of those smaller companies are involved in those areas. And some of those have been the Gogo names investors have been in on now finding props that the profits on the pressure and the pressure in the same time, I would also had almost a global level. I think one of the key drivers behind smaller accounts in the last two or three years has been the fact they're following the big caps. They're starting to leverage the transparency of the Internet globally. They're using barbell system. Their understanding had had a leverage Amazon on all these type of platforms. If suddenly global trade a bit of friction brexit, the rearranging of tech supply chains or auto supply chains happens. They haven't had the benefit of globalization. And then suddenly they're getting hit by the pain of regionalization. And so I think that although they are seen particularly the U. S, is a beneficiary of the trade war, I think for many cos that's not actually going to be there going to be the ultimate thing. And what I would just add to the thing about UK assets is, I think, what we need to watch very carefully from what I can see in our client base is sophisticated. Long term investors, no stonings, cheap. They like the legal system in the UK, they are looking to acquire UK assets, and I think we're going to find a lot of UK PLC will come under pressure, all other things being equal because they have. Despite what you say in two thousand eighteen, in the last three or four years, we have been underperforming asset to other places. So whether you're a U. S company that I would have been under investing in your real business because you've been buying back shares or your E M company looking to diversify into the fifth largest economy in the world, I think there are a lot of UK assets that are on sale, and if we have more sterling weakness, they're going to sit there going on a thirty of you. This is something I can just look up the truck and and move on. So that's the other thing I would be looking for us is to see international investors of a quoted nature or a significant age is starting to move back into the UK. Absolutely. And what's interesting is last year there was no disinvestment of the U. K. Which is the first time in many years. So that in itself tells you that people been standing back and they haven't been. I had to New funds toe UK bit for investment purposes or, more importantly, to grow their business outside the states or in Europe. Andi think that could change again if we can have a degree of certainty about the way in which we're progressing through this hole maze of Brexit to To give people that confidence. And I think we're still very cheap. If you were a U. S dollar, mister, why wouldn't you look at it again? Maybe that's the surprise when you get any sort the deal relief of an investment boom. Well, let's move back to the U. S. And on to our second recorded question from prom. It go. So let's hear what he has to say. So we're looking at in twenty eighteen at the performance off the American stock market. Well, are performing every other markets on DH bonds, on property, on in particular, within how the technology and industrial factual doing very well. So in terms of the outlook for next year, what are you doing about that exposure? Are you looking to maintain it, or do you think it's a good time now? To reduce is in favor of other areas that have not performed as well? So then put that we currently have Can't tell us waiting as it's been in the last twelve months. So we're effectively fractionally underway states and taking a little money out. We've taken some profits across the technology area on DH. We did that in the autumn on DH. I think that we are now happy where we are. I'm a long term believer in the states in a massive way. I think the U. S economy is going to continue to be the economy you want to be involved in. There's a lot of opportunity in the bottom at level investment in some very interesting stop names on industries, and I think that will continue to be there so we will maintain our explosion states on DH. Take the view that there's not going to be recession in two thousand nineteen and may well be some opportunities. Way have been cautious all year on I'd like to feel I'm half right, because if you strip out the top five or ten stocks in the S and P that we'll know otherwise called the Fangs, everything else looks pretty much like the rest of the world. So when we look, att expectations, we think earnings expectations valuations way too high in the US Andi, we've passed peak earnings growth, maybe was now in Q three past peak earnings momentum. You've got no dividend yield support. Arguably with rising credit, you're not goingto have share buyback support, which has been the key differentiator between the US and the rest of world. So in short hand, we're pivoting to Asia for growth in Europe for income. And I wonder in two thousand nineteen whether equities will deliver a positive return. But it won't be because they get re rated and it won't because the earnings go up a lot. It's because the dividend yields and you don't get any dividend yields in the US, so you have to pivot elsewhere. So that's where we would sit. And you mentioned the Franks and actually early in their van boys. So the Apple moved into bear territory. Do you think the bubble's bursting now on tech stocks, which people have been predicting for? Sometimes I'm not too sure. I think Apple is actually Tech stock. I think they have an awful lot of other drivers. But when the modus operandi is all about how many iPhone sales, I, for one can't see, even my children are no longer desperate to upgrade every time there's a new model. So I wonder whether anyone he wants on iPhone has got one. So I think that easy money. And if you believe my Cold War of Tech, then I think the margins and Apple are now only going one way is they have to reconfigure their production. I do think the social media stocks, courtesy of GDP, are here in Europe are going to get regulated. So I think the returns of a Google Aura or or Facebook and now permanently in decline. Maybe that's already in the price because Facebook down know in a year. But when you look at Amazon, we know it's the winner is going to be here for some time. I can't live with the valuation. But there I say, I like the company. So I'm struggling with the fundamentals, which I love. The valuation, which I can't can't deal with it. It's going, It's going. It's going to continue to power away. And Netflix is now, of course, creating enormous issues for TV and all the classic media stocks, which suggests to me, is onto something on DH. Therefore, muchas again, I can't necessarily live with the valuation. It is disrupting on off a lot of other companies. So I think that the tech is where we can learn whether we can invest. There is something that, I, you know, I struggle with. Fundamentally, I was going to say You shouldn't forget that the number of these companies have got enormous amount of cash. Well, apple in particular. So you may. You may not be getting a decent dividend your but you are going to get cash back on. That's going to be a continuing, particularly if you believe that their business model is one that's evolving and slightly slaying. So they will return more money to investors and shouldn't be forgotten. I think that I was wrong on the US underperforming global markets. My, my view would have Bean my prior would have been. The US looks pretty expensive at these levels in the first half of this year. I would have not would not have expected it to under perform so far. Greater opportunity is much more attractive. Perspective returns in Asian equity in particular, in Japanese equity, on also in European equity and in particular in European bank equity. Now what we've seen is that offer has just got even greater. That discount has got even greater. Behavior of the U. S was so wrong until September, pretty much September the twenty fourth, then the period since then, the U. S. Started to look just like every other global equity market, so it's still not as cheap. It's still not as good value on aggregate basis. Within that. However, there are some very interesting areas, and that would highlight the financials. Still, growing their earnings very, very nicely in an expanding economy may well be past peak earnings, but the value ofthe those earnings has, it looks pretty extraordinarily cheap. That looks like the market is actually priced for a recession in the US In that context, I think they're still opportunities. But we need to look more broadly afield, Japan. And finally, I say, if you believe consensus earnings for the S and P five hundred the next year, which is one seventy five dollars, it's on under fifteen times on fourteen times to your point. Okay, so let's turn to view questions now. What sort of assets split would you give to a low risk clients moving forward on? Would you give a bias to UK assets for any new money to remove foreign currency risk or hold more foreign assets? Neil, why did you take? I said that I would look at it is the safest way to take risk at the moment, I think, is what I call hunt for income on DSO in general, from a UK investors perspective, there's not a lot of income in the fixed income markets, so I think you're having to take some risk. The way I would calibrate that is you can look at US short duration bonds, which in U. S dollars a yielding four or five percent. You're capital's only at risk for the next twelve to eighteen months, or you arguably get a bit more punchy after two thousand eighteen, you look occasion and some emerging market sovereign credits in US dollars. We get eight to ten percent. That's where I would hunt for incoming the fixed income markets, and I would have probably forty to fifty percent of my money there if I'm taking equity risk valuations a crucial to me and I would hunt in the UK I think you know, everything in the footsie looks pretty attractive from the way I see it. And so I would start from the U. K. And then build out to some parts of of Europe and Asia. I agree with you about some parts of the U. S, but the valuations, the hotter parts of the U. S. For me just continue to put me off. Funny enough just to pick up on something. You said. I wouldn't touch a financial in the world simply because we solved the debt crisis with more debt. Where does all that debt sit? Where is the bad behavior? We've got more bad behaviour elsewhere, the European banks is still insolvent. Doctor Bank shows that every day we haven't fixed most of the financial system. If you're worried about China, you can't touch HSBC, the the financial systems of Singapore or Hong Kong, either because they have been the conduit through which China's access. So if there's twenty percent of the market, I would not be taking any risks on it's in the financials. Don't don't see that at this point in the cycle. You just don't need toe in the banks when you're at the wrong point in time, there cheap for a reason. They're cheap on going to stay that way. What's your thoughts on the best way to approach twenty nineteen? The best house? Take the risk to the questioner's point about thie. Uh, what how do we look after the money? How do we look after our cautious investor? His money? That my clients are cautious investors of the archetypal cautious investor, and so might where I'm invested. Currently, I've got roughly fifty percent in global equities, roughly half of the portfolio in global equity. Currently, that's pretty much my maximum in terms of the distance that I will travel. So I'm as disposed towards global equity as I'm likely to get. Given the current offering on when we're thinking about risk, it's very important that we think about it in the context of What am I paying for here on the German government, bond behavior is a classic example of that. If you want certainty of outcome, and that's currently a certainty of a sixty basis point annualized loss each and every year unless you can find a greater fool to buy the thing off you in between here and there. That's been an effective strategy up to now, but you don't want to be the greater fool so risk aversion, risk avoidance, risk management from my mind. So we've got fifty percent in global equity, not so much in the UK, but obviously it is looking more attractive. But well, hedge back most of our foreign currency because particularly now I'm back eighty percent back into sterling off that global equity exposure. So what? Yes, we're interested in earning money globally, Japanese equities, in particular, on DH European bank equity because they're cheap for a reason. Those things, but then crucially offset with some genuine diversification. So diversification on fixed income side currently the long end of the US yield curve getting three in a bit in terms of the yield. So in terms of the income, you're generating a half decent income yield from that. And at the same time, in the environment where you go into a recession when we don't know, we can't know those things, that office and protection to the full. So that's the that's the It's a cautious overall portfolio, but invested to generate returns, which is why we're investing. And Julian, your thoughts. I mean, I think there's two points make. Firstly, obviously, if our cautious Mestre is sterling based than their liabilities will be in sterling. So we need to be very aware that particularly we've had a long discussion, something being in expensive currently, that they need a watches, their money in sterling and the other point I would make, I would agree with you roughly forty fifty percent inequities, but they need to take five of you, so they so they need. They need to have that longevity there, Thea the point that I suspect that they will need income. So we've got to think about probably the corporate bond market in UK and in the U. S. Tio Point is well on where they can generate that income. And probably interestingly, a portfolio of of UK equity assets with an income bars could be a very interesting off opportunity. Currently at these sorts of levels, particularly area's, particularly, we're talking about domestic economy within the the more domestic focused active sex is, they are the ones that offering quite high income as well. Well, unfortunately, are almost out of time. So I'm going to have to take your final thoughts now. So, Julian, why don't you go first? I think next year is going to be another year. We've talked about fear. We talked about volatility. I think it's probably going to be more of the same. Were undoubtedly going to see the market flirt from time to time with concerns around recession, both in the global economy and in the U. S led by the U. S. I suspect on DH. So consequently, I think that you need to be still holding your nerve and remain in the extreme market. But have some insurance. We talked about gold. I would have a reasonable investment in fixed income as well for next year. So a more balanced portfolio than perhaps people have had of late. Yes, I would learn from the lessons of two thousand eighteen. Really think that clients have toe not be greedy with their returns? I think momentum has driven a lot of a lot of returns in the last couple of years, and people have become used to that type of momentum. I think when you see a good return on investment, I think you must be afraid to take a profits because I think the markets are going to be a little more volatile. Where I would potentially take the other side is, I think, as two thousand nineteen unfolds, the risk of a recession, certainly in the UK, but also in the U. S. Will rise. I think if the Fed turns, that is not a good sign for the markets. It is a sign that earnings are going down. The recession is approaching, the dollar will go down. I would therefore stick to fixed income markets in the short term to wait to see what type of recession it is, how the leverage on wines. But I would also then, deep down to you, to Stephen's point. Consistently, I'd be looking to own things that already attractively priced on DH. Therefore, valuations are very important. I think only things that are not crowded despite not being popular and therefore I would definitely look. Att potentially even Japan, but also the UK and Europe just got a void Some of the noise and avoid whether crowd is because when the crowd turns, you're just going to get stampeded in the exit, Stephen Mike Tyson once said. Everyone has a plan until they get punched in the mouth. The market's punched us in the mouth on several occasions over the course of twenty eighteen. Sticking to the plan. Sticking to saying, How can we observe these fundamentals hacking? We observe where the price really isn't. What the compensation for running that risk is is critical. Twenty nineteen should be when one's behavior amid the volatility when you must smacked in the mouth comes to fruition. On to take the point on rates. I think that the alleviation of upside pressure on U. S interest rates, which essentially is a global discount rate, the alleviation of that on people's beliefs around global equity valuations could well see a much more powerful return from equity markets in twenty nineteen. See? Well, do you stay with us here in asset TV's We've got information coming up on how you can put this master class towards your structured CPD. All that remains is to thank my fantastic panel today. So let me give you their names again.

We had Steven Andrew, fund manager of the Energy Episode Income Fund. Mm. Gee, Investments nailed. Weighing global stretches Aliens, global investors. And Julian Chillingworth, Chief Investment Officer Rathbone. So to all of you, thanks so much being with us today. Thank you very much. Until you have a fantastic Christmas and we'LL see you in twenty nineteen. By the end of this video, you'll be ableto understand and describe what's defined. Twenty eighteen two thousand nineteen risks that could derail things on how best to approach twenty nineteen. Please complete their effective statements. Invalidates your C V Day.