

# the tortoise & the hare



## | Q1 2017 Market Overview

While political developments and particularly those related to the Trump presidency have likely continued to impact the performance and sentiment of assets to some degree, global economic data continues to hold up well which in turn is helping to support a positive backdrop for most risk assets. In addition, the incredibly low level of volatility throughout markets has remained a major theme. Indeed the world's most renowned measure of volatility, the VIX index, had its lowest average in Q1 since Q4 2006. With the exception of the Japanese Yen (JPY), which lost 3-4% in value against all other major currencies, the other currency pairs hardly moved.

Though largely expected, in March the FED decided to raise the US interest rate by 25bps to 1%. This is on the back of a strong labour market and solid economic growth of 2% year over year as at the end of 2016.

GDP for the UK also grew about 2%, while annual inflation reached a 3 ½ year high of 2.3% at its latest reading in February 2017. The Bank of England Monetary Policy Committee left the interest rate at the record low level of 0.25%. Beginning of April marks the start of the EU80 to EU60 billion taper by the ECB. The European Central Bank also left interest rates unchanged, despite the unemployment rate reaching an 8 year low and annual economic growth just shy of 2%. The vast expansionary policy of the Bank of Japan continued and kept inflation slightly positive and GDP growth at 1.6% for 2016.

### **Fixed Income**

Performance across fixed income assets has been much muted. In developed sovereign bond markets, excluding currency effects, performance was flat. However, there was some noteworthy local divergence, as German Bund prices dropped 0.6% versus prices for UK Gilts and

# Q1 2017 Market Overview

---

US Treasury bonds, which increased by 1.7% and 0.8% respectively. Credit spreads tightened slightly, leading to Investment grade bonds delivered slightly better results to the scale of 0.2% for European corporate and 1.9% as well as 1.4 % for their UK and US brethren. Emerging market sovereign bonds enjoyed a great quarter. Hard currency issues gained nearly 4% and due to the good performance of emerging market currencies versus the dollar, local currency bonds did even better.

## **Equity**

Recently, investors experienced particularly strong performance from Emerging Markets equities, producing double digit returns including a currency tailwind. This possibly reflects broadly stable economic data in China and the emphasis of a gradual profile of tightening by the FED. European equities also did slightly better than US equities in local currency terms, possibly reflecting solid economic data and reduced political concerns, particularly in France. Stocks in Germany and Southern Europe pushed up the results, though UK stocks lagged

producing about 4% performance for the quarter. While in the US Small Cap stocks gave back some of the huge outperformance of 2016, investors experienced about 2% outperformance for the same market segment in the rest of the developed market world. US Value stocks delivered on par with the S&P 500, but outside of the US results were in favour of value.

## **Real Assets**

Oil has suffered a sharp decline in Q1, perhaps from fading optimism around the effectiveness of the OPEC production cut deal. The Bloomberg Sub WTI Crude Oil TR index was down 9%. That was only partially offset by positive returns for precious metals like gold and silver. Gold gained 8.6% in Q1, silver prices nearly 15%. AS a result, the broad Bloomberg Commodity index lost 2.3% in value. Global REITs finished the quarter in positive territory, up 1.7%.

## Asset Class Indices

Fixed Income Summary (%)										
Index	Q1 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)	
Citi World Government Bond Index LCL	-0.2	-0.2	3.0	1.3	8.5	0.2	4.5	3.4	3.3	
Citi World Government Bond Index USD	1.6	1.6	1.6	-3.6	-0.5	-4.0	1.7	-1.2	-0.6	
Markit iBoxx Liquid Investment Grade TR USD	1.3	1.3	6.4	-0.7	8.7	-2.4	11.8	4.0	4.2	
BofAML Global High Yield TR USD	3.1	3.1	14.8	-4.2	-0.1	8.0	19.3	3.3	6.3	
JPM Emerging Market Bond Index GD TR USD	3.9	3.9	10.2	1.2	7.4	-5.3	17.4	6.2	5.8	

Source: Morningstar as of 31st March 2017

Equity summary (%)										
Index	Q1 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)	
S&P 500 TR USD	6.1	6.1	12.0	1.4	13.7	32.4	16.0	10.4	13.3	
Russell 3000 Value TR USD	3.0	3.0	18.4	-4.1	12.7	32.7	17.6	8.6	13.1	
Russell 2000 TR USD	2.5	2.5	21.3	-4.4	4.9	38.8	16.4	7.2	12.4	
MSCI World ex USA NR LCL	4.5	4.5	6.5	4.0	6.3	25.5	16.1	7.1	10.3	
MSCI World ex USA NR USD	6.8	6.8	2.8	-3.0	-4.3	21.0	16.4	0.4	5.4	
MSCI World ex USA Value NR USD	5.7	5.7	7.4	-7.7	-5.4	21.5	17.3	-0.7	5.2	
MSCI World ex USA Small Cap NR USD	7.6	7.6	4.3	5.5	-5.3	25.6	17.5	2.7	7.8	
MSCI EM NR LCL	7.8	7.8	9.7	-5.8	5.2	3.4	17.0	5.6	5.1	
MSCI EM NR USD	11.5	11.5	11.2	-14.9	-2.2	-2.6	18.2	1.2	0.8	
MSCI ACWI NR LCL	5.7	5.7	9.0	1.3	9.3	25.5	15.9	8.1	10.8	
MSCI ACWI NR USD	6.9	6.9	7.9	-2.4	4.2	22.8	16.1	5.1	8.4	
STOXX Europe 600 NR EUR	6.1	6.1	1.7	9.6	7.2	20.8	18.2	7.4	10.8	
FTSE AllSh TR GBP	4.0	4.0	16.8	1.0	1.2	20.8	12.3	7.7	9.7	

Source: Morningstar as of 31st March 2017

Real Assets (%)										
Index	Q1 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)	
S&P Global REIT TR USD	1.7	1.7	6.9	0.6	22.8	2.8	23.7	7.8	9.0	
Bloomberg Commodity TR USD	-2.3	-2.3	11.8	-24.7	-17.0	-9.5	-1.1	-13.9	-9.5	
LBMA Gold Price PM USD	8.6	8.6	8.1	-12.1	0.1	-27.3	8.3	-1.2	-5.6	
Bloomberg Sub WTI Crude Oil TR USD	-9.0	-9.0	7.1	-44.4	-41.7	6.8	-11.8	-32.8	-22.0	

Source: Morningstar as of 31st March 2017

### Risk Warnings

Past performance is not a reliable indicator of future results.

The illustrations are in US Dollars unless otherwise stated. Currency fluctuations may increase or decrease the returns of any investment.

There can be no guarantee or assurance that a client's portfolio will not incur a loss over any particular time period. Fees and charges do not apply in respect of any index, indices are unmanaged, do not incur fees and cannot be invested in directly.

Pro forma results such as those shown do not represent actual trading; returns will be affected by advisor and fund management fees, trading costs, and other applicable charges.

This document is for illustrative purposes only and does not constitute a solicitation to buy or sell securities nor does it purport to be a complete description of our investment policy, markets or any securities referred to in the material.

## Quarterly Indicators

Economic Indicators				
Index	Unemployment rate (%)	Current A/C Balance*	Budget Balance*	Industrial Production (%)**
US	4.7	-2.8	-3.5	0.5
UK	4.7	-4.4	-4.0	3.2
Euro Area	9.5	2.9	-1.6	0.6
Japan	2.8	3.6	-5.4	4.8

\* % of GDP 2016 estimate  
\*\* change on 1 year ago  
Source: Economist (4th April 2017)

GDP growth (%)			
	2015	2016	Latest Quarter
US	1.9	2.0	2.0
UK	1.7	1.9	1.9
Eurozone	2.0	1.7	1.7
Japan	1.1	1.6	1.6

Source: Trading Economics

Interest rates (%) - Government bonds				
	1 month	3 month	2 years	10 years
US	0.8	0.8	1.3	2.3
UK	0.1	0.2	0.1	1.1
Euro Area (DE)	-1.0	-0.9	-0.8	0.3
Japan	-	-0.2	-0.2	0.1

Source: FT.com as of 4th April 2017

Inflation (%)			
	2015	2016	Latest Months
US	0.7	2.1	2.7
UK	0.2	1.6	2.3
Eurozone	0.2	1.8	1.5
Japan	0.2	0.3	0.3

Source: Trading Economics

Foreign exchange	Current Qtr End	Prior Qtr End	Year End		
	31/03/2017	31/12/2016	31/12/2016	Qtr % change*	YTD % change**
USD/JPY	111.4	116.6	116.6	-4.5%	-4.5%
USD/GBP	0.80	0.81	0.81	-1.2%	-1.2%
USD/EUR	0.93	0.95	0.95	-1.4%	-1.4%
GBP/JPY	139.3	144.1	144.1	-3.3%	-3.3%
GBP/EUR	1.2	1.2	1.2	-0.2%	-0.2%
EUR/JPY	119.2	123.0	123.0	-3.1%	-3.1%

Source: FT.com as of 31st March 2017

\*Quarter % Change from 31/12/2016 to 31/03/2017

\*\*YTD % Change from 31/12/2016 to 31/03/2017

Volatility Index (%)				
Index	Current	1 year change	52 week high	52 week low
VIX	12.4	-11.3%	25.8	10.6

Source: Yahoo Finance as of 31st March 2017

MASECO Private Wealth is a wealth management firm specialising in developing and implementing wealth planning and tax efficient wealth management strategies for American Families living both inside and outside the United States and UK Families living in the US.

Having spent a combined total of over twenty years at one of the largest US banks looking after the needs of expatriate American clients, the MASECO partners identified a gap in the provision of sound, practical and creative advice for US expatriate and inpatriate clients from the UK.

We decided to use the expertise we gained at large institutions to create a partnership that bridges this gap and provides a first class service within a wealth management firm – without the often conflicting demands of ownership by a large institution.

With this philosophy at its core, MASECO Private Wealth is focused, forward-thinking and, most importantly, puts its clients first.

All expressions of opinion are subject to change without notice and are not intended to be a guarantee of future events. This document is for information only and does not constitute a solicitation to buy or sell securities nor does it purport to be a complete description of our investment policy, markets or any securities referred to in the material. Opinions expressed herein are not intended to be a forecast of future events or a guarantee of future results or investment advice and are subject to change without notice or based on market and other conditions. Any reference to model portfolios, which is used for internal purposes, is purely illustrative. The value of investments and the income from them may fluctuate and can fall as well as rise. Past performance is not a guarantee of future results. You may not recover what you invest.

Although information in this document has been obtained from sources believed to be reliable, MASECO LLP does not guarantee its accuracy or completeness and accepts no liability for any direct or consequential losses arising from its use. Throughout this publication where charts indicate that a third party (parties) is the source, please note that the source references the raw data received from such parties.

MASECO LLP do not provide tax or legal advice and levels and bases of taxation can change. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Neither asset allocation nor diversification assures a profit or protects against a loss in declining financial markets. Currency fluctuations may increase or decrease the returns of any investment.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, partici-

pation of speculators and government intervention.

The prices of real assets (for example, precious metals) tend to fluctuate widely and unpredictably, and have historically experienced periods of flat or declining prices. Prices are affected by global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

REITs investing risks are similar to those associated with direct investments in real estate: lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

The indices are unmanaged, are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include expenses, fees or sales charges, which would lower performance.

International investing entails greater risk, as well as greater potential rewards compared to investing in your local stock market. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves risks not associated with more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Interest on municipal bonds is generally exempt from US federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence; if applicable, local exemption applies for issues within one's city of residence.

The initial interest rate on an inflation-linked security may be lower than that of a fixed rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur.

Changes in exchange rates may have an adverse effect on the value, price or income of foreign currency denominated securities.

Investments or investment services referred to may not be suitable for all recipients.

In the UK, certain services are available through MASECO LLP (trading as MASECO Private Wealth and MASECO Institutional) which is registered in England and Wales, number OC337650, with registered offices at Burleigh House, 357 Strand, London, WC2R 0HS, telephone +44 (0)20 7043 0455, email enquiries@masecopw.com. MASECO LLP is authorised and regulated by the Financial Conduct Authority for the conduct of investment business in the UK. The Financial Conduct Authority does not regulate tax advice or offshore investments. Messages and telephone calls to and from MASECO Private Wealth may be monitored to ensure compliance with internal policies and to protect our business.

MASECO LLP is a FINRA/SEC Registered Investment Advisor in the United States of America.

US Treasury Department Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you any US federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.