MASECO
PRIVATE WEALTH

the tortoise & the hare

Q2 2017 Market Overview

As the US economy keeps growing steadily (latest annual GDP growth estimate is 2.1%), equity volatility marked a 23-year low in early June with levels below 10 for the VIX. The Federal Reserve (Fed) raised interest rates again by 25bps to 1.25% in June, despite recent inflation figures coming in lower at 1.9%. The Fed also shared a concrete plan to reduce the size of its bloated balance sheet. Most market participants expect those actions to commence later this year. Once implemented, for the first three months, the Fed will reduce its balance sheet by $10 billion per month. Then, every three months, the amount of monthly balance sheet reduction will rise by $10 billion until the Fed is cutting its balance sheet by $50 billion per month. Throwing in further good news, recent Fed stress tests were positive across all 34 banks.

On the other hand, in Europe, Spain and Italy had to rescue failing banks and each case was handled quite differently. While for the Spanish bank, the new European rules were applied and creditors instead of the taxpayer had to pick up the bill, that was not the case for the Italian banks as the Italian government stepped in. In France, Emmanuel Macron's centrist coalition won a clear majority in the recent parliamentary elections. Macron now faces the difficult task of reforming France but is unlikely to make much progress in reshaping Europe until after the German elections in late September. Elsewhere in Europe, Mario Draghi and the European Central Bank (ECB) made no change to interest rates or quantitative easing (QE) measures. Annual GDP growth was at a solid 1.9% for Q1 while inflation dropped to 1.3% recently. The US Dollar for the quarter lost -6.4% versus the EUR, with EUR/USD breaking the 1.14 level.

The Bank of England (BoE) kept the base rate at 25bps. Annual GDP growth crept up to 2% in Q1, while inflation rose to 2.9%. Brexit negotiations have now commenced and will focus initially on the terms of the UK's withdrawal from the EU before the future relationship is discussed. The recent UK election weakened the position of the leading Conservative party, which had to get backing from a small Northern Irish party. The US Dollar also lost value against the UK Pound (-3.8%), ending the quarter near the 1.30 mark.

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Turning to Asia, Chinese growth keeps delivering, with annual GDP growth of 6.9% as of the 1st quarter of 2017, the biggest increase since Q3 2015. The Japanese economy on the other hand expanded less than in the previous quarter, clocking up annual GDP growth of 1.3%. Inflation remained a meagre 0.4%. Changes might be brewing in the Japanese political landscape, as Shinzo Abe and his LDP lost more than ½ of its seats in the very recent Tokyo election, with a new party the victors. The US Dollar did not move much against the Yen over the full quarter though, still trading near the 112 level.

Fixed Income

Performance across fixed income was positive across the board in Q2. In global developed sovereign bond markets, excluding currency effects, performance hit a level of 0.6%. Including currency impact, that mark moved up to about 2.9% in USD. Results for other fixed income categories were quite similar. If investors took on some Emerging Market sovereign credit exposure, gains were in the order of 2.2% in USD. If investors instead took on sub-investment grade corporate credit risk, global high yield delivered 3.1% return in USD. In Europe, the 10Y Bund yield stood at about 0.5% and 10Y Gilts at roughly 1.3% at the end of the quarter, while 10Y US Treasuries closed at a 2.3% yield.

Equity

Though nothing but a coincidence, major equity markets also delivered results in the same return range. In local currency terms, the S&P 500 index clocked up 3.1%, Stoxx Europe 600 0.8% and FTSE All Share 1.4%. But while US Small Cap results were hardly different to the main index results, US value stocks lagged it, though still positive at 1.3% for the Russell 3000 Value. Developed markets outside of the US on the other hand topped 5% in USD terms with positive currency impact doubling results in local currency terms. Emerging markets did even better, with a performance of 6.3% for MSCI EM, but negligible impact from currencies. While International value stocks also performed slightly worse than the main market in USD, international Small Cap claimed the crown for the quarter, supplying investors with returns north of 7% in USD.

Real Assets

Keeping with the “theme” of making small, single digit gains in the 2nd quarter, Global REITs delivered 2% in USD. Only commodity returns spoiled the party. As oil prices and silver suffered near double digit declines, diversified commodity investments were pulled down into negative territory, causing the Bloomberg Commodity index to drop about 3% in price. Gold was almost flat for the quarter.

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Asset Class Indices

Fixed Income Summary (%)									
Index	Q2 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)
Citi World Government Bond Index LCL	0.6	0.4	3.0	1.3	8.5	0.2	4.5	3.0	3.1
Citi World Government Bond Index USD	2.9	4.5	1.6	-3.6	-0.5	-4.0	1.7	-1.0	-0.2
Markit iBoxx Liquid Investment Grade TR USD	3.0	4.3	6.4	-0.7	8.7	-2.4	11.8	4.0	4.3
BofAML Global High Yield TR USD	3.1	6.3	14.8	-4.2	-0.1	8.0	19.3	3.3	6.9
JPM Emerging Market Bond Index GD TR USD	2.2	6.2	10.2	1.2	7.4	-5.3	17.4	5.4	5.7

Source: Morningstar as of 30th June 2017

Equity summary (%)									
Index	Q2 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)
S&P 500 TR USD	3.1	9.3	12.0	1.4	13.7	32.4	16.0	9.6	14.6
Russell 3000 Value TR USD	1.3	4.3	18.4	-4.1	12.7	32.7	17.6	7.3	13.9
Russell 2000 TR USD	2.5	5.0	21.3	-4.4	4.9	38.8	16.4	7.4	13.7
MSCI World ex USA NR LCL	2.3	6.9	6.5	4.0	6.3	25.5	16.1	6.6	12.1
MSCI World ex USA NR USD	5.6	12.8	2.8	-3.0	-4.3	21.0	16.4	0.7	8.1
MSCI World ex USA Value NR USD	4.4	10.3	7.4	-7.7	-5.4	21.5	17.3	-0.9	7.7
MSCI World ex USA Small Cap NR USD	7.3	15.4	4.3	5.5	-5.3	25.6	17.5	4.0	11.4
MSCI EM NR LCL	6.6	14.8	9.7	-5.8	5.2	3.4	17.0	6.1	7.6
MSCI EM NR USD	6.3	18.4	11.2	-14.9	-2.2	-2.6	18.2	1.1	4.0
MSCI ACWI NR LCL	3.1	9.0	9.0	1.3	9.3	25.5	15.9	7.7	12.5
MSCI ACWI NR USD	4.3	11.5	7.9	-2.4	4.2	22.8	16.1	4.8	10.5
STOXX Europe 600 NR EUR	0.8	9.8	1.7	9.6	7.2	20.8	18.2	7.1	13.3
FTSE AllSh TR GBP	1.4	5.5	16.8	1.0	1.2	20.8	12.3	7.4	10.6

Source: Morningstar as of 30th June 2017

Real Assets (%)									
Index	Q2 2017	2017 YTD	2016	2015	2014	2013	2012	3 Yr (Annualised)	5 Yr (Annualised)
S&P Global REIT TR USD	2.0	3.7	6.9	0.6	22.8	2.8	23.7	5.6	8.7
Bloomberg Commodity TR USD	-3.0	-5.3	11.8	-24.7	-17.0	-9.5	-1.1	-14.8	-9.2
LBMA Gold Price PM USD	-0.2	8.4	8.1	-12.1	0.1	-27.3	8.3	-1.9	-4.9
Bloomberg Sub WTI Crude Oil TR USD	-10.5	-18.5	7.1	-44.4	-41.7	6.8	-11.8	-36.7	-20.5

Source: Morningstar as of 30th June 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 ar index, indices are unmanaged, do no 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.

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Quarterly Indicators

Economic Indicators				
Index	Unemployment rate (%)	Current A/C Balance*	Budget Balance*	Industrial Production (%)**
US	4.3	-2.6	-3.5	2.2
UK	4.6	-3.4	-3.6	-0.8
Euro Area	9.3	3.0	-1.4	1.4
Japan	3.1	3.6	-5.1	6.8

* % of GDP 2017 estimate

** change on 1 year ago

Source: Economist (3rd July 2017)

GDP growth (%)			
	2015	2016	Latest Quarter
US	1.9	2.0	2.1
UK	1.7	1.9	2.0
Eurozone	1.9	1.8	1.9
Japan	0.9	1.6	1.3

Source: Trading Economics

Interest rates (%) - Government bonds				
	1 month	3 month	2 years	10 years
US	0.8	1.0	1.4	2.3
UK	0.1	0.2	0.4	1.3
Euro Area (DE)	-0.9	-0.8	-0.6	0.5
Japan	0.0	-0.1	-0.1	0.1

Source: FT.com (3rd July 2017)

Inflation (%)			
	2015	2016	Latest Months
US	0.7	2.1	1.9
UK	0.2	1.6	2.9
Eurozone	0.2	1.8	1.3
Japan	0.2	0.3	0.4

Source: Trading Economics

Foreign exchange	Current Qtr End	Prior Qtr End	Year End		
	30/06/2017	31/03/2017	31/12/2016	Qtr % change*	YTD % change**
USD/JPY	112.6	111.4	116.6	1.0%	-3.5%
USD/GBP	0.77	0.80	0.81	-3.8%	-4.9%
USD/EUR	0.88	0.93	0.95	-6.4%	-7.7%
GBP/JPY	146.3	139.3	144.1	5.0%	1.5%
GBP/EUR	1.14	1.17	1.17	-2.7%	-2.9%
EUR/JPY	128.7	119.2	123.0	7.9%	4.6%

Source: FT.com (30th June 2017)

*Quarter % Change from 31/03/2017 to 30/06/2017

**YTD % Change from 31/12/2016 to 30/06/2017

Volatility Index (%)				
Index	Current	1 year change	52 week high	52 week low
VIX	11.4	-22.5%	22.5	9.8

Source: Yahoo Finance (30th June 2017)

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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.

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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.

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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.

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