Market overview

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In the last 3 months many ships have passed under the bridge; including an unnecessary election in the UK, the sacking of 12 White House staff members for various "misdemeanours", an interest rate rise in the US and the "successful" launch of yet another North Korean missile. The one constant talking point has been the rise and rise of the US stock market.

One of the most important events so far this year is the change in the central bank narrative. Before Bernanke became an ex master of the universe he opined that Quantitative Easing (QE) didn't work in the way the Federal Reserve (the Fed) had anticipated i.e. cheap and plentiful money would promote economic growth as businesses borrowed to expand their operations.

Businesses did borrow but as Bernanke stated it didn't promote economic growth as predicted by the central bank. Corporates borrowed to fund share buy backs that cosmetically enhanced earnings per share rather than turning to real investment in their businesses. Interest rate rises are needed for real investment however in July, the Fed, the European Central Bank (ECB) and the Bank of Japan (BoJ) all kept interest rates on hold.

The Fed have been slowly turning the tanker around by cutting off new QE, then by reducing the reinvestment of redemptions and they are now talking about "normalising their balance sheet" by selling back some of their holdings in US Treasuries and other assorted US debt. In other words, "QT" - quantitative tightening.

In the UK and Europe

The FTSE 100 has rewarded investors well recently however the strength of sterling (relative to the dollar) and uncertainty over Brexit has dampened returns compared to the US. The economy is doing a lot better than many feared and we may get out of Europe on far better terms than the doomsters would have us believe.

Eurozone inflation continues to fall short of the European Central Bank (ECB)'s 2% target at 1.3% year on year in July. Even though rate hikes are still some way off, the narrative from the ECB has changed and Draghi too has more than hinted at the intention to remove QE at some stage in the future.

Asia Pacific and Emerging Markets

During July, the MSCI Emerging Markets Index was the best-performing equity index globally. Longer term the growth potential, relative to western markets, is significant, but in any emerging market, tomorrow's winners won't be those of today. This is a market where active managers are a must.

Gold

Gold continues its rally from the January lows buoyed up by the uncertainties about where the US is heading in terms of trade, immigration, interest rates, foreign policy, in fact pretty much everything. A move above the 2016 high at $1375 would be very good news for the gold bugs; a break above $1300 would be a good start.

Bonds

It is still too early to call the end of the 35-year bond bull market. The market does appear to be bottoming with the 2016 low only marginally below that of 2012, but we have had similar spikes up in yield before. However, the change in central bank rhetoric has added to the impetus for higher bond yields and a break above 3% for US Treasuries would be significant.

Our view

We continue to believe that running lower risk portfolios and focussing on preservation of capital is the best option, as we are not ruling out new market highs but a correction, significantly higher than the "odd1%", is looking increasingly likely.

For a copy of our regular monthly market commentary please visit **www.theprivateoffice.com\marketcommentary**

The table below shows our current view across all asset classes in terms of the relative weighting of each asset class against our own strategic asset allocation:

TPO VIEW
ACROSS ALL ASSET CLASSES

ASSET CLASS VIEW		TPO VIEW	LAST MONTH	NOTES
Government Bonds	Developed market conventional	⇩	⇩	The short term trend in yields is now up
	Developed market inflation linked	⇧	⇧	A hedge against future inflation?
	Emerging market conventional	⇩	⇩	Continuing dollar strength will be an issue
Corporate Bonds	Investment Grade	⇔	⇔	Too expensive, but Draghi "put" in place for European corporates
	High Yield	⇩	⇩	Yields and spread too low to justify risk
Equities	UK	⇔	⇔	The index may make a new high driven by hot money flows on sterling weakness. Hot money flows the other way too…
	US	⇔	⇔	There is the possibility of a new S&P high but it may be the last roll of the dice
	Europe ex-UK	⇔	⇔	Not as cheap as it was but still a lot of issues to contend with
	Asia ex-Japan	⇔	⇔	Attractive if the dollar shows signs of weakness
	Japan	⇧	⇧	Resistance at 20,000 is proving to be stubborn
	Emerging Markets	⇔	⇔	Attractive if the dollar shows signs of weakness
Commodities	Gold & Precious	⇧	⇧	The best insurance against central bank policy error
	Industrial	⇩	⇩	The super-cycle is over. No change until the global recovery improves significantly
Currencies	US Dollar	⇔	⇔	Benefits from being the main reserve currency and recent weakness may now be over but can the Fed engineer more rate rises?
	Euro	⇩	⇩	Structurally challenged but dollar weakness is helping for now
	Japanese Yen	⇔	⇔	The jury is out until the Fed play their hand on rates

Please refer to page 22 for an additional note from our Investment Committee.

Key

⇧	Overweight compared to strategic allocation
⇔	Neutral position compared to strategic allocation
⇩	Underweight compared to strategic allocation

Past performance is not a reliable guide to future performance.