Future Money Quarterly Commentary

31st July 2019 – 31st October 2019

This reporting period witnessed falls in major equity markets in Sterling terms, whilst fixed interest markets rose in value. Despite the recent falls, all major asset classes have recorded strong gains so far in 2019.

Looking at the notable IA (Investment Association) sectors over this quarter, North America provided the lowest return of -5.43%, Global Emerging Markets returned -4.86% and Asia Pacific (ex-Japan) returned -4.27%. These returns were significantly influenced by the c.6% rise in Sterling during the period, reducing the value of dollar assets.

The UK All Companies sector was one of the strongest performing equity sectors, returning -0.99%, followed by Europe (excluding UK) returning -2.82%. The Sterling Corporate Bonds and UK Gilts sectors returned 1.29% and 2.58% respectively.

Brexit continues to dominate domestic politics with Boris Johnson failing to meet his 'do or die' deadline of 31st October for the UK to leave the EU as Parliament passed a law, referred to as the Benn act, compelling the Prime Minster to seek an extension if a deal had not been agreed. This prevented the UK from leaving without a deal however, markets were surprised by the announcement that the withdrawal agreement had been re-opened and a replacement to the Northern Ireland back-stop arrangements agreed despite the EU previously insisting it would not renegotiate.

Parliament did vote in favour of the bill, but Boris Johnson felt it would not successfully pass the third and final reading due to the likely amendments which would, in his view, not sustain a majority. Therefore, he stated that Parliament was, in effect, broken and an election was necessary for the people to decide which party or parties should manage Brexit going forward. Boris eventually forced Parliament to agree to an election with the date set for 12th December.

This election is now being cast as a second referendum, with the main parties all taking a clear but different stance on Brexit with the Conservatives promising to complete Brexit with a deal ready to be executed immediately and currently leading in the polls by around 10 points.

The performance of the various market indices during this reporting period gives an important indication how markets may react in each of the various Brexit outcomes. As news broke that a new deal had been reached, Sterling appreciated in value, reducing the value of overseas assets, while UK stocks rose in value, particularly domestically focussed businesses, with the FTSE 250 index rising by more than 4% in one day.

In the event of a Conservative majority, we expect a similar market reaction as UK equities have been avoided by many international investors due to uncertainty. A clear path for Brexit would encourage more investment into both Sterling and UK stocks. A Labour majority would also remove

the option of a no-deal Brexit; however, investors may be concerned by some of the policies announced by Labour such as nationalisation of key industries from private investors.

This is essentially a Christmas election and the main parties have fully embraced the festive season with huge infrastructure spending promises. This position is also reflected across many developed economies and it will be very tempting for governments to promise spending increases which will be popular with voters. It will also provide a boost to flagging economic growth and potentially stoke inflationary pressures.

The main shadow over the global economy has been the escalation in trade tensions between the US and China which has led to several waves of tariffs being applied to the goods traded between the world's two largest economies. This has caused a reduction in trade and confidence, explaining the drop in global growth, and although a resolution of these trade tensions has looked tantalisingly close on several occasions, the breakthrough has not yet occurred.

Looking forward, the combined global effect of increased government spending and a reduction in trade tensions should support positive returns for equity markets. Although we have felt that fixed interest markets have been unattractive for some time, our view remains unchanged. If governments issue more debt, whilst increasing spending, this may push yields up which lead to losses for fixed interest assets.

If a break though does occur in the trade negotiations and Conservatives secure a majority at the next election, we are likely to benefit from our current positioning extending the recent trend of returns above benchmark.

Given turbulent market conditions, the Future Money portfolios each delivered small negative returns over the three months to the end of October 2019. However, over the past 12 months strong gains have been achieved. Future Money Real Value has grown by 5.16%, Real Growth by 6.55%, Dynamic Growth by 10.11% and Income has grown by 7.48%. Since inception in December 2008 Real Value has achieved an average annual return of 4.98%, Real Growth 6.34%, Dynamic Growth 7.52% and Income 6.71%.

Important Information

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Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

For any information about the Future Money funds please contact the authorised corporate director, Margetts Fund Management Ltd, on 0121 236 2380, admin@margetts.com or at 1 Sovereign Court, Graham Street, Birmingham B1 3JR. A copy of their Terms of Business which relates to investments into the funds can also be obtained using these contact details.

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