theADVISER

Brought to you by AGL Wealth Management

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services. In this issue we take a look at Equity Markets, Brexit Uncertainty and the Eurozone.

A positive start to Q2 for equities

Most leading equity markets ended April in positive territory, although monthly gains were relatively muted. The UK performed well compared with many of its international counterparts, and the FTSE 100 Index rose by 1.1% over the month. The UK economy registered its 13th consecutive quarter of positive growth during the first quarter of 2016; however, the rate of expansion slowed from 0.6% in the fourth quarter of 2015 to 0.4%, dampened by a slowdown in construction output. Meanwhile, debate over the future of the UK's membership of the European Union (EU) intensified to become increasingly fractious and the International Monetary Fund (IMF) warned that the global economic outlook was being undermined by a series of factors that included the possibility of a Brexit

In the US, the Dow Jones Industrial Average Index rose by 0.5% during April. Although the central bank left US interest rates untouched at its April interest-setting meeting, Federal Reserve (Fed) policymakers appeared more sanguine about the economic outlook. Nevertheless, Fed policymakers want inflation to reach its 2% target before they implement another rate increase. The annualised rate of inflation slowed from 1% in February to 0.9% in March.

Investors in Japan were disappointed by the release of the Bank of Japan's (BoJ's) latest quarterly Tankan survey, a closely watched poll that measures business sentiment at Japanese companies. Although the survey's overall reading remained in positive territory, business confidence deteriorated during the first three months of 2016, triggering fresh hopes that BoJ policymakers might consider further monetary easing. However, these hopes were confounded at the end of April as the BoJ elected to leave its monetary policy unchanged. Sentiment was further shaken by the news that a series of powerful earthquakes had hit Kumamoto in south-west Japan, resulting death, injury, and severe disruption to power supplies and business activities. The Nikkei 225 Index fell by 0.6% over April as a whole.

The eurozone's economy expanded more rapidly than expected during the first quarter of 2016, growing at a quarterly rate of 0.6% during the period, compared with growth of 0.3% in the final three months of 2015. However, the euro area returned to deflation in April: its annualised rate of inflation fell from zero in March to -0.2%. During April, the Dax Index rose by 0.7% during April, while the CAC 40 Index climbed by 1%.

The value of the investment can go down as well as up and you may not get back as much as you put in

In This Issue:

Need Advice? Get in touch today

AGL Wealth Management
69 Buchanan Street
Glasgow
G1 3HL

T. 0141 348 7710
E. info@aglwealth.com

UK equity income remains in favour

Smaller UK companies performed better than their larger counterparts in March: the FTSE SmallCap Index rose by 3.8% over the month, while the FTSE 100 Index and the FTSE 250 Index rose by 1.3% and 1.9% respectively.

The pressures on the UK's mining sector remained clear during March: copper mining company Antofagasta revealed a 58% decline in annual earnings and cancelled its final dividend payout. Meanwhile, Glencore unveiled a 32% decline in annual profits during March, having previously announced the suspension of its dividend payment in September 2015.

UK dividends lagged those of other developed markets during 2015, according to Henderson's Global Dividend Index and headline dividends fell at an annualised rate of 21.7%. This steep drop was partially attributable to a special dividend paid by Vodafone in 2014; however, sterling's weakness against the US dollar also played a part. Moreover, dividend growth amongst some of the UK's largest companies proved disappointing: in particular, dividend growth at HSBC and BP was muted, while growth at Shell and Glaxo was flat.

Looking ahead, Henderson expects a "challenging" outlook for UK dividend growth in 2016, exacerbated by pressures on companies in the mining sector created by sharp declines in commodity prices. On a brighter note, a strengthening domestic economy is likely to boost the ability of medium-sized companies to increase their payouts; nevertheless, this is unlikely to offset the effect of dividend cuts or cancellations amongst some of the UK's biggest firms.

The yield on the FTSE 100 Index eased from 4.18% at the end of February to 4.04% at the end of March, while the FTSE 250 Index's yield edged down from 2.71% at the end of February to 2.68% and the FTSE SmallCap Index's yield fell from 3.03% to reach 2.93% at the end of March. In comparison, the yield on the benchmark ten-year gilt rose during March from 1.46% to 1.54%.

Demand for equity funds deteriorated during February, according to the Investment Association (IA) and, at regional level, UK equity funds experienced a small net retail outflow of £3 million during the month. UK Equity Income was the second-best-selling IA sector, while Global Equity Income was ranked seventh out of a total of 36 IA sectors. Meanwhile, UK All Companies was the worst-selling IA sector for a second consecutive month, posting net retail outflows of £218 million.

Larger UK companies outperform in April

During April, the share prices of larger UK companies generally performed better than their medium-sized and smaller counterparts. The FTSE 100 Index reached its highest level since December during the month, boosted by better-than-expected trade data from China. Share prices in the UK's beleaguered mining sector picked up over April as a whole; nevertheless, short-term share-price performance in the sector remained choppy. Meanwhile, the price of Brent crude oil hit its highest level since November during the month, reaching US$48.14 per barrel.

The FTSE 100 Index rose by 1.1% in April, but remained broadly flat over the first four months of the year. Medium-sized companies – represented by the FTSE 250 Index – edged down by 0.7% over April, and fell by 3.6% since the beginning of the year. Smaller companies fared rather better than their medium-sized peers: the FTSE SmallCap Index rose by 1% during the month, but fell by 1% over the year to date.

Since the beginning of the year, the financials sector has performed particularly poorly compared with other industry sectors. Banks have registered the worst declines, followed by life insurance and real estate. In comparison, commodity-heavy sectors – including industrial metals & mining and oil & gas producers – have performed strongly.

April was dominated by earnings releases from some of the UK's most high-profile firms. In the oil sector, oil company BP posted a US$485 million loss during the first quarter of 2016 against a backdrop of weak oil prices. Nevertheless, BP maintained its quarterly dividend at US$0.10 per share. Earlier in the month, BP hit the headlines as 59.3% of its shareholders voted against a substantial pay increase for BP's chief executive.

Within the banking sector, Barclays revealed a 25% decline in first-quarter profits, while Lloyds unveiled a 46% fall in its first-quarter earnings. Lloyds absorbed a £790 million charge on the redemption of its remaining Enhanced Capital Notes; these were high-income bonds that were issued in 2009 to raise capital following the credit crisis. Elsewhere, Royal Bank of Scotland (RBS) reported first-quarter losses that were more than double the amount posted in the same period of 2015; however, these losses were largely caused by the payment of a one-off dividend of £1.19 billion to the UK government. Once this is stripped out of the calculation, RBS is calculated to have achieved profits of £225 million.

Brexit uncertainty pulls down gilt prices

Uncertainty over the future of the UK's membership of the European Union (EU) continued to cast a pall over investor confidence during April, and debate over the issue of a possible Brexit became increasingly fractious on both sides of the fence. Gilt yields continued to strengthen over the month, and the yield on the benchmark ten-year gilt climbed from 1.54% at the end of March to reach 1.73%. In comparison, the benchmark gilt yielded 1.96% at the end of December 2015. Meanwhile, the yield on the shorter-dated gilt, which matures in 2018, strengthened over the month from 0.45% to 0.52%.

During the first quarter, the UK economy posted its 13th consecutive quarter of positive growth; however, the pace of growth lost momentum, slowing from 0.6% in the fourth quarter of 2015 to 0.4%, dampened by a slowdown in construction output. Productivity amongst UK workers posted its most rapid quarterly decline since 2008, falling by 1.2% during the final quarter of 2015. Meanwhile, manufacturing output notched up its largest annualised drop since August 2013 during February, falling by 0.5%.

The British Chambers of Commerce (BCC) expects UK economic growth to continue to soften, and warned that many business indicators – including sales, orders, confidence, and investment intentions, were "at a low ebb". Elsewhere, the International Monetary Fund (IMF) cut its forecast for economic growth in the UK from 2.2% to 1.9% this year, but expects growth to pick up to 2.2% next year, underpinned by robust domestic private demand. The government missed its borrowing target in the 12 months to March, borrowing £74 billion rather than the forecast amount of £72.2 billion. The Chancellor of the Exchequer expects the UK to return to a budget surplus by 2020.

Retail sales volumes rose at an annualised rate of 2.7% in March. Average store prices (including petrol stations) fell at an annualised rate of 3% during the month, notching up their 21st consecutive month of year-on-year declines and fuelling speculation that inflation is likely to remain subdued. Although the UK's annualised rate of inflation strengthened during March to reach its highest level since December 2014, it remains significantly below the Bank of England's (BoE's) rolling target of 2%. The Consumer Prices Index (CPI) climbed to 0.5% in March, compared with 0.3% in February, boosted by strong increases in airfares and clothing prices.

The value of the investment can go down as well as up and you may not get back as much as you put in. Changes in rates of exchange may have an adverse effect on the value, price or income of investments.

Eurozone returns to deflation

In an April that proved as diverse as the weather, European investors experienced a range of macroeconomic and corporate data that managed both to encourage and to disappoint. During the month, the Dax Index rose by 0.7%, while the CAC 40 Index climbed by 1%. Since the start of the year, the Dax Index has fallen by 6.6%, whereas the CAC 40 Index has dropped by 4.5%.

Investors were cheered during the month by some heartening economic data; in particular, the eurozone's economy posted better-than-expected growth during the first quarter. The region's economy expanded at a quarterly rate of 0.6% during the period, compared with growth of 0.3% in the final quarter of 2015. Meanwhile, the rate of unemployment in the euro area eased from 10.4% in February to 10.2% in March, reaching its lowest level since August 2011.

However, inflation in the eurozone fell from zero in March to -0.2% during April, signalling the region's return to deflation. During April, the International Monetary Fund (IMF) urged countries to take steps to avoid the risk of deflation and warned that the implementation of "mutually reinforcing structural reforms and macroeconomic policies… is vital to stimulate actual and potential growth… and avert deflation risks". Elsewhere, disappointing manufacturing data triggered concerns that Germany's economic growth might be faltering, as factory orders posted a surprise decline. The news delivered a harsh knock to investor sentiment and led to a sharp drop in European share prices.

In Europe's banking sector, share prices surged amongst Italy's banks amid speculation of restructuring in the sector. This speculation was late confirmed by the announcement of a new rescue fund for Italian banks that is designed to prop up weak or distressed institutions. The benchmark MIB Index experienced high levels of short-term volatility during April, but rose by 2.7% over the month as a whole. Elsewhere in the region, Spanish bank Santander announced a 5% decline in first-quarter profits that was exacerbated by weakness in sterling and in the Brazilian Real.

In a bid to resolve ongoing delays surrounding the issue of Greece's next emergency financial bailout, Eurogroup finance ministers agreed to hold an extraordinary meeting on 9 May to decide on a suitable strategy. The Athens Composite Index dipped sharply as investors reacted to the news of further uncertainty, but ended the month 1.1% higher than it began.

Emerging markets rebound

Emerging markets generally rose strongly during March, boosted by growing confidence amongst investors that the world's central banks will continue to take action, when necessary, to support the global economy.

China's National People's Congress reduced its forecast for annualised economic growth to 6.5-7% this year and set a target of "above 6.5%" from 2016-2020. China's Premier Li Keqiang warned that China should be "fully prepared to fight a difficult battle". China's leaders aim to press ahead with a range of reforms – including the restructuring of state-owned enterprises – and also intend to create 50 million new urban jobs

Disappointing trade data provided fresh fuel for concerns over the outlook for China's economy. Exports fell at an annualised rate of 25.4% during February in US dollar terms, while imports dropped by 13.8%. Meanwhile, China's industrial production continued to deteriorate during the first two months of 2016, rising at an annualised rate of 5.4%, compared with an increase of 5.9% in December. The Shanghai Composite Index rose by 11.8% during March, but fell by 15.1% over the first three months of the year.

Credit ratings agency Moody's revised down its outlook for China from "stable" to "negative" during the month, citing China's deteriorating fiscal position, falling foreign exchange reserves, and doubts over its leaders' capacity to implement reform. Although Moody's reaffirmed China's "Aa3" credit rating, its report warned that "credible and efficient reforms" were necessary in order to avoid a downgrade at a later date.

Share prices in Brazil rose during March amid mounting speculation that President Dilma Rousseff will be overthrown and possibly impeached. The Bovespa Index surged by 17% in March and by 15.5% over the first quarter of 2016. Investors appear hopeful that a fresh government could provide renewed impetus for Brazil's struggling economy, which shrank by 3.8% in 2015, to register its most severe contraction since current records began in 1996. In comparison, Brazil's economy remained flat in 2014, expanding by only 0.1%; looking further back to 2010, it registered growth of 7.5%. Brazil's annualised rate of inflation is running in excess of 10%, compared with the central bank's target rate of 4.5%. Central bank policymakers voted by six to two in favour of maintaining its key interest rate at 14.25%, and their decision triggered a late drop in share prices at the end of the month.

The value of the investment can go down as well as up and you may not get back as much as you put in. Changes in rates of exchange may have an adverse effect on the value, price or income of investments.

Q1 US earnings beat (revised) expectations

Newsflow during April was dominated by first-quarter US corporate earnings announcements. By the end of April, 73% of the S&P 500 constituent companies that had released first-quarter earnings reports had beaten consensus expectations. Nevertheless, it is worth remembering that, in many cases, forecasts were reduced before the reporting season began. According to S&P Dow Jones Indices, earnings are expected to improve during the second quarter and to hit new records in the third and fourth quarters.

During April, the Dow Jones Industrial Average Index rose by 0.5%; over the first four months of the year, the benchmark index climbed by 2%. Meanwhile, the S&P 500 Index edged 0.3% higher over the month and posted an increase of 1% over the year to date. However, the Nasdaq Index was dragged down in April by disappointing earnings reports from some of its key constituents, and fell by 1.9%. Nevertheless, the technology-heavy index rose strongly between January and April, climbing by 3.5%.

The energy sector was the best-performing S&P sector during April and over the year to date, boosted by a rebound in the price of oil. Materials also performed relatively strongly. In comparison, information technology was the worst-performing S&P sector during the month, dragged down by disappointing corporate earnings from Apple and Microsoft. Telecommunication services and utilities also declined in April, but registered strong gains over the first four months of the year.

Although Federal Reserve (Fed) policymakers opted to leave US interest rates unchanged at their April interest-setting meeting, they appeared rather more optimistic about the economic outlook, citing an improving labour market and supportive conditions for household spending, including increases in real incomes and strong consumer sentiment. The members of the Federal Open Market Committee (FOMC) voted nine to one in favour of keeping rates unchanged. The only dissenter was President of the Kansas City Fed Esther George. The FOMC increased its key interest rate for the first time since June 2006 in December 2015; however, policymakers want the rate of inflation to reach its target of 2% before instigating a further increase in interest rates. The annualised rate of inflation slowed from 1% in February to 0.9% in March. Elsewhere, having reached its lowest level since February 2008 in February 2016, the rate of unemployment in the US rose from 4.9% to 5% in March.

Content courtesy of Adviser Hub UK Ltd.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser.

T: 0141 348 7710 F: 0141 555 5960 E: info@aglwealth.com www.aglwealth.com