Searchlight INVESTMENTS LIMITED
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FINANCIAL PLANNING & WEALTH MANAGEMENT

- Security -
- Clarity -
- Simplicity -

Market Spotlight

October Market Update

October has been a turbulent month for stock markets with the FTSE 100 down by 6% at the time of writing. The primary cause of the declines has been strong economic data and less market-friendly rhetoric from the central bank in the United States. Both of these have seen investor-demand for low-risk US government bonds wane with the annual yield on a ten-year US Treasury bond rising past 3.2% - a level previously unseen since 2011. This matters because US Treasury bonds are considered to be the global safe haven asset. The rates that they offer therefore have some impact on most other asset prices around the world. The theory goes that if investors can once again receive a decent yield by holding an asset backed by the government of the world's pre-eminent power, some may choose to sell their shares and buy 'less risky' bonds once more. Still, bear markets often coincide with recessions and there is no sign of the latter occurring either in the US or in other developed nations at the moment. It is however natural that markets have demonstrated occasional difficulty and discomfort in adapting to a regime of higher rates as for almost a decade they were stuck close to zero.

Inside Our Model Portfolio Investment Process

Eight years have gone by since we introduced the Searchlight Core Portfolios, a range of model portfolios constructed to meet the varying investment objectives of our clients. In 2012 we expanded our service with the launch of the Searchlight Satellite Baskets, designed to complement the existing Core Portfolios.

The ranges of portfolios benefit from a robust investment process based on three key elements: asset allocation, fund selection and regular reviews. We work closely with independent investment consultancy Asset Intelligence Research to ensure that the process is underpinned by rigorous and detailed analysis.

Guidance from the team at Asset Intelligence enables us to develop sophisticated and diversified portfolios that maximise opportunities whatever the prevailing market environment. This process is overseen and managed by an experienced team of investment professionals and evaluated on a quarterly basis by our Investment Committee. Additional support on the Committee is provided by independent consultant and former senior fund manager, Ken Baksh, as well as Asset Intelligence. The method for fund selection is underpinned by a combination of quantitative and qualitative analysis. We select from a wide range of both actively-managed and passive funds, using scale and consistency filters to identify those funds that can achieve reliable performance throughout the market cycle. Our model portfolios include a range of investment vehicles – diversified across geographical regions and industry sectors – with the aim of ensuring that the portfolios can appropriately weather a range of different market conditions. Fund selection and performance are reviewed each quarter, though we also conduct ad-hoc assessments and updates between quarters in the case of a significant event, for example, a change of fund manager or a fund closure.

The whole process is regularly reviewed by our Investment Committee to ensure that the portfolios are delivering on their objectives and remain appropriately matched to their respective risk profiles.

"An investment in knowledge pays the best interest." – Benjamin Franklin

Market Review Q3 2018

Global equities made further gains in the three months to end-September though results varied considerably across markets. The MSCI World Index returned 5.3% on the quarter but this was driven primarily by US market gains while UK, European and emerging market equities underperformed by comparison.

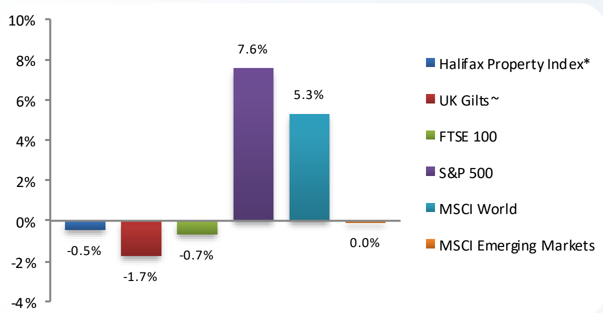
The US market retained its impressive momentum of 2018 with third-quarter returns of 7.6%. Investors shrugged off concerns about new trade tariffs and political scandals affecting President Trump and instead focused on the country's strong economic backdrop. Annual GDP growth was confirmed at 4.2% in the second quarter of 2018 while jobs and wage growth remained robust through to September. A positive corporate earnings season also helped drive business and consumer confidence to multi-decade highs by the end of the quarter.

In this climate the Federal Reserve voted for another 0.25% interest rate hike in September – the third of the year so far – and pledged to continue on the path of gradual monetary tightening in the coming year. This trend is supporting US dollar strength which in turn put further pressure on emerging markets during the third quarter.

The regional Euro STOXX benchmark returned a modest 0.6% amid concerns over the new Italian government's budget plan and the exposure of major European banks to distressed emerging markets like Turkey. Risks to global trade also weighed on sentiment, though fears of a direct impact on European markets subsided after a July deal between Trump and European Commission president Jean-Claude Juncker.

The Eurozone economy continued to expand but monthly indicators for manufacturing and consumer confidence pointed to a slowdown in Q3. As Greece finally emerged from its bailout programme investors faced new concerns over populist spending proposals that could destabilise public finances in Italy. Inflation rose above 2% in September as the ECB reaffirmed its strategy of withdrawing from monetary stimulus while holding interest rates at historic lows until at least mid-2019.

The UK's FTSE All Share index returned -0.8% in the third quarter as Brexit-related uncertainty continued to dampen enthusiasm for UK assets.



Total Returns (including dividends) 01/07/2018 to 30/09/2018
** Halifax Property Index is Seasonally Adjusted*
~FTSE Actuaries UK Conventional Gilts All Stocks

The threat of a 'no deal' exit increased in September as Prime Minister Theresa May underscored her commitment to the government's 'Chequers Plan' despite resistance from EU leaders and within her Conservative Party.

The Bank of England (BoE) hiked its policy interest rate to 0.75% in August, a widely-expected move that had a limited impact on the markets. The rate increase came after quarterly GDP growth rebounded to 0.4% in Q2 and accelerated further during a hot summer, while wage growth also ticked up above the level of inflation amid tight labour market conditions.

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