



EB WEALTH

QUARTERLY REPORT
Q3 2016

GLOBAL OVERVIEW

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Markets made a strong start to the second half of 2016 following on from the promising start in the first half of 2016. Most equity markets were up over the quarter due to strong corporate earnings particularly within the technology sector, promising global macroeconomic data and positively received election results. Emerging markets were the stand out performers with oil and some precious metals underperforming.

With the UK public voting to leave the European Union in late June, the Bank of England responded quickly by reducing the UK base rate to 0.25%. Markets are still processing the UK's vote to leave the EU and are speculating whether a further decrease will occur in 2016. Markets have now focused their attention to the eagerly awaited conclusion to the US election.

The conclusion of Clinton and Trump's presidency campaigns are likely to lead the forthcoming quarter along with the UK's formal divorce from the EU and negotiation talks. For the rest of the world global growth performance is likely to weigh in on their markets.



The rise of Asian Markets

In the first half of 2016, some Asian markets struggled with big losses. However, they have had a great start to the second half of 2016 with strong gains in China, Japan and India and overall sentiment is looking far more promising in Asia. In this report, The EB Partnership looks at the prospects of Japan, China and India.

Japan has many large exporting companies, meaning Japanese equities generally perform well when the Yen falls in value against other currencies. A weaker Yen means Japanese goods become cheaper for importing countries leading to increased demand for these goods and thus stimulating the Japanese exporting businesses. America is planning to increase its rate before the end of the year which is likely to put downward pressure on the Yen. Additionally, the American economy is showing encouraging signs with robust growth figures so if this continues then this will put pressure on the Federal reserve to continue hiking interest rates in 2017 putting further pressure on the Yen. Elsewhere in Japan, employment has increased, wages are rising and a new corporate governance code in Japan should see companies increasingly focus on the interests of shareholders. The sentiment is therefore growing for Japanese equities and many economists feel growth prospects are strong.

Chinese company share prices had a sharp decline in 2015 but have been recovering in 2016 so far. Chinese equities tend to be heavily linked to commodity prices as many of the commodity producing companies reside in China. Oil and metal prices plummeted in 2015 therefore significantly affected many of the Chinese companies. However, oil prices have now started to recover and some metals have started to pick up too. A classic example of this is copper. China accounts for 50% of global copper demand and has therefore benefited from this. Economic growth forecasts now seem more realistic and true for China as well and many Chinese companies have attractive valuations. China is however, likely to experience lower levels of growth as it transitions from being an exporter and investment-led economy to one focused on domestic consumption. This also presents an opportunity as the Chinese middle class continues to grow in wealth and in number.

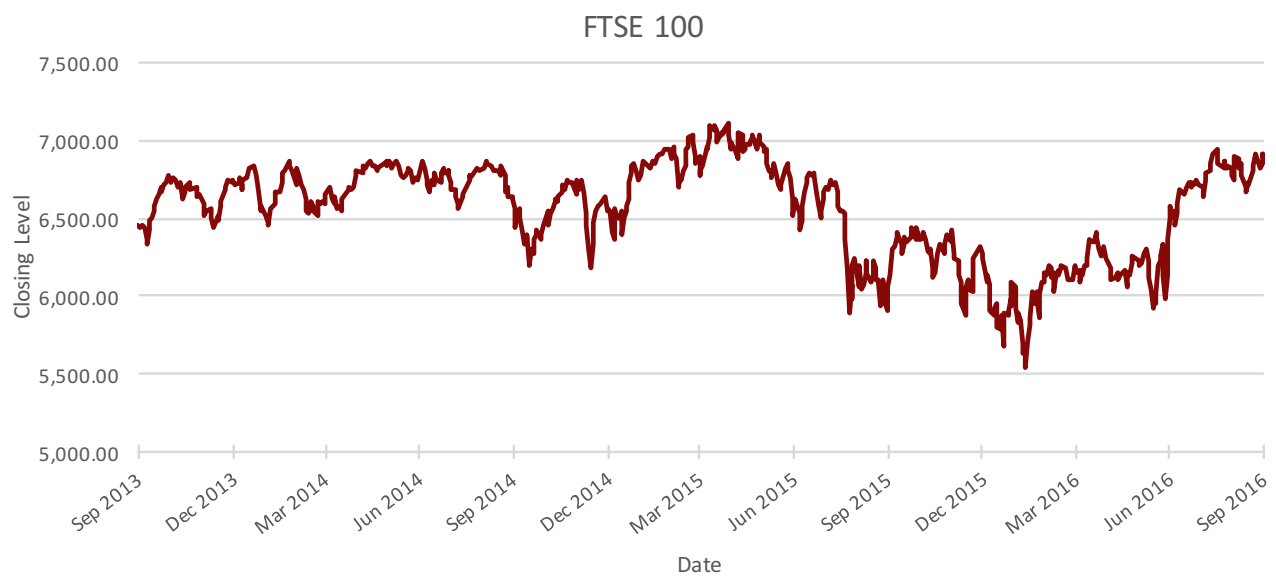
India is currently the world's fastest-growing major economy and is predicted to overtake the US and become the world's second-largest after China. A second term as prime minister for Narendra Modi looks increasingly likely, potentially meaning at least seven years of political stability. Consumer spending in India is rising quickly, driven by rising incomes. India seems to be in a demographic sweet spot with projections that India's working age population is to grow by a third over the next 3 decades. This is likely to result in a more dynamic, entrepreneurial economy with fewer dependents for the economy and government to support. This will be particularly advantageous in India for both the manufacturing and service sectors as businesses will have access to many young, physically fit and well-educated workers. However, the country will need to generate sufficient jobs to benefit from the young workforce which could be challenging given that India's growth looks set to be based on the less labour-intensive services sector, which receives most of the foreign direct investment. Additionally, outdated and cumbersome labour regulations serve as an impediment to job creation.

Asia continues to face several challenges amid ongoing political turmoil in some countries. We at the EB Partnership anticipate ongoing stock market volatility across Asia. However, we believe the longer-term growth prospects remain intact. Asian economies should continue to benefit from increasingly youthful and well-educated populations, rising domestic consumption and an increasingly wealthy middle class. We also feel valuations across the region remain attractive.

MARKET COMMENTARY

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2. US
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5. Emerging Markets
6. Fixed Interest
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1. UK



The Office for National Statistics (ONS) estimates that UK GDP grew 0.5% during the fourth quarter of 2016. The unemployment rate dropped to 4.8% for the July to September period. In the aftermath of the "Brexit" vote the Bank of England reduced interest rate to 0.25% from 0.5% and will start

buying bonds in a bid to stimulate lending activity and boost the economy. This quarter has also seen inflation, as measured by the Consumer Prices Index (CPI), increase by 1% for September 2016 of which the main contributors were clothing, overnight hotel stays and motor fuels.

With the value of Sterling falling on the back of the “Brexit” vote, UK equity markets rallied up over the quarter, with the FTSE 100 up 6.1% and FTSE All-Share up 6.8%. David Cameron resigned as the Prime Minister of Britain once the UK voted to leave the EU and was replaced by Theresa May. Within three weeks of the June 23rd “Brexit” vote, investors’ negative sentiment reversed as it became evident that the U.K. economy would not suffer immediate consequences from the departure from the EU. Moreover, the Stocks in the materials sector performed well supported by improving prices for some commodities and signs of stabilization in China’s economy. Financial

services and Information technology companies were amongst the top performers. Pharmaceutical companies experienced the biggest losses, as drug pricing practices came under renewed criticism during the U.S. presidential election campaign.

Even though UK markets have performed well this quarter, we believe that various headwinds need to be navigated in the short-medium term. These include, the falls in Sterling, uncertainty over Theresa May’s new policies and inflation creeping up to name a few. For this reason, The EB Partnership remains cautious and will maintain its underweight position on UK equities this quarter.



2. US



Over the quarter, the final estimate for the second quarter GDP was revised up to 1.4% from 1.1%. US non-farm payrolls fell short of expectations for August. Inflation as measured by the Consumer Prices Index (CPI), increase by 1.5% for September 2016 remaining below the Federal Reserve's 2% target. The Unemployment rate remained at 4.9% and The Federal Reserve left interest rates at 0.75%.

US equities had a satisfactory performance between July and September with the S&P 500 up 3.3%, Dow Jones up 2.1% and the NASDAQ up 9.7%. This resulted from the Federal Reserve decision to leave interest rates at 0.75%. Expectations are rising that rates will increase again before the end of 2016 on the back of positive economic news regarding strong earnings reports and the previous quarter's GDP. Technology and financial companies also performed strongly whilst the telecommunication and utility sectors underperformed.

Although US equities are up and growth is strong, the US election is drawing closer to a conclusion with Hilary Clinton still favourite to win but Trump not out of the race yet. Given this major election on the horizon, The EB Partnership is concerned about the volatility of US equities until the end of the year and will therefore maintain our "underweight" tactical position on America.

3. Europe



On the macroeconomic front, Eurozone GDP was up 0.3% for the second quarter of 2016 slowing from 0.6% in the first quarter. Annual inflation ticked up in September to 0.4% from 0.2% in August. The flash eurozone composite purchasing managers' index dipped to 52.6 in September from 52.9 in August, indicating that growth remains positive but somewhat fragile. Overall the data indicated lacklustre growth with low inflation.

Eurozone equities climbed up over the quarter with most European indexes advancing. The French CAC was up 5%, German DAX up 8.6% and the FTSEurofirst 300 Index was up 3.6%. Eurozone equities were supported by a generally encouraging second quarter reporting season. The European Central Bank (ECB) left monetary policy unchanged during the period. Some investors had anticipated that the €80 billion per month of asset purchases would be extended beyond the current

March 2017 deadline. Information technology, financials and materials companies advanced strongly. By contrast, health care and utilities delivered slightly negative returns.

Although Eurozone markets have performed well this quarter, economic growth slowed and inflation is falling. On the agenda for the next year is the lead up to many European elections, Britain's formal divorce from the EU, negotiations between the two nations along with the impact of the US elections this year. The EB Partnership therefore maintains its 'neutral' tactical position on Europe this quarter but will be monitoring the lead up to the upcoming events.

4. Japan



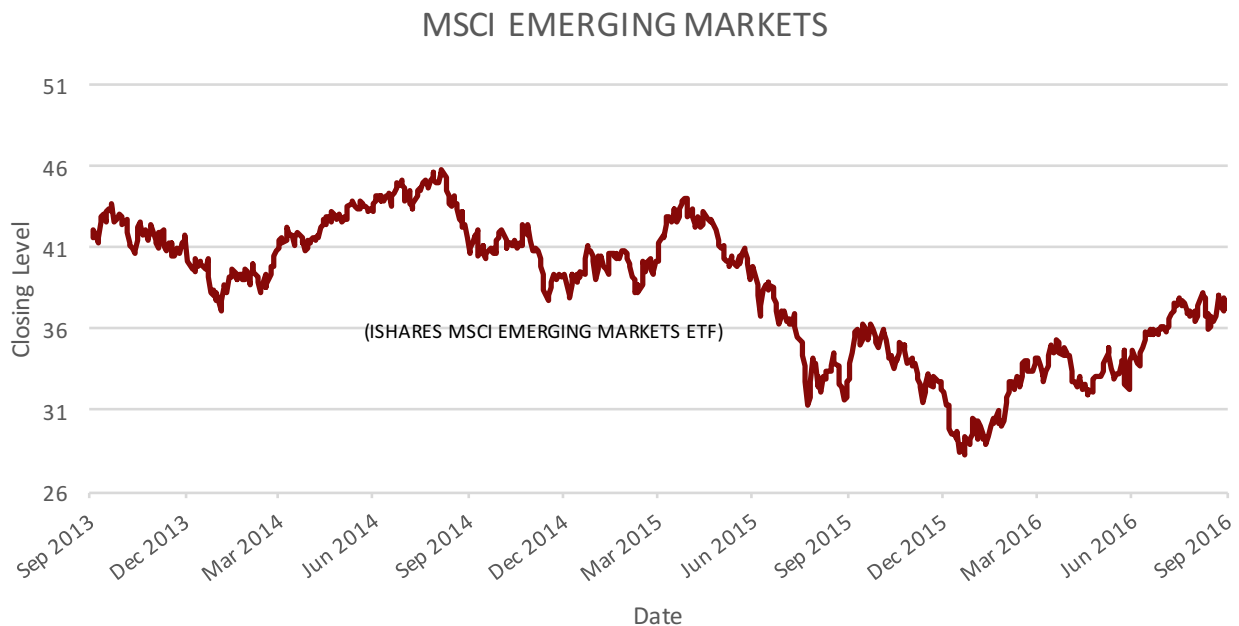
The Japanese equity market rose by 5.6% in the third quarter of 2016. This was attributable to Prime Minister Shinzō Abe announcing plans for a ¥28 trillion fiscal stimulus package in July, shortly after his ruling coalition won a majority of seats in Japan's upper house. The program includes spending on infrastructure projects, the reconstruction of disaster zones, and subsidies for child and elder care workers. The stimulus measures were well received and were expected to combat sluggish economic growth and stubbornly low inflation. Investors reacted positively to the fiscal stimulus as they expected the Yen to devalue which in turn would be positive for Japanese equities going forward. Financial, car manufacturers and gaming sectors performed well with healthcare companies being the laggard.

On a macroeconomic front, Japan's economy grew 0.7% for the March-June period. Consumer Prices fell by 0.5% in August. However, prices excluding food and energy crept up 0.2%. Japan's seasonally-adjusted unemployment rate ticked up to 3.1% but

remains a bright spot since reaching a 21-year low in July. The Bank of Japan introduced an interest rate target for 10-year government bonds. The central bank said it would aim to keep the base rate "more or less at the current level," which is roughly 0%. Under the new policy, the BOJ will maintain its ¥80 trillion a year asset purchase program but has removed the average maturity target of government bond holdings. The bank opted not to reduce its short-term target rate further into negative territory, but kept the option open for future meetings.

Japanese equities performed well this quarter. We believe that the performance of Japanese equities will be impacted by the prospects of the US economy which will be heavily impacted by the up and coming US election and the policies implemented by the winner. If the US economy lives up to its current promise economically it will put pressure on the Yen which is likely to be positive for Japanese equities. The EB Partnership therefore maintains an overweight position.

5. Emerging Markets



Emerging markets notched their strongest quarterly gain since early 2012 with many regions registering strong gains. Brazil's main index led the way rocketing up 13.3% closely followed by China's Hang Sang Index which was up 12% with Taiwan obtaining similar returns. This was attributable to U.S. interest rates remaining unchanged and central banks globally providing further stimulus. Fiscal stimulus in China and attractive valuations in the developing world also helped boost sentiment. Brazilian stocks marched higher on hopes of economic change under new political leadership. Michel Temer succeeded Dilma Rousseff as president after Rousseff was ousted from office in a long-awaited impeachment trial. Temer has set out a market friendly adjustment programme to put the economy on a more sustainable path. In Russia, equities climbed to their highest level in a year amid increased confidence Russia's economy will start to grow again. South African equities overcame ongoing political turmoil, helped by encouraging economic data. By contrast, Turkey underperformed

as elements of the military attempted a coup. The attempt failed but the government implemented a state of emergency, detaining large numbers of suspected collaborators. Two sovereign debt ratings agencies have since downgraded Turkey to non-investment grade. The Philippines also recorded a negative return and was the weakest index country, as the market gave back some of the strong gains generated following the election of President Duterte in May.

The macroeconomic releases were low profile this quarter but generally showed encouraging signs. In China, macroeconomic data appeared to stabilise, with data showing that GDP expanded by 6.7% year-on-year in the second quarter which was in line with expectations. The purchasing manufacturing managers' index (PMI) climbed to 50.4. South Africa's economy grew 3.3% on an annualized basis during the April-to-June period, reversing a contraction in the previous three months.

As can be seen certain emerging markets have performed very well this quarter with the economic outlook looking far more promising across many regions. However, they are very volatile markets. The EB Partnership will be keeping a close watch on them and once the US election has been settled

we will be in a stronger position to commit to which areas we feel are the most promising. We will therefore be maintaining our neutral tactical position to this area.

6. Fixed Interest



Bond markets were generally calm in the third quarter of 2016, particularly when compared to the tumultuous final week of June. In the US, 10-year Treasury yield climbed from 1.47% to 1.59%. The extension of policy accommodation by the BoE in August pressed gilt yields lower, while the ECB's decision to leave its current range of support measures unaltered meant that German Bund yields barely moved with 10-year gilt yield falling from 0.87% to 0.75% and 10-year Bund yield fell fractionally from -0.13% to -0.12%.

On the corporate bonds front, sterling corporate bonds gained the most ground of major credit markets. The investment grade2 (IG) BofA Merrill

Lynch Sterling Corporate index generated total returns of 7.3% and outperformed gilts by 5.2% despite a softer September. High yield sterling bonds gained 6.2%. The US IG index rose by 1.4% and outperformed Treasuries by 1.8% while euro IG credit generated a total return of 1.9%. The high yield dollar and euro indices generated 5.5% and 3.5% respectively.

With bond yields generally low and staying relatively stagnant this quarter, The EB Partnership is expecting stronger performance in other asset classes in the near term. Therefore, we will reiterate our overall underweight position.

7. Property



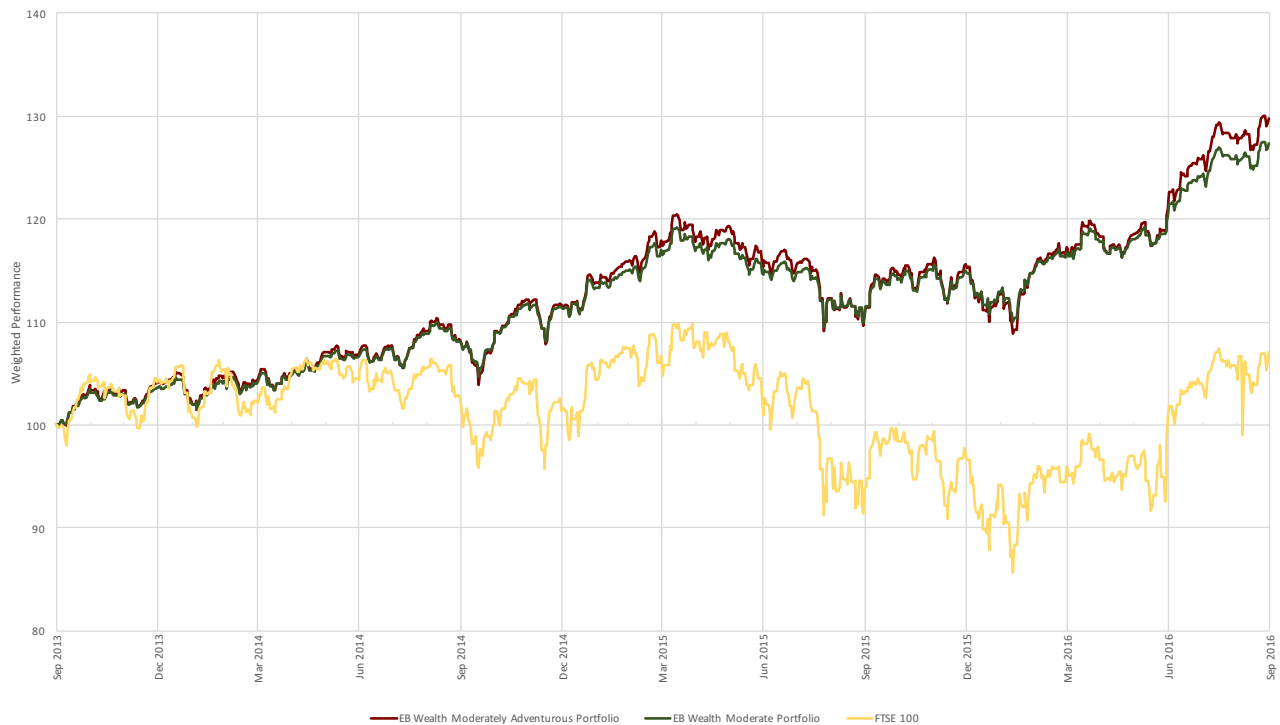
Since the start of 2016 commercial property has gone out of favour with concerns over the UK's EU membership coupled with slowing economic growth as commercial property is directly linked to these factors. Shortly after the UK voted out of the EU, many investors flooded out of UK property funds resulting in many fund managers selling some of their commercial properties to reimburse their investors. Additionally, in July, reports came out showing a sharp decline in investment demand for commercial property in the UK, with London most severely affected. Many surveyors are saying that the sector is an early stage of a downturn. Overseas investment demand has dropped by 27% overall and by 41% in London, the worst figures since 2009.

The office subsector has been the hardest hit by Brexit with rental growth expectations falling

sharply. Retail property has been struggling over the last 3 years but also has seen prices and rents stagnant or falling in some areas (excluding big high streets) this quarter. Whilst the retail and office sectors have struggled in the wake of Brexit, the industrial sector has been relatively robust. Supply of leasable space has hardly changed for the retail and office sectors but has declined in the industrial sector which has helped industrial rental prices.

The overall sentiment towards commercial property has been negative in 2016 and with the UK voting out of the EU this has worsened the sentiment. The EB partnership believe this sector will be underperforming in the short term and maintain our current 'underweight' position on the sector.

EB Wealth Portfolio Performance



The above graph shows the performance of our Self Invested Personal Pension (SIPP) portfolios including a 25% weighting into a basket of structured products which were recommended to clients over the same period.

Due to the close ended nature of structured products, not all clients can be invested into the same products and will therefore not have received the same returns. The graph above shows the average returns our clients would have received were they to have invested in our moderate or moderately adventurous portfolio, including the average returns they would have received from the structured product element of their portfolio.

OUR TACTICAL ALLOCATION

Sector	Forecast	Action	Morningstar Moderately Adventurous Allocation %	Tactical Overlay %	Final Allocation %
US	Unfavourable	Underweight	11	-1	10
UK Large Cap	Unfavourable	Underweight	22	-1	21
UK Mid Cap	Unfavourable	Underweight	8	-1	7
UK Small Cap	Unfavourable	Underweight	5	-1	4
Europe	Fair	Neutral	13	0	13
Japan	Favourable	Overweight	7	2	9
Asia	Unfavourable	Underweight	4	-1	3
Emerging Markets	Fair	Neutral	9	0	9
Commodities	Favourable	Overweight	5	1	6
Global Fixed Income	Unfavourable	Underweight	2	-1	1
UK Gilts	Unfavourable	Underweight	2	-1	1
UK Corporate Bonds	Unfavourable	Underweight	2	-1	1
UK Inflation- Indexed	Unfavourable	Underweight	2	-1	1
Property	Unfavourable	Underweight	5	-1	4
Cash	Favourable	Overweight	3	+7	10



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