EB WEALTH

QUARTERLY REPORT
Q2 2019

Global Overview

Global sector performance for the period 01/03/2019 to 31/05/2019			
Markets	**Country**	**Index (ex div) / sector**	**Performance for the Period 01/03/2019 to 31/05/2019**
North America	USA	S&P 500	-1.84%
		Dow Jones	-4.65%
		Nasdaq	-1.87%
UK	UK	FTSE 100	0.77%
		FTSE All-Share	0.33%
Europe	Germany	Xetra DAX	1.08%
	France	Paris CAC 40	-1.09%
	EU Countries	FTSEurofirst 300	-1.13%
Asia	Japan	Nikkei 225	-4.64%
	China	Hang Seng	-6.63%
	India	Nifty 50	9.75%
South America	Brazil	Sao Paulo Se Bovespa	2.56%
	Mexico	SE IPC	0.30%
Other Markets	South Africa	JSE FTSE ALL SHARE	-0.98%
	Australia	S&P AUST	3.30%
	Russia	RTS	8.40%
	Canada	S&P/TSX COMPS	-0.19%
Commodities	N/A	Gold	-1.06%
		Silver	-3.76%
		Brent Crude Oil	2.77%
		Copper	-9.85%

The above table reflects that, apart from the odd exception, markets have generally fallen over the past quarter. Once again, Australia is one of the best performing regions, together with India and Russia. However, the latest update to the seemingly endless simmering US-China trade war has spoiled hopes of what looked to be a strong quarter for markets around the globe. Elsewhere, commodity prices have fallen.

Despite over half of the markets in the table above not performing well, our structured product returns have been extremely positive, reflecting an average return of 10.13% this year. Several plans have matured within the first year of investment, boosting the figures reflected on page 3 of this report ('Structured Product Average Return').

Overall, the performance of our portfolios over the last year is in line with that of the markets. On the downside, the Jupiter India Fund has contributed to some underperformance in our Adventurous and Moderately Adventurous portfolios. However, over the last 3-6 months we have had an overall good outperformance of our Moderately Adventurous portfolio, and whilst it has been a difficult year, we are happy with our outperformance of 4.94% over the last three years.

All of our portfolios are still defensively aligned given the high degree of political and economic uncertainty around the world.

Labour vs the Wealthy

Prior to the build-up to Theresa May's resignation announcement, bookkeepers were offering odds as slim as 3/1 that Jeremy Corbyn would become the United Kingdom's 78th Prime Minister. Below we look at what this eventuality could mean for the 'privileged and not the few' following the next general election.

It seems many (and not the few) have been agonizing over the subject. A multitude of financial advisers have admitted that their clients worry more about what a Labour Government taking power means for their finances than what the result of the calamitous, and seemingly never-ending, Brexit negotiations will bring. A fellow IFA firm, Saunderson House, recently ran a survey, the responses from which epitomise this level of concern as their clientele have decided that a change in government is the most significant threat to their financial standing.

What is it that Labour are actually proposing that will be so detrimental to the higher and additional rate taxpayers of the nation? Firstly, higher taxes for the higher paid are all but assured. Labour Party statements have made it evident that those earning upwards of £80,000 per annum will be hit with increased income tax (40% up to 45%). Considering that the additional rate tax band (45%) currently becomes effective when annual earnings reach £150,000, the change would cause significant deterioration to take home earnings. Additionally, once earnings reach £123,000pa, Labour propose to raise the income tax rate to 50% (a level not reached since the 2012-13 tax year).

The pensions Lifetime Allowance (LTA) increased to £1.055m at the turn of the 2019-20 tax year, up from £1.03m. This increase yet again emphasises the importance the Tories have placed on saving for retirement to offset the challenges faced by the UK's aging population (e.g. the rising costs of care). However, irrespective of political allegiance, pension tax relief is widely believed to be an area 'ripe for the picking' in order to bolster budgets. Chancellor of the Exchequer, Philip Hammond, declared that pension tax breaks have become "eye-wateringly expensive" (costing the Treasury £39bn last year) in the build up to the October 2018 Budget. It therefore seems only a matter of time before cuts are initiated - time that would be shortened with Jeremy Corbyn residing at Number 10.

Further to this, Labour have always been a proponent of the diminishment, or even disposal, of the additional rate taxpayers' 45% pension relief. Their aim is to reduce this to 20%. Steve Webb, ex-MP and current director of policy and external communications at Royal London, has previously supported the idea of a 'one size fits all' level of pension tax relief at 30%, but it seems Labour want to take the reduction one step further for the wealthier members of the public.

Another arrow to the Labour Party's bow in slicing the pockets of the high earners is a radical change to the already unpopular inheritance tax legislation. It is not inconceivable that Corbyn and Shadow Chancellor John McDonnell will aim to abolish the Inheritance Tax ('IHT') residence nil-rate band, which currently provides an extra £150,000 to those passing their property down the generations. This, combined with another possibility that the favourable IHT status of defined contribution pensions (in which members can pass their contributions tax free to their dependants), will be discarded, anticipates for gloomy times for advisers and their higher worth clients.

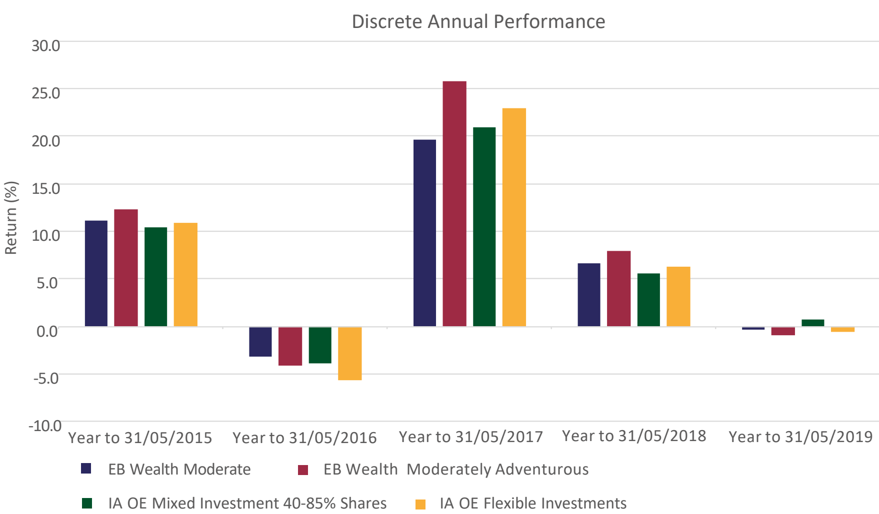
With Capital Gains Tax ('CGT') being at its lowest in history, it is all but certain that a Labour Government intent on taxing the affluent would look to amend this in some way. The focus of such change would more than likely start with reducing the £11,700 CGT allowance.

Whilst there are other points that have not been touched upon above (e.g. a rise in corporation tax, a diminution to the movement of capital both in and out of the UK, or even brand new taxes altogether), EB Wealth remain confident that with the right planning strategies in place, we can help our clients offset the inverse effects of legislation brought in by a Labour Government.

Tom Mills - EB Wealth

EB Wealth Portfolio Performance

The chart above shows year to date performance of our Moderate and Moderately Adventurous fund portfolios over the last five years. We have also included the IA OE Mixed Investments 40-85% returns and IA OE Flexible Investments as benchmarks. Please see the last page for more information in relation to the benchmarks along with further information on our portfolio returns.



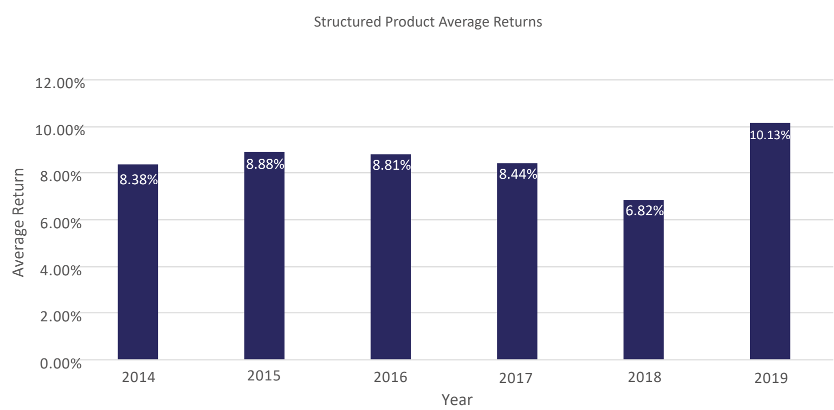
Discrete Annual Performance

This chart shows the discrete annualised performance of our Moderate and Moderately Adventurous fund portfolios over the last five years.

We also run Cautious, Moderately Cautious and Adventurous portfolios and information on these portfolios can be obtained upon request.

Structured Product Average Return

This chart shows the average return achieved on our structured products recommendations on a discrete annualised basis.



Market Commentary UK

Macroeconomic Highlights 01/03/2019 to 31/05/2019		
	Latest Reading	**Compared to Previous Quarter**
GDP Growth	0.5%	Increased from 0.2%
Yearly Inflation	2.1%	Increased from 1.8%
Wage Growth Including Bonuses	3.2%	Fell from 3.4%
Unemployment Rate	3.8%	Fell from 4.0%
Interest Rates	0.75%	Remained at 0.75%

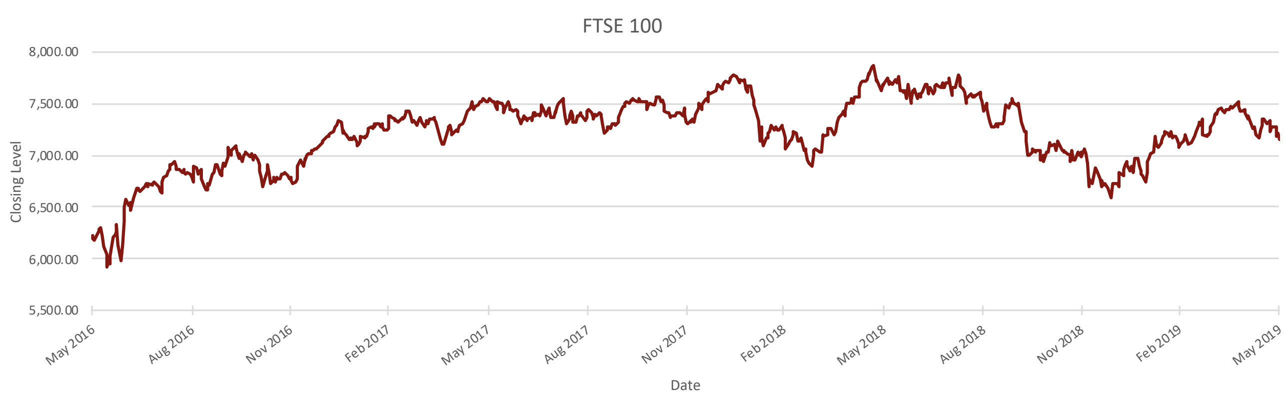
UK equity markets followed on from the growth experienced over the previous quarter with the FTSE 100 up 0.77% (to 7,162) and the FTSE All-Share up 2.77% (to 3,924). However, Prime Minister Theresa May's decision to step down from the Premiership following another failed attempt to obtain parliamentary backing for her Brexit plan has caused sterling to fall, increasing the risk of recession. May had again wanted to win the approval of both Conservative and Labour MPs on her fourth try, but efforts to initiate "compromise" and gain consensus were to no avail (albeit the official vote was not planned until June). The new Eurosceptic Brexit party have already stated their reluctance to 'compromise', which could well exacerbate any further negotiations going forward.

Irrespective of Brexit uncertainty, GDP has risen in the last quarter. This is almost certainly owing to widespread industrial 'stockpiling' in the face of the March Brexit deadline. Such growth is, however, expected to be short-lived as inventories diminish – signalled by the fact that over the past few months, UK factories have experienced the largest fall in orders since 2016.

On another note, the Organisation for Economic Cooperation Development (OECD) reported that the UK is the prime European destination for foreign investment, and third behind the US and China on a global scale. As recorded in December 2018, the UK holds more inwards investment stock than Germany, Poland and Spain combined, totalling £1,890 bn. This has buoyed markets accordingly over the first five months of 2019 – which is no doubt music to the ears of Brexiteers nationwide.

Overall performance in Q2 looked to ensure the FTSE 100 was on track for its best yearly performance since 2016, but alas such progress was scuppered in the final week of May, owing to the latest flare-up in the US-China trade talks. We will shortly find out who will become the next Conservative leader - Boris Johnson is the current favourite - and what ramifications the appointment of a hard-line Brexiteer, coupled with the European Elections result, will have for UK markets in Quarter 3.

We expect sterling to remain volatile with Brexit hanging over the market, and we therefore remain slightly underweight for the region. Another delay to the Brexit deadline would likely negatively impact UK growth and shares.



Market Commentary US

Macroeconomic Highlights for 01/03/2019 to 31/05/2019		
	Latest Reading	**Compared to Previous Quarter**
GDP Growth	3.1%	Increased from 2.6%
Yearly Inflation	2.0%	Increased from 1.6%
Wage Growth	4.19%	Fell from 4.20%
Unemployment Rate	3.6%	Fell from 3.8%
Interest Rates	2.50%	Remained at 2.50%

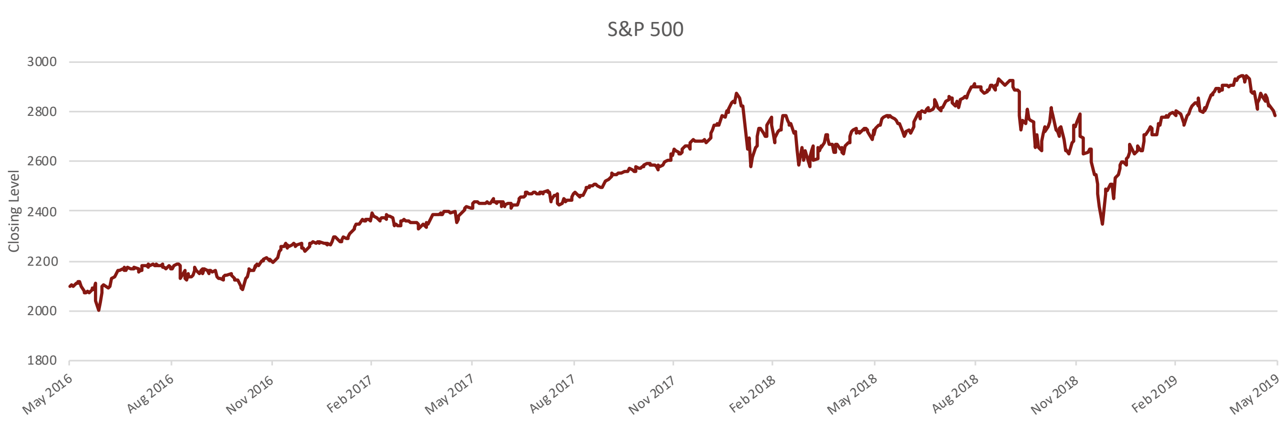
Over in the United States, the quarter began well with the addition of 196,000 jobs, well ahead of expectations and the 33,000-figure recorded in February. Unemployment for the US is now at its lowest rate in half a century, and markets appeared to be emulating this nicely with equity momentum sustained for a fourth consecutive month; however, this was not to be, as can be seen from the table on the Global Overview page.

Having risen by 3% in April, the Dow Jones Industrial Average has now hit its longest slump since 2011 amid fears the US-China trade war will slow growth on a global scale, a topic that has dominated headlines over the past several months. The Dow Jones drop can be pinpointed to tweets President Trump published on 5 May stating that "325 Billion Dollars of additional goods sent to us by China remain untaxed, but will be shortly be, at a rate of 25%".

Elsewhere in the market, the price of copper has experienced a four week losing streak; WTI and Brent crude oil futures have steadily grown with much volatility during the last quarter, peaking in mid-April; and US Treasury prices grew following great demand, despite threats from China to weaponise its holdings of $1.2 trillion, causing chaos with the world's largest bond market. In mid-May, Trump called for a swift end to talks and US stocks responded, with the S&P 500 and Nasdaq Composite up (worth noting that this was also owing to better than projected company earnings). Such movement would prove to be short-lived as Trump's threats of higher import tariffs for Mexican goods at the very end of May, combined with the temporary possibility of import levies for Australia, have substantially undone gains.

We expect US equity markets to continue its downward trend amid the ongoing trade war. Morgan Stanley's cyclical indicator has shifted from 'expansion' to 'downturn', leading to claims the bull market that commenced in 2009, following the global financial crisis, is on its last legs. We remain marginally underweight in the region for Quarter 3.

It is, however, not all bad news as business investment is expected to further boost economic growth in the future. Quarterly GDP growth is expected to equal or exceed 2% for the rest of the year – this would enable the continuation of current expansion without leading to higher inflation risks.



Market Commentary Europe

Macroeconomic Highlights for 01/03/2019 to 31/05/2019		
	Latest Reading	**Compared to Previous Quarter**
GDP Growth	0.4%	Increased from 0.2%
Inflation	1.7%	Increased from 1.4%
Wage Growth	2.3%	Fell from 2.4%
Unemployment Rate	7.7%	Fell from 7.9%

Although the German Xetra DAX rose slightly by 1.08%, the Paris CAC 40 was down 1.09% and the FTSEurofirst 300 down 1.13%, with the overall result that European stock markets were unable to maintain growth over the quarter. Following three consecutive months of solid returns, markets tailed off owing to the US trade disputes at the end of May.

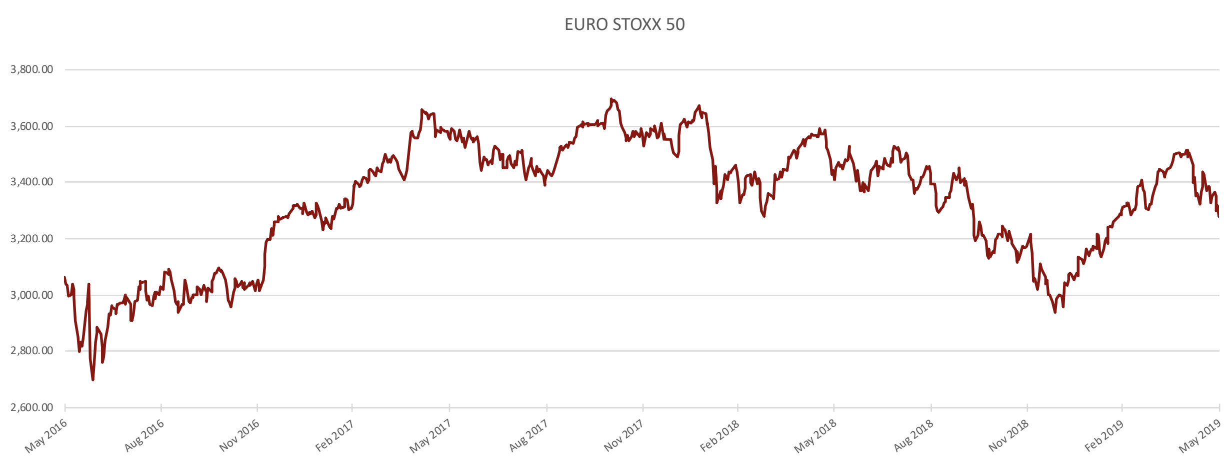
The European Parliamentary elections that took place in May uncovered growing divisions over the EU's future, with approximately 30% of seats going to Eurosceptic groups. Whilst the results are unlikely to have a direct bearing on markets in general, political uncertainty will not help to restore investor confidence. It is worth bearing in mind that the EU elections are used by many as a platform to protest vote, and one should be careful about reading too much into the outcomes.

Eurozone stocks and shares experienced falls in May with the outlook for global trade at the forefront due to US-China trade tensions escalating. This led to "risk off" market sentiment, seeing investors prefer assets of lower risk, such as gilts and bonds, over equities. The industrial sectors have driven the overall weakness of the eurozone – specifically autos and semiconductors.

On an encouraging note, Italy exited its third technical recession in 10 years as it reported 0.2% growth, better than forecasted. This was due to net export boosting growth.

Following a six-month period last year where Germany's economy looked to be heading into recession, it has since recovered well, experiencing decent growth in the first few months of 2019.
Recent reports suggest the EU will be the biggest beneficiary of the ongoing US-China trade war with European companies likely to attain circa $50bn in Chinese exports and $20bn in US exports over the fallout.

Although the eurozone economy still faces a number of risks, not least a hard Brexit, slowing Chinese growth and global trade tensions, we at EB Wealth remain positive in our outlook towards European markets, albeit having slightly reduced our asset allocation for the region. Employment is at a record high and wages are rising. Moreover, although many expect the pace of global and eurozone growth to slow, growth remains the likely scenario.



Market Commentary Japan

Macroeconomic Highlights from 01/03/2019 to 31/05/2019		
	Latest Reading	**Compared to Previous Quarter**
GDP Growth	0.5%	Increased from 0.3%
Inflation	0.9%	Increased from 0.2%
Unemployment Rate	2.4%	Fell from 2.5%

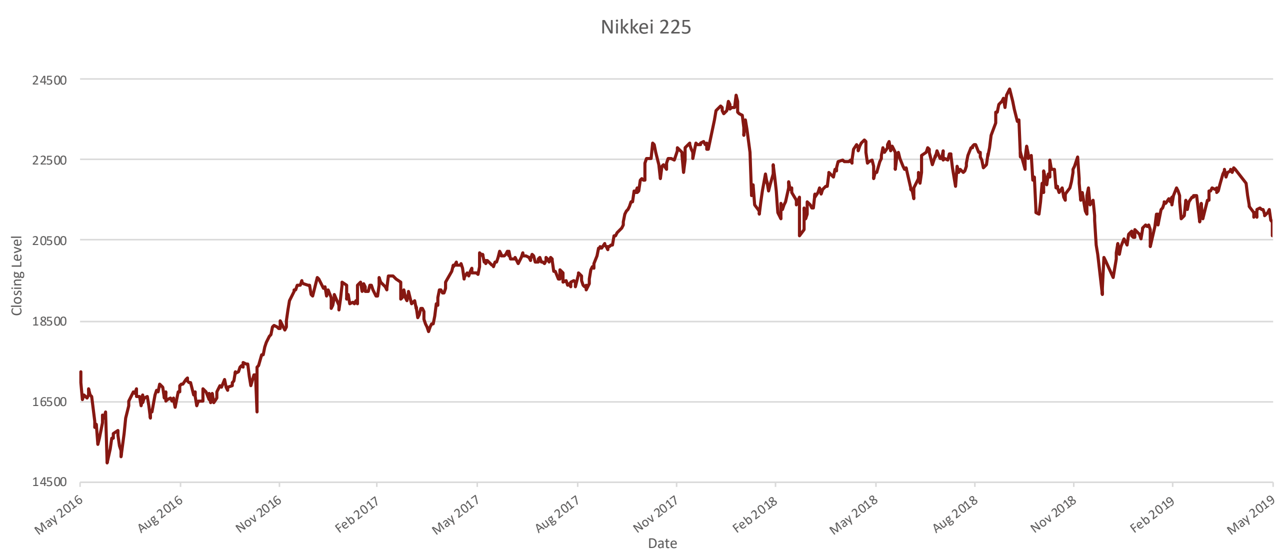
Although Japanese markets looked to continue their upward trend, ending April positively, the Nikkei 225 Tokyo spiralled at the end of the quarter, falling 4.64% with the Topix down 6.40% as well. The recurring theme of US trade tensions with China, and now Mexico, has impacted investor sentiment in the region.

Japan's big news for the quarter (nay year) was undoubtedly the abdication of the Emperor and the accession of the Crown Prince Naruhito to the Chrysanthemum Throne at the end of April. The so-called "Golden Week" instigated a 10-day market holiday, the longest period of closure since the end of the Second World War. As was expected, markets had consequences to bear, losing gains made through April.

Japanese electronic component suppliers have been adversely affected by the US campaign against the Chinese technology giant, Huawei, and fears are that the US might threaten to impose sanctions against Japan if their hostile negotiating style is tolerated by China.

It is not all bad news, with Japan's inflation rising to 0.9% thanks to surging food prices -its highest rate since October 2018. Coca-Cola Japan and Starbucks Japan both raised prices for their products in March and GDP has grown accordingly. Morgan Stanley recently reported that Japanese stock markets are "oversold and unloved", presenting undervaluation and a "better earnings and profitability story" than Europe.

Although Japan's outlook is uncertain, the country has entered the Reiwa era, meaning the era of auspicious calm - an attitude Japan will want to resonate. A resolution to the US-China trade talks will prove extremely positive for the nation. At EB Wealth, we remain overweight for the region due to Japan's status as the world's cheapest equity market, in addition to reasons laid bare in our Q1 report's Investment Outlook.



Market Commentary Emerging Markets

Broadly speaking, the emerging markets enjoyed another strong quarter of performance. The Indian and Russian markets rose by nearly 10% and 8.5% respectively, with the Sao Paulo Se Bovespa index in Brazil recovering at the last hour to finish 2.56% up. Following a quarter of solid growth, South African equities were marginally down.

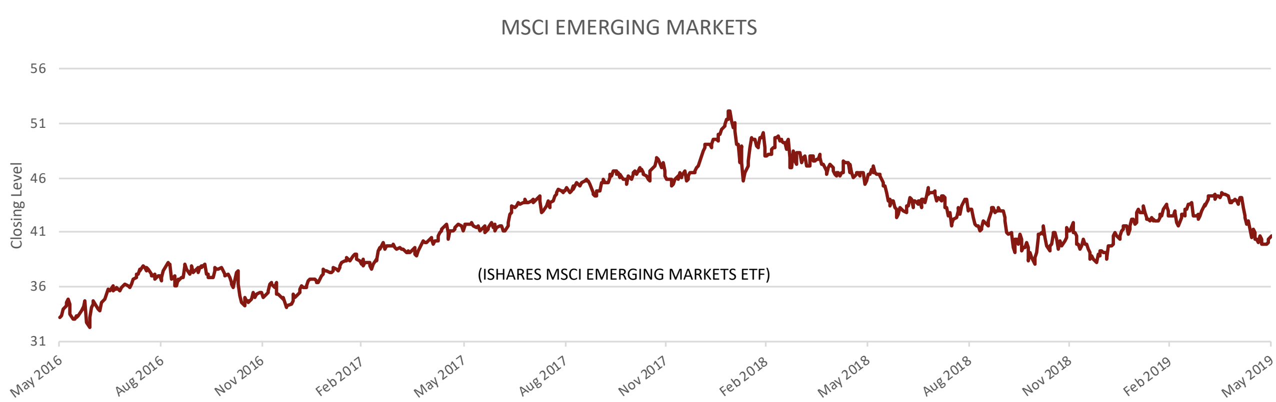
Chinese equity markets looked to be gaining on first quarter economic data and improving US ties, until President Trump took to Twitter in May. At the moment China's economy can be summed up in one word: slow. Industrial production has expanded at its slowest rate in 10 years, and April retail sales have grown at their slowest for 16 years. America's attempts to block Huawei Technologies' involvement with US networks in its bid to develop 5G wireless networks globally, citing risks to privacy and cybersecurity, will only negatively impact markets further unless some form of agreement can be reached.

Elsewhere in Asia, Indian shares finished the quarter strongly amidst news that the new Prime Minister, Narendra Modi, had secured office for a second consecutive term - a feat unmatched since 1971. Market sentiment was consequently boosted, sending the SENSEX index to a record high.

South Africa's African National Congress (ANC) party was elected to office in May. Although the ANC recorded its worst performance (58% of the vote) since 1994, there was cause to celebrate due to fresh belief in the new leadership, with Cyril Ramaphosa's, the party leader, main aims being to eradicate corruption within its political ranks and boost the economy. Although markets were slightly down in the immediate aftermath of the election result, they have since started on the road to recovery.

Additionally, performance in Latin America, although volatile, ended the period well, with some believing the region can replace China's American agricultural imported products in the light of increased tariffs.

Overall, emerging markets have maintained their status as the strongest performing region during 2019 and there is no sign of movement slowing down. We have therefore taken the decision to increase our overweight position by a supplemental 2% and will continue to monitor the situation throughout the next quarter.



Market Commentary Fixed Interest

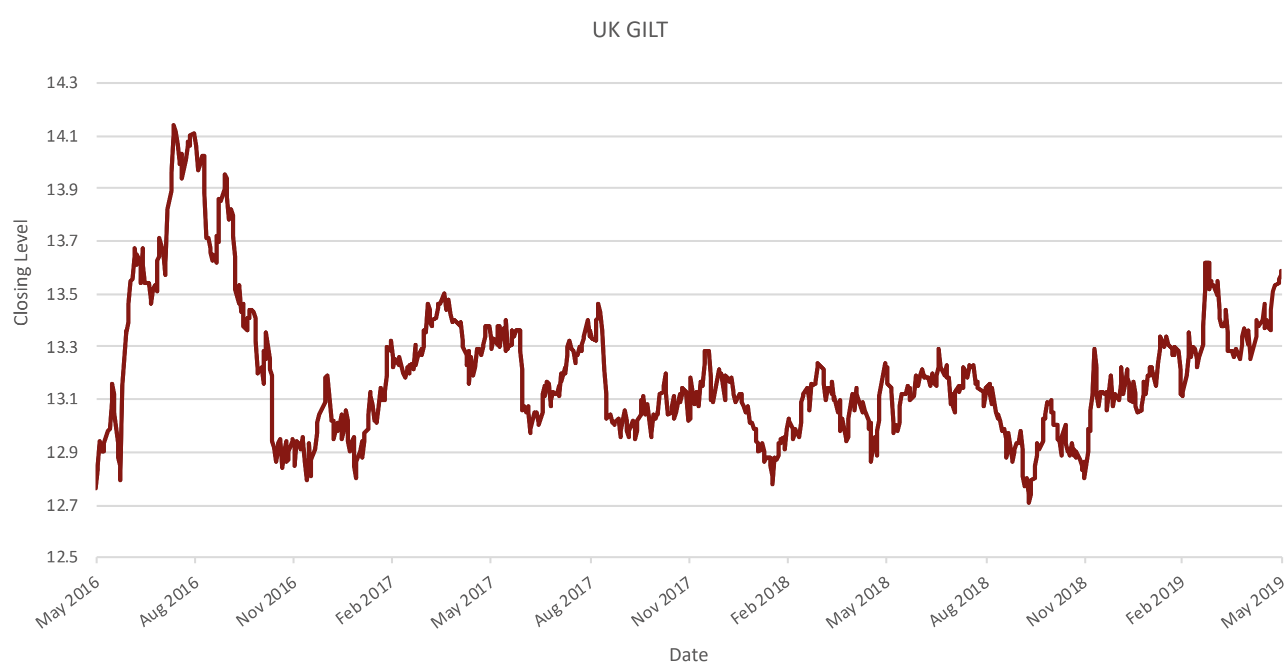
Investors flock to the safe haven of government bonds (gilts) whenever they become anxious about equity markets. This was the case for Quarter 2, as referenced in the European Market Commentary, with US-China trade tensions increasing.

An increase in demand pushes the prices of bonds up and yields inversely tumble. Falling yields give a good indication of the general attitude of the current geographical diversified investor – an attitude of uncertainty. Long-term government bond yields around the globe are at some of their lowest in recent years and have even dropped below short-term bond yields. The US 10-year Treasury yield ended May at nearly 2.1%, which was 38 basis points lower than at the beginning of the month.

Whilst uncertainty in US bond markets can be attributed to ongoing and newly ignited trade debacles, UK 10-year gilts dropped by 30 basis points amidst Theresa May's resignation news. So, what does this mean? Short-term bonds are now providing higher interest rates than their long-term equivalents. Activity within the US bond markets in particular represents the negative economic view investors currently have, with the more pessimistic pointing out that an inverse in yield has preceded every global recession over the past 60 years.

Elsewhere in Europe, data was mixed. For the first time since 2016, the German 10-year Bund yields dropped below zero.

With so much ambiguity surrounding fixed interest markets at the moment, at EB Wealth, we remain underweight in the region.



Our Tactical Allocation

Sector	Forecast	Action	Morningstar Moderately Adventurous Allocation %	Tactical Overlay %	Final Allocation %
US	Unfavourable	Underweight	11	-2	9
UK Large Cap	Unfavourable	Underweight	22	-3	19
UK Mid Cap	Unfavourable	Underweight	8	-1	7
UK Small Cap	Unfavourable	Underweight	5	-1	4
Europe	Favourable	Overweight	13	+1	14
Japan	Favourable	Overweight	7	+2	9
Asia	Fair	Neutral	4	0	4
Emerging Markets	Favourable	Overweight	9	+4	13
Property	Unfavourable	Underweight	5	-1	4
Commodities	Fair	Underweight	5	-1	4
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	Favourable	Overweight	2	+1	3
Cash	Favourable	Overweight	3	+4	7

Notes on EB Wealth Performance Statistics

Previously, we have included the FTSE 100 performance as a comparison against our portfolios. In April 2018, we replaced this with more relevant (and industry standard) benchmarks. These benchmarks are widely accepted and represent the average return of all 'mixed' or 'managed' investment funds. As our portfolios fall within the industry standard mandates for these two benchmarks, we feel that they are a more useful indicator of relative under - or over - performance.

Our Benchmarks

1. **IA OE Mixed Investments 40-85%** - this shows the average performance of all funds which qualify for the 'Mixed Investments 40-85%' sector which have the following characteristics:

- Include a range of different investments
- Maximum 85% equity exposure (including convertibles)
- Minimum 40% equity exposure
- No minimum fixed income or cash requirement
- Minimum 50% investment in established market currencies (US Dollar, Sterling & Euro) of which 25% must be Sterling
- Sterling requirement includes assets hedged back to Sterling

This is broadly in line with what the industry used to refer to as a "Balanced Managed" fund, and is broadly in line with our Moderate as well as Moderately Adventurous portfolios. However, our portfolios have no set mandates as to the amount of exposure we hold in any specific asset class.

2. **IA OE Flexible Investments** - this shows the average performance of all funds which qualify for the 'Flexible Investments' sector which have the following characteristics:

- Include a range of different investments
- No minimum equity requirement
- No minimum fixed income or cash requirement
- No minimum currency requirement

This is broadly in line with what the industry used to refer to as "Specialist". Since we do not impose any asset allocation restrictions on our portfolios, this benchmark is relevant; however, currently our Moderate and Moderately Adventurous portfolios would also fall within the mandate to be considered IA OE Mixed Investments 40-85%.

Structured Product Returns

The performance data provided is the average of all structured products we have recommended to clients over the last six years where the return of the product is known i.e. where a product has matured, or an income payment has been received. We have also weighted the performance figures based on the level of investment we have made – i.e. if we recommended a greater level of investment in one particular product over another, we have weighted the performance figures accordingly.

As structured products are close-ended investments, clients will only benefit from returns on the products they own personally rather than the average figures published in this report. The average figures are provided in an attempt to highlight the general benefit of using structured products to reduce the volatility of a portfolio without necessarily impacting the total return.

The structured product returns quoted in this report may change in subsequent reports due to the fact that products which we have recommended, but are yet to mature, have not been included in the returns quoted above. (For example, a five-year product with the potential to pay 6% a year which has not yet matured, will not be included in the figures above. Depending on the outcome of the investment, when the product matures, we will allocate either 6% or 0% a year to the preceding five years).

Our Services

Wealth Management

Pension / SIPP funding
Pension / SIPP investment management
Pensions in retirement / Income drawdown
ISA funding
ISA investment management
Trustee Investments
School Fees Planning
Managing estates under Power of Attorney

Personal Insurances

Life and Critical Illness Cover advice and brokerage
Family Income Benefit advice and brokerage
Mortgage Protection advice and brokerage
Income Protection advice and brokerage
Private Medical Insurance advice and brokerage

Tax Planning / Other

Pension funding and 'in retirement' tax planning
Inheritance Tax planning
Capital Gains Tax planning
VCTs, EISs, ISAs, Bonds
Financial Planning in relation to Marriage, Divorce or bereavement.

Corporate Services

Auto Enrolment and Company Pensions
Partnership/ Shareholder Protection
Key Person Insurance
Employee Benefit Programmes and Communication
Services for Charities
Business Exit Planning

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EB WEALTH

The EB Partnership London Ltd
Apsley House
176 Upper Richmond Road
London
SW15 2SH

Phone: 0207 015 2145

Email: ebwealth@theebpartnership.co.uk
Web: http://www.ebwealth.co.uk