



**EB WEALTH**

**QUARTERLY REPORT**  
**Q4 2018**

### 2018 Round-up

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As one-year finishes and another starts, we take a look back at some of the events that shaped 2018.

The year started with a bang, with Trump implementing his colossal tax cuts in America; corporate and US growth forecasts rocketing up; and many major worldwide stock markets reaching all-time highs. This initial optimism was, however, short lived as markets quickly sold off in late January and remained volatile for the remainder of the year.

A major factor that contributed to the volatility was the ongoing trade war between the US and China and to a smaller extent Europe, with major tariffs being implemented on various goods by both the US and China and further tariffs being threatened by both parties, which looks set to continue.

In the UK, the main focus has been the ongoing 'Brexit' negotiations, which is causing political turmoil. Throughout the year, many members of parliament have resigned from prestigious positions and various calls for both a further referendum and a general election have been voiced with many MPs unconvinced by Theresa May's November Brexit deal. We wait with our eyes wide open as to who will be leading the UK throughout 2019 and whether the UK will be able to agree a transitional deal with Europe. As for the broader European regions, another major issue that is firmly on the agenda is the Italian budget with Italy threatening to breach the EU's deficit limit in the hope of boosting their economy.

The summer saw a record-breaking heatwave in the UK and some exciting sporting action. This included the resurgence of a tennis champion (Novak Djokovic) who won both the Wimbledon and US Open grand slam titles to draw him level with the mighty Pete Sampras. Elsewhere we saw a well overdue performance that the English nation was proud of at the FIFA World Cup, making it to the semi-finals. The eventual champions were the formidable French, who introduced the latest football sensation (Kyllian Mbappa) to the world and produced a glowing performance that lived up to their tremendous potential.

As the weather cooled down and the leaves started falling off trees, the autumn budget was announced. The headlines are such that web giants will have a new digital services tax starting in April 2020; stamp duty exemptions are being extended to all buyers of shared ownership homes under £500,000 and applied retrospectively to the 2017 Budget; individual personal allowances are increasing to £12,500 next April; and business rates will be cut by a third for retailers in England with a rateable value of £51,000 or less. The only caveat to any of this is that the budget will have to be held again in a 'No Deal Brexit'.

Most markets fell throughout the year with many markets posting double-digit losses and positive returns being hard to obtain. In anticipation of this, EB Wealth has been highly overweight in cash in all of its portfolios and we allocated between 25%-35% of many of our clients' money into stock-market-protected investments. Additionally, as all our portfolios are diversified both on a regional and asset class front, it has allowed us to take advantage of the few regions and assets which have managed to achieve positive performance so far this year.

Abbas Juma  
Investment Portfolio Manager

## Global Overview

Global sector performance				
Markets	Country	Index (ex div) / sector	Performance for the Period 01/09/2018 to 30/11/2018*	Performance for the Period 01/01/2018 to 30/11/2018*
North America	USA	S&P 500	-4.87%	3.24%
		Dow Jones	-1.64%	3.31%
		Nasdaq	-9.61%	6.19%
UK	UK	FTSE 100	-6.21%	-9.33%
		FTSE All Share	-6.72%	-9.28%
Europe	Germany	Xetra DAX	-8.95%	-12.85%
	France	Paris CAC 40	-7.45%	-5.81%
	EU Countries	FTSEurofirst 300	-5.73%	-7.90%
Asia	Japan	Nikkei 225	-2.25%	-1.82%
	China	Hang Seng	-4.95%	-11.41%
	India	Nifty 50	-6.88%	3.29%
South America	Brazil	Sao Paulo Se Bovespa	16.73%	17.15%
	Mexico	SE IPC	-15.77%	-15.44%
Other Markets	South Africa	JSE FTSE ALL SHARE	-13.64%	-14.86%
	Australia	S&P AUST	-10.32%	-6.56%
	Russia	RTS	3.10%	-2.45%
	Canada	S&P/TSX COMPS	-6.55%	-2.80%
Commodities	N/A	Gold	1.70%	-6.30%
		Silver	-1.88%	-17.30%
		Brent Crude Oil	-24.09%	-11.74%
		Copper	6.11%	-15.24%

\* All hard data for this quarterly report is until 30/11/2018 and not until 31/12/2018

As can be seen in the above table, the majority of indexes have fallen this quarter. Crude oil was by far the worst performing market having lost close to 25% of its value whilst Brazil has been the best performer with its main market up nearly 17%. Over the year, the best performing index/sector has been Brazil, but we have also seen positive returns obtained in US markets and India. The remaining regions and sectors in the above table have all posted negative returns with Mexico, China, Germany, South Africa and some commodities faring the worst with double-digit losses.

Despite most markets falling, six of our funds still managed to obtain positive returns. Nevertheless, some losses were also expected given the overall global market performance. We had 24 funds that made losses, five of which were less than 5%. However, we also had five funds with double-digit losses (four less than 12.25% with one fund losing 21.98%). Of these, two of the funds have been replaced; one of them started to recover in early October and recovered over 10% as at 30 November; and we continue to closely monitor the other two.

## EB Wealth Viewpoint

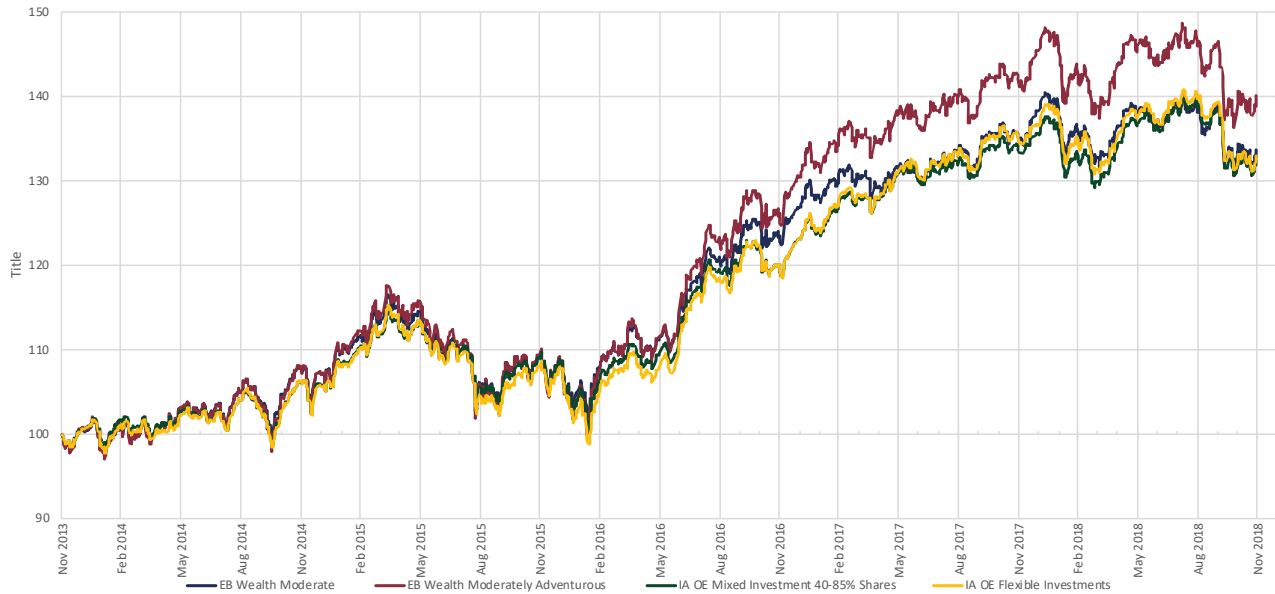
The table below shows how our actively managed funds have performed compared to their sector peers over the last year:

Quartile Performance Compared to Sector Peers	Number of Active Funds
1	5
2	3
3	2
4	6

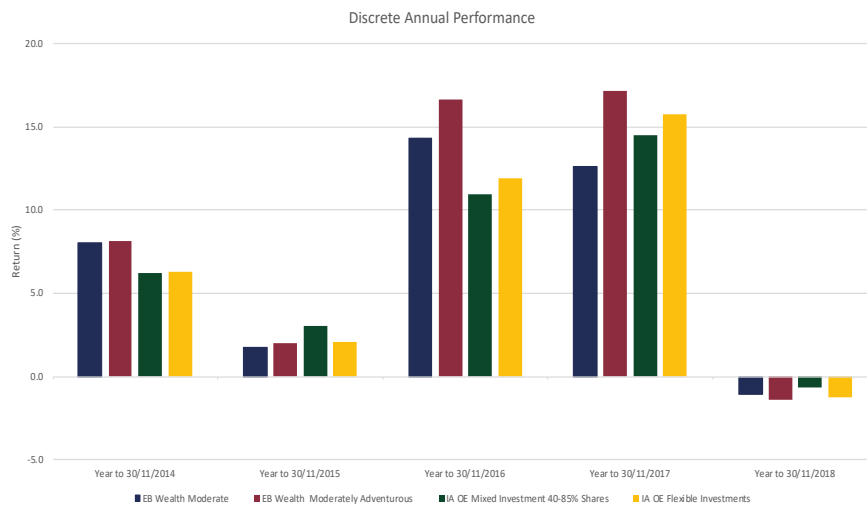
We are very pleased with the eight funds that have performed in the top two quartiles compared to their peers. Over the year, we have replaced five of the eight funds that obtained 3rd/4th quartile performance, with the new funds performing much better. One notable fund that has been replaced is the Woodford Equity Income fund, which posted another year of significant underperformance. In addition, we reduced exposure to the three remaining funds that underperformed. We have also added a few funds to all our active portfolios which have provided further diversity.



# 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.



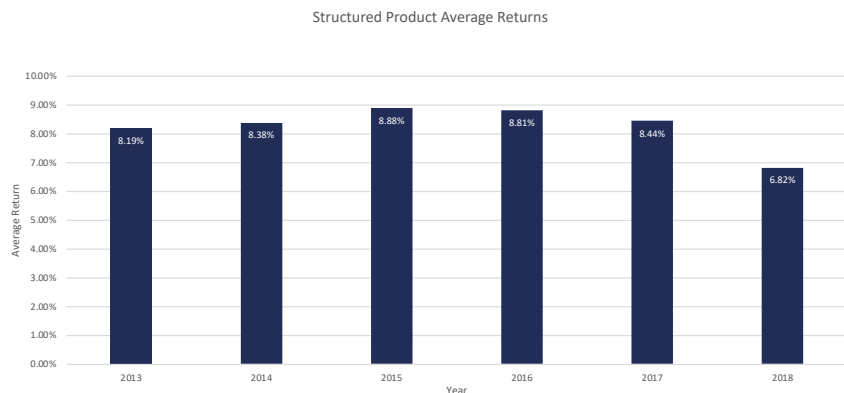
## Discrete Annual Performance

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

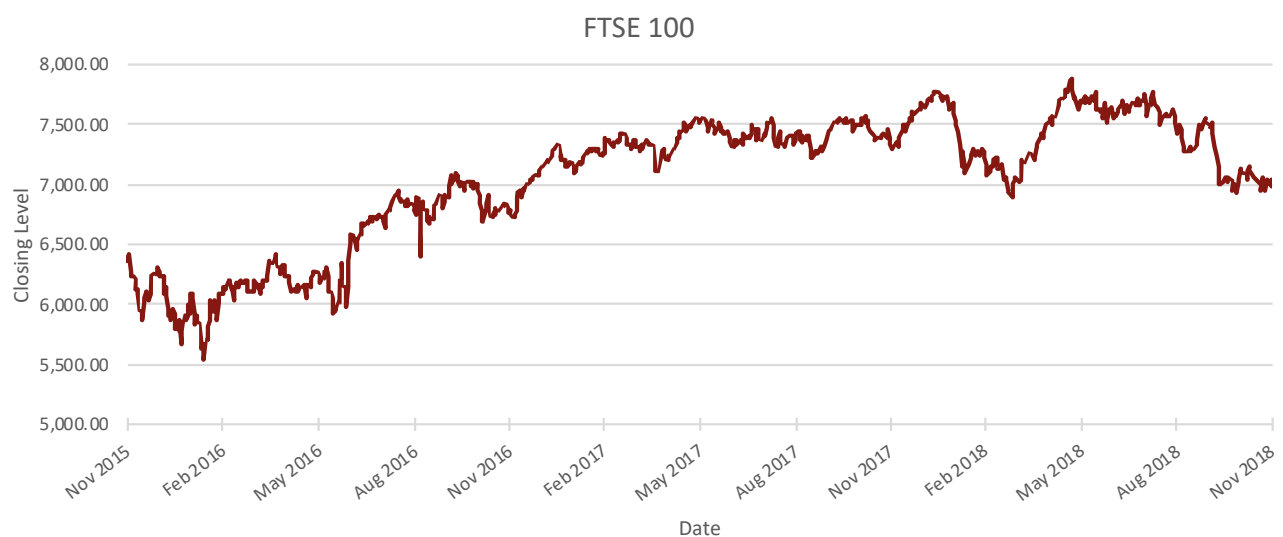
### Macroeconomic Highlights 01/09/2018 to 30/11/2018

	Latest Reading	Compared to previous quarter
GDP Growth	0.7%	Increased from 0.4%
Yearly Inflation	2.4%	Fell from 2.5%
Wage Growth Including Bonuses	3.2%	Increased from 2.5%
Unemployment Rate	4.1%	Increased from 4%
Interest Rates	0.75%	Remained at 0.75%

UK equity markets continued to fall over the quarter with the FTSE 100 and FTSE All Share both down over 6.0%. In early October, Brent Oil reached a year high of over \$85 driven higher by looming US sanctions on Iran, but then sold off sharply for the remainder of the quarter as Saudi Arabia pledged to increase production to cover any shortfall left by Iran. This resulted in a sharp fall in share price for the many oil-related companies which reside in the FTSE 100. However, the main event that impacted UK markets over the quarter was Theresa May's 'Brexit Deal', which was signed off by the EU bloc's 27 other leaders, on the terms of Britain's divorce. On the day that Theresa May announced her proposed deal, Brexit Secretary Dominic Raab quit, followed by Work and Pensions Secretary Esther McVey, and then by Suella Braverman, a minister at the Department for Exiting the EU. Reports have suggested that many members of parliament will reject the current proposed deal. On a more

positive note, inflation fell and is now a lot closer to the Bank of England's 2% target.

UK markets fell significantly in 2018, with the positive returns obtained in 2017 being wiped away. Although the macroeconomic picture remained strong and some research suggests that the UK market was undervalued, the main focus is on whether the UK will negotiate a transitional deal with Europe and who will be leading the country with the UK's formal divorce from the EU, the deadline of which is soon approaching. Given the above uncertainties and the recent sell-off in UK markets, we remain underweight for UK equities, but we will be keeping a close eye on the above events.



## Market Commentary US

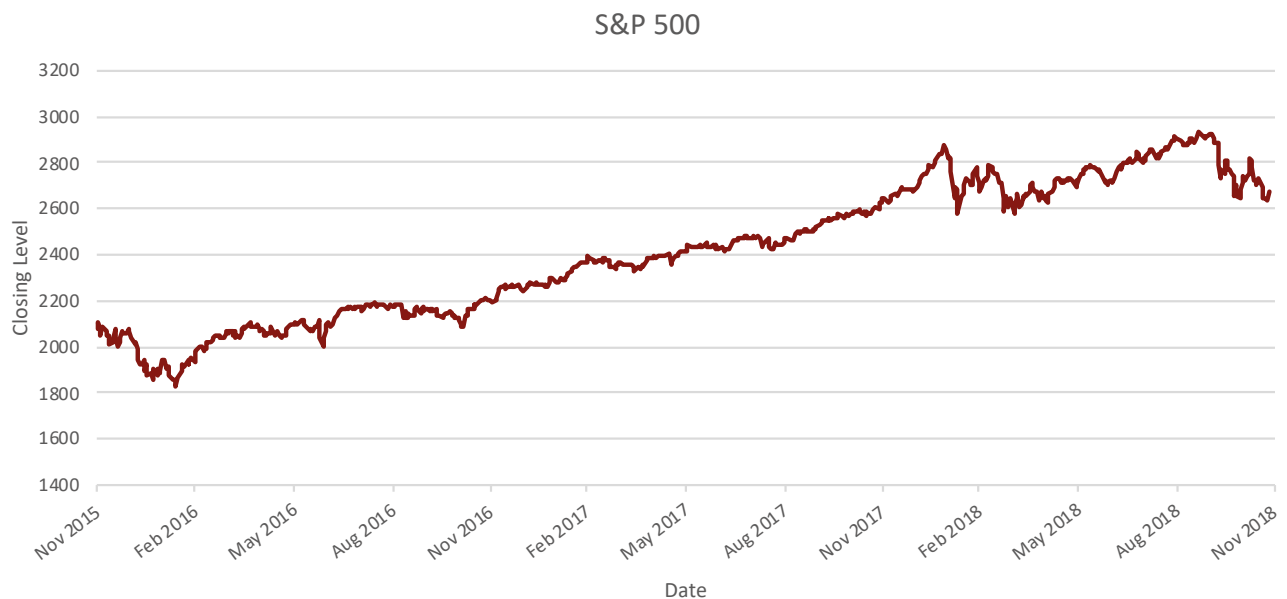
### Macroeconomic Highlights for 01/09/2018 to 30/11/2018

	Latest Reading	Compared to previous quarter
GDP Growth	3.5%	Increased from 2.9%
Yearly Inflation	2.5%	Fell from 2.9%
Wage Growth	3.3%	Increased from 2.9%
Unemployment Rate	3.7%	Fell from 3.9%
Interest Rates	2.25%	Increased from 2%

US markets have been highly volatile this quarter but overall have fallen, with the returns obtained over the year reducing accordingly. The S&P 500 fell nearly 5%, the Dow Jones down nearly 2% and the NASDAQ down just close to 10%. Although US markets continued to rise in September with economic growth continuing to rise, they then fell quickly in October. Technology shares fell out of favour and markets grew concerned about US-China trade tensions, with the Trump administration announcing tariffs on a further US\$200bn of Chinese imports and, in response, China introduced a retaliatory tariff list of US\$60bn US imports, with additional tariffs ranging between 5% and 10%. The Federal Reserve increased interest rates to 2.25% in September and reiterated plans to raise interest rates further, which also provided a headwind for US markets over concerns that interest rates were rising too fast. In November, the US Mid-Term election results were announced with the Republicans retaining the Senate whilst

the Democrats took the House. US markets reacted well on the result with investors seeing potential for some stimulative policies coming to fruition for Trump and for the administration to further the pro-growth elements of its agenda through a more trouble-free political appointment process.

Although the majority of returns obtained over the year have been lost this quarter, US markets have still outperformed most regions this year. The macroeconomic picture looks strong with economic growth solid and Trump's tax cuts boosting company profits. However, with the effect of the tax cuts now already factored into company valuations, the Federal Reserve continuing to increase interest rates at a fast pace, and many economists predicting that America could go into recession in the next 2 years, we feel that the prospects of the nine-year bull run continuing for much longer are receding. Therefore, we maintain our underweight position for US equities.



## Market Commentary Europe

### Macroeconomic Highlights for 01/09/2018 to 30/11/2018

	Latest Reading	Compared to previous quarter
GDP Growth	0.3%	Fell from 0.4%
Inflation	2.2%	Increased from 2%
Wage Growth	2.2 %	Increased from 1.8%
Unemployment Rate	8.1%	Fell from 8.2%

European equities fell sharply over the quarter with the Paris CAC down just under 7.5%, the German DAX declining just under 9% and the FTSEurofirst 300 falling nearly 6%. Markets were fairly stable in September but fell quickly in October as The European Union rejected Italy's draft budget and asked them to submit a new one, which resulted in Italian bond yields rising to 3.8%. Moody's cut its rating on Italy to just 1 notch above 'junk' to 'Baa3' but moved its rating outlook to 'stable' whilst S&P kept its rating at 2 notches above non-investment grade but cut its rating outlook to 'negative'. In Germany, as a result of the poor result in the Hesse state election in October, Mrs Merkel announced to her party, the Christian Democratic Union of Germany, that she will not run again as leader at the party convention on 7 December. However, she intends to remain as Chancellor until the next election in 2021. The recent fall in oil prices and sell-off in technology-based companies also weighed into European markets. Towards the

end of November, the EU signed off Theresa May's transitional 'Brexit' proposed agreement, which many economic analysts have suggested leaves the EU in a favourable position if the UK decide to proceed with it.

On the whole, European markets have struggled this year with the majority of constituents falling. However, until October, European markets performed well in 2018 and with many economic analysts suggesting that the EU are likely to come out on top with the UK's official divorce from the EU, we believe that European markets could outperform in the short to medium term. Whilst the resolution of the Italian budget remains a headwind, once this is resolved we see the potential for a recovery in European markets in 2019. Therefore, we reiterate our overweight exposure to European equities and will be replacing our European tracker fund with a cheaper alternative in all our active portfolios in 2019.





## Market Commentary Japan

### Macroeconomic Highlights from 01/09/2018 to 30/11/2018

	Latest Reading	Compared to previous quarter
GDP Growth	-1.2%	Fell from 0.5%.
Inflation	1%	Increased from 0.9%.
Unemployment Rate	2.3%	Fell from 2.5%.

Japanese equities dropped over the quarter with the Nikkei 225 down just over 2%. Although Japanese equities remained strong in September, Japan was hit with various natural disasters in October; namely Typhoon Jebi and the Hokkaido earthquake that hit Eastern Iburi. The Bank of Japan's quarterly Tankan survey showed business sentiment worsened in the third quarter of 2018, both in terms of production and demand, much of which was attributed to the wave of natural disasters. The heavy rains, flooding, a typhoon and an earthquake disrupted supply chains and suspended production for a number of large manufacturers. This resulted in a decline in the latest economic growth figure. Prime Minister Shinzo Abe won a third term as Liberal Democratic Party leader. Japan and the US also had the summit at the end of October and agreed to begin negotiating a trade agreement on goods and most notably not to impose additional tariffs on imported automobiles for the moment. The market reacted positively to the latter of these outcomes.

Additionally, towards the end of November, the yen fell in value over the dollar which boosted the many large exporting companies.

Despite Japan being hit with some natural disasters towards the tail end of this year, Japanese markets have outperformed UK, European and many emerging markets this year. We wait to see the final trade terms that are agreed between Japan and the US in the New Year. However, we believe that with the Federal Reserve continuing to increase interest rates, this will continue to devalue the yen and will continue to have a positive impact on the many exporters in Japan. We also believe that the recent natural disasters will only have a short-term impact and the medium to long term prospects remain strong in Japan. Therefore, we reiterate our overweight stance on Japanese equities and will be replacing our current Japanese index tracker with a cheaper alternative in all our active portfolios in 2019.



## Market Commentary Emerging Markets

Emerging markets broadly performed poorly this quarter with few main indexes obtaining positive performance. Brazil and Russia were the few areas which performed well with many of the other regions posting large losses.

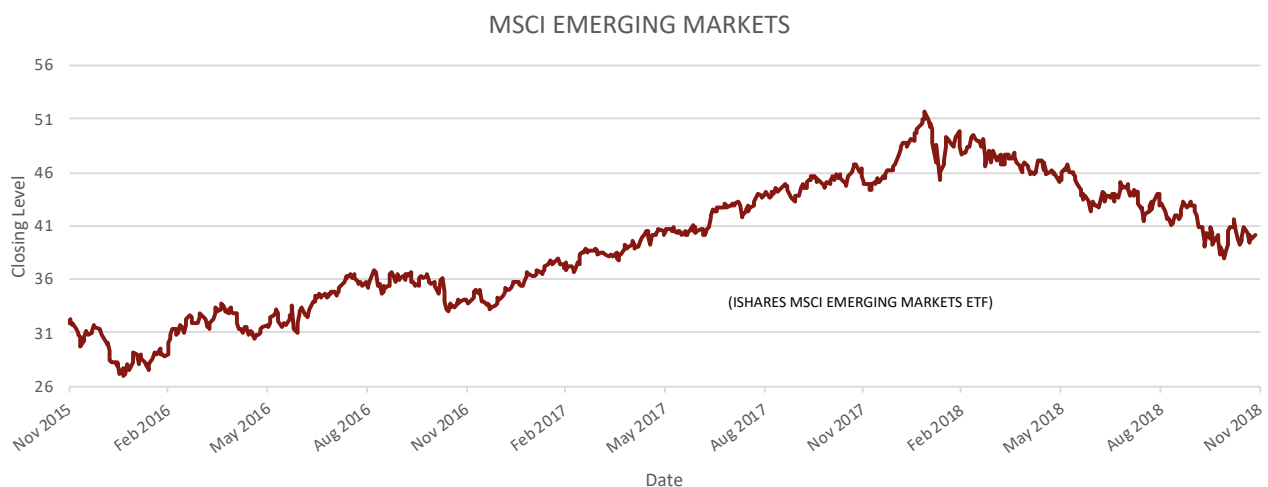
In Asia, Chinese equities carried on their downward trend as the US escalated its trade war with Beijing with US\$200bn of further tariffs on Chinese imports implemented. China retaliated by announcing new trade tariffs on US\$60bn of US goods. Meanwhile, China's 3rd quarter GDP growth of 6.5% year-on-year confirmed domestic economic activity had slowed. Elsewhere, Indian equities fell on concerns about increasing inflation, a widening trade deficit and liquidity issues in the non-banking financial company sector. South Korean markets also dropped with numerous companies reporting weaker-than-expected earnings, largely in the automotive and consumer sectors, while some weak domestic economic data and currency weakness only added to selling pressure.

In Latin America, Brazilian equities rocketed up over the quarter in response to Jair Bolsonaro winning the election in anticipation of his pro-market reforms having a positive impact for Brazil. Many sectors in Brazil posted double-digit gains, with energy leading the pack and the Brazilian real gaining 7.8% against the US dollar on the news. On the contrary, Mexico's main market posted double-digit losses resulting from Mexico's decision to cancel the partially built airport in New Mexico City, which was not warmly welcomed. Confidence was also knocked by fears that interest rates could rise

further due to persistent inflation and the Mexican peso depreciated by nearly 8%.

In the Europe, Middle East and Africa region, South Africa was the worst performer which was dragged down by the index heavyweight, Naspers, which fell nearly 20% over the quarter. In Turkey, the lira increased in value with tensions between Turkey and the US easing following the release of American pastor Andrew Brunson and this also helped to limit losses on the equity market front. Confidence towards Turkey was restored following a higher-than-expected hike in interest rates to 24% to address rising inflation. Russia's main market grew slightly over the quarter with upbeat economic data released showing industrial production was up and unemployment down. Interest rates were also raised in Russia by 0.25% to 7.5% to combat inflationary pressures and currency volatility.

Overall, emerging markets have underperformed most of the other regions this year. This has been mainly influenced by the ongoing trade war between the US and China along with many commodity prices falling in 2018. However, we have seen some emerging markets that managed to obtain positive performances over the year like Brazil and India. We still believe that certain emerging markets have strong prospects in the medium to long term and therefore reiterate our overweight position on emerging markets. In the New Year we will be replacing our emerging markets and Asia Pacific index tracker funds with cheaper alternatives in all our active portfolios.



## Market Commentary Fixed Interest

Both corporate and government bond prices were lower over the quarter with their respective yields increasing. Government bonds outperformed corporate bonds whilst investment-grade bonds outperformed high yield bonds.

European government bond markets were under pressure over concerns about the Italian Government's proposed spending plans and resultant budget deficit. The spending plans led rating agency Moody's to downgrade Italy to Baa3 which is the lowest investment grade rating. S&P cut its outlook on Italy but affirmed its BBB rating. Overall, the market took the news that Italy remained investment grade positively. US Treasury yields rose on the back of strong economic data as the market contemplated the effect of more interest rate hikes from the US Federal Reserve. The 10-year US Treasury yield increased to a high of 3.23%, which is its highest level since 2011.

With bond sentiment diminishing, issuance within European corporate bond markets fell. The premium over government bonds that companies need to pay to borrow, known as the credit spread, increased for investment-grade corporate bonds and to a higher extent for the high-yield bond market. Medical and retail were the best performing sectors of the sterling investment-grade market

whilst the capital goods and automotives were the worst performing sectors. In European currency high-yield markets, returns were negative across most sectors with the weakest being insurance and banks. The only sector delivering a positive return within European currency high-yield was energy.

Bond prices have struggled this year with bonds going out of favour. This has resulted from interest rates continuously being increased worldwide. Government bond yields have risen to their highest in many years in the US as a result and with the Federal Reserve planning further hikes in 2019, the outlook is bleak. We believe that short-dated bonds are likely to outperform in the short term and have therefore replaced one of our bond funds with a bond fund which has more exposure to short duration bonds. Overall, we maintain our underweight exposure to fixed interest and government bonds.



## Our Tactical Allocation

<b>Sector</b>	<b>Forecast</b>	<b>Action</b>	<b>Morningstar Moderately Adventurous Allocation %</b>	<b>Tactical Overlay %</b>	<b>Final Allocation %</b>
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	+2	15
Japan	Favourable	Overweight	7	+2	9
Asia	Fair	Neutral	4	0	4
Emerging Markets	Favourable	Overweight	9	+2	11
Property	Unfavourable	Underweight	5	-1	4
Commodities	Fair	Neutral	5	0	5
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).

### **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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