



Weekly Digest

Week ending **18 September 2016**

Sleepwalking into a pensions crisis?

At last week's Pensions and Savings Symposium at Gleneagles, Andrew Bailey, Chief Executive of the Financial Conduct Authority, spoke on the topic of pensions and long-term retirement savings: a macroeconomic perspective. Mr Bailey made a number of important observations on pensions and long-term retirement savings which serve to highlight that the financial services profession has more to work with savers to help them meet their long term financial needs. This is not simply an issue of addressing our current savings culture but of the overarching Financial Wellness of UK consumers over the long-term.

We believe that as a nation we are sleepwalking into a pensions crisis, and the shift from Defined Benefit pensions – where someone else was on the hook for paying for your retirement – to Defined Contribution where it is squarely your responsibility, is not yet sufficiently well understood. Not only is the necessity to invest misunderstood, but also the long term perspective required to make good decisions today that are in the interests of yourself decades hence is difficult. Thanks to a general misapprehension of fact that neither the state nor your employer will not rescue you in retirement – rather you must avoid getting into trouble in the first place. This is compounded further by the levels of uncertainty inherent in a traditional investment 'product'?

The financial advice process undoubtedly helps give individuals some perspective in terms of where they are financially today and where they need to be at retirement, but there are large swaths of the population – that either feel they cannot afford advice today or do not realise that they should take advice – that are likely to be under saved in the run up to retirement. As a result, we suspect that over the coming years, the advice process may have to start speaking less about willingness and ability to take risk and increasingly about 'necessity'. Outcomes based solutions lead savers and investors to have a more nuanced conversation; "I need x% each year to live on in retirement but this requires me to adopt a higher level of risk – can I stomach the extra volatility required?" Consumers should

seek out solutions that are outcome oriented and similar solutions that are properly diversified and managed in their best interests rather than (for example) putting all eggs in the buy-to-let property market to aid them on their path to Financial Wellness. That is why the managers of our core portfolios create and deliver Outcome-Based Solutions. They aim to deliver a targeted outcome and to make the journey to the outcome as palatable as possible to keep clients invested.

The managers of our core portfolios take the view that the financial services industry has a huge amount to do to assist consumers with the complexities of saving. There are two main reasons for this that Mr. Bailey alludes to in his speech: first, the traditional investment 'product' does not naturally align with client needs; and, second, the vast majority of people are (unconsciously) making decisions with huge long term ramifications all the time but they do not have the necessary perspective to see how impactful these decisions (or indecisions) could be over a lifetime. As a result, anything that helps individuals to have greater certainty in terms of their investment outcomes and in terms of their glide path to retirement will be extremely valuable in terms of facilitating consumers achieving lifetime Financial Wellness, especially in a time of heightened macroeconomic uncertainty.

Only by addressing long-term retirement savings and investment decisions now, can we truly improve the UK's Financial Wellness, currently measured as 67 in the inaugural UK Financial Wellness index of the managers of our core portfolios for 2016. It is not a short term commitment and will take concerted effort from business, Government and individuals alike. It is essential that we encourage people to think beyond "Will I have enough today?" and to look to the future, to safeguard their families and their aspirations now and in to retirement. The financial services profession must be more aligned in terms of its thinking to ensure that clients are well advised, well invested, and well supported.

The Marketplace

- Global bond yields rise in volatile environment
- Mixed US data ahead of Fed meeting
- Sterling falls after Chancellor's comments
- European markets retreat as industrial production declines
- Reports of oil surplus sends prices lower

Market Focus

Global

- Volatility in bond markets rose ahead of both the Federal Reserve and Bank of Japan's monetary policy meetings this Wednesday. Trading was choppy in the Japanese bond market as investors pondered if and how the Bank of Japan will further ease their monetary policy stance, while in the US focus remains on whether the Federal Reserve will hike rates or not.
- Over the week global government and corporate bond prices both fell by 0.3%, and are down 0.7% and 0.5% respectively month-to-date.

US

- Headline CPI inflation rose 0.2% month-on-month for August, higher than expectations of 0.1%, sending the year-on-year rate up 0.3% to 1.1%. Core CPI, which excludes commodity price changes, rose 0.3% month-on-month (versus 0.2% expectations), lifting the annual rate from 2.2% to 2.3%.
- In contrast, retail sales and industrial production figures were disappointing, falling 0.3% and 0.4% respectively from July to August.
- The inflation data helped the dollar rise by 0.8% against a basket of major currencies, but the sales and production figures lead to decreased expectations of a rate rise at the Federal Reserve's next meeting.

Europe

- Eurozone industrial production contracted by 1.1% in July, behind forecasts for 0.4% growth. This contributed to a poor week for Continental European equities which declined by 2.4%, whilst the euro depreciated 0.6% against the dollar.
- On Friday sterling had its worst day since June 27 following comments from the Chancellor of the Exchequer, Philip Hammond, that the UK may need to give up membership of the EU's single market in order to implement immigration restrictions.
- Sterling fell 2% against the dollar over the week, falling by 1.8% on Friday alone. Meanwhile UK equities lost 1.0% whilst gilt prices fell 0.5%.

Commodities

- In its monthly report, the International Energy Agency downgraded its global oil demand predictions by 100,000 barrels a day for this year, and 200,000 barrels a day for 2017. It also reversed previous claims that the disparity between oil demand and supply was disappearing, stating instead that the oil glut could continue well into next year.
- The price of Brent crude oil fell by 4.7% over the week, to USD 45.77 per barrel.

James Klempster (CFA) & Oliver Bickley

Asset Class/Region	Currency	Currency returns			
		Week ending 16 September 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	0.6%	-1.4%	5.8%	8.9%
United Kingdom	GBP	-1.0%	-1.0%	11.2%	11.9%
Continental Europe	EUR	-2.4%	-1.9%	-5.4%	-3.7%
Japan	JPY	-2.4%	-1.4%	-14.2%	-9.0%
Asia Pacific (ex Japan)	USD	-2.4%	-0.5%	9.8%	11.8%
Australia	AUD	-0.7%	-2.1%	3.5%	8.6%
Global	USD	-0.7%	-1.3%	3.6%	4.7%
Emerging Market Equities					
Emerging Europe	USD	-3.0%	-0.8%	12.3%	0.9%
Emerging Asia	USD	-2.5%	-0.4%	11.1%	11.9%
Emerging Latin America	USD	-3.5%	-4.2%	27.7%	15.2%
BRICs	USD	-2.2%	0.7%	15.5%	12.5%
MENA countries	USD	-0.2%	0.4%	0.2%	-7.2%
South Africa	USD	-1.7%	2.1%	18.7%	0.0%
India	USD	-1.3%	-0.2%	10.4%	11.2%
Global Emerging Markets	USD	-2.6%	-0.8%	13.7%	10.2%
Bonds					
US Treasuries	USD	-0.1%	-0.8%	4.7%	5.3%
US Treasuries (inflation protected)	USD	-0.3%	-0.8%	6.3%	6.3%
US Corporate (investment grade)	USD	-0.3%	-1.2%	8.1%	8.6%
US High Yield	USD	-0.6%	-0.5%	13.7%	8.2%
UK Gilts	GBP	-0.5%	-3.2%	13.9%	14.0%
UK Corporate (investment grade)	GBP	-0.3%	-2.2%	12.6%	13.6%
Euro Government Bonds	EUR	-0.1%	-0.8%	5.3%	7.1%
Euro Corporate (investment grade)	EUR	-0.2%	-0.4%	5.7%	6.6%
Euro High Yield	EUR	-0.8%	-0.8%	6.8%	6.2%
Japanese Government	JPY	0.0%	-0.7%	4.6%	6.1%
Australian Government	AUD	-0.8%	-1.6%	5.6%	6.2%
Global Government Bonds	USD	-0.3%	-0.7%	9.4%	8.9%
Global Bonds	USD	-0.3%	-0.5%	8.1%	7.3%
Global Convertible Bonds	USD	-0.4%	-0.5%	1.8%	1.5%
Emerging Market Bonds	USD	-1.4%	-1.5%	13.5%	13.7%

Asset Class/Region	Currency	Currency returns			
		Week ending 16 September 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-0.7%	-3.9%	8.6%	16.7%
Australian Property Securities	AUD	-2.1%	-7.0%	7.5%	14.8%
Asia Property Securities	USD	-3.6%	0.6%	7.6%	10.7%
Global Property Securities	USD	-1.8%	-2.7%	8.5%	14.2%
Currencies					
Euro	USD	-0.6%	0.0%	2.8%	-1.1%
UK Pound Sterling	USD	-2.0%	-1.0%	-11.8%	-16.1%
Japanese Yen	USD	0.4%	1.1%	17.6%	17.9%
Australian Dollar	USD	-0.7%	-0.4%	2.7%	4.0%
South African Rand	USD	1.7%	3.9%	9.1%	-6.5%
Swiss Franc	USD	-0.5%	0.3%	2.2%	-1.0%
Chinese Yuan	USD	0.3%	0.1%	-2.6%	-4.5%
Commodities & Alternatives					
Commodities	USD	-1.8%	0.1%	5.1%	-8.8%
Agricultural Commodities	USD	-0.5%	2.5%	-0.5%	-2.4%
Oil	USD	-4.7%	-2.7%	22.8%	-8.0%
Gold	USD	-1.3%	0.1%	23.4%	17.0%
Hedge funds	USD	-0.1%	0.0%	0.6%	-1.8%

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