How we did in 2014

Our Prediction	What Happened	Score
Many of the headwinds in 2013 have subsided and in line with improving economic conditions visible in many global markets we believe GDP growth will be positive this coming year (3.5 to 4%). This environment should provide favourable tailwinds to capital markets.	Global GDP growth was positive at 3.3% in 2014. Reduced headwinds supported growth in developed economies, in particular the US and UK. Geopolitical events and the dramatic fall in oil price have weighed on most economies.	**4/5**
Both consumers and companies are deleveraging and with improving confidence we feel differentiation is key to determining those markets with positive returns. In particular our research has highlighted countries in the Developed Markets ie US, UK, Japan, Hong Kong, Germany and Denmark .With the Emerging Markets performing better towards the latter part of 2014.	Differentiation was certainly evident throughout 2014. Investors faced uncertainty in US & UK over the timing of interest rate rises, sanctions placed on Russia and its effects on European trade, the timing and effectiveness of quantitative easing programs in Europe and Japan and the ongoing slowdown and subsequent reforms in China. The fall in oil price also highlighted countries boosted by lower import prices and those hurt by falling export revenue. The highlighted market's main indices finished 2014 with US +11%, UK -2.7%, Japan +7.1%, Hong Kong +1.3%, Denmark +4.6% and Germany 2.6%.	**5/5**
In the face of reducing macro-uncertainty we see earnings disappointments, policy shocks in the form of QE tapering and forward guidance statements as biggest sources of risk. In broad terms we continue to favour equities over bonds although we do not expect bond yields to rise more than 50 bps in both markets from current rates (UST 10Y 2.82 & UK GOV 10Y 2.83).	Bond yields in US & UK surprised consensus by falling in 2014. US data in the first half of 2014, impacted by one of the severest winters they have faced, meant consensus forecasts for interest rate rises were pushed back. Low wage growth and continued low inflation as a result of a lower oil price has lengthened timescales for interest rate rises.	**2/5**
We remain doubtful about the Hang Seng and China's continued growth given the reforms and economic policies designed to transform the economy now in play. We still believe certain emerging market economies will struggle in the wake of credit tightening and currency concerns.	Growth in the region continues to slow albeit with a GDP growth rate of 7.3%. The government continues to push for reforms however investors remained sceptical throughout the first half of the year and indices reflected this with lacklustre performance. Restrictions on foreign investment to the domestic A-share market and a rate cut by the PBoC increased confidence in the government's commitment to reforms and boosted shares in the region during 2nd half of 2014, propelling the Shanghai Composite to a +50% rise for the year.	**3/5**

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Our Prediction	What Happened	Score
The Internet and Cloud computing/storage to continue expanding the field of technology as we see a continuation of the trend away from PCs to the use of smart handheld devices. 4G Internet speed is targeted to become standard in the UK by the middle of 2014 which we believe will accelerate the effectiveness of mobile technology and its use in our everyday lives. A continuation of this theme sees smart phones playing an even greater role in people's lives i.e. payment for goods and banking. Companies will continue to seek synergy of products with advancements in fields such as smart watches, goggles etc. while social media continues to provide unprecedented avenues for marketing and consumer research.	A survey by IBM showed 86% of companies are moving to cloud storage, showing that this trend is still very much in place. A number of high profile security breaches have also highlighted the risk and need for robust protection as more transaction and personal data is stored online. The same study showed forecasts of 75% increased cloud security budgets over the next 3 to 5 years. With most retail companies reporting increased online sales and mobile phone generated sales accounting for 22% of sales in US (a rise of 27% over one year), it is an area of revenue companies continue to look to exploit.	**5/5**
Currencies to continue to effect trade throughout the globe. Strengthening economies and tapering of QE should support the USD and GBP in 2014 but this may in turn provide headwinds to emerging markets that have currencies pinned to the USD and large current account deficits. Conditions in Japan and Europe are likely to mean weakening JPY and EUR producing favourable conditions for the regions exporters. We need to be aware that the reduction of bond purchasing (Tapering) in the US will inevitably lead to a reprising of global assets and their attractiveness.	US dollar strength was a major factor in 2014 with the USD rising against all developed market currencies and ending the year +12.5% against a basket of widely traded currencies (the 2nd best rise on record). Cooling housing data and the Scottish referendum meant GBP fell in the 2nd half of the year against the USD following a strong opening 6 months. Many of the FTSE 100's top companies forecast adverse FX conditions in relation to overseas sales. JPY and EUR weakened significantly as further QE by BoJ and ongoing speculation of sovereign QE in the Eurozone weakened their respective currencies.	**4/5**
Performance across emerging markets are likely to be diversified and driven by country fundamentals however risks from region-wide risk on/risk off fund flows cannot be ruled out and geopolitical risk can be a key source of volatility. Export driven countries with current account surpluses, high operational leverage and exposure to improving developed markets have the potential to outperform in 2014.	Diversified performance was evident across the emerging markets in 2014 with main indices returning from +35% in India and -44% in Russia. Contributing factors varied with elections and subsequent hope for growth generating reforms driving returns in countries such as India, while subdued growth forecasts and the falling oil price reduced the attractiveness of commodity export driven countries like Brazil, South Africa, Chile and Saudi Arabia. Geopolitical volatility was a factor also with the ongoing Russia/Ukraine conflict impacting trading partners such as Poland.	**5/5**

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Our Prediction	What Happened	Score
With diminishing macro uncertainty safe haven assets are looking less attractive and this coupled with uncertainty in China growth estimates has left many commodity forecasts depressed or uncertain at best, especially the precious and industrial metals markets.	Commodity prices were broadly lower in 2014 with lower demand compounded by growing supplies. Gold, seen by many as a safe haven asset, finished -1.7% after it endured a volatile year with prices ranging from $1390 to $1132, a +20% swing. Further volatility for commodities arrived in the form of the Ebola virus outbreak in West Africa which threatened supplies of Cocoa and mining strikes in South Africa which caused Platinum and Palladium prices to spike.	**5/5**
We believe 2014 can provide bottom-up opportunities in all markets and trends can emerge despite an overall negative or uncertain outlook for a country or region. One such theme is present in China where consumer confidence is boosting demand and e-tailing is surging as a result. As the region focuses on reforms that will transform the economy to one driven by domestic demand, this is a theme which should continue to strengthen.	With online retail sales of $426bn (a 35% increase from 2013) in 2014, China remains the world leader in online sales and is forecast to remain so into the future. The largest ever public offering by e-commerce giant Alibaba, which raised $25bn on the New York Stock Exchange in September, highlights the strength of demand and ongoing potential for companies in position to take advantage of this theme.	**4/5**
We favour biotech for diversification and return potential. Healthcare advances are being made in order to disrupt the process of disease progression as an alternative to delivering simply symptom relief. These breakthroughs, coupled with an ageing population in Japan and Europe, renders this sector an attractive investment proposition and valuations are attractive. Geonomics and medical research are also conducted by biotech companies and these are themes which should continue to drive performance.	The global biotechnology sector recovered from early volatility to finish the year +30%. The sector benefited from a string of new drug approvals alongside a continued favourable debt environment. The continued ageing demographics and health scares such as Ebola provided ongoing support for the sector.	**5/5**

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