How we did in 2018

Our Prediction	What Happened	Score
Global growth and reflation continues. Synchronised global growth has pushed global economies into firm reflationary territory and we expect this dynamic to continue over the year. The strong growth environment for the global economy will continue to be boosted through increasing consumption, especially apparent in the rapidly developing emerging markets. We thus expect global GDP to surpass 3 - 3.5% this year.	Global growth for 2018 was estimated at 3.7% surpassing expectations as US growth outperformed driven by fiscal reforms. Emerging economies continue to grow rapidly driven by their favourable structural dynamics.	**4/5**
Inflation continues to rise and threaten markets. Treasury yields have continued to grind higher as inflation has begun to show through, with unemployment in the US at multi-year lows and wage growth showing the first signs of movement. Although growth is positive for economies, financial markets are pricing in ideal levels, expecting consistent growth with not much inflation. Given the rhetoric of global central banks thus far, they could hike faster than expected in response to increasing levels of growth and inflation; this has the potential to shock markets and change the investment outlook.	In the US and UK unemployment continues to hold at record lows and wage growth has been strong. The Federal Reserve raised rates on four occasions in 2018 as growth rose above trend, markets declined on concerns that central banks would continue to raise rates faster and higher than previously anticipated	**5/5**
Political shocks continue. 2017 political worries did not materialise; the markets will probably show less restraint when faced with investing around upcoming political events such as the Italian elections. Despite a multitude of geopolitical events last year, which would have traditionally resulted in volatility and caution, markets continued to move higher and at points of volatility the pervasive mantra was "buy the dips", with geopolitical uneasiness reflected more in currency. We believe this attitude to risk will continue over 2018.	Markets were impacted by the protectionist policies pursued by the US although the mantra of 'buy the dips' was effective through the first half of the year. European markets were affected by the election of the populist Five Star Movement in Italy and the continued uncertainty relating to Brexit. Currencies continued to be affected by political shocks and were volatile.	**4/5**
Asset valuations to cause investor nervousness and asset rotation. Investor nerves regarding heightened asset valuations was one of the strongest concerns over the last year and, as asset prices continue to rise, we believe this nervousness will continue to rise too. Positive Central Bank balance sheet flows have significantly raised most asset prices and it is highly likely that a reversal of this will negatively impact prices. For now, investors are still seeking ways to mitigate this risk. Forced to accept more risk with interest rates still at historic lows, we anticipate a rotation into: value, reflected in asset classes (out of bonds); sectors (such as financials and energy); and geographical areas (such as moving to emerging markets). Moving to these areas with less stretched valuations helps to limit the downside risk of holdings when compared to other assets which now have stretched valuations.	Asset valuations continued to rise through much of 2018 although prices declined in the final quarter as the Federal Reserve reduced its balance sheet and the European Central Bank stated it would end Quantitative Easing. Investors rotated into value assets including telecoms and utilities where valuations were more reasonable	**5/5**

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China and other Emerging Markets will continue to do well in 2018. From a valuation standpoint, emerging markets currently seem more attractive than developed markets; given the advent of global growth, these economies continue to be exposed to favourable conditions. Whilst China's reform agenda has the potential to slightly taper the economy's GDP growth levels from 6.9% last year, the strong global demand we expect over the course of the year should continue to support this flourishing economy. Demand will also have a positive effect for other emerging market economies, particularly those that are commodity exposed, as they benefit from increased investment around the globe.	The Chinese crackdown on the shadow banking sector weighed on Chinese growth and the effects were exacerbated by the trade tensions with the US. Emerging markets underperformed until the end of 2018 as monetary policy tightening in the US and rising treasury yields led to investors allocating funds to developed market assets	**3.5/5**
Currencies to maintain volatility throughout 2018. We expect currencies to be a significant gauge of policy and condition as countries strive to hold an advantage in this period of political challenges and a competitive global economy. We believe that the dollar will weaken further, at least until the later part of the year. Sterling strength is highly dependent on Brexit outcomes, but underlying economic weakness is very likely to drive it lower. We see the Euro strengthening as growth and financial conditions within the area continue to improve.	Currencies were volatile throughout 2018 as divergent monetary policies and trade tensions impacted currency valuations. The US dollar strengthened as interest rates rose in the US with emerging markets currencies particularly the Argentinian Peso and Turkish Lira declining over 40%.	**3.5/5**
Brexit continues to control appetite for UK investments. The endpoint of Brexit is no longer far off on the horizon; with the deals and arrangements for trade, payment and rights all expected to be finalised by the end of the year, anticipation is building for a final declaration in March 2019. The GBP currency has predominantly moved based on political rhetoric and rumour, moving up significantly when it appears that a softer, more collaborative Brexit may be more likely, and moving down when the opposite is deemed more probable. Given the very opaque nature of the Brexit negotiations, there is significant binary risk around the UK as an investment area. Levels of investment and consumer spend pose a direct risk to companies and equity prices, and an increase in negative sentiment toward the UK can be seen reflected in negative moves for Sterling. Given these issues, we are cautious about the UK and seek exposure on an individual company basis where we believe they possess individual drivers that push through the noise around Brexit. We start the year with GBP on the edge of 10-15% gains or losses, depending on the outcomes of discussions. More good news will mean a rotation away from large caps into mid and small cap UK companies, whilst a return of Brexit worries would mean large caps and FX exposure are likely to produce gains for UK investors.	The value of Sterling continued to act as a barometer of Brexit outcomes throughout 2018 moving more than 12% against the US dollar. As expectations of a soft Brexit or second referendum have increased Sterling has rallied. A withdrawal agreement between the UK and EU was agreed in November although was not ratified by the UK parliament. As the UK's withdrawal from the EU approaches there is still no clarity regarding the future relationship and the economy is deteriorating as both investment and consumer confidence continue to decline limiting appetite for UK investment	**5/5**

Our Prediction	What Happened	Score
Strong investment in the future through renewables. Over the past few years investment by governments into renewable energies as a sustainable way to source power has increased. With continued and increased levels of investment, renewable companies have found ways to reduce the costs of producing their energy to a point where solar energy is becoming more competitive with oil. Alongside this, China's greener initiatives and the Paris Accord should boost investment in these areas. Given China's growing prominence, we believe this investment should further boost the attractiveness of renewables and offer some protection from traditional investment areas.	The renewables sector continues to attract investment as consumers, businesses and government are actively engaged in their environmental and social responsibilities. Renewable energy assets performed strongly even as the oil price declined.	**5/5**
Search for yield continues. As US government yields approach the 2.7% mark, we believe that investors could begin to buy back in to Treasury due to the attractive levels of yield on offer; this would subsequently bring down the yield and trigger a cycle of buying and selling. Due to impending inflation fears, investors have thus far moved allocations away from the bond proxy equities that traditionally provide stronger yield. Whilst government bonds provide some room for investment at various levels in their trading ranges, exchange rates make these outcomes more complex and uncertain. We maintain our overweight conviction for Emerging Market Debt in order to provide strong yield and benefit from dollar weakness, which indicators show is likely to continue.	Treasury yields peaked at 3.26% and investors bought back in to secure the attractive yield although yields have started to decline as investors re-assess future growth and inflation expectations. Emerging market debt came under pressure as investors sought low risk returns in US treasuries however as the markets have re-priced future interest rate increases investors have returned to the asset class to secure the higher yields available.	**4/5**
Technology and disruption will continue to provide opportunities and threats for investors. Whilst efficiencies through technology have undoubtedly aided some companies to increase their margins, it has been somewhat detrimental to others, such as traditional retailers. Traditional retailers have seen market share dramatically reduce over the past year and we expect this to continue as consumers continue to benefit from the increasing digitalisation of goods and services. We believe will be an enduring theme throughout 2018 and therefore hold an overweight in technology.	Traditional retailers continued to struggle as their business models came under pressure from disrupters. Household names including House of Fraser entered receivership and others continue to lose market share as disrupters have altered consumer behaviour	**5/5**

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