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INVESTMENT COMMENTARY - NOVEMBER 2018

Global investment markets continue to be volatile during the past month. However, investors who find this unsettling must remember that this is actually nothing unusual by historical standards.

Indeed, the lack of volatility in recent years was actually more the unusual state of affairs, and this can be attributed to quantitative easing (QE) courtesy of central banks in Europe, the U.S and Japan.

Their massive continuous issuance of money into equity and bond markets had the effect of suppressing any major downward price movements almost before they began and so giving an illusion of stability.

However, the U.S ended its QE programme late last year and is instead now withdrawing liquidity, whilst both Japan and the EU have been in the process of winding down their QE programmes. Therefore without such regular cash inflows to smooth the ebbs and flows of markets it was inevitable that volatility would return.

We should also add that it is important to distinguish between volatility and risk. Volatility is just a way of measuring price movements; risk is the possibility of permanent loss of capital.

Of course it is the latter that should be of most concern to investors. And on this point short term movements tell one nothing about long term returns.

We do not believe that the current market correction is the start of a more significant downturn. Market sentiment is quite negative, whereas at peaks it is almost universally positive. In addition institutional cash levels are high compared to historic levels: at market tops they tend to be at very low levels.

Note we have not mentioned valuations. In the very short term valuations are no indicator of which way markets move. However, in the long term they are all that matter in determining returns.

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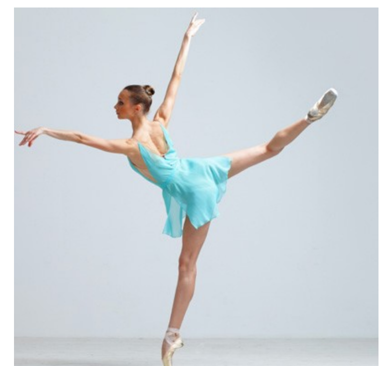

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