BLACKWOOD ASSET MANAGEMENT

INVESTMENT COMMENTARY - AUGUST 2019

In our July update we highlighted the amount of bonds globally which are trading with negative yields (i.e. investors are prepared to accept a loss if held to repayment) and the dangers of holding such bonds long term.

Since then the U.S./China trade dispute has escalated, with Trump threatening the imposition of further tariffs from September, and the global slowdown has gathered pace. Among others, the U.K has experienced a quarter of negative growth and in Germany a plunge in business confidence has raised fears that it is about to enter recession.

All this has combined to accelerate the easing of monetary policy by central banks, with the U.S. cutting rates (and with President Trump constantly castigating its chairman Jerome Powell for not cutting them more aggressively) and the EU once again priming the pumps with further stimulus plans. Additionally, Hong Kong is also looking to boost its economy to offset the impact of the political protests.

It is therefore no surprise that bond prices generally, and sovereign government bond prices in particular, have continued to rise and correspondingly the interest yields available have fallen further.

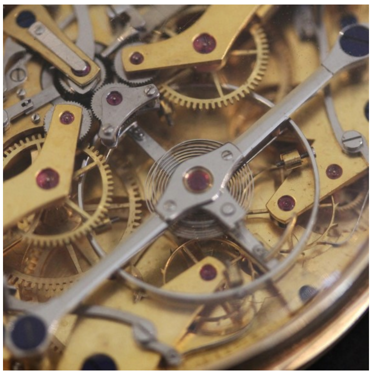
Here in the U.K. British government bond yields are now at historic lows and as such are returning very little to investors, with 10 year issues providing less than 0.5% annually before tax. This does not even go near to covering the present level of inflation (currently 2.1%), meaning savers are losing money in real terms.

The situation in the U.S. is a little better in terms of yields, but even there prices have risen sharply and yields have declined dramatically.

Whilst we appreciate the bad news and monetary policy contributing to these high prices we also feel that, barring a total economic collapse as we saw in 2008/9 (which we do not envisage), such prices at this level make little sense for investors and we are therefore reducing our holdings of fixed interest bonds.

Incidentally, very low or negative interest rates have also served to increase the appeal to investors of gold, which we have exposure to within the portfolios and remain happy to retain.

LEGAL NOTICE



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