Currency: USD

2018/05/31

Newsletter

Global Indices Return (%)

As of Date: 2018/05/31 Data Point: Return

	1M	3M	YTD	1Y	3Y	5Y	10Y	15Y
Developed Equities	0.5	-0.5	0.4	11.7	7.8	9.4	5.4	8.4
Emerging Equities	-3.6	-7.1	-3.1	12.2	4.8	4.2	1.6	11.6
USA Equities	2.4	0.3	2.2	14.6	10.8	12.9	9.2	9.5
Global Real Estate	2.0	6.3	-1.4	4.9	4.5	5.6	4.3	-
Global Bonds	-0.8	-1.3	-1.0	1.7	2.6	1.3	2.6	3.6

Source: Morningstar, FTSE Indices, Barclays Global Aggregate Indices

Equity Markets

Global equities were up 1% in May - thanks to the US, which was up 2.4%, the rest of the developed world was broadly flat and emerging markets down 3.6%.

With so much daily newsflow on the world economies and equity markets, we need to keep in mind the two key drivers of equity markets in the long-term; growth and interest rates. Equities are priced today by discounting the expected profits and dividends the companies will generate in the future.

1. **At what rate will the profits and dividends grow?** The current global economic environment is broadly positive but is the growth sustainable? A recent report from the OECD suggests that global growth is forecast to reach 4% in 2019 but there are risks: growth is too dependent on cheap borrowing - and interest rates are going up, oil price has risen significantly and some emerging market economies are under pressure.
2. **At what interest rate should we discount these cash-flows?** Developed economies (USA, Developed Europe, etc.) are in an increasing interest rate cycle. Higher interest rates means that the future earnings and dividends generated by equities are worth less today. As Warren Buffet has explained:

"*Interest rates are to asset prices what gravity is to the apple.*
When there are low interest rates, there is a very low gravitational pull on asset prices."

The gyrations in stock markets are due to the underlying investors changing their collective expectations on future growth and future interest rates.

Equities for the long run

We believe investing in equities is for long-term investment horizons. In the last 50 years, global equities have delivered an annualized $ real return of around 5%. That might not seem like a lot but it is; at that rate, your $ wealth broadly doubles every 15 years - in real terms. Yet investors had to have strong resolve and stay invested during four significant market dips in 1973; 1987; 2000 and 2008.

A recent lesson was the dip in global equity values during 2015/2016; an aggregate drop of around 20%. But even if you had invested in June 2015, at the high point, just before the beginning of the 20% drop, as long as you had remained invested, you would have been up over 25% in $ till end May 2018.

As investors in equity markets you should expect volatility.

Expect one in three years to produce negative returns and be prepared for significant market dips; then you will have strong resolve to remain committed to your long term investment plan.

Currency: USD

ETF portfolios are attractive

We, at Stylo, are ETF (exchange traded funds) managers. We build global portfolios using ETFs as the investment building blocks. The ETFs we use are transparent, liquid and low-cost funds provided by some of the largest and most successful index-tracking managers in the world, like Vanguard and BlackRock (iShares).

We have four main risk-profiled model portfolios:

- Global Equity - targeting 100% equity exposure
- Global High Equity - targeting 75% equity exposure
- Global Balanced - targeting 50% equity exposure
- Global Low Equity - targeting 25% equity exposure

These model portfolios would have beaten more than 80% of their peer group, after accounting for costs, since inception (Jan 2015).

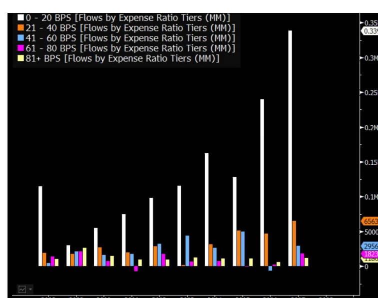
Source: Morningstar Inc, Stylo Investments; considering the returns of the top performing 1,000 funds with a comparable asset allocation to the Stylo model portfolio and domiciled in Europe.
Past investment returns are not necessarily indicative of future returns.
*Please read disclosure regarding investment returns **here***

We also have more specialised model portfolios (currency hedges, ESG/Shariah compliant, target duration etc.).

We believe we add significant value to you, the adviser.

- We evaluate the thousands of ETFs available and select ones we believe are most appropriate for each asset class or sub-asset class.
- We then package risk-profiled solutions using these ETFs.
- You can now rest assured that your clients are in portfolios that match their risk profile, are well diversified, have low-cost and typically beat the vast majority of comparable actively managed funds.
- We can co-brand client statements and the client portal with your brand.
- You can access our portfolios on tax-efficient platforms (Old Mutual International and Glacier International) using the custodian option. We are approved discretionary investment managers and use Saxo Bank as our custodian.

10 year US fund flows: low expense ratio funds attracting the flows



Source: Bloomberg Intelligence

This chart indicates how the net flow of funds in the US are spread across funds based on expense ratios.

Contact *us* about our global ETF-based portfolios