

## **Johnathan Sparks – Review of 2018**

2018 got off to a flying start.

Recent tax cuts in the US really helped with corporate profits and expectations for earnings grew very high going in to the start of the year.

Also this stimulus is expected to spill over to the rest of the world economy, so equities grew by about 7% before the end of January this year.

However, this had two side effects: the first was there were fears that the US Federal Reserve would really have to raise rates much more aggressively than previously forecast. Also some vulnerable emerging markets that borrow heavily in US dollars are more susceptible to high US rates so these markets were punished.

Also we have the return of geopolitical risk and this was really escalated as tensions between the US and China started to gather steam and also you have political risk in the UK and in the Eurozone in Italy.

So this meant that valuations overall actually rerated lower so you actually have valuations now about 15 to 20% cheaper than you did at the start of the year.

Even in the US where market has actually risen slightly, this has been masked by the fact that earnings have been so strong so valuations are much lower.

But we think we have got more opportunities because of this rerating lower in valuations.

And if you want to see more about those opportunities, please look to our Investment Outlook report, Finding the right balance.