What a start to 2016!

With most markets having a torrid time in January, we thought we should highlight our current thoughts on the situation and how we are positioned. By way of background, detailed below is the performance of various asset classes in January.

Equities	**Currency**	**Index Value**	**% Change Jan 2016**
MSCI World	USD	1,562.18	-6.05
FTSE 100	GBP	6,083.79	-2.54
S&P 500	USD	1,940.24	-5.07
Euro Stoxx 50	EUR	3,045.09	-6.81
Nikkei 225	JPY	17,518.30	-7.96
Government Bonds			
Citi United Kingdom WGBI TR	GBP	1,231.22	3.87
Citi United States WGBI TR	USD	809.56	2.09
Commodities			
Bloomberg Commodity	USD	77.22	-1.70
Hedge Fund			
CS Tremont Hedge Fund USD	USD	550.01	-0.85

As can be seen Equity markets had a torrid month, falling across all regions. Government bonds provided some relief, posting a positive return. Elsewhere Commodities and Hedge Funds also struggled and fell.

Economic Recession?

Has the recent fall in “risk assets” such as equities, been caused by the perception that we are entering a recession? Our fundamental view is that it is unlikely that we will slip into a global economic recession in the coming months. Global growth, despite what one reads in the press, remains robust at circa +3% and, in the absence of a major shock, the probability of sliding into negative growth is low. We should however, consider each major economy in turn:

- The US is experiencing issues with its manufacturing sector, due to slower global trade and turmoil in the energy sector. That said, overall economic growth remains solid, supported by a strong service sector and consumption.

- In China, economic growth has been slowing for some time from a purported 7% to around 3-4%, with excessive infrastructure spending and disorderly debt accumulation taking their toll. However, both official data and anecdotal evidence suggests that economic activity is no longer surprising to the downside. China remains one of the strongest contributors to world growth. Whilst growth is currently lower than in the recent past, the economy is still in expansion, not contraction.

- Elsewhere, the Eurozone is finally contributing positively to world growth albeit marginally whilst Japan has slowed of late and is best described as flat. The only real challenge to global growth comes from emerging economies like Brazil and Russia which have struggled on the back of the sharp fall in commodity prices.

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Taking all this into consideration, we feel an economic recession is only likely if there was a sudden collapse in consumer confidence and a shut-down in consumption. We view this scenario as highly unlikely. Therefore, our assumption for the rest of 2016 is one of positive, albeit modest, economic growth.

Outlook and Portfolio Positioning

To reiterate what we wrote about in our last newsletter, we view much of what has occurred at the start of 2016 as a change in investor sentiment - from positive to negative. Two principal factors have caused this rapid change in investor sentiment:

- First a slowing Chinese economy. China is not growing at 6-7% per annum as suggested by official sources; neither is it growing at the 1-2% level that some of the more pessimistic estimates suggest, but probably at 3-4%.

- Secondly, the oil price has plummeted. This causes problem for producing countries and the sovereign wealth funds have been sellers of liquid assets to plug budget spending gaps. Conversely, consumers all over the world are major beneficiaries, so there are winners and losers.

Taking all of this into consideration, it remains our view that it is only a matter of time before the US Dollar and oil price reach much-needed stability. This is likely to be driven by the US Federal Reserve, which we think will have to tone down its monetary tightening plans, and by a collapse of North American oil supply over the next few quarters. These events should help stabilise economies, corporate profitability and asset markets.

In the interim, technical factors, such as reduced liquidity, have made global markets quite fragile and more volatile. Whilst we continue to maintain a relatively cautious stance across portfolios, we also believe that greater volatility creates more opportunities. We have recently raised cash by selling some high yield bond and hedge fund exposure so we are ready to invest when we see value. We are also beginning to see some attractive yields in certain sector-specific opportunities with the aim of increasing income in portfolios, as capital returns are unlikely to impress as much as they have in recent years.

Whilst it is certainly uncomfortable at the current time, as long-term investors we believe that the current market turbulence will be no more than a minor correction when viewed against a 5 year timescale. It is certainly not a time to panic.

If you have any questions, comments or feedback, or if you are interested in a meeting with Quartet, please contact Quartet's Managing Partner, Colin McInnes, via email at cgm@quartet-im.com or on (020) 8939 2920.

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