Thinking about Q4: Should we Expect the Usual Seasonal Strength?

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"Good seasons start with good beginnings" Sparky Anderson

For most investors 2017 has been a bumper year versus benchmarks such as cash in the bank. This point was reinforced by year-to-date data up to the end of the third quarter, which showed across mainstream multi-asset class markets in Sterling terms only if you were invested in silver, Brent/crude oil or the Russian stock market did you make a loss.

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So what should we expect for the fourth quarter? History suggests for the equity market 'more of the same' as October and December are two of the top three months using a data set since 1980 for generating a positive return. And if you go back even further, the data is even more compelling as, in the 27 years since 1970, the UK stock market has only seen negative returns in October in six years with only December having a smaller number of losses observations.

That sounds like good news. However, two other elements need to be considered which are often interlinked: events and October's penchant for volatility.

There are many factors which induce volatility in stock markets and also, at any one time, many potential worries for investors. Issues such as tensions building in the Korean Penisular do cast a long shadow but are difficult to predict. Meanwhile, matters such as the potential for the Bank of England to raise interest rates have been not only flagged, but also in terms of the magnitude of the shift, are unlikely to be especially material or influential per se.

Far more impactful are the twin combinations of fundamental company data and general investor sentiment. As always, the big corporate quarterly earnings disclosures in the six weeks from mid-October will provide multiple insights on individual corporate names, and collectively the broader markets. There remains a clear dichotomy in anticipated UK corporate reporting, between the muted expectations for more domestic centred businesses and the more upbeat anticipation for more internationally centred companies.

Value investors may spy a relative investing opportunity but this will only close if sentiment - as best reflected by the value of the Pound on the international foreign exchange markets - continues to rise back closer to the levels it was at before the Brexit referendum.

A fuller renaissance of the Pound is inevitably interwoven with the Brexit negotiations, which appear to be proceeding more along of the lines of both embracing some element of 'transitional arrangements' and being 'bespoke'. Optically this is better as moving away from a very rigid two year timetable for Brexit is considered, by most market participants, as likely to reduce shorter-term risks to trade, jobs and economic growth. However, the grey cloud of political uncertainty still lingers and, whilst the UK government retains only a slim majority, multiple scenarios still exist. Historically, one observation would be that politicians rarely vote for their own demise, and this provides the opportunity for the current government to continue deep into its Parliamentary tenure.

Politics and Brexit resonate with global investors looking at the UK. Concerns have been high for over a year now and regularly, in well-renowned global fund management surveys, the UK has consistently been at or near the bottom of allocation tables versus historic norms. Such low sentiment of course can be as much an opportunity as a

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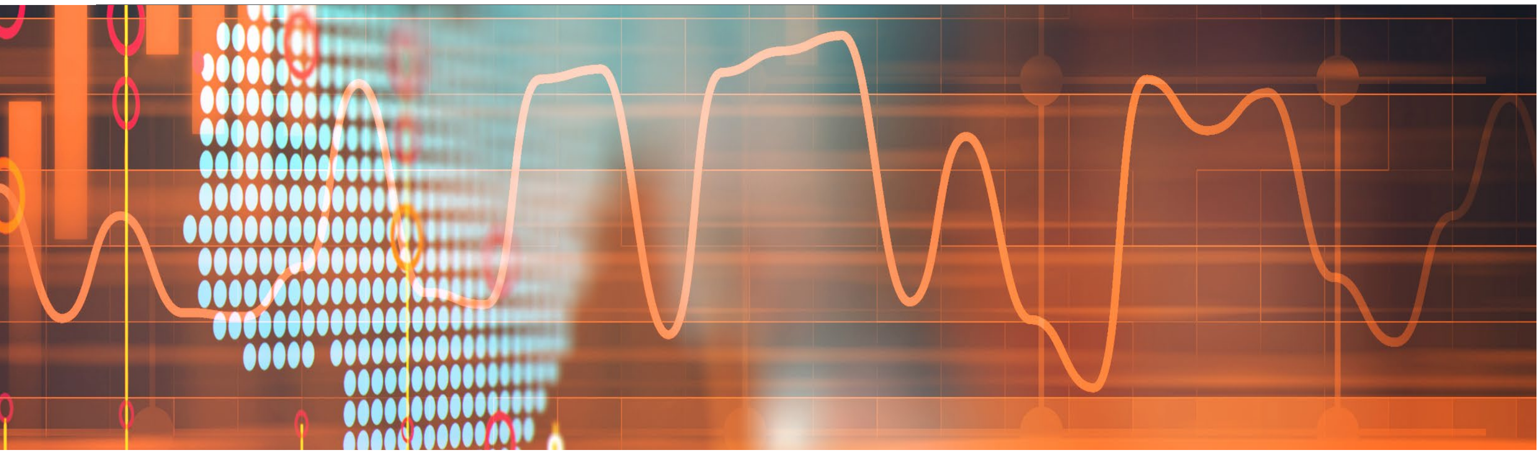

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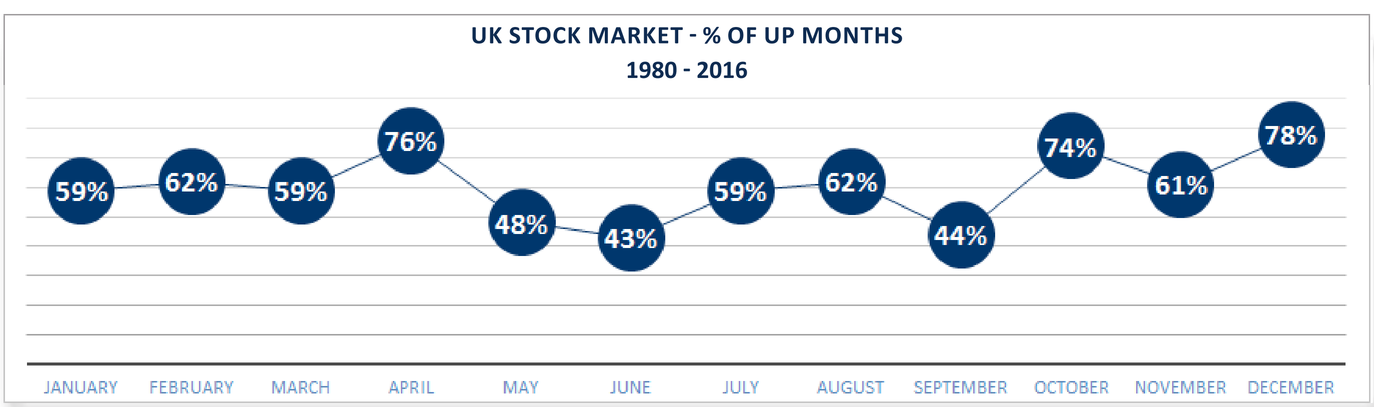
threat, as any signs of positive progress in Brexit discussions and/or enhanced domestic political certainty can help induce current very underweight positions to become... less underweight. We have already seen the Pound lifting against many global currencies - apart from the Euro - as a worrisome world starts to develop different shades of grey. These heavy global sentiment underweights are maybe the most compelling reason to be looking for opportunities in the UK.

And talk of the Euro and Europe per se highlight another important factor. After a number of years of strong financial market performance, further change and reform by governments in the Eurozone, Asia and the Americas can also be influential as a rising global tide can help lift most boats. Watching the progress of governments and reform initiatives across the world will be highly influential for the UK market during the fourth quarter as this is one method how already firm valuations can rise further.

Recent history suggests the fourth quarter will be friendly to investors, but for this to occur again keep watching corporate earnings, global government reform initiatives, UK political stability and the Brexit discussions. In short... keep watching everything. It remains a financial market backdrop where active participation is both sensible and necessary.

KEY TAKEAWAYS:

- Recent history suggests the fourth quarter is a stronger-than-average period for returns
- Watching fundamental company data and general investor sentiment will be particularly important
- Keep actively engaged with markets - there is a lot going on at the moment



Source: UK Stock Market Almanac

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