

Do current equity market levels and valuations point to now being a time for prudent considerations?

Equity markets are currently at or close to all-time highs and appear to be fully valued... with some identifiable headwinds. So, is now a time for advisers to reflect on portfolio options?

Our investment thinking...

It is simplistic but difficult to refute the suggestion that economies and markets are cyclical and that downturns are to be expected every 5 - 10 years or so.

While we may all hope that the benign environment for equities that investors have enjoyed continues (as cash and bonds certainly don't solve many investor needs currently) - and we believe that investing is about 'time in the markets' not 'timing the markets' - we are inclined to think that now is a time for professional advisers to consider the levels of equity exposure in portfolios and whether these may be de-risked.

In fact, we think advisers may wish to consider risks to both the upside (the risk that markets don't rise and deliver the levels of return that investors require) and the downside and whether a better balance between return and risk can be achieved.

Equity markets around the world are mostly at or close to all-time highs currently - and appear to be fairly / fully-valued at such levels, based on various metrics. This follows a highly supportive multi-year period of low interest rates and quantitative easing (QE) stimulus after the global financial crisis.

It is hard to see how the environment ahead can remain so benign however - and indeed there are some clear economic, market and geopolitical risks evident. This includes explicit direction from governments and central banks that we are all to be weaned off QE, as we enter a new phase, of quantitative tightening (QT).

So far, markets have been remarkably resilient. In fact, they seem to have just absorbed what many predicted would be major shocks, such as Brexit and Trump. Market volatility, as measured by the Vix index, shows that markets and investors have ridden these major factors as if they've been little more than speed bumps. But that, in itself, may be a cause for concern. And what happens if one of these speed bumps becomes a 'stinger', taking out a tyre or two?

A key question to consider is what's left in governments' / central banks' armouries, if or when a major future event might necessitate further intervention? It's clear that there's little room for interest rate reductions (despite current attempts to elevate them from all-time lows) and QE has already been deployed.

It's certainly a time for questions: but are there many answers?

... more to follow from our investment committee in a full future *alphaTIMES* newsletter

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