# Report of the Advisors 2015 – 2106

Overall the global economy has continued its somewhat hesitant recovery from the 2008-9 financial crisis. On the other hand, the US economy has continued to perform robustly, allowing the Federal Reserve to raise interest rates for the first time since the crisis (albeit to a still lowly 0.5%). The UK has also seen solid growth, and economic growth has picked up in parts of Continental Europe.

On the other hand, the Chinese economy's structural shift away from infrastructure investment has seen its own growth rate fall and has had a depressing impact on commodity prices. Oil prices fell sharply, with the Brent crude oil price falling from over $120 in mid-2014 to $30 per barrel early in 2016. While this improves the outlook for Western consumers, it has brought further pressures – a new phase of debt write downs for beleaguered US banks who lent to drillers at much higher oil prices, and recession in several highly significant economies which are needed to fuel global growth, most notably Russia and Brazil, both heavily reliant on commodity exports.

The overwhelming feeling within markets is still one of nervousness that growth may disappoint. The OECD has recently revised down its growth expectations for 2016. Levels of Government debt remain high, inflation is negligible and Central banks have limited new fire power to generate faster growth. Monetary policy has been very accommodative for many years and interest rates are already at extreme low levels (or even negative in some cases). We are likely to see "more of the same" – continued slow progress, punctuated by periods of concern over Chinese Growth and political/economic instability.

While stock markets have been volatile, and fell sharply in early 2016 when fears over global growth were accentuated, returns over the year have proved steady if quite pedestrian by recent standards. Most leading developed markets provided returns to a sterling investor of between -5% and +5%. Within this, the US dollar strengthened leading to higher returns from US equities, and Government bonds slightly outperformed equities. By contrast, Emerging Markets and their currencies were notably weak. Equity valuations remain high, and bond yields are ultra-low by historic standards, so low returns should be expected from current levels. UK direct property produced the highest returns over the last one and three years, but this market too is showing signs of peaking.

During the year, the advisors worked closely with the investment team and the trustees as they implemented the final parts of the changes of strategy agreed in 2014. In June 2015, Royal London Asset Management took on a new "buy and maintain" corporate bond mandate, replacing Hendersons. The objective is to provide returns in a more efficient and lower cost manner from a high quality credit portfolio. Work has already started towards the 2014 actuarial valuation, and any investment strategy implications will then be considered.

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