Appian
Asset Management

Monthly Monitor

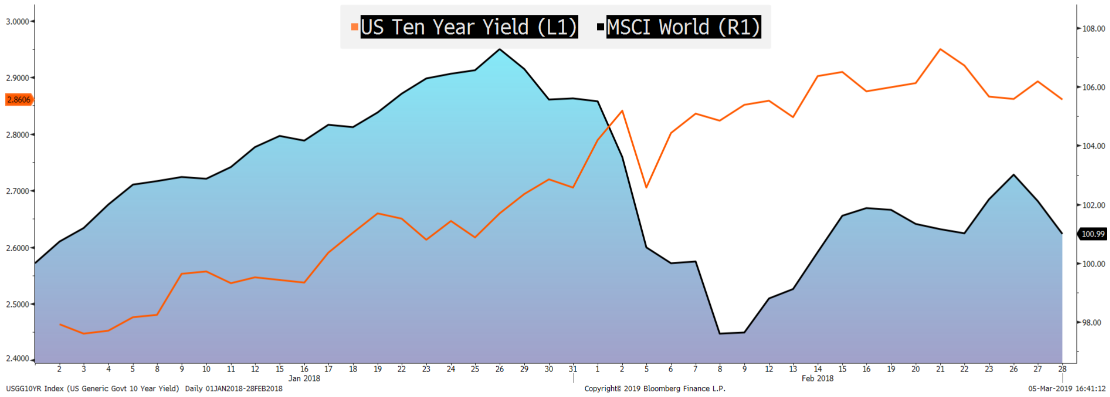
March 2019

The Biggest Risk to Markets May Not Be What You Think.

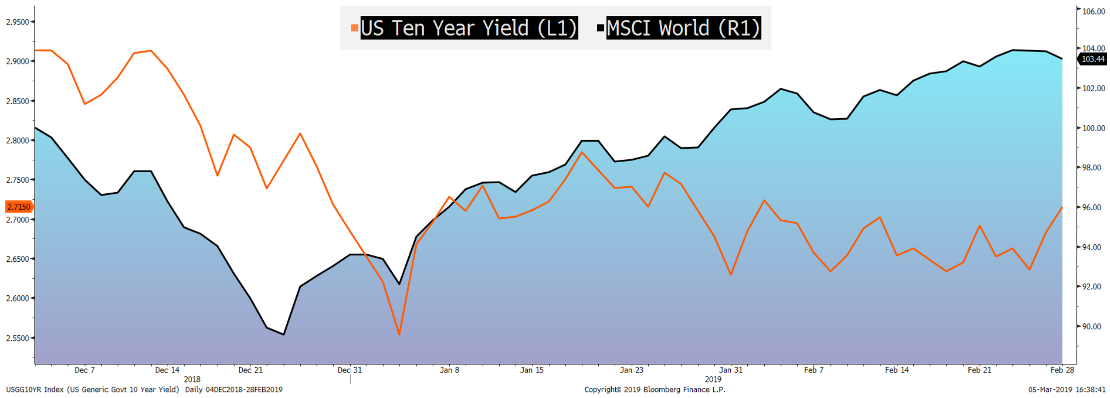
Equity Markets are enjoying their best start to a calendar year in the last three decades. Risks appear to be dissipating all around as the market is gaining confidence that: (a) China and the US will come to some form of trade resolution; (b) the Federal Reserve will be cognisant of the impact of their monetary policy on markets; and (c) that Chinese authorities will be successful with their targeted stimulus measures. These are addressing the risks that impacted markets last year but the question that has to be asked now is what is the big risk for 2019?

The market sell-off at the end of 2018 was caused by increasing recession fears but these are abating as central banks become more supportive to economic growth and fiscal stimulus is set to be stepped up in China. However, the clue to what could upset markets lies in 2018. The original market sell-off in early 2018 was caused by fears that inflation was coming back as wages appeared to be rising after years of stagnation. This caused a rout in the bond market which caused equity markets to fall by 10%. The lesson from this incident is that the equity market is sensitive to moves in long bond yields. This correlation is also evident this year as stock markets are rallying as long-term yields have come down.

- **Global Equity Markets fell 10% in 2018 as inflation fears drove rates higher**



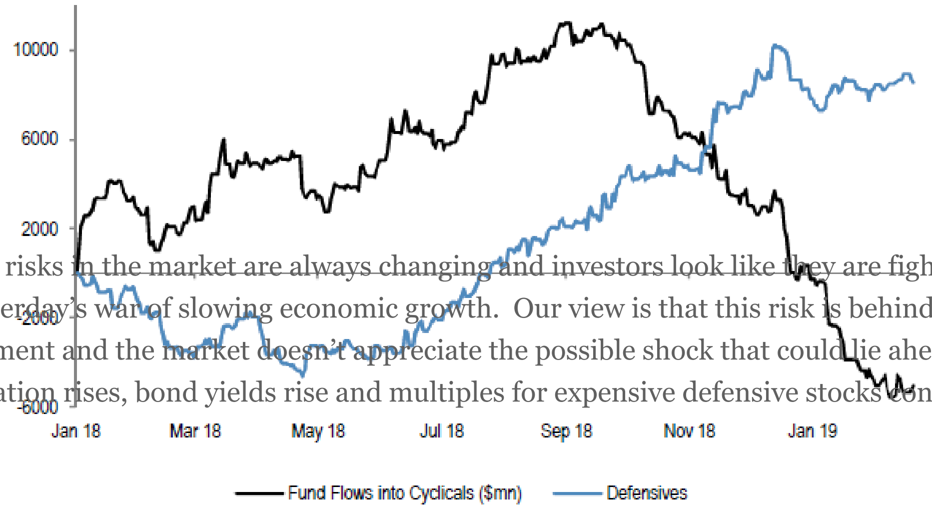
- **Markets are rallying this year as long-term yields have fallen**



- **What does this mean for the future?**

The stock market rally that we have been enjoying for the last decade has become known as the most hated bull market of all time. One of the reasons for this is that a lot of the growth has been multiple expansion. Elevated multiples mean that the market is very susceptible to moves in bond yields. The recession scare of 2018 has made central bankers more dovish and looks set to spur greater fiscal stimulus. With unemployment rates in plenty of parts of the world hitting all-time lows, inflation looks set to surprise to the upside and this has the potential to roil markets. The obvious asset class to avoid in this type of environment would be fixed income assets, whereas real assets which have some inflation protection should out-perform.

Within the equity market, the picture gets interesting. If inflation surprises due to economic growth, one should be exposed to cyclical sectors and commodities as opposed to defensive sectors. However, the opposite is happening and investors are flocking into the defensive part of the market and away from cyclicals.



Source: Bloomberg

The risks in the market are always changing and investors look like they are fighting yesterday's war of slowing economic growth. Our view is that this risk is behind us for the moment and the market doesn't appreciate the possible shock that could lie ahead if inflation rises, bond yields rise and multiples for expensive defensive stocks contract within the equity market.

Appian Conference Call

Appian will be hosting the next Market Update call on the 13th of March at 10 am with Chief Investment Officer - Niall Dineen, Senior Fund Manager - Pat Kilduff and Senior Relationship Manager - John Flavin.

The team will be discussing the risks in markets.

If you would like to submit a question for the team, please forward it by email to Anna Hadfield at: anna.hadfield@appianasset.ie

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Appian Unit Fund Prices

1 March 2019

Appian Value Fund	**148.90**
Appian Equity Fund	**193.01**
Appian SCOF	**175.74**
Appian Liquidity Fund	**104.79**
Appian Ethical Value Fund	**104.20**
Appian Burlington Property Fund	**120.74**

For more detailed information on each of our funds click **here**

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