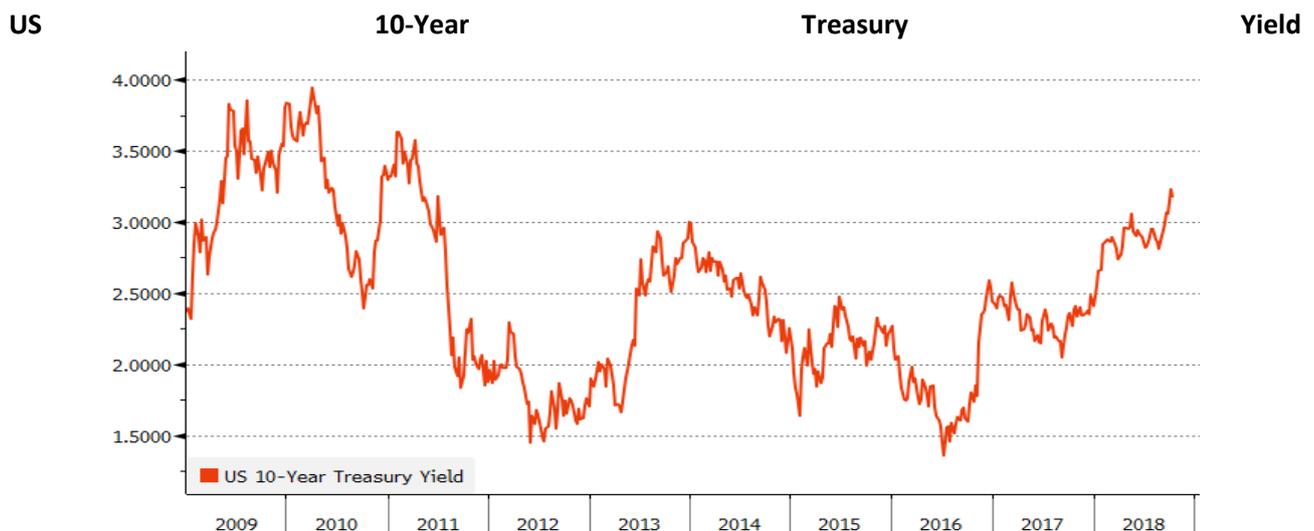


Market correction should be no cause for alarm

11 October 2018

Yesterday's sell-off in US equities, which has spread to Europe and Asia today, is by and large a reaction to recent developments in the US economy. Stimulative policies from the Trump administration, such as tax cuts, have spurred the pace of economic growth to multi-year highs. In response, the Federal Reserve (the Fed) has raised interest rates and signalled its intention to continue doing so throughout 2019. Until last week, markets were sceptical of the Fed's forecasts. However, strong economic data have since caused a reassessment of this view, pushing US bond yields – which reflect interest rate expectations – to their highest levels since 2011.



Although it may not be obvious, bond yields have important consequences for equity markets. Firstly, the availability of a higher yield on bonds may encourage some investors to sell equities and buy bonds. Secondly, bond yields are a key input to a number of widely used equity valuation models. In these models, as bond yields rise, equity prices fall.

You may be wondering how this correction could affect your portfolio. The key message from the Omnis Investment Team is to remain calm.

Markets rarely move upwards uninterrupted, as they are prone to spells of volatility. However, the Graphene portfolios and the actively-managed Omnis Managed Portfolio Service (OMPS) range are designed to weather short-term market fluctuations by holding a mix of assets that are proven to deliver returns over the long term.

Furthermore, the portfolios are designed to suit your attitude to risk. Adventurous portfolios are designed to accept greater short-term uncertainty in the pursuit of higher long-term returns. Meanwhile, though not entirely immune from short-term market moves, Cautious portfolios are designed to deliver returns that are less susceptible to short-term market weakness.

Within the OMPS range, allocations to equities have been steadily reduced over the past few months, with the proceeds placed largely into cash. This has added an extra layer of protection to the portfolios, which has proved its worth in recent days.

Regardless of whether you invest in Graphene or OMPS portfolios, the message remains the same: trust in the diversification of your portfolio and remain focused on your long-term objectives.

This update reflects Omnis' view at the time of writing and is subject to change.

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