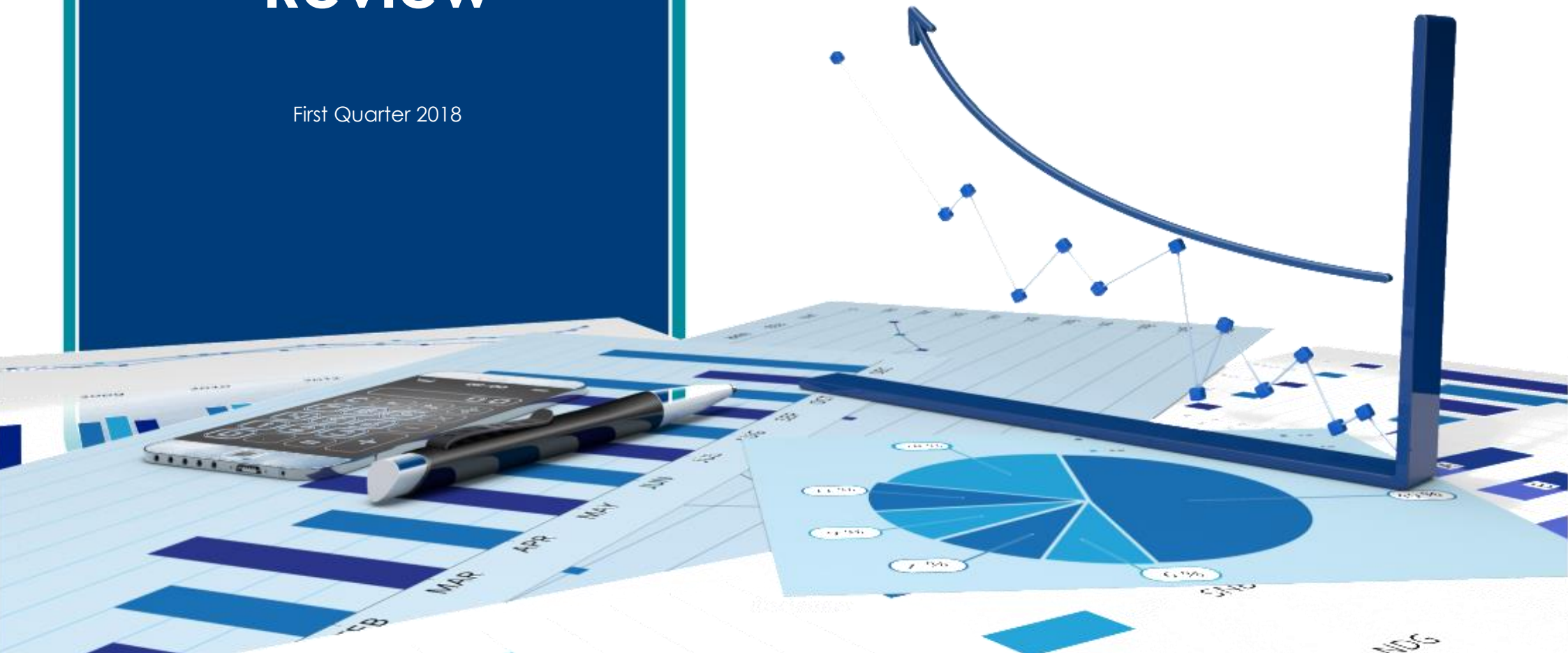


# Quarterly Market Review

First Quarter 2018



**LEXINGTON**  
WEALTH MANAGEMENT



# Quarterly Market Review

First Quarter 2018

## Key Takeaways

- Looking at broad market indices, emerging markets outperformed developed markets including the UK during the quarter.
- The value effect was negative for the UK and World developed but positive in Europe and emerging markets.
- Small caps outperformed large caps in World developed markets including the UK and Europe, but underperformed in the emerging markets.
- Within fixed income, term premiums were negative in the US but generally positive across non-US developed markets. Credit premiums were generally negative across developed markets as lower-quality investment-grade corporate bonds underperformed their higher-quality counterparts.








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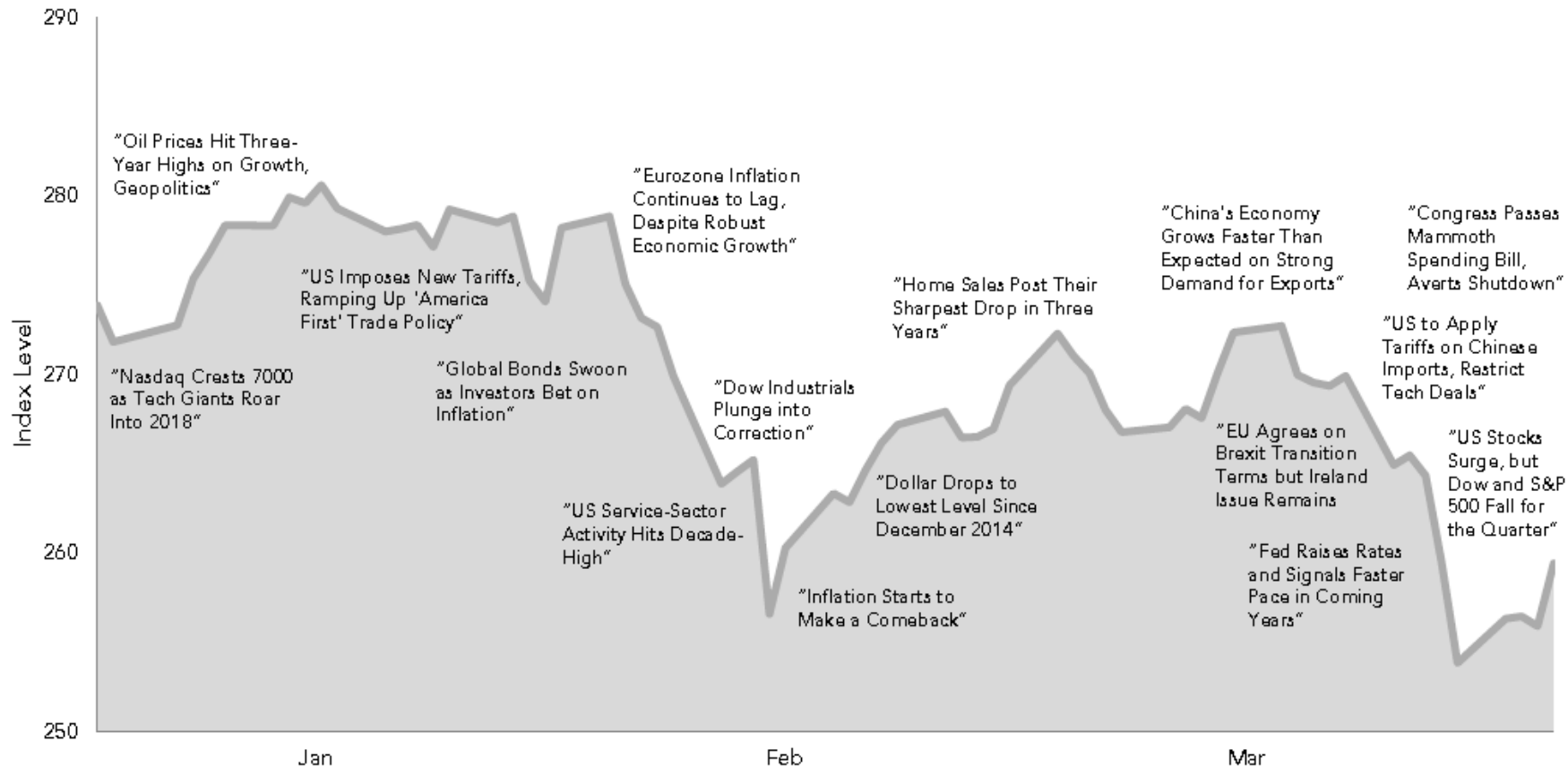
# Market Summary

## First Quarter 2018 Index Returns (GBP)

|                           | UK Market   | Europe Developed Market   | Developed Market  | Emerging Market   | UK Govt. Bond Market  | Global ex UK Govt. Bond Market  | Global Credit Bond Market   |
|---------------------------|---|---|---|---|---|---|---|
| <b>Q1 2018</b>            | <b>STOCKS</b>   |   |   |   | <b>BONDS</b>  |   |   |
|                           | -7.31%  | -5.48%  | -4.80%  | -2.20%  | 0.33%   | 0.25%   | -1.59%  |
|                           |  |  |  |  |  |  |  |
| <b>Since January 2001</b> |   |   |   |   |   |   |   |
| Avg. Quarterly Return     | 1.3%  | 1.5%  | 1.5%  | 2.8%  | 1.4%  | 1.3%  | 1.5%  |
| Best Quarter              | 22.0%<br>Q3 2009  | 26.6%<br>Q3 2009  | 20.9%<br>Q3 2009  | 27.8%<br>Q4 2001  | 10.6%<br>Q4 2008  | 6.2%<br>Q4 2008   | 7.0%<br>Q2 2009   |
| Worst Quarter             | -19.8%<br>Q3 2002   | -25.2%<br>Q3 2002   | -20.9%<br>Q3 2002   | -25.0%<br>Q3 2001   | -3.9%<br>Q2 2013  | -3.0%<br>Q4 2016  | -3.1%<br>Q3 2008  |

# World Equity Market Performance

## Selected Headlines from First Quarter 2018

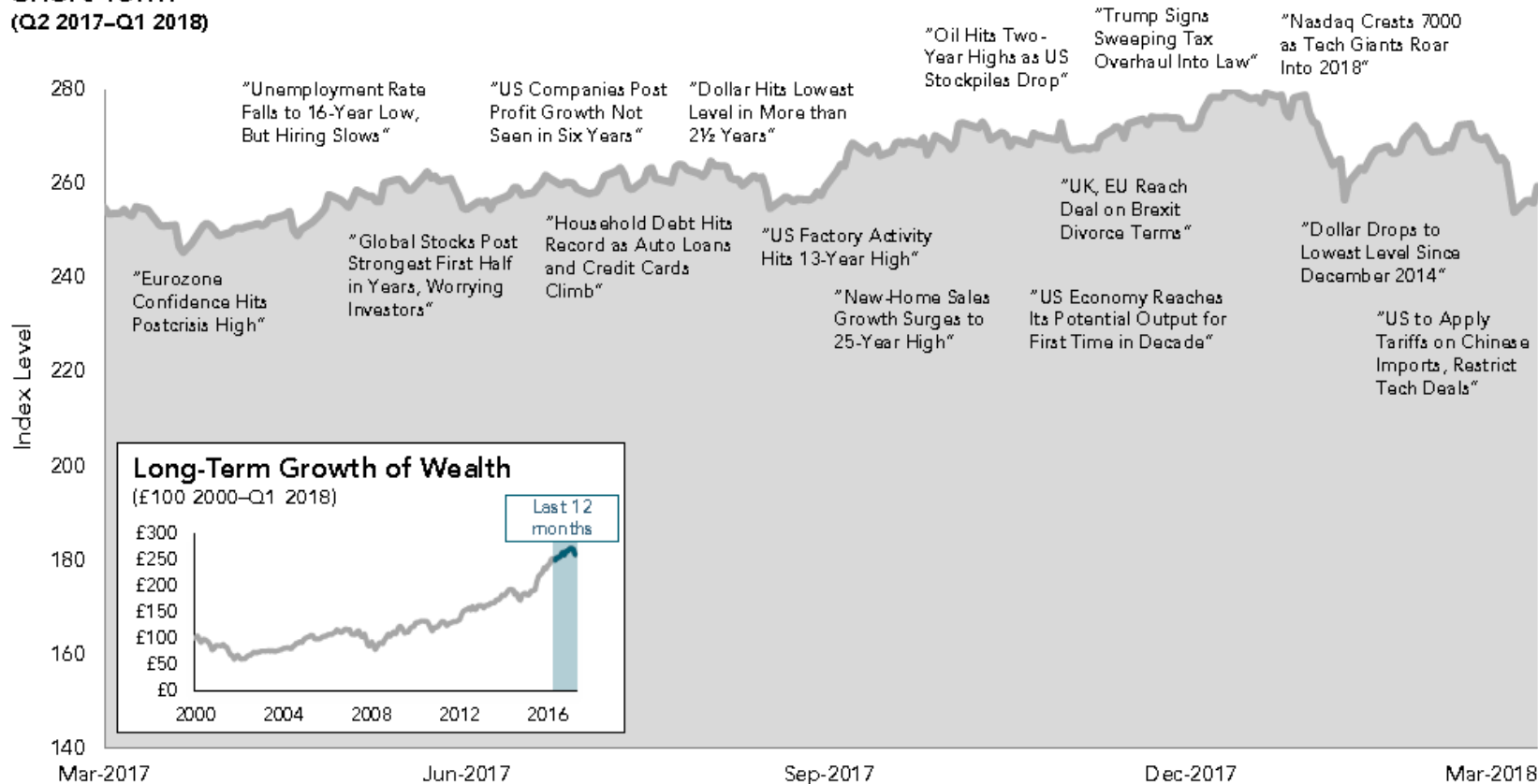


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

# World Equity Market Performance

Selected Headlines from past 12 months

## Short Term (Q2 2017-Q1 2018)

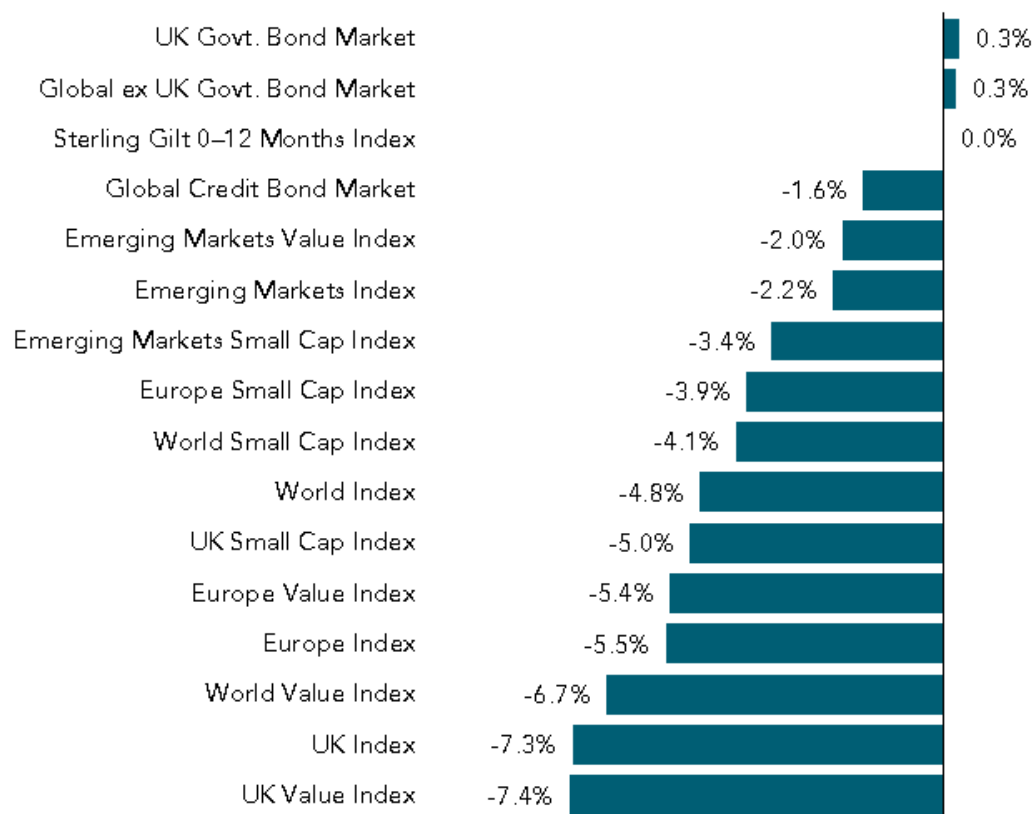


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

# World Asset Classes

## First Quarter 2018 Index Returns (GBP)

### RANKED RETURNS (%)



- Looking at broad market indices, returns were generally negative in GBP terms.
- Within equity markets, the value effect and small cap effect were mixed across markets.

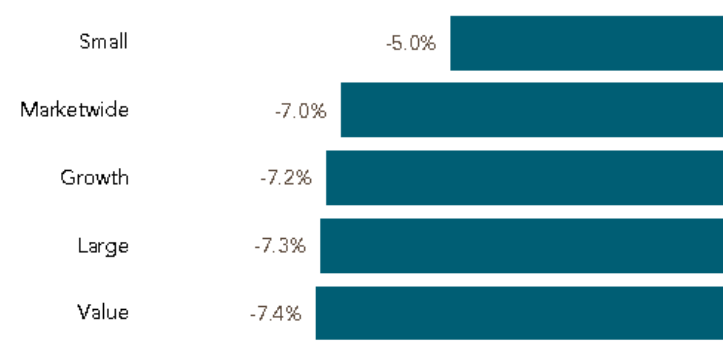


# UK Equities

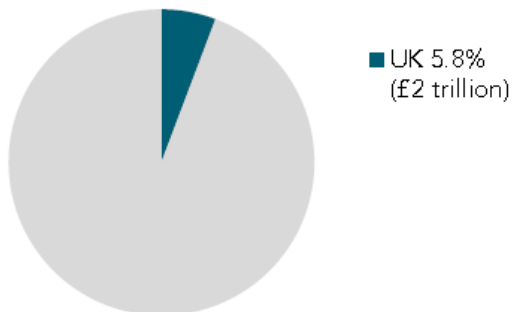
## First Quarter 2018 Index Returns (GBP)

- The broad UK equity market recorded negative returns.
- Value underperformed growth indices in the UK.
- Small caps in the UK outperformed large caps.

### RANKED RETURNS (%)



### WORLD MARKET CAPITALISATION - UK



### PERIOD RETURNS (%)

\* Annualised

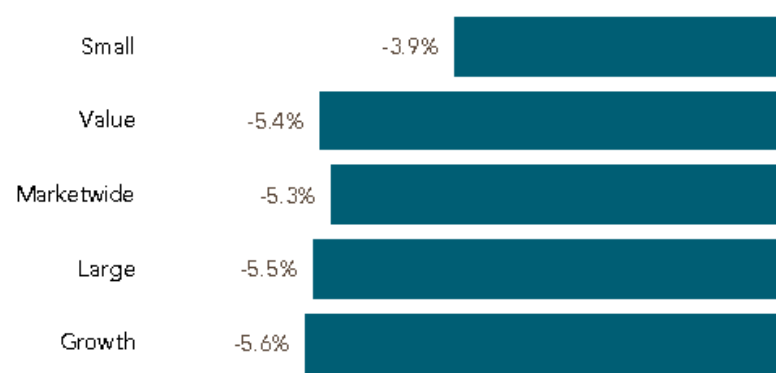
| Asset Class | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Marketwide  | -7.0% | 1.1%   | 5.7%     | 6.3%     | 6.6%      |
| Large       | -7.3% | -0.2%  | 5.1%     | 5.5%     | 5.9%      |
| Small       | -5.0% | 9.4%   | 9.6%     | 11.2%    | 11.1%     |
| Value       | -7.4% | 1.5%   | 4.5%     | 4.8%     | 5.5%      |
| Growth      | -7.2% | -2.4%  | 5.7%     | 6.4%     | 6.3%      |

# Europe Developed Market Equities

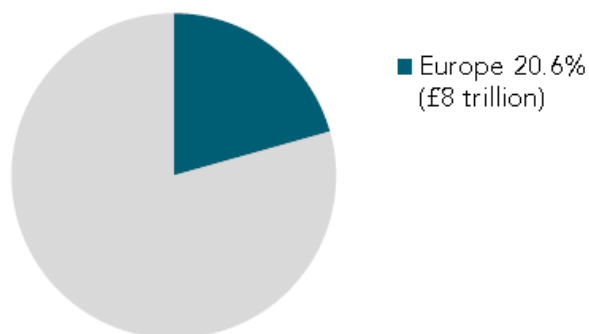
## First Quarter 2018 Index Returns (GBP)

- The broad European developed equity market recorded negative returns for the quarter.
- Value outperformed growth indices in European developed markets.
- Small caps outperformed large caps.

### RANKED RETURNS (%)



### WORLD MARKET CAPITALISATION – EUROPE DEVELOPED



### PERIOD RETURNS (%)

| Asset Class | YTD   | * Annualised |          |          |           |
|-------------|-------|--------------|----------|----------|-----------|
|             |       | 1 Year       | 3 Years* | 5 Years* | 10 Years* |
| Marketwide  | -5.3% | 3.2%         | 7.7%     | 8.8%     | 6.2%      |
| Large       | -5.5% | 2.1%         | 6.8%     | 8.1%     | 5.7%      |
| Small       | -3.9% | 11.0%        | 14.0%    | 14.5%    | 10.4%     |
| Value       | -5.4% | 1.7%         | 5.9%     | 7.8%     | 4.1%      |
| Growth      | -5.6% | 2.4%         | 7.6%     | 8.3%     | 7.1%      |

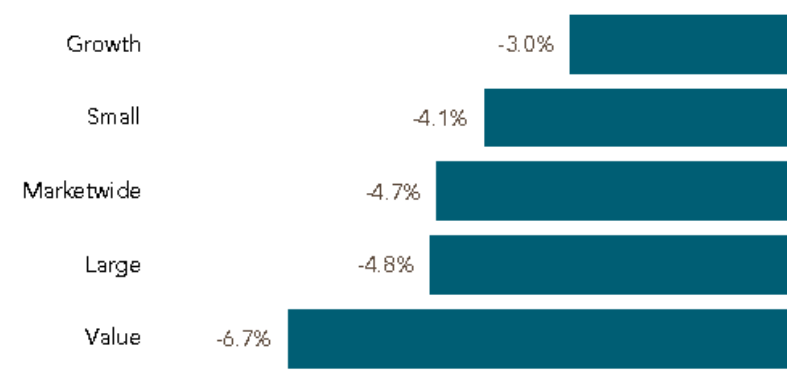


# World Developed Market Equities

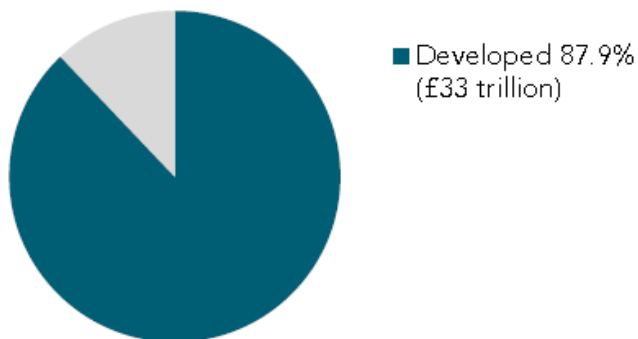
## First Quarter 2018 Index Returns (GBP)

- The broad world developed equity market recorded negative returns in GBP.
- Value underperformed growth indices in world developed market during the quarter.
- Small caps outperformed large caps.

### RANKED RETURNS (%)



### WORLD MARKET CAPITALISATION – WORLD DEVELOPED



### PERIOD RETURNS (%)

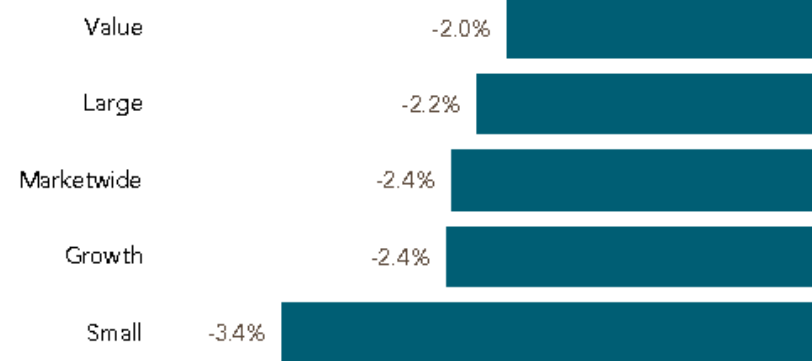
| Asset Class | YTD   | * Annualised |          |          |           |
|-------------|-------|--------------|----------|----------|-----------|
|             |       | 1 Year       | 3 Years* | 5 Years* | 10 Years* |
| Marketwide  | -4.7% | 1.5%         | 10.2%    | 11.6%    | 10.0%     |
| Large       | -4.8% | 1.3%         | 10.0%    | 11.5%    | 9.7%      |
| Small       | -4.1% | 3.3%         | 11.6%    | 12.6%    | 12.4%     |
| Value       | -6.7% | -3.1%        | 8.6%     | 9.8%     | 8.4%      |
| Growth      | -3.0% | 5.7%         | 11.4%    | 13.0%    | 10.9%     |

# Emerging Markets Equities

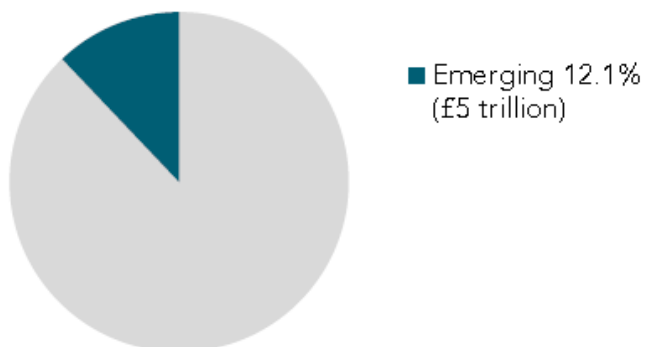
## First Quarter 2018 Index Returns (GBP)

- The broad emerging equity market posted negative returns in GBP terms.
- Value indices outperformed growth indices.
- Small cap indices underperformed large cap indices.

### RANKED RETURNS (%)



### WORLD MARKET CAPITALISATION – EMERGING MARKETS



### PERIOD RETURNS (%)

\* Annualised

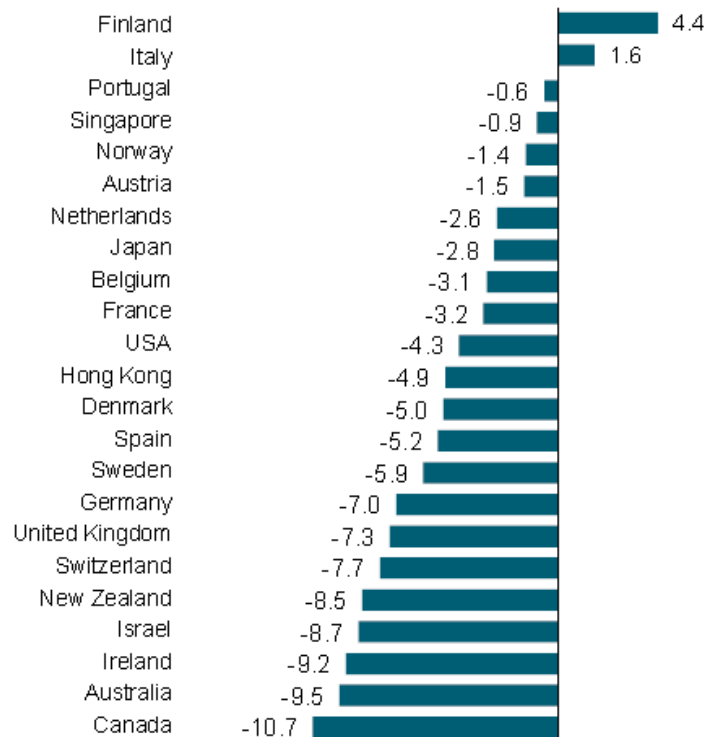
| Asset Class | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Marketwide  | -2.4% | 10.6%  | 10.7%    | 6.6%     | 6.9%      |
| Large       | -2.2% | 11.4%  | 10.9%    | 6.7%     | 6.7%      |
| Small       | -3.4% | 5.7%   | 9.3%     | 6.3%     | 8.1%      |
| Value       | -2.0% | 5.3%   | 8.7%     | 4.2%     | 5.7%      |
| Growth      | -2.4% | 17.4%  | 13.0%    | 9.0%     | 7.6%      |

# Select Country Performance

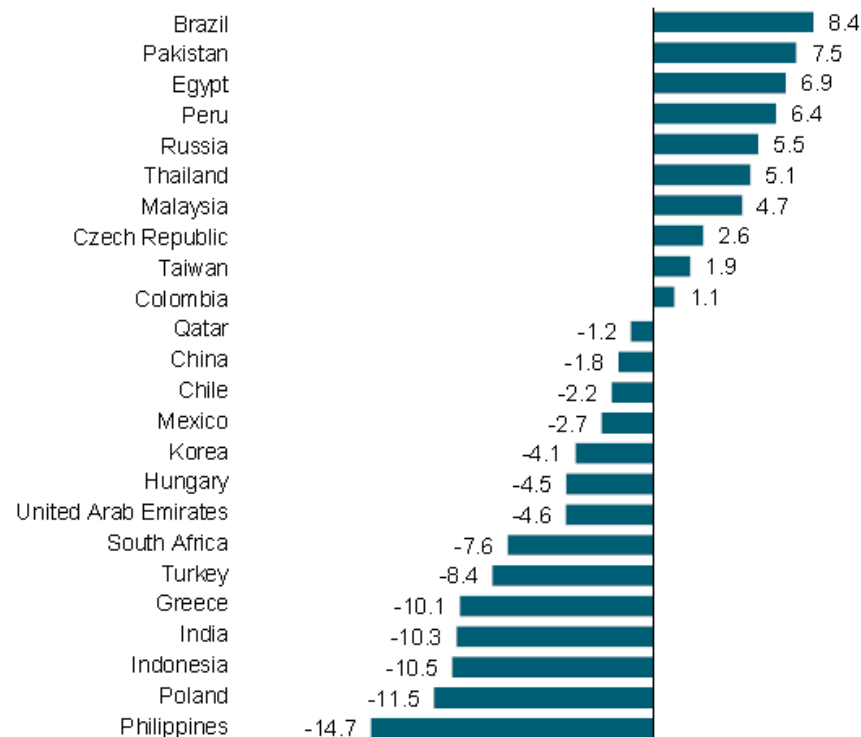
## First Quarter 2018 Index Returns

In GBP terms, Italy and Finland recorded the highest country performance in developed markets, while Canada and Australia posted the lowest return in developed markets for the quarter. In emerging markets, Brazil posted the highest country return of 8.4%, while the Philippines and Poland had the lowest performance.

**RANKED DEVELOPED MARKETS RETURNS (%)**



**RANKED EMERGING MARKETS RETURNS (%)**

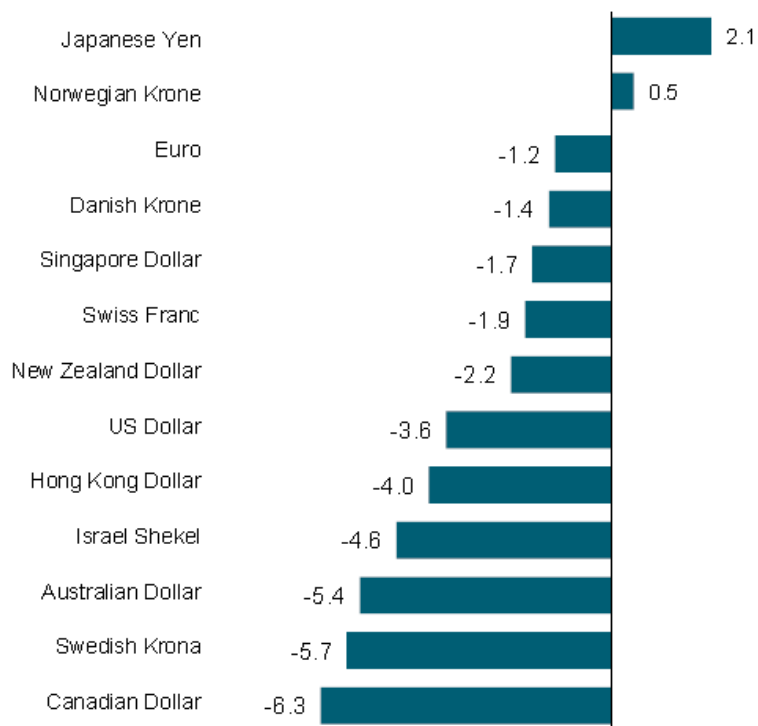


# Select Currency Performance vs. GBP

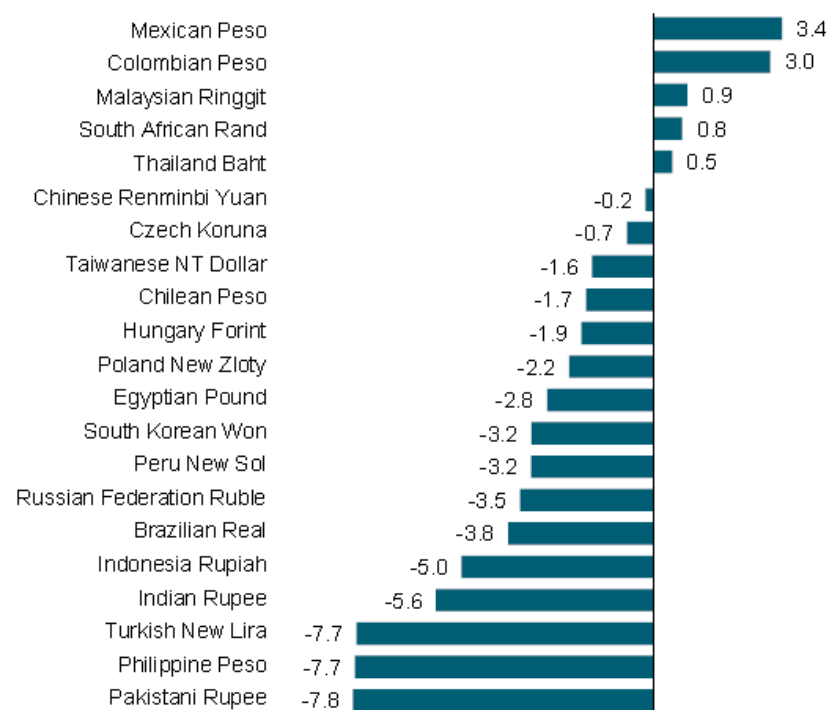
## First Quarter 2018

In general the British Pound appreciated against most currencies in developed markets during the quarter. The euro depreciated by 1.2% and the US dollar depreciated 3.6% against the British pound during the quarter. Currency performance in emerging markets was mixed. The Mexican Peso appreciated by 3.4% while the Pakistani Rupee depreciated by 7.8%.

**RANKED DEVELOPED MARKETS (%)**

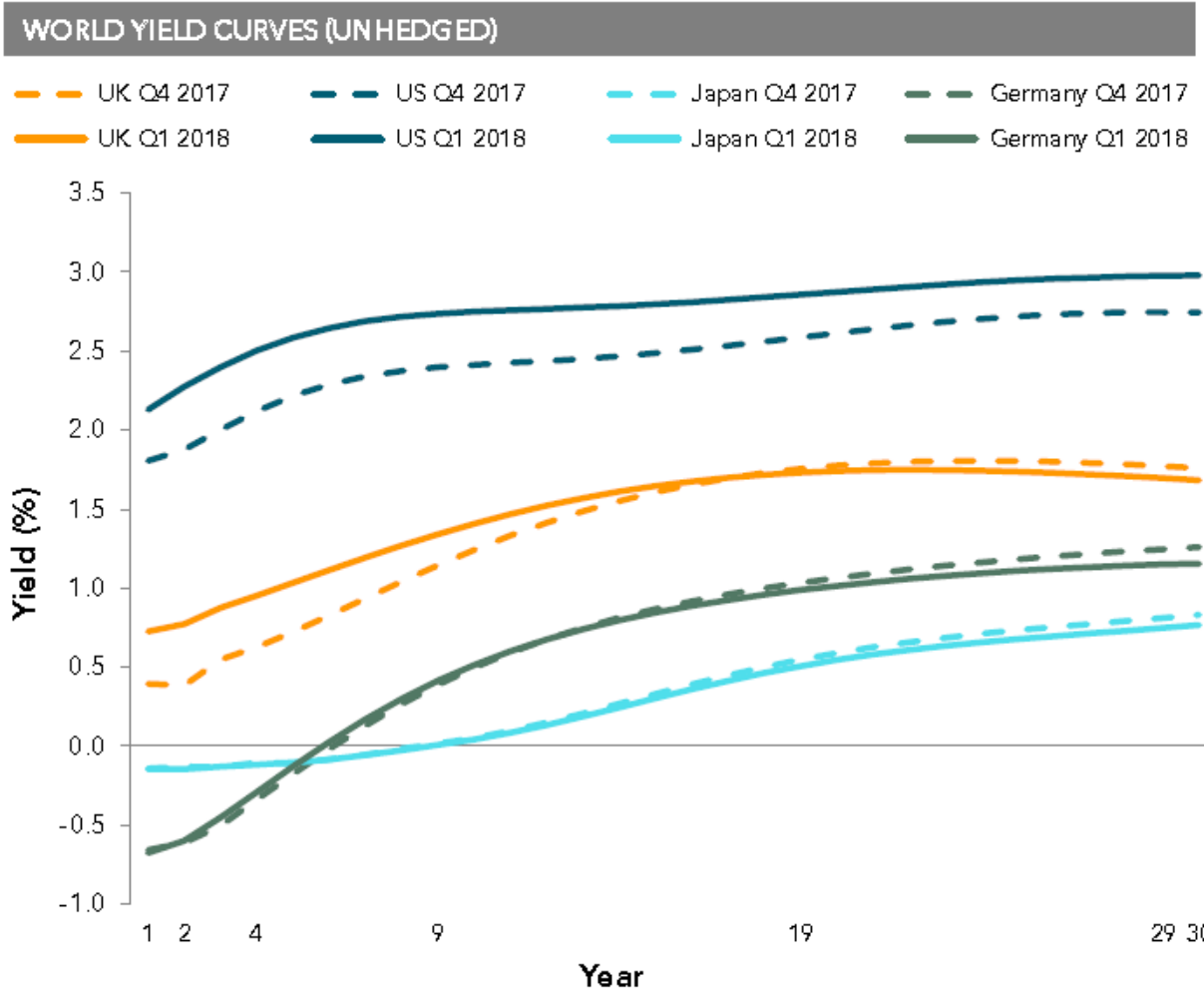


**RANKED EMERGING MARKETS (%)**



# Fixed Income

## First Quarter 2018 Yield Curves



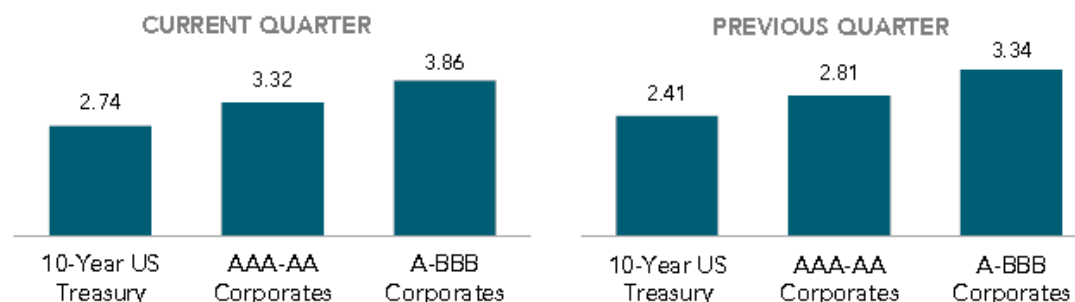
- Interest rate changes in developed market yield curves were mixed during the first quarter.
- Interest rates increased in the US while long-term interest rates decreased in Germany, Japan, and the UK.
- Short-term nominal yields continue to be negative in both Germany and Japan.

# Fixed Income

## First Quarter 2018 Index Returns

- Yields on short-and intermediate-term UK Gilts increased while yields on long-term UK gilts decreased.
- Realised term premiums were generally positive in the developed markets but negative in the US.
- Realised credit premiums were generally negative in the developed markets as lower quality investment grade corporates underperformed their higher quality counterparts.

### BOND YIELDS ACROSS ISSUERS (USD, %)



### PERIOD RETURNS (GBP, %)

|  | * Annualised |        |        |          |          |
|--|--------------|--------|--------|----------|----------|
|  | QTR          | YTD    | 1 Year | 3 Years* | 5 Years* |
| <b>Government Bonds (Hedged to GBP)</b>              |              |        |        |          |          |
| Bloomberg Barclays Sterling Gilt 0-12 Months Index   | 0.03%        | 0.03%  | 0.12%  | 0.25%    | 0.29%    |
| FTSE UK Government Bond Index                        | 0.33%        | 0.33%  | 0.64%  | 3.65%    | 4.52%    |
| FTSE Non-GBP World Government Bond Index             | 0.25%        | 0.25%  | 1.60%  | 1.30%    | 2.79%    |
| <b>Corporate Bonds (Hedged to GBP)</b>               |              |        |        |          |          |
| Bloomberg Barclays Global Credit Bond Index: Aaa     | -0.79%       | -0.79% | 0.34%  | 0.75%    | 2.12%    |
| Bloomberg Barclays Global Credit Bond Index: Aa      | -1.00%       | -1.00% | 1.07%  | 1.39%    | 2.51%    |
| Bloomberg Barclays Global Credit Bond Index: A       | -1.87%       | -1.87% | 1.22%  | 1.86%    | 3.00%    |
| Bloomberg Barclays Global Credit Bond Index: Baa     | -1.74%       | -1.74% | 2.33%  | 2.44%    | 3.49%    |
| Bloomberg Barclays Global High Yield Corporate Index | -1.04%       | -1.04% | 3.03%  | 4.68%    | 4.97%    |

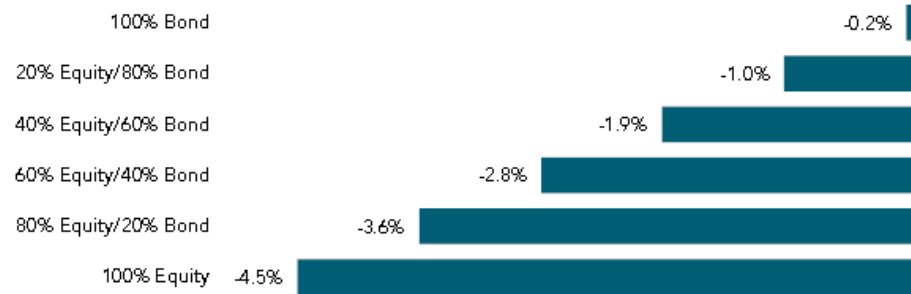


# Role of Diversification

## First Quarter 2018 Index Returns (GBP)

These indices illustrate the performance of different global equity/bond mixes. Mixes with larger allocations to equities are considered riskier but have higher expected returns over time.

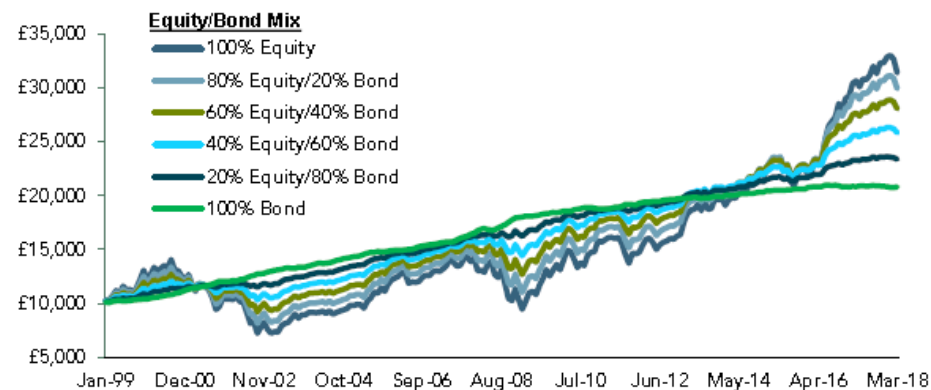
### RANKED RETURNS (%)



### PERIOD RETURNS (%)

| Asset Class         | YTD   | * Annualised |          |          |           |
|---------------------|-------|--------------|----------|----------|-----------|
|                     |       | 1 Year       | 3 Years* | 5 Years* | 10 Years* |
| 100% Equity         | -4.5% | 2.4%         | 10.2%    | 11.0%    | 9.3%      |
| 80% Equity/20% Bond | -3.6% | 1.9%         | 8.3%     | 9.0%     | 8.0%      |
| 60% Equity/40% Bond | -2.8% | 1.4%         | 6.3%     | 7.0%     | 6.6%      |
| 40% Equity/60% Bond | -1.9% | 0.9%         | 4.4%     | 5.0%     | 5.2%      |
| 20% Equity/80% Bond | -1.0% | 0.4%         | 2.5%     | 3.0%     | 3.7%      |
| 100% Bond           | -0.2% | -0.2%        | 0.5%     | 1.0%     | 2.1%      |

### GROWTH OF WEALTH (£10,000)



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# Summary

## Quarter Market Review

Trying to understand financial markets by tracking the daily media headlines can become a distraction for those who want to build long-term investment solutions.

Start with a strong philosophy and understand the drivers of return over the long term.

Emphasise broad diversification because it can help reduce issue-specific risk and increase consistency of outcomes.

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