Asset class dashboard

Q2 2019

PACIFIC ASSET MANAGEMENT | MULTI ASSET ACCUMULATOR RANGE

Equities

Neutral

The global economy continues to expand at an slower pace with significant divergences between weakness in manufacturing and more stability in services. A more dovish Federal Reserve removes some of the headwinds of tightening liquidity. Valuations of equity markets are reasonable, although some regions, most notably the US, remain expensive compared to history. However, there are opportunities in undervalued regions, factors and sectors globally.

Fixed Income

Negative

Global government bond yields remain low by historical standards, particularly when adjusted for inflation. Whilst growth remains supportive to corporate bonds, elevated leverage in the corporate sector presents a threat in the future. Emerging market bonds offer attractive yields and with the Federal Reserve halting it's interest rate hikes, the outlook for emerging market bonds looks bright.

Alternatives

Neutral

Directional alternatives can provide diversification benefits to multi-asset investors. The outlook for gold has improved with the Federal Reserve indicating that it is now on pause. Gold has a strong track record when real interest rates are as low as they are today.

Diversifying Assets

Positive

A creative approach to diversification is required with government bond yields at these levels. Diversifying risk factors provide an alternative source of return with very low correlation to both equities and bonds.

Cash

Neutral

Exceptionally low interest rates ensure that cash is a poor long term investment but can be an effective tactical tool

Source: Pacific Asset Management as at 31 March 2019.

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Equities Neutral	**UK**	The uncertainty surrounding Brexit continues to overshadow the UK stock market but valuations are attractive compared to the rest of the developed world
	Global	Global energy stocks have lagged global equities for a decade and after cutting capital expenditure are now strongly cash flow positive and are likely to remain disciplined in response to a volatile oil price. Global value stocks enjoy a significant margin of safety compared to growth stocks and are likely to outperform.
	US	Tax cuts provided a one-off boost to earnings and the US economy, but their effects are now fading and given the high valuation of the US stock market, we expect the region to underperform.
	Europe ex UK	Economic growth has continued to slow over the last year whilst political risks are rising
	Japan	Profit margins from Japanese companies are rising whilst corporate governance improvements are a positive for shareholders. More than half of Japanese companies have net cash on their balance sheet providing the opportunity to buy back shares or increase dividends. Monetary policy in Japan is likely to remain a highly supportive backdrop to its equity market.
	Asia-Pacific ex Japan	Australia's slowing growth from a changing China is a headwind to growth in this region.
	Emerging	Emerging market equities trade at a significant valuation discount to the rest of the world and offer the potential for faster earnings growth. A slowing Chinese economy and trade wars have been a headwind, but over the longer term we expect emerging markets to outperform the rest of the world.
Fixed Income Negative	**UK Govt Bonds**	UK gilt yields offer poor prospective returns for investors with yields at these levels and only limited diversification benefits.
	EM Bonds – Local Currency	Emerging market local currency bonds offer attractive yields with only modest sensitivity to interest rates. A more dovish Federal Reserve helps to remove pressure on their currencies which have held back returns in recent years.
	EM Bonds – Hard Currency	Hard currency emerging market government bonds offer considerably higher yields than government bonds in the developed world
	Investment Grade Corporate Bonds	The environment for investment grade credit remains supportive but credit is showing signs of late cycle behaviour. Our preference is for shorter dated investment grade bonds with lower sensitivity to bond yields and potential spread widening.
	High Yield Bonds	Short duration high yield bonds provide an attractive yield and low sensitivity to bond yields but slowing economic growth will start to become a headwind
Alternatives Neutral	**Commodities**	Low inflation adjusted interest rates in the developed world and a more dovish Federal Reserve provide a supportive backdrop for gold.
	REITS	The risk of rising bond yields is a headwind to listed real estate
Diversifying Assets Positive	**Absolute Return**	The environment for macro managers is improving as central banks' policies become more uncertain in a rapidly changing global economy
	Diversifying Risk Factors	Finding true diversification is increasingly challenging for investors; diversifying risk factors help to solve this puzzle, offering returns that are uncorrelated with both equities and bonds.

Key: Positive Neutral Negative

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