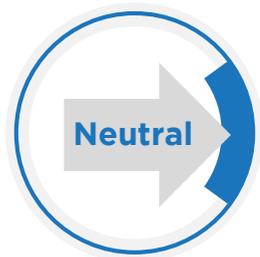


Asset class dashboard

September 2019

Equities



The global economy continues to expand at a slower pace with significant divergences between weakness in manufacturing and stability in consumer spending. Central banks are easing monetary policy which provides some support to markets. 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



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 government bonds offer attractive yields compared to their developed market peers, both in nominal and real terms and with the Federal Reserve cutting interest rates, the outlook for emerging market bonds looks bright.

Alternatives



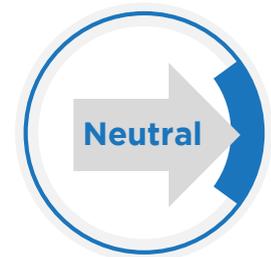
Directional alternatives can provide diversification benefits to multi-asset investors. The outlook for gold has improved with the Federal Reserve cutting interest rates. Gold has a strong track record when real interest rates are as low as they are today. Listed Real Estate (REITs) provide an attractive source of income in a world searching for yielding assets.

Diversifying Assets



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



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

Asset class dashboard

September 2019

 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 value stocks enjoy a significant margin of safety compared to growth stocks and with their valuations trading at an historically wide discount to the market, the cheapest areas of the market 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 improvements in corporate governance 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 whilst the growing unrest in Hong Kong increases geopolitical risks.
	 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
 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 Positive	 Commodities	Low inflation adjusted interest rates in the developed world and a more dovish Federal Reserve provide a supportive backdrop for gold.
	 REITS	REITs provide an attractive source of income in a world searching for yielding assets.
 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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