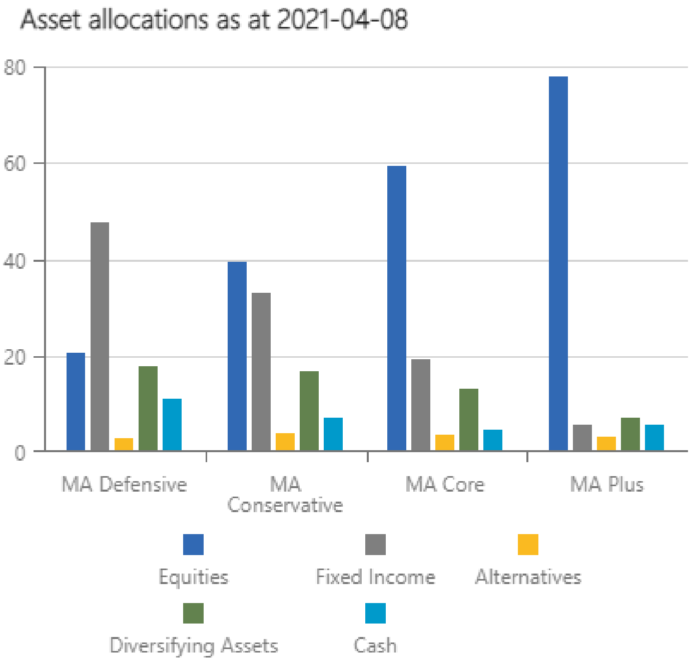
Pacific Asset Management - CIO View

Document Saved Date: 4/8/2021

Commentary Date: 12/24/2020

	Equities	The global economy is recovering from its coronavirus induced shut down, although the rebound is uneven and dependent upon government support schemes. Equity markets have benefited from the extraordinary quantities of monetary stimulus that has been provided by central banks. The rollout of vaccines should allow investors to look ahead to a strong recovery in corporate earnings in 2021.
	Fixed Income	The opportunity set varies significantly across fixed income markets. Government bond yields are exceptionally low and negative in real terms. Investment grade corporate bonds are supported by central banks purchases. High yield and emerging market sovereign bonds present selective opportunities.
	Alternatives	Directional alternatives can provide diversification benefits for multi-asset investors. The outlook for gold remains strong given the backdrop of negative real bond yields and increasingly extreme monetary policy. The outlook for Listed Real Estate (REITs) has deteriorated due to COVID-19, as demand for office space is likely to be structurally lower going forward. .
	Diversifying Assets	A creative approach to diversification is required with government bond yields at these levels. Diversifying assets 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 both in nominal and in particular real terms (after the impact of inflation) but can be a useful tactical tool.

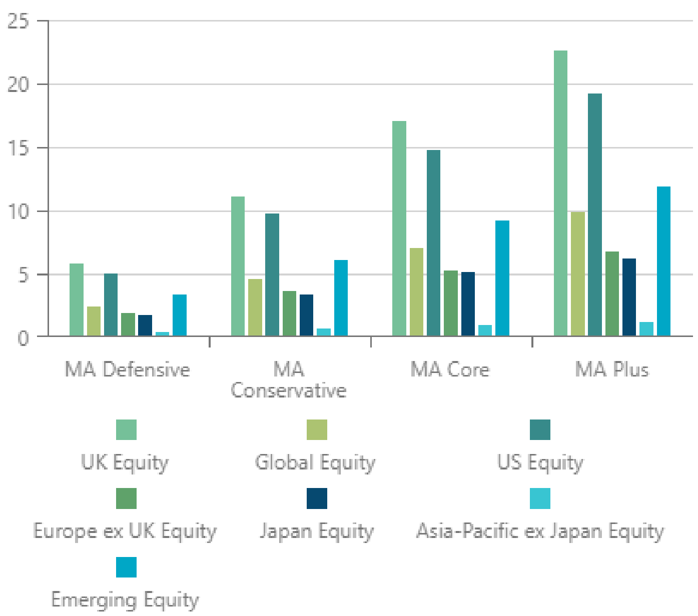


Equities

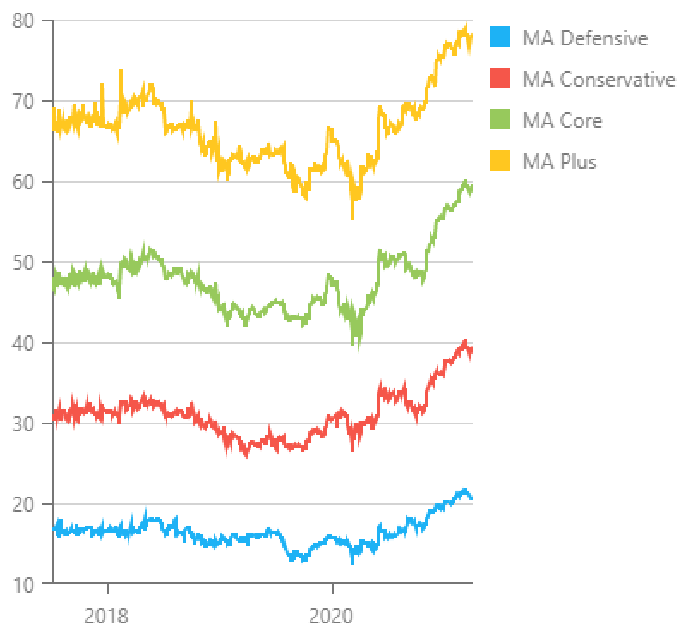
Commentary Date: 1/6/2021

Equities	The global economy is recovering from its coronavirus induced shut down, although the rebound is uneven and dependent upon government support schemes. Equity markets have benefited from the extraordinary quantities of monetary stimulus that has been provided by central banks. The rollout of vaccines should allow investors to look ahead to a strong recovery in corporate earnings in 2021.
UK Equity	UK equities are among the cheapest in the developed world; the certainty of a trade agreement with the European Union will allow a re-rating of the valuation of UK companies.
Global Equity	Global value stocks enjoy a significant margin of safety compared to growth stocks, with their valuations trading at an historically wide discount to the market
US Equity	The performance of the US stock market has been driven by the large technology stocks which have been beneficiaries of individuals being forced to work from home. The availability of vaccines will encourage investors to focus on other regions that are bouncing back and trade at much lower valuations.
Europe ex UK Equity	European equities trade at a valuation discount to US equities however, earnings have lagged due to structurally weaker growth. Fiscal spending has mostly been limited to providing support to the economy and a bolder approach will be needed to boost growth.
Japan Equity	Japanese companies have some of the strongest balance sheets globally, with more than half having net cash on their balance sheet. This allows them to weather the storm and benefit from the recovery.
Asia-Pacific ex Japan Equity	Asia Pacific's exposure to financial stocks is moving from a headwind to a tailwind for the region as yield curves steepen globally
Emerging Equity	Emerging market equities are more attractively valued than the developed world and China's economy is bouncing back. We expect emerging markets to outperform the rest of the world.

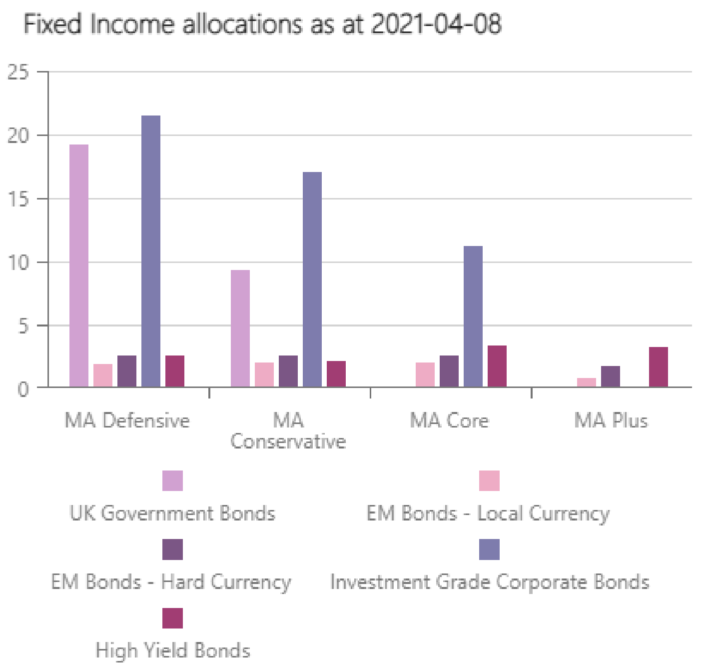
Equities allocations as at 2021-04-08

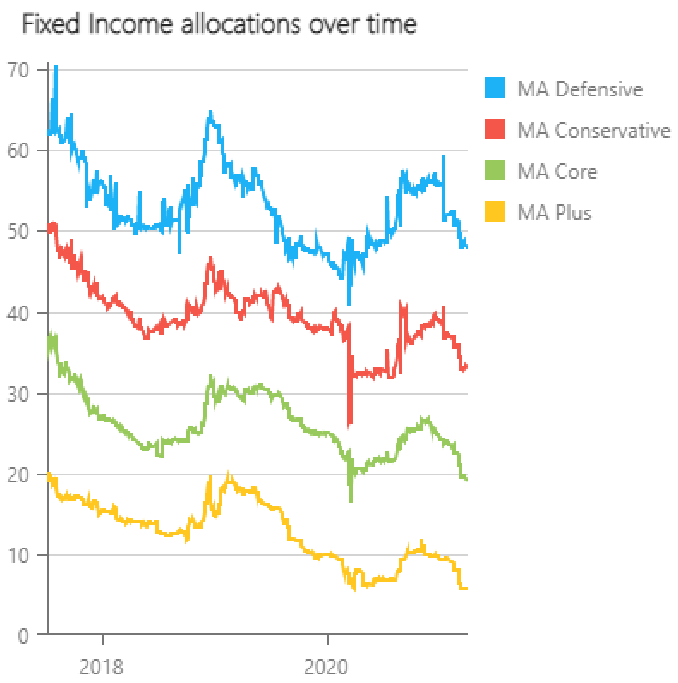


Equities allocations over time



Fixed Income	The opportunity set varies significantly across fixed income markets. Government bond yields are exceptionally low and negative in real terms. Investment grade corporate bonds are supported by central banks purchases. High yield and emerging market sovereign bonds present selective opportunities.
UK Government Bonds	UK gilt yields are very low relative to history but are likely to remain at these levels given the ongoing monetary stimulus.
EM Bonds - Local Currency	Emerging market local currency bonds have higher real yields than in the developed world and inflation is now stabilising providing support to their currencies, although isolated weakness in countries such as Turkey is likely.
EM Bonds - Hard Currency	Hard currency emerging market government bonds offer considerably higher yields than government bonds in the developed world and we expect the long term returns to be attractive compared to developed market sovereign bonds.
Investment Grade Corporate Bonds	Investment grade bonds provide a pick-up in yield over government bonds and are supported by monetary policy stimulus.
High Yield Bonds	High yield bonds spreads have narrowed to pre-COVID levels limiting the attraction of the asset class

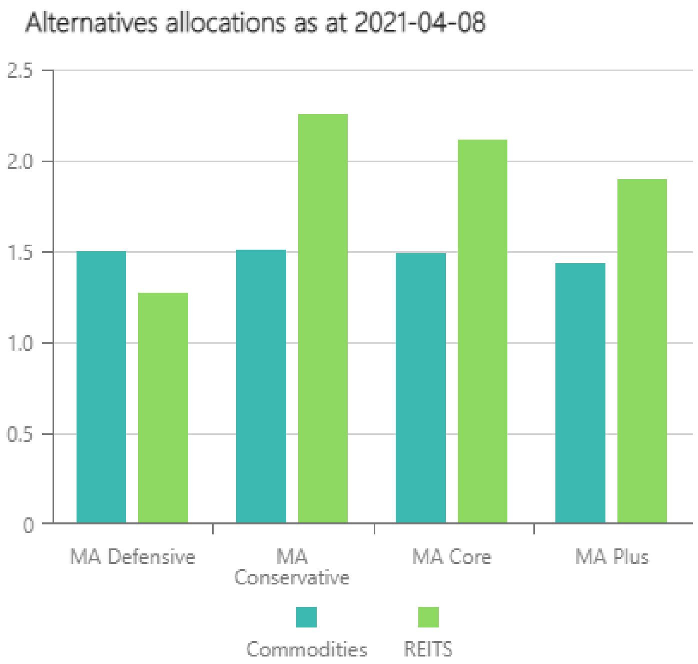


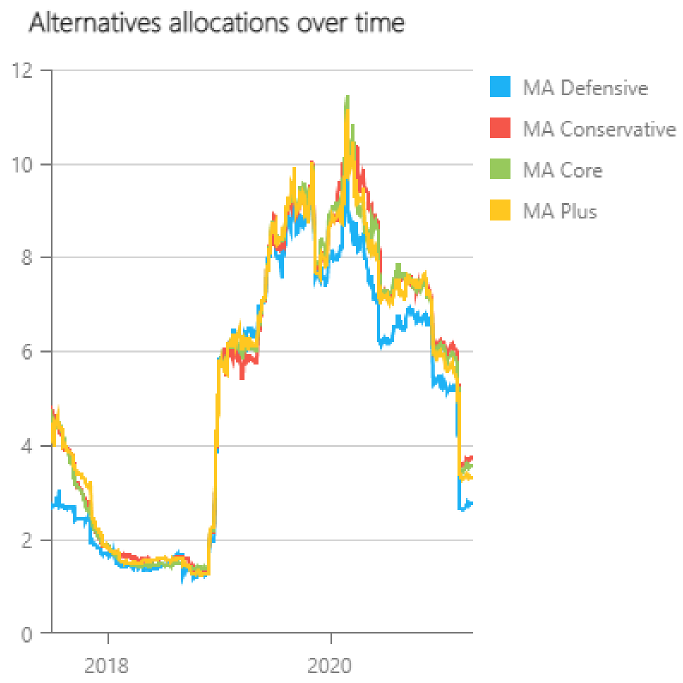


Alternatives

Commentary Date: 9/18/2020

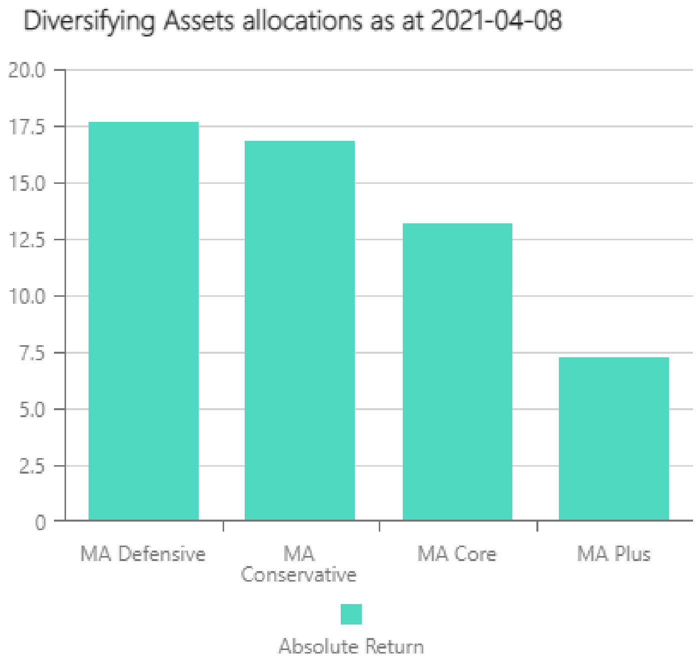
	Alternatives	Directional alternatives can provide diversification benefits for multi-asset investors. The outlook for gold remains strong given the backdrop of negative real bond yields and increasingly extreme monetary policy. The outlook for Listed Real Estate (REITs) has deteriorated due to COVID-19, as demand for office space is likely to be structurally lower going forward. .
	Commodities	Negative real (inflation adjusted) interest rates provide a strong tailwind for gold. Central banks have been explicit in their guidance for keeping cash rates at exceptionally low levels, even if inflation increases.
	REITS	The outlook for Listed Real Estate (REITs) has deteriorated as a result of COVID-19 where demand for office space is likely to be structurally lower going forward as large numbers of people work from home.

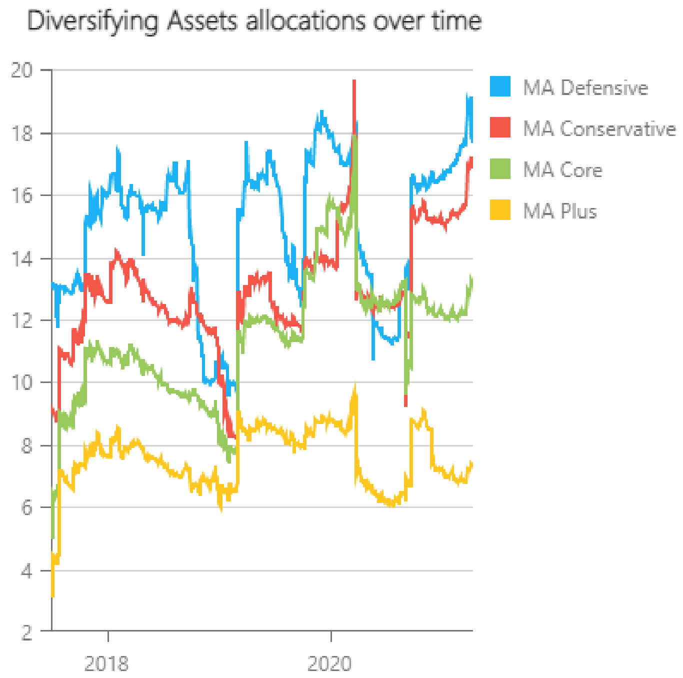




Diversifying Assets
Commentary Date: 9/18/2020

	Diversifying Assets	A creative approach to diversification is required with government bond yields at these levels. Diversifying assets provide an alternative source of return with very low correlation to both equities and bonds.
	Absolute Return	The environment for macro managers is improving as central banks' policies become more extreme, providing opportunities. 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.





Cash

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Cash

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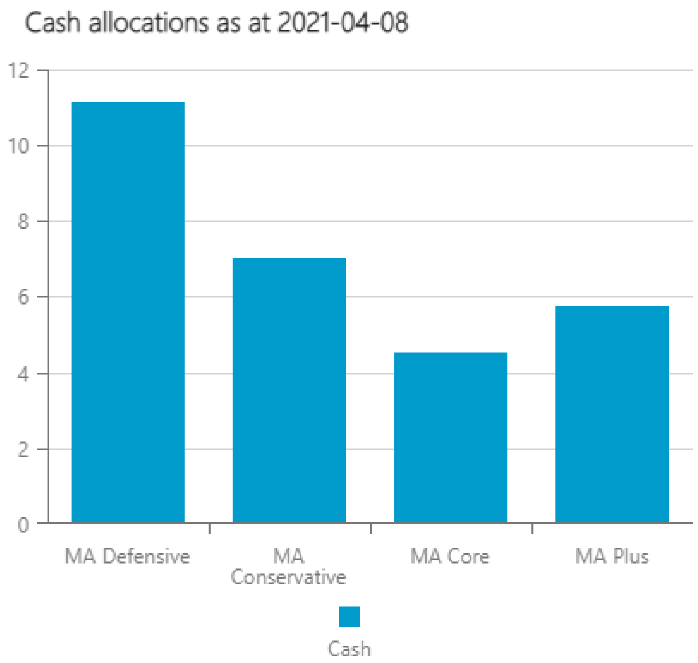

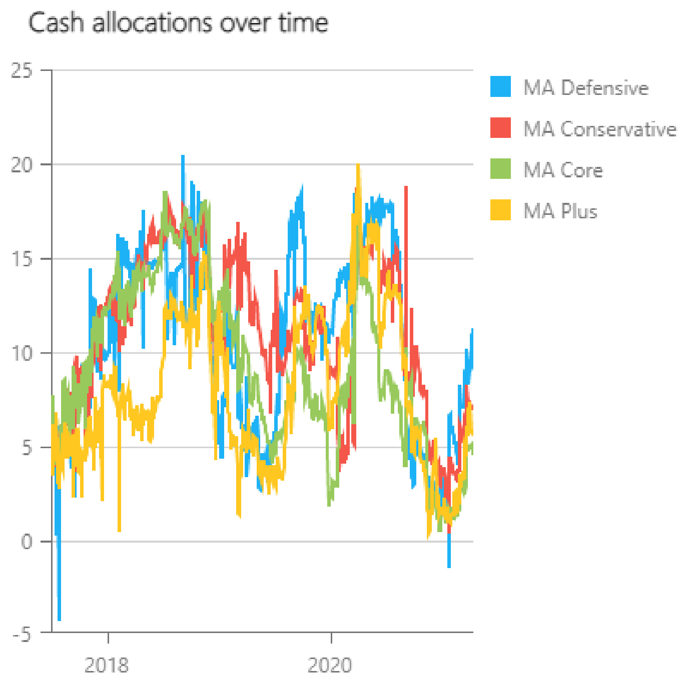

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