momentum

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Newsflash

A new month and the 163rd issue of Viewpoint from **Newport Distribution Ltd**.

This document will be made available on our website npdistribution.net

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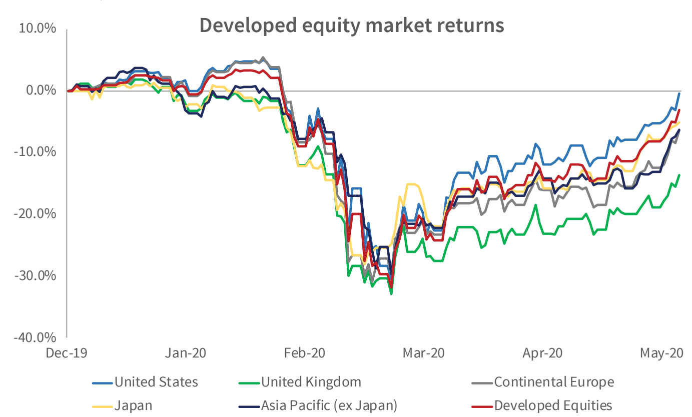
Market Commentary

The world economy has entered its sharpest and deepest recession since the Great Depression almost 100 years ago, yet equities are in the midst of a raging bull market. By the end of May, global equities, as measured by the MSCI World index, had returned 35% from the market bottom on 23rd March, an exact mirror of the 35% decline between the bull market peak on 19th February and the March 23rd low. The pace of both the decline and subsequent recovery, including a further gain of almost 5% in developed world equity markets in May, is without precedent.



Source: Bloomberg, as of 5th June 2020

This apparent chasm between economic reality, including an existential threat to swathes of the corporate sector, and stock markets can be explained by 4 key factors:

1. Massive monetary stimulus, led by the Federal Reserve but accompanied by nearly all other central banks, starting in March as the pandemic struck and continuing through May, with a cumulative liquidity injection of over $6tn, as well as other measures to support credit markets and ease lending conditions. It is no coincidence that markets bottomed on 23rd March, the day the Fed announced unlimited open-ended QE (asset purchases), including buying of corporate bonds.

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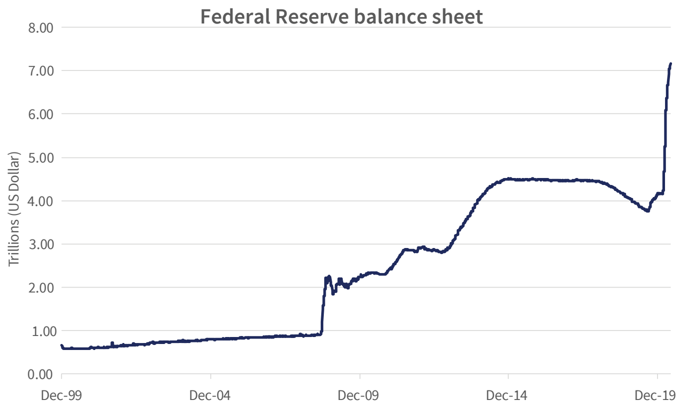
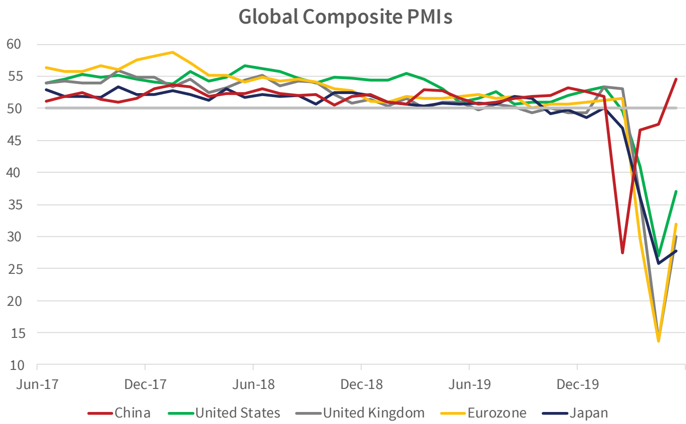


Source: Bloomberg, as of 5th June 2020

1. Equally massive fiscal support from governments, amounting to 10-15% of GDP in developed economies, and including further substantial stimulus packages in May from Japan, India, Italy, Germany, and most notably of all, from the EU, with the European Commission proposing a €750bn recovery plan to aid the worst hit areas of the EU. For the first time, this included the award of grants from central funds rather than just loans, funded by debt issued and backed by the EU. While still a proposal, this is backed by Germany and France and is likely to get full EU support, albeit possibly with minor amendments, and is the first substantive movement towards closer fiscal alignment and burden sharing across all member states.
2. Clear evidence that the pandemic curve has peaked, notably in China, other parts of Asia, the US and most of Europe. This enabled many countries to ease lockdowns and begin the process of economic recovery.
3. In turn, there was growing evidence and confidence that April was the worst of the economic crash. Leading indicators were still weak in May but showed a substantial recovery from April: economic conditions could perhaps be described as improving from catastrophically bad in late March and April to just dreadful in May, but they point to a rapid improvement ahead



Source: Bloomberg, as of 5th June 2020

In combination, these factors encouraged investors and gave rise to hopes that the sudden stop to the global economy would be contained and relatively short lived. The narrative changed from the scale of the damage to the shape of recovery.

The resulting 'risk on' environment saw strong rises in most equity markets in May, with signs as the month progressed of a broadening and deepening of the rally away from 'digital disruptors' and beneficiaries of the crisis such as healthcare and food retail towards those sectors which will benefit most as economies move into the recovery stage. This includes industrials, financials and energy stocks, the latter buoyed by a 40% rise in the oil price in May as supply cuts took effect and demand began to recover as the world gradually left lockdown. The rotation from growth stocks, many of which are now at extremes of valuation, towards value stocks, where valuations on a normalised earnings basis are particularly low, is an encouraging sign which could have further to run as the cycle evolves.

Performance of bond markets reflected the change in confidence. Safe haven government bonds drifted lower while credit markets were buoyant, investment grade up 1.6% in the month and high yield up 4.4% (both US), building on the rally in the previous 5 weeks. With renewed appetite for risk rising, emerging market currencies began a sharp recovery during May and rose by 3.4% over the month as measured by the JPMorgan Emerging Markets currency index, while safe haven currencies such as the yen weakened.

It is encouraging that the pandemic has peaked in most regions, albeit with significant exceptions in the developing world, a financial crisis has been avoided, signs of recovery are emerging, and we are into the next phase of the crisis, the exit strategy from lockdowns and the resultant shape of recovery. As long as social distancing measures remain in place, a return to normality is impossible and some sectors involving close human contact, mostly in the leisure, travel and hospitality industries, remain under threat of survival. But manufacturing industry and construction is beginning to crank up and significant parts of economies, in public services, healthcare and food retail and production, have been largely shielded from damage while others in the ecommerce and digital sectors have been clear beneficiaries. Some release of pent-up demand will contribute to the sharp rebound anticipated in the months ahead. The risk of a second peak in the virus is a concern but could well be over-blown given the preparedness now in place and the generally cautious approach taken to easing lockdowns. To date, those countries which have eased are showing very few signs of higher transmission rates.

However, the sharp bounce in markets begs the question whether the improved situation is now fully discounted. The after effects of the shock, with weaker confidence among consumers and businesses, suggests that higher precautionary savings will be built, holding back spending, while the extraordinary fiscal packages brought in to support individuals and businesses in the crisis will progressively be withdrawn. The need to return to fiscal sustainability will bring new challenges, and the way in which fiscal and monetary policy evolves in the months and years ahead will be critical for markets. At this stage it seems that structurally higher public spending is here to stay, with very accommodating monetary policy to assist the funding of the higher debt levels. The new landscape will also change behaviour in other ways, including changes in supply chains, and many of these have yet to begin to play out. Ramifications for investors will be very significant.

Furthermore, there have been some ominous concerns away from the pandemic, most notably in the flare up of the US-China relationship, triggered by growing evidence of China's suppression of news of the early outbreak of the virus and more recently by its plans to introduce new security laws in Hong Kong, threatening the territory's autonomy and undermining the Joint Declaration between the UK and China which led to the creation of the Special Administrative Region of HK and the Basic Law. The trade deal agreed to date between the US and China is potentially under threat. A failure to make progress in Brexit negotiations is also a looming concern. While markets have been totally dominated in the past 3 months by the pandemic, these other festering issues could come back to the fore in due course.

After the strong recovery in markets in the past ten weeks some caution is appropriate. Markets seem to be well up with events and are discounting a sharp bounce in economic activity. Corporate earnings are in the period of greatest pressure and uncertainty, and as more details of the damage to earnings and balance sheets emerges in coming weeks there could well be setbacks. However, as we look into 2021 there is likely to be a strong rebound of economic growth and corporate earnings, and we expect stock markets to be higher. All risk assets will be underpinned by the lowest interest rates in history, at or below zero in the developed world for years ahead. Central banks and governments will undoubtedly provide continuing support to economies to provide the foundation for a sustainable recovery, albeit at levels of growth in the years ahead that will be lower than those prevailing pre-crisis. This sets a favourable backdrop for equities and credit markets as we navigate through the challenging months and uncertainties ahead, and setbacks will provide good buying opportunities for investors on that longer term view

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 May 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	4.7%	3.4%	-5.2%	12.2%
United Kingdom	MSCI UK NR	**GBP**	3.1%	-7.8%	-18.9%	-13.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	4.1%	-4.6%	-12.5%	-0.5%
Japan	Topix TR	**JPY**	6.8%	4.8%	-8.0%*	6.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-0.3%	-5.9%	-13.2%	-2.0%
Global	MSCI World NR	**USD**	4.8%	0.9%	-8.2%	6.8%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	8.0%	-8.2%	-24.4%	-10.5%
Emerging Asia	MSCI EM Asia NR	**USD**	-0.3%	-3.9%	-10.8%	3.0%
Emerging Latin America	MSCI EM Latin America NR	**USD**	6.4%	-25.9%	-38.5%	-31.9%
BRICs	MSCI BRIC NR	**USD**	0.5%	-7.2%	-14.3%	-1.6%
China	MSCI China NR	**USD**	-0.5%	-1.2%	-5.0%	12.1%
Global emerging markets	MSCI Emerging Markets NR	**USD**	0.8%	-6.9%	-16.0%	-4.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	-0.3%	3.4%	9.1%	11.9%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.2%	1.3%	5.2%	8.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	1.6%	-0.7%	3.0%	10.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	4.4%	-3.4%	-4.7%	1.3%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	0.0%	4.9%	10.5%	13.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.8%	-0.3%	2.1%	6.4%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.3%	-1.9%	0.9%	4.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.2%	-3.2%	-2.5%	-0.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	2.8%	-5.5%	-7.1%	-1.7%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	-0.5%	-2.0%	-0.6%	-0.6%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.1%	-0.4%	4.0%	5.5%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.0%	1.1%	4.1%	7.0%
Global Bonds	ICE BofAML Global Broad Market	**USD**	0.5%	0.3%	2.6%	5.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	5.7%	1.0%	0.2%	9.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	6.3%	-3.4%	-2.1%	3.6%

*Source: Bloomberg | **Past performance is not indicative of future returns.** | *) denotes estimate*

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 May 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	0.1%	-15.3%	-21.2%	-15.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	7.0%	-21.3%	-20.7%	-20.5%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-4.0%	-12.6%	-20.5%	-15.6%
Global Property Securities	S&P Global Property USD TR	**USD**	0.3%	-15.3%	-21.9%	-14.4%
Currencies						
Euro		**USD**	1.3%	0.7%	-1.0%	-0.6%
UK Pound Sterling		**USD**	-2.0%	-3.7%	-6.9%	-2.3%
Japanese Yen		**USD**	-0.6%	0.3%	0.8%	0.4%
Australian Dollar		**USD**	2.4%	2.5%	-5.0%	-3.9%
South African Rand		**USD**	5.6%	-10.8%	-20.1%	-16.9%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	12.6%	-16.8%	-28.4%	-23.5%
Agricultural Commodities	RICI Agriculture TR	**USD**	2.2%	-4.8%	-11.8%	-11.0%
Oil	Brent Crude Oil	**USD**	39.8%	-30.1%	-46.5%	-45.2%
Gold	Gold Spot	**USD**	2.6%	9.1%	14.0%	32.5%
Hedge funds	HFRX Global Hedge Fund	**USD**	1.4%	-1.8%	-2.8%	2.9%
Interest rates						
United States			0.25%			
United Kingdom			0.10%			
Eurozone			0.00%			
Japan			-0.10%			
Australia			0.25%			
South Africa			4.25%			

Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 May 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	3.1%	-7.8%	-18.9%	-13.2%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	2.0%	-7.4%	-18.8%	-14.6%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	7.4%	-9.8%	-20.2%	-10.2%
UK - Small Cap	MSCI Small Cap NR	**GBP**	4.4%	-11.6%	-21.8%	-10.2%
United States	S&P 500 NR	**USD**	6.9%	7.2%	2.1%	15.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	7.9%	-0.3%	-6.9%	1.5%
Japan	Topix TR	**JPY**	8.2%	8.9%	-1.0%*	9.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	1.8%	-2.5%	-6.5%	0.5%
Global developed markets	MSCI World NR	**USD**	7.1%	4.5%	-1.1%	9.5%
Global emerging markets	MSCI Emerging Markets NR	**USD**	2.9%	-3.6%	-9.5%	-2.0%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	0.0%	4.8%	10.2%	12.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.2%	0.8%	1.4%	1.7%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	0.6%	2.3%	5.4%	6.6%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	-0.4%	7.8%	16.9%	21.3%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	4.7%	5.4%	11.9%	9.4%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	2.8%	2.4%	5.1%	4.7%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	5.9%	7.1%	15.9%	12.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.8%	-0.3%	2.1%	6.4%
US Treasuries	JP Morgan US Government Bond TR	**USD**	1.7%	6.9%	16.9%	14.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	1.6%	-0.7%	3.0%	10.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	4.4%	-3.4%	-4.7%	1.3%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.3%	-1.9%	0.9%	4.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.2%	-3.2%	-2.5%	-0.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	2.8%	-5.5%	-7.1%	-1.7%
Global Government Bonds	JP Morgan Global GBI	**GBP**	2.1%	4.7%	12.1%	9.7%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	0.5%	0.3%	2.6%	5.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	5.7%	1.0%	0.2%	9.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	8.6%	0.0%	5.4%	6.2%

Source: Bloomberg | ***Past performance is not indicative of future returns.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 May 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	2.5%	-12.3%	-15.9%	-12.3%
Currencies						
Euro		**GBP**	3.4%	4.8%	6.3%	1.7%
US Dollar		**GBP**	1.9%	3.7%	7.3%	2.3%
Japanese Yen		**GBP**	1.4%	4.1%	8.2%	2.7%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	15.0%	-13.8%	-22.9%	-21.6%
Agricultural Commodities	RICI Agriculture TR	**GBP**	4.4%	-1.4%	-5.0%	-8.7%
Oil	Brent Crude Oil	**GBP**	42.8%	-27.5%	-42.4%	-43.8%
Gold	Gold Spot	**GBP**	4.8%	13.1%	22.8%	35.9%
Interest rates						
United Kingdom			0.10%			
United States			0.25%			
Eurozone			0.00%			
Japan			-0.10%			

Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

momentum

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities	» We remain mindful of resurgent risks to global growth following the fastening pace of (US) rebound in recent weeks as there is a risk this could roll over with any wave of second round infections resulting from lockdown easing measures. Added to that, any escalation to the civil unrest seen in the US, and increasingly around the world, risks destabilising lockdown measures. » Policy measures remain accommodative and are likely to remain so for many months, or years. + Despite lofty index valuations in some markets, global equities still offer selective regional and sectoral value – Business shutdowns will impact corporate earnings more deeply if Coronavirus risk remains entrenched or resurges, notably so in global manufacturing supply chains – Dividends are likely to fall, and share buybacks to largely dry up – Earnings are likely to move sharply lower as the year progresses; where they settle to market pricing is the key question
UK equities (relative to developed)	» The Brexit path plays a firm second fiddle to Corona risk today. Nonetheless, the UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020 » The government's financial response to the crisis has largely been well received but places a meaningful burden on public finances. + Most UK assets remain at a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels, and be paid handsomely while they wait + The UK has lagged the recovery and offers some scope for a cyclically led catch up – UK Plc is having to deal with an extraordinary fallout from the Covid-19, with the high street already under extreme pressure The banks and energy heavy UK index may continue to struggle against this backdrop
European equities (relative to developed)	» Europe has been hard hit by the outbreak, notably so Italy and Spain, but which are now emerging from lockdown » Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone should borders become less porous in light of the coronavirus » Politically we are seeing signs of increasing tensions once again as funding of and support for crisis hit countries falls on neighbours' shoulders. + Renewed ECB asset purchases or policy stimulus will likely provide support to risk assets in the region. – The ECB has little room to manouvre with rates at current levels; more devolved fiscal action and helicopter money may be needed
US equities (relative to developed)	» The extraordinary US rebound from the lows has continued to gather pace, surprising many. We remain a little cautious today given that little in the way of second wave infection is priced in and recognise the US as being one of the hardest hit in terms of loss of life. Active stockpickers have a better choice today than 3 months ago, but the outlook is far from clear today. + The US remains one of the higher quality markets, and the Dollar something of a haven. It is a natural home for those looking to add to their equity aloocations, and that could keep US equities supported despite froth in some places + The Fed stimulus is constructive for credit, risk assets and should be constructive for equities – US equity valuations remain elevated vs other regions today, even more so after the recent rebound, and are priced almost to perfection of a virus free world – The US now has by far the highest rate of reported infections and talk of reopening after lockdown feels premature compared to other (European) markets which are weeks ahead of the US" – Trade and geopolitical risks are coming very much to the fore again
Japanese equities (relative to developed)	» Following recent price moves Japanese equities continue to trade at favourable longer term valuations. Government policy and Bank of Japan efforts to support the market may provide a degree of support over other DM economies + BoJ ETF buying is supportive. Asia appears is ahead of other DM economies in the global Corona-cycle which could put Japan on the front foot for a rebound in activity – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities There is a notable absence of catalyst for any rerating
Emerging market equities	» On a longer term view we remain in favour of EM assets more generally over DM but recognise the risks to developing economies from the Coronavirus, and the potential for lower reporting and testing rates in these markets. Countries like Brazil and India are fast emerging as hotbeds of new infection » EM had held ground against DM equities quite well through Q1 but have lagged the rebound, likely as much US strength as EM weakness + Despite some May gains, EM currencies remain mostly down on the year. For businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020 + Valuations remain very attractive today – Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow, which seems to be escalating in some countries, would likely crimp returns

Past performance is not indicative of future returns.

Fixed Income	
Government	» DM government bond prices remain near record highs following the supernormal moves in bond markets through the Coronavirus-striken first half of the year. On the most painful days for risk assets they struggled to provide the level of diversification expected, and liquidity has also been tested, but the policy response has largely alleviated this problem, for now. Cash may prove a better diversifier in the short term + Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having at least some exposure depsite extreme valuations – Liquidity in the treasury market has been tested several times recently, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower – Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply
Index-linked (relative to government)	» Inflation linked bonds cheapened in Covid induced sell off but have rebounded somewhat. Whilst near term inflation risk looks limited, over 5 to 10years we take a more constructive view than the market and view breakevens more favourably at these levels, preferring over pure rate risk in select markets + Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more menaingful concern down the line + Valuations remain attractive today – Inflationary forces remain muted today, arguably more than at any time in recent years (in the near term at least)
Investment grade Corporate (relative to government)	» Investment grade bond spreads still present an upside opportunity today even after the tightening we've seen since the peak. Implied default rates remain excessive at current spread levels + IG remains attractively valued today + Central bank buying of IG bonds provides a tailwind for the asset class; there is still upside on the table – Liquidity remains challenged – The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop
High Yield Corporate	» As we saw in investment grade, spreads widened significantly in Q1 for high yield bonds, to a level that presented an attractive opportunity, some of which remains on the table despite strong gains more recently. We are mindful of the more equity like characteristics of the asset class, and sensitivity of the (US) index to energy + Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning, as evidenced by the Fed stepping in to buy HY ETFs - largely to support 'fallen angels' – Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG There is still a meaningful amount of energy exposure in US high yield markets and recent oil price weakness is a headwind for the asset class
Emerging market debt	» The asset class has not been immune from recent price action. Although spread tightening due gather pace in EMD in recent weeks,and gains have been solid, the asset class continues to look optically attractive and we continue to rate favourably. Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, so some caution warranted + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, moreso after recent price action, and implied default rates look excessive – Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt – EM governments will come under more pressure if Corona related expenditure and support continues to rise
Convertible bonds	» Convertible bonds did a good job of limiting capital loss in Q1 and have tracked up nicely as well. Optionality continues to look somewhat cheap » We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, and the relative valuation + The natural convexity provided by convertibles should continue to provide reasonable protection against any further equity weakness, which is quite possible – With implied vols having gone through the roof, any return to more normal levels may crimp future returns, and come off a lower delta base

Real Assets /Alternatives

Commodities

-ve +ve

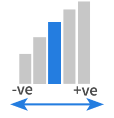
- » The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April and has since rebounded sharply. These risks seem likely to persist in the near term
- » Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle
- \+ Gold remains a reasonable hedge against risk off outcomes, and deflationary sentiment, as witnessed more recently, though granted nearer term protection has softened
- – Coronavirus is likely to continue to weigh on the industrials commodities sector for some time to come, and supply chains remain challenged
- – Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, albeit unlikely in the near future

Property

-ve +ve

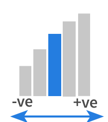
- » "Property remains an attractive asset class for investors requiring yield and recent price action only improves that, where dividends can be maintained
- » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property still holds appeal, with selective industrial and office space having more attractive fundamentals than under pressure high street retail
- \+ Premium yields should attract capital and provide some floor to prices, notwithstanding recent market turbulence
The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios; less so in the short term as we have seen
- – As a long duration asset class property remains susceptible to any repricing in long term bond yields
- – UK property remains sensitive to eventual Brexit terms, which will continue to evolve through 2020; the retail sector also remains under pressure
- – Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income

Infrastructure



- » Infrastructure stocks have not been spared from recent volatility, both on the way down and up following a strong recovery. Their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment remains strong in the medium to longer term
- \+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing
- \+ The asset class offers a high yield at a reasonable valuation today - both equity and debt flavours.
- – As a long duration asset class infrastructure remains susceptible to any repricing higher in long term bond yields
- – Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks

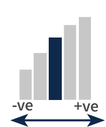
Liquid Alternatives



- » We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles
- » We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds having become even more expensive
- \+ These strategies provide additional diversification with reasonable return potential
- – The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

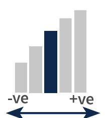
Currencies*

GBP



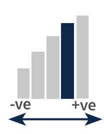
- » Sterling could become challenged over the next month or two as fresh Brexit deadlines approach, with little discernable headway made in talks. The downward bias to base rates (even talk of negative) and the new Chancellor's stimualtory package is unlikely to lift the currency higher anytime soo, but it remains cheap on long term valuation measures.

Euro



- » The Euro has shown itself to be the favoured carry currency in recent years and this recent volatility has led to short covering. Not a time to be short and we take a more neutral view going forward given low confidence about the risk recovery being sustained.
- » In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today.

Yen



- » Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today.
- » What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. If there is a time to own it then it is now as global uncertainty remains high and it provides some portfolio protection.

*Past performance is not indicative of future returns. *Currencies views are expressed versus the US Dollar*

momentum

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