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Newsflash

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

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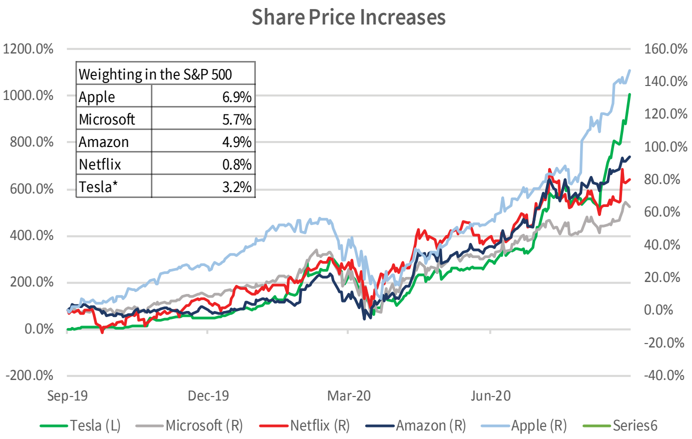
Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London, EC4R 1EB.

Market Commentary

The pattern of market performance since the March lows continued unabated in August: global equities strong, led by the US and within that tech stocks; high yield bonds, emerging market debt and convertible bonds outperforming safe haven government bonds; inflation protected bonds performing well; precious metals strong; and the dollar weak. The S&P 500, with a 7% rise, reached new all-time highs, dragging the MSCI World index to a new high, despite many of its other constituents remaining well below previous peaks. Within markets, tech stocks and other winners from the pandemic continued to forge ahead, the NASDAQ index rising 10% to new highs, while sectors most exposed to the damages wrought by Covid, including financials, real estate and leisure, continued to suffer. With the FAANGs and related stocks driving markets higher, Apple became the first company to pass the $2tn market cap threshold, only 2 years after becoming the first to $1tn, during which time the company's earnings have risen by 15%. Investors are clearly putting a much higher valuation on those earnings in the post-pandemic world. Safe haven bonds were notable for a rise in yields of between 10 and 20 bps for 10 year maturities, and a steepening of the yield curve, driven by a rise in inflation expectations rather than real yields.

Source: Bloomberg, Momentum Global Investment Management

Aside from continuing support from ultra-loose monetary conditions, markets were driven by 4 factors in August. First, continuing evidence of a robust rebound in economic activity. While the collapse in GDP in Q2 grabbed the headlines, these figures contained no surprises; of much greater importance was the strength of the recovery across the developed world and China since the easing of lockdowns, and forward indicators pointing to continuation of that rebound. Some sectors, notably travel, leisure and hospitality, remain under dark clouds, but others are rebounding powerfully, in certain areas of consumer spending back to pre-pandemic levels.

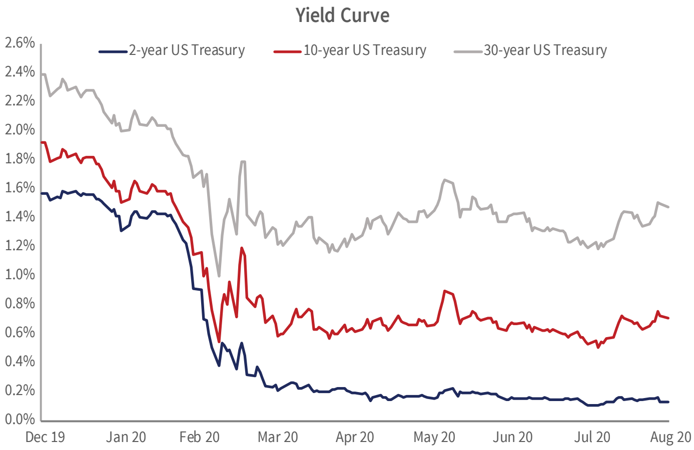


** Weighting in the NASDAQ UCITS 100 ETF*
Source: Bloomberg, Momentum Global Investment Management

Second, despite second waves and/or extended first waves of Covid19 in many countries, the virus appeared to be better contained generally. The increase in cases is in part due to much more widespread testing, and in some of the worst affected areas, notably parts of the US, cases appeared to be peaking. Encouragingly, fatalities and hospitalisations continued to decline in many regions, even where there have been spikes in cases. This is becoming a global trend and is due to younger and less vulnerable people catching the virus, an improved understanding of it, and better medical treatment. Concerns remain, especially with the northern hemisphere winter approaching, but the news on the virus has improved materially.

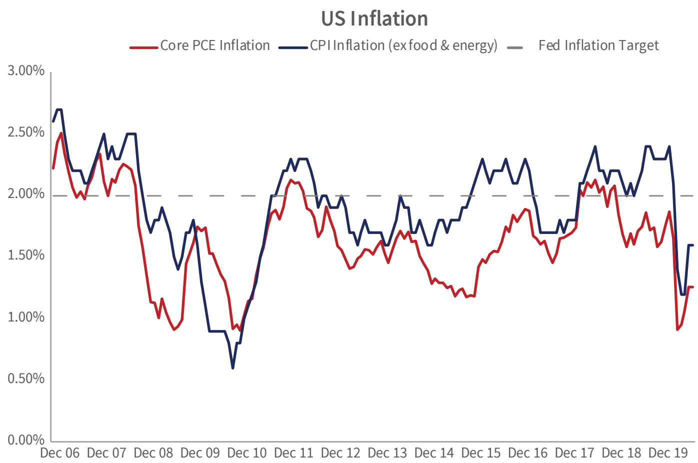
Third, and most important of all in terms of moving on from the pandemic, news on vaccines has been very encouraging in recent weeks. There are now 7 vaccines at stage 3 clinical trials, with hopes rising that one or more of these could be available in a matter of months. Governments have been racing to secure supplies of the vaccines and assisting with investments in their development and manufacture. There is no certainty in any of these succeeding to production, but the omens are increasingly positive.

Fourth, the Federal Reserve announced the outcome of its review of its longer term goals and monetary policy strategy, which pointed to the likelihood of a more extended period of dovish policy. Key changes were on employment, where policy will in future be guided by assessments of the shortfalls of employment from its maximum level, rather than the current deviations from its maximum level; and on price stability, where the Fed will now target inflation that averages 2% over time, meaning that it will tolerate inflation above 2% for some time following periods when inflation has been running persistently below 2% (which it has in the post GFC period)



Source: Bloomberg, Momentum Global Investment Management

Despite the positive news flow in recent weeks, there remains deep uncertainty about the sustainability and strength of growth, and markets are divided between the extraordinary performance of tech stocks and the 'pandemic winners', where there is confidence that earnings will continue to grow significantly, and the weak performance of companies in those sectors most damaged, potentially permanently, by the virus. This trend could continue, but there are increasing signs of investor exuberance in tech stocks. Both Apple and Tesla shares rose substantially ahead of share splits in August, a sign of increasing retail investor and uninformed buying. Valuations have risen substantially and in some cases to levels which are very difficult to justify on fundamentals. A correction is overdue, and a rotation into underperforming sectors, typically value stocks, would be a healthy development.



Source: Bloomberg, Momentum Global Investment Management

Source: Bloomberg, Momentum Global Investment Management

Markets could therefore experience higher levels of volatility in the months ahead, with uncertainty heightened by the US Presidential election. However, 2021 promises to be a year of robust recovery in economies and corporate earnings, and risk assets will have continuing strong support from ultra-loose monetary policy for years ahead. Furthermore, markets are not discounting the early roll-out of a vaccine; any good news on this front would be a major boost to confidence and sentiment and might well herald a period of significant outperformance by value stocks over growth. We therefore expect markets to move higher through 2021 and would use setbacks in the months ahead as a buying opportunity.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	7.1%	15.3%	9.3%	21.2%
United Kingdom	MSCI UK NR	**GBP**	1.5%	-1.6%	-20.3%	-16.1%
Continental Europe	MSCI Europe ex UK NR	**EUR**	3.1%	6.3%	-7.0%	1.2%
Japan	Topix TR	**JPY**	8.2%	3.6%	-4.7% e	9.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	3.8%	21.2%	5.2%	18.3%
Global	MSCI World NR	**USD**	6.7%	14.7%	5.3%	16.8%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	0.1%	2.1%	-22.8%	-9.8%
Emerging Asia	MSCI EM Asia NR	**USD**	3.2%	22.5%	9.2%	25.3%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-6.2%	9.5%	-32.6%	-23.6%
China	MSCI EM China NR	**USD**	3.7%	22.6%	5.1%	20.2%
BRICs	MSCI BRIC NR	**USD**	5.7%	26.0%	19.7%	37.3%
Global emerging markets	MSCI Emerging Markets NR	**USD**	2.2%	19.5%	0.4%	14.5%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	-1.2%	0.1%	9.2%	7.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	1.0%	4.8%	10.2%	9.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-1.4%	3.8%	6.9%	7.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	1.0%	6.7%	1.6%	4.7%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	-3.2%	-3.4%	6.7%	2.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-1.0%	1.8%	4.0%	3.4%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.8%	1.3%	2.2%	-1.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.2%	3.0%	0.5%	-0.8%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	1.5%	5.2%	-2.2%	-0.6%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	-0.5%	-0.7%	-1.3%	-3.8%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.8%	-0.4%	3.6%	0.8%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.6%	3.2%	7.4%	5.4%
Global Bonds	ICE BofAML Global Broad Market	**USD**	-0.3%	3.8%	6.4%	5.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	6.8%	19.3%	19.5%	26.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	0.3%	5.6%	3.4%	7.0%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	0.8%	7.9%	-15.0%	-13.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	7.7%	5.4%	-16.4%	-20.8%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	4.5%	5.9%	-15.8%	-8.8%
Global Property Securities	S&P Global Property USD TR	**USD**	2.9%	8.9%	-14.9%	-10.0%
Currencies						
Euro		**USD**	1.3%	7.5%	6.4%	8.7%
UK Pound Sterling		**USD**	2.2%	8.3%	0.9%	10.0%
Japanese Yen		**USD**	-0.1%	1.8%	2.6%	0.3%
Australian Dollar		**USD**	3.3%	10.6%	5.1%	9.5%
South African Rand		**USD**	0.8%	3.6%	-17.4%	-10.3%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	6.9%	16.9%	-16.3%	-9.4%
Agricultural Commodities	RICI Agriculture TR	**USD**	5.6%	10.4%	-2.6%	8.3%
Oil	Brent Crude Oil	**USD**	4.6%	28.2%	-31.4%	-25.1%
Gold	Gold Spot	**USD**	-0.4%	13.7%	29.7%	29.4%
Hedge funds	HFRX Global Hedge Fund	**USD**	1.4%*	4.6%*	1.7%*	4.8%*
Interest rates						
United States			0.25%			
United Kingdom			0.10%			
Eurozone			0.00%			
Japan			-0.10%			
Australia			0.25%			
South Africa			3.50%			

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

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 August 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	1.5%	-1.6%	-20.3%	-16.1%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	0.1%	-3.7%	-21.8%	-18.7%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	5.7%	5.1%	-16.1%	-8.4%
UK - Small Cap	MSCI Small Cap NR	**GBP**	5.6%	3.8%	-18.9%	-6.7%
United States	S&P 500 NR	**USD**	4.9%	6.2%	8.4%	10.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.3%	5.4%	-1.9%	0.0%
Japan	Topix TR	**JPY**	5.9%	-2.8%	-3.8%*	0.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	1.7%	11.6%	4.3%	7.6%
Global developed markets	MSCI World NR	**USD**	4.5%	5.6%	4.4%	6.2%
Global emerging markets	MSCI Emerging Markets NR	**USD**	0.1%	10.0%	-0.4%	4.1%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	-3.2%	-3.4%	6.5%	2.6%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	-0.2%	0.0%	1.4%	1.1%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	-1.5%	-0.9%	4.4%	1.9%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	-5.5%	-6.3%	9.5%	3.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	-4.4%	-3.3%	8.1%	-1.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	-0.8%	-0.2%	5.0%	-1.2%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	-6.4%	-4.9%	10.2%	-1.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-1.0%	1.8%	4.0%	3.4%
US Treasuries	JP Morgan US Government Bond TR	**USD**	-3.2%	-7.6%	8.1%	-2.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-1.4%	3.8%	6.9%	7.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	1.0%	6.7%	1.6%	4.7%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.8%	1.3%	2.2%	-1.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.2%	3.0%	0.5%	-0.8%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	1.5%	5.2%	-2.2%	-0.6%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-2.7%	-5.0%	6.5%	-4.1%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	-0.3%	3.8%	6.4%	5.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	6.8%	19.3%	19.5%	26.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-1.8%	-2.8%	2.5%	-2.7%

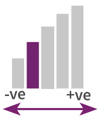
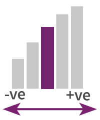
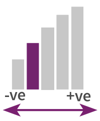
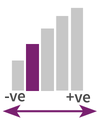
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *^{e} denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 August 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	0.8%	0.3%	-15.7%	-18.2%
Currencies						
Euro		**GBP**	-0.8%	-0.7%	5.5%	-1.3%
US Dollar		**GBP**	-2.1%	-7.6%	-0.8%	-9.0%
Japanese Yen		**GBP**	-2.2%	-6.0%	1.7%	-8.7%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	4.7%	7.6%	-17.0%	-17.6%
Agricultural Commodities	RICI Agriculture TR	**GBP**	3.4%	1.7%	-3.4%	-1.6%
Oil	Brent Crude Oil	**GBP**	2.4%	18.0%	-32.0%	-31.9%
Gold	Gold Spot	**GBP**	-2.5%	4.7%	28.6%	17.7%
Interest rates						
United Kingdom			0.10%			
United States			0.25%			
Eurozone			0.00%			
Japan			-0.10%			

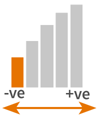
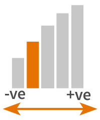
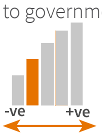
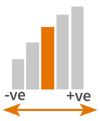
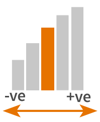
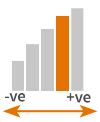
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *[e] denotes estimate*

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities 	» We remain mindful of resurgent risks to global growth following the fastening pace of the (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 » Policy measures remain accommodative and are likely to remain so for many months, or years Where mandates allow we have sought to protect portfolios whilst retaining upside should the rally extend. + Despite lofty index valuations in some markets and sectors, 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 remains second fiddle to Corona risk today but the balance is shifting and the Prime Minister's recent moves to renege on some previously agreed legals is somewhat unhelpful with respect to negotiations. 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, and imminent withdrawal/reduction in corporate support will likely see redundancies increase at a quickening pace. + 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 + 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 was hard hit by the first lockdown and is now seeing pockets of secondary lockdowns as cases re-emerge, but on a much lower scale than March » Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone » The E750bn European Recovery Fund augurs well for a more unified cross European political response to the crisis. + Renewed ECB asset purchases and policy stimulus will 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 at pace, surprising many, but is led by a narrow cohort of stocks. We remain cautious at index level today given that little in the way of second wave infection is priced in, and we have the uncertainty of an election around the corner. Active stockpickers have opportunities from the two speed market, dominated by the still advancing tech stocks. + The US remains one of the higher quality markets, and the Dollar something of a haven, despite recent softening. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places + The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities – US equity valuations remain elevated vs other regions today, even more so after the recent moves, and are priced almostto perfection of a virus free world – The US now has by far the highest rate of reported infections and some states are re-entering lockdowns following the recent surge in infections – Trade and geopolitical risks are coming very much to the fore again, notably with China, ahead of November's election
Japanese equities (relative to developed) 	» Japanese equities had lagged the broader market, and asian equities, during the rebound but played catch up in August as the best performing region outside of the US. At a high level, and considering demographics and locality, Japan has probably had a better outcome from the virus to date than many might have expected + BoJ ETF buying is supportive. Asia appears to remain ahead of other global regions in the global Corona-cycle which may help Japan be on the front foot for a more sustained 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 catching up the US as hotbeds of infection » EM equities edged higher after their recent strong run, after a period of dollar softness, and have continued to outpace global equities over 3 months + EM currencies remain down for the year, but had a decent move higher after July's dollar weakness. At a lower level, 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 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

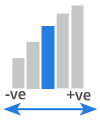
Past performance is not indicative of future returns.

Fixed Income

Government 	» DM government bond prices remain near record highs/low yields 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 over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided – Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply, more so now that the Fed has explicitly acknowledged a move to target average inflation over time
Index-linked (relative to government) 	» Inflation linked bonds cheapened in the Covid induced sell off but have rebounded meaningfully in the interim, but still offer value. 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 meaningful concern down the line + The Fed's inflation stance has changed, and is likely to mean periods of higher inflation will be tolerated – 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 present a more modest upside opportunity today after the recent tightening, but are likely to remain supported. With yields now near new lows though, longer term real returns are threatened + Central bank buying of IG bonds provides a tailwind for the asset class; there may still be some upside on the table – Liquidity remains challenged – IG is starting to look a little rich again, and we have taken further profit on recent trades – The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop
High Yield Corporate 	» Like their investment grade corporate cousins, high yield spreads have tightened meaningfully, but still offer some value and a reasonable yield. 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 which remains sensitive to any renewed pressure on oil prices
Emerging market debt 	» The asset class continues to look optically attractive, yields well, and we continue to rate favourably, despite having played catch up a little more recently . Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, so some profit taking would not go amiss + Despite recent strength we believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, 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 equities up almost one for one as risk prices recovered in Q2. The perfect outcome. 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. We have been adding in recent months + The natural convexity provided by convertibles should continue to provide reasonable protection against any further equity weakness, which is quite possible + The embedded options look cheap given the risks out there – 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

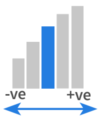
Real Assets /Alternatives

Commodities



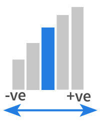
- » The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April and has since rebounded sharply. These risks seem likely to persist in the near term as industrial activity settles
- » Commodity prices are primarily supply and demand driven (Coronavirus and 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 both deflationary and inflationary sentiment, as witnessed more recently through the downward pressure on real yields as inflation expectations have ticked higher. Any cyclical upside and a post Covid ramp up in industrial production should help industrial commodity prices move higher
- – Coronavirus is likely to continue to weigh on the industrials commodities sector in the near term, 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



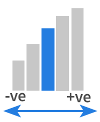
- » Property remains an attractive asset class for investors requiring yield and the Q2 price action only improves that. Especially now with rental collections improving and dividends being reinstated
- » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property still holds appeal, with selective industrial, data centres and residential having more attractive fundamentals than under pressure retail and office sectors
- \+ Premium yields and quality assets 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 & office sectors remain under pressure as a result of COVID-19
- – Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income

Infrastructure



- » Infrastructure stocks were not spared the Covid fallout, but have lagged on the rebound and thus remain look reasonably attractive today. 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 decent 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

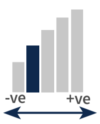
Liquid Alternatives



- » 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, at a time when other traditional diversifiers, such as treasuries, look expensive
- – The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

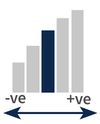
Currencies*

GBP



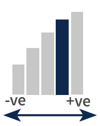
- » Sterling had a strong run through August, probably more dollar weakness than strong Sterling fundamentals, but 'Cable' has become more challenged as Brexit newsflow has made a reappearance, and much will depend on any eventual deal being signed. The downward bias to base rates is unlikely to lift the currency higher anytime soon, 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 'Covid covering' has helped support it through the tough times. Not a time to be short and we maintain the 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. With bond diversification/upside more limited today, the Yen looks increasingly attractive to own in this role.

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

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