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VIEWPOINT

Newsflash

A new month and the 162nd issue of Viewpoint from **Imperium Capital**.

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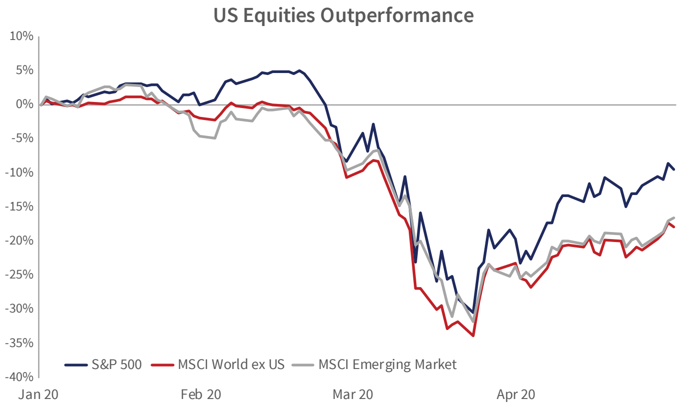
Market Commentary

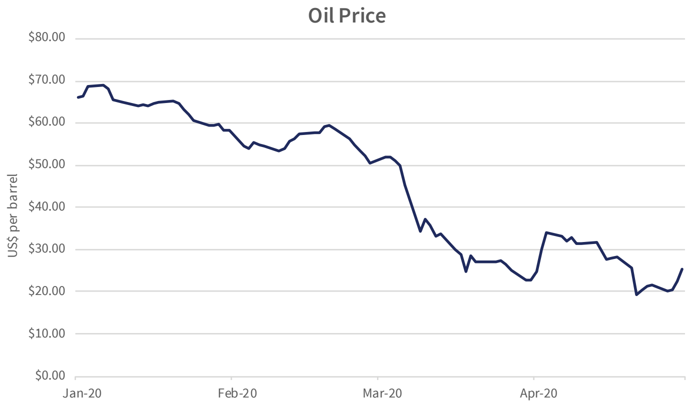
The recovery in markets which started in late March, following the massive interventions of the Federal Reserve in the US, and other major central banks, continued through April. This huge monetary stimulus, a combination of interest rate cuts (the only central banks not to cut have been those with rates already at or below zero) together with asset purchases on a scale never before seen, unlimited in the case of the Fed, ECB and Bank of Japan, averted a deep and sudden shock to economic activity from triggering a systemic financial and liquidity crisis. Liquidity, funding and credit stresses eased rapidly and have largely normalised in the past month.

Backed by equally massive fiscal support from governments, amounting to upwards of 10% of GDP in developed economies, hopes rose that the sudden stop to the global economy and resultant damage to the corporate sector would be contained and relatively short lived. With signs in Europe and the US that the pandemic curve was peaking, as it already has in China and other parts of Asia, the focus moved on to the exit strategy from the lockdowns which have been inflicted on some 3bn of the world's population in efforts to contain the virus.

Equity markets led the recovery, with Wall Street again in the vanguard, up 12.8% in April, lifting the MSCI World index by 10.9%. Other markets could not match the US, which continues to benefit from the strong performance of its leading technology companies, several of which have enjoyed share price rises this year. The tech heavy NASDAQ index was up 15.5% in April and is now flat year to date. Value stocks also saw a sizeable bounce, but still lag materially this year. Virtually all equity markets participated in the recovery, but notable laggards were the UK, up 3.4%, held back by strength in sterling, Japan, up 4.3%, and several European markets, particularly those in the south, which have been hit very hard by the pandemic and face especially tough challenges of debt sustainability as they navigate out of the lockdowns.



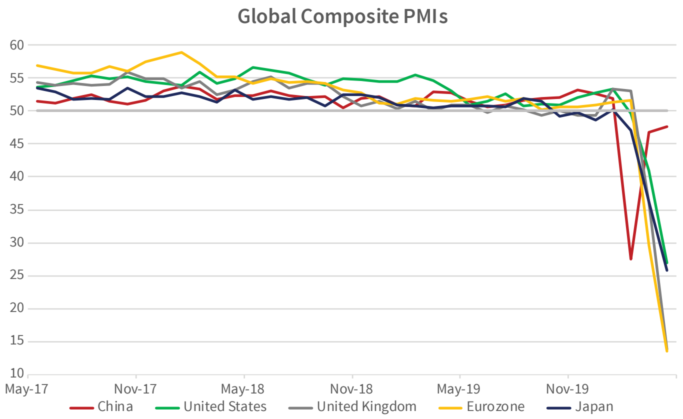
Source: Bloomberg, as of 30th April 2020



Source: Bloomberg, as of 30th April 2020

Bond markets also performed well, led by credit, which had sold off dramatically in March. US investment grade corporate bonds returned 5.2% in April compared with 0.4% from Treasuries, while High Yield bonds returned 4.5%. Emerging markets debt performed less well, +0.9%, with investors increasingly concerned about the longer term damage to the developing world inflicted by the crisis.

Gold again proved its worth as a store of value and was up 6.9% in April, making it one of the best performing assets so far this year, +11.2%. Currencies had a quieter month, with the dollar's trade weighted index flat, while sterling was the strongest of the majors, up 1.4%, and the euro weaker at -0.7% as worries over the debt burden and the EU's hesitant response to the crisis overhanging markets. Oil again dominated headlines, as massive over-supply led to a shortage of storage facilities, especially in the US, where WTI fell into negative territory briefly in April, with owners of oil forced to pay to have the oil taken off their hands. This proved to be a short term technical problem and the price subsequently recovered, with Brent oil up 11.1% in the month, but still down by over 60% this year. Demand for oil has collapsed by some 30m barrels per day during the lockdown, but with OPEC+ cutting production by at least 10m barrels per day from 1st May and shale oil production in the US falling due to uneconomic pricing, and economies beginning to exit lockdowns, the prospects of supply coming back into balance with demand are improving significantly. Perhaps surprisingly, energy stocks have been notably strong performers in April after particularly sharp falls earlier in the year.



Source: Bloomberg, as of 11th May 2020

The twin impact of huge and sudden supply and demand shocks has made this a particularly rapid and deep downturn which is damaging large parts of the global economy; it has been compounded by the collapse in the services sector, which historically has acted as a shock absorber in recessions. This time, the lockdowns have meant that services have taken the brunt of the hit. This is reflected in Purchasing Managers' Indices for April: JPMorgan's global all-industry PMI fell to 26.5 in April; half its level in January, and within this manufacturing fell to 32.7 and services 24.0, substantially worse than in the global financial crisis. Perhaps the starkest illustration of the impact of the crisis is the rise in initial jobless claims in the US: over 30 million people have registered as jobless in the past 6 weeks, pointing to an unemployment level of close to 20%. The vast majority of these are on temporary layoff and as lockdowns ease should re-enter work, but the burden of unemployment will be materially higher than pre-crisis for a long time ahead.

Source: Shown as a 6-week rolling figure, Bloomberg, as of 11th May 2020

No region or country has been spared, and the collapse of GDP during lockdown periods is expected to be as much as 30-40%. The length of the lockdowns and pace of exit will be key to assessing the loss of output and extent of the damage to GDP for the year. Most forecasts point to a global drop of GDP of the order of 4-5% in 2020, with many countries suffering declines of well over 5%, perhaps as high as 10-15% in the worst cases, which includes southern Europe and the UK.

However, the policy response of governments and central banks has been rapid and substantial, and has been key to preventing a much worse outcome as well as protecting the productive potential of economies as far as possible. Otherwise viable companies have been saved from insolvency and most individuals have been protected from permanent job losses. As lockdowns ease this means the recovery should also be rapid. Fears of a second wave of the virus are keeping most governments on a very cautious path to re-opening economies but it is likely that April will prove to be the worst month of the worst recession since the depression almost 100 years ago.

It is encouraging that the pandemic has peaked in most regions, a financial crisis has been avoided, and we are into the next phase of the crisis, the exit strategy from lockdowns. Markets have taken encouragement and are looking through to the recovery ahead. However, uncertainties are intense. The pace of exit is a trade off between risks of a second wave and risks to economies; without a vaccine, social distancing could be necessary for a considerable time, with all the attendant changes to behaviour and spending patterns; debt levels will be substantially higher and are likely to restrain spending; some industries have suffered long lasting damage and might never recover to previous levels of activity; the longer it takes to return to normality, the increased likelihood of corporate failures. Beyond coronavirus, markets have been reminded in recent weeks of the cause of much of 2019's economic slowdown as US-China tensions resurfaced and are likely to remain high as the US election approaches.

After the sharp recovery in markets in the past six weeks – 30% in the case of US equities and 20% for many other markets - some caution is appropriate. 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 30 April 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	12.8%	-9.4%	-9.5%	0.3%
United Kingdom	MSCI UK NR	**GBP**	3.4%	-18.7%	-21.4%	-18.1%
Continental Europe	MSCI Europe ex UK NR	**EUR**	6.4%	-15.3%	-15.9%	-8.9%
Japan	Topix TR	**JPY**	4.3%	-12.0%	-13.9%*	-7.1%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	9.8%	-9.6%	-12.9%	-8.5%
Global	MSCI World NR	**USD**	10.9%	-11.9%	-12.4%	-4.0%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	10.2%	-27.4%	-30.0%	-16.0%
Emerging Asia	MSCI EM Asia NR	**USD**	9.2%	-6.4%	-10.6%	-5.7%
Emerging Latin America	MSCI EM Latin America NR	**USD**	6.3%	-38.8%	-42.2%	-37.3%
BRICs	MSCI BRIC NR	**USD**	7.9%	-10.8%	-14.7%	-9.6%
China	MSCI China NR	**USD**	6.3%	0.3%	-4.5%	-2.1%
Global emerging markets	MSCI Emerging Markets NR	**USD**	9.2%	-12.5%	-16.6%	-12.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	0.4%	6.6%	9.4%	15.1%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	2.9%	2.6%	4.9%	10.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	5.2%	-0.9%	1.4%	9.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	4.5%	-8.8%	-8.7%	-4.1%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	3.2%	6.3%	10.5%	16.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	4.7%	-1.4%	1.3%	6.6%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.4%	-1.8%	0.6%	4.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	3.7%	-3.8%	-2.6%	-0.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	6.2%	-9.8%	-9.6%	-5.7%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.4%	-0.5%	-0.1%	0.7%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.4%	0.7%	3.9%	7.7%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.0%	2.3%	4.1%	9.0%
Global Bonds	ICE BofAML Global Broad Market	**USD**	1.8%	0.7%	2.1%	7.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	8.2%	-7.0%	-5.3%	1.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	0.9%	-9.9%	-7.9%	-1.5%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 30 April 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	8.2%	-22.2%	-21.3%	-15.3%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	13.7%	-30.3%	-25.9%	-23.9%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	5.8%	-13.8%	-17.2%	-14.9%
Global Property Securities	S&P Global Property USD TR	**USD**	7.2%	-21.8%	-22.1%	-15.3%
Currencies						
Euro		**USD**	-0.7%	-1.2%	-2.3%	-2.3%
UK Pound Sterling		**USD**	1.4%	-4.6%	-5.0%	-3.4%
Japanese Yen		**USD**	0.3%	1.1%	1.3%	4.0%
Australian Dollar		**USD**	6.2%	-2.7%	-7.2%	-7.6%
South African Rand		**USD**	-3.7%	-18.9%	-24.4%	-22.8%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	-6.4%	-31.4%	-36.4%	-35.3%
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.1%	-10.9%	-13.7%	-9.4%
Oil	Brent Crude Oil	**USD**	11.1%	-56.6%	-61.7%	-65.3%
Gold	Gold Spot	**USD**	6.9%	6.1%	11.2%	31.4%
Hedge funds	HFRX Global Hedge Fund	**USD**	2.5%*	-4.9%*	-4.5%*	0.4%*
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.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 30 April 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	3.4%	-18.7%	-21.4%	-18.1%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	2.2%	-17.6%	-20.4%	-18.2%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	8.0%	-23.2%	-25.6%	-20.5%
UK - Small Cap	MSCI Small Cap NR	**GBP**	10.5%	-22.5%	-25.1%	-17.2%
United States	S&P 500 NR	**USD**	11.1%	-5.0%	-4.6%	3.9%
Continental Europe	MSCI Europe ex UK NR	**EUR**	4.5%	-12.3%	-13.7%	-7.9%
Japan	Topix TR	**JPY**	3.6%	-6.4%	-8.5%*	-0.4%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	8.2%	-5.2%	-8.2%	-5.2%
Global developed markets	MSCI World NR	**USD**	9.3%	-7.6%	-7.7%	-0.5%
Global emerging markets	MSCI Emerging Markets NR	**USD**	7.6%	-8.3%	-12.1%	-8.8%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	3.2%	6.2%	10.2%	16.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.2%	0.9%	1.2%	2.0%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	1.0%	2.5%	4.8%	8.3%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	5.5%	10.4%	17.3%	27.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	5.0%	2.5%	6.8%	8.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	0.6%	0.2%	2.3%	4.7%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	7.5%	3.8%	9.4%	11.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	4.7%	-1.4%	1.3%	6.6%
US Treasuries	JP Morgan US Government Bond TR	**USD**	-1.3%	11.5%	14.9%	19.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	5.2%	-0.9%	1.4%	9.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	4.5%	-8.8%	-8.7%	-4.1%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.4%	-1.8%	0.6%	4.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	3.7%	-3.8%	-2.6%	-0.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	6.2%	-9.8%	-9.6%	-5.7%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-0.5%	7.3%	9.8%	13.0%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	1.8%	0.7%	2.1%	7.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	8.2%	-7.0%	-5.3%	1.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-0.6%	-5.5%	-2.9%	2.1%

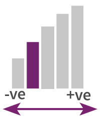
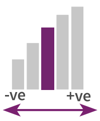
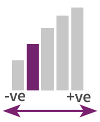
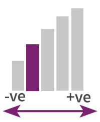
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 30 April 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	5.6%	-18.0%	-17.9%	-12.2%
Currencies						
Euro		**GBP**	-2.1%	3.6%	2.8%	1.1%
US Dollar		**GBP**	-1.4%	4.9%	5.3%	3.5%
Japanese Yen		**GBP**	-1.1%	6.0%	6.7%	7.6%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	-7.8%	-28.0%	-33.0%	-33.0%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-2.5%	-6.6%	-9.0%	-6.0%
Oil	Brent Crude Oil	**GBP**	9.5%	-54.4%	-59.6%	-64.0%
Gold	Gold Spot	**GBP**	5.4%	11.3%	17.2%	36.2%
Interest rates						
United Kingdom			0.1%			
United States			0.3%			
Eurozone			0.0%			
Japan			-0.1%			

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

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities  	» The pace of equity moves has subsided somewhat in recent weeks as newsflow generally around Coronvirus in DM markets has improved and plans are implemented to ease lockdowns. We remain mindful however of resurgent risks to global growth following the strong (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. + The repricing has improved valuations, even after the rebound, in most (but not all) sectors and regions – 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. – 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 US has rebounded markedly from the lows. 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 retest the equity water, 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 Recent growth stats were knocked by the consumption tax hike. That, and any resurgent risks in the region from Coronavirus, could weigh on Japanese corporates
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 Corona Virus, and the potential for lower reporting and testing rates in these markets. » EM had held ground against DM equities quite well through Q1 but have lagged the rebound, likely as much US strength as EM weakness. + EM currencies have taken a hit of late. 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.

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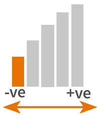
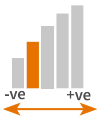
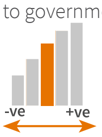
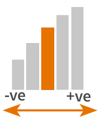
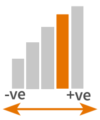
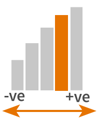
Fixed Income	
Government 	» DM governments are more expensive than ever following the supernormal moves in bond markets through the Coronavirus-striken Q1. In more recent days they have at times struggled to provide the level of diversification expected, and liquidity has also been tested. Cash may prove 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.
Index-linked (relative to government) 	» Inflation linked bonds cheapened in the recent sell off but has rebounded somewhat. Whilst near term the inflation outlook 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 moved sharply higher to peak at post GFC wides and still present a decent opportunity today even after the tightening we've seen since the peak. Implied default rates are excessive at current spread levels. + IG remains attractively valued today With the Fed stepping in to support IG bonds we see that as something of a line in the sand for the asset class. – 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 presents an attractive opportunity. We are mindful of the more equity like characteristics of the asset class, and sensitivity of the (US) index to energy, so hold back from a more meaningful upgrade while IG remains so attractive. This is likely to evolve though. + 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. However with spreads back to levels not seen since the financial crisis the asset class looks optically attractive and we continue to rate more highly. + 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 pressure if Corona related expenditure and support rises
Convertible bonds 	» Convertible bonds have done a good job of limiting capital loss during the recent sell off but optionality now looks somewhat cheap We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings. + 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.

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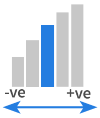
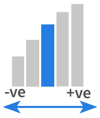
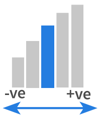
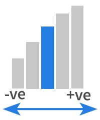
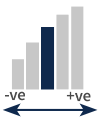
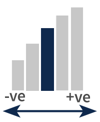
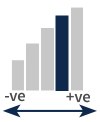
VIEWPOINT

Real Assets /Alternatives

Commodities 	» The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April. 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 	» 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*

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