momentum

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Newsflash

A new month and the 144th issue of Viewpoint from **Imperium Capital**.

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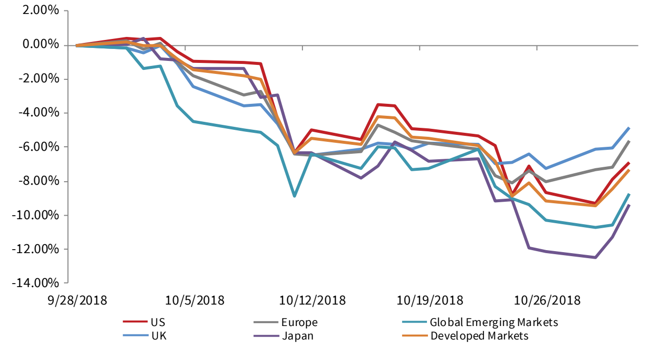
Market Commentary

Once again, the month of October delivered a torrid time for investors, leaving the goldilocks environment of 2017 dead and buried. In a sharp reversal of fortunes, which began at the end of September, very few asset classes produced a positive return in October. The classic safe-haven assets including government bonds, gold and the Japanese Yen produced positive returns, with the notable exception of US Treasuries posting a negative return of 0.5%. The equity market suffered the brunt of the selling, led by the Asian equity market falling over 10% in the month, while most other regions fell 7-9% in US Dollar terms. Despite a bounce in the final days of the month, the MSCI World Index declined 7.3%, a slightly smaller fall than the 8.7% decline in Emerging Markets.

Figure 1: Equities decline in every major region



Source: Bloomberg, Momentum GIM. Returns in local currency terms

Only Latin America produced a positive return, driven by a recovery in currencies and a surge in Brazilian equities, up 19% in US Dollar terms. Brazilian equities were boosted by investors anticipating the victory of market friendly right-

wing candidate Bolsonaro in the Presidential elections at the end of the month. The majority of other markets entered correction territory, falling 10% or more from their peaks earlier in the year. Notably, the Chinese equity market has fallen 27% from its January peak, and Emerging Markets in aggregate are down 25% over the same period.

As expected in a risk-off period, bond markets held up far better than equities, although credit came under pressure. High yield and investment grade corporate bonds both produced negative returns of 1.5% and emerging market bonds posted a negative return of 2.1%. Government bond markets including UK Gilts, German Bunds, Japanese and Australian bonds all produced small positive returns while US Treasuries posted a negative return of 0.5%. The global bond index was down 1.0% attributed to the generally strong US Dollar. In October, the US Dollar appreciated 2.1% on a trade-weighted basis and since the February low point, the trade weighted Dollar Index has risen 10%. The US Dollar was especially strong against the Euro, which fell 2.5% over the month.

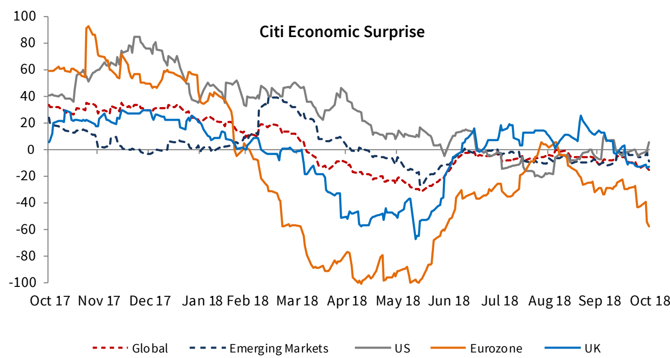
The worrying undercurrents which have been evident in September including the continuing tightening of monetary policy especially by the Federal Reserve (Fed), evidence that the trade war between the US and China was beginning to impact on economic activity in China, the looming Italian budget and debt crisis, and the ongoing Brexit saga, were all factors contributing to the sharp turn in investor sentiment at the beginning of October.

Initially, it was the growing realisation among investors that the Fed is on course for four rate rises next year, in addition to the widely anticipated rise to come in December, that triggered the sharp sell-off. If implemented this would take interest rates to or even above the Fed's neutral long-term rate, suggesting that in combination with liquidity withdrawal from the shrinking of the Fed's balance sheet, now running at a monthly rate of $50 billion, monetary policy will become a serious headwind to markets in the months ahead. However, as the month progressed the worries shifted increasingly towards a slowdown in growth and weaker corporate earnings.

Evidence has been mounting that the Chinese economy is slowing, in part due to measures put in place by the authorities during the year to rein in excessive private sector debt and due to the trade war having a material impact on the manufacturing sector. The slowdown was reflected in the third quarter GDP growth of 6.5%, which was the slowest since 2009. Perhaps more importantly the signal given in various moves by the authorities to stimulate growth, including measures to ease financial pressures on companies, personal tax cuts and a reduction in the tax on automobiles, an industry which has entered stall territory in China this year.

At the same time, growth across the Eurozone has slowed progressively through 2018. The slowdown has been most marked in troubled Italy, where the economy stalled in the third quarter posting no growth quarter on quarter. Growth across the Eurozone has disappointed, with GDP growth of 0.2% in Q3. Even more, leading indicators point to continuing softness but nevertheless modest growth for 2019. A key test will be the impact of the withdrawal of the ECB's asset purchase programme, currently planned for the end of 2018. The below chart shows how actual economic data performed relative to market expectations across different regions, and as of late economic data have been weaker than market expectations.

Figure 2: Economic data weaker than market expectations



Source: Citi, Bloomberg, Momentum GIM

In the US growth has remained robust, in the third quarter of 2018 the US economy advanced an annualised 3.5% quarter-on-quarter, aided by the fiscal stimulus via President Trump's tax cuts, strong consumer confidence and a surge in capex among businesses. However, the key housing market is showing signs of slowing, hampered by the rise in mortgage rates as the Fed tightens policy, while the stand out feature of the corporate earnings reporting season for Q3 has been the generally more cautious guidance about future revenues and earnings growth.

Given the very high valuations across growth and momentum stocks, especially in the technology sector, it was no surprise that any suggestion of slower future growth would be punished with sharp price falls. The previously surging

FAANGs index fell more rapidly than the market generally and lost 20% from its peak in June to its October low. In contrast, defensive and quality stocks held up relatively well, a clear indication that investor focus has shifted to a growth slowdown next year.

The prospect of slower growth fed through into the oil price, which had tripled from its low in January 2016 to reach $86 per barrel early in October but then fell 20% by close to around $70 in a matter of weeks. Supply concerns following the re-imposition of US sanctions on Iranian oil exports from 1st November were eased when the US issued temporary waivers to eight countries, including China and India who are big importers. It is likely that the bulk of the impact of the sanctions has already worked its way through the market, and the largest producers, notably Saudi Arabia, have increased production to offset reduced supplies from Iran. The sharp fall in the price will be welcomed by oil consumers including many emerging markets which have a high dependency on imported oil.

Politics was largely overshadowed during October by the renewed volatility in markets but there were notable and potentially far reaching developments. The US midterm elections in early November delivered the widely anticipated split Congress but the swing to the Democrats was relatively modest and the Republicans increased their majority in the Senate. The prospects of a second term for Trump would appear to have been enhanced by the results. The greater check and balance on the President from the Democratic controlled House of Representatives has, however, been welcomed by investors. In Europe, the Brexit negotiations appear to be heading towards a compromise outcome and although a no deal is still possible the risks are receding; sterling has reacted with a modest rally, which would be enhanced if a deal is concluded and then passed by UK Parliament. Elsewhere we are seeing the end of the long era of Merkel leadership not just of Germany but also of Europe. Following a run of disastrous local election results she has announced her intention to stand down as Chancellor when her term ends in 2021, leaving a vacuum of leadership across Europe.

However, the two big issues set to dominate markets in the months ahead are monetary tightening by the Fed and the impact of the trade war between the US and China on growth. The US retains a confrontational approach on trade, and much will depend on the summit between President Trump and Xi planned for November. None of this is likely to deter the Fed from continuing with its well flagged programme of interest rate rises and liquidity reduction, which in turn will put pressure on asset valuations. Greater caution is warranted in this more challenging environment, and heightened levels of volatility are likely to be a feature of markets for some time. However, there are still few signs of excess or capacity shortages which might trigger an inflationary surge, and the constraints to growth and likely slowdown next year could well extend the cycle for some time ahead. With policy set to tighten further this remains an environment to keep duration short and progressively move away from credit into US Treasuries. Greater resilience is warranted in portfolios, and there are ample reasons for a more cautious approach, but valuations in equities have improved significantly as a result of weak markets and strong corporate earnings; the sharp setbacks in recent weeks present opportunities to add to positions selectively.

Source: Bloomberg. Returns in US dollars unless otherwise stated. October 2018. | ***Past performance is not indicative of future returns.***

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 Oktober 2018		
		Currency	1 Month	3 Month
Developed markets equities				
United States	S&P 500 NR	**USD**	-6.9%	-3.4%
United Kingdom	MSCI UK NR	**GBP**	-4.8%	-6.7%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-5.7%	-7.3%
Japan	Topix TR	**JPY**	-9.4%	-5.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-10.3%	-12.5%
Global	MSCI World NR	**USD**	-7.3%	-5.7%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	-5.6%	-6.9%
Emerging Asia	MSCI EM Asia NR	**USD**	-10.9%	-13.2%
Emerging Latin America	MSCI EM Latin America NR	**USD**	3.5%	-0.8%
BRICs	MSCI BRIC NR	**USD**	-6.5%	-11.4%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-8.7%	-11.6%
Bonds				
US Treasuries	JP Morgan United States Government Bond TR	**USD**	-0.5%	-0.8%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	-1.6%	-2.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-1.5%	-1.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	-1.6%	-0.3%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	1.0%	-0.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.5%	0.1%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.0%	-0.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.2%	-0.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-1.3%	-1.1%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.2%	-0.8%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.5%	0.9%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.9%	-2.1%
Global Bonds	ICE BofAML Global Broad Market	**USD**	-1.0%	-1.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	-5.2%	-4.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-2.1%	-2.5%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 Oktober 2018		
		Currency	1 Month	3 Months
Property				
US Property Securities	MSCI US REIT NR	**USD**	-3.0%	-2.9%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	-3.1%	-2.8%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-6.5%	-10.4%
Global Property Securities	S&P Global Property USD TR	**USD**	-4.3%	-6.3%
Currencies				
Euro		**USD**	-2.5%	-3.2%
UK Pound Sterling		**USD**	-2.0%	-2.7%
Japanese Yen		**USD**	0.6%	-1.0%
Australian Dollar		**USD**	-2.1%	-4.7%
South African Rand		**USD**	-4.3%	-10.1%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-3.3%	-2.6%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.9%	-5.9%
Oil	Brent Crude Oil	**USD**	-8.8%	1.6%
Gold	Gold Spot	**USD**	1.9%	-0.8%
Hedge funds	HFRX Global Hedge Fund	**USD**	-3.1%	-3.3%
Interest rates				
United States			2.25%	
United Kingdom			0.75%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.50%	

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 Oktober 2018		
		Currency	1 Month	3 Months
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	-4.8%	-6.7%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-4.1%	-6.1%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-8.0%	-9.7%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-7.4%	-10.2%
United States	S&P 500 NR	**USD**	-4.8%	-0.6%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-6.1%	-7.8%
Japan	Topix TR	**JPY**	-7.0%	-3.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-8.2%	-9.9%
Global developed markets	MSCI World NR	**USD**	-5.3%	-2.9%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-6.6%	-9.1%
Bonds				
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	1.0%	-0.5%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.4%	0.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	1.2%	0.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	1.2%	-1.6%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	2.8%	1.1%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	1.6%	1.7%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	3.6%	0.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.5%	0.1%
US Treasuries	JP Morgan US Government Bond TR	**USD**	1.7%	2.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-1.5%	-1.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.6%	2.6%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.0%	-0.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.2%	-0.5%
Euro High Yield	*BBgBarc European High Yield 3% Constrained TR*	**EUR**	-1.7%	-1.7%
Global Government Bonds	JP Morgan Global GBI	**GBP**	1.3%	0.8%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	-1.0%	-1.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	-5.2%	-4.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	0.1%	0.3%

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 Oktober 2018		
		Currency	1 Month	3 Months
Property				
Global Property Securities	S&P Global Property TR	**GBP**	-2.2%	-3.6%
Currencies				
Euro		**GBP**	-0.5%	-0.5%
US Dollar		**GBP**	2.1%	2.8%
Japanese Yen		**GBP**	2.7%	1.8%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	-1.1%	0.3%
Agricultural Commodities	RICI Agriculture TR	**GBP**	3.1%	-3.1%
Oil	Brent Crude Oil	**GBP**	-6.7%	4.6%
Gold	Gold Spot	**GBP**	4.2%	2.1%
Interest rates				
United Kingdom			0.75%	
United States			2.25%	
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 -ve +ve	» We retain a neutral allocation to global equities today. Valuations vary across regions and sectors and whilst in aggregate they are not cheap, they do offer the prospect of reasonable returns, both in absolute terms and relative to other classes. The recent volatility has presented an opportunity to add some marginal equity risk, but this seems to us as more of a valuation adjustment which could continue to play out so caution against aggressive risk adding today » Monetary policy and cross border politics will remain key drivers of risk appetite and global equity returns, the former being key to the recent repricing + The global macro backdrop remains favourable for global equities + Equities are better placed than most asset classes to perform in a moderately pro inflationary environment – Valuations remain selectively expensive at current levels, and recent volatility reflects this – Continued talk around and implementation of trade tariffs is not constructive for global equities
UK equities (relative to developed) -ve +ve	» UK equities look cheap today but caution is warranted given UK's evolving Brexit negotiations and continued political jockeying. While the larger cap market constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges » November is shaping up to be a turbulent month politically and as a harder Brexit potentially unfolds the risk premium on Sterling equities gets more attractive. The currency tends to be the channel for UK risk hedging and in the event of a sharp decline UK equities should be reasonably supported + The UK market remains exposed to global markets and factors and as such is somewhat insulated from the headline Brexit concerns, benefiting from any associated Sterling weakness – Today the chief worries lie with the ongoing Brexit negotiations, and with few embracing the Prime Minister's plan in its current form there is likely to be more protracted and messy negotiations
European equities (relative to developed) -ve +ve	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. From a more cyclical point of view the European macro backdrop has wavered of late and political risks remain. The neutral rating reflects that Europe remains something of a recovery laggard. There is scope for a more meaningful recovery in earnings but the region faces some headwinds today, not least the impending ending of the ECB purchase program + European earnings still have scope to recover more meaningfully from their post crisis lows – European assets, including equities, may come under pressure should the ECB's bond programme reduction accelerate, or the Euro strengthen if the ECB brings forward their expected date to raise rates – Episodic risk off events, such as the recent volatility in the Italian bond market, should be expected
US equities (relative to developed) -ve +ve	» The US remains the most expensive of the major developed markets, even after factoring in October's sharp move lower in equity prices. However, the US economy remains in good health and arguably warrants a premium valuation as we close out another strong quarter of earnings. This valuation headwind means we score less highly than ex US bourses today » Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well, but there remains an outside risk of higher inflation leaving the Fed little alternative to raising rates more quickly than rates markets are pricing + The economy remains in good health with leading indicators remaining firmly positive + Despite the Fed's programme of rate hikes, broader measures of financial conditions remain relatively loose, which coupled with the current fiscal stance can help propel economic growth further and equity prices as higher – Despite recent market weakness valuations remain somewhat extended and rising yields may continue to be an obstacle to further index gains from current levels
Japan equities (relative to developed) -ve +ve	» EM assets remain under pressure as the buoyant Dollar and heated trade war rhetoric continue to weigh on sentiment to emerging markets. We continue to favour EM assets more generally over DM as the longer term relative growth dynamics look favourable, which coupled with steady inflation and accommodative policy should support EM equity returns over time. This shorter term price action if anything provides a buying opportunity but some caution is warranted as further bouts of volatility are inevitable + Yen weakness will likely boost equities further if the Fed moves in line with their stated intentions and the BoJ maintains their yield curve policy, albeit now within a wider 20bps range around zero – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities, as being borne out in this bout of October volatility
Emerging market equities -ve +ve	» EM assets remain under pressure as the buoyant Dollar, high oil price and heated trade war rhetoric weigh on markets. We continue to favour EM assets more generally over DM as the longer term relative growth dynamics look favourable, which coupled with steady inflation and accommodative policy should support EM equity returns over time. This shorter term price action if anything provides a buying opportunity but some caution is warranted as further bouts of volatility are inevitable + Despite some nearer term appreciation EM currencies remain on the back foot which provides some additional cushion to local EM equity returns through potential earnings enhancement over time – Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk

Past performance is not indicative of future returns.

Fixed Income

Fixed Income	
Government -ve +ve	» On a medium term outlook DM government bonds remain largely unattractive today with poor real return prospects in aggregate. US treasuries are the exception though and offer improved value today with yields having rebroken the 3% level. Conversely other markets, such as Italy, are a source of price volatility + Quality government bonds remain one of the best diversifier's in a multi asset portfolio – 2018 is likely to mark the year that net central bank bond purchases turns negative. That may prove to be headwind for all rate sensitive debt, particularly in higher quality European bond markets as the ECB steps back from buying already expensive bonds
Index-linked (relative to government) -ve +ve	» Index linked bonds offer some selective value today but, like their nominal counterparts, they are expensive today with US break-evens looking somewhat full + Index linked bonds are one of the few ways to meaningfully protect against inflation risk – Inflationary forces remain somewhat muted today and on any renewed concerns over global growth they would almost certainly underperform nominal bonds
Investment grade (relative to government) -ve +ve	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight despite recent moves wider. Fundamentals remain reasonable but we would advocate owning more shorter dated credit at today's levels as rate sensitivity remains near highs, and yields low + A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread – With central bank buying slowing the risks are asymmetric – Credit quality has drifted lower in recent years, and leverage has moved higher
High yield -ve +ve	» Spreads have widened in recent weeks in leveraged credit markets, but whilst fundamentals remain robust, all in valuations remain somewhat expensive » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration at better levels + In the absence of a systemic market shock the running yield of high yield means the asset class will likely trump most of other fixed income – Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive – Risks are asymmetric today
Emerging market debt -ve +ve	» Emerging market bonds have been under pressure alongside EM equities and EM FX. However, with yields shy of 7% the asset class is attractive today. The barrier to upgrading our view is that spreads remain at best fair and idiosyncratic stories, such as Turkey, cause ongoing concern. The recent weakness may yet run further » The healthy running yield though means the asset class remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure at this time + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today – Renewed Dollar strength will weigh on EM assets, with local bonds and FX likely bearing the brunt
Convertible bonds -ve +ve	» Convertible bonds are about fairly priced to their constituent parts today, albeit somewhat expensive in absolute terms, driven largely by loftier US valuations. We favour an allocation to convertibles in a multi asset portfolio for the convexity it brings, which remains valuable at a time of elevated valuations, as we are today » Some caution is warranted given the concentration to the US market and technology names, though some of this steam has recently been released as (US) stocks repriced + The natural convexity provided by convertibles should continue to provide reasonable protection against any protracted equity correction – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest regional market, remains well valued today in aggregate – If volatility reverts again to the recent multi year lows then the optionality holds limited value

Alternatives	
Commodities -ve +ve	» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle. Prices are likely to be affected by the increasing number of trade tariffs being imposed by the US and their trade partners (Europe and China in particular) in retaliation. This dynamic remains in flux and is likely to cause some volatility, with tariffs more likely than not to increase » The commodity index has lost nearly 15% in Q4 so far although most of this is attributable to oil's 25% drop + With the US Dollar still near cyclical highs, and global growth positive if not on a tear, commodities have scope to generate positive returns + Gold remains a good hedge against risk off outcomes, as witnessed during recent market weakness – Trade tensions may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular – Geopolitics is an important consideration as evidenced by recent oil price gyrations
Property (UK) -ve +ve	» Property remains an attractive asset class for investors requiring yield » Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property holds some appeal, with industrial and office space remaining more attractive than the under pressure retail sector + Attractive yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness + The longer duration qualities of the asset class makes it a good diversifier within multi asset portfolios – 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 continues to evolve slowly
Infrastructure -ve +ve	» Infrastructure stocks trade at reasonable valuations today - broadly in line with global equities today - whilst performance has lagged » Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets + In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing + The asset class offers a healthy yield at a reasonable valuation today - both equity and debt flavours – As a long duration asset class infrastructure remains susceptible to any repricing in long term bond yields – Regulation can work both for and against the underlying investments, and a spate of recent accidents has hit a handful of stocks hard
Liquid Alternatives -ve +ve	» 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 in predominantly UCITS vehicles » We favour an allocation to a basket of liquid strategies today to provide additional diversification as high quality bonds on the whole remain expensive + These strategies provide additional diversification with reasonable return potential – The sector is relatively young and growing. It remains somewhat untested through a protracted risk off period so thorough due diligence is vital, and blend is recommended – The hurdle for performance is higher given the more attractive level of treasury yields today

Currencies	
GBP -ve +ve	» Brexit uncertainty remains high and Sterling remains volatile with the Prime Minister's Brexit plan getting a frosty reception. We retain a neutral view until we have a clearer expectation around how the plan evolves, and if indeed parliament passes it. With Sterling looking fairly beaten up there is probably more upside than downside risk today at the margin » In real terms the currency remains at the lower end of valuations and has room to appreciate over the medium to long term, but politics and rate policy is likely to dominate its nearer term path, and remains a source of volatility. The currency's future path remains a binary outcome at present
Euro -ve +ve	» The Euro remains somewhat range-bound today and lacks conviction either way. Whilst any change in explicit rate policy has now been pushed towards the latter half of 2019, the reducing quantum of bonds the ECB is purchasing may increase rates volatility » In real terms the common currency looks about fair value today but with long market positioning continuing to scale back there is no obvious and imminent catalyst for an uplift
Yen -ve +ve	» Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today and recent weakening accentuates this » What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. Market positioning has recently built up on the short side which when coupled with heightened volatility could see some uplift. As such we favour a modest bias to the Yen today

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