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momentum

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Newsflash

A new month and the 153th issue of Viewpoint from **PPI Advisory**.

This document will be made available on our website www.ppi-advisory.com

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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.

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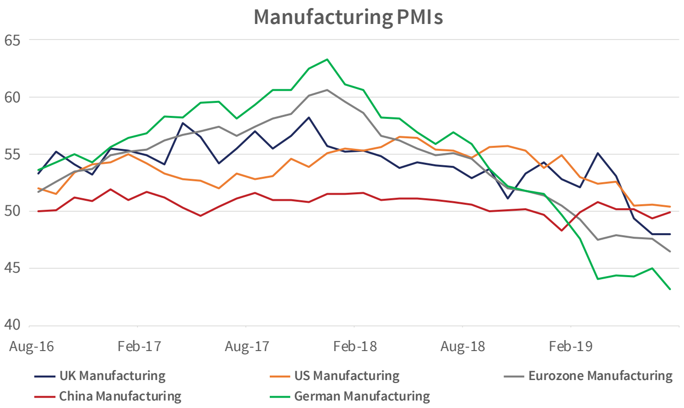
Market Commentary

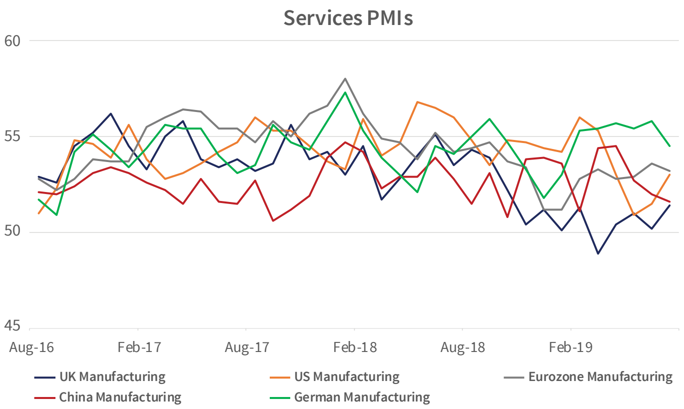
While most markets extended their gains in July and Wall Street reached new all-time highs, the moves were more muted than in the first half of the year, with some markets falling, notably in Asia, taking the Emerging Markets index down 1.2%. Gains that were made were modest, with the UK the biggest gainer in local currency terms, up 2.1%, but this was driven largely by a sharp fall in sterling which benefits the big listed offshore earners which dominate the UK stock market. Government bonds were generally firm as yields drifted lower while credit markets performed well with investment-grade corporate and high yield bonds each returning 0.6% and emerging market debt 0.8% in the month, taking year to date returns for all 3 sectors into double digits.

The biggest moves, however, came in currency markets, with the USD trade-weighted index up 2.5% in July, a remarkably strong move given the huge dovish policy pivot of the Federal Reserve this year. All major currencies fell against the dollar, led by sterling, down 4.2% now approaching its post-referendum low of $1.20, while the euro fell 2.6% and safe-haven Japanese yen 0.8%. The moves reflect in part the continuing interest rate differential in favour of the dollar, the relative strength of the US economy, the increasingly dovish stance of not just the Fed but central banks across the world, and idiosyncratic factors, notably the increasing likelihood of a no-deal Brexit in the UK with the election of new PM Boris Johnson.

Should there have been any doubts about the scale of the manufacturing downturn across the world they were firmly dispelled in July. Manufacturing is effectively in recession globally, led by those countries most dependent on the traded goods sector, most notably Germany whose heavy reliance on the auto industry and in particular diesel engines is compounding the weakness due to the structural changes and dislocation in the industry. The US has held up better than most countries but even here manufacturing has slowed substantially. In China industrial production is growing at its slowest pace since 2002 and leading indicators, as elsewhere, are in contractionary territory, pointing to further weakness ahead. The growing fear is that the downturn in manufacturing will eventually spill over into the all-important services sector, which to date has proved resilient albeit with some signs of slower growth. Although the service and consumer sectors continue to underpin growth there is no doubt that the risk of recession has increased as the year has progressed.



Data Source: Bloomberg, Manufacturing PMI Indexes, figures up to 31st July 2019. 15th August 2019.



Data Source: Bloomberg, Services PMI Index, figures up to 31st July 2019. 15th August 2019.

At the same time inflation has been remarkably constrained, with core inflation indices in the US, Europe and Japan stuck firmly below central bank target rates. It is the combination of slowing growth and falling and/or very subdued inflation which has been instrumental in pushing bond yields down substantially in the past 9 months and forced central banks to loosen policy. July was marked by a cut of 0.25% in interest rates by the Fed as well as an early end to its balance sheet reduction programme (i.e. the end of 'Quantitative Tightening'). There are now clear and substantive indications of policy easing ahead by the ECB, which is expected at its next policy meeting in September to cut interest rates below the already negative level of -0.4%, and probably to resume its asset purchase programme, which was ended only at the beginning of this year. The Bank of Japan has also flagged a willingness to ease policy if economic and price conditions continue to deteriorate. A range of smaller central banks, including India, New Zealand and Thailand, all cut rates in the face of weakening activity. While these moves, together with the full expectation of more easing ahead, especially from the Fed, underpin valuations across markets they have also caused heightened uncertainty and a degree of alarm among investors to the extent that they confirm that recessionary fears are valid.

These fears were exacerbated when at the end of July Trump surprised markets by announcing new tariffs from September 1st of 10% on all remaining imports from China which do not yet attract tariffs, amounting to some $300bn of goods. China retaliated by allowing its currency, the RMB, to weaken below the sensitive level of 7 to the USD with a fall of 2.7%, and the subsequent US branding of China as a currency manipulator represented a major escalation of the trade war, in turn raising fears of a more marked slowdown in global growth.

As we enter August the uncertainties have mounted up. Recession in manufacturing globally and signs of slower growth in services raise the fears of a more widespread downturn; the escalation of the US-China trade war and the unpredictably of Trump leave investors worried about further deterioration also encompassing Europe; the heightened risk of a no-deal Brexit casts a cloud over Europe and particularly the UK; the democracy protests in Hong Kong have become increasingly serious and sinister, threatening the territory's stability and its position as the financial gateway to China and as the third-largest financial centre in the world; and the deep uncertainty of the longer-term implications and unintended consequences of ultra-loose monetary policy which is set to loosen further in the coming months. All point to more difficult markets and heightened volatility ahead.

We pointed to the need for greater caution in our commentary last month and that caution remains warranted. Equity and bond markets have risen sharply this year, driven by the prospect of easier financial conditions, and valuations have become stretched in some areas, notably in fixed income. Yet the economic backdrop has deteriorated, corporate earnings are under pressure especially in sectors most exposed to manufacturing, and markets are largely discounting sizeable policy easing by central banks in coming months.

However, the extent of the global slowdown needs to be kept in perspective; trade and manufacturing are contracting but the service sector continues to grow, employment remains strong and the consumer is generally in good shape. There are no signs of systemic financial problems and an ensuing liquidity crunch nor of capacity shortages, inflation and a sudden tightening of policy. With inflation subdued central banks have considerable flexibility in keeping policy ultra-loose for much longer, thereby extending this extraordinary cycle.

The falls in interest rates this year, both at the short end and throughout the yield curve, across all government bond markets, provide a strong underpinning to equities and other risk assets, offsetting the more challenging conditions faced by the corporate sector after last year's benign backdrop. Against a backdrop of heightened uncertainty some consolidation is overdue, but we believe that the cycle has further to run and any falls in markets will give rise to opportunities to add to risk assets, while at all times maintaining careful diversification in portfolios to protect inevitable shorter-term setbacks.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 July 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	1.4%	1.5%	19.8%	7.3%
United Kingdom	MSCI UK NR	**GBP**	2.1%	3.2%	15.3%	2.1%
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.3%	0.3%	17.6%	2.1%
Japan	Topix TR	**JPY**	0.9%	-3.1%*	6.2%*	-8.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.3%	-2.4%	10.8%	-1.6%
Global	MSCI World NR	**USD**	0.5%	0.9%	17.6%	3.6%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	0.3%	9.3%	20.5%	11.8%
Emerging Asia	MSCI EM Asia NR	**USD**	-1.6%	-4.5%	8.0%	-4.5%
Emerging Latin America	MSCI EM Latin America NR	**USD**	0.1%	4.1%	12.8%	8.6%
BRICs	MSCI BRIC NR	**USD**	-0.8%	-2.7%	12.8%	1.3%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-1.2%	-2.7%	9.2%	-2.2%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	-0.1%	3.4%	5.3%	7.9%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.4%	3.0%	6.8%	5.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.6%	4.5%	10.5%	10.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.6%	1.6%	10.6%	6.9%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	2.2%	5.4%	7.4%	8.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	2.1%	4.3%	8.5%	8.0%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	1.7%	5.1%	7.8%	8.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.4%	2.9%	6.9%	6.0%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	0.8%	1.8%	8.6%	4.8%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.2%	1.7%	3.1%	3.7%
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.0%	4.5%	8.9%	12.5%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.4%	3.6%	4.9%	5.8%
Global Bonds	ICE BofAML Global Broad Market	**USD**	-0.3%	3.3%	5.4%	5.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	0.5%	1.9%	11.9%	4.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	0.8%	6.0%	11.7%	10.5%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 July 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	0.3%	2.2%	0.1%*	1.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	2.5%	7.7%	19.6%	15.6%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-2.9%	-1.8%	9.4%	5.6%
Global Property Securities	S&P Global Property USD TR	**USD**	0.2%	1.8%	15.1%	7.0%
Currencies						
Euro		**USD**	-2.6%	-1.2%	-3.4%	-5.3%
UK Pound Sterling		**USD**	-4.2%	-6.7%	-4.7%	-7.4%
Japanese Yen		**USD**	-0.8%	2.4%	0.8%	2.8%
Australian Dollar		**USD**	-2.5%	-2.9%	-2.9%	-7.8%
South African Rand		**USD**	-1.8%	-0.3%	0.2%	-7.5%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	-0.8%	-2.6%	7.1%	-6.1%
Agricultural Commodities	RICI Agriculture TR	**USD**	-4.1%	-0.2%	-4.9%	-12.0%
Oil	Brent Crude Oil	**USD**	-2.1%	-10.5%	21.1%	-12.2%
Gold	Gold Spot	**USD**	0.3%	10.2%	10.2%	15.5%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.8%*	1.8%*	5.1%*	-1.0%*
Interest rates						
United States			2.25%			
United Kingdom			0.75%			
Eurozone			0.00%			
Japan			0.10%			
Australia			1.00%			
South Africa			6.50%			

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 July 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	2.1%	3.2%	15.3%	2.1%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	1.9%	3.3%	15.0%	2.8%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	2.4%	1.6%	13.6%	-4.2%
UK - Small Cap	MSCI Small Cap NR	**GBP**	0.8%	-1.8%	15.4%	-5.4%
United States	S&P 500 NR	**USD**	5.4%	8.4%	25.1%	15.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.1%	6.3%	19.3%	4.3%
Japan	Topix TR	**JPY**	4.2%	5.5%*	12.2%*	1.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	2.6%	4.3%	15.6%	5.8%
Global developed markets	MSCI World NR	**USD**	4.5%	7.8%	22.7%	11.4%
Global emerging markets	MSCI Emerging Markets NR	**USD**	2.7%	3.9%	14.0%	5.1%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	2.2%	5.3%	7.3%	7.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.5%	1.1%	1.4%	1.9%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	1.8%	4.4%	5.5%	7.4%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	3.2%	7.9%	11.5%	11.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	3.8%	7.3%	12.2%	12.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	3.2%	6.6%	7.5%	10.5%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	4.3%	8.0%	14.6%	13.7%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	2.1%	4.3%	8.5%	8.0%
US Treasuries	JP Morgan US Government Bond TR	**USD**	3.9%	10.4%	9.9%	15.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.6%	4.5%	10.5%	10.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.6%	1.6%	10.6%	6.9%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	1.7%	5.1%	7.8%	8.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.4%	2.9%	6.9%	6.0%
Euro High Yield	*BBgBarc European High Yield 3% Constrained TR*	**EUR**	0.8%	1.8%	8.6%	4.8%
Global Government Bonds	JP Morgan Global GBI	**GBP**	3.5%	10.6%	9.5%	13.7%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	-0.3%	3.3%	5.4%	5.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	0.5%	1.9%	11.9%	4.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	4.8%	13.2%	16.6%	18.7%

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 July 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	4.1%	8.7%	20.2%	15.0%
Currencies						
Euro		**GBP**	1.7%	5.9%	1.3%	2.3%
US Dollar		**GBP**	4.4%	7.2%	4.9%	8.0%
Japanese Yen		**GBP**	3.5%	9.8%	5.7%	11.0%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	3.1%	4.0%	11.8%	0.9%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-0.3%	6.5%	-0.7%	-5.4%
Oil	Brent Crude Oil	**GBP**	1.8%	-4.4%	26.4%	-5.7%
Gold	Gold Spot	**GBP**	4.3%	17.6%	15.1%	24.1%
Interest rates						
United Kingdom			0.75%			
United States			2.50%			
Eurozone			0.00%			
Japan			0.10%			

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

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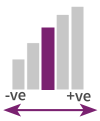
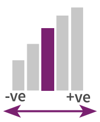
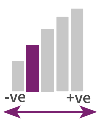
Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities 	» We retain our broadly neutral allocation to global equities today, having reduced our allocation at the end of July. Despite market volatility, valuations continue to look reasonable and thus global equities remain attractive, particularly versus ever more expensive sovereign and some corporate bonds. » 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 ongoing US-China trade war remains a pivotal factor in risk pricing today, as does the nascent concerns on slowing global growth. + The increasingly dovish policy pivot remains favourable for global equities, though we remain cognisant of weakening data across an increasing number of regions – The trade war back drop remains unresolved and remains a key risk for global equities – Earnings have increasingly come under pressure and the absence of EPS growth will be a headwind to further equity upside
UK equities (relative to developed) 	» UK equities continue to look cheap today but caution is warranted given the approaching October 31st Brexit deadline. Boris was confirmed as Prime Minister last month and his current steer points increasingly to a no deal Brexit. While 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, the more domestically oriented names may face bigger challenges. » We should expect to see continued volatility in Sterling and UK assets as the October deadline approaches. + 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 within the political sphere - the protracted Brexit timeline and the increasinging risk to there being a general election before the year is out. The UK high street continues to face major challenges.
European equities (relative to developed) 	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. The ECB's new TLTRO program goes some way to replacing the stimulus lost when the bond purchase program ended, but inflationary pressures have all but evaporated and it is difficult to identify a catalyst for meaningful earnings growth. + Any renewed ECB asset purchases or policy stimulus will likely provide a fillip to risk assets in the region. – Manufacturing, a mainstay of the German economy in particular, remains under pressure from shifting consumer and industrial trends. This poses headwinds for the broader German economy and the health of the region as a whole.
US equities (relative to developed) 	» The US remains the most expensive of the major developed markets, but the narrow market that has led indexes higher also offers selective value for the stockpicker. The US economy remains in reasonably good health and arguably warrants a premium, but the tighter valuation opportunity today means we continue to score US equities less highly than ex US bourses today. » Monetary policy remains crucial to keeping markets in check and volatility under control. It remains to be seen whether rates will be cut as much as markets expect over the rest of this year. + The economy remains in reasonably good health with several leading indicators remaining positive, albeit weakening + Following the Fed's recent policy pivot, broader measures of financial conditions have loosened, which coupled with the current fiscal stance may help support earnings going forward. – US equity valuations remain elevated vs other regions today which may prove to be an obstacle to further index gains from current levels. Additionally, 2019 earnings growth could disappoint at the same time that margins potentially peak out. – Trade war policy remains firmly on the agenda for now and is a destabilising force.
Japan equities (relative to developed) 	» Japanese equities continues to look attractive today. We acknowledge government policy desigend to improve working practices and governance. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa; recent Yen strength and relative underperformance of equities provides some cushion going forward » Japanese assets should remain well buoyed by the Bank of Japan, which is the sole major central bank still buying assets today, for now at least. + Japanese equities' relative underperformance leaves scope for meaningful equity upside in the absence of broader based market volatility + Cash rich Japanese corporates are increasingly returning more cash to shareholders through dividends. – 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 as the relative growth dynamics remain favourable, which coupled with steady inflation and reasonable valuations should support EM equity returns over time. » Some caution is warranted today given the deteriorating macro backdrop and further bouts of volatility are inevitable. + EM currencies remain somewhat cheap and provide 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, as is the case today – The Sino-US trade war backdrop remains unresolved and remains a key risk for emerging markets as a whole.

Past performance is not indicative of future returns.

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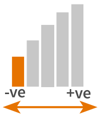
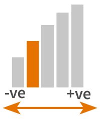
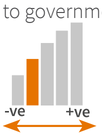
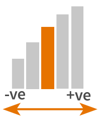
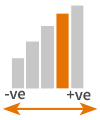
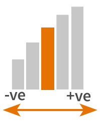
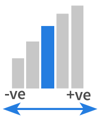
Fixed Income

Government 	» DM government bonds remain largely unattractive today with poor real return prospects in aggregate following the spectacular recent rally. After the recent repricing in most rates markets we remain cautious on bonds and look for more diversification to come from cash and gold. Other sovereign markets, such as Italy, offer some value but are also a source of price volatility. + Quality government bonds remain one of the better diversifiers in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having some exposure, or owning higher quality investment grade in lieu of pure sovereign. – Net central bank bond purchases have, for now, now turned negative and may be a headwind for all rate sensitive debt when the current buying frenzy ends.
Index-linked (relative to government) 	» Index linked bonds offer some selective value but, like their nominal counterparts, they are expensive, particularly so in the UK. With inflation risk so poorly priced today however, we rate them slightly higher than nominals in aggregate. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk. – Inflationary forces remain muted today and on any sustained slowdown in global growth they would almost certainly underperform nominal bonds.
Investment grade Corporate (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight. 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. – In the absence of central bank bond purchases the risks appear more asymmetric today – Credit quality has drifted lower in recent years, and leverage has moved higher
High Yield Corporate 	» Spreads have recently widened but out to a level that is probably about fair in our opinion, but which is likely to remain somewhat elevated and potentially volatile. » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration if credit markets widen more meaningfully from here. + In the absence of a systemic market shock, and with the current dovish tone driving markets, high yield will likely trump most of other fixed income. – The global credit cycle is at best mid cycle, at worst late cycle, so spread volatility is to be expected going forward. Defaults are likely to come in higher with recoveries potentially lower than historical levels
Emerging market debt 	» The asset class remains attractive today, with spreads slightly elevated relative to history in spite of lower yields after recent rate moves The healthy running yield 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. – Dollar strength may continue to weigh on EM assets, with local bonds and FX likely bearing the brunt – Idiosyncratic events will continue to occur, as seen again recently in Argentina, so expect some periodic bouts of volatility
Convertible bonds 	» We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings. » Some caution is warranted given the concentration to the US market and technology names, although the Q4 2018 performance has shown the asset class can be quite resilient in a growth stocks led sell off. + The natural convexity provided by convertibles should continue to provide reasonable protection against any renewed equity weakness. – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest regional market, remains one of the more expensive regions today in aggregate – If volatility reverts again to the recent multi year lows then the optionality holds limited value.

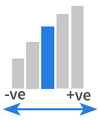
Real Assets /Alternatives

Commodities



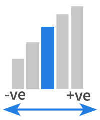
» The prices of some industrial commodities will likely be buffeted by the ongoing trade wars, and tensions in the gulf have impacted oil prices more recently. These geopolitical risks are unlikely to go away any time soon.
» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle.
+ With the US Dollar still near cyclical highs, and global growth still positive, 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.

Property (UK)



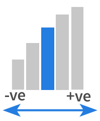
» Property remains an attractive asset class for investors requiring yield.
» Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today.
» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, property holds appeal, with industrial and office space having more attractive fundamentals than the under pressure retail sector.
+ Premium 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 make 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 continue to evolve.

Infrastructure



» Infrastructure stocks trade at reasonable valuations today and performance has been strong at the index level through both the market weakness in latter 2018 and the strong gains year to date
» 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 underlying infrastructure stocks remain exposed to these risks.

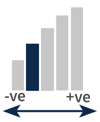
Liquid Alternatives



» 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 an allocation to a basket of liquid strategies today to provide additional diversification as high quality bonds get ever 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.Poor 2018 performance has led this sector to be somewhat out of favour.

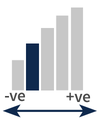
Currencies*

GBP



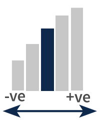
» Political and/or Brexit risk remains the key risk for Sterling today. Boris Johnson has been installed as the new PM and whilst there is likely to be little meaningful progress over the summer, the direction of travel is increasingly towards a no-deal exit. This, and the risks of a general election, will undoubtedly keep Sterling volatile.
» 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 remain a source of volatility and are likely to dominate its nearer term path.

Euro



» The Euro has trended slowly weaker in recent months as data has softened. Any kind of forward tightening is off the cards today and expectations for additional easing have resurfaced as forward inflation expectations have nosedived. This will not lift the currency
» 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 to be deteriorating 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, as evidenced by its recent mini rally. The neutral rating reflects this attribute which its Sterling and Euro peers lack.

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

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