

# VIEWPOINT

## Newsflash

A new month and the 134<sup>th</sup> issue of Viewpoint from **PPI Advisory**.

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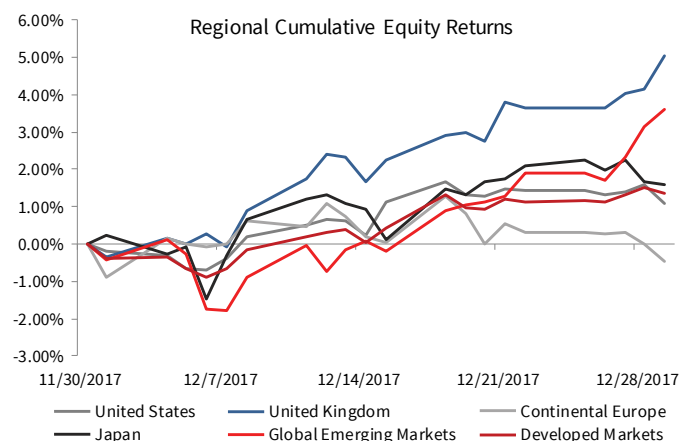
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## Market Commentary

In December, markets continued to climb upwards, capping off a year of strong returns across asset classes. Risk assets benefitted from accelerating global economic growth and strong corporate earnings. Commodities, followed by equities posted the largest returns during the month.

Global equities advanced 1.4% during the month, with emerging markets outperforming developed markets, posting a 3.6% return versus a 1.4% return for developed markets. 2017 was the best year for emerging markets relative to developed markets since 2009, returning 37.3% versus 22.4% for developed markets. US equities rose 1.1%, taking returns in 2017 to 21.1%. 2017 was the first year in history US equity markets posted positive returns for every month during the year. Within developed markets, the UK was one of the strongest performers posting a 5.0% return, while continental Europe underperformed returning 0.2% and declining 0.6% in Euro terms. In emerging markets, emerging Europe outperformed returning 5.3%.

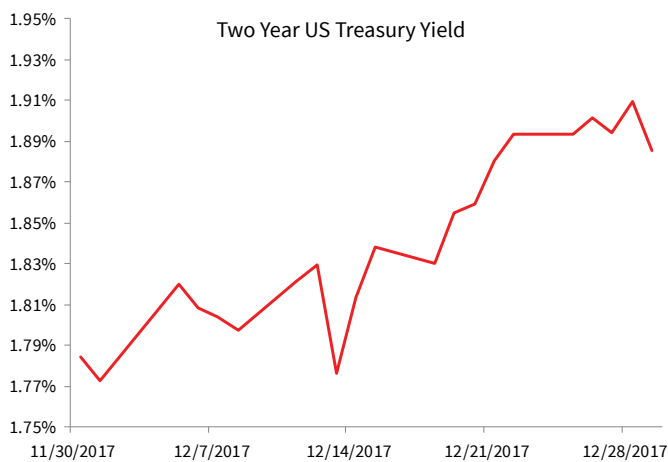
Figure 1: Major equity market local currency returns



Source: Bloomberg, Momentum GIM

In fixed income, global government bonds advanced 0.2%, taking returns to 1.0% for the quarter. Pressure continued on US government bonds, with investors anticipating increased borrowing following the implementation of tax reforms. The Treasury yield curve flattened further with two year Treasury yields rising 10.1 basis points in the month to 1.89%. UK bonds posted strong returns following a breakthrough Brexit withdrawal agreement, with UK investment grade corporate bonds rising 1.4% in US Dollar terms, while Gilts rose 1.6%.

Figure 2: Two-year Treasury yields rise in December



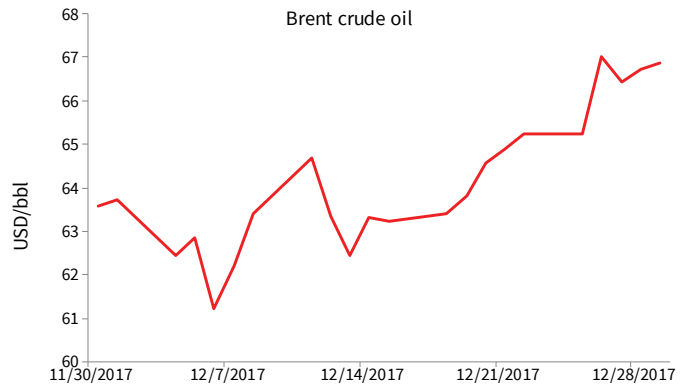
Source: Bloomberg, Momentum GIM

On a trade weighted basis the US Dollar fell 1.0% while Sterling fell 0.8%. The Euro rose 0.8% versus the US Dollar, taking returns for the fourth quarter to 1.6%. The most notable mover was the South African rand which rose 10.7% following a boost in sentiment after South African deputy president Cyril Ramaphosa was elected president of the African National Conference.

Commodities posted strong returns during the month, rising 3.1%. Brent crude oil was a major mover, rising 5.2% to USD 66.9/bbl, taking fourth quarter returns to 16.2%. Brent crude climbed following the closure of the North Sea Forties pipeline after the discovery of a crack.

US equities hit all-time highs during the month, boosted by the passing of Republican tax reforms in the House and the Senate. Economic data remained strong, with the unemployment rate holding at a seventeen year low rate of 4.1% and Q3 GDP growth at 3.2%, a near three-year high. In Europe equities underperformed, advancing 0.2% partly due to the Euro rising 0.7% versus the US Dollar. The economy remains strong in Europe, with the Eurozone composite PMI reaching an 82 month high of 58.1 in December.

Figure 3: Brent crude rallies during the month, pushing towards USD 70/bbl



Source: Bloomberg, Momentum GIM

UK equities outperformed during the month, rising 5.0%. This follows a more positive sentiment after a Brexit withdrawal agreement was reached, enabling negotiations to continue to the next phase. Equities were additionally boosted by the rise in commodity prices and the passing of US tax reforms. Headline consumer price inflation rose to 3.1% in November, up from 3.0%.

The Federal Reserve was the only major central bank to change its monetary policy, increasing the Fed funds target range by 25 basis points to 1.25-1.50%, a move that was widely anticipated.

Political events continued to have a mixed impact on asset class returns; of particular focus were US tax reforms, which eventually passed the House and the Senate at the end of the month, providing a boost to equities. In the UK, Brexit negotiations achieved a major breakthrough after the first phase of negotiations, discussing withdrawal terms, led to an agreement. The second phase of negotiations discusses transitional arrangements for the UK's withdrawal.

While politics and international relations pose challenges to markets, the broad global environment remains highly favourable for risk assets. Although we do not expect a repeat of the strong returns in 2017, we believe that equity markets will make further progress this year. While valuations in many cases are stretched, the underlying fundamentals are strong and the monetary policy tightening ahead is likely to be extremely gradual, and will remain loose by historical standards for the short to medium term. However, there are risks ahead, and from these levels longer term returns are likely to be relatively modest. However, this cycle is particularly long and we do not see evidence of overheating and a premature downturn. Opportunities for returns outweigh the risks and it will be important to stay invested, while the inevitable return of periodic bouts of weakness in equity markets will present buying opportunities.

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 December 2017		
		Currency	1 Month	Year to date
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	1.1%	21.1%
United Kingdom	MSCI UK NR	GBP	5.0%	11.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.5%	11.4%
Japan	Topix TR	JPY	1.6%	22.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	3.1%	37.0%
Global	MSCI World NR	USD	1.4%	22.4%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	5.3%	20.5%
Emerging Asia	MSCI EM Asia NR	USD	2.8%	42.8%
Emerging Latin America	MSCI EM Latin America NR	USD	4.4%	23.7%
BRICs	MSCI BRIC NR	USD	2.9%	41.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	3.6%	37.3%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4%	2.5%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.0%	3.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.9%	6.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	7.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.5%	1.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.4%	4.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.8%	0.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.3%	2.4%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.0%	6.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.2%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.8%	3.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.2%	6.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.3%	7.4%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.8%	9.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.6%	8.3%

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

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 December 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-0.4%	3.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-1.3%	0.7%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	2.2%	27.6%
Global Property Securities	S&P Global Property USD TR	USD	1.8%	16.1%
<b>Currencies</b>				
Euro		USD	0.8%	14.1%
UK Pound Sterling		USD	0.0%	9.4%
Japanese Yen		USD	-0.1%	3.8%
Australian Dollar		USD	3.2%	8.5%
South African Rand		USD	10.7%	10.6%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	3.1%	4.9%
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	-4.2%
Oil	Brent Crude Oil	USD	5.2%	17.7%
Gold	Gold Spot	USD	2.2%	13.1%
Hedge funds	HFRX Global Hedge Fund	USD	0.7%*	6%*
<b>Interest rates</b>				
United States			1.50%	
United Kingdom			0.50%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 December 2017		
		Currency	1 Month	Year to date
<b>Developed markets equities</b>				
UK - All Cap	MSCI UK NR	GBP	5.0%	11.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	5.3%	11.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	3.8%	9.1%
UK - Small Cap	MSCI Small Cap NR	GBP	4.4%	21.0%
United States	S&P500NR	USD	1.0%	10.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.5%	15.9%
Japan	Topix TR	JPY	1.4%	15.6%
Asia Pacific (ex Japan)	MSCIACAsia Pacificex Japan NR	USD	3.0%	25.0%
Global developed markets	MSCI World NR	GBP	1.2%	11.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	3.5%	25.3%
<b>Bonds</b>				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	1.5%	1.9%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.2%	-0.2%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	1.1%	1.8%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	2.5%	3.5%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	2.0%	2.3%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	1.1%	1.4%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	2.6%	2.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.4%	4.3%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.2%	-6.4%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8%	-2.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	-1.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	4.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.7%	6.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.0%	11.2%
Global Government Bonds	JP Morgan Global GBI	GBP	0.0%	-2.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	0.2%	-1.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	-0.9%	0.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.5%	-1.2%

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 December 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
<b>UK Direct Property</b>	UK IPD All Property TR	<b>GBP</b>	0.0%	9.7%*
<b>Global Property Securities</b>	S&P Global Property USD TR	<b>GBP</b>	1.7%	6.0%
<b>Currencies</b>				
<b>Euro</b>		<b>GBP</b>	0.9%	4.0%
<b>US Dollar</b>		<b>GBP</b>	0.1%	-8.6%
<b>Japanese Yen</b>		<b>GBP</b>	0.0%	-5.1%
<b>Commodities &amp; Alternatives</b>				
<b>Commodities</b>	RICI TR	<b>GBP</b>	3.0%	-4.3%
<b>Agricultural Commodities</b>	RICI Agriculture TR	<b>GBP</b>	-0.7%	-12.5%
<b>Oil</b>	Brent Crude Oil	<b>GBP</b>	5.1%	7.4%
<b>Gold</b>	Gold Spot	<b>GBP</b>	2.1%	3.2%
<b>Interest rates</b>				
<b>United Kingdom</b>			0.50%	
<b>United States</b>			1.50%	
<b>Eurozone</b>			0.00%	
<b>Japan</b>			0.10%	

## Asset Allocation Dashboard



Asset class	View
<b>Equities</b>	
Developed equities	
UK equities (relative to developed)	
European equities (relative to developed)	
US equities (relative to developed)	
Japan equities (relative to developed)	
Emerging market equities	
<b>Fixed Income</b>	
Government	
Index-linked (relative to government)	
Investment grade (relative to government)	
High yield	
Emerging market debt	
Convertible bonds	
<b>Alternatives</b>	
Commodities	
Property (UK)	
Infrastructure	
Liquid Alternatives	
<b>Currencies</b>	
GBP	
Euro	
Yen	

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Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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