

# VIEWPOINT

## Newsflash

A new month and the 146<sup>th</sup> issue of Viewpoint from **PPI Advisory**.

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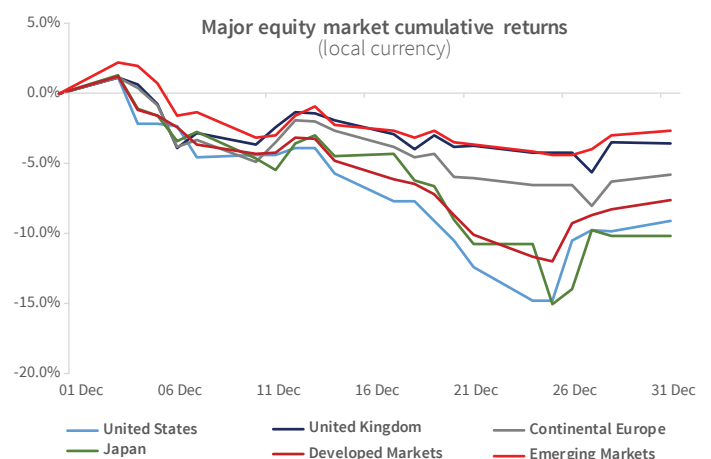
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## Market Commentary

With broadening evidence of a global slowdown and both the Federal Reserve and European Central Bank continuing to tighten policy, investors took fright in December, resulting in steep falls across nearly all equity markets and a rush into safe haven assets. Having held up well during a difficult year for risk assets the key US market suffered a disastrous month, falling 9%, taking its return for the year into negative territory. The MSCI World index declined 8% for the month and 9% for the year, making this the worst year for markets since the financial crisis. Emerging markets also suffered but outperformed developed markets in December, the MSCI Emerging Markets index fell 3% in the month. That leaves emerging markets down 15% for the year but the nadir was reached in October and the big falls in markets in recent months have been concentrated in the US, Japan and Europe. Particularly steep falls came in the FAANGs stocks, which have fallen by around a third from their mid-year peaks.

Figure 1: Global equity markets fell in December



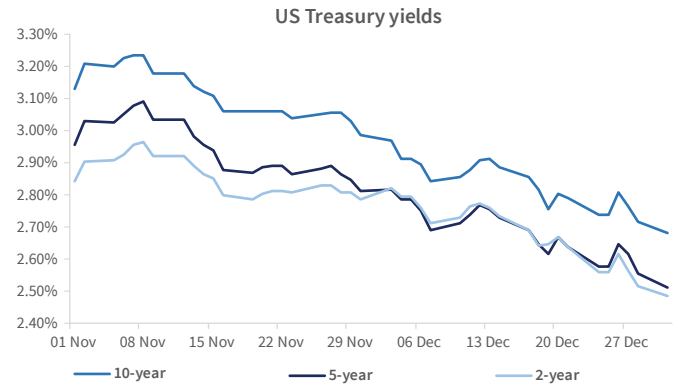
Source: Bloomberg, Momentum GIM.

The big beneficiaries of this intense risk aversion were the classic safe haven assets; government bonds, US Treasuries returned 2.3% in the month, gold, rallied 5%, and the yen, which appreciated 3.5% in December and was one of the very few currencies to gain versus the dollar in 2018. Other than gold, commodities had a tough month, led by oil which was down 8%, taking its fall from the October peak to 40%, and industrial metals fell 5%.

The immediate trigger for the sharp moves was growing evidence of a slowdown in growth, especially in China, the world's second largest economy. The negative impact of trade wars on the manufacturing sector in China is becoming increasingly clear, with data pointing to recessionary conditions, and the effect on confidence is reflected in a much broader slowdown across the economy. Tellingly, away from the official figures, the big international car manufacturers are all revealing sharp falls in sales in China, and Apple shocked the markets with a revenue downgrade for Q4 of \$5bn because of weakness in China. The spill-over spread across Asia and into Europe, where leading indicators fell again in December and point to weak growth as we enter 2019. Investors began to fear something more than a growth pause globally.

At the same time the Federal Reserve continued to tighten policy, increasing rates for a fourth time in 2018, taking the Federal Funds rate to the target range of 2.25%-2.5%. With bond yields falling sharply, down 60bps between early November and late December, the yield curve flattened dramatically; investors watched nervously for an inverted curve, so often in the past the predictor of recession ahead. The Federal Reserve continues to withdraw liquidity at the rate of \$50bn per month and the ECB confirmed that it would stop asset purchases from 1st January 2019. In combination, this represents a material cut in liquidity and together with the rate rises by the Federal Reserve this has been a key headwind for markets in 2018.

Figure 2: US Treasury yields fell sharply in December



Source: Bloomberg, Momentum GIM.

In Europe, December saw the end of the long running dispute between the Italian government and the European Union over Italy's 2019 budget proposals. The European Commission gave an approval to a compromise plan put forward by the Italian populist government which trimmed its nominal budget deficit from 2.4% of GDP to 2.04%. Italian bonds rallied sharply, yields on 10-year bonds falling from 3.6% in late November to 2.7% by year end. December proved to be another dramatic month for UK politics. Prime Minister May secured the EU's agreement for the UK's withdrawal agreement, only to trigger a period of intense political uncertainty, with several ministers resigning in protest of the draft agreement. Prime Minister May struggled to gain support from parliament and decided to defer the meaningful vote on the agreement until the 15th January 2019 for fear of it being rejected. In response, a vote of no confidence was issued in the Prime Minister's leadership of the Conservative Party, which she won by 200 to 117 votes. With the PM's authority weakened and no sign of a compromise on the agreement from either the EU or the UK parliament, and the clock ticking inexorably towards the 29th March exit date, uncertainty in the UK remains high and overhangs UK equities.

It is easy for the positives to be overlooked in tough market conditions. Yet there are few if any signs of capacity shortages, overheating or sharply rising inflation that would trigger sudden and unexpected tightening of policy and presage a recession. Inflation globally remains subdued and the collapse in the oil price in the past quarter will restrain inflation and provide a useful boost for consumers. Monetary policy has tightened but the Fed is close to the peak of its interest rate cycle; rates globally are set to remain extremely low for some considerable time ahead. Liquidity has been tightened but there are no signs of a systemic liquidity crunch. Although growth has slowed it remains positive and leading indicators generally point to further, albeit modest, growth ahead.

Markets have fallen sharply in recent months and we believe they have discounted more of the risks than is warranted: markets have deteriorated much more than the fundamentals. This presents a good opportunity to increase exposure to risk assets as we enter 2019.

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 December 2018		
		Currency	1 Month	3 Month
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	-9.1%	-13.7%
United Kingdom	MSCI UK NR	GBP	-3.6%	-9.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-5.8%	-11.7%
Japan	Topix TR	JPY	-10.2%*	-17.6%*
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	-2.8%	-8.9%
Global	MSCI World NR	USD	-7.6%	-13.4%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	-2.8%	-6.1%
Emerging Asia	MSCI EM Asia NR	USD	-3.2%	-9.3%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.8%	0.4%
BRICs	MSCI BRIC NR	USD	-4.2%	-5.3%
Global emerging markets	MSCI Emerging Markets NR	USD	-2.7%	-7.5%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond TR	USD	2.3%	2.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.6%	-0.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.5%	-0.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-2.1%	-4.5%
UK Gilts	JP Morgan UK Government Bond TR	GBP	2.5%	2.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.9%	0.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.9%	1.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-0.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.4%	-3.7%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.9%	1.6%
Australian Government	JP Morgan Australia GBI TR	AUD	2.0%	2.9%
Global Government Bonds	JP Morgan Global GBI	USD	2.5%	2.0%
Global Bonds	ICE BofAML Global Broad Market	USD	2.0%	1.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-3.1%	-7.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.6%	-0.7%

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

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 December 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-8.4%	-7.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-0.1%	-3.6%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-0.3%	0.7%
Global Property Securities	S&P Global Property USD TR	USD	-4.7%	-5.1%
<b>Currencies</b>				
Euro		USD	1.3%	-1.2%
UK Pound Sterling		USD	0.0%	-2.1%
Japanese Yen		USD	3.5%	3.7%
Australian Dollar		USD	-3.6%	-2.4%
South African Rand		USD	-3.5%	-1.5%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	-5.9%	-13.0%
Agricultural Commodities	RICI Agriculture TR	USD	-2.1%	-0.9%
Oil	Brent Crude Oil	USD	-8.4%	-35.0%
Gold	Gold Spot	USD	4.9%	7.5%
Hedge funds	HFRX Global Hedge Fund	USD	-1.9%	-5.6%
<b>Interest rates</b>				
United States			2.50%	
United Kingdom			0.75%	
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 31 December 2018		
		Currency	1 Month	3 Months
<b>Developed markets equities</b>				
UK - All Cap	MSCI UK NR	GBP	-3.6%	-9.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-3.5%	-8.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-4.2%	-14.0%
UK - Small Cap	MSCI Small Cap NR	GBP	-5.2%	-15.5%
United States	S&P500NR	USD	-9.0%	-11.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.6%	-10.9%
Japan	Topix TR	JPY	-7.2%*	-13.0%*
Asia Pacific (ex Japan)	MSCIACAsia Pacificex Japan NR	USD	-2.7%	-6.8%
Global developed markets	MSCI World NR	USD	-7.5%	-11.4%
Global emerging markets	MSCI Emerging Markets NR	USD	-2.6%	-5.3%
<b>Bonds</b>				
Gilts - All	ICE BofAML UK Gilt TR	GBP	2.4%	2.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	0.6%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.6%	2.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	4.7%	2.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	2.5%	1.9%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.3%	2.7%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	3.6%	1.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.9%	0.0%
US Treasuries	JP Morgan US Government Bond TR	USD	2.3%	5.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.5%	-0.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-2.1%	-2.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.9%	1.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-0.6%
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Global Government Bonds	JP Morgan Global GBI	GBP	2.5%	4.4%
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Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-3.1%	-7.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	1.7%	1.6%

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 December 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
Global Property Securities	S&P Global Property TR	GBP	-4.6%	-2.8%
<b>Currencies</b>				
Euro		GBP	1.3%	0.9%
US Dollar		GBP	-0.1%	2.1%
Japanese Yen		GBP	3.5%	6.0%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	-5.8%	-10.9%
Agricultural Commodities	RICI Agriculture TR	GBP	-2.0%	1.4%
Oil	Brent Crude Oil	GBP	-8.3%	-33.5%
Gold	Gold Spot	GBP	5.0%	10.0%
<b>Interest rates</b>				
United Kingdom			0.75%	
United States			2.50%	
Eurozone			0.00%	
Japan			0.10%	

## Asset Allocation Dashboard

Asset class	View
<b>Equities</b>	
<p><b>Developed equities</b></p> 	<ul style="list-style-type: none"> <li>» We retain a broadly neutral allocation to global equities today. 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 in case fundamentals start to deteriorate</li> <li>» 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.</li> <li>+ The global macro backdrop remains favourable for global equities, though we remain cognisant of slowdowns in some regions</li> <li>+ Equities are better placed than most asset classes to perform in a moderately pro inflationary environment</li> <li>- Valuations in some areas remain expensive at current levels despite sharp falls recently</li> <li>- Continued talk around and implementation of trade tariffs is not constructive for global equities, though a recent agreement to halt new tariffs for 90 days offers some respite.</li> </ul>
<p><b>UK equities</b> (relative to developed)</p> 	<ul style="list-style-type: none"> <li>» UK equities look cheap today but caution is warranted given the 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</li> <li>» January is likely to see heightened event risk ahead of (and through) the 15th January parliamentary vote. 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.</li> <li>+ 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.</li> <li>- Today the chief worries lie with the ongoing Brexit negotiations, and recent political developments mean significant challenges remain.</li> </ul>
<p><b>European equities</b> (relative to developed)</p> 	<ul style="list-style-type: none"> <li>» 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 ending of the ECB's asset purchase program.</li> <li>+ European earnings still have scope to recover more meaningfully from their post crisis lows.</li> <li>- European assets, including equities, may come under pressure should the ECB's bond programme reduction accelerate, or the Euro strengthens if the ECB brings forward their expected date to raise rates</li> <li>- Episodic risk off events, such as the volatility in the Italian bond market or social unrest in France, should be expected.</li> </ul>
<p><b>US equities</b> (relative to developed)</p> 	<ul style="list-style-type: none"> <li>» The US remains the most expensive of the major developed markets, but looks more reasonably valued after December's price action. The US economy remains in good health and arguably warrants its premium valuation which means we continue to score US equities less highly than ex US bourses today</li> <li>» Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well, but recent concerns about slowing growth has led the Fed to reappraise their expectations for 2019 hikes, with rates softening and lending support to risk assets.</li> <li>+ The economy remains in good health with leading indicators remaining firmly positive</li> <li>+ 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 higher.</li> <li>- Despite recent market weakness valuations remain somewhat extended and rising yields may be an obstacle to further index gains from current levels. Additionally 2019 earnings growth may become more challenging as one-off tax cut benefits wear off.</li> </ul>
<p><b>Japan equities</b> (relative to developed)</p> 	<ul style="list-style-type: none"> <li>» Japanese equities look attractive today and we acknowledge the government's policies to improve working practices and governance. Forward estimates of earnings have tailed off recently and equity prices have fallen sharply. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa</li> <li>» Japanese assets should remain well buoyed by BoJ policy which remains aggressive when compared to the other main DM central banks.</li> <li>+ If the currently depressed US rates find a renewed upward trend, Yen weakness will likely boost Japanese equities.</li> <li>- In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities, as witnessed recently.</li> </ul>
<p><b>Emerging market equities</b></p> 	<ul style="list-style-type: none"> <li>» EM equities have proved to be a better place to hide than DM in recent months, supported through December by a weakening Dollar as US rates gapped lower. We remain in favour of EM assets more generally over DM as the longer term relative growth dynamics remain favourable, which coupled with steady inflation 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, and DM equities are now more attractive in their own right.</li> <li>+ EM currencies remain somewhat cheap and provides additional cushion to local EM equity returns through potential earnings enhancement over time</li> <li>+ Emerging markets at the index level trade at a significant valuation discount to developed markets.</li> <li>- Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk.</li> </ul>

Past performance is not indicative of future returns.



Fixed Income	
<p><b>Government</b></p> 	<ul style="list-style-type: none"> <li>» On a medium term outlook DM government bonds remain largely unattractive today with poor real return prospects in aggregate, moreso after recent gains in quality sovereign markets as market expectations for interest rate rises have ebbed in recent weeks. Conversely other markets, such as Italy, are a source of price volatility.</li> <li>+ Quality government bonds remain one of the best diversifiers in a multi asset portfolio.</li> <li>- 2018 is likely to mark the year that net central bank bond purchases turned negative which will be a headwind for all rate sensitive debt, arguably moreso in higher quality European bond markets as the ECB ends its bond purchase program.</li> </ul>
<p><b>Index-linked</b> (relative to government)</p> 	<ul style="list-style-type: none"> <li>» Index linked bonds offer some selective value but, like their nominal counterparts, they are expensive. US breakevens have fallen quite sharply in recent weeks, but remain well above the levels reached in early 2016.</li> <li>+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk</li> <li>- Inflationary forces remain muted today and on any sustained slowdown in global growth they would almost certainly underperform nominal bonds.</li> </ul>
<p><b>Investment grade</b> (relative to government)</p> 	<ul style="list-style-type: none"> <li>» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight despite recent moves wider in spreads. 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.</li> <li>+ A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread.</li> <li>- With central bank buying slowing the risks are asymmetric</li> <li>- Credit quality has drifted lower in recent years, and leverage has moved higher.</li> </ul>
<p><b>High Yield Corporate</b></p> 	<ul style="list-style-type: none"> <li>» Spreads have widened in recent weeks in leveraged credit markets, aligning market prices more closely to fundamentals, and thus looking more attractive</li> <li>» We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration if credit markets continue to widen from here.</li> <li>+ 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.</li> <li>- The global credit cycle is at best mid cycle, at worst late cycle, so spread volatility is to be expected going forward and defaults are likely to come in higher; when that happens though is difficult to say</li> </ul>
<p><b>Emerging market debt</b></p> 	<ul style="list-style-type: none"> <li>» Emerging market bonds have been under some pressure of late, although their higher carry means they have held up relatively well in total return terms over the final quarter. With yields still near 7% the asset class is attractive today. Spreads are slightly elevated relative to history but idiosyncratic stories, such as Turkey, cause ongoing concern</li> <li>» 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.</li> <li>+ We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today.</li> <li>- Renewed Dollar strength will weigh on EM assets, with local bonds and FX likely bearing the brunt</li> </ul>
<p><b>Convertible bonds</b></p> 	<ul style="list-style-type: none"> <li>» Convertible bonds outperformed global equities meaningfully through the late 2018 risk repricing. We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity it brings, but with the asset class having protected well on the downside, we recognise that there is probably a better short term opportunity in equities and/ or credit at current levels</li> <li>» 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, and the asset class has shown itself to be quite resilient of late which gives some comfort.</li> <li>+ The natural convexity provided by convertibles should continue to provide reasonable protection against any protracted equity correction.</li> <li>- 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</li> <li>- If volatility reverts again to the recent multi year lows then the optionality holds limited value.</li> </ul>

Alternatives	
<p><b>Commodities</b></p> 	<ul style="list-style-type: none"> <li>» Prices are likely to be affected by the 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. However, the recently agreed 90 day truce between US and China might ease pressure.</li> <li>» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle.</li> <li>+ With the US Dollar still near cyclical highs, and global growth positive, commodities have scope to generate positive returns</li> <li>+ Gold remains a good hedge against risk off outcomes, as witnessed during recent market weakness</li> <li>+ The commodity index lost 23% in Q4, mostly attributable to oil. Any reversal in sentiment is likely to see prices rebound to some degree</li> <li>- Trade tensions may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular</li> <li>- Geopolitics is an important consideration as evidenced by recent oil price gyrations.</li> </ul>
<p><b>Property (UK)</b></p> 	<ul style="list-style-type: none"> <li>» Property remains an attractive asset class for investors requiring yield.</li> <li>» Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today</li> <li>» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property outside London holds some appeal, with industrial and office space having more attractive fundamentals than the under pressure retail sector.</li> <li>+ Premium yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness</li> <li>+ The longer duration qualities of the asset class makes it a good diversifier within multi asset portfolios</li> <li>- As a long duration asset class property remains susceptible to any repricing in long term bond yields</li> <li>- UK property remains sensitive to eventual Brexit terms, which continue to evolve.</li> </ul>
<p><b>Infrastructure</b></p> 	<ul style="list-style-type: none"> <li>» Infrastructure stocks trade at reasonable valuations today and performance has held up well through recent market weakness.</li> <li>» Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets.</li> <li>+ In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing</li> <li>+ The asset class offers a healthy yield at a reasonable valuation today - both equity and debt flavours.</li> <li>- As a long duration asset class infrastructure remains susceptible to any repricing in long term bond yields.</li> <li>- Regulation can work both for and against the underlying investments, and a spate of recent accidents has hit a handful of stocks hard.</li> </ul>
<p><b>Liquid Alternatives</b></p> 	<ul style="list-style-type: none"> <li>» 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</li> <li>» We favour an allocation to a basket of liquid strategies today to provide additional diversification as high quality bonds on the whole remain expensive.</li> <li>+ These strategies provide additional diversification with reasonable return potential.</li> <li>- 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</li> <li>- The hurdle for performance is higher given the more attractive level of treasury yields today.</li> </ul>
Currencies	
<p><b>GBP</b></p> 	<ul style="list-style-type: none"> <li>» Brexit uncertainty remains high and will remain so for the foreseeable future. We retain a neutral view until we have a clearer expectation on how the political situation evolves. With Sterling looking fairly beaten up there is probably more upside than downside risk today, but it is a somewhat binary bet</li> <li>» 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 are likely to dominate its nearer term path, and remains a source of volatility.</li> </ul>
<p><b>Euro</b></p> 	<ul style="list-style-type: none"> <li>» The Euro remains somewhat rangebound today and lacks conviction either way. Whilst any change in explicit rate policy has now been pushed towards the latter half of 2019, the end of asset purchases by the ECB may increase rates volatility and with it the common currency</li> <li>» 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.</li> </ul>
<p><b>Yen</b></p> 	<ul style="list-style-type: none"> <li>» 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 in recent weeks. The currency's gain, however, has been rapid and large. With the positive Yen scenario having largely played out through December, we pare the view back to neutral again today.</li> </ul>

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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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