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momentum

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Newsflash

A new month and the 160th issue of Viewpoint from **PPI Advisory**.

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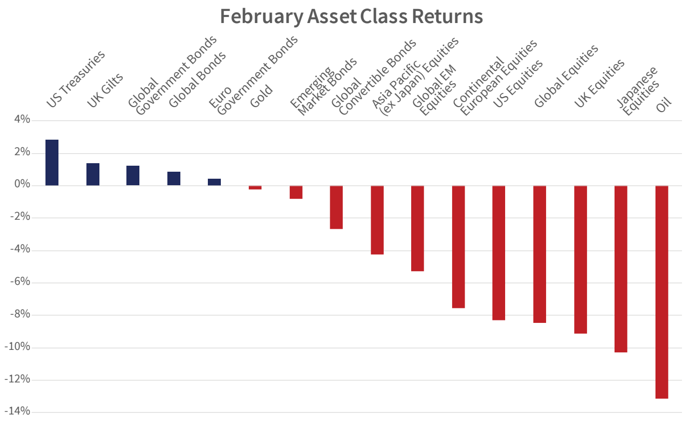
Table of Contents

Market commentary	1 – 3
Market performance	4 – 7
Asset allocation dashboard	8 - 10
Important notes	11

Market Commentary

After a period of remission verging on complacency, markets were dramatically infected by coronavirus in the final week of February, with the sharpest weekly fall in equities since the financial crisis. The trigger was the realisation that the spread of the virus beyond China, and in particular into Europe, was not only inevitable but immediate, with Italy's economic heartland suffering an extremely serious outbreak which is still in its early stages. Taking a line from the damage caused to China's economy, investors began to discount a very sharp contraction in economic activity in Europe, and globally, as the virus continues its inevitable spread, now in 86 countries and rising. The impact on economies is immediate, with factories closed, supply chains interrupted, travel and leisure activities curtailed, services withdrawn and large parts of the worst affected countries, China, Italy, South Korea and Iran (and the expectation of many more to follow), in effective lockdown.

In a classic risk-off environment, characterised by extremely high levels of uncertainty on the unfolding economic impact of the epidemic, major equity markets fell by around 14% between their peaks on February 19th and month end, leaving global developed markets down 8.5% for the month. In contrast, the ultimate safe haven, US Treasuries, returned 2.8% in the month, with yields falling to new all-time lows. The yield on US Treasury 10 year bonds fell by 50bps in February, and below the 1% level in early March; extraordinarily, after a near 40 year bull market, yields have fallen by 100bps in 2020, generating a return of 5.5%. Other safe haven government bond markets also produced good returns, although none matched those from US Treasuries, whose higher yields gave more room for compression. Furthermore, the US dollar attracted haven flows, rising against most currencies in the month; only the yen appreciated, and then marginally, while a number of emerging market currencies fell by 2-4%. Gold, normally a haven in times of stress, performed well until a particularly sharp sell-off on the last day of the month, leaving it marginally lower in February but still up 4.5% year to date.



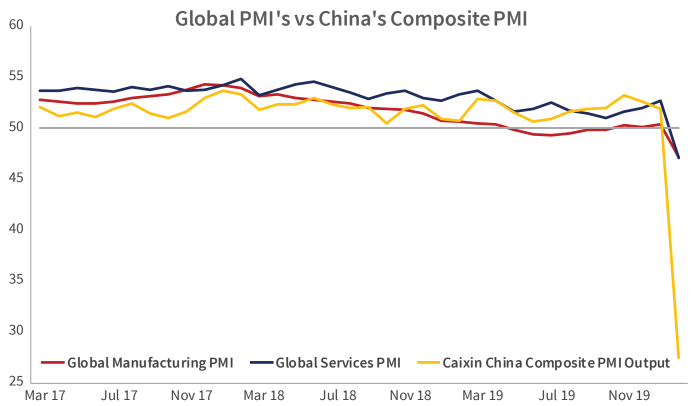
Source: Momentum, Bloomberg, February 2020, all returns are in local currency terms

Coronavirus, a pandemic in all but name, is the worst since the infamous Spanish flu of 1918 which ravaged the world. Much is still being learned about the latest virus but it is clear that transmission rates are very high while mortality rates, especially in younger people, are low, seemingly little higher than normal flu. However, these rates rise sharply with age, and some 20% of reported cases have been classified as serious or critical. This is placing extreme pressure on health care systems of the worst affected regions and consternation verging on alarm elsewhere as the virus spreads; it is plain that Wuhan's health care was utterly swamped by the scale of the epidemic (85% of cases to date have been in China and of these 84% or some 70,000 have been in Hubei province). Assessing the economic damage remains difficult, but it is abundantly clear that it is substantial. Unusually, it is imparting a shock to the global economy from both the supply and demand side, making it particularly difficult to assess its extent and also for the best way for authorities to react.

Furthermore, the epicentre of the virus, China, has over the past two decades become the second largest economy in the World and a major cog in global supply chains. At 17% of World GDP, a slowdown in China has a global impact and we are now in the midst of a slowdown the likes of which China has not experienced since the great reforms of 1979. With large parts of the country in lockdown for an extended period, spending has been severely curtailed; car sales, for example, were down by 80% in February compared with a year ago, and leisure, travel and consumer spending generally have been cut substantially.

On the supply side, China's share of global manufacturing value add has risen from 8% in 2005 to 28% today, larger than any other country or economic bloc. The US relies on China for 30% of its imports of intermediate manufactured goods, with the figure rising to up to 45% for some of China's Asian neighbours. In the case of computers and electronic equipment the dependency rises to over 50%. The 14 provinces which took an extended lunar new year break account for 70% of China's GDP and the longer the factory closures, the bigger the risk of disruption globally.

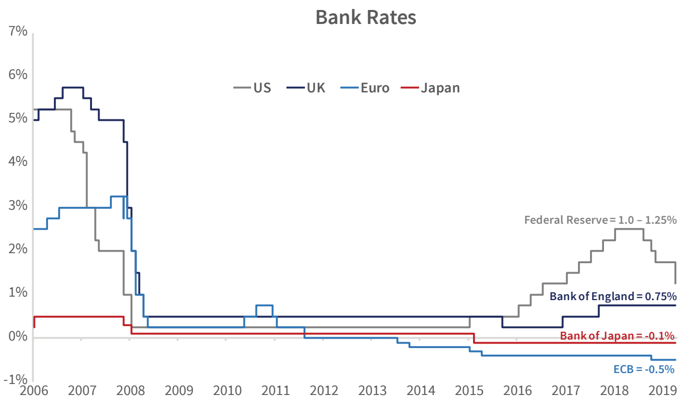
As the virus has spread, so the impact has become more extreme. With demand collapsing in a range of sectors, most obviously travel, airlines, leisure and discretionary spending, supply chains frozen and confidence plummeting, a substantial and rapidly rising number of companies across the world have warned on profits and withdrawn guidance for the rest of the year. Earlier earnings forecasts of double-digit growth in 2020 will now be far off the mark. Indeed, it is possible that the pandemic could be the trigger that finally tips the global economy into recession, after an unbroken run of growth over the past 11 years. While it is too early to forecast the impact with confidence, it is clear that 2020 will now bring the slowest growth rate since the financial crisis; the OECD has just cut its global GDP growth forecast for 2020 by 0.5% to 2.4%, and that is based on an assumption that the virus is largely contained to China. We now know that the spread is global, and several major countries are experiencing widespread contagion and resultant severe economic disruption. The OECD's growth forecast based on wider spread of the virus falls to 1.5%, half the level of 2019, itself a relatively weak year, and recessionary conditions in several large economies. Of the few statistics to date that provide a current picture of activity levels, China's Caixin composite PMI for February came in at 27.5, its lowest ever level, compared with 51.9 in January. A figure below 50 indicates recessionary conditions.



Source: Momentum, Bloomberg, as of 4th March 2020

With perhaps the eye of the storm approaching in Europe and North America, and uncertainty and fear at its highest, it is little surprise that investors have repriced equity risk and turned to safe havens; the return of high levels of volatility reflects the intense uncertainty surrounding the ultimate extent of the damage caused by the virus.

However, some perspective is required. While some economic activity will be permanently lost, much will be regained, especially as supply chains return to full production. There is already evidence that China is restoring its factory production, with around 75% resumption rates across the key eastern seaboard provinces (although still much lower than that in the epicentre, Wuhan and Hubei province). China has provided stimulus via loosened liquidity conditions and targeted fiscal easing, and other administrations around the world have followed, most importantly the Fed, with a surprise 50bps emergency rate cut, the first such cut since the financial crisis. It is notable that as China has seen declining numbers of new cases and evidence of control over its spread outside Hubei, investor confidence has recovered. The Chinese stock market peaked in mid January, fell 12% by early February, then recovered all the ground lost by early March. It is now up by 9% year-to-date.



Source: Momentum, Bloomberg, as of 4th March 2020

A joint supply-demand global shock is a serious challenge to policy makers and raises uncertainty levels substantially for investors. However, this latest coronavirus threat will ultimately be contained. There is considerable uncertainty around the depth of the crisis, especially as it spreads across the economic powerhouses of Europe and North America, but we have an extremely high degree of confidence that it will ultimately be brought under control. It can be viewed as a mini-cycle within the greater global economic cycle. What it has done to date is to bring risk-free interest rates down substantially, and in the case of government bonds to new all-time lows, providing considerable valuation support to equities as we come through the crisis. Further easing of monetary policy is now highly likely and there is clear evidence that governments are willing to turn on fiscal taps to support confidence and growth, especially with targeted support in the most needy sectors. This pandemic will be a short term setback to markets, the duration and extent of which is difficult to predict given the uncertainties surrounding the virus, but the sharp falls in markets provide a very good opportunity to add to risk assets.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 February 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	-8.3%	-5.6%	-8.4%	7.6%
United Kingdom	MSCI UK NR	**GBP**	-9.1%	-9.8%	-12.1%	-3.5%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-7.5%	-6.8%	-8.3%	5.6%
Japan	Topix TR	**JPY**	-10.3%	-10.9%	-12.2%*	-3.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-4.2%	-2.4%	-7.8%	0.1%
Global	MSCI World NR	**USD**	-8.5%	-6.3%	-9.0%	4.6%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	-14.6%	-12.2%	-17.7%	-0.1%
Emerging Asia	MSCI EM Asia NR	**USD**	-2.9%	-0.6%	-7.2%	1.4%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-12.1%	-8.4%	-17.0%	-11.9%
BRICs	MSCI BRIC NR	**USD**	-3.4%	-0.5%	-7.7%	2.0%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-5.3%	-3.0%	-9.7%	-1.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	2.8%	4.8%	5.5%	12.8%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	1.5%	4.1%	3.8%	11.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	1.3%	4.0%	3.7%	15.8%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	-1.4%	0.6%	-1.4%	6.1%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	1.4%	3.8%	5.4%	13.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.3%	2.4%	2.5%	10.3%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.4%	2.0%	2.9%	9.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.4%	0.7%	0.8%	5.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-1.9%	-0.6%	-1.7%	5.0%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.9%	1.1%	1.4%	2.7%
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.2%	2.0%	4.4%	10.9%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.2%	3.2%	3.0%	8.7%
Global Bonds	ICE BofAML Global Broad Market	**USD**	0.8%	2.7%	2.3%	8.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	-2.7%	1.6%	-0.8%	7.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-0.8%	4.0%	1.4%	8.7%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 February 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	-8.0%	-7.7%	-7.0%	2.9%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	-5.3%	-5.3%	0.7%	6.9%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-5.2%	-4.5%	-9.0%	-4.0%
Global Property Securities	S&P Global Property USD TR	**USD**	-7.4%	-6.1%	-7.7%	3.0%
Currencies						
Euro		**USD**	-0.6%	0.1%	-1.7%	-3.0%
UK Pound Sterling		**USD**	-2.9%	-0.8%	-3.3%	-3.3%
Japanese Yen		**USD**	0.2%	1.3%	0.5%	3.0%
Australian Dollar		**USD**	-2.6%	-3.7%	-7.2%	-8.2%
South African Rand		**USD**	-4.0%	-6.4%	-10.6%	-10.0%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	-7.1%	-9.2%	-14.0%	-11.9%
Agricultural Commodities	RICI Agriculture TR	**USD**	-4.4%	-3.5%	-7.3%	-6.4%
Oil	Brent Crude Oil	**USD**	-13.1%	-19.1%	-23.5%	-23.5%
Gold	Gold Spot	**USD**	-0.2%	8.3%	4.5%	20.7%
Hedge funds	HFRX Global Hedge Fund	**USD**	-0.8%*	0.8%*	-0.4%*	5.3%*
Interest rates						
United States			1.75%			
United Kingdom			0.75%			
Eurozone			0.00%			
Japan			-0.10%			
Australia			0.75%			
South Africa			6.25%			

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

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 28 February 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	-9.1%	-9.8%	-12.1%	-3.5%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-9.3%	-10.3%	-12.3%	-4.9%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-8.6%	-8.2%	-11.5%	-1.9%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-8.5%	-6.7%	-11.6%	4.0%
United States	S&P 500 NR	**USD**	-5.2%	-4.4%	-4.8%	11.8%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-5.1%	-5.7%	-6.6%	6.1%
Japan	Topix TR	**JPY**	-7.0%	-8.7%	-9.1%*	3.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.0%	-1.1%	-4.1%	4.1%
Global developed markets	MSCI World NR	**USD**	-5.3%	-5.0%	-5.4%	8.8%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-2.0%	-1.7%	-6.1%	2.0%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	1.3%	3.7%	5.2%	12.6%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.3%	0.5%	0.5%	1.7%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	0.8%	2.1%	3.1%	7.7%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	2.1%	5.9%	8.4%	20.9%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	1.9%	4.3%	6.2%	13.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	0.6%	1.5%	2.7%	6.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	2.6%	5.9%	8.2%	17.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.3%	2.4%	2.5%	10.3%
US Treasuries	JP Morgan US Government Bond TR	**USD**	6.1%	6.2%	9.4%	17.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	1.3%	4.0%	3.7%	15.8%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	-1.4%	0.6%	-1.4%	6.1%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.4%	2.0%	2.9%	9.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.4%	0.7%	0.8%	5.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-1.9%	-0.6%	-1.7%	5.0%
Global Government Bonds	JP Morgan Global GBI	**GBP**	4.7%	4.6%	7.1%	13.0%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	0.8%	2.7%	2.3%	8.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	-2.7%	1.6%	-0.8%	7.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	2.6%	5.4%	5.4%	13.0%

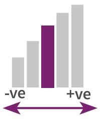
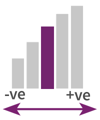
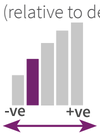
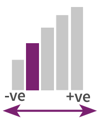
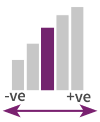
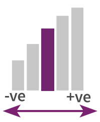
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

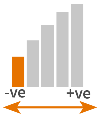
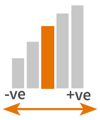
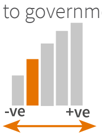
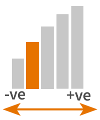
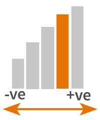
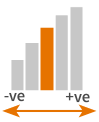
Asset Class/Region	Index	To 28 February 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	-4.2%	-4.9%	-4.1%	7.1%
Currencies						
Euro		**GBP**	2.4%	1.0%	1.7%	0.3%
US Dollar		**GBP**	3.0%	0.9%	3.4%	3.5%
Japanese Yen		**GBP**	3.3%	2.2%	4.0%	6.7%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	-4.0%	-8.0%	-10.6%	-8.5%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-1.1%	-2.2%	-3.7%	-2.7%
Oil	Brent Crude Oil	**GBP**	-10.2%	-18.0%	-20.4%	-20.5%
Gold	Gold Spot	**GBP**	3.2%	9.8%	8.6%	25.5%
Interest rates						
United Kingdom			0.75%			
United States			1.75%			
Eurozone			0.00%			
Japan			-0.10%			

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

Asset Allocation Dashboard

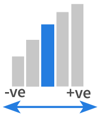
Asset class	View
Equities	
Developed equities 	» We are in an extraordinary market at the time of writing and it is difficult to reflect meaningful views given the backdrop, and in what is a fast changing landscape. » We are mindful of risks to global growth from Coronavirus related risks which are fast becoming entrenched globally. There is a danger of catching a falling knife but after 20%+ market falls there are opportunities for long term investors. It is certainly not now a time to sell, thus we take a more constructive view than perhaps might have been one or two weeks ago » 'Coronarisk' remain central to risk pricing today; trade and central bank policy is largely secondary for now, despite efforts to the contrary. + The sharp repricing has improved valuations across the board + Panic selling is offering up opportunities to buy quality equities, cheaper – Business shutdowns will impact corporate earnings if Coronavirus risk is not contained, notably so in global manufacturing supply chains – Earnings are likely to move sharply lower as the year progresses; where they settle to market pricing is the key question
UK equities (relative to developed) 	» The Brexit path plays a firm second fiddle to Corona risk today. Nonetheless, the UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020 » The budget was largely well received after measures were taken to help small businesses deal with the current situation. + Most UK assets remain heavily discounted, notwithstanding the current issues + The emergency BoE rate cut of 50bps goes some way to helping support the economy. – The Tory government has taken something of a harder line against the European negotiators, potentially meaning more short term pain – The UK high street continues to face major challenges.
European equities (relative to developed) 	» Europe is firmly front and centre of the developed market Corona outbreak, notably so in Italy which is effectively in lockdown. Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone should borders become less porous in light of the coronavirus » The recent US travel ban on European visitors compounds the problems. + Renewed ECB asset purchases or policy stimulus will likely provide support to risk assets in the region. – The ECB has little room to manouvre with rates at current levels; more devolved fiscal action and helicopter money may be needed – Christine Lagarde's misstep at the recent meeting did little to soothe markets.
US equities (relative to developed) 	» The US remains somewhat expensive even after recent moves, but the widespread sell off undoubtedly opens up some opportunities for the active stockpicker. » The US seem somewhat behind the rest of the world in the Corona-cycle, and lags the DM world in testing, which is concerning. + The US remains one of the higher quality markets, and the Dollar something of a haven. This could provide a floor but a clearing level is yet to be set + The Fed is throwing the book at the problem having done a second emergency cut, this time for a full 100bps. – US equity valuations remain elevated vs other regions today, in spite of the recent falls.
Japanese equities (relative to developed) 	» Following recent price moves Japanese equities continue to trade at favourable longer term valuations. Government policy and Bank of Japan (BoJ) efforts to support the market may provide a degree of support over other DM economies. + The BoJ ETF buying is supportive. Asia appears to be slightly ahead of other DM economies in the evolving global Corona-cycle which could out Japan on the front foot when infection rates drop. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities There is a notable absence of catalyst for any rerating – Recent growth stats were knocked by the consumption tax hike. That, and risks in the region from Coronavirus, could weigh on Japanese corporates
Emerging market equities 	» On a longer term view we remain in favour of EM assets more generally over DM but recognise the risks to developing economies from the Corona Virus, and the potential for lower reporting and testing rates in these markets. » It is pleasing to see EM 'holding down' relatively well. Whether that is due to China being further ahead in this cycle, or whether genuinely a safer place to be invested, is difficult to discern right now. + EM currencies have taken a hit of late. For businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020. – Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk, now being a good example of that. Whilst EM has actually performed a little better, it is not usually a place to hide for long.

Past performance is not indicative of future returns.

Fixed Income	
Government 	» DM governments are more expensive that ever and we pare back our view to the lowest level following supernormal moves in bond markets. In more recent days they have at times struggled to provide the level of diversification expected, and liquidity has also been tested. Cash may prove a better diversifier in the short term. + Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having at least some exposure depsite extreme valuations. – Liquidity in the treasury market has been tested several times recently, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower.
Index-linked (relative to government) 	» Inflation linked bonds have cheapened in the recent sell off with medium term inflation looking abnormally cheap. Whilst near term the inflation outlook looks limited, over 5 to 10years we take a more constructive view than the market and view more favourably at these levels. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk Valuations are more attractive today. – Inflationary forces remain muted today, arguably more than at any time in recent years (in the near term at least).
Investment grade Corporate (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but we prefer to maintain a lower credit risk today given the lateness in cycle and recent widening as conditions and liquidity has deteriorated. + A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread. – We are seeing a near term deterioration in broad bond liquidity – The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop
High Yield Corporate 	» It is prudent to pare back risk in lower quality credit at this time, or where it is owned do so with lower spread duration (price sensitivity to spreads) » Versus equities their performance has looked reasonable, if anything a recycling of risk into higher quality equity might prove opportunisitic with indiscriminate selling rife. + Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning. – The global credit cycle is at best mid cycle, at worst late cycle, so spread volatility is unlikely to go back to previous levels – There is still a meaningful amount of energy exposure in US high yield markets and recent oil price declines have hit the sector
Emerging market debt 	» The asset class is not immune from recent price action. However with spreads back to levels not seen since the financial crisis the asset class looks optically attractive and we continue to rate more highly. + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, moreso after recent price action. – Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt
Convertible bonds 	» Convertible bonds have done a good job of limiting capital loss during the recent sell off. For that reason we pare back our view today We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings. + The natural convexity provided by convertibles should continue to provide reasonable protection against any continued equity weakness. – With implied vols having gone through the roof, any return to more normal levels may crimp future returns, and come off a lower delta base.

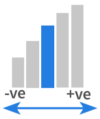
Real Assets /Alternatives

Commodities



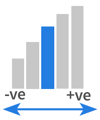
» The prices of some commodities continues be buffeted by newsflow (OPEC oil price war) and more recently the Coronavirus outbreak. These risks seem likely to persist in the near term
» Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle.
+ Gold remains a reasonable hedge against risk off outcomes, and deflationary sentiment, as witnessed more recently, though granted nearer term protection has softened.
– Coronavirus will continue to weigh on the commodities sector for some time to come
Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, were that to occur.

Property



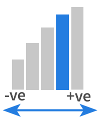
» Property remains an attractive asset class for investors requiring yield and recent price action only improves that
When viewed against high quality, longer duration Sterling assets and inflation linked bonds, property holds appeal, with selective industrial and office space having more attractive fundamentals than under pressure high street retail.
+ Premium yields should attract capital and provide some floor to prices, notwithstanding recent market turbulence
+ The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios; less so in the short term as we have seen.
– As a long duration asset class property remains susceptible to any repricing in long term bond yields
– UK property remains sensitive to eventual Brexit terms, which will continue to evolve through 2020; the retail sector also remains under pressure.

Infrastructure



» Infrastructure stocks have not been spared from recent volatility. Nonetheless, their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment continues to grow.
+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing.
+ The asset class offers a high yield at a reasonable valuation today - both equity and debt flavours.
– As a long duration asset class infrastructure remains susceptible to any repricing in long term bond yields.
– Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks.

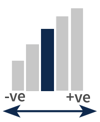
Liquid Alternatives



» We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles.
» We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds having become even more expensive.
+ These strategies provide additional diversification with reasonable return potential.
– The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable.

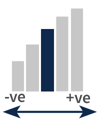
Currencies*

GBP



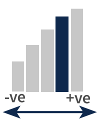
» We maintain our more neutral rating on Sterling today. The currency has cheapened in recent weeks and UK assets again look cheap. The recent 50bps cut in rates and the new Chancellor's stimualtory package is unlikely to lift the currency higher anytime soo, but it remains cheap on long term valuation measures.

Euro



» The Euro has shown itself to be the favoured carry currency in recent years and this recent volatility has led to short covering. Not a time to be short and we take a more neutral view
» In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today.

Yen



» Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today.
What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. If there is a time to own it then it is now as global uncertainty remains high and it provides some portfolio protection.

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

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