

# VIEWPOINT

## Newsflash

A new month and the 143<sup>rd</sup> issue of Viewpoint from **PPI Advisory**.

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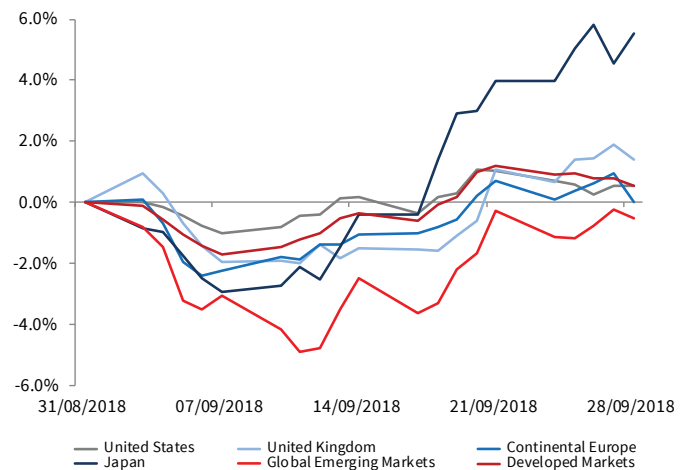
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## Market Commentary

After the sharp falls in emerging market currencies and markets in the previous month, a degree of stability returned in September. With the US equity market up 0.5% and indexes reaching new all-time highs, investors might be forgiven for thinking all was well. The MSCI World Index was up 0.6% with all regions producing gains, with the exception of Asia ex Japan equity market, which fell 1.4%. Emerging market equities were down modestly, falling 0.5%, dragged down by the poor performing Asian market. Emerging market currencies recovered by 1.6% in aggregate following the significant falls in August and emerging market bonds produced strong returns of 2.8%. However the modest headline moves and low volatility in the month hid a number of worrying undercurrents.

Figure 1: Regional cumulative equity returns in local currency



Source: Bloomberg, Momentum GIM

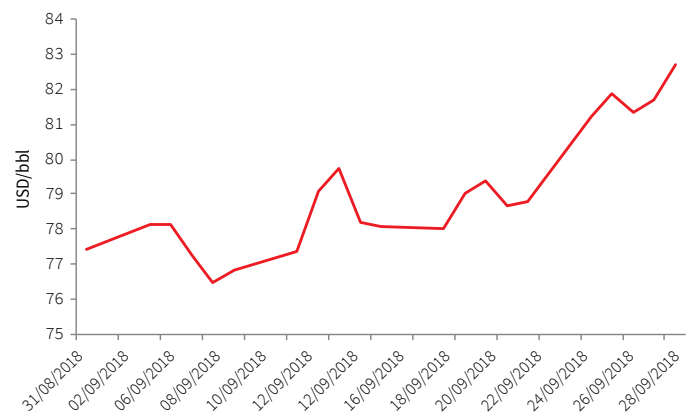
First of all was the evident deterioration in the ongoing trade war between the US and China with the US imposing tariffs on an additional \$200bn of Chinese imports, initially at a rate of 10%, rising to 25% in January. In retaliation, China immediately imposed tariffs on a further \$60bn of US imports and withdrawing from planned meetings with US trade representatives. The US threatened tariffs on the remaining \$267bn of Chinese imports and with China now imposing tariffs on nearly all US imports there are fears that their next move could be to use non-tariff trade measures. There is little doubt that the tariffs are biting in China and the growth rate is slowing. The Peoples Bank of China reacted by easing banks' reserve requirements for the fourth time this year and announcing a boost to infrastructure investment. These trade worries combined with this year's strong dollar and rising interest rates are putting pressure on economies and stock markets across Asia.

Secondly, in the face of ample evidence that the US economy continues to grow strongly and unemployment runs at all-time lows, the Federal Reserve (Fed) raised rates as expected by 0.25% and steered the market to expect a further rate rise in December and at least 3 next year, while nudging up its long term neutral rate to 3%. US Treasuries weakened by 1% in the month and yields spiked materially higher in the early days of October, taking the 10 year bond to 3.2%, the highest yield in over 7 years.

Thirdly, the new Italian government produced its 2019 budget, targeting a fiscal deficit of 2.4% of GDP, thereby exceeding the 2% cap set by the European Commission and presaging a showdown with Brussels. After performing well during the month up to that announcement, Italian bonds and equities, especially bank shares, fell sharply and continued the falls into early October. Investors are worried that with government debt already at 130% of GDP a financial crisis in Italy on an altogether different scale to Greece has moved a step closer. European equity markets have performed relatively poorly this year and are flat YTD, with signs that the strength of the EU economy of last year has tailed off this year. With the ECB only 3 months away from ending its QE programme and the Fed tightening, Eurozone bond markets face real challenges. Across the Eurozone yields remain artificially low and unattractive to investors.

The fourth point to note is the sharp rise in oil prices in September, taking the price above \$80 per barrel, rallying 7% in the month and 24% YTD. This followed the reintroduction of US sanctions on Iran, while not officially planned until November, began to bite as importers of Iranian oil switched supplier. With the global economy in generally a strong position, especially the US, it appears that Saudi Arabia and Russia are seemingly unable or unwilling to fill the full supply gap left by Iran. Even more, the growth in US shale oil production has curtailed by transport constraints. In turn this has put pressure on some emerging market countries which are heavily depended on imported oil.

Figure 2: Brent crude rallied during the month, pushing towards USD 85/bbl



Source: Bloomberg, Momentum GIM

Notably, the Brexit negotiations between the UK and European Union (EU) took a turn for the worse when the EU rejected Prime Minister May's Chequers plan for the UK's withdrawal arrangements and outline of its future relationship with the EU. This brought a no deal outcome significantly closer and undermined UK markets towards the end of the month. A compromise deal which avoids the no deal exit risk is still the most likely outcome but uncertainty in the UK in coming weeks is likely to remain high.

Although the global economy is generally in good shape, with reasonable growth combined with low inflation, this is not a time for investor complacency. Some of the negative

developments in recent weeks could be of a relatively short term nature: there might well be compromise solutions to the problems in the EU with Italy and the UK in the months ahead. However, it is becoming increasingly likely that the trade war between the US and China will persist for some time and could have a rising impact on confidence and growth. Most importantly of all, the Fed will continue to tighten policy by increasing rates, probably to over 3% by the end of 2019, and removing liquidity. Bond yields could well rise further, putting pressure on other asset values. Those countries, companies and households with excessive debt face difficult times ahead, and much greater caution is warranted with respect to credit risks in portfolios. It will be important to watch for signs of any pickup in inflation in the US, notably in wages, as this would be a potential trigger for an unexpectedly sharp tightening of monetary policy.

There are few signs currently of excess or capacity shortages which might trigger an inflationary surge, and perversely the factors which are worrying investors could provide the brake which constrains growth and inflation to sustainable levels for some time ahead. There are good reasons to expect a period of bumpiness in markets but the cycle has further to run. With policy set to tighten further this remains an environment to keep duration short and progressively move away from credit into US Treasuries. Greater resilience is warranted in portfolios, and there are ample reasons for a more cautious approach, but there are still attractive investments across many equity markets and the inevitable setbacks will present opportunities to add to positions selectively.

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 September 2018		
		Currency	1 Month	3 Month
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	0.5%	7.6%
United Kingdom	MSCI UK NR	GBP	1.4%	-0.4%
Continental Europe	MSCI Europe ex UK NR	EUR	0.0%	2.3%
Japan	Topix TR	JPY	5.5%	5.9%
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	-1.4%	-1.4%
Global	MSCI World NR	USD	0.6%	5.0%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	6.7%	2.2%
Emerging Asia	MSCI EM Asia NR	USD	-1.7%	-1.8%
Emerging Latin America	MSCI EM Latin America NR	USD	4.7%	4.8%
BRICs	MSCI BRIC NR	USD	-1.1%	-4.1%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.5%	-1.1%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.0%	-0.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.1%	-0.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.4%	1.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.6%	2.4%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-1.7%	-1.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.9%	-0.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	-1.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.3%	0.0%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.3%	1.7%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.3%	-1.2%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.6%	0.5%
Global Government Bonds	JP Morgan Global GBI	USD	-1.1%	-1.7%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.9%	-1.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-0.2%	1.7%
Emerging Market Bonds	JP Morgan EMBI(Hard currency)	USD	2.8%	1.5%

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

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 September 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-2.8%	0.8%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-1.8%	1.3%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.5%	-3.3%
Global Property Securities	S&P Global Property USD TR	USD	-2.5%	-1.2%
<b>Currencies</b>				
Euro		USD	0.0%	-0.7%
UK Pound Sterling		USD	0.5%	-1.3%
Japanese Yen		USD	-2.3%	-2.6%
Australian Dollar		USD	0.5%	-2.4%
South African Rand		USD	3.9%	-2.9%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	1.6%	-1.3%
Agricultural Commodities	RICI Agriculture TR	USD	-2.6%	-4.5%
Oil	Brent Crude Oil	USD	6.8%	4.1%
Gold	Gold Spot	USD	-0.7%	-4.8%
Hedge funds	HFRX Global Hedge Fund	USD	-0.8%*	-0.5%*
<b>Interest rates</b>				
United States			2.25%	
United Kingdom			0.75%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.50%	

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

Asset Class/Region	Index	To 28 September 2018		
		Currency	1 Month	3 Months
<b>Developed markets equities</b>				
UK - All Cap	MSCI UK NR	GBP	1.4%	-0.4%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.9%	-0.2%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-0.7%	-2.2%
UK - Small Cap	MSCI Small Cap NR	GBP	-2.4%	-2.7%
United States	S&P500NR	USD	-0.1%	8.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.5%	2.9%
Japan	Topix TR	JPY	2.6%	4.5%
Asia Pacific (ex Japan)	MSCIACAsia Pacificex Japan NR	USD	-2.0%	-0.3%
Global developed markets	MSCI World NR	USD	-0.1%	6.2%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.2%	0.1%
<b>Bonds</b>				
Gilts - All	ICE BofAML UK Gilt TR	GBP	-1.6%	-1.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.2%	-0.1%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.0%	-0.9%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15years	GBP	-2.8%	-3.3%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-1.0%	-1.2%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.2%	0.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15years	GBP	-1.5%	-1.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.9%	-0.3%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.7%	0.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.4%	1.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.1%	3.6%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	-1.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.3%	0.0%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.2%	2.3%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.7%	-0.6%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.9%	-1.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-0.2%	1.7%
Emerging Market Bonds	JP Morgan EMBI(Hard currency)	GBP	2.1%	2.7%

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

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

Asset Class/Region	Index	To 28 September 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
Global Property Securities	S&P Global Property TR	GBP	-3.1%	0.0%
<b>Currencies</b>				
Euro		GBP	-0.6%	0.6%
US Dollar		GBP	-0.5%	1.4%
Japanese Yen		GBP	-2.8%	-1.3%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	1.0%	-0.2%
Agricultural Commodities	RICI Agriculture TR	GBP	-3.2%	-3.4%
Oil	Brent Crude Oil	GBP	6.2%	5.3%
Gold	Gold Spot	GBP	-1.4%	-3.7%
<b>Interest rates</b>				
United Kingdom			0.75%	
United States			2.25%	
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 neutral allocation to global equities today. Valuations vary across regions and sectors and whilst in aggregate they are not cheap, they do offer the prospect of reasonable returns, both in absolute terms and relative to other classes. The recent volatility may present an opportunity to add equity risk but at present this seems more of a valuation adjustment which is continuing to play out</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</li> <li>+ Equities are better placed than most asset classes to perform in a moderately pro inflationary environment</li> <li>- Valuations remain selectively expensive at current levels, and recent volatility reflects this</li> <li>- Continued talk around and implementation of trade tariffs is not constructive for global equities</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 UK's evolving Brexit negotiations and continued political jockeying. While the larger cap market constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. November looks increasingly likely to be a key month for agreeing a provisional deal (or not)</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 with no deal yet on the table this will only become more of an issue</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 Europe continues to recover from its post crisis lows and lags other parts of the world, but political risks remain and regional markets remain susceptible to the associated volatility</li> <li>» Investors should be mindful of the ECB ending its QE program, with the latest indications that they will halve monthly purchases to €15bn from October and stop them altogether by the end of the year</li> <li>+ European earnings have scope to recover meaningfully from their lows, and the somewhat weak currency should provide a tailwind to European exporters</li> <li>- European assets, including equities, may come under pressure should the ECB's bond programme reduction accelerate, or the Euro strengthen if the ECB brings forward their expected date to raise rates</li> <li>- Episodic risk off events, such as the current volatility in the Italian bond market, 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, even when adjusted for the strong year to date tech sector performance (notwithstanding the recent reversal). However, the US economy remains in good health and arguably warrants a premium valuation as we go into Q3 earnings season. In spite of this the longer term valuation headwind means we score less highly than ex US bourses</li> <li>» Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well, and increased rates as expected in September, but there remains an outside risk of higher inflation leaving the Fed little alternative to raising rates more quickly than rates markets are pricing</li> <li>+ The economy remains in rude 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</li> <li>- Despite recent market weakness valuations remain somewhat extended and rising yields may continue to be an obstacle to further index gains from current levels</li> </ul>
<p><b>Japan equities</b> (relative to developed)</p> 	<ul style="list-style-type: none"> <li>» Japanese equities remain quite attractive today and we acknowledge the government's policies to improve working practices and governance. Q2 earnings were strong with ~14% earnings growth recorded. The direction of the Yen is an important driver of returns and further Yen weakness would support Japanese equities, as borne out in September</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>+ Yen weakness will likely boost equities further if the Fed moves in line with their stated intentions and the BoJ maintains their yield curve policy, albeit now within a wider 20bps range around zero</li> <li>- In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities, as being borne out in this bout of October volatility</li> </ul>



<p><b>Emerging market equities</b></p> 	<ul style="list-style-type: none"> <li>» EM assets remain under pressure as the buoyant Dollar, high oil price and heated trade war rhetoric weigh on markets. We continue to favour EM assets more generally over DM as the longer term relative growth dynamics look favourable, which coupled with steady inflation and accommodative policy should support EM equity returns over time. This shorter term price action if anything provides a buying opportunity but some caution is warranted as further bouts of volatility are inevitable</li> <li>+ Despite some nearer term appreciation EM currencies remain on the back foot which provides some additional cushion to local EM equity returns through potential earnings enhancement over time</li> <li>- Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk</li> </ul>
<b>Fixed Income</b>	
<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. US treasuries are the exception though and offer improved value today with yields having re-broken the 3% level. 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 turns negative. That may prove to be headwind for all rate sensitive debt, particularly in higher quality European bond markets as the ECB steps back from buying already expensive bonds</li> </ul>
<p><b>Index-linked (relative to government)</b></p> 	<ul style="list-style-type: none"> <li>» Index linked bonds offer some selective value today but, like their nominal counterparts, they are expensive today with US breakevens looking somewhat full</li> <li>+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk</li> <li>- Inflationary forces remain somewhat muted today and on any renewed concerns over global growth they would almost certainly underperform nominal bonds</li> </ul>
<p><b>Investment grade (relative to government)</b></p> 	<ul style="list-style-type: none"> <li>» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations remain somewhat tight today</li> <li>» 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</b></p> 	<ul style="list-style-type: none"> <li>» Spreads remain quite tight in leveraged credit markets, and whilst fundamentals remain robust, all in valuations are somewhat expensive</li> <li>» We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration at better levels</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>- Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive</li> <li>- Risks are asymmetric today</li> </ul>
<p><b>Emerging market debt</b></p> 	<ul style="list-style-type: none"> <li>» Emerging market bonds have been under pressure alongside EM equities and EM FX. However, with yields headed towards 7% the asset class is attractive today. The barrier to upgrading our view is that spreads remain at best fair and idiosyncratic stories, such as Turkey, cause ongoing concern. The recent weakness may yet run further</li> <li>» The healthy running yield though means the asset class remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure at this time</li> <li>+ EM bonds continue to offer some of the best long term real return opportunities in core 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 are about fairly priced to their constituent parts today, albeit somewhat expensive in absolute terms, driven largely by loftier US valuations. We favour an allocation to convertibles in a multi asset portfolio for the convexity it brings, which remains valuable at a time of elevated valuations, as we are today</li> <li>» Some caution is warranted given the concentration to the US market and technology names</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 constituent is well valued today</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>» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle. Prices are likely to be affected by the increasing number of trade tariffs being imposed by the US and their trade partners (Europe and China in particular) in retaliation. This dynamic remains in flux and is likely to cause some volatility, with tariffs more likely than not to increase</li> <li>+ With the US Dollar still near cyclical highs, and growth reasonably strong globally, 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>- 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> </ul>
<p><b>Property (UK)</b></p> 	<ul style="list-style-type: none"> <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 holds some appeal, with industrial and office space remaining more attractive than the under pressure retail sector</li> <li>+ Attractive yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness</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 continues to evolve slowly</li> </ul>
<p><b>Infrastructure</b></p> 	<ul style="list-style-type: none"> <li>» Infrastructure stocks trade at reasonable valuations today - broadly in line with global equities today - whilst performance has lagged</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</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 recent tragic events in Genoa highlights the political risk embedded in infrastructure investing</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 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 and cabinet level political risk remains high and Sterling remains volatile. If a deal is brokered in November Sterling stands to do well. We retain a neutral view until we have a clearer expectation around Brexit terms and timeline</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 is likely to dominate its nearer term path, and remains a source of volatility. The currency's future path remains a binary outcome at present</li> </ul>
<p><b>Euro</b></p> 	<ul style="list-style-type: none"> <li>» The Euro remains somewhat range-bound today and lacks conviction either way. Whilst any change in explicit rate policy has now been pushed towards the latter half of 2019, the reducing quantum of bonds the ECB is purchasing may increase rates volatility</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 and recent weakening accentuates this</li> <li>» What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. Market positioning has recently built up on the short side which when coupled with heightened volatility could see some uplift. As such we favour a modest bias to the Yen today</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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