PPi
Professional Portfolio International

momentum
global investment management

GLOBAL MATTERS
MONTHLY VIEWPOINT

VOL #167 | October 2020

globalmatters

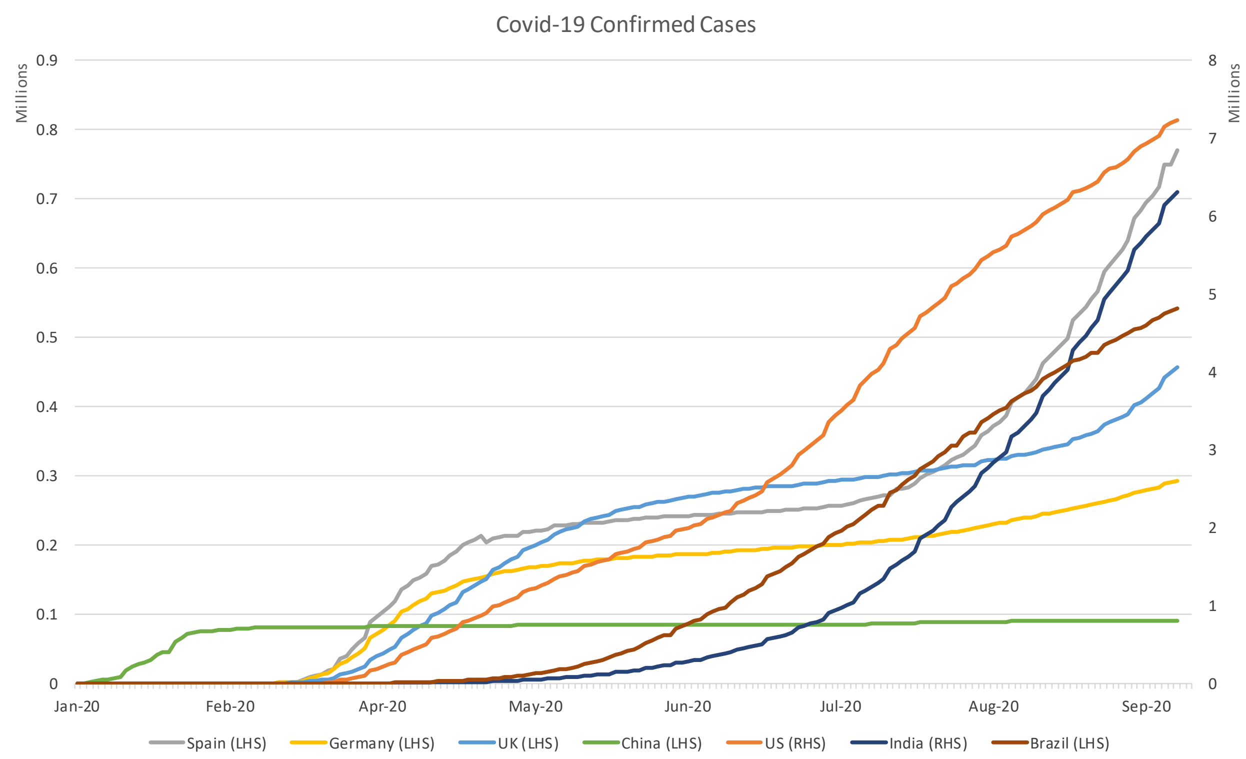
CONTENTS

GLOBAL MATTERS: MONTHLY VIEWPOINT - #VOL 167 - OCTOBER 2020

MARKET REVIEW

During September equity markets suffered their sharpest setback since the trough on 23rd March; previously high-flying US tech stocks led the falls, with the NASDAQ index dropping by 11% in 3 weeks after reaching an all-time high on 2nd September. The dominance of tech stocks in the broader market led to a fall of almost 10% in the S&P 500 in the same period. Both indices subsequently recovered some ground, but the S&P still recorded a sizeable loss, down 3.8% over the month. Weakness on Wall Street was followed elsewhere, but other markets generally held up better than the US, in large part reflecting the lower exposure of tech stocks in non-US markets. The UK market was down 1.5% in the month and Europe ex UK down 0.9%, while Japan managed a rise of 1.3%, all in local currency terms. Emerging markets fell 1.3% led by China, -2.7%. This still leaves the US as the dominant performer this year, up 5.1%, compared with falls in most other markets, most notably the UK down 21%.

Although a sharp rise in coronavirus cases, notably in Europe, especially Spain, France and the UK, triggered renewed restrictions, fears of a second wave and further economic damage, the sudden sell-off in markets was driven more by profit-taking in the big tech stocks, several of which had risen very sharply in previous weeks amidst growing signs of substantial retail buying and momentum-chasing investors. The fear factor, as measured by the VIX index, rose only modestly and briefly, and there was no rush into safe haven assets. Government bonds were little moved, other than in the Eurozone where bond yields fell as worries surfaced about a slowdown in the economic recovery, while gold fell by 4%.



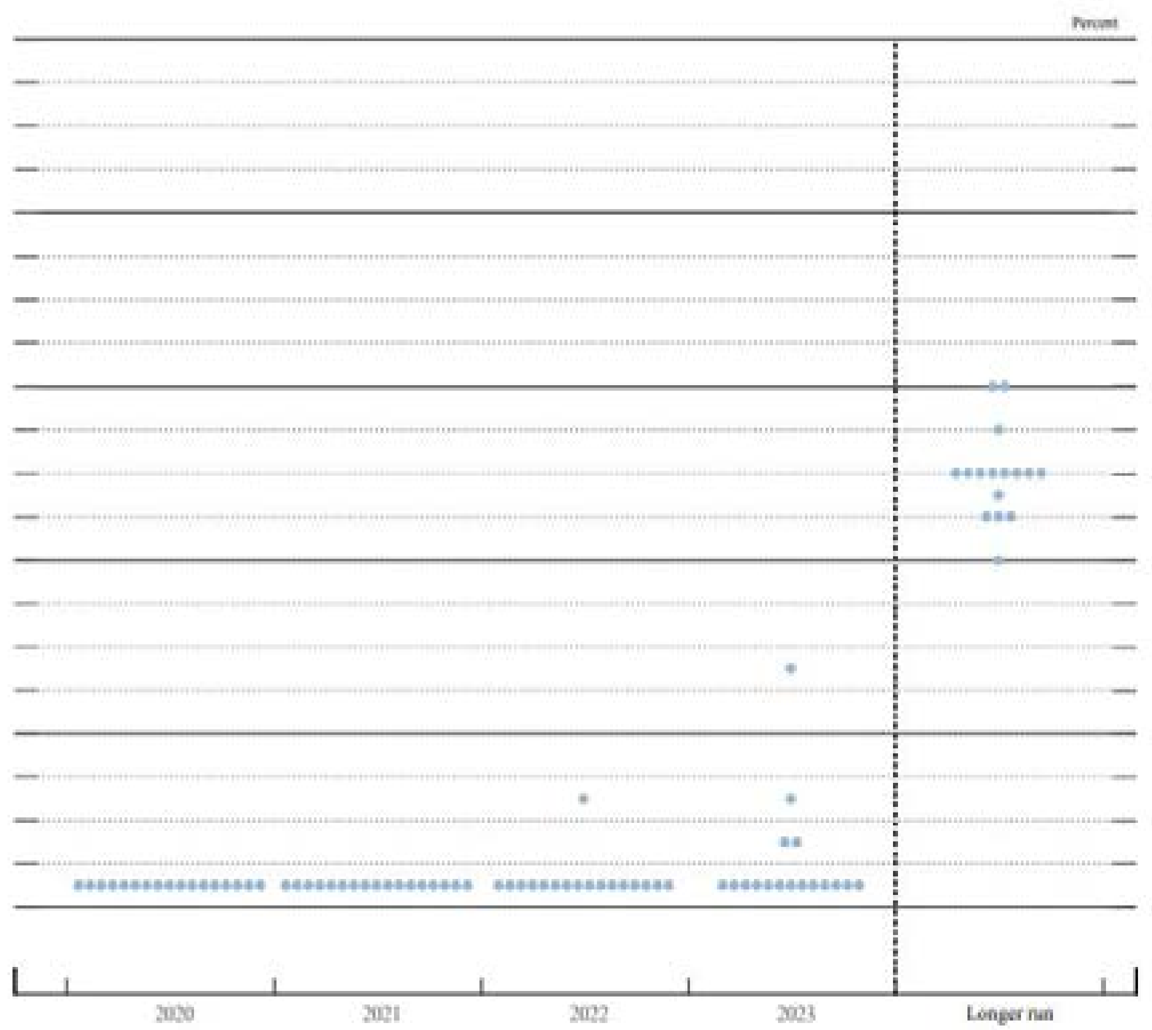
Source: Bloomberg, Momentum Global Investment Management

MARKET REVIEW CONT...

The strength of the economic recovery from the lockdown induced slump continued in China, which has largely returned to pre-pandemic levels, and also in the US, albeit still at levels well below those earlier in the year, but showed some signs of fading in Europe as the reimposed restrictions took their toll. However, fears around the course and impact of the virus and the scale of damage from second waves continued to haunt investors and raise uncertainty levels.

In its latest policy meeting the Federal Reserve cited the 'highly uncertain path ahead' as a reason for continuation of its ultra-loose policy and signalled that rates would remain near zero through 2023, while keeping QE, or asset purchases, at the current rate. It reaffirmed its revised longer term goals and expects to keep policy constructive until it achieves its new target of inflation averaging 2% over time and longer term inflation expectations anchored at 2%. This provides the Fed with ample room to allow the economy to run hot for a period following years of sub 2% inflation, and has provided investors with the near certainty of almost zero rates and substantial liquidity injections for years ahead.

Federal Reserve Dot Plot



Each dot represents a member's prediction for the interest rate (right hand axis) for each time period (bottom axis).

Source: FOMC, Momentum Global Investment Management

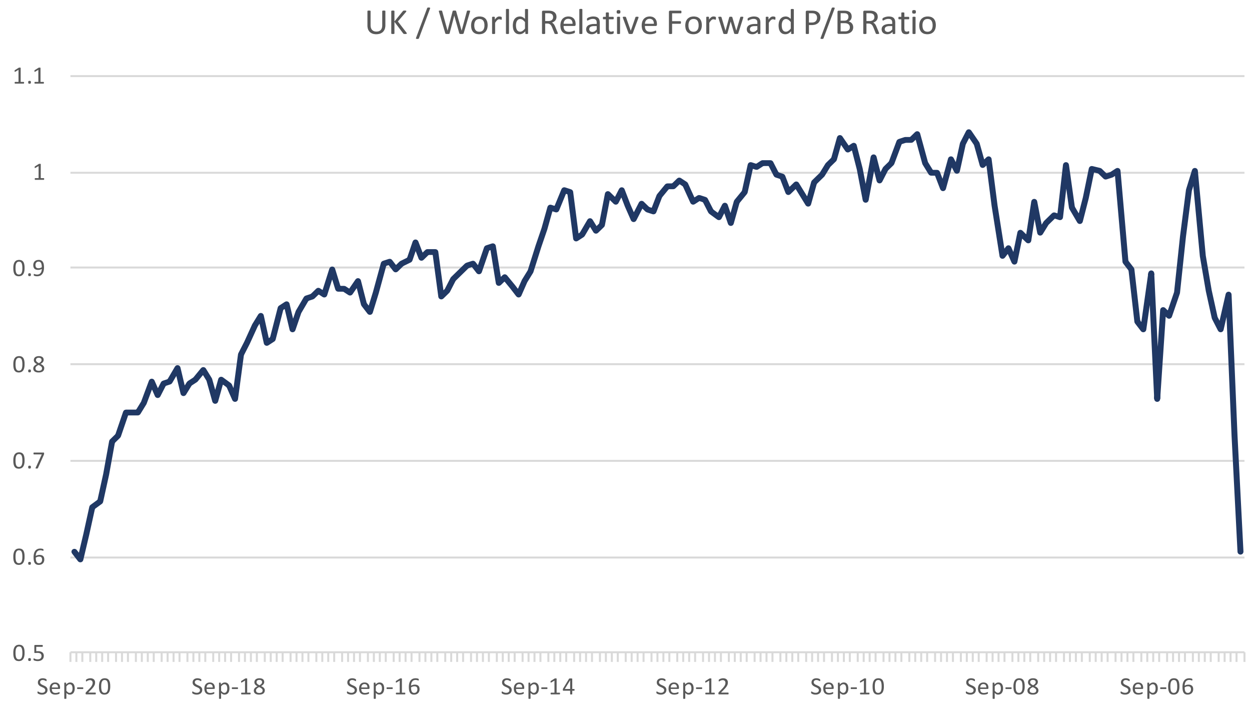
MARKET REVIEW CONT...

Elsewhere, sterling came under pressure as tensions rose between the UK and EU over the Brexit trade talks and the relationship deteriorated as the UK government brought forward legislation in Parliament which would enable the UK to override parts of the Withdrawal Agreement. With only days to go before the UK's self-imposed October 15th deadline to conclude the talks, concerns grew that the two sides would be unable to reach an agreement before the end of the transition period on 31 December. Under those circumstances, sterling would probably take most of the strain and UK assets would remain under a cloud, as they have for the whole of 2020 to date. With the equity market at its lowest valuation relative to global markets for many years, a buying opportunity in the UK is in prospect.

UK / World Relative Forward P/E Ratio

Source: Bloomberg, Momentum Global Investment Management

MARKET REVIEW CONT...



Source: Bloomberg, Momentum Global Investment Management

With the pandemic continuing to cause considerable uncertainty around growth prospects and the US Presidential election now in sight and adding to the sense of unease among investors, markets could well experience higher levels of volatility in the months ahead. However, 2021 promises to be a year of strong recovery, and risk assets will have continuing support from ultra-loose monetary policy as well as additional fiscal stimulus across much of the developed world. Furthermore, markets are still not discounting the roll-out of a vaccine; any good news on this front would be a major boost to confidence and sentiment and might well herald a period of significant outperformance by value stocks over growth. We therefore expect markets to move higher through 2021 and would use setbacks in the months ahead as a buying opportunity.

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MARKET PERFORMANCE - GLOBAL

(LOCAL RETURNS)

Asset Class/Region	Index	To 30 September 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
United States	S&P 500 NR	USD	-3.8%	8.8%	5.1%	14.5%
United Kingdom	MSCI UK NR	GBP	-1.5%	-4.3%	-21.4%	-19.9%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.9%	1.4%	-7.9%	-3.0%
Japan	Topix TR	JPY	1.3%	5.2%	-3.4% [e]	4.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.3%	9.5%	2.8%	13.6%
Global	MSCI World NR	USD	-3.4%	7.9%	1.7%	10.4%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-7.5%	-5.2%	-28.5%	-19.2%
Emerging Asia	MSCI EM Asia NR	USD	-1.1%	11.9%	8.0%	21.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-5.1%	-1.3%	-36.1%	-29.4%
China	MSCI EM China NR	USD	-2.9%	10.4%	2.1%	15.5%
BRICs	MSCI BRIC NR	USD	-2.7%	12.5%	16.4%	33.6%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.6%	9.6%	-1.2%	10.5%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.2%	0.2%	9.4%	8.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-0.4%	3.2%	9.8%	10.6%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.3%	1.5%	6.6%	7.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	4.6%	0.6%	3.2%
UK Gilts	JP Morgan UK Government Bond TR	GBP	1.6%	-1.3%	8.4%	3.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.6%	1.2%	4.6%	3.9%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.4%	1.7%	3.7%	0.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	2.0%	0.8%	0.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.6%	2.6%	-2.8%	-1.0%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.3%	0.2%	-0.9%	-2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	1.3%	0.9%	5.0%	2.8%
Global Government Bonds	JP Morgan Global GBI	USD	-0.1%	2.5%	7.3%	6.7%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.3%	2.5%	6.1%	6.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-2.1%	11.4%	17.1%	24.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-2.0%	1.8%	1.3%	4.8%

MARKET PERFORMANCE (LOCAL RETURNS) CONT...

Asset Class/Region	Index	To 31 August 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
US Property Securities	MSCI US REIT NR	USD	-3.4%	1.3%	-17.9%	-18.8%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-1.6%	6.7%	-17.7%	-19.9%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-2.5%	0.8%	-17.9%	-12.9%
Global Property Securities	S&P Global Property USD TR	USD	-3.0%	2.9%	-17.5%	-14.7%
Currencies						
Euro		USD	-1.8%	4.3%	4.5%	7.5%
UK Pound Sterling		USD	-3.4%	4.2%	-2.5%	5.1%
Japanese Yen		USD	0.4%	2.4%	3.0%	2.5%
Australian Dollar		USD	-2.9%	3.8%	2.1%	6.1%
South African Rand		USD	1.1%	3.6%	-16.3%	-9.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	-3.7%	8.3%	-19.4%	-14.0%
Agricultural Commodities	RICI Agriculture TR	USD	2.3%	12.0%	-0.3%	6.1%
Oil	Brent Crude Oil	USD	-9.6%	-0.5%	-38.0%	-32.6%
Gold	Gold Spot	USD	-4.2%	5.9%	24.3%	28.1%
Hedge funds	HFRX Global Hedge Fund	USD	-0.2%[e]	2.7%[e]	1.6%[e]	4.2%[e]
Interest rates						
United States				0.25%		
United Kingdom				0.10%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.25%		
South Africa				3.50%		

MARKET PERFORMANCE - UK

(GBP RETURNS)

Asset Class/Region	Index	To 31 August 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
UK - All Cap	MSCI UK NR	GBP	-1.6%	-4.6%	-21.5%	-19.8%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-2.1%	-7.3%	-23.5%	-22.6%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-0.1%	4.1%	-16.2%	-11.2%
UK - Small Cap	MSCI Small Cap NR	GBP	-2.0%	1.7%	-20.6%	-11.7%
United States	S&P 500 NR	USD	-0.4%	4.3%	8.0%	9.0%
Continental Europe	MSCI Europe ex UK NR	EUR	0.7%	1.4%	-1.2%	-0.7%
Japan	Topix TR	JPY	5.3%	3.0%	1.3%[e]	2.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.2%	4.9%	5.6%	8.1%
Global developed markets	MSCI World NR	USD	0.0%	3.5%	4.5%	5.1%
Global emerging markets	MSCI Emerging Markets NR	USD	2.0%	5.0%	1.5%	5.2%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	1.5%	-1.3%	8.1%	3.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.0%	0.0%	1.5%	1.0%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.7%	-0.3%	5.2%	2.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	2.8%	-2.5%	12.6%	5.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	1.6%	-2.2%	9.9%	0.2%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.4%	0.5%	5.4%	-0.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	2.3%	-3.5%	12.8%	1.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.6%	1.2%	4.6%	3.9%
US Treasuries	JP Morgan US Government Bond TR	USD	3.7%	-4.3%	12.1%	3.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.3%	1.5%	6.6%	7.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	4.6%	0.6%	3.2%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.4%	1.7%	3.7%	0.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.3%	2.0%	0.8%	0.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.6%	2.6%	-2.8%	-1.0%
Global Government Bonds	JP Morgan Global GBI	GBP	3.5%	-1.7%	10.2%	1.6%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.3%	2.5%	6.1%	6.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-2.1%	11.4%	17.1%	24.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	1.6%	-2.4%	4.1%	-0.3%

MARKET PERFORMANCE (GBP RETURNS) CONT...

Asset Class/Region	Index	To 31 August 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
Global Property Securities	S&P Global Property TR	GBP	0.5%	-1.3%	-15.2%	-18.8%
Currencies						
Euro		GBP	1.6%	0.1%	7.2%	2.3%
US Dollar		GBP	3.4%	-4.1%	2.6%	-4.9%
Japanese Yen		GBP	3.9%	-1.8%	5.7%	-2.5%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-0.2%	3.9%	-17.2%	-18.1%
Agricultural Commodities	RICI Agriculture TR	GBP	6.0%	7.4%	2.4%	1.0%
Oil	Brent Crude Oil	GBP	-6.3%	-4.6%	-36.3%	-35.9%
Gold	Gold Spot	GBP	-0.7%	1.5%	27.7%	21.9%
Interest rates						
United Kingdom				0.10%		
United States				0.25%		
Eurozone				0.00%		
Japan				-0.10%		

GLOBAL MATTERS: MONTHLY VIEWPOINT - #VOL 167 - OCTOBER 2020

ASSET ALLOCATION DASHBOARD

EQUITIES

Developed Equities

- » We remain mindful of resurgent risks to global growth following the fastening pace of the (US) rebound in recent weeks as there is a risk this could roll over with any wave of second round infections resulting from lockdown easing measures, as evidenced by the recent pullback
- » Policy measures remain accommodative and are likely to remain so for many months, or years Where mandates allow we have sought to protect portfolios whilst retaining upside should the rally extend
- + Despite lofty index valuations in some markets and sectors, global equities still offer selective regional and sectoral value
- − Business shutdowns will impact corporate earnings more deeply if Coronavirus risk remains entrenched or resurges, notably so in global manufacturing supply chains
- − Dividends are likely to fall, and share buybacks to largely dry up
- − Earnings are likely to move sharply lower as the year progresses; where they settle to market pricing is the key question

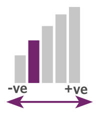
UK Equities

- » UK risks remain balanced between Brexit and Covid - an unhealthy pairing. 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 and offers value today for thhe long term buyer
- + Most UK assets remain at a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels
- + The UK has lagged the recovery and offers some scope for a cyclically led catch up
- − UK Plc is having to deal with an extraordinary fallout from the Covid-19, with the high street already under extreme pressure. The imminent ending of the furlough scheme may add further strain to the economy
- − The banks and energy heavy UK index may continue to struggle against this backdrop

European Equities

- » Europe was hard hit by the first lockdown and is now seeing pockets of secondary lockdowns as cases re-emerge, but on a much lower scale than March
- » Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone
- » The E750bn European Recovery Fund augurs well for a more unified cross European political response to the crisis
- + Renewed ECB asset purchases and policy stimulus will 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

US Equities



- » The extraordinary US rebound from the lows has continued at pace, depsite a recent pullback, but is led by a narrow cohort of stocks. We remain cautious at index level today given that little in the way of second wave infection is priced in, and we have the uncertainty of an election around the corner. Active stockpickers have opportunities from the two speed market, dominated by the still advancing tech stocks
- + The US remains one of the higher quality markets, and the Dollar something of a haven, despite recent softening. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places
- + The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities
- − US equity valuations remain elevated vs other regions today, and are priced almost to perfection of a virus free world. The US now has the highest rate of reported infections and some states are re-entering lockdowns following the recent surge in infections. President Trump's diagnosis is likely to affect electioneering right up to election day
- − Trade and geopolitical risks are coming very much to the fore again, notably with China, ahead of November's election

Japanese Equities

- » Japanese equities were one of the few regions to produce positive returns in September. At a high level, and considering demographics and locality, Japan has probably had a better outcome from the virus to date than many might have expected
- + BoJ ETF buying is supportive for local assets including equities
- − In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities
- − There is a notable absence of catalyst for any rerating

Emerging Market Equities

- » On a longer term view we remain in favour of EM assets more generally over DM but recognise the risks to developing economies from the Coronavirus, and the potential for lower reporting and testing rates in these markets
- + For businesses that earn foreign income the weakness in emerging currencies translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020
- + Valuations remain attractive today
- − Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow, which seems to be escalating in some countries, would likely crimp returns

FIXED INCOME

Government

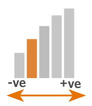
» DM government bond prices remain near record highs/low yields following the supernormal moves in bond markets through the Coronavirus-striken first half of the year. On the most painful days for risk assets they struggled to provide the level of diversification expected, and liquidity has also been tested, but the policy response has largely alleviated this problem, for now. 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 over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided

− Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply, more so now that the Fed has explicitly acknowledged a move to target average inflation over time

Index-linked
Relative to government



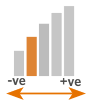
» Inflation linked bonds cheapened in the Covid induced sell off but have rebounded meaningfully in the interim, but still offer value. Whilst near term inflation risk looks limited, over 5 to 10years we take a more constructive view than the market and view breakevens more favourably at these levels, preferring over pure rate risk in select markets

+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more meaningful concern down the line

+ The Fed's inflation stance has changed, and is likely to mean periods of higher inflation will be tolerated

− 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 bond spreads present a more modest upside opportunity today after the recent tightening, but are likely to remain supported. With yields now near new lows though, longer term real returns are threatened

+ Central bank buying of IG bonds provides a tailwind for the asset class; there may still be some upside on the table

− Liquidity remains challenged

− IG is starting to look a little rich again, and we have taken further profit on recent trades

− The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop

High Yield Corporate

» Like their investment grade corporate cousins, high yield spreads have tightened meaningfully, but still offer some value and a reasonable yield. We are mindful of the more equity like characteristics of the asset class, as seen in September, and sensitivity of the (US) index to energy

+ Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning, as evidenced by the Fed stepping in to buy HY ETFs - largely to support 'fallen angels'

− Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG

− There is still a meaningful amount of energy exposure in US high yield markets which remains sensitive to any renewed pressure on oil prices

Emerging Market Debt

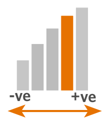
» The asset class continues to look optically attractive, yields well, and we continue to rate favourably, despite having played catch up a little more recently . Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, so some caution is warranted

+ Despite recent strength we believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, and index implied default rates look excessive

− Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt

− EM governments will come under more pressure if Corona related expenditure and support continues to rise

Convertible Bonds



» Convertible bonds did a good job of limiting capital loss in Q1 and have tracked equities up almost one for one as risk prices recovered in Q2. The perfect outcome, aided by the growthier style embedded in the underlying equities. Optionality continues to look somewhat cheap

» We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, and the relative valuation. We have been adding in recent months

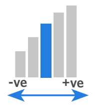
+ The natural convexity provided by convertibles should continue to provide reasonable protection against any further equity weakness, which is quite possible

+ The embedded options look cheap given the risks out there

− 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 ASSET / ALTERNATIVES

Commodities



» The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April and has since rebounded. These risks seem likely to persist in the near term as industrial activity settles

» 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

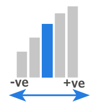
+ Gold remains a reasonable hedge against risk off outcomes, and both deflationary and inflationary sentiment, as witnessed more recently through the downward pressure on real yields as inflation expectations have ticked higher

+ Any cyclical upside and a post Covid ramp up in industrial production should help industrial commodity prices move higher

− Coronavirus is likely to continue to weigh on the industrials commodities sector in the near term, and supply chains remain challenged

− Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, albeit unlikely in the near future

Property



» Property remains an attractive asset class for investors requiring yield and the Q2 price action only improves that. Especially now with rental collections improving and dividends being reinstated

» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property still holds appeal, with selective industrial, data centres and residential having more attractive fundamentals than under pressure retail and office sectors

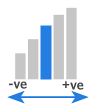
+ Premium yields and quality assets should attract capital and provide some floor to prices, notwithstanding recent market turbulence

+ 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 October and the end of the year; the retail & office sectors remain under pressure as a result of COVID-19

− Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income

Infrastructure



» Infrastructure stocks were not spared the Covid fallout, but have lagged on the rebound and thus remain look reasonably attractive today. 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 remains strong in the medium to longer term

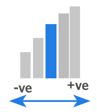
+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing

+ The asset class offers a decent yield at a reasonable valuation today - both equity and debt flavours

− As a long duration asset class infrastructure remains susceptible to any repricing higher 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



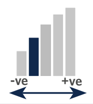
» We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles. We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds having become even more expensive

+ These strategies provide additional diversification with reasonable return potential, at a time when other traditional diversifiers, such as treasuries, look expensive

− The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

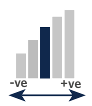
£/€/¥ CURRENCIES*

GBP



» 'Cable' has become more challenged as Brexit takes main stage, and much will depend on any eventual deal being signed. The downward bias to base rates is unlikely to lift the currency higher anytime soon, but it remains cheap on long term valuation measures

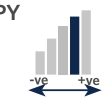
EUR



» The Euro has shown itself to be the favoured carry currency in recent years and 'Covid covering' helped support it this year. Not a time to be short and we maintain the more neutral view going forward given low confidence about the risk recovery being sustained

» 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

JPY



» 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. With bond diversification/upside more limited today, the Yen looks increasingly attractive to own in this role

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