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Newsflash

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Market Commentary

In November the global economic backdrop continued to be supportive for markets, with a majority of asset classes posting positive, moderate returns. Developed market equities mostly performed strong, but were led by the US, while emerging markets underperformed for the second time in three months. In fixed income, November was a slightly risk-off month, with high-yield bond indices posting small losses due to credit spreads increasing.

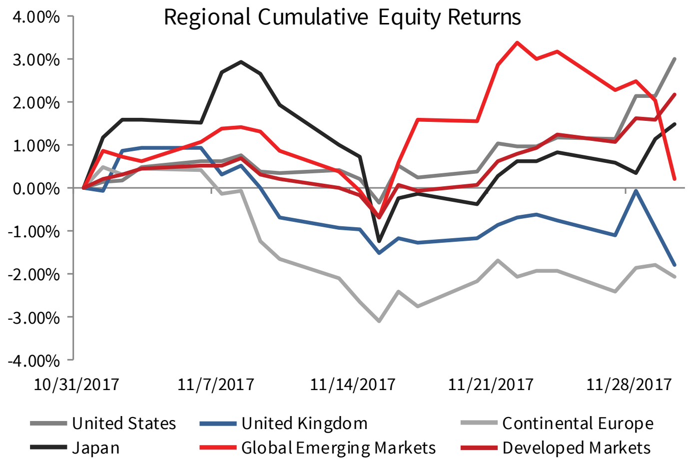

Figure 1: Regional cumulative equity returns in November Local currency

During the month global developed market equities returned 2.2%, a distinct outperformance of the 0.2% return posted by emerging markets. In the last three months, developed markets have returned 6.4% versus a 3.3% return for emerging markets. Within developed markets, the US was one of the strongest performers in local currency terms, advancing 3.0%, while Japan posted moderate returns of 1.5%. In emerging markets a notable underperformer was emerging Latin America which declined 3.0% in US Dollar terms.

Within fixed income, global government bonds advanced 1.3% amidst a slightly more risk-off investor sentiment, while UK Gilts rose 0.3%. Most notable in government bonds was the dramatic rise in US Treasury yields, with 2 year Treasury yields rising 18.2 basis points, resulting in a flattening of the yield curve. This follows increasing expectations for interest rate hikes and improving tax reform progress. High-yield bonds were under pressure during the month with credit spreads widening; in particular US high-yield sold off heavily mid-month, with spreads widening from 3.38% at the start of the month to 3.79% by November 15th, before recovering to 3.44% month-end. US high-yield and Euro high-yield ended the month down 0.3% and 0.4% respectively.

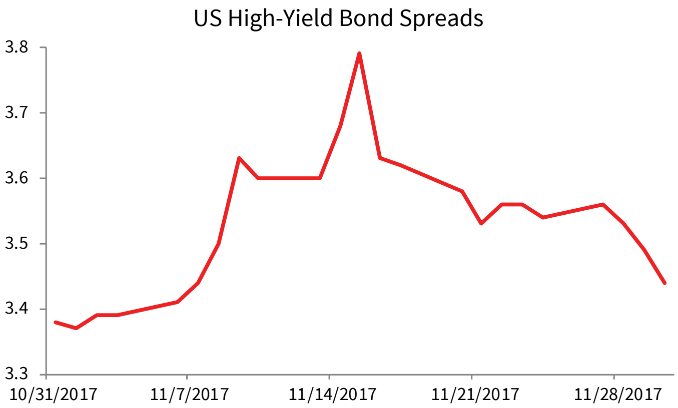

Figure 2: US-High Yield sells off mid-month
Source: Bloomberg

In contrast to a strong October for the US Dollar, in November the US Dollar fell 1.6% on a trade-weighted basis, falling against most major currencies. The Euro and Pound Sterling rose 2.2% and 1.8% respectively versus the US Dollar. Within commodities Brent Crude oil continued to rally, rising 3.6% to USD 63.6 per barrel, taking three month returns to 21.4%. This follows an agreement by OPEC and other oil producing countries to extend production cuts to the end of 2018. Gold remained steady rising 0.3% to USD 1,275.01 per troy ounce.

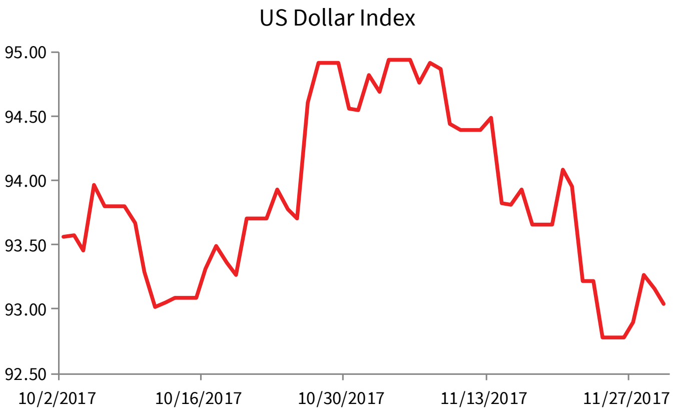

Figure 3: US Dollar erases October gains
Source: Bloomberg

Continuing economic and political uncertainties in the UK weighed on equities and can explain much of the 1.8% decline. Economic data was mixed with the all-sector Purchasing Managers' Index at the highest level in six months, yet in contrast retail sales growth weakened. In light of political uncertainties, Brexit complications and a poor outlook for labour productivity, the Office for Budget responsibility revised down GDP growth forecasts. Growth in 2017 is now forecasted at 1.5%, down from a 2.0% forecast made in March. Growth is expected to continue to slow, with 1.4% and 1.3% forecasted for 2018 and 2019 respectively. UK inflation held steady at a five year high of 3.0%, keeping pressure on real wage growth which is forecast to remain negative in October.

In Europe the economic backdrop was far more positive than in the UK. Economic growth has been strong in 2017 and the unemployment rate has fallen to near nine year lows. In addition, despite the accelerating activity, inflation remained subdued at 1.5% year-on-year in November. The Markit flash composite Purchasing Managers' Index also hit a six and a half year high of 57.5, up from 56.0 in October. Despite the strong economic backdrop, Continental European equities fell 2.0% in Euro terms, some of which can be attributed to a strong Euro, which on a trade weighted basis rose 3.9%, and perhaps investors profit taking following strong year-to-date returns of 15.3%.

In the US, equity markets reached all time-highs, rising 3.0% in US Dollar terms amidst investor optimism for economic growth and corporate earnings. Republican tax reforms continued to make progress after the House of Representatives voted to pass the new bill. This prompted a sell-off of technology stocks late in the month, with investors moving into firms more likely to benefit from the tax cuts, such as financials. Republican tax reforms now face one last hurdle of passing a vote in the Senate, although recently Senator John McCain stated his backing for the Senate tax bill, giving a boost to equities. However, concerns still surround the apparently optimistic revenue forecasts. Similar to Europe, the economic backdrop remained strong with Q3 GDP growth being revised upwards to 3.3% from the 3.0% previously estimated. Inflation slowed to 2.0% year-on-year in October, although core inflation slightly beat expectations rising to 1.8%, a six-month high.

In Asia, equities were mixed with the Asia Pacific (ex-Japan) region and Japan underperforming developed market equites posting 0.6% and 1.5% returns respectively. Japanese equities benefitted from a supportive global economic backdrop and strong quarterly corporate earnings results, pushing the market to almost 26 year highs. In terms of economic data, the backdrop appears to be steady in Japan with most data either in-line or below estimate. The first estimate of Q3 GDP growth was at 1.4% annualised; a seventh consecutive quarter of growth. Despite this, inflation hit a seven month low of 0.2% year-on-year in October, failing to maintain the recent upswing seen in the past two months.

In November central bank monetary policy remained highly accommodative, continuing to support risk assets. The European Central Bank, Federal Reserve and Bank of Japan all maintained their monetary policy stance; although in the US a December rate hike is highly likely, particularly given the positive economic rhetoric from Fed officials and outgoing chair Janet Yellen. In the UK, The Bank of England increased the base rate by 25 basis points to 0.5%, the first increase in ten years. While this is a significant event, and likely the beginning of very gradual monetary policy tightening in the UK, the base rate remains at extreme historical lows and the rise merely reverses the post referendum rate cut. Given the uncertainty of domestic politics and Brexit clouding the UK economy, the Bank of England is likely to be extremely cautious in its approach to monetary policy changes. A further complication surrounds CPI inflation, which in October rose to a five-year high of 3.0%. Inflation now outstrips wage growth and in September year-on-year real wage growth stood at -0.8%, presenting the Monetary Policy Committee with conflicting pressures.

Politics remained a key focus point for investors, in particular surrounding Brexit negotiations and US tax reforms, both of which appear to be making positive progress. Global tensions heightened in response to a North Korean intercontinental ballistic missile test at the end of November, which North Korea now claims is capable of striking anywhere on the US mainland. Japanese Prime Minister Shinzo Abe condemned the launch and called an emergency meeting of the UN Security Council immediately after, with Abe and Trump agreeing to strengthen their defence capabilities.

While geopolitics presents challenges to markets, the broad global environment remains highly favourable for risk assets with economic fundamentals recently outweighing the political risks. The current synchronised global economic expansion appears sustainable with few signs of excessive credit growth and inflation. However, shorter term risks do lie ahead. Most significant is the transition to monetary policy normalisation by major central banks. The moves have currently been very well flagged, although conflicting pressures lie ahead for the Bank of England, and there are market risks in the disparity between the market-implied Federal Reserve policy rate path and the path indicated by the Federal Reserve dot plot. In addition, over the last twelve months share price growth has outstripped earnings growth, leaving valuations of most equity markets at high levels. As the global economy strengthens, there is a risk of underestimating the rise in inflation as excess capacity is utilised. This combination of factors leaves markets vulnerable to a correction.

While recognising these shorter term risks, we believe the ultimate driver of markets will be the global economic recovery, which appears to be broadening on a sustainable and consistent basis. While monetary policy missteps post risks, the tightening of policy is likely to be extremely gradual, and will remain loose by historical standards for the short to medium term. We therefore expect this cycle to be sustained for some considerable time ahead. Opportunities for returns outweigh the risks and we expect equities to continue to outperform bonds as the cycle progresses, so periodic bouts of weakness in markets will present buying opportunities for risk assets.

Source: Bloomberg. Returns in US dollars unless otherwise stated. November 2017. | ***Past performance is not indicative of future returns.***

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 30 November 2017		
		Currency	1 Month	Year to date
Developed markets equities				
United States	S&P 500 NR	**USD**	3.0%	19.8%
United Kingdom	MSCI UK NR	**GBP**	-1.8%	6.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-2.0%	11.9%
Japan	Topix TR	**JPY**	1.5%	20.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	0.6%	32.9%
Global	MSCI World NR	**USD**	2.2%	20.8%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	0.1%	14.5%
Emerging Asia	MSCI EM Asia NR	**USD**	0.1%	39.0%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-3.0%	18.5%
BRICs	MSCI BRIC NR	**USD**	0.6%	37.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	0.2%	32.5%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1%	2.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.2%	2.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.1%	5.5%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.3%	7.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.3%	0.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.0%	2.9%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.3%	1.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.2%	2.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-0.4%	6.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.3%	0.1%
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.1%	4.5%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.3%	6.7%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.1%	7.1%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	0.5%	10.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-0.8%	7.6%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 30 November 2017		
		Currency	1 Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	**USD**	2.5%	4.2%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	5.3%	2.0%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	1.0%	24.8%
Global Property Securities	S&P Global Property USD TR	**USD**	2.2%	14.0%
Currencies				
Euro		**USD**	2.2%	13.2%
UK Pound Sterling		**USD**	1.8%	9.6%
Japanese Yen		**USD**	1.0%	4.0%
Australian Dollar		**USD**	-1.2%	5.0%
South African Rand		**USD**	3.0%	0.2%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	1.0%	1.7%
Agricultural Commodities	RICI Agriculture TR	**USD**	-0.1%	-3.6%
Oil	Brent Crude Oil	**USD**	3.6%	11.9%
Gold	Gold Spot	**USD**	0.3%	10.6%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.1%	5.2%
Interest rates				
United States			1.25%	
United Kingdom			0.50%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

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

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 30 November 2017		
		Currency	1 Month	Year to date
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	-1.8%	6.4%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-1.6%	5.8%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-2.6%	5.1%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-1.5%	15.9%
United States	S&P 500 NR	**USD**	1.2%	9.5%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.7%	15.3%
Japan	Topix TR	**JPY**	0.7%	14.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.1%	21.4%
Global developed markets	MSCI World NR	**GBP**	0.4%	10.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	**GBP**	-1.5%	21.1%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	**GBP**	0.3%	0.5%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	**GBP**	0.0%	-0.4%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	**GBP**	0.2%	0.7%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	**GBP**	0.6%	1.0%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	**GBP**	0.6%	0.3%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	**GBP**	-0.3%	0.3%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	**GBP**	1.0%	0.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.0%	2.9%
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-1.9%	-6.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-1.9%	-3.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-2.0%	-2.1%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.6%	4.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1%	5.8%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-0.1%	10.1%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-0.5%	-2.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**GBP**	-0.7%	-2.1%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**GBP**	-1.2%	1.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-2.5%	-1.7%

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

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 30 November 2017		
		Currency	1 Month	Year to date
Property				
UK Direct Property	UK IPD All Property TR	**GBP**	0.0%*	8.6%*
Global Property Securities	S&P Global Property USD TR	**GBP**	0.4%	4.2%
Currencies				
Euro		**GBP**	0.4%	3.1%
US Dollar		**GBP**	-1.8%	-8.7%
Japanese Yen		**GBP**	-0.8%	-5.2%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	-0.8%	-7.0%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-1.8%	-11.9%
Oil	Brent Crude Oil	**GBP**	1.8%	2.2%
Gold	Gold Spot	**GBP**	-1.4%	1.1%
Interest rates				
United Kingdom			0.50%	
United States			1.20%	
Eurozone			0.00%	
Japan			0.10%	

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

Asset Allocation Dashboard

🟩 Positive 🟨 Neutral 🟥 Negative

Asset class	View
Equities	
Developed equities	🟡
UK equities (relative to developed)	🟡
European equities (relative to developed)	🟡
US equities (relative to developed)	🔴
Japan equities (relative to developed)	🟢
Emerging market equities	🟢
Fixed Income	
Government	🟡
Index-linked (relative to government)	🟡
Investment grade (relative to government)	🟡
High yield	🟡
Loans	🟡
Emerging market debt	🟡
Convertible bonds	🟡
Alternatives	
Commodities	🟡
Property (UK)	🟡
Currencies	
GBP	🟢
Euro	🟡
Yen	🟡

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