IMPERIUM CAPITAL

momentum

www.imperium-capital.biz | Vol. **145** | **December 2018**

Newsflash

A new month and the 145th issue of Viewpoint from **Imperium Capital**.

This document will be made available on our website www.imperium-capital.biz

Table of Contents

Market Commentary

Following the steep falls in October, a degree of stability returned to markets in November, but not without some considerable volatility during the month. Late in the month a more dovish speech from Federal Reserve Chairman Powell, together with hopes of some thawing of the US-China trade wars helped markets to post gains, led by emerging markets in Asia, up 5.2% in November, and the US, up 2.0%. This enabled the MSCI World Index to produce a gain of 1.1% and the MSCI Global emerging markets to gain 4.1% for the month.

The progressive removal of post crisis ultra-loose monetary policy, especially by the Fed, and the increasing evidence of a slowdown in global trade and growth, were the main drivers of markets. The US economy has remained buoyant, but the key housing sector is showing clear signs of slowing, with home sales down for the 6th consecutive month and other indicators pointing in the same direction. As the Fed has tightened policy the cost of finance has risen - the 30-year mortgage rates have increased by 1.5% over the past 2 years to around 5.0% - and has had a direct impact on costs to home buyers. Capital goods orders have also been softer, hurt by concerns about weaker growth globally.

The impact of trade wars has a global reach, but nowhere is more exposed than China, where the economy was already under pressure from the authorities' moves to rein in excessive debt in the corporate sector. All the recent data point to a further decline in the growth rate, with credit and money supply weak and leading indicators for export orders and manufacturing falling into or close to contractionary territory in November. The Shanghai stock market stabilised in the past month but remains down by over 25% from its January peak.

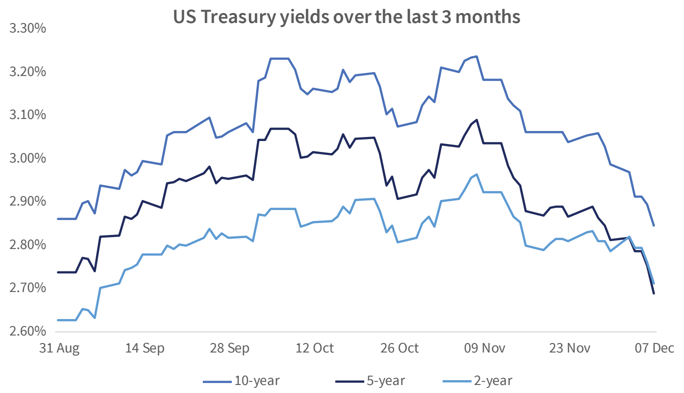
In Europe, concerns remain surrounding a sharp slowdown in growth, with the heavily trade dependent German economy falling into negative growth in Q3, hampered additionally by one-off impact on the car industry of new emission standards. The stand-off between the Italian government and the EU Commission on Italy's budget deficit is hurting confidence and the sharp rise in bond yields in Italy has led to a substantial tightening of liquidity conditions in Italy, the third largest economy in the eurozone. Europe is also being weighed down by the tortuous Brexit negotiations, with a no deal outcome still possible, the impact of which would be disruptive for both the UK and EU and could deliver a short negative shock to growth in Europe. As in China, leading indicators in Europe have moved down and point to slower growth ahead.

As evidence of slower growth has mounted Fed Chairman Powell suggested that the Fed has become more cautious about further rate rises. Late in the month he said that rates are now 'just below neutral' whereas in early October he had said 'we're a long way from neutral at this point'. Powell also committed more forcefully to data dependency than for some time, a message repeated by other Fed governors. Markets scaled back their expectations of future rate rises; while a rise in December is still largely discounted, expectations are now for only one to two rises next year, suggesting that the peak in rates this cycle is lower and closer than previously envisaged.

It was moves in interest rate expectations and bond yields which were arguably the most significant shifts in the month. A combination of a more dovish Fed and mounting evidence of slower growth was positive for US Treasuries, with yields falling especially at the longer end of the curve. The yield on the 10-year treasury fell back to 3.0%, having been above 3.2% in September, and unlike in October, when they provided little protection from the widespread sell-off in markets, Treasuries produced a return of 0.9% in November. However, the move down in yields was less at shorter maturities, resulting in a further flattening of the yield curve. The 2yr-10yr yield differential fell to only 11 basis points, the lowest since before the financial crisis, while yields at shorter maturities inverted – 5-year yields moved below those of 2 and 3-year bonds. This typically indicates that monetary policy is too tight, and an inverted curve historically has occurred ahead of recessions, something now worrying many investors. This fear, and the heightened credit risk that slower growth brings, led to a sharp widening of credit spreads in November and negative returns from both investment grade and high yield bonds despite the tail wind of falling government bond yields.

Similar moves were seen in Europe and it was notable that the yield on 10-year German government bond fell to 0.26%, back to its lowest level for the year.

Figure 1: Yield curve inverted at the shorter end of the curve

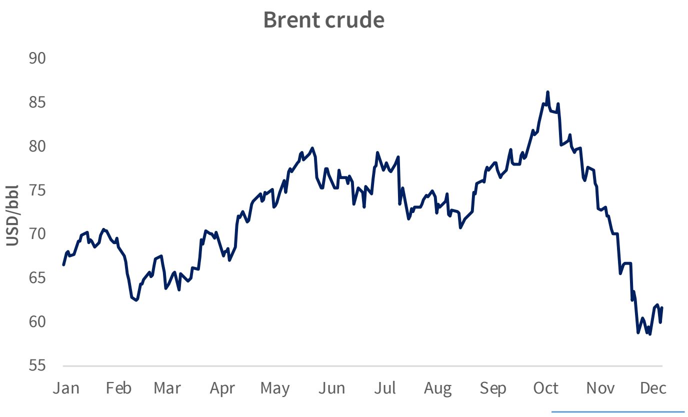


Source: Bloomberg, Momentum GIM.

The dollar was broadly stable against other majors, the most notable moves being some recovery in emerging market currencies, up 1.6%, a factor in helping emerging market equities to bounce back from the big sell off in October, although they remain substantially down from their January peak.

The most dramatic move was reserved for commodities, notably crude oil prices fell by 22% in the month, taking its decline to over 30% since early October. Slowing growth and a huge increase in US oil production from shale, up by over 2 million barrels per day (bpd) over the past year, have given rise to fears that there will be a glut of supply next year. This was compounded by a surprise concession made by the US to give waivers on its newly reinstated sanctions on Iranian oil; this included exports to eight countries, mostly the big importers of Iranian oil. Russia and Saudi Arabia had increased production in anticipation of shortages when the sanctions kicked in, meaning that the market is over-supplied, reflected in very high inventory levels. In early December, OPEC and Russia agreed to cut oil production by 1.2 million barrels per day for the first six months of 2019, with the aim of eliminating excess supply. On the back of this the price of Brent crude rallied slightly but remains some $25 per barrel below its early October level. The power of the OPEC cartel has been weakened by the dramatic surge in US production, taking oil output in the US up by almost 7 million bpd since 2010/11 and making the US virtually self-sufficient in oil and now the world's largest producer. While the immediate impact of such a sharp and unexpected price share prices of oil producers and widening spreads in bonds issued by oil companies in the junk bond sector, the move will be a welcome boost to consumers and central banks in their task of restraining inflation while sustaining growth.

Figure 2: Brent crude prices have fallen 30% since the peak at $86 per barrel at the beginning of October



Source: Bloomberg, Momentum GIM.

Despite the EU 27 and UK governments agreeing the terms of the withdrawal agreement and a political declaration outlining the terms (not legally binding) of the post Brexit relationship, the Brexit saga continued to create and deepen uncertainty and cast a shadow over the UK economy and financial markets. Early in December the UK government lost a contempt of parliament vote, the first time in history, and two other votes which effectively give parliament authority over the terms of the withdrawal agreement should the current version as agreed with the EU be rejected by parliament. The government has negotiated itself into a mess and the country close to a constitutional crisis. On the 11th December the UK parliament were scheduled to vote on the Brexit deal, however, in a statement to MPs a day before the vote Prime Minister Theresa May decided to delay the vote, admitting she would face a 'significant' defeat. This follows heavy opposition over the terms of the current deal on the table. The Prime Minister has headed back to Brussels to discuss with EU leaders the 'clear concerns' MPs have highlighted on the current deal, particularly concerning the backstop agreement. The outcome of these talks remains unclear, especially as the European Commission President Junker stated the EU would not 'renegotiate' the deal but did mention there was room for 'further clarifications'.

Concerns of a no deal exit from the EU is the biggest worry for markets as it would most likely create short term disruption, but it is also probably the least likely outcome given the turn of events which gives parliament effective control of the exit deal. The saga continues, and sterling and UK assets are unloved and poor performers. This has potentially given rise to some interesting valuation opportunities for long term investors and room for a sizeable rally as and when an agreement is concluded, still in our view the most likely outcome of the many possibilities.

While Brexit and Italy's debt problems loom large over Europe they are not as important globally as the two big drivers of markets in recent weeks; Fed tightening and the US-China trade wars. With the 90-day truce between the US and China being agreed at the G20 meeting, there is hope that escalation of the trade wars can be prevented, and sufficient progress could be made to lead to a negotiated ultimate outcome. However, much is still to be done and the risks are high given the unpredictability of the two leaders, Trump and Xi. Monetary accommodation is being progressively withdrawn, by the Fed, ECB and at the margin by the Bank of Japan. Although, with the Fed signalling a more dovish approach it is likely that the pace of normalisation will be extremely slow, and policy globally remains loose by any historical comparison.

We have been calling for greater caution in this more challenging environment for some time and have positioned portfolios progressively for more turbulent markets and heightened levels of volatility. However, inflation remains modest and will be helped by the fall in the oil price. There remains few signs of excess or capacity shortages which might trigger an inflationary surge, and the constraints to growth and expected slowdown next year could well extend the cycle for some time ahead. With the sharp falls in investor confidence and in markets over recent weeks valuation opportunities are opening up. Greater resilience is warranted in portfolios, and there are ample reasons for a more cautious approach, but valuations in equities have improved significantly as a result of weak markets and strong corporate earnings; the sharp setbacks in recent weeks present opportunities to add to positions selectively.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 30 November 2018		
		Currency	1 Month	3 Month
Developed markets equities				
United States	S&P 500 NR	**USD**	2.0%	-4.5%
United Kingdom	MSCI UK NR	**GBP**	-1.5%	-5.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.6%	-6.2%
Japan	Topix TR	**JPY**	1.3%	-3.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	4.5%	-7.5%
Global	MSCI World NR	**USD**	1.1%	-5.8%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	2.3%	3.1%
Emerging Asia	MSCI EM Asia NR	**USD**	5.2%	-7.9%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-2.2%	5.9%
BRICs	MSCI BRIC NR	**USD**	5.7%	-2.3%
Global emerging markets	MSCI Emerging Markets NR	**USD**	4.1%	-5.5%
Bonds				
US Treasuries	JP Morgan United States Government Bond TR	**USD**	0.9%	-0.6%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.5%	-2.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-0.2%	-2.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	-0.9%	-1.9%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	-1.3%	-2.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-1.4%	-1.8%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.6%	0.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.6%	-1.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-2.0%	-3.0%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.5%	0.4%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.3%	0.2%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.5%	-1.6%
Global Bonds	ICE BofAML Global Broad Market	**USD**	0.3%	-1.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	0.4%	-5.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-0.1%	0.5%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 30 November 2018		
		Currency	1 Month	3 Months
Property				
US Property Securities	MSCI US REIT NR	**USD**	4.6%	-1.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	-0.4%	-5.3%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	8.0%	-0.5%
Global Property Securities	S&P Global Property USD TR	**USD**	4.1%	-2.9%
Currencies				
Euro		**USD**	0.0%	-2.5%
UK Pound Sterling		**USD**	-0.1%	-1.6%
Japanese Yen		**USD**	-0.5%	-2.1%
Australian Dollar		**USD**	3.3%	1.6%
South African Rand		**USD**	6.5%	5.9%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-4.4%	-6.0%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.3%	-1.4%
Oil	Brent Crude Oil	**USD**	-22.2%	-24.2%
Gold	Gold Spot	**USD**	0.6%	1.8%
Hedge funds	HFRX Global Hedge Fund	**USD**	-0.8%*	-4.5%*
Interest rates				
United States			2.25%	
United Kingdom			0.75%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.50%	

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

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 30 November 2018		
		Currency	1 Month	3 Months
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	-1.5%	-5.0%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-1.3%	-3.6%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-2.4%	-10.8%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-3.8%	-13.1%
United States	S&P 500 NR	**USD**	2.0%	-3.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.5%	-7.0%
Japan	Topix TR	**JPY**	0.8%	-3.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	4.5%	-6.1%
Global developed markets	MSCI World NR	**USD**	1.1%	-4.3%
Global emerging markets	MSCI Emerging Markets NR	**USD**	4.1%	-3.9%
Bonds				
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	-1.3%	-1.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.2%	0.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	0.6%	0.8%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	-3.2%	-4.7%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	-3.3%	-1.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	0.9%	2.3%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	-5.2%	-3.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-1.4%	-1.8%
US Treasuries	JP Morgan US Government Bond TR	**USD**	0.9%	1.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	-0.2%	-2.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	-0.9%	-0.3%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	0.6%	0.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.6%	-1.1%
Euro High Yield	*BBgBarc European High Yield 3% Constrained TR*	**EUR**	-2.0%	-3.8%
Global Government Bonds	JP Morgan Global GBI	**GBP**	0.5%	0.0%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	0.3%	-1.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	0.4%	-5.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-0.1%	2.1%

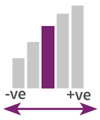
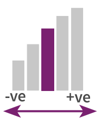
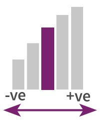
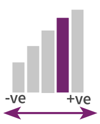
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

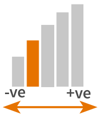
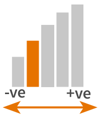
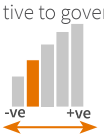
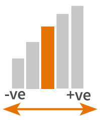
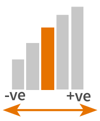
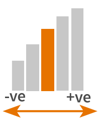
Asset Class/Region	Index	To 30 November 2018		
		Currency	1 Month	3 Months
Property				
Global Property Securities	S&P Global Property TR	**GBP**	4.1%	-1.3%
Currencies				
Euro		**GBP**	0.1%	-0.9%
US Dollar		**GBP**	0.1%	1.6%
Japanese Yen		**GBP**	-0.4%	-0.5%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	-4.4%	-4.5%
Agricultural Commodities	RICI Agriculture TR	**GBP**	0.3%	0.2%
Oil	Brent Crude Oil	**GBP**	-22.2%	-22.9%
Gold	Gold Spot	**GBP**	0.6%	3.4%
Interest rates				
United Kingdom			0.75%	
United States			2.25%	
Eurozone			0.00%	
Japan			0.10%	

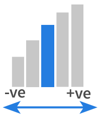
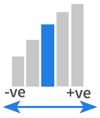
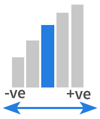
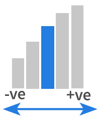
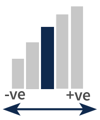
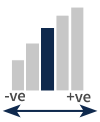
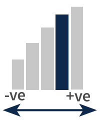
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities 	» We 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 has presented an opportunity to add some marginal equity risk, but this seems to us as more of a valuation adjustment which could continue to play out so caution against aggressive risk adding today. » 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. + The global macro backdrop remains favourable for global equities, though we remain cognisant of slowdowns in some regions. + Equities are better placed than most asset classes to perform in a moderately pro inflationary environment. – Valuations in some areas remain expensive at current levels despite sharp falls recently. – Continued talk around and implementation of trade tariffs is not constructive for global equities, though a recent agreement to halt new tariffs for 90 days offers some respite.
UK equities (relative to developed) 	» UK equities look cheap today but caution is warranted given the evolving Brexit negotiations and continued political jockeying. While the larger cap market constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. » December is shaping up to be a turbulent month politically and continued uncertainty over the Brexit outcome means the risk premium on Sterling equities has increased. The currency tends to be the channel for UK risk hedging and in the event of a sharp decline UK equities should be reasonably supported. + 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. – Today the chief worries lie with the ongoing Brexit negotiations, and recent political developments mean significant challenges remain.
European equities (relative to developed) 	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. From a more cyclical point of view the European macro backdrop has wavered of late and political risks remain. The neutral rating reflects that Europe remains something of a recovery laggard. There is scope for a more meaningful recovery in earnings but the region faces some headwinds today, not least the impending ending of the ECB purchase program. + European earnings still have scope to recover more meaningfully from their post crisis lows. – 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. – Episodic risk off events, such as the recent volatility in the Italian bond market, should be expected
US equities (relative to developed) 	» The US remains the most expensive of the major developed markets, even after factoring in recent volatility in equity prices. However, the US economy remains in good health and arguably warrants a premium valuation. This valuation headwind means we score US equities less highly than ex US bourses today. » Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well, but there remains an outside risk of higher inflation leaving the Fed little alternative to raising rates more quickly than rates markets are pricing. + The economy remains in good health with leading indicators remaining firmly positive. + Despite the Fed's programme of rate hikes, broader measures of financial conditions remain relatively loose, which coupled with the current fiscal stance can help propel economic growth further and equity prices higher. – Despite recent market weakness valuations remain somewhat extended and rising yields may be an obstacle to further index gains from current levels. Additionally 2019 earnings growth may become more challenging as one-off tax cut benefits wear off.
Japan equities (relative to developed) 	» Japanese equities look attractive today and we acknowledge the government's policies to improve working practices and governance. Forward estimates of earnings have tailed off recently and equity prices have fallen sharply. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa. » Japanese assets should remain well buoyed by BoJ policy which remains aggressive when compared to the other main DM central banks. + 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. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities, as witnessed recently in October.
Emerging market equities 	» EM assets remain under pressure as the buoyant Dollar and trade war rhetoric continue to weigh on sentiment to emerging markets. We remain in favour of 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. + EM currencies remain on the back foot which provides some additional cushion to local EM equity returns through potential earnings enhancement over time. + Emerging markets at the index level trade at a significant valuation discount to developed markets. – Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk.

Past performance is not indicative of future returns.

Fixed Income	
Government 	» 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, though the 10yr yield has fallen below the 3% level. Market expectations for interest rate rises have reduced in recent weeks accompanied by a more dovish Fed. Conversely other markets, such as Italy, are a source of price volatility. + Quality government bonds remain one of the best diversifiers in a multi asset portfolio. – 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.
Index-linked (relative to government) 	» Index linked bonds offer some selective value but, like their nominal counterparts, they are expensive. US breakevens have fallen quite sharply in recent weeks, but in a longer term context they still appear quite full. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk – Inflationary forces remain somewhat muted today and on any further slowdowns in global growth they would almost certainly underperform nominal bonds. The oil price has come off significantly since October which will reduce inflationary pressures.
Investment grade (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight despite recent moves wider in spreads. Fundamentals remain reasonable but we would advocate owning more shorter dated credit at today's levels as rate sensitivity remains near highs, and yields low. + A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread. – With central bank buying slowing the risks are asymmetric. – Credit quality has drifted lower in recent years, and leverage has moved higher.
High yield 	» Spreads have widened in recent weeks in leveraged credit markets, but whilst fundamentals remain robust, all in valuations remain somewhat expensive. » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration at better levels. + 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. – Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive – Risks are asymmetric today
Emerging market debt 	» Emerging market bonds have been under pressure alongside EM equities and EM FX, though bonds have held up in early December volatility. With yields shy of 7% the asset class is attractive today. Spreads are slightly elevated relative to history but idiosyncratic stories, such as Turkey, cause ongoing concern. The recent weakness may yet run further. + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today. – Renewed Dollar strength will weigh on EM assets, with local bonds and FX likely bearing the brunt.
Convertible bonds 	» 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 » Some caution is warranted given the concentration to the US market and technology names, though some of this steam has recently been released as (US) stocks repriced. + The natural convexity provided by convertibles should continue to provide reasonable protection against any protracted equity correction. – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest regional market, remains well valued today in aggregate. – If volatility reverts again to the recent multi year lows then the optionality holds limited value

Alternatives	
Commodities 	» 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 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. However, the recently agreed 90 day truce between US and China might ease pressure. + With the US Dollar still near cyclical highs, and global growth positive if not on a tear, commodities have scope to generate positive returns. + Gold remains a good hedge against risk off outcomes, as witnessed during recent market weakness – Trade tensions may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular. – Geopolitics is an important consideration as evidenced by recent oil price gyrations.
Property (UK) 	» Property remains an attractive asset class for investors requiring yield. » Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today. » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property outside London holds some appeal, with industrial and office space having more attractive fundamentals than the under pressure retail sector. + Attractive yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness. + The longer duration qualities of the asset class makes it a good diversifier within multi asset portfolios – 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 continue to evolve.
Infrastructure 	» Infrastructure stocks trade at reasonable valuations today - broadly in line with global equities - and performance has held up stronger through recent market weakness. » Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets. + In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing. + The asset class offers a healthy 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 a spate of recent accidents has hit a handful of stocks hard.
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 in predominantly UCITS vehicles. » We favour an allocation to a basket of liquid strategies today to provide additional diversification as high quality bonds on the whole remain expensive. + These strategies provide additional diversification with reasonable return potential. – 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. – The hurdle for performance is higher given the more attractive level of treasury yields today.
Currencies	
GBP 	» Brexit uncertainty remains high, particularly given recent political developments and Sterling remains volatile. We retain a neutral view until we have a clearer expectation around how the Brexit plan and indeed political situation evolves. With Sterling looking fairly beaten up there is probably more upside than downside risk today at the margin. » In real terms the currency remains at the lower end of valuations and has room to appreciate over the medium to long term, but politics and rate policy are likely to dominate its nearer term path, and remains a source of volatility. The currency's future path remains a binary outcome at present.
Euro 	» The Euro remains somewhat rangebound today and lacks conviction either way. Whilst any change in explicit rate policy has now been pushed towards the latter half of 2019, the reducing quantum of bonds the ECB is purchasing may increase rates volatility. » 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.
Yen 	» 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. » 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.

Important Notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

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).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.