

VIEWPOINT

Newsflash

A new month and the 136th issue of Viewpoint from Imperium Capital.

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

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

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Market Commentary

Financial markets had a turbulent and more volatile month in February, with almost every asset class falling while the US Dollar rose on a trade weighted basis. Notably, after a record streak of fifteen consecutive monthly gains, the S&P 500 fell 3.7% in February. After a particularly strong January, global emerging market equities underperformed developed markets, although emerging market equities continue to outperform developed markets year to date. Global bonds suffered with yields generally rising amidst a better than expected jobs report in the US.

US markets fell sharply early in the month, with the S&P 500 falling 6.2% in the first three days of trading. This followed a strong jobs report, with wage growth beating expectations at 2.9%. With the tightness in the labour market yet to feed into wage growth and subsequently headline inflation, investors have been focusing on wage growth figures in anticipation of the trend reversing. The better than expected data indicated this may finally be the case and investors adjusted their inflation expectations and subsequently their forecast for the timing of future US rate hikes. This initially put bond markets under pressure, before concerns spread to equity markets.

Figure 1: As typically measured by the VIX index, US equity market volatility spiked early in the month

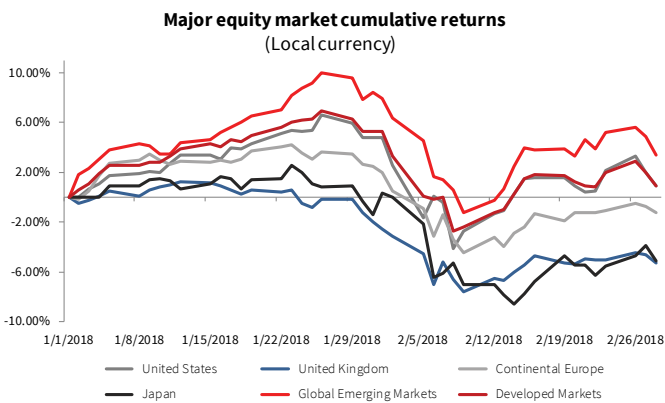


Source: Bloomberg, Momentum GIM

VIEWPOINT

The sell-off and increased volatility in US markets spread to global markets, with developed market equities falling 4.1% and emerging market equities falling 4.6% amidst a headwind of US Dollar strength. Of the major regions in developed markets, Asian Pacific equities performed the worst, falling 4.7% in local currency terms while the best performing region, the UK, still fell 3.4%.

Figure 2: After a strong January, equities decline in February

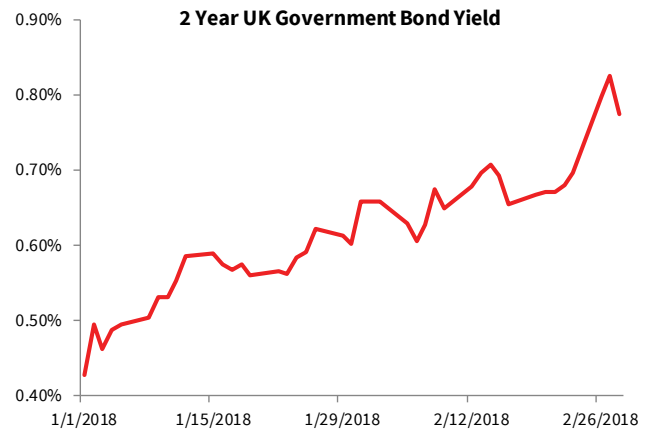


Source: Bloomberg, Momentum GIM

Globally, bond yields generally rose amidst concerns about rising inflation. Investment grade corporate bonds underperformed high-yield, although across sub-asset classes, euro investment grade credit proved most resilient, remaining at the same level. US treasury yields continued to climb, particularly following the strong jobs report which suggested rises in growth and inflation were likely. Treasuries mirrored the volatility of equity markets, with 10 year yields reaching 2.95% intra-month before retreating and ending the month up 15.6 basis points to 2.86%. US corporate bonds underperformed during the month, falling 1.6% versus a 0.8% fall in treasuries. In the UK, two year gilt yields rose 11.5 basis points to 0.774%, this followed comments made by Bank of England Governor Mark Carney which suggested rates were likely to rise sooner and more aggressively than previously anticipated.

In currencies, the US Dollar strengthened during the month rising 1.7% on a trade weighted basis. This was partly driven by investors anticipating a faster rate hike cycle which has been fuelled by inflation concerns and comments by new Federal Reserve chair Jerome Powell. The euro suffered its first monthly fall versus the US Dollar since November, declining 1.8%, while Sterling also fell, declining 3.0%.

Figure 3: 2 year UK gilt yields continue to rise



Source: Bloomberg, Momentum GIM

In commodities, Brent crude oil reversed the gains it made in January, falling 4.7% in February to USD 65.8/bbl. This was driven by the rise in the US Dollar and pressure from increasing oil production. US Dollar strength also hit precious metals, with gold down 2.0% to 1318.4 per troy ounce.

During the month, the four major central banks kept their monetary policies unchanged, although there was a notable shift in central bank rhetoric with the both the Bank of England and the Federal Reserve indicating rates were likely to rise sooner and more aggressively than previously anticipated.

In the short to medium term it will be particularly important to monitor movements in US treasury yields, which have risen rapidly in the past six months. A more rapid rise in yields in the short term could undermine equity markets and cause a more significant period of consolidation, although we would view such a move as an opportunity to add equity risk to our portfolios. Despite the setback in markets, we are firmly of the view that this cycle has further to run and we see this short-term setback as a healthy correction. We do not see evidence of overheating or a premature downturn and believe opportunities for returns outweigh the risks; hence it is important to stay invested.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 February 2018		
		Currency	1 Month	3 Month
Developed markets equities				
United States	S&P 500 NR	USD	-3.7%	2.8%
United Kingdom	MSCI UK NR	GBP	-3.4%	-0.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.7%	-1.7%
Japan	Topix TR	JPY	-3.7%	-1.2%
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	-4.7%	4.8%
Global	MSCI World NR	USD	-4.1%	2.3%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	USD	-2.7%	12.8%
Emerging Asia	MSCI EM Asia NR	USD	-5.4%	5.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.6%	13.9%
BRICs	MSCI BRIC NR	USD	-5.3%	8.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-4.6%	7.0%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.8%	-1.9%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.1%	-1.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.6%	-1.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.8%	0.0%
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	-0.9%	-0.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2%	-1.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	-0.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.7%	-0.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.4%	0.4%
Australian Government	JP Morgan Australia GBI TR	AUD	0.3%	-1.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.7%	0.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-1.0%	0.4%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.3%	1.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-2.2%	-2.1%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 February 2018		
		Currency	1 Month	3 Months
Property				
US Property Securities	MSCI US REIT NR	USD	-7.8%	-12.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-4.1%	-8.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-6.7%	2.5%
Global Property Securities	S&P Global Property USD TR	USD	-6.7%	-3.9%
Currencies				
Euro		USD	-1.8%	2.4%
UK Pound Sterling		USD	-3.0%	1.7%
Japanese Yen		USD	2.3%	5.5%
Australian Dollar		USD	-3.6%	2.6%
South African Rand		USD	0.4%	16.2%
Commodities & Alternatives				
Commodities	RICI TR	USD	-1.7%	4.7%
Agricultural Commodities	RICI Agriculture TR	USD	3.4%	4.9%
Oil	Brent Crude Oil	USD	-4.7%	3.5%
Gold	Gold Spot	USD	-2.0%	3.4%
Hedge funds	HFRX Global Hedge Fund	USD	-2.4%	0.7%
Interest rates				
United States			1.50%	
United Kingdom			0.50%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 28 February 2018		
		Currency	1 Month	3 Months
Developed markets equities				
UK - All Cap	MSCI UK NR	GBP	-3.4%	-0.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-3.7%	-0.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-2.5%	-0.1%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.0%	-0.2%
United States	S&P500NR	USD	-1.0%	0.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.5%	-1.1%
Japan	Topix TR	JPY	1.5%	2.1%
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	-2.0%	2.7%
Global developed markets	MSCI World NR	GBP	-1.4%	0.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	-1.9%	4.9%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	0.3%	-0.4%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.0%	-0.3%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	-0.1%	-1.0%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	0.6%	0.0%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	0.3%	-0.4%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	0.0%	-0.7%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	0.5%	-0.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.4%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	2.1%	-3.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.2%	-3.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.0%	-2.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.4%	-0.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.2%	0.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.5%	0.3%
Global Government Bonds	JP Morgan Global GBI	GBP	2.2%	-1.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	1.9%	-1.7%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	1.6%	-0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.6%	-4.1%



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

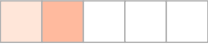
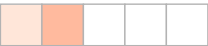
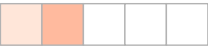
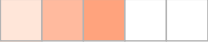
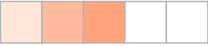
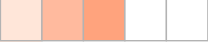
Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 28 February 2018		
		Currency	1 Month	3 Months
Property				
Global Property Securities	S&P Global Property USD TR	GBP	-4.0%	-5.8%
Currencies				
Euro		GBP	1.3%	0.7%
US Dollar		GBP	3.2%	-1.7%
Japanese Yen		GBP	5.6%	3.7%
Commodities & Alternatives				
Commodities	RICI TR	GBP	1.2%	2.6%
Agricultural Commodities	RICI Agriculture TR	GBP	6.4%	2.8%
Oil	Brent Crude Oil	GBP	-2.0%	1.4%
Gold	Gold Spot	GBP	0.8%	1.3%
Interest rates				
United Kingdom			0.50%	
United States			1.50%	
Eurozone			0.00%	
Japan			0.10%	

Asset Allocation Dashboard



Asset class	View
Equities	
Developed equities 	<ul style="list-style-type: none"> » We retain a neutral allocation to global equities today. Valuations vary across regions and sectors and whilst in aggregate they look marginally rich, central bank policy remains accommodative and rates remain low which can support current valuations. » CB policy and politics will remain central to risk pricing, and volatility is likely to be more elevated. + Earnings growth has been robust and the global macro backdrop remains in something of a sweet spot for global equities, albeit with a modest pick in volatility more recently. - Valuations remain somewhat expensive at current levels.
UK equities (relative to developed) 	<ul style="list-style-type: none"> » UK equities are reasonably priced today but some caution is warranted given the uncertainty surrounding the UK's eventual Brexit terms. While the larger cap market constituents are typically globally focused, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. On the plus side economic data has been resilient and better than many hoped. » The UK market remains sensitive to commodity prices. + The UK market is very much exposed to global markets and factors and somewhat insulated from the headline Brexit concerns, not least benefiting from any Sterling weakness. - Today the chief worries lie with the ongoing (and slow) Brexit negotiations.
European equities (relative to developed) 	<ul style="list-style-type: none"> » European equity valuations compressed through 2017 but 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 investor appetite for European assets is positive today. » CB policy and politics will remain central to risk pricing, and volatility is likely to be more elevated. + European earnings have scope to recover meaningfully from their lows. - European assets, including equities, may come under pressure should the ECB's bond programme reduction accelerate, or the Euro strengthens further.
US equities (relative to developed) 	<ul style="list-style-type: none"> » The US remains the most expensive of the major developed markets, even when adjusted for the strong tech sector performance. The US economy is in rude health but equity returns face a valuation headwind today, and prices already discount strong. » Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well but there is always a risk of policy error, or an outside risk of higher inflation leaving the Fed little alternative to raising rates more quickly than docile rates markets are pricing. + The economy is strong and leading indicators positive. Tax repatriation could spur investment and share buyback programmes. - Valuations remain extended despite recent market volatility. This will challenge longer term real returns and we see better long term opportunities elsewhere.
Japan equities (relative to developed) 	<ul style="list-style-type: none"> » Japanese equities remain attractive and we acknowledge the government's policies to improve working practices and governance. However, after posting strong returns in the final quarter (and full year) the valuation is more in line with other ex US markets today. » Japanese assets should remain well buoyed by BoJ policy which remains aggressive when compared to the other main DM central banks. After rallying hard in recent weeks any Yen weakness should boost Japanese stocks and we take a more favourable view after a period of weak relative performance. + Yen weakness will likely boost equities if the Fed moves in line with their stated intentions and the BoJ maintains their yield curve policy. Following recent Yen strength and subdued equity performance we think this more likely today. - In a protracted risk off scenario Yen strength would hit Japanese equities, as recently seen. The country also sits in an area of elevated geopolitical risk at the present time.
Emerging market equities 	<ul style="list-style-type: none"> » Valuations remain reasonably attractive today, even after the stellar 2017 performance. For that reason we continue to favour EM assets but moderate our view slightly as the long term return relative opportunity is less pronounced today. » More elevated volatility should be expected going forward, with CB policy and politics remaining central to risk pricing. - EM currencies remain somewhat cheap in aggregate which acts as a key support in a decision to allocate to EM. - Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. - The Dollar has been extremely weak. Any reversal may see EM assets come under pressure.

Fixed Income	
<p>Government</p> 	<ul style="list-style-type: none"> » Despite on-going supportive policy actions, on a medium term outlook the majority of DM government bonds look unattractive today. » Treasuries offer improved value today as yields approach the 3% level but aggregate global government bond yields remain low. - 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 provides a headwind for all rate sensitive debt.
<p>Index-linked (relative to government)</p> 	<ul style="list-style-type: none"> » Index linked bonds offer some selective value today but, like their nominal counterparts, they are expensive today. » UK linkers remain one of the more expensive DM markets. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk. - Inflationary forces are at best nascent today and on any renewed concerns over global growth would likely underperform nominal bonds.
<p>Investment grade (relative to government)</p> 	<ul style="list-style-type: none"> » Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations remain somewhat stretched today. Marginally preferred to sovereigns today. » Fundamentals remain solid but we would advocate owning more shorter dated credit at today's levels. + A reasonable alternative to owning sovereign bonds with diversifying qualities and spread. - It is difficult to see spreads tightening much further, and with central bank buying slowing the risks are asymmetric.
<p>High yield</p> 	<ul style="list-style-type: none"> » Spreads remain tight in leveraged credit markets, despite a recent repricing, and whilst fundamentals remain robust, all in valuations are somewhat expensive. » We favour owning shorter duration credit where the risk return looks more favourable today, and loans where permissible. + In the absence of a systemic market shock high yield returns will likely trump most of other fixed income. - Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive.
<p>Emerging market debt</p> 	<ul style="list-style-type: none"> » Emerging market bonds - both hard currency and local flavours - have had strong returns amidst a favourable macro backdrop and sentiment. Despite their rally, EM bonds still rank as one of the better real return opportunities. » With spreads remaining tight we favour reducing spread duration. A short duration strategy can help achieve this. + EM bonds continue to offer some of the best return opportunities in core bond markets today. - A resurgent dollar is likely to cause some temporary repricing in EM assets, and local bonds would likely bear the brunt of that.
<p>Convertible bonds</p> 	<ul style="list-style-type: none"> » Convertible bonds are priced slightly rich to their constituent parts today but we continue to favour an allocation to this asset class in a multi asset portfolio for the convexity it brings, which remains valuable today at a time of elevated valuations. » Some caution is warranted given the concentration to the US market and technology names. + 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. If volatility reverts again to the recent multi year lows then the optionality holds limited value.

Alternatives	
<p>Commodities</p> 	<ul style="list-style-type: none"> » Commodity prices are primarily supply and demand driven, and idiosyncratic factors will drive commodity prices as much or more so than the global economic cycle. Commodities remain sensitive to negative news on global growth. » With inflation risk at the lower end of historical levels there is little upward pressure on underlying prices at present. + With the US Dollar coming down from cyclical highs, and growth reasonably strong globally, commodities have scope to generate positive returns. + Gold remains a good hedge against risk off outcomes. - Should the Dollar's decline come to a halt or reverse, commodities would likely come under pressure.
<p>Property (UK)</p> 	<ul style="list-style-type: none"> » Property remains an attractive asset class for investors requiring yield. In the UK returns look more attractive outside the capital at this time, where prices have come under pressure. » Total returns will come mostly income with limited scope for capital growth. When viewed against high quality longer duration Sterling assets and inflation linked bonds, property has appeal. + The UK retail property and mall sector has been supported in recent months with the announcement of several deals consolidating the larger players. - As a long duration asset class property remains susceptible to any repricing in long term bond yields.
<p>Infrastructure</p> 	<ul style="list-style-type: none"> » Infrastructure stocks trade at reasonable valuations today - broadly in line with global equities. 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. - As a longer duration asset class infrastructure remains susceptible to any repricing in long term bond yields. - Regulation can work both for and against the underlying investments.
<p>Liquid Alternatives</p> 	<ul style="list-style-type: none"> » 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. » With valuations in the more core asset classes remaining at more extended levels today, particularly in fixed income which is the traditional diversifier, we favour an allocation to a basket of liquid strategies today. + 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 a broad blend of strategies are recommended.
Currencies	
<p>GBP</p> 	<ul style="list-style-type: none"> » Sterling remains buoyant today, both a function of continued Dollar weakness and some softening around the Brexit margins (though real progress remains limited). » 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. » Valuation supports a long position but with the USD looking somewhat oversold, Sterling positioning having rebounded markedly, and Brexit front and centre, we rate slightly under neutral today.
<p>Euro</p> 	<ul style="list-style-type: none"> » As with Sterling the Euro has benefitted most from the weaker Dollar but its own fundamentals have supported its gains. Whilst any change in explicit rate policy still remains some way off, the reducing quantum of bonds the ECB is now buying exerts some marginal upside to rates, certainly in sentiment, and the economic backdrop is as good as its been for a number of years. » In real terms the common currency looks about fair value today and is not a compelling long term buy. » Positioning is ultra extended today and versus the Dollar the currency looks somewhat overbought. As such we look for a better entry level..
<p>Yen</p> 	<ul style="list-style-type: none"> » Rate differentials continue to offer little reason to buy the Yen as the Bank of Japan's yield curve policy means short rates will offer no real value for some time. However, in real terms the Yen remains cheap today. » Yen exposure is a useful portfolio diversifier but after a recent pick up in volatility this quality has mostly played out. Speculative positioning remains near the lows which may provide support. » We retain a cautious view today as the currency looks extended after rallying sharply in recent weeks.

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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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