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Newsflash

A new month and the 142nd issue of Viewpoint from **Imperium Capital**.

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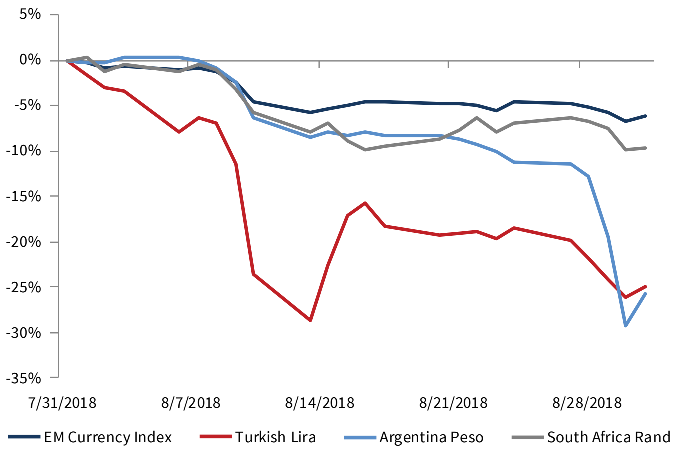
Market Commentary

Perhaps August will go down as the month when the vulnerabilities to a US monetary tightening cycle and trade wars became abundantly clear. Although emerging markets have been under pressure since the peak in late January there was a marked deterioration during August, led by the most vulnerable countries, Turkey and Argentina. A toxic combination of factors in the current macroeconomic environment has resulted in contagion spreading. While some of the problems were self-inflicted a common theme as contagion spread was the high levels of offshore debt, built up in the era of very low interest rates and the majority being in US Dollar. Countries exposure to global trade has made them vulnerable to trade wars, and having high fiscal and current account deficits has raised uncertainty over their economic sustainability. In August, the Emerging Market Currency Index fell by 6.2%, notably the Turkish lira and Argentinian peso both fell by 25% (Figure 1). The Venezuelan bolivar devalued by 95%, however, Venezuela is known for being a basket case due to their low international debt and hardly having any impact on the financial stability of the global economy. However, the collapse of oil production has played a key role in putting upward pressure on Brent Crude. This volatility has dragged down emerging market bonds, with local currency bonds down 6%. Hard currency emerging market debt has fallen 3.1%, and subsequently resulted in a 7.3% fall YTD. Emerging equity markets fell sharply, the fall of 2.7% in the global index masking much bigger falls in Latin America, Russia, South Africa and Turkey. From the January peak emerging equity markets are down 16% and several are in bear market territory with falls of over 20%.

Figure 1: Showing the major declines in emerging market currencies over the month



Source: Momentum GIM, Bloomberg

In contrast, global developed equities produced positive returns, advancing 1.2%, although the majority of this outperformance was driven by the strong US performance, as all other major markets fell. The US equity market reached a new all-time high, up 3.2% on the month and 9.5% YTD, driven by the strong stock performances. A historical moment came in the month when Apple and Amazon both surpassed $1 trillion market value, and their share prices rose 20% and 13% respectively. The Italian equity market fell 9%, weighed down by the uncertainty over the ongoing negotiations within the new Italian government surrounding the 2019 budget, which could lead to their 2019 deficit breaking the EU's 3% of GDP limit. With Italian debt level currently equivalent to 130% of GDP, concerns about the sustainability of the government's fiscal policy has driven 10 year yields on Italian government bonds up 50 basis points to 3.2%, the highest since 2014. German bund yields fell 12 basis points to 0.32%, subsequently widening the spread with the Italian bonds to 2.9%. The structural problems in the Eurozone remain a threat to stability and pose a serious challenge for the ECB as it gradually removes ultra-loose monetary stimulus policies. At a time of rising risks US Treasuries have performed well, returning 0.8% in the month, with US credit and high yield bonds following in their wake. The majority of bond markets produced small positive returns, apart from Euro government bonds which were held back by the concerns surrounding Italy. The US Dollar continues to strengthen, rising 0.6% in the month on a trade-weighted basis, and up over 7% since its February low. During the month, the Japanese Yen returned to its safe haven status appreciating 0.7% against the US Dollar. Notably, the Japanese Yen is one of only three significant currencies to appreciate against the US Dollar this year, albeit modestly in each case. The others being the Swiss Franc, another safe-haven, and the Mexican peso, which benefited from a successful negotiation with the US on a new NAFTA trade deal (yet to include Canada).

China remains a big risk to investors; this follows the latest data showing a continuing slowdown in the Chinese economy. In particular, industrial production and fixed asset investment fell to the lowest growth levels on record, putting doubt on whether the target growth rate of 'around 6.5%' can be achieved this year. The aggressive deleveraging campaign and ongoing trade war with the US are having a negative effect on economic growth, resulting in the administration loosening policy. The Chinese stock market continued its slide, down 5.2% in the month and down 23% from its January peak. Despite this the Renminbi has stabilised, stemming the sharp falls in the previous few months. The risk in China is not a financial collapse and deep recession as in the most vulnerable emerging economies like Turkey and Argentina, but a significant slowdown in growth which, given the size of China's economy, would have a big impact globally.

In contrast to China's slowing growth and emerging market woes, the US economy powers ahead. Most data shows a continuation of the 4% growth of Q2 into Q3, while inflation edges higher. Core inflation reached 2.4% in July, the highest since 2008, while the Fed's most closely watched inflation measure, core PCE, reached the Fed's 2% target for the first time in 6 years. There is little doubt that the Fed will continue as planned with its monetary tightening programme, and a further 0.25% rate rise in September seems all but done. The Fed will be cognisant of the troubles in some emerging market economies but unless there is serious contagion it is highly unlikely this will deflect it from its mandate.

Further rate rises in the US over the next 18 months are very likely so the pressure on highly indebted countries and companies is not set to lift any time soon. In the most extreme cases major corrective action is inevitable (Argentina now has interest rates of 60%) and recessions and/or defaults will ensue. However, the problems need to be kept in perspective. Arguably, none of the most vulnerable countries are big enough to cause a global slowdown; while defaults, especially at corporate level, seem inevitable, the aggregate debt numbers are manageable. Even more, banks globally are well capitalised to absorb credit losses, with the exception of certain Eurozone banks, shown by the 8% fall in European Bank share prices this month, taking the YTD fall to 13%. As long as contagion does not spread to the larger emerging economies and on to developed countries, then the troubles of certain developing countries will remain just that.

Clearly this is not a time for investor complacency. We are in the tenth year of a bull market, Wall Street is at an all-time high and valuations are at generally high levels (both in equities and bonds). The return on risk free assets, US Dollar cash and bonds, has increased markedly in the past year, putting pressure on other asset values. Markets are subject to setbacks as monetary policy gradually moves away from ultra-loose levels and as trade war uncertainties hold back confidence, and there is a risk that the problems in some emerging markets could spill over into major markets. However, the cycle has further to run as the global economy remains in generally good health, led by the US, and there are few signs of excess or capacity shortages which might trigger an inflationary surge, in turn requiring much tighter monetary policy.

These two way pulls probably leave markets in a trading range; falls triggered by a deepening of the problems in emerging markets would represent a buying opportunity, with the most attractive valuations now in the emerging world and in non US developed markets. The US bond market offers materially higher yields compared with recent years and yields are at levels which provide real returns, albeit still quite low. With monetary policy set to tighten further this remains an environment to keep duration short and progressively move away from credit into US Treasuries. Greater resilience is warranted in portfolios, and there are ample reasons for a more cautious approach, but there are still attractive investments across many equity markets and the inevitable setbacks will present opportunities to add to positions selectively.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2018		
		Currency	1 Month	3 Month
Developed markets equities				
United States	S&P 500 NR	**USD**	3.2%	7.6%
United Kingdom	MSCI UK NR	**GBP**	-3.3%	-2.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.7%	1.7%
Japan	Topix TR	**JPY**	-1.0%	-0.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.1%	-3.8%
Global	MSCI World NR	**USD**	1.2%	4.3%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	-7.6%	-4.8%
Emerging Asia	MSCI EM Asia NR	**USD**	-0.8%	-4.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-8.4%	-3.0%
BRICs	MSCI BRIC NR	**USD**	-4.1%	-7.4%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-2.7%	-4.7%
Bonds				
US Treasuries	JP Morgan United States Government Bond TR	**USD**	0.8%	0.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.7%	0.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.5%	0.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.7%	2.2%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	0.2%	-0.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.5%	0.2%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.6%	-0.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.0%	0.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-0.2%	0.9%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	-0.7%	-0.8%
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.0%	1.6%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.0%	-0.9%
Global Bonds	ICE BofAML Global Broad Market	**USD**	0.1%	-0.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	1.5%	1.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-3.1%	-2.3%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2018		
		Currency	1 Month	3 Months
Property				
US Property Securities	MSCI US REIT NR	**USD**	3.0%	8.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	2.2%	3.6%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-2.8%	-5.3%
Global Property Securities	S&P Global Property USD TR	**USD**	0.4%	1.6%
Currencies				
Euro		**USD**	-0.8%	-0.8%
UK Pound Sterling		**USD**	-1.2%	-2.5%
Japanese Yen		**USD**	0.7%	-2.0%
Australian Dollar		**USD**	-3.2%	-5.0%
South African Rand		**USD**	-9.6%	-13.5%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-0.9%	-4.3%
Agricultural Commodities	RICI Agriculture TR	**USD**	-4.2%	-8.7%
Oil	Brent Crude Oil	**USD**	4.3%	-0.2%
Gold	Gold Spot	**USD**	-1.9%	-7.5%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.5%*	0.2%*
Interest rates				
United States			2.00%	
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 31 August 2018		
		Currency	1 Month	3 Months
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	-3.3%	-2.0%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-3.9%	-1.9%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-1.3%	-3.1%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-0.6%	-0.3%
United States	S&P 500 NR	**USD**	4.5%	10.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.4%	3.7%
Japan	Topix TR	**JPY**	0.9%	-0.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	0.2%	-1.3%
Global developed markets	MSCI World NR	**USD**	2.5%	7.0%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-1.4%	-2.2%
Bonds				
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	0.1%	-0.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.1%	-0.1%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	0.3%	-0.3%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	0.1%	-1.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	-0.7%	-0.9%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	0.3%	0.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	-1.1%	-1.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	0.5%	0.2%
US Treasuries	JP Morgan US Government Bond TR	**USD**	2.1%	3.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.5%	0.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	2.0%	4.9%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.6%	-0.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	0.0%	0.2%
Euro High Yield	*BBgBarc European High Yield 3% Constrained TR*	**EUR**	0.2%	2.8%
Global Government Bonds	JP Morgan Global GBI	**GBP**	1.2%	1.7%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	0.1%	-0.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	1.5%	1.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-1.9%	0.2%

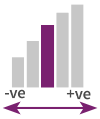
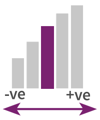
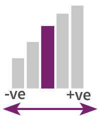
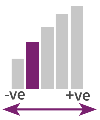
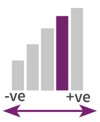
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *e denotes estimate*

Market Performance - UK (All returns in GBP)

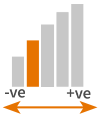
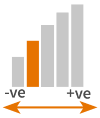
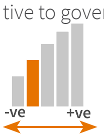
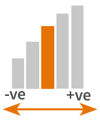
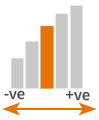
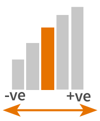
Asset Class/Region	Index	To 31 August 2018		
		Currency	1 Month	3 Months
Property				
Global Property Securities	S&P Global Property TR	**GBP**	1.7%	4.2%
Currencies				
Euro		**GBP**	0.5%	1.8%
US Dollar		**GBP**	1.3%	2.6%
Japanese Yen		**GBP**	2.0%	0.5%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	0.4%	-1.9%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-3.0%	-6.3%
Oil	Brent Crude Oil	**GBP**	5.6%	2.4%
Gold	Gold Spot	**GBP**	-0.6%	-5.1%
Interest rates				
United Kingdom			0.8%	
United States			2.0%	
Eurozone			0.0%	
Japan			0.1%	

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

Asset Allocation Dashboard

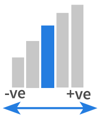
Asset class	View
Equities	
Developed equities 	» We retain a neutral allocation to global equities today. Valuations vary across regions and sectors and whilst in aggregate they are not cheap, they do offer the prospect of reasonable returns, both in absolute terms and relative to other classes. Low bond yields can support this for now, although we recognise the direction is upward from here. » Monetary policy and cross border politics will remain key drivers of risk appetite and global quality returns + The global macro backdrop remains favourable for global equities + Equities are better placed than most asset classes to perform in a moderately pro inflationary environment – Valuations remain selectively expensive at current levels – Continued talk around and implementation of trade tariffs is not constructive for global equities
UK equities (relative to developed) 	» UK equities look cheap today but caution is warranted given UK's evolving Brexit negotiations and continued political jockeying. While the larger cap market constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. November looks increasingly likely to be a key month for agreeing a provisional deal (or not). + 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 with no deal yet on the table this will only become more of an issue
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 Europe continues to recover from its post crisis lows and lags other parts of the world, but political risks remain and regional markets remain susceptible to the associated volatility » Investors should be mindful of the ECB ending its QE program, with the latest indications that they will halve monthly purchases to E15bn from October and stop them altogether by the end of the year + European earnings have scope to recover meaningfully from their lows, and the somewhat weak currency should provide a tailwind to European exporterss – 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 repricing 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 when adjusted for the strong tech sector performance. However, the US economy remains in good health and arguably warrants a premium valuation as corporates post bumper earnings growth and sentiment runs high. In spite of this the longer term valuation headwind means we score less highly than ex US bourses. » 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 is remains in rude health with leading indicators remaining firmly positive + Financial conditions remain relatively loose, which coupled with the current fiscal stance can help propel economic growth further – Valuations remain somewhat extended and rising yields may prove an obstacle to further index gains from current levels
Japan equities (relative to developed) 	» Japanese equities remain quite attractive today and we acknowledge the government's policies to improve working practices and governance. Q2 earnings were strong with ~14% earnings growth recorded. The direction of the Yen is an important driver of returns and further Yen weakness would support Japanese equities. » 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 would hit Japanese equities, as seen earlier this year
Emerging market equities 	» EM assets remain under pressure as a buoyant Dollar, high oil price and heated trade war rhetoric weigh on markets. We continue to favour EM assets more generally over DM as the longer term relative growth dynamics look favourable, which coupled with steady inflation and accommodative policy should support EM equities. 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 sold off sharply through August and this provides some additional cushion to EM equity returns through potential earnings enhancement over time – 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 as yields oscillate around the 3% level. 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
Index-linked (relative to government) 	» Index linked bonds offer some selective value today but, like their nominal counterparts, they are expensive today with US breakevens looking somewhat 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 renewed concerns over global growth they would almost certainly underperform nominal bonds
Investment grade (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations remain tight today. Marginally preferred to sovereigns today » 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 remain quite tight in leveraged credit markets, 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, with an opportunity to add spread duration at better levels + In the absence of a systemic market shock the running yield of high yield measn the asset class will likely trump most of other fixed income – Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive
Emerging market debt 	» Emerging market bonds have been under pressure alongside EM equities and EM FX. However, the asset class seems to have found a near term floor and with yields above 6% the asset class is attractive. The barrier to upgrading our view is that spreads remain at best fair and idiosyncratic stories, such as Turkey, cause ongoing concern. » It remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure at this time + EM bonds continue to offer some of the best long term real return opportunities in core 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 somewhat rich to their constituent parts today. Whilst this is driven by loftier US valuations we favour an allocation to this asset class 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 + 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 constituent is well valued today – 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 increasing number of trade tariffs being imposed by the US and their trade partners (Europe and China in particular) in retaliation. This dynamic remains in flux and is likely to cause some volatility, with tariffs more likely than not to increase

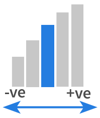
\+ With the US Dollar still near cyclical highs, and growth reasonably strong globally, commodities have scope to generate positive returns.

\+ Gold remains a good hedge against risk off outcomes, perhaps moreso given recent underperformance

– Should the Dollar's decline come to a halt or reverse, commodities would likely come under pressure. However, recent dollar strength has been accompanied by a rising commodity index. The negative relationship is likely to reassert at some point

– Trade tensions may continue to weigh on the commodities sector which is particualry exposed to a slowdown in global growth, and China in particular

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

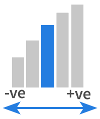
» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property holds some appeal, with industrial and office space remaining more attractive than the under pressure retail sector

\+ Attractive yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness

– 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 continues to evolve slowly

Infrastructure



» Infrastrucuture stocks trade at reasonable valuations today - broadly in line with global equities today - whilst performance has lagged

» Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets

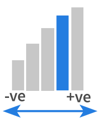
\+ 'In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing

\+ The asset class offers a healthy yield at a reasonable valuation today

– 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 recent tragic events in Genoa highlights the political risk embedded in infrastructure investing

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 remain expensive

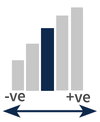
\+ These strategies provide additional diversification with reasonable return potential

– 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

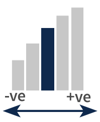
GBP



» Brexit uncertainty and cabinet level political risk remains high but Sterling appears to have found a floor more recently. If a deal is brokered in November Sterling stands to do well. It's not a time to take a strong position either way so we take a neutral view until we have a clearer expectation around Brexit terms and timeline.

» 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.

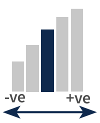
Euro



» The Euro remains somewhat rangebound today and lacks convcition 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 despite the Bank of Japan widening their yield curve policy band. This means short rates will offer no real value for some time. 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. We remain neutral today but further weakness from the currency or gains in global equities will likely see the currency re rate higher

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