IMPERIUM CAPITAL

momentum

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Newsflash

A new month and the 159th issue of Viewpoint from **Imperium Capital**.

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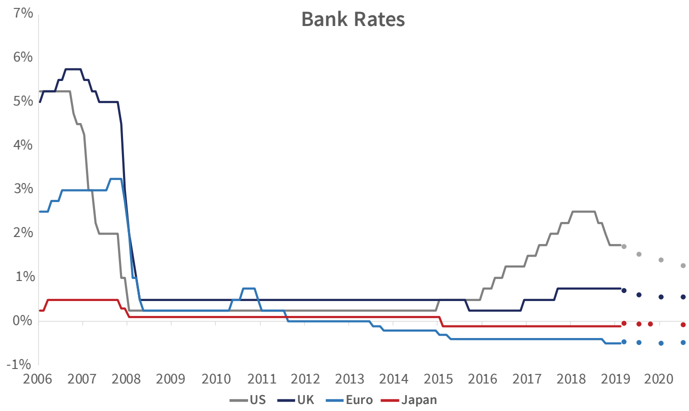
Market Commentary

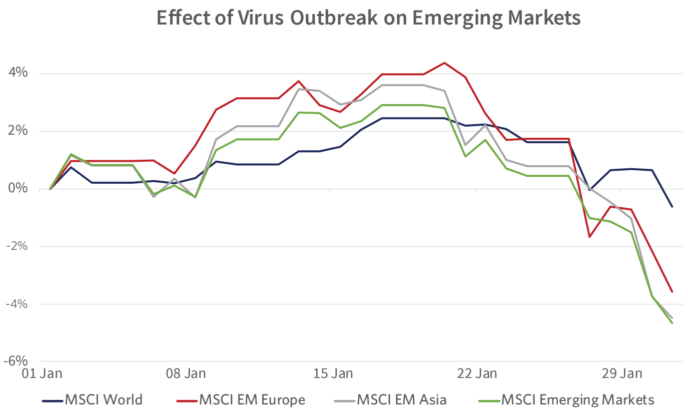
Markets started 2020 in much the same way that they ended 2019, with investors buoyed by the expectation of ultra loose monetary policy for a long time ahead, diminished risks from trade wars and Brexit, and the prospect of a recovery from 2019's growth slowdown as manufacturing showed signs of recovering from the slump of the past 18 months. The sharp escalation in the US-Iran feud in early January led to a surge in gold and oil prices but fears of a more widespread and deeper escalation of hostilities quickly dissipated. By mid month global equities had added 2.5% to the strong returns of 2019.



Source: Short term policy rates with market implied future policy rates, Momentum, Bloomberg, as of 6th February 2020

However, the emergence of a new coronavirus in China, first reported by China to the WHO on 31 December, became a global concern in mid-January as the first deaths were reported and signs of serious escalation mounted. Fears of a global pandemic quickly spread with experts warning that China was probably late in reporting the virus and almost certainly under-reporting its immediate impact, fears which were heightened with the effective lock-down of Wuhan and its region, a major manufacturing hub, suggesting that the authorities were scrambling to contain a rapidly spreading virus.

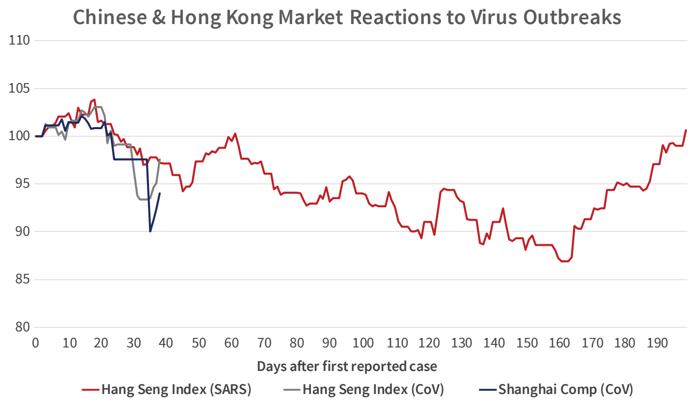
Markets, especially in China and neighbouring countries, fell sharply as the economic damage mounted. In the second half of the month global developed equities fell by 3.0%, leaving the MSCI World index down 0.6% in January. Emerging markets, dominated as they are by China and other Asian countries, inevitably suffered disproportionately, down 4.7% in the month. However, the biggest impact was in commodity markets, with copper and iron ore down 10% in January and oil down 11.9% (and by 15.6% from its peak immediately post the US-Iran spat). A flight to safety pushed up the gold price by 4.7% while the yield on 10-year US Treasuries fell by 40bps to 1.5%, close to post crisis lows, producing a 2.6% return from US government bonds.



Source: 1st January = 100, Momentum, Bloomberg, 31st January 2020

Assessing the economic damage from the virus is difficult given how little is yet known about it. Comparisons are inevitably made with the SARS virus of 2003, which had a higher mortality rate than coronavirus, 10% versus around 2% (still about 20x normal winter flu), but coronavirus is spreading much more rapidly. The numbers affected are already a multiple of those with SARS, which had just over 5,000 reported cases in China; already the number of deaths in China from coronavirus exceed those from SARS. Furthermore, in 2003 China represented 4.3% of global GDP, today it is close to 17% with deeply integrated supply chains internationally. When China sneezes today the World is likely to catch a cold. Early estimates of the economic impact suggest that the closure of much of China's manufacturing and commerce, and its increasing isolation from the rest of the World will knock up to 2 percentage points off its Q1 GDP, and around 0.25% off global GDP, thereby stalling the nascent recovery in growth. Incontrovertible evidence of the hit to China's growth is illustrated by the sharp fall in the oil price, with China's demand thought to have declined by around 20%, close to 3 million barrels per day, since the outbreak, and China exercising force majeure contracts on certain energy imports.

However, the outbreak is largely limited to China; although it has spread, only 1% of cases to date have been outside China. While the fear of spreading is tangible, especially in other Asian countries, there is growing confidence that it will be contained mainly to China, given the lock-down that the country is in. While the damage to China, and certain sectors such as travel, hotels, airlines, hospitality, retail and manufacturing, is substantial, some of which will be permanently lost, the virus will probably be under control within months, especially as warmer weather arrives. As long as the virus does not spread significantly outside China the damage to global markets is likely to be limited. Taking the SARS outbreak as a guide, Hong Kong was the worst affected country, with a 2.5% contraction in GDP and a 15% fall in the Hang Seng index within 3 months of the outbreak. The hit to mainland China's GDP was about 1%. With coronavirus, the Hang Seng declined close to 10% from its mid-January peak to month end while the Shanghai Composite fell by 12% over a similar period. While we recognise the risks of a further rapid spread, we believe that the impact of coronavirus will be limited globally and for the damage to GDP to be mostly in the first quarter of 2020. Thereafter a rapid recovery is likely as the virus is brought under control.



Source: Momentum, Bloomberg, as of 7th February 2020

Coronavirus has dominated markets since its outbreak but there have been other developments. The US and China signed phase one of their trade deal, which includes the roll-back of some tariffs, and the UK formally exited the EU at the end of January, leading to a transitional period of 11 months and negotiations to determine the future trading relationship. The 2 sides have set out their negotiating objectives, with the UK clear that it is coming out of the single market and customs union and will not seek regulatory alignment with the EU, instead seeking a Canada style free trade agreement. The EU in turn wants commitments from the UK that it will not undercut the EU and will ensure a level playing field and common standards in key areas. The stage is set for tough negotiations during 2020 and there will undoubtedly be the fear mongers predicting a no deal end to the transition period. That would seem highly unlikely to us since it is plainly in the interests of neither party, and some pragmatism will ultimately prevail, with at least a partial deal done by year end. Nevertheless, sterling and UK assets will be subject to volatility as the negotiations progress in coming months.

Economic data generally pointed to a modest pick up in growth after the weakness during 2019. A bounce in confidence and activity was particularly notable in the UK after the general election in December. However, the data globally preceded the outbreak of the coronavirus and some negative impact from this is certain in the weeks ahead. Inflation across the developed world has remained very subdued, leaving central banks with considerable leeway to keep monetary policy very loose. In China the People's Bank of China loosened policy by providing substantial injections of liquidity in face of the severe disruption caused by the virus.

Events such as coronavirus are totally unpredictable and inevitably cause a sudden rise in uncertainty and volatility. While undoubtedly damaging to confidence and activity levels, and therefore to markets, the effects are likely to be short lived. Further setbacks to markets cannot be ruled out but as the virus is brought under control recovery of economic activity and markets will take hold. Other big risks overhanging global markets have diminished and central banks almost without exception are pursuing ultra loose monetary policy for the foreseeable future. Our expectations for markets have therefore not changed, and we expect modest progress to be made during 2020. We recognise that valuations have become more stretched following the big gains of 2019 but periods of downside volatility offer opportunities to add to risk assets.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 January 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	-0.1%	6.6%	-0.1%	21.0%
United Kingdom	MSCI UK NR	**GBP**	-3.3%	1.0%	-3.3%	8.5%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.8%	3.5%	-0.8%	18.9%
Japan	Topix TR	**JPY**	-2.1%*	1.2%	-2.1%*	10.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-3.7%	2.3%	-3.7%	7.0%
Global	MSCI World NR	**USD**	-0.6%	5.2%	-0.6%	17.7%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	-3.6%	2.3%	-3.6%	14.4%
Emerging Asia	MSCI EM Asia NR	**USD**	-4.5%	2.8%	-4.5%	6.1%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-5.6%	-0.2%	-5.6%	-3.5%
BRICs	MSCI BRIC NR	**USD**	-4.4%	3.2%	-4.4%	6.9%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-4.7%	2.3%	-4.7%	3.8%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	2.6%	1.6%	2.6%	9.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	2.3%	2.8%	2.3%	9.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	2.3%	2.9%	2.3%	14.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.0%	2.4%	0.0%	9.4%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	3.9%	1.5%	3.9%	10.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	2.8%	2.5%	2.8%	10.6%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	2.4%	0.6%	2.4%	8.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.2%	0.9%	1.2%	6.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	0.2%	2.2%	0.2%	9.1%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.5%	-0.2%	0.5%	2.1%
Australian Government	JP Morgan Australia GBI TR	**AUD**	3.2%	1.6%	3.2%	10.7%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.8%	0.8%	1.8%	6.5%
Global Bonds	ICE BofAML Global Broad Market	**USD**	1.4%	1.1%	1.4%	6.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	1.9%	6.4%	1.9%	13.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	2.2%	5.3%	2.2%	9.6%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 January 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	1.1%	-1.3%	1.1%	12.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	6.4%	2.3%	6.4%	14.2%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-4.0%	-2.0%	-4.0%	0.5%
Global Property Securities	S&P Global Property USD TR	**USD**	-0.4%	0.3%	-0.4%	10.8%
Currencies						
Euro		**USD**	-1.1%	-0.5%	-1.1%	-3.1%
UK Pound Sterling		**USD**	-0.4%	2.0%	-0.4%	0.7%
Japanese Yen		**USD**	0.2%	-0.3%	0.2%	0.5%
Australian Dollar		**USD**	-4.7%	-2.9%	-4.7%	-8.0%
South African Rand		**USD**	-6.8%	0.5%	-6.8%	-11.8%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	-7.4%	-3.5%	-7.4%	-3.2%
Agricultural Commodities	RICI Agriculture TR	**USD**	-3.1%	0.9%	-3.1%	-5.2%
Oil	Brent Crude Oil	**USD**	-11.9%	-3.4%	-11.9%	-6.0%
Gold	Gold Spot	**USD**	4.7%	5.0%	4.7%	20.3%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.5%*	2.8%*	0.5%*	6.9%*
Interest rates						
United States			1.75%			
United Kingdom			0.75%			
Eurozone			0.00%			
Japan			-0.10%			
Australia			0.75%			
South Africa			6.25%			

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 January 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	-3.3%	1.0%	-3.3%	8.5%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-3.4%	0.2%	-3.4%	7.2%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-3.1%	3.7%	-3.1%	9.1%
UK - Small Cap	MSCI Small Cap NR	**GBP**	-3.4%	6.1%	-3.4%	16.7%
United States	S&P 500 NR	**USD**	0.4%	4.5%	0.4%	20.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.6%	0.9%	-1.6%	14.5%
Japan	Topix TR	**JPY**	-2.3%*	-1.2%	-2.3%*	10.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-3.2%	0.3%	-3.2%	6.4%
Global developed markets	MSCI World NR	**USD**	-0.1%	3.2%	-0.1%	17.1%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-4.2%	0.3%	-4.2%	3.2%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	3.8%	1.4%	3.8%	10.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.3%	0.1%	0.3%	1.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	2.2%	0.7%	2.2%	6.3%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	6.3%	2.4%	6.3%	16.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	4.2%	0.6%	4.2%	10.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	2.0%	-0.4%	2.0%	5.4%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	5.5%	1.1%	5.5%	13.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	2.8%	2.5%	2.8%	10.6%
US Treasuries	JP Morgan US Government Bond TR	**USD**	3.1%	-0.2%	3.1%	9.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	2.3%	2.9%	2.3%	14.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.0%	2.4%	0.0%	9.4%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	2.4%	0.6%	2.4%	8.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.2%	0.9%	1.2%	6.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	0.2%	2.2%	0.2%	9.1%
Global Government Bonds	JP Morgan Global GBI	**GBP**	2.3%	-1.2%	2.3%	5.9%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	1.4%	1.1%	1.4%	6.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	1.9%	6.4%	1.9%	13.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	2.8%	3.2%	2.8%	8.9%

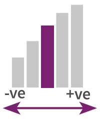
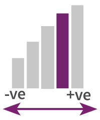
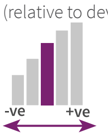
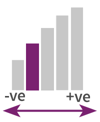
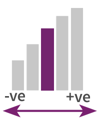
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 January 2020				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	0.1%	-1.7%	0.1%	10.2%
Currencies						
Euro		**GBP**	-0.7%	-2.5%	-0.7%	-3.8%
US Dollar		**GBP**	0.4%	-2.0%	0.4%	-0.7%
Japanese Yen		**GBP**	0.7%	-2.3%	0.7%	-0.2%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	-6.9%	-5.3%	-6.9%	-3.7%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-2.6%	-1.1%	-2.6%	-5.8%
Oil	Brent Crude Oil	**GBP**	-11.4%	-5.3%	-11.4%	-6.6%
Gold	Gold Spot	**GBP**	5.3%	3.0%	5.3%	19.6%
Interest rates						
United Kingdom			0.75%			
United States			1.75%			
Eurozone			0.00%			
Japan			-0.10%			

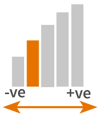
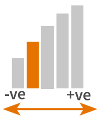
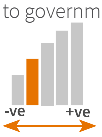
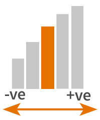
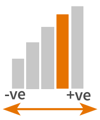
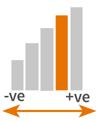
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities 	» We retain our broadly neutral allocation to global equities today, but are mindful of risks to global growth from Coronavirus related risks becoming more entrenched going forward. Valuations are not outlandish today and global equities remain attractive in our view, particularly versus expensive sovereign and corporate bonds. » Monetary policy and cross border politics will remain key drivers of risk appetite and global equity returns, and we see little evidence of a need for tighter policy in the near term which would threaten future equity returns. Trade disputes, geopolitics and 'Coronarisk' remain central to risk pricing today. + Today's mostly dovish policy stance remains favourable for global equities, though we remain cognisant of weaker data across a number of regions – The trade war back drop remains unresolved and remains a key risk for global equities Manufacturing shutdowns will start to impact corporate earnings globally through supply chain disruption if Coronavirus risk is not contained – Earnings have increasingly come under pressure and the absence of EPS growth will be a headwind to further equity upside when valuation multiples already look somewhat full
UK equities (relative to developed) 	» The strong election result in December saw UK equities move higher. There remains a lot of work to negotiate eventual trade terms but the threat of prolonged inaction and the Corbyn government has been removed which we believe can provide a tailwind for UK assets as the year progresses. While the UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names stand to benefit if this plays out » We expect the valuation discount to continue to narrow as the government makes headway on implementing Brexit. + The UK market now has the catalyst required for an uplift in valuation; The market is still positioned near record short levels, and valuations are still discounted. Combined that should lend support to UK risk assets. – Although the majority Tory government can set about 'getting Brexit done', the path to eventual trade terms may be rocky, and the government may face renewed constitutional issues (SNP) – The UK high street continues to face major challenges.
European equities (relative to developed) 	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. The ECB has renewed its bond purchase program but inflationary pressures have all but evaporated and it is difficult to identify a catalyst for meaningful earnings growth. Fiscal stimulus looks likely to follow. + Renewed ECB asset purchases or policy stimulus will likely provide support to risk assets in the region. – Manufacturing, a mainstay of the German economy in particular, remains under pressure from shifting consumer and industrial trends. This poses headwinds for the broader German economy and the health of the region as a whole.
US equities (relative to developed) 	» The US remains the most expensive of the major developed markets, but the narrow market that has led indexes higher also offers selective value for the stockpicker. The US economy remains in reasonably good health and arguably warrants a premium, but the tighter valuation opportunity today, even more pronounced after 2019's stellar performance, means we rate US equities less highly than ex US bourses today. » Monetary policy remains crucial to keeping markets in check and volatility under control. + The economy remains in reasonably good health with several leading indicators remaining positive, albeit weakening + Following the Fed's policy pivot in 2019, broader measures of financial conditions have loosened, which coupled with the current fiscal stance may help support earnings going forward. + 2020 is an election year which historically has tended to be good for US equity investors. – US equity valuations remain elevated vs other regions today which may prove to be an obstacle to further index gains from current levels. Additionally, 2020 earnings growth could disappoint versus what is currently priced in to markets – Trade war policy and geopolitics remains firmly on the agenda in this election year and could prove to be a destabilising force.
Japanese equities (relative to developed) 	» Japanese equities continue to trade at an attractive valuation today. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa, and recent weakness through the second half of 2019 helped Japanese equities make up some lost ground. » Japanese assets should remain well buoyed by the Bank of Japan which continues to run an asset purchase program. + Japanese equities' relative underperformance leaves scope for further equity upside in the absence of broader based market volatility Cash rich Japanese corporates are increasingly returning more cash to shareholders through dividends, which look attractive vs domestic bond yields. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities There is a notable absence of catalyst for any rerating – Recent growth stats were knocked by the consumption tax hike. That, and risks in the region from Coronavirus, could weigh on Japanese corporates
Emerging market equities 	» On a longer term view we remain in favour of EM assets more generally over DM as the relative growth dynamics look favourable and reasonable valuations should support EM equity returns over time. » Some caution is still warranted today given the weaker macro backdrop and risks to China growth (and beyond) emanating from the CoronaVirus. Further bouts of volatility are inevitable. + EM currencies remain somewhat cheap and provide additional cushion to local 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 – The Sino-US trade war backdrop remains unresolved (notwithstanding the recent Phase One deal agreement) and remains a key risk for emerging markets as a whole.

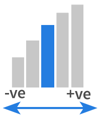
Past performance is not indicative of future returns.

Fixed Income

Government 	» DM government bonds remain largely unattractive today with poor real return prospects in aggregate following another year of strong performance. We remain cautious on bonds and look for more diversification to come from cash, gold and real assets. Other sovereign markets, such as Italy and EM, offer some value but are also a source of price volatility. + Quality government bonds remain one of the better diversifiers in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having some exposure, or owning higher quality investment grade in lieu of pure sovereign. – The reducing quantum of central bank bond purchases may be a headwind for all rate sensitive debt when the current buying frenzy ends (if indeed it does).
Index-linked (relative to government) 	» Index linked bonds offer some selective value but, like their nominal counterparts, they are expensive, particularly so in the UK. With inflation risk so poorly priced today however, we rate them slightly higher than nominals in aggregate. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk. – Inflationary forces remain muted today and on any sustained slowdown in global growth they would almost certainly underperform nominal bonds.
Investment grade Corporate (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight. 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. – In the absence of central bank bond purchases the risks appear more asymmetric today Credit quality has drifted lower in recent years, and leverage has moved higher
High Yield Corporate 	» Futher price upside from spread compression is likely to be limited, but carry remains decent » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration if credit markets widen more meaningfully from here. + In the absence of a systemic market shock, and with the current dovish tone driving markets, high yield should continue to carry a decent return. – The global credit cycle is at best mid cycle, at worst late cycle, so spread volatility is to be expected going forward. Defaults are likely to come in higher with recoveries potentially lower than historical levels – High yield's exposure to the energy sector could be further impacted by any prolongued Corona induced manufacturing slowdown
Emerging market debt 	» The asset class remains attractive today with spreads continuing to offer some reasonable value The healthy running yield means the asset class remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure at this time. + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today. – Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt Idiosyncratic events will continue to occur, such as those witnessed in Argentina last year, so expect some periodic bouts of volatility
Convertible bonds 	» "We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings. Some caution is warranted given the concentration to the US market and technology names, although more recently the asset class has shown itself to be quite resilient in a growth stocks led sell off. + The natural convexity provided by convertibles should continue to provide reasonable protection against any renewed equity weakness, as US markets again trade near record highs, and risks look somewhat skewed today with a degree of 'Corona-Complacency' priced in. – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest regional market, remains one of the more expensive regions today in aggregate – If volatility reverts again to the recent multi year lows then the optionality holds limited value.

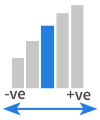
Real Assets /Alternatives

Commodities



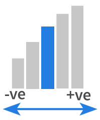
- » The prices of some commodities continues be buffeted by trade wars, tensions in the gulf and more recently the Coronavirus outbreak. These risks seem likely to persist in the near term
- » Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle.
- + With the US Dollar still near cyclical highs, and global growth still positive, commodities have scope to generate positive returns.
- + Gold remains a good hedge against risk off outcomes, and deflationary sentiment, as witnessed more recently.
- – Trade tensions and Coronavirus may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular
- – Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, were that to occur.

Property (UK)



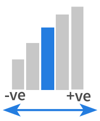
- » Property remains an attractive asset class for investors requiring yield.
- » Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today.
- » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, property holds appeal, with selective industrial and office space having more attractive fundamentals than under pressure high street retail.
- + Premium yields should continue to attract capital and provide some floor to prices, as will any renewed Sterling weakness (for UK property)
- + The longer duration qualities of the asset class make 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 will continue to evolve post election; the retail sector also remains under pressure.

Infrastructure



- » Infrastructure stocks trade at reasonable valuations today despite strong 2019 returns
- » Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment continues to grow.
- + 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 underlying infrastructure stocks remain exposed to these risks.

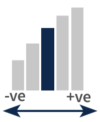
Liquid Alternatives



- » We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles. We favour an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds remaining very expensive.
- + These strategies provide additional diversification with reasonable return potential..
- – "The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable.

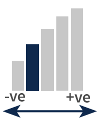
Currencies*

GBP



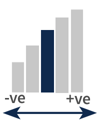
- » We maintain our more neutral rating on Sterling today after the strong election result in December. Despite some softening in the weeks since, as negotiations continue we would look for the funnel of Brexit uncertainty to narrow, which should ultimately lend some support to the still cheap currency. More recently the change of Chancellor has provided some breif uplift.

Euro



- » The Euro has had a shocking start to the year. Weak fundamentals - absolute and relative - and a softer rates outlook has kept investors away.
- » In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today.

Yen



- » Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today. What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. The neutral rating reflects this attribute which the Euro lacks.

*Past performance is not indicative of future returns. *Currencies views are expressed versus the US Dollar*

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