

# VIEWPOINT

## Newsflash

A new month and the 139<sup>th</sup> issue of Viewpoint from Imperium Capital.

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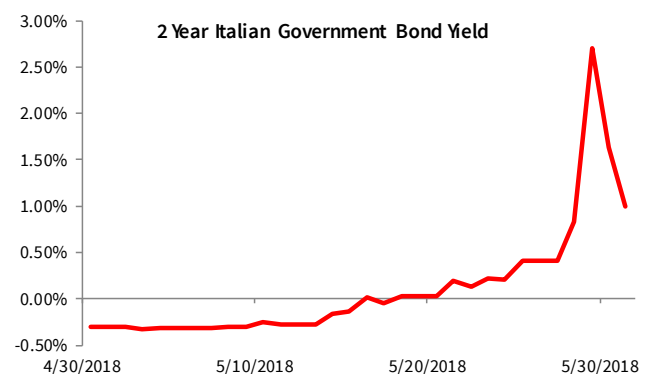
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## Market Commentary

The stand-out event during the month was the fall-out from the indecisive Italian election in March. An unlikely coalition of the anti-establishment Five Star movement and the far right League was finally able to form a government in May, only to have their nomination for Finance Minister overturned by the President on the grounds of the anti-euro views of the proposed minister and the perceived risk to stability. Investors, increasingly nervous about the populist, anti-euro views of the coalition parties and their policies of radical economic reform, took fright as it seemed the coalition would use this as an opportunity to push for another election, in which the populists could substantially increase their voting share, potentially increasing the risks of Italy exiting the euro. Eventually a compromise was reached and, with a different finance minister, the coalition formed a new government. However, the damage to Italy's bond markets and perceived credit worthiness was still apparent. With a government debt to GDP ratio of 130%, one of the highest in the world, Italy remains vulnerable, despite the better performance of its economy in the past year, while many Italians reject the budgetary constraints imposed by what is seen by some as an over reaching Brussels bureaucracy. The conundrum for the Eurozone remains; a single currency without full banking and fiscal unification is inherently unstable and prone to bouts of stress, leading to recent calls for reform.

Figure 1: Italian 2 Year bond yields moved heavily after major political concerns



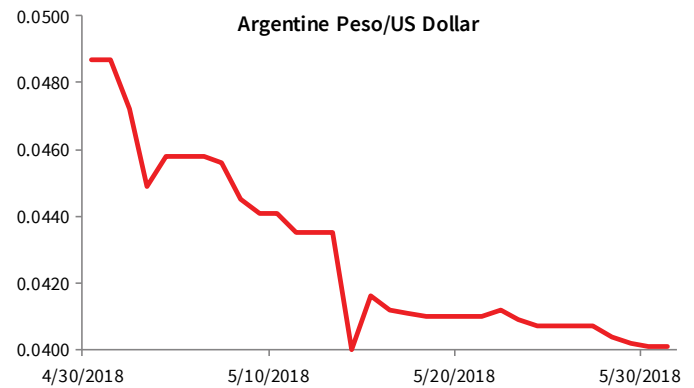
Source: Bloomberg, Momentum GIM

Against this backdrop the euro fell by 3.2% versus the US Dollar in the month, and is now down 8% from its 2018 peak. The most notable market shift was the extraordinary move on Italian government bonds; in a matter of days the yield on 10 year bonds moved from 1.9% to 3.2%, and still remains at 2.9%. The moves in 2 year bonds were even more dramatic, shifting from -0.3% in early May to 2.6% before retreating to 1.2%.

European assets generally weakened with equities down 0.9% in euro terms and government bonds down 1.2%, with sharp weakness in peripheral markets. In a rapid shift to risk aversion, especially in fixed income markets, safe haven assets performed well; US Treasuries returned 0.9%, while the Yen rose 0.5% against a strengthening US Dollar. US equities performed strong, returning 2.3%, and in US Dollar terms were the best performing major market. US equities were supported by continuing evidence of strong growth in the US economy and company earnings, while the Federal Reserve remains somewhat dovish, indicating it was prepared to tolerate an overshoot of its 2% inflation target for a period.

Strong economic data in the US, the problems in Italy and evidence of a slowdown in growth across the Eurozone all underpinned the US Dollar. On a trade weighted basis it rose 2.3% in the month, continuing its recovery from February lows, and has now recovered all the ground lost in the early weeks of this year, having surged by 7% in just a few weeks. The strong US Dollar and rising US interest rates combined to put pressure on emerging markets, especially those most vulnerable with high offshore debt levels and weak current accounts requiring US Dollar funding. A number of emerging market currencies suffered steep falls, notably the Turkish Lira fell 10%, Argentine Peso 18% and Brazilian real 6%, all of which have fallen very sharply from January levels, forcing central bank action. Sentiment across the emerging economies was negatively impacted, with emerging market debt and equities underperforming, declining 1.6% and 3.5% respectively.

Figure 2: The Argentine Peso fell considerably versus the US Dollar



Source: Momentum GIM, Bloomberg

Geopolitics remained front and centre during the month. The US decision to withdraw from the Iran nuclear deal and re-impose sanctions, together with the collapse in oil production in Venezuela drove Brent crude to a peak of USD 80/bbl, before falling back on news that OPEC and Russia would restore production. Brent crude ended the month at USD 77.6, up 3.2%. The uncertainty surrounding the US-North Korea summit produced some short term volatility, but no material impact while the increasingly aggressive trade policy approach of the US continued to worry investors and could lead to a more meaningful negative impact on longer term global growth.

While geopolitics will no doubt remain a threat to the stability of markets in the short term, it will ultimately be the direction of monetary policy, especially in the US, that will have the biggest impact on markets. The Federal Reserve is on course for further interest rate rises and a reduction of its balance sheet, consequently reducing the pool of US Dollar liquidity. This has steadily raised the return on risk-free assets, notably US government bonds and cash, pressuring the valuations of more risky assets. For the first time since the financial crisis, safe haven government bonds, albeit only in the US to date, are beginning to offer an acceptable yield; potentially altering the course of riskier assets.

However, the global economy continues to expand at a reasonable rate, with little signs of capacity shortages that could push up inflation and lead to a steeper tightening of monetary policy. A key factor will be the rapid growth of employment in the US over the past few years, leading to unemployment levels at near 50 year lows and some signs of a pick-up in wage inflation. This will be a key metric to monitor in the coming months, but for the time being the economic environment remains broadly benign. A combination of steady growth, modestly rising inflation and gradual monetary policy tightening is likely to keep bond markets under pressure, with yields rising further, but not to levels that would undermine equity markets. Markets are undoubtedly more vulnerable to setbacks and increased

volatility than in 2017, as the monetary tightening cycle progresses and as fears of damaging trade wars between the US and its partners oscillates. However, the underlying strength of the global economy remains largely intact and the pace of monetary stimulus withdrawal will be cautious, hence we believe it is too early to be calling an end to this cycle. Equities remain our preferred asset class, while in fixed income we continue to believe shorter duration exposure is appropriate, but we are beginning to see some value arising in US Treasuries and are increasingly cautious about credit.

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 May 2018		
		Currency	1 Month	3 Month
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	2.3%	0.0%
United Kingdom	MSCI UK NR	GBP	2.6%	7.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.9%	0.5%
Japan	Topix TR	JPY	-1.7%*	-0.3%
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	-0.8%	-2.1%
Global	MSCI World NR	USD	0.6%	-0.4%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	-5.2%	-14.0%
Emerging Asia	MSCI EM Asia NR	USD	-1.3%	-2.6%
Emerging Latin America	MSCI EM Latin America NR	USD	-14.1%	-16.0%
BRICs	MSCI BRIC NR	USD	-1.8%	-5.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-3.5%	-5.8%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9%	1.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.4%	1.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.5%	-0.1%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.0%	0.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.8%	2.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.3%	0.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.2%	0.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.2%	-0.3%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.4%	-1.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.4%
Australian Government	JP Morgan Australia GBI TR	AUD	0.9%	1.5%
Global Government Bonds	JP Morgan Global GBI	USD	-0.9%	-1.3%
Global Bonds	Citigroup World Broad Investment Grade (WBI) TR	USD	-1.0%	-1.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.6%	-1.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.6%	-2.5%

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

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 May 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	3.8%	9.2%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	3.1%	7.7%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.9%	0.6%
Global Property Securities	S&P Global Property USD TR	USD	0.8%	4.7%
<b>Currencies</b>				
Euro		USD	-3.2%	-4.1%
UK Pound Sterling		USD	-3.4%	-3.4%
Japanese Yen		USD	0.5%	-2.0%
Australian Dollar		USD	0.5%	-2.5%
South African Rand		USD	-1.9%	-7.1%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	1.7%	5.7%
Agricultural Commodities	RICI Agriculture TR	USD	1.7%	1.0%
Oil	Brent Crude Oil	USD	3.2%	18.0%
Gold	Gold Spot	USD	-1.3%	-1.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.3%	-0.6%
<b>Interest rates</b>				
United States			1.75%	
United Kingdom			0.50%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.50%	

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 May 2018		
		Currency	1 Month	3 Months
<b>Developed markets equities</b>				
UK - All Cap	MSCI UK NR	GBP	2.6%	7.3%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.3%	7.3%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	3.4%	5.7%
UK - Small Cap	MSCI Small Cap NR	GBP	3.2%	8.1%
United States	S&P500NR	USD	6.0%	3.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.0%	-0.4%
Japan	Topix TR	JPY	2.2%*	1.5%
Asia Pacific (ex Japan)	MSCIACAsia Pacificex Japan NR	USD	2.7%	1.6%
Global developed markets	MSCI World NR	GBP	4.2%	3.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	-0.1%	-2.3%
<b>Bonds</b>				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	1.8%	2.8%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.5%	0.6%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	1.5%	2.3%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	2.8%	4.6%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	2.3%	2.1%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	1.4%	1.6%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	2.9%	2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.3%	0.9%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	4.5%	4.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	4.1%	3.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	3.5%	3.7%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.4%	-0.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.4%	-1.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.5%	-1.9%
Global Government Bonds	JP Morgan Global GBI	GBP	2.6%	2.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	2.5%	2.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	3.0%	1.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	1.9%	1.1%


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

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 May 2018		
		Currency	1 Month	3 Months
<b>Property</b>				
UK Direct Property	UK IPD All Property TR	GBP	0.6%	2.2%
Global Property Securities	S&P Global Property USD TR	GBP	4.4%	8.6%
<b>Currencies</b>				
Euro		GBP	0.2%	-0.8%
US Dollar		GBP	3.5%	3.5%
Japanese Yen		GBP	4.0%	1.5%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	5.3%	9.6%
Agricultural Commodities	RICI Agriculture TR	GBP	5.3%	4.8%
Oil	Brent Crude Oil	GBP	6.9%	22.3%
Gold	Gold Spot	GBP	2.2%	2.1%
<b>Interest rates</b>				
United Kingdom			0.50%	
United States			1.75%	
Eurozone			0.00%	
Japan			0.10%	

## Asset Allocation Dashboard



Asset class	View
<b>Equities</b>	
<b>Developed equities</b> 	<ul style="list-style-type: none"> <li>» 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</li> <li>» CB policy and politics will remain central to risk pricing, and volatility is likely to remain more elevated than last year's levels, which we'd say is appropriate</li> <li>+ The global macro backdrop remains favourable for global equities</li> <li>+ Equities are better placed than most asset classes to perform in a moderately pro inflationary environment</li> <li>- Valuations remain selectively expensive at current levels</li> <li>- Continued talk around and implementation of trade tariffs is not constructive for global equities</li> </ul>
<b>UK equities (relative to developed)</b> 	<ul style="list-style-type: none"> <li>» UK equities look somewhat cheap today but caution is warranted given UK's evolving Brexit negotiations and prevents us rating more highly. The market has rallied hard in recent weeks but this is mostly a function of weaker Sterling. Any continued weakness - which is quite possible as the Dollar finds near term support - will boost UK stocks further, and that contributes to maintaining the neutral view</li> <li>» 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, not least with traditional high street retailers remaining under pressure</li> <li>» The UK market remains sensitive to commodity prices</li> <li>+ 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</li> <li>- Today the chief worries lie with the ongoing Brexit negotiations, and perhaps an overconfidence in a more 'soft Brexit' outcome is creeping in</li> </ul>
<b>European equities (relative to developed)</b> 	<ul style="list-style-type: none"> <li>» 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, though we recognise that data has disappointed significantly in recent weeks and there are signs that the European recovery may be slowing</li> <li>» CB policy and politics will remain central to risk pricing</li> <li>+ European earnings have scope to recover meaningfully from their lows, and the recent currency weakness provides a tailwind to European exporters</li> <li>- European assets, including equities, may come under pressure should the ECB's bond programme reduction accelerate, or the Euro strengthen again after recent weakness</li> </ul>
<b>US equities (relative to developed)</b> 	<ul style="list-style-type: none"> <li>» The US remains the most expensive of the major developed markets, even when adjusted for the strong tech sector performance. The US economy remains in good health but equity returns face a valuation headwind today, and prices already discount strong earnings growth ahead following a stellar Q1 earnings season. The region continues to lead the rest of the world and a premium seems increasingly warranted</li> <li>» 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</li> <li>+ The economy is strong and leading indicators positive. Tax repatriation could spur investment and share buyback programmes</li> <li>+ Returns on equity are comfortably the best of the DM regional markets</li> <li>- Valuations remain somewhat extended despite the recent market volatility, and rising yields may prove an obstacle to staying or extending from current levels</li> </ul>
<b>Japan equities (relative to developed)</b> 	<ul style="list-style-type: none"> <li>» Japanese equities remain reasonably attractive and we acknowledge the government's policies to improve working practices and governance. Latest earnings are strong with most companies having reported and 14% growth recorded. However, after rallying back from its recent March lows as the Yen has weakened the valuation is more in line with other ex US markets today, and we pare back the rating.</li> <li>» Japanese assets should remain well buoyed by BoJ policy which remains aggressive when compared to the other main DM central banks.</li> <li>+ 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</li> <li>- In a protracted risk off scenario Yen strength would hit Japanese equities, as seen earlier this year</li> </ul>



Equities	
<p><b>Emerging market equities</b></p> 	<ul style="list-style-type: none"> <li>» Valuations have become more attractive as EM assets have come under recent pressure from a buoyant Dollar. However, we continue to favour EM assets more generally over DM as the longer term relative growth dynamics continue to look favourable, which coupled with low inflation and accommodative policy should support EM equities</li> <li>» As we have seen, EM assets are prone to bouts of volatility but this presents opportunity as well as threat</li> <li>+ EM currencies have continued to weaken and this provides additional support over the longer term to what already look somewhat cheap currencies in aggregate</li> <li>- Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk</li> <li>- Recent Dollar strength bears witness to this. A sustained reversal will see EM assets remain under pressure</li> </ul>
Fixed Income	
<p><b>Government</b></p> 	<ul style="list-style-type: none"> <li>» Despite on-going supportive policy actions, on a medium term outlook the majority of DM government bonds look unattractive today</li> <li>» Treasuries offer improved value today as yields oscillate around the 3% level but aggregate global government bond yields remain low</li> <li>+ Quality government bonds remain one of the best diversifiers in a multi asset portfolio, and at current yields treasuries are starting to look somewhat attractive again</li> <li>- 2018 is likely to mark the year that net central bank bond purchases turns negative. That provides a headwind for all rate sensitive debt</li> </ul>
<p><b>Index-linked</b> (relative to government)</p> 	<ul style="list-style-type: none"> <li>» Index linked bonds offer some selective value today but, like their nominal counterparts, they are expensive today with US breakevens starting to look somewhat full</li> <li>» UK linkers remain one of the more expensive DM markets</li> <li>+ Index linked bonds are one of the few methods to meaningfully protect against inflation risk</li> <li>- Inflationary forces are at best nascent today and on any renewed concerns over global growth they would almost certainly underperform nominal bonds</li> </ul>
<p><b>Investment grade</b> (relative to government)</p> 	<ul style="list-style-type: none"> <li>» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations remain somewhat tight today. Marginally preferred to sovereigns today</li> <li>» Fundamentals remain reasonable but we would advocate owning more shorter dated credit at today's levels as rate sensitivity remains near highs</li> <li>+ A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread</li> <li>- It is difficult to see spreads tightening much further, and with central bank buying slowing the risks are asymmetric</li> <li>- Credit quality has drifted lower in recent years, and leverage has moved higher</li> </ul>
<p><b>High yield</b></p> 	<ul style="list-style-type: none"> <li>» Spreads remain quite tight in leveraged credit markets, and whilst fundamentals remain robust, all in valuations are somewhat expensive</li> <li>» We favour owning shorter duration credit where the risk return looks more favourable today, and loans where permissible</li> <li>+ In the absence of a systemic market shock high yield returns will likely trump most of other fixed income</li> <li>- Issuance terms are increasingly favouring the issuer, and valuations look somewhat expensive</li> </ul>
<p><b>Emerging market debt</b></p> 	<ul style="list-style-type: none"> <li>» Emerging market bonds have come under pressure recently following a period of renewed Dollar strength, notably so local bonds. However this doesn't change the fact that EM bonds still rank as one of the better real return opportunities in fixed income over the longer term. With the sector remaining under pressure we prefer hard currency bonds today</li> <li>» We think a short duration strategy has a better risk return today and would look to re enter core duration strategies at higher spreads</li> <li>+ EM bonds continue to offer some of the best return opportunities in core bond markets today</li> <li>- A resurgent dollar is likely to cause some temporary repricing in EM assets, and local bonds would likely bear the brunt of that, as we are currently witnessing</li> </ul>
<p><b>Convertible bonds</b></p> 	<ul style="list-style-type: none"> <li>» 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</li> <li>» Some caution is warranted given the concentration to the US market and technology names</li> <li>+ The natural convexity provided by convertibles should continue to provide reasonable protection against any protracted equity correction</li> <li>- 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</li> <li>- If volatility reverts again to the recent multi year lows then the optionality holds limited value</li> </ul>

Alternatives	
<p><b>Commodities</b></p> 	<ul style="list-style-type: none"> <li>» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle. Prices are also 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</li> <li>» Falling production in Venezuela and the recent pulling out of the Iran deal by the US are both contributory factors to the recent rise in oil prices</li> <li>+ With the US Dollar still near cyclical highs, and growth reasonably strong globally, commodities have scope to generate positive returns</li> <li>+ Gold remains a good hedge against risk off outcomes</li> <li>- 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</li> </ul>
<p><b>Property (UK)</b></p> 	<ul style="list-style-type: none"> <li>» 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 after recovering from recent selling pressure</li> <li>» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property holds some appeal</li> <li>+ Appealing yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness</li> <li>- As a long duration asset class property remains susceptible to any repricing in long term bond yields</li> <li>- UK property remains sensitive to eventual Brexit terms, and this is proving to be a slow process</li> </ul>
<p><b>Infrastructure</b></p> 	<ul style="list-style-type: none"> <li>» Infrastructure stocks trade at reasonable valuations today - broadly in line with global equities today Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets</li> <li>+ In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing</li> <li>- As a long duration asset class, infrastructure remains susceptible to any repricing in long term bond yields</li> <li>- Regulation can work both for and against the underlying investments</li> </ul>
<p><b>Liquid Alternatives</b></p> 	<ul style="list-style-type: none"> <li>» 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</li> <li>» We favour an allocation to a basket of liquid strategies today to provide additional diversification as high quality bonds remain expensive</li> <li>+ These strategies provide additional diversification with reasonable return potential</li> <li>- 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</li> </ul>
Currencies	
<p><b>GBP</b></p> 	<ul style="list-style-type: none"> <li>» Sterling has continued to lose ground as the economic backdrop has softened and expectations over the higher path of policy rates has receded</li> <li>» 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</li> <li>» With the Dollar having rallied in recent weeks at the same time as UK short rates have repriced lower, the currency may find support around these levels but positioning remains extended (long) and the stronger Dollar trend may persist as rate differentials exert. Valuations would support a structural long position but there may be a better opportunity to take this</li> </ul>
<p><b>Euro</b></p> 	<ul style="list-style-type: none"> <li>» The Euro has declined sharply in recent weeks in the face of both the stronger Dollar and some softening in Eurozone activity. 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</li> <li>» In real terms the common currency looks about fair value today but positioning remains extended today and a slew of disappointing data provides limited support to the currency today</li> </ul>
<p><b>Yen</b></p> 	<ul style="list-style-type: none"> <li>» 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</li> <li>» What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities and this warrants the more neutral position today after recent weakness</li> </ul>

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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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