IMPERIUM CAPITAL

momentum

easton Asset Management

www.imperium-capital.biz | Vol. 115 | May 2016

VIEWPOINT

Newsflash

A new month and the 115th issue of Viewpoint from **Imperium Capital**.

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

Table of Contents

Market commentary	1 – 3
Market performance	4 – 5
Asset allocation dashboard	6
Contact	7
Important notes	8

Market Commentary

Markets broadly continued their upward trend in April, extending the rally witnessed since the bottom in mid-February. The rises were much less dramatic than in March, however, and markets more mixed. The MSCI World index gain of 1.6% in US dollars came in no small part from currency moves; the trade weighted dollar index fell a further 1.6% in the month, taking it to its lowest since early 2015. The year-to-date decline of the greenback is now 5.6%.

Commodity markets continued their remarkable rally over the month: Brent crude oil rose by 21.5% in the month, rising almost 30% year-to-date, while iron ore rallied 23.7%. By month-end many global equities had fully recovered the ground lost in the first six weeks of the year, with returns from MSCI World now up 0.9% year-to-date in US dollars.

In local currency terms, Japan was the notable underperformer among the major equity markets during April, down 0.4%, while the US experienced a 0.4% gain. The UK and continental Europe experienced larger rallies of 1.5% and 1.6%, in sterling and euro terms respectively. In US dollar terms, non-US returns were boosted by weakness in the greenback; most notably Japan's index gained 4.9% in dollar terms. Emerging markets rose by 0.5% in aggregate, within which China was down 1.9% in April, and 15.4% year-to-date (in local currency terms).

Figure 1. Correlation in commodities, year-to-date

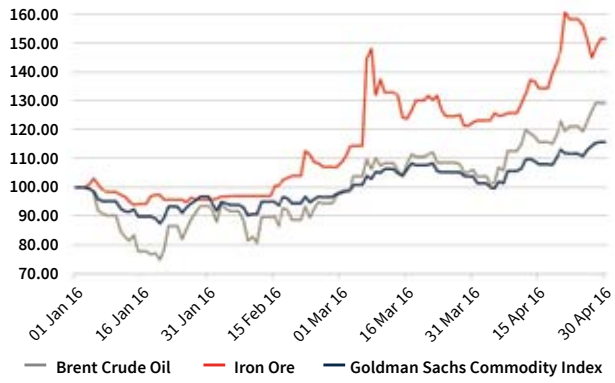

Figure 2. GDP growth in major regions, over 10 years

Credit again participated fully in the rally in risk assets, with investment grade bonds adding 1.2% in April, high yield rising by 3.4% and EM debt up by 1.8%, in US dollar terms. In contrast, yields on safe haven government bonds rose over the month, so local currency returns from the major markets were generally negative.

A further recovery in the oil price continued to support risk assets, reducing the risk of defaults and bringing hopes of an end to some of the capital investment cuts across the energy and related sectors. Despite the failure of the mid-April meeting of oil exporting nations to agree a production freeze, the oil price continued to rise, suggesting that the market is now looking forward to the prospect of a better balance between supply and demand; significant falls in US production forecasts, together with rising demand, point to the current oversupply in the oil market to be at or close to an end by early 2017.

The growth slowdown, which has been a key factor behind the falls in equity markets over the past year, showed some signs of a modest and patchy recovery over the month. Perhaps most importantly the injections of liquidity credit into the Chinese economy appear to be having the desired effect: first quarter GDP growth came in at 6.7% annualised. Elsewhere as expected the US produced sluggish first quarter GDP growth of 0.5%, hit by weak business investment. The recovery in the euro area showed signs of picking back up with quarterly growth of 0.6%, the highest since the same period last year.

Central banks again had a major influence on markets in the month. The US Federal Reserve (Fed) painted a more mixed picture and are clearly wrestling with the difficulty of balancing a soft economy against strong employment, and signs that core inflation is beginning to pick up - the Fed's preferred measure, core PCE, is now running at 1.6% year-on-year and trending upwards. The most significant decision of the month came from the Bank of Japan however, where the decision not to ease further, and to push out expectations of reaching its 2% inflation target to March 2018, disappointed investors. The yen has risen sharply since the January decision to cut interest rates into negative territory, and strengthened once more after the latest announcements. The economy has slowed considerably in recent months while inflation remains negative; investors are becoming increasingly worried that reforms are not working.

Figure 3. Japanese yen exchange rate, over 6 months

Source: Bloomberg. Returns in US dollars unless otherwise stated. April 2016.

After a strong recovery, and with a background of subdued growth, continuing debt overhang and question marks over the impact of monetary policy, markets are entering a more uncertain period. On the positive side, the worst consequences of the crash in oil and commodities are now behind us; developed economies continue to grow, albeit modestly; and with about one third of global government bonds trading with negative yields, risk assets are likely to see continuing support. With these competing forces on markets it is likely that the volatility we have witnessed so far in 2016 will be a feature in the months if not years ahead. There is also a risk, for the first time since the global financial crisis, that the Fed could be underestimating the pick-up in core inflation in recent months. All eyes will be on the data and the Fed as the year progresses, and there is a distinct possibility that the market's – currently low – expectations for interest rate rises will begin to tick up. This would lead to a recovery in the US dollar after its sharp fall this year, which in turn would provide more of a headwind for markets. Against this background, in the shorter term a period of consolidation in markets is due, but further upward progress is likely over the next 12-18 months. In these conditions we believe it is important to remain patient.

Market Performance

Asset Class/Region	Index	To 29 April 2016		
		Currency	1 Month	Year to date
Developed markets equities				
United States	S&P 500 NR	**USD**	0.4%	1.5%
United Kingdom	MSCI UK NR	**GBP**	1.5%	1.7%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.5%	-5.8%
Japan	Topix TR	**JPY**	-0.5%*	-12.5%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-0.1%	1.8%
Global	MSCI World NR	**USD**	1.6%	1.2%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	3.7%	18.5%
Emerging Asia	MSCI EM Asia NR	**USD**	-1.3%	0.6%
Emerging Latin America	MSCI EM Latin America NR	**USD**	6.0%	26.2%
BRICs	MSCI BRIC NR	**USD**	2.3%	3.7%
Global Emerging Markets	MSCI EM (Emerging Markets) NR	**USD**	0.5%	6.3%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1%	3.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.4%	5.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	1.4%	5.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	3.9%	7.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.2%	3.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.2%	3.2%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-1.1%	2.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.3%	2.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	2.0%	4.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	1.1%	5.7%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.1%	2.6%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.2%	8.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.0%	6.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	1.2%	1.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	1.9%	7.9%

** estimate*

Source: Bloomberg

Market Performance

Asset Class/Region	Index	To 29 April 2016		
		Currency	1 Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	**USD**	-2.4%	3.3%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	2.8%	8.4%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	3.3%	4.2%
Global Property Securities	S&P Global Property USD TR	**USD**	0.3%	5.5%
Currencies				
Euro		**USD**	0.6%	5.4%
UK Pound Sterling		**USD**	1.6%	-1.0%
Japanese Yen		**USD**	5.9%	13.1%
Australian Dollar		**USD**	-0.6%	4.4%
South African Rand		**USD**	3.8%	8.8%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	9.5%	8.5%
Agricultural Commodities	RICI Agriculture TR	**USD**	5.1%	4.9%
Oil	Brent Crude Oil	**USD**	21.5%	29.1%
Gold	Gold Spot	**USD**	4.9%	21.8%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.4%	-1.5%
Interest Rates		Current Rate		
United States		0.50%		
United Kingdom		0.50%		
Eurozone		0.00%		
Japan		-0.10%		
Australia		1.75%		
South Africa		7.00%		

** estimate*

Asset Allocation Dashboard

Positive Neutral Negative

Asset class	View
Equities	
Developed equities	Neutral
UK equities (relative to developed)	Neutral
European equities (relative to developed)	Positive
US equities (relative to developed)	Negative
Japan equities (relative to developed)	Positive
Emerging market equities	Neutral
Fixed Income	
Government	Neutral
Index-linked (relative to government)	Positive
Investment grade (relative to government)	Positive
High yield	Neutral
Loans	Neutral
Emerging market debt	Neutral
Convertible bonds	Positive
Alternatives	
Commodities	Neutral
Property (UK)	Neutral
Currencies	
GBP	Neutral
Euro	Neutral
Yen	Negative

Important Notes

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

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

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

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

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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

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