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momentum
global investment management

GLOBAL MATTERS
MONTHLY VIEWPOINT

VOL #165 | AUGUST 2020

globalmatters

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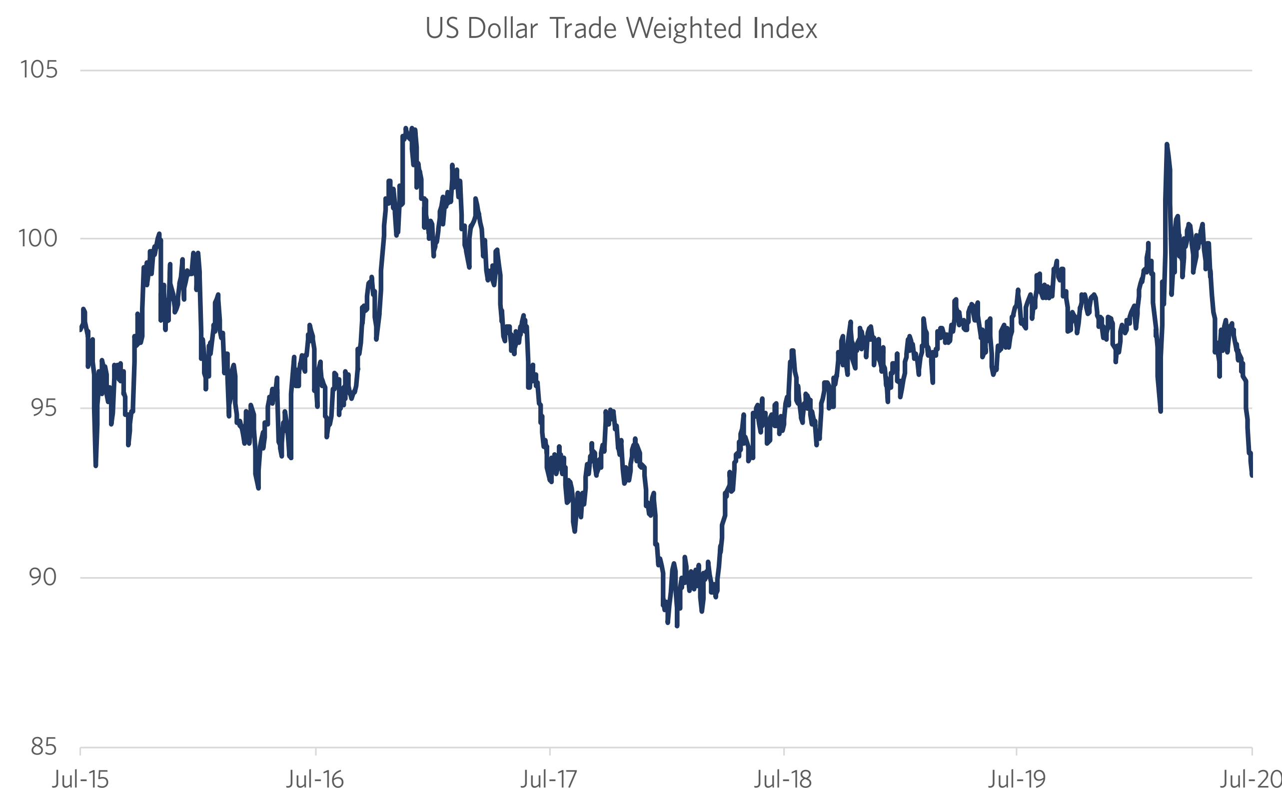
FP FINANCIAL PARTNERS GLOBAL MATTERS: MONTHLY VIEWPOINT - #VOL 165 - AUGUST 2020

MARKET REVIEW

The strength of markets in Q2 continued into July, with the MSCI World index of developed equity markets up 4.8%, global emerging equity markets even stronger, +8.9%, and global government bonds also up, +3.3%. Credit markets benefitted from falling bond yields and rising equity markets, with investment grade bonds +3.3% and high yield +4.7%. The most significant moves in the month came in currencies, with the dollar down 4.2% on a trade weighted basis, taking its virtually unbroken fall since mid March to over 9%.

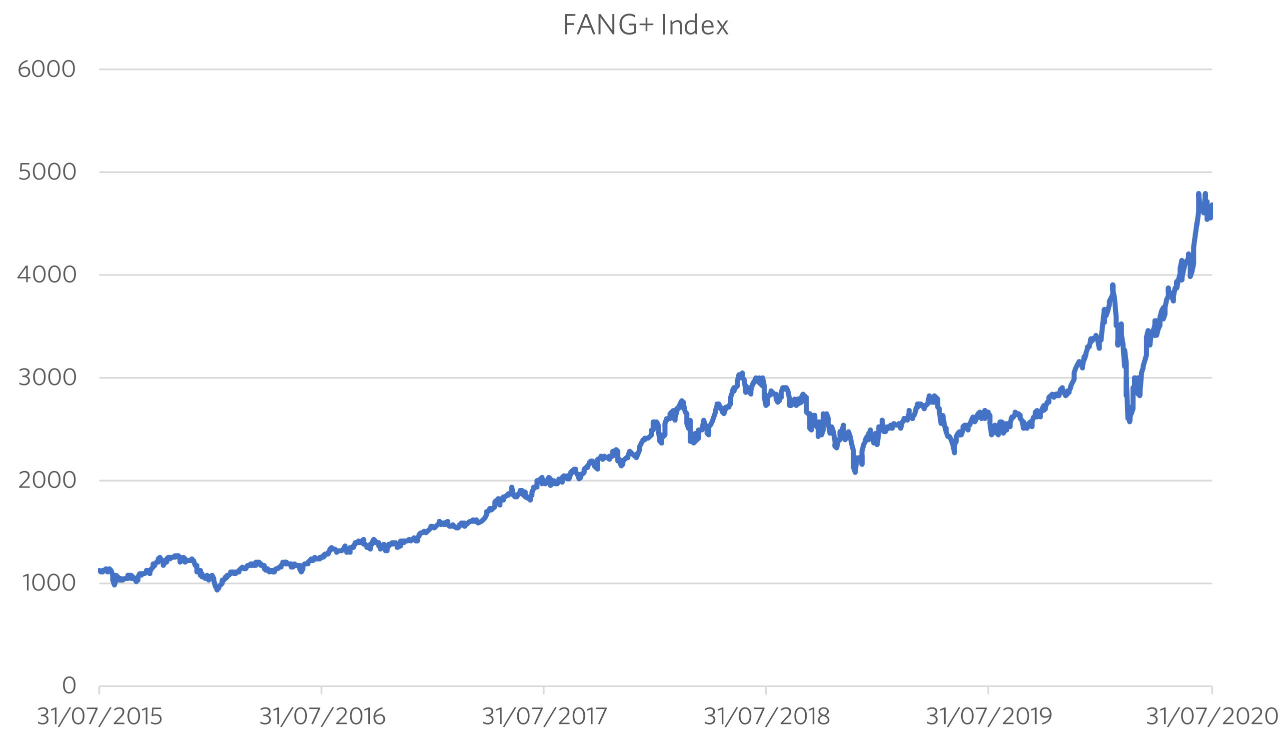


Source: Bloomberg

Dollar weakness invariably provides a powerful tailwind for emerging markets, especially because many developing countries carrying substantial USD debt, while presenting a headwind for large parts of the corporate sector in developed markets, through the translation effect on overseas revenues and the competitive impact in export markets. This was clearly reflected in the performance of equity markets, the US up 5.6% while the UK, Japan and Europe ex UK all fell, by 4.5%, 4.0% and 0.7% respectively. The extraordinary outperformance of the US in the past 5 years, and in particular its global tech titans, which has been boosted by the effects of the pandemic, means the US now accounts for two thirds of the developed world's total stock market capitalisation. Within that, the so-called FAANGs represent about one quarter of the US market, a level of concentration both in the US and globally rarely before seen. To emphasise the point, the FANG+ index is up some 70% since the market bottomed on 23rd March.

MARKET REVIEW CONT...

The other stand-out performer in equity markets has been China, up 9.4% in July, taking its return year-to-date to 13%. China appears to have successfully contained the pandemic and economic activity has seen a V shaped recovery to take it close to pre-Covid levels. The market has also been boosted by government support packages and regulatory loosening to encourage equity investing. China now represents 39% of the market capitalisation of the MSCI Emerging Markets index, by far its biggest component.



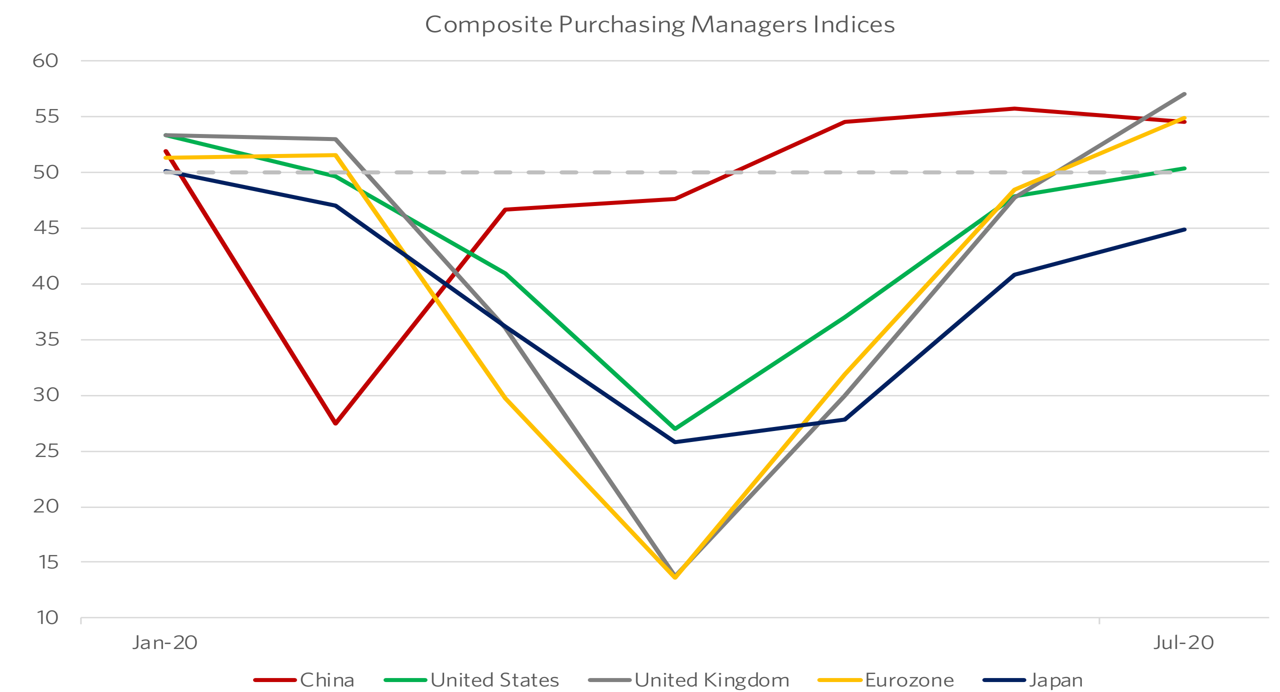
Source: Bloomberg

Also benefitting from dollar weakness has been gold, up a further 11% in July, taking its return so far this year to 30%. With interest rates effectively at zero, the carrying costs of gold are the lowest ever, and its proven store of value at a time of massive monetary expansion and fiscal loosening has led to a wave of investment buying which shows no signs of abating.

Although dramatic collapses of 10% or more in Q2 GDP in the US and Europe captured headlines, these had been fully discounted; the more important current levels of activity showed an unexpectedly strong recovery from the pandemic-induced collapse, and this was backed up by better than expected corporate earnings results as well as encouraging forward looking indicators. Ongoing monetary and fiscal support helped, most notably with the EU's ground-breaking agreement to provide EUR750bn of additional funding for a Covid recovery fund, to be allocated partly by way of grants and funded by EU backed bonds, perhaps the first step towards an EU wide fiscal policy.

MARKET REVIEW CONT...

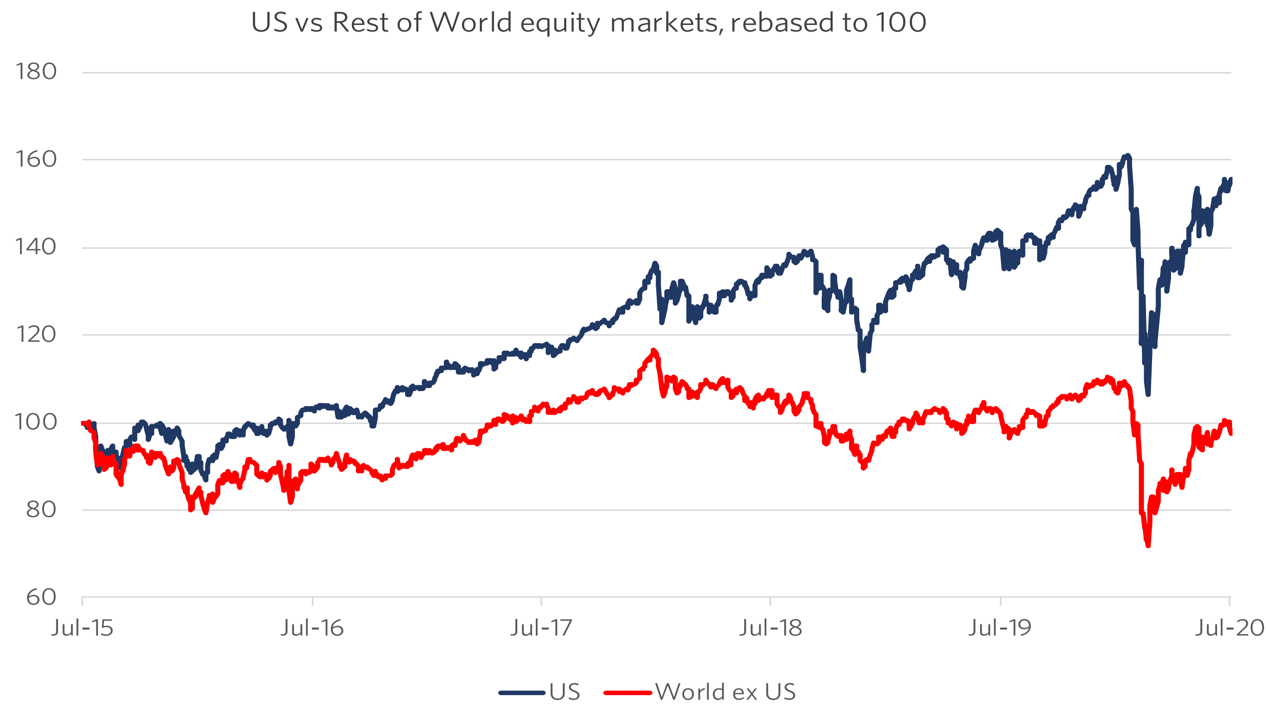
Despite the recovery in leading economies to date, there remains deep uncertainty about the sustainability and strength of growth, and that uncertainty has been heightened by signs of second waves of the virus emerging, notably in the US, as well as Australia, Hong Kong, Japan and, to a lesser extent, parts of Europe, plus extended first waves in developing countries, particularly Brazil and India. The risk of a sluggish and fitful recovery entrenched views that monetary policy around the world will remain ultra-loose for years ahead and led to further falls in bond yields, in several cases, including the US and UK, to all-time lows. Remarkably, UK government bond yields fell into negative territory as far out as 7 year maturities, despite the fact that the UK's fiscal deficit is likely to be a peacetime record this year, as high as 15% of GDP, as a result of the exceptional expenditure and reduced receipts arising from the impact of Covid19.



Source: Bloomberg

The UK is, of course, not alone in this respect. The deficit in the US is expected to exceed 15% in 2020 and rise further next year, with negotiations currently underway in Congress to extend emergency Covid support and provide up to $1tn of additional spending. Low bond yields cushion the funding costs of these huge deficits but the scale of debts being incurred reduces future flexibility. Although there is no prospect of a return to the fiscal austerity that followed the financial crisis a decade ago, the need to return to fiscal sustainability ultimately will be a longer term drag on growth.

MARKET REVIEW CONT...



Source: Bloomberg

Away from the pandemic, there was a further rise in tensions between the US and China, with several other countries, including the UK and Australia, taking an increasingly hawkish approach to China's growing presence internationally and its interference in the affairs of Hong Kong. With supply chains also being diversified and onshored, the medium term threat to growth in China is becoming meaningful.

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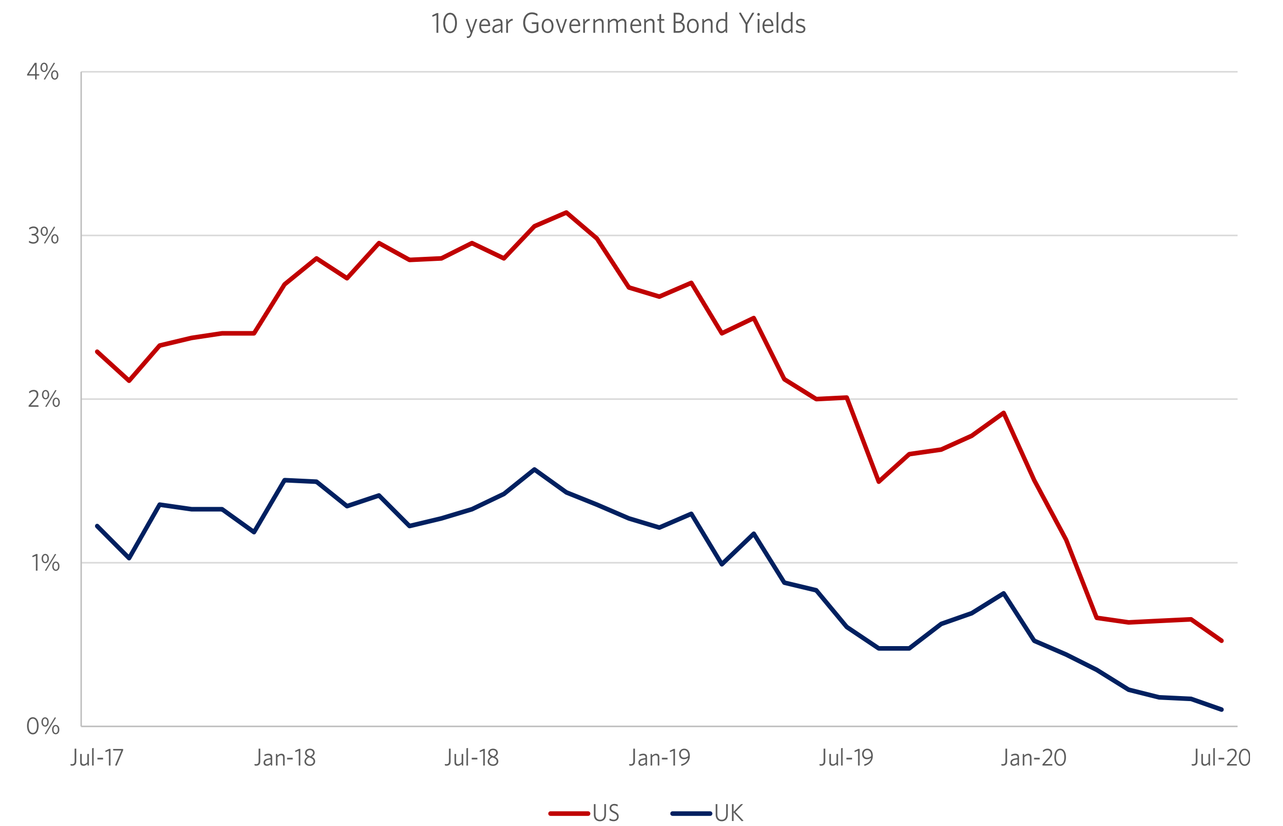
MARKET REVIEW CONT...



Source: Bloomberg

Together with the US Presidential election and the Brexit deadline, both now in sight, these uncertainties suggest that markets are likely to face higher levels of volatility in the months ahead, following remarkably benign conditions in the past 4 months when the VIX index has fallen from a peak of over 80 during the worst of the March sell-off to just over 20 now. However, 2021 promises to be a year of robust recovery in economies and corporate earnings, and risk assets will have continuing strong support from the lowest interest rates in history, substantial asset purchases by central banks, and exceptional levels of fiscal spending by governments. We therefore expect markets to move higher through 2021 and would use setbacks in the months ahead as a buying opportunity.

MARKET PERFORMANCE - GLOBAL
(LOCAL RETURNS)

Asset Class/Region	Index	To 31 July 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
United States	S&P 500 NR	USD	5.6%	12.7%	2.0%	11.3%
United Kingdom	MSCI UK NR	GBP	-4.5%	-0.1%	-21.5%	-20.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.7%	7.3%	-9.8%	-2.5%
Japan	Topix TR	JPY	-4.0%	2.3%	-11.9% [e]	1.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	7.9%	16.4%	1.3%	9.0%
Global	MSCI World NR	USD	4.8%	12.8%	-1.3%	7.2%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	2.3%	10.2%	-22.9%	-15.4%
Emerging Asia	MSCI EM Asia NR	USD	9.7%	18.4%	5.8%	16.9%
Emerging Latin America	MSCI EM Latin America NR	USD	10.9%	24.3%	-28.1%	-25.2%
China	MSCI EM China NR	USD	9.6%	18.8%	1.3%	10.3%
BRICs	MSCI BRIC NR	USD	9.4%	18.7%	13.3%	24.5%
Global emerging markets	MSCI Emerging Markets NR	USD	8.9%	17.8%	-1.7%	6.5%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	1.3%	1.0%	10.6%	12.5%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	2.5%	4.0%	9.1%	11.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	3.3%	6.9%	8.4%	12.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	4.7%	10.3%	0.6%	4.1%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.4%	-0.2%	10.3%	10.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.6%	3.7%	5.0%	6.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.1%	2.4%	3.0%	2.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.5%	3.0%	0.3%	-0.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.7%	6.6%	-3.6%	-1.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.4%	-0.7%	-0.7%	-1.6%
Australian Government	JP Morgan Australia GBI TR	AUD	0.3%	0.5%	4.4%	3.7%
Global Government Bonds	JP Morgan Global GBI	USD	3.3%	3.8%	8.1%	9.2%
Global Bonds	ICE BofAML Global Broad Market	USD	3.2%	4.6%	6.8%	8.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	6.5%	18.1%	11.9%	17.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	3.5%	11.8%	3.0%	3.9%

MARKET PERFORMANCE (LOCAL RETURNS) CONT...

Asset Class/Region	Index	To 31July 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
US Property Securities	MSCI US REIT NR	USD	4.0%	7.1%	-15.7%	-11.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	0.6%	4.7%	-22.4%	-26.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.1%	-2.7%	-19.5%	-15.7%
Global Property Securities	S&P Global Property USD TR	USD	3.1%	6.1%	-17.3%	-11.7%
Currencies						
Euro		USD	4.8%	7.5%	5.0%	6.3%
UK Pound Sterling		USD	5.5%	3.9%	-1.3%	7.6%
Japanese Yen		USD	2.0%	1.3%	2.6%	2.8%
Australian Dollar		USD	3.5%	9.7%	1.8%	4.4%
South African Rand		USD	1.6%	8.5%	-17.9%	-15.9%
Commodities & Alternatives						
Commodities	RICI TR	USD	5.2%	23.1%	-21.7%	-18.2%
Agricultural Commodities	RICI Agriculture TR	USD	3.6%	6.9%	-7.8%	-2.9%
Oil	Brent Crude Oil	USD	5.2%	71.3%	-34.4%	-33.6%
Gold	Gold Spot	USD	10.9%	17.2%	30.2%	39.8%
Hedge funds	HFRX Global Hedge Fund	USD	1.4%	4.6%	0.3%	3.7%
Interest rates						
United States				0.25%		
United Kingdom				0.10%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.25%		
South Africa				3.50%		

MARKET PERFORMANCE - UK

(GBP RETURNS)

Asset Class/Region	Index	To 31 July 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Developed markets equities						
UK - All Cap	MSCI UK NR	GBP	-4.5%	-0.1%	-21.5%	-20.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-5.4%	-2.0%	-21.9%	-22.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-1.5%	6.7%	-20.7%	-16.5%
UK - Small Cap	MSCI Small Cap NR	GBP	-1.6%	2.6%	-23.2%	-13.5%
United States	S&P 500 NR	USD	-0.2%	8.3%	3.3%	3.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.6%	11.1%	-4.1%	-3.7%
Japan	Topix TR	JPY	-7.6%	-0.7%	-9.2% [e]	-6.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.0%	11.8%	2.6%	1.6%
Global developed markets	MSCI World NR	USD	-1.0%	8.3%	0.0%	0.0%
Global emerging markets	MSCI Emerging Markets NR	USD	2.9%	13.2%	-0.5%	-0.7%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.4%	-0.2%	10.0%	10.0%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	0.4%	1.6%	1.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.5%	1.2%	6.1%	5.0%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	0.5%	-1.2%	16.0%	16.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	0.7%	6.0%	13.2%	7.5%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.8%	3.4%	5.8%	1.6%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	0.7%	7.6%	17.8%	11.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.6%	3.7%	5.0%	6.0%
US Treasuries	JP Morgan US Government Bond TR	USD	-4.7%	-2.9%	11.6%	5.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	3.3%	6.9%	8.4%	12.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	4.7%	10.3%	0.6%	4.1%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.1%	2.4%	3.0%	2.1%
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Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	6.5%	18.1%	11.9%	17.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-2.2%	7.4%	4.3%	-3.1%

MARKET PERFORMANCE (GBP RETURNS) CONT...

Asset Class/Region	Index	To 31 July 2020				
		Ccy	1 Mth	3 Mths	YTD	12 Mths
Property						
Global Property Securities	S&P Global Property TR	GBP	-2.6%	2.0%	-16.3%	-17.7%
Currencies						
Euro		GBP	-0.6%	3.5%	6.4%	-1.2%
US Dollar		GBP	-5.2%	-3.8%	1.3%	-7.1%
Japanese Yen		GBP	-3.4%	-2.5%	4.0%	-4.5%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-0.6%	18.3%	-20.7%	-23.8%
Agricultural Commodities	RICI Agriculture TR	GBP	-2.1%	2.7%	-6.6%	-9.5%
Oil	Brent Crude Oil	GBP	-0.6%	64.6%	-33.6%	-38.0%
Gold	Gold Spot	GBP	4.8%	12.5%	31.9%	30.3%
Interest rates						
United Kingdom				0.10%		
United States				0.25%		
Eurozone				0.00%		
Japan				-0.10%		

ASSET ALLOCATION DASHBOARD

EQUITIES

Developed Equities

» We remain mindful of resurgent risks to global growth following the fastening pace of the (US) rebound in recent weeks as there is a risk this could roll over with any wave of second round infections resulting from lockdown easing measures
» Policy measures remain accommodative and are likely to remain so for many months, or years
» Where mandates allow we have sought to protect portfolios whilst retaining upside should the rally extend
+ Despite lofty index valuations in some markets, global equities still offer selective regional and sectoral value
– Business shutdowns will impact corporate earnings more deeply if Coronavirus risk remains entrenched or resurges, notably so in global manufacturing supply chains
– Dividends are likely to fall, and share buybacks to largely dry up
– Earnings are likely to move sharply lower as the year progresses; where they settle to market pricing is the key question

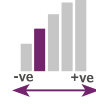
UK Equities

» The Brexit path remains second fiddle to Corona risk today but the balance is shifting. Nonetheless, 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, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020
» The government's financial response to the crisis has largely been well received but places a meaningful burden on public finances, and imminent withdrawal/reduction in corporate support will likely see redundancies increase at a quickening pace
+ Most UK assets remain at a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels
+ The UK has lagged the recovery and offers some scope for a cyclically led catch up
– UK Plc is having to deal with an extraordinary fallout from the Covid-19, with the high street already under extreme pressure
– The banks and energy heavy UK index may continue to struggle against this backdrop

European Equities

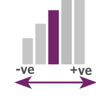
» Europe was hard hit by the first lockdown and is now seeing pockets of secondary lockdowns as cases re-emerge, but on a much lower scale than March
» Knock on effects will undoubtedly damage the economy and corporate earnings, and potentially reignite tensions within the Eurozone
» The E750bn European Recovery Fund augurs well for a more unified cross European political response to the crisis
+ Renewed ECB asset purchases and policy stimulus will provide support to risk assets in the region
– The ECB has little room to manouvre with rates at current levels; more devolved fiscal action and helicopter money may be needed

US Equities



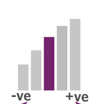
» The extraordinary US rebound from the lows has continued at pace, surprising many, but is led by a narrow cohort of stocks. We remain cautious at index level today given that little in the way of second wave infection is priced in, and we have th uncertainty of an election around the corner. Active stockpickers have opportunities from the two speed market, dominated by the still advancing tech stocks
+ The US remains one of the higher quality markets, and the Dollar something of a haven, despite recent softening. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places
+ The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities
– US equity valuations remain elevated vs other regions today, even more so after the recent moves, and are priced almost to perfection of a virus free world. The US now has by far the highest rate of reported infections and some states are re-entering lockdowns following the recent surge in infections
– Trade and geopolitical risks are coming very much to the fore again, notably with China, ahead of November's election

Japanese Equities



» Japanese equities have lagged the broader market, and asian equities, in recent months which leaves them sitting at still reasonable longer term valuations. At a high level, and considering demographics, Japan has probably had a better outcome from the virus to date than many might have expected
+ BoJ ETF buying is supportive. Asia appears to remain ahead of other global regions in the global Corona-cycle which may help Japan be on the front foot for a more sustained rebound in activity
– 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

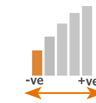
Emerging Market Equities



» On a longer term view we remain in favour of EM assets more generally over DM but recognise the risks to developing economies from the Coronavirus, and the potential for lower reporting and testing rates in these markets. Countries like Brazil and India are fast catching up the US as hotbeds of infection
» EM equities continueed their strong run in July, after a period of dollar softness, and have outpaced global equities over 3 months
+ EM currencies remain down for the year, but had a decent move higher after July's dollar weakness. At a lower level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020
+ Valuations remain attractive today
– Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow, which seems to be escalating in some countries, would likely crimp returns

FIXED INCOME

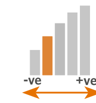
Government



» DM government bond prices remain near record highs/low yields following the supernormal moves in bond markets through the Coronavirus-striken first half of the year. On the most painful days for risk assets they struggled to provide the level of diversification expected, and liquidity has also been tested, but the policy response has largely alleviated this problem, for now. Cash may prove a better diversifier in the short term
+ Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having at least some exposure depsite extreme valuations
– Liquidity in the treasury market has been tested several times over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided
– Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply, more so should the Fed yield curve control language start to change

Index-linked

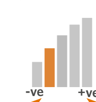
Relative to government



» Inflation linked bonds cheapened in the Covid induced sell off but have rebounded meaningfully in the interim, but still offer value. Whilst near term inflation risk looks limited, over 5 to 10years we take a more constructive view than the market and view breakevens more favourably at these levels, preferring over pure rate risk in select markets
+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more meaningful concern down the line
+ Valuations remain attractive today
– Inflationary forces remain muted today, arguably more than at any time in recent years (in the near term at least)

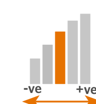
Investment Grade Corporate

Relative to government



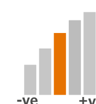
» Investment grade bond spreads present a more modest upside opportunity today after the recent tightening, but are likely to remain supported. With yields now near new lows though, longer term real returns are threatened
+ Central bank buying of IG bonds provides a tailwind for the asset class; there may still be some upside on the table
– Liquidity remains challenged
– IG is starting to look a little rich again, and we have taken further profit on recent trades
– The IG universe remains at greater risk of BBB downgrades today given the Corona backdrop

High Yield Corporate



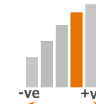
» Like their investment grade corporate cousins, high yield spreads have tightened meaningfully, but still offer some value and a reasonable yield. We are mindful of the more equity like characteristics of the asset class, and sensitivity of the (US) index to energy
+ Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning, as evidenced by the Fed stepping in to buy HY ETFs - largely to support 'fallen angels'
– Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG
– There is still a meaningful amount of energy exposure in US high yield markets which remains sensitive to any renewed pressure on oil prices

Emerging Market Debt



» The asset class continues to look optically attractive, yield well, and we continue to rate favourably, but with the asset class having exhibited more 'catch up' in the last month or two, we pare back a little on our view. Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, so some profit taking would not go amiss
+ Despite recent strength we believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, and implied default rates look excessive
– Renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt
– EM governments will come under more pressure if Corona related expenditure and support continues to rise

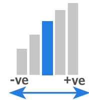
Convertible Bonds



» Convertible bonds did a good job of limiting capital loss in Q1 and have tracked equities up almost one for one as risk prices recovered in Q2. The perfect outcome. Optionality continues to look somewhat cheap
We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, and the relative valuation. We have been adding in recent months
+ The natural convexity provided by convertibles should continue to provide reasonable protection against any further equity weakness, which is quite possible
The embedded options look cheap given the risks out there
– With implied vols having gone through the roof, any return to more normal levels may crimp future returns, and come off a lower delta base

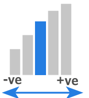
REAL ASSET / ALTERNATIVES

Commodities



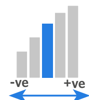
» The prices of some commodities continue be buffeted by newsflow, notably so oil which cratered in April and has since rebounded sharply. These risks seem likely to persist in the near term as industrial activity settles
+ Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle
+ Gold remains a reasonable hedge against risk off outcomes, and both deflationary and inflationary sentiment, as witnessed more recently through the downward pressure on real yields as inflation expectations have ticked higher.
+ Any cyclical upside and a post Covid ramp up in industrial production should help industrial commodity prices move higher
– Coronavirus is likely to continue to weigh on the industrials commodities sector in the near term, and supply chains remain challenged
– Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, albeit unlikely in the near future

Property



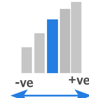
» Property remains an attractive asset class for investors requiring yield and the Q2 price action only improves that. Especially now with rental collections improving and dividends being reinstated
When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property still holds appeal, with selective industrial, data centres and residential having more attractive fundamentals than under pressure retail and office sectors
+ Premium yields and quality assets should attract capital and provide some floor to prices, notwithstanding recent market turbulence
+ The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios; less so in the short term as we have seen
– 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 through 2020; the retail & office sectors remain under pressure as a result of COVID-19
– Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income

Infrastructure



» Infrastructure stocks were not spared the Covid fallout, but have lagged on the rebound and thus remain look reasonably attractive today. Their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment remains strong in the medium to longer term
+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing
+ The asset class offers a decent yield at a reasonable valuation today - both equity and debt flavours
– As a long duration asset class infrastructure remains susceptible to any repricing higher in long term bond yields
– Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks

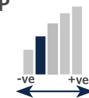
Liquid Alternatives



» "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
» 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

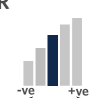
£/€/¥ CURRENCIES*

GBP



» Sterling has had an exceptionally strong run of late, probably more dollar weakness than strong Sterling fundamentals. 'Cable' could become more challenged in the coming months as Brexit newsflow reappears on our screens, and much will depend on any eventual deal being signed. The downward bias to base rates is unlikely to lift the currency higher anytime soon, but it remains cheap on long term valuation measures

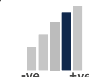
EUR



» "The Euro has shown itself to be the favoured carry currency in recent years and 'Covid covering' has helped support it through the tough times. Not a time to be short and we maintain the more neutral view going forward given low confidence about the risk recovery being sustained

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

JPY



» 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. With bond diversification/upside more limited today, the Yen looks increasingly attractive to own in this role

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