FP FINANCIAL PARTNERS

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Newsflash

A new month and the 147th issue of Viewpoint from **Financial Partners**.

This document will be made available on our website www.f-p.hk

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

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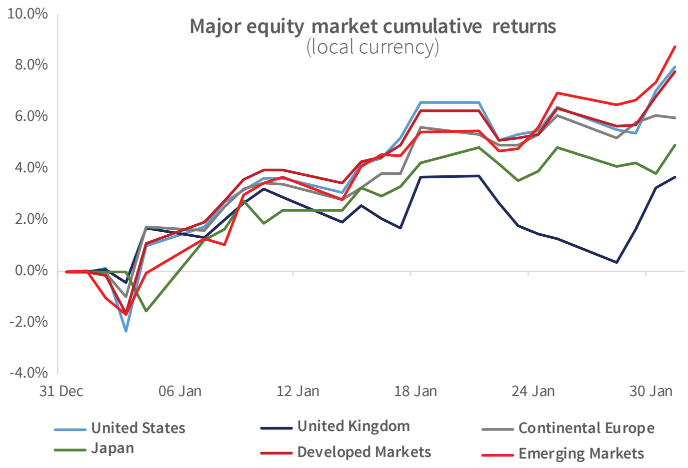
Market Commentary

What a difference a month makes. Following the despair of December, markets made one of their best ever starts to a new year, with virtually all asset classes and markets rising, some very sharply. Many equity markets managed to recover the ground lost in December.

The US led the way with a return of 8%, pulling the MSCI World index up by 7.8%. In this risk-on environment emerging markets outperformed developed markets, up 8.8%, with Latin America again relatively strong, up 15%. While all markets were buoyant, the UK was the notable under-performer, up 3.7%. UK equities were held back by a strong pound which rallied 2.5% on a trade weighted basis as fears of a no deal Brexit faded. All sectors of the markets rose, with technology stocks leading the way after their particularly sharp falls in Q4 last year. The tech heavy NASDAQ index was up 10% and the NY FANGs 13%, the latter having risen by 22% from the December 24th lows compared with a 15% rise in the S&P 500.

Figure 1: Global equity markets experienced welcome respite in January

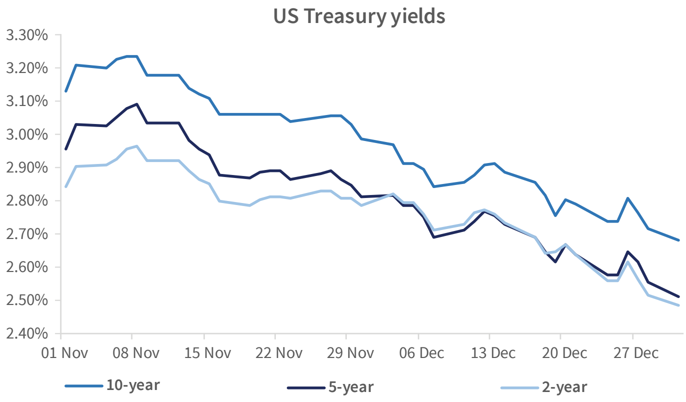


Source: Bloomberg, Momentum GIM. Returns in local currency terms.

Bond markets participated in the rise albeit to a lesser extent. Corporate credit and emerging market bonds performed particularly well, with US high yield up 4.5% and EM debt 5.1%. Strong returns also came in US corporate investment grade bonds, up 2.4%, and global government bonds, returning 1.3%.

Within commodities, the notable big moves came in oil and iron ore. The oil price rebounded 15%, in part recovering from the 40% fall in late 2018 and in part reacting to the political unrest in Venezuela and fears of a further reduction in supply from a country with the largest oil reserves in the world. Iron ore rose 19%, driven in part by the dam disaster in Brazil causing closure of a large iron ore mine. Even gold, which often tends to drift lower in bullish markets, continued its upward move, rallying 3% in the month.

Figure 2: Rebound in Brent crude prices



Source: Bloomberg, Momentum GIM.

While a bounce back from the heavily oversold conditions in late 2018 was likely in due course, the catalyst for the surge in markets was a change in policy by the Federal Reserve. Early in January, the minutes from the Fed's December monetary policy meeting pointed to a more dovish approach and noted that 'risks had become more pronounced in recent months'. This was an important change of tack after a relatively hawkish approach throughout 2018. Then later in the month the Fed effectively removed its tightening bias by pointing to a patient approach, removing talk of further gradual rate increases in its policy path, noting muted inflation pressures and indicating that future policy decisions will depend on incoming data and market pricing of inflation expectations. This is a key change and resulted in market expectations of future rate moves changing significantly over the past few weeks. During Q4 last year the market was expecting two rate rises in 2019 and more in subsequent years, however, now expectations are for no rate rises this year and small reductions thereafter. By removing the risk of a sharp further tightening of monetary policy, investors were given the confidence to re-enter markets after the steep falls in Q4.

At the same time, the other big headwind to markets, the US-China trade war, entered a critical negotiation period and early noises from both the US and China were encouraging. With the Chinese economy slowing materially, recording its slowest growth rate since 1991 and US President Trump badly needing a 'deal' to compensate for his backing down over the impasse with the Democrats over the Mexican wall and the Federal budget, both sides are highly incentivised to reach a negotiated settlement. The issues go beyond trade to cyber security and intellectual property, and importantly China has given indications that it is prepared to respond to US concerns on these.

As the UK's formal exit date from the EU of 29th March approaches the political impasse is intensifying notably between; the UK and the EU27, the conservative party and opposition parties in the UK parliament, and factions of both the conservative party and the opposition labour party. This in turn is heightening uncertainty and unnerving investors. The overwhelming defeat in parliament of Prime Minister May's withdrawal agreement and the subsequent parliamentary backing for a renegotiated agreement to accommodate an alternative arrangement to the Irish backstop perversely increased the likelihood of a softer Brexit, especially in view of the large parliamentary majority for such an outcome. Sterling was strong on these developments, but with only 7 weeks before the exit date there is much work to be done to reach an agreement with the EU27, and a no deal outcome, while unlikely, cannot be ruled out. This is keeping UK assets under a cloud of uncertainty and increases the risks of a more serious slowdown in both the UK and Eurozone economies.

Economic news pointed to subdued inflation globally and a continuing slowdown of growth especially in Europe. The key German economy has suffered from weaker exports and the malaise across the car industry, especially with rapidly declining sales of diesel cars. Italy is another notable weak spot and has fallen into recession, with two quarters of negative growth. Although the ECB has ended its asset purchase programme, it responded to the soft economy and low inflation by moving to a more dovish approach to policy, with no prospect of rate rises for the foreseeable future and a commitment to maintain its asset purchase reinvestment programme until well after the first-rate rise. The US remains the bright spot, and although the growth rate of 2018 will not be maintained in 2019 given the fading impact of the big tax cuts in early 2018, there are no signs of a sharp slowdown or recession.

We believe that the sharp rally in markets in the early weeks of the year was more than justified after the big falls in the last quarter, when markets fell much more than the fundamentals had deteriorated. With central banks either maintaining an ultra loose policy or, in the case of the Fed, easing back on tightening and adopting a more dovish stance, the policy backdrop remains supportive and although growth has slowed it remains positive and leading indicators generally point to further, albeit modest, growth ahead. This should continue to support markets. However, the risks are clear and significant: a collapse of the US-China trade talks leading to the imposition of more tariffs; a hard landing in China; a no deal Brexit, potentially pushing an already sluggish European economy into a more serious slowdown; a more difficult environment for the corporate sector as growth slows. Some of these factors, the US-China trade talks and the Brexit negotiations, are facing key decision dates soon and some of the uncertainty will then be removed, at least in part. However, there are enough ongoing concerns to keep investors nervous and to trigger further bouts of volatility. On balance we think that worst case outcomes will be avoided and we view the medium term outlook as broadly positive; we would therefore use any such periods of weakness to accumulate risk assets.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 January 2019		
		Currency	1 Month	3 Month
Developed markets equities				
United States	S&P 500 NR	**USD**	8.0%	0.1%
United Kingdom	MSCI UK NR	**GBP**	3.7%	-1.6%
Continental Europe	MSCI Europe ex UK NR	**EUR**	6.0%	-0.8%
Japan	Topix TR	**JPY**	4.9%*	-4.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	7.3%	8.9%
Global	MSCI World NR	**USD**	7.8%	0.7%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	11.5%	11.0%
Emerging Asia	MSCI EM Asia NR	**USD**	7.3%	9.3%
Emerging Latin America	MSCI EM Latin America NR	**USD**	14.9%	11.5%
BRICs	MSCI BRIC NR	**USD**	9.8%	11.3%
Global emerging markets	MSCI Emerging Markets NR	**USD**	8.8%	10.2%
Bonds				
US Treasuries	JP Morgan United States Government Bond TR	**USD**	0.5%	3.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	1.4%	2.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	2.4%	3.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	4.5%	1.4%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	1.1%	2.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	1.7%	1.2%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	1.1%	2.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.1%	0.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	2.2%	-0.3%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	0.5%	2.0%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.7%	3.1%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.3%	4.3%
Global Bonds	ICE BofAML Global Broad Market	**USD**	1.5%	3.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	5.4%	2.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	5.1%	6.6%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 January 2019		
		Currency	**1 Month**	**3 Months**
Property				
US Property Securities	MSCI US REIT NR	**USD**	11.7%	7.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	6.2%	5.6%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	9.5%	17.9%
Global Property Securities	S&P Global Property USD TR	**USD**	10.5%	9.7%
Currencies				
Euro		**USD**	-0.2%	1.2%
UK Pound Sterling		**USD**	2.7%	2.7%
Japanese Yen		**USD**	0.7%	3.8%
Australian Dollar		**USD**	3.1%	2.8%
South African Rand		**USD**	8.5%	11.5%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	7.0%	-3.7%
Agricultural Commodities	RICI Agriculture TR	**USD**	2.4%	0.6%
Oil	Brent Crude Oil	**USD**	15.0%	-18.0%
Gold	Gold Spot	**USD**	3.0%	8.8%
Hedge funds	HFRX Global Hedge Fund	**USD**	1.8%*	-0.8%*
Interest rates				
United States			2.50%	
United Kingdom			0.75%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

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 2019		
		Currency	1 Month	3 Months
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	3.7%	-1.6%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	3.0%	-1.9%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	6.2%	-0.7%
UK - Small Cap	MSCI Small Cap NR	**GBP**	7.6%	-1.8%
United States	S&P 500 NR	**USD**	4.9%	-2.7%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.9%	-2.3%
Japan	Topix TR	**JPY**	3.0%*	-3.6%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	4.2%	5.9%
Global developed markets	MSCI World NR	**USD**	4.7%	-2.1%
Global emerging markets	MSCI Emerging Markets NR	**USD**	5.6%	7.1%
Bonds				
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	1.1%	2.2%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	0.1%	0.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	0.5%	1.7%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	2.1%	3.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	0.6%	-0.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	-0.1%	1.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	0.9%	-0.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	1.7%	1.2%
US Treasuries	JP Morgan US Government Bond TR	**USD**	-2.4%	0.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	2.4%	3.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	1.5%	-1.4%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	1.1%	2.6%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	1.1%	0.6%
Euro High Yield	*BBgBarc European High Yield 3% Constrained TR*	**EUR**	-0.7%	-1.8%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-1.6%	1.4%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	1.5%	3.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	5.4%	2.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	2.1%	3.6%

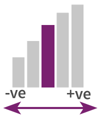
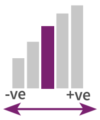
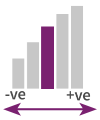
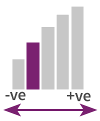
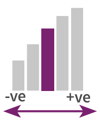
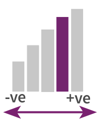
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 January 2019		
		Currency	1 Month	3 Months
Property				
Global Property Securities	S&P Global Property TR	**GBP**	7.4%	6.6%
Currencies				
Euro		**GBP**	-2.9%	-1.5%
US Dollar		**GBP**	-2.7%	-2.6%
Japanese Yen		**GBP**	-2.1%	1.0%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	3.9%	-6.4%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-0.5%	-2.2%
Oil	Brent Crude Oil	**GBP**	11.7%	-20.3%
Gold	Gold Spot	**GBP**	0.1%	5.7%
Interest rates				
United Kingdom			0.75%	
United States			2.50%	
Eurozone			0.00%	
Japan			0.10%	

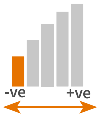
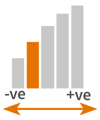
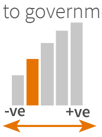
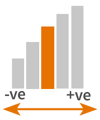
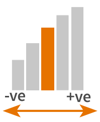
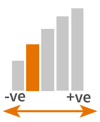
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *e denotes estimate*

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities  	» We retain our broadly neutral allocation to global equities today. The rapid rebound in risk appetite since year end has seen valuations richen, but global equities remain attractive, particularly versus sovereign and some corporate bonds. However, given the strength and magnitude of January's rebound some marginal profit taking is probably warranted. » Monetary policy and cross border politics will remain key drivers of risk appetite and global equity returns, the former being key to the recent repricing. + The global macro backdrop remains favourable for global equities, though we remain cognisant of slowdowns in some regions. + Equities are better placed than most asset classes to perform in a moderately pro inflationary environment – The trade war back drop remains unresolved and remains a key risk for global equities.
UK equities (relative to developed)  	» UK equities continue to look cheap today but caution is warranted given the evolving Brexit negotiations and continued political jockeying. While the larger cap market constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. » As the 31st March approaches there is likely to be continued volatility in Sterling and UK assets. + The UK market remains exposed to global markets and factors and as such is somewhat insulated from the headline Brexit concerns, benefiting from any associated Sterling weakness. – Today the chief worries lie with the ongoing Brexit negotiations, and recent political developments mean significant challenges remain.
European equities (relative to developed)  	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. From a more cyclical point of view the European macro backdrop has wavered of late, and the German economy unexpectedly contracted in Q3 2018. The region faces headwinds today, not least the ending of the ECB's asset purchase program, but also ongoing political tensions. + European earnings still have scope to recover more meaningfully from their post crisis lows. – European assets, including equities, may come under pressure now that the ECB has ceased its asset purchase program, or if the Euro strengthens on the back of any bullish rate repricing. – Episodic risk off events, such as the volatility in the Italian bond market or social unrest in France, should be expected.
US equities (relative to developed)  	» The US remains the most expensive of the major developed markets, but still offers some value today in spite of the best January performance since 1987. The US economy remains in good health and arguably warrants a premium, but the tighter valuation opportunity today means we continue to score US equities less highly than ex US bourses today. » Monetary policy remains crucial to keeping markets in check and volatility under control. To date the Fed has managed this well, but recent concerns about slowing growth has led the Fed to reappraise their expectations for 2019 hikes, with rates expectations softening and lending support to risk assets. + The economy remains in good health with several leading indicators remaining positive. + Despite the Fed's programme of rate hikes, broader measures of financial conditions remain relatively loose, which coupled with the current fiscal stance may help earnings find another leg higher. – US equity valuations remain elevated vs other regions today. Coupled with any renewed upside yield pressure, this may be an obstacle to further index gains from current levels. Additionally 2019 earnings growth could disappoint, at the same time that margins potentially peak out.
Japan equities (relative to developed)  	» Japanese equities look attractive today and we acknowledge the government's policies to improve working practices and governance. Forward estimates of earnings have tailed off recently and equity prices have fallen sharply. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa. » Japanese assets should remain well buoyed by the Bank of Japan, which is the sole major central bank still buying assets today. + If the currently depressed US rates find a renewed upward trend, Yen weakness will likely boost Japanese equities. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities.
Emerging market equities  	» EM equities have proved to be a better place to hide than DM in recent months. We remain in favour of EM assets more generally over DM as the longer term relative growth dynamics remain favourable, which coupled with steady inflation should support EM equity returns over time. Some caution is warranted as further bouts of volatility are inevitable. + EM currencies remain somewhat cheap and provides 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 – 'Trade war' risks remain elevated

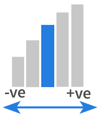
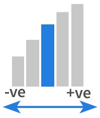
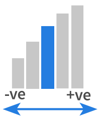
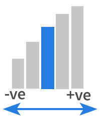
Past performance is not indicative of future returns.

Fixed Income

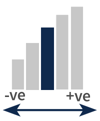
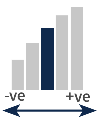
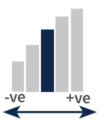
Government 	» On a medium term outlook DM government bonds remain largely unattractive today with poor real return prospects in aggregate. After recent repricing in US rates markets that now price in more likelihood of cuts than hikes by the end of the year, we turn more cautious and look for more diversification to come from cash and gold. Other markets, such as Italy, are 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. – Net central bank bond purchases have now turned negative and may be a headwind for all rate sensitive debt, arguably more so in higher quality European bond markets as the ECB ends its bond purchase program, though we've not seen this yet to date.
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. + 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. After upgrading last month, we re-rate lower on the basis of the underlying sovereign bond component looking rich again today. + A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread – With central bank buying slowing the risks are asymmetric – Credit quality has drifted lower in recent years, and leverage has moved higher
High Yield Corporate 	» Spreads have compressed rapidly in January after the Q4 sell off to a level that is probably about fair in our opinion but likely to remain somewhat elevated and potentially volatile. » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration if credit markets re-widen again from here. + In the absence of a systemic market shock the running yield of high yield means the asset class will likely trump most of other fixed income. – 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
Emerging market debt 	» Emerging market bonds have performed admirably in recent months. With yields still over 6% the asset class remains attractive today, with spreads slightly elevated relative to history. » 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 will weigh on EM assets, with local bonds and FX likely bearing the brunt
Convertible bonds 	» Convertible bonds played their protective role well through December and enjoyed some uplift in January too. We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity it brings. » Some caution is warranted given the concentration to the US market and technology names, though some of this steam has recently been released as (US) stocks repriced, and the asset class has shown itself to be quite resilient of late which gives some comfort. + The natural convexity provided by convertibles should continue to provide reasonable protection against any protracted equity correction. – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest 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.

Past performance is not indicative of future returns.

Alternatives

Commodities 	» Prices are likely to be affected by the trade tariffs being imposed by the US and their trade partners (Europe and China in particular) in retaliation. This dynamic remains in flux and is likely to cause some volatility. » Commodity prices are primarily supply and demand driven, 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, as witnessed during recent market weakness + Despite a decent January rebound the commodity index remains well down on last year's high with scope for further retracement if conditions are right – Trade tensions may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular. – Geopolitics is an important consideration as evidenced by recent oil price gyrations.
Property (UK) 	» Property remains an attractive asset class for investors requiring yield. » Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today. » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property outside London holds some appeal, with industrial and office space having more attractive fundamentals than the under pressure retail sector. + Premium yields should continue to attract capital and provide some floor to prices, as will any sustained Sterling weakness + 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 continue to evolve.
Infrastructure 	» Infrastructure stocks trade at reasonable valuations today and performance has been strong at the index level through both the recent market weakness and January reversal » Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets. + In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing. + The asset class offers a healthy yield at a reasonable valuation today - 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 a spate of recent events has hit a handful of stocks hard.
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 as high quality bonds on the whole remain expensive. + These strategies provide additional diversification with reasonable return potential. – The sector is relatively young and growing. It remains somewhat untested through a protracted risk off period so thorough due diligence is vital, and blend is recommended. – The hurdle for performance of alterative strategies is higher today given the level of treasury yields today.

Currencies

GBP 	» Brexit uncertainty remains high and will remain so for the foreseeable future. We retain a neutral view until we have a clearer expectation on how the political situation evolves. With Sterling looking fairly beaten up there is probably more upside than downside risk today, but it is a somewhat binary bet. January proved to be a good month for the currency. » 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 remain a source of volatility and are likely to dominate its nearer term path.
Euro 	» The Euro remains somewhat rangebound today and lacks conviction either way. Whilst any change in explicit rate policy has now been pushed towards the latter half of 2019, the end of asset purchases by the ECB may increase rates volatility and with it the common currency. » In real terms the common currency looks about fair value today but with long market positioning continuing to scale back there is no obvious and imminent catalyst for an uplift, and on balance the local macro risks may be rising.
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 as evidenced in recent weeks. We retain the lower neutral rating we assigned last month as there is scope for another leg up if global risk appetite falls from favour again.

Past performance is not indicative of future returns.

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
Unit 01 - 03
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

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