FP FINANCIAL PARTNERS

Asset Allocation Dashboard

Positive   Neutral   Negative

Asset class	View	Change	Comments
Equities			
Developed equities	Neutral	↔	At these valuation levels we view a broadly neutral allocation as appropriate. Central Bank policy remains key for markets today. Short term noise could also be a result of increasing geopolitical tensions. Continuation of recent volatility could provide interesting buying opportunities.
UK equities Relative to developed	Positive	↔	The UK is reasonably attractive, but remains sensitive to political news both internally and to knock on effects from the EU. That being said large listed UK businesses derive only a small proportion of their earnings from the UK. The UK is a mild ‘green’ status today especially in light of the relative underperformance of the rest of DM in the past few months. The market remains disproportionately sensitive to the oil price.
European equities Relative to developed	Positive	↑	Europe remains somewhat cheap, but does not qualify for the “fat pitch” that we look for, especially given the risk of negative growth in the region. Ultimately the weak macro story and the lack of a valuation extreme suggest caution in this region. Longer term, Europe needs some sort of political and banking consolidation, but the ECB is calming the waters for now. We rate this market as a mild green in light of the recent pull back.
US equities Relative to developed	Negative	↔	Consistently the most expensive regional equity market. Despite the better US news flow, it warrants an underweight. Investors can buy very similar companies elsewhere for less. Monetary policy remains a key swing factor for the US.
Japan equities Relative to developed	Positive	↑	The government’s pro liquidity policies are welcome – and a weaker yen helps – but inconsistent data readings and a habit of not ‘mean reverting’ make this a difficult market to call. We rate this market as a mild green today in light of the recent pull back.
Emerging market equities	Neutral	↔	Valuations are attractive, but the economic dynamics are negative in a number of key markets. Wait for signs of economic improvements before allocating more aggressively to the region. We rate this market neutral. Care should be taken to ensure the strong valuation bifurcation between high and low quality stocks does not impact returns. This is a volatile section of the equity market: care is required on position sizing.
Fixed income			
Government	Neutral	↔	The ECB and BoJ have taken up the liquidity baton from the Fed. On a medium term outlook government bond yields are not attractive and the asymmetry of potential returns from this asset class is stark, however recent months show that even expensive sovereigns can help preserve capital during periods of market stress.
Index-linked Relative to government	Neutral	↔	Like their nominal counterparts, linkers are ultimately expensive. Nonetheless, compared to a conventional government bond, they could provide some protection against unexpected inflation, given that inflation breakevens suggest a benign inflationary environment over the next few years.
Investment grade Relative to government	Positive	↑	Investment grade debt remains a decent play against government bonds. Our positive views on corporate credit health means investment grade is a reasonable replacement for government debt, but if taken in isolation the asset class is not particularly attractive. We are cognisant of debt issuance to support share buybacks, which has become more prevalent recently. We rate this market as a mild green today in light of the recent pull back.

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January 2016

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Fixed income			
High yield	Positive	↔	The upside in allocating to high yield debt at present spread and yield levels is sufficient to warrant a position to the asset class. Valuations are attractive across the curve with more elevated spreads. If this asset class weakens further we would consider increasing allocations.
Loans	Neutral	↓	Hold exposure if appropriate to mandate. Similar to high yield, with the exception that investors need to consider the less liquid nature of this market and lack of embedded rate protection. The floating rate nature of the asset class will be accretive when interest rates do eventually rise above the embedded LIBOR floor. Given the moves out of high yield there seem to be better returns for risk elsewhere in the credit space, especially when liquidity is considered.
Emerging market debt	Positive	↔	EMD is sensitive to global macro news, especially markets with current account deficits or an overreliance on oil exports. However spreads today make the hard currency parts of emerging markets debt a green on our colour code. Moderate allocations are justifiable, but be wary of making an oversized allocation today and leave capacity to add if future price volatility creates better entry levels. Local EMD has optically attractive yields but dollar strength and currency risks may overwhelm the carry opportunity.
Convertible bonds	Positive	↑	Convertible bonds are now cheap relative to their constituent part as markets have come back in recent months. This does not constitute a ‘fat pitch’ valuation, but a mild green and an allocation can be justified on the grounds that it retains some equity market upside with downside protection.
Alternatives			
Commodities	Neutral	↔	Commodities remain sensitive to negative news on growth. They could rally from here but volatility and ongoing economic uncertainties suggest caution. The recent, significant, falls in the oil price demonstrates how volatile these prices can be.
Property (UK)	Neutral	↔	Income attractive versus gilts but limited room for capital growth. On the positive side, rental growth outside of London is likely to provide a positive impetus due to a lack of new supply. Neutral to positive.
Currencies			
Dollar	Neutral	↔	The dollar strength has continued to dominate currency markets with fundamentals, flows and technicals all providing a tailwind for the Greenback. The currency is no longer cheap versus long term valuations but has scope to run further as the rate cycle normalises. Momentum has been with the Dollar so the risk is that consensus positioning is pared back and the reserve currency could weaken if the priced in Fed hikes do not materialise.
Euro	Positive	↑	ECB policy will continue to bias rates lower and rate differentials across geographies provide little to no carry advantage. Against this poor sentiment however, shorts appear extended and real valuations have adjusted closer to multi year lows. Talk of dollar parity may end up being just that and the ‘Brexit’ risk premia may weigh on the Sterling-Euro cross ahead of any referendum. The shorter term risk would be biased to an upside squeeze.
Yen	Neutral	↔	Despite recent strength the Yen remains cheap versus long term real valuations but it is difficult to see any catalyst for this discount to narrow. As Asian currencies continue to weaken, the Chinese Renminbi comes under pressure, and the BOJ fires its arrows, the Yen’s only marginal value will be as a diversifier in a portfolio of risky assets. That however, should not be underestimated given the poorer protection offered by bonds today and recent strength reflects its haven status.

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Important notes