

Asset Allocation Dashboard

■ Positive
 ■ Neutral
 ■ Negative

Asset class	View	Change	Comments
Equities			
Developed equities	■	↔	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	■	↔	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	■	↑	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	■	↔	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	■	↑	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	■	↔	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	■	↔	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	■	↔	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	■	↑	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.

■ Positive
 ■ Neutral
 ■ Negative

Asset class	View	Change	Comments
Fixed income			
High yield	■	↔	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	■	↓	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	■	↔	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	■	↑	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	■	↔	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)	■	↔	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	■	↔	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	■	↑	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	■	↔	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.

Note: Each asset class is reported on in isolation and should not be used as a relative comparison, unless otherwise stated. These views should not be interpreted as investment advice. Views as at December 2015.



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

Financial Partners Ltd.
泛柏資產管理有限公司
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

Important notes

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.