FP FINANCIAL PARTNERS

June 2016

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 and idiosyncratic political risks. Although upside price risk looks more muted, investors can still earn a decent yield in DM equities which in a period of expected low nominal returns is still attractive.
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. The market remains disproportionately sensitive to the oil price but with the price appearing to have bottomed out in the near term this also presents upside risk. We advocate caution in the short term ahead of the referendum.
European equities Relative to developed	🟩	↔	European equity looks reasonably valued at current levels, especially when viewed against corporate and sovereign European bond markets. We continue to rate this market as a mild green given the backdrop of continuing Central Bank stimulus which lowers corporatefunding costs and the room for relative price improvement
US equities Relative to developed	🟥	↔	Still the most expensive regional equity market in our valuation framework. Despite decent US news flow, it warrants an underweight as investors can buy similar companies elsewherefor less. Monetary policy remains a key swing factor for the US. We will watch with interest as political trends evolve through the year.
Japan equities Relative to developed	🟩	↔	The government’s pro liquidity policies are welcome but inconsistent data readings and habitual disappointment make this a difficult market to call. We rate this market as a mild green today in light of the recent underperformance and a continuing program to increase equity allocations within pension portfolios. Yen strength remains a risk but conversely weakening rhetoric may provide a boost.
Emerging market equities	🟨	↔	Valuations are attractive, but the economic dynamics remain negative in a number of the larger key markets. We prefer to wait for signs of economic improvement before allocating more aggressively to the region. We continue to 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. Today it is only the diversifying qualities of the asset that keep them from being an outright sell.
Index-linked Relative to government	🟩	↔	Like their nominal counterparts, linkers are ultimately expensive. Nonetheless, compared to a conventional government bond, at these levels they are likely to provide some protectionagainst future inflation. Core inflation remains relatively stable and headline appears to have turned a corner as well.
Investment grade Relative to government	🟩	↔	Investment grade debt remains a decent play against government bonds and an efficient way to harvest higher quality spread whilst retaining some underlying rate protection. We are cognisant of debt issuance to support share buybacks, which has become more prevalent recently. We rate this market as green today but recognise it has rallied quite sharply off the February spread lows.

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Positive | Neutral | Negative

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Fixed income			
High yield	Neutral	⟷	The upside in allocating to high yield debt at present spread and yield levels is sufficient to warrant a position to the asset class but we remain more neutral after the strong recent run. We prefer short duration to core high yield today as scenario analysis suggests a better risk return. We are mindful spreads could 'overshoot' before stabilising or tightening and valuations look fair today. On the basis of expected total returns we prefer US over Europe.
Loans	Neutral	⟷	The asset class has rallied hard in recent weeks and we retain a more neutral view on the asset class. 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 an embedded rate component. The floating rate nature of the asset class will be accretive when interest rates do eventually rise above the embedded LIBOR floor.
Emerging market debt	Neutral	⟷	EMD is sensitive to global macro news, especially markets with current account deficitsor a reliance on oil exports. 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. Whilst we still see decent returns from the asset class over the medium term the sharp repricing in recent months warrants some caution today.
Convertible bonds	Positive	⟷	Convertible bonds are slightly cheap to their constituent parts. The asset class should always have a place in a multi asset portfolio given the upside participation and downside bond floor and the asymmetric properties they possess.
Alternatives			
Commodities	Neutral	⟷	Commodities remain sensitive to negative news on growth. They could rally further from here but volatility and ongoing economic uncertainties suggest caution and the market still prices little inflation risk. The significant recent moves in the oil price demonstrate how volatile these prices can be, both to the downside and upside
Property (UK)	Negative	↓	Income is attractive versus gilts but there is limited room for capital growth. On the positive side, rental growth outside of London is likely toprovide a positive impetus due to a lack of new supply. We move to a negative stance today based on the limited upside potential and the ramifications that a Brexit outcome might bring.

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Positive Neutral Negative

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Currencies			
USDGBP	Neutral	⟷	The dollar has continued to trend lower in recent months along with most major and EM currencies as a more dovish tone out of the Fed has dampened expectations for 2016 rate hikes which makes the dollar less attractive. However, with little more than a single hike priced in throughthe end of the year, and inflation starting to tick higher, we could be on the cusp of another leg higher for the Greenback. Against sterling the outlook is perhaps more balanced as the pound is already at a low base following selling chiefly on the back of Brexit concerns. This has repriced somewhat in recent weeks but from here it is difficult to have a strong view but on balance we'd favour the Greenback in the nearer term. There will be volatility for certain on 24tth June following the referendum but calling which way is difficult.
EURGBP	Neutral	⟷	ECB policy remains accommodative and will continue to bias rates lower. Rate differentials across geographies provide little to no carry advantage. The recent bout of Euro strength may ebb away as policy looks set to remain on a divergent course. If Brexit does become a reality the Euro will likely suffer as investors reprice 'Europe break up' risk; if we 'Bremain', Sterling will likely rally. Either way, the Euro will likely struggle to make head-way. But we can make a better informed decision post referendum.
JPYGBP	Neutral	↑	The Yen is bouncing off recent highs despite policy designed to see it weaker. If Asian currencies weaken and the Chinese Renminbi comes under any renewed pressure the Yen's only marginal value will be as a diversifier in a portfolio of risky assets. Any prolonged regional currency weakening will likely see the currency trade lower in sympathy and versus the markedly lower Pound this cross looks prone to weakness. The BoJ has recently reinvigorated its programme of talking the currency down through talk of intervention. This will prove a headwind to further Yen strength but ahead of, and through the referendum, it is prudent to have a more neutral stance on this cross.

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