March 2016

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. A continuation of recent volatility will 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 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.
European equities Relative to developed	Positive	⟷	Europe remains somewhat cheap but 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 and near term expectations for additional Central Bank stimulus.
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. We will watch with interest as political trends evolve through the year.
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 and a continuing program to increase equity allocations within pension portfolios.
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. Currencies also need to stabilise.
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. Today it is really only the diversifying qualities of the asset that keep them from being an outright sell.
Index-linked Relative to government	Positive	⟷	Like their nominal counterparts, linkers are ultimately expensive. Nonetheless, compared to a conventional government bond, at these levels they are likely to provide some protection against future inflation which is starting to come through in the US in particular.
Investment grade Relative to government	Positive	⟷	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 as spreads push through levels not seen since the tail of the euro crisis peak.

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FINANCIAL PARTNERS

Asset Allocation Dashboard
March 2016

Positive (green) | Neutral (amber) | Negative (red)

Asset class	View	Change	Comments
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 following the recent increase in spreads. If this asset class weakens further we would consider increasing allocations but are mindful spreads could 'overshoot' before stabilising or tightening.
Loans	Positive	↔	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 deficits or 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 now cheap relative to their constituent parts as markets have come back in recent months. The asset class will 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)	Neutral	↔	Income is 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 in recent months with fundamentals, flows and technicals all providing a tailwind for the Greenback at different times. The currency is no longer cheap versus long term valuations but has scope to run further as the rate cycle normalises. The risk is that consensus positioning is pared back and the reserve currency could weaken further if Fed hikes do not materialise.
Euro	Neutral	↓	ECB policy has eased further and will continue to bias rates lower. Rate differentials across geographies provide little to no carry advantage. An early bout of Euro strength as US and UK rates repriced lower may ebb away as policy looks set to remain on a divergent course and the 'Brexit' risk premia is likely to weigh on the Sterling-Euro cross ahead of any referendum.
Yen	Negative	↓	The Yen is bouncing off recent highs despite policy designed to see it weaker. This is mostly in response to a poor macro outlook and weak risk sentiment which appears to have abated in the short term and will prove a headwind to Yen support. If Asian currencies continue to 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.

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