

Asset Allocation Dashboard

■ Positive
 ■ Neutral
 ■ Negative

| Asset class | View | 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. An increase in 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. 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. |
| 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. |
| 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. It is now highly unlikely that the Fed will increase interest rates in 2015. |
| 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 neutral to positive 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 and overall we continue to see extraordinary monetary stimulus, now a market feature since late 2008. Consensus now appears to be pointing towards an acceleration of the ECB's purchase programme. On a medium term outlook government bond yields are not attractive and the asymmetry of potential returns from this asset class is stark, however the last couple of 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 many market participants are expecting a relatively benign inflationary environment over the next few years, as priced by inflation breakevens. |
| 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. Spread widening in the recent market falls have added to expected returns, which we view as neutral to positive. |
| 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. |

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| Fixed income | | |
| 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. |
| Emerging market debt (hard currency) | ■ | EMD appears 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 slightly expensive relative to their constituent parts. An allocation can be justified on the grounds that it retains some equity market upside with downside protection. This does not constitute a 'fat pitch' valuation, however. |
| 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. Neutral. |
| Currencies | | |
| Dollar | ■ | Following recent strength, the dollar appears to be trading at fairer value relative to longer term valuations. The Fed is expected to begin normalising monetary policy this year which would support a strong dollar but any pushback or imported deflationary pressures may see bouts of weakness. |
| Euro | ■ | ECB policy has weighed heavily on the euro since the introduction of its QE programme. It is likely that the euro zone will require low interest rates for the foreseeable future and this appears to be mostly priced in at current levels. |
| Yen | ■ | A weak yen is good for the Japanese economy and as a result we expect to see continued downward pressure applied by the BoJ. This may serve to weaken the yen further, but at the very least it should provide significant resistance to the upside, particularly against the backdrop of beggar-thy-neighbour central bank policy actions to weaken certain major currencies, stave off deflationary pressures and stimulate external demand. On valuation metrics the Yen is not expensive. It also provides some risk diversification in a multi asset portfolio. |

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