Asset Allocation Dashboard

Positive Neutral Negative

Asset class	View	Comments		
Equities		Positive	Negative	Our view
Developed equities		Corporates continue to generate healthy level of profits and, indeed, continue to often beat expectations. While increasingly less attractive, valuations are not overly stretched by historical standards. Recent M&A pickup also a returns driver for investors.	Risks remain and the global macroeconomic situation continues to be uncertain. Many developed markets are at, or around their nominal highs.	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.
UK equities Relative to developed		Valuations are better than elsewhere in developed markets thanks to a meaningful degree of underperformance of this market over the past 12 months and there is less systemic risk than Europe.	The UK's economic outlook is, on the face of it increasingly impressive, but despite strong headline data, there remain areas of fragility and sources of risk especially the impending UK general election which could cause a degree of uncertainty in the coming months.	The UK is reasonably attractive, but remains vulnerable to resource price normalisation given its over-sized allocation to resource companies 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 year to date.
European equities Relative to developed		Sentiment remains low, which could have weighed on valuations disproportionately. The Central Bank looks likely to become increasingly active in extraordinary monetary policy. The ECB's recent surprise rate cut demonstrates the official sector's commitment to a positive outcome in Europe.	Economic data continues to be weak and there is a growing risk of deflation in the region. The intervention of the ECB (negative interest rates and targeted LTRO) have, on the whole, been well received, but their longer term efficacy remains to be seen. Sovereign risks continue to dominate, and the banking sector in many countries remains fragile. There is no reason to expect this to change any time soon.	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. It is also the most over indebted developed region. Ultimately the 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		Despite the occasional political misstep, the US economic outlook remains amongst the best of major economies. Economically significant sectors like housing, are recovering and the corporate sector remains in good shape. The consumer's confidence is improving thanks to improvements in housing and employment.	The most expensive equity region, with low dividend yields and high investor expectations already priced in.	Consistently the most expensive regional equity market (although this has moderated somewhat recently). Despite the better US news flow, it warrants an underweight. . Investors can buy very similar companies elsewhere for less. But this is not a "fat pitch". Be cautious on sizing Monetary policy remains a key swing factor for the US.
Japan equities Relative to developed		Despite recent weakness, the market has responded well to last year's government and central bank policy changes. Likely to see a continuation or increase in quantitative easing in order to stimulate	Although Japan looks relatively cheap on a price-to-book basis, this can be justified by their lower historical ROE. Additionally the (still quite) strong yen, the dull economic backdrop and demographic headwinds are a long term concern.	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. From a tactical perspective, this market's underperformance year to date could make it a rewarding tilt. We rate this market as neutral today, but it is close to "green".

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Emerging market equities	Positive (green)	Emerging markets meaningfully underperformed developed equity markets in 2013, and have moved behind DM once more year to date 2014. Valuations remain attractive even on a cautious medium term outlook for the region. Investor sentiment is beginning to turn positive on the region and this, coupled with attractive valuations is an enticing combination.	The asset class continues to face near term headwinds; withdrawal of US monetary stimulus, political uncertainty in the "fragile five" economies and an apparent slowdown in Chinese growth may continue to weigh on markets.	Valuations, in our opinion, are sufficiently attractive to justify an allocation. Care should be taken to ensure the strong valuation bifurcation between high and low quality stocks does not impact returns. Also, this is a volatile section of the equity market so care should be taken on position sizing.

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Fixed income		Positive	Negative	Our view
Government	Negative (red)	A major withdrawal of monetary stimulus may still be some way off in the developed markets. With subdued inflation expectations, a further significant sell off in sovereign bonds appears less likely. High quality government paper remains the ultimate haven in times of elevated risk aversion. At current yields these government bonds may offer investors an element of protection during a market selloff.	Despite a drift up in yield last year, long term government bonds remain expensive in our view and, indeed, have become more so in recent months. The real returns available to investors in a variety of "10 year safe haven" government bonds is negative in an even modest inflationary environment,	The US Federal Reserve continues to reduce the extraordinary monetary stimulus in place since late 2008 with other developed market central banks arguably still some way behind. On a medium term outlook government bond yields are not attractive and the asymmetry of potential returns from this asset class is stark.
Index-linked Relative to government	Negative (red)	Given the stickiness of inflation at levels above breakeven inflation rates, linkers look like a more reasonable way of investing in government bonds than the fixed rate government bond market. Recent history suggests projected inflation decreases are over optimistic. A marginal red today given recent increase in breakevens.	Linkers remain vulnerable to weak economic news flow. Real yields are still very low, or indeed negative and are expected to rise to more normal levels as monetary policy normalises.	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.
Investment grade Relative to government	Neutral (amber)	Investment grade spreads – a measure of relative value compared to government bonds – remain somewhat attractive. Good quality corporates are able to access debt markets extremely cheaply – which bodes well for their future business prospects, as long as they do not become over reliant on cheap credit.	In absolute terms, rather than relative, the duration component of investment grade bonds will be a headwind, should government bond yields move higher. While spreads are reasonably attractive, nominal yield levels are not particularly compelling compared to their history due to low reference (government) rates.	Investment grade remains a decent play against government bonds. Our positive views on corporate credit health mean investment grade is a reasonable replacement for government debt, but if taken in isolation the asset class is not particularly attractive.

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High yield	Neutral	Spreads have adjusted somewhat following Janet Yellen's suggestion of overvaluation and the total yield may appear attractive for those investors in search of yield in a low rate environment. Default rates remain very low and recovery rates are ahead of expectations too. Underwriting standards are looser now (non-callable periods, lighter covenants) but debt servicing remains well covered	Spreads and headline yields remain low by historical standards, particularly in Europe where spreads were last in this range in 2006/2007. Spreads are below what we would regard as a sustainable long term level; they appear to be pricing in a continuation of the highly favourable environment we have had for corporate debt.	A marginal amber in our colour code. The upside in allocating to high yield debt at present spread and yield levels is sufficient, in our view, to warrant a neutral position to the asset class. Today this is not a fat pitch, however, so be careful on position sizing. Best valuation appeared to be at the short end of the curve today. If this asset class weakens we would consider increasing allocations.
Loans	Positive	Long term value remains attractive. Unlike high yield, the spread available on loans appears attractive with the additional benefit of a floating rate coupon.	Less liquid part of the corporate debt market with wider bid/offer spreads. Risks much the same as high yield in the sense that a significant pickup in defaults may negatively impact the asset class.	Hold exposure if appropriate to mandate. Very similar to high yield, with the exception that investors need to consider the less liquid nature of this market. The main advantage is the floating rate nature of the loan universe, which will help if and when interest rates rise.
Emerging market debt (hard currency)	Positive	Despite relatively attractive yields, recent inflation data remains something of a worry, although it does appear to be waning. Spreads today make the hard currency denominated emerging markets debt a green on our colour code.	In the short term, EMD remains sensitive to disappointing growth, bad economic data and "risk aversion" trades. The asset class remains sensitive to reducing QE and further investor outflows from the asset class.	EMD appears sensitive to QE tapering, especially markets with current account deficits. However spreads today make the hard currency parts of emerging markets debt a green on our colour code. Emerging markets are likely to face continued headwinds over much of 2014. Moderate allocations are justifiable, but be wary of making an oversized allocation today.
Convertible bonds	Neutral	Trading at essentially fair value. Given the lack of attractive valuations in developed equity markets, the asset class provides an element of upside should the momentum in equity markets continue, with the benefit of a bond floor.	Significant systemic risks remain. The call optionality embedded in converts is ultimately only worth something if markets continue to increase and the particular stocks in question participate in these moves.	Convertible bonds have moved to fair value relative to their constituent parts. An allocation can be justified on the grounds that it retains some equity market upside with downside protection.

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Alternatives		Positive	Negative	Our view
Commodities		In a world of fiat currencies, the storing of wealth in commodities has attractions. Global growth rates remain reasonable and will provide a baseline of demand.	Economic data remains unexciting. Harsh austerity plans combined with sluggish growth does not suggest inflation is a major worry. Strength of final demand is still questionable; China remains as murky as ever. Furthermore, China holds significant inventories already.	Commodities remain sensitive to negative news on growth. They could rally from here but volatility and ongoing economic uncertainties suggest caution.
Property (UK)		Yields remain reasonably attractive. Reasonable vacancy rates still remain In certain areas. Active management remains key in this sector.	Economic data remains weak and reasonable supply is being generated in London. Outside London strength of final demand remains weak and the continued malaise of the high street potentially impacts a large section of the UK property bank. The illiquidity of direct strategies must also be borne in mind.	Income attractive versus gilts but limited room for capital growth. Neutral.

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Currencies			
Dollar		Following recent strength, the dollar appears to be at or near fair value. The Fed is on the verge of a slow unwind of extraordinary monetary policy but interest rate increases could still be pushed back if the economy falters.	Neutral
Euro		Sovereign issues are beginning to weigh on the euro. .It is likely that the euro zone will require low interest rates for the foreseeable future and this appears to be increasingly priced in.	Neutral
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.	Underweight

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