Multi Asset Funds - February 2019

25 February 2019

Equity markets experienced much welcomed relief rallies during January, having recovered from the shock of December.

Summary

- January brought relief rallies across most markets, with equity markets recovering from a difficult December. The MSCI All Country Index was up 7.8% and oil prices also recovered from mid-December lows.
- After initially looking like the US government shutdown would persist, President Donald Trump capitulates and signs a bill to provide funding, until at least mid-February.
- Brexit worries continue, but risks of a no-deal are falling. The markets interpreted this as a positive and sterling rose almost 3% against the US dollar.
- US Treasury yields maintained low levels, despite equity market recovery, with 10-year yields stabilising at around 2.70%. Inflation expectations have fallen and markets are no longer expecting a big bond sell-off at this stage.

Market update

Equity markets experienced a welcome recovery in January after a disappointing end to 2018. Both developed and emerging market equities increased, boosted by indications from the US Federal Reserve that it would be more patient with further rate increases, as well as by improving rhetoric between China and the US.

Guidance from the European Central Bank suggested that actual interest rate moves would most likely occur in mid-2019. However, it now appears as if that window is fast closing and the likelihood of rising rates is dissipating rapidly, given the slowdown that is emerging. The abnormally low euro yields on offer has meant the possible pushing out of hikes has triggered a mini yield-grab, with Euro Over Night Index Average (EONIA) five-year rates falling from above 0.3% in early October to below 0% by end-January, the lowest levels since mid-2017.

Despite Brexit causing much uncertainty in European markets, it appears as if some consensus is beginning to emerge around a deal, any deal, and the likelihood of a no-deal Brexit appears to be waning. Markets have read this positively, with sterling rallying convincingly during January, to end the month almost 3% stronger against the US dollar.

Portfolio strategy

Markets have recovered from the shock of December, and it does appear that peak growth and peak earnings have passed. The economic backdrop no longer appears to be one of tailwinds and we may well be in the eye of the storm, with a mix of both positive and negative signals.

As such we retain an overall neutral exposure to equities but have reduced exposure to Europe and increased positions in global emerging markets. On the back of the shifts in political developments in the UK we have also cut our short sterling positions against US dollar.

	–	–	N	+	++	
Equities						Given market moves in late 2018, we made use of weakness to move back to neutral.
Developed market fixed income						We remain overall underweight to DM fixed income as a result of our stance on IG and High Yield, but neutral to sovereign exposure.
• Developed market government bonds						Inflation expectations have fallen significantly and hence we are neutral to sovereign exposure.
• Investment grade (IG) corporate debt						We continue to favour more defensive (i.e. sovereign) fixed income positions over IG debt.
• High yield (HY) corporate debt						We avoid the HY space for now especially given late cycle stage of economy.
Emerging market debt (US$)						Higher yield pickup in EM exposure is compelling for the time being.
Emerging market local debt						As above, market yields are high enough to favour exposure here, but will most likely not be the start of a new bull market.
Money Market						We retain some cash buffer due to ongoing uncertain economic and political outcomes.

Performance update

The January uplift in equity markets bought a welcome correction to multi asset performance of the last quarter of 2018. The majority of the Global Multi Asset Funds outperformed their peer group averages and now rank within the top ten percent of their respective sectors over the short-term.