



FINURA

MARKET COMMENTARY

MULTI-ASSET INVESTMENT VIEWS - JUNE 2018

KEY

▲ Up from last month ▼ Down from last month

● Positive ● Postive/Neutral ● Neutral ● Neutral/Negative ● Negative

	Category	View	Comments
Main Asset Classes	Equities	● ▼	We have downgraded equities to neutral, reflecting our more cautious stance. Positive earnings revisions have become less widespread recently and a number of upcoming political events could lead to heightened risk aversion.
	Government Bonds	●	We remain negative on duration overall. Valuations have improved, but are not yet attractive enough. Cyclical and technical factors are still negative.
	Commodities	●	The cyclical environment remains supportive, leading to strong fundamentals for most commodities. Momentum and carry continue to add support.
	Credit	●	The late phase of the cycle and monetary tightening continue to create meaningful headwinds.
Equities	US	●	The US continues to be the most resilient economy and the source of many upward earnings revisions.
	Europe	● ▼	We have downgraded Europe to neutral. Cyclical indicators reflect that Europe is in a slowdown and earnings momentum has weakened. Political risk is also in focus again.
	UK	●	We remain neutral on UK equities due to the continued risk of sterling appreciation and uncertainties around on-going Brexit negotiations.
	Japan	● ▼	We have downgraded Japan to neutral. Recent weakness in macroeconomic data and cyclical indicators point to a slowdown. Further yen strengthening would be a risk.
	Pacific ex-Japan	● ▼	Downgraded to neutral. Within the region, we favour Singapore – where the outlook has steadily improved – over Australia – whose economy faces structural challenges.
	Emerging Markets	● ▼	We have downgraded to single positive. Valuations are relatively attractive, but trade tensions, elections and a stronger dollar may be near-term headwinds.
	Government Bonds	US	●
UK		● ▼	We have downgraded gilts to negative, leaving our score in line with other major markets and because of recent outperformance.
Germany		●	Weather and cautiousness may slow the ECB, but normalisation is underway. QE is due to taper in Q4, ending by year end, removing support from Bunds.
Japan		●	No change. The Bank of Japan's firm stance in April suggests that it is still too early to downgrade this market.
US Inflation Linked		●	We remain positive on breakevens but are becoming more cautious as initial targets have been hit and seasonality is expected to turn negative.
Emerging Markets Local		●	We remain neutral after last month's downgrade. Carry is still positive, but downside risks have grown.



	Category	View	Comments
Investment Grade (IG) Bonds	US	●	The increase in funding costs is likely to put forward pressure on coverage ratios.
	Europe	●	Despite the year-to-date widening, spread valuations do not yet look completely attractive.
	Emerging Markets USD	● ▲	After the recent selloff, we used the opportunity to upgrade to neutral. Valuations are still not compelling but carry is more attractive.
High Yield Bonds	US	●	This is the best performing market year-to-date, but the margin for error continues to be limited so we remain neutral.
	Europe	●	Risk sentiment has weighed heavily on spreads, especially for those names with high exposure to Italy.
Commodities	Energy	●	Global oil demand for remains stable, particularly from China and India, while falling Venezuelan output and upcoming sanctions against Iran remain supportive.
	Gold	●	We remain negative on gold, which we expect to struggle in an environment of rising real yields and the stronger US dollar.
	Industrial Metals	●	Continue to look attractive against a backdrop of globally synchronised growth and a strong and stable Chinese economy. Momentum has also recently strengthened.
	Agriculture	●	Favourable supply/demand dynamics lead us to retain a positive view.
Currencies	US \$	●	We believe that temporary factors such as trade protectionism and political risk will keep the USD stronger than its fundamentals imply.
	UK £	●	GBP is still driven by Brexit newsflow. Our negative view is unchanged as we still see GBP as being vulnerable to further growth and inflation downgrades.
	EU €	●	We believe that European economic activity will recover from recent weakness, with the European Central Bank announcing the end of quantitative easing this year.
	JAP ¥	●	We think any strengthening of JPY would stem from its hedging properties rather than its fundamentals, particularly as the JPY continues to be cheap within the G10 space.
	Swiss F	●	We continue to hold a neutral view on CHF and we don't expect the Swiss National Bank to change its current policy.



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Source: Schroders, June 2018. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MONTHLY MARKETS REVIEW

JUNE 2018

US and China continue to support global growth

The amount businesses are prepared to invest in their own infrastructure and growth is a very good indicator of the state of the wider economy. In times of recession, companies tend to protect their balance sheets and spend as little as they can. In the good times the opposite happens, and that's the scenario we're witnessing in two of the world's largest economies – the US and China.

When the US Senate passed President Trump's 'Tax Cuts and Jobs Act' in December last year, they knew they were taking a gamble as the cuts were forecast to increase the Federal deficit by hundreds of billions of dollars. But if the strategy worked, it would encourage companies to invest in growth and infrastructure, as well as encouraging businesses that would otherwise have invested overseas to invest in the US instead. More spending would create jobs and increase wage growth, giving rise to higher interest rates and inflation, which would ultimately reduce the size of the deficit. That was the plan, and it seems to be working.

The Richmond Manufacturing Survey measures expected manufacturing capital expenditure (capex) in the US. That measure is now at its highest level in decades. Although actual capex has fallen in the last two years, that trend is reversing, and investment spending is accelerating. And it's not just thanks to tax cuts. Capex growth is also fuelled by the energy sector. Oil companies are having to invest heavily as pipelines start to run dry, and this is supportive of the US economy.

This expansionary environment is not exclusive to the US.

Despite the ongoing trade negotiations between the two countries, China continues to grow at a healthy rate. This is fuelled by its continued urbanisation, and a growing demand for products and services as the population benefits from increases in wealth across society.

Such positive news coming from two globally significant economies is good news for investors. When the US and China are doing well, other economies will benefit, which makes us optimistic about the future. As always though, this optimism is exercised with caution – especially as the unwinding of quantitative easing programmes gains momentum.

"While the growth story in the immediate-term is a positive one, we will be watching closely as the world comes to terms with higher interest rates and inflation because of that growth."

We look to invest in companies that will be able to navigate this new environment and remain dominant in their sectors as a result." - **Philip Smeaton, Chief Investment Officer.**

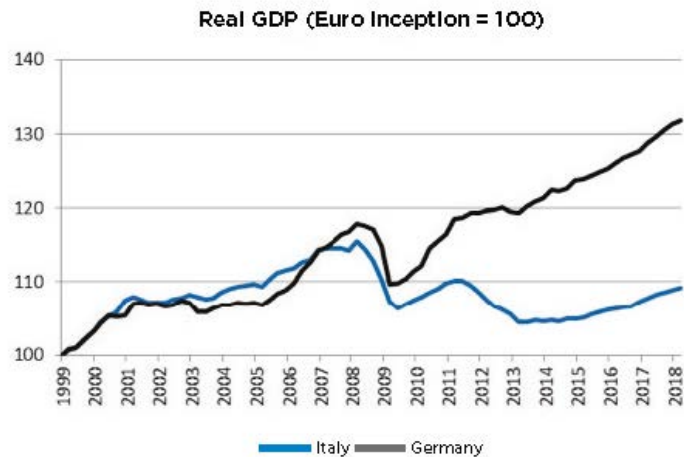
INVESTMENT VIEW: WILL 'QUITALY' BE THE SEQUEL TO BREXIT?

Italy dominated the news in late May when the new government took charge and shook the status quo, threatening the already tenuous fiscal outlook for the country. This caused some panic in global markets as – yet again - the future of the Euro was questioned. But could (and should?) Italy realistically turn its back on the Euro? Here we discuss the outlook for Italy as it finds itself backed into an economic corner.



ITALY HAS STRUGGLED TO THRIVE UNDER THE EURO

There have always been structural problems in Italy, giving rise to low productivity and political instability. But before Italy joined the Euro, they were able to bail themselves out of economic trouble by printing more Lira and devaluing their currency. This enabled them to compete on price, if nothing else. But as a member of the Euro, they can no longer do this. As a result, more stable and productive European countries are attracting investment and can compete more effectively on the global stage.



Source: Bloomberg

ITALY'S ECONOMIC GROWTH HAS LAGGED GERMANY FOR 12 YEARS

As you can see from the graph, economic growth in Italy has consistently lagged Germany's since 2007, and the gap widens every year. While Germany has been able to reduce its debt levels, Italy has continued to borrow money, but has no economic growth to show for it, and therefore no way of reducing the debt.

Indeed, productivity is further in decline, and the economy is under a huge amount of pressure.

For Greece to survive in the Euro it endured a halving of its GDP – the worst (non-war) economic performance ever from a developed country. And growth continues to remain subdued. For Italy to survive, it also needs to embrace some painful structural reforms to address its productivity. But this is going to be extremely difficult given that they've failed, so far, to turn their borrowing into decent economic growth.

LEAVING THE EURO IS UNLIKELY TO BE AN OPTION

While leaving the Euro could arguably help Italy in the longer-term, there's very little chance of that happening. Given the complexity of this move, the political and public will behind the Euro, and the shock to global markets that a 'QuitItaly' would create, Italy is going to have to find another way to turn its fortunes around.

First published on 3rd July 2018 by Sanlam UK. Source: [Sanlam UK July 2018 Market Review](#).



WHY 70% OF PEOPLE KEEP INVESTING AFTER RETIREMENT

More than two-thirds of people plan to continue investing even in retirement, according to a major global study.

For many, the idea of retirement means getting away from the stresses of everyday life. But with living costs rising and interest rates low, people need to think about how to generate extra income from their savings in retirement.

A major new study has found that 70% of people not yet retired plan to keep investing after they retire. On average they will dedicate 13.3% of their retirement savings to continued investing. For those retired, the figure is even higher. Retirees said they were allocating nearly a fifth (19.1%) of their pension savings to investments. Those were the findings of the Schroders Global Investor Study (GIS) 2018, which surveyed more than 22,000 investors across 30 countries.

The proportions of retirement savings retained for investing varied regionally. In Asia, retirees allocated the highest average of 19.5% to investments. Retired people in the Americas kept 18.6% invested, slightly ahead of Europe where the figure was 18.2%.

Retired South Africans said they invested the largest proportion of their savings. It was also the country which had the biggest disparity (16.9%) between the amount retired people were investing, at 26.6%, and the amount non-retired people thought they would invest, at 9.7%.

Global Investor Study: [Read the full findings.](#)

Global Investor Study: [The potential income shock facing pension savers.](#)

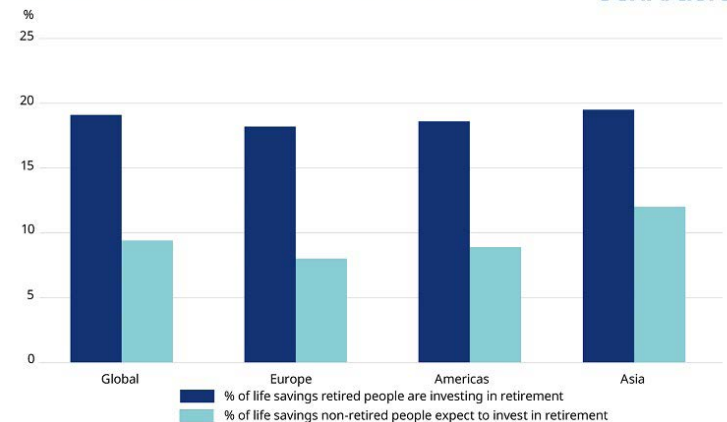
Lesley-Ann Morgan, Head of Retirement at Schroders, said: *"The survey suggests retirees have to think far more about making their savings work for them in retirement than perhaps they did previously.*

"There are several reasons that may explain why retirees have higher levels of investment than those still in work expect. In many countries, lower interest rates and rising inflation has reduced the value of income that bank accounts and guaranteed products can offer. People are also living longer, giving them more years in retirement that need to be funded.

"Our study shows that retirees have adapted to this reality by keeping more of their savings invested. For those nearing retirement, it shows that they may need to reconsider how they invest after retirement to meet their income needs."

How the regions compare: Investing in retirement - retired vs non-retired

Schroders



Source: Schroders Global Investor Study 2018. CS00021

You can find a full comparison between all the countries we surveyed in the table below.

How countries compare: Proportion of life savings people are allocating for investments in retirement – retired vs non-retired

Schroders

Country	% of life savings retired people are investing in retirement	% of life savings non-retired people expect to invest in retirement	Difference (%)
South Africa	26.6	9.7	16.9
Belgium	23.3	8.2	15.1
Australia	23.5	8.5	15.0
Spain	21.6	6.9	14.7
UK	21.4	7.5	13.9
Poland	22.6	9.3	13.3
South Korea	22.0*	8.9	13.1
Canada	20.3	8.0	12.3
Italy	21.6	9.4	12.2
France	20.4	8.4	12.0
Austria	16.3	5.4	10.9
Denmark	17.5	7.6	9.9
Japan	22.7	12.9	9.8
USA	18.1	8.2	9.9
Germany	15.5	6.9	8.6
Hong Kong	23.2	14.8	8.4
Chile	15.8*	7.6	8.2
China	21.6	13.4	8.2
Singapore	20.7	12.6	8.1
Thailand	19.1	11.4	7.7
Sweden	17.1	9.6	7.5
Russia	15.7*	9.2	6.5
Netherlands	14.3	8.6	5.7
Switzerland	12.4	6.9	5.5
Brazil	16.4	11.2	5.2
India	13.6	9.9	3.7
Portugal	11.3	8.3	3.0
Indonesia	15.5	12.8	2.7
Taiwan	7.2*	11.9	-4.7

*Caution: small base size (n<30) - directional use only.

Source: Schroders Global Investor Study 2018. CS00021

THE EFFECTS OF HIGHER LIVING COSTS AND LOW INTEREST RATES

Higher than expected living costs and lower rates and returns could see many people having to juggle their budgets or to make adjustments to their retirement aspirations.

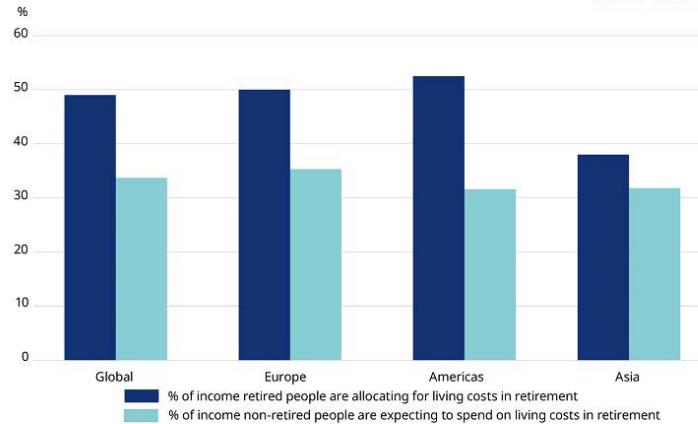
The GIS 2018 found the average investor expected living expenses to account for 33.7% of their retirement savings. However, those in retirement said they were actually spending

49% of their retirement savings on living costs.

Regionally, retired people in the Americas and Europe were allocating more of their retirement savings, 52.5% and 50% respectively, to living costs, but it was lower in Asia (38%).

How the regions compare: The cost of living in retirement - retired vs non-retired

Schroders



Source: Schroders Global Investor Study 2018. CS00021

You can find a full comparison between all the countries we surveyed in the table below.





How countries compare: Percentage of income people are allocating for living costs in retirement – retired vs non-retired

Schroders

Country	% of income retired people are allocating for living costs in retirement	% of income non-retired people are expecting to spend on living costs in retirement	Difference (%)
South Africa	58.5	34.1	24.4
Sweden	57.1	34.5	22.6
USA	53.6	31.7	21.9
Australia	57.6	38.5	19.1
South Korea	43.7*	26.7	17.0
Portugal	45.2	28.3	16.9
Canada	59.0	42.2	16.8
Belgium	50.4	34.1	16.3
Italy	52.9	36.8	16.1
Spain	51.0	35.0	16.0
France	46.2	30.4	15.8
Singapore	50.4	34.8	15.6
Chile	43.0*	27.8	15.2
UK	53.1	38.3	14.8
Netherlands	52.2	37.7	14.5
Denmark	50.3	36.3	14.0
Russia	45.1*	34.1	11.0
Brazil	33.8	23.4	10.4
Poland	40.6	30.8	9.8
Switzerland	48.4	38.8	9.6
Austria	46.3	37.4	8.9
Germany	46.9	38.3	8.6
Japan	53.0	46.2	6.8
Taiwan	38.0*	31.5	6.5
Thailand	33.7	29.0	4.7
Hong Kong	38.9	36.5	2.4
Indonesia	29.4	27.2	2.2
China	27.9	26.9	1.0
India	25.4	25.9	-0.5

*Caution : small base size (n<30) – directional use only.

Source: Schroders Global Investor Study 2018. CS00021

HOW RETIREMENT IS CHANGING

A potential shortfall in savings rates may mean investors need to adjust their retirement expectations, the GIS results suggest.

For instance, those yet to retire said they expected to spend on average 25.6% of their retirement savings on travel and hobbies. Currently, retired people said they are spending just 22.3%.

It may have been a decade ago, but the effects of the global financial crisis are still being felt. While the global economy has recovered from the recession that followed, many of the measures brought in to prevent the collapse of the economy remain in place. That has had a big impact on the cost of living and the return on savings.

Read more: [Three scenarios that show how quickly inflation can erode your wealth.](#)

For instance, in many countries the cost of living (inflation) is rising at a faster rate than the interest available from savings in a bank account. This is a particular problem for retirees who, in the past, tended to partly rely on the income provided by these savings. Now, whether they are just looking to supplement their retirement income or thinking of leaving some money behind, keeping more invested might be their best option.

Investment returns affect how much income retirement savings can generate. While history does not provide guidance for future returns, it offers food for thought. An arbitrary rule of thumb in the US, coined by adviser William Bengen, has been that 4% was the ideal amount to withdraw from a pension – starting at a withdrawal rate of \$4,000 from a \$100,000 portfolio and rising with inflation. Withdrawing any more runs the risk of savings running dry within 30 years.

But this rule of thumb was established in the mid-1990s when the investment environment was very different from today. With lower returns and longer lifespans, reassessing this rule may be necessary and a lower figure than the 4% rule may be more appropriate, depending on your own financial circumstances.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Schroders commissioned Research Plus Ltd to conduct, between 20th March and 23rd April 2018, an independent online study of over 22,000 people in 30 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, UAE, the UK and the US. This research defines “people” as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

First published 2nd July 2018 by David Brett, Investment Writer.
Source: [Schroders Global Investor Study](#).





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