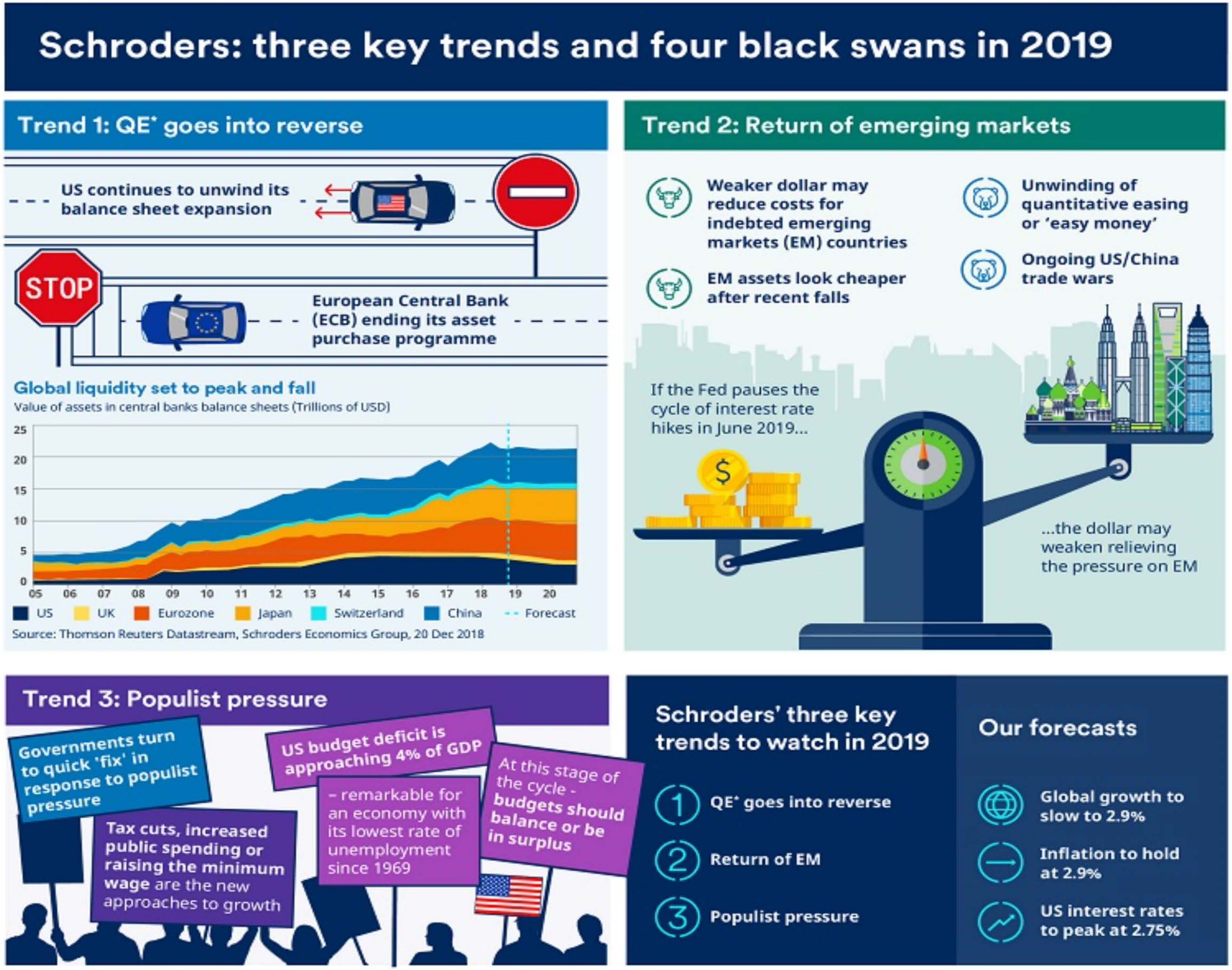
FINURA

MARKET COMMENTARY
JANUARY 2019

INFOGRAPHIC: THE GLOBAL ECONOMY



Source: [Schroders as at January 2018.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

Positive | Postive/ Neutral | Neutral | Neutral/ Negative | Negative

	Category	View	Comments
Main Asset Classes	Equities	Neutral	We expect momentum to remain weak in coming weeks with risks of further downgrade to earnings outlook, although possible value to be harvested in medium/longer term.
	Goverment Bonds	Neutral ▲	Having added to government bonds in Q4 we are inclined to take some profits. On a 6-12 month view, we expect to be more positive given our expectation for slower growth in 2019/2020. Our score is neutral but we may buy on dips.
	Commodoties	Neutral ▼	We see limited upside given cyclical and macro headwinds, unless US-China trade tensions dramatically ease.
	Credit	Neutral/Negative	The recent rise in yields has created some select value opportunities. However, we continue to retain our cautious outlook on a strategic basis.
Equities	US	Neutral ▼	While investors continue to evaluate the risk of an early recession, we expect the market to remain volatile. Despite improving valuations, outlook could be revised down further.
	Europe	Neutral/Negative	We remain cautious based on concerns that earnings for EU companies are deteriorating faster than in other regions, and economic activity indicators remain weak.
	UK	Neutral	We expect the market to remain volatile as sterling (GBP) swings associated with Brexit impact UK equities.
	Japan	Neutral ▼	With the deteriorating outlook for global growth and a stronger yen (JPY), exports may continue to face challenges, while there is not enough evidence of a pick-up in domestic activities.
	Pacific ex-Japan	Neutral	Given the relatively connected nature of the regional economy to global trade, the risk of a disappointing data print may offer intra-regional opportunities.
	Emerging Markets	Postive/Neutral	Valuations now look attractive, and a pause in tightening from the Fed would restrict USD strength and help EM assets.
Government Bonds	US	Neutral ▲	Whilst valuations look high, this appears justified by mounting cyclical pressures. Treasuries may be over-extended short term, but we are buyers on dips.
	UK	Neutral	Brexit uncertainty continues to complicate the outlook for gilts. We are neutral, preferring to take risk elsewhere.
	Germany	Neutral	Bunds look rich but European data continues to disappoint, calling into question the ability of the European Central Bank to tighten policy in 2019.
	Japan	Neutral	Whilst Japanese data has shown a rebound from 2018's weather/tsunami effects, we nonetheless expect the Bank of Japan to leave policy unchanged.
	US Inflation Linked	Postive/Neutral ▲	We continue with our positive view that US breakevens offer value.
	Emerging Markets Local	Neutral	We remain neutral as the cyclical headwind trumps improved valuations.

	Category	View	Comments
Investment Grade Corporate Bonds	US		The increasing cost of leverage will likely weigh on corporate earnings, while the continuing deterioration in the quality of the universe is also a source of vulnerability.
	Europe		Notwithstanding political noise, recent price moves have created some value opportunities. That said, while our metrics suggest a move to attractive levels, we remain cautious.
	Emerging Markets USD		We believe that the recent widening has created some pockets of opportunity, principally amongst higher quality credits.
High Yield Bonds	US		From a strategic perspective, spreads are likely to drift wider, reflecting late cycle dynamics and supply overhangs from both investment grade and loan markets.
	Europe		Europe is expected to underperform US on a duration/rating adjusted basis.
Commodoties	Energy		Our view remains unchanged given markedly improved fundamentals and a stable (as opposed to a rising) oil price, which we expect to support reasonable levels of returns.
	Gold		We believe that divergence in economic growth has probably peaked, and going forward the likelihood of growth convergence would be favourable to gold.
	Industrial Metals		Leading indicators of China growth are still in a downward trend and shadow bank financing is still shrinking, weighing on the demand outlook.
	Agriculture		This sector has relatively low sensitivity to global growth and equity volatility, and is supported by supply/demand dynamics and weather risks in 2019 H1.
Currencies	US $		Our base-case is still for global growth and sentiment stabilisation whilst the US economy softens further.
	UK £		Whilst a no-deal Brexit is still a possibility, this appears to have been priced into GBP.
	EU €		US growth weakness and (crucially) the Fed readjusting its rate hiking expectations allows for sentiment stabilisation in EUR.
	JAP ¥		The yen remains the most undervalued G10 currency and an effective hedge against further growth disappointment.
	Swiss F		Recent Swiss franc strength is at odds with weak growth data, which should force the Swiss National Bank to keep monetary policy dovish.

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, January 2019. 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.

MARKETS REVIEW

A look back on markets in January, when equities received a lift from signals that the US Federal Reserve would be more patient with interest rate increases.

HIGHLIGHTS

- Global equities gained in January. Economic data continued to moderate but optimism that US-China trade relations could improve and dovish messaging from the Federal Reserve (Fed) lifted shares.
- US equities were stronger. The Fed highlighted a greater degree of flexibility in future rate decisions and confirmed any changes will be based on economic momentum.
- Eurozone equities bounced back, supported by an improving picture on global trade. Data showed Italy has slipped into recession.
- UK equities performed well but lagged global equities as a result of sterling strength on hopes that the UK would avoid a disorderly exit from the European Union.
- Japanese equities gained and the yen also strengthened against the US dollar.
- Emerging markets (EM) equities rallied on the Fed's more cautious tone. The US dollar depreciated, further supporting EM returns.
- Global government bond yields fell in January (i.e. prices rose). Corporate bonds saw a strong rebound and outperformed government bonds.

THE US

US equities gained ground in January to recover a substantial part of the sharp falls seen in December. Although the Fed left its headline policy rate unchanged, it highlighted a greater degree of flexibility in future rate decisions, confirming any changes will be based on economic momentum. Previously, it had said that gradual increases in the policy rate would be needed. Additionally, President Trump stated that he would meet with China's President Xi Jinping in February to work towards a resolution to the trade dispute. The developments buoyed risk assets around the world.

The Fed granted itself the additional flexibility due to US economic data which, while still broadly stable, show signs of weaker momentum and "muted inflation pressures". Labour market strength continued into the new year, with 304,000 non-farm payroll jobs added in January versus expectations of 165,000 (data released in early February). However, average earnings growth (year-on-year) cooled very slightly from 3.3% to 3.2% and headline inflation in December dipped.

Furthermore, while the Q4 earnings season has thus far shown more positive surprises than negative, there have been cautious notes in the results of several prominent market names, referencing global economic headwinds. Industrial bellwether Caterpillar issued more conservative guidance, while comments from Amazon and Apple also warned of more difficult trading conditions.

All areas of the S&P 500 were higher over the month, but stocks in the industrial and energy sectors were amongst the strongest performers. The more traditionally defensive consumer staples, utilities and healthcare sectors generated positive returns that failed to match the gains made elsewhere.

EUROZONE

Eurozone equities bounced back in January after a weak end to 2018. The MSCI EMU index returned 6.3% in January. All sectors registered positive returns except for the safe haven communication services, which had performed well in December. In particular, some of the more economically-sensitive sectors such as automotive and semiconductors notched up strong returns. This was in part due to improving news flow on trade. Talks continued between the US and China, while the EU unveiled proposals for a zero-tariff trade deal with the US on industrial goods, including cars.

Economic data pointed to ongoing weakness in the eurozone. GDP figures showed growth of 0.2% quarter-on-quarter in Q4, the same as in Q3. Italy slipped into recession with two consecutive quarters of economic contraction. In terms of forward-looking indicators, the flash composite purchasing managers' index[1] fell to 50.7 in January, a 66-month low and compared to 51.1 in December, suggesting that business growth is close to stalling. The unemployment rate remained stable in December at 7.9%; this remains the lowest rate since October 2008.

The European Central Bank (ECB) said the risks surrounding the eurozone growth outlook have moved to the downside. The ECB maintained its guidance for interest rates to remain unchanged "at least through the summer of 2019".

UK

UK equities performed well over the month, rising 4.2% (FTSE All-Share), although lagged global equities as the market's significant defensive constituency trailed with the return of risk appetite. Sterling strength was another headwind which held back the more internationally focused FTSE 100, which rose by 3.6%.

The weaker performance compared to global equities was partly a function of the UK large caps having outperformed at the end of 2018. That was when fears around the outlook for the global economy, future path of US monetary policy and political uncertainty reached a head. Sterling bounced back in January as hopes built the UK would avoid a "no deal" Brexit.

Many domestically focused sectors also bounced back from very depressed levels. Just prior to the period under review pessimism towards UK equities once again increased, and this weighed on UK-centric areas of the market. However, easing "no deal" Brexit fears, combined with reassuring trading updates, drove a powerful rebound in the FTSE 250 (ex Investment Trusts) index, which rallied 7.6%.

UK retailers published reassuring Christmas updates with some of the best performers reporting mid to high single-digit like-for-like sales growth over the festive period. Meanwhile, trading at some other names which have been worst affected by the changes on the UK high street did not appear to have deteriorated further.

JAPAN

After the sharp falls seen in December, the Japanese market rose steadily throughout January to end the month 4.9% higher. This was despite the extraordinary intra-day volatility in global currency markets, which occurred in the first few days of the year when the Japanese equity markets remained closed for New Year public holidays. The yen appreciated sharply against all

currencies on 2 and 3 January before gradually retracing most of the move to end just 0.7% stronger against the US dollar for the month as a whole.

The corporate results season for the September to December quarter began towards the end of January. Although the majority of companies are reporting numbers in line with expectations, initial indications are for slightly more negative surprises than positive.

During January, concerns over the prospects for a sharper slowdown or global recession have eased somewhat, aided by comments from the US central bank. The market was led upwards by a broad range of cyclical or economically-sensitive areas, which had arguably been oversold in the sharp market sell-off in late 2018. Glass, paper, machinery, real estate and shipping stocks rose most strongly, while more defensive areas such as railways and foods underperformed. The retail sector declined during the month.

There were no surprises in Japan's economic data released in January, but the Bank of Japan did revise down its own forecasts for growth and inflation over next year. This was largely viewed as moving into line with reality, rather than sending any particular negative message.

ASIA (EX JAPAN)

Asia ex Japan equities rebounded in January amid growing optimism that the trade standoff between the US and China would be resolved. Concerns over China's deepening economic slowdown limited gains, however. Chinese exports declined 4.4% year-on-year in December, the biggest monthly fall in two years. Imports dropped 7.6%, while the manufacturing sector also contracted. Fourth quarter GDP growth eased to 6.4% year-on-year, dragging 2018 growth to 6.6%, the lowest since 1990. The People's Bank of China announced another cut to banks' reserve requirement ratios in its latest effort to promote lending and shore up growth. The government also outlined higher public spending and tax cuts for businesses.

In this environment, all markets closed higher except India, where the rupee weakened on growing fiscal concerns. Chinese and South Korean stocks posted double-digit gains. Hong Kong equities also fared well. By contrast, Taiwan underperformed as the outlook for the country's technology heavyweights dimmed amid slowing global smartphone demand.

Within ASEAN, Thailand recorded the strongest gains, helped in part by clarity on the election front; the country will hold general elections on 24 March, the first since the military coup in 2014. Elsewhere, markets in the Philippines and Indonesia continued to outperform, while Singapore and Malaysia lagged.

EMERGING MARKETS

Emerging markets (EM) equities advanced as the US Fed left rates unchanged as expected, but sounded a more dovish tone at its first meeting of 2019. This surprised markets; risk assets rallied and the US dollar weakened. EM equities rallied with the weaker dollar lending support. Turkey, Brazil and Russia were particularly strong. China also outperformed. India bucked the firmer trend and fell. The MSCI Emerging Markets Index increased in value and outperformed the MSCI World.

Turkish stocks, particularly financials, traded up as overseas investors returned in their search for higher yield. The Turkish central bank maintained its key interest rate at 24%, supporting its inflation-fighting credibility. In Brazil, optimism that the new administration will deliver on its pro-business pledges, including spending cuts and the sale of state-controlled companies, continued to underpin gains.

A rebound in the oil price, as OPEC+ production cuts took effect and Venezuelan sanctions kicked-in, helped oil exporters including Russia and Colombia. China was buoyed by hopes for a conciliatory outcome from trade talks with the US.

India was the exception, among EM, returning a loss amid the oil price rebound (India is a net oil importer) and an expansionary budget, by the ruling Bharatiya Janata Party, ahead of national elections in May. Investors had been hoping for more fiscal discipline.

GLOBAL BONDS

Global government bond yields fell in January (i.e. prices rose), even as higher risk assets rallied as the US Fed surprised markets with a clear dovish shift and there was further moderation in economic data in Europe and China. European government yields produced larger moves than the US as economic activity remained subdued. Peripheral Europe outperformed core markets, supported by a cautious tone from ECB President Mario Draghi as he acknowledged downside risks to the economy. Italian and Spanish 10-year yields each declined by around 20 basis points (bps), while French yields also declined markedly.

Riskier assets rebounded sharply in January, following the significant drawdown and marked deterioration in sentiment in the latter stages of 2018. Corporate bonds produced a strong rally and outperformed government bonds with spreads narrowing significantly. The rally in credit was especially forceful in high yield[2] (HY), particularly in the US dollar market, which had been hit hard in the fourth quarter, reversing nearly all of the substantial spread widening seen in December. The energy and insurance sectors recovered ground, while the automotive sector remained under pressure.

Emerging market bonds had a strong month across the board with HY US dollar denominated and local currency bonds performing particularly well.

2019 started with significant gains for global equity markets with the MSCI World index returning 7.8% in January. Convertible bonds benefitted from this tailwind and the Thomson Reuters Global Focus index was up 3.9%, implying a participation rate of 50% in the upside. Convertible bond valuations remained mainly unchanged with US paper becoming slightly more expensive. The vast majority of convertibles are fairly priced.

COMMODITIES

The S&P GSCI Spot Index rose in January driven by the rebound in the oil price. The energy component as a whole was down as the natural gas price moved slightly lower. The industrial metals component was firmer with nickel prices particularly robust amid concerns that Brazilian producer Vale could cut some supply. Soft commodities rose led by gains in sugar and soybeans. Precious metals were also slightly higher.

[1] The eurozone purchasing managers’ index is produced by IHS Markit and based on survey data from around 5,000 companies based in the euro area manufacturing and service sectors. A reading above 50 indicates expansion.

[2] Investment grade bonds are the highest quality bonds as determined by a credit ratings agency. High yield bonds are more speculative, with a credit rating below investment grade.

Source: Schroders, January 2019: 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.

TOTAL RETURNS (%) – TO END JANUARY 2019

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	7.8	7.4	4.4	-6.5	1.5	1.0
MSCI World Value	7.2	6.8	3.8	-8.3	-0.4	-0.8
MSCI World Growth	8.4	8.0	4.9	-4.9	3.3	2.8
MSCI World Smaller Companies	10.3	9.9	6.8	-8.2	-0.4	-0.8
MSCI Emerging Markets	8.8	8.3	5.3	-14.2	-6.9	-7.3
MSCI AC Asia ex Japan	7.3	6.9	3.9	-14.6	-7.3	-7.7
S&P500	8.0	7.6	4.6	-2.3	6.1	5.6
MSCI EMU	6.7	6.3	3.3	-17.2	-10.1	-10.5
FTSE Europe ex UK	6.5	6.1	3.1	-14.7	-7.4	-7.8
FTSE All-Share	7.6	7.2	4.2	-11.0	-3.4	-3.8
TOPIX*	5.8	5.4	2.4	-12.5	-5.0	-5.4

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	0.5	0.1	-2.7	2.7	11.5	11.1
JPM GBI UK All Mats	4.4	4.0	1.1	-3.9	4.3	3.8
JPM GBI Japan All Mats**	1.3	1.0	-1.9	2.1	10.9	10.4
JPM GBI Germany All Traded	1.2	0.8	-2.0	-3.9	4.3	3.9
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	2.2	1.8	-1.1	-2.0	6.4	6.0
BofA ML US Corporate Master	2.1	1.7	-1.2	0.7	9.4	8.9
BofA ML EMU Corporate ex T1 (5-10Y)	2.0	1.6	-1.3	-7.7	0.2	-0.2
BofA ML £ Non-Gilts	5.1	4.7	1.7	-6.6	1.4	1.0
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	4.1	3.7	0.8	-0.8	7.8	7.3
BofA ML Euro High Yield	2.3	2.0	-0.9	-9.9	-2.2	-2.6

Source: Refinitiv.
Local currency returns in January 2019: *4.9%, **0.5%.
Past performance is not a guide to future performance and may not be repeated.

FINURA

Level 2, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU
T: +44 (0)20 3102 7730 E: enquiries@finurapartners.com W: finurapartners.com