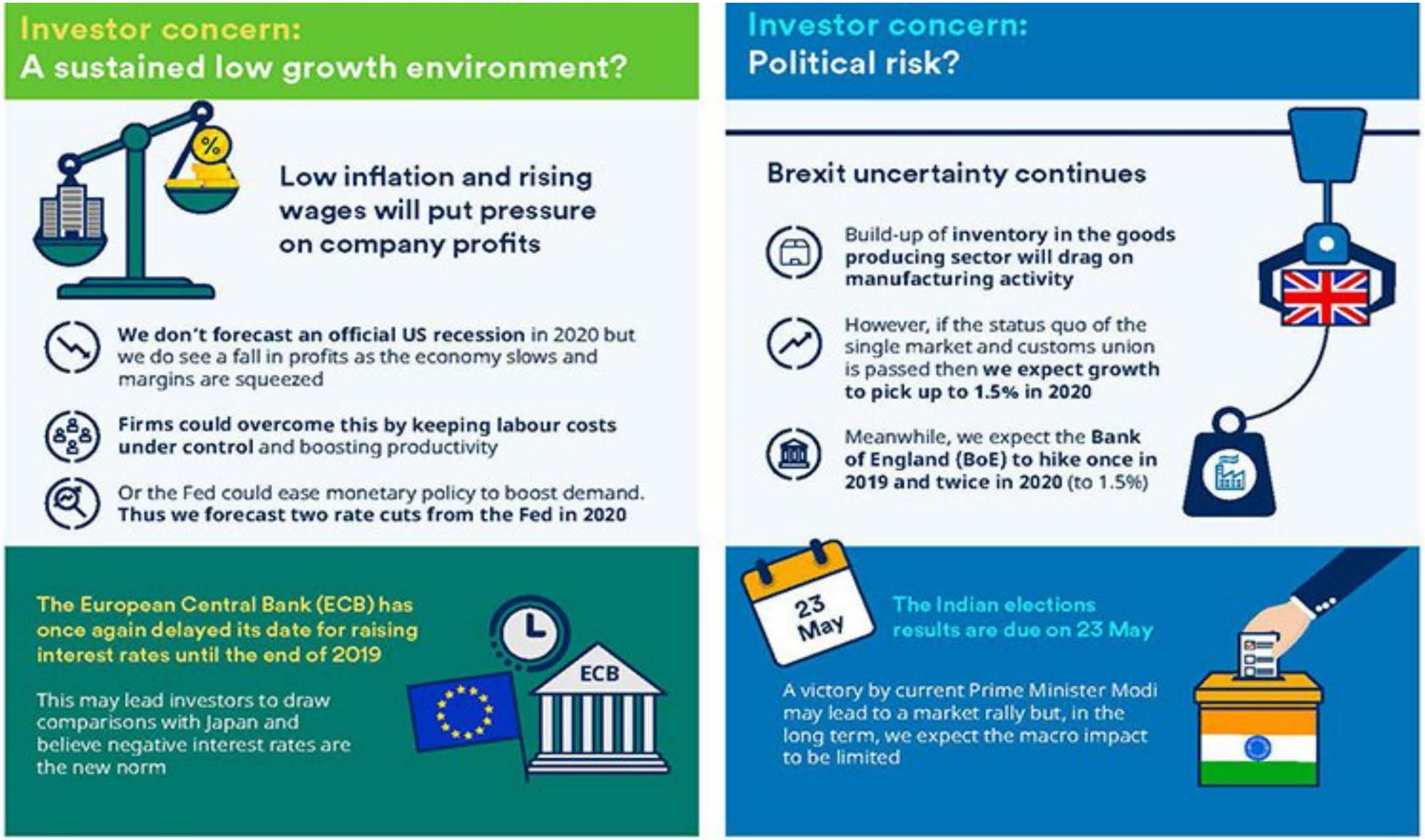
FINURA

MARKET COMMENTARY
APRIL 2019

INFOGRAPHIC: THE GLOBAL ECONOMY



Source: [Schroders as at April 2019.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

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

	Category	View	Comments
Main Asset Classes	Equities	Positive/Neutral ▲	We have upgraded our view following changes in central bank policy stances, together with further confirmation of improvement in earnings revision momentum.
	Government Bonds	Neutral	Our neutral view remains unchanged as we still need rate sensitivity to balance risks in the portfolio.
	Commodities	Neutral	We remain neutral, driven by a flat macroeconomic backdrop that shows few signs of growth, yet provides sufficient resilience at this stage to avoid a full recession.
	Credit	Positive/Neutral	Credit continues to rally, following a strong start to the year. Year to date spread tightening has been aided by an increasingly dovish stance by global central banks.
Equities	US	Positive/Neutral ▲	Earnings revisions have stabilised and the rally has so far been under-owned, suggesting that the US equity market has further upside potential.
	Europe	Neutral/Negative	Cheap European valuations are warranted in light of political and cyclical challenges in the region. Economic activity indicators are a cause for concern.
	UK	Neutral/Negative	A stronger pound will provide a headwind for the UK market in the near term, specifically for large cap stocks.
	Japan	Neutral	We retain a neutral view while a lack of confidence continues to undermine stronger fundamentals.
	Pacific ex-Japan	Neutral	A weak domestic environment in Australia has a significant impact on the index and leaves us neutral, despite having a more positive view on Singapore and Hong Kong.
	Emerging Markets	Positive/Neutral	We are seeing noticeable recoveries in momentum signals both on price and earnings revisions, particularly in China.
Government Bonds	US	Neutral/Negative ▼	While looser policy remains supportive, the US 10-year has rallied with valuations pushed to extreme historical levels.
	UK	Neutral/Negative	We expect ongoing Brexit-related volatility to provide trading opportunities, but from a longer-term perspective we believe gilts are still rich compared to other markets.
	Germany	Neutral ▼	We have moved to a neutral stance as we have taken profits following the fall in yields. We await better levels to re-establish positions.
	Japan	Neutral	The open-ended policy of yield curve control from the Bank of Japan will continue to put a ceiling on Japanese government bond yields in the medium term.
	US Inflation Linked	Positive/Neutral	We remain positive on US break-evens, which offer value against rising wages/inflation.
	Emerging Markets Local	Neutral	Despite a stable outlook, we expect future returns to be driven only by short dated bonds.

	Category	View	Comments
Investment Grade Corporate Bonds	US		Deteriorating fundamentals alongside elevated valuations lead us to maintain our negative outlook for US investment grade.
	Europe		The European credit backdrop is healthier, for now, with continued low interest rates and debt affordability for corporates looking set to improve even further.
	Emerging Markets USD		Accommodative policy in the US has removed the headwind to emerging market debt in the near term; however, unappealing valuations keep us neutral.
High Yield Bonds	US	▼	While comparatively expensive to history, US high yield spreads are stable, and strong interest coverage is supportive. Valuations drive our neutral score.
	Europe	▲	European high yield is trading at attractive levels relative both to history and fundamentals.
Commodities	Energy		Dampened global demand and tapered US production increases continue to offset a combination of OPEC+ cuts and sanctions applied to Venezuela.
	Gold		Recession risk remains elevated, however, there is still an inherent possibility of a stronger US dollar as a result of US economic outperformance relative to the rest of the world.
	Industrial Metals		Industrial metals have traded broadly flat since being swept along in the January rally and there are no meaningful signs that this will change.
	Agriculture		We feel the market is sufficiently well equipped on the supply side to deal with possible shocks from an El Niño weather event this summer or a US-China trade resolution.
Currencies	US $		We have a positive bias on the outlook for the dollar, and like it as a hedge against the risk of further economic weakness.
	UK £	▲	Upgraded, based on evident reluctance for a 'no-deal' Brexit, which should help sustain momentum in the labour market. We expect confidence to bounce back.
	EU €		We remain neutral with the ECB's ultra-dovish stance, the uncertainty around Italian politics and the wait for a stabilisation in European growth still weighing on the Euro.
	JAP ¥		Dovish comments from the Bank of Japan keep our view neutral. We may look to upgrade the JPY view if we believe the risk of global recession has risen.
	Swiss F		We maintain neutral, reflecting the balance between weak fundamentals and the currency's safe haven status.

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, April 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 at markets in April when stocks continued to move higher amid encouraging economic data.

HIGHLIGHTS

- Global equity markets rose in April, with encouraging economic data and ongoing dovishness from major central banks supporting appetite for higher risk assets. Corporate bonds outperformed government bonds.
- US equities advanced, supported by strong labour market data as well as better-than-expected Q1 GDP growth. Corporate earnings generally remained robust.
- Eurozone equities registered a further gain in April. Top performing sectors included information technology and financials. Economic growth for Q1 proved more resilient than feared.
- UK equities recorded positive gains but underperformed global equities over the month. The heavyweight mining sector performed poorly.
- Japan's stock market edged higher with the yen edging lower against the dollar. Focus was on the abdication of the emperor and the start of the new Reiwa era, leading to a subdued market environment.
- Emerging markets equities posted a positive return amid easing global growth concerns. South Africa led the MSCI Emerging Markets index higher as equities rallied in advance of May's general election.
- The positive tone in economic data pushed government bond yields up (i.e. prices fell) and prompted riskier fixed income assets to outperform. Corporate bonds continued to perform well.

THE US

US equities posted solid gains in April and hit another record high late in the month. The Federal Reserve's (Fed) dovish stance, which it has maintained since the start of the year, was consolidated in late March. However, more positive economic data released in April supported risk appetite. Total nonfarm payroll employment increased by 196,000 in March, while the unemployment rate was unchanged at 3.8%. As the month progressed solid first quarter GDP numbers also boosted the market, coming in at 3.2% annualised versus 2.2% in Q4 2018.

The stronger-than-expected economic data supported equities, with a particularly strong gain early in the month. With the earnings season in full flow the general picture was supportive: technology stocks were buoyed by strong quarterly numbers from Amazon.com and Twitter. However, on the final day of trading Google parent Alphabet posted disappointing numbers after first quarter revenue fell short of market expectations.

The information technology and communications sectors still ended the month with positive gains. Financials were among the best-performing sectors during the month, after relatively muted performance in March. Healthcare stocks, meanwhile, faced headwinds from ongoing concerns over changes to drug pricing legislation.

EUROZONE

After strong gains in Q1, Eurozone equities registered a further advance in April. The MSCI EMU index returned 4.9%. Top performing sectors included information technology (IT), financials, consumer discretionary and industrials. Within IT, a number of semiconductor companies released stronger-than-expected Q1 results, sparking hopes of a turnaround in the sector after last year's weakness. In the consumer discretionary sector, automakers enjoyed better performance. By contrast, energy, utilities and real estate saw negative returns. Improving data from China helped to lift sentiment towards economically-sensitive areas of the market.

Data released at the end of the month showed economic growth in the first three months of the year was resilient. Eurozone GDP expanded by 0.4% quarter-on-quarter, compared to just 0.1% growth at the end of 2018. The news came as a relief after downbeat forward-looking surveys, such as the purchasing managers' indices[1]. The composite PMI slipped to 51.3 in April from 51.6 in March with manufacturing still in contraction territory. The German Ifo business climate index also worsened, dipping to 99.2 in April from 99.7 in March. In more positive news, the eurozone unemployment rate fell again to 7.7% in March.

On the political front, Spain held general elections at the end of April. These saw the incumbent Socialist Party (PSOE) emerge as the largest party though it remains to be seen whether they will try to govern alone or form a coalition.

UK

The UK stock market rose over the period, although it lagged global equities. A number of heavyweight sectors performed poorly, including pharmaceuticals, mining and tobacco, with the latter two giving back some of their recent gains following very strong performances over the first quarter of 2019.

The UK was granted a second, flexible, extension to the Article 50 deadline, averting a "no deal" Brexit on 12 April. Despite the political uncertainties, UK economic growth continued to surprise positively. The latest monthly GDP release from the Office for National Statistics revealed that the economy expanded again in February, at 0.2%, albeit at a more subdued rate than the 0.5% recorded for January.

A resurgence in manufacturing has aided economic growth in 2019, as reflected in recent readings from Markit's PMI surveys. In March the UK manufacturing PMI struck 55.1, its highest level in a year. However, the recovery looks to have been driven by stockpiling in the run-up to the original 31 March Brexit deadline.

JAPAN

The Japanese equity market ended April 1.7% higher. Almost all of this gain occurred on the first day of the month, after which the market traded sideways in a narrow range. Despite the beginning of the reporting season for the fiscal year to March, actual news flow was very limited during the month. Currency market volatility was also relatively low, with the yen edging just slightly weaker against the US dollar for the month as a whole.

Although not in itself an economic event, the abdication of the Japanese Emperor at the end of April and the start of the new Reiwa era did lead to a rather subdued market environment. This seemed particularly prevalent among foreign investors who were reluctant to open new positions ahead of the extended Golden Week public holidays.

This break also interrupted the earnings results announcements, which began in April but will conclude in May. Early results

seem to have a slight skew towards negative surprises, but price reactions have been muted so far. There was also no market reaction following the Bank of Japan's policy meeting, which produced no change in policy, as expected. The recent guidance from the central bank is clearly aimed at moving investor expectations towards an extended period of monetary accommodation.

Domestic economic data released during the month was mixed at best, with industrial production falling more sharply than expected. The external environment, however, seemed slightly more benign as expectations grew for some kind of agreement on trade issues between the US and China.

ASIA (EX JAPAN)

Asia ex Japan equities rose, with most markets in the region recording gains for the month. The MSCI Asia ex Japan index advanced 1.9% though it trailed the MSCI World index. Singapore was the best performer, helped by a rally in the banking sector.

Greater China markets also ended higher. Taiwanese stocks were led by gains in its technology heavyweights. Chinese shares benefited from positive economic news. China's economy expanded at a faster-than-expected rate of 6.4% year-on-year in the first quarter.

Other data, including factory output, industrial profits, retail sales and fixed asset investment, also showed strong growth in March. However, gains were pared by concerns that Chinese authorities would scale back policy support. In comparison, Hong Kong stocks lagged their counterparts in China and Taiwan.

South Korean shares underperformed the region, weighed down by poor corporate earnings. Separately, the economy contracted unexpectedly in the first quarter amid slowing investment and falling exports. Indian stocks also trailed on the back of declining financial shares. The central bank cut its benchmark interest rate to 6%, from 6.25%, to spur growth.

Malaysian stocks remained one of the worst performers in ASEAN and the broader Asian region. The market posted a negative return as most sectors retreated. Indonesian shares underperformed as investors await the official results of the country's presidential elections. Early indicators showed incumbent President Joko Widodo winning a second term in office.

EMERGING MARKETS

Emerging markets equities posted a positive return in April as easing global growth concerns supported risk appetite. The MSCI Emerging Markets index increased in value but underperformed the MSCI World.

Egypt and South Africa led the MSCI Emerging Markets index higher. In South Africa equities rallied in advance of May's general election. Russia, where higher crude oil prices proved supportive, and Mexico outperformed. In Mexico, the senate approved the labour reform bill, paving the way for approval of the US-Mexico-Canada Agreement.

China also finished slightly ahead of the index, amid further signs of stabilisation in activity data. Q1 GDP growth was stronger-than-expected at 6.4% year-on-year (y/y) while industrial production growth for March rose to 8.5% y/y.

By contrast, Turkey registered a negative return as ongoing policy concerns, including an underwhelming economic reform plan, continued to pressure the lira.

GLOBAL BONDS

Encouraging economic data and ongoing dovishness from major central banks provided continued support to risk appetite. Government bond yields were pushed higher and corporate bonds outperformed.

US 10-year Treasury yields rose nine basis points (bps) in April amid a raft of positive data. Labour market data improved with initial nonfarm payrolls showing a much healthier increase in March after February's weak reading. US Q1 GDP growth exceeded expectations at 3.2% (annualised). At a global level, moderate improvement across a number of data points in China indicated stimulus measures are having the desired effect.

Ten-year Bund (German government bond) yields saw a similar move to US Treasuries, rising back above zero around mid-month. European data showed incremental improvement, with the manufacturing slowdown moderating and better-than-expected GDP data toward month-end. Spanish 10-year yields were unchanged, but outperformed Germany. The incumbent socialist party won the general election, seeming to quell concerns over rising populist sentiment, and Spanish GDP data was notably positive.

UK government bonds underperformed with 10-year yields rising by more than 18bps as the EU agreed to the UK extending the Brexit deadline to October and domestic data surprised to the upside.

Corporate bonds continued to perform well and high yield (HY) outperformed investment grade (IG). The ICE BAML Global Corporate index returned 0.5% (local currency) with an excess return over government bonds of 0.9%. The global HY index returned 1.3%.

Emerging markets (EM) bonds were broadly little changed, although EM corporates outperformed government bonds. Hard currency bonds produced marginally positive returns, while local currency bonds saw small negative returns as the turmoil in Argentina and Turkey continued.

The MSCI World index showed a gain of 3.2% in April. Convertible bonds as measured by the Thomson Reuters Global Focus index were up 1.6% in US dollar terms. With strong tailwinds from the equity markets and convertible bonds in demand, valuations became slightly more expensive.

COMMODITIES

The S&P GSCI Spot Index recorded a solid gain in April, underpinned by a robust return from the energy component. This was primarily driven by oil price strength linked to rising supply concerns. During the month the US opted not to extend Iranian oil import waivers to eight countries, requiring them to cease oil purchases from Iran or face US sanctions. The industrial metals component registered a negative return, with aluminium and nickel prices notably weak. Precious metals prices also fell back, as did soft commodities, led by wheat.

[1] The purchasing managers' index is produced by IHS Markit and based on survey data from companies in the manufacturing and service sectors. A reading above 50 indicates expansion.

TOTAL RETURNS (NET) % – TO END APRIL 2019

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	3.5	3.7	3.5	6.5	14.8	12.5
MSCI World Value	2.9	3.1	2.8	3.1	11.2	8.9
MSCI World Growth	4.2	4.4	4.1	9.8	18.4	16.0
MSCI World Smaller Companies	3.1	3.3	3.1	0.7	8.5	6.3
MSCI Emerging Markets	2.1	2.3	2.1	-5.0	2.4	0.3
MSCI AC Asia ex Japan	1.9	2.1	1.9	-4.1	3.4	1.3
S&P500	4.1	4.3	4.0	13.5	22.4	19.9
MSCI EMU	4.9	5.1	4.9	-6.5	0.8	-1.2
FTSE Europe ex UK	4.1	4.3	4.0	-3.0	4.6	2.5
FTSE All-Share	2.7	2.9	2.7	-2.9	4.7	2.6
TOPIX*	1.0	1.2	1.0	-8.4	-1.3	-3.2

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-0.3	-0.1	-0.4	4.9	13.0	10.8
JPM GBI UK All Mats	-1.6	-1.4	-1.6	-2.2	5.4	3.3
JPM GBI Japan All Mats**	-1.0	-0.8	-1.0	0.3	8.1	6.0
JPM GBI Germany All Traded	-0.7	-0.6	-0.8	-3.3	4.2	2.1
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	0.5	0.7	0.4	2.9	10.9	8.7
BofA ML US Corporate Master	0.6	0.8	0.5	6.4	14.8	12.5
BofA ML EMU Corporate ex T1 (5-10Y)	0.8	1.0	0.8	-3.2	4.3	2.2
BofA ML £ Non-Gilts	-0.1	0.1	-0.2	-1.9	5.7	3.6
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	1.3	1.5	1.2	4.4	12.6	10.3
BofA ML Euro High Yield	1.2	1.4	1.2	-4.7	2.8	0.7

Source: Thomson Reuters DataStream.
Local currency returns in April 2019: *1.7%, **-0.4%.
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Source: Schroders, April 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.

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