EQInsight

Asset Allocation: Q4 2016

Maintaining a defensive stance

Since the UK's referendum on membership of the European Union, currency markets have been volatile but most other major markets have been remarkably resilient. This is despite persistently low global growth, high valuations and weak earnings.

Our outlook has changed little since Q3, and we continue to maintain a cautious stance. We hold high cash positions and are ensuring portfolios have diversified currency exposure.

	Negative				Positive
Equities		□	■		
North America			■		
UK		□	■		
Europe		■			
Japan			■		
Emerging Markets				■	
Fixed income			■		
Commodities			■		
Property		■			
Absolute return				■	
Cash					■

■ Current outlook: Q4 2016 □ Previous outlook (Q3, if different)

Equities

Most developed markets have looked expensive for some time and we now view valuations in Europe as stretched. Lacklustre global growth will struggle to drive corporate earnings further to support ever higher prices. However, the current resilience of the UK economy and fall in the value of sterling has softened our outlook for UK equities from negative to neutral.

Meanwhile, emerging markets have gained a lot of attention due to their relative cheapness. We think they continue to represent good value, but temper our optimism given sensitivities to Chinese economic activity and movements in the value of the US dollar.

Within our allocation to emerging markets we had identified Latin American equities as of particular interest, due to a combination of political catalysts, scope for monetary policy action, and attractive valuations. Having provided strong returns we have now reduced our tactical positive outlook to neutral.

Fixed Income

Our position remains unchanged on bonds: we see little value but recognise their defensive qualities. We now hold a more positive view on UK gilts as the Bank of England is expected to maintain a loose monetary policy.

Against a backdrop of weak global demand, we believe corporate earnings growth will be muted. However, balance sheets and cash flow remain healthy and we continue to allocate to corporate bonds, which provide an additional yield over gilts.

Property & Alternatives

We have begun re-establishing small commercial property positions following a tactical decision to remove core allocation altogether. This reflects our view that relatively attractive yields will remain supportive of property values. We favour regional rather than central London exposure.

A lack of outstanding value in traditional equity and fixed income markets keep us overweight absolute return strategies.

We retain a neutral view on commodities as prices appear to be stabilising.

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