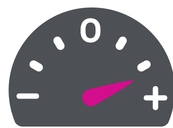
eQInsight

Market View Q2 2017

We position our portfolios based on a number of factors. Exposure is first and foremost determined by your risk profile. We then adjust portfolios away from their default risk position based on our current market view.

The EQ Asset Allocation Committee met on 6 April 2017. Where relevant the indicators show how our view changed since the previous meeting (December 2016, in faded pink). Please note: our view may change at any time.

Cash



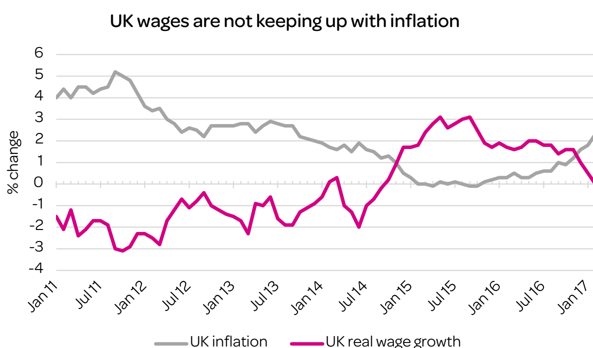
We are holding higher levels of cash than normal.

Investor sentiment has improved substantially since the US election as expectations of future growth rose. President Trump now needs to deliver on policies which don't disappoint markets too much on his campaign pledges, while not overstimulating the economy. The first situation would cause equity prices to fall and the second would push inflation upwards, damaging bonds initially and equities eventually. Both scenarios are plausible. As such, we feel it is prudent to maintain a higher than average level of cash.

UK

Though the UK economy has been very resilient since the referendum we have concerns about the implication of rising inflation on consumption.

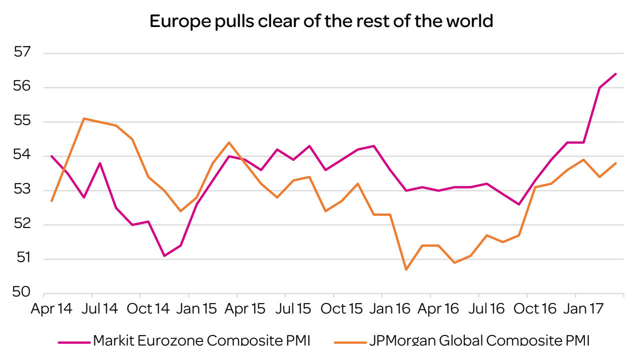
The UK economy remained resilient after the Brexit referendum vote, but data is now becoming less positive. We are concerned that rising inflation will reduce consumers' ability to spend and continued uncertainty around Brexit will further restrict investment. While valuations remain reasonable and momentum is strong, we remain cautious and are not adding to our UK exposure.



Europe

While political risks remain, growth is improving and valuations are reasonable. Our view on Europe has improved.

Larger institutional investors have substantially reduced their allocations to European equities over the last few years as the European recovery lagged that of other developed markets. This now appears to be reversing with improving economic growth and corporate earnings drawing money back in to the region.



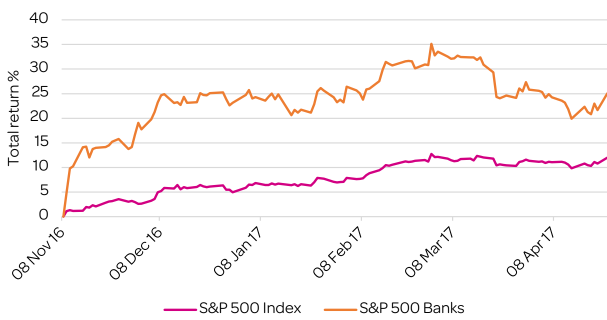
Note: The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector: values above 50 indicate overall economic growth.

Political risks may still present some concerns, despite the first round of the French election passing as expected. Assuming political stability remains, European equities look to be well positioned for growth. We have increased our European exposure – our most significant shift this quarter.

North America

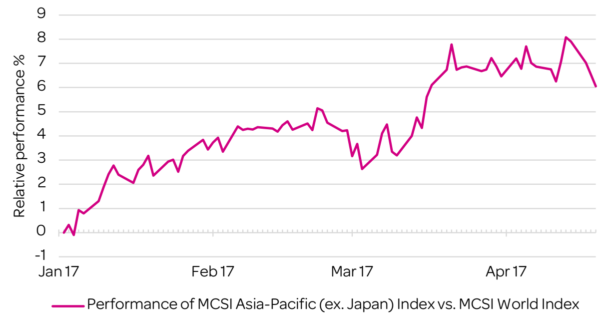
US equities have performed strongly in the wake of Trump's victory, but investors are now looking for actions to justify the optimism.

After Trump's election win, equities soared as markets anticipated pro-growth policies and deregulation. However, these policy promises have not yet materialised and investors are growing frustrated. If Trump fails to deliver we could see a variety of US equity sectors underperform. So, in spite of strong US growth, we have a negative view on US equities and have slightly reduced our allocations.



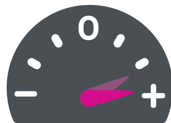
Asia Pacific

Reasonable global growth and steady rate hikes create a good climate for Asian equities.

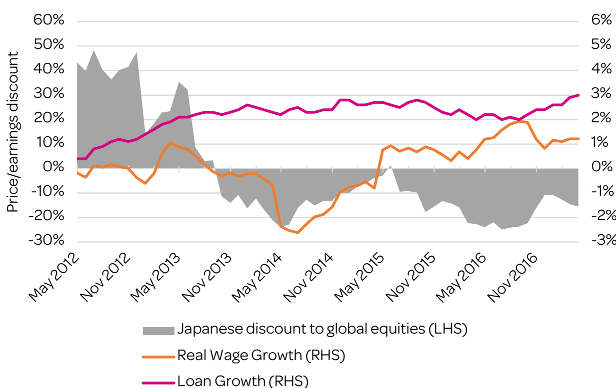


Asian equities have performed well since Trump's election, buoyed by improved global growth, steady rate hikes and stability in China. This is a marked improvement from a few months earlier, when investors were concerned Asian economies would buckle under the weight of rate hikes and US protectionism. We view this period as confirmation that Asian equities can perform well in the current market, and are maintaining our exposure.

Japan

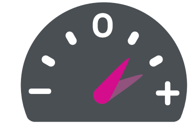


We see Japanese equities as offering good value for money.



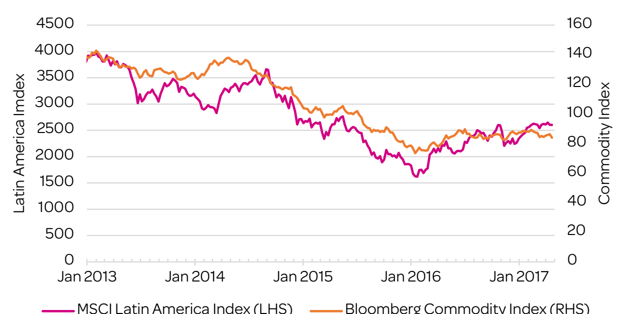
We maintain a positive view on Japan. Valuations are attractive, earnings are expected to grow and there are signs of economic recovery in the form of wage increases and higher credit demand.

Emerging Markets



We are cautious about the commodity reliance of particular Latin American economies.

Latin American equities had a brilliant run from the end of January 2016, rising 60%. The rally was supported by Chinese stimulus, a recovery in commodity prices and positive political developments (particularly in Brazil and Argentina). While political reforms continue, we are concerned that commodity prices could fall as Chinese stimulus slows.

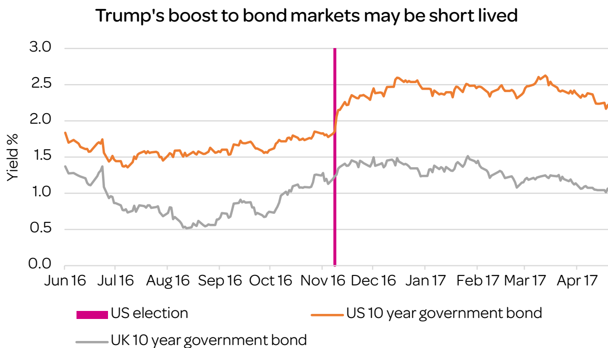


Bonds

We still hold a slightly negative view on government bonds, and remain mildly positive on high yield bonds.

Government bonds

Government bond yields increased sharply after Donald Trump's election, rising on expectations of fiscal stimulus, deregulation and increasing US growth. However, markets are taking a dimmer view after his first few months in power, and we now have a reversal with falling yields and rising prices. We have slightly increased our allocations, but our overall view is still negative.



Corporate bonds

High yield bonds offer both greater yields than government bonds and a lower sensitivity to interest rates. We see both high yield and investment grade as expensive versus history, but remain slightly positive on both as in a world of low returns their yields are attractive. We marginally prefer high yield due to the higher yield and lower sensitivity to interest rates and our allocations remain unchanged.

Alternatives

We are overweight alternatives, mainly due to our negative views on other asset classes.

We see risks to many equity and bond markets, and could even envisage a situation where both move down together. Given these concerns, we're maintaining a higher allocation to alternatives, which typically exhibit a low correlation to conventional asset classes.

Property

Our view on property is still negative.

We remain negative on property due to our concerns about the UK economy (see UK section, above). But with yields elsewhere so low we are prepared to revise our view if property yields become any more attractive on a relative basis.

Commodities

We have limited exposure to energy equities.

Industrial metals and energy performed very well over the past year, as the oil market recovered and China extended their fiscal stimulus. But these forces appear to be reversing with the US producing more oil than a year ago and China tightening both monetary and fiscal policy. As a result, we do not feel positive about commodities.

For the latest information on our market views and positioning please visit:
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Please remember that past performance is not a guide to future returns. The value of investments and income derived from them can fall as well as rise, and investors may get back lass than they originally invested.