Investec
Wealth & Investment

Strategy Snapshot

January 2020

Central Thesis

- Global GDP growth, having slowed in 2019, looks set to recover in 2020 as trade tensions ease.
- Central banks appear committed to maintaining loose monetary policy.
- Fiscal policy is also set to become more expansive.
- Geopolitics remains a major source of concern.
- Equities will rely more on earnings and dividend growth for future returns.
- Low and negative yields for bonds lead us to question their safe haven status

A Brief Retrospective

- Balanced portfolios enjoyed an extremely rewarding 2019, with nearly all asset classes gaining ground. Low volatility contributed to even better risk-adjusted returns.
- Aggregate returns for global equities were generated almost entirely by re-rating. Valuations have moved from being cheap at the beginning of 2019 to much closer to fair value now.
- Sovereign bonds rallied strongly through mid-year in response to growth fears, low inflation and a policy U-turn by central banks towards more aggressive loosening. Gains were trimmed through the autumn on hopes of a US/China trade agreement.
- UK-based investors were buffeted by domestic politics, but the resounding Conservative election victory boosted confidence. Overseas investors have returned in force to UK assets.

Current Positioning

- We expect a moderate growth recovery in 2020 as trade tensions diminish and negative momentum eases in the manufacturing sector. We still see no US recession in 2020.
- The US election is the main scheduled event this year. We do not expect President Trump to be found guilty in impeachment proceedings. Much will then depend on how far to the left the Democrats swing. Markets would prefer Biden or Buttigieg to Warren or Sanders.
- We remain Underweight conventional sovereign bonds owing to limited total returns to maturity and low income. US Treasuries offer better relative value. Alternative assets can provide better insurance/yield. US TIPs are the preferred inflation / Armageddon hedge.
- Outside sovereigns we see little value in Credit. Banks' AT1 (Cocos) debt is a more attractive alternative.
- We retain a small Underweight position in UK equities, but are now Overweight in Mid/Small Caps based on value and ultimate resolution of Brexit uncertainty, as well as a fiscal boost due in the March 11th budget.
- Emerging Markets remain biggest Overweight, with preference for Asia/Consumer-driven. China slowdown not unexpected, and policy loosening will support.
- Japan remains attractive on value grounds, but domestic policy unhelpful in short term. No strong views on US or Europe
- We increased our exposures to Gold and Infrastructure (out of Sovereign Bonds) to achieve a combination of insurance and higher income.
- GISG returned to a Neutral risk appetite (from small Negative) in September 2019. UK TAA is small risk on (62% Equity vs 60% SAA).

The Road Ahead

- Central bank policy support should limit downside.
- 2019 re-rating and expected 5-7% EPS growth in 2020 limits upside.
- Geopolitical threat highlighted by Trump's intervention in Iran early in 2020. Potential for escalation increases required risk premium.
- Fiscal policy is set to join monetary policy to attempt to boost growth and inflation.
- Still low bond yields and recovered equity valuations suggest more limited balanced portfolio returns in 2020 vs 2019.

Risks and Opportunities

- (+) Global growth persists. No global recession. Excesses of past cycles not evident (although risks in Credit/Loan markets noted).
- (+) Mergers & Acquisitions (M&A) activity remains supportive, but not euphoric. UK Plc a potential target.
- (+) Central banks remain committed to supporting recovery. The "Fed Put" and "ECB Put" still appear to exist. Liquidity will remain plentiful.
- (+) Emerging Markets (bias to Asia) – no crisis given higher reserves, floating currencies and lower external liabilities than in 1998. Secular growth opportunities. Weaker dollar would be very supportive.
- (+) ESG a big focus in 2020.
- (?) Deflation threat diminished, but markets not positioned for upside inflation surprise.
- (-) Geopolitics – US/China trade war abating for now, but long-term friction remains. US could also target Europe. Latest moves on Iran increase the risk of greater unrest in region, with upward pressure on oil price.
- (?) Market liquidity affected by tighter bank regulation and capital requirements (Repo rate spike a symptom/concern). Growth of ETFs, High Frequency Trading and volatility-dependent strategies (eg Risk Parity) also a risk.

Recent Asset Allocation Changes

Date	+	-
Nov-19	UK Mid/Small Cap +	UK Cash -
Oct-19	Infrastructure +, Gold +, Cash +	UK Conventional Gilts - -; UK Index-Linked Gilts -
May-18	US Equities ++	EU Equities -; Japan Equities -
Dec-18	US Equities +; EM Equities +; Low Volatility Bond Funds ++	EU Equities --; Global Sovereign Bonds --
Oct-18	US Equities ++; EM Equities +	High Yield Credit -; EM Debt -
Sep-18	UK Cash +	UK Real Estate -

Asset Allocation Matrix

(Medium Risk Balanced Mandate)

Asset	Bias
FIXED INTEREST	--
Low Vol Bond Funds	++
UK Conventional Gilts	--
UK Index-Linked Gilts	-
Global Govt Bonds	++
Investment Grade Credit	-
High Yield & EM Debt	--
EQUITIES	+
UK Large Cap	--
UK Mid & Small Cap	+
Total UK	--
North America	-
Europe ex-UK	-
Japan	+
Emerging Markets	++
Total Overseas	++
PROPERTY	–
ALTERNATIVES	++
Structured Prods	-
Absolute Return/HFs	-
Other (Infrastructure/Ag)	+
Gold	++
CASH	-

Performance Table

30th Sept 2019					CUMULATIVE PERFORMANCE TO END 2018			
		Q-T-D	Y-T-D	LAST 12m	1 Yr %	3 Yr %	5 Yr %	10 Yr %
Equities (Total return - translated to £)	Last Price					Percentage Change		
UK FTSE 100 Total Return	6980.9	2.7%	17.3%	17.3%	(8.7%)	22%	21%	121%
UK - FTSE 250 Midcap Total Return	17038.5	10.4%	28.9%	28.9%	(13.3%)	9%	26%	262%
US - S&P Composite TR £	4943.5	1.1%	26.6%	26.5%	1.3%	51%	95%	292%
Europe - FTSE Europe x UK TR £	572.5	1.2%	21.2%	21.2%	(9.1%)	29%	34%	115%
Japan - FTSE Japan TR £	287.2	0.2%	14.8%	14.8%	(7.6%)	30%	57%	98%
EM: Asia Pacific: FTSE Asia Pacific x Japan TR £	1141.7	2.8%	14.5%	14.5%	(8.5%)	45%	54%	201%
All World x UK - FTSE All World x UK TR £	677.8	1.4%	22.6%	22.6%	(3.1%)	44%	69%	202%
Credit								
UK i-BOXX Non Gilt TR £	366.4	(0.7%)	9.3%	9.3%	(1.5%)	13.7%	28.2%	87.6%
Government Fixed Income (Basis Points Change)	Yield					Basis Points Change		
US 10 Year Treasury Bond	1.92	+25	-77	-77	+28	+41	-34	+47
UK 10 Year Gilt	0.82	+33	-46	-46	+9	-68	-175	-174
Cash						Percentage Change		
$/£	1.326	7.9%	3.9%	3.9%	(5.6%)	(13%)	23%)	(13%)
GBP/Eur	1.183	4.8%	6.3%	6.3%	(1.2%)	(18%)	(8%)	7%
Commodities								
Brent Crude - $	66.0	8.6%	22.7%	22.7%	(19.5%)	44%	(51%)	18%
GOLD - $	1517.3	3.0%	18.3%	25.3%	(1.6%)	21%	6%	45%
WMA/FTSE Balanced TR	4310.8	1.2%	14.0%	6.3%	(2.8%)	25%	37%	125%
WMA/FTSE Growth TR	4542.6	1.5%	16.7%	6.4%	(3.8%)	28%	40%	139%
WMA/FTSE Income TR	4009.3	0.7%	12.0%	6.4%	(2.8%)	21%	33%	108%