

# IAPF ANNUAL INVESTMENT CONFERENCE 2019 'Evolution'





# Market Outlook

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# The House View

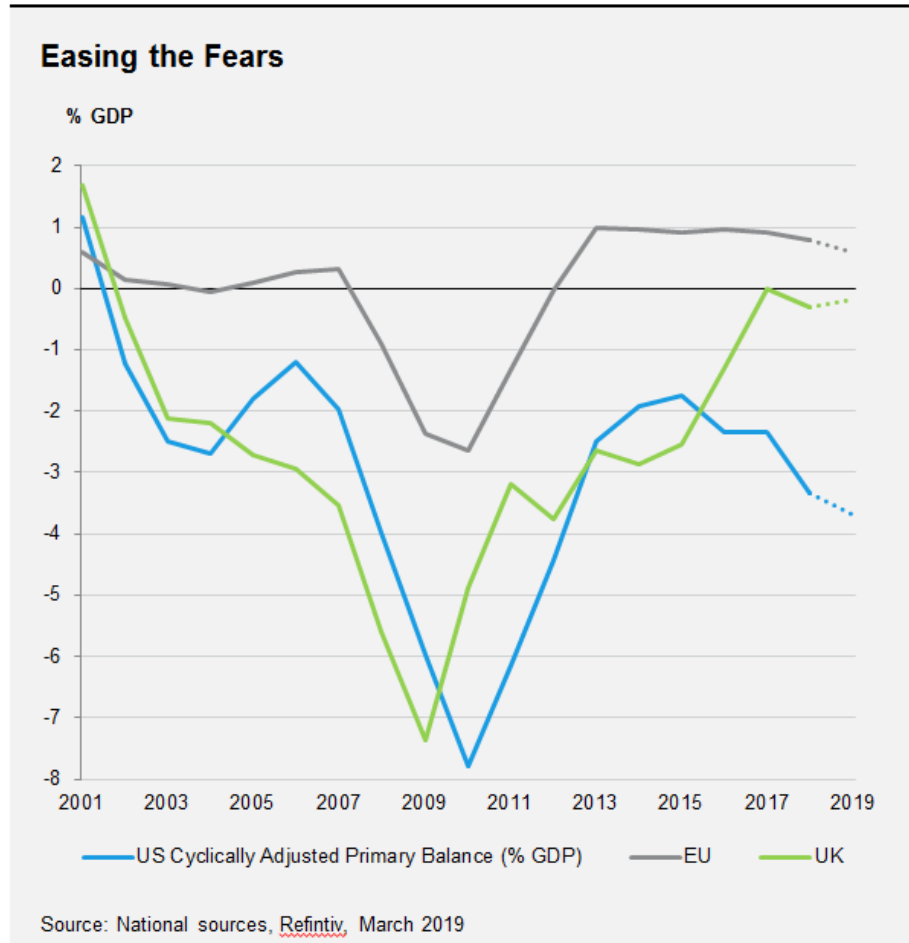
Remains pro-risk but expects further volatility

Key questions for investors to ask:

- Will future growth prospects improve?
- Why do portfolios remain risk-on?
- Will inflation be anchored this year?
- Will political and geopolitical tensions die down?
- What do valuations tell us?
- How should investors prepare portfolios for volatility?

# Will future growth prospects improve?

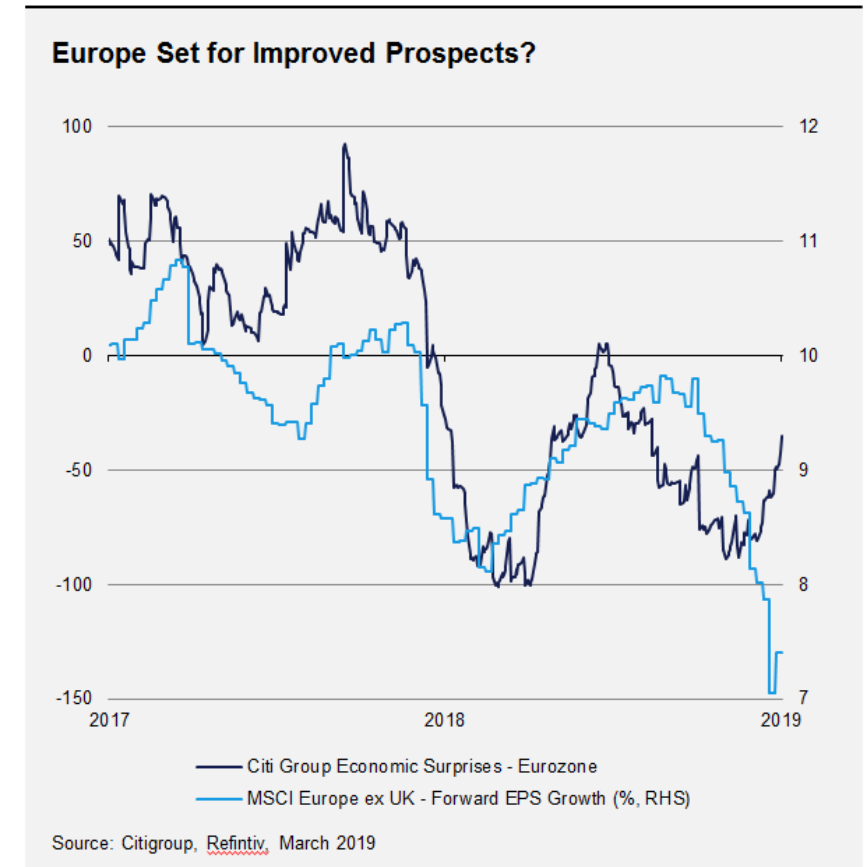
Yes, we are already seeing stimulus measures in Europe and Asia



# Why do portfolios remain risk-on?

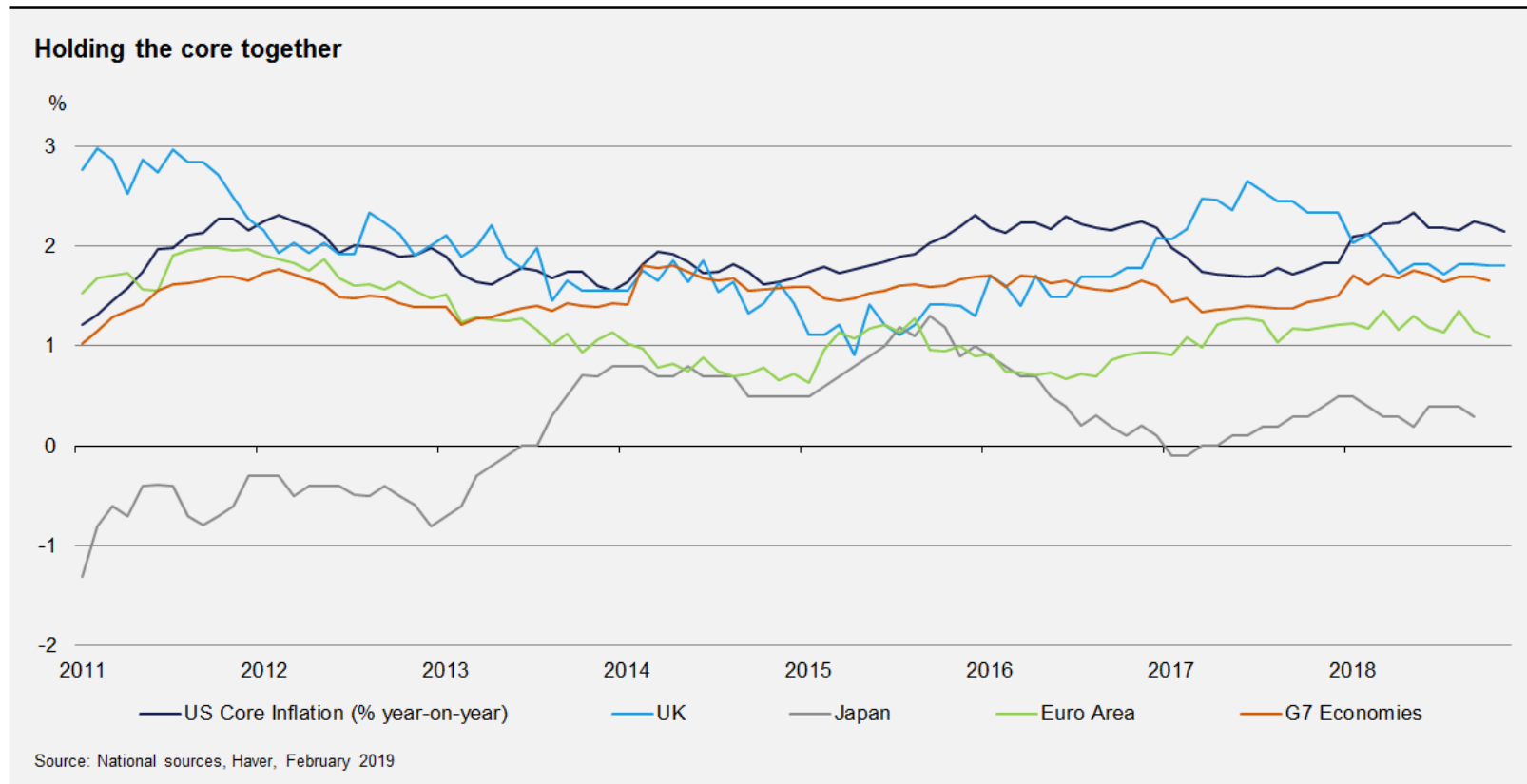
Our assessment of “what is in the price”

- Many assets have priced out a period of recession
- Not enough markets have priced in even a period of moderate economic growth
- Further stimulus measures are expected, for example in China
- After a period of modestly negative profits growth, we forecast better prospects ahead, European economic surprises are improving



# Will inflation be anchored this year?

Yes; headline inflation will be affected by oil prices, core inflation is constrained



# Will political and geo-political tensions die down?

No; the best we can expect is ceasefires in some areas

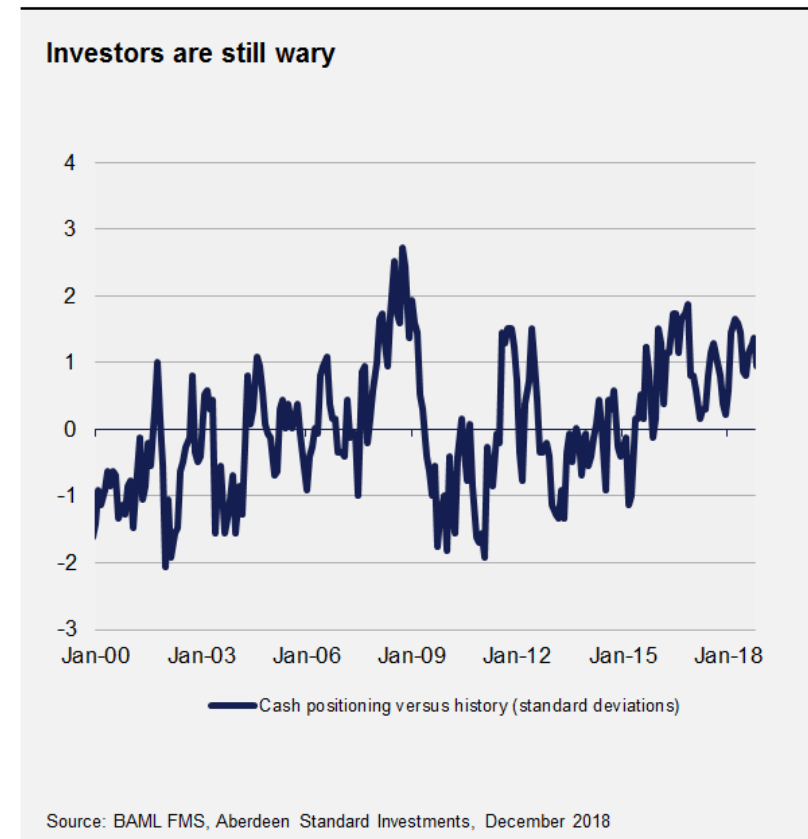
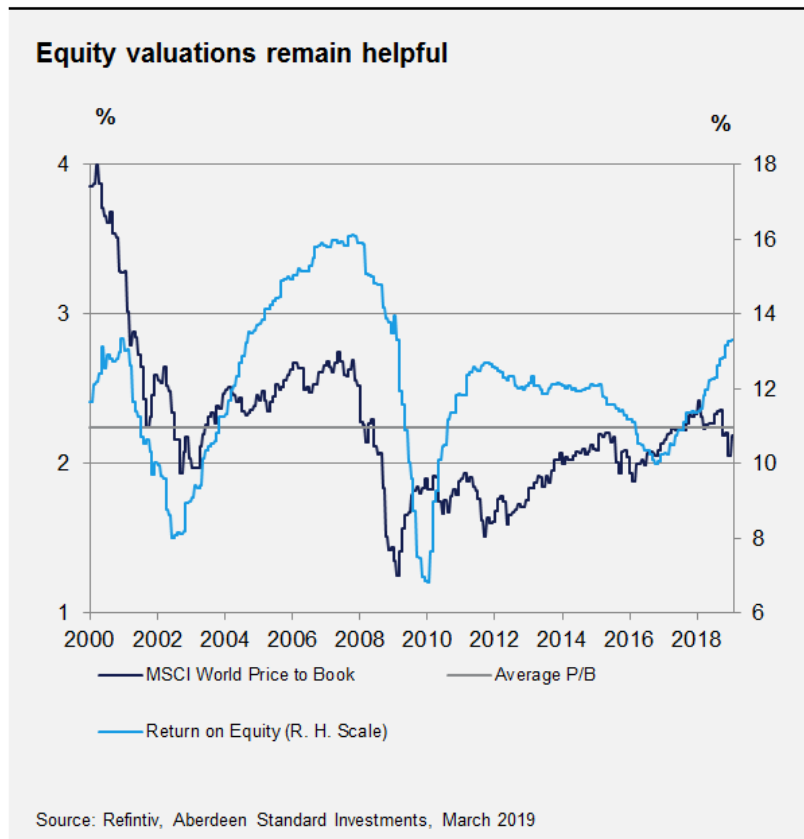
- The US and China may reach agreement on tariffs, but Europe likely to be next in line
- Trade is one small part of the growing strategic rivalry between the two countries
  
- Italy and the EU have reached temporary agreement on budget issues
- EU elections in May = generational transition and leadership change
- Plus Brexit outcomes remain uncertain
  
- Other issues, in Eastern Europe, the Middle East, the Koreas, are still problematical
- Global institutions and systems such as WTO are coming under growing pressure

Source: Aberdeen Standard Investments, February 2019



# What do valuations and investor sentiment tell us?

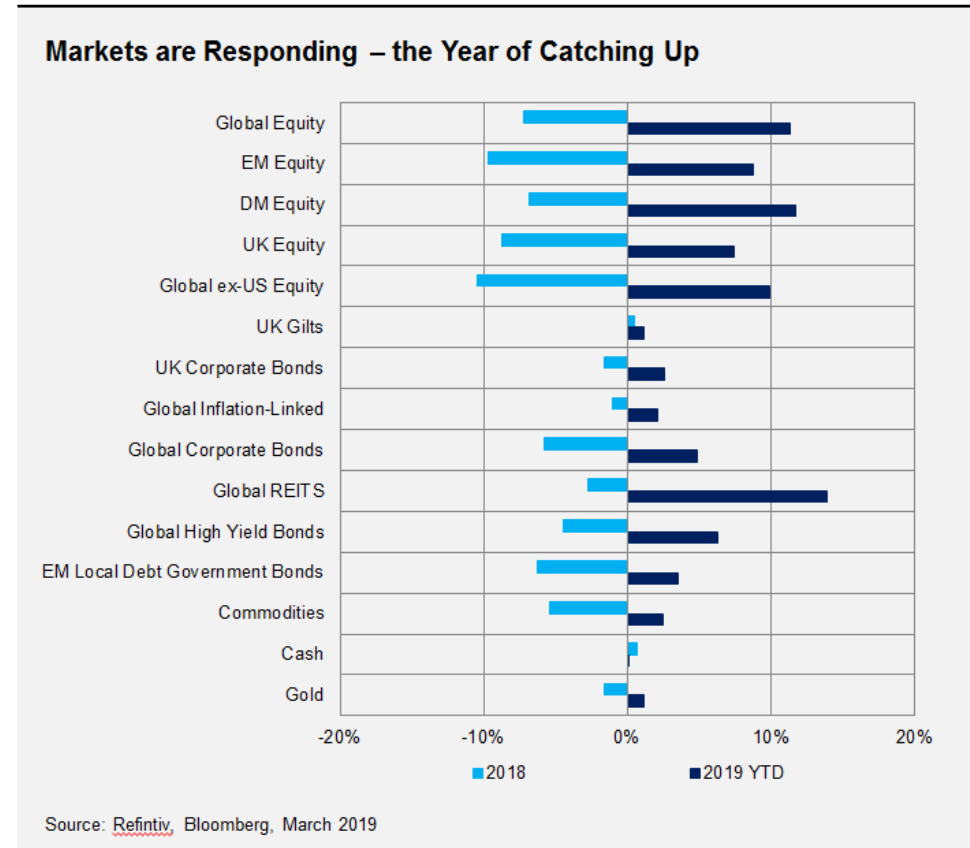
Valuations are relatively attractive, sentiment is rather depressed



# Will volatility appear again?

Yes, many risks in 2019

- Many economic and political risks
- Last year, two noticeable equity market corrections during 2018
- Would not be surprising to see at least one similar event during 2019



# Investment Outlook

Seeking benefits from corporate cash flow and searching for diversifiers

## Global growth is supported

Prefer Emerging Market and Japanese equities & European real estate

The US equity market is seen as range trading

## Real assets with growth and yield suit this cycle

EM sovereign bonds and European high yield debt are attractive – but be wary of leverage

Valuations do not support most sovereign bonds – Australia is an exception on possible rate cuts

High quality investment grade debt worth examining for portfolio diversification

## Looking at diversifiers when volatility will pick up

Overweight US TIPS & the Yen as diversifiers

Valuations of the Dollar are worth examining on safe haven concerns

Source: Aberdeen Standard Investments, 31 December 2018

# Medium term questions

Dynamic asset allocation should stand alongside strategic analysis

## Questions about the end of the cycle

Imbalances are slowly building, if still manageable in a low interest rate world  
Liquidity withdrawal by central banks is classically associated with end of cycle

## Regulation and populism are expanding

Issues include: the laws of unintended consequences eg MiFID; less efficient and more fragmented markets; the rise of disruptive technologies; growing pressures on business models

## Long term returns forecasts

A world of low numbers, greater allocation to private and alternative assets, but concerns about leverage and goodwill impairment

Source: Aberdeen Standard Investments, 31 December 2018

# The current House View

## Focused investing in a multi-speed world

Medium term stance		Tactical funds
<ul style="list-style-type: none"> <li>Global Investment Grade Credit</li> <li>US Dollar FX</li> </ul>	<p style="text-align: center;"><b>Overweight</b></p>	<ul style="list-style-type: none"> <li>European High Yield Bond</li> <li>Emerging Market Local Debt</li> <li>Yen FX</li> </ul>
<ul style="list-style-type: none"> <li>Global Equities</li> <li>Emerging Market Equities</li> <li>Global Emerging Market Debt</li> </ul>		<ul style="list-style-type: none"> <li>Australian Bonds</li> <li>US TIPS</li> <li>Emerging Market \$ Debt</li> <li>US Equity</li> <li>Japanese Equity</li> <li>Emerging Market Equity</li> <li>Sterling FX</li> </ul>
<ul style="list-style-type: none"> <li>Global Government Bonds</li> <li>UK Gilts</li> <li>Global Index-Linked Bonds</li> <li>UK Credit</li> <li>Global High Yield</li> <li>UK Equities</li> <li>UK Property</li> <li>Global Property</li> <li>Sterling FX</li> <li>Yen FX</li> </ul>	<p style="text-align: center;"><b>Neutral</b></p>	<ul style="list-style-type: none"> <li>UK Gilts</li> <li>Core &amp; Peripheral European Bonds</li> <li>UK Corporate Bonds</li> <li>US High Yield Bond</li> <li>UK &amp; Euro Equity</li> <li>UK, US, European Real Estate</li> </ul>
<ul style="list-style-type: none"> <li>Euro FX</li> </ul>		<ul style="list-style-type: none"> <li>US Treasuries</li> <li>UK Inflation-Linked Debt</li> <li>US Corporate Bonds</li> <li>European Corporate Bonds</li> <li>Pacific ex-Japan Equity</li> <li>US Dollar FX</li> </ul>
<ul style="list-style-type: none"> <li>Cash</li> </ul>	<p style="text-align: center;"><b>Underweight</b></p>	<ul style="list-style-type: none"> <li>Japanese Bonds</li> <li>Euro FX</li> </ul>
		<ul style="list-style-type: none"> <li>Cash</li> </ul>

# Conclusions

Focus on change in a fast changing world

- We retain risk on portfolios, holding a range of global equity positions
- These are supported by improved valuations and forecasts of positive profits growth
- 2019 is unlikely to see a recession, but the efficacy of stimulus measures has yet to be seen
- Volatility can be triggered by trade tensions, monetary tightening or political risks
- Portfolios remain in tactical mode and continue to look for diversifiers

Source: Aberdeen Standard Investments, 31 December 2018

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# THANK YOU

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