FINURA

POINTS OF VIEW

MULTI-ASSET INVESTMENT VIEWS - APRIL 2018

KEY

🟢 Positive

🟩 Postive/ Neutral

🟡 Neutral

🟠 Neutral/ Negative

🔴 Negative

	Category	View	Comments
Main Asset Classes	Equities	🟩	We maintain a positive view as we believe profit growth should continue to support stockmarkets, even though we are late in the economic cycle.
	Goverment Bonds	🟠	We are negative on government bonds over the medium-term because of rising inflationary pressures. Inflation is bad for bonds.
	Commodoties	🟩	We remain positive because the economic environment is supportive and suppliers of commodities are being disciplined in how much they produce.
	Corporate Bonds	🟡	Valuations have improved, but we don't see much buying support from investors into the asset class or from the underlying fundamentals.
Equities	US	🟩	Although valuations of US shares look high, we are increasingly seeing companies upgrade profits thanks to strong economic growth. President Trump's tax cuts are also supportive.
	UK	🟡	We remain neutral on UK shares, where we think there is a risk that sterling continues to strengthen. This can be negative as the majority of FTSE 100 companies generate their revenues from overseas.
	Europe	🟩	We expect European economic growth to remain strong, but strike a slight note of caution on the stockmarket given the strength of the euro. The impact of currency strength on investments is explained here.
	Japan	🟢	We believe in Japanese companies' higher earnings potential, but this may be delayed due to the current drag of a strong yen.
	Pacific ex-Japan	🟩	We remain positive on the region as whole, but within that we are now neutral on Australia due to domestic issues facing the economy and a mixed bag of latest economic data.
	Emerging Markets	🟢	We still expect strong earnings growth among emerging market companies thanks to a favourable macroeconomic backdrop and a continued recovery in global trade.
Government Bonds	US	🟠	Inflation is likely to increase and the yields on US Treasuries are expected to rise. Both factors are negative for bond prices.
	UK	🟡	We don't think the Bank of England will raise rates as soon as people expect as economic data does not justify it. We doubt there will be an interest rate rise before November. Rate rises are negative for the price of bonds.
	Germany	🟠	We are negative. We think German bonds may perform worse than the market expects, as the European Central Bank may be more aggressive regarding interest rates than many anticipate.
	Japan	🟡	There are some risks, but we think the central bank will continue to support the economy so we retain a neutral view on Japanese bonds.
	US Inflation Linked	🟩	No change to our view as valuations are still reasonably attractive. They are approaching our initial target though, so we will monitor them closely.
	Emerging Markets Local	🟩	We remain positive on emerging market bonds denominated in local currency as there seems to be no imminent threat from inflation and EM countries still tend to be in the mid, rather than late, stage of the economic cycle.

	Category	View	Comments
Corporate Bonds	US Investment Grade	🟠	We think there is unattractive risk/reward in investment grade corporate bonds and there is likely to be higher volatility.
	US High Yield	🟢	We think that the picture remains generally stable for those corporate bonds deemed by rating agencies as riskier than their investment grade counterparts (high yield).
	Europe Investment Grade	🟠	This area is supported by investors' buying and central bank policy, but risks remain.
	Europe High Yield	🟡	The backdrop has improved but we think valuations already reflect that fact, so we are neutral.
	Emerging Markets USD	🟡	We remain neutral on emerging market sovereign bonds denominated in US dollars and prefer emerging market corporate bonds.
Commodoties	Energy	🟢	The continued cuts in oil production ordered by OPEC (the Organization of Petroleum Exporting Countries) will limit supply and as a result support the oil price.
	Gold	🟠	We remain negative on gold which is looking expensive relative to its long-term historical relationship with real interest rates.
	Industrial Metals	🟢	The main drivers remain supportive: a weak dollar; current supply versus demand; and the robust Chinese manufacturing purchasing managers' index.
	Agriculture	🟢	Agricultural commodities look set to benefit from a multitude of positive factors – the weak US dollar, favourable supply/demand dynamics and declining agricultural stockpiles.
Currencies	US $	🟠	We still believe that a weak or stable dollar environment will persist in the medium term.
	UK £	🟡	Brexit headwinds continue to impact the currency, although relatively cheap valuations can provide some buying opportunities.
	EU €	🟡	We expect the pace of euro strength to moderate in the coming months.
	JAP ¥	🟡	Concerns regarding trade wars and strong JPY, as escalation of tensions would hurt trade-sensitive Asian FX the most.
	Swiss F	🟡	No change in view - we continue to expect little intervention by the Swiss National Bank.

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 2018. 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.

MONTHLY MARKETS REVIEW APRIL 2018

A look back on what happened to equities and bonds in April, as the oil price rallied..

HIGHLIGHTS

- Global equities made a modest gain in April, as protectionist rhetoric appeared to soften and the oil price rallied strongly on demand dynamics and tensions in the Middle East.
- US equities posted a narrow gain, supported by ongoing strength in economic data, a buoyant oil sector and reduced trade worries.
- Eurozone equities saw positive returns, led by the energy sector, although some forward-looking data pointed to slowing economic activity.
- The FTSE All-Share index rose as sterling weakened and merger & acquisition activity continued. Expectations of an imminent UK rate hike fell after some disappointing economic data.
- Japanese equities gained; reduced geopolitical risk saw the yen weaken against the US dollar.
- Emerging markets equities posted a slightly negative return. US dollar strength was a headwind. Russian equities were negatively impacted by the announcement of new US sanctions.
- US Treasury yields resumed an upwards path, amid higher US inflation readings. Global corporate bonds declined but outperformed government bonds.

THE US

US equities advanced in April but underperformed the MSCI World index. The continued strength in US macroeconomic data and cooling trade fears restored calm, while the oil price rallied strongly on robust demand and rising Middle East tensions. This combination of factors restored momentum to more cyclical[1] sectors, although meaningful stock-specific developments also impacted market movements.

US GDP growth in Q1 was confirmed at 2.3%, which was slower than growth in Q4 but ahead of expectations. Inflation – both with and without fuel costs - was also confirmed as higher in March and close to the target range. The March unemployment rate was steady at 4.1% but is still expected by the Federal Reserve (Fed) to drop below 4% by the end of the year. These factors, in addition to the sharp oil price rise, led to renewed speculation over the pace of Fed rate hikes this year.

Perhaps unsurprisingly, the strongest sector for April overall was energy. A number of stocks in the sector posted double-digit returns over the month. Consumer discretionary stocks were also higher after robust results from major online consumer firms, Netflix and Amazon. Industrials – particularly airlines – were hindered by the oil price rally due to concerns over fuel price pressures. Consumer staples also lagged, due in part to perceived “bond proxy”[2] status, but also due to a guarded update from Philip Morris, who warned that adoption of its “reduced risk” products such as heated tobacco was proceeding more slowly than anticipated.

EUROZONE

Eurozone equities bounced back in April with the MSCI EMU index returning 4.5%. Gains were led by the energy sector amid rising oil prices and some well-received Q1 results from the big oil firms. The telecommunication services sector also performed strongly, supported by merger & acquisition activity. This included US firms T-Mobile (owned by Deutsche Telekom) and Sprint confirming a long-awaited merger. The consumer discretionary sector registered robust gains while consumer staples was the main laggard but still delivered a positive return.

The flash eurozone purchasing managers' index[3] for April was unchanged from 55.2 in March, indicating that business activity continues to rise at a solid pace. However, the German Ifo business climate index fell to 102.1 in April from 103.3 in March, demonstrating weaker sentiment among German businesses. For Q1, French GDP slowed down, growing by 0.3% compared to 0.7% in Q4 2017. Meanwhile, Spanish growth was steady at 0.7% for a third consecutive quarter.

The European Central Bank (ECB) kept monetary policy unchanged, as expected. In his statement, ECB president Mario Draghi highlighted still-subdued inflation and the recent moderation in economic data. On the political front, Italy moved no closer to forming a government despite President Mattarella mediating talks between the main parties.

UK

The FTSE All-Share index rose 6.4% over the month, outperforming most other markets. UK equities bounced back following a very poor performance in the first quarter of 2018 when the UK's unpopularity with global asset allocators had weighed heavily on returns. Merger and acquisition (M&A) activity remained an important theme and the market was further supported by renewed weakness in sterling against a resurgent US dollar.

The oil & gas sector performed very well over the month in line with higher crude oil prices, which continued to climb in response to robust global demand and ongoing supply discipline. A number of domestically-focused areas of the market also outperformed due to M&A activity. J Sainsbury proposed a merger with Asda, Whitbread announced plans to demerge its Costa coffee brand, and bus and rail operator FirstGroup received a highly conditional proposal from private equity group Apollo Management regarding a possible cash offer.

Sterling weakened against the backdrop of some disappointing macroeconomic data. GDP figures for Q1 2018 show the UK economy grew just 0.1% compared to the final quarter of 2017. This represents the slowest quarterly growth rate since Q4 2012. The recent wintry weather was partly to blame; however, the Office for National Statistics, who produces the data, said that overall the effects of the snow were "generally small'. The disappointing data pushed back near-term expectations for a rise in base rates.

JAPAN

After some initial weakness, the Japanese equity market rose steadily to close the month 3.6% higher. The yen was generally weaker, reversing most of the move seen against the US dollar in the previous two months. Stocks were weak in the first few days of April as trade friction between the US and China continued to escalate. As a result, defensive sectors initially outperformed. Sentiment improved as expectations rose that some negotiated compromise would replace the prospect of a full trade war. The summit between Prime Minister Abe and President Trump also passed without drama. Commodity-related and financial stocks subsequently led the market higher. However, the combination of these two phases produced a rather mixed picture for sector performance over the month as a whole.

The rapid apparent de-escalation of North Korea tension, culminating in the inter-Korean summit, further reduced the influence of geopolitics and prompted some yen weakness. This, in turn, encouraged foreigners to return as net buyers of Japanese equities in the latter part of the month after heavy net selling seen for the previous 12 consecutive weeks.

Prime Minister Abe continued to be dogged by the domestic financial scandal over the Moritomo Gakuen land sale, with public prosecutors starting to question Finance Ministry officials over falsification of documents related to the controversy. Economic data supported the consensus view that any short-term softness in the economy seen in February and March should prove to be temporary, rather than signalling a reversal of the improving trends seen throughout 2017.

ASIA (EX JAPAN)

The MSCI Asia ex Japan index recorded a positive return in April. An apparent easing in global trade concerns proved supportive. China responded to the US Section 301 tariffs (announced in March) with retaliatory measures. However, speeches from President Xi and central bank governor Yi Gang at the Boao Forum were perceived as conciliatory as opposed to confrontational. Their remarks included the announcement of measures to accelerate the opening up of Chinese markets to foreign companies, notably the car industry.

Singapore was the best-performing market while Hong Kong also outperformed. Both markets were led higher by financials. India finished ahead of the index, as the market recovered somewhat following recent weakness. Korean equities also moved higher. At an inter-Korean summit, the North and South Korean leaders pledged to agree a formal end to the war on the peninsula.

In contrast, Indonesia, which is sensitive to global liquidity tightening, and Taiwan underperformed. In Taiwan semiconductor stocks led the market lower amid concern over slowing global smartphone sales. China posted slightly positive returns but lagged the index, attributable in part to weakness from internet and e-commerce stocks.

EMERGING MARKETS

Emerging markets equities posted a slightly negative return in April, with US dollar strength a headwind. The MSCI Emerging Markets index decreased in value and underperformed the MSCI World.

Those markets most sensitive to global liquidity tightening lost value. These included Turkey, Indonesia and South Africa. In Turkey, the announcement of early parliamentary and presidential elections, to be held in June, also increased uncertainty. Russia recorded a negative return and underperformed with rouble weakness amplifying weak equity returns. Russian asset markets were negatively impacted by the announcement of new US sanctions against a number of oligarchs and their companies.

In contrast, Greek equities rallied sharply, led higher by banking stocks. Colombia posted a positive return, with oil price strength proving supportive. Indian equities outperformed following recent weakness. Korea also finished ahead of the index, as North and South Korean leaders pledged to agree a formal end to the war on the peninsula.

GLOBAL BONDS

US Treasury yields resumed an upwards path in April amid a continued hawkish tone from the Fed and higher inflation data. US government 10-year yields rose from 2.74% to 2.95% and two-years from 2.27% to 2.49%. The increase was slightly smaller at the longer-end of the curve.

Yield moves were less significant elsewhere. UK gilts rose initially, but reversed course mid-month ahead of GDP data, which in the event disappointed. Ten-year yields were up from 1.35% to 1.42%, while five and two-year yields were unchanged.

In Europe, Bund yields edged higher. Ten-year Bund yields were up from 0.50% to 0.56%, while French yields rose from 0.72% to 0.79%. Having performed well the previous month, Italian 10-year yields were unchanged at 1.79% and Spanish yields rose from 1.16% to 1.28%. European economic data was again slightly softer.

A steadier backdrop for risk assets aided corporate bonds. The ICE BofA Merrill Lynch Global Corporate Index returned -0.5% (in local currency) and outperformed government bonds. The negative total return largely reflected the -0.8% total return on US dollar investment grade[4] credit. The global high yield (HY) index returned 0.4% in local currency, led by sterling HY (total return +0.8%).

Emerging market (EM) bonds saw negative total returns. Local currency EM sovereign bonds returned -3.0%, having had a strong run, as the US dollar rallied.

Turning to convertibles, the Thomson Reuters convertible bond index returned 0.5% in US dollar terms - approximately half of the upward move of global equities. Intraday stock volatility remained elevated and implied volatility of convertible bonds moved up to 29%. European convertibles remain high in value compared to their fair value, but US convertibles cheapened further.

COMMODITIES

The Bloomberg Commodities index registered a positive return in April. The energy component posted the strongest gain as geopolitical concerns, notably uncertainty as to whether President Trump will withdraw from the Iran nuclear deal, and falling output in Venezuela contributed to an 8.3% rally in Brent crude. The industrial metals sub-index also moved higher. Copper (+1.4%), iron ore (+3.6%) and nickel (+2.6%) all increased in value. Meanwhile, aluminium rallied 13.6% as US sanctions led to supply concerns. The agricultural component recorded a more modest return, supported by a sharp rise in wheat prices, amid adverse weather concerns. Precious metals were slightly weaker with gold down -0.6% and silver losing -0.3%.

[1] Cyclical stocks are those whose business performance and share prices are directly related to the economic or business cycle. Defensives are those whose business performance is not highly correlated with the larger economic cycle - these companies are often seen as good investments when the economy sours.

[2] The term bond proxy describes equities such as consumer staples and utilities that resemble bonds in terms of their ability to provide low-risk income via their dividend payments.

[3] The eurozone purchasing managers' index is produced by IHS

Markit and based on survey data from around 5,000 companies based in the euro area manufacturing and service sectors. A reading above 50 indicates expansion.

[4] Investment grade bonds are the highest quality bonds as determined by a credit ratings agency. High yield bonds are more speculative, with a credit rating below investment grade.

Source: Schroders, April 2018: 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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