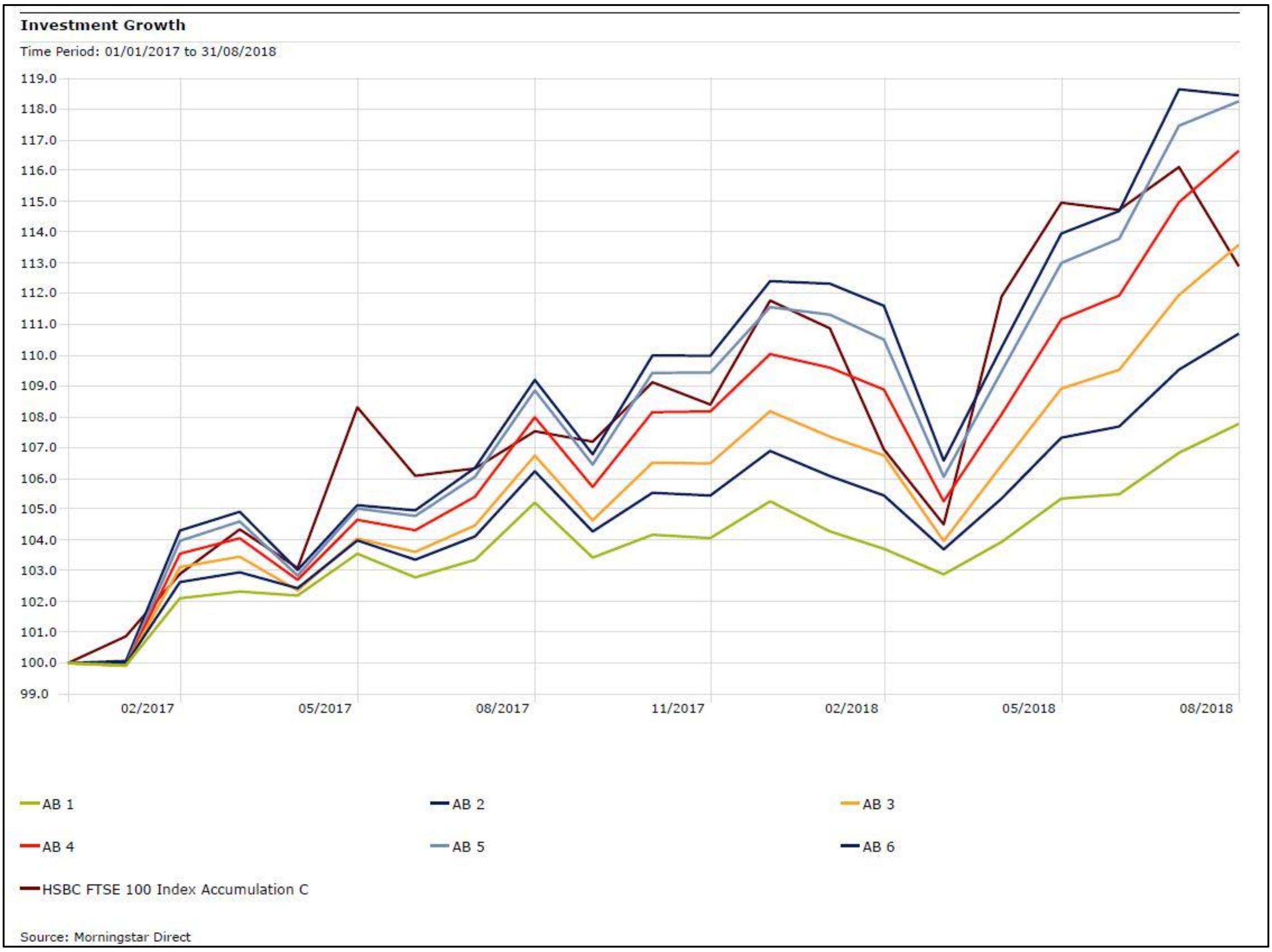
Date: 12-09-2018

Negotiating Choppy Waters

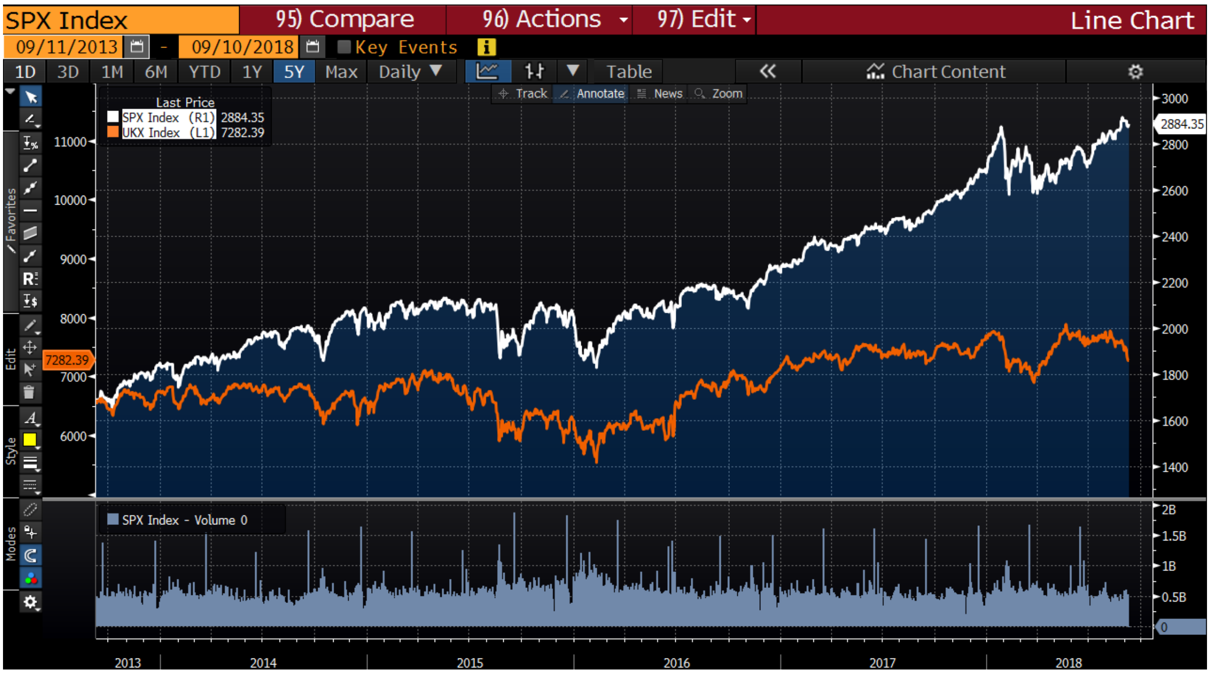
August saw Wall Street reach new highs, emerging markets experience increasing turbulence with sharp, selective declines, and a further flattening of bond yield curves as inflation and interest rate expectations gradually edged higher. The inconsistent performances across asset classes has highlighted the value of multi asset portfolios, with their potential to diversify risk and safely negotiate ‘choppy waters’.

Hence, Alpha Beta’s approach of rigorously analyzing each asset class, by means of fundamental, technical, macro and geopolitical factors provides a framework for constructing portfolios with attractive risk and return profiles. Indeed, a glance at the chart below shows our UK investor-oriented higher risk portfolios significantly outperformed the FTSE 100 and the lower risk portfolios provided near equity market levels with significantly lower volatilities.

Monthly Performance:



Meanwhile, the continuance of the long running equity Bull market (which started back in March 2009), fuelled by a combination of quantitative easing and subsequent robust growth, particularly in the US, is coming under scrutiny in certain quarters. The US market has broken the 1990 to 2000 record of continuing days of rising prices, not interrupted by any decline of more than 20%. However, we believe it is, as often has been in the past at similar stages of economic cycles, premature to pay heed to prophets of doom. We expect late cycle growth to continue this quarter, supported by: robust earnings and economic growth. The market is currently trading on a 17 times forward earnings-multiples, which is quite full, but by no means excessive by historical standards and we do not expect a major reversal in the quarter ahead.



Source: Bloomberg 10-09-2018

That said, the forthcoming US mid-term elections could potentially derail the market, although markets have proved resilient in the past, and have discounted expected setbacks to the incumbent party. However, this time any serious setback could lead to increased prospects of a Trump impeachment and significantly raised volatility.

In addition, our risk assessment methodology continues to monitor the following:

- The flattening of the US yield curve, which normally presages a recession. While both short and long-term term rates have risen over the past 12 months, we believe that the long end of the curve has been heavily influenced by the withdrawal of quantitative easing and its further withdrawal will see long-term bond yields continuing to rise from just under 3% at present to the 3.5%-4% range. However, the attendant decline in liquidity has led to outflows from emerging markets.

- Similarly, any widening of credit spreads is usually a harbinger of turbulence and decline but this has not shown any major signs of concern at present.

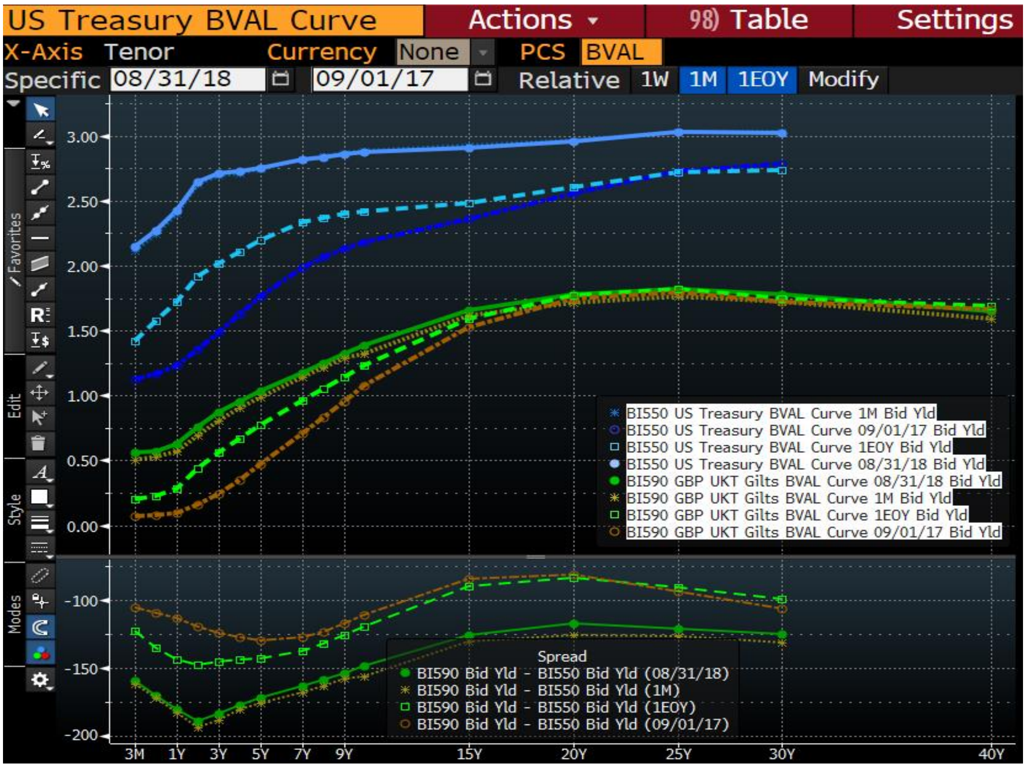
- The crisis in emerging markets initially centered around Turkey, then Argentina and the contagion effect are forcing central banks to raise rates to defend their currencies, and prevent outflows into a rapidly rising dollar, and exacerbate liquidity concerns. However, selective investment in certain equity sectors continues to make sense, in our view, against a backdrop of continued global growth.

- The escalation by Trump of trade wars – with China and now with NAFTA – have been discounted to an extent by the market and any negative effect on the Chinese market is expected to be replaced by the substitution effect of other emerging markets. However, recent turbulence in emerging markets needs to be carefully monitored.

- Similarly, the impact of four US rate rises by end 2019 have already been priced in and only a significant change of plans will have a major impact.

- The crisis in the Eurozone sector, highlighted by events in Italy and Poland, now appears to be contained but could have a potential impact on international markets.

Back home, Brexit uncertainty has plagued the UK market on occasions this year and with the deadline getting closer we may be entering the 'eye' of the storm. However, the continued resilience of the UK economy, and the fact that the UK equity market offers the highest yield above cash rates of any developed market makes a strong case for continued, albeit watchful, investment. Furthermore, the resolution of uncertainty, one way or the other, should lead to an increase in inflows into the sector. A decline in sterling against the dollar has made the market attractive to overseas investors, and this will become more pronounced once the nature of any deal, even if it's a 'No-Deal' is known.



Source: Bloomberg 10-09-2018

In constructing portfolio profiles, the bond/equity decision is normally a critical determinant of risk profiles.

However, the option to rebalance portfolios by raising bond holdings at the expense of equity holdings at late equity growth cycle periods, has historically proved successful, but does not make sense, in our view, at present due to the effects on bond returns of rising inflation.

Hence, although watchful of the risks described above, we would not make any major shift in our asset allocation at this stage.