Asset Class & Investment Outlook - Q3 2013

Asset/Investment Area	Income (Current Yield)	Rising Income	Long Term Real Capital Growth	Volatility	Inflation Protection	Currency Risk	Commentary
Cash	1%	No	Negative	Very low	No	No	*Interest rates are likely to remain at historic lows for an extended period of time, in line with the Bank of England's forward guidance. Negative real returns but hold for liquidity and certainty. Awareness of increased solvency risks for certain banks and mindful of the need to monitor deposit providers closely.*
Conventional Gilt	1.90%	No	Negative	Some	No	No	*All the on-going risks to gilts remain. Yields have increased and are likely to increase further. The 10-year benchmark gilt yield was 1.9% in January 2013 and is now above 2.7%. Values remain comparatively expensive after a period of very strong capital performance.*
Index-Linked Gilt	2.97%	Yes	Negative (at present)	Some	Yes	No	*Index-Linked Gilts remain comparatively expensive although volatility has emerged in the last few months and some price correction has taken place. Values remain vulnerable and could correct further. Additionally, some issues offer negative real returns.*
UK Corporate Bond (Investment Grade)	3.50%	No	Negative	Some	No	No	*Utilities appear expensive relative to their equities and other asset classes, select bank debt continues to offer good value but with heightened risks. Rising gilt yields lead us to remain cautious on investment grade corporate credit, due to concerns about contagion into other investment grade bond markets.*
UK Corporate Bond (High Yield)	4.96%	No	Negative	High	No	No	*Spreads have started to contract but default rates remain low. Many areas are becoming expensive, but pockets of value remain. Duration risks have also emerged. Future returns from spread compression may be limited somewhat by any sell off of gilts.*
International Corporate Bond	2.93%	No	Negative	High	No	Yes	*There is very little differential between UK and international corporate bonds with the exception that a number of corporates are now trading within the government sector in peripheral Europe and EM countries.*
Emerging Corporate Bond	5.61%	No	Negative	Very high	No	Yes	*This sector has been beset by total return losses and capital outflows in the last quarter. Some issuers of international debt have been badly affected when their domestic currency has suffered a steep devaluation. There may be idiosyncratic opportunities but we remain negative on this sector due to its volatility, poor liquidity and ongoing currency risks.*

UK Commercial Property	3.00%	Yes	Yes	Cyclical	Yes	No	*Still little evidence of rental growth (aside from London and SE), although rents have stabilised. There is a suggestion that central London prices have been driven up by foreign demand (including US firms). Vacancy rates remain elevated and there is a lack of prime tenants in other regions. The retail sector looks vulnerable. High cash levels within many funds are also dampening returns. Yields are beginning to look*
UK Equity (Equity Income)	3.50%	Yes	Yes	High	Yes, med term	No	*Cash generative large caps with strong balance sheets, dividend generation, and international earnings remain attractively valued. Share prices have lagged the market but dividend growth has been strong. In the current environment, we continue to favour funds that can generate a progressive income to act as a foundation to total returns.*
UK Equity (Other)	3.20%	Yes	Yes	High	Yes, med term	No	*UK economic growth remains muted. The market continues to alternate between risk on/off. Valuations in certain cyclical sectors still appear very stretched given the difficult financial environment and lacklustre growth overseas*
Global (Equity Income)	2.75%	Yes	Yes	High	Yes, med term	Yes	*Equity income funds focusing on developed markets are favoured because of the number of cash-generative, defensive stocks with strong balance sheets listed in these markets. However, there has been a significant improvement in the dividend yield of some stocks in Asia and Emerging Markets and we are monitoring this trend closely.*
European Equity	2.50%	Yes	Yes	High	Yes, med term	Yes - €	*Europe is slowly recovering from protracted recession and austerity is diminishing but the growth outlook is lacklustre. We will retain a cautious stance until we see greater financial stability and meaningful reductions in the sovereign debt burden.*
Asset/Investment Area	**Income (Current Yield)**	**Rising Income**	**Long Term Real Capital Growth**	**Volatility**	**Inflation Protection**	**Currency Risk**	**Commentary**
North American Equity	1.20%	Yes	Yes	High	Yes, med term	Yes -$	*Economic growth has gained traction. There are still a number of issues such as fiscal deficit and debt, however, equities remain strong and offer an element of protection from Europe and Asia. The tapering off of the Federal Reserve's massive quantitative easing operations may be largely priced in to markets.*
Asian ex Japan Equity	2.21%	Yes	Yes	Very high	Yes, med term	Yes	*Good long term growth prospects but vulnerable to weakness on current valuations. Potential correction in China presents the major risk to capital, although there are signs of stabilisation.*
Japan Equity	1.70%	Yes	Yes	High	Yes, med term	Yes - Yen	*Aggressive economic and monetary policies have fuelled stock markets but the easy gains have likely been made. Demographics are poor and the economic outlook uncertain. The Bank of Japan's quantitative easing measures should continue to pressure the Yen downwards, creating a need to hedge Sterling-denominated returns.*

Emerging Market Equity	2.20%	Yes	Yes	Very high	Yes, med term	Yes	*Valuations remain unattractive relative to developed markets despite the substantial decline in capital value for many markets/funds and the scope for sustained recovery remains uncertain in the short term. Additionally, earnings momentum remains poor. Policymakers face difficult choices as to whether to defend against falling currencies and rising inflation at the expense of growth.*
Commodities	0%	No	Yes	Extreme	Yes, med term	Yes	*Prices continue to be highly volatile and are likely to be so going forward. Exposure would only be considered for the purposes of diversifying a portfolio or hedging against inflation. That said, practical exposure is difficult to obtain, with limited physical ETFs available and a negative house view on synthetic ETFs.*

The yield to maturity figure for various fixed income ETFs has been used as a proxy for yields within each sector.
This metric is calculated by aggregating the yield statistics for each of the securities that make up a bond ETF and is, therefore, reflective of yields within the market.

Conventional Gilt - Yield on Vanguard UK Government Bond Index fund
Index-Linked Gilt - Yield on iShares £ Index-Linked Gilts ETF
UK Corporate Bond (Investment Grade) - Yield on Vanguard Investment Grade Bond Index fund
UK Corporate Bond (High Yield) - Yield on iShares High Yield Corporate Bond ETF (no UK High Yield proxy available)
International Corporate Bond - Yield on PowerShares International Corporate Bond ETF
Emerging Corporate Bond - Yield on iShares JPM $ Emerging Markets Bond ETF
UK Commercial Property - Yield on Aviva Property Trust and SWIP Property Trust
UK Equity Income - 110% of the FTSE All-Share index
UK Equity (Other) - Yield on Vanguard UK Equity Index Fund (Benchmark: FTSE All Share Index)
Global (Equity Income) - 110% of the FTSE All-World index
European Equity - Yield on Vanguard Developed Europe ex-UK (Benchmark: FTSE Developed Europe ex-UK Index)
North American Equity - Yield on Vanguard US Equity Index Fund (Benchmark: S&P Total Market Index)
Asia Ex Japan Equity - Yield on Lyxor MSCI Asia Pacific Ex-Japan ETF (Benchmark: MSCI Asia Pacific Ex-Japan index)
Japan Equity - Yield on Vanguard Japan Stock Index (Benchmark: MSCI Japan Index)
Emerging Market Equity - Yield on Vanguard Emerging Markets Stock Index (Benchmark: MSCI Emerging Markets Index)
Commodities - TR/Jefferies CRB Index

This is an extract from analysis we conduct internally which also considers other factors such as valuations and liquidity.

Dewhurst Torevell & Co. Ltd, 5 Oxford Court, Manchester M2 3WQ. Tel. 0161 281 6400. www.dewhurst-torevell.co.uk